

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
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KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
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KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
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For electronic version, see [KAW_APP_TABLE_OF_CONTENTS_022610.pdf](#).

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 1**

Description of Filing Requirement:

Present Tariffs

Response:

Please see attached for copy of Present Tariffs.

For electronic version, see KAW_APP_EX1_022610.pdf.

P.S.C. KY. No. 6

COVER SHEET AND ORIGINAL SHEETS:

Nos. 1, 2, 5 through 19, 20.1, 21, 24.1, 26, 29 through 49,
49.4, 49.5, 49.6, 51, 54, 58, 59, 61, 62, 63, 64, and 64a;

First Revised Sheet Nos. 4, 24, 25, 28, 49.1, 49.2, 49.3, 50.3, 57,
58.1, 58.2, 58.3, 58.4, 58.5, 60, 65 and Appendix H

Second Revised Sheet Nos. 22, 23, 27, 50.1, 50.2, 56;

Third Revised Sheet No. 3.1, 52.1, 55

Fourth Revised Sheet Nos. 28.1 and 28.2;

Fifth Revised Sheet Nos. 20

Seventh Revised Sheet No. 55.1

Tenth Revised Sheet No. 3:

Twenty-Second Revised Sheet No. 53;

Twenty-Fourth Revised Sheet No. 52;

Twenty-Eighth Revised Sheet No. 50

KENTUCKY-AMERICAN WATER COMPANY

2300 RICHMOND ROAD, LEXINGTON, KENTUCKY

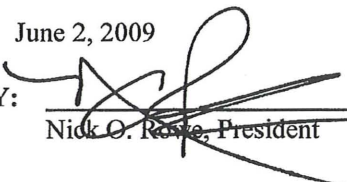
FOR SERVICE IN KENTUCKY COUNTIES OF

BOURBON, CLARK, FAYETTE, GALLATIN, GRANT, HARRISON,

JESSAMINE, OWEN, SCOTT AND WOODFORD

FILED WITH THE PUBLIC SERVICE COMMISSION OF KENTUCKY

ISSUED: June 2, 2009

ISSUED BY: 
Nick O. Reske, President

2300 R
By  Lexington, KY 40502
Executive Director

**PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
6/1/2009**

**PURSUANT TO 807 KAR 5.011
SECTION 9 (1)
EFFECTIVE June 1, 2009**

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Twenty-Eighth Revised Sheet No. 50
Canceling Twenty-Seventh Revised Sheet No. 50

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 1

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for Residential, Commercial, Industrial, Sales for Resale, Municipal and All Other Public Authority metered service.

Meter Rates

The following shall be the rates for consumption, in addition to the service charges provided for herein;

	Customer Category	Rate Per 1,000 Gallons All Consumption	Rate Per 100 Cubic Feet All Consumption
(I)	Residential	\$3.77200	\$2.82900
(I)	Commercial	3.48667	2.61500
(I)	Industrial	2.81867	2.11400
	Municipal & Other		
(I)	Public Authority	3.29467	2.47100
(I)	Sales for Resale	3.27067	2.45300

Service Charges

All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

	Size of Meter	Service Charge Per Month
(I)	5/8"	\$8.60
(I)	3/4"	12.90
(I)	1"	21.50
(I)	1-1/2"	43.00
(I)	2"	68.80
(I)	3"	129.00
(I)	4"	215.00
(I)	6"	430.00
(I)	8"	688.00

(I) Indicates Increase

ISSUED: June 2, 2009

ISSUED BY: 
Nick O. Rowe, President

2300 Richmond Road, Lexington, KY 40502

**PUBLIC SERVICE COMMISSION
OF KENTUCKY**

EFFECTIVE
EFFECTIVE: June 1, 2009
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)

By 
Executive Director

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Twenty-Fourth Revised Sheet No. 52
Canceling Twenty-Third Revised Sheet No. 52

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 3

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates

	<u>Size of Service</u>	<u>Rate Per</u> <u>Month</u>	<u>Rate Per</u> <u>Annum</u>
(I)	2" Diameter	\$ 6.07	\$ 72.91
(I)	4" Diameter	24.45	293.43
(I)	6" Diameter	55.00	660.03
(I)	8" Diameter	97.79	1,173.45
(I)	10" Diameter	152.83	1,833.98
(I)	12" Diameter	220.13	2,641.62
(I)	14" Diameter	299.67	3,596.08
(I)	16" Diameter	391.32	4,695.89

Special Provisions


No charge shall be made for water used in extinguishing accidental fires or for Underwriters' tests, and water shall not be drawn from a private fire service connection for any other purpose.

(I) Indicates Increase

ISSUED: June 2, 2009

ISSUED BY: 
Nick O. Rowe, President

2300 F

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
6/1/2009
EFFECTIVE DATE: June 1, 2009
SECTION 9 (1)
Canton, KY 40502
By 
Executive Director

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Third Revised Sheet No. 52.1
Canceling Second Revised Sheet 52.1

TAPPING FEES

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for residential, commercial, industrial, other public authority and sales for resale customers.

Tapping (Connection) Fees

Size of Meter Connected

(I)	5/8-Inch	\$ 702.00
(I)	1-Inch	1,287.00
(I)	2-Inch	3,129.00
	Service larger than 2"	Actual Cost

For services greater than 2", a cost-adjustable deposit is required upon application. The tapping fee will be required upon application for all services installed on or after the effective date of this tariff, except in cases where a complete application for service (including plumbing inspection) is on file with the Company prior to the effective date of this tariff.

(I) Indicates Increase

ISSUED: June 2, 2009

ISSUED BY:


Nick O. Rowe, President

By  2009

Executive Director, Lexington, KY 40502

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
6/1/2009
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Twenty-Second Revised Sheet No. 53
Canceling Twenty-First Revised Sheet No. 53

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 4

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates For Public Fire Service

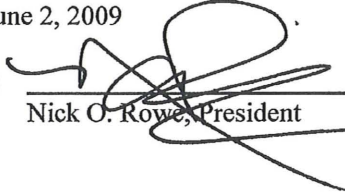
	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
(I) For each public fire hydrant contracted for or ordered by Urban County, County, State or Federal Governmental Agencies or Institutions.	\$30.99	\$371.87

Rates For Private Service

(I) For each private fire hydrant contracted for by Industries or Private Institutions	\$54.34	\$652.13
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(I) Indicates Increase

ISSUED: June 2, 2009

ISSUED BY: 
Nick O. Rowe, President

2300 I

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
6/1/2009
~~EFFECTIVE TO June 1, 2009~~
SECTION 9 (1)
gton, KY 40502

By 
Executive Director

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 2**

Description of Filing Requirement:

Proposed Tariffs

Response:

Please see attached for copy of Proposed Tariffs.

For electronic version, see KAW_APP_EX2_022610.pdf.

P.S.C. KY. No. 6

COVER SHEET AND ORIGINAL SHEETS:

Nos. 1, 2, 5 through 19, 20.1, 21, 24.1, 26, 29 through 49,
49.4, 49.5, 49.6, 49.7; 51, 53.1, 58, 59, 61, 62, 63, 64, and
Appendix A;

First Revised Sheet Nos. 4, 24, 25, 28, 49.1, 49.2, 49.3, 50.3, 54,
57, 58.1, 58.2, 58.3, 58.4, 58.5, 60, 65;

Second Revised Sheet Nos. 22, 23, 27, 50.1, 50.2, 56;

Third Revised Sheet No. 3.1, 55;

Fourth Revised Sheet Nos. 52.1;

Fifth Revised Sheet Nos. 20, 28.1, 28.2;

Eighth Revised Sheet No. 55.1;

Eleventh Revised Sheet No. 3;

Twenty-Third Revised Sheet No. 53;

Twenty-Fifth Revised Sheet No. 52;

Twenty-Ninth Revised Sheet No. 50

KENTUCKY-AMERICAN WATER COMPANY

2300 RICHMOND ROAD, LEXINGTON, KENTUCKY

FOR SERVICE IN KENTUCKY COUNTIES OF

BOURBON, CLARK, FAYETTE, GALLATIN, GRANT, HARRISON,

JESSAMINE, OWEN, SCOTT AND WOODFORD

FILED WITH THE PUBLIC SERVICE COMMISSION OF KENTUCKY

ISSUED: February 26, 2010

EFFECTIVE: March 28, 2010

ISSUED BY:


Nick O. Rowe, President

2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Eleventh Revised Sheet No. 3
Canceling Tenth Revised Sheet No. 3

Index (Cont'd.)

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(N) Indicates New Text

ISSUED: February 26, 2010

EFFECTIVE: March 28, 2010

ISSUED BY:


Nick O. Rowe, President

2300 Richmond Road, Lexington, KY 40502

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 1

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for Residential, Commercial, Industrial, Sales for Resale, Municipal and All Other Public Authority metered service.

Meter Rates

The following shall be the rates for consumption, in addition to the service charges provided for herein;

	<u>Customer Category</u>	<u>Rate Per 1,000 Gallons All Consumption</u>	<u>Rate Per 100 Cubic Feet All Consumption</u>
(I)	Residential	\$5.76133	\$4.32100
(I)	Commercial	5.25067	3.93800
(I)	Industrial	4.26667	3.20000
	Municipal & Other		
(I)	Public Authority	4.96667	3.72500
(I)	Sales for Resale	4.92000	3.69000

Service Charges

All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

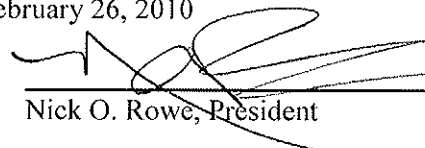
	<u>Size of Meter</u>	<u>Service Charge Per Month</u>
(I)	5/8"	\$9.15
(I)	3/4"	13.70
(I)	1"	22.90
(I)	1-1/2"	45.80
(I)	2"	73.20
(I)	3"	137.30
(I)	4"	228.80
(I)	6"	457.50
(I)	8"	732.00

(I) Indicates Increase

ISSUED: February 26, 2010

EFFECTIVE: March 28, 2010

ISSUED BY:



Nick O. Rowe, President

2300 Richmond Road, Lexington, KY 40502

TAPPING FEES**Applicable**

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for residential, commercial, industrial, other public authority and sales for resale customers.

Tapping (Connection) Fees**Size of Meter Connected**

(I)	5/8-Inch	\$ 817.00
(I)	1-Inch	1,569.00
(I)	2-Inch	3,536.00
	Service larger than 2"	Actual Cost

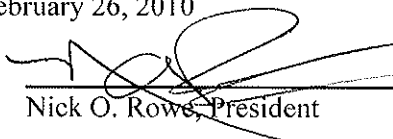
For services greater than 2", a cost-adjustable deposit is required upon application. The tapping fee will be required upon application for all services installed on or after the effective date of this tariff, except in cases where a complete application for service (including plumbing inspection) is on file with the Company prior to the effective date of this tariff.

(I) Indicates Increase

ISSUED: February 26, 2010

EFFECTIVE: March 28, 2010

ISSUED BY:



Nick O. Rowe, President

2300 Richmond Road, Lexington, KY 40502

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 3

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates

	<u>Size of Service</u>	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
(I)	2" Diameter	\$ 8.75	\$ 105.00
(I)	4" Diameter	35.22	422.58
(I)	6" Diameter	79.21	950.53
(I)	8" Diameter	140.83	1,689.92
(I)	10" Diameter	220.10	2,641.17
(I)	12" Diameter	317.02	3,804.28
(I)	14" Diameter	431.57	5,178.83
(I)	16" Diameter	563.56	6,762.70

Special Provisions

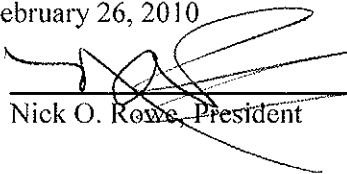
- (D) No charge shall be made for water used in extinguishing accidental fires or for Underwriters' tests, and water shall be drawn from a private fire service connection for any other purpose.
- (N) Fire service connections are furnished for the sole purpose of supplying water for the extinguishment of fires. If the Company has reason to believe water is being used for other purposes, including that the connection or line is leaking, the Company may install a meter to monitor usage, and, in addition to the rates for fire protection listed above, all usage shall be billed at the Commercial rate in Service Classification No. 1. The applicable Service Charge listed In Service Classification No. 1 shall also be charged.
- (N) The charges under this provision are in addition to any general water service and sewer charges.

- (I) Indicates Increase
- (D) Delete Text
- (N) Indicates New Text

ISSUED: February 26, 2010

EFFECTIVE: March 28, 2010

ISSUED BY:



Nick O. Rowe, President

2300 Richmond Road, Lexington, KY 40502

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 4

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates For Public Fire Service

	<u>Rate Per</u> <u>Month</u>	<u>Rate Per</u> <u>Annum</u>
(I) For each public fire hydrant contracted for or ordered by Urban County, County, State or Federal Governmental Agencies or Institutions.	\$40.83	\$490.00

Rates For Private Service

(I) For each private fire hydrant contracted for by Industries or Private Institutions	\$78.26	\$939.15
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- (N) Fire service connections are furnished for the sole purpose of supplying water for the extinguishment of fires. If the Company has reason to believe water is being used for other purposes, including that the connection or line is leaking, the Company may install a meter to monitor usage, and, in addition to the rates for fire protection listed above, all usage shall be billed at the Commercial rate in Service Classification No. 1. The applicable Service Charge listed in Service Classification No. 1 shall also be charged.
- (N) The charges under this provision are in addition to any general water service and sewer charges.

(N) Special Provisions

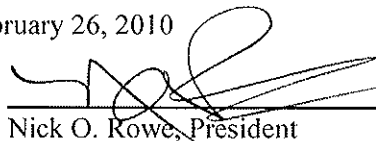
- (N) A few hydrants are connected to mains by a "special connection." A "special connection" exists when a customer and the Company entered into a service contract in which the customer agreed to maintain an unmetered water line from a Company main to the customer's service line. If the Company has reason to believe water from a special connection is being used for purposes other than fire protection, including that the connection or line is leaking, the Company may install a meter and charge for usage under this tariff. The Company may require the customer to pay for

- (I) Indicates Increase
- (N) Indicates New Text

ISSUED: February 26, 2010

EFFECTIVE: March 28, 2010

ISSUED BY:



Nick O. Rowe, President

2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Original Sheet No. 53.1

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 4 (con't)

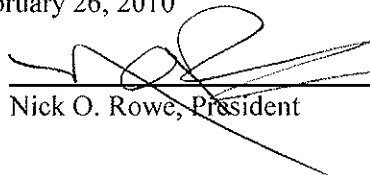
- (N) the meter and its installation if:
- (N) (1) the Company gives the customer written notice of the usage problem, requests that the
- (N) customer correct the problem, and informs the customer that failure to correct the problem
- (N) within 90 days could result in liability of the customer for the cost of installing a meter to
- (N) monitor usage,
- (N) (2) the customer does not substantially correct the problem within 90 days of the written
- (N) notice, and,
- (N) (3) the Company thereafter gives three business days' notice, which shall include a cost
- (N) estimate, that it will install the meter at the customer's expense.

(N) Indicates New Text

ISSUED: February 26, 2010

EFFECTIVE: March 28, 2010

ISSUED BY:


Nick O. Rowe, President

2300 Richmond Road, Lexington, KY 40502

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 3**

Description of Filing Requirement:

Comparison of Present and Proposed Tariffs in comparative form on the same sheet side by side.

Response:

Please see attached.

For electronic version, see KAW_APP_EX3_022610.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO: 2010-00036
COMPARISON OF PRESENT AND PROPOSED RATES AND SERVICE CHARGES
FOR THE GENERAL RATE INCREASE

EXHIBIT 3
PAGE 1 OF 1

SERVICE CLASSIFICATION NO. 1

METER RATES:

<u>CUSTOMER CATEGORY</u>	<u>PRESENT RATES PER 1000 GALLONS</u>		<u>PROPOSED RATES PER 1000 GALLONS</u>		<u>PRESENT RATES PER 100 CUBIC FT</u>		<u>PROPOSED RATES PER 100 CUBIC FT</u>	
RESIDENTIAL	\$	3.77200	\$	5.76133	\$	2.82900	\$	4.32100
COMMERCIAL	\$	3.48667	\$	5.25067	\$	2.61500	\$	3.93800
INDUSTRIAL	\$	2.81867	\$	4.26667	\$	2.11400	\$	3.20000
OPA	\$	3.29467	\$	4.96667	\$	2.47100	\$	3.72500
SALES FOR RESALE	\$	3.27067	\$	4.92000	\$	2.45300	\$	3.69000

SERVICE CHARGES:

<u>SIZE OF METER</u>	<u>PER MONTH</u>		<u>PER QUARTER</u>	
	<u>PRESENT</u>	<u>PROPOSED</u>	<u>PRESENT</u>	<u>PROPOSED</u>
5/8"	\$	8.60	\$	9.15
3/4"	\$	12.90	\$	13.70
1"	\$	21.50	\$	22.90
1-1/2"	\$	43.00	\$	45.80
2"	\$	68.80	\$	73.20
3"	\$	129.00	\$	137.30
4"	\$	215.00	\$	228.80
6"	\$	430.00	\$	457.50
8"	\$	688.00	\$	732.00

SERVICE CLASSIFICATION NO. 3

RATES FOR PRIVATE FIRE CONNECTIONS:

	<u>PER MONTH</u>		<u>PER ANNUM</u>	
	<u>PRESENT</u>	<u>PROPOSED</u>	<u>PRESENT</u>	<u>PROPOSED</u>
2" DIAMETER	\$	6.08	\$	8.75
4" DIAMETER	\$	24.45	\$	35.22
6" DIAMETER	\$	55.00	\$	79.21
8" DIAMETER	\$	97.79	\$	140.83
10" DIAMETER	\$	152.83	\$	220.10
12" DIAMETER	\$	220.14	\$	317.02
14" DIAMETER	\$	299.67	\$	431.57
16" DIAMETER	\$	391.32	\$	563.56

SERVICE CLASSIFICATION NO. 4:

	<u>PER MONTH</u>		<u>PER ANNUM</u>	
	<u>PRESENT</u>	<u>PROPOSED</u>	<u>PRESENT</u>	<u>PROPOSED</u>
<u>RATES FOR PUBLIC FIRE SERVICE:</u>				
FOR EACH PUBLIC HYDRANT	\$	30.99	\$	40.83
<u>RATES FOR PRIVATE FIRE SERVICE:</u>				
FOR EACH PRIVATE HYDRANT	\$	54.34	\$	78.26

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 4**

Description of Filing Requirement:

Certified copy of the Company's Articles of Incorporation with all Amendments.

Response:

The Company's Articles of Incorporation have not changed since they were filed as Filing Exhibit 4 in Kentucky American's 1995 Rate Case: In the matter of: Notice of Adjustment of the rates of Kentucky-American Water Company effective on and after February 29, 1996 (Case No. 95-9554).

For electronic version, see KAW_APP_EX4_022610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 5**

Description of Filing Requirement:

Certificate of Good Standing

Response:

Please see attached for Certificate of Good Standing.

For electronic version, see KAW_APP_EX5_022610.pdf.

**Commonwealth of Kentucky
Trey Grayson, Secretary of State**

Trey Grayson
Secretary of State
P. O. Box 718
Frankfort, KY 40602-0718
(502) 564-3490
<http://www.sos.ky.gov>

Certificate of Existence

Authentication number: 92644
Visit <http://apps.sos.ky.gov/business/obdb/certvalidate.aspx> to authenticate this certificate.

I, Trey Grayson, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records in the Office of the Secretary of State,

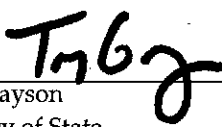
KENTUCKY-AMERICAN WATER COMPANY

is a corporation duly incorporated and existing under KRS Chapter 271B, whose date of incorporation is September 15, 1927 and whose period of duration is perpetual.

I further certify that all fees and penalties owed to the Secretary of State have been paid; that Articles of Dissolution have not been filed; and that the most recent annual report required by KRS 271B.16-220 has been delivered to the Secretary of State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 1st day of February, 2010, in the 218th year of the Commonwealth.




Trey Grayson
Secretary of State
Commonwealth of Kentucky
92644/0027327

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 6**

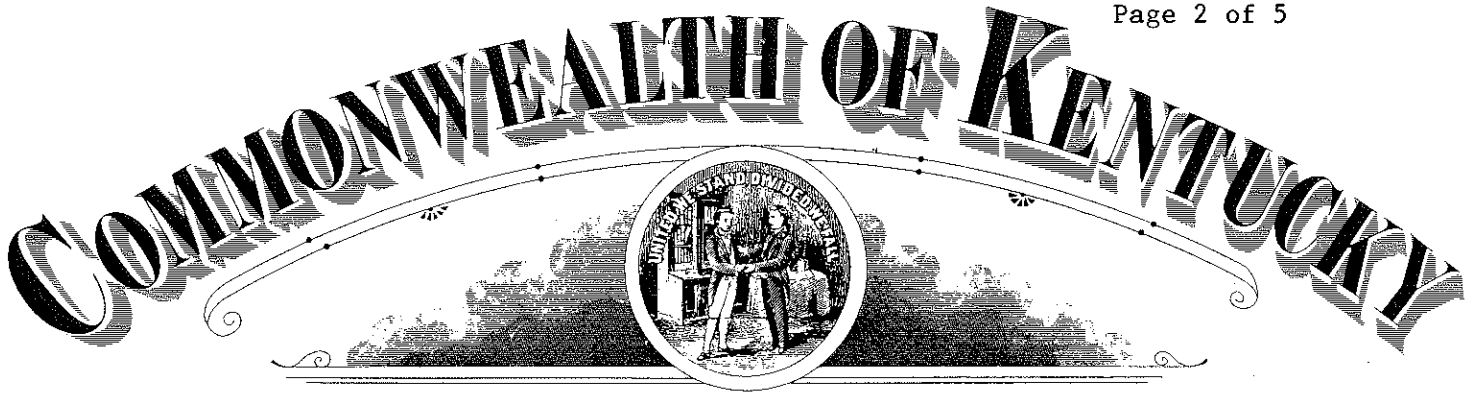
Description of Filing Requirement:

Certified Copy of a Certificate of Assumed Name

Response:

Please see attached.

For electronic version, see KAW_APP_EX6_022610.pdf.



Trey Grayson
Secretary of State

Certificate

I, Trey Grayson, Secretary of State for the Commonwealth of Kentucky, do hereby certify that the foregoing writing has been carefully compared by me with the original thereof, now in my official custody as Secretary of State and remaining on file in my office, and found to be a true and correct copy of

CERTIFICATE OF ASSUMED NAME OF

KENTUCKY AMERICAN WATER FILED SEPTEMBER 12, 2003;

RENEWAL CERTIFICATE OF ASSUMED NAME FILED MAY 9, 2008.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 22nd day of February, 2010.



Trey

Trey Grayson
Secretary of State
Commonwealth of Kentucky
emcnulty/0027327 - Certificate ID: 93872

COMMONWEALTH OF KENTUCKY
JOHN Y. BROWN III
SECRETARY OF STATE



0027327.04

Pcraine
ADD

John Y. Brown III
Secretary of State
Received and Filed
09/12/2003 11:16:06 AM
Fee Receipt: \$20.00

CERTIFICATE OF ASSUMED NAME

This certifies that the assumed name of

KENTUCKY AMERICAN WATER

(Name under which the business will be conducted)

has been adopted by Kentucky-American Water Company

(Real name - KRS 365.015(1))

which is the "real name" of (YOU MUST CHECK ONE)

a Domestic General Partnership

a Foreign General Partnership

a Domestic Registered Limited Liability Partnership

a Foreign Registered Limited Liability Partnership

a Domestic Limited Partnership

a Foreign Limited Partnership

a Domestic Business Trust

a Foreign Business Trust

a Domestic Corporation

a Foreign Corporation

a Domestic Limited Liability Company

a Foreign Limited Liability Company

a Joint Venture

organized and existing in the state or country of Kentucky, USA and whose address is

2300 Richmond Road

Lexington

Kentucky

40502

Street address, if any

City

State

Zip Code

The certificate of assumed name is executed by

Roy W. Mundy, II, President

Signature

Print or type name and title

8-29-03

Date

Signature

Print or type name and title

Date

Visit <http://www.kysos.com>
for instructions on filing this
renewal over the Internet

Trey Grayson
Secretary of State
P.O. Box 718
Frankfort, KY 40602-0718
BOOK 344 PAGE 175

0027327.04

bschell
C227

Trey Grayson
Secretary of State
Received and Filed
05/09/2008 12:01:44 PM
Fee Receipt: \$20.00

KENTUCKY-AMERICAN WATER COMPANY
2300 RICHMOND RD.
LEXINGTON KY, 40502

Your certificate of assumed name for the name KENTUCKY AMERICAN WATER will expire on September 12, 2008, unless renewed by signing and filing the renewal certificate below and one copy in accordance with KRS 365.015(4), along with a \$20.00 filing fee. Make checks payable to "Kentucky State Treasurer". If filed, the renewal certificate is effective for a term of five years. If you have any questions, please call (502)-564-2848, press 2, then press 5.

Commonwealth of Kentucky
Trey Grayson
Secretary of State



Renewal Certificate of Assumed Name

This certifies that the assumed name of

KENTUCKY AMERICAN WATER

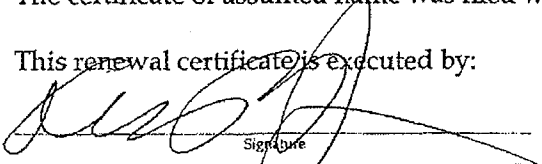
is hereby renewed by

KENTUCKY-AMERICAN WATER COMPANY

, a domestic corporation organized and existing in the state of Kentucky.

The certificate of assumed name was filed with the Secretary of State on September 12, 2003.

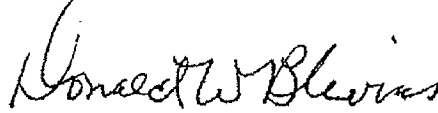
This renewal certificate is executed by:


Signature
A. W. Turner, Jr., General Counsel
Print or type name and title

Date

CORP. RECORD BOOK 344 PAGE 176

**I, Donald W Blevins, County Court Clerk
of Fayette County, Kentucky, hereby
certify that the foregoing instrument
has been duly recorded in my office.**



By: MARCIA DERR , dc

200805150172

May 15, 2008 12:25:02 PM

Fees \$13.00 Tax \$0.00

Total Paid \$13.00

THIS IS THE LAST PAGE OF THE DOCUMENT

2 Pages

175 - 176

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 7**

Description of Filing Requirement:

Public Notices

Response:

Please see attached.

For electronic version, see [KAW_APP_EX7_022610.pdf](#).

NOTICE

Notice is hereby given that Kentucky-American Water Company, a Kentucky corporation, seeks approval by the Public Service Commission, Frankfort, Kentucky, for an adjustment of rates to become effective March 28, 2010, for service rendered on and after March 28, 2010, in the total amount of \$25,848,286 on an annual basis. The percentage of increase will be an overall increase of 37.7% to Kentucky-American Water Company. The amount of increase per customer class for Kentucky-American Water Company is: residential, \$13,050,294, 37.1%; commercial, \$7,012,206, 42.8%; industrial, \$755,209, 49.3%; municipal or private fire connections, \$417,037, 44.0%; public fire hydrants, \$872,626, 31.8%; private fire hydrants, \$338,617, 44.0%; municipal and other public authority, \$2,623,033, 46.5%; and sales for resale, \$778,406, 49.0% . The effect upon the average bill for each customer class on which the proposed rate change will apply is an increase: residential, \$9.44, 37.1%; commercial, \$63.33, 44.0%; industrial, \$1,417.95, 49.2%; public fire hydrants, \$118.13, 31.8%; private fire hydrants, \$287.02, 44.0%; municipal or private fire connections, \$32.09, 44.0%; municipal and other public authority, \$271.23, 45.6%; and sales for resale, \$2,984.96, 49.9% .

The present rates charged by Kentucky-American Water Company are as follows:

SERVICE CLASSIFICATION NO. 1

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for Residential, Commercial, Industrial, Sales for Resale, and all Other Public Authority Metered Service.

Meter Rates

The following shall be the rates for consumption, in addition to the service charges provided for herein:

<u>Customer Category</u>	<u>Rate Per 1,000 Gallons All Consumption</u>	<u>Rate Per 100 Cubic Feet All Consumption</u>
Residential	\$ 3.77200	\$ 2.82900
Commercial	3.48667	2.61500
Industrial	2.81867	2.11400
Municipal & Other		
Public Authority	3.29467	2.47100
Sales for Resale	3.27067	2.45300

Service Charges

All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

<u>Size of Meter</u>	<u>Service Charge Per Month</u>
5/8"	\$ 8.60
3/4"	12.90
1"	21.50
1-1/2"	43.00
2"	68.80
3"	129.00
4"	215.00
6"	430.00
8"	688.00

SERVICE CLASSIFICATION NO. 3

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for Municipal or Private Fire Connections used exclusively for fire protection purposes.

Fire Service Rates

<u>Size of Service</u>	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
2 Inch Diameter	\$ 6.07	\$ 72.91
4 Inch Diameter	24.45	293.43
6 Inch Diameter	55.00	660.03
8 Inch Diameter	97.79	1,173.45
10 Inch Diameter	152.83	1,833.98
12 Inch Diameter	220.13	2,641.62
14 Inch Diameter	299.67	3,596.08
16 Inch Diameter	391.32	4,695.89

SERVICE CLASSIFICATION NO. 4

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for Municipal or Private Fire Connections used exclusively in fire protection charges.

Rates for Public Fire Service

	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
For each public fire hydrant contracted for or ordered by Urban County, County, State or Federal Government Agencies or Institutions	\$30.99	\$371.87

Rates for Private Fire Service

For each private fire hydrant contracted for by industries or private institutions	\$54.34	\$652.13
--	---------	----------

TAPPING FEES

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for Residential, Commercial, Industrial, Other Public Authority and Sales for Resale customers.

<u>Size of Meter Connected</u>	<u>Tapping Fee</u>
5/8-Inch	\$ 702.00
1-Inch	1,287.00
2-Inch	3,129.00
Service larger than 2”	Actual Cost

The proposed rates to be charged by Kentucky-American Water Company are as follows:

SERVICE CLASSIFICATION NO. 1

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for Residential, Commercial, Industrial, Other Public Authority and Sales for Resale Metered Service.

Meter Rates

The following shall be the rates for consumption, in addition to the service charges provided for herein:

<u>Customer Category</u>	<u>Rate Per 1,000 Gallons All Consumption</u>	<u>Rate Per 100 Cubic Feet All Consumption</u>
Residential	\$ 5.76133	\$ 4.32100
Commercial	5.25067	3.93800
Industrial	4.26667	3.20000
Municipal & Other		
Public Authority	4.96667	3.72500
Sales for Resale	4.92000	3.69000

Service Charges

All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

<u>Size of Meter</u>	<u>Service Charge Per Month</u>
5/8"	\$ 9.15
3/4"	13.70
1"	22.90
1-1/2"	45.80
2"	73.20
3"	137.30
4"	228.80
6"	457.50
8"	732.00

SERVICE CLASSIFICATION NO. 3

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for Municipal or Private Fire Connections used exclusively for fire protection purposes.

Fire Service Rates

<u>Size of Service</u>	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
2 Inch Diameter	\$ 8.75	\$ 105.00
4 Inch Diameter	35.22	422.58
6 Inch Diameter	79.21	950.53
8 Inch Diameter	140.83	1,689.92
10 Inch Diameter	220.10	2,641.17
12 Inch Diameter	317.02	3,804.28
14 Inch Diameter	431.57	5,178.83
16 Inch Diameter	563.56	6,762.70

SERVICE CLASSIFICATION NO. 4

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for Municipal or Private Fire Connections used exclusively in fire protection charges.

Rates for Public Fire Service

	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
For each public fire hydrant contracted for or ordered by Urban County, County, State or Federal Government Agencies or Institutions	\$40.83	\$490.00

Rates for Private Fire Service

For each private fire hydrant contracted for by industries or private institutions	\$78.26	\$939.15
--	---------	----------

TAPPING FEES

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for Residential, Commercial, Industrial, Other Public Authority and Sales for Resale customers.

<u>Size of Meter Connected</u>	<u>Tapping Fee</u>
5/8-Inch	\$ 817.00
1-Inch	1,569.00
2-Inch	3,536.00
Service larger than 2"	Actual Cost

Kentucky-American Water Company has also proposed revisions to portions of its tariff relating to fire service and fire hydrants. The revisions would permit the installation of meter(s) to monitor: (1) water use from hydrants for reasons other than the extinguishment of fires; and (2) possible leaks in customer-maintained lines connecting to hydrants. Under the proposed revisions, in certain circumstances, Kentucky-American Water Company would be permitted to charge customers for water so used and/or leaked and for the cost of the meter. Those charges would be imposed in accordance with applicable tariff rates.

The rates contained in this notice are the rates proposed by Kentucky-American Water Company; however, the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice.

Notice is further given that any corporation, association, or person with a substantial interest in the matter may, by written request within thirty (30) days after the mailing of this notice, request to intervene in the matter before the Public Service Commission. Intervention may be granted beyond the thirty (30) day period for good cause shown. The request should be submitted to the Public Service Commission at its address shown below. Any person who has been granted intervention by the Commission may obtain copies of the application and any other filings made by Kentucky-American Water Company by contacting Kentucky-American Water Company at the address and name below.

Any person may examine the rate application and any other filings made by Kentucky-American Water Company at its offices or at the Public Service Commission at the addresses below.

Kentucky-American Water Company
Attn.: A.W. Turner, Jr.
2300 Richmond Road
Lexington, Kentucky 40502
Telephone: 859-269-2386

Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601
Telephone: 502-564-3940

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 8**

Description of Filing Requirement:

PSC Notice

Response:

Please see attached.

For electronic version, see [KAW_APP_EX8_022610.pdf](#).



STOLL · KEENON · OGDEN
PLLC

300 WEST VINE STREET
SUITE 2100
LEXINGTON, KY 40507-1801
MAIN: (859) 231-3000
FAX: (859) 253-1093
www.skofirm.com

LINDSEY W. INGRAM III
DIRECT DIAL: (859) 231-3982
DIRECT FAX: (859) 246-3672
L.Ingram@skofirm.com

RECEIVED

January 27, 2010

JAN 27 2010

PUBLIC SERVICE
COMMISSION

HAND DELIVERED

Jeff R. Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

Re: *Adjustment of Rates of Kentucky American Water*

Dear Mr. Derouen:

In conformity with 807 KAR 5:001 Section 10(2) and 807 KAR 5:011 Section 8(1), this letter is to provide notice to the Public Service Commission of the Commonwealth of Kentucky of the intention of Kentucky American Water to file an application for an increase in its rates no earlier than four weeks from the date of this letter. The rate application will be supported by a fully forecasted test year.

Please acknowledge receipt of this notice and assign a case number to the application to be filed.

Very truly yours,

Stoll Keenon Ogden PLLC

Lindsey W. Ingram III

cc: Gerald E. Wuetcher
David E. Spenard

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 9**

Description of Filing Requirement:

Reconciliation of Rate Base and Capital used to determine its Revenue Requirements.

Response:

Capitalization for Forecasted Test Period	360,229,173
Rate Base for Forecasted Test Period	<u>362,647,107</u>
Difference	
Reconciliation:	
Dividends Declared	2,006,000
Other (Net), Miscellaneous and Sundry Items	<u>411,934</u>

For electronic version, see KAW_APP_EX9_022610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 10**

Description of Filing Requirement:

Prepared testimony of each witness the utility proposes to use to support its application, including testimony from the utility's Chief Officer in charge of Kentucky Operations.

Response:

All Testimony is included under separate cover.
For electronic version, refer to the files below:

<u>FILE NAME</u>	<u>DESCRIPTION</u>
KAW_DT_PLB_022610.pdf	Patrick L. Baryenbruch, Direct Testimony
KAW_DT_LCB_022610.pdf	Linda C. Bridwell, Direct Testimony
KAW_DT_KLC_022610.pdf	Keith L. Cartier, Direct Testimony
KAW_DT_PRH_022610.pdf	Paul R. Herbert, Direct Testimony
KAW_DT_MAM_022610.pdf	Michael A. Miller, Direct Testimony
KAW_DT_SAM_022610.pdf	Sheila A. Miller, Direct Testimony
KAW_DT_NOR_022610.pdf	Nick O. Rowe, Direct Testimony
KAW_DT_JJS_022610.pdf	John J. Spanos, Direct Testimony
KAW_DT_ELS_022610.pdf	Edward L. Spitznagel, Jr., Direct Testimony
KAW_DT_JHV_022610.pdf	James H. Vander Weide, Direct Testimony
KAW_DT_LEW_022610.pdf	Lance E. Williams, Direct Testimony

For electronic version of this document, see KAW_APP_EX10_022610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 11**

Description of Filing Requirement:

Capital Construction Budget with a Three-Year Forecast

Response:

Please see attached.

For electronic version, see [KAW_APP_EX11_022610.pdf](#).

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 12**

Description of Filing Requirement:

Description of Forecast Factors

Response:

Description of Forecast Factors used in preparing Kentucky-American Water's Forecasted Period is incorporated in each witness's prefiled testimony.

For electronic version, see KAW_APP_EX12_022610.pdf for this document and refer to KAW_APP_EX10_022610.pdf for electronic file names for each witness's prefiled testimony.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 13**

Description of Filing Requirement:

Annual and monthly budget for the twelve month preceding the filing date, the base period and the forecasted period.

Response:

Please see attached for the 12 months preceding the filing date and the base period. Refer to Schedules B, C and D for the forecasted period.

For electronic version, see KAW_APP_EX13_022610.pdf for this document and refer to KAW_APP_EX37B_022610.pdf for Schedule B, KAW_APP_EX37C_022610.pdf for Schedule C and KAW_APP_EX37C_022610.pdf for Schedule D.

American Water Works Company
Kentucky American Water Company
Budgeted
Twelve Months Preceding the Filing Date

83500
RT012USR
KYAPPEX13P
Kentucky-American Water Co.

Description	March Plan	April Plan	May Plan	June Plan	July Plan	August Plan	September Plan	October Plan	November Plan	December Plan	January Plan	February Plan	12 Month Total
1 OPERATING REVENUES													
2 Water	4,307,115	4,230,719	4,588,654	6,181,509	6,627,437	6,776,340	6,638,907	6,426,024	5,760,046	5,503,152	4,986,590	4,866,894	66,893,387
3 Sewer	24,689	24,726	26,361	26,361	26,361	25,452	26,904	25,727	25,039	27,004	184	184	262,866
4 Other	185,485	185,485	185,485	185,485	185,485	185,485	185,485	185,485	185,485	185,485	221,164	232,708	2,308,722
5 Management													
6 Total Revenues	4,517,289	4,445,023	4,799,985	6,394,771	6,839,283	6,986,277	6,853,296	6,637,236	5,970,570	5,715,641	5,207,938	5,099,786	69,464,975
7 OPERATIONS & MAINTENANCE EX													
8 Labor	570,689	585,938	563,150	591,012	611,342	558,483	587,325	582,221	577,616	626,885	615,793	553,727	7,013,171
9 Purchased Water	3,753	3,495	3,442	3,442	3,442	3,442	3,442	3,442	3,442	3,442	3,442	3,442	39,029
10 Purchased Power	252	252	252	252	252	252	252	252	252	252	252	252	3,450
11 Chemicals	168,847	185,106	198,953	206,384	264,997	285,348	324,315	293,952	208,898	189,929	173,176	144,534	2,602,839
12 Waste Disposal	27,703	26,820	23,952	20,349	20,349	24,791	24,791	24,523	20,820	23,168	25,185	28,162	305,941
13 Management Fees	631,004	637,992	619,566	650,363	667,327	610,408	648,022	638,092	622,371	661,908	727,004	691,311	7,805,558
14 Group Insurance	157,083	157,083	157,083	157,083	157,083	157,083	157,083	157,083	157,083	157,083	157,083	157,083	1,979,275
15 Pensions	50,479	50,479	50,479	50,479	50,479	50,479	50,479	50,479	50,479	50,479	109,317	109,317	723,424
16 Regulatory Expense	13,553	13,553	13,553	13,553	13,553	13,553	13,553	13,553	13,553	13,553	13,553	13,553	301,307
17 Insurance Other Than Group	59,918	59,918	59,918	59,918	59,918	59,918	59,918	59,918	59,918	59,918	59,918	59,918	736,811
18 Customer Accounting	133,941	133,276	136,389	150,248	154,128	155,414	154,227	152,375	146,581	144,346	149,277	146,243	1,756,465
19 Rents	4,729	4,729	4,729	4,729	4,729	4,729	4,729	4,729	4,729	4,729	4,729	4,729	53,404
20 General Office Expense	57,383	49,609	41,194	52,257	45,319	54,205	46,670	44,988	45,619	44,701	53,268	54,114	891,517
21 Miscellaneous	336,736	287,675	325,110	319,683	280,646	287,521	295,965	276,170	271,182	348,110	291,122	311,194	3,651,013
22 Other Maintenance	214,719	226,983	224,386	245,553	260,596	215,340	216,614	216,104	213,976	212,177	217,021	216,171	2,726,255
Total Maintenance & Operation	2,892,980	2,712,118	2,776,147	2,931,312	3,053,437	2,934,344	2,906,449	2,767,927	2,819,460	2,915,376	2,799,978	2,799,978	34,332,841
27 Depreciation	575,210	576,310	576,348	577,798	586,182	591,986	593,468	596,773	597,756	616,855	546,677	546,606	6,980,869
28 Amortization	44,392	44,392	44,392	44,392	44,392	44,392	44,392	44,392	44,392	44,392	44,392	44,392	529,618
29 General Taxes	299,013	300,165	298,447	299,783	302,080	298,086	303,469	298,884	299,537	303,177	406,988	398,988	3,807,447
30 State Income Taxes	37,141	35,529	43,544	98,946	97,120	111,729	102,614	94,928	74,610	59,485	51,000	55,986	862,652
31 Federal Income Taxes	263,358	253,054	309,157	712,994	708,928	816,549	748,594	694,157	544,662	434,378	360,000	389,973	6,235,204
32 Tax Savings Acquisition													
33 Total Operating Expenses	3,912,094	3,921,588	4,046,035	4,665,235	4,792,139	4,796,285	4,822,881	4,635,583	4,328,884	4,277,757	4,322,700	4,225,390	52,748,831
34 Utility Operating Income	665,195	521,455	751,830	1,729,536	2,047,144	2,190,012	2,030,415	2,001,653	1,641,686	1,437,884	885,238	874,396	16,716,444
35 OTHER INCOME & DEDUCTIONS													
36 Non-Operating Rental Income													
37 Dividend Income-Common													
38 Dividend Income-Preferred													
39 Interest Income													
40 AFUDC Equity													
42 M & J Miscellaneous Income													
43 Gain/Loss on Disposition													
45 Total Other Income	356,383	403,062	442,673	254,080	41,633	82,103	118,240	152,409	185,789	204,553	167,000	191,962	2,589,847
46 Miscellaneous Amortization													
47 Tax Savings Acquisition													
48 Misc. Other Deductions													
49 General Taxes													
50 State Income Taxes													
51 Federal Income Taxes													
52 Total Other Deductions	19,001	15,818	21,445	26,611	7,019	7,253	8,330	4,280	5,310	4,121	88,743	68,793	276,724
53 Total Other Income	337,382	387,244	421,228	227,449	34,614	74,850	109,910	148,129	180,479	200,432	78,257	123,169	2,323,123
54 Income Before Interest C	942,557	906,699	1,173,056	1,956,985	2,081,756	2,264,982	2,140,325	2,149,782	1,822,165	1,638,316	963,495	997,585	19,039,567
55 INTEREST CHARGES													
56 Interest on Long-Term Debt	463,078	463,078	463,021	463,021	463,021	463,021	463,021	463,021	463,021	463,021	463,021	463,021	5,585,811
57 Amortization and Debt	5,876	5,876	5,876	5,876	5,876	5,876	5,876	5,876	5,876	5,876	5,876	5,876	70,517
58 Interest-Short Term Bank	150,547	153,237	118,179	79,702	91,498	100,837	116,986	86,774	49,047	74,830	17,230	22,005	1,058,872
59 Other Interest Expense													
60 AFUDC-Debt	-161,837	-183,045	-201,034	-115,378	-18,907	-37,286	-53,697	-68,215	-84,373	-92,895	-138,800	-157,162	-1,311,629
61 Total Interest Charges	457,664	438,146	605,667	651,846	761,113	752,073	751,811	859,371	807,486	824,747	350,341	334,754	7,596,019
62 Net Income	484,893	468,553	567,391	1,305,139	1,320,646	1,512,789	1,388,514	1,290,411	1,014,679	813,569	613,154	662,811	11,443,548
64 Preferred Dividend Declare	6,511	6,511	6,511	6,511	6,511	6,511	6,511	6,511	6,511	6,511	6,511	6,511	78,636
65 Net Income to Common Stock	478,382	462,042	560,880	1,298,628	1,314,134	1,506,278	1,382,003	1,283,900	1,008,168	807,058	606,643	656,299	11,364,912

KENTUCKY AMERICAN WATER
CASE NO. 2010-00036
BUDGETED CONSTRUCTION EXPENDITURES
FOR THE TWELVE MONTHS PRECEDING THE FILING DATE

ITEM	DESCRIPTION	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10
DV	Projects Funded by Others (Contrib./Adv./Refunds)	\$ 299,736	\$ 205,208	\$ 630,950	\$ 511,536	\$ 113,594	\$ 257,350	\$ 539,974	\$ 262,184	\$ 400,198	\$ 731,998	\$ 318,000	\$ 320,000
A	Mains - New	\$ 18,480	\$ 56,000	\$ 11,760	\$ 26,320	\$ 28,000	\$ 17,240	\$ 12,880	\$ 43,120	\$ 46,480	\$ 218,400	\$ 318,000	\$ 25,000
B	Mains - Replaced / Restored	\$ 228	\$ 18,668	\$ 37,953	\$ 253,296	\$ 46,429	\$ 83,690	\$ 83,690	\$ 65,848	\$ 26,643	\$ 245,345	\$ 23,000	\$ 10,000
C	Mains - Unscheduled	\$ 54	\$ 4,445	\$ 9,038	\$ 60,319	\$ 11,056	\$ 46,307	\$ 19,530	\$ 15,681	\$ 6,345	\$ 58,426	\$ 5,000	\$ 13,000
D	Mains - Relocated	\$ 228	\$ 18,668	\$ 37,953	\$ 253,296	\$ 46,429	\$ 83,690	\$ 83,690	\$ 65,848	\$ 26,643	\$ 245,345	\$ 23,000	\$ 10,000
E	Hydrants, Valves, and Manholes - New	\$ 13,948	\$ 8,527	\$ 27,654	\$ 27,274	\$ 11,744	\$ 194,453	\$ 14,532	\$ 13,802	\$ 9,000	\$ 22,865	\$ 4,000	\$ 2,000
F	Hydrants, Valves, and Manholes - Replaced	\$ 1,650	\$ 150	\$ 13,050	\$ 34,200	\$ 8,550	\$ 27,000	\$ 48,500	\$ 12,846	\$ 12,846	\$ 160,035	\$ 14,000	\$ 13,000
G	Services and Laterals - New	\$ 75,174	\$ 18,595	\$ 87,244	\$ 103,522	\$ 54,327	\$ 97,550	\$ 158,712	\$ 74,909	\$ 80,204	\$ 160,035	\$ 46,200	\$ 48,200
H	Services and Laterals - Replaced	\$ 9,671	\$ 60,707	\$ 87,952	\$ 151,829	\$ 110,945	\$ 109,706	\$ 169,199	\$ 119,374	\$ 120,348	\$ 321,799	\$ 92,006	\$ 96,004
I	Meters - New	\$ 76,409	\$ 48,812	\$ 55,008	\$ 22,107	\$ 107,873	\$ 114,283	\$ 121,413	\$ 152,648	\$ 35,532	\$ 213,535	\$ 76,925	\$ 72,000
J	Meters - Replaced	\$ 97,288	\$ 21,127	\$ 188,853	\$ 227,028	\$ 142,823	\$ 144,024	\$ 155,194	\$ 254,403	\$ 322,186	\$ 439,434	\$ 43,763	\$ 81,236
K	ITS Equipment and Systems	\$ 4,209	\$ 4,886	\$ 18,116	\$ 4,947	\$ 12,543	\$ 144,024	\$ 287	\$ 1,133	\$ 9,935	\$ 44,940	\$ 43,763	\$ 1,700
L	SCADA Equipment and Systems	\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,300
M	Security Equipment and Systems	\$ 10,461	\$ 2,492	\$ 1,109	\$ 9,622	\$ 433	\$ 25,099	\$ 3,400	\$ 38,000	\$ 23,795	\$ 304,403	\$ 291,000	\$ 20,000
N	Process and Operations Centers	\$ 25,695	\$ 25,695	\$ 27,155	\$ 30,789	\$ 13,875	\$ 9,936	\$ 51,867	\$ 5,304	\$ 19,600	\$ 201,081	\$ 291,000	\$ 20,000
O	Tools and Equipment	\$ 12,817	\$ 12,817	\$ 48,932	\$ 62,331	\$ 34,265	\$ 101,320	\$ 21,867	\$ 80,082	\$ 72,462	\$ 274,773	\$ 274,773	\$ 30,000
P	Process Plant Facilities and Equipment	\$ 3,450	\$ 3,450	\$ 5,700	\$ 6,750	\$ 4,350	\$ 16,500	\$ 34,650	\$ 80,082	\$ 21,600	\$ 39,600	\$ 39,600	\$ 8,000
Q	Capitalized Tank Rehabilitation / Painting	\$ 14,850	\$ 14,850	\$ 5,700	\$ 6,750	\$ 4,350	\$ 16,500	\$ 34,650	\$ 80,082	\$ 21,600	\$ 39,600	\$ 39,600	\$ 8,000
R	Engineering Studies	\$ 718,686	\$ 510,337	\$ 1,288,437	\$ 1,844,976	\$ 604,413	\$ 1,449,091	\$ 1,589,521	\$ 1,259,712	\$ 1,329,813	\$ 3,712,766	\$ 622,894	\$ 773,140
S	SUBTOTAL ITEMS	\$ 5,177,769	\$ 5,279,669	\$ 6,279,170	\$ 5,995,026	\$ 5,554,426	\$ 5,868,126	\$ 5,709,764	\$ 5,676,731	\$ 5,571,651	\$ 5,449,643	\$ 8,345,302	\$ 4,610,550
		\$ 5,896,455	\$ 5,789,006	\$ 7,858,662	\$ 7,858,516	\$ 6,176,640	\$ 7,331,454	\$ 7,319,310	\$ 6,949,983	\$ 6,915,667	\$ 9,184,089	\$ 8,997,497	\$ 5,434,923
	TOTAL	\$ 5,896,455	\$ 5,789,006	\$ 7,858,662	\$ 7,858,516	\$ 6,176,640	\$ 7,331,454	\$ 7,319,310	\$ 6,949,983	\$ 6,915,667	\$ 9,184,089	\$ 8,997,497	\$ 5,434,923

Business Unit No Centrally Sponsored Projects.

CS-1201-1 Business Transformation 2009
CS-1201-3 Business Transformation 2010

SUBTOTAL ITEMS

INVESTMENT PROJECTS:

12020204 Source of Supply Project Dev.
12020607 New WTP On Pool 3 of Kentucky
IP-1202-5 North Broadway Main Replacement
IP-1202-6 Install 34,000 of 16" along Carrick Pike
IP-1202-18 US 25 Relocation
IP-1202-31 KRS Raw Water Access (KRS Incline Car)
12020402 Major Highway Relocations
IP-1232-1 Owenton-Post Acquisition Phase 2
12020613 Highway Relocation - Clays Mill

American Water Works Company
Kentucky American Water Company
Budgeted
For the Twelve Months Base Period

83500
RT012USR
KYAPPEX13B
Kentucky-American Water Co.

Description	June Plan	July Plan	August Plan	September Plan	October Plan	November Plan	December Plan	January Plan	February Plan	March Plan	April Plan	May Plan	12 Month Total
OPERATING REVENUES													
1 Water	6,181,599	6,627,637	6,775,340	6,639,007	6,426,024	5,760,046	5,503,152	4,986,590	4,866,894	5,234,095	4,934,056	5,290,948	69,294,698
2 Sewer	27,777	26,361	25,432	28,904	25,727	20,039	27,004	184	184	184	184	184	187,184
4 Other	185,485	185,485	185,485	185,485	185,485	185,485	185,485	221,164	232,708	237,440	231,590	239,454	2,459,751
5 Management													
6 Total Revenues	6,394,171	6,839,283	6,966,277	6,853,296	6,637,236	5,970,570	5,715,641	5,207,938	5,095,786	5,471,719	5,165,830	5,529,586	71,871,933
OPERATIONS & MAINTENANCE EX													
6 Purchased Water	581,012	6,113,342	558,493	587,325	582,221	577,616	625,885	615,793	553,727	651,445	621,440	694,682	7,170,981
9 Fuel & Power	10,091	7,753	12,023	16,453	9,693	6,603	16,512	9,706	9,695	8,851	9,576	11,346	128,302
11 Chemicals	381,479	424,549	430,141	416,669	403,822	351,430	250,295	243,367	230,361	255,974	240,548	360,754	3,980,489
10 Water Disposal	25,813	23,349	24,791	32,431	24,523	23,420	23,168	25,185	24,162	29,635	15,734	25,086	309,945
12 Management Fees	667,387	610,488	610,488	622,373	622,373	622,373	622,373	622,373	622,373	622,373	622,373	622,373	6,102,950
13 Insurance	157,083	157,083	157,083	157,083	157,083	157,083	157,083	157,083	157,083	157,083	157,083	157,083	1,824,996
15 Pensions	50,479	50,479	50,479	50,479	50,479	50,479	50,479	109,317	109,317	109,317	109,317	109,317	899,898
16 Regulatory Expense	30,220	30,220	30,220	30,220	30,220	30,220	24,554	24,554	24,554	24,554	24,554	24,554	334,310
17 Insurance Other Than Group	59,918	59,918	59,918	59,918	59,918	59,918	59,918	68,311	68,311	68,311	68,311	68,311	760,891
18 Customer Accounting	150,248	154,128	155,414	154,227	152,375	146,581	144,346	146,277	146,243	150,435	157,469	150,411	1,811,154
19 Rents	4,729	4,729	4,729	4,729	4,729	4,729	4,729	3,057	3,057	3,057	3,057	3,057	48,388
20 Depreciation	54,729	54,729	54,729	54,729	54,729	54,729	54,729	54,729	54,729	54,729	54,729	54,729	654,729
21 Miscellaneous	319,683	280,645	287,521	295,865	276,170	271,192	348,110	291,122	311,194	327,962	277,306	300,749	3,587,609
25 Other Maintenance	245,553	265,599	213,340	216,614	218,104	213,578	212,177	217,021	216,171	270,171	238,849	232,449	2,759,626
Total Maintenance & Operation	2,931,312	3,053,437	2,894,113	3,030,344	2,906,449	2,767,927	2,819,460	2,915,376	2,792,978	3,129,398	2,916,366	3,023,171	35,220,331
27 Depreciation	577,798	588,162	591,986	593,462	595,773	597,756	616,855	546,677	546,698	547,634	548,513	552,192	6,901,440
28 Amortization	44,392	44,392	44,392	44,392	44,392	44,392	44,392	44,392	44,392	44,392	44,392	44,392	524,988
29 General Taxes	299,793	302,980	298,096	303,469	299,884	299,537	303,177	406,798	396,988	400,013	397,226	395,963	4,103,024
30 State Income Taxes	86,946	97,120	111,729	102,614	94,928	74,610	58,996	55,996	55,996	58,996	54,996	68,992	929,422
31 Federal Income Taxes	712,994	708,928	815,946	815,946	694,157	544,662	434,378	360,000	385,973	415,973	389,973	487,947	6,703,528
32 Tax Savings Acquisition													
33 Total Operating Expenses	4,695,235	4,732,139	4,796,265	4,822,881	4,635,983	4,328,884	4,277,757	4,322,700	4,225,390	4,594,863	4,349,923	4,571,114	54,382,734
34 Utility Operating Income	1,729,536	2,047,144	2,190,012	2,030,415	2,001,653	1,641,686	1,437,884	885,238	874,396	876,856	815,907	958,472	17,489,189
35 OTHER INCOME & DEDUCTIONS													
35 Non-Operating Rental Income													
36 Interest Income													
37 Dividend Income-Preferred													
38 Dividend Income-Preferred													
39 Interest Income													
40 AFUDC Equity													
41 M & J Miscellaneous Income													
42 Gain/Loss on Disposition													
45 Total Other Income	254,060	41,633	82,103	118,240	152,409	185,789	204,553	167,000	191,962	222,962	237,963	236,962	2,095,636
46 Miscellaneous Amortization	64	64	64	64	64	64	64	64	64	64	64	64	448
47 Tax Savings Acquisition													
48 Other Deductions													
49 General Tax	44,513	11,662	12,055	13,860	7,069	8,797	6,803	88,743	68,793	68,052	91,149	47,397	468,893
50 State Income Taxes	-3,672	-962	-695	-1,143	-583	-726	-561	-561	-561	-561	-561	-561	-8,642
51 Federal Income Taxes	-14,294	-3,745	-3,871	-4,451	-2,270	-2,825	-2,185	-2,185	-2,185	-2,185	-2,185	-2,185	-33,641
52 Total Other Deductions	26,611	7,019	7,253	8,330	4,280	5,310	4,121	88,743	66,793	66,052	91,149	47,397	427,058
53 Total Other Income	227,449	34,614	74,850	109,910	148,129	180,479	200,432	78,257	123,169	154,910	148,814	189,565	1,688,579
54 Income Before Interest C	1,956,985	2,081,758	2,284,862	2,140,325	2,149,782	1,822,165	1,638,316	963,495	997,565	1,031,766	962,721	1,148,037	19,157,777
55 INTEREST CHARGES													
55 Interest on Long-Term Debt	678,051	678,051	678,051	678,051	678,051	678,051	678,051	678,051	678,051	678,051	678,051	678,051	7,464,753
56 Interest on Short-Term Debt	1,305,139	1,320,645	1,512,789	1,388,514	1,290,411	1,014,679	813,569	613,154	662,811	711,720	664,413	832,287	832,287
58 Interest Short-Term Bank	78,702	91,468	100,837	116,986	85,774	48,047	74,830	17,230	22,005	32,589	37,008	24,345	60,142
59 Other Interest Expense													730,851
60 AFUDC-Debt	-115,378	-18,907	-37,286	-53,697	-69,215	-84,373	-92,895	-136,800	-157,162	-181,862	-190,863	-188,862	-1,328,300
61 Total Interest Charges	851,846	761,113	752,073	751,811	693,371	607,496	624,747	350,341	334,754	320,046	298,308	315,750	7,027,646
62 Net Income	1,305,139	1,320,645	1,512,789	1,388,514	1,290,411	1,014,679	813,569	613,154	662,811	711,720	664,413	832,287	12,130,131
64 Preferred Dividend Declare	6,511	6,511	6,511	6,511	6,511	6,511	6,511	6,511	6,511	6,511	6,511	6,511	-113,248
65 Net Income to Common Stock	1,298,628	1,314,134	1,506,278	1,382,003	1,283,900	1,008,168	807,058	644,919	694,576	743,485	695,178	864,052	12,243,379

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 14**

Description of Filing Requirement:

Statement of Attestation signed by Kentucky-American Water Company's Chief Officer (Mr. Nick Rowe) in charge of Kentucky Operations.

Response:

Please see attached.

For electronic version, see KAW_APP_EX14_022610.pdf.

PUBLIC SERVICE COMMISSION
KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036

Comes Nick O. Rowe, Chairman of the Board of Directors of Kentucky-American Water Company, and as required by proposed 807 KAR 5:001, Section 10, (9), (e), does hereby attest as follows:

1. That the forecast utilized in Case No. 2010-00036 by Kentucky-American Water Company is, in my opinion, reasonable, reliable, made in good faith and all basic assumptions used in the forecast have been identified and justified;
2. That the forecast utilized by Kentucky-American Water Company in Rate Case No. 2010-00036 contains the same assumptions and methodologies as used by the management of Kentucky-American Water Company, and
3. That productivity and efficiency gains are included in the forecast.



Nick O. Rowe

Date: 2/26/2010

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 15**

Description of Filing Requirement:

Information regarding major construction projects which constitute 5% or more of the annual construction budget.

Response:

Please see attached.

For electronic version, see KAW_APP_EX15_022610.pdf.

KENTUCKY AMERICAN WATER
CASE NO. 2010 - 00036
MAJOR CONSTRUCTION PROJECTS
COMPRISING 5% OR MORE OF THE ANNUAL BUDGET

Investment Project Number	Project Description	Actual or Estimated Start Up Date	Estimated Completion Date	Estimated Costs Inclusive of AFUDC		Estimated Costs Exclusive of AFUDC		Costs Incurred to Date * Inclusive of AFUDC	Costs Incurred to Date * Exclusive of AFUDC
				2010	2011	2010	2011		
12020607	New WTP on Pool 3 of KY River	4/2006	11/2010	31,409,941	200,000	28,621,181	200,000	138,880,548	131,941,727
12020204	Source of Supply Development	4/2006	11/2010	(2,095,796)	0	(2,095,796)	0	2,114,090	2,114,090
1202 - 6	Install 34,000' of 16" in Carrick Pike	5/2008	10/2012	0	1,000,000	0	963,385	88,639	69,485
1202 - 9	Install 22,700 feet of 12" in Todds Road & Cleveland	10/2011	12/2012	0	50,000	0	49,566	0	0
1202 - 18	US 25 Relocation	2/2010	11/2010	3,200,000	0	3,066,720	0	0	0
1202 - 19	Leestown Road	2/2011	11/2011	0	1,500,000	0	1,436,397	0	0
1202 - 21	Kentucky High Service Pumping	12/2012	12/2012	0	0	0	0	0	0
1232 - 3	Northern Division Connection	1/2011	8/2012	0	4,700,000	0	4,510,795	0	0

Note: All charges for project 12020204 to be transferred to 12020607 in September 2010.

* Represents CWIP costs @ 01/31/2010

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 16**

Description of Filing Requirement:

Information regarding major construction projects which constitute less than 5% of the annual construction budget.

Response:

Please see attached.

For electronic version, see KAW_APP_EX16_022610.pdf.

KENTUCKY AMERICAN WATER
CASE NO. 2010 - 00036
MAJOR CONSTRUCTION PROJECTS
COMPRISING 5% OR LESS OF THE ANNUAL BUDGET

Investment Project Number	Project Description	Actual or Estimated Start Up Date	Estimated Completion Date	Estimated Costs Inclusive of AFUDC		Estimated Costs Exclusive of AFUDC		Costs Incurred to Date * Inclusive of AFUDC	Costs Incurred to Date * Exclusive of AFUDC
				2010	2011	2010	2011		
Various	Aggregate of all Construction Costs incurred under 5% of the Annual Construction Budget	Various	Various	3,571,270	3,993,513	2,469,865	3,586,889	2,128,038	1,860,012

* Represents CWIP costs @ 01/31/2010

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 17**

Description of Filing Requirement:

Financial Forecast (for 2010-2012) Operating Income Statements

Response:

Please see attached.

For electronic version, see KAW_APP_EX17_022610.pdf.

**PROJECTED ANNUAL INCOME STATEMENT
KENTUCKY-AMERICAN WATER COMPANY
(000'S OMITTED)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Operating Revenues	\$69,996	\$69,866	\$69,900
Operating Expenses			
Operation & Maintenance	36,004	38,137	40,535
Depreciation and Amortization	9,736	12,972	13,398
General Taxes	4,794	5,024	5,328
Income Taxes	5,819	(544)	(1,799)
Total Operating Expenses	56,353	55,589	57,462
Utility Operating Income	13,643	14,277	12,438
Other Income	2,164	223	29
Total Income	15,807	14,500	12,467
Income Deductions	603	369	343
Income Before Interest	15,204	14,131	12,124
Interest Charges	6,460	11,920	13,136
Net Income	8,744	2,211	(1,012)
Preferred Dividends	381	381	381
Net Income to Common	8,363	1,830	(1,393)
Common Dividends	6,272	1,373	-
Balance for Retained Earnings	2,091	458	(1,393)
Payout ratio	75.00%	75.00%	0.00%
Return on Common Equity - 12/31	5.41%	1.13%	-0.86%
Common Equity - 12/31	154,722	162,680	161,287

Note: Forecast does not include projection of current rate case.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 18

Description of Filing Requirement:

Financial Forecast (for 2010-2012) Balance Sheet

Response:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
(000)			
Fixed Assets	\$469,054	\$480,733	\$495,608
Non-Utility Property	270	270	270
Current Assets	8,750	9,233	9,325
Deferred Debits	6,753	9,245	11,561
 TOTAL	 \$484,827	 \$499,481	 \$516,764
 Total Capital	 \$354,646	 \$370,030	 \$372,530
Current Liabilities	16,416	8,616	15,465
Deferred Credits	113,765	120,835	128,769
 TOTAL	 \$484,827	 \$499,481	 \$516,764

For electronic version, see KAW_APP_EX18_022610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 19**

Description of Filing Requirement:

Financial Forecast (for 2010-2012) Cash Flow Statements

Response:

Please see attached.

For electronic version, see KAW_APP_EX19_022610.pdf.

KENTUCKY-AMERICAN
SOURCE AND APPLICATION OF FUNDS

(000'S OMITTED)

Year	<u>SOURCE OF FUNDS</u>							<u>APPLICATION OF FUNDS</u>						
	<u>Increase in Capital</u>							<u>Reductions in Capital</u>						
	Debt	Preferred	Common	Ret Earnings	Change YE Bank Loans	Adv and CIAC	Depr and Amort	Deferred Taxes	Other	Total	Gross Constr.	Debt	Preferred	Total
2010	47,900	0	22,000	2,091	(24,971)	4,550	9,736	3,028	(7,954)	56,380	53,280	3,100	0	56,380
2011	0	0	7,500	458	7,726	5,400	12,972	1,670	(7,833)	27,893	27,893	0	0	27,893
2012	0	0	0	(1,393)	3,393	6,275	13,398	1,659	6,941	30,273	30,273	0	0	30,273

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 20**

Description of Filing Requirement:

Financial Forecast (for 2010-2012) Revenue Requirements

Response:

Please refer to Exhibit No. 17 for Revenue Requirements. Also see Exhibit 37C for the revenue requirement for the forecasted test-year ended September 2011.

For electronic version, see KAW_APP_EX20_022610.pdf for this document, KAW_APP_EX17_022610.pdf for Revenue Requirements, and KAW_APP_EX37C_022610.pdf for Exhibit 37C.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 21**

Description of Filing Requirement:

Financial Forecast (for 2010-2012) Employee Level (including one for wastewater)

Response:

Number of Employees	<u>2010</u>	<u>2011</u>	<u>2012</u>
	153	153	154

For electronic version, see KAW_APP_EX21_022610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 22**

Description of Filing Requirement:

Financial Forecast (for 2010-2012) Labor Cost Changes

Response:

Total Labor Cost Changes	<u>2010</u>	<u>2011</u>	<u>2012</u>
O&M	\$7,752,492	\$8,168,037	\$8,402,182
Capital	<u>\$1,820,770</u>	<u>\$1,713,450</u>	<u>\$1,762,568</u>
Total	<u>\$9,573,262</u>	<u>\$9,881,487</u>	<u>\$10,164,750</u>

For electronic version, see KAW_APP_EX22_022610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 23**

Description of Filing Requirement:

Financial Forecast (for 2010–2012) Capital Structure Requirements

Response:

Please see attached.

For electronic version, see KAW_APP_EX23_022610.pdf.

Kentucky-American
FINANCING PROJECTIONS
Increments of New Capital
(000'S OMITTED)

<u>Calendar Year</u>	Bank Loans	Debt	Preferred	Common
2010	(24,971)	47,900	0	22,000
2011	7,726	0	0	7,500
2012	3,393	0	0	0

Total Capitalization

<u>As of December 31,</u>	Bank Loans	Debt	Preferred	Common
2010	1,098	192,890	5,936	154,722
2011	8,824	192,890	5,636	162,680
2012	12,217	192,890	5,956	161,287

Capitalization Ratios

<u>As of December 31,</u>	Bank Loans	Debt	Preferred	Common
2010	0.31%	54.39%	1.67%	43.63%
2011	2.38%	52.13%	1.52%	43.96%
2012	3.28%	51.80%	1.60%	43.32%

Note: Forecast does not include projection of current rate case .

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 24**

Description of Filing Requirement:

Financial Forecast (For 2010-2012) Rate Base

Response:

12/31/2010	Rate Base	\$ 367,000,000
12/31/2011	Rate Base	\$ 371,000,000
12/31/2012	Rate Base	\$ 376,000,000

For electronic version, see KAW_APP_EX24_022610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 25**

Description of Filing Requirement:

Financial Forecast (2010-2012) Water Sales (Gallons)

Response:

<u>Water Sales (000 Gallons)</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Residential	6,212,177	6,264,345	6,331,620
Commercial	3,865,945	3,872,544	3,888,717
Industrial	518,351	518,351	518,351
Other	<u>2,018,221</u>	<u>2,018,221</u>	<u>2,018,221</u>
Total	12,614,694	12,673,461	12,756,909

For electronic version, see KAW_APP_EX25_022610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 26**

Description of Filing Requirement:

Financial Forecast (for 2010-2012) Customer Forecast

Response:

<u>Customers</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Residential	108,408	109,316	110,224
Commercial	8,775	8,790	8,805
Industrial	21	21	21
Other	<u>2,621</u>	<u>2,668</u>	<u>2,716</u>
Total	119,825	120,795	121,766

For electronic version, see KAW_APP_EX26_022610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 27**

Description of Filing Requirement:

Most Recent Stock or Bond Prospectus

Response:

There has been no common stock prospectus. Please see attached copy of the executed Note for the \$26.0 million of Long-term debt (tax exempt) closed on September 10, 2009 and the offering material issued for the LT Debt financing.

For electronic version, see KAW_APP_EX27_022610.pdf.

PROMISSORY NOTE
FOR LONG-TERM BORROWINGS
5.625% Maturity – September 1, 2039

\$26,000,000

September 10, 2009

FOR VALUE RECEIVED, Kentucky-American Water Company, a Kentucky corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at 1025 Laurel Oak Rd. Voorhees, NJ 08043 or such other place as Lender may from time to time designate, the principal sum of Twenty-six million dollars (**\$26,000,000**), together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefore shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

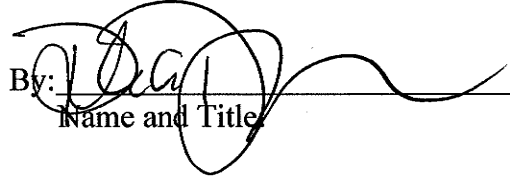
If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

Kentucky-American Water Company

By:  _____
Name and Title

NEW ISSUE

\$26,000,000
COUNTY OF OWEN, KENTUCKY
5.625% WATERWORKS SYSTEM REVENUE BONDS, 2009 SERIES B
(KENTUCKY-AMERICAN WATER COMPANY PROJECT)
(NOT SUBJECT TO AMT)

Dated: Date of Delivery

Due: September 1, 2039

The Waterworks System Revenue Bonds, 2009 Series B (Kentucky-American Water Company Project) (the "Bonds") are special, limited obligations of the County of Owen, Kentucky (the "Issuer") and are payable solely from payments made by American Water Capital Corp. ("AWCC"), the wholly-owned financing subsidiary of American Water Works Company, Inc. ("American Water") or Kentucky-American Water Company ("Kentucky-American"), a wholly-owned subsidiary of American Water and affiliate of AWCC, pursuant to the Loan Agreement between the Issuer, Kentucky-American and



AMERICAN WATER

American Water Capital Corp.

The Bonds have been issued under an Indenture of Trust (the "Indenture") between the Issuer and The Bank of New York Mellon, as trustee (the "Trustee"). Purchases of the Bonds may be made in the denomination of \$5,000 or any integral multiple thereof. The Bonds bear interest payable on March 1 and September 1 of each year, commencing March 1, 2010.

The Bonds are subject to optional redemption, extraordinary optional redemption and special mandatory redemption prior to maturity in the manner and at the times described herein. See "THE BONDS—Redemption of Bonds Before Maturity" herein.

The Bonds are issued only as fully registered bonds registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which acts as securities depository pursuant to a book-entry only system described herein. Beneficial Owners will not receive certificates representing their ownership of the Bonds. Principal of, premium, if any, and interest on the Bonds are payable by the Trustee to Cede & Co., as nominee of DTC. DTC will, in turn, make payments of such amounts to its direct and indirect participants, who will, in turn, make payments to the Beneficial Owners of the Bonds. See "BOOK-ENTRY SYSTEM," herein.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement and appendices hereto to obtain information essential to making an informed investment decision.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS PAYABLE SOLELY AND ONLY FROM CERTAIN SOURCES, INCLUDING AMOUNTS TO BE RECEIVED BY OR ON BEHALF OF THE ISSUER UNDER THE LOAN AGREEMENT. THE BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS, GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, AND WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

Subject to the conditions and exceptions set forth under the caption "TAX MATTERS," Bond Counsel is of the opinion that, under current law, interest on the Bonds offered hereby will be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" of the Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds will not be an item of tax preference or included in adjusted current earnings in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel is further of the opinion that interest on the Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, the principal of the Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of the Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of the Bonds. See "TAX MATTERS" herein.

PRICE: 100%

The Bonds are offered subject to prior sale, when, as and if issued and received by the Underwriter, subject to the approval of their validity by Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel. Certain legal matters will be passed upon for AWCC and Kentucky-American by American Water's Senior Vice President, General Counsel and Secretary, George W. Patrick, Esq., and their Special Kentucky Counsel, Stoll Keenon Ogden PLLC, Louisville, Kentucky, for the Issuer by its counsel, Peck, Shaffer & Williams LLP, Covington, Kentucky, and for the Underwriter by Kutak Rock LLP, Omaha, Nebraska. It is expected that delivery of the Bonds in definitive form will take place through the facilities of DTC on or about September 10, 2009.

MORGAN STANLEY

The date of this Official Statement is September 1, 2009.

The term "Official Statement" wherever used herein, shall be deemed to include Appendix A, Appendix B and Appendix C. The Issuer provided the information contained under the caption "THE ISSUER" herein. AWCC provided the information relating to AWCC and Kentucky-American (collectively, the "Company") herein. DTC provided the information relating to DTC herein.

Morgan Stanley & Co. Incorporated (the "Underwriter"), has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but does not guarantee the accuracy or completeness of such information. This Official Statement is submitted in connection with the offering of securities described herein, and may not be reproduced or used, in whole or in part, for any other purpose. The information contained herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there have not been changes in the affairs of the Issuer, the Company or DTC since the date hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than those described on the cover page, nor shall there be any offer to sell, solicitation of an offer to buy or sale of such securities by any person in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No broker, dealer, sales representative or any other person has been authorized by the Issuer, the Company or the Underwriter to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described herein and, if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing.

The Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Indenture relating to the Bonds been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such Acts. The registration or qualification of the Bonds in accordance with the applicable provisions of securities laws of the states in which the Bonds have been registered or qualified and the exemption therefrom in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

THE ISSUER AND THE TRUSTEE HAVE NOT REVIEWED OR APPROVED, AND DO NOT REPRESENT OR WARRANT IN ANY WAY, THE ACCURACY OR COMPLETENESS OF ANY OF THE INFORMATION SET FORTH IN THIS OFFICIAL STATEMENT, INCLUDING APPENDIX A HERETO (OTHER THAN, WITH RESPECT TO THE ISSUER ONLY, THE STATEMENTS SET FORTH UNDER "THE ISSUER" HEREIN).

The order and the placement of materials in this Official Statement, including the Appendices, are not deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the Appendices, must be considered in its entirety.

The presentation of information in this Official Statement is intended to show recent historic information and, except as expressly stated otherwise, it is not intended to indicate future or continuing trends in the financial condition or other affairs of the Company. No representation is made that past experience, as is shown by the financial and other information, will necessarily continue or be repeated in the future.

This Official Statement is not to be construed as a contract or an agreement between the Issuer and the purchasers or holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact.

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OFFICIAL STATEMENT

\$26,000,000
COUNTY OF OWEN, KENTUCKY
5.625% WATERWORKS SYSTEM REVENUE BONDS, 2009 SERIES B
(KENTUCKY-AMERICAN WATER COMPANY PROJECT)
(NOT SUBJECT TO AMT)

INTRODUCTORY STATEMENT

This Official Statement, including the Appendices hereto, is provided to furnish information in connection with the offering and sale of \$26,000,000 aggregate principal amount of Waterworks System Revenue Bonds, 2009 Series B (Kentucky-American Water Company Project) (the "Bonds") of the County of Owen, Kentucky, a public body corporate and politic duly created and existing as a county and political subdivision under the Constitution and laws of the Commonwealth of Kentucky (the "Issuer").

The Bonds will be issued under Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act") pursuant to an Indenture of Trust, dated as of August 1, 2009 (the "Indenture"), between the Issuer and The Bank of New York Mellon, as trustee (the "Trustee"), and an Ordinance duly adopted by the Fiscal Court of the Issuer on August 25, 2009 (the "Ordinance"). The Bank of New York Mellon will also act as paying agent for the Bonds (the "Paying Agent"), and as registrar (the "Bond Registrar") for the Bonds. The Bonds will be issued to pay all or a portion of the cost of acquiring, constructing, installing and equipping of major water collection, treatment and transmission facilities (the "Project") to be owned and operated by Kentucky-American Water Company, a Kentucky corporation and a regulated public utility company ("Kentucky-American") located (except for certain related water transmission facilities) within the corporate boundaries of the Issuer, and the costs of issuing the Bonds. Kentucky-American is a wholly owned operating subsidiary of American Water Works Company, Inc. ("American Water"), a Delaware corporation, and is an affiliate of AWCC, as hereinafter defined. The Project constitutes an "industrial building" within the meaning of the Act.

In connection with the issuance of the Bonds, American Water Capital Corp., a Delaware corporation and the wholly owned financing subsidiary of American Water ("AWCC") and Kentucky-American (collectively with AWCC, the "Company"), will enter into a Loan Agreement dated as of August 1, 2009 (the "Agreement") with the Issuer pursuant to which the Issuer will agree to issue the Bonds and to loan the proceeds thereof to the Company to pay all or a portion of the cost of the Project and the costs of issuing the Bonds. Pursuant to the Agreement, the Company will agree to pay amounts sufficient to pay when due the principal of and interest on the Bonds. AWCC and Kentucky-American have agreed in their respective corporate capacities under the Agreement to become jointly and severally liable for the payment of the principal of, interest and premium, if any, on the Bonds and the performance of all covenants and obligations of the Company contained in the Agreement, the Indenture and all other undertakings of the Company. This joint and several liability will be evidenced in accordance with the Ordinance by the Issuer's direct loan of the proceeds of the Bonds to AWCC for simultaneous loan of all such proceeds to Kentucky-American for application to pay the costs of the Project. It is the intention of AWCC and Kentucky-American, as between themselves and not in contradiction of their joint and several liability under the Agreement, that AWCC will be primarily responsible for the payment of the Bonds, while Kentucky-American will be primarily responsible for those covenants in the Agreement relating to the acquisition, construction, operation and maintenance of the Project. As further security for the payment of the principal of and interest on the Bonds, the Issuer will assign to the Trustee certain of the Issuer's rights and remedies under the Agreement (other than the Reserved Rights, as hereinafter defined and as more fully described in the Indenture), including the right to receive loan payments pursuant to the Agreement. See "THE AGREEMENT—Payments." The

“Reserved Rights” of the Issuer include without limitation certain rights to indemnification and payment of expenses.

The indebtedness of AWCC under the Agreement is entitled to the benefits of a Support Agreement dated June 22, 2000, as amended on July 26, 2000 (the “Support Agreement”), from American Water to AWCC. See “AMERICAN WATER CAPITAL CORP.—Support Agreement” in Part I of Appendix A hereto.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS PAYABLE SOLELY AND ONLY FROM CERTAIN SOURCES, INCLUDING AMOUNTS TO BE RECEIVED BY OR ON BEHALF OF THE ISSUER UNDER THE AGREEMENT. THE BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS, GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, AND WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

The Bonds will bear interest from their date of delivery at the fixed interest rate shown on the cover page.

The Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), as securities depository. Purchases will be made in book-entry form through DTC Participants (hereinafter described) only. No physical delivery of the Bonds will be made to purchasers. So long as Cede & Co., as nominee of DTC, is the registered owner, references to Bondholders or registered owners shall mean Cede & Co., and shall not mean the beneficial owners of the Bonds. See “BOOK-ENTRY SYSTEM.”

Brief descriptions of the Issuer and summaries of the Bonds, the Agreement and the Indenture are included in this Official Statement. The descriptions and summaries contained herein do not purport to be comprehensive or definitive. All references herein to the Agreement and the Indenture are qualified in their entirety by reference to such documents, and all references herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture, and the information with respect thereto included in the aforesaid documents, copies of all of which are available for inspection at the corporate trust office of the Trustee in New York, New York. Capitalized terms used in this Official Statement and not otherwise defined shall have the meanings ascribed to them in the Indenture.

Information with respect to AWCC, including the consolidated financial statements of “American Water Works Company, Inc. and Subsidiary Companies (formerly Thames Water Aqua US Holdings, Inc. and Subsidiary Companies),” which include AWCC and Kentucky-American, as and for the fiscal years ended December 31, 2008 and 2007, is set forth or incorporated by reference in Part I of Appendix A hereto. Information with respect to Kentucky-American, including its financial statements as and for the fiscal years ended December 31, 2008 and 2007, is set forth in Part II of Appendix A hereto. All information contained in Appendix A to this Official Statement has been furnished by AWCC or Kentucky-American. The text of the proposed form of approving opinion of Bond Counsel is attached hereto as Appendix B and the form of AWCC’s Continuing Disclosure Undertaking is attached hereto as Appendix C.

THE ISSUER

The Issuer is a public body corporate and politic duly created and existing as a county and political subdivision under the Constitution and laws of the Commonwealth of Kentucky. The Issuer is

authorized by the Act to (a) issue the Bonds and assist in financing the Project, (b) lend the proceeds from the sale of the Bonds to the Company for such purpose and (c) enter into and perform its obligations under the Agreement and the Indenture. The Issuer, through its legislative body, the Fiscal Court, has adopted one or more ordinances authorizing the issuance of the Bonds and the execution and delivery of the related documents.

THE PROJECT

The proceeds of the Bonds will be applied, together with other moneys provided by Kentucky-American, to finance the costs of the Project and the costs of issuing the Bonds. The Project consists of the acquisition, construction, installation and equipping of major water collection, treatment and transmission facilities, including the acquisition, construction and installation of a major intake and water treatment plant at Pool No. 3 of the Kentucky River and a booster station, all located within the corporate boundaries of Owen County, Kentucky, except for certain related water transmission facilities. The total cost of the Project will be approximately \$162 million, to which Kentucky-American will apply the proceeds of the Bonds, net of costs of issuance. Kentucky-American will pay the remaining Project costs from a combination of internally generated funds, equity, long-term debt, and short-term interim financing to be replaced by permanent financing. Construction of the Project commenced in June 2008 and the Project is approximately 60% completed. Construction of the Project is on schedule, with completion expected by May 2010. When completed, the Project will be the property of Kentucky-American and will be operated by it.

The Kentucky Public Service Commission has issued a Certificate of Convenience and Necessity that authorizes the construction of the Project. A party who intervened in the proceeding that resulted in the issuance of the Certificate of Public Convenience and Necessity by the Kentucky Public Service Commission authorizing the Project has appealed the issuance of that certificate. The appeal is currently pending in the Franklin Circuit Court in the Commonwealth of Kentucky. The Company has assessed the chances of appellant's appeal being successful as remote.

THE BONDS

General Description

The Bonds will be dated their date of original issuance (the "Delivery Date"). The Bonds will bear interest from and after the Delivery Date at the rate set forth on the cover page hereof, payable on March 1 and September 1 of each year, commencing on March 1, 2010, and the Bonds will mature on September 1, 2039.

The Bonds will be issued in the form of registered bonds, without coupons, and will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases may be made in book-entry form only (the "Book-Entry System"). Purchasers will not receive certificates representing their interest in the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondholders or registered owners or holders mean Cede & Co. and not the Beneficial Owners (as defined herein) of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable by wire transfer by the Trustee, as paying agent, to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See "BOOK-ENTRY SYSTEM."

When the Book-Entry System is not in effect, the Bonds may be transferred or exchanged for other Bonds in denominations of \$5,000 and integral multiples thereof, at the principal corporate trust operations office of the Trustee in New York, New York, without cost except for any applicable tax or other governmental charge.

Interest will be calculated on the basis of a 360-day year of twelve 30-day months. Bonds authenticated after the Delivery Date and prior to the first interest payment date will bear interest from the Delivery Date. Bonds issued in exchange for or upon the registration of transfer of Bonds on or after the first interest payment date thereon will bear interest from the interest payment date next preceding the date of the Trustee's authentication thereof, unless the date of such authentication is an interest payment date to which interest on the Bonds has been paid in full or duly provided for, in which case they will bear interest from such interest payment date, provided that Bonds issued in exchange for or upon registration of transfer of Bonds on or after the fifteenth day (whether or not a Business Day) of the calendar month next preceding the calendar month in which occurs an interest payment date (the "Record Date") and prior to the next succeeding interest payment date will bear interest from such next succeeding interest payment date.

The principal of and interest on the Bonds will be payable in lawful money of the United States of America. Payment of the interest on any Bond will be made to such person who is the holder thereof on the Record Date and will be paid by check mailed to such person who is the holder on the Record Date at such holder's address as it appears on the registration books of the Issuer maintained by the Trustee, as Bond Registrar, or at such other address as is furnished to the Trustee in writing by such holder; provided that interest payable on the Bonds shall at the written request of the holder of at least \$1,000,000 aggregate principal amount of Bonds, received by the Bond Registrar at least one Business Day prior to any Record Date, be payable to such holder in immediately available funds by wire transfer to a bank account number of such holder within the United States or by deposit into a bank account maintained with the Trustee or any Paying Agent. Payment of the principal or redemption price of such Bond will be made when due upon surrender of such Bond.

The Bonds will be special, limited obligations of the Issuer, payable solely from and secured by a pledge of certain payments and other amounts to be received by the Issuer from the Company pursuant to the Agreement, which will enable the Trustee to pay, when due, the principal of and interest on the Bonds. See "THE AGREEMENT—Payments." THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS PAYABLE SOLELY AND ONLY FROM CERTAIN SOURCES, INCLUDING AMOUNTS TO BE RECEIVED BY OR ON BEHALF OF THE ISSUER UNDER THE AGREEMENT. THE BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS, GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, AND WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

The Bonds are not secured by any lien, mortgage or security interest or other interest in the Project. Prospective purchasers of the Bonds should evaluate their decision to purchase the Bonds solely on the basis of the creditworthiness of AWCC and Kentucky-American. See "THE AGREEMENT—Payments." See Appendix A hereto for descriptions of AWCC and Kentucky-American. Under the Indenture, the Issuer and the Trustee have a prior lien on the moneys held by the Trustee under the Indenture for the payment of their fees and indemnities.

Optional Redemption

The Bonds are subject to redemption, at the option of Company, in whole or in part at any time on or after September 1, 2019 (and if in part, to be selected by lot in such manner as the Trustee may determine), at the redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

Extraordinary Optional Redemption in Whole

The Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Agreement to prepay the loan if any of the following events occur within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

(a) If, in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including, without limitation, federal, state or other ad valorem property, income or other taxes not imposed on the date of the Agreement, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;

(b) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(c) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(d) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the facilities that are part of the Project have occurred, which, in the judgment of the Company, render the continued operation of those facilities uneconomical, or changes in circumstances after the issuance of the Bonds, including, but not limited to, changes in water treatment requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(e) in the event the Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(f) a final order or decree of any court or administrative body after the issuance of the Bonds requires the Company to cease a substantial part of its operations of the facilities that are part of the Project to such extent that the Company will be prevented from carrying on its normal operations at the location of such facilities for a period of six months.

Extraordinary Optional Redemption in Whole or in Part

The Bonds are also subject to redemption at any time in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer or the Company in the event of damage, destruction or condemnation of all or a portion of the Project, subject to receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the Bonds from gross income for federal income tax purposes. See "THE AGREEMENT—Maintenance; Damage, Destruction and Condemnation."

Mandatory Redemption; Determination of Taxability

The Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 90 days following a "Determination of Taxability." As used herein, a "Determination of Taxability" means the receipt by the Trustee of written notice from a current or former registered owner of a Bond or from the Company or the Issuer of (a) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (b) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Agreement or any other agreement or certificate delivered in connection with the Bonds, the interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a "substantial user" or a "related person" of a substantial user of the Project within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a Bond or from the Issuer unless (a) the Issuer or the registered owner or former registered owner of the Bond involved in such proceeding or action (i) gives the Company and the Trustee prompt notice of the commencement thereof, and (ii) (if the Company agrees to pay all expenses in connection therewith offers the Company the opportunity to control unconditionally the defense thereof) and (b) either (i) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (ii) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any Bond in the computation of minimum or indirect taxes. All of the Bonds are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such Bonds would have the result that interest payable on the remaining Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, Bonds will not be redeemed as described herein.

General Redemption Terms

Notice of redemption will be given by mailing a redemption notice conforming to the provisions and requirements of the Indenture by first class mail to the registered owners of the Bonds to be redeemed not less than 30 days but not more than 45 days prior to the redemption date.

Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest will accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. If the provisions for discharging the Indenture set forth below under the caption, "THE INDENTURE—Discharge of Indenture" have not been complied with, any redemption notice will state that it is conditional on there being sufficient moneys to pay the full redemption price for the Bonds to be redeemed. So long as the Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.

BOOK-ENTRY SYSTEM

Initially, the Bonds will be available in book-entry form only. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as a single fully-registered global bond certificate registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC, "immobilized" in the custody of the Trustee pursuant to the Fast Automated Securities Transfer ("FAST") system of DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other

organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by users of its regulated subsidiaries. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission (the "Commission"). More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the Book-Entry System for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to

whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments, redemption proceeds and distributions on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Company or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered as described in the Indenture.

The Company may at any time elect (i) to provide for the replacement of DTC as the depository for the Bonds with another qualified securities depository, or (ii) in accordance with the procedures of the depository to discontinue the maintenance of the Bonds under a Book-Entry System. In such event, the Trustee will give 30 days' prior notice of such election to DTC (or such fewer number of days as is acceptable to DTC).

Upon the discontinuance of the maintenance of the Bonds under a Book-Entry System, the Company and the Trustee will cause Bond certificates to be issued directly to the Beneficial Owners of Bonds or their designees. In such event, the Trustee will make provisions to notify Participants and the Beneficial Owners of the Bonds by mailing an appropriate notice to DTC that Bonds will be directly issued to the Beneficial Owners of Bonds as of a date set forth in such notice, which will be a date at least 10 days after the date of mailing of such notice (or such fewer number of days as is acceptable to DTC).

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, redemption proceeds, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

THE ISSUER, THE COMPANY, THE UNDERWRITER, THE BOND REGISTRAR AND THE TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND REGISTRAR AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY

DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THE INDENTURE; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Bonds.

The Trustee and the Issuer, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption or of proposed document amendments requiring consent of registered owners and any other notices required by the document to be sent to registered owners only to DTC (or any successor Securities Depository) or its nominee. Any failure of DTC to advise any Direct Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption, the document amendment or any other action premised on that notice.

THE ISSUER, THE COMPANY, THE TRUSTEE AND THE UNDERWRITER CANNOT AND DO NOT GIVE ANY ASSURANCES THAT THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (i) PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE BONDS, (ii) BONDS REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNERS OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DIRECT PARTICIPANTS ARE ON FILE WITH DTC.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Special, Limited Obligations

The Bonds and the interest thereon are special, limited obligations of the Issuer, payable by the Issuer from the revenues of the Issuer derived from payments to be made by the Company under the Agreement and other funds held by the Trustee under the Indenture and not from any other fund or source of the Issuer. AWCC and Kentucky-American have agreed to become jointly and severally liable under the Agreement for such payments to be made under the Agreement. The Bonds are secured by the Indenture and the Agreement. Payments under the Agreement are designed to be sufficient, together with

other funds available for such purpose, to pay when due the principal of, premium, if any, and interest on the Bonds.

Pursuant to the Indenture, the Issuer will assign to the Trustee, for the benefit and security of the registered owners of the Bonds, substantially all of the rights, interest and title of the Issuer in the Agreement (subject to the Reserved Rights), including all loan payments and other amounts payable thereunder.

THE PROJECT WILL NOT CONSTITUTE ANY PART OF THE SECURITY FOR THE BONDS.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS PAYABLE SOLELY AND ONLY FROM CERTAIN SOURCES, INCLUDING AMOUNTS TO BE RECEIVED BY OR ON BEHALF OF THE ISSUER UNDER THE AGREEMENT. THE BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS, GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, AND WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWER.

THE AGREEMENT

The following is a summary of certain provisions of the Agreement. This summary does not purport to be complete and is subject in all respects to the provisions of, and qualified in its entirety by reference to, the Agreement.

General

The term of the Agreement will commence as of its date and end on the earliest to occur of September 1, 2039 or the date on which all of the Bonds have been fully paid or provision has been made for such payment pursuant to the Indenture. See "THE INDENTURE—Discharge of Indenture."

The Company has agreed to repay the loan pursuant to the Agreement by making timely payments to the Trustee in sufficient amounts to pay the principal of, premium, if any, and interest required to be paid on the Bonds on each date upon which any such payments are due. The Company has also agreed to pay (a) the agreed upon fees and expenses of the Trustee, the Bond Registrar and the Paying Agent and all other amounts which may be payable to the Trustee, the Bond Registrar and the Paying Agent, as may be applicable, under the Indenture, (b) the expenses in connection with any redemption of the Bonds and (c) the reasonable expenses of the Issuer.

All payments to be made by the Company to the Issuer pursuant to the Agreement (except the fees and reasonable out-of-pocket expenses of the Issuer, the Trustee, the Paying Agent and the Bond Registrar and amounts related to indemnification) have been assigned by the Issuer to the Trustee, and the Company will pay such amounts directly to the Trustee. The obligations of the Company to make the payments pursuant to the Agreement are absolute and unconditional. AWCC and Kentucky-American have agreed to become jointly and severally liable under the Agreement to make such payments.

Maintenance of Tax Exemption

The Company and the Issuer have agreed not to take any action that would result in the interest paid on the Bonds being included in gross income of any Bondholder (other than a holder who is a

“substantial user” of the Project or a “related person” within the meaning of Section 147(a) of the Code) for federal income tax purposes or that adversely affects the validity of the Bonds.

Payment of Taxes

The Company has agreed to pay certain taxes and other governmental charges that may be lawfully assessed, levied or charged against or with respect to the Project (see, however, subparagraph (a) under “THE BONDS—Extraordinary Optional Redemption in Whole”). The Company may contest such taxes or other governmental charges unless the security provided by the Indenture would be materially endangered.

Maintenance; Damage, Destruction and Condemnation

So long as any Bonds are outstanding, the Company will maintain the Project or cause the Project to be maintained in good working condition and will make or cause to be made all proper repairs, replacements and renewals necessary to continue to constitute the Project as water collection, treatment and distribution facilities and facilities functionally related and subordinate to such facilities under Section 142(a)(4) of the Code and the Act. However, the Company will have no obligation to maintain, repair, replace or renew any portion of the Project, the maintenance, repair, replacement or renewal of which becomes uneconomical to the Company because of certain events, including damage or destruction by a cause not within the Company’s control, condemnation of all or substantially all of the Project, the termination by the Company of the operation of the facilities to which the Project is an adjunct or change in government standards and regulations.

The Company, at its own expense, may remodel the Project or make substitutions, modifications and improvements to the Project as it deems desirable, which remodeling, substitutions, modifications and improvements shall be included under the terms of the Agreement as part of the Project. The Company may not, however, change or alter the basic nature of the Project or cause it to lose its status under Section 142(a)(4) of the Code and the Act.

If, prior to the payment of all Bonds outstanding, the Project or any portion thereof is destroyed, damaged or taken by the exercise of the power of eminent domain and the Issuer or the Company receives net proceeds from insurance or a condemnation award in connection therewith, the Company must (a) cause such net proceeds to be used to repair or restore the Project or (b) take any other action, including the redemption of the Bonds in whole or in part at their principal amount, which will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes. See “THE BONDS—Extraordinary Optional Redemption in Whole or in Part.”

Insurance

The Company will insure the Project in a manner consistent with general industry practice.

Assignment, Merger and Release of Obligations of the Company

The Company, subject to the approvals of American Water and the Public Service Commission of Kentucky, may assign the Agreement, pursuant to an opinion of Bond Counsel that such assignment will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, without obtaining the consent of either the Issuer or the Trustee. Such assignment, however, will not relieve the Company from primary liability for any of its obligations under the Agreement and performance and observance of the other covenants and agreements to be performed by the Company. The Company, by joint action of AWCC and Kentucky-American and subject to the approval of

American Water, may merge into or consolidate with another corporation or dispose of all or substantially all of its assets if the acquirer of its assets or the corporation with which it will consolidate or into which it will merge is a corporation or other business organization organized and existing under the laws of the United States of America or one of the states of the United States of America or the District of Columbia, is qualified and admitted to do business of the same type as furnished by the Project in the Commonwealth of Kentucky, shall be approved by the Public Service Commission of Kentucky or governmental successor thereto, assumes in writing all of the obligations and covenants of the Company under the Agreement and delivers a copy of such assumption to the Issuer and Trustee.

Release and Indemnification Covenant

The Company will indemnify and hold each of the Trustee and the Issuer harmless against any expense or liability incurred, including attorneys' fees and expenses, resulting from any loss or damage to property or any injury to or death of any person occurring on or about or resulting from any defect in the Project or from any action, loss, liability, claim or damage commenced in connection with the financing thereof or arising out of or incurred by the Trustee under the Indenture.

Whether or not the transactions and events described by this Official Statement shall be consummated, the Company shall (a) pay and hold the Issuer and the Bondholders harmless from and against any and all liability for the payment of, all taxes, charges and out-of-pocket expenses (including attorneys fees) arising in connection with such contemplated transactions and events, and (b) indemnify and hold harmless the Issuer and the Bondholders from and against any and all claims, demands and causes of action of any nature whatsoever in connection with such contemplated transactions and events, and pay all reasonable fees and expenses (including attorneys fees), incident to the defense thereof, including (without implied limitation) all claims or liability resulting from any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the acquisition, rehabilitation, equipping and installation of the Project or the use thereof. The Company is not required to indemnify the Issuer or the Bondholders for any claim or liability resulting from any willful or negligent act of such party or for any claim or liability which the Company, as a direct result of the actions of the Bondholder, was not given the opportunity to contest.

Events of Default

Each of the following events constitutes an "Event of Default" under the Agreement:

(a) failure by the Company to pay the amounts required for payment of the principal of, including redemption and acceleration prices, and interest accrued, on the Bonds, at the times specified therein taking into account any periods of grace provided in the Indenture and the Bonds for the applicable payment of interest on the Bonds (see "THE INDENTURE—Defaults and Remedies");

(b) failure by the Company to observe and perform any covenant, condition or agreement, other than as referred to in paragraph (a) above, for a period of 60 days after written notice by the Issuer or Trustee, provided, however, that if such failure is capable of being corrected, but cannot be corrected in such 60-day period, it will not constitute an Event of Default under the Agreement if corrective action with respect thereto is instituted within such period and is being diligently pursued;

(c) default in the performance, or breach, of any covenant or warranty of the Company, and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company and American Water by the Trustee or the

holders of at least 25% in principal amount of the Bonds Outstanding a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Agreement;

(d) certain events of bankruptcy, dissolution, liquidation, reorganization or insolvency of the Company or American Water;

(e) the provisions of any material part of the Support Agreement shall become unenforceable, or either of the Company or American Water contests in any manner the validity or the enforceability of any such provision and the Company fails to provide similar and reasonably acceptable provisions for the security and source of payment of the Bonds; or

(f) the occurrence of an Event of Default under the Indenture.

Under the Agreement, certain of the Company's obligations (other than the Company's obligations, among others, (a) not to permit any action which would result in interest paid on the Bonds being included in gross income for federal and Kentucky income taxes; (b) to maintain its corporate existence and good standing of each, and to neither dispose of all or substantially all of its assets or consolidate with or merge into another corporation unless certain provisions of the Agreement are satisfied; and (c) to make loan payments and certain other payments under the provisions of the Agreement) may be suspended if by reason of force majeure (as defined in the Agreement) the Company is unable to carry out such obligations.

Remedies

Upon the happening of an Event of Default under the Agreement, the Trustee, on behalf of the Issuer, may, among other things, take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company, under the Agreement.

Any amounts collected upon the happening of any such Event of Default must be applied in accordance with the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture) and all other liabilities of the Company accrued under the Indenture and the Agreement have been paid or satisfied, made available to the Company.

Options to Prepay, Obligation to Prepay

The Company may prepay the loan pursuant to the Agreement, in whole or in part, on certain dates, at the prepayment prices as shown under the captions "THE BONDS—Optional Redemption," "—Extraordinary Optional Redemption in Whole" and "—Extraordinary Optional Redemption in Whole or in Part." Upon the occurrence of the event described under the caption "THE BONDS—Mandatory Redemption; Determination of Taxability," the Company will be obligated to prepay the loan in an aggregate amount sufficient to redeem the required principal amount of the Bonds.

In each instance, the loan prepayment price must be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem the requisite amount of the Bonds at a price equal to the applicable redemption price plus accrued interest to the redemption date, and to pay all reasonable and necessary fees and expenses of the Trustee, the Paying Agent and the Bond Registrar and all other liabilities of the Company under the Agreement accrued to the redemption date.

Amendments and Modifications

No amendment or modification of the Agreement is permissible without the written consent of the Trustee. The Issuer and the Trustee may, however, without the consent of or notice to any Bondholders, enter into any amendment or modification of the Agreement (a) which may be required by the provisions of the Agreement or the Indenture, (b) for the purpose of curing any ambiguity or formal defect or omission, (c) in connection with any modification or change necessary to conform the Agreement with changes and modifications in the Indenture or (d) in connection with any other change which, in the judgment of the Trustee, does not adversely affect the Trustee or the Bondholders. Except for such amendments, the Agreement may be amended or modified only with the consent of the Bondholders holding a majority in principal amount of the Bonds then outstanding (see "THE INDENTURE—Supplemental Indentures" for an explanation of the procedures necessary for Bondholder consent); provided, however, that the approval of the Bondholders holding 100% in principal amount of the Bonds then outstanding is necessary to effectuate an amendment or modification with respect to the Agreement of the type described in clauses (a) through (d) of the first sentence of the second paragraph of "THE INDENTURE—Supplemental Indentures."

THE INDENTURE

The following is a summary of certain provisions of the Indenture. The summary does not purport to be complete and is subject in all respects to the provisions of, and qualified by reference to, the Indenture.

Security

Pursuant to the Indenture, the Issuer will assign and pledge to the Trustee its interest in and to the Agreement, including payments and other amounts due the Issuer thereunder, together with all moneys, property and securities from time to time held by the Trustee under the Indenture (with certain exceptions, including moneys held in or earnings on the Rebate Fund). The Bonds will not be secured by the Project.

No Pecuniary Liability of the Issuer

No provision, covenant or agreement contained in the Indenture or in the Agreement, nor any breach thereof, will constitute or give rise to any pecuniary liability of the Issuer or any charge upon any of its assets or its general credit or taxing powers. The Issuer has not obligated itself by making the covenants, agreements or provisions contained in the Indenture or in the Agreement, except with respect to the Project and the application of the amounts assigned to payment of the principal of, premium, if any, and interest on the Bonds.

The Bond Fund

The payments to be made by the Company pursuant to the Agreement to the Issuer and certain other amounts specified in the Indenture will be deposited into a Bond Fund established pursuant to the Indenture (the "Bond Fund") and will be maintained in trust by the Trustee. Moneys in the Bond Fund will be used solely and only for the payment of the principal of, premium, if any, and interest on the Bonds and for the redemption of Bonds prior to maturity. Any moneys held in the Bond Fund will be invested by the Trustee at the specific written direction of the Company in certain Governmental Obligations, investment-grade corporate obligations and other investments permitted under the Indenture. All moneys invested in respect of the Bond Fund shall be deemed at all times a part of the Bond Fund, and the interest accruing thereon and any profit realized from such investments shall be credited pro rata

to the Bond Fund, and any loss resulting from such investment shall be charged pro rata to the Bond Fund.

The Construction Fund

The net proceeds of the Bonds will be deposited in a Construction Fund (the "Construction Fund") established under the Indenture. Moneys in the Construction Fund will be expended in accordance with the Agreement to pay the costs of construction of the Project or to reimburse the Company for any amount of the costs of construction of the Project paid or incurred by the Company. All moneys invested in respect of the Construction Fund shall be deemed at all times a part of the Construction Fund, and the interest accruing thereon and any profit realized from such investments shall be credited pro rata to the Construction Fund, and any loss resulting from such investment shall be charged pro rata to the Construction Fund.

The Rebate Fund

A Rebate Fund has been created by the Indenture (the "Rebate Fund") and will be maintained as a separate fund free and clear of the lien of the Indenture. The Issuer, the Trustee and the Company have agreed to comply with all rebate requirements of the Code and, in particular, the Company has agreed that if necessary, it will deposit in the Rebate Fund any such amount as is required under the Code. However, the Issuer, the Trustee and the Company may disregard the Rebate Fund provisions to the extent that they receive an opinion of Bond Counsel that such failure to comply will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

Discharge of Indenture

When all the Bonds and all fees and charges accrued and to accrue of the Trustee and the Paying Agent have been paid or provided for, and when proper notice has been given to the Bondholders or the Trustee that the proper amounts have been so paid or provided for, and there shall be no default in any other respect under the Indenture, the Indenture will become null and void. The Bonds will be deemed to have been paid and discharged when there has been irrevocably deposited with the Trustee moneys sufficient to pay the principal, premium, if any, and accrued interest on such Bonds to the due date (whether such date be by reason of maturity or upon redemption) or, in lieu thereof, Governmental Obligations have been deposited which mature in such amounts and at such times as will provide the funds necessary to so pay such Bonds, and when all reasonable and necessary fees and expenses of the Trustee, the Authenticating Agent, the Issuer, the Bond Registrar and the Paying Agent have been paid or provided for.

Defaults and Remedies

Each of the following events constitutes an "Event of Default" under the Indenture:

- (a) Failure to make payment of any installment of interest on any Bond within a period of five Business Days from the date due;
- (b) Failure to make punctual payment of the principal of, or premium, if any, on any Bond on the due date, whether at the stated maturity thereof, or upon proceedings for redemption;
- (c) Failure of the Issuer to perform or observe any other of the covenants, agreements or conditions in the Indenture or in the Bonds which failure continues for a period of 60 days after written notice by the Trustee, provided, however, that if such failure is capable of

being cured, but cannot be cured in such 60-day period, it will not constitute an Event of Default under the Indenture if corrective action in respect of such failure is instituted within such 60-day period and is being diligently pursued; or

(d) The occurrence of an "Event of Default" under the Agreement (see "THE AGREEMENT—Events of Default").

Upon the occurrence of an Event of Default under either of the clauses (a) or (b) of the next preceding paragraph, the Trustee shall, by immediate notice in writing delivered to the Issuer and the Company, declare the principal of all then outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable; anything in the Indenture or the to the contrary notwithstanding, except as described under "Waiver of Events of Default." Interest on the Bonds shall cease to accrue on the date of issuance of the declaration of acceleration of payment of principal and interest on the Bonds. Upon any such declaration of acceleration the Trustee shall immediately declare all payments under the Agreement to be immediately due and payable as liquidated damages.

Upon the occurrence of an Event of Default under either of the clauses (c) and (d) of the second preceding paragraph, the Trustee may proceed to pursue any available remedy by suit at law or in equity to enforce each and every right granted to the Issuer under the Agreement for the benefit of the Bondholders, including the payment of the principal of, premium, if any, and interest on the Bonds then outstanding, and upon the written request of the registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding and upon receipt of indemnity reasonably satisfactory to it, the Trustee shall be obligated to exercise one or more of the rights and powers conferred by the Indenture, including the right to declare the acceleration of payment of principal and interest on the Bonds. In exercising such rights, the Trustee will take any action that, in the judgment of the Trustee, would best serve the interests of the registered owners.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the Bonds has been declared due and payable, all such moneys will be applied in the following order: (a) to the payment of the fees, expenses, liabilities and advances incurred or made by the Issuer, the Trustee or the Paying Agent and the payment of any sums due and payable to the United States pursuant to Section 148(f) of the Code, (b) to the payment of all interest then due on the Bonds, and (c) to the payment of unpaid principal and premium, if any, of the Bonds. If the principal of the Bonds has become due or has been accelerated, such moneys will be applied in the following order: (a) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and (b) to the payment of principal of and interest then due and unpaid on the Bonds.

No Bondholder may institute any suit or proceeding in equity or at law for the enforcement of the Indenture unless an Event of Default has occurred of which the Trustee has been notified or is deemed to have notice, and registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding have made written request to the Trustee to proceed to exercise the powers granted under the Indenture or to institute such action in their own name and the Trustee fails or refuses to exercise its powers within a reasonable time after receipt of indemnity satisfactory to it.

Any judgment against the Issuer pursuant to the exercise of rights under the Indenture will be enforceable only against specific assigned payments, funds and accounts under the Indenture in the custody of the Trustee. No deficiency judgment will be authorized against any assets of, or the general credit of, the Issuer.

No default under paragraph (c) above will constitute an Event of Default until actual notice is given to the Issuer and the Company by the Trustee or to the Issuer, the Company and the Trustee by the registered owners holding not less than 25% in aggregate principal amount of all Bonds outstanding and the Issuer and the Company have had 60 days after such notice to correct the default and failed to do so. If the default is such that it cannot be corrected within the applicable period but is capable of being cured, it will not constitute an Event of Default if corrective action is instituted by the Issuer or the Company within the applicable period and diligently pursued until the default is corrected.

Waiver of Events of Default

Except as provided below, the Trustee may in its discretion waive any default under the Indenture and will do so upon the written request of the registered owners holding a majority in principal amount of all Bonds then outstanding. If, after the principal of all Bonds then outstanding has been declared to be due and payable as a result of a default under the Indenture and before any judgment or decree for the appointment of a receiver or for the payment of the moneys due has been obtained or entered, (a) the Company causes to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of and premium, if any, on any and all Bonds which would become due otherwise than by reason of such declaration (with interest thereon as provided in the Indenture) and the expenses of the Trustee and the Issuer in connection with such default and (b) all defaults under the Indenture (other than nonpayment of the principal of Bonds due by said declaration) have been remedied, then such default will be deemed waived and such declaration and its consequences rescinded and annulled by the Trustee. Such waiver, rescission and annulment will be binding upon all Bondholders. No such waiver, rescission and annulment will extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Notwithstanding the foregoing, nothing in the Indenture will affect the right of a registered owner to enforce the payment of principal of, premium, if any, and interest on the Bonds after the maturity thereof.

Supplemental Indentures

The Issuer and the Trustee may enter into indentures supplemental to the Indenture without the consent of or notice to the Bondholders in order (a) to cure any ambiguity or formal defect or omission in the Indenture, (b) to grant to or confer upon the Trustee, as may lawfully be granted, additional rights, remedies, powers or authorities for the benefit of the Bondholders, (c) to subject to the Indenture additional revenues, properties or collateral, (d) to permit qualification of the Indenture under any federal statute or state blue sky law, (e) to add additional covenants and agreements of the Issuer for the protection of the Bondholders or to surrender or limit any rights, powers or authorities reserved to or conferred upon the Issuer, (f) to make any other modification or change to the Indenture which, in the sole judgment of the Trustee, does not adversely affect the Trustee or any Bondholder, (g) to make other amendments not otherwise permitted by (a), (b), (c), (d) or (f) of this paragraph to provisions relating to federal income tax matters under the Code or other relevant provisions if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, (h) to make any modification or change to the Indenture necessary to provide liquidity or credit support for the Bonds or (i) to permit the issuance of the Bonds in other than book-entry-only form or to provide changes to or for the book-entry system.

Notwithstanding the foregoing, the Company, with the consent of the Trustee and all rating services then providing ratings on the Bonds, may at any time further secure the Bonds by means of a letter of credit, other credit facility or other guarantee or collateral.

Exclusive of supplemental indentures for the purposes set forth in the preceding paragraph, the consent of registered owners holding a majority in aggregate principal amount of all Bonds then outstanding is required to approve any supplemental indenture, except no such supplemental indenture may permit, without the consent of all of the registered owners of the Bonds then outstanding, (a) an extension of the maturity of the principal of or the interest on any Bond issued under the Indenture or a reduction in the principal amount of any Bond or the rate of interest or time of redemption or redemption premium thereon, (b) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (c) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture or (d) the deprivation of any registered owners of the lien of the Indenture.

If at any time the Issuer requests the Trustee to enter into any supplemental indenture requiring the consent of the registered owners of the Bonds, the Trustee, upon being satisfactorily indemnified with respect to expenses, must notify all such registered owners. Such notice must set forth the nature of the proposed supplemental indenture and must state that copies thereof are on file at the principal office of the Trustee for inspection. If, within 60 days (or such longer period as prescribed by the Issuer or the Company) following the mailing of such notice, the registered owners holding the requisite amount of the Bonds outstanding have consented to the execution thereof, no Bondholder will have any right to object or question the execution thereof.

No supplemental indenture will become effective unless the Company consents to the execution and delivery of such supplemental indenture. The Company will be deemed to have consented to the execution and delivery of any supplemental indenture if the Trustee does not receive a notice of protest or objection signed by the Company on or before 4:30 p.m., local time in the city in which the principal office of the Trustee is located, on the fifteenth day after the mailing to the Company of a notice of the proposed changes and a copy of the proposed supplemental indenture.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee, the Issuer and the owners upon an Event of Default under the Agreement or the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Agreement or the Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity, bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

TAX MATTERS

Exclusion of Interest on the Bonds From Gross Income for Federal and State Income Tax Purposes

In the opinion of Bond Counsel, under existing law, including current statutes, regulations, administrative rulings and official interpretations, subject to the qualifications and exceptions set forth below, interest on the Bonds will be excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person" as such terms are used in Section 147(a) of the Code. Interest on the Bonds will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is not taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations.

It is Bond Counsel's further opinion that subject to the assumptions stated in the preceding sentence, (a) interest on the Bonds will be excluded from gross income of the owners thereof for Kentucky income tax purposes and (b) the Bonds will be exempt from all ad valorem taxes in Kentucky.

The opinion of Bond Counsel as to the excludability of interest from gross income for federal income tax purposes will be based upon and will assume the accuracy of certain representations of facts and circumstances, including with respect to the Project, which are within the knowledge of AWCC and Kentucky-American, and compliance by AWCC and Kentucky-American with certain covenants and undertakings set forth in the proceedings authorizing the Bonds which are intended to assure that the Bonds are and will remain obligations the interest on which is not includable in gross income of the recipients thereof under the law in effect on the date of such opinion. Bond Counsel will not independently verify the accuracy of the certifications and representations made by AWCC, Kentucky-American and the Issuer. On the date of the opinion and subsequent to the original delivery of the Bonds, such representations of facts and circumstances must be accurate and such covenants and undertakings must continue to be complied with in order that interest on the Bonds be and remain excludable from gross income of the recipients thereof for federal income tax purposes under existing law. Bond Counsel will express no opinion (a) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change permitted by the documents other than with the approval of Bond Counsel is taken which adversely affects the tax treatment of the Bonds or (b) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the Issuer to the federal government, require future or continued compliance after issuance of the Bonds in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with certain of these requirements by AWCC, Kentucky-American or the Issuer with respect to the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes and to be subject to federal income taxation retroactively to the date of their issuance. AWCC, Kentucky-American and the Issuer will each covenant to take all actions required of each to assure that the interest on the Bonds will be and remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

The opinion of Bond Counsel as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds will be subject to the following exceptions and qualifications:

(a) The Code also provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, Bond Counsel will express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Additional Federal Income Tax Consequences

Owners of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income tax credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of Section 32 of the Code, which exceeds \$2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income. Prospective purchasers of the Bonds should consult their own tax advisors regarding such matters and any other tax consequences of holding the Bonds.

Future Legislation

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

A draft of the opinion of Bond Counsel relating to the Bonds in substantially the form in which it is expected to be delivered on the date of issuance of the Bonds is attached as Appendix B.

CONTINUING DISCLOSURE UNDERTAKING

AWCC has undertaken in its Continuing Disclosure Undertaking dated September 10, 2009 (the "Undertaking") for the benefit of the owners of the Bonds to send certain financial information and operating data to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board in accordance with its EMMA system of certain events, pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the "Rule"). See "APPENDIX C—Form of Continuing Disclosure Undertaking."

A failure by AWCC to comply with the Undertaking will not constitute an event of default with respect to the Bonds, although any holder will have any available remedy at law or in equity, including

seeking specific performance by court order, to cause AWCC to comply with its obligations from the Undertaking. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

American Water is subject to the informational requirements of the Securities Exchange Act of 1934, and, accordingly, files information, including the financial information and operating data of American Water referred to by the Undertaking, with the SEC in accordance with applicable laws and regulations. See "Available Information" in Part I of Appendix A.

The Issuer (a) is not an "obligated person" with respect to the Bonds and the Undertaking for purposes of the Rule, (b) has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under the Undertaking, (c) has no liability to any person, including any Bondholder or beneficial owner of the Bonds, with respect to any such reports, notices or disclosures provided or required under the Undertaking and (d) has no liability to any person, including any Bondholder or beneficial owner of the Bonds, with respect to any such reports, notices or disclosures provided or required under the Continuing Disclosure Undertaking with respect to the Rule.

LITIGATION

To AWCC's and Kentucky-American's knowledge, there is no litigation of any nature pending or threatened against AWCC, Kentucky-American or American Water or any other subsidiary or affiliate of American Water at the date of this Official Statement which would materially adversely affect AWCC's or Kentucky-American's ability to perform its obligations under the Agreement.

UNDERWRITING

Under a Bond Purchase Agreement relating to the Bonds, Morgan Stanley & Co. Incorporated, as Underwriter, will agree to purchase all, and not less than all, of the Bonds at a purchase price of 100% of the principal amount thereof. As compensation for such agreement, AWCC will agree to pay to the Underwriter a commission equal to \$195,000.

After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriter.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriter may overallocate or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids. A stabilizing bid means the placing of a bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither the Issuer, AWCC nor the Underwriter make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer, AWCC nor the Underwriter make any representation that the Underwriter will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

AWCC will agree to indemnify the Underwriter against certain liabilities or to contribute to any payments required to be made by the Underwriter relating to such liabilities, including certain liabilities under federal securities laws, relating to the Bonds.

In the ordinary course of its business, Morgan Stanley & Co. Incorporated, the Underwriter, and certain of its respective affiliates have engaged, are engaged, and may in the future engage, in investment and commercial banking transactions with AWCC.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, the Underwriter, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds and with regard to the exclusion of the interest on the Bonds from gross income for federal income tax purposes under existing laws will be the subject of the approving opinion of Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel. Substantially the proposed form of such opinion is included as Appendix B.

The various legal opinions and/or certifications to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion and/or certification, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of parties to the transaction, nor does the rendering of an opinion and/or certification guarantee the outcome of any legal dispute that may arise out of the transaction.

Certain legal matters will be passed upon for AWCC and Kentucky-American by American Water's Senior Vice President, General Counsel and Secretary, George W. Patrick, Esq., and by their Special Kentucky Counsel, Stoll Keenon Ogden PLLC, Louisville, Kentucky. Certain legal matters will be passed upon for the Issuer by its counsel, Peck, Shaffer & Williams LLP, Covington, Kentucky, and for the Underwriter by Kutak Rock LLP, Omaha, Nebraska.

This Official Statement has been duly approved, executed and delivered by the County Judge/Executive of the Issuer, on behalf of the Issuer. However, the Issuer has not and does not assume any responsibility as to the accuracy or completeness of any of the information in this Official Statement except for information furnished by the Issuer under the caption "THE ISSUER."

September 1, 2009

COUNTY OF OWEN, KENTUCKY

By: /s/Carolyn Keith
County Judge/Executive

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APPENDIX A

The information contained or incorporated by reference in this Appendix A to this Official Statement relates to and has been supplied by American Water Works Company, Inc. ("American Water") on behalf of its wholly-owned financing subsidiary, American Water Capital Corp. ("AWCC") and its wholly-owned subsidiary, Kentucky-American Water Company ("Kentucky-American"). The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of American Water, AWCC, Kentucky-American or any of their subsidiaries or affiliates since the date hereof, or that the information contained or referred to in this Appendix A is correct as of any time subsequent to its date. The information contained under Part I: AMERICAN WATER CAPITAL CORP. and under Part II: KENTUCKY-AMERICAN WATER COMPANY is furnished solely to provide limited introductory information regarding AWCC, Kentucky-American and certain affiliates and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements incorporated by reference herein. The Issuer and the Underwriter make no representation or warranty as to the accuracy or completeness of the information contained in this Appendix A.

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APPENDIX A

Part I

AMERICAN WATER CAPITAL CORP.

General

AWCC was established by American Water to provide financing to American Water and its subsidiaries, including its water and wastewater utility subsidiaries. AWCC was incorporated under the laws of the State of Delaware in May 2000 and is a wholly-owned subsidiary of American Water. AWCC raises funds by issuing debt securities in the United States and borrowing funds and lends the net proceeds from those borrowings to American Water and its subsidiaries. AWCC does not engage in any other active business activities.

AWCC received an order dated November 7, 2000 from the Securities and Exchange Commission (the "SEC") granting it an exemption from all of the provisions of the Investment Company Act of 1940.

The principal offices of AWCC and American Water are located at 1025 Laurel Oak Road, Post Office Box 1770, Voorhees, New Jersey 08043.

Support Agreement

AWCC's debt is supported by a support agreement, dated June 22, 2000 and amended on July 26, 2000 between AWCC and American Water (the "Support Agreement"). The Support Agreement provides, among other things, that:

- American Water owns, and during the term of the support agreement will continue to own, all of the voting stock of AWCC free and clear of any lien, security interest or other charge or encumbrance;
- American Water will provide to AWCC, at its request or the request of any lender (including any holder of debt securities), funds in the form of cash or liquid assets (as equity or, if American Water and AWCC agree, as a loan subordinated to any and all indebtedness, whether or not that indebtedness is outstanding at the time of the loan) as required if AWCC is unable to make timely payment of interest, principal or premium, if any, on any indebtedness issued by it;
- American Water will cause AWCC to have at all times a positive tangible net worth (total assets less liabilities less intangible assets), as determined in accordance with generally accepted accounting principles; and
- if AWCC fails or refuses to take timely action to enforce certain rights under the support agreement or if AWCC defaults in the timely payment of interest, principal or premium, if any, owed to a lender (including any holder of debt securities) when due, that lender may proceed directly against American Water to enforce such rights or to obtain payment of the defaulted interest, principal or premium, if any, owed to that lender.

American Water Works Company, Inc.

American Water is the most geographically diversified as well as the largest, as measured both by operating revenue and population served, investor-owned United States water and wastewater utility company. American Water's approximately 7,300 employees provide approximately 15 million people with drinking water, wastewater and other water-related services in 32 states and Ontario, Canada.

American Water was founded in 1886 as the American Water Works & Guarantee Company, for the purposes of building and purchasing water systems in McKeesport, Pennsylvania. In 1935, American Water was reorganized under its current name, and in 1947 the common stock of American Water became publicly traded on the New York Stock Exchange.

In 2003, American Water was acquired by RWE Aktiengesellschaft, a German stock corporation ("RWE"), and became a private company. In November 2005, RWE decided to divest American Water. In March 2006, RWE decided to divest American Water through the sale of shares in one or more public offerings. On April 28, 2008, RWE Aqua Holdings GmbH, a German limited liability company and a direct wholly-owned subsidiary of RWE, which then was the sole owner of American Water's common stock, completed the partial divestiture of its investment in American Water in an initial public offering through the sale of 58,000,000 shares (since increased to 63,173,000 shares to cover the underwriters' over-allotments) of common stock. On June 10, 2009, RWE completed the sale in a public offering of an additional 15,400,000 shares of common stock (including 3,900,000 shares sold upon the underwriters' exercise of their over-allotment option) and American Water completed the sale in a public offering of 14,500,000 shares of common stock. On August 18, 2009, RWE completed the sale in a public offering of an additional 40,250,000 shares of common stock (including 5,250,000 shares sold upon the underwriters' exercise of their over-allotment option). Following the completion of such sales, RWE owns approximately 23.54% of American Water's common stock.

American Water's primary business involves the ownership of regulated water and wastewater utilities that provide water and wastewater services to residential, commercial and industrial customers, treating and delivering over one billion gallons of water per day. Its subsidiaries that provide these services are generally subject to economic regulation by state Public Utility Commissions ("PUCs") in the states in which they operate. In 2008, American Water generated \$2,336.9 million in total operating revenue, \$186.9 million in operating loss, which includes \$750.0 million of impairment charges relating to continuing operations, and a net loss of \$562.4 million. Its Regulated Businesses, operating in 20 states in the United States, generated 89.1% of its total operating revenue in 2008.

American Water also provides services that are not subject to economic regulation by state PUCs. Its Non-Regulated Businesses include its Contract Operations Group, its Applied Water Management Group, its Homeowner Services Group and Terratec Environmental Ltd. In 2008, its Non-Regulated Businesses generated \$272.2 million in operating revenue, prior to inter-segment eliminations.

Except insofar as the Support Agreement may be implicated, American Water is not obligated with respect to the Bonds.

Available Information

American Water currently is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act") and in accordance therewith files annual, quarterly and current reports, proxy and information statements and other information with the SEC. Such reports, proxy and information statements and other information can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material can also

be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The SEC also maintains a website (<http://www.sec.gov>) that contains reports, registration, proxy and information statements and other information regarding American Water. The SEC's toll-free number is 1-800-SEC-0330. Common stock of American Water is listed with the symbol "AWK" on the New York Stock Exchange located at 20 Broad Street, New York, New York 10005, and reports, proxy material and other information concerning American Water may be inspected at the office of that Exchange.

Incorporation of Certain Documents by Reference

The SEC allows AWCC to "incorporate by reference" into this Official Statement the information it files with the SEC. This enables AWCC to disclose important information by referring to these documents. The information incorporated by reference is deemed to be part of this Official Statement, and the information American Water or AWCC files with the SEC after the date of this Official Statement will automatically update, modify and, where applicable, supersede any information included in this Official Statement or incorporated by reference in this Official Statement. AWCC incorporates by reference into this Official Statement the following documents filed with the SEC (other than in each case, documents or information deemed to be furnished and not filed in accordance with SEC rules). The SEC file number for these documents is 1-34028.

- Annual Report on Form 10-K for the fiscal year ended December 31, 2008;
- Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2009 and June 30, 2009;
- Current Reports on Form 8-K filed on February 26, 2009 (dated February 20, 2009), May 6, 2009 (American Water is incorporating by reference only the disclosure included under Item 8.01 in this Current Report), May 12, 2009, June 8, 2009, June 23, 2009, August 5, 2009 (American Water is incorporating by reference only the disclosure included under Item 5.02 in this Current Report) and August 17, 2009;
- The description of American Water's common stock set forth in its Registration Statement on Form S-3 filed on May 1, 2009, including its Prospectus Supplements on Form 424B7, filed on August 11, 2009 and August 14, 2009.

AWCC also incorporates by reference into this Official Statement all documents filed by it or American Water pursuant to Sections 13(a), 13(c), 14 or 15(d) of the 1934 Act between the date of this Official Statement and the termination of the offering of the Bonds under this Official Statement. To the extent that any information contained in any current report on Form 8-K, or any exhibit to the report, was furnished to, rather than filed with the SEC, the information or exhibit is specifically not incorporated by reference in this Official Statement. Any statement made in a document incorporated by reference will be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained in this Official Statement or in any subsequently filed document that also is or is deemed to be incorporated by reference in this Official Statement modifies or supersedes such statement. Any statement made in this Official Statement will be deemed to be modified or superseded to the extent that a statement contained in any subsequently filed document that also is or is deemed to be incorporated by reference in this Official Statement modifies or supersedes such statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

To obtain a copy of any or all of the documents incorporated by reference in this Official Statement, each person to whom a copy of this Official Statement may write or telephone the Company at the following address and telephone number:

American Water Capital Corp.
1025 Laurel Oak Road
Voorhees, NJ 08043
Attention: General Counsel
(856) 346-8200

Exhibits to the documents will not be sent, however, unless those exhibits have specifically been incorporated by reference into such document.

AWCC is not subject to the information requirements under the 1934 Act. AWCC does not believe the financial statements of AWCC would be helpful to the holders of AWCC's debt securities because:

- American Water owns all of the outstanding capital stock of AWCC and is a reporting company under the 1934 Act.
- AWCC has no independent operations or proposals to engage in any activity other than borrowing funds through the issuance of debt securities or through credit agreements with institutional lenders and providing those funds to our operating subsidiaries under loan agreements.
- The debt securities will have the benefit of a support agreement under which American Water agrees to pay to any debt investor or lender of AWCC any principal or interest amounts owed by AWCC to such debt investor or lender that AWCC fails to pay on a timely basis.

Forward Looking Statements

This document contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and the Private Securities Litigation Reform Act of 1995. In some cases, these forward-looking statements can be identified by words with prospective meanings such as "intend," "plan," "estimate," "believe," "anticipate," "expect," "predict," "project," "forecast," "outlook," "future," "potential," "continue," "may," "can," "should" and "could" and similar expressions. Forward-looking statements may relate to, among other things, the Company's future financial performance, growth strategies, ability to repay debt, ability to finance current operations and growth initiatives, trends in its industry, regulatory or legal developments or rate adjustments.

Forward-looking statements are predictions based on AWCC's current expectations and assumptions regarding future events. They are not guarantees of any outcomes, financial results or levels of performance, and prospective investors are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of risks and uncertainties, and new risks and uncertainties of which AWCC is not currently aware or which it does not currently perceive may arise in the future from time to time. Should any of these risks or uncertainties materialize, or should any of its expectations or assumptions prove incorrect, then AWCC's results may vary materially from those discussed in the forward-looking statements herein. Factors that could cause actual results to differ from those discussed in forward-looking statements include, but are not limited to, the factors discussed under

the caption "Risk Factors" in American Water's Annual Report on Form 10-K, incorporated herein by reference, and the following factors:

- weather conditions, patterns or events, including drought or abnormally high rainfall;
- changes in general economic, business and financial market conditions;
- fluctuations in the value of benefit plan assets and liabilities that could increase American Water's cost and funding requirements;
- changes in laws, governmental regulations and policies, including environmental, health and water quality and public utility regulations and policies;
- the decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- the timeliness of regulatory commissions' actions concerning rates;
- migration into or out of American Water's service territories;
- American Water's ability to obtain permits for expansion projects;
- changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts;
- the availability of adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our operations;
- American Water's ability to successfully acquire and integrate water and wastewater systems that are complementary to our operations and the growth of our business;
- American Water's ability to manage the expansion of our business;
- American Water's ability to control operating expenses and to achieve efficiencies in our operations;
- access to sufficient capital on satisfactory terms;
- fluctuations in interest rates;
- restrictive covenants in or changes to the credit ratings on American Water's or AWCC's current or future debt that could increase their financing costs or affect their ability to borrow, make payments on debt or pay dividends.

Independent Registered Public Accounting Firm

The consolidated financial statements as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008 incorporated by reference in this Official Statement have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing therein.

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APPENDIX A

Part II

KENTUCKY-AMERICAN WATER COMPANY

General

Kentucky-American Water Company ("Kentucky-American"), a wholly owned subsidiary of American Water and an affiliate of AWCC, serves a population (including resale) of approximately 500,000 and generated approximately \$60.086 million of operating revenue in 2008, representing approximately 2.88% of operating revenue of American Water's Regulated Businesses for that period.

Kentucky-American operates under the rules and regulations of the Kentucky Public Service Commission (the "Commission") which, in addition to regulating specific aspects of service, approves prices charged for water and wastewater service. Kentucky-American must also meet standards established by the Kentucky Division of Water ("DOW") and the Federal Environmental Protection Agency ("EPA").

As of December 31, 2008, 96.33% of the voting securities of Kentucky-American (including 100% of its Common Stock) was owned by American Water and its subsidiaries. In 2003, American Water was acquired by RWE Aktiengesellschaft, a German stock corporation ("RWE"), and became a private company. In March 2006, RWE decided to divest American Water through the sale of shares in one or more public offerings. On April 28, 2008, RWE Aqua Holdings GmbH, a German limited liability company and a direct wholly-owned subsidiary of RWE, which then was the sole owner of American Water's common stock, completed the partial divestiture of its investment in American Water in an initial public offering through the sale of 58,000,000 shares (since increased to 63,173,000 shares to cover the underwriters' over-allotments) of common stock. On June 10, 2009, RWE completed the sale in a public offering of an additional 15,400,000 shares of common stock (including 3,900,000 shares sold upon the underwriters' exercise of their over-allotment option) and American Water completed the sale in a public offering of 14,500,000 shares of common stock. On August 18, 2009, RWE completed the sale in a public offering of an additional 40,250,000 shares of common stock (including 5,250,000 shares sold upon the underwriters' exercise of their over-allotment option). Following the completion of such sales, RWE owns approximately 23.54% of American Water's common stock.

Kentucky-American employs approximately 150 people who have expertise in all areas of water utility operations including engineering, water quality, treatment plant operation and maintenance, distribution system operation and maintenance, materials management, risk management, human resources, legal, finance and accounting. Additionally, as a subsidiary of American Water, Kentucky-American has available to it the resources of American Water Works Service Company, Inc. (the "Service Company"). The Service Company provides access to highly trained professionals with expertise in various specialized areas who work exclusively for American Water's operating subsidiaries.

Kentucky-American provides service in 10 counties of the Commonwealth of Kentucky.

Water Supply

Kentucky-American's water supply is provided principally from surface supplies such as rivers, streams and reservoirs. In 2008, the total amount of water delivered to the system averaged

approximately 42.86 million gallons per day (MGD) of which surface water accounted for approximately 99.7%, and purchased water accounted for approximately 0.3%.

In order to ensure that Kentucky-American has adequate sources of water supply, it utilizes reservoirs to provide for water needs during peak summer seasons. Through the optimization of ground and surface water rights, Kentucky-American is able to balance seasonal fluctuations and provide sufficient water supply to its customers year round. It also maintains drought and emergency plans to ensure service reliability through a wide range of weather fluctuations.

Kentucky-American has water allocation permits from DOW, where required. Kentucky-American believes that, once the Project is completed, supply and treatment capacity will be capable of meeting existing and future demands with reasonable margins for drought and expansion contingencies.

Purification

Transforming water found in nature into a consumable product requires treatment and processing to remove natural and manmade contaminants. All surface water is filtered and all water supplies are treated with chlorine for disinfection. In some cases, special treatment is provided to correct specific conditions of the water. Kentucky-American owns and operates 3 surface water purification plants having a combined operating capacity of approximately 66 MGD for filtration and chemical treatment of water supplies.

The Richmond Road Station water treatment plant is located in Lexington and has a rated capacity of 25 MGD. It is supplied raw water from both the Kentucky River at Pool 9 and Jacobson Reservoir near the plant. The Kentucky River Station, with a rated capacity of 40 MGD, is located in Fayette County adjacent to the Kentucky River Pool 9, which supplies all of its raw water. The Owenton water treatment plant is located in Owen County and supplies water to Owenton and the counties of Owen, Grant and Gallatin. It has a rated capacity of 1 MGD and is supplied raw water from Severn Creek, a tributary of the Kentucky River at Pool 2.

Transmission and Distribution Facilities

Kentucky-American supplies water to its customers through separate water transmission and distribution systems located throughout its service territory. These systems consist of water mains, pumping stations and distribution system reservoirs. Water mains range in diameter from one inch up to 36 inches and are generally made from ductile iron, cast iron, plastic or prestressed concrete. As of December 31, 2008, Kentucky-American owned more than 1,932 miles of water transmission and distribution mains. Kentucky-American has 26 distribution system reservoirs with water storage capacity of 24.385 million gallons.

Federal and State Environmental Regulation

Kentucky-American is subject to regulation by the EPA and by DOW with respect to its operations including water supply, the purity of water and the quality of effluent from filter and treatment plants. The Safe Drinking Water Act, as amended (the "SDWA"), resulted in the development and promulgation of regulations for an extensive number of water contaminants. Enforcement of the drinking water standards established by the SDWA in Kentucky has been delegated to DOW. Regulations proposed by the EPA and DOW to implement the SDWA provide detailed requirements, standards and timetables concerning treatment measures of drinking water supplied by all water sources. In the opinion of management, Kentucky-American is in compliance in all material respects with all applicable federal

and Kentucky water quality standards and regulations. The Clean Water Act regulates discharges of contaminants to the waters of the Commonwealth from point sources. The Clean Water Act requires Kentucky-American to apply for a National Pollutant Discharge Elimination Permit for return of its clarified wastewater back to the receiving stream. All of Kentucky-American's surface supply systems that discharge clarified wastewater back to surface streams maintain active permits for the process. Reporting on the quality of the discharged water is done monthly to the regulating agency using Discharge Monitoring Report forms. DOW also conducts annual unannounced visits to facilities of Kentucky-American as part of its regulatory compliance program.

Rates and Regulation

Kentucky-American provides water and wastewater service to residential, commercial, industrial and municipal customers. As a public utility operating in Kentucky, Kentucky-American functions under rules and regulations prescribed by the Kentucky Public Service Commission (the "Commission"). As such, Kentucky-American's results of operations are significantly impacted by the rates authorized by the Commission. As necessary, Kentucky-American applies to the Commission for changes in the rates charged for service. The rate increase request is based on the level of revenues, operating expenses and capital costs expected to be in effect by the end of the future test year, which is the year which immediately follows the historic test year. Kentucky-American can provide no assurance that any rate increase request will be granted by the Commission.

Since 1999, Kentucky-American has requested and received annual revenue increases from the Commission as follows:

Utility Type	Effective Date	Amount Granted	% Increase
Water	11/27/2000	\$2,568,056	6.43
Water	12/01/2004	4,283,302	9.99
Water	12/01/2007	8,000,000	15.64
Water	6/01/2009	10,300,000	17.33

Franchises and Property

Kentucky-American provides water service to 10 of Kentucky's 120 counties, including the cities of Lexington, Georgetown and Owenton. Kentucky-American believes that the certificates of public convenience that Kentucky-American currently holds are valid, free from unduly burdensome restrictions and sufficient to enable Kentucky-American to carry out its business as currently conducted. Kentucky-American is a party to a 20-year franchise agreement with the Lexington-Fayette Urban County Government dated May 16, 1995.

All principal plants and other materially significant units of property are owned in fee or leased, and are in good operating condition. Property owned is subject to the right of eminent domain to the extent that right exists under the laws of the Commonwealth of Kentucky. Any condemnation under Kentucky law must be for public purposes and entitles the property owner to just compensation.

Financial Statements

The financial statements of Kentucky-American as of December 31, 2008 and 2007 and for each of the two years in the period ended December 31, 2008 included in this Official Statement have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing herein.

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Kentucky-American Water Company
(a wholly-owned subsidiary of
American Water Works Company, Inc.)

Financial Statements

As of and for the years ended December 31, 2008 and 2007



PricewaterhouseCoopers LLP
Two Commerce Square, Suite 170
2001 Market Street
Philadelphia PA 19103-7042
Telephone (267) 330 3000
Facsimile (267) 330 3300

Report of Independent Auditors

To the Board of Directors and Stockholder of
Kentucky-American Water Company

In our opinion, the accompanying balance sheets and statements of capitalization and the related statements of income, of changes in common stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Kentucky-American Water Company (a wholly-owned subsidiary of American Water Works Company, Inc.) at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

March 24, 2009

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2008 and 2007
(Dollars in thousands)

Assets		
	2008	2007
Property, plant and equipment		
Utility plant - at original cost, net of accumulated depreciation	\$ 339,774	\$ 286,216
Utility plant acquisition adjustments	305	327
Non-utility property	270	250
Total property, plant and equipment	340,349	286,793
Current assets		
Cash and cash equivalents	234	398
Customer accounts receivable	2,342	1,928
Allowance for uncollectible accounts	(273)	(223)
Unbilled revenues	2,900	2,562
Federal income tax refund due from affiliated company	889	-
Other accounts receivable	412	196
Materials and supplies	577	635
Other	418	82
Total current assets	7,499	5,578
Regulatory and other long-term assets		
Regulatory assets	9,076	9,276
Other	126	156
Total regulatory and other long-term assets	9,202	9,432
Total assets	\$ 357,050	\$ 301,803

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2008 and 2007
(Dollars in thousands)

Capitalization and Liabilities

	<u>2008</u>	<u>2007</u>
Capitalization		
Common stockholder's equity	\$ 93,482	\$ 74,484
Preferred stock without mandatory redemption requirements	1,456	1,466
Long-term debt, excluding current portion		
Preferred stock with mandatory redemption requirements	4,500	4,500
Long-term debt	76,700	79,800
Total capitalization	<u>176,138</u>	<u>160,250</u>
Current liabilities		
Short-term borrowings - associated companies	53,026	19,259
Current portion of long-term debt	3,100	3,100
Accounts payable	8,368	6,587
Accounts payable - associated companies	157	27
Accrued taxes, including income taxes of \$75 in 2008 and \$576 in 2007	291	2,310
Other	5,621	3,444
Total current liabilities	<u>70,563</u>	<u>34,727</u>
Regulatory and other long-term liabilities		
Deferred income taxes	38,187	35,537
Advances for construction	11,916	14,653
Deferred investment tax credits	1,133	1,218
Regulatory liability - cost of removal	9,755	8,440
Regulatory liability - debt extinguishment	674	805
Accrued pension expense	1,389	2,174
Accrued postretirement benefit expense	418	384
Other	62	30
Total regulatory and other long-term liabilities	<u>63,534</u>	<u>63,241</u>
Contributions in aid of construction	46,815	43,585
Commitments and contingencies (see Note 17)	-	-
Total capitalization and liabilities	<u>\$ 357,050</u>	<u>\$ 301,803</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Income
For the Years Ended December 31, 2008 and 2007
(Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 60,086	\$ 52,497
Operating expenses		
Operation and maintenance	30,684	27,954
Depreciation	5,871	6,287
Amortization	512	505
General taxes	3,177	3,057
Total operating expenses	<u>40,244</u>	<u>37,803</u>
Operating income	<u>19,842</u>	<u>14,694</u>
Other income (deductions)		
Interest on long-term debt	(5,693)	(4,652)
Interest on short-term debt	(762)	(1,289)
Other interest, net	6	38
Allowance for other funds used during construction	1,330	843
Allowance for borrowed funds used during construction	589	384
Amortization of debt issuance costs	(90)	(75)
Other, net	(221)	(120)
Total other deductions	<u>(4,841)</u>	<u>(4,871)</u>
Income before income taxes	15,001	9,823
Provision for income taxes	<u>5,993</u>	<u>4,065</u>
Net income	<u>9,008</u>	<u>5,758</u>
Dividends on preferred stock	<u>78</u>	<u>79</u>
Net income available to common stockholder	<u>\$ 8,930</u>	<u>\$ 5,679</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007
(Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Net income	\$ 9,008	\$ 5,758
Adjustments		
Depreciation and amortization	6,383	6,792
Amortization of removal costs, net of salvage	1,420	1,221
Amortization of debt issuance costs	90	75
Provision for deferred income taxes	2,617	760
Amortization of deferred investment tax credits	(85)	(85)
Provision for losses on accounts receivable	384	383
Allowance for other funds used during construction	(1,330)	(843)
Other, net	(1,084)	436
Changes in assets and liabilities		
Accounts receivable and unbilled revenues	(1,086)	52
Federal income tax refund due from affiliated company	(889)	-
Other current assets	(494)	274
Accounts payable	(77)	2,523
Accrued taxes, including federal income	(2,019)	(2,007)
Other current liabilities	(194)	(695)
Net cash provided by operating activities	<u>12,644</u>	<u>14,644</u>
Cash flows from investing activities		
Construction expenditures	(56,234)	(31,387)
Removal costs from property, plant and equipment retirements, net of salvage	(62)	(363)
Net cash used in investing activities	<u>(56,296)</u>	<u>(31,750)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt to affiliate	-	47,000
Repayment of long-term debt	(3,100)	(41,100)
Debt issuance costs	(9)	(458)
Net borrowings (repayments) of short-term borrowings-associated companies	33,767	12,682
Advances and contributions for construction, net of refunds of \$2,123 in 2008 and \$2,187 in 2007	2,918	3,547
Capital contributions	16,000	-
Redemption of preferred stock	(7)	-
Dividends paid	(6,081)	(4,246)
Net cash provided by financing activities	<u>43,488</u>	<u>17,425</u>
Net (decrease) increase in cash and cash equivalents	(164)	319
Cash and cash equivalents at beginning of year	398	79
Cash and cash equivalents at end of year	<u>\$ 234</u>	<u>\$ 398</u>
Cash paid during the year for:		
Interest, net of capitalized amount	\$ 6,658	\$ 5,115
Income taxes	\$ 4,653	\$ 3,036
Non-cash investing activity		
Capital Expenditures acquired on account but unpaid as of year end	\$ 4,946	\$ 3,088
Non-cash financing activity		
Capital contribution (See Note 13)	\$ 68	\$ -

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Capitalization
December 31, 2008 and 2007
(Dollars in thousands, except per share amounts)

	Call Price Per Share	2008	2007
Stockholder's equity			
Common stock - no par value, authorized 2,000,000 shares 1,567,391 shares issued and outstanding in 2008 and 2007	\$	36,569	\$ 36,569
Paid-in capital		24,127	8,056
Retained earnings		32,786	29,859
Total common stockholder's equity		<u>93,482</u>	<u>74,484</u>
Preferred stocks - \$100 par value			
Cumulative preferred stocks without mandatory redemption requirements:			
5.75% series, 3,888 shares outstanding in 2008 and 3,918 in 2007	\$ 101.00	389	392
5.50% series, 4,860 shares outstanding in 2008 and 4,883 in 2007	\$ 100.50	486	488
5.00% series, 5,808 shares outstanding in 2008 and 5,866 in 2007	\$ 100.00	581	586
		<u>1,456</u>	<u>1,466</u>
Long-term debt			
Preferred stocks - \$100 par value			
Cumulative preferred stocks with mandatory redemption requirements:			
8.47% series, 45,000 shares outstanding in 2008, due for redemption 2036	\$ 100.00	4,500	4,500
		<u>4,500</u>	<u>4,500</u>
General mortgage bonds			
6.96% series due 2023		7,000	7,000
7.15% series due 2027		7,500	7,500
6.99% series due 2028		9,000	9,000
Notes payable to affiliate			
6.87% series due 2011		9,300	12,400
6.59% series due 2037		47,000	47,000
		<u>84,300</u>	<u>87,400</u>
Less: Current portion of long-term debt and preferred stock		<u>(3,100)</u>	<u>(3,100)</u>
Long-term debt, net of current portion		<u>81,200</u>	<u>84,300</u>
Total capitalization	\$	<u>176,138</u>	\$ <u>160,250</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Changes in Common Stockholder's Equity
For the Years Ended December 31, 2008 and 2007
(Dollars in thousands, except per share amounts)

	Common Stock		Paid-in Capital	Retained Earnings	Total
	Shares	Par Value			
Balance at December 31, 2006	1,567,391	\$ 36,569	\$ 8,056	\$ 28,347	\$ 72,972
Net income	-	-	-	5,758	5,758
Dividends paid					
Preferred stock	-	-	-	(79)	(79)
Common stock, \$2.66 per share	-	-	-	(4,167)	(4,167)
Balance at December 31, 2007	1,567,391	36,569	8,056	29,859	74,484
Net income	-	-	-	9,008	9,008
Capital contributions	-	-	16,068	-	16,068
Redemption of preferred stock	-	-	3	-	3
Dividends paid					
Preferred stock	-	-	-	(78)	(78)
Common stock, \$3.83 per share	-	-	-	(6,003)	(6,003)
Balance at December 31, 2008	<u>1,567,391</u>	<u>\$ 36,569</u>	<u>\$ 24,127</u>	<u>\$ 32,786</u>	<u>\$ 93,482</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 1: Organization and Operation

Kentucky-American Water Company (the "Company") provides water service to approximately 118,100 (unaudited) customers and wastewater service to approximately 700 (unaudited) customers. These services are provided in 12 (unaudited) communities located in 10 (unaudited) counties in the state of Kentucky. As a public utility operating in Kentucky, the Company functions under rules and regulations prescribed by the Kentucky Public Service Commission (the "Commission"). The Company is a wholly-owned subsidiary of American Water Works Company, Inc. ("AWW").

Note 2: Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The Company considers the carrying value of long-lived assets, including regulatory assets, revenue recognition and accounting for income taxes to be its critical accounting estimates.

Regulation

The Company is subject to regulation by the Commission and the local governments of the state of Kentucky (the "Regulators"). These Regulators have allowed recovery of costs and credits which the Company has recorded as regulatory assets and liabilities. Accounting for future recovery of costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). This statement sets forth the application of generally accepted accounting principles for those companies whose rates are established by or are subject to approval by an independent third-party regulator. Under SFAS 71, regulated utilities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in operations by a non-regulated company. These deferred regulatory assets and liabilities are then reflected in the statement of income in the period in which the costs and credits are reflected in the rates charged for service.

Property, Plant and Equipment

Property, plant and equipment consist primarily of utility plant. Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. Repairs and maintenance are charged to current operations.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 2 (continued):

When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates, a regulatory asset or liability may occur where timing differences exist between when the Company incurs costs of removal and when the Company recovers such costs in rates. Removal costs, net of salvage, are recorded as reductions to the regulatory liability or an increase to the regulatory asset, as applicable.

The cost of utility property, plant and equipment is depreciated using the straight-line average remaining life using the composite method.

Computer software is either purchased or developed in-house. The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. The carrying value of computer software assets was zero at December 31, 2008 and 2007.

Utility plant acquisition adjustments represent the difference between the fair value of plant at the date of purchase and its original cost when first devoted to public service (less accumulated depreciation) and are amortized to expense over the remaining useful lives of the corresponding purchased plant assets. Amortization of utility plant acquisition adjustments were \$22 and \$21 for 2008 and 2007, respectively. The remaining lives range from 3 to 37 years.

Cash and Cash Equivalents

Substantially all of the Company's cash is invested in interest-bearing accounts. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. There were no cash equivalents held at December 31, 2008 or 2007.

Accounts Receivable

The majority of the Company's accounts receivable are due from trade customers. Customer accounts receivable represent amounts billed to the Company's water and wastewater customers on a cycle basis. Credit is extended based on the guidelines of the applicable Regulators and generally, collateral is not required.

Allowance for Uncollectible Accounts

Allowance for uncollectible accounts are maintained for estimated probable losses resulting from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due and previous loss history. The Company writes-off accounts when they become uncollectible

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 2 (continued):

The following table summarizes the changes in the Company's allowance for uncollectible accounts:

	<u>2008</u>	<u>2007</u>
Balance as of January 1	\$ 223	\$ 261
Provision charged to expense	384	383
Accounts written-off	(429)	(485)
Recoveries of accounts previously written-off	95	64
Balance as of December 31	<u>\$ 273</u>	<u>\$ 223</u>

Materials and Supplies

Materials and supplies are stated at the lower of cost or net realizable value. Cost is determined using the average cost method.

Advances and Contributions in Aid of Construction

The Company may receive advances and contributions from customers, home builders, real estate developers, and others to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. Advances which are no longer refundable are reclassified to contributions in aid of construction. Contributions in aid of construction are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such advances and contributions generally serves as a rate base reduction, since they represent non-investor supplied funds.

The Company depreciates utility plant funded by contributions and amortizes these amounts as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. Amortization of contributions in aid of construction was \$1,019 and \$1,637 for the years ended December 31, 2008 and 2007, respectively. For the years ended December 31, 2008 and 2007, non-cash advances and contributions received were \$296 and \$0, respectively.

Recognition of Revenues

Revenues are recognized as water and wastewater services are provided and include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period. Other operating revenues are recognized when services are performed.

The Company accounts for sales tax collected from customers and remitted to taxing authorities on a net basis.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 2 (continued):

Income Taxes

AWW and its subsidiaries participate in a consolidated federal income tax return for U.S. tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates anticipated to be in effect when such temporary differences are projected to reverse. In addition, regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

The Company recognizes accrued interest and penalties related to tax positions as a component of income tax expense.

Allowance for Funds Used During Construction ("AFUDC")

AFUDC is a non-cash credit income with a corresponding charge to utility plant, which represents the cost of borrowed funds or a return on equity funds devoted to plant under construction. AFUDC is recorded to the extent permitted by the Regulators.

Environmental Costs

The Company's water and wastewater operations are subject to federal, state, and local requirements relating to environmental protection, and as such the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. There were no remediation costs accrued at December 31, 2008 and 2007.

Long-Lived Assets

Long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the future cash flows expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss would be based on the fair value of the assets. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 2 (continued):

New Accounting Standards

On January 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements," for financial assets and liabilities, and nonfinancial assets and liabilities with recurring measurements (See Note 15). The adoption of SFAS 157 for the Company's financial assets and liabilities did not have a material effect on the Company's results of operations, financial position or cash flows.

In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position SFAS 157-2 ("FSP FAS 157-2") which allows a one-year deferral of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities (such as intangible assets, property, plant and equipment and goodwill) that are required to be measured at fair value on a periodic basis (such as at acquisition or impairment). The Company elected to use this deferral option and accordingly, only partially adopted SFAS 157 on January 1, 2008. SFAS 157 will be adopted for the Company's nonfinancial assets and liabilities valued on a non-recurring basis on January 1, 2009. The Company does not believe the adoption of SFAS 157 for the Company's nonfinancial assets and liabilities will have a material impact on its results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 141(R) ("SFAS 141(R)"), "Business Combinations," which will significantly change the accounting for business combinations. SFAS 141(R) is effective for the Company for business combinations finalized on or after January 1, 2009. As the provisions of SFAS No. 141(R) are applied prospectively to business combinations for which the acquisition date occurs after the guidance becomes effective, the impact to the Company cannot be determined until the transactions occur.

Reclassifications

Certain reclassifications have been made to conform previously reported data to the current presentation.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 3: Utility Plant

The components of utility plant by category at December 31 are as follows:

	Range of Remaining Useful Lives	2008	2007
Land and other non-depreciable assets	-	\$ 4,739	4,760
Sources of supply	35 to 67 Years	13,698	9,283
Treatment and pumping	32 to 63 Years	56,386	55,121
Transmission and distribution	23 to 72 Years	183,244	174,709
Services, meters and fire hydrants	38 to 72 Years	80,676	73,115
General structures and equipment	5 to 52 Years	27,119	24,813
Wastewater assets	5 to 50 Years	3,624	3,540
Construction work in progress	-	54,501	21,310
		<u>423,987</u>	<u>366,651</u>
Less: Accumulated depreciation		<u>(84,213)</u>	<u>(80,435)</u>
		<u>\$ 339,774</u>	<u>\$ 286,216</u>

The provision for depreciation expressed as a percentage of the aggregate average depreciable asset balances was 2.17% in 2008 and 2.48% in 2007.

Note 4: Regulatory Assets

Regulatory assets represent costs that are expected to be fully recovered from customers in future rates. Depending upon Commission approval certain assets are included in the Company's rate base and others are not.

The components of regulatory assets are as follows:

	2008	2007
Income taxes recoverable through rates	\$ 3,230	\$ 2,904
Bluegrass water project	2,537	2,949
Programmed maintenance expense	1,737	1,859
Rate proceedings expense	554	486
Debt and preferred stock expense	795	846
Other	223	232
	<u>\$ 9,076</u>	<u>\$ 9,276</u>

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the Commission of full normalization for rate making purposes.

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2008 and 2007

(Dollars in thousands)

Note 4 (continued):

The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

The Company has recorded a regulatory asset for the Bluegrass water project source of supply costs in the amount of \$2,283 to be amortized over a forty year period. Approval was granted per the Commission order dated May 9, 2001. The Company has recorded a regulatory asset for the Bluegrass water project pipeline costs in the amount of \$3,551 with a ten year amortization period which was approved by the Commission per order dated November 27, 2000.

Programmed maintenance costs are deferred and amortized to current operations on a straight-line basis over a period ranging between five and fifteen years, as authorized by the Commission in their determination of rates charged for service.

Expense of rate proceedings is deferred and amortized on a straight-line basis as authorized by the Commission in their determination of rates charged for service.

Debt expense is amortized over the lives of the respective issues. Unamortized debt expense is deferred and amortized to the extent it will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over the life of the issuance, whereas expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Note 5: Preferred Stock Without Mandatory Redemption

Preferred stock agreements contain provisions for redemption at various prices on thirty days notice at the Company's discretion. In the event of voluntary liquidation, the 5.75% series, the 5.50% series, and the 5.00% series are all paid at "the amount per share fixed for such series, together with accrued dividends". In the event of involuntary liquidation or governmental acquisition, the 5.75% series, the 5.50% series, and the 5.00% series are all paid at one hundred dollars per share, together with accrued dividends.

The Company repurchased 30 shares of the 5.75% series, 23 shares of the 5.50% series, and 58 shares of the 5.00% series preferred stock from certain shareholders with an aggregate par value of \$10 for an aggregate repurchase price of \$7.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 6: Long-Term Debt

Preferred stock agreements contain provisions for redemption at various prices on thirty days notice at the Company's discretion. In the event of voluntary liquidation, the 8.47% series is paid at one hundred dollars, together with accrued dividends.

The general mortgage bonds are issuable in series. No bonds senior to the general mortgage bonds may be issued so long as the general mortgage bonds are outstanding. The amount of bonds authorized is limited only to the extent that long-term debt cannot exceed 65% of total capitalization and net income of the Company must be equal to or greater than 1.5 times the aggregate annual interest charges on all long-term debt of the Company. At December 31, 2008 long-term debt was 47% of total capitalization and net income was 3.8 times the aggregate annual interest charges on all long-term debt. General mortgage bonds are collateralized by utility plant.

The general mortgage bond indentures contain clauses restricting the declaration of common stock dividends and other distributions on capital stock if common stockholder's equity falls below a specified amount. There were no restrictions at December 31, 2008 or 2007.

The senior notes payable to affiliate are unsecured and were issued to American Water Capital Corporation ("AWCC"), a subsidiary of AWW, for the principal amount. AWCC provided the funding for these notes by issuing senior notes to institutional investors at a price equal to the principal amount.

In 2007, the Company issued a long-term notes payable to affiliate in the amount of \$47,000 at a rate of 6.59% due in 2037. The proceeds were used to reduce notes payable to associated companies.

A note payable issued to AWCC (4.75% due 2014) was redeemed in 2007 by the Company. Consistent with rate making treatment, the difference between the book value of the note and the cash consideration required to extinguish it was deferred as a regulatory liability in accordance with FAS 71. The deferred credit recognized of \$827 will be amortized as a component of net interest expense through 2014.

The indenture for the 6.87% series note has a sinking fund provision that requires an annual retirement of \$3,100 from 2009 through 2010.

Maturities of long-term debt will amount to \$3,100 in 2011. There are no maturities in 2009, 2010, 2012 or 2013.

Other interest, net includes interest income of approximately, \$6 and \$0 at December 31, 2008 and 2007, respectively.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 7: Short-Term Borrowings

The Company maintains a \$60,000 line of credit through AWCC. The line was decreased by \$14,000 in 2008 per an amendment to the agreement with AWCC. The Company may borrow from, or invest in, the line of credit. No compensating balances are required under the agreements.

Effective January 1, 2009, the line of credit through AWCC was increased to \$65,000.

At December 31, 2008 and 2007, there were \$53,026 and \$19,259 of short-term borrowings outstanding, respectively. The weighted average annual interest rates on these balances were 3.49% and 5.64% in 2008 and 2007, respectively. The unused short-term line of credit at December 31, 2008 was \$6,974.

During 2008, the Company received a capital contribution of \$16,000 from AWW, primarily used to pay down short-term debt.

AWW, through AWCC, has committed to make additional financing available to the Company, as needed, to pay its obligations as they come due.

Note 8: General Taxes

Components of general tax expense for the years presented in the statement of income are as follows:

	<u>2008</u>	<u>2007</u>
Gross receipts and franchise		
Property	\$ 2,577	\$ 2,519
Payroll	516	450
Other	84	88
	<u>\$ 3,177</u>	<u>\$ 3,057</u>

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 9: Income Taxes

Components of income tax expense for the years presented in the statement of income are as follows:

	<u>2008</u>	<u>2007</u>
State income taxes:		
Current	\$ 463	\$ 703
Deferred		
Current	(5)	3
Non-current	419	(83)
	<u>877</u>	<u>623</u>
Federal income taxes:		
Current	2,998	2,687
Deferred		
Current	(29)	14
Non-current	2,232	826
Amortization of deferred investment tax credits	(85)	(85)
	<u>5,116</u>	<u>3,442</u>
Total income taxes	<u>\$ 5,993</u>	<u>\$ 4,065</u>

A reconciliation of income tax expense at the statutory federal income tax rate to the actual income tax expense is as follows:

	<u>2008</u>	<u>2007</u>
Federal income tax at statutory rate of 35%	\$ 5,250	\$ 3,438
Increases (decreases) resulting from -		
State taxes, net of federal income taxes	570	405
Flow through difference	155	139
Amortization of deferred investment tax credits	(85)	(85)
Other, net	103	168
Actual income tax expense	<u>\$ 5,993</u>	<u>\$ 4,065</u>

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 9 (continued):

The following table provides the components of the net deferred tax liability at December 31:

	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Advances and contributions	\$ 23,842	\$ 22,284
Deferred investment tax credits	441	474
Income taxes recoverable through rates	13	-
Other	1,736	2,280
	<u>26,032</u>	<u>25,038</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	61,256	57,412
Income taxes recoverable through rates	-	56
Other	2,963	3,107
	<u>64,219</u>	<u>60,575</u>
Net deferred tax liability	<u>\$ 38,187</u>	<u>\$ 35,537</u>

No valuation allowances were required on deferred tax assets at December 31, 2008 and 2007 as management believes it is more likely than not that these assets will be realized.

Note 10: Rate Matters

As necessary, the Company applies to the Commission for changes in the rates charged for service. The revenues requested are based on forecasted sales, operating expenses, and investments for the first full year after the effective dates of the new rates.

The Company filed a general rate case on April 30, 2007 with the Commission. On September 14, 2007, a settlement agreement was executed by the Company and the other parties recommending an increase in rates of \$8,000 or 15.64%. On November 29, 2007, the Commission issued its Order approving the settlement agreement with an effective date of December 1, 2007.

The Company filed a general rate increase on October 31, 2008 for \$18,495 or 31.27%. The Company can provide no assurances that any rate request will be granted by the Commission.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 11: Employee Benefit Plans

Savings Plan for Employees

The Company maintains a 401(k) savings plan, sponsored by AWW that allows employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitations. Due to the Company's discontinuing new entrants into the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. The Company expensed contributions to the plans totaling \$180 for 2008, \$154 for 2007 and \$79 for 2006. All of the Company's contributions are invested in one or more funds at the direction of the employee.

Note 12: Postretirement Benefits

Pension Benefits

The Company participates in a Company funded defined benefit pension plan sponsored by AWW covering employees hired before January 1, 2006. Benefits under the plan are based on the employee's years of service and average annual compensation for those 60 consecutive months of employment which yield the highest average. The pension plan has been closed for any employee hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 are provided with a 5.25% of base pay defined contribution plan. Pension cost of the Company is based on an allocation from AWW of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated costs of \$804 and \$721 for 2008 and 2007, respectively.

AWW's funding policy is to contribute at least the minimum amount required under the Employee Retirement Income Security Act of 1974. The Company made contributions to the AWW plan of \$1,589 in 2008 and \$929 in 2007. The Company expects to contribute \$1,693 to the AWW plan in 2009.

Postretirement Benefits Other Than Pensions

The Company participates in a Company funded plan sponsored by AWW that provides certain life insurance benefits for retired employees and certain health care benefits for retired employees and their dependents. The retiree welfare plans are closed for union employees hired on or after January 1, 2006, and non-union employees hired on or after January 1, 2002. Retirees and their dependents under age 65 are covered by a point-of-service managed care plan that requires co-payments or an HMO. Employees who elect to retire prior to attaining age 65 are generally required to make contributions towards their medical coverage until attaining age 65. Retirees and their dependents age 65 and over are covered by a Medicare supplement plan.

KENTUCKY-AMERICAN WATER COMPANY**Notes to Financial Statements****December 31, 2008 and 2007**

(Dollars in thousands)

Note 12 (continued):

Costs of the Company are based on an allocation from AWW of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated costs of \$700 and \$673 for 2008 and 2007, respectively.

The Company made contributions to trust funds established for these postretirement benefits of \$700 in 2008 and \$673 in 2007. The Company's policy is to fund postretirement benefits costs accrued. The Company expects to contribute \$1,132 to the AWW plan in 2009.

Note 13: Stock Based Compensation*Stock options and Restricted Stock Units*

On April 22, 2008, AWW granted restricted stock awards, restricted stock units and stock options to certain employees of the Company under the AWW 2007 Omnibus Equity Compensation Plan. The restricted stock units and the stock options were awarded in two grants with "Grant 1" vesting on January 1, 2010 and "Grant 2" vesting January 1, 2011. The Company accounts for awards which AWW granted to employees of the Company as employee awards under Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share Based Payment" ("SFAS 123(R)"). Therefore the Company recognizes compensation cost for the awards in accordance with SFAS 123(R) as the grant of an equity award.

In accordance with SFAS 123(R) the cost of services received from employees in exchange for the issuance of stock options and restricted stock awards is measured by AWW based on the grant date fair value of the awards issued. The value of stock options and restricted stock awards at the date of the grant is amortized through expense over the requisite service period using the straight-line method, adjusted for retirement-eligible participants.

Costs of the Company are based on an allocation from AWW of the total cost related to the plan. The Company recorded compensation expense of \$64, included in operation and maintenance expense, during the year ended December 31, 2008. As the Company does not reimburse the cost of the awards to AWW, the offsetting entry to paid-in-capital is a capital contribution from AWW.

Employee Stock Purchase Plan

AWW's Nonqualified Employee Stock Purchase Plan ("ESPP") was effective as of July 1, 2008. Under the ESPP, the Company's employees can use payroll deductions to acquire AWW common stock at the lesser of 90% of the fair market value as of the beginning or end of each three-month purchase period. AWW's ESPP is considered compensatory under SFAS 123(R). Costs of the Company are based on an allocation from AWW of the total cost related to

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 13 (continued):

the plan. Compensation costs of \$4 were included in operation and maintenance expense for the year ended December 31, 2008. As the Company does not reimburse the cost of the awards to AWW, the offsetting entry to paid-in-capital is a capital contribution from AWW.

Note 14: Related Party Transactions

American Water Works Service Company, Inc. ("AWWS"), a subsidiary of AWW, provides certain management services to the Company (administration, accounting, data processing, engineering, etc.) and other operating water companies in the AWW system on an at-cost, not-for-profit basis in accordance with a management and service agreement.

Purchases of such services by the Company were accounted for as follows:

	<u>2008</u>	<u>2007</u>
Included in operation and maintenance expense as a charge against income	\$ 7,942	\$ 7,528
Capitalized primarily in utility plant	592	653
	<u>\$ 8,534</u>	<u>\$ 8,181</u>

The Company provided workspace for certain associates of AWWS. Charges for direct costs and indirect overhead costs associated with these associates are billed to AWWS on an at-cost, not for profit basis, which amounted to \$14 in 2008 and \$15 in 2007.

The Company has operating arrangements with American Anglian Environmental Technologies, L.P. ("AAET"), a subsidiary of AWW, for the lease of granular activated carbon at one of the Company's water treatment plants. Under the arrangements, AAET will provide carbon for a period of 36 months. The Company paid \$127 in 2008 and \$111 in 2007 to AAET under these arrangements.

The Company maintains a line of credit through AWCC (See Note 7). The Company also participates in AWCC's centralized treasury function whereby the Company transfers its cash to AWCC and the Company's checks are issued out of AWCC. Under the arrangement, available cash is used to pay-down the line of credit and outstanding credits increase the Company's line of credit balance. The Company paid AWCC fees of \$79 in 2008 and \$551 in 2007 and interest expense on borrowings of \$762 in 2008 and \$1,288 in 2007. Interest expense on long-term debt due to AWCC was \$3,790 in 2008 and \$2,639 in 2007. Accrued interest included interest due to AWCC of \$807 and \$801 as of December 31, 2008 and 2007, respectively.

The Company pays dividends to AWW on a quarterly basis. The amount of the dividend is based on a percentage of net income adjusted for certain items.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 15: Fair Values of Financial Instruments

The Company used the following methods and assumptions in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities: The carrying amount reported in the balance sheet for current assets and current liabilities approximates their fair value.

Preferred stocks with mandatory redemption requirements and long-term debt: The fair values of the Company's preferred stocks with mandatory redemption requirements and long-term debt are estimated using discounted cash flow analyses based on the Company's current incremental financing rates for similar types of securities.

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred stock with mandatory redemption requirements, including current maturities	\$ 4,500	\$ 4,344	\$ 4,500	\$ 4,566
Long-term debt, including current maturities	\$ 79,800	\$ 76,489	\$ 82,900	\$ 84,147

Adoption of SFAS 157

Effective January 1, 2008, the Company partially adopted SFAS 157, which primarily requires expanded disclosure for assets and liabilities recorded on the balance sheet at fair value. As permitted by FSP FAS 157-2, the Company has elected to defer the adoption of the nonrecurring fair value measurement disclosures of nonfinancial assets and liabilities, such as goodwill, until January 1, 2009.

Recurring Fair Value Measurements

As of December 31, 2008 the Company does not have any assets or liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 16: Operating Lease

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were \$59 in 2008 and \$60 in 2007. The operating leases for equipment expire in 2009 through 2012.

At December 31, 2008, the minimum annual future rental commitments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are \$630 in 2009, \$626 in 2010, \$626 in 2011, \$210 in 2012 and \$1 annually, thereafter.

Note 17: Commitments and Contingencies

Commitments have been made in connection with certain construction programs. The estimated capital expenditures probable to have, a significant future effect amounted to \$101,557 at December 31, 2008. On April 25, 2008, the Kentucky Public Service Commission approved the Company's application for a certificate of convenience and necessity to construct a 20.0 million gallon per day treatment plant on the Kentucky River and a 30.6 mile pipeline to meet Central Kentucky's water supply deficit. The Kentucky project is expected to be completed by 2010 with an estimated cost of \$162,000 of which \$99,094 is included in the commitment above.

The Company is routinely involved in legal actions. In the opinion of management, none of these matters is expected to have a material adverse effect, if any, on the financial position, results of operations or cash flows of the Company.

APPENDIX B

PROPOSED FORM OF BOND COUNSEL OPINION

_____, 2009

Re: \$26,000,000 "County of Owen, Kentucky, Waterworks System Revenue Bonds, 2009 Series B (Kentucky-American Water Company Project)"

We hereby certify that we have examined certified copies of the proceedings of record of the County of Owen, Kentucky (the "County"), acting by and through its Fiscal Court as its duly authorized governing body, preliminary to and in connection with the issuance by the County of its Waterworks System Revenue Bonds, 2009 Series B (Kentucky-American Water Company Project), dated their date of issuance, in the aggregate principal amount of \$26,000,000 (the "Bonds"). The Bonds are issued under the provisions of Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by Kentucky-American Water Company, a Kentucky corporation and a public utility regulated by the Public Service Commission of Kentucky and its corporate affiliate, American Water Capital Corp., a Delaware corporation (collectively, the "Company") for the purpose of financing a portion of the costs of the acquisition, construction, installation and equipping of major water collection, treatment and distribution facilities (the "Project").

The Bonds mature on September 1, 2039. The Bonds will be subject to optional redemption prior to maturity at the times, in the manner and upon the terms set forth in the Bonds. From such examination of the proceedings of the Fiscal Court of the County referred to above and from an examination of the Act, we are of the opinion that the County is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

In our capacity as Bond Counsel, we have examined such documents and matters and conducted such research as we have deemed necessary to enable us to express the opinions set forth herein. As to certain questions of fact, we have relied, without independent verification, upon representations, warranties, statements of fact and certifications of certain of the officers, officials, directors and employees of the Company, elected and appointed officials of the County and consulting engineering and financial experts. In rendering the opinions set forth herein, we have assumed the authenticity of all documents submitted to us as originals, the legal capacity of natural persons and the conformity to the originals of all documents submitted to us as copies. We have assumed that parties to contracts and documents had the requisite power and authority to enter into and perform all obligations of all contracts, undertakings and documents to which they are parties. We have assumed the due authorization by all requisite action, and the execution and delivery by such other parties of such contracts and documents, and the validity and binding effect thereof on such other parties.

We have examined an executed counterpart of a certain Loan Agreement, dated as of August 1, 2009 (the "Loan Agreement"), between the County and the Company and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the County has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to finance a portion of the costs of the acquisition, construction, installation and equipping of the Project. The Company has agreed to make Loan payments to the Trustee (as hereinafter defined) at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same become due and payable. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Loan Agreement; that the Loan

Agreement has been duly authorized, executed and delivered by the County; and that the Loan Agreement is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of August 1, 2009 (the "Indenture"), by and between the County and The Bank of New York Mellon, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the County in connection with the Bonds and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the County's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the County; and that the Indenture is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

In our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and constitute legal, valid and binding special and limited obligations of the County entitled to the benefit of the security provided by the Indenture and enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the County solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraphs, (i) interest on the Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Bonds is not a separate item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is not taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. In arriving at this opinion, we have relied upon representations, factual statements and certifications of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion, inter alia, that not less than 95% of the proceeds of the Bonds will be used to finance facilities for the furnishing of water which are qualified for financing under Section 142(a)(4) of the Code and the Act. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and this opinion is conditioned on, the accuracy of and continuing compliance by the Company and the County with representations and covenants set forth in the Loan Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such

representations and covenants in respect of the Bonds subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change permitted by the documents (other than with approval of this firm) is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability, as such term is defined in the Indenture. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is further subject to the following exceptions and qualifications:

(a) The Code provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of Section 32 of the Code, which exceeds \$2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income.

We have received an opinion of George W. Patrick, Esq., Senior Vice-President, General Counsel and Secretary of American Water Capital Corp. of even date herewith. In rendering this opinion, we have relied upon said opinion with respect to the matters contained therein. We have also received an opinion of even date herewith of Peck, Shaffer & Williams LLP, Covington, Kentucky, as counsel to the County and have relied upon said opinion with respect to the matters contained therein.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

In rendering the foregoing opinions, we are passing upon only those matters specifically set forth in such opinions and we express no opinion as to matters involving interest rate exchange agreements, investment agreements and similar agreements, if any. We express no opinion on the investment quality of the Bonds or any offering materials used in connection with the offering and sale of the Bonds. Our opinions expressed herein represent our legal judgment and are not a guarantee of a result. The opinions herein are expressed as of the date hereof and we assume no obligation to supplement or update such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

APPENDIX C

FORM OF CONTINUING DISCLOSURE UNDERTAKING

CONTINUING DISCLOSURE UNDERTAKING
OF AMERICAN WATER CAPITAL CORP.
FOR THE PURPOSE OF PROVIDING
CONTINUING DISCLOSURE INFORMATION
UNDER SECTION (B)(5) OF RULE 15c2-12

This Continuing Disclosure Undertaking (this "Agreement") is executed and delivered by American Water Capital Corp. ("AWCC") in connection with the issuance of \$26,000,000 aggregate principal amount of Waterworks System Revenue Bonds, 2009 Series B (Kentucky-American Water Company Project) (the "Bonds") of the County of Owen, Kentucky (the "Issuer"). The Bonds are being issued pursuant to an Indenture of Trust dated as of August 1, 2009 (the "Indenture") between the Issuer and The Bank of New York Mellon, as Trustee (the "Trustee"). In connection with the issuance of the Bonds, AWCC and its affiliate, Kentucky-American Water Company ("Kentucky-American"), will enter into a Loan Agreement dated as of August 1, 2009 (the "Agreement") with the Issuer.

In consideration of the issuance of the Bonds by the Issuer and the purchase of such Bonds by the beneficial owners thereof, AWCC hereby covenants and agrees as follows:

Section 1. Purpose of this Agreement. This Agreement is executed and delivered by AWCC as of the date set forth below, for the benefit of the Beneficial Owners (as defined below) of the Bonds and in order to assist the Participating Underwriter (as defined below) in complying with the requirements of the Rule and EMMA (each as defined below). AWCC represents that it and its affiliate, Kentucky-American Water Company ("Kentucky-American") will be the only obligated persons with respect to the Bonds at the time the Bonds are delivered to the Participating Underwriter and that no other person is expected to become so committed at any time after the issuance of the Bonds.

Section 2. Definitions. The terms set forth below shall have the following meanings in this Agreement, unless the context clearly otherwise requires.

"*American Water*" means American Water Works Company, Inc. and its consolidated subsidiaries (which include AWCC and Kentucky-American).

"*Annual Financial Information*" means the financial information and operating data described in Exhibit I.

"*Annual Financial Information Disclosure*" means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

"*Audited Financial Statements*" means (a) the audited consolidated financial statements of American Water (identified therein as "American Water Works Company, Inc. and Subsidiary Companies") and (b) the audited financial statements of Kentucky-American, in each case prepared pursuant to the standards and as described in Exhibit I.

“*Beneficial Owner*” means, while Bonds are held in a book-entry only system, the actual purchaser of each Bond, the ownership interest of which is to be recorded on the records of the direct and indirect participants of the depository, and otherwise shall mean the Bondholder.

“*Commission*” means the Securities and Exchange Commission.

“*Dissemination Agent*” means any agent designated as such in writing by AWCC and which has filed with AWCC a written acceptance of such designation, and such agent’s successors and assigns.

“*EMMA*” means the Electronic Municipal Market Access facility for municipal securities disclosure of the MSRB.

“*Event*” means the occurrence of any of the events set forth in Exhibit II.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Material Event*” means the occurrence of any of the Events with respect to the Bonds set forth in Exhibit II that is material, as materiality is interpreted under the Exchange Act.

“*Material Events Disclosure*” means dissemination of a notice of a Material Event as set forth in Section 5.

“*MSRB*” means the Municipal Securities Rulemaking Board.

“*Participating Underwriter*” means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Bonds.

“*Prescribed Form*” means, with regard to the filing of Annual Financial Information and notices of Material Events with the MSRB, such electronic format, accompanied by such identifying information, as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information.

“*Rule*” means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

“*State*” means the Commonwealth of Kentucky.

“*Undertaking*” means the obligations of AWCC pursuant to Sections 4 and 5.

Section 3. CUSIP Number/Final Official Statement. The CUSIP Number of the Bonds is 69069A AB6. The final Official Statement relating to the Bonds is dated September 1, 2009 (the “Final Official Statement”).

Section 4. Annual Financial Information Disclosure. Subject to Section 9 of this Agreement, AWCC, which is the wholly owned financing subsidiary of American Water and an affiliate of Kentucky-American, hereby covenants that it will disseminate the Annual Financial Information and the Audited Financial Statements (in the form and by the dates set forth below and in Exhibit I) by (a) with respect to the Annual Financial Information and Audited Financial Statements of American Water, one of the following methods: (i) American Water may file its Annual Report on Form 10-K with the Commission and, within 15 days of such filing, AWCC may send a notice to the MSRB in Prescribed Form indicating that the Annual Report on Form 10-K filed with the Commission in accordance with the

Exchange Act includes the Annual Financial Information and Audited Financial Statements for that year; (ii) AWCC may deliver such Annual Report on Form 10-K to the MSRB within 15 days of the date on which American Water has filed with the Commission such Annual Report on Form 10-K; or (iii) AWCC may deliver such Annual Financial Information and the Audited Financial Statements to the MSRB within 135 days of the completion of American Water's fiscal year; and (b) with respect to the Annual Financial Information and Audited Financial Statements of Kentucky-American, AWCC will deliver such Annual Financial Information and Audited Financial Statements to the MSRB within 135 days of the completion of Kentucky-American's fiscal year.

AWCC is required to deliver such information in Prescribed Form and by such time so that such entities receive the information by the dates specified.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, AWCC will disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Agreement, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to the MSRB) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

Section 5. Material Events Disclosure. Subject to Section 9 of this Agreement, AWCC hereby covenants that it will disseminate in a timely manner Material Events Disclosure to the MSRB in Prescribed Form at www.emma.msrb.org. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Bonds or defeasance of any Bonds need not be given under this Agreement any earlier than the notice (if any) of such redemption or defeasance is given to the owners of the Bonds pursuant to the Indenture. From and after the Effective Date, AWCC is required to deliver such Material Events Disclosure in the same manner as provided by Section 4 of this Agreement.

Section 6. Duty To Update EMMA/MSRB. AWCC shall determine, in the manner it deems appropriate, whether there has occurred a change in the MSRB's e-mail address or filing procedures and requirements under EMMA each time it is required to file information with the MSRB.

Section 7. Consequences of Failure of AWCC to Provide Information. AWCC shall give notice in a timely manner to the MSRB in Prescribed Form of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of AWCC to comply with any provision of this Agreement, the Beneficial Owner of any Bond may seek specific performance by court order to cause AWCC to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an Event of Default under the Indenture or the Agreement or any other agreement, and the sole remedy under this Agreement in the event of any failure of AWCC to comply with this Agreement shall be an action to compel performance.

Section 8. Amendments; Waiver. Notwithstanding any other provision of this Agreement, AWCC may amend this Agreement, and any provision of this Agreement may be waived, if:

- (i) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of AWCC, Kentucky-American or type of business conducted;

(ii) This Agreement, as amended, or the provision, as waived, would have complied with the requirements of the Rule and EMMA at the time of the primary offering, after taking into account any amendments or interpretations of the Rule and EMMA, as well as any change in circumstances; and

(iii) The amendment or waiver does not materially impair the interests of the Beneficial Owners of the Bonds, as determined either by parties unaffiliated with the Issuer or AWCC (such as the Trustee) or by an approving vote of the Beneficial Owners of the Bonds holding a majority of the aggregate principal amount of the Bonds (excluding Bonds held by or on behalf of AWCC or its affiliates) pursuant to the terms of the Indenture at the time of the amendment; or

(iv) The amendment or waiver is otherwise permitted by the Rule and EMMA.

Section 9. Termination of Undertaking. The Undertaking of AWCC shall be terminated hereunder when AWCC shall no longer have any legal liability for any obligation on or relating to the repayment of the Bonds. AWCC shall give notice to the MSRB in a timely manner and in Prescribed Form if this Section is applicable.

Section 10. Dissemination Agent. AWCC may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

Section 11. Additional Information. Nothing in this Agreement shall be deemed to prevent AWCC from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information Disclosure or notice of occurrence of a Material Event, in addition to that which is required by this Agreement. If AWCC chooses to include any information from any document or notice of occurrence of a Material Event in addition to that which is specifically required by this Agreement, AWCC shall not have any obligation under this Agreement to update such information or include it in any future disclosure or notice of the occurrence of a Material Event.

Section 12. Beneficiaries. This Agreement has been executed in order to assist the Participating Underwriter in complying with the Rule and EMMA; however, this Agreement shall inure solely to the benefit of AWCC, Kentucky-American, the Dissemination Agent, if any, the Issuer, the Trustee and the Beneficial Owners of the Bonds, and shall create no rights in any other person or entity.

Section 13. Recordkeeping. AWCC shall maintain records of all Annual Financial Information Disclosure and Material Events Disclosure, including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure. AWCC has complied with the requirements of the Rule and EMMA in connection with previous financings where the Rule was applicable to such financings.

Section 14. Assignment. AWCC shall not transfer its obligations under the Agreement unless the transferee agrees to assume all obligations of AWCC under this Agreement or to execute an Undertaking under the Rule and EMMA.

Section 15. Governing Law. This Agreement shall be governed by the laws of the State of New Jersey.

AMERICAN WATER CAPITAL CORP.

By _____
Treasurer
1025 Laurel Oak Road
Voorhees, NJ 08043

Dated: September 10, 2009

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[Faint, illegible text]

[Faint, illegible text]

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS

“Annual Financial Information” means financial information and operating data exclusive of Audited Financial Statements as set forth below of the type appearing or incorporated by reference under “AMERICAN WATER CAPITAL CORP” in Part I of Appendix A of the Official Statement, and of the type appearing under “KENTUCKY-AMERICAN WATER COMPANY” in Part II of Appendix A of the Official Statement.

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted to the MSRB or filed with the Commission. If the information included by reference is contained in a Final Official Statement, the Final Official Statement must be available from the MSRB; the Final Official Statement need not be available from the Commission. AWCC shall clearly identify each such item of information included by reference.

Annual Financial Information will be provided to the MSRB by 135 days after the last day of AWCC’s fiscal year and Kentucky-American’s fiscal year, respectively. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included.

Audited Financial Statements will be prepared in accordance with generally accepted accounting principles in the United States as in effect from time to time. Audited Financial Statements will be provided to the MSRB within 30 days after availability to AWCC.

If any change is made to the Annual Financial Information as permitted by Section 4 of the Agreement, AWCC will disseminate a notice of such change in Prescribed Form as required by such Section 4.

EXHIBIT II

**EVENTS WITH RESPECT TO THE BONDS FOR WHICH
MATERIAL EVENTS DISCLOSURE IS REQUIRED**

1. Principal and interest payment delinquencies
2. Nonpayment-related defaults
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions or events affecting the tax-exempt status of the security
7. Modifications to the rights of security holders
8. Bond calls
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities
11. Rating changes

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 28**

Description of Filing Requirement:

Annual Reports to Stockholders, 2004 – 2008

Response:

Please see attached.

For electronic version, see KAW_APP_EX28_022610.pdf.

**Kentucky-American
Water Company**

Financial Statements

December 31, 2004 and 2003



PricewaterhouseCoopers LLP
Two Commerce Square, Suite 1700
2001 Market Street
Philadelphia PA 19103-7042
Telephone (267) 330 3000
Facsimile (267) 330 3300

Report of Independent Auditors

To the Board of Directors and Stockholder of
Kentucky-American Water Company

In our opinion, the accompanying balance sheets and the related statements of income, of capitalization, of changes in stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Kentucky-American Water Company (a wholly owned subsidiary of American Water Works Company, Inc.) at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the financial statements, the 2003 financial statements have been restated.

PricewaterhouseCoopers LLP

March 25, 2005

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2004 and 2003
(Dollars in thousands)

	Assets	
	2004	(Restated) 2003
Property, plant and equipment		
Utility plant - at original cost less accumulated depreciation	\$ 229,107	\$ 220,343
Utility plant acquisition adjustments, net	408	428
Non-utility property	250	250
	<u>229,765</u>	<u>221,021</u>
Current assets		
Cash and cash equivalents	584	1,002
Customer accounts receivable	1,067	1,851
Allowance for uncollectible accounts	(170)	(71)
Unbilled revenues	1,913	2,466
Accounts receivable - associated companies	30	118
Other accounts receivable	623	1,052
Notes receivable-associated companies	1,819	-
Federal income tax refund due from affiliated company	1,439	2,251
Materials and supplies	536	443
Deferred vacation pay	103	471
Other	2,078	1,549
	<u>10,022</u>	<u>11,132</u>
Regulatory and other long-term assets		
Deferred programmed maintenance expense	2,140	2,396
Regulatory asset-income taxes recoverable through rates	4,686	4,785
Debt and preferred stock expense	613	692
Deferred business service project expense	-	1,334
Deferred security costs	-	2,655
Deferred rate proceedings	951	6
Preliminary survey & investigation	135	147
Other	3,152	4,814
	<u>11,677</u>	<u>16,829</u>
	<u>\$ 251,464</u>	<u>\$ 248,982</u>

The accompanying notes are an integral part of these financial statements

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2004 and 2003
(Dollars in thousands)

	Capital and Liabilities	
	2004	(Restated) 2003
Capitalization		
Common stock	\$ 36,569	\$ 36,569
Paid-in capital	30	30
Retained earnings	23,672	26,475
Total common stockholder's equity	60,271	63,074
Preferred stock without mandatory redemption requirements	1,549	1,553
Preferred stock with mandatory redemption requirements	4,500	4,500
Long-term debt	77,000	68,500
Total capitalization	143,320	137,627
Current liabilities		
Notes payable - associated companies	-	15,995
Current portion of long-term debt	5,500	-
Accounts payable	4,260	2,734
Accounts payable - associated companies	1,107	1,238
Accrued interest	1,459	1,457
Accrued taxes	1,627	1,967
Tax/sewer collections payable	866	439
Accrued vacation pay	103	471
Other	723	352
	15,645	24,653
Regulatory and other long-term liabilities		
Deferred income taxes	33,119	32,596
Customer advances for construction	15,777	12,507
Deferred investment tax credits	1,461	1,556
Regulatory liability - cost of removal	6,212	5,509
Accrued pension expense	3,192	2,368
Accrued postretirement benefit expense	300	498
Other	215	415
	60,276	55,449
Contributions in aid of construction	32,223	31,253
Commitments and contingencies	-	-
	\$ 251,464	\$ 248,982

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Income
For the Years Ended December 31, 2004 and 2003
(Dollars in thousands)

	<u>2004</u>	<u>2003</u>
Operating revenues	<u>\$ 42,455</u>	<u>\$ 42,800</u>
Operating expenses		
Operation and maintenance	28,820	21,771
Depreciation and amortization	6,305	5,541
General taxes	2,812	2,596
	<u>37,937</u>	<u>29,908</u>
Utility operating income	<u>4,518</u>	<u>12,892</u>
Other income (deductions)		
Allowance for other funds used during construction	116	445
Gain on disposition of property	200	1
Other deductions, net	(399)	(327)
	<u>(83)</u>	<u>119</u>
Income before interest charges and income taxes	<u>4,435</u>	<u>13,011</u>
Interest charges		
Interest on long-term debt	5,001	4,447
Interest on short-term debt	65	181
Amortization of debt expense	79	78
Allowance for borrowed funds used during construction	(58)	(210)
	<u>5,087</u>	<u>4,496</u>
(Loss) income before income taxes	<u>(652)</u>	<u>8,515</u>
Provision for income taxes	<u>(207)</u>	<u>3,474</u>
Net (loss) income	<u>(445)</u>	<u>5,041</u>
Dividends on preferred stock	<u>448</u>	<u>513</u>
(Loss) income to common stock	<u>\$ (893)</u>	<u>\$ 4,528</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Cash Flows
For the Years Ended December 31, 2004 and 2003
(Dollars in thousands)

	2004	2003
Cash flows from operating activities		
Net (loss) income	\$ (445)	\$ 5,041
Adjustments:		
Depreciation and amortization	6,305	5,541
Removal costs net of salvage	1,059	983
Amortization, other	706	959
Provision for deferred income taxes	634	1,381
Amortization of deferred investment tax credits	(96)	(85)
Provision for losses on accounts receivable	450	184
Allowance for other funds used during construction	(116)	(445)
Deferred security costs	2,655	(952)
Deferred business services project expenses	1,078	(27)
Gain on disposition of property	(200)	(1)
Other, net	338	1,344
Changes in assets and liabilities:		
Accounts receivable	433	(232)
Unbilled revenues	553	(348)
Materials and supplies	(93)	22
Federal income tax refund due from affiliated company	812	(2,251)
Other current assets	356	(1,828)
Accounts payable	1,526	2,313
Accrued interest	2	-
Accrued taxes	(340)	1,903
Other current liabilities	299	367
Net cash provided by operating activities	<u>15,916</u>	<u>13,869</u>
Cash flows from investing activities		
Construction expenditures	(15,284)	(14,718)
Allowance for other funds used during construction	116	445
Removal costs from property, plant and equipment retirements, net of salvage	(356)	(330)
Proceeds from the disposition of property, plant and equipment	200	1
Net investment in notes receivable-associated companies	(1,819)	-
Net cash used in investing activities	<u>(17,143)</u>	<u>(14,602)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	14,000	-
Net (repayments) borrowings of notes payable-associated companies	(15,995)	1,346
Customer advances and contributions, net of refunds	5,166	4,452
Capital contribution by stockholder	-	9
Redemption of preferred stock	(2)	(857)
Dividends paid	(2,360)	(3,914)
Net cash provided by financing activities	<u>809</u>	<u>1,036</u>
Net (decrease) increase in cash and cash equivalents	<u>(418)</u>	<u>303</u>
Cash and cash equivalents at beginning of year	<u>1,002</u>	<u>699</u>
Cash and cash equivalents at end of year	<u>\$ 584</u>	<u>\$ 1,002</u>
Cash paid during the year for:		
Interest, net of capitalized amount	<u>\$ 5,006</u>	<u>\$ 4,418</u>
Income taxes	<u>\$ 300</u>	<u>\$ 2,623</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Capitalization
December 31, 2004 and 2003
(Dollars in thousands, except per share amounts)

	Call Price	
	Per Share	
	2004	2003
Common stockholder's equity		
Common stock - no par value, authorized 2,000,000 shares 1,567,391 shares issued and outstanding in 2004 and 2003	\$ 36,569	\$ 36,569
Paid-in capital	30	30
Retained earnings	23,672	26,475
	<u>60,271</u>	<u>63,074</u>
Preferred stocks - \$100 par value		
Without mandatory redemption requirements:		
Cumulative preferred stocks		
5.75% series, 4,642 shares outstanding in 2004 and 2003	\$ 101.00	464
5.50% series, 4,947 shares outstanding in 2004 and 2003	\$ 100.50	495
5.00% series, 5,896 shares outstanding in 2004 and 5,939 shares outstanding in 2003	\$ 101.00	590
		<u>1,549</u>
		<u>1,553</u>
With mandatory redemption requirements:		
Cumulative preferred stocks		
8.47% series, 45,000 shares outstanding in 2004 and 2003 due for redemption 2036 or anytime before that date	\$ 102.00	4,500
		<u>4,500</u>
		<u>4,500</u>
Long-term debt		
General mortgage bonds		
6.79% series due 2005		5,500
6.96% series due 2023		7,000
7.15% series due 2027		7,500
6.99% series due 2028		9,000
Notes payable to affiliate		
5.65% series due 2007		24,000
6.87% series due 2011		15,500
4.75% series due 2014		14,000
		<u>82,500</u>
		<u>68,500</u>
Less: Current portion of long-term debt	(5,500)	-
Long-term debt, net of current maturities	<u>77,000</u>	<u>68,500</u>
Total capitalization	<u>\$ 143,320</u>	<u>\$ 137,627</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Changes in Stockholder's Equity
For the Years Ended December 31, 2004 and 2003
(Dollars in thousands, except per share amounts)

	Common Stock		Paid-in Capital	Retained Earnings	Total
	Shares	Par Value			
Balance at December 31, 2002, as previously reported	1,567,391	\$ 36,569	\$ 21	\$ 25,178	\$ 61,768
Restatement adjustment, see Note 3				170	170
Balance at December 31, 2002, as restated	1,567,391	36,569	21	25,348	61,938
Net income	-	-	-	5,041	5,041
Dividends paid					
Preferred stock	-	-	-	(513)	(513)
Common stock, \$2.17 per share	-	-	-	(3,401)	(3,401)
Capital contribution by stockholder	-	-	9	-	9
Balance at December 31, 2003	1,567,391	36,569	30	26,475	63,074
Net income	-	-	-	(445)	(445)
Preferred stock redemption discount	-	-	-	2	2
Dividends paid					
Preferred stock	-	-	-	(448)	(448)
Common stock, \$1.22 per share	-	-	-	(1,912)	(1,912)
Balance at December 31, 2004	<u>1,567,391</u>	<u>\$ 36,569</u>	<u>\$ 30</u>	<u>\$ 23,672</u>	<u>\$ 60,271</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2004 and 2003
(Dollars in thousands)

Note 1: Organization and Operation

Kentucky-American Water Company (the Company) provides water service to approximately 111,000 customers and wastewater service to approximately 83 customers. These services are provided in 18 communities located in 10 counties in the state of Kentucky. As a public utility operating in Kentucky, the Company functions under rules and regulations prescribed by the Kentucky Public Service Commission (the Commission). The Company is a wholly-owned subsidiary of American Water Works Company, Inc. (American). Effective January 10, 2003, American was acquired by Thames Water Aqua US Holdings, Inc, which is a wholly-owned subsidiary of RWE Aktiengesellschaft (RWE).

Note 2: Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Regulation

The Company has incurred various costs and received various credits, which have been reflected as regulatory assets and liabilities on its balance sheet. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." This statement sets forth the application of accounting principles generally accepted in the United States of America for those companies whose rates are established by or are subject to approval by an independent third-party regulator.

Under SFAS No. 71, regulated companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate-making process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service.

Property, Plant and Equipment

Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. Repairs and maintenance are charged to current operations.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2004 and 2003
(Dollars in thousands)

Note 2 (continued):

When a unit of property is retired, the recorded value of such unit is credited to the asset account and charged to accumulated depreciation.

The cost of property, plant and equipment is depreciated using the straight-line average remaining life method. The composite depreciation rate amounted to 2.75% in 2004 and 2.81% in 2003. In 2003, the Company changed its definition of a unit of property to be capitalized to conform to the accounting policy consistently applied by American's subsidiaries.

Computer software is either purchased or developed in-house. The purchase price or development costs are capitalized as a unit of property. Software costs totaling \$221 and \$3,257, were capitalized during 2004 and 2003, respectively.

In accordance with the Commission's regulations, depreciation on contributed facilities is charged to contributions in aid of construction. Such depreciation amounted to \$926 in 2004 and \$876 in 2003.

Utility plant acquisition adjustments represent the difference between the fair value of plant at the date of purchase and its original cost when first devoted to public service (less accumulated depreciation) and are amortized to expense over 10-year or 40-year periods.

Cash and Cash Equivalents

Substantially all of the Company's cash is invested in interest-bearing accounts. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. There were no cash equivalents held at December 31, 2004 or 2003.

Customer Accounts Receivable

Customer accounts receivable represent amounts billed to the Company's water and wastewater customers on a cycle basis.

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts reflects the Company's best estimate of probable losses in the customer accounts receivable balances. The allowance is based on known troubled accounts, historical experience and other available evidence. Customer accounts are written off based upon approved regulatory or legislative requirements.

Materials and Supplies

Materials and supplies are stated at average cost.

Regulatory and Long-Term Assets and Liabilities

Programmed maintenance costs are deferred and amortized to current operations on a straight-line basis over a period ranging between five and fifteen years, as authorized by the Commission in their determination of rates charged for service. The Company has recorded a

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2004 and 2003
(Dollars in thousands)

Note 2 (continued):

regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the Commission of full normalization for rate-making purposes.

The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over 30 years from the date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

The Company has recorded a regulatory liability for costs associated with the removal of property, plant and equipment in accordance with SFAS 143, "Accounting for Asset Retirement Obligations." Retirement costs are recovered through customer rates during the life of the associated asset. Removal costs, net of salvage, of \$1,059 and \$983 are recorded in operation and maintenance expense as of December 31, 2004 and 2003, respectively.

Advances and Contributions in Aid of Construction

The Company may receive advances and contributions to fund construction necessary to extend service to new areas. As determined by the Commission, advances for construction are refundable for limited periods of time as new customers begin to receive service. Amounts that are no longer refundable are reclassified to contributions in aid of construction.

Utility plant funded by advances and contributions is excluded from rate base and is not depreciated for rate-making purposes. Generally, advances and contributions received during the period of January 1, 1987 through June 12, 1996 have been included in taxable income and the related property is depreciable for tax purposes. As a result of a tax law change, advances and contributions received subsequent to June 12, 1996 are excluded from taxable income and the related property is not depreciable for tax purposes.

Recognition of Revenues

Water and wastewater service revenues for financial reporting purposes include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2004 and 2003
(Dollars in thousands)

Note 2 (continued):

Income Taxes

The Company, its parent and affiliates participate in a consolidated federal income tax return. Federal income tax expense for financial reporting purposes is provided on a separate return basis, except that the federal income tax rate applicable to the consolidated group is applied to separate company taxable income and the benefit of net operating losses, if any, is recognized currently.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates anticipated to be in effect when such temporary differences are expected to reverse. Regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a non-cash adjustment to income with a corresponding charge to utility plant, which represents the cost of borrowed funds and a return on equity funds devoted to plant under construction. AFUDC is recorded to the extent permitted by the Commission.

Environmental Costs

Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. There were no remediation costs accrued at December 31, 2004 and 2003.

Asset Impairment

Long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, on a separate entity basis, may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss would be based on the fair value of the assets. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2004 and 2003
(Dollars in thousands)

Note 2 (continued):

Reclassifications

Certain reclassifications have been made to conform to previously reported data to the current presentation.

Note 3: Restatement of Prior Period Financial Statements

In 2004, the Company discovered an error in its current and deferred state tax payable accounts. As a result, accrued taxes and deferred income taxes were improperly reported in periods prior to 2004. The Company recorded adjustments to properly state the retained earnings balance at December 31, 2003 and 2002 and accrued taxes and deferred income taxes at December 31, 2003. The impact of these adjustments is as follows:

	2003 <small>(As Originally Reported)</small>	2003 (Restated)
Balance Sheet:		
Accrued taxes	2,186	1,967
Deferred income taxes	32,547	32,596
Retained earnings	26,305	26,475
	2002 <small>(As Originally Reported)</small>	2002 (Restated)
Balance Sheet:		
Retained earnings	25,178	25,348

Note 4: Utility Plant

The components of utility plant at December 31 are as follows:

	2004	2003
Sources of supply	\$ 8,018	\$ 7,711
Treatment and pumping	47,714	47,129
Transmission and distribution	146,911	140,433
Services, meters and fire hydrants	59,255	54,791
General structures and equipment	20,678	19,636
Construction work in progress	6,346	4,417
	288,922	274,117
Less: accumulated depreciation	(59,815)	(53,774)
	<u>\$ 229,107</u>	<u>\$ 220,343</u>

Depreciation expense amounted to \$6,523 in 2004 and \$5,717 in 2003.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2004 and 2003
(Dollars in thousands)

Note 5: Preferred Stocks

There are no sinking fund payments through 2009.

The preferred stock agreement contains provisions for redemption at various prices, at any time, upon not less than 30 days' notice at the Company's discretion at the redemption price then applicable to the shares to be redeemed, together with accrued dividends to the redemption date. The redemption prices to which there shall be added in each case accrued dividends to the redemption date, for shares of the 7 9% Series, preferred stock shall be at \$100.00 per share if redeemed on or after July 1, 1988.

Note 6: Long-Term Debt

Maturities of long-term debt will amount to \$5,500 in 2005 and \$24,000 in 2007. There are no maturities in 2006, 2008, or 2009.

The general mortgage bond indentures, as supplemented, contain clauses restricting the declaration of common stock dividends and other distributions on capital stock if common stockholder's equity falls below a specified amount. There were no restrictions at December 31, 2004.

The general mortgage bonds are issuable in series. No bonds senior to the general mortgage bonds may be issued so long as the general mortgage bonds are outstanding. The amount of bonds authorized is unlimited as long as long-term debt does not exceed 65% of capitalization. Long-term debt is collateralized by utility plant.

The senior notes are unsecured and were issued to American Water Capital Corporation (AWCC), an affiliate, for the principal amount. AWCC provided the funding for this note by itself issuing senior notes to institutional investors at a price equal to the principal amount.

Note 7: Affiliate Borrowings

The Company maintains a line of credit through AWCC for \$15,000. The Company may borrow from, or invest in, the line of credit. Effective November 1, 2003, AWCC has a 364-day, \$550 million revolving credit agreement with RWE. Effective November 1, 2004 this line of credit has been extended to October 31, 2005. Prior to November 1, 2003, AWCC had a 364-day, \$500 million revolving credit agreement with a group of 11 domestic and international banks and issued commercial paper, which was supported by the revolving credit agreement. No compensating balances are required under the agreements.

At December 31, 2004, there were \$1,046 of investments, and at December 31, 2003 there were \$14,880 of short-term borrowings outstanding. The weighted average annual interest

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2004 and 2003
(Dollars in thousands)

Note 7 (continued):

rate on these balances was 1.139% and 1.270%, respectively. The unused line of credit at December 31, 2004 was \$15,000

In addition, notes receivable-associated companies includes is offset by payables of \$1,046 at December 31, 2004 and notes payable-associated companies includes payables of \$1,114 at December 31, 2003. These payables represent checks issued but not presented to the bank for payment.

Note 8: General Taxes

Components of general tax expense for the years presented in the statement of income are as follows:

	<u>2004</u>	<u>2003</u>
Gross receipts and franchise	\$ 95	\$ 86
Property and capital stock	2,328	2,081
Payroll	389	429
	<u>\$ 2,812</u>	<u>\$ 2,596</u>

Note 9: Income Taxes

Components of income tax expense for the years presented in the statement of income are as follows:

	<u>2004</u>	<u>2003</u>
State income taxes:		
Current	\$ 399	\$ 467
Deferred		
Non-current	(406)	269
	<u>(7)</u>	<u>736</u>
Federal income taxes:		
Current	(1,144)	1,711
Deferred		
Non-current	1,040	1,112
Amortization of deferred investment tax credits	(96)	(85)
	<u>(200)</u>	<u>2,738</u>
Total income taxes	<u>\$ (207)</u>	<u>\$ 3,474</u>

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2004 and 2003
(Dollars in thousands)

Note 9 (continued):

A reconciliation of income tax expense at the statutory federal income tax rate to the actual income tax expense is as follows:

	<u>2004</u>	<u>2003</u>
Federal income tax at statutory rate of 35%	\$ (228)	\$ 2,980
Increases (decreases) resulting from -		
State taxes, net of federal income taxes	(5)	483
Flow through difference	81	56
Amortization of investment tax credits	(96)	(85)
Non-deductible items	46	11
Other, net	(5)	29
	<u>\$ (207)</u>	<u>\$ 3,474</u>

The following table provides the components of the net deferred tax liability at December 31:

	<u>2004</u>	<u>2003</u>
Deferred tax assets:		
Advances and contributions	\$ 4,181	\$ 4,115
Deferred investment tax credits	627	628
Other	1,045	1,866
	<u>5,853</u>	<u>6,609</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	35,728	33,130
Income taxes recoverable through rates	997	1,004
Deferred security costs	(4)	1,072
Other	2,251	3,999
	<u>38,972</u>	<u>39,205</u>
Net deferred tax liability	<u>\$ 33,119</u>	<u>\$ 32,596</u>

No valuation allowances were required on deferred tax assets at December 31, 2004 and 2003 as management believes it is more likely than not that these assets will be realized.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2004 and 2003
(Dollars in thousands)

Note 10: Rate Matters

On April 30, 2004, the Company filed a petition and tariffs with the Kentucky Public Service Commission to increase its authorized revenues by \$7,297. The rate petition was predicated on a forecasted test-year ending November 30, 2005. The rate increase was driven by several cost of service element increases above those approved in the 2000 rate petition as approved by the Commission in its Order of November 27, 2000: 1) increased rate base of \$17,078 (\$3,724 revenue requirement) and 2) \$4,242 of increased O&M expenses primarily related to increased management fees, labor benefit costs, recovery of on-going and deferred security expenses, increased general taxes offset by lower interest costs.

The Commission held hearings on the petition during the week of December 10, 2004, and briefs and reply briefs were filed during January 2005. On February 28, 2005 the Commission issued its Order authorizing an overall increase in revenue of \$4,283. The order permits an increase in billed tariffs of \$3,611 and the creation of an activation fee which is expected to produce \$672 annually. The Commission's order rejected rate recovery for deferred security costs and business service transitions costs. The Company filed a petition for rehearing requesting that the Commission reconsider its position on allocating consolidated federal income tax losses unrelated to the Company's operations, and recognition of the deferred expenses related to security costs and business service costs. On March 30, 2005 the Commission denied the Company's petition for rehearing. On April 27, 2005 the Company made a filing with the Franklin County Circuit Court appealing the Commission's decision regarding federal income taxes, deferred security cost, and deferred business service costs. The Company has assessed the status of eventual rate recovery of its deferred business service project expense and additional security costs and determined that rate recovery is not likely. Based on this assessment the Company has expensed \$3,904 in 2004 related to deferred business services and additional security costs previously deferred.

Note 11: Employee Benefit Plans

Employees' Investment Plan

The Company previously participated in an Employees' Stock Ownership Plan that was merged into and replaced by the Employees' Investment Plan.

The Employees' Investment Plan is sponsored by American, and generally all non-bargaining unit employees who were active in the Employees' Stock Ownership Plan on or before January 10, 2003 may participate by electing to contribute an amount that does not exceed 2% of their wages. In addition to the employees' participation, the Company made contributions equivalent to 1/2% of each participant's qualified compensation, and matches 100% of the contribution by each participant. The Company expensed contributions of \$36 for 2004 that it made to the Employees' Investment Plan.

This plan is being discontinued as of May 22, 2005.

Kentucky-American Water Company
(a subsidiary of American Water Works Company, Inc.)
Financial Statements
As of and for the years ended December 31, 2005 and 2004



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Report of Independent Auditors

To the Board of Directors and Stockholder of
Kentucky-American Water Company

In our opinion, the accompanying balance sheets and the related statements of operations, of capitalization, of changes in common stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Kentucky-American Water Company (a wholly-owned subsidiary of American Water Works Company, Inc.) at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the Company adopted Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, in 2005.

PricewaterhouseCoopers LLP

March 24, 2006

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2005 and 2004
(Dollars in thousands)

Assets		
	<u>2005</u>	<u>2004</u>
Property, plant and equipment		
Utility plant - at original cost less accumulated depreciation	\$ 246,335	\$ 229,107
Utility plant acquisition adjustments, net	338	408
Non-utility property	250	250
	<u>246,923</u>	<u>229,765</u>
Current assets		
Cash and cash equivalents	130	584
Customer accounts receivable	1,282	1,067
Allowance for uncollectible accounts	(259)	(170)
Unbilled revenues	2,478	1,913
Other accounts receivable	591	623
Notes receivable-associated companies	-	1,819
Federal income tax refund due from affiliated company	-	1,439
Materials and supplies	426	536
Other	461	145
	<u>5,109</u>	<u>7,956</u>
Long-term assets		
Regulatory assets	10,674	13,108
Preliminary survey & investigation	135	135
Other	85	500
	<u>10,894</u>	<u>13,743</u>
	<u>\$ 262,926</u>	<u>\$ 251,464</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2005 and 2004
(Dollars in thousands)

Capital and Liabilities		
	<u>2005</u>	<u>2004</u>
Capitalization		
Common stockholder's equity	\$ 63,706	\$ 60,271
Preferred stock without mandatory redemption requirements	1,469	1,549
Preferred stock with mandatory redemption requirements	-	4,500
Long-term debt (excluding current portion):		
Preferred stock with mandatory redemption requirements	4,500	-
Long-term debt	77,000	77,000
Total capitalization	<u>146,675</u>	<u>143,320</u>
Current liabilities		
Notes payable - associated companies	9,308	-
Current portion of long-term debt	-	5,500
Accounts payable	2,086	4,260
Accounts payable - associated companies	554	1,107
Accrued interest	1,366	1,459
Accrued taxes	1,880	1,627
Other	2,975	1,846
	<u>18,169</u>	<u>15,799</u>
Long-term liabilities		
Deferred income taxes	33,993	33,119
Customer advances for construction	16,448	15,777
Deferred investment tax credits	1,388	1,461
Regulatory liability - cost of removal	6,561	6,212
Accrued pension expense	3,680	3,192
Accrued postretirement benefit expense	300	300
Other	30	61
	<u>62,400</u>	<u>60,122</u>
Contributions in aid of construction	<u>35,682</u>	<u>32,223</u>
Commitments and contingencies	<u>-</u>	<u>-</u>
	<u>\$ 262,926</u>	<u>\$ 251,464</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Operations
For the Years Ended December 31, 2005 and 2004
(Dollars in thousands)

	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 50,120	\$ 42,455
Operating expenses		
Operation and maintenance	27,524	29,509
Depreciation and amortization	5,835	5,616
General taxes	2,737	2,812
Gain on disposition of property	-	(200)
	<u>36,096</u>	<u>37,737</u>
Operating income	<u>14,024</u>	<u>4,718</u>
Other income (deductions)		
Allowance for other funds used during construction	347	116
Other deductions, net	(318)	(399)
	<u>29</u>	<u>(283)</u>
Income before interest charges and income taxes	<u>14,053</u>	<u>4,435</u>
Interest charges		
Interest on long-term debt	5,369	5,001
Interest on short-term debt	184	65
Amortization of debt expense	77	79
Other interest	4	-
Allowance for borrowed funds used during construction	(148)	(58)
	<u>5,486</u>	<u>5,087</u>
Income (loss) before income taxes	<u>8,567</u>	<u>(652)</u>
Income taxes provision (benefit)	<u>3,354</u>	<u>(207)</u>
Net income (loss)	<u>5,213</u>	<u>(445)</u>
Dividends on preferred stock	<u>80</u>	<u>448</u>
Income (loss) to common stock	<u>\$ 5,133</u>	<u>\$ (893)</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Cash Flows
For the Years Ended December 31, 2005 and 2004
(Dollars in thousands)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Net income (loss)	\$ 5,213	\$ (445)
Adjustments:		
Depreciation and amortization	5,835	5,616
Removal costs net of salvage	1,128	1,059
Amortization, other	2,311	2,217
Provision for deferred income taxes	1,982	634
Amortization of deferred investment tax credits	(73)	(96)
Provision for losses on accounts receivable	477	450
Allowance for other funds used during construction	(347)	(116)
Deferred security costs	-	2,655
Deferred business services project expenses	-	1,078
Gain on disposition of property	-	(200)
Other, net	(120)	(1,198)
Changes in assets and liabilities:		
Accounts receivable	(603)	433
Unbilled revenues	(565)	553
Materials and supplies	110	(93)
Federal income tax refund due from affiliated company	1,439	812
Other current assets	(284)	916
Accounts payable	(2,174)	1,526
Accrued taxes	253	(340)
Other current liabilities	483	455
Net cash provided by operating activities	<u>15,065</u>	<u>15,916</u>
Cash flows from investing activities		
Construction expenditures	(19,182)	(15,284)
Allowance for other funds used during construction	347	116
Acquisition	(2,635)	-
Removal costs from property, plant and equipment retirements, net of salvage	(774)	(356)
Proceeds from the disposition of property, plant and equipment	-	200
Net investment in notes receivable-associated companies	1,819	(1,819)
Net cash used in investing activities	<u>(20,425)</u>	<u>(17,143)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	-	14,000
Repayment of long-term debt	(5,500)	-
Net borrowings (repayments) of notes payable-associated companies	9,308	(15,995)
Customer advances and contributions, net of refunds	2,956	5,166
Redemption of preferred stock	(54)	(2)
Dividends paid	(1,804)	(2,360)
Net cash provided by financing activities	<u>4,906</u>	<u>809</u>
Net decrease in cash and cash equivalents	<u>(454)</u>	<u>(418)</u>
Cash and cash equivalents at beginning of year	<u>584</u>	<u>1,002</u>
Cash and cash equivalents at end of year	<u>\$ 130</u>	<u>\$ 584</u>
Cash paid during the year for:		
Interest, net of capitalized amount	<u>\$ 5,502</u>	<u>\$ 5,006</u>
Income taxes, net of refunds	<u>\$ 450</u>	<u>\$ 300</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Capitalization
December 31, 2005 and 2004
(Dollars in thousands, except per share amounts)

	Call Price Per Share	2005	2004
Stockholder's equity			
Common stock - no par value, authorized 2,000,000 shares 1,567,391 shares issued and outstanding in 2005 and 2004	\$	36,569	\$ 36,569
Paid-in capital		56	30
Retained earnings		27,081	23,672
Preferred stocks - \$100 par value			
Cumulative preferred stocks without mandatory redemption requirements:			
5.75% series, 3,918 shares outstanding in 2005 and 4,642 shares outstanding in 2004	\$ 101.00	392	464
5.50% series, 4,889 shares outstanding in 2005 and 4,947 shares outstanding in 2004	\$ 100.50	489	495
5.00% series, 5,866 shares outstanding in 2005 and 5,896 shares outstanding in 2004	\$ 100.00	588	590
Cumulative preferred stocks with mandatory redemption requirements			
8.47% series, 45,000 shares outstanding in 2004	\$ 100.00	-	4,500
Total stockholder's equity		<u>65,175</u>	<u>66,320</u>
Long-term debt			
Preferred stocks - \$100 par value			
Cumulative preferred stocks with mandatory redemption requirements:			
8.47% series, 45,000 shares outstanding in 2005, due for redemption 2036	\$ 100.00	4,500	-
		<u>4,500</u>	<u>-</u>
General mortgage bonds			
6.79% series redeemed in 2005		-	5,500
6.96% series due 2023		7,000	7,000
7.15% series due 2027		7,500	7,500
6.99% series due 2028		9,000	9,000
Notes payable to affiliate			
5.65% series due 2007		24,000	24,000
6.87% series due 2011		15,500	15,500
4.75% series due 2014		14,000	14,000
		<u>77,000</u>	<u>82,500</u>
Less: Current portion of long-term debt		-	(5,500)
Long-term debt, net of current maturities		<u>77,000</u>	<u>77,000</u>
Total capitalization	\$	<u><u>146,675</u></u>	<u><u>\$ 143,320</u></u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Changes in Common Stockholder's Equity
For the Years Ended December 31, 2005 and 2004
(Dollars in thousands, except per share amounts)

	Common Stock		Paid-in Capital	Retained Earnings	Total
	Shares	Par Value			
Balance at December 31, 2003	1,567,391	\$ 36,569	\$ 30	\$ 26,475	\$ 63,074
Net loss	-	-	-	(445)	(445)
Preferred stock redemption discount	-	-	-	2	2
Dividends paid					
Preferred stock	-	-	-	(448)	(448)
Common stock, \$1.22 per share	-	-	-	(1,912)	(1,912)
Balance at December 31, 2004	1,567,391	36,569	30	23,672	60,271
Net income	-	-	-	5,213	5,213
Gain on redemption of preferred stock	-	-	26	-	26
Dividends paid					
Preferred stock	-	-	-	(80)	(80)
Common stock, \$1.10 per share	-	-	-	(1,724)	(1,724)
Balance at December 31, 2005	<u>1,567,391</u>	<u>\$ 36,569</u>	<u>\$ 56</u>	<u>\$ 27,081</u>	<u>\$ 63,706</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2005 and 2004
(Dollars in thousands)

Note 1: Organization and Operation

Kentucky-American Water Company (the Company) provides water service to approximately 113,000 (unaudited) customers and wastewater service to approximately 711 (unaudited) customers. These services are provided in 12 (unaudited) communities located in 10 (unaudited) counties in the state of Kentucky. As a public utility operating in Kentucky, the Company functions under rules and regulations prescribed by the Kentucky Public Service Commission (the Commission). The Company is a wholly-owned subsidiary of American Water Works Company, Inc. (American). American is a wholly-owned subsidiary of Thames Water Aqua US Holdings, Inc., a wholly-owned subsidiary of RWE Aktiengesellschaft (RWE).

Note 2: Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Regulation

The Company has incurred various costs and received various credits, which have been reflected as regulatory assets and liabilities on its balance sheet. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." This statement sets forth the application of accounting principles generally accepted in the United States of America for those companies whose rates are established by or are subject to approval by an independent third-party regulator.

Under SFAS No. 71, regulated companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate-making process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service.

Property, Plant and Equipment

Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. Repairs and maintenance are charged to current operations.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2005 and 2004
(Dollars in thousands)

Note 2 (continued):

When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement of costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates. Removal costs, net of salvage, of \$1,128 and \$1,059 are recorded in operation and maintenance expense as of December 31, 2005 and 2004, respectively.

The cost of property, plant and equipment is depreciated using the straight-line average remaining life method. The composite depreciation rate amounted to 2.85% in 2005 and 2.75% in 2004.

Computer software is either purchased or developed in-house. The purchase price or development costs are capitalized as a unit of property. Software costs totaling \$560 and \$221, were capitalized during 2005 and 2004, respectively.

Utility plant acquisition adjustments represent the difference between the fair value of plant at the date of purchase and its original cost when first devoted to public service (less accumulated depreciation) and are amortized to expense over the remaining useful lives of the corresponding purchased plant assets.

Cash and Cash Equivalents

Substantially all of the Company's cash is invested in interest-bearing accounts. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. There were no cash equivalents held at December 31, 2005 or 2004.

Accounts Receivable

The majority of the Company's accounts receivable are due from trade customers. Customer accounts receivable represent amounts billed to the Company's water and wastewater customers on a cycle basis. When customers request extended payment terms, credit is extended based upon Commission guidelines and generally, collateral is not required.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2005 and 2004
(Dollars in thousands)

Note 2 (continued):

Allowance for Uncollectible Accounts

The Company maintains allowance for uncollectible accounts for estimated probable losses resulting from the inability of the Company's customers to make required payments. The Company continues to assess the adequacy of the reserves for doubtful accounts based on financial condition of the Company's customers and other external factors that may impact collectibility. Accounts outstanding longer than the payment terms are considered past due. The Company considers a number of factors in determining the allowance for uncollectible accounts, including the length of time trade accounts receivable are past due, the customer's current ability to pay their obligations to the Company, the Company's previous loss history, approved regulatory or legislative requirements. The Company writes off accounts receivable when they become uncollectible.

Materials and Supplies

Materials and supplies are stated at average cost.

Advances and Contributions in Aid of Construction

The Company may receive advances and contributions to fund construction necessary to extend service to new areas. As determined by the Commission, advances for construction are refundable for limited periods of time as new customers begin to receive service. Amounts that are no longer refundable are reclassified to contributions in aid of construction. Utility plant funded by advances and contributions is excluded from rate base and is not depreciated.

Recognition of Revenues

Water and wastewater service revenues for financial reporting purposes include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period. Other operating revenues are recognized when services are performed.

Income Taxes

The Company, its parent and affiliates participate in a consolidated federal income tax return. Federal income tax expense for financial reporting purposes is provided on a separate return basis.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates anticipated to be in effect when such temporary differences are expected to reverse. Regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2005 and 2004
(Dollars in thousands)

Note 2 (continued):

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a non-cash adjustment to income with a corresponding charge to utility plant, which represents the cost of borrowed funds and a return on equity funds devoted to plant under construction. AFUDC is recorded to the extent permitted by the Commission.

Environmental Costs

Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. There were no remediation costs accrued at December 31, 2005 and 2004.

Asset Impairment

Long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, on a separate entity basis, may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss would be based on the fair value of the assets. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

Mandatorily Redeemable Preferred Stock

On May 15, 2003, the Financial Accounting Standards Board (FASB) approved Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS 150). SFAS 150 establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The Company adopted SFAS 150 as of January 1, 2005.

Effective January 1, 2005, the Company's mandatorily redeemable preferred stock was classified as a liability and recorded at the present value of redemption amounts, using the rates implicit in the stock agreements at inception. Additionally, beginning January 1, 2005, any change in the redemption value of the Company's mandatorily redeemable preferred stock or dividend payments to their holders, which previously reduced retained earnings, have been recorded as increases or decreases to interest expense. In accordance with SFAS 150, which specifically prohibits the restatement of financial statements prior to its adoption, prior period amounts have not been reclassified.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2005 and 2004
(Dollars in thousands)

Note 2 (continued):

Reclassifications

Certain reclassifications have been made to conform to previously reported data to the current presentation.

Note 3: Utility Plant

The components of utility plant at December 31 are as follows:

	<u>Range of Remaining Useful Lives</u>	<u>2005</u>	<u>2004</u>
Land and other non-depreciable assets	-	\$ 4,637	\$ 4,468
Sources of supply	30 to 90 Years	7,580	7,683
Treatment and pumping	25 to 56 Years	50,992	47,563
Transmission and distribution	18 to 85 Years	150,222	143,024
Services, meters and fire hydrants	20 to 98 Years	63,769	59,255
General structures and equipment	5 to 61 Years	23,151	20,583
Wastewater	20 Years	3,382	-
Construction work in progress	-	11,481	6,346
		<u>315,214</u>	<u>288,922</u>
Less: accumulated depreciation		<u>(68,879)</u>	<u>(59,815)</u>
		<u>\$ 246,335</u>	<u>\$ 229,107</u>

Depreciation expense amounted to \$6,828 in 2005 and \$6,523 in 2004.

Note 4: Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. Except for income taxes, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets are as follows:

	<u>2005</u>	<u>2004</u>
Income taxes recoverable through rates	\$ 3,693	\$ 4,686
Bluegrass water project, source of supply	1,998	2,055
Programmed maintenance expense	1,761	2,140
Bluegrass water project, pipeline	1,746	2,101
Rate proceedings	782	951
Debt and preferred stock expense	536	613
Other	158	562
	<u>\$ 10,674</u>	<u>\$ 13,108</u>

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2005 and 2004
(Dollars in thousands)

Note 4 (continued):

The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets. The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the Commission of full normalization for rate-making purposes.

The Company has recorded a regulatory liability to defer the income impact of the state of Kentucky's income tax rate change from 8.25% to 7.00% effective for 2005. The income impact results from the application of the 7.00% tax rate against the Company's previously recorded deferred tax liabilities, which were established at 8.25%. The Company has recorded a deferred tax rate change liability of \$926 which it is amortizing straight-line over thirty-five years.

The Company has recorded a regulatory asset for the Bluegrass water project source of supply costs in the amount of \$2,283 to be amortized over a forty year period. Approval was granted per the Commission order dated December 12, 2000.

Programmed maintenance costs are deferred and amortized to current operations on a straight-line basis over a period ranging between five and fifteen years, as authorized by the Commission in their determination of rates charged for service.

The Company has recorded a regulatory asset for the Bluegrass water project pipeline costs in the amount of \$3,551 with a ten year amortization period which was approved by the Commission per order dated November 27, 2000.

Expense of rate proceedings is deferred and amortized on a straight-line basis over three years as authorized by the Commission in their determination of rates charged for service.

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over 30 years from the date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2005 and 2004
(Dollars in thousands)

Note 5: Preferred Stocks

There are no sinking fund payments through 2010.

Preferred stock agreements contain provisions for redemption at various prices on thirty days notice at the Company's discretion. In the event of voluntary liquidation, the 5.75% series is redeemable at \$101.00 per share. The 5.50% series is redeemable at \$100.50 per share and the 5.00% series redeemable at \$100.00 per share. The 8.47% series is redeemable at \$100.00, plus make whole premium. In the event of involuntary liquidation or governmental acquisition, all classes are redeemable at \$100 per share. Upon redemption the price must be increased by accrued dividends to the date of redemption.

In 2005, certain shareholders offered shares of preferred stock for sale back to the Company. Thirty shares of the 5.00% series were purchased for \$2. Fifty-eight shares of the 5.50% series were purchased for \$4 and 724 of the 5.75% series were purchased for \$51.

Note 6: Long-Term Debt

The general mortgage bonds are issuable in series. No bonds senior to the general mortgage bonds may be issued so long as the general mortgage bonds are outstanding. The amount of bonds authorized is unlimited as long as long-term debt does not exceed 65% of capitalization. General mortgage bonds are collateralized by utility plant.

The general mortgage bond indentures, as supplemented, contain clauses restricting the declaration of common stock dividends and other distributions on capital stock if common stockholder's equity falls below a specified amount. There were no restrictions at December 31, 2005.

The senior notes payable to affiliate are unsecured and were issued to American Water Capital Corporation (AWCC), an affiliate, for the principal amount. AWCC provided the funding for these notes by itself issuing senior notes to institutional investors at a price equal to the principal amount.

Maturities of long-term debt will amount to \$24,000 in 2007. There are no maturities in 2006, 2008, 2009 or 2010.

Note 7: Short-term Borrowings

The Company maintains a line of credit through AWCC for \$12,000. The Company may borrow from, or invest in, the line of credit. The line was decreased by \$3,000 during 2005, per an amendment to the agreement with AWCC. No compensating balances are required under the agreements.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2005 and 2004
(Dollars in thousands)

Note 7 (continued):

At December 31, 2005 there were \$9,308 of short-term borrowings outstanding. At December 31, 2004, the Company had invested \$1,819 with AWCC. The weighted average annual interest rates on these balances were 3.36% and 1.14% in 2005 and 2004, respectively. The unused short-term line of credit at December 31, 2005 was \$2,692.

Note 8: General Taxes

Components of general tax expense for the years presented in the statement of income are as follows:

	<u>2005</u>	<u>2004</u>
Gross receipts and franchise	\$ 32	\$ 95
Property and capital stock	2,322	2,328
Payroll	380	389
Miscellaneous	3	-
	<u>\$ 2,737</u>	<u>\$ 2,812</u>

Note 9: Income Taxes

Components of income tax expense for the years presented in the statement of income are as follows:

	<u>2005</u>	<u>2004</u>
State income taxes:		
Current	\$ 81	\$ 399
Deferred		
Current	(15)	-
Non-current	523	(406)
	<u>589</u>	<u>(7)</u>
Federal income taxes:		
Current	1,364	(1,144)
Deferred		
Current	(212)	-
Non-current	1,686	1,040
Amortization of deferred investment tax credits	(73)	(96)
	<u>2,765</u>	<u>(200)</u>
Total income taxes	<u>\$ 3,354</u>	<u>\$ (207)</u>

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2005 and 2004
(Dollars in thousands)

Note 9 (continued):

A reconciliation of income tax expense at the statutory federal income tax rate to the actual income tax expense is as follows:

	<u>2005</u>	<u>2004</u>
Federal income tax at statutory rate of 35%	\$ 2,999	\$ (228)
Increases (decreases) resulting from -		
State taxes, net of federal income taxes	382	(5)
Flow through difference	135	81
Amortization of investment tax credits	(73)	(96)
Non-deductible items	-	46
Other, net	(89)	(5)
	<u>\$ 3,354</u>	<u>\$ (207)</u>

The following table provides the components of the net deferred tax liability at December 31:

	<u>2005</u>	<u>2004</u>
Deferred tax assets:		
Advances and contributions	\$ 4,229	\$ 4,181
Deferred investment tax credits	549	627
Other	1,386	1,045
	<u>6,164</u>	<u>5,853</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	36,174	35,728
Income taxes recoverable through rates	503	997
Deferred security costs	1,111	(4)
Other	2,369	2,251
	<u>40,157</u>	<u>38,972</u>
Net deferred tax liability	<u>\$ 33,993</u>	<u>\$ 33,119</u>

No valuation allowances were required on deferred tax assets at December 31, 2005 and 2004 as management believes it is more likely than not that these assets will be realized.

Note 10: Rate Matters

On April 30, 2004, the Company filed a petition and tariffs with the Kentucky Public Service Commission to increase its authorized revenues by \$7,297. The rate petition was predicated on a forecasted test-year ending November 30, 2005.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2005 and 2004
(Dollars in thousands)

Note 10 (continued):

The rate increase was driven by several cost of service element increases above those approved in the 2000 rate petition as approved by the Commission in its Order of November 27, 2000: 1) increased rate base of \$17,078 (\$3,724 revenue requirement) and 2) \$4,242 of increased O&M expenses primarily related to increased management fees, labor benefit costs, recovery of on-going and deferred security expenses, increased general taxes offset by lower interest costs.

The Commission held hearings on the petition during the week of December 10, 2004, and briefs and reply briefs were filed during January 2005. On February 28, 2005 the Commission issued its Order authorizing an overall increase in revenue of \$4,283. The order permits an increase in billed tariffs of \$3,611 and the creation of an activation fee which is expected to produce \$672 annually. The Commission's order rejected rate recovery for deferred security costs and business service transitions costs. The Company filed a petition for rehearing requesting that the Commission reconsider its position on allocating consolidated federal income tax losses unrelated to the Company's operations, and recognition of the deferred expenses related to security costs and business service costs. On March 30, 2005 the Commission denied the Company's petition for rehearing. On April 27, 2005 the Company made a filing with the Franklin County Circuit Court appealing the Commission's decision regarding federal income taxes, deferred security cost and deferred business service costs. The Company assessed the status of eventual rate recovery of its deferred business service project expense and additional security costs and determined that rate recovery is not likely. Based on this assessment the Company expensed \$3,904 in 2004 related to deferred business services and additional security costs previously deferred.

Note 11: Employee Benefit Plans

Employees' Investment Plan

The Company previously participated in an Employees' Stock Ownership Plan that was merged into and replaced by the Employees' Investment Plan.

The Employees' Investment Plan is sponsored by American, and generally all non-bargaining unit employees who were active in the Employees' Stock Ownership Plan on or before January 10, 2003 may participate by electing to contribute an amount that does not exceed 2% of their wages. In addition to the employees' participation, the Company made contributions equivalent to 1/2% of each participant's qualified compensation, and matches 100% of the contribution by each participant. The Company expensed contributions of \$29 for 2005 and \$36 for 2004 that it made to the Employees' Investment Plan.

This plan was discontinued as of May 22, 2005.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2005 and 2004
(Dollars in thousands)

Note 11 (continued):

Savings Plan for Employees

The Company participates in a 401(k) Savings Plan for Employees sponsored by American. All employees can make contributions that are invested at their direction in one or more funds. The Company matches 50% of the first 5% of each employee's wages contributed to the plan. The Company expensed matching contributions to the plan totaling \$78 for 2005 and \$72 for 2004. All of the Company's matching contributions are invested in one or more funds at the direction of the employee.

Note 12: Postretirement Benefits

Pension Benefits

The Company participates in a noncontributory defined benefit pension plan sponsored by American covering substantially all employees. Benefits under the plan are based on the employee's years of service and average annual compensation for those 60 consecutive months of employment that yield the highest average. Pension cost of the Company is based on an allocation from American of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level.

The Company's funding policy is to contribute at least the minimum amount required under the Employee Retirement Income Security Act of 1974. The Company made contributions to the American plan of \$506 in 2005 and \$359 in 2004.

Postretirement Benefits Other Than Pensions

The Company participates in an American plan that provides certain life insurance benefits for retired employees and certain health care benefits for retired employees and their dependents. Substantially all employees, except non-bargaining unit employees hired on or after January 1, 2002, may become eligible for these benefits if they reach retirement age while still working for the Company. Retirees and their dependents under age 65 are covered by a point-of-service managed care plan that requires co-payments or an HMO. Employees who elect to retire prior to attaining age 65 are generally required to make contributions towards their medical coverage until attaining age 65. Retirees and their dependents age 65 and over are covered by a Medicare supplement plan. Costs of the Company are based on an allocation from American of the total cost related to the plan.

Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company made contributions to trust funds established for these postretirement benefits of \$894 in 2005 and \$824 in 2004. The Company's policy is to fund postretirement benefits costs accrued.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2005 and 2004
(Dollars in thousands)

Note 13: Related Party Transactions

American Water Works Service Company, Inc. (AWWS), a subsidiary of American, provides certain management services to the Company (administration, accounting, data processing, engineering, etc.) and other operating water companies in the American system on an at-cost, not-for-profit basis in accordance with a management and service agreement.

Purchases of such services by the Company were accounted for as follows:

	<u>2005</u>	<u>2004</u>
Included in operation and maintenance expense as a charge against income	\$ 5,892	\$ 5,773
Capitalized primarily in utility plant	<u>1,217</u>	<u>818</u>
	<u>\$ 7,109</u>	<u>\$ 6,591</u>

The Company provided workspace, information system support, human resources and loss control services for associates of AWWS. Charges for direct costs and indirect overhead costs associated with these associates are billed to AWWS on an at-cost, not for profit basis, which amounted to \$43 in 2005 and \$157 in 2004.

The Company has three operating agreements with American Water Services, Inc. (AWS), a subsidiary of American, for the lease of granular activated carbon at one of the Company's water treatment plants. The agreements provide for AWS to regenerate the spent material and return it to the water treatment plant where it originated. Under the terms of the agreements, AWS will provide carbon for a period of thirty-six months. The carbon is scheduled for replacement at thirty-six month intervals and is warranted to perform to specific standards during that period. The Company paid \$97 in 2005 and \$96 in 2004 to AWS under these agreements.

The Company maintains a line of credit through AWCC. The Company paid AWCC fees of \$24 in 2005 and \$25 in 2004 and interest on borrowings of \$184 in 2005 and \$64 in 2004.

Note 14: Fair Values of Financial Instruments

The Company used the following methods and assumptions in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities: The carrying amounts reported in the balance sheet for current assets and current liabilities approximate their fair value.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2005 and 2004
(Dollars in thousands)

Note 14 (continued):

Preferred stocks with mandatory redemption requirements and long-term debt: The fair values of the Company's preferred stocks with mandatory redemption requirements and long-term debt are estimated using discounted cash flow analyses based on the Company's current incremental financing rates for similar types of securities.

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred stock with mandatory redemption requirements	\$ 4,500	\$ 4,692	\$ 4,500	\$ 4,210
Long-term debt, including current maturities	\$ 77,000	\$ 79,567	\$ 82,500	\$ 86,231

Note 15: Operating Lease

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were \$35 in 2005 and \$35 in 2004. The operating leases for equipment expire over the next three years.

At December 31, 2005, the minimum annual future rental commitments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are \$23 in 2006, \$19 in 2007, \$12 in 2008, and none thereafter.

Note 16: Commitments and Contingencies

Commitments have been made in connection with certain construction programs.

The Company is routinely involved in legal actions. In the opinion of management, none of these matters is expected to have a material adverse effect, if any, on the financial position, results of operations or cash flows of the Company.

Note 17: Acquisitions

On September 15, 2005, the Company completed its acquisition of the Owenton Borough Water Authority for \$2,635. The acquired operations provided water and sewer service to approximately 1,744 (unaudited) customers at the time of acquisition. In 2005, during the period owned, the Company recorded \$252 in operating revenue.

Kentucky-American Water Company
(a subsidiary of American Water Works Company, Inc.)
Financial Statements
As of and for the years ended December 31, 2006 and 2005



PricewaterhouseCoopers LLP
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Report of Independent Auditors

To the Board of Directors and Stockholder of
Kentucky-American Water Company

In our opinion, the accompanying balance sheets and the related statements of income, of capitalization, of changes in common stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Kentucky-American Water Company (a wholly-owned subsidiary of American Water Works Company, Inc.) at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 16, 2007

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2006 and 2005
(Dollars in thousands)

Assets		
	2006	2005
Property, plant and equipment		
Utility plant - at original cost less accumulated depreciation	\$ 263,467	\$ 246,335
Utility plant acquisition adjustments, net	348	338
Non-utility property	250	250
	<u>264,065</u>	<u>246,923</u>
Current assets		
Cash and cash equivalents	79	130
Customer accounts receivable	2,453	1,282
Allowance for uncollectible accounts	(261)	(259)
Unbilled revenues	2,510	2,478
Other accounts receivable	603	591
Materials and supplies	516	426
Other	68	461
	<u>5,968</u>	<u>5,109</u>
Long-term assets		
Regulatory assets	9,603	10,680
Other	151	214
	<u>9,754</u>	<u>10,894</u>
	<u>\$ 279,787</u>	<u>\$ 262,926</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2006 and 2005
(Dollars in thousands)

Capital and Liabilities		
	<u>2006</u>	<u>2005</u>
Capitalization		
Common stockholder's equity	\$ 72,972	\$ 63,706
Preferred stock without mandatory redemption requirements	1,466	1,469
Long-term debt (excluding current portion):		
Preferred stock with mandatory redemption requirements	4,500	4,500
Long-term debt	49,900	77,000
Total capitalization	<u>128,838</u>	<u>146,675</u>
Current liabilities		
Notes payable - associated companies	6,674	9,308
Current portion of long-term debt	27,100	-
Accounts payable	5,511	2,086
Accrued taxes	4,317	1,880
Other	4,166	4,895
	<u>47,768</u>	<u>18,169</u>
Long-term liabilities		
Deferred income taxes	35,168	33,993
Customer advances for construction	16,493	16,448
Deferred investment tax credits	1,303	1,388
Regulatory liability - cost of removal	7,597	6,561
Accrued pension expense	2,382	3,680
Accrued postretirement benefit expense	343	300
Other	60	30
	<u>63,346</u>	<u>62,400</u>
Contributions in aid of construction	39,835	35,682
Commitments and contingencies	-	-
	<u>\$ 279,787</u>	<u>\$ 262,926</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Income
For the Years Ended December 31, 2006 and 2005
(Dollars in thousands)

	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 49,010	\$ 50,120
Operating expenses		
Operation and maintenance	27,957	27,524
Depreciation	7,891	6,828
Amortization	(1,151)	(993)
General taxes	2,860	2,737
	<u>37,557</u>	<u>36,096</u>
Operating income	<u>11,453</u>	<u>14,024</u>
Other income (deductions)		
Allowance for other funds used during construction	274	347
Other deductions, net	(406)	(318)
	<u>(132)</u>	<u>29</u>
Income before interest deductions and income taxes	<u>11,321</u>	<u>14,053</u>
Interest deductions (income)		
Interest on long-term debt	5,111	5,369
Interest on short-term debt	409	184
Amortization of debt expense	73	77
Other interest	65	4
Allowance for borrowed funds used during construction	(117)	(148)
	<u>5,541</u>	<u>5,486</u>
Income before income taxes	5,780	8,567
Provision for income taxes	<u>2,430</u>	<u>3,354</u>
Net income	<u>3,350</u>	<u>5,213</u>
Dividends on preferred stock	79	80
Income to common stock	<u>\$ 3,271</u>	<u>\$ 5,133</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Cash Flows
For the Years Ended December 31, 2006 and 2005
(Dollars in thousands)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Net income	\$ 3,350	\$ 5,213
Adjustments:		
Depreciation and amortization	6,740	5,835
Removal costs net of salvage	1,227	1,128
Amortization, other	1,701	2,311
Provision for deferred income taxes	1,334	1,982
Amortization of deferred investment tax credits	(85)	(73)
Provision for losses on accounts receivable	405	477
Allowance for other funds used during construction	(274)	(347)
Other, net	(1,915)	(120)
Changes in assets and liabilities:		
Accounts receivable	(1,574)	(603)
Unbilled revenues	(32)	(565)
Federal income tax refund due from affiliated company	-	1,439
Other current assets	291	(174)
Accounts payable	3,425	(2,174)
Accrued taxes	2,437	253
Other current liabilities	(729)	483
Net cash provided by operating activities	<u>16,301</u>	<u>15,065</u>
Cash flows from investing activities		
Construction expenditures	(25,103)	(19,182)
Allowance for other funds used during construction	274	347
Acquisition	-	(2,635)
Removal costs from property, plant and equipment retirements, net of salvage	(174)	(774)
Net investment in notes receivable-associated companies	-	1,819
Net cash used in investing activities	<u>(25,003)</u>	<u>(20,425)</u>
Cash flows from financing activities		
Repayment of long-term debt	-	(5,500)
Net borrowings (repayments) of notes payable-associated companies	(2,634)	9,308
Customer advances and contributions, net of refunds	5,372	2,956
Capital contribution by stockholder	8,000	
Redemption of preferred stock	(3)	(54)
Dividends paid	(2,084)	(1,804)
Net cash provided by financing activities	<u>8,651</u>	<u>4,906</u>
Net decrease in cash and cash equivalents	(51)	(454)
Cash and cash equivalents at beginning of year	<u>130</u>	<u>584</u>
Cash and cash equivalents at end of year	<u>\$ 79</u>	<u>\$ 130</u>
Cash paid during the year for:		
Interest, net of capitalized amount	<u>\$ 6,190</u>	<u>\$ 5,502</u>
Income taxes, net of refunds	<u>\$ 128</u>	<u>\$ 450</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Capitalization
December 31, 2006 and 2005
(Dollars in thousands, except per share amounts)

	<u>Call Price</u> <u>Per Share</u>	<u>2006</u>	<u>2005</u>
Stockholder's equity			
Common stock - no par value, authorized 2,000,000 shares 1,567,391 shares issued and outstanding in 2006 and 2005	\$	36,569	\$ 36,569
Paid-in capital		8,056	56
Retained earnings		28,347	27,081
Total common stockholder's equity		<u>72,972</u>	<u>63,706</u>
Preferred stocks - \$100 par value			
Cumulative preferred stocks without mandatory redemption requirements:			
5.75% series, 3,918 shares outstanding in 2006 and 2005	\$ 101.00	392	392
5.50% series, 4,883 shares outstanding in 2006 and 4,889 shares outstanding in 2005	\$ 100.50	488	489
5.00% series, 5,866 shares outstanding in 2006 and 5,866 shares outstanding in 2005	\$ 100.00	586	588
		<u>1,466</u>	<u>1,469</u>
Long-term debt			
Preferred stocks - \$100 par value			
Cumulative preferred stocks with mandatory redemption requirements:			
8.47% series, 45,000 shares outstanding in 2006, due for redemption 2036	\$ 100.00	4,500	4,500
		<u>4,500</u>	<u>4,500</u>
General mortgage bonds			
6.96% series due 2023		7,000	7,000
7.15% series due 2027		7,500	7,500
6.99% series due 2028		9,000	9,000
Notes payable to affiliate			
5.65% series due 2007		24,000	24,000
6.87% series due 2011		15,500	15,500
4.75% series due 2014		14,000	14,000
		<u>77,000</u>	<u>77,000</u>
Less: Current portion of long-term debt		(27,100)	-
Long-term debt, net of current maturities		<u>49,900</u>	<u>77,000</u>
Total capitalization	\$	<u>128,838</u>	\$ <u>146,675</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Changes in Common Stockholder's Equity
For the Years Ended December 31, 2006 and 2005
(Dollars in thousands, except per share amounts)

	Common Stock		Paid-in Capital	Retained Earnings	Total
	Shares	Par Value			
Balance at December 31, 2004	1,567,391	\$ 36,569	\$ 30	\$ 23,672	\$ 60,271
Net loss	-	-	-	5,213	5,213
Gain on redemption of preferred stock	-	-	26	-	26
Dividends paid					
Preferred stock	-	-	-	(80)	(80)
Common stock, \$1.10 per share	-	-	-	(1,724)	(1,724)
Balance at December 31, 2005	1,567,391	36,569	56	27,081	63,706
Net income	-	-	-	3,350	3,350
Dividends paid					
Preferred stock	-	-	-	(79)	(79)
Common stock, \$1.28 per share	-	-	-	(2,005)	(2,005)
Capital contribution by stockholder	-	-	8,000	-	8,000
Balance at December 31, 2006	<u>1,567,391</u>	<u>\$ 36,569</u>	<u>\$ 8,056</u>	<u>\$ 28,347</u>	<u>\$ 72,972</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 1: Organization and Operation

Kentucky-American Water Company (the Company) provides water service to approximately 115,820 (unaudited) customers and wastewater service to approximately 703 (unaudited) customers. These services are provided in 12 communities located in 10 counties in the state of Kentucky. As a public utility operating in Kentucky, the Company functions under rules and regulations prescribed by the Kentucky Public Service Commission (the Commission). The Company is a wholly-owned subsidiary of American Water Works Company, Inc. (American). American is a wholly-owned subsidiary of Thames Water Aqua US Holdings, Inc., a wholly-owned subsidiary of RWE Aktiengesellschaft (RWE).

Note 2: Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates

Regulation

The Company has incurred various costs and received various credits, which have been reflected as regulatory assets and liabilities on its balance sheet. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." This statement sets forth the application of accounting principles generally accepted in the United States of America for those companies whose rates are established by or are subject to approval by an independent third-party regulator.

Under SFAS No. 71, regulated companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate-making process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service.

Property, Plant and Equipment

Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. Repairs and maintenance are charged to current operations.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 2 (continued):

When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement of costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates. Removal costs, net of salvage, of \$1,227 and \$1,128 are recorded in operation and maintenance expense as of December 31, 2006 and 2005, respectively.

The cost of property, plant and equipment is depreciated using the straight-line average remaining life method.

Computer software is either purchased or developed in-house. The purchase price or development costs are capitalized as a unit of property. Software costs totaling \$133 and \$560, were capitalized during 2006 and 2005, respectively.

Utility plant acquisition adjustments represent the difference between the fair value of plant at the date of purchase and its original cost when first devoted to public service (less accumulated depreciation) and are amortized to expense over the remaining useful lives of the corresponding purchased plant assets. The range of remaining lives is from 4 to 39 years.

Cash and Cash Equivalents

Substantially all of the Company's cash is invested in interest-bearing accounts. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. There were no cash equivalents held at December 31, 2006 or 2005.

Accounts Receivable

The majority of the Company's accounts receivable are due from trade customers. Customer accounts receivable represent amounts billed to the Company's water and wastewater customers on a cycle basis. When customers request extended payment terms, credit is extended based upon Commission guidelines and generally, collateral is not required.

Allowance for Uncollectible Accounts

The Company maintains allowance for uncollectible accounts for estimated probable losses resulting from the inability of the Company's customers to make required payments. Accounts outstanding longer than the payment terms are considered past due. The Company considers a number of factors in determining the allowance for uncollectible accounts, including the length of time trade accounts receivable are past due and the Company's previous loss history. The Company writes-off accounts receivable when they become uncollectible.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 2 (continued):

The change in the Company's allowance for 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Balance as of January 1	\$ 259	\$ 170
Provision charged to expense	405	477
Accounts written-off	(465)	(437)
Recoveries of accounts previously written-off	62	49
Balance as of December 31	<u>\$ 261</u>	<u>\$ 259</u>

Materials and Supplies

Materials and supplies are stated at cost. Cost is determined using the average cost method.

Advances and Contributions in Aid of Construction

The Company may receive advances and contributions to fund construction necessary to extend service to new areas. As determined by the Commission, advances for construction are refundable for limited periods of time as new customers begin to receive service. Amounts that are no longer refundable are reclassified to contributions in aid of construction.

Utility plant funded by advances and contributions is excluded from rate base. The Company depreciates contributed property and amortizes contributions in aid of construction at the composite rate of the related property. For the years ended December 31, 2006 and 2005, cash advances and contributions were \$8,429 and \$6,777, and non-cash advances and contributions were \$0 and \$3,219, respectively.

Recognition of Revenues

Water and wastewater service revenues for financial reporting purposes include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period. Other operating revenues are recognized when services are performed.

Income Taxes

The Company, its parent and affiliates participate in a consolidated federal income tax return. Federal income tax expense for financial reporting purposes is provided on a separate return basis.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 2 (continued):

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates anticipated to be in effect when such temporary differences are expected to reverse. Regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a non-cash adjustment to income with a corresponding charge to utility plant, which represents the cost of borrowed funds and a return on equity funds devoted to plant under construction. AFUDC is recorded to the extent permitted by the Commission.

Environmental Costs

Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. There were no remediation costs accrued at December 31, 2006 and 2005.

Asset Impairment

Long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, on a separate entity basis, may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss would be based on the fair value of the assets. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

Reclassifications

Certain reclassifications have been made to conform previously reported data to the current presentation.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 3: Utility Plant

The components of utility plant at December 31 are as follows:

	Range of Remaining Useful Lives	2006	2005
Land and other non-depreciable assets	-	\$ 4,758	\$ 4,637
Sources of supply	30 to 90 Years	9,238	7,580
Treatment and pumping	25 to 56 Years	51,224	50,992
Transmission and distribution	18 to 85 Years	164,275	150,222
Services, meters and fire hydrants	20 to 98 Years	69,230	63,769
General structures and equipment	3 to 61 Years	25,294	23,151
Wastewater	5 to 50 Years	3,504	3,382
Construction work in progress	-	11,772	11,481
		339,295	315,214
Less: accumulated depreciation		(75,828)	(68,879)
		<u>\$ 263,467</u>	<u>\$ 246,335</u>

Note 4: Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. Except for income taxes, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets are as follows:

	2006	2005
Income taxes recoverable through rates	\$ 3,611	\$ 3,693
Bluegrass water project, source of supply	1,970	1,998
Programmed maintenance expense	1,468	1,761
Bluegrass water project, pipeline	1,391	1,746
Rate proceedings	421	782
Debt and preferred stock expense	463	536
Other	279	164
	<u>\$ 9,603</u>	<u>\$ 10,680</u>

The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 4 (continued):

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the Commission of full normalization for rate-making purposes.

The Company has recorded a regulatory asset for the Bluegrass water project source of supply costs in the amount of \$2,283 to be amortized over a forty year period. Approval was granted per the Commission order dated May 9, 2001.

Programmed maintenance costs are deferred and amortized to current operations on a straight-line basis over a period ranging between five and fifteen years, as authorized by the Commission in their determination of rates charged for service.

The Company has recorded a regulatory asset for the Bluegrass water project pipeline costs in the amount of \$3,551 with a ten year amortization period which was approved by the Commission per order dated November 27, 2000.

Expense of rate proceedings is deferred and amortized on a straight-line basis over three years as authorized by the Commission in their determination of rates charged for service.

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over 30 years from the date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Note 5: Preferred Stocks

There are no sinking fund payments through 2011.

Preferred stock agreements contain provisions for redemption at various prices on thirty days notice at the Company's discretion. In the event of voluntary liquidation, the 5.75% series is redeemable at \$101.00 per share. The 5.50% series is redeemable at \$100.50 per share and the 5.00% series redeemable at \$100.00 per share. The 8.47% series is redeemable at \$100.00, plus make whole premium. In the event of involuntary liquidation or governmental acquisition, all classes are redeemable at \$100 per share. Upon redemption the price must be increased by accrued dividends to the date of redemption.

In 2006, certain shareholders offered shares of preferred stock for sale back to the Company. Six shares of the 5.5% series were purchased.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 5 (continued):

In 2005, certain shareholders offered shares of preferred stock for sale back to the Company. Thirty shares of the 5.00% series were purchased for \$2. Fifty-eight shares of the 5.50% series were purchased for \$4 and 724 of the 5.75% series were purchased for \$51.

Note 6: Long-Term Debt

The general mortgage bonds are issuable in series. No bonds senior to the general mortgage bonds may be issued so long as the general mortgage bonds are outstanding. The amount of bonds authorized is limited only to the extent that long-term debt cannot exceed 65% of total capitalization. General mortgage bonds are collateralized by utility plant.

The general mortgage bond indentures, as supplemented, contain clauses restricting the declaration of common stock dividends and other distributions on capital stock if common stockholder's equity falls below a specified amount. There were no restrictions at December 31, 2006.

The senior notes payable to affiliate are unsecured and were issued to American Water Capital Corporation (AWCC), an affiliate, for the principal amount. The indenture for the 6.87% series note has a sinking fund provision that requires an annual retirement of \$3,100 from 2007 through 2011.

Maturities of long-term debt, excluding sinking fund payments, will amount to \$24,000 in 2007. There are no maturities in 2008, 2009, 2010 or 2011. The Company plans to issue general mortgage bonds through American Water Capital Corporation (AWCC), a subsidiary of American, to retire the \$24,000 debt maturing in 2007.

Note 7: Short-term Borrowings

The Company maintains a line of credit through AWCC for \$12,000. The Company may borrow from, or invest in, the line of credit. No compensating balances are required under the agreements.

At December 31, 2006 and 2005 there were \$6,674 and \$9,308 of short-term borrowings outstanding, respectively. The weighted average annual interest rates on these balances were 6.07% and 3.36% in 2006 and 2005, respectively. The unused short-term line of credit at December 31, 2006 was \$5,326.

During 2006, the Company received a capital contribution of \$8,000 from American, primarily used to pay down short term debt.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 8: General Taxes

Components of general tax expense for the years presented in the statement of income are as follows:

	<u>2006</u>	<u>2005</u>
Property	2,377	2,354
Payroll	480	380
Miscellaneous	3	3
	<u>\$ 2,860</u>	<u>\$ 2,737</u>

Note 9: Income Taxes

Components of income tax expense for the years presented in the statement of income are as follows:

	<u>2006</u>	<u>2005</u>
State income taxes:		
Current	\$ 120	\$ 81
Deferred		
Current	22	(15)
Non-current	293	523
	<u>435</u>	<u>589</u>
Federal income taxes:		
Current	1,061	1,364
Deferred		
Current	106	(212)
Non-current	913	1,686
Amortization of deferred investment tax credits	(85)	(73)
	<u>1,995</u>	<u>2,765</u>
Total income taxes	<u>\$ 2,430</u>	<u>\$ 3,354</u>

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 9 (continued):

A reconciliation of income tax expense at the statutory federal income tax rate to the actual income tax expense is as follows:

	<u>2006</u>	<u>2005</u>
Federal income tax at statutory rate of 35%	\$ 2,023	\$ 2,999
Increases (decreases) resulting from -		
State taxes, net of federal income taxes	283	382
Flow through difference	121	135
Amortization of investment tax credits	(85)	(73)
Other, net	88	(89)
	<u>\$ 2,430</u>	<u>\$ 3,354</u>

The following table provides the components of the net deferred tax liability at December 31:

	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Advances and contributions	\$ 3,929	\$ 4,229
Deferred investment tax credits	506	540
Other	995	1,599
	<u>5,430</u>	<u>6,368</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	36,878	36,174
Income taxes recoverable through rates	432	494
Deferred security costs	1,106	1,111
Other	2,182	2,582
	<u>40,598</u>	<u>40,361</u>
Net deferred tax liability	<u>\$ 35,168</u>	<u>\$ 33,993</u>

No valuation allowances were required on deferred tax assets at December 31, 2006 and 2005 as management believes it is more likely than not that deferred tax assets will be realized.

Note 10: Rate Matters

As necessary, the Company applies to the Commission for changes in the rates charged for service. The rate increase request is based on the level of operating expenses and capital costs that are expected to be in effect when the rates become effective. The revenues requested are based on forecasted sales, operating expenses and investments for the test year selected by the Company.

The Company received approval from the Commission to increase its annual rates by \$4,283 for water service effective February 28, 2005.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 11: Employee Benefit Plans

Employees' Investment Plan

The Company previously participated in an Employees' Stock Ownership Plan that was merged into and replaced by the Employees' Investment Plan.

The Employees' Investment Plan is sponsored by American, and generally all non-bargaining unit employees who were active in the Employees' Stock Ownership Plan on or before January 10, 2003 may participate by electing to contribute an amount that does not exceed 2% of their wages. In addition to the employees' participation, the Company made contributions equivalent to 1/2% of each participant's qualified compensation, and matches 100% of the contribution by each participant. The Company expensed contributions of \$29 for 2005 that it made to the Employees' Investment Plan.

This plan was discontinued as of May 22, 2005.

Savings Plan for Employees

The Company maintains 401(k) Savings Plans that allow employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitation. Due to the elimination of participants in the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. The Company expensed contributions to the plan totaling \$79 for 2006 and \$78 for 2005. All of the Company's contributions are invested in one or more funds at the direction of the employee.

Note 12: Postretirement Benefits

Pension Benefits

The Company participates in a noncontributory defined benefit pension plan sponsored by American covering employees hired before January 1, 2006. Benefits under the plan are based on the employee's years of service and average annual compensation for those 60 consecutive months of employment that yield the highest average. Pension cost of the Company is based on an allocation from American of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level.

The Company's funding policy is to contribute at least the minimum amount required under the Employee Retirement Income Security Act of 1974. The Company made contributions to the American plan of \$1,358 in 2006 and \$506 in 2005.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 12 (continued):

Postretirement Benefits Other Than Pensions

The Company participates in an American plan that provides certain life insurance benefits for retired employees and certain health care benefits for retired employees and their dependents. Employees, except non-bargaining unit employees hired on or after January 1, 2002, may become eligible for these benefits if they reach retirement age while still working for the Company. Retirees and their dependents under age 65 are covered by a point-of-service managed care plan that requires co-payments or an HMO. Employees who elect to retire prior to attaining age 65 are generally required to make contributions towards their medical coverage until attaining age 65. Retirees and their dependents age 65 and over are covered by a Medicare supplement plan. Costs of the Company are based on an allocation from American of the total cost related to the plan.

Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company made contributions to trust funds established for these postretirement benefits of \$812 in 2006 and \$894 in 2005. The Company's policy is to fund postretirement benefits costs accrued.

Note 13: Related Party Transactions

American Water Works Service Company, Inc. (AWWS), a subsidiary of American, provides certain management services to the Company (administration, accounting, data processing, engineering, etc.) and other operating water companies in the American system on an at-cost, not-for-profit basis in accordance with a management and service agreement.

Purchases of such services by the Company were accounted for as follows:

	<u>2006</u>	<u>2005</u>
Included in operation and maintenance expense as a charge against income	\$ 7,556	\$ 5,892
Capitalized primarily in utility plant	545	1,217
	<u>\$ 8,101</u>	<u>\$ 7,109</u>

The Company provided workspace, information system support, human resources and loss control services for associates of AWWS. Charges for direct costs and indirect overhead costs associated with these associates are billed to AWWS on an at-cost, not for profit basis, which amounted to \$23 in 2006 and \$43 in 2005.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 13 (continued):

The Company has three operating agreements with American Water Services, Inc. (AWS), a subsidiary of American, for the lease of granular activated carbon at one of the Company's water treatment plants. Under the terms of the agreements, AWS will provide carbon for a period of thirty-six months. The Company paid \$100 in 2006 and \$97 in 2005 to AWS under these agreements.

The Company maintains a line of credit through AWCC (See Note 7). The Company paid AWCC fees of \$24 in 2006 and \$24 in 2005 and interest on borrowings of \$406 in 2006 and \$184 in 2005.

Note 14: Fair Values of Financial Instruments

The Company used the following methods and assumptions in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities: The carrying amounts reported in the balance sheet for current assets and current liabilities approximate their fair value.

Preferred stocks with mandatory redemption requirements and long-term debt: The fair values of the Company's preferred stocks with mandatory redemption requirements and long-term debt are estimated using discounted cash flow analyses based on the Company's current incremental financing rates for similar types of securities.

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred stock with mandatory redemption requirements	\$ 4,500	\$ 5,795	\$ 4,500	\$ 4,692
Long-term debt, including current maturities	\$ 77,000	\$ 80,170	\$ 77,000	\$ 79,567

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2006 and 2005
(Dollars in thousands)

Note 15: Operating Lease

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were \$28 in 2006 and \$35 in 2005. The operating leases for equipment expire over the next two years.

At December 31, 2006, the minimum annual future rental commitments under operating leases that have initial or remaining non-cancellable lease terms in excess of one year are \$22 in 2007, \$14 in 2008, and none thereafter.

Note 16: Commitments and Contingencies

Commitments have been made in connection with certain construction programs.

The Company is routinely involved in legal actions. In the opinion of management, none of these matters is expected to have a material adverse effect, if any, on the financial position, results of operations or cash flows of the Company.

Note 17: Acquisitions

On September 15, 2005, the Company completed its acquisition of the Owenton Borough Water Authority for \$2,635. The acquired operations provided water and sewer service to approximately 1,744 (unaudited) customers at the time of acquisition. The Company recorded operating revenue of \$1,035 in 2006 and \$252 in 2005 during the period owned.

Kentucky-American Water Company
(a wholly-owned subsidiary of
American Water Works Company, Inc.)

Financial Statements

As of and for the years ended December 31, 2007 and 2006



PricewaterhouseCoopers LLP
Two Commerce Square, Suite 1700
2001 Market Street
Philadelphia, PA 19103-7042
Telephone (267) 330 3000
Facsimile (267) 330 3300

Report of Independent Auditors

To the Board of Directors and Stockholder of
Kentucky-American Water Company

In our opinion, the accompanying balance sheets and the related statements of operations, of capitalization, of changes in common stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Kentucky-American Water Company (a wholly-owned subsidiary of American Water Works Company, Inc.) at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 28, 2008

KENTUCKY-AMERICAN WATER COMPANY

Balance Sheets

December 31, 2007 and 2006

(Dollars in thousands)

Assets		
	<u>2007</u>	<u>2006</u>
Property, plant and equipment		
Utility plant - at original cost less accumulated depreciation	\$ 286,216	\$ 263,467
Utility plant acquisition adjustments, net	327	348
Non-utility property	250	250
Total property, plant and equipment	<u>286,793</u>	<u>264,065</u>
Current assets		
Cash and cash equivalents	398	79
Customer accounts receivable	1,928	2,453
Allowance for uncollectible accounts	(223)	(261)
Unbilled revenues	2,562	2,510
Other accounts receivable	196	603
Materials and supplies	635	516
Other	82	68
Total current assets	<u>5,578</u>	<u>5,968</u>
Regulatory and other long-term assets		
Regulatory assets	9,276	9,603
Other	156	151
Total regulatory and other long-term assets	<u>9,432</u>	<u>9,754</u>
Total assets	<u>\$ 301,803</u>	<u>\$ 279,787</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY**Balance Sheets****December 31, 2007 and 2006**

(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
Capitalization and Liabilities		
Capitalization		
Common stockholder's equity	\$ 74,484	\$ 72,972
Preferred stock without mandatory redemption requirements	1,466	1,466
Long-term debt (excluding current portion):		
Preferred stock with mandatory redemption requirements	4,500	4,500
Long-term debt	79,800	49,900
Total capitalization	<u>160,250</u>	<u>128,838</u>
Current liabilities		
Notes payable - associated companies	19,356	6,674
Current portion of long-term debt	3,100	27,100
Accounts payable	6,490	5,511
Accrued taxes	2,310	4,317
Other	3,471	4,166
Total current liabilities	<u>34,727</u>	<u>47,768</u>
Regulatory and other long-term liabilities		
Deferred income taxes	35,537	35,168
Customer advances for construction	14,653	16,493
Deferred investment tax credits	1,218	1,303
Regulatory liability - cost of removal	8,440	7,597
Accrued pension expense	2,174	2,382
Accrued postretirement benefit expense	384	343
Other	835	60
Total regulatory and other long-term liabilities	<u>63,241</u>	<u>63,346</u>
Contributions in aid of construction	<u>43,585</u>	<u>39,835</u>
Commitments and contingencies	-	-
Total capitalization and liabilities	<u>\$ 301,803</u>	<u>\$ 279,787</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Income
For the Years Ended December 31, 2007 and 2006
(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 52,497	\$ 49,010
Operating expenses		
Operation and maintenance	27,191	26,329
Depreciation	7,924	7,891
Amortization	(369)	477
General taxes	3,057	2,860
Total operating expenses, net	<u>37,803</u>	<u>37,557</u>
Operating income	<u>14,694</u>	<u>11,453</u>
Other income (deductions)		
Allowance for other funds used during construction	843	274
Other income (deductions), net	7	(406)
Total other income (deductions)	<u>850</u>	<u>(132)</u>
Income before interest deductions and income taxes	<u>15,544</u>	<u>11,321</u>
Interest deductions (income)		
Interest on long-term debt	4,652	5,111
Interest on short-term debt	1,416	409
Amortization of debt expense	75	73
Other interest	(38)	65
Allowance for borrowed funds used during construction	(384)	(117)
Total interest deductions (income)	<u>5,721</u>	<u>5,541</u>
Income before income taxes	9,823	5,780
Provision for income taxes	<u>4,065</u>	<u>2,430</u>
Net income	<u>5,758</u>	<u>3,350</u>
Dividends on preferred stock	<u>79</u>	<u>79</u>
Income to common stock	<u>\$ 5,679</u>	<u>\$ 3,271</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006
(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Net income	\$ 5,758	\$ 3,350
Adjustments:		
Depreciation and amortization	7,555	8,368
Removal costs net of salvage	1,221	1,227
Amortization of debt costs	75	73
Provision for deferred income taxes	760	1,334
Amortization of deferred investment tax credits	(85)	(85)
Provision for losses on accounts receivable	383	405
Allowance for other funds used during construction	(843)	(274)
Other, net	(327)	(1,915)
Changes in assets and liabilities:		
Accounts receivable	104	(1,574)
Unbilled revenues	(52)	(32)
Other current assets	274	291
Accounts payable	2,523	3,425
Accrued taxes	(2,007)	2,437
Other current liabilities	(695)	(729)
Net cash provided by operating activities	<u>14,644</u>	<u>16,301</u>
Cash flows from investing activities		
Construction expenditures	(32,230)	(25,103)
Allowance for other funds used during construction	843	274
Removal costs from property, plant and equipment retirements, net of salvage	<u>(363)</u>	<u>(174)</u>
Net cash used in investing activities	<u>(31,750)</u>	<u>(25,003)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	47,000	-
Repayment of long-term debt	(41,100)	-
Debt issuance costs	(458)	-
Net borrowings (repayments) of notes payable-associated companies	12,682	(2,634)
Customer advances and contributions, net of refunds	3,547	5,372
Capital contribution by stockholder	-	8,000
Redemption of preferred stock	-	(3)
Dividends paid	(4,246)	(2,084)
Net cash provided by financing activities	<u>17,425</u>	<u>8,651</u>
Net increase (decrease) in cash and cash equivalents	319	(51)
Cash and cash equivalents at beginning of year	<u>79</u>	<u>130</u>
Cash and cash equivalents at end of year	<u>\$ 398</u>	<u>\$ 79</u>
Cash paid during the year for:		
Interest, net of capitalized amount	\$ 5,115	\$ 6,190
Income taxes, net of refunds	\$ 3,036	\$ 128
Capital Expenditures acquired on account but unpaid as of year end	\$ 3,088	\$ 4,631

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Capitalization
December 31, 2007 and 2006
(Dollars in thousands, except per share amounts)

	Call Price Per Share	2007	2006
Stockholder's equity			
Common stock - no par value, authorized 2,000,000 shares 1,567,391 shares issued and outstanding in 2007 and 2006	\$	36,569	\$ 36,569
Paid-in capital		8,056	8,056
Retained earnings		29,859	28,347
Total common stockholder's equity		<u>74,484</u>	<u>72,972</u>
Preferred stocks - \$100 par value			
Cumulative preferred stocks without mandatory redemption requirements:			
5.75% series, 3,918 shares outstanding in 2007 and 2006	\$ 101.00	392	392
5.50% series, 4,883 shares outstanding in 2007 and 2006	\$ 100.50	488	488
5.00% series, 5,866 shares outstanding in 2007 and 2006	\$ 100.00	586	586
		<u>1,466</u>	<u>1,466</u>
Long-term debt			
Preferred stocks - \$100 par value			
Cumulative preferred stocks with mandatory redemption requirements:			
8.47% series, 45,000 shares outstanding in 2006, due for redemption 2036	\$ 100.00	4,500	4,500
		<u>4,500</u>	<u>4,500</u>
General mortgage bonds			
6.96% series due 2023		7,000	7,000
7.15% series due 2027		7,500	7,500
6.99% series due 2028		9,000	9,000
Notes payable to affiliate			
5.65% series due 2007		-	24,000
6.87% series due 2011		12,400	15,500
4.75% series redeemed 2007		-	14,000
6.59% series due 2037		47,000	-
		<u>87,400</u>	<u>81,500</u>
Less: Current portion of long-term debt and preferred stock		<u>(3,100)</u>	<u>(27,100)</u>
Long-term debt, net of current maturities		<u>84,300</u>	<u>54,400</u>
Total capitalization	\$	<u>160,250</u>	<u>\$ 128,838</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Changes in Common Stockholder's Equity
For the Years Ended December 31, 2007 and 2006
(Dollars in thousands, except per share amounts)

	<u>Common Stock</u>		<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Par Value</u>			
Balance at December 31, 2005	1,567,391	\$ 36,569	\$ 56	\$ 27,081	\$ 63,706
Net loss	-	-	-	3,350	3,350
Dividends paid					
Preferred stock	-	-	-	(79)	(79)
Common stock, \$1.28 per share	-	-	-	(2,005)	(2,005)
Capital contribution by stockholder	-	-	8,000	-	8,000
Balance at December 31, 2006	1,567,391	36,569	8,056	28,347	72,972
Net income	-	-	-	5,758	5,758
Dividends paid					
Preferred stock	-	-	-	(79)	(79)
Common stock, \$2.66 per share	-	-	-	(4,167)	(4,167)
Balance at December 31, 2007	<u>1,567,391</u>	<u>\$ 36,569</u>	<u>\$ 8,056</u>	<u>\$ 29,859</u>	<u>\$ 74,484</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 1: Organization and Operation

Kentucky-American Water Company (the "Company") provides water service to approximately 117,119 (unaudited) customers and wastewater service to approximately 705 (unaudited) customers. These services are provided in 12 communities located in 10 counties in the state of Kentucky. As a public utility operating in Kentucky, the Company functions under rules and regulations prescribed by the Kentucky Public Service Commission (the "Commission"). The Company is a wholly-owned subsidiary of American Water Works Company, Inc. ("AWW"). AWW is a wholly-owned subsidiary of RWE Aktiengesellschaft ("RWE").

Note 2: Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. The Company considers the carrying value of long-lived assets, including regulatory assets, revenue recognition and accounting for income taxes to be its critical accounting estimates.

Regulation

The Company is subject to regulation by the Commission and the local governments of the state of Kentucky (the "Regulators"). These Regulators have allowed recovery of costs and credits which the Company has recorded as regulatory assets and liabilities. Accounting for future recovery of costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). This statement sets forth the application of generally accepted accounting principles for those companies whose rates are established by or are subject to approval by an independent third-party regulator. Under SFAS 71, regulated utilities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in operations by a non-regulated company. These deferred regulatory assets and liabilities are then reflected in the statement of operations in the period in which the costs and credits are reflected in the rates charged for service.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 2 (continued):

Property, Plant and Equipment

Property, plant and equipment consist primarily of utility plant. Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. Repairs and maintenance are charged to current operations.

When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates, a regulatory asset or liability may occur where timing differences exist between when the Company incurs costs of removal and when the Company recovers such costs in rates. Removal costs, net of salvage, are recorded as reductions to the regulatory liability or an increase to the regulatory asset, as applicable.

The cost of property, plant and equipment is depreciated using the straight-line average remaining life method.

Computer software is either purchased or developed in-house. The purchase price or development costs are capitalized as a unit of property. Software costs totaling \$105 and \$133 were capitalized during 2007 and 2006, respectively.

Utility plant acquisition adjustments represent the difference between the fair value of plant at the date of purchase and its original cost when first devoted to public service (less accumulated depreciation) and are amortized to expense over the remaining useful lives of the corresponding purchased plant assets. Amortization of utility plant acquisition adjustments were \$21 for 2007 and 2006. The remaining lives range from 4 to 39 years.

Cash and Cash Equivalents

Substantially all of the Company's cash is invested in interest-bearing accounts. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. There were no cash equivalents held at December 31, 2007 or 2006.

Accounts Receivable

The majority of the Company's accounts receivable are due from trade customers. Customer accounts receivable represent amounts billed to the Company's water and wastewater customers on a cycle basis. Credit is extended based on the guidelines of the applicable Regulators and generally, collateral is not required.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 2 (continued):

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due and previous loss history. The Company writes-off accounts when they become uncollectible

The following table summarizes the changes in the Company's allowance for uncollectible accounts:

	<u>2007</u>	<u>2006</u>
Balance as of January 1	\$ 261	\$ 259
Provision charged to expense	383	405
Accounts written-off	(485)	(465)
Recoveries of accounts previously written-off	64	62
Balance as of December 31	<u>\$ 223</u>	<u>\$ 261</u>

Materials and Supplies

Materials and supplies are stated at the lower of cost or net realizable value. Cost is determined using the average cost method.

Advances and Contributions in Aid of Construction

The Company may receive advances and contributions from customers, home builders, real estate developers, and others to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. Advances which are which are no longer refundable are reclassified to contributions in aid of construction. Contributions in aid of construction are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such advances and contributions generally serves as a rate base reduction, since they represent non-investor supplied funds.

The Company depreciates utility plant funded by contributions and amortizes these amounts as a reduction to amortization expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. For the years ended December 31, 2007 and 2006, cash advances and contributions received were \$6,117 and \$8,429, and there were no non-cash advances and contributions.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 2 (continued):

Recognition of Revenues

Water and wastewater service revenues are provided and included in amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period.

Income Taxes

AWW and its subsidiaries participate in a consolidated federal income tax return for U.S. tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates anticipated to be in effect when such temporary differences are projected to reverse. In addition, regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

The Company accounts for sales tax collected from customers and remitted to taxing authorities on a net basis.

Allowance for Funds Used During Construction ("AFUDC")

AFUDC is a non-cash adjustment to income with a corresponding charge to utility plant, which represents the cost of borrowed funds or a return on equity funds devoted to plant under construction. AFUDC is recorded to the extent permitted by the Regulators.

Environmental Costs

Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. There were no remediation costs accrued at December 31, 2007 and 2006.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 2 (continued):

Asset Impairment

Long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the future cash flows expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss would be based on the fair value of the assets. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

Reclassifications

Certain reclassifications have been made to conform previously reported data to the current presentation.

Note 3: Utility Plant

The components of utility plant by category at December 31 are as follows:

	Range of Remaining Useful Lives	2007	2006
Land and other non-depreciable assets	-	\$ 4,776	\$ 4,754
Sources of supply	32 to 67 Years	9,280	9,239
Treatment and pumping	47 to 63 Years	55,123	51,227
Transmission and distribution	23 to 72 Years	174,712	164,283
Services, meters and fire hydrants	38 to 72 Years	73,098	69,233
General structures and equipment	5 to 52 Years	24,813	25,295
Wastewater	5 to 50 Years	3,540	3,501
Construction work in progress	-	21,309	11,763
		366,651	339,295
Less: Accumulated depreciation		(80,435)	(75,828)
		<u>\$ 286,216</u>	<u>\$ 263,467</u>

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 4: Regulatory Assets

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates. Depending upon Commission approval certain assets are included in the Company's rate base and others are not.

The components of regulatory assets are as follows:

	<u>2007</u>	<u>2006</u>
Income taxes recoverable through rates	\$ 2,904	\$ 3,611
Bluegrass water project, source of supply	1,884	1,970
Programmed maintenance expense	1,859	1,468
Bluegrass water project, pipeline	1,065	1,391
Rate proceedings expense	486	421
Debt and preferred stock expense	846	463
Other	232	279
	<u>\$ 9,276</u>	<u>\$ 9,603</u>

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the Commission of full normalization for rate making purposes. The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

The Company has recorded a regulatory asset for the Bluegrass water project source of supply costs in the amount of \$2,283 to be amortized over a forty year period. Approval was granted per the Commission order dated May 9, 2001.

Programmed maintenance costs are deferred and amortized to current operations on a straight-line basis over a period ranging between five and fifteen years, as authorized by the Commission in their determination of rates charged for service.

The Company has recorded a regulatory asset for the Bluegrass water project pipeline costs in the amount of \$3,551 with a ten year amortization period which was approved by the Commission per order dated November 27, 2000.

Expense of rate proceedings is deferred and amortized on a straight-line basis over three years as authorized by the Commission in their determination of rates charged for service.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 4 (continued):

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over 30 years from the date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Note 5: Preferred Stocks

There are no sinking fund payments through 2012.

Preferred stock agreements contain provisions for redemption at various prices on thirty days notice at the Company's discretion. In the event of voluntary liquidation, the 5.75% series is redeemable at \$101.00 per share. The 5.50% series is redeemable at \$100.50 per share and the 5.00% series redeemable at \$100.00 per share. The 8.47% series is redeemable at \$100.00, plus make whole premium. In the event of involuntary liquidation or governmental acquisition, all classes are redeemable at \$100 per share. Upon redemption the price must be increased by accrued dividends to the date of redemption.

In 2006, certain shareholders offered shares of preferred stock for sale back to the Company. Six shares of the 5.5% series were purchased.

Note 6: Long-Term Debt

The general mortgage bonds are issuable in series. No bonds senior to the general mortgage bonds may be issued so long as the general mortgage bonds are outstanding. The amount of bonds authorized is limited only to the extent that long-term debt cannot exceed 65% of total capitalization. General mortgage bonds are collateralized by utility plant.

The general mortgage bond indentures contain clauses restricting the declaration of common stock dividends and other distributions on capital stock if common stockholder's equity falls below a specified amount. There were no restrictions at December 31, 2007 or 2006.

The senior notes payable to affiliate are unsecured and were issued to American Water Capital Corporation ("AWCC"), a subsidiary of AWW, for the principal amount.

The Company issued a long-term notes payable to affiliate in the amount of \$47,000 at a rate of 6.59% due in 2037. The proceeds were used to reduce notes payable to associated companies.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 6 (continued):

A note payable issued to AWCC (4.75% due 2014) was redeemed in 2007 by the Company. As agreed with the Regulators, the difference between the book value of the note and the cash consideration required to extinguish it was deferred as a regulatory liability in accordance with FAS 71. The deferred credit recognized of \$827 will be amortized as a component of net interest expense through 2014.

The indenture for the 6.87% series note has a sinking fund provision that requires an annual retirement of \$3,100 from 2008 through 2010.

Maturities of long-term debt will amount to \$3,100 in 2011. There are no maturities in 2008 through 2010 and 2012.

Note 7: Short-term Borrowings

The Company maintains a line of credit through AWCC for \$74,000. The line was increased by \$62,000 in 2007 per an amendment to the agreement with AWCC. The Company may borrow from, or invest in, the line of credit. No compensating balances are required under the agreements.

At December 31, 2007 and 2006, there were \$19,356 and \$6,674 of short-term borrowings outstanding, respectively. The weighted average annual interest rates on these balances were 5.64% and 6.07% in 2007 and 2006, respectively. The unused short-term line of credit at December 31, 2007 was \$54,644.

During 2006, the Company received a capital contribution of \$8,000 from AWW, primarily used to pay down short-term debt.

Note 8: General Taxes

Components of general tax expense for the years presented in the statement of income are as follows:

	<u>2007</u>	<u>2006</u>
Property	\$ 2,519	\$ 2,377
Payroll	533	480
Other	5	3
	<u>\$ 3,057</u>	<u>\$ 2,860</u>

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 9: Income Taxes

Components of income tax expense for the years presented in the statement of income are as follows:

	<u>2007</u>	<u>2006</u>
State income taxes:		
Current	\$ 703	\$ 120
Deferred		
Current	3	22
Non-current	(83)	293
	<u>623</u>	<u>435</u>
 Federal income taxes:		
Current	2,687	1,061
Deferred		
Current	14	106
Non-current	826	913
Amortization of deferred investment tax credits	(85)	(85)
	<u>3,442</u>	<u>1,995</u>
Total income taxes	<u>\$ 4,065</u>	<u>\$ 2,430</u>

A reconciliation of income tax expense at the statutory federal income tax rate to the actual income tax expense is as follows:

	<u>2007</u>	<u>2006</u>
Federal income tax at statutory rate of 35%	\$ 3,438	\$ 2,023
Increases (decreases) resulting from -		
State taxes, net of federal income taxes	405	283
Flow through difference	139	121
Amortization of investment tax credits	(85)	(85)
Other, net	168	88
	<u>\$ 4,065</u>	<u>\$ 2,430</u>

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 9 (continued):

The following table provides the components of the net deferred tax liability at December 31:

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Advances and contributions	\$ 22,284	\$ 21,923
Deferred investment tax credits	474	506
Other	2,280	915
	<u>25,038</u>	<u>23,344</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	57,412	54,993
Income taxes recoverable through rates	56	432
Other	3,107	3,087
	<u>60,575</u>	<u>58,512</u>
Net deferred tax liability	<u>\$ 35,537</u>	<u>\$ 35,168</u>

No valuation allowances were required on deferred tax assets at December 31, 2007 and 2006 as management believes it is more likely than not that these assets will be realized.

Note 10: Rate Matters

As necessary, the Company applies to the Commission for changes in the rates charged for service. The revenues requested are based on forecasted sales, operating expenses, and investments for the first full year after the effective dates of the new rates.

The Company filed a general rate case on April 30, 2007 seeking an increase in rates of \$13,188 or 26.02%. On September 14, 2007, a settlement agreement was executed by the Company and the other parties recommending an increase in rates of \$8,000 or 15.64%. On November 29, 2007, the Commission issued its Order approving the settlement agreement with an effective date of December 1, 2007.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 11: Employee Benefit Plans

Savings Plan for Employees

The Company maintains a 401(k) savings plan that allows employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitations. Due to the Company's discontinuing new entrants into the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. The Company expensed contributions to the plans totaling \$154 for 2007, \$79 for 2006 and \$107 for 2005. All of the Company's contributions are invested in one or more funds at the direction of the employee.

Note 12: Postretirement Benefits

Pension Benefits

The Company participates in a Company funded defined benefit pension plan sponsored by AWW covering employees hired before January 1, 2006. Benefits under the plan are based on the employee's years of service and average annual compensation for those 60 consecutive months of employment which yield the highest average. The pension plan has been closed for any employee hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 are provided with a 5.25% of base pay defined contribution plan. Pension cost of the Company is based on an allocation from AWW of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated costs of \$721 and \$774 for 2007 and 2006, respectively.

The Company's funding policy is to contribute at least the minimum amount required under the Employee Retirement Income Security Act of 1974. The Company made contributions to the AWW plan of \$929 in 2007 and \$1,358 in 2006.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 12 (continued):

Postretirement Benefits Other Than Pensions

The Company participates in an AWW plan that provides certain life insurance benefits for retired employees and certain health care benefits for retired employees and their dependents. The retiree welfare plans are closed for union employees hired on or after January 1, 2006, and non-union employees hired on or after January 1, 1992. Retirees and their dependents under age 65 are covered by a point-of-service managed care plan that requires co-payments or an HMO. Employees who elect to retire prior to attaining age 65 are generally required to make contributions towards their medical coverage until attaining age 65. Retirees and their dependents age 65 and over are covered by a Medicare supplement plan. Costs of the Company are based on an allocation from AWW of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated costs of \$758 and \$855 for 2007 and 2006, respectively.

Costs of the Company are based on an allocation from AWW of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company made contributions to trust funds established for these postretirement benefits of \$716 in 2007 and \$812 in 2006. The Company's policy is to fund postretirement benefits costs accrued.

Note 13: Related Party Transactions

American Water Works Service Company, Inc. ("AWWS"), a subsidiary of AWW, provides certain management services to the Company (administration, accounting, data processing, engineering, etc.) and other operating water companies in the AWW system on an at-cost, not-for-profit basis in accordance with a management and service agreement.

Purchases of such services by the Company were accounted for as follows:

	<u>2007</u>	<u>2006</u>
Included in operation and maintenance expense as a charge against income	\$ 7,528	\$ 7,556
Capitalized primarily in utility plant	653	545
	<u>\$ 8,181</u>	<u>\$ 8,101</u>

The Company provided workspace for certain associates of AWWS. Charges for direct costs and indirect overhead costs associated with these associates are billed to AWWS on an at-cost, not for profit basis, which amounted to \$15 in 2007 and \$23 in 2006.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 13 (continued):

The Company has operating arrangements with American Anglian Environmental Technologies, L.P. ("AAET"), a subsidiary of AWW, for the lease of granular activated carbon at one of the Company's water treatment plants. Under the arrangements, AAET will provide carbon for a period of 36 months. The Company paid \$111 in 2007 and \$100 in 2006 to AAET under these arrangements.

The Company maintains a line of credit through AWCC (See Note 7). The Company paid AWCC fees of \$93 in 2007 and \$24 in 2006 and interest on borrowings of \$1,288 in 2007 and \$406 in 2006. Interest expense on long-term debt due to AWCC was \$2,639 in 2007 and \$3,083 in 2006.

Note 14: Fair Values of Financial Instruments

The Company used the following methods and assumptions in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities: The carrying amounts reported in the balance sheet for current assets and current liabilities approximate their fair value.

Preferred stocks with mandatory redemption requirements and long-term debt: The fair values of the Company's preferred stocks with mandatory redemption requirements and long-term debt are estimated using discounted cash flow analyses based on the Company's current incremental financing rates for similar types of securities.

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred stock with mandatory redemption requirements, including current maturities	\$ 4,500	\$ 4,566	\$ 4,500	\$ 5,795
Long-term debt, including current maturities	\$ 82,900	\$ 84,147	\$ 77,000	\$ 80,170

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2007 and 2006
(Dollars in thousands)

Note 15: Operating Lease

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were \$60 in 2007 and \$28 in 2006. The operating leases for equipment expire in 2008, 2009 and 2010.

At December 31, 2007, the minimum annual future rental commitments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are \$137 in 2008, \$89 in 2009, \$46 in 2010, \$1 in 2011, \$1 in 2012 and \$1 annually, thereafter.

Note 16: Commitments and Contingencies

Commitments have been made in connection with certain construction programs.

The Company is routinely involved in legal actions. In the opinion of management, none of these matters is expected to have a material adverse effect, if any, on the financial position, results of operations or cash flows of the Company.

Kentucky-American Water Company
(a wholly-owned subsidiary of
American Water Works Company, Inc.)

Financial Statements

As of and for the years ended December 31, 2008 and 2007



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Report of Independent Auditors

To the Board of Directors and Stockholder of
Kentucky-American Water Company

In our opinion, the accompanying balance sheets and statements of capitalization and the related statements of income, of changes in common stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Kentucky-American Water Company (a wholly-owned subsidiary of American Water Works Company, Inc.) at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

March 24, 2009

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2008 and 2007
(Dollars in thousands)

Assets		
	<u>2008</u>	<u>2007</u>
Property, plant and equipment		
Utility plant - at original cost, net of accumulated depreciation	\$ 339,774	\$ 286,216
Utility plant acquisition adjustments	305	327
Non-utility property	270	250
Total property, plant and equipment	<u>340,349</u>	<u>286,793</u>
Current assets		
Cash and cash equivalents	234	398
Customer accounts receivable	2,342	1,928
Allowance for uncollectible accounts	(273)	(223)
Unbilled revenues	2,900	2,562
Federal income tax refund due from affiliated company	889	-
Other accounts receivable	412	196
Materials and supplies	577	635
Other	418	82
Total current assets	<u>7,499</u>	<u>5,578</u>
Regulatory and other long-term assets		
Regulatory assets	9,076	9,276
Other	126	156
Total regulatory and other long-term assets	<u>9,202</u>	<u>9,432</u>
Total assets	<u><u>\$ 357,050</u></u>	<u><u>\$ 301,803</u></u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2008 and 2007
(Dollars in thousands)

Capitalization and Liabilities		
	<u>2008</u>	<u>2007</u>
Capitalization		
Common stockholder's equity	\$ 93,482	\$ 74,484
Preferred stock without mandatory redemption requirements	1,456	1,466
Long-term debt, excluding current portion		
Preferred stock with mandatory redemption requirements	4,500	4,500
Long-term debt	76,700	79,800
Total capitalization	<u>176,138</u>	<u>160,250</u>
Current liabilities		
Short-term borrowings - associated companies	53,026	19,259
Current portion of long-term debt	3,100	3,100
Accounts payable	8,368	6,587
Accounts payable - associated companies	157	27
Accrued taxes, including income taxes of \$75 in 2008 and \$576 in 2007	291	2,310
Other	5,621	3,444
Total current liabilities	<u>70,563</u>	<u>34,727</u>
Regulatory and other long-term liabilities		
Deferred income taxes	38,187	35,537
Advances for construction	11,916	14,653
Deferred investment tax credits	1,133	1,218
Regulatory liability - cost of removal	9,755	8,440
Regulatory liability - debt extinguishment	674	805
Accrued pension expense	1,389	2,174
Accrued postretirement benefit expense	418	384
Other	62	30
Total regulatory and other long-term liabilities	<u>63,534</u>	<u>63,241</u>
Contributions in aid of construction	46,815	43,585
Commitments and contingencies (see Note 17)	-	-
Total capitalization and liabilities	<u>\$ 357,050</u>	<u>\$ 301,803</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Income
For the Years Ended December 31, 2008 and 2007
(Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 60,086	\$ 52,497
Operating expenses		
Operation and maintenance	30,684	27,954
Depreciation	5,871	6,287
Amortization	512	505
General taxes	3,177	3,057
Total operating expenses	<u>40,244</u>	<u>37,803</u>
Operating income	<u>19,842</u>	<u>14,694</u>
Other income (deductions)		
Interest on long-term debt	(5,693)	(4,652)
Interest on short-term debt	(762)	(1,289)
Other interest, net	6	38
Allowance for other funds used during construction	1,330	843
Allowance for borrowed funds used during construction	589	384
Amortization of debt issuance costs	(90)	(75)
Other, net	(221)	(120)
Total other deductions	<u>(4,841)</u>	<u>(4,871)</u>
Income before income taxes	15,001	9,823
Provision for income taxes	<u>5,993</u>	<u>4,065</u>
Net income	<u>9,008</u>	<u>5,758</u>
Dividends on preferred stock	<u>78</u>	<u>79</u>
Net income available to common stockholder	<u>\$ 8,930</u>	<u>\$ 5,679</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007
(Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Net income	\$ 9,008	\$ 5,758
Adjustments		
Depreciation and amortization	6,383	6,792
Amortization of removal costs, net of salvage	1,420	1,221
Amortization of debt issuance costs	90	75
Provision for deferred income taxes	2,617	760
Amortization of deferred investment tax credits	(85)	(85)
Provision for losses on accounts receivable	384	383
Allowance for other funds used during construction	(1,330)	(843)
Other, net	(1,084)	436
Changes in assets and liabilities		
Accounts receivable and unbilled revenues	(1,086)	52
Federal income tax refund due from affiliated company	(889)	-
Other current assets	(494)	274
Accounts payable	(77)	2,523
Accrued taxes, including federal income	(2,019)	(2,007)
Other current liabilities	(194)	(695)
Net cash provided by operating activities	<u>12,644</u>	<u>14,644</u>
Cash flows from investing activities		
Construction expenditures	(56,234)	(31,387)
Removal costs from property, plant and equipment retirements, net of salvage	<u>(62)</u>	<u>(363)</u>
Net cash used in investing activities	<u>(56,296)</u>	<u>(31,750)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt to affiliate	-	47,000
Repayment of long-term debt	(3,100)	(41,100)
Debt issuance costs	(9)	(458)
Net borrowings (repayments) of short-term borrowings-associated companies	33,767	12,682
Advances and contributions for construction, net of refunds of \$2,123 in 2008 and \$2,187 in 2007	2,918	3,547
Capital contributions	16,000	-
Redemption of preferred stock	(7)	-
Dividends paid	(6,081)	(4,246)
Net cash provided by financing activities	<u>43,488</u>	<u>17,425</u>
Net (decrease) increase in cash and cash equivalents	<u>(164)</u>	<u>319</u>
Cash and cash equivalents at beginning of year	<u>398</u>	<u>79</u>
Cash and cash equivalents at end of year	<u>\$ 234</u>	<u>\$ 398</u>
Cash paid during the year for:		
Interest, net of capitalized amount	\$ 6,658	\$ 5,115
Income taxes	\$ 4,653	\$ 3,036
Non-cash investing activity		
Capital Expenditures acquired on account but unpaid as of year end	\$ 4,946	\$ 3,088
Non-cash financing activity		
Capital contribution (See Note 13)	\$ 68	\$ -

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Capitalization
December 31, 2008 and 2007
(Dollars in thousands, except per share amounts)

	Call Price Per Share	2008	2007
Stockholder's equity			
Common stock - no par value, authorized 2,000,000 shares 1,567,391 shares issued and outstanding in 2008 and 2007	\$	36,569	\$ 36,569
Paid-in capital		24,127	8,056
Retained earnings		32,786	29,859
Total common stockholder's equity		<u>93,482</u>	<u>74,484</u>
Preferred stocks - \$100 par value			
Cumulative preferred stocks without mandatory redemption requirements:			
5.75% series, 3,888 shares outstanding in 2008 and 3,918 in 2007	\$ 101.00	389	392
5.50% series, 4,860 shares outstanding in 2008 and 4,883 in 2007	\$ 100.50	486	488
5.00% series, 5,808 shares outstanding in 2008 and 5,866 in 2007	\$ 100.00	581	586
		<u>1,456</u>	<u>1,466</u>
Long-term debt			
Preferred stocks - \$100 par value			
Cumulative preferred stocks with mandatory redemption requirements:			
8.47% series, 45,000 shares outstanding in 2008, due for redemption 2036	\$ 100.00	4,500	4,500
		<u>4,500</u>	<u>4,500</u>
General mortgage bonds			
6.96% series due 2023		7,000	7,000
7.15% series due 2027		7,500	7,500
6.99% series due 2028		9,000	9,000
Notes payable to affiliate			
6.87% series due 2011		9,300	12,400
6.59% series due 2037		47,000	47,000
		<u>84,300</u>	<u>87,400</u>
Less: Current portion of long-term debt and preferred stock		<u>(3,100)</u>	<u>(3,100)</u>
Long-term debt, net of current portion		<u>81,200</u>	<u>84,300</u>
Total capitalization	\$	<u>176,138</u>	\$ <u>160,250</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Statements of Changes in Common Stockholder's Equity
For the Years Ended December 31, 2008 and 2007
(Dollars in thousands, except per share amounts)

	<u>Common Stock</u>		<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Par Value</u>			
Balance at December 31, 2006	1,567,391	\$ 36,569	\$ 8,056	\$ 28,347	\$ 72,972
Net income	-	-	-	5,758	5,758
Dividends paid					
Preferred stock	-	-	-	(79)	(79)
Common stock, \$2.66 per share	-	-	-	(4,167)	(4,167)
Balance at December 31, 2007	1,567,391	36,569	8,056	29,859	74,484
Net income	-	-	-	9,008	9,008
Capital contributions	-	-	16,068	-	16,068
Redemption of preferred stock	-	-	3	-	3
Dividends paid					
Preferred stock	-	-	-	(78)	(78)
Common stock, \$3.83 per share	-	-	-	(6,003)	(6,003)
Balance at December 31, 2008	<u>1,567,391</u>	<u>\$ 36,569</u>	<u>\$ 24,127</u>	<u>\$ 32,786</u>	<u>\$ 93,482</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 1: Organization and Operation

Kentucky-American Water Company (the "Company") provides water service to approximately 118,100 (unaudited) customers and wastewater service to approximately 700 (unaudited) customers. These services are provided in 12 (unaudited) communities located in 10 (unaudited) counties in the state of Kentucky. As a public utility operating in Kentucky, the Company functions under rules and regulations prescribed by the Kentucky Public Service Commission (the "Commission"). The Company is a wholly-owned subsidiary of American Water Works Company, Inc. ("AWW").

Note 2: Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The Company considers the carrying value of long-lived assets, including regulatory assets, revenue recognition and accounting for income taxes to be its critical accounting estimates.

Regulation

The Company is subject to regulation by the Commission and the local governments of the state of Kentucky (the "Regulators"). These Regulators have allowed recovery of costs and credits which the Company has recorded as regulatory assets and liabilities. Accounting for future recovery of costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). This statement sets forth the application of generally accepted accounting principles for those companies whose rates are established by or are subject to approval by an independent third-party regulator. Under SFAS 71, regulated utilities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in operations by a non-regulated company. These deferred regulatory assets and liabilities are then reflected in the statement of income in the period in which the costs and credits are reflected in the rates charged for service.

Property, Plant and Equipment

Property, plant and equipment consist primarily of utility plant. Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. Repairs and maintenance are charged to current operations.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 2 (continued):

When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates, a regulatory asset or liability may occur where timing differences exist between when the Company incurs costs of removal and when the Company recovers such costs in rates. Removal costs, net of salvage, are recorded as reductions to the regulatory liability or an increase to the regulatory asset, as applicable.

The cost of utility property, plant and equipment is depreciated using the straight-line average remaining life using the composite method.

Computer software is either purchased or developed in-house. The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. The carrying value of computer software assets was zero at December 31, 2008 and 2007.

Utility plant acquisition adjustments represent the difference between the fair value of plant at the date of purchase and its original cost when first devoted to public service (less accumulated depreciation) and are amortized to expense over the remaining useful lives of the corresponding purchased plant assets. Amortization of utility plant acquisition adjustments were \$22 and \$21 for 2008 and 2007, respectively. The remaining lives range from 3 to 37 years.

Cash and Cash Equivalents

Substantially all of the Company's cash is invested in interest-bearing accounts. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. There were no cash equivalents held at December 31, 2008 or 2007.

Accounts Receivable

The majority of the Company's accounts receivable are due from trade customers. Customer accounts receivable represent amounts billed to the Company's water and wastewater customers on a cycle basis. Credit is extended based on the guidelines of the applicable Regulators and generally, collateral is not required.

Allowance for Uncollectible Accounts

Allowance for uncollectible accounts are maintained for estimated probable losses resulting from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due and previous loss history. The Company writes-off accounts when they become uncollectible

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 2 (continued):

The following table summarizes the changes in the Company's allowance for uncollectible accounts:

	<u>2008</u>	<u>2007</u>
Balance as of January 1	\$ 223	\$ 261
Provision charged to expense	384	383
Accounts written-off	(429)	(485)
Recoveries of accounts previously written-off	95	64
Balance as of December 31	<u>\$ 273</u>	<u>\$ 223</u>

Materials and Supplies

Materials and supplies are stated at the lower of cost or net realizable value. Cost is determined using the average cost method.

Advances and Contributions in Aid of Construction

The Company may receive advances and contributions from customers, home builders, real estate developers, and others to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. Advances which are which are no longer refundable are reclassified to contributions in aid of construction. Contributions in aid of construction are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such advances and contributions generally serves as a rate base reduction, since they represent non-investor supplied funds.

The Company depreciates utility plant funded by contributions and amortizes these amounts as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. Amortization of contributions in aid of construction was \$1,019 and \$1,637 for the years ended December 31, 2008 and 2007, respectively. For the years ended December 31, 2008 and 2007, non-cash advances and contributions received were \$296 and \$0, respectively.

Recognition of Revenues

Revenues are recognized as water and wastewater services are provided and include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period. Other operating revenues are recognized when services are performed.

The Company accounts for sales tax collected from customers and remitted to taxing authorities on a net basis.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 2 (continued):

Income Taxes

AWW and its subsidiaries participate in a consolidated federal income tax return for U.S. tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates anticipated to be in effect when such temporary differences are projected to reverse. In addition, regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

The Company recognizes accrued interest and penalties related to tax positions as a component of income tax expense.

Allowance for Funds Used During Construction ("AFUDC")

AFUDC is a non-cash credit income with a corresponding charge to utility plant, which represents the cost of borrowed funds or a return on equity funds devoted to plant under construction. AFUDC is recorded to the extent permitted by the Regulators.

Environmental Costs

The Company's water and wastewater operations are subject to federal, state, and local requirements relating to environmental protection, and as such the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. There were no remediation costs accrued at December 31, 2008 and 2007.

Long-Lived Assets

Long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the future cash flows expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss would be based on the fair value of the assets. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 2 (continued):

New Accounting Standards

On January 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards No. 157 (“SFAS 157”), “Fair Value Measurements,” for financial assets and liabilities, and nonfinancial assets and liabilities with recurring measurements (See Note 15). The adoption of SFAS 157 for the Company’s financial assets and liabilities did not have a material effect on the Company’s results of operations, financial position or cash flows.

In February 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position SFAS 157-2 (“FSP FAS 157-2”) which allows a one-year deferral of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities (such as intangible assets, property, plant and equipment and goodwill) that are required to be measured at fair value on a periodic basis (such as at acquisition or impairment). The Company elected to use this deferral option and accordingly, only partially adopted SFAS 157 on January 1, 2008. SFAS 157 will be adopted for the Company’s nonfinancial assets and liabilities valued on a non-recurring basis on January 1, 2009. The Company does not believe the adoption of SFAS 157 for the Company’s nonfinancial assets and liabilities will have a material impact on its results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 141(R) (“SFAS 141(R)”), “Business Combinations,” which will significantly change the accounting for business combinations. SFAS 141(R) is effective for the Company for business combinations finalized on or after January 1, 2009. As the provisions of SFAS No. 141(R) are applied prospectively to business combinations for which the acquisition date occurs after the guidance becomes effective, the impact to the Company cannot be determined until the transactions occur.

Reclassifications

Certain reclassifications have been made to conform previously reported data to the current presentation.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 3: Utility Plant

The components of utility plant by category at December 31 are as follows:

	Range of Remaining Useful Lives	2008	2007
Land and other non-depreciable assets	-	\$ 4,739	4,760
Sources of supply	35 to 67 Years	13,698	9,283
Treatment and pumping	32 to 63 Years	56,386	55,121
Transmission and distribution	23 to 72 Years	183,244	174,709
Services, meters and fire hydrants	38 to 72 Years	80,676	73,115
General structures and equipment	5 to 52 Years	27,119	24,813
Wastewater assets	5 to 50 Years	3,624	3,540
Construction work in progress	-	54,501	21,310
		<u>423,987</u>	<u>366,651</u>
Less: Accumulated depreciation		<u>(84,213)</u>	<u>(80,435)</u>
		<u>\$ 339,774</u>	<u>\$ 286,216</u>

The provision for depreciation expressed as a percentage of the aggregate average depreciable asset balances was 2.17% in 2008 and 2.48% in 2007.

Note 4: Regulatory Assets

Regulatory assets represent costs that are expected to be fully recovered from customers in future rates. Depending upon Commission approval certain assets are included in the Company's rate base and others are not.

The components of regulatory assets are as follows:

	2008	2007
Income taxes recoverable through rates	\$ 3,230	\$ 2,904
Bluegrass water project	2,537	2,949
Programmed maintenance expense	1,737	1,859
Rate proceedings expense	554	486
Debt and preferred stock expense	795	846
Other	223	232
	<u>\$ 9,076</u>	<u>\$ 9,276</u>

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the Commission of full normalization for rate making purposes.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 4 (continued):

The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

The Company has recorded a regulatory asset for the Bluegrass water project source of supply costs in the amount of \$2,283 to be amortized over a forty year period. Approval was granted per the Commission order dated May 9, 2001. The Company has recorded a regulatory asset for the Bluegrass water project pipeline costs in the amount of \$3,551 with a ten year amortization period which was approved by the Commission per order dated November 27, 2000.

Programmed maintenance costs are deferred and amortized to current operations on a straight-line basis over a period ranging between five and fifteen years, as authorized by the Commission in their determination of rates charged for service.

Expense of rate proceedings is deferred and amortized on a straight-line basis as authorized by the Commission in their determination of rates charged for service.

Debt expense is amortized over the lives of the respective issues. Unamortized debt expense is deferred and amortized to the extent it will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over the life of the issuance, whereas expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Note 5: Preferred Stock Without Mandatory Redemption

Preferred stock agreements contain provisions for redemption at various prices on thirty days notice at the Company's discretion. In the event of voluntary liquidation, the 5.75% series, the 5.50% series, and the 5.00% series are all paid at "the amount per share fixed for such series, together with accrued dividends". In the event of involuntary liquidation or governmental acquisition, the 5.75% series, the 5.50% series, and the 5.00% series are all paid at one hundred dollars per share, together with accrued dividends.

The Company repurchased 30 shares of the 5.75% series, 23 shares of the 5.50% series, and 58 shares of the 5.00% series preferred stock from certain shareholders with an aggregate par value of \$10 for an aggregate repurchase price of \$7.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 6: Long-Term Debt

Preferred stock agreements contain provisions for redemption at various prices on thirty days notice at the Company's discretion. In the event of voluntary liquidation, the 8.47% series is paid at one hundred dollars, together with accrued dividends.

The general mortgage bonds are issuable in series. No bonds senior to the general mortgage bonds may be issued so long as the general mortgage bonds are outstanding. The amount of bonds authorized is limited only to the extent that long-term debt cannot exceed 65% of total capitalization and net income of the Company must be equal to or greater than 1.5 times the aggregate annual interest charges on all long-term debt of the Company. At December 31, 2008 long-term debt was 47% of total capitalization and net income was 3.8 times the aggregate annual interest charges on all long-term debt. General mortgage bonds are collateralized by utility plant.

The general mortgage bond indentures contain clauses restricting the declaration of common stock dividends and other distributions on capital stock if common stockholder's equity falls below a specified amount. There were no restrictions at December 31, 2008 or 2007.

The senior notes payable to affiliate are unsecured and were issued to American Water Capital Corporation ("AWCC"), a subsidiary of AWW, for the principal amount. AWCC provided the funding for these notes by issuing senior notes to institutional investors at a price equal to the principal amount.

In 2007, the Company issued a long-term notes payable to affiliate in the amount of \$47,000 at a rate of 6.59% due in 2037. The proceeds were used to reduce notes payable to associated companies.

A note payable issued to AWCC (4.75% due 2014) was redeemed in 2007 by the Company. Consistent with rate making treatment, the difference between the book value of the note and the cash consideration required to extinguish it was deferred as a regulatory liability in accordance with FAS 71. The deferred credit recognized of \$827 will be amortized as a component of net interest expense through 2014.

The indenture for the 6.87% series note has a sinking fund provision that requires an annual retirement of \$3,100 from 2009 through 2010.

Maturities of long-term debt will amount to \$3,100 in 2011. There are no maturities in 2009, 2010, 2012 or 2013.

Other interest, net includes interest income of approximately, \$6 and \$0 at December 31, 2008 and 2007, respectively.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 7: Short-Term Borrowings

The Company maintains a \$60,000 line of credit through AWCC. The line was decreased by \$14,000 in 2008 per an amendment to the agreement with AWCC. The Company may borrow from, or invest in, the line of credit. No compensating balances are required under the agreements.

Effective January 1, 2009, the line of credit through AWCC was increased to \$65,000.

At December 31, 2008 and 2007, there were \$53,026 and \$19,259 of short-term borrowings outstanding, respectively. The weighted average annual interest rates on these balances were 3.49% and 5.64% in 2008 and 2007, respectively. The unused short-term line of credit at December 31, 2008 was \$6,974.

During 2008, the Company received a capital contribution of \$16,000 from AWW, primarily used to pay down short-term debt.

AWW, through AWCC, has committed to make additional financing available to the Company, as needed, to pay its obligations as they come due.

Note 8: General Taxes

Components of general tax expense for the years presented in the statement of income are as follows:

	<u>2008</u>	<u>2007</u>
Gross receipts and franchise		
Property	\$ 2,577	\$ 2,519
Payroll	516	450
Other	84	88
	<u>\$ 3,177</u>	<u>\$ 3,057</u>

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 9: Income Taxes

Components of income tax expense for the years presented in the statement of income are as follows:

	<u>2008</u>	<u>2007</u>
State income taxes:		
Current	\$ 463	\$ 703
Deferred		
Current	(5)	3
Non-current	419	(83)
	<u>877</u>	<u>623</u>
Federal income taxes:		
Current	2,998	2,687
Deferred		
Current	(29)	14
Non-current	2,232	826
Amortization of deferred investment tax credits	(85)	(85)
	<u>5,116</u>	<u>3,442</u>
Total income taxes	<u>\$ 5,993</u>	<u>\$ 4,065</u>

A reconciliation of income tax expense at the statutory federal income tax rate to the actual income tax expense is as follows:

	<u>2008</u>	<u>2007</u>
Federal income tax at statutory rate of 35%	\$ 5,250	\$ 3,438
Increases (decreases) resulting from -		
State taxes, net of federal income taxes	570	405
Flow through difference	155	139
Amortization of deferred investment tax credits	(85)	(85)
Other, net	103	168
Actual income tax expense	<u>\$ 5,993</u>	<u>\$ 4,065</u>

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 9 (continued):

The following table provides the components of the net deferred tax liability at December 31:

	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Advances and contributions	\$ 23,842	\$ 22,284
Deferred investment tax credits	441	474
Income taxes recoverable through rates	13	-
Other	1,736	2,280
	<u>26,032</u>	<u>25,038</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	61,256	57,412
Income taxes recoverable through rates	-	56
Other	2,963	3,107
	<u>64,219</u>	<u>60,575</u>
Net deferred tax liability	<u>\$ 38,187</u>	<u>\$ 35,537</u>

No valuation allowances were required on deferred tax assets at December 31, 2008 and 2007 as management believes it is more likely than not that these assets will be realized.

Note 10: Rate Matters

As necessary, the Company applies to the Commission for changes in the rates charged for service. The revenues requested are based on forecasted sales, operating expenses, and investments for the first full year after the effective dates of the new rates.

The Company filed a general rate case on April 30, 2007 with the Commission. On September 14, 2007, a settlement agreement was executed by the Company and the other parties recommending an increase in rates of \$8,000 or 15.64%. On November 29, 2007, the Commission issued its Order approving the settlement agreement with an effective date of December 1, 2007.

The Company filed a general rate increase on October 31, 2008 for \$18,495 or 31.27%. The Company can provide no assurances that any rate request will be granted by the Commission.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 11: Employee Benefit Plans

Savings Plan for Employees

The Company maintains a 401(k) savings plan, sponsored by AWW that allows employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitations. Due to the Company's discontinuing new entrants into the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. The Company expensed contributions to the plans totaling \$180 for 2008, \$154 for 2007 and \$79 for 2006. All of the Company's contributions are invested in one or more funds at the direction of the employee.

Note 12: Postretirement Benefits

Pension Benefits

The Company participates in a Company funded defined benefit pension plan sponsored by AWW covering employees hired before January 1, 2006. Benefits under the plan are based on the employee's years of service and average annual compensation for those 60 consecutive months of employment which yield the highest average. The pension plan has been closed for any employee hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 are provided with a 5.25% of base pay defined contribution plan. Pension cost of the Company is based on an allocation from AWW of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated costs of \$804 and \$721 for 2008 and 2007, respectively.

AWW's funding policy is to contribute at least the minimum amount required under the Employee Retirement Income Security Act of 1974. The Company made contributions to the AWW plan of \$1,589 in 2008 and \$929 in 2007. The Company expects to contribute \$1,693 to the AWW plan in 2009.

Postretirement Benefits Other Than Pensions

The Company participates in a Company funded plan sponsored by AWW that provides certain life insurance benefits for retired employees and certain health care benefits for retired employees and their dependents. The retiree welfare plans are closed for union employees hired on or after January 1, 2006, and non-union employees hired on or after January 1, 2002. Retirees and their dependents under age 65 are covered by a point-of-service managed care plan that requires co-payments or an HMO. Employees who elect to retire prior to attaining age 65 are generally required to make contributions towards their medical coverage until attaining age 65. Retirees and their dependents age 65 and over are covered by a Medicare supplement plan.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 12 (continued):

Costs of the Company are based on an allocation from AWW of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated costs of \$700 and \$673 for 2008 and 2007, respectively.

The Company made contributions to trust funds established for these postretirement benefits of \$700 in 2008 and \$673 in 2007. The Company's policy is to fund postretirement benefits costs accrued. The Company expects to contribute \$1,132 to the AWW plan in 2009.

Note 13: Stock Based Compensation

Stock options and Restricted Stock Units

On April 22, 2008, AWW granted restricted stock awards, restricted stock units and stock options to certain employees of the Company under the AWW 2007 Omnibus Equity Compensation Plan. The restricted stock units and the stock options were awarded in two grants with "Grant 1" vesting on January 1, 2010 and "Grant 2" vesting January 1, 2011. The Company accounts for awards which AWW granted to employees of the Company as employee awards under Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share Based Payment" ("SFAS 123(R)"). Therefore the Company recognizes compensation cost for the awards in accordance with SFAS 123(R) as the grant of an equity award.

In accordance with SFAS 123(R) the cost of services received from employees in exchange for the issuance of stock options and restricted stock awards is measured by AWW based on the grant date fair value of the awards issued. The value of stock options and restricted stock awards at the date of the grant is amortized through expense over the requisite service period using the straight-line method, adjusted for retirement-eligible participants.

Costs of the Company are based on an allocation from AWW of the total cost related to the plan. The Company recorded compensation expense of \$64, included in operation and maintenance expense, during the year ended December 31, 2008. As the Company does not reimburse the cost of the awards to AWW, the offsetting entry to paid-in-capital is a capital contribution from AWW.

Employee Stock Purchase Plan

AWW's Nonqualified Employee Stock Purchase Plan ("ESPP") was effective as of July 1, 2008. Under the ESPP, the Company's employees can use payroll deductions to acquire AWW common stock at the lesser of 90% of the fair market value as of the beginning or end of each three-month purchase period. AWW's ESPP is considered compensatory under SFAS 123(R). Costs of the Company are based on an allocation from AWW of the total cost related to

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 13 (continued):

the plan. Compensation costs of \$4 were included in operation and maintenance expense for the year ended December 31, 2008. As the Company does not reimburse the cost of the awards to AWW, the offsetting entry to paid-in-capital is a capital contribution from AWW.

Note 14: Related Party Transactions

American Water Works Service Company, Inc. (“AWWS”), a subsidiary of AWW, provides certain management services to the Company (administration, accounting, data processing, engineering, etc.) and other operating water companies in the AWW system on an at-cost, not-for-profit basis in accordance with a management and service agreement.

Purchases of such services by the Company were accounted for as follows:

	<u>2008</u>	<u>2007</u>
Included in operation and maintenance expense as a charge against income	\$ 7,942	\$ 7,528
Capitalized primarily in utility plant	592	653
	<u>\$ 8,534</u>	<u>\$ 8,181</u>

The Company provided workspace for certain associates of AWWS. Charges for direct costs and indirect overhead costs associated with these associates are billed to AWWS on an at-cost, not for profit basis, which amounted to \$14 in 2008 and \$15 in 2007.

The Company has operating arrangements with American Anglian Environmental Technologies, L.P. (“AAET”), a subsidiary of AWW, for the lease of granular activated carbon at one of the Company’s water treatment plants. Under the arrangements, AAET will provide carbon for a period of 36 months. The Company paid \$127 in 2008 and \$111 in 2007 to AAET under these arrangements.

The Company maintains a line of credit through AWCC (See Note 7). The Company also participates in AWCC’s centralized treasury function whereby the Company transfers its cash to AWCC and the Company’s checks are issued out of AWCC. Under the arrangement, available cash is used to pay-down the line of credit and outstanding credits increase the Company’s line of credit balance. The Company paid AWCC fees of \$79 in 2008 and \$551 in 2007 and interest expense on borrowings of \$762 in 2008 and \$1,288 in 2007. Interest expense on long-term debt due to AWCC was \$3,790 in 2008 and \$2,639 in 2007. Accrued interest included interest due to AWCC of \$807 and \$801 as of December 31, 2008 and 2007, respectively.

The Company pays dividends to AWW on a quarterly basis. The amount of the dividend is based on a percentage of net income adjusted for certain items.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 15: Fair Values of Financial Instruments

The Company used the following methods and assumptions in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities: The carrying amount reported in the balance sheet for current assets and current liabilities approximates their fair value.

Preferred stocks with mandatory redemption requirements and long-term debt: The fair values of the Company's preferred stocks with mandatory redemption requirements and long-term debt are estimated using discounted cash flow analyses based on the Company's current incremental financing rates for similar types of securities.

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred stock with mandatory redemption requirements, including current maturities	\$ 4,500	\$ 4,344	\$ 4,500	\$ 4,566
Long-term debt, including current maturities	\$ 79,800	\$ 76,489	\$ 82,900	\$ 84,147

Adoption of SFAS 157

Effective January 1, 2008, the Company partially adopted SFAS 157, which primarily requires expanded disclosure for assets and liabilities recorded on the balance sheet at fair value. As permitted by FSP FAS 157-2, the Company has elected to defer the adoption of the nonrecurring fair value measurement disclosures of nonfinancial assets and liabilities, such as goodwill, until January 1, 2009.

Recurring Fair Value Measurements

As of December 31, 2008 the Company does not have any assets or liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy.

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2008 and 2007
(Dollars in thousands)

Note 16: Operating Lease

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were \$59 in 2008 and \$60 in 2007. The operating leases for equipment expire in 2009 through 2012.

At December 31, 2008, the minimum annual future rental commitments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are \$630 in 2009, \$626 in 2010, \$626 in 2011, \$210 in 2012 and \$1 annually, thereafter.

Note 17: Commitments and Contingencies

Commitments have been made in connection with certain construction programs. The estimated capital expenditures probable to have, a significant future effect amounted to \$101,557 at December 31, 2008. On April 25, 2008, the Kentucky Public Service Commission approved the Company's application for a certificate of convenience and necessity to construct a 20.0 million gallon per day treatment plant on the Kentucky River and a 30.6 mile pipeline to meet Central Kentucky's water supply deficit. The Kentucky project is expected to be completed by 2010 with an estimated cost of \$162,000 of which \$99,094 is included in the commitment above.

The Company is routinely involved in legal actions. In the opinion of management, none of these matters is expected to have a material adverse effect, if any, on the financial position, results of operations or cash flows of the Company.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 29**

Description of Filing Requirement:

Current Chart of Accounts

Response:

Please see attached.

For electronic version, refer to KAW_APP_EX29_022610.pdf.

KENTUCKY AMERICAN WATER COMPANY
 JDE CHART OF ACCOUNTS
 REPORT: RCCCOAEX29

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
101000.301	101000	301000	301000 Organization	B01	101000
101000.302	101000	302000	302000 Franchises	B01	101000
101000.3032	101000	303200	303200 Land & Ld Rights SS	B01	101000
101000.3033	101000	303300	303300 Land & Ld Rights P	B01	101000
101000.3034	101000	303400	303400 Land & Ld Rights WT	B01	101000
101000.3035	101000	303500	303500 Land & Ld Rights TD	B01	101000
101000.3041	101000	304100	304100 Struct & Imp SS	B01	101000
101000.3042	101000	304200	304200 Struct & Imp P	B01	101000
101000.3043	101000	304300	304300 Struct & Imp WT	B01	101000
101000.3044	101000	304400	304400 Struct & Imp TD	B01	101000
101000.3045	101000	304500	304500 Struct & Imp AG	B01	101000
101000.3046	101000	304600	304600 Struct & Imp Offices	B01	101000
101000.3046	101000	304610	304610 Gen Structures - HVAC	B01	101000
101000.3047	101000	304700	304700 Struct & Imp Store,Shop,Gar	B01	101000
101000.3048	101000	304800	304800 Struct & Imp Misc	B01	101000
101000.305	101000	305000	305000 Collect & Impounding	B01	101000
101000.306	101000	306000	306000 Lake, River & Other Intakes	B01	101000
101000.309	101000	309000	309000 Supply Mains	B01	101000
101000.31	101000	310000	310000 Power Generation Equip	B01	101000
101000.3101	101000	310100	310100 Power Generation Equip Other	B01	101000
101000.3112	101000	311200	311200 Pump Equip Electric	B01	101000
101000.3113	101000	311300	311300 Pump Equip Diesel	B01	101000
101000.3114	101000	311400	311400 Pump Equip Hydraulic	B01	101000
101000.3115	101000	311520	311520 Pumping Equipment SS	B01	101000
101000.3115	101000	311540	311540 Pumping Equipment TD	B01	101000
101000.3201	101000	320100	320100 WT Equip Non-Media	B01	101000
101000.3202	101000	320200	320200 WT Equip Filter Media	B01	101000
101000.33	101000	330000	330000 Dist Reservoirs & Standpipes	B01	101000
101000.3301	101000	330100	330100 Elevated Tanks & Standpipes	B01	101000
101000.3302	101000	330200	330200 Ground Level Facilities	B01	101000
101000.3304	101000	330400	330400 Clearwell	B01	101000
101000.331	101000	331001	331001 TD Mains Not Classified by S	B01	101000
101000.3311	101000	331100	331100 TD Mains 4in & Less	B01	101000
101000.331	101000	3310	331200 TD Mains 6in to 8in	B01	101000
101000.3313	101000	331300	331300 TD Mains 10in to 16in	B01	101000
101000.3314	101000	331400	331400 TD Mains 18in & Grtr	B01	101000
101000.333	101000	333000	333000 Services	B01	101000
101000.3341	101000	334100	334100 Meters	B01	101000
101000.3341	101000	334110	334110 Meters Bronze Case	B01	101000
101000.3341	101000	334120	334120 Meters Plastic Case	B01	101000
101000.3341	101000	334130	334130 Meters Other	B01	101000
101000.3341	101000	334131	334131 Meters Other-Rem Rdr Unts	B01	101000
101000.3342	101000	334200	334200 Meter Installations	B01	101000
101000.3343	101000	334300	334300 Meter Vaults	B01	101000
101000.335	101000	335000	335000 Hydrants	B01	101000
101000.3391	101000	339100	339100 Other P/E Intangible	B01	101000
101000.3396	101000	339600	339600 Other P/E CPS	B01	101000
101000.3401	101000	340100	340100 Office Furniture & Equip	B01	101000
101000.3402	101000	340210	340210 Comp & Periph Mainframe	B01	101000
101000.3402	101000	340220	340220 Comp & Periph Personal	B01	101000
101000.3402	101000	340230	340230 Comp & Periph Other	B01	101000
101000.3403	101000	340300	340300 Computer Software	B01	101000
101000.3403	101000	340320	340320 Comp Software Personal	B01	101000
101000.3403	101000	340325	340325 Comp Software Customized	B01	101000
101000.3403	101000	340330	340330 Comp Software Other	B01	101000
101000.3405	101000	340500	340500 Other Office Equipment	B01	101000
101000.3411	101000	341100	341100 Trans Equip Lt Duty Trks	B01	101000

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
101000.3412	101000	341200	341200 Trans Equip Hvy Duty Trks	B01	101000
101000.3413	101000	341300	341300 Trans Equip Autos	B01	101000
101000.3414	101000	341400	341400 Trans Equip Other	B01	101000
101000.342	101000	342000	342000 Stores Equipment	B01	101000
101000.343	101000	343000	343000 Tools,Shop,Garage Equip	B01	101000
101000.344	101000	344000	344000 Laboratory Equipment	B01	101000
101000.345	101000	345000	345000 Power Operated Equipment	B01	101000
101000.3461	101000	346100	346100 Comm Equip Non-Telephone	B01	101000
101000.3462	101000	346190	346190 Remote Control & Instrumenta	B01	101000
101000.3462	101000	346200	346200 Comm Equip Telephone	B01	101000
101000.347	101000	347000	347000 Misc Equipment	B01	101000
101000.348	101000	348000	348000 Other Tangible Property	B01	101000
101000.3542	101000	354200	354200 WW Struct & Imp Coll	B01	101000
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101001.3035	101001	303500	303500 Land & Ld Rights TD	B01	101000
101001.3044	101001	304400	304400 Struct & Imp TD	B01	101000
101001.3047	101001	304700	304700 Struct & Imp Store,Shop,Gar	B01	101000
101001.3048	101001	304800	304800 Struct & Imp Misc	B01	101000
101001.3201	101001	320100	320100 WT Equip Non-Media	B01	101000
101001.3301	101001	330100	330100 Elevated Tanks & Standpipes	B01	101000
101001.331	101001	331001	331001 TD Mains Not Classified by S	B01	101000
101001.333	101001	333000	333000 Services	B01	101000
101001.3341	101001	334100	334100 Meters	B01	101000
101001.3342	101001	334200	334200 Meter Installations	B01	101000
101001.335	101001	335000	335000 Hydrants	B01	101000
101001.3401	101001	340100	340100 Office Furniture & Equip	B01	101000
101001.3402	101001	340220	340220 Comp & Periph Personal	B01	101000
101001.3403	101001	340300	340300 Computer Software	B01	101000
101001.3405	101001	340500	340500 Other Office Equipment	B01	101000
101001.3411	101001	341100	341100 Trans Equip Lt Duty Trks	B01	101000
101001.343	101001	343000	343000 Tools,Shop,Garage Equip	B01	101000
101001.345	101001	345000	345000 Power Operated Equipment	B01	101000
101001.347	101001	347000	347000 Misc Equipment	B01	101000
101099	101099		Completed Const not Classifi	B01	101099
101100	101100		Reg Asset-AFUDC-Debt	B01	101100
103000	103000		Property Held Future Use	B01	103000
104000	104000		Utility Plant Purchased/Sold	B01	104000
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106000.3046	106000	304600	304600 Struct & Imp Offices	B01	106000
106000.3047	106000	304700	304700 Struct & Imp Store,Shop,Gar	B01	106000
106000.3048	106000	304800	304800 Struct & Imp Misc	B01	106000
106000.306	106000	306000	306000 Lake, River & Other Intakes	B01	106000
106000.309	106000	309000	309000 Supply Mains	B01	106000
106000.31	106000	310000	310000 Power Generation Equip	B01	106000
106000.3112	106000	311200	311200 Pump Equip Electric	B01	106000
106000.3115	106000	311520	311520 Pumping Equipment SS	B01	106000
106000.3115	106000	311530	311530 Pumping Equipment WT	B01	106000
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106000.3201	106000	320100	320100 WT Equip Non-Media	B01	106000
106000.3202	106000	320200	320200 WT Equip Filter Media	B01	106000
106000.33	106000	330000	330000 Dist Reservoirs & Standpipes	B01	106000
106000.3301	106000	330100	330100 Elevated Tanks & Standpipes	B01	106000
106000.3302	106000	330200	330200 Ground Level Facilities	B01	106000
106000.3304	106000	330400	330400 Clearwell	B01	106000
106000.331	106000	331001	331001 TD Mains Not Classified by S	B01	106000
106000.3311	106000	331100	331100 TD Mains 4in & Less	B01	106000
106000.3312	106000	331200	331200 TD Mains 6in to 8in	B01	106000
106000.3313	106000	331300	331300 TD Mains 10in to 16in	B01	106000
106000.3314	106000	331400	331400 TD Mains 18in & Grtr	B01	106000

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
106000.333	106000	333000	333000 Services	B01	106000
106000.3341	106000	334100	334100 Meters	B01	106000
106000.3341	106000	334110	334110 Meters Bronze Case	B01	106000
106000.3341	106000	334120	334120 Meters Plastic Case	B01	106000
106000.3341	106000	334130	334130 Meters Other	B01	106000
106000.3341	106000	334131	334131 Meters Other-Rem Rdr Unts	B01	106000
106000.3342	106000	334200	334200 Meter Installations	B01	106000
106000.3343	106000	334300	334300 Meter Vaults	B01	106000
106000.335	106000	335000	335000 Hydrants	B01	106000
106000.3396	106000	339600	339600 Other P/E CPS	B01	106000
106000.3401	106000	340100	340100 Office Furniture & Equip	B01	106000
106000.3402	106000	340210	340210 Comp & Periph Mainframe	B01	106000
106000.3402	106000	340220	340220 Comp & Periph Personal	B01	106000
106000.3402	106000	340230	340230 Comp & Periph Other	B01	106000
106000.3403	106000	340300	340300 Computer Software	B01	106000
106000.3403	106000	340320	340320 Comp Software Personal	B01	106000
106000.3403	106000	340325	340325 Comp Software Customized	B01	106000
106000.3403	106000	340330	340330 Comp Software Other	B01	106000
106000.3411	106000	341100	341100 Trans Equip Lt Duty Trks	B01	106000
106000.3412	106000	341200	341200 Trans Equip Hvy Duty Trks	B01	106000
106000.3414	106000	341400	341400 Trans Equip Other	B01	106000
106000.343	106000	343000	343000 Tools,Shop,Garage Equip	B01	106000
106000.344	106000	344000	344000 Laboratory Equipment	B01	106000
106000.345	106000	345000	345000 Power Operated Equipment	B01	106000
106000.3461	106000	346100	346100 Comm Equip Non-Telephone	B01	106000
106000.3462	106000	346190	346190 Remote Control & Instrumenta	B01	106000
106000.3462	106000	346200	346200 Comm Equip Telephone	B01	106000
106000.347	106000	347000	347000 Misc Equipment	B01	106000
105050.11	105050	11	11 CWIP Accr-Bldgs	B02	104000
105050	105050		21 CWIP Accr-Infra	B02	104000
105050.31	105050	31	31 CWIP Accr-Plant	B02	105050
105110.1	105110	1	1 CWIP History	B02	105110
105110.11	105110	11	11 CWIP History-Bldgs	B02	105110
105110.21	105110	21	21 CWIP History-Infrastr	B02	105110
105110.31	105110	31	31 CWIP History-Plant	B02	105110
105125.1	105125	1	1 CWIP Permits & Fees	B02	105125
105125.11	105125	11	11 CWIP Permits-Bldgs	B02	105125
105125.21	105125	21	21 CWIP Permits-Infrastr	B02	105125
105125.31	105125	31	31 CWIP Permits-Plant	B02	105125
105150.1	105150	1	1 CWIP M&S & Purchases	B02	105150
105150.11	105150	11	11 CWIP M & S-Bldgs	B02	105150
105150.21	105150	21	21 CWIP M & S-Infrastr	B02	105150
105150.31	105150	31	31 CWIP M & S-Plant	B02	105150
105175.1	105175	1	1 CWIP Professional Services	B02	105175
105175.21	105175	21	21 CWIP Prof Svc-Infrastr	B02	105175
105175.31	105175	31	31 CWIP Prof Svc-Plant	B02	105175
105200.1	105200	1	1 CWIP Co Labor	B02	105200
105200.11	105200	11	11 CWIP Co Labor-Bldgs	B02	105200
105200.21	105200	21	21 CWIP Co Labor-Infrastr	B02	105200
105200.31	105200	31	31 CWIP Co Labor-Plant	B02	105200
105250.1	105250	1	1 CWIP Co Labor OH	B02	105250
105250.11	105250	11	11 CWIP Labor OH-Bldgs	B02	105250
105250.21	105250	21	21 CWIP Labor OH-Infrastr	B02	105250
105250.31	105250	31	31 CWIP Labor OH-Plant	B02	105250
105260.1	105260	1	1 CWIP Overhead	B02	105260
105260.11	105260	11	11 CWIP Overhead-Bldgs	B02	105260
105260.21	105260	21	21 CWIP Overhead-Infrastr	B02	105260
105260.31	105260	31	31 CWIP Overhead-Plant	B02	105260
105270.1	105270	1	1 CWIP Service Co Chgs	B02	105270
105270.21	105270	21	21 CWIP AWWSC Chg-Infrastr	B02	105270
105270.31	105270	31	31 CWIP AWWSC Chg-Plant	B02	105270
105275.1	105275	1	1 CWIP Contracted Services	B02	105275
105275.11	105275	11	11 CWIP Contr Svc-Bldgs	B02	105275
105280.1	105280	1	1 CWIP Retainage	B02	105280

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
105280.11	105280	11 11	CWIP Retainage-Bldgs	B02	105280
105280.21	105280	21 21	CWIP Retainage-Infrastr	B02	105280
105285.21	105285	21 21	CWIP Developer Const Costs	B02	105280
105300.1	105300	1 1	CWIP Paving	B02	105300
105300.21	105300	21 21	CWIP Paving-Infrastr	B02	105300
105300.31	105300	31 31	CWIP Paving-Plant	B02	105300
105350.1	105350	1 1	CWIP AFUDC Debt	B02	105350
105350.11	105350	11 11	CWIP AFUDC Debt-Bldgs	B02	105350
105350	105350	21	CWIP AFUDC Debt-Infrastr	B02	105300
105350.31	105350	31 31	CWIP AFUDC Debt-Plant	B02	105350
105375.1	105375	1 1	CWIP AFUDC Equity	B02	105375
105375.11	105375	11 11	CWIP AFUDC Eqty-Bldgs	B02	105375
105375.21	105375	21 21	CWIP AFUDC Eqty-Infrastr	B02	105375
105375.31	105375	31 31	CWIP AFUDC Eqty-Plant	B02	105375
105390.11	105390	11 11	CWIP Tran PY Chg-Bldgs	B02	105390
105390.21	105390	21 21	CWIP Tran PY Chg-Infrastr	B02	105390
105390.31	105390	31 31	CWIP Tran PY Chg-Plant	B02	105390
105391.1	105391	1 1	CWIP Trans Current Yr Chgs	B02	105391
105399.31	105399	31 31	CWIP Prelim Eng-Plant	B02	105399
105810	105810		CWIP Engineering Clearing	B02	105399
105820	105820		CWIP Undistributed Items	B02	105399
105900	105900		CWIP Transfer to UPIS	B02	105399
105900.1	105900	1 1	CWIP Transfer to UPIS	B02	105900
105900.11	105900	11 11	CWIP Tran UPIS-Bldgs	B02	105900
105900	105900	21	CWIP Tran UPIS-Infrastr	B02	105399
105900.31	105900	31 31	CWIP Tran UPIS-Plant	B02	105900
105999	105999		Undistributed Items	B02	105900
108105	108105		AD UPIS-Acc Depr-Not Classif	B03	106000
108105.1	108105	1 01	AD UPIS-AccDepr-Oper Bldgs	B03	108105
108105.2	108105	2 02	AD UPIS-AccDepr-Admin Bldgs	B03	108105
108105.5	108105	5 05	AD UPIS-AccDepr-Infrastructu	B03	108105
108105.6	108105	6 06	AD UPIS-AccDepr-Op Water Pro	B03	108105
108105.7	108105	7 07	AD UPIS-AccDepr-Oth Op Equip	B03	108105
108105.8	108105	8 08	AD UPIS-AccDepr-Office Equip	B03	108105
108105.9	108105	9 09	AD UPIS-AccDepr-Cap Developm	B03	108105
108110	108110		AD UPIS-Removal Cost	B03	108110
108115	108115		AD UPIS-Salvage	B03	108115
108120	108120		AD UPIS-Scrap Meters	B03	108120
108122	108122		AD UPIS-Scrap Misc	B03	108122
108135	108135		AD UPIS-Salv Trade-In	B03	108135
108140	108140		AD UPIS-Salv Sale	B03	108140
108145	108145		AD UPIS-Orig Cost-Not Classi	B03	108145
108190	108190		Acc Depr Reg Asset	B03	108190
114100	114100		UPAA-ATL	B04	114100
114300	114300		UPAA Post 1/1/06	B04	114100
115100	115100		Accum Amort UPAA-ATL	B04	115100
121100	121100		NUP-Land	B07	115100
121500	121500		NUP-Other	B07	115100
131312.3	131312	3 003	BB&T	B10	131312
131312.5	131312	5 005	Deutsche Bank	B10	131312
131312.7	131312	7 007	Cash-Mellon Lockbox	B10	131312
131998.1	131998	1 001	Cash Clear-NSF Checks	B10	131998
131998.2	131998	2 002	Cash Clear-Mixed Pymt	B10	131998
131998.3	131998	3 003	Cash Clear-Misc DR/CR	B10	131998
131998.4	131998	4 004	Cash Clear-MI's	B10	131998
131998.5	131998	5 005	Cash Clear-ORCOM	B10	131998
131998.6	131998	6 006	Cash Clear-Interco	B10	131998
131998.7	131998	7 007	Cash Clear-Pinnacl/ARP	B10	131998
131998.8	131998	8 008	Cash Clear-General	B10	131998
131998.9	131998	9 009	Cash Clear-ARC DR/CR	B10	131998
134100	134100		Petty Cash	B10	134100
134101	134101		Petty Cash-OTC	B10	134100
141000	141000		Customer A/R	B12	141000
141999	141999		Customer A/R Clearing	B12	141999

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
143000	143000		Accum prov-uncoll accts	B13	143000
144000	144000		Accrued Utility Revenue	B14	143000
145000	145000		FIT Refund Receivable	B15	143000
145100	145100		SIT Refund Receivable	B15	143000
146100	146100		Misc A/R-System	B16	146100
146100.1	146100	1 001	Misc A/R-Manual	B16	146100
146105	146105		Misc A/R-Retro Ins	B16	146105
146115	146115		Misc A/R-Medicare Subsidy	B16	146115
146300	146300		Misc A/R-Adv to Employees	B16	146300
146370	146370		Accum prov-uncoll misc a/r	B16	146370
146500	146500		A/R Assoc Cos	B16	146500
146500.AW02	146500 AW02		AW02 A/R Assoc Cos-AW02	B16	146500
146500.AW12	146500 AW12		AW12 A/R Assoc Cos-AW12	B16	146500
146500.AW46	146500 AW46		AW46 A/R Assoc Cos-AW46	B16	146500
146520.AW02	146520 AW02		AW02 A/R Div Equiv AW02	B16	146500
146800	146800		Rents Receivable	B16	146800
147000	147000		IC Rec/Pay Clearing	B16	146800
151100	151100		Plant Material	B17	151100
151300	151300		Chemicals	B17	151300
153000	153000		Other Mat & Supplies	B17	151300
165100	165100		Prepaid Taxes	B19	151300
165200	165200		Prepaid Insurance	B19	165200
165300	165300		Prepaid PUC/PSC Assessments	B19	165300
165400	165400		Prepaid Audit Fees	B19	165300
165500	165500		Prepaid Other	B19	165500
174100	174100		Deferred Vacation Pay	B19	174100
174200	174200		Curr State Def Tax	B19	174200
174300	174300		Curr Fed Def Tax	B19	174300
181110	181110		Unamort Debt Exp-Out	B23	181110
181120.AW46	181120 AW46		AW46 Unamort Debt AW46	B23	181120
181121.AW46	181121 AW46		AW46 Unamort Debt AW46 NoIAS	B23	181120
181512	181512		Pref Stk Exp w/ mandatory	B23	181512
182000	182000		Deferred Rate Proceedings	B24	182000
183000	183000		Prelim Survey & Invest	B25	183000
186030	186030		Reg Asset-AFUDC-Eq-CWIP	B26	186030
186035	186035		Reg Asset-AFUDC-Equity	B26	186035
186040	186040		Reg Asset-Plt Flow-Diff	B26	186040
186045	186045		Reg Asset-Other	B26	186045
186055	186055		Reg Asset-Accum Amort	B26	186055
183280	183280		DEF-Customer Service Project	B27	183280
184100	184100		Eng Clearing Dist OH	B27	184100
184102	184102		Mngmt Studu - AMR	B27	184102
184103	184103		Mngmt Study - Pipe Assmnt	B27	184103
184199	184199		Eng Clearing Reclass	B27	184103
185125	185125		RWIP Permits, Fees & Premium	B27	185125
185150	185150		RWIP M & S and Purchases	B27	185150
185150.21	185150	21 21	RWIP M & S and Purchases	B27	185150
185200	185200		RWIP Co Labor	B27	185150
185200.21	185200	21 21	RWIP Co Labor	B27	185200
185250	185250		RWIP Co Labor OH	B27	185200
185250.21	185250	21 21	RWIP Co Labor OH	B27	185250
185260.21	185260	21 21	RWIP Indirect Labor	B27	185260
185275	185275		RWIP Contracted Services	B27	185260
185275.21	185275	21 21	RWIP Contracted Services	B27	185275
185275.31	185275	31 31	RWIP Contracted Services	B27	185275
185280	185280		RWIP Retainage	B27	185280
185315	185315		RWIP Salvage	B27	185280
185315.31	185315	31 31	RWIP Salvage	B27	185315
185320	185320		RWIP Scrap Meters	B27	185315
185320.21	185320	21 21	RWIP Scrap Meters	B27	185320
185322	185322		RWIP Scrap Misc	B27	185320
185322.21	185322	21 21	RWIP Scrap Misc	B27	185322
185322.31	185322	31 31	RWIP Scrap Misc	B27	185322
185950	185950		RWIP Reg Liab Reclass	B27	185322

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
185999	185999		RWIP Clear Removal & Salvage	B27	185322
185999.21	185999	21 21	RWIP Clear Removal & Salvage	B27	185999
185999.31	185999	31 31	RWIP Clear Removal & Salvage	B27	185999
186401	186401		DDA-Programmed Maint	B27	186401
186405	186405		DDA-RIA Software Licen	B27	186405
186426	186426		DDA-FAS 112 Costs	B27	186426
186431	186431		DDA-Depreciation Study	B27	186431
186432	186432		DDA-Cost of Service Study	B27	186432
186444	186444		DDA-Waste Disposal	B27	186444
186492	186492		DDA-Add'l Security Costs	B27	186492
186598	186598		DDA-Oth Reg Assets	B27	186598
186703	186703		DDN-Prelim Financing E	B27	186703
186704	186704		DDN-Undistributed Items	B27	186704
186707	186707		DDN-Ins Oth Than Grp Reg	B27	186707
186711	186711		DDN-Acquisition Costs	B27	186711
186750	186750		DDN-Engineering Studie	B27	186750
186898	186898		DDN-Oth LT Assets	B27	186898
187007	187007		Prelim Financing E	B27	186898
187598	187598		Other LT Asset	B27	186898
201200	201200		Com Stk Subs Interco	B33	186898
201200.AW02	201200 AW02		AW02 Com Stk Subs AW02	B33	201200
205175	205175		Donations stkhld I/C	B34	186898
205175.AW02	205175 AW02		AW02 Donations Stkhld AW02	B34	205175
205300	205300		Gain on res/can I/C	B34	205300
205300.AW02	205300 AW02		AW02 Gain on Res/Can AW02	B34	205300
205310	205310		Gain on res/can min int.	B34	205300
205440	205440		Misc PIC Interco	B34	205300
205440.AW02	205440 AW02		AW02 Misc PIC AW02	B34	205440
210210	210210		R/E at Acquisition	B35	205500
210210.AW02	210210 AW02		AW02 R/E at Acq AW02	B35	210210
210240	210240		R/E Since Acquisition	B35	210240
215110	215110		Pref Stk-Outside	B39	215110
215410	215410		Pref Stk Sub Outside	B39	215410
215113	215113		Pref Stk-Mand LT	B40	215113
221110	221110		Bonds-Outside	B40	221110
221120.AW46	221120 AW46		AW46 Bonds-Inside AW46	B40	221120
231200	231200		Notes Pay-Assoc Cos	B43	231200
231200.AW6	231200 AW6		AW46 Notes Pay AW46	B43	231200
232200.AW46	232200 AW46		AW46 Curr Portion LTD-AW46	B44	232200
234100	234100		Accts Pay-Gen System	B45	234100
234110	234110		Accts Pay-Pcard	B45	234110
234120	234120		Accts Pay-Utility Billing	B45	234120
234125	234125		Accts Pay-Phone Billing	B45	234120
234300	234300		Accts Pay-Misc	B45	234300
234300.2	234300	2 002	Accts Pay-Misc W/O's	B45	234300
234300.6	234300	6 006	Accts Pay-Wrkbskt Accr	B45	234300
234300.7	234300	7 007	Accts Pay-Pcard Accr	B45	234300
234300.8	234300	8 008	Accts Pay-I/C Loan Clearing	B45	234300
234350	234350		Accts Pay-Proj Exp Accr	B45	234350
234400.AW03	234400 AW03		AW03 Accts Pay-AW03	B45	234400
234500.AWSI	234500 AWSI		AWSI Accts Pay AWS	B45	234400
234500.AW02	234500 AW02		AW02 Accts Pay AW02	B45	234400
234500.AW46	234500 AW46		AW46 Accts Pay AW46	B45	234400
280999	280999		Interco Rec/Pay	B45	280999
236110	236110		Gross Inc & Receipts Tax	B46	234350
236120	236120		FUTA	B46	236120
236130	236130		FICA	B46	236130
236140	236140		SUTA	B46	236140
236144	236144		Payroll Tax Clearing	B46	236140
236152	236152		Gen Tax - Sales/Use	B46	236152
236170	236170		Gen Tax - Other	B46	236170
236201	236201		FIT Tax Clearing	B46	236201
236210	236210		Accr FIT - Current Yr	B46	236210
236220	236220		Accr FIT - Pr Yrs	B46	236220

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
236230	236230		Accr SIT - Current Yr	B46	236230
236240	236240		Accr SIT - Pr Yrs	B46	236240
236310	236310		Curr Def FIT	B46	236310
236320	236320		Curr Def SIT/LIT	B46	236320
237200	237200		Int Accr-LTD-Outside	B47	237200
237300.AW46	237300 AW46		AW46 Int Accr-LTD-AW46	B47	237300
241228.2	241228	2	002 Accr PFD Div w/ mand	B47	241228
240140.AW02	240140 AW02		AW02 Div Decl-Com Stk AW02	B49	237300
241100	241100		Accrued Vacation Pay	B51	241100
241201	241201		Accr Water Purchases	B51	241201
241202	241202		Accr Power	B51	241201
241203	241203		Accr Legal	B51	241201
241204	241204		Accr Audit	B51	241201
241205	241205		Accr TMS License	B51	241205
241206	241206		Accr Wages	B51	241205
241207	241207		Accr Insurance	B51	241207
241208	241208		Accr Rents	B51	241208
241210	241210		Accr Waste Disposal	B51	241210
241211	241211		Accr Retiree Medical Reimb	B51	241211
241212	241212		Accr DCP Contribution	B51	241212
241214	241214		Accr Bank Fees	B51	241212
241220.KY	241220 KY		KY WH PR-Tax Coll SIT KY	B51	237300
241220.1	241220	1	001 WH PR-Union Dues	B51	241220
241220.2	241220	2	002 WH PR-Charity Contribution	B51	241220
241220.5	241220	5	005 WH PR-Flex Spending Account	B51	241220
241220.6	241220	6	006 WH PR-401k Contribution	B51	241220
241220.8	241220	8	008 WH PR-Garnishments	B51	241220
241220.1	241220	10	010 WH PR-Tax Coll Pay FIT	B51	241220
241220.12	241220	12	012 WH PR-Tax Coll Pay LIT	B51	241220
241220.13	241220	13	013 WH PR-Tax Coll Pay FICA	B51	241220
241220.14	241220	14	014 WH PR-ESPP	B51	241220
241220.999	241220	999	999 WH PR-Miscellaneous	B51	241220
241227	241227		Accr Employer 401k Match	B51	241227
241228	241228		Accrued PFD Div Requirements	B51	241227
241229	241229		Accr Construction Costs Pay	B51	241229
241230	241230		Unclaimed Credits Pay	B51	241230
241232	241232		Outstanding Checks Pay	B51	241230
241234	241234		Unclaimed Ext Dep Refund Pay	B51	241234
241236	241236		Unbilled Items-System	B51	241236
241237	241237		Unbilled Stock C-System	B51	241237
241238	241238		Unbilled Stock E-System	B51	241238
241241.5	241241	5	005 CFO-Cust Asst NonPledged	B51	241241
241241.6	241241	6	006 CFO-Cust Asst Pledged	B51	241241
241244	241244		CFO-Sales Tax	B51	241244
241246	241246		CFO-Gross Rcts Tax	B51	241246
241248	241248		CFO-Mun Tax	B51	241248
241249	241249		CFO-Mgmt Contracts	B51	241248
241249.1	241249	1	001 CFO-MC/Swr Rev/Cash	B51	241249
241249.2	241249	2	002 CFO-MC/Swr A/R	B51	241249
241249.4	241249	4	004 CFO-MC/Swr ChgOff	B51	241249
241250	241250		A/P Check Clearing	B51	241250
241251	241251		P/R Check Clearing	B51	241251
241252	241252		Cred Refund A/P Check Cleari	B51	241251
241260	241260		Misc Deposits Payable	B51	241260
241261	241261		Accr Insurance Retro	B51	241260
241298	241298		Overhead Clearing	B51	241260
241322	241322		Incentive Plan Cash Annual	B51	241322
241500	241500		Accrued Paving-Analyzed	B51	241322
241998	241998		Other Curr Liab Analyzed	B51	241998
252999.CP	252999 CP		CP Adv for Const-Current Portio	B51	237300
252110	252110		Adv for Const-NT Mains	B55	252110
252120	252120		Adv for Const-NT Ext	B55	252120
252130	252130		Adv for Const-NT Services	B55	252130
252140	252140		Adv for Const-NT Meters	B55	252140

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
252150	252150		Adv for Const-NT Hydrants	B55	252150
252160	252160		Adv for Const-NT Other	B55	252160
252170	252170		Adv for Const-NT WIP	B55	252170
252220	252220		Adv for Const-Tax Ext	B55	252170
252999	252999		Adv for Const-Cur Portion Re	B55	252170
253203	253203		Def FIT-Norm Property	B56	253203
253301	253301		Def FIT-Other	B56	253301
253309	253309		Def FIT-AMT	B56	253309
253701	253701		Def SIT-Other	B56	253701
255101	255101		Unamortized ITC - 3%	B57	255101
255102	255102		Unamortized ITC - 4%	B57	255102
255103	255103		Unamortized ITC - 10%	B57	255103
256212	256212		Reg Liab-Exc Def Depr FIT	B58	256212
256220	256220		Reg Liab-Deficit Def FIT	B58	256220
256232	256232		Reg Liab-Exc Def Depr SIT	B58	256232
256250	256250		Reg Liab-Cost of Removal	B58	256232
256250.RWIP	256250 RWIP	RWIP	Reg Liab-Cost of Removal RWI	B58	237300
256310	256310		Reg Liab-ITC Gross-Up 3%	B58	256310
256311	256311		Reg Liab-ITC Gross-Up 4%	B58	256311
256312	256312		Reg Liab-ITC Gross-Up 10%	B58	256312
256335	256335		Reg Liab-Gain on Debt Exting	B59	256312
256340	256340		Regulatory Liab. - Other	B59	256312
262120	262120		DCA-Accr Pension Def Benefit	B59	262120
262210	262210		DCA-Accr OPEB	B59	262210
262215	262215		DCA-Accr OPEB Med Subsidy	B59	262215
262313	262313		DCA-FAS 112 Costs	B59	262313
262315	262315		Accr Div Equivalents	B59	262313
262317	262317		Def Comp (prior 1/1/08)	B59	262313
262322	262322		DCA-Inc Plan Cash Annual	B59	262313
262398	262398		DCA-Other	B59	262313
262401	262401		DCN-Ins Other Than Grp Reg	B59	262313
271110	271110		CIAC-NT Mains	B62	271110
271120	271120		CIAC-NT Ext Dep	B62	271120
271130	271130		CIAC-NT Services	B62	271130
271140	271140		CIAC-NT Meters	B62	271140
271150	271150		CIAC-NT Hydrants	B62	271150
271160	271160		CIAC-NT Other	B62	271160
271170	271170		CIAC-NT WIP	B62	271170
271180	271180		CIAC-NT Non-Util Prop	B62	271180
271210	271210		CIAC-Tax Mains	B62	271210
271220	271220		CIAC-Tax Ext Dep	B62	271220
271230	271230		CIAC-Tax Services	B62	271230
271240	271240		CIAC-Tax Meters	B62	271240
271250	271250		CIAC-Tax Hydrants	B62	271250
271260	271260		CIAC-Tax Other	B62	271260
271270	271270		CIAC-Tax WIP	B62	271270
272010	272010		Accum Amort CIAC-Mains	B62	272010
272040	272040		Accum Amort CIAC-Meters	B62	272040
272050	272050		Accum Amort CIAC-Hydrants	B62	272050
272060	272060		Accum Amort CIAC-Other	B62	272060
272100	272100		Accum Amort CIAC-Taxable	B62	272100
401120	401120		Res Sales Unbilled	P02	461110
401220	401220		Com Sales Unbilled	P02	461210
401310	401310		Ind Sales Billed	P02	461300
401320	401320		Ind Sales Unbilled	P02	461310
401420	401420		Pub Fire Unbilled	P02	463000
401460	401460		Priv Fire Unbilled	P02	462100
401520	401520		Pub Auth Unbilled	P02	464210
401610	401610		SFR Billed	P02	466000
401620	401620		Sales for Resale Unbilled	P02	466100
401630.AW12	401630 AW12	AW12	Sale for Resale AW09	P02	466100
401710	401710		Misc Sales Billed	P02	461400
402110	402110		Dom WW Serv Billed	P03	461000
402210	402210		Com WW Serv Billed	P03	461020

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
402310	402310		Ind WW Serv Billed	P03	462210
402510	402510		Pub Auth WW Svc Billed	P03	462110
403003.AW03	403003 AW03	AW03	Oth Rev-Interco Rent	P04	466100
403101	403101		Oth Rev-Forfeited Discounts	P04	462110
403102	403102		Oth Rev-Rents Water Property	P04	472000
403103	403103		Oth Rev-Collect for Others	P04	474100
403104	403104		Oth Rev-NSF Check Charge	P04	471200
403105	403105		Oth Rev-Appl/Initiate Serv F	P04	471200
403107	403107		Oth Rev-Reconnection Charges	P04	471100
403198	403198		Oth Rev-Misc Service Rev	P04	471200
403199	403199		Oth Rev-Other Water Rev	P04	474300
501200.12	501200	12 12	Labor Oper P	P08	920000
501200.13	501200	13 13	Labor Oper WT	P08	642100
501200.1305	501200	1305 1305	Labor Oper WT Super/Eng	P08	642100
501200.14	501200	14 14	Labor Oper TD	P08	662200
501200.1405	501200	1405 1405	Labor Oper TD Super/Eng	P08	662200
501200.141	501200	1410 1410	Labor Oper TD Storage	P08	662200
501200.1415	501200	1415 1415	Labor Oper TD Lines	P08	662200
501200.142	501200	1420 1420	Labor Oper TD Meter	P08	662200
501200.15	501200	15 15	Labor Oper CA	P08	662200
501200.151	501200	1510 1510	Labor Oper CA Mtr Read	P08	903200
501200.1515	501200	1515 1515	Labor Oper CA Cust Rec	P08	903200
501200.152	501200	1520 1520	Labor Oper CA Cust Serv	P08	903200
501200.16	501200	16 16	Labor Oper AG	P08	903200
501200.1601	501200	1601 1601	Labor Oper AG Dir/Off	P08	920000
501200.21	501200	21 21	Labor Maint SS	P08	920000
501200.22	501200	22 22	Labor Maint P	P08	920000
501200.23	501200	23 23	Labor Maint WT	P08	920000
501200.2305	501200	2305 2305	Labor Maint WT Super/Eng	P08	650000
501200.24	501200	24 24	Labor Maint TD	P08	650000
501200.2405	501200	2405 2405	Labor Maint TD Super/Eng	P08	671200
501200.241	501200	2410 2410	Labor Maint TD Struct & Imp	P08	671200
501200.2415	501200	2415 2415	Labor Maint TD Dist Res	P08	672200
501200.242	501200	2420 2420	Labor Maint TD Mains	P08	673200
501200.2425	501200	2425 2425	Labor Maint TD Fire Mains	P08	673200
501200.243	501200	2430 2430	Labor Maint TD Services	P08	675200
501200.2435	501200	2435 2435	Labor Maint TD Meters	P08	676200
501200.244	501200	2440 2440	Labor Maint TD Hydrants	P08	676400
501210.13	501210	13 13	Labor NS OT WT	P08	678200
501210.1305	501210	1305 1305	Labor NS OT WT Super/Eng	P08	678200
501210.14	501210	14 14	Labor NS OT TD	P08	678200
501210.1405	501210	1405 1405	Labor NS OT TD Super/Eng	P08	678200
501210.1415	501210	1415 1415	Labor NS OT TD Lines	P08	678200
501210.142	501210	1420 1420	Labor NS OT TD Meter	P08	678200
501210.15	501210	15 15	Labor NS OT CA	P08	678200
501210.151	501210	1510 1510	Labor NS OT CA Mtr Read	P08	678200
501210.152	501210	1520 1520	Labor NS OT CA Cust Serv	P08	678200
501210.16	501210	16 16	Labor NS OT AG	P08	678200
501210.24	501210	24 24	Labor NS OT TD	P08	678200
501210.241	501210	2410 2410	Labor NS OT TD Struct & Imp	P08	678200
501210.2415	501210	2415 2415	Labor NS OT TD Dist Res	P08	678200
501210.242	501210	2420 2420	Labor NS OT TD Mains	P08	678200
501210.243	501210	2430 2430	Labor NS OT TD Services	P08	678200
501210.2435	501210	2435 2435	Labor NS OT TD Meters	P08	678200
501210.244	501210	2440 2440	Labor NS OT TD Hydrants	P08	678200
501211.13	501211	13 13	Labor OT WT	P08	678200
501211.14	501211	14 14	Labor OT TD	P08	678200
501211.16	501211	16 16	Labor OT AG	P08	678200
501211.242	501211	2420 2420	Labor OT TD Mains	P08	678200
501211.243	501211	2430 2430	Labor OT TD Services	P08	678200
501711	501711		IP-Off-Annual-P/R JE	P08	678200
501711.16	501711	16 16	Incen Plan-Off-Annual	P08	920500
501712.16	501712	16 16	Incen Plan-Off-Long Term	P08	920500
501716.16	501716	16 16	Comp Exp-Options	P08	920500

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
501717.16	501717	16 16	Comp Exp-Restricted Stk	P08	920500
501718.16	501718	16 16	Comp Exp-RSU's	P08	920500
510100.11	510100	11 11	Purchased Water-Outside	P09	602000
510110.AW12	510110 AW12	AW12	Purch Water AW12	P09	602000
515100.12	515100	12 12	Purch Power P	P10	623110
515100.1	515100	1 13	Purch Power WT	P10	623110
515100.14	515100	14 14	Purch Power TD	P10	623110
515200.11	515200	11 11	Fuel for Power Prod SS	P10	623110
518000.13	518000	13 13	Chemicals WT	P11	641100
518001.AWSI	518001 AWSI	AWSI	Chemicals Carbon AWSI	P11	641110
518001.13	518001	13 13	Chemicals WT Carbon Lease	P11	643310
511100.13	511100	13 13	Waste Disposal Exp WT	P12	643300
511200.13	511200	13 13	Amort Waste Disp Exp	P12	643310
534600.16	534600	16 16	Mmgt Fees-Corporate	P13	923100
534601.16	534601	16 16	Mmgt Fees-External Affairs/C	P13	923100
534602.16	534602	16 16	Mmgt Fees-Finance	P13	926800
534603.16	534603	16 16	Mmgt Fees-Human Resources	P13	926800
534604.16	534604	16 16	Mmgt Fees-Legal	P13	903520
534605.16	534605	16 16	Mmgt Fees-Operations Svcs	P13	903520
534606.16	534606	16 16	Mmgt Fees-Property	P13	903520
534607.16	534607	16 16	Mmgt Fees-Business Developme	P13	903520
534608.16	534608	16 16	Mmgt Fees-Bus Transformation	P13	903520
534609.16	534609	16 16	Mmgt Fees-Audit	P13	926800
534610.16	534610	16 16	Mmgt Fees-Regulatory	P13	642300
534611.16	534611	16 16	Mmgt Fees-Inv Relations	P13	923100
534615.16	534615	16 16	SSC-Shrd Bus Srv Fees	P13	923100
534620.16	534620	16 16	Mmgt Fees Bsn Change-Corp	P13	923100
534625.16	534625	16 16	CSC-Shrd Bus Srv Fees	P13	923100
534635.16	534635	16 16	ITS-Shrd Bus Srv Fees	P13	923100
534645.16	534645	16 16	Procure-Shrd Bus Srv Fees	P13	923100
534650.16	534650	16 16	Mmgt Fees P13880-Corp	P13	923100
534655.16	534655	16 16	Lab-Shrd Bus Srv Fees	P13	923100
534665.16	534665	16 16	BSC-Shrd Bus Srv Fees	P13	923100
534700.16	534700	16 16	Mmgt Fees-Region	P13	923100
534701.16	534701	16 16	Mmgt Fees-Regulated Operatio	P13	926800
534720.16	534720	16 16	Mmgt Fees Bsn Change-Region	P13	923100
534750.16	534750	16 16	Mmgt Fees P13880-Region	P13	923100
504100.1	504100	1 001	Group Insurance - Cap Credit	P14	920500
505100.1	505100	1 001	PBOP Cap Credits	P14	920500
505100.16	505100	16 16	PBOP Oper AG	P14	926100
506100.1	506100	1 001	Pension - Cap Credits	P15	920500
506100.16	506100	16 16	Pension Oper AG	P15	926400
566100.16	566100	16 16	Reg Comm Amort Rate Case	P16	928100
566200.16	566200	16 16	Reg Comm Amort Depr Study	P16	928300
566700.16	566700	16 16	Reg Comm Other Oper AG	P16	928300
557000.16	557000	16 16	Ins Gen Liab Oper AG	P17	925400
558000.1	558000	1 001	Ins Work Comp Cap Credits	P17	925110
558000.16	558000	16 16	Ins Work Comp AG	P17	925110
559000.16	559000	16 16	Ins Other Oper AG	P17	924000
520100.15	520100	15 15	M & S Oper CA	P18	905100
570100.15	570100	15 15	Uncollectible Accounts	P18	904000
570100.16	570100	16 16	Uncollectible Accts-MI's	P18	904000
575000.15	575000	15 15	Misc Oper CA	P18	903100
575000.151	575000	1510 1510	Misc Oper CA Mtr Read	P18	903100
575100.15	575100	15 15	Bank Service Charges CA	P18	903300
575200.15	575200	15 15	Collection Agencies CA	P18	903300
575420.15	575420	15 15	Forms CA	P18	921200
575620.15	575620	15 15	Office & Admin Supplies CA	P18	905100
575660.15	575660	15 15	Postage CA	P18	903520
575740.15	575740	15 15	Telephone CA	P18	903520
575780.15	575780	15 15	Trash Removal CA	P18	921130
575820.15	575820	15 15	Uniforms CA	P18	662100
541000.14	541000	14 14	Rents-Real Prop Oper TD	P19	666000
541000.16	541000	16 16	Rents-Real Prop Oper AG	P19	903520

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
541400.14	541400	14 14	Rents-Equipment Oper TD	P19	666000
541400.16	541400	16 16	Rents-Equipment Oper AG	P19	931000
520100.16	520100	16 16	M & S Oper AG	P20	921200
575002.16	575002	16 16	Misc General Office	P20	921200
575100.16	575100	16 16	Bank Service Charges AG	P20	921200
575260.16	575260	16 16	Credit Line Fees	P20	921200
575261.AW46	575261 AW46	AW46	Credit Line Fees AW46	P20	921100
575261.16	575261	16 16	Credit Line Fees In	P20	921200
575280.16	575280	16 16	Dues/Membership Deduct	P20	921130
575320.16	575320	16 16	Electricity AG	P20	921200
575340	575340		Empl Exp AG-P/R JE	P20	921200
575340.16	575340	16 16	Employee Expenses AG	P20	921100
575342.16	575342	16 16	Empl Exp Conf/Registration A	P20	921100
575350.16	575350	16 16	Meals Deduct	P20	921100
575351.16	575351	16 16	Meals Non Deduct	P20	930260
575420.16	575420	16 16	Forms AG	P20	921200
575480.16	575480	16 16	Heat - Oil/Gas AG	P20	921200
575500.16	575500	16 16	Janitorial AG	P20	921200
575620.16	575620	16 16	Office & Admin Supplies AG	P20	921220
575660.16	575660	16 16	Postage AG	P20	921200
575670.16	575670	16 16	Relocation Expenses	P20	921100
575740.16	575740	16 16	Telephone AG	P20	921200
575741.16	575741	16 16	Cell Phone AG	P20	921200
575780.16	575780	16 16	Trash Removal AG	P20	921200
575830.16	575830	16 16	Wtr & Waste Wtr Exp AG	P20	921200
575881.16	575881	16 16	Misc Chrgrs - STEP W/O P13880	P20	921130
504500.15	504500	15 15	Other Welf Oper CA	P21	926200
504500.16	504500	16 16	Other Welf Oper AG	P21	926200
504610.16	504610	16 16	Employee Awards AG	P21	926200
504620.16	504620	16 16	Employee Physical Exam AG	P21	926200
504640.16	504640	16 16	Safety Incentive	P21	930210
504660.16	504660	16 16	Tuition Aid AG	P21	926200
504670.16	504670	16 16	Training AG	P21	926200
507100.16	507100	16 16	401k Oper AG	P21	926250
508100.16	508100	16 16	EIP Oper AG	P21	926800
508101.16	508101	16 16	DCP Oper AG	P21	926600
508102.16	508102	16 16	Retiree Med Oper AG	P21	926600
508200.16	508200	16 16	ESPP Oper AG	P21	920500
520100.12	520100	12 12	M & S Oper P	P21	626500
520100.13	520100	13 13	M & S Oper WT	P21	642300
520100.14	520100	14 14	M & S Oper TD	P21	665300
531000.14	531000	14 14	Contract Svc-Eng Oper TD	P21	643310
532000.16	532000	16 16	Contr Svc-Acctg Oper AG	P21	923200
532100.16	532100	16 16	Contr Svc-Audit Fees Oper AG	P21	643310
533000.13	533000	13 13	Contr Svc-Legal Oper WT	P21	643310
533000.16	533000	16 16	Contr Svc-Legal Oper AG	P21	923300
535000.11	535000	11 11	Contr Svc-Other Oper SS	P21	926800
535000.13	535000	13 13	Contr Svc-Other Oper WT	P21	923500
535000.14	535000	14 14	Contr Svc-Other Oper TD	P21	923500
535000.15	535000	15 15	Contr Svc-Other Oper CA	P21	923500
535000.16	535000	16 16	Contr Svc-Other Oper AG	P21	923500
535001.14	535001	14 14	Contr Svc-Temp Empl Oper TD	P21	923500
535001.15	535001	15 15	Contr Svc-Temp Empl Oper CA	P21	926800
535001.16	535001	16 16	Contr Svc-Temp Empl Oper AG	P21	923500
536000.13	536000	13 13	Contr Svc-Lab Testing Oper W	P21	642300
536000.16	536000	16 16	Contr Svc-Lab Testing Oper A	P21	903520
550000.1	550000	1 001	Trans - Cap Credits	P21	903520
550000.11	550000	11 11	Trans Oper SS	P21	903520
550000.12	550000	12 12	Trans Oper P	P21	903520
550000.13	550000	13 13	Trans Oper WT	P21	926800
550000.14	550000	14 14	Trans Oper TD	P21	665300
550000.15	550000	15 15	Trans Oper CA	P21	926800
550000.16	550000	16 16	Trans Oper AG	P21	930600
550000.21	550000	21 21	Transport Maint SS	P21	926800

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
550001.16	550001	16 16	Trans Oper AG Lease Cost	P21	930600
550002.16	550002	16 16	Trans Oper AG Lease Fuel	P21	930600
550003.16	550003	16 16	Trans Oper AG Lease Maint	P21	930600
556000.16	556000	16 16	Ins Vehicle Oper AG	P21	930600
568010.16	568010	16 16	Water Res Conservation	P21	930210
575000.11	575000	11 11	Misc Oper SS	P21	603100
575000.12	575000	12 12	Misc Oper P	P21	626500
575000.13	575000	13 13	Misc Oper WT	P21	643100
575000.14	575000	14 14	Misc Oper TD	P21	665300
575000.16	575000	16 16	Misc Oper AG	P21	930210
575001.16	575001	16 16	Misc Oper Exp AG Consol	P21	921200
575030.16	575030	16 16	Advertising	P21	930890
575120.16	575120	16 16	Bill Inserts AG	P21	921200
575130.16	575130	16 16	Brochures and Handouts	P21	930210
575140.16	575140	16 16	Charitable Contrib Deduct	P21	921200
575220.16	575220	16 16	Community Relations	P21	930210
575240.16	575240	16 16	Co Dues/Membership Deduct	P21	930880
575242.16	575242	16 16	Co Dues Deduct AWWA	P21	930880
575244.16	575244	16 16	Co Dues Deduct NAWC	P21	930880
575250.16	575250	16 16	Condemnation Costs	P21	921200
575270.16	575270	16 16	Directors Fees	P21	930890
575271.16	575271	16 16	Directors Expenses	P21	921200
575275.16	575275	16 16	Discounts Available	P21	930210
575276.16	575276	16 16	Discounts Lost	P21	921200
575320.13	575320	13 13	Electricity WT	P21	643100
575320.14	575320	14 14	Electricity TD	P21	665300
575400.16	575400	16 16	Bus Servies Proj Exp	P21	921130
575480.13	575480	13 13	Heat - Oil/Gas WT	P21	921130
575480.14	575480	14 14	Heat - Oil/Gas TD	P21	921200
575490.16	575490	16 16	Injuries and Damages	P21	925300
575500.13	575500	13 13	Janitorial WT	P21	642300
575500.14	575500	14 14	Janitorial TD	P21	665300
575545.13	575545	13 13	Lab Supplies WT	P21	642300
575560.16	575560	16 16	Lobbying Expenses	P21	921130
575610.16	575610	16 16	Merger Transactional Costs	P21	921130
575620.13	575620	13 13	Office & Admin Supplies WT	P21	643100
575620.14	575620	14 14	Office & Admin Supplies TD	P21	665300
575625.13	575625	13 13	Overnight Shipping WT	P21	642300
575625.14	575625	14 14	Overnight Shipping TD	P21	921130
575625.16	575625	16 16	Overnight Shipping AG	P21	930210
575640.16	575640	16 16	Penalties Nondeduct	P21	921130
575680.16	575680	16 16	Research & Development Exp	P21	921130
575710.16	575710	16 16	Security Service AG	P21	921130
575711.16	575711	16 16	Add'l Security Costs AG	P21	930210
575715.16	575715	16 16	Software Licenses & Support	P21	930230
575740.11	575740	11 11	Telephone SS	P21	921130
575740.13	575740	13 13	Telephone WT	P21	921130
575740.14	575740	14 14	Telephone TD	P21	665300
575741.13	575741	13 13	Cell Phone WT	P21	642300
575741.14	575741	14 14	Cell Phone TD	P21	665300
575780.11	575780	11 11	Trash Removal SS	P21	603100
575780.14	575780	14 14	Trash Removal TD	P21	665300
575790.16	575790	16 16	Trustee Fees AG	P21	923500
575820.13	575820	13 13	Uniforms WT	P21	643100
575820.14	575820	14 14	Uniforms TD	P21	662100
575830.11	575830	11 11	Wtr & Waste Wtr Exp SS	P21	603100
575998.16	575998	16 16	PCard Undistributed	P21	930210
631000.24	631000	24 24	Contr Svc-Eng Maint TD	P21	921130
620000.21	620000	21 21	Mat and Sup Maint SS	P25	617100
620000.22	620000	22 22	Mat and Sup Maint P	P25	921130
620000.23	620000	23 23	Mat and Sup Maint WT	P25	651100
620000.24	620000	24 24	Mat and Sup Maint TD	P25	678100
620000.26	620000	26 26	Mat and Sup Maint AG	P25	932100
635000.24	635000	24 24	Contr Svc-Other Maint TD	P25	921130

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
635000.26	635000	26 26	Contr Svc-Other Maint AG	P25	932700
675000.21	675000	21 21	Misc Maint SS	P25	932700
675000.23	675000	23 23	Misc Maint WT	P25	651100
675000.2315	675000	2315 2315	Misc Maint WT Equip	P25	651100
675000.24	675000	24 24	Misc Maint TD	P25	678100
675000.2415	675000	2415 2415	Misc Maint TD Dist Res	P25	678100
675000.242	675000	2420 2420	Misc Maint TD Mains	P25	678100
675000.244	675000	2440 2440	Misc Maint TD Hydrants	P25	678100
675000.26	675000	26 26	Misc Maint AG	P25	932700
675050.21	675050	21 21	Amort Def Maint SS	P25	921130
675050.212	675050	2120 2120	Amort Def Maint SS Intakes	P25	921130
675050.23	675050	23 23	Amort Def Maint WT	P25	651100
675050.24	675050	24 24	Amort Def Maint TD	P25	672120
675110.26	675110	26 26	Maint Exp ARO/Net Neg Sal AG	P25	403000
675650.24	675650	24 24	Paving/Backfill TD	P25	678100
680110	680110		Depr Exp-General	P27	921130
680120	680120		Depr Exp-Amort CIAC Tax	P27	921130
680125	680125		Depr Exp-Amort CIAC Non Tax	P27	921130
680300	680300		Amortization of UPAA	P28	921130
680540	680540		Amort-Reg Asset AFUDC	P28	921130
680600	680600		Amort-Prop Losses	P28	921130
680620	680620		Amort-Reg Asset	P28	921130
685100	685100		Utility Reg Assessment Fee	P29	921130
685320	685320		FUTA	P29	921130
685325	685325		FICA	P29	921130
685350	685350		SUTA	P29	921130
685430	685430		Other Taxes and Licenses	P29	921130
685440	685440		Gross Receipts Tax	P29	921130
690210	690210		SIT-Current	P30	921130
690220	690220		SIT-Prior Year Adj	P30	921130
690220.2	690220	2 002	SIT-PrYr Adj Over Accr	P30	921130
690720	690720		Def SIT-Pr Yr Adj	P30	921130
690720.1	690720	1 001	Def SIT-PY Adj Asset	P30	921130
690720.2	690720	2 002	Def SIT-PY Adj Liab	P30	921130
690730.1	690730	1 001	Def SIT-Reg Asset	P30	921130
690730.2	690730	2 002	Def SIT-Reg Liab	P30	921130
690750.2	690750	2 002	Def SIT-Other Liab	P30	921130
690110	690110		FIT-Current	P31	921130
690120	690120		FIT-Prior Year Adj	P31	921130
690120.2	690120	2 002	FIT-PrYr Adj Over Accr	P31	921130
690620	690620		Def FIT-Pr Yr Adj	P31	921130
690620.1	690620	1 001	Def FIT-PY Adj Asset	P31	921130
690620.2	690620	2 002	Def FIT-PY Adj Liab	P31	921130
690630.1	690630	1 001	Def FIT-Reg Asset	P31	921130
690630.2	690630	2 002	Def FIT-Reg Liab	P31	921130
690650.2	690650	2 002	Def FIT-Other Liab	P31	921130
695220	695220		ITC Restored - 3%	P31	921130
695230	695230		ITC Restored - 4%	P31	921130
695240	695240		ITC Restored - 10%	P31	921130
710400	710400		Int Inc-Outside	P39	921130
710500.AW46	710500 AW46	AW46	Int Inc-Inside AW46	P39	921130
705100	705100		AFUDC - Equity	P40	921130
715111	715111		M&J Revenues-Outside	P42	921130
715112.AW03	715112 AW03	AW03	M&J Revenues-AW03	P42	921130
715112.AW26	715112 AW26	AW26	M&J Revenues-AW26	P42	921130
716121	716121		M&J Expenses-Outside	P42	921130
716122	716122		M&J Expenses-Inside	P42	921130
717110	717110		Misc Non-Util Income-Out	P42	921130
755100	755100		Amort UPAA	P46	921130
760100	760100		Donations Deduct	P48	921130
760200	760200		Other Income Deductions	P48	921130
760400	760400		Other Lobbying Expenses	P48	921130
760500	760500		Non-Op Empl Exp Deduct	P48	921130
760600	760600		Non-Op Empl Exp Nondeduct	P48	921130

Object.Sub	Object	Sub	OBJECT DESCRIPTION	Line#	AWW
780100	780100		SIT-Other Inc & Ded Curr	P50	921130
790100	790100		FIT-Oth Inc & Ded-curr	P51	921130
810200	810200		Int LTD-Outside TFB	P56	921130
810210.AW46	810210 AW46	AW46	Int LTD-TFB Insd AW46	P56	921130
860040	860040		Div Dec PS-Out w/ mand	P56	921130
755201	755201		Amort PS Exp w/ mandatory	P57	921130
820100	820100		Amort Debt Disc & Exp	P57	921130
820110.AW46	820110 AW46	AW46	Amort DExp Inside AW46	P57	428000
830100.AW46	830100 AW46	AW46	Interest STD Inside	P58	431100
840000	840000		Other Interest Expense	P59	921130
850000	850000		AFUDC Debt	P60	921130
860100	860100		Div Dec Pref Stk-Outside	P64	921130
860220.AW02	860220 AW02	AW02	Div Decl Com Stk In-AW02	P69	438200

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 30**

Description of Filing Requirement:

The latest twelve (12) months of the monthly managerial reports providing financial results of operations in comparison to the forecast.

Response:

Please see attached documents which include the twelve monthly financial results of operations in comparison to forecast/budget reports for the twelve months ended January 2010.

For electronic version, refer to KAW_APP_EX30_022610.pdf.



AMERICAN WATER

Kentucky American Water
Feb-09
(\$ in Thousands)
I/S Variance Explanations
MTD Actual vs. Plan

Operating Revenues

Line 1 Revenue exceeded Plan by \$234k for the month. Usage variances were as follows: Commercial +\$90K, OPA +\$65K and Residential +\$35K, partially offset by lower Industrial revenue of \$21K. February results were impacted favorably by the reversal of discretionary unbilled adjustment from December that did not reverse in January. This issue was discovered in February resulting in a positive \$77K impact for the month. (\$72K in commercial and \$5K in Industrial)

Operating Expenses

Line 7 Pension / OPEB's actual contributions are higher than Plan based on final actuarial analysis
Line 15 Increased Contract Services are due to higher than Plan Legal Costs related to potential property sale.
Line 21 Lower fuel costs are impacting Miscellaneous expenses favorably.

Other Income & Deductions

Line 30 Interest on Short term bank debt is favorable by \$168K due to the actual interest rate of .97% vs. Budget rate of 3.9%. The higher ST Debt level is partially offsetting the favorable interest rate.
Line 32 AFUDC Equity Increase in February is partially due to CWIP increase but largely due to an adjustment of \$109k. To record missed AFUDC on engineering work orders (Oct-08 thru Jan-09) that were previously suspended.



	MTD Actuals	MTD Forecast	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
Water Revenues	4,189	-	4,189	5.55%	3,988	220	5.55%	4,140	48	1.16%
Sewer Revenues	25	-	25	(8.30)%	27	(2)	(8.30)%	27	(2)	(9.05)%
Other Operating Revenues	201	-	201	8.58%	185	16	8.58%	201	1	0.35%
Management Revenues	-	-	-	-	-	-	-	-	-	-
Operating Revenues	4,415	-	4,415	3.59%	4,181	234	3.59%	4,369	46	1.08%
OPERATIONS & MAINTENANCE EXPENSE										
PRODUCTION EXPENSES										
Purchased Water	8	-	(8)	(3.56)%	8	0	(3.56)%	7	(1)	(15.47)%
Fuel and Power	234	-	(234)	0.49%	235	1	0.49%	167	(67)	(39.95)%
Chemicals	171	-	(171)	(26.34)%	136	(36)	(26.34)%	136	(36)	(26.24)%
Waste Disposal	14	-	(14)	10.35%	16	2	10.35%	10	(6)	(41.57)%
Total production costs	428	-	(428)	(6.40)%	395	33	(6.40)%	334	(93)	(27.97)%
QA/LABOR & OVERHEAD										
Labor	485	-	(485)	7.51%	524	39	7.51%	452	(33)	(7.30)%
Pensions	117	-	(117)	(130.88)%	58	(59)	(130.88)%	58	(59)	(102.61)%
Group insurances	176	-	(176)	(12.11)%	157	(19)	(12.11)%	145	(31)	(21.17)%
Other benefits	18	-	(18)	44.23%	32	14	44.23%	28	(4)	(36.83)%
Total employee related	795	-	(795)	(4.13)%	764	(32)	(4.13)%	683	(112)	(16.46)%
Management fees	287	-	(287)	(4.43)%	275	(12)	(4.43)%	321	34	10.57%
Shared business services	284	-	(284)	7.80%	308	24	7.80%	308	24	7.86%
Contracted services	121	-	(121)	(64.09)%	74	(47)	(64.09)%	53	(68)	(126.55)%
Total contracted services	405	-	(405)	(6.08)%	382	(23)	(6.08)%	362	(43)	(12.00)%
Regulatory expenses	13	-	(13)	0.85%	14	1	0.85%	43	30	68.91%
Insurance Other Than Group	54	-	(54)	8.29%	60	6	8.29%	39	(16)	(39.94)%
Customer Accounting	139	-	(139)	(8.05)%	129	(10)	(8.05)%	82	(97)	(70.39)%
Rents	0	-	0	90.97%	5	4	90.97%	0	(5)	(191.37)%
General office expense	32	-	(32)	28.45%	45	13	28.45%	9	(22.69)%	(22.69)%
Miscellaneous	181	-	(181)	18.42%	197	16	18.42%	138	(43)	(16.64)%
Maintenance	178	-	(178)	15.35%	208	30	15.35%	211	33	16.76%
Total operations and maintenance expense	2,491	-	(2,491)	(2.79)%	2,472	(20)	(2.79)%	2,254	(237)	(10.51)%
Depreciation	480	-	(480)	16.45%	574	94	16.45%	498	(78)	(16.06)%
Amortization	43	-	(43)	4.05%	44	1	4.05%	42	(1)	(1.41)%
Depreciation and amortization	522	-	(522)	15.56%	618	96	15.56%	448	(74)	(16.50)%
General taxes	271	-	(271)	8.14%	285	14	8.14%	253	(19)	(7.38)%
Impairment charges	-	-	-	-	-	-	-	-	-	-
Total operating expenses, net	3,285	-	(3,285)	2.98%	3,385	101	2.98%	2,955	(329)	(11.15)%
Operating income	1,130	-	1,130	42.06%	796	335	42.06%	1,413	(283)	(20.03)%
OTHER INCOME & DEDUCTIONS										
Interest income	-	-	-	-	-	-	-	-	-	-
Interest on long-term debt	470	-	(470)	2.27%	481	11	2.27%	488	18	3.70%
Interest on Short-Term Bank Debt	42	-	(42)	80.01%	211	169	80.01%	67	25	37.24%
Other Interest Expense	-	-	-	-	-	-	-	-	-	-
Total interest expense	512	-	(512)	25.94%	691	179	25.94%	555	(43)	(7.75)%
AFUDC - Equity	461	-	(461)	29.45%	356	105	29.45%	88	(372)	(421.32)%
AFUDC Debt	199	-	(199)	23.09%	162	(37)	23.09%	42	(157)	(377.52)%
Amortization of Debt Expense	7	-	(7)	(25.87)%	6	(1)	(25.87)%	7	1	(1.47)%
Preferred dividends of subsidiaries (Consolidated)	-	-	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-
Miscellaneous income	21	-	(21)	14.73%	-	-	14.73%	14	7	47.39%
Total other income	21	-	(21)	152.28%	14	7	152.28%	14	7	47.39%
Miscellaneous Amortization	0	-	0	422.69%	0	0	422.69%	0	0	0.00%
Miscellaneous Other Deductions	69	-	(69)	(419.87)%	13	(56)	(419.87)%	21	(48)	(230.07)%
Total Other Deductions	69	-	(69)	-	13	(56)	-	21	(48)	-
Other, net	(48)	-	(48)	(260.71)%	(13)	(35)	(260.71)%	(7)	(41)	277.45%
Total other income (deductions)	92	-	(92)	147.91%	(193)	285	147.91%	(439)	531	121.07%
Income (loss) before income taxes	1,223	-	(1,223)	161.27%	603	(620)	161.27%	248	(25.47)%	25.47%
State Income Taxes	78	-	(78)	(100.90)%	28	(47)	(100.90)%	59	(16)	(27.86)%
Federal Income Taxes	415	-	(415)	-	206	(209)	-	334	(91)	(24.17)%
Federal Income taxes (non-operating)	-	-	-	-	-	-	-	-	-	-
State income taxes (non-operating)	(2)	-	2	136.25%	(1)	1	136.25%	0	2	645.86%
Provision (Benefit) for Income Taxes	478	-	(478)	(107.95)%	230	(248)	(107.95)%	381	(87)	(22.37)%
Net Income (loss)	744	-	(744)	95.75%	372	372	95.75%	583	161	27.55%
Preferred Dividend Declared	7	-	(7)	101.53%	7	0	101.53%	7	0	(0.75)%
Net Income To Common Stock	738	-	(738)	101.53%	365	372	101.53%	577	161	27.87%
Common Dividend Declared	-	-	-	-	-	-	-	-	-	-
Current Year Retained Earnings	738	-	(738)	101.53%	366	372	101.53%	577	161	27.87%



Kentucky American Water
Feb-09
(\$ in Thousands)
I/S Variance Explanations
YTD Actual vs. Plan

Operating Revenues

Line 1 Water revenues are below Plan by \$126k primarily due to lower usage Commercial -\$95k and Industrial -\$75k results partially offset by higher than Plan SFR sales of \$56k

Operating Expenses

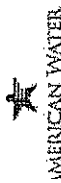
Line 6 Fuel and power is lower than Plan primarily due to lower system delivery.
Line 10 Pensions are higher than budget. Plan was \$10.1K and actual is \$240K due to some Insurance fees-Insurance corrections from prior year.
Line 13 Management fees are over Plan largely due to increased SOX testing, pension/OPEB costs and Contract Services related to YE activity

Depreciation

Line 21 Miscellaneous expenses are lower than plan primarily due to lower transportation (fuel) costs.
Line 23 Depreciation Expenses are favorable based on an overall lower composite depreciation rate.

Interest on Short-Term Bank Debt

Line 30 Interest on Short term bank debt is favorable by \$309K due to lower interest rates (0.97% actual vs 3.8% Plan). The higher ST Debt balance is partially offsetting the favorable impact of the lower interest rates.



	YTD Actuals	Reforecast	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water Revenues	8,067	-	8,184	8,067	(126)	8,389	(342)	(4.07)%
Sewer Revenues	62	-	56	62	(3)	53	(7)	(1.98)%
Other Operating Revenues	375	-	371	375	4	383	(8)	(2.09)%
Operating Revenues	8,484	-	8,610	8,484	(126)	8,835	(351)	(3.97)%
OPERATIONS & MAINTENANCE EXPENSE								
PRODUCTION EXPENSES								
Purchased Water	19	(19)	20	(19)	1	13	(6)	(49.09)%
Fuel and Power	453	(453)	517	453	63	445	(8)	(1.93)%
Chemicals	335	(335)	339	335	4	254	(81)	(32.00)%
Waste Disposal	28	(28)	31	28	2	19	(9)	(38.52)%
Total production costs	835	(835)	908	835	70	768	(77)	(10.22)%
GA/LABOR & OVERHEAD								
Labor	1,049	(1,049)	1,099	1,099	50	985	(55)	(5.48)%
Pensions	240	(240)	101	240	(390)	115	(125)	(108.04)%
Group Insurances	357	(357)	314	357	(43)	294	(64)	(21.70)%
Other benefits	43	(43)	52	43	9	10	(6)	(6.58)%
Total employee related	1,689	(1,689)	1,577	1,689	(113)	1,456	(233)	(16.00)%
Management fees	657	(657)	561	657	(95)	672	16	2.34%
Shared business services	643	(643)	645	643	2	625	(18)	(2.82)%
Contracted services	180	(180)	150	180	(31)	94	(86)	(91.00)%
Total contracted services	823	(823)	795	823	(28)	719	(104)	(14.40)%
Regulatory expense	27	(27)	27	27	0	86	59	86.53%
Insurance Other Than Group	109	(109)	120	109	11	94	(15)	(16.08)%
Customer Accounting	265	(265)	285	265	0	140	(125)	(88.87)%
Rents	6	(6)	4	6	4	1	(5)	(17.58)%
General office expense	76	(76)	98	76	22	103	27	26.07%
Miscellaneous	305	(305)	380	305	75	264	(42)	(15.85)%
Maintenance	367	(367)	417	367	50	402	35	8.74%
Total operations and maintenance expense	5,159	(5,159)	5,155	5,159	(4)	4,701	(457)	(9.23)%
Depreciation	958	(958)	1,146	958	(188)	808	(150)	(18.44)%
Amortization	85	(85)	89	85	4	84	(1)	(1.51)%
Depreciation and amortization	1,044	(1,044)	1,235	1,044	191	893	(150)	(16.85)%
General taxes	557	(557)	592	557	35	539	(18)	(3.34)%
Impairment charges	-	-	592	-	35	539	(18)	(3.34)%
Total operating expenses, net	6,760	(6,760)	6,992	6,760	232	6,134	(626)	(10.21)%
Operating income	1,725	-	1,628	1,725	97	2,701	(977)	(38.15)%
OTHER INCOME & DEDUCTIONS								
Interest income	941	(941)	882	941	21	876	35	3.57%
Interest on long-term debt	83	(83)	392	83	(309)	154	71	46.01%
Interest on Short-Term Bank Debt	-	-	-	-	-	-	-	-
Other Interest Expense	-	-	-	-	-	-	-	-
Total Interest expense	1,024	(1,024)	1,364	1,024	330	1,130	106	9.34%
AFUDC - Equity	692	692	681	692	11	170	(522)	306.24%
AFUDC Debt	322	322	309	322	13	80	(242)	301.50%
Amortization of Debt Expense	15	(15)	12	15	(3)	15	0	(1.47)%
Preferred dividends of subsidiaries (Consolidated)	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-
Miscellaneous Income	15	(15)	15	15	0	15	0	0.42%
Total other income	15	(15)	15	15	0	15	0	0.42%
Miscellaneous Amortization	40	0	138	40	155.28%	0	0	0.00%
Miscellaneous Other Deductions	105	(105)	138	105	32	92	(14)	(14.74)%
Total Other Deductions	105	(105)	138	105	32	92	(14)	(14.74)%
Other, net	(90)	(90)	(199)	(90)	48	(77)	(13)	15.17%
Total other income (deductions)	(114)	(114)	(513)	(114)	398	(970)	856	88.20%
Income (loss) before income taxes	1,610	-	1,115	1,610	495	1,731	(121)	(6.99)%
State Income Taxes	101	(101)	63	101	(38)	107	6	5.51%
Federal Income Taxes	565	(565)	418	565	(39)	613	48	7.84%
Tax Saving Acquisition Adjustment	(4)	4	(11)	(4)	(8)	(3)	1	(9.74)%
State Income taxes (non-operating)	(4)	(4)	(4)	(4)	0	(3)	1	(7.50)%
Federal Income taxes (non-operating)	644	(644)	425	644	(219)	684	51	7.30%
Provision (Benefit) for Income Taxes	967	(967)	590	967	278	1,037	(70)	(6.78)%
Net Income (Loss)	13	-	13	13	0	13	0	0.91%
Preferred Dividend Declared	953	-	677	953	276	1,024	(70)	(6.86)%
Net Income To Common Stock	953	-	677	953	276	1,024	(70)	(6.86)%
Common Dividend Declared	-	-	-	-	-	-	-	-
Current Year Retained Earnings	953	-	677	953	276	1,024	(70)	(6.86)%



AMERICAN WATER

Supplementary Tables and Discussion
Kentucky with Growth
Feb 2009

Close Status: Final
source system financial
data with prelim
adjustments and
eliminations

AWFRP 2.0 - Result of Operations - Revenue Analysis

Revenue Variance Summary (\$ In Thousands)

	Budget		Forecast		Prior Year	
	MTD	QTD	MTD	QTD	MTD	QTD
Budget / Forecast / Prior Year	4,181	8,610	-	-	4,369	8,835
Rates	-	-	-	-	-	-
DSIC	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-
Water acquisitions	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-
Other	16	4	-	-	1	(8)
Fire	-	-	-	-	-	-
Organic growth	(7)	(14)	-	-	40	78
Demand / consumption	227	(17)	-	-	7	(325)
Sewer	(2)	(3)	-	-	(2)	(1)
Other Revenue Variances	0	(95)	4,415	8,484	0	(95)
Actual revenues	4,415	8,484	4,415	8,484	4,415	8,484
Total variance	234	(125)	4,415	8,484	46	(351)

Kentucky American Water
Mar-09
(\$ in Thousands)
I/S Variance Explanations
QTD Actual vs. Q1RF



Operating Revenues

Operating Expenses

Line 9 Labor costs were favorable by \$152K largely due to an A/P adjustment (\$43k) higher capitalization rates (\$47k) and vacancies.

Kentucky American Water
Mar-09
(\$ in Thousands)
I/S Variance Explanations
QTD Actual vs. Plan



Operating Revenues

Line 1 Water Revenues is below Plan by \$237 for the 1st Quarter. Lower than Budget results were primarily due to usage variances. Results by class were as follows: Commercial -\$215K, Industrial -\$122K, Residential -\$28K partially offset by SFR +\$88K, Fire Service +\$32K and OPA +\$6K. A discretionary adjustment was made in March for (-\$89K in Total -\$72K for Commercial and -\$17K for Industrial)

Operating Expenses

Line 6 Fuel and power are lower than Plan by \$83 primarily due to lower system delivery.
Line 7 Chemical costs were lower by \$9 than Plan due to reduced usage.
Line 9 Labor costs were favorable by +\$152K largely due to an A/P adjustment (\$43K) and higher capitalization rates.
Line 15 Increased Contract Services are due higher than Plan by \$48K, Legal Costs related to potential property sale.
Line 21 Lower fuel costs account for the majority of the favorable Miscellaneous expense variance.
Line 23 Depreciation is favorable to Plan due to an overall lower composite depreciation rate than Plan.
Line 25 General Taxes are lower than Plan based on favorable Property taxes and a one time favorable Property tax adjustment booked in March for \$66k

Other Income & Deductions

Line 30 Interest on Short term bank debt is favorable by \$466K due to the lower than expected ST interest rate (0.97% Actual vs. Budget rate of 3.9%). The higher ST Debt level is partially offsetting the favorable interest rate.



AMERICAN WATER

Kentucky American Water
 Mar-09
 (\$ in Thousands)
 I/S Variance Explanations
 QTD Actual vs. PY

Operating Revenues

Line 1 Water Revenues is below than PY by \$351. The primary factor for the lower results relates to usage. The lower usage of \$459K is being partially offset by customer growth of \$108K. Variances by class were as follows: Commercial -\$272K, Residential -\$98K, Industrial -\$82K, OPA +\$57K, Fire +\$35K. And SFR +9K.

Operating Expenses

Line 7 Chemical costs were higher than PY by \$128 due to an increased chemical pricing.
 Line 10 Pension costs are unfavorable by \$189 due to increased contributions based on final actuarial analysis.
 Line 13 Management fees are lower than PY by +\$143K primarily due to favorable depreciation adjustments recorded in 2009.
 (Certain assets were reclassified from a 3 year life to a 5 year life). This was partially offset by higher SOX testing costs incurred in Jan.
 Line 15 Increased Contract Services actuals are higher than PY by \$136, Legal Costs related to potential property sale.
 Line 18 Customer Accounting higher than PY by \$180K due to uncollectible expenses. Actual uncollectible expenses YTD are 0.88% of Revenue, however Q1, 2008 rate was well below the average.
 Line 23 Depreciation is lower in 2009 than 2008 due to an adjustment made in March, 2008. The '08 adjustment increased depreciation expenses by \$290k and related to a correction for

Other Income & Deductions

Line 32 AFUDC Equity Increase relates to CWIP increase and a February adjustment of \$140k. To record missed AFUDC on engineering work orders (Oct-08 thru Jan-09) that were previously suspended.
 Line 33 AFUDC Debt Increase by +\$370

	QTD Actuals	QTD Refr/East	Variance Favorable (Unfavorable)	% Variance	QTD Plan	Variance Favorable (Unfavorable)	% Variance	QTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
Water Revenues	12,254	12,385	(111)	(0.90)%	12,481	(237)	(1.90)%	12,505	(351)	(2.79)%
Senior Revenues	78	79	(1)	(1.18)%	82	(4)	(5.05)%	78	0	0.48%
Other Operating Revenues	581	586	(4)	(0.73)%	559	25	4.46%	590	(9)	(1.50)%
Operating Revenues	12,913	13,029	(116)	(0.89)%	13,128	(216)	(1.65)%	13,273	(360)	(2.71)%
PRODUCTION EXPENSES										
Purchased Water	33	33	0	(0.87)%	34	1	1.95%	22	(11)	(49.43)%
Fuel and Power	704	723	19	2.69%	787	83	10.83%	681	(23)	(3.37)%
Chemicals	506	511	5	0.98%	561	33	5.87%	496	(92)	(18.00)%
Waste Disposal	44	58	14	24.24%	60	16	27.34%	27	(38.23)%	
Total production costs	1,286	1,325	38	2.88%	1,395	109	7.78%	1,151	(135)	(11.73)%
OPERATIONS & MAINTENANCE EXPENSE										
LABOR & OVERHEAD										
Labor	1,518	1,638	118	7.20%	1,670	152	9.09%	1,489	(28)	(1.93)%
Pensions	361	351	(10)	(3.00)%	337	(24)	(7.24)%	173	(188)	(109.81)%
Group Insurances	528	545	17	3.11%	561	33	5.87%	496	(92)	(17.00)%
Other benefits	73	74	1	0.57%	93	20	21.10%	5	(5)	5.93%
Total employee related	2,481	2,605	125	4.79%	2,660	180	6.79%	2,176	(305)	(14.00)%
Management fees	907	922	14	1.57%	927	19	2.07%	1,051	143	13.63%
Shared business services	915	954	40	4.15%	976	60	6.18%	966	42	4.35%
Contracted services	282	264	(18)	(6.25)%	234	(48)	(20.72)%	146	(136)	(93.57)%
Total contracted services	1,187	1,219	22	1.79%	1,209	12	0.98%	1,102	(85)	(8.61)%
Regulatory expense	40	40	0	0.22%	41	1	0.55%	100	59	59.47%
Insurance Other Than Group	151	170	18	10.82%	180	28	15.83%	38	(53)	(54.15)%
Customer Accounting	385	400	14	3.56%	399	14	3.46%	206	(180)	(87.22)%
Rents	10	10	0	4.26%	14	4	30.27%	9	(1)	(12.95)%
General office expense	121	134	13	9.75%	155	34	21.80%	130	5	6.86%
Miscellaneous	472	516	44	8.55%	609	138	22.59%	483	12	2.42%
Maintenance	582	573	(9)	(1.58)%	633	52	8.14%	617	35	5.71%
Total operations and maintenance expense	7,633	7,913	280	3.54%	8,222	589	7.17%	7,123	(510)	(7.16)%
Depreciation	1,439	1,534	94	6.15%	1,721	282	16.99%	1,660	221	13.31%
Amortization	128	130	2	0.97%	133	5	3.88%	128	0	0.31%
Depreciation and amortization	1,568	1,663	95	5.75%	1,854	287	15.47%	1,788	221	12.33%
General taxes	764	857	94	10.32%	881	117	14.28%	853	89	10.48%
Impairment charges	-	-	-	-	-	-	-	-	-	-
Total operating expenses, net	9,964	10,434	470	4.80%	10,967	1,003	9.15%	9,764	(200)	(2.05)%
Operating income	2,849	2,595	(254)	(8.90)%	2,162	(787)	(36.39)%	3,508	(660)	(15.95)%
OTHER INCOME & DEDUCTIONS										
Interest income	1,411	1,404	(6)	(0.46)%	1,425	14	1.00%	1,463	53	3.60%
Interest on long-term debt	141	220	79	36.09%	606	466	76.81%	217	76	35.20%
Other Interest Expense	-	-	-	-	-	-	-	-	-	-
Total Interest expense	1,551	1,624	73	4.49%	2,031	480	23.63%	1,680	128	7.68%
AFUDC - Equity	1,083	1,116	(33)	(4.74)%	1,080	(17)	(1.54)%	793	(283)	(28.32)%
AFUDC Debt	487	514	27	(3.32)%	490	6	1.27%	127	(370)	(291.20)%
Other Debt	21	21	0	(7.36)%	18	(5)	(25.97)%	22	0	1.47%
Preferred dividends of subsidiaries (Consolidatio	-	-	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	35	15	20	129.72%	-	35	-	23	12	54.50%
Total other income	35	15	20	129.72%	-	35	-	23	12	54.50%
Miscellaneous Amortization	40	0	0	1,470.12%	0	0	0.00%	0	0	0.00%
Miscellaneous Other Deductions	133	137	4	3.11%	169	37	21.71%	105	(28)	(26.32)%
Total Other Deductions	133	137	4	3.39%	170	37	21.87%	105	(28)	(26.32)%
Other, net	(97)	(122)	24	20.08%	(170)	72	42.57%	(82)	(15)	30.82%
Total other income (deductions)	(111)	(137)	26	19.01%	(648)	537	82.90%	(1,387)	1,276	92.01%
Income (loss) before income taxes	2,838	2,459	380	15.44%	1,514	1,324	87.44%	2,122	717	33.78%
State Income Taxes	126	144	18	12.63%	100	(26)	(26.12)%	57	(66)	(119.76)%
Federal Income Taxes	708	858	150	17.52%	540	(168)	(31.09)%	775	67	8.70%
Federal Income Tax Adjustment	0	(6)	(6)	(105.83)%	(14)	(14)	(102.61)%	(2)	(3)	(115.30)%
State income taxes (non-operating)	835	966	131	13.60%	571	(264)	(46.22)%	816	(19)	(2.39)%
Federal income taxes (non-operating)	2,003	1,492	511	34.25%	1,060	1,060	112.39%	1,308	697	53.38%
Provision (Benefit) for Income Taxes	20	20	0	(0.05)%	20	0	0.95%	0	0	0.95%
Net Income (loss)	1,883	1,472	511	34.71%	924	1,060	114.75%	1,286	697	54.19%
Preferred Dividend Declared	1,708	1,603	(105)	(6.56)%	1,603	(105)	(6.56)%	1,087	(611)	(55.71)%
Net Income To Common Stock	275	(131)	406	310.18%	(660)	955	140.47%	188	86	45.34%

Kentucky American Water
Mar-09
(\$ in Thousands)
B/S Variance Explanations
Actual vs. PY



<u>Assets</u>	
Line 2	CWIP Increases are primarily due to the WTP Plant Project.
Line 9	Utility customer accounts receivable is lower due to lower revenues (Q4, '08 revenues were higher than Q1, '09 by \$2M)
Line 11	Accrued utility revenues were below than PY by \$342 due to lower commercial and industrial usage.
Line 12	Other receivables net are higher than PY by +\$142K, actuals were as follows: A/R system +\$472, A/R Manual +\$99K, A/R Retro Insurance +\$55K, prov for A/R Medicare subsidy 23K and accum for uncollected Misc. Invoices -\$95K
Line 14	Materials & supplies are higher by 31.7% compared to prior year due to price increases of plant materials & chemicals and higher inventory levels based on lower usage.
Line 16	Other current assets is lower than prior year by +\$185 due to the prepayments for taxes, insurance & PUC/PSC assessments.
Line 17	Regulatory assets-income tax recovery is higher than the prior year by +\$341, includes AFUDC Eqty CWIP, Pitt FLW thru difference and other Regulatory assets
	<u>Capital & Liabilities</u>
Line 36	PIC is higher than PY due to the capital infusion of +22.5 that was completed in March 2009
Line 47	Accounts payable is higher than Dec. by +\$1,149 due to Capital spending. Variances were as follows: A/P General -\$886K, Contract retention +\$668K A/P Misc +\$1.58, A/P AMWS -\$164, Intercompany rec/payable -\$62.
Line 49	Interest Accrued is higher than PY by +\$760K. Actuals were interest accrual LTD Outside +\$489, Int accr-LTD-AW46 +\$1,421
Line 54	Reg. Liab were higher than prior year by +\$997, primarily due to reclass to deferred liability
Line 57	Other deferred Credits lower than PY by \$674, variances were as follows: accr dividends equivalents & DCA-FAS 112 Costs.

	Actuals	Reforecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Dec	Increase (Decrease)	% Variance
Assets										
Utility Plant	372,124	372,213	(90)	0.0%	372,491	(367)	(0.1)%	369,486	2,638	0.7%
Construction Work in Progress	77,256	77,441	(185)	(0.2)%	73,240	4,201	5.5%	54,501	22,755	41.8%
Accumulated Depreciation	(85,848)	(85,818)	(30)	0.0%	(88,589)	2,741	3.1%	(84,213)	(1,635)	(1.9)%
Utility Plant Acquisition Adjustments	300	302	(2)	(0.6)%	312	(12)	(3.7)%	305	(4)	(1.4)%
Other Utility Plant Adjustments	-	-	-	-	-	-	-	-	-	-
Total Utility Plant	363,832	364,138	(306)	(0.1)%	357,455	6,378	1.8%	340,079	23,753	7.0%
Non-utility Property	270	270	0	0.0%	270	0	0.0%	270	0	0.0%
Total property, plant and equipment	364,102	364,409	(306)	(0.1)%	357,725	6,378	1.8%	340,349	23,753	7.0%
Cash and Cash Equivalents	179	770	(590)	(76.7)%	200	(21)	(10.3)%	234	(55)	(23.6)%
Restricted funds	-	-	-	-	-	-	-	-	-	-
Utility customer accounts receivable	1,919	2,043	(123)	(6.0)%	3,190	(1,270)	(39.8)%	2,342	(423)	(18.1)%
Allowance for uncollectible accounts	(245)	(260)	15	5.7%	(237)	(8)	(3.3)%	(273)	28	10.4%
Accrued utility revenues	2,957	2,996	(39)	(1.4)%	2,959	(402)	(13.6)%	2,900	(342)	(11.8)%
Other receivables, net	554	713	(160)	(22.4)%	310	244	78.7%	412	142	34.6%
Taxes receivable, including federal income	-	-	-	-	-	-	-	-	-	-
Materials and supplies	760	722	38	5.2%	716	44	6.1%	577	183	31.7%
Receivable from affiliated companies	1	1	0	0.0%	13	(13)	(95.7)%	1	0	0.2%
Other Current Assets	596	666	(70)	(10.5)%	222	374	168.7%	411	185	45.0%
Current Assets	6,321	6,951	(630)	(9.1)%	7,373	(1,051)	(14.3)%	6,603	(282)	(4.3)%
Regulatory assets - income tax recovery	3,571	3,448	125	3.6%	6,358	(2,787)	(43.8)%	3,230	341	10.6%
Debt and preferred stock expense	773	775	(2)	(0.2)%	754	19	2.5%	795	(22)	(2.8)%
Deferred pension expense	-	-	-	-	-	-	-	-	-	-
Deferred postretirement benefit expense	-	-	-	-	-	-	-	-	-	-
Deferred security costs	-	-	-	-	-	-	-	-	-	-
Deferred business services project expens	-	-	-	-	-	-	-	-	-	-
Deferred integration costs	-	-	-	-	-	-	-	-	-	-
Deferred integration costs	-	-	-	-	-	-	-	-	-	-
Deferred bank painting costs	1,701	1,705	(4)	(0.2)%	1,553	148	9.6%	1,737	(36)	(2.1)%
Deferred rate case	805	684	(121)	(15.1)%	490	114	23.3%	554	51	9.1%
Asset premium recoverable thru rates	-	-	-	-	-	-	-	-	-	-
Environmental remediation recoverable thr	-	-	-	-	-	-	-	-	-	-
Other Regulatory Assets	2,768	2,867	(99)	(3.5)%	2,932	(165)	(5.6)%	2,760	8	0.3%
Regulatory assets	9,418	9,477	(59)	(0.6)%	12,088	(2,670)	(22.1)%	9,078	342	3.8%
Other Investments	-	-	-	-	-	-	-	-	-	-
Long term receivable from affiliates	-	-	-	-	-	-	-	-	-	-
Funds restricted for construction	-	-	-	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-	-
Other Long Term Assets	164	282	(119)	(42.0)%	1,029	(865)	(84.1)%	126	38	30.3%
Total Regulatory & Other LT Assets	9,581	9,759	(178)	(1.8)%	13,117	(3,535)	(27.0)%	9,208	373	4.1%
Total Assets	380,005	381,118	(1,114)	(0.3)%	378,214	1,791	0.5%	356,160	23,845	6.7%
Capital & Liabilities										
Common Stock	36,589	36,589	0	0.0%	36,589	0	0.0%	36,589	0	0.0%
Paid in Capital	46,639	46,635	4	0.0%	42,113	4,526	10.7%	24,127	22,512	93.3%
Retained Earnings	33,087	32,691	396	1.2%	32,169	918	2.8%	32,812	(125)	(0.4)%
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
Unearned compensation	-	-	-	-	-	-	-	-	-	-
Treasury stock	-	-	-	-	-	-	-	-	-	-
Common stockholders equity	116,295	115,895	400	0.4%	110,851	5,444	4.9%	83,507	22,787	24.4%
Preferred Stock without mandatory redemp	1,459	1,456	3	0.2%	1,447	9	0.6%	1,456	0	0.0%
Long term debt	73,600	73,600	0	0.0%	73,600	0	0.0%	76,700	(3,100)	(4.0)%
Redeemable preferred stock at redemption	4,500	4,500	0	0.0%	4,500	0	0.0%	4,500	0	0.0%
Total Capitalization	195,854	195,441	413	0.2%	190,397	5,047	2.6%	176,163	19,687	11.2%
Short Term Debt	53,533	52,065	1,468	2.8%	48,838	4,695	9.6%	53,106	427	0.8%
Current portion of Long-term Debt	3,100	3,100	0	0.0%	3,100	0	0.0%	3,100	0	0.0%
Current portion of redeemable stock at red	-	-	-	-	-	-	-	-	-	-
Accounts Payable	9,594	12,116	(2,522)	(26.8)%	7,879	1,714	21.8%	8,445	1,149	13.6%
Taxes Accrued	(143)	794	(937)	(117.9)%	2,665	(2,807)	(105.3)%	(308)	1,666	53.8%
Interest Other Current	1,910	1,945	(34)	(1.8)%	2,681	(771)	(28.8)%	1,150	760	66.1%
Total Other Current Liabilities	3,811	4,294	(483)	(11.3)%	3,768	43	1.1%	4,470	(659)	(14.7)%
Total Current Liabilities	71,805	74,915	(3,109)	(4.3)%	68,991	2,874	4.2%	69,963	1,842	2.6%
Customer Advances for Construction	12,639	12,316	323	2.6%	15,487	(2,947)	(19.0)%	11,916	623	5.2%
Deferred Income Taxes	39,022	38,404	618	1.6%	38,002	1,020	2.7%	37,871	1,151	3.0%
Deferred investment tax credits	1,112	1,124	(12)	(1.1)%	1,134	(22)	(1.9)%	1,133	(1)	(0.1)%
Regulatory liability	10,752	10,756	(4)	0.0%	10,555	197	1.9%	9,755	997	10.2%
Accrued pension expense	1,464	1,427	37	2.6%	1,225	239	19.5%	1,389	75	5.4%
Accrued postretirement benefit expense	433	402	31	7.8%	333	100	30.2%	418	15	3.5%
Other Deferred Credits	82	82	0	0.0%	4,096	(4,035)	(98.5)%	736	(674)	(91.6)%
Regulatory & Other Long Term Liabilities	65,384	64,490	894	1.4%	70,831	(5,447)	(7.7)%	63,219	2,165	3.4%
Contributions in aid of construction	46,966	46,873	93	0.2%	48,055	(1,090)	(2.3)%	46,815	150	0.3%
Total capital and liabilities	380,005	381,118	(1,114)	(0.3)%	378,215	1,790	0.5%	356,160	23,845	6.7%



AMERICAN WATER

Supplementary Tables and Discussion
Kentucky with Growth
Mar 2009

Close Status: Final,
pending reviews

AWFRP 2.0 - Result of Operations - Revenue Analysis

Revenue Variance Summary (\$ in Thousands)

	Budget			Forecast			Prior Year		
	MTD	QTD	YTD	MTD	QTD	YTD	MTD	QTD	YTD
Budget / Forecast / Prior Year	4,520	13,129	13,129	4,545	13,029	13,029	4,437	13,273	13,273
Rates	-	-	-	-	-	-	-	-	-
DSIC	-	-	-	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-	-	-	-
Water acquisitions	-	-	-	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-	-	-	-
Other	21	25	25	(4)	(4)	(4)	(1)	(9)	(9)
Fire	-	-	-	-	-	-	-	-	-
Organic growth	(9)	(23)	(23)	-	-	-	41	119	119
Demand / consumption	(196)	(213)	(213)	(109)	(109)	(109)	(143)	(468)	(468)
Sewer	(1)	(4)	(4)	(1)	(1)	(1)	1	0	0
Other Revenue Variances	94	(1)	(1)	(2)	(2)	(2)	93	(2)	(2)
Actual revenues	4,429	12,913	12,913	4,429	12,913	12,913	4,429	12,913	12,913
Total variance	(91)	(216)	(216)	(116)	(116)	(116)	(9)	(360)	(360)

Kentucky American Water
Apr-09
(\$ in Thousands)
I/S Variance Explanations
MTD vs Q1RF



Operating Revenues
Line 1 Water Revenues were below Forecast by \$196 for the month of April. Lower than Q1RF results were primarily due to usage variances. Results by class were as follows: Commercial -\$77K, Industrial -\$56K, Residential -\$60K, SFR +\$28K, Fire Service Sales +\$14K, OPA -\$45K.

Operating Expenses
Operating Expenses
Line 6 Fuel and power are lower than Plan by \$42 primarily due to lower system delivery.
Line 7 Chemical costs were lower by \$42 than Plan due to reduced usage..
Line 9 Labor costs were favorable by +\$39K due to vacancies and capitalization.
Line 15 Increased Contract Services were higher than Forecast by \$26K, related to Legal Costs.
Line 21 Lower fuel costs account for the majority of the favorable Miscellaneous expense variance.
Line 23 Depreciation is favorable due to an overall lower composite depreciation rate than Q1RF.

Other Income & Deductions
Line 30 Interest on Short term bank debt is favorable by \$90K due to the lower than expected ST interest rate.
The higher ST Debt level is partially offsetting the favorable interest rate.

+/- \$126,000 Threshold is +/- \$125,000 and 10%



AMERICAN WATER

Kentucky American Water
Apr-09
(\$ in Thousands)
I/S Variance Explanations
MTD vs Plan

Operating Revenues

Line 1 Water Revenues were below Plan by \$196 for the month of April. Lower than Budget results were primarily due to usage variances. Results by class were as follows: Commercial -\$77K, Industrial -\$56K Residential -\$60K, SFR +\$28K, Fire Service Sales +\$14K, OPA -\$45K.

Operating Expenses

Line 6 Fuel and power are lower than Plan by \$42.
Line 7 Chemical costs were lower by \$42 than Plan due to reduced usage..
Line 9 Labor costs were favorable by +\$22K largely due to vacancies
Line 15 Increased Contract Services are due higher than Plan by \$33K, related to Legal Costs.
Line 21 Lower fuel costs account for the majority of the favorable Miscellaneous expense variance.
Line 23 Depreciation is favorable to Plan due to an overall lower composite depreciation rate than Plan.

Other Income & Deductions

Line 30 Interest on Short term bank debt is favorable by \$172K due to the lower than expected ST interest rate (0.97% Actual vs. Budget rate of 3.9%). The higher ST Debt level is partially offsetting the favorable interest rate.

	MTD Actuals	MTD Reforecast	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
1	4,035	4,231	(196)	(4.82)%	4,231	(196)	(4.62)%	4,283	(248)	(5.79)%
2	27	29	(2)	(7.60)%	29	2	7.40%	25	2	7.40%
3	214	210	3	1.46%	185	28	15.14%	200	14	6.86%
4	4,276	4,470	(195)	(4.56)%	4,445	(170)	(3.82)%	4,508	(232)	(5.15)%
OPERATIONS & MAINTENANCE EXPENSE										
PRODUCTION EXPENSES										
5	208	250	42	16.63%	250	42	16.63%	11	2	14.48%
6	148	188	40	22.34%	188	40	22.34%	121	(15)	(7.75)%
7	17	28	11	39.91%	28	11	39.91%	25	8	32.45%
8	380	460	80	20.95%	460	80	20.95%	350	(30)	(8.47)%
O&M LABOR & OVERHEAD										
9	564	602	38	6.41%	602	38	6.41%	494	(70)	(14.11)%
10	117	111	(6)	(5.77)%	112	(5)	(4.53)%	60	57	(105.19)%
11	184	187	3	1.75%	187	3	1.75%	138	(46)	(33.56)%
12	19	34	15	45.68%	34	15	45.68%	20	1	5.80%
Total employee related										
	884	935	51	5.46%	919	35	3.81%	708	(175)	(24.74)%
Management fees										
13	350	317	(33)	(10.52)%	317	(33)	(10.52)%	325	(26)	(7.85)%
14	298	331	32	9.81%	342	43	12.59%	348	49	14.03%
15	105	80	(25)	(23.71)%	73	(33)	(45.45)%	95	(11)	(11.21)%
Total contracted services										
	405	411	6	1.40%	415	10	2.42%	443	38	8.61%
Regulatory expense										
16	13	14	0	0.65%	14	0	0.65%	14	0	0.37%
17	55	60	5	8.47%	60	5	8.47%	47	(8)	(16.06)%
18	76	134	58	43.42%	134	58	43.42%	117	4	38.15%
19	4	5	1	23.77%	5	1	23.77%	4	1	16.46%
20	41	50	8	18.86%	48	4	14.30%	43	2	4.71%
21	62	168	107	63.39%	188	125	67.00%	152	91	59.59%
22	208	263	57	24.78%	274	68	24.78%	180	(29)	(14.74)%
Total operations and maintenance expense										
	2,475	2,835	360	12.71%	2,850	375	13.15%	2,353	(92)	(3.86)%
Depreciation										
23	483	576	94	16.24%	576	94	16.24%	457	(26)	(5.74)%
24	43	44	1	3.45%	44	1	3.45%	42	(1)	(2.81)%
Depreciation and amortization										
	526	621	95	15.33%	621	95	15.33%	498	(27)	(6.49)%
General taxes										
25	284	301	18	5.82%	300	16	5.40%	277	(7)	(2.37)%
27	3,284	3,757	473	12.59%	3,770	486	12.89%	3,458	(126)	(3.99)%
Total operating expenses, net										
	3,991	4,456	465	11.65%	4,486	495	13.26%	3,813	(673)	(26.54)%
OTHER INCOME & DEDUCTIONS										
28	-	-	-	-	-	-	-	-	-	-
29	452	463	11	2.32%	463	11	2.32%	470	18	3.80%
30	44	134	90	67.14%	216	122	79.57%	53	9	16.28%
31	-	-	-	-	-	-	-	-	-	-
Total interest expense										
	496	597	101	16.90%	679	183	26.90%	523	(26)	(5.05)%
32	420	476	56	11.92%	445	(25)	(5.79)%	109	(31)	(284.99)%
33	197	221	24	10.87%	202	(5)	(2.87)%	51	(4)	(285.00)%
34	7	6	(1)	(14.29)%	6	(1)	(14.29)%	7	0	1.48%
35	-	-	-	-	-	-	-	-	-	-
Preferred dividends of subsidiaries (Consolidated)										
36	-	-	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-	-	-
39	4	0	(4)	(100.00)%	0	(4)	(100.00)%	3	0	13.49%
Total other income										
	4	0	(4)	(100.00)%	0	(4)	(100.00)%	3	0	13.49%
Miscellaneous Amortization										
40	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
41	28	25	(3)	(10.71)%	25	(3)	(10.71)%	21	(7)	(30.56)%
Total Other Deductions										
	28	25	(3)	(10.71)%	25	(3)	(10.71)%	21	(7)	(30.56)%
Other, net										
	(24)	(26)	(2)	(7.75)%	(26)	(2)	(7.75)%	(18)	(6)	(44.04)%
Total other income (deductions)										
	88	68	(20)	(22.73)%	(64)	152	238.16%	(388)	477	122.74%
Income (loss) before income taxes										
	1,080	781	(299)	(38.30)%	611	469	76.99%	961	118	12.32%
42	68	39	(29)	(75.03)%	36	(32)	(90.39)%	81	(7)	(11.89)%
43	359	270	(89)	(24.79)%	206	(253)	(62.53)%	346	(13)	(3.75)%
State Income Taxes										
44	(3)	(2)	(1)	(33.33)%	(2)	(1)	(50.00)%	(1)	2	404.90%
45	428	288	(140)	(32.71)%	(3)	(3)	(100.00)%	(3)	(3)	(147.45)%
Federal Income Taxes (non-operating)										
	654	482	(172)	(26.30)%	380	(274)	(72.21)%	558	86	17.13%
Net income (loss)										
	648	476	(172)	(26.54)%	373	(274)	(73.47)%	552	86	17.13%
Net Income To Common Stock										
	648	476	(172)	(26.54)%	373	(274)	(73.47)%	552	86	17.13%
Common Dividend Declared										
	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Current Year Retained Earnings										
	648	476	(172)	(26.54)%	373	(274)	(73.47)%	552	86	17.13%

Kentucky American Water
Apr-09
(\$ in Thousands)
I/S Variance Explanations
YTD vs Q1RF



Operating Revenues

Line 1 Water Revenues are below Q1RF by \$306K for the month of April. Lower than Budget results were primarily due to usage variances. Results by class were as follows: Commercial -\$197K, Industrial -\$91K, Residential -\$73K, SFR +\$61K, Fire Service Sales +\$21K, OPA -\$16K.

Operating Expenses

Line 9 Labor costs were favorable by \$156K or 6.99% primarily due to vacancies and increased capitalization.

Line 2

Miscellaneous Expense favorable by \$151K due to a lower transportation expense by +\$76K and Misc operating expense favorable by \$15K
Misc Gen Office AG favorable by +\$30K and company dues and membership favorable by 47.67% or +\$18K.

Line 23

Depreciation is favorable by \$188K due to the following an overall lower composite depreciation rate.

Line 30

Interest on Short term bank debt is favorable by \$170K due to the lower than expected ST interest rate .
The higher ST Debt level is partially offsetting the favorable interest rate.

Kentucky American Water
Apr-09
(\$ in Thousands)
I/S Variance Explanations
YTD vs Plan



Operating Revenues

Line 1

Water revenues are below the plan by \$ 433K (-2.59%) Results by class were as follows: Commercial -\$292K, Industrial -\$178K; Residential -\$88K, SFR +\$116K, Fire Service Sales +\$46K, OPA -\$39K.

Operating Expenses

Line 9

Labor costs were favorable by \$174K or 7.71% resulting from a higher vacancy rate, higher capitalization rate and an AIP adjustment of \$43K.

Line 21

Miscellaneous Expense favorable by \$263K due to a lower transportation expense of \$221K and Misc operating expense favorable by 25K, advertising unfavorable by \$15K, Misc Gen Office AG favorable by \$9K.

Line 23

Depreciation was favorable by \$376K due an overall lower than Plan composite depreciation rate.

Line 25

General Taxes are lower than Plan by \$143K primarily due to lower property taxes. There was a one time adjustment of \$60K made in March.

Line 30

Interest on Short term bank debt is favorable by \$638K due to the lower than expected ST interest rate (0.97% Actual vs. Budget rate of 3.9%). The higher ST Debt level is partially offsetting the favorable interest rate.

	YTD Actuals	YTD Reforecast	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
1 Water Revenues	16,239	16,595	(306)	(1.85)%	16,722	(433)	(2.59)%	16,888	(598)	(3.55)%
2 Sewer Revenues	105	108	(3)	(2.92)%	111	(6)	(5.72)%	103	2	2.19%
3 Other Operating Revenues	795	796	(1)	(0.15)%	742	53	7.13%	780	5	0.61%
4 Management Revenues	17,189	17,499	(311)	(1.78)%	17,575	(366)	(2.20)%	17,761	(582)	(3.23)%
OPERATIONS & MAINTENANCE EXPENSE										
PRODUCTION EXPENSES										
5 Purchased Water	42	45	6	12.31%	49	7	13.98%	33	(9)	(28.35)%
6 Fuel and Power	912	973	61	6.77%	1,036	124	12.00%	874	(38)	(4.34)%
7 Chemicals	682	688	47	6.72%	702	60	7.19%	499	(152)	(30.54)%
8 Waste Disposal	50	35	26	29.31%	88	27	31.23%	85	(3)	(3.67)%
9 Total production costs	1,686	1,805	139	7.69%	1,875	209	11.15%	1,501	(165)	(10.97)%
OPERATIONS & MAINTENANCE EXPENSE										
LABOR & OVERHEAD										
10 Labor	2,082	2,238	156	8.98%	2,258	174	7.71%	1,984	(98)	(4.95)%
11 Pensions	479	462	(17)	(3.57)%	449	(29)	(6.56)%	229	(249)	(108.69)%
12 Group Insurance	712	732	20	2.76%	748	36	4.78%	574	(174)	(24.01)%
13 Other benefits	92	109	17	14.87%	127	35	27.47%	6	(5.90)	(5.90)%
14 Total employee related	3,364	3,540	176	4.96%	3,579	215	6.07%	2,885	(480)	(16.64)%
15 Management fees	1,258	1,239	(19)	(1.52)%	1,242	(16)	(1.27)%	1,378	118	8.56%
16 Shared business serv/ce	1,214	1,285	71	5.96%	1,317	103	7.85%	1,304	90	6.93%
17 Contracted services	389	344	(44)	(12.79)%	307	(81)	(26.59)%	241	(147)	(61.07)%
18 Total contracted services	1,602	1,629	28	1.89%	1,524	(22)	(1.35)%	1,545	(57)	(3.67)%
19 Regulatory expense	54	54	0	0.33%	54	0	0.65%	113	59	52.41%
20 Insurance Other Than Group	206	230	23	10.21%	240	34	13.99%	149	(61)	(41.78)%
21 Customer Accounting	461	533	72	13.55%	533	72	13.49%	322	(211)	(42.96)%
22 Rents	13	15	2	10.39%	19	5	28.84%	13	0	(3.24)%
23 General office expense	162	184	21	11.66%	203	41	20.02%	173	(11)	(6.33)%
24 Miscellaneous	533	684	151	22.03%	786	253	33.00%	635	(102)	(16.11)%
25 Maintenance	788	836	48	5.75%	907	119	13.16%	797	(9)	(1.10)%
26 Total operations and maintenance expense	10,108	10,749	641	5.96%	11,072	964	8.71%	8,506	(902)	(6.33)%
27 Depreciation	1,922	2,110	188	8.91%	2,298	376	16.35%	2,117	(181)	(8.20)%
28 Amortization	171	174	3	1.60%	178	5	3.54%	170	(2)	(0.93)%
29 Depreciation and amortization	2,093	2,284	181	8.35%	2,476	382	15.43%	2,286	(193)	(8.45)%
30 General taxes	1,047	1,158	111	8.60%	1,191	143	12.04%	1,130	83	7.33%
31 Impairment charges	13,248	14,191	943	8.45%	14,738	490	10.11%	12,922	(326)	(2.52)%
32 Total operating expenses, net	3,940	3,308	(632)	(16.10)%	2,837	(1,103)	(38.89)%	4,858	(918)	(18.89)%
OTHER INCOME & DEDUCTIONS										
33 Interest income	1,863	1,867	4	0.23%	1,888	25	1.32%	1,933	71	3.65%
34 Interest on long-term debt	185	354	169	47.66%	822	637	77.54%	270	85	31.50%
35 Other interest expense	2,043	2,222	179	7.83%	2,710	667	24.45%	2,203	(156)	(7.06)%
36 AFUDC - Equity	1,483	1,483	0	0.00%	1,525	42	(2.78)%	379	(1,146)	(290.93)%
37 AFUDC Debt	694	735	41	(5.60)%	693	(1)	0.15%	178	(515)	(288.42)%
38 Amortization of debt expense	30	27	(3)	(11.45)%	24	(6)	(25.87)%	23	0	1.47%
39 Preferred dividends of subsidiaries (Consolidatio	-	-	-	-	-	-	-	-	-	-
40 Gain on sale of assets	-	-	-	-	-	-	-	-	-	-
41 Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-
42 Dividend Income - Common	-	-	-	-	-	-	-	-	-	-
43 Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-
44 Miscellaneous Income	39	15	23	153.24%	-	39	-	25	13	49.48%
45 Total other income	39	15	23	153.24%	-	39	-	25	13	49.48%
46 Miscellaneous Amortization	0	0	0	0.00%	0	0	155.28%	0	0	0.00%
47 Miscellaneous Other Deductions	181	164	(17)	(1.77)%	195	18	17.95%	128	(34)	(27.04)%
48 Total Other Deductions	181	164	(17)	(1.77)%	195	18	17.95%	128	(34)	(27.04)%
49 Other, net	(122)	(148)	(27)	17.88%	(196)	(74)	37.87%	(100)	(21)	76.52%
50 Total other income (deductions)	(23)	(69)	(47)	67.46%	(712)	(689)	96.84%	(1,775)	(1,753)	98.73%
51 Income (cost) before income taxes	3,918	3,239	(679)	(20.95)%	2,125	(1,793)	(84.35)%	3,083	(835)	(27.09)%
52 State income taxes	193	182	(11)	(5.98)%	135	(58)	(43.05)%	118	(76)	(64.24)%
53 Federal income taxes	1,067	1,123	62	5.47%	746	(320)	(42.85)%	1,121	54	4.66%
54 Net income (loss)	2,657	1,974	(683)	(25.69)%	1,323	(1,334)	(100.85)%	1,864	793	42.53%
55 Preferred Dividend Declared	25	25	0	(0.00)%	25	0	0.67%	26	0	0.06%
56 Net Income To Common Stock	2,631	1,948	(683)	(25.95)%	1,297	(1,334)	(102.87)%	1,838	793	43.13%
57 Common Dividend Declared	1,798	1,603	(195)	(10.85)%	1,603	(1,051)	(65.56)%	1,097	(611)	(55.71)%
58 Current Year Retained Earnings	923	345	(578)	(62.62)%	(306)	(1,229)	(401.26)%	741	182	24.50%



Kentucky American Water
May-09
(\$ in Thousands)
I/S Variance Explanations
MTD Actual vs. RF

Operating Revenues

Line 1 Water Revenues exceeded forecast by \$144k primarily due to usage. Residential: +\$76 and Commercial +\$33, partially offset by lower Industrial -\$21k. (System Delivery was lower than forecast but NRW was also lower)

Operating Expenses

Line 6 Fuel and Power costs fell below Forecast by \$90k or 24.4%, primarily due to lower than Forecast System Delivery
Line 7 Chemical costs were unfavorable to Forecast by \$24K due to source water requiring higher chemical usage related to weather conditions
Line 9 Labor costs were favorable by +\$45K due to vacancies and capitalization.
Line 21 Lower fuel costs are impacting Miscellaneous expenses favorably by +\$100K or 52.95%.

Other Income & Deductions

Line 29 Interest long term debt is lower than RF by +\$291K or 39.2%, due to lower than forecast LT Debt balances
The Q1RF included a \$45.5M issuance in May, 2009, which was delayed.



AMERICAN WATER

Kentucky American Water
May-09
(\$ in Thousands)
I/S Variance Explanations
MTD Actual vs. Plan

Operating Revenues

Line 1 Water Revenues exceeded forecast by \$144k primarily due to usage. Residential: +\$76 and Commercial +\$33, partially offset by lower Industrial -\$21k.

Operating Expenses

Line 6 Fuel and Power costs fell below Plan by \$90k or 24.4%, primarily due to lower than Forecast System Delivery
Line 7 Chemical costs were unfavorable to Plan by \$24K due to source water requiring higher chemical usage related to weather conditions
Line 9 Labor costs were favorable by +\$29K due to vacancies and capitalization.
Line 21 Lower fuel costs are the main factor for Miscellaneous expenses being lower than Plan by +\$100K or 52.95%.

Other Income & Deductions

Line 29 Interest on long term debt is lower than Plan by \$359K or 44.24% due to the timing of LT Issuance.
Line 30 Interest on Short term debt is favorable by \$168K primarily due to lower than Plan Interest rates.

Close Status: Final
source system financial
data with prelim adj's and
glans

Income Statement - Month To Date
Kentucky with Growth
May 2009
(\$ in Thousands)

AMERICAN WATER

	MTD Actuals	MTD Rebudget	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES											
Water Revenues	4,734	4,590	4,590	144	3.15%	4,515	219	4.84%	4,515	219	4.84%
Sewer Revenues	26	27	27	(1)	(4.41)%	24	2	7.68%	24	2	7.68%
Other Operating Revenues	211	210	185	25	13.64%	213	(3)	(1.49)%	213	(3)	(1.49)%
Management Revenues	-	-	-	-	-	-	-	-	-	-	-
Operating Revenue	4,971	4,827	4,802	144	2.97%	4,753	218	4.58%	4,753	218	4.58%
OPERATIONS & MAINTENANCE EXPENSE											
PRODUCTION EXPENSES											
Purchased Water	8	12	12	4	35.45%	10	2	17.71%	10	2	17.71%
Fuel and Power	280	370	370	90	24.36%	264	26	(10.28)%	264	26	(10.28)%
Chemicals	232	208	209	(24)	(11.51)%	112	(121)	(107.82)%	112	(121)	(107.82)%
Waste Disposal	19	25	25	6	22.35%	22	2	11.47%	22	2	11.47%
Total production costs	540	616	616	76	12.23%	397	(143)	(35.95)%	397	(143)	(35.95)%
OPERATIONS & OVERHEAD											
Wages	824	579	563	249	7.81%	563	261	27.42%	563	261	27.42%
Utilities	121	111	112	10	(8.88)%	112	(1)	(11.71)%	112	(1)	(11.71)%
Pensions	185	187	187	2	1.12%	187	(2)	(0.57)%	187	(2)	(0.57)%
Group Insurance	20	30	30	10	35.16%	18	12	66.67%	18	12	66.67%
Other benefits	859	907	892	67	5.23%	892	67	9.77%	892	67	9.77%
Total employee related	313	314	311	2	0.28%	316	(3)	(1.04)%	316	(3)	(1.04)%
Management fees	332	331	329	3	(0.52)%	331	1	(0.26)%	331	1	(0.26)%
Shared business services	112	102	95	10	(11.06)%	60	52	(88.13)%	60	52	(88.13)%
Contracted services	448	433	424	15	(3.01)%	332	116	(13.80)%	332	116	(13.80)%
Total contracted services	13	14	14	0	0.65%	13	1	(0.39)%	13	1	(0.39)%
Regulatory expenses	55	60	60	5	8.24%	49	6	(10.90)%	49	6	(10.90)%
Insurance Other Than Group	133	137	137	4	2.78%	132	5	26.56%	132	5	26.56%
Customer Accounting	2	5	5	3	54.46%	2	0	(19.40)%	2	0	(19.40)%
Rents	46	42	41	5	(8.61)%	45	1	(2.59)%	45	1	(2.59)%
General office expense	89	180	208	119	52.95%	118	28	24.17%	118	28	24.17%
Miscellaneous	189	216	222	27	7.64%	222	23	10.21%	222	23	10.21%
Maintenance	2,897	2,932	2,933	233	8.04%	2,688	209	(0.32)%	2,688	209	(0.32)%
Total operations and maintenance expense	485	576	576	92	15.88%	469	16	(5.68)%	469	16	(5.68)%
Depreciation	43	44	44	1	3.01%	43	1	(0.91)%	43	1	(0.91)%
Amortization	528	621	621	93	14.56%	501	27	(5.27)%	501	27	(5.27)%
Depreciation and amortization	278	299	298	21	7.94%	293	5	2.68%	293	5	2.68%
General taxes	-	-	-	-	-	-	-	-	-	-	-
Impairment charges	3,853	3,852	3,852	352	9.15%	3,473	379	(6.79)%	3,473	379	(6.79)%
Total operating expenses, net	1,471	974	980	496	50.91%	1,280	191	14.88%	1,280	191	14.88%
Operating income	-	-	-	-	-	-	-	-	-	-	-
OTHER INCOME & DEDUCTIONS											
Interest income	452	744	359	811	29.18%	470	18	3.80%	470	18	3.80%
Interest on long-term debt	47	59	112	159	52.50%	59	59	20.04%	59	59	20.04%
Interest on Short-Term Bank Debt	-	-	-	-	-	-	-	-	-	-	-
Other Interest Expense	439	843	343	471	40.75%	527	28	5.24%	527	28	5.24%
Total Interest expense	459	843	343	471	40.75%	527	28	5.24%	527	28	5.24%
AFUDC - Equity	459	402	485	(26)	(5.42)%	174	284	162.90%	174	284	162.90%
AFUDC Debt	215	186	220	(5)	(2.19)%	47	166	357.73%	47	166	357.73%
Amortization of Debt Expense	7	11	11	4	29.57%	0	0	(6.76)%	0	0	(6.76)%
Preferred dividends of subsidiaries (Consolidate)	-	-	-	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	9	0	9	9	100.00%	(12)	21	169.20%	(12)	21	169.20%
Total other income	9	0	9	9	100.00%	(12)	21	169.20%	(12)	21	169.20%
Miscellaneous Amortization	0	0	0	0	155.28%	0	0	0.00%	0	0	0.00%
Miscellaneous Other Deductions	14	36	36	22	61.13%	27	9	47.47%	27	9	47.47%
Total Other Deductions	14	36	36	22	61.13%	27	9	47.47%	27	9	47.47%
Other, net	(9)	(36)	(36)	31	85.25%	(39)	34	121.73%	(39)	34	121.73%
Total other income (deductions)	162	(362)	(311)	473	151.93%	(39)	514	145.96%	(39)	514	145.96%
Income (loss) before income taxes	1,632	673	960	638	155.78%	928	705	75.95%	928	705	75.95%
State Income Taxes	123	32	(90)	34	(27.59)%	67	(56)	(83.61)%	67	(56)	(83.61)%
Federal Income Taxes	554	284	(349)	218	(136.99)%	805	51	8.51%	805	51	8.51%
Tax Saving Acquisition Adjustment	0	(3)	(3)	(3)	(86.59)%	(1)	(1)	(90.56)%	(1)	(1)	(90.56)%
State income taxes (non-operating)	576	252	(12)	(12)	(101.09)%	664	(6)	(11.98)%	664	(6)	(11.98)%
Federal income taxes (non-operating)	7	421	397	566	127.11%	264	633	262.85%	264	633	262.85%
Provision (Benefit) for Income Taxes	583	421	397	566	127.11%	264	633	262.85%	264	633	262.85%
Net Income (Loss)	950	415	390	560	143.43%	257	633	269.57%	257	633	269.57%
Preferred Dividend Declared	0	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Net Income to Common Stock	950	415	390	560	143.43%	257	633	269.57%	257	633	269.57%
Common Dividend Declared	0	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Current Year Retained Earnings	950	415	390	560	143.43%	257	633	269.57%	257	633	269.57%



	YTD Actuals	Rebcast	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pl. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES											
1	21,023	21,185	21,311	(162)	(0.76)%	21,311	(288)	(1.35)%	21,403	(880)	(4.12)%
2	131	135	138	(4)	(3.22)%	138	(3)	(2.17)%	136	2	1.47%
3	1,006	1,007	927	(1)	(0.09)%	927	78	8.43%	1,003	2	0.22%
4	22,159	22,326	22,377	(167)	(0.75)%	22,377	(217)	(0.97)%	22,533	(374)	(1.66)%
OPERATIONS & MAINTENANCE EXPENSE											
PRODUCTION EXPENSES											
5	50	61	62	10	17.06%	62	203	7.22%	2,719	403	3.80%
6	1,192	1,343	1,406	(151)	(11.25)%	1,406	(38)	(6.77)%	2,877	(131)	(109.22)%
7	885	908	912	23	2.49%	912	97	4.09%	716	(273)	(25.31)%
8	78	110	112	33	27.74%	112	115	28.75%	117	4	3.71%
9	2,206	2,421	2,481	214	8.86%	2,481	348	5.54%	3,837	(387)	(10.08)%
OPERATIONS & MAINTENANCE EXPENSE											
10	2,816	2,877	2,879	61	7.16%	2,879	203	7.22%	2,719	403	3.80%
11	600	573	562	27	(4.58)%	562	(38)	(6.77)%	2,877	(131)	(109.22)%
12	897	919	934	22	2.43%	934	97	4.09%	716	(273)	(25.31)%
13	111	138	156	27	19.30%	156	45	28.75%	115	4	3.71%
14	4,224	4,448	4,472	224	5.03%	4,472	348	5.54%	3,837	(387)	(10.08)%
15	1,571	1,553	1,553	(18)	(1.16)%	1,553	(18)	(1.14)%	1,682	121	7.15%
16	1,546	1,816	1,646	270	4.31%	1,646	100	6.07%	1,635	90	5.46%
17	502	446	402	(55)	(12.37)%	402	(180)	(24.83)%	301	(200)	(66.49)%
18	2,048	2,062	2,048	14	0.70%	2,048	0	0.01%	1,937	(111)	(5.72)%
19	67	68	68	1	0.39%	68	68	0.85%	127	59	46.82%
20	261	289	300	28	9.80%	300	38	12.84%	184	(67)	(34.59)%
21	594	670	670	76	11.35%	670	76	11.35%	504	(90)	(17.75)%
22	16	20	24	4	20.92%	24	8	33.81%	1	(1)	(5.19)%
23	209	228	244	17	7.70%	244	35	14.41%	214	30	4.48%
24	622	673	751	51	28.74%	751	381	38.00%	783	30	17.37%
25	987	1,051	1,134	64	6.13%	1,134	147	12.54%	31	(309)	(3.09)%
26	12,804	13,681	14,005	877	6.41%	14,005	1,201	8.57%	12,194	(610)	(5.01)%
27	2,407	2,686	2,874	279	10.41%	2,874	467	16.26%	2,575	169	8.55%
28	214	218	222	4	1.89%	222	22	3.45%	22	(2)	(0.92)%
29	2,621	2,905	3,095	284	9.76%	3,095	475	15.34%	2,788	(16)	(0.58)%
30	1,323	1,458	1,489	135	9.25%	1,489	166	11.15%	1,413	90	6.40%
31	16,749	18,043	18,880	1,295	2.18%	18,880	1,842	9.91%	18,395	(353)	(2.15)%
32	5,411	4,283	3,787	1,128	26.34%	3,787	1,624	42.89%	6,138	(727)	(11.85)%
OTHER INCOME & DEDUCTIONS											
33	2,315	2,611	2,659	296	11.33%	2,659	384	14.22%	2,404	88	3.68%
34	232	453	481	222	48.83%	481	749	76.37%	339	97	28.44%
35	2,547	3,064	3,680	517	16.88%	3,680	1,153	30.75%	2,730	(183)	(6.71)%
36	1,941	1,984	2,010	43	(2.89)%	2,010	(69)	(3.42)%	554	(1,388)	(98.59)%
37	909	920	913	(11)	(1.23)%	913	(4)	(0.41)%	225	(684)	(303.70)%
38	37	37	34	3	6.17%	34	(3)	(8.75)%	37	0	(0.07)%
39	47	15	32	32	209.60%	32	47	45.20%	13	34	251.23%
40	0	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
41	175	188	232	25	12.95%	232	57	24.63%	153	(22)	(14.12)%
42	174	200	232	25	12.95%	232	58	24.81%	(22)	(14.12)%	
43	(127)	(184)	(232)	105	31.01%	(232)	105	45.20%	(139)	12	265.35%
44	139	(371)	(1,023)	510	137.58%	(1,023)	1,163	113.62%	(2,128)	2,267	106.55%
45	5,550	3,912	2,764	1,638	41.88%	2,764	2,787	100.84%	4,011	1,540	38.89%
46	316	215	173	(101)	(47.01)%	173	(143)	(82.78)%	185	(131)	(71.25)%
47	1,937	1,576	1,044	(420)	(27.71)%	1,044	(863)	(85.83)%	1,833	(64)	(2.87)%
48	3,614	2,396	1,720	1,894	50.89%	1,720	1,894	110.14%	2,128	1,485	69.81%
49	33	33	33	0	0.00%	33	33	0.51%	0	0	(0.04)%
50	3,581	2,363	1,687	1,894	51.56%	1,687	1,894	112.25%	2,095	1,468	70.91%
51	1,708	1,603	1,603	(105)	(6.56)%	1,603	(105)	(6.56)%	1,097	(611)	(55.71)%
52	1,872	760	84	1,113	146.53%	84	1,789	2,133.56%	998	874	87.61%

QTD Actual vs. QRF

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 171K due to lower than forecasted system delivery

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

Line 29: Interest on long-term debt favorable by 193K due to timing of LTD issuance

FRP 1.xf Other income and deduction variance explanations (taxes)

QTD Actual vs. Plan

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 303K due to lower than budgeted system delivery

FRP 1.xc Operating expense explanations (other operating)

Line 21: Miscellaneous favorable by 337K are primarily driven by lower fuel costs (gas)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

Line 23: Depreciation favorable by 271K due to reductions n capital spend

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

Line 29: Interest on long-term debt favorable by 673K due to rate and timing of LTD issuance (rate is 1% lower than budget and issuance was in late June)

Line 30: Interest on Short-Term Bank Debt favorable by 350K due to rate and timing of LTD issuance (rate is 1% lower than budget and issuance was in late June)

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 42: State Income Taxes unfav by 186K - Tax Dept Responsible for Explanations

Line 43: Federal Income Taxes unfav by 587K - Tax Dept Responsible for Explanations

QTD Actual vs. Prior Year

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

Line 7: Chemicals unfav by 268K due to higher prices vs. prior year

FRP 1.xc Operating expense explanations (other operating)

Line 10: Pensions unfav by 179K due to increases in pension costs vs prior year

Line 21: Miscellaneous favorable by 165K are primarily driven by lower fuel costs (gas)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

Line 25: General taxes unfav by 267K due to higher revenues from the rate case increases

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

Line 32: AFUDC - Equity favorable by 850K due more plant in CWIP for 2009 from the treatment plant construction
Line 33: AFUDC Debt favorable by 445K due more plant in CWIP for 2009 from the treatment plant construction

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 43: Federal Income Taxes unfav by 346K - Tax Dept Responsible for Explanations

Income Statement - Quarter to Date
Kentucky with Growth
Jun QTD 2009
(\$ In Thousands)

	QTD Actuals	QTD Refrcast	Variance Favorable (Unfavorable)	% Variance	QTD Plan	Variance Favorable (Unfavorable)	% Variance	QTD Pct. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
Water Revenues	14,404	14,568	(164)	(1.13)%	15,002	(598)	(3.99)%	13,768	638	4.63%
Sewer Revenues	80	83	(3)	(3.68)%	86	6	(7.49)%	75	5	6.98%
Other Operating Revenues	662	635	27	4.22%	556	105	18.90%	630	32	5.01%
Management Revenues	15,145	15,285	(140)	(0.92)%	15,645	(499)	(3.19)%	14,470	675	4.66%
OPERATIONS & MAINTENANCE EXPENSE										
PRODUCTION EXPENSES										
Purchased Water	24	27	3	11.72%	38	14	36.38%	32	8	23.84%
Final and Power	731	802	171	18.97%	1,033	303	29.28%	726	(5)	(0.70)%
Chemicals	629	601	(28)	(4.62)%	618	(10)	(1.64)%	580	(268)	(74.36)%
Waste Disposal	49	53	15	23.32%	80	31	39.17%	20	(28.85)%	(20.73)%
Total production costs	1,432	1,583	161	10.12%	1,770	338	19.08%	1,186	(246)	(20.73)%
O&M LABOR & OVERHEAD										
Labor	1,685	1,695	10	0.61%	1,730	45	2.63%	1,733	48	2.79%
Pensions	351	351	(0)	(0.00)%	337	(14)	(4.06)%	171	(179)	(104.83)%
Group Insurances	528	557	28	5.31%	561	33	5.60%	423	(105)	(24.89)%
Other benefits	61	67	6	9.84%	92	31	33.92%	54	(7)	(12.33)%
Total employee related	2,624	2,668	44	1.66%	2,720	96	3.51%	2,381	(243)	(10.21)%
Management fees	1,037	1,019	(18)	(1.76)%	952	(85)	(6.97)%	1,039	2	0.19%
Shared business services	977	993	17	1.65%	1,016	40	3.89%	1,044	67	6.44%
Contracted services	328	307	(21)	(6.75)%	258	(72)	(28.18)%	228	(100)	(44.01)%
Total contracted services	1,305	1,306	(1)	(0.32)%	1,272	(33)	(2.59)%	1,272	(33)	(2.59)%
Regulatory expense	52	57	5	9.30%	57	5	9.88%	40	(11)	(28.25)%
Insurance Other Than Group	189	171	(18)	(9.53)%	180	10	5.74%	111	(58)	(52.67)%
Customer Accounting	381	359	(22)	(5.78)%	421	41	9.63%	494	114	23.00%
Rents	8	10	2	27.73%	14	7	46.58%	9	(1)	(16.32)%
General office expense	124	147	23	15.89%	147	23	15.75%	144	21	14.27%
Miscellaneous	267	342	75	21.88%	604	337	55.79%	165	(38.18)%	(15.99)%
Maintenance	714	642	(72)	(10.23)%	748	34	4.48%	616	(387)	(62.62)%
Total operations and maintenance expense	8,113	8,310	197	2.38%	8,885	772	8.89%	7,725	(98)	(1.27)%
Depreciation	1,680	1,545	(135)	(8.07)%	1,730	271	15.84%	1,384	(76)	(5.52)%
Amortization	120	130	10	8.33%	133	4	3.15%	127	(2)	(1.58)%
Depreciation and amortization	1,589	1,676	87	5.18%	1,863	275	14.75%	1,511	(78)	(4.91)%
General taxes	949	860	(89)	(9.27)%	898	(51)	(5.68)%	882	(267)	(30.18)%
Impairment charges	-	-	-	-	956	956	8.55%	917	(733)	(79.91)%
Total operating expenses, net	10,850	10,845	(5)	(0.05)%	11,845	995	8.55%	9,917	(733)	(7.39)%
Operating income	4,495	4,439	55	1.25%	3,999	496	12.41%	4,553	(68)	(1.52)%
OTHER INCOME & DEDUCTIONS										
Interest Income	1,412	1,005	407	28.80%	2,086	673	32.29%	1,411	(6)	(0.43)%
Interest on long-term debt	132	152	20	13.36%	482	350	72.63%	163	32	19.32%
Interest on Short-Term Bank Debt	-	-	-	-	-	-	-	-	-	-
Other Interest Expense	1,544	1,758	214	12.15%	2,567	1,023	39.86%	1,568	(24)	(1.55)%
Total interest expense	1,544	1,758	214	12.15%	2,567	1,023	39.86%	1,568	(24)	(1.55)%
AFUDC - Equity	230	1,238	(98)	(7.36)%	1,206	25	2.05%	381	850	223.30%
AFUDC Debt	388	618	(230)	(4.28)%	548	41	7.47%	445	445	308.00%
Amortization of Debt Expense	22	25	3	12.27%	27	5	17.45%	23	0	(1.45)%
Preferred dividends of subsidiaries (Consolidated)	-	-	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	17	12	5	37.08%	27	10	37.08%	27	(10)	(38.34)%
Total other income	88	87	1	1.14%	107	19	17.89%	72	(16)	(22.11)%
Miscellaneous Amortization	-	-	-	-	107	107	10.00%	-	-	-
Miscellaneous Other Deductions	-	-	-	-	-	-	-	-	-	-
Total Other Deductions	(71)	(74)	3	4.29%	(107)	36	33.52%	(45)	(26)	(16.23)%
Other, net	182	89	93	103.96%	(948)	1,129	118.16%	(1,111)	1,293	116.35%
Total other income (deductions)	4,677	4,529	148	3.27%	3,051	1,626	53.29%	3,442	1,235	35.87%
Income (loss) before income taxes	351	275	76	21.53%	165	(186)	(112.79)%	319	(32)	(10.14)%
State income taxes	1,823	1,590	233	12.80%	1,036	(787)	(56.59)%	1,277	(346)	(27.13)%
Federal income taxes	(4)	(6)	2	(50.00)%	(9)	(5)	(55.74)%	(9)	1	42.51%
Tax Saving Acquisition Adjustment	(4)	(13)	9	(225.00)%	(94)	(90)	(95.73)%	(13)	(13)	(75.10)%
Federal income taxes (non-operating)	1,866	1,786	(80)	(4.29)%	1,159	(707)	(60.93)%	1,576	(390)	(24.76)%
Provision (Benefit) for Income Taxes	2,711	2,742	(32)	(1.18)%	1,892	818	43.24%	1,866	845	45.26%
Net income (loss)	2,691	2,723	(32)	(1.17)%	1,873	818	43.70%	1,847	845	45.74%
Preferred Dividend Declared	1,489	858	631	73.51%	858	(631)	(73.51)%	956	(533)	(65.74)%
Net Income To Common Stock	1,202	1,865	(663)	(35.54)%	1,015	187	18.48%	890	312	35.00%
Common Dividend Declared	-	-	-	-	-	-	-	-	-	-
Current Year Retained Earnings	-	-	-	-	-	-	-	-	-	-

YTD Actual vs. QRF

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 171K due to lower than expected system delivery

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

FRP 1.xf Other income and deduction variance explanations (taxes)

YTD Actual vs. Plan

FRP 1.xa Revenue variance explanations

Line 3: Other Operating Revenues favorable by 130K higher reconnection fees vs. budget

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 385K due to lower than expected system delivery (SD is down 17%)

FRP 1.xc Operating expense explanations (other operating)

Line 21: Miscellaneous favorable by 475K due to lower than budgeted fuel prices (gas)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

Line 23: Depreciation favorable by 553K due to timing of plan put into service and reductions to the capital plan

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

Line 29: Interest on long-term debt favorable by 688K due to rate and timing of LTD issuance (rate is 1% lower than budget and issuance was in late June)

Line 30: Interest on Short-Term Bank Debt favorable by 815K due to rate and timing of LTD issuance (rate is 1% lower than budget and issuance was in late June)

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 42: State Income Taxes unfav by 212K - Tax Dept Responsible for Explanations
Line 43: Federal Income Taxes unfav by 754K - Tax Dept Responsible for Explanations

YTD Actual vs. Prior Year

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

Line 7: Chemicals unfav by 396K due to higher prices vs prior year

FRP 1.xc Operating expense explanations (other operating)

Line 10: Pensions unfav by 368K due to increases in pension costs vs. 2008

Line 11: Group insurances unfav by 197K due to increases in prices and lower vacancy rate vs. 2008

Line 15: Contracted services unfav by 237K

Line 21: Miscellaneous favorable by 177K due to lower than prior year gas prices

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

Line 25: General taxes unfav by 178K due to higher revenues from rate cases

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

Line 32: AFUDC - Equity favorable by 1643K due more plant in CWIP for 2009 from the treatment plant construction

Line 33: AFUDC Debt favorable by 814K due more plant in CWIP for 2009 from the treatment plant construction

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 43: Federal Income Taxes unfav by 279K - Tax Dept Responsible for Explanations

AMERICAN WATER
Kentucky with Growth
Jun YTD 2009
(\$ In thousands)

	YTD Actuals	YTD Plan	YTD Actuals	% Variance	YTD Plan	YTD Actuals	% Variance	YTD Actuals	% Variance	YTD Actuals	YTD Plan	YTD Actuals	% Variance	YTD Actuals	% Variance
OPERATING REVENUES															
Water Revenues	26,668	26,822	(154)	(0.61)%	27,493	(825)	(3.04)%	26,371	287	1.09%					
Sewer Revenues	158	161	(3)	(1.90)%	168	(10)	(6.30)%	152	6	3.67%					
Other Operating Revenues	1,243	1,216	27	2.20%	1,113	130	11.68%	1,220	23	1.86%					
Operating Revenues	28,068	28,198	(130)	(0.50)%	28,774	(706)	(2.49)%	27,743	315	1.14%					
OPERATIONS & MAINTENANCE EXPENSE															
PRODUCTION EXPENSES															
Purchased Water	67	60	7	5.32%	72	(5)	(20.22)%	54	(3)	(6.18)%					
Fuel and Power	1,435	1,606	(171)	(10.65)%	1,420	285	(16.91)%	1,406	(28)	(2.00)%					
Chemicals	1,184	1,107	77	(6.51)%	1,133	(49)	(4.33)%	738	(396)	(53.89)%					
Waste Disposal	32	107	(75)	(23.81)%	140	(108)	(34.06)%	139	(1)	(0.71)%					
Total production costs	2,718	2,880	(162)	(5.60)%	3,165	(447)	(14.10)%	2,337	(381)	(16.30)%					
OPERATIONAL OVERHEAD															
Labor	3,203	3,212	(9)	(0.28)%	3,400	(187)	(5.80)%	3,222	178	5.54%					
Pensions	712	711	1	(0.19)%	674	37	(5.65)%	344	(368)	(107.18)%					
Group Insurances	1,056	1,084	(28)	(2.63)%	1,121	65	(5.83)%	855	(197)	(22.91)%					
Other benefits	134	140	(6)	(4.42)%	185	(51)	(27.49)%	132	(2)	(1.59)%					
Total employee related	5,105	5,148	(43)	(0.85)%	5,380	(275)	(5.32)%	4,557	(648)	(12.02)%					
Management fees	1,944	1,927	17	(0.93)%	1,878	66	(3.53)%	2,090	(145)	6.95%					
Shared business services	1,891	1,908	(17)	(0.87)%	1,991	(100)	(5.07)%	2,000	109	5.44%					
Contracted services	610	589	21	(3.51)%	480	129	(24.61)%	373	(237)	(63.37)%					
Total contracted services	2,502	2,497	(5)	(0.17)%	2,481	(21)	(0.83)%	2,374	(128)	(5.38)%					
Regulatory expense	92	98	(6)	(5.45)%	98	6	5.97%	140	(42)	(34.15)%					
Insurance Other Than Group	321	323	(2)	(0.61)%	360	(39)	(10.78)%	209	(112)	(53.37)%					
Customer Accounting	766	745	21	(2.86)%	820	(54)	(6.83)%	700	(66)	(9.40)%					
Rents	17	20	(3)	(14.27)%	28	11	38.42%	18	6	1.93%					
General office expense	245	268	(23)	(8.67)%	302	(57)	(18.86)%	275	30	10.76%					
Miscellaneous	730	813	(83)	(9.20)%	1,213	(475)	(39.12)%	915	177	19.30%					
Maintenance	1,938	1,224	(714)	(36.82)%	1,381	(557)	(42.52)%	1,233	(705)	(56.13)%					
Total operations and maintenance expense	15,745	15,543	(202)	(1.24)%	17,107	(1,362)	(7.86)%	14,848	(897)	(5.04)%					
Depreciation	2,899	2,885	14	(0.48)%	3,452	(553)	(16.01)%	3,044	145	4.75%					
Amortization	257	259	(2)	(0.77)%	266	(9)	(3.49)%	255	(2)	(0.82)%					
Depreciation and amortization	3,156	3,243	(87)	(2.76)%	3,718	(562)	(16.11)%	3,299	(422)	(13.21)%					
General taxes	1,712	1,624	88	(5.45)%	1,788	(76)	(4.26)%	1,535	(178)	(11.58)%					
Impairment charges	-	-	-	-	-	-	-	-	-	-					
Total operating expenses, net	20,514	20,810	(296)	(1.46)%	22,613	(2,099)	(9.24)%	19,681	(633)	(4.74)%					
Operating income	7,444	7,389	55	(0.75)%	6,161	1,283	(20.83)%	8,062	(618)	(7.46)%					
OTHER INCOME & DEDUCTIONS															
Interest income	2,823	3,016	(193)	(6.41)%	3,510	(688)	(19.59)%	2,874	(51)	1.78%					
Interest on long-term debt	272	293	(21)	(7.51)%	1,089	(815)	(74.96)%	380	108	28.38%					
Other interest expense	3,095	3,309	(214)	(6.48)%	4,398	(1,303)	(32.83)%	3,248	153	4.72%					
AFUDC - Equity	2,294	2,391	(97)	(4.26)%	2,286	6	0.26%	651	1,843	282.38%					
AFUDC - Debt	1,085	1,115	(30)	(2.69)%	1,038	47	4.54%	271	814	300.66%					
Amortization of Debt Expense	44	47	(3)	(6.82)%	45	1	2.22%	44	1	(0.01)%					
Preferred dividends or subsidiaries (Consolidated)	-	-	-	-	-	-	-	-	-	-					
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-					
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-					
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-					
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-					
Miscellaneous income	52	47	5	(9.52)%	-	52	52	50	2	3.93%					
Total other income	52	47	5	(9.52)%	-	52	52	50	2	3.93%					
Miscellaneous Amortization	0	0	0	88.02%	0	0	155.28%	0	0	0.00%					
Miscellaneous Other Deductions	221	219	2	(0.91)%	276	(56)	(20.14)%	177	(64)	(24.60)%					
Total Other Deductions	220	218	(2)	(0.91)%	277	(57)	(20.33)%	177	(44)	(24.60)%					
Other, net	(169)	(22)	147	(7.16)%	(1,596)	1,667	104.44%	(2,498)	2,569	102.83%					
Total other income (deductions)	71	(22)	93	(425.07)%	(1,596)	2,950	64.61%	5,584	1,951	35.07%					
Income (loss) before income taxes	7,515	7,367	148	(2.01)%	4,565	(2,950)	(64.61)%	3,766	(1,011)	(26.79)%					
State Income Taxes	477	400	77	(16.10)%	265	(212)	(80.15)%	376	(101)	(28.79)%					
Federal Income Taxes	2,331	2,238	(93)	(4.14)%	1,576	(754)	(47.86)%	2,052	(279)	(13.59)%					
Tax Saving Acquisition Adjustment	(4)	(6)	(2)	(50.00)%	(23)	(19)	(82.95)%	(5)	(1)	(27.61)%					
State income taxes (non-operating)	(3)	(11)	(8)	(74.80)%	(66)	(63)	(96.79)%	(28)	(30)	(90.89)%					
Federal income taxes (non-operating)	2,801	2,621	180	(6.86)%	1,782	(1,019)	(61.94)%	2,391	(410)	(17.13)%					
Provision (Benefit) for Income Taxes	4,714	4,746	(32)	(0.67)%	2,835	1,878	(66.24)%	3,172	1,542	(48.60)%					
Net income (loss)	39	39	0	(0.03)%	59	(20)	(33.90)%	33	0	(0.01)%					
Preferred Dividend Declared	4,675	4,709	(34)	(0.73)%	2,796	1,878	(67.17)%	3,333	1,542	(49.21)%					
Net Income To Common Stock	3,197	2,567	630	(24.58)%	2,451	(736)	(29.91)%	2,033	(1,144)	(56.23)%					
Common Dividend Declared	1,477	2,140	(663)	(30.97)%	335	1,142	340.94%	1,080	397	36.81%					

YTD Actual vs. Prior Year

FRP 3.xa Asset variance explanations

Line 2: Construction Work in Progress increase by 42608K primarily due to the water treatment plant, expected to go into service in late 2009

FRP 3.xb Asset variance explanations

Line 7: Cash and Cash Equivalents increase by 147K due to timing of deposits and disbursements for the month of June 2009

Line 11: Accrued utility revenues increase by 763K is primarily due to increase in revenues from rate case (19% increase)
Line 12: Other receivables, net increase by 310K due to timing of billing and payments for various misc invoices; and a receivable for KY prop taxes of \$167k
Line 14: Materials and supplies increase by 145K due to timing of ordering of materials - expect this balance to flatten out by year end
Line 15: Receivable from affiliated companies increase by 9554K due to the proceeds of Debt Financing of \$45,390k and Restricted Funds from Debt Financing \$35,836k

FRP 3.xc Asset explanations

Line 17: Regulatory assets - income tax recovery increase by 744K due to the outcome of the settled rate case
Line 18: Debt and preferred stock expense increase by 467K due to the costs from the issuance of tax exempt financing in June of 2009

FRP 3.xd Capital and Liabilities explanations

Line 36: Paid in Capital increase by 22519K due to equity infusion in 2009

Line 42: Long term debt increase by 42290K due to long term financing issued in June 2009

FRP 3.xe Capital and Liabilities explanations

Line 44: Short Term Debt decrease by 15910K due to reductions from the LTD issuance which allowed payment of STD balances

Line 47: Accounts Payable increase by 5622K due to outstanding AP increases due to vendors Reynolds Rogers 2.4M, CJ Hughes 45.9K, Peck Schaffer & Williams 15.1K, Stoil Keenon 2.2K

Line 48: Taxes Accrued increase by 248K due to higher income taxes vs. 2008 and timing of payments

Line 50: Total Other Current Liabilities decrease by 447K due to timing of misc accounts - expect to be more consistent with 2008 level by year end

FRP 3.xf Capital and Liabilities explanations

Line 54: Regulatory liability-cost of removal increase by 1340K due to cost of removal increases from more plant in service vs. 2008 year end

Line 55: Accrued pension expense increase by 149K due to higher pension expenses vs. 2008

Line 57: Other Deferred Credits decrease by 674K due to timing of misc accounts - expect to be more consistent with 2008 level by year end

	Actuals	Reforecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Dec.	Increase (Decrease)	% Variance
Assets										
1 Utility Plant	378,087	378,970	(883)	(0.2)%	377,313	754	0.2%	369,486	8,581	2.3%
2 Construction Work in Progress	97,109	97,255	(146)	(0.1)%	88,483	7,628	8.5%	54,501	42,608	78.2%
3 Accumulated Depreciation	(87,398)	(87,560)	163	0.2%	(80,434)	3,037	3.4%	(84,213)	(3,185)	(3.8)%
4 Utility Plant Acquisition Adjustments	295	297	(2)	(0.6)%	312	(17)	(5.4)%	305	(10)	(3.2)%
5 Other Utility Plant Adjustments	383,073	383,961	(888)	(0.2)%	376,673	11,401	3.0%	340,078	47,895	14.1%
6 Total Utility Property	385,344	385,231	(113)	(0.0)%	376,943	11,401	3.0%	340,349	47,895	14.1%
7 Cash and Cash Equivalents	392	(44,868)	46,950	100.8%	200	182	90.6%	234	147	62.9%
8 Restricted funds	2,534	2,728	(194)	(7.1)%	2,536	(2)	(0.1)%	2,342	191	8.2%
9 Utility customer accounts receivable	(241)	(209)	(32)	(15.3)%	(3)	(3)	(1.1)%	(273)	33	11.9%
10 Allowance for uncollectible accounts	3,663	3,324	338	10.2%	3,628	34	1.0%	2,900	703	26.3%
11 Accrued utility revenues	721	572	148	26.1%	310	411	132.7%	412	310	75.2%
12 Other receivables, net	722	713	9	1.3%	693	29	4.2%	577	145	25.1%
13 Taxes receivable, including federal income	9,555	603	8,952	1,176.584.7%	13	9,541	71,051.8%	1	9,554	1,650,103.8%
14 Materials and supplies	522	603	(81)	(13.5%)	226	296	131.0%	411	111	27.0%
15 Receivable from affiliated companies	17,857	(37,237)	55,094	148.0%	7,368	10,489	142.4%	6,603	11,253	170.4%
16 Other Current Assets	3,974	3,857	118	3.1%	6,340	(2,366)	(37.3)%	3,230	744	23.0%
17 Regulatory assets - income tax recovery	1,262	748	514	68.8%	727	535	73.6%	795	467	58.7%
18 Debt and preferred stock expense	-	-	-	-	-	-	-	-	-	-
19 Deferred pension expense	-	-	-	-	-	-	-	-	-	-
20 Deferred postretirement benefit expense	-	-	-	-	-	-	-	-	-	-
21 Deferred security costs	-	-	-	-	-	-	-	-	-	-
22 Deferred business services project expense	-	-	-	-	-	-	-	-	-	-
23 Deferred integration costs	1,748	1,758	(10)	(0.6)%	1,507	241	16.0%	1,737	11	0.6%
24 Deferred tank painting costs	604	678	(75)	(11.0)%	686	(81)	(11.8)%	554	50	9.0%
25 Deferred rate case	-	-	-	-	-	-	-	-	-	-
26 Asset premium recoverable thru rates	2,740	2,893	(153)	(5.2)%	2,888	(247)	(8.3)%	2,760	(19)	(0.7)%
27 Environmental remediation recoverable thr	10,328	9,931	396	4.0%	12,246	(1,918)	(15.7)%	9,076	1,252	13.8%
28 Other Regulatory Assets	-	-	-	-	-	-	-	-	-	-
29 Regulatory assets	-	-	-	-	-	-	-	-	-	-
30 Other investments	-	-	-	-	-	-	-	-	-	-
31 Long term receivable from affiliate	-	-	-	-	-	-	-	6	(6)	(100.0)%
32 Funds restricted for construction	-	-	-	-	-	-	-	-	-	-
33 Goodwill	-	-	-	-	-	-	-	-	-	-
34 Intangible assets	126	138	(12)	(9.0)%	1,029	(903)	(87.8)%	126	0	0.0%
35 Other Long Term Assets	10,494	10,070	384	3.8%	13,275	(2,822)	(21.3)%	9,208	1,246	13.5%
Total Regulatory & Other L/T Assets	416,654	362,064	54,590	15.1%	397,586	19,068	4.8%	356,160	50,494	17.0%
Capital & Liabilities										
35 Common Stock	36,569	36,569	0	0.0%	36,569	0	0.0%	36,569	0	0.0%
36 Paid in Capital	46,645	46,645	0	0.0%	42,113	4,533	10.8%	24,127	22,519	93.3%
37 Retained Earnings	34,289	34,952	(663)	(1.9)%	33,183	1,106	3.3%	32,812	1,477	4.5%
38 Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
39 Unearned compensation	-	-	-	-	-	-	-	-	-	-
40 Treasury stock	117,504	118,166	(662)	(0.5)%	111,865	5,639	5.0%	93,507	23,996	25.7%
41 Common stockholder's equity	1,456	1,456	0	0.0%	1,447	9	0.6%	1,456	0	0.0%
42 Preferred Stock without mandatory redemp	118,990	118,600	390	0.3%	110,600	8,390	7.8%	76,700	42,290	55.1%
43 Long term debt	4,500	4,500	0	0.0%	4,600	0	0.0%	4,500	0	0.0%
Total Capitalization	242,450	242,722	(272)	(0.1)%	223,412	14,038	6.1%	176,163	66,286	37.6%
44 Short Term Debt	37,195	(12,250)	49,446	403.6%	29,267	7,929	27.1%	53,106	(15,910)	(30.0)%
45 Current Portion of Long-term Debt	3,107	3,100	7	0.2%	3,100	0	0.0%	3,100	0	0.0%
46 Current portion of redeemable stock at red	14,067	10,703	3,365	31.4%	7,552	6,516	86.3%	8,445	5,622	66.6%
47 Accounts Payable	(80)	(1,069)	1,009	94.4%	2,735	(2,785)	(102.2)%	(308)	248	80.5%
48 Taxes Accrued	1,152	482	669	134.3%	2,348	(1,196)	(50.9)%	1,150	2	0.2%
49 Interest Accrued	4,023	4,007	15	0.4%	3,872	151	3.9%	4,470	(447)	(10.0)%
50 Total Other Current Liabilities	59,478	4,983	54,495	1,093.0%	48,874	10,605	21.7%	69,963	(10,485)	(15.0)%
Total Current Liabilities	12,710	12,791	(81)	(0.6)%	15,687	(2,977)	(19.0)%	11,916	794	6.7%
51 Customer Advances for Construction	40,811	40,533	278	0.7%	38,984	1,827	4.7%	37,871	2,940	7.8%
52 Deferred Income Taxes	11,095	11,111	(16)	(0.2)%	1,110	(20)	(1.8)%	1,133	(42)	(3.7)%
53 Deferred investment tax credits	11,095	11,111	(16)	(0.1)%	10,930	165	1.5%	9,755	1,340	13.7%
54 Regulatory liability	1,539	1,510	28	1.9%	1,134	404	35.6%	1,389	149	10.7%
55 Accrued pension expense	451	451	0	0.0%	100	351	352.1%	418	33	7.8%
56 Accrued postretirement benefit expense	62	62	0	0.0%	4,034	(4,034)	(98.5)%	736	(674)	(91.6)%
57 Other Deferred Credits	67,758	67,345	413	0.6%	72,041	(4,283)	(5.9)%	63,219	4,539	7.2%
58 Regulatory & Other Long Term Liabilities	46,968	47,015	(46)	(0.1)%	48,260	(1,292)	(2.7)%	46,815	153	0.3%
Contributions in aid of construction	416,654	362,064	54,590	15.1%	397,587	19,068	4.8%	356,160	50,494	17.0%
Total capital and liabilities										

July '09 FRP Highlights - KENTUCKY Eastern FRP meeting - 08/17/09

- **Net Income Summary**

- MTD Actual vs. Q1RF = (\$0.54k)
- MTD Actual vs. Plan = \$205k
- MTD Actual vs. LYA = \$76k

- YTD Actual vs. QRF = \$1.1M
- YTD Actual vs. Plan = \$2.1M
- YTD Actual vs. LYA = \$1.6M

- **Financial Highlights**

- **MTD vs. Q1RF**

- Revenue

- Operating revenues were unfavorable to QRF by \$222k or 3.9%. Water revenues were unfavorable by \$246k, primarily driven by wet weather and lower consumption across all classes of customers. Other revenues were favorable to QRF by \$25k from higher reconnect fees.

- Operating Expenses

- Operating Expense variance for July was \$0.3 or 7.3% to QRF. Fuel and power was \$116k of the positive variance due to lower system delivery and lower than projected non-revenue water. Depreciation was also favorable by \$96k, driven by higher composite rates used in the QRF. Chemical expense was favorable by \$47k, driven by lower prices from a contract negotiated in summer 2009.

- Other Income/Deductions

- Long term interest expense was favorable to QRF due to financing \$45M with tax exempt financing. Expenses from the tax exempt financing is posted as capitalized interest against the project, which reduced interest expense on the income statement (which is offset by lower AFUDC). AFUDC debt and equity were unfavorable to QRF, from the tax exempt financing and slight delays in the water treatment project.

- **MTD vs. Plan**

- Revenue

- Operating revenues were unfavorable to Plan by \$539k or 7.9%. Water revenues were unfavorable by \$588k, of which \$250k was driven by wet weather and lower consumption across all classes of customers. The remaining \$330k was driven by outcomes from the settled rate case, which is offset by higher AFUDC and lower interest expenses. Other revenues were favorable to Plan by \$50k from higher reconnect fees.

- Operating Expenses

- Operating Expense variance for July was \$0.3 or 7.3% to Plan. Fuel and power was \$116k of the positive variance due to lower system delivery and lower than planned non-revenue water. Depreciation was also favorable by \$96k, driven by higher composite rates used in the Plan. Chemical expense was favorable by \$47k, driven by lower prices from a contract negotiated in summer 2009.

- Other Income/Deductions

- Long term interest expense was favorable to Plan due to financing \$45M with tax exempt financing. Expenses from the tax exempt financing is posted as capitalized

interest against the project, which reduced interest expense on the income statement (which is offset by lower AFUDC). Short term debt is favorable to Plan, driven by lower short-term debt rates vs. Plan. AFUDC debt and equity were favorable to Plan, due to the treatment of CWIP in rate base from the settled case, offset by the tax exempt financing and slight delays in the water treatment project.

○ **MTD vs. LYA**

Revenue

Operating Revenue variance for July was \$727k or 13% to LYA. The driver of the variance is rate increases from the case settled in 2009.

Operating Expenses

Operating Expense variance for July was (\$475k) or 14% to LYA. No single expense was more than \$80k higher than prior year. Variances are driven by inflation, merit increases and higher prices vs. prior year.

Other Income/Deductions

No significant variances from prior year.

○ **YTD vs. Q1RF**

Revenue

Operating revenues were unfavorable to QRF by \$569k or 1.6%. Water revenues were unfavorable by \$611k, primarily driven by wet weather in July and lower consumption across all classes of customers. Other revenues were favorable to QRF by \$51k from higher reconnect fees.

Operating Expenses

Operating Expense variance for YTD July was \$1.75 or 6.7% to QRF. Fuel and power was \$438k of the positive variance due to lower system delivery and lower than projected non-revenue water. Labor is favorable \$215k, driven by higher than anticipated vacancy rates earlier in 2009. Miscellaneous was favorable \$356k, driven by lower gas prices. Depreciation was also favorable by \$461k, driven by higher composite rates used in the QRF.

Other Income/Deductions

Long term interest expense was favorable \$878k to QRF due to financing delays vs QRF in timing of debt issuances and an issuance of \$45M with tax exempt financing. Expenses from the tax exempt financing is posted as capitalized interest against the project, which reduced interest expense on the income statement (which is offset by lower AFUDC). Short term debt is favorable to QRF due to lower than expected interest rates. AFUDC debt and equity were unfavorable to QRF, from the tax exempt financing and slight delays in the water treatment project.

○ **YTD vs. Plan**

Revenue

Operating revenues were unfavorable to Plan by \$1.26M or 3.5%. Water revenues were unfavorable by \$1.4M, of which \$611k was driven by wet weather and lower consumption across all classes of customers. The remaining \$800k was driven by outcomes from the settled rate case, which is offset by higher AFUDC and lower interest expenses. Other revenues were favorable to Plan by \$180k from higher reconnect fees.

Operating Expenses

Operating Expense variance for July was \$2.3M or 8.6% to Plan. Fuel and power was \$501k of the positive variance due to lower system delivery and lower than planned non-revenue water. Depreciation was also favorable by \$649k, driven by higher composite rates used in the Plan. Miscellaneous expense was \$523k lower than Plan, primarily due to lower gas prices.

Other Income/Deductions

Long term interest expense was favorable to Plan due to financing \$45M with tax exempt financing. Expenses from the tax exempt financing is posted as capitalized interest against the project, which reduced interest expense on the income statement (which is offset by lower AFUDC). Short term debt is favorable to Plan, driven by lower short-term debt rates vs. Plan. AFUDC debt and equity were favorable to Plan, due to the treatment of CWIP in rate base from the settled case, offset by the tax exempt financing and slight delays in the water treatment project.

o **YTD vs. LYA**

Revenue

Operating Revenue variance for July was \$1.0Mk or 3% to LYA. The driver of the variance is rate increases from the case settled in 2009, which went into effect in June 2009.

Operating Expenses

Operating Expense variance for YTD July was (\$1.4M) or 6% to LYA. No single expense was more than \$500k higher than prior year. Variances are driven by inflation, merit increases and higher prices vs. prior year.

Other Income/Deductions

No significant variances from prior year.

• **Significant Accounting Issues**

No issues to report.

• **Management Judgments**

No new management judgments this month – see Divisional summary for complete report.

Aug '09 FRP Highlights - KENTUCKY Eastern FRP meeting - 09/16/09

- **Net Income Summary**

- MTD Actual vs. Q1RF = (\$386k)
- MTD Actual vs. Plan = (\$114k)
- MTD Actual vs. LYA = (\$190k)

- YTD Actual vs. QRF = \$.729M
- YTD Actual vs. Plan = \$1.97M
- YTD Actual vs. LYA = \$1.42M

- **Financial Highlights**

- **MTD vs. Q1RF**

Revenue

Operating revenues were unfavorable to QRF by \$598k or 8.96%. Water revenues were unfavorable by \$616k, driven by wet weather and lower consumption across all classes of customers. Other revenues were favorable to QRF by \$19k from higher reconnect fees.

Operating Expenses

Operating Expense variance for Aug. was \$175k or 4.34% to QRF. Fuel and power was \$189k of the positive variance due to lower system delivery and lower than projected non-revenue water. Depreciation was also favorable by \$99k, driven by higher composite rates used in the QRF. Chemical expense was favorable by \$79k, driven by lower prices from a contract negotiated in summer 2009. These were offset this month by a reg asset write off of \$158.5k for the water and conservation study which was not approved by the commission.

Other Income/Deductions

Long term interest expense was favorable to QRF due to financing \$45M with tax exempt financing. Expenses from the tax exempt financing is posted as capitalized interest against the project, which reduced interest expense on the income statement (which is offset by lower AFUDC). AFUDC debt and equity were unfavorable to QRF, from the tax exempt financing and slight delays in the water treatment project.

- **MTD vs. Plan**

Revenue

Operating revenues were unfavorable to Plan by \$915k or 13.09%. Water revenues were unfavorable by \$958k, of which \$ was driven by wet weather and lower consumption across all classes of customers. The remaining \$ was driven by outcomes from the settled rate case, which is offset by higher AFUDC and lower interest expenses. Other revenues were favorable to Plan by \$44k from higher reconnect fees.

Operating Expenses

Operating Expense variance for Aug was \$162k or 4.0% to Plan. Fuel and power was \$189k of the positive variance due to lower system delivery and lower than planned non-revenue water. Depreciation was also favorable by \$99k, driven by higher composite rates used in the Plan. Chemical expense was favorable by \$79k, driven by lower prices from a contract negotiated in summer 2009. These were offset

this month by a reg asset write off of \$158.5k for the water and conservation study which was not approved by the commission.

Other Income/Deductions

Long term interest expense was favorable to Plan due to financing \$45M with tax exempt financing. Expenses from the tax exempt financing is posted as capitalized interest against the project, which reduced interest expense on the income statement (which is offset by lower AFUDC). Short term debt is favorable to Plan, driven by lower short-term debt rates vs. Plan. AFUDC debt and equity were favorable to Plan, due to the treatment of CWIP in rate base from the settled case, offset by the tax exempt financing and slight delays in the water treatment project.

○ **MTD vs. LYA**

Revenue

Operating Revenue variance for Aug was (\$9k) or .3% to LYA. The driver of the variance is rate increases from the case settled in 2009 offset by a reduction to unbilled revenue.

Operating Expenses

Operating Expense variance for Aug was (\$446k) or 13.1% to LYA. Variances are primarily driven by inflation, merit increases and higher prices vs. prior year. In addition, this month fuel and power was favorable by \$146k to LYA, offset by a reg asset write off of \$159k for the water and conservation study which was not approved by the commission.

Other Income/Deductions

No significant variances from prior year.

○ **YTD vs. Q1RF**

Revenue

Operating revenues were unfavorable to QRF by \$1.17m or 2.8%. Water revenues were unfavorable by \$1.22m, primarily driven by wet weather in July and Aug. and lower consumption across all classes of customers. Other revenues were favorable to QRF by \$69k from higher reconnect fees.

Operating Expenses

Operating Expense variance for YTD Aug. was \$1.93 or 6.4% to QRF. Fuel and power was \$627k of the positive variance due to lower system delivery and lower than projected non-revenue water. Labor is favorable \$268k, driven by higher than anticipated vacancy rates earlier in 2009. Miscellaneous was favorable \$216k, driven by lower gas prices offset by the water study write of in the amount of \$159k. Depreciation was also favorable by \$560k, driven by higher composite rates used in the QRF.

Other Income/Deductions

Long term interest expense was favorable 1.17m to QRF due to financing delays vs QRF in timing of debt issuances and an issuance of \$45M with tax exempt financing. Expenses from the tax exempt financing is posted as capitalized interest against the project, which reduced interest expense on the income statement (which is offset by lower AFUDC). Short term debt is favorable to QRF due to lower than expected interest rates. AFUDC debt and equity were unfavorable to QRF, from the tax exempt financing and slight delays in the water treatment project.

○ **YTD vs. Plan**

Revenue

Operating revenues were unfavorable to Plan by \$2.2M or 5.1%. Water revenues were unfavorable by \$2.4M, of which \$ was driven by wet weather and lower consumption across all classes of customers. The remaining \$ was driven by outcomes from the settled rate case, which is offset by higher AFUDC and lower interest expenses. Other revenues were favorable to Plan by \$224k from higher reconnect fees.

Operating Expenses

Operating Expense variance for Aug was \$2.45M or 8.0% to Plan. Fuel and power was \$691k of the positive variance due to lower system delivery and lower than planned non-revenue water. Depreciation was also favorable by \$748k, driven by higher composite rates used in the Plan. Miscellaneous expense was \$401k lower than Plan, primarily due to lower gas prices, offset by the water study write off in Aug.

Other Income/Deductions

Long term interest expense was favorable to Plan due to financing \$45M with tax exempt financing. Expenses from the tax exempt financing is posted as capitalized interest against the project, which reduced interest expense on the income statement (which is offset by lower AFUDC). Short term debt is favorable to Plan, driven by lower short-term debt rates vs. Plan. AFUDC debt and equity were favorable to Plan, due to the treatment of CWIP in rate base from the settled case, offset by the tax exempt financing and slight delays in the water treatment project.

○ **YTD vs. LYA**

Revenue

Operating Revenue variance for Aug was \$1.0Mk or 2.6% to LYA. The driver of the variance is rate increases from the case settled in 2009, which went into effect in June 2009.

Operating Expenses

Operating Expense variance for YTD July was (\$1.85M) or 7% to LYA. Variances are driven by inflation, merit increases and higher prices vs. prior year. Two categories stand out – chemicals is up \$550 YTY and Pension expense is up \$508k YTY.

Other Income/Deductions

No significant variances from prior year.

• **Significant Accounting Issues**

No issues to report.

• **Management Judgments**

Recorded reduction to unbilled revenue of 343K.



	MTD Actuals	MTD Reforecast	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pct. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
1	5,817	6,433	(616)	(9.58)%	6,775	(958)	(14.14)%	5,835	(17)	(0.30)%
2	27	28	1	(1.50)%	28	1	(1.50)%	27	0	(0.18)%
3	229	210	19	8.91%	185	44	23.55%	221	8	3.59%
4	6,074	6,671	(598)	(8.98)%	6,988	(915)	(13.09)%	6,083	(9)	(0.16)%
5	17	12	5	(42.78)%	12	(5)	(42.78)%	11	(6)	(56.55)%
6	246	436	(189)	43.42%	436	189	43.42%	393	146	37.24%
7	235	79	156	(1.66)%	167	(68)	(2.48)%	147	(19)	(13.60)%
8	26	26	0	1.84%	30	4	16.30%	18	(12)	(66.67)%
9	584	574	10	(18.27)%	301	(283)	(94.01)%	285	(96)	(33.63)%
10	117	111	6	(2.98)%	30	(87)	(28.33)%	13	(94)	(80.67)%
11	190	187	3	(5.31)%	319	(129)	(16.29)%	354	(235)	(66.38)%
12	25	30	(5)	(2.98)%	77	(52)	(67.13)%	112	(35)	(31.25)%
13	364	308	56	(2.98)%	336	(28)	(8.33)%	465	(40)	(8.55)%
14	327	320	7	(14.23)%	30	(297)	(45.33)%	13	(284)	(88.47)%
15	99	94	5	8.33%	60	39	46.67%	48	(12)	(24.00)%
16	26	30	(4)	8.72%	156	(130)	(83.33)%	116	(140)	(120.69)%
17	55	60	(5)	85.69%	5	(55)	(100.00)%	0	(55)	(100.00)%
18	142	156	(14)	15.64%	54	(88)	(64.00)%	74	(182)	(128.57)%
19	1	5	(4)	(81.41)%	215	(214)	(99.06)%	135	(80)	(59.09)%
20	47	55	(8)	(26.58)%	204	(157)	(76.82)%	205	(158)	(76.82)%
21	313	172	141	1.57%	3,083	(2,770)	(89.84)%	2,644	(439)	(16.06)%
22	269	204	65	16.67%	592	(323)	(52.89)%	470	(222)	(37.50)%
23	3,043	3,084	(41)	14.86%	44	(3,000)	(67.70)%	43	(1)	(2.27)%
24	493	592	(99)	16.55%	636	(143)	(22.64)%	513	(123)	(24.17)%
25	38	44	(6)	6.01%	298	(260)	(87.50)%	252	(46)	(17.75)%
26	531	636	(105)	4.34%	4,017	(3,486)	(86.78)%	3,409	(608)	(17.09)%
27	281	289	(8)	(16.01)%	2,971	(2,690)	(90.54)%	2,674	(307)	(11.37)%
28	3,855	4,030	(175)	(7.52)	162	(3,668)	(95.72)%	162	(3,506)	(91.55)%
29	2,219	2,842	(623)	(25.33)%	2,674	(455)	(17.04)%	2,674	(455)	(17.04)%
30	452	744	(292)	39.18%	811	(359)	44.24%	470	(18)	3.80%
31	16	93	(77)	82.33%	137	(121)	(87.96)%	36	(19)	53.84%
32	0	0	0	43.98%	948	(948)	(100.00)%	0	0	100.00%
33	469	837	(368)	(68.33)%	83	(754)	(90.09)%	37	(797)	(95.22)%
34	172	542	(370)	(66.30)%	37	(505)	(74.72)%	59	(468)	(82.78)%
35	86	285	(199)	(22.71)%	11	(274)	(24.77)%	33	(241)	(82.58)%
36	9	11	(2)	14.14%	7	(4)	(57.14)%	2	(5)	(21.06)%
37	0	0	0	56.66%	(12)	(12)	(100.00)%	3	(15)	(140.93)%
38	0	0	0	(260.69)%	(850)	850	(100.00)%	(358)	(131)	36.66%
39	0	0	0	(22.71)%	2,121	(2,121)	(100.00)%	2,318	(197)	(9.07)%
40	121	125	(4)	3.16%	104	(17)	(15.89)%	141	20	13.90%
41	674	875	(201)	22.97%	708	(34)	(4.85)%	791	117	14.33%
42	0	(1)	1	(87.83)%	(1)	(1)	(100.00)%	0	(1)	(65.33)%
43	0	(4)	4	(97.70)%	(4)	(4)	(100.00)%	(2)	(2)	(65.62)%
44	0	(6)	6	(97.70)%	(6)	(6)	(100.00)%	(2)	(4)	(14.50)%
45	985	985	0	20.12%	808	177	(21.87)%	929	(121)	(13.70)%
46	1,199	1,584	(385)	(24.34)%	1,313	(114)	(8.69)%	1,389	(76)	(5.47)%
47	7	7	0	(0.16)%	0	(7)	(100.00)%	7	(7)	(100.00)%
48	1,192	1,578	(386)	(24.44)%	1,308	(116)	(8.74)%	1,383	(75)	(5.40)%
49	0	0	0	(24.44)%	1,308	(1,308)	(100.00)%	0	(1,308)	(100.00)%
50	1,192	1,578	(386)	(24.44)%	1,308	(116)	(8.74)%	1,383	(75)	(5.40)%

OPERATIONS & MAINTENANCE EXPENSE

PRODUCTION EXPENSES

DAM LABOR & OVERHEAD

OTHER INCOME & DEDUCTIONS

OTHER INCOME & DEDUCTIONS (Consolidated)

Income (loss) before income taxes

State Income Taxes

Federal Income Taxes

State income taxes (non-operating)

Federal income taxes (non-operating)

Provision (Benefit) for Income Taxes

Net Income (loss)

Preferred Dividend Declared

Net Income To Common Stock

Common Dividend Declared

Current Year Retained Earnings



	YTD Actuals	Reference	YTD	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pt. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES											
1	38,515	39,742	(1,227)	(3.09)%	40,895	(2,381)	(5.82)%	37,533	982	2.62%	
2	212	222	(9)	(4.16)%	2,679	891	8.24%	204	(7)	(9.00)%	
3	1,707	1,638	69	4.24%	1,484	224	15.07%	1,665	42	2.50%	
4	40,435	41,602	(1,167)	(2.81)%	42,604	(2,170)	(5.09)%	39,402	1,033	2.62%	
OPERATIONS & MAINTENANCE EXPENSE											
PRODUCTION EXPENSES											
5	84	90	(6)	7.29%	91	8	8.24%	77	(7)	(9.00)%	
6	1,988	2,615	627	23.98%	2,679	891	25.78%	2,090	102	4.86%	
7	1,580	1,701	(121)	7.14%	1,705	125	7.33%	1,030	(590)	(53.94)%	
8	148	193	(45)	23.56%	196	48	24.52%	41	(21.87)%	21.87%	
	3,800	4,601	801	17.41%	4,671	871	18.65%	3,386	(414)	(12.22)%	
QAM LABOR & OVERHEAD											
9	4,382	4,618	(236)	5.11%	4,570	188	4.12%	4,274	(107)	(2.51)%	
10	963	906	(57)	(5.18)%	889	(54)	(6.04)%	445	(906)	(114.36)%	
11	1,437	1,481	(44)	3.03%	1,495	58	3.92%	1,128	(308)	(27.34)%	
12	187	221	(34)	15.27%	239	51	21.42%	183	(2.35)%	(2.35)%	
	6,959	7,226	288	3.70%	7,202	244	3.38%	6,030	(928)	(15.40)%	
Management fees											
13	2,656	2,536	(119)	(4.71)%	2,511	(145)	(5.76)%	2,079	23	0.84%	
14	2,584	2,635	(51)	1.95%	2,654	70	2.61%	2,684	90	3.36%	
15	786	701	(85)	(9.39)%	840	(127)	(19.80)%	588	(179)	(30.37)%	
	3,380	3,398	(18)	(0.74)%	3,303	(57)	(1.73)%	3,272	(88)	(2.70)%	
Total contracted services											
16	143	158	(15)	9.48%	158	15	9.58%	167	24	14.19%	
17	431	471	(40)	8.45%	479	48	10.07%	307	(124)	(40.38)%	
18	1,080	1,131	(51)	4.52%	1,131	51	4.49%	920	(160)	(17.41)%	
19	19	34	(15)	43.15%	38	19	48.84%	24	5	19.45%	
20	349	393	(44)	11.32%	406	46	14.23%	440	91	20.68%	
21	1,192	1,408	(216)	15.33%	1,584	401	25.19%	1,175	(18)	(1.51)%	
22	1,780	1,749	(31)	(1.78)%	1,854	84	4.48%	1,541	(198)	(8.48)%	
	21,770	23,044	1,274	5.53%	23,356	1,588	6.80%	20,041	(1,730)	(8.63)%	
Total operations and maintenance expense											
23	3,885	4,445	560	12.60%	4,633	748	16.14%	3,986	100	2.52%	
24	344	352	(8)	2.31%	355	12	3.27%	341	(3)	(0.88)%	
	4,229	4,797	568	11.84%	4,988	753	15.22%	4,326	97	2.25%	
General taxes											
25	2,277	2,361	(84)	3.55%	2,388	111	4.65%	2,055	(222)	(10.79)%	
27	28,276	30,202	1,926	6.38%	30,735	2,459	8.00%	26,422	(1,854)	(7.02)%	
	12,159	11,400	759	6.65%	11,870	289	2.44%	12,980	(821)	(6.33)%	
OTHER INCOME & DEDUCTIONS											
28	3,672	4,842	1,170	24.16%	5,133	1,461	28.46%	3,814	142	3.73%	
29	312	666	354	54.58%	1,347	1,036	76.88%	451	139	30.83%	
30	8	(8)	(16)	(1.95)%	66	5	7.20%	2	(2)	(2.81)%	
31	3,992	5,528	1,536	27.79%	6,440	2,488	38.40%	4,259	(267)	(6.27)%	
32	2,589	3,483	(894)	(25.66)%	2,410	179	7.43%	361	1,728	200.66%	
33	1,233	1,610	(377)	(23.42)%	1,085	138	12.62%	863	233.62%		
34	61	69	(8)	11.32%	66	5	7.20%	59	2	2.81%	
35	-	-	-	-	-	-	-	-	-	-	
36	-	-	-	-	-	-	-	-	-	-	
37	-	-	-	-	-	-	-	-	-	-	
38	-	-	-	-	-	-	-	-	-	-	
39	51	15	36	233.33%	51	51	0	0	0	0.39%	
	51	15	36	233.33%	51	51	0	0	0	0.39%	
40	0	0	0	180.36%	1	1	155.28%	0	0	0.00%	
41	235	268	(33)	12.04%	300	64	21.49%	228	(7)	(3.16)%	
	235	268	(33)	12.25%	300	65	21.79%	228	(7)	(3.16)%	
Other, net											
	(184)	(253)	68	27.11%	(300)	116	38.69%	(177)	(7)	3.58%	
	(415)	(757)	342	45.17%	(3,342)	2,928	87.57%	(3,265)	2,850	87.28%	
	11,744	10,643	1,101	10.35%	8,528	3,216	37.71%	9,715	2,028	20.88%	
42	734	541	(193)	(35.58)%	460	(273)	(59.38)%	629	(104)	(16.57)%	
43	3,760	3,662	(98)	(9.98)%	2,801	(860)	(29.64)%	3,308	(452)	(13.68)%	
46	(4)	(17)	(13)	(75.06)%	(25)	(20)	(82.84)%	(8)	(3)	(44.06)%	
47	4,487	4,115	(372)	(9.03)%	3,240	(1,247)	(38.48)%	2,858	(601)	(21.47)%	
	7,257	6,528	729	11.17%	5,288	1,969	37.23%	5,630	1,427	24.48%	
48	52	52	0	0.121%	52	0	0.28%	52	0	0.04%	
	7,205	6,475	729	11.26%	5,236	1,969	37.60%	5,777	1,427	24.70%	
	3,197	2,461	(736)	(29.91)%	2,461	(736)	(29.91)%	2,053	(1,144)	(55.73)%	
	4,007	4,014	(7)	(0.17)%	2,774	1,233	44.43%	3,724	283	7.60%	



AMERICAN WATER

Supplementary Tables and Discussion
Kentucky with Growth
Aug 2009

Close Status: Final,
pending reviews

AWFRP 2.0 - Result of Operations - Revenue Analysis

Revenue Variance Summary (\$ in Thousands)

	Budget		Forecast		Prior Year	
	MTD	QTD	MTD	QTD	MTD	QTD
Budget / Forecast / Prior Year	6,988	13,830	6,671	13,196	6,083	11,659
Rates	0	0	-	-	1,507	2,220
DSIC	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-
Water acquisitions	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-
Other	(50)	0	(25)	0	-	-
Fire	-	-	-	-	-	-
Organic growth	-	-	-	-	-	-
Demand / consumption	(974)	(1,220)	(974)	(1,220)	(1,220)	(1,220)
Sewer	1	0	1	0	-	-
Other Revenue Variances	108	(234)	400	400	(296)	(282)
Actual revenues	6,074	12,377	6,074	12,377	6,074	12,377
Total variance	(915)	(1,454)	(598)	(820)	(9)	718
						33
						40,435
						40,435
						(1,167)
						1,033

QTD Actual vs. QRF

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

FRP 1.xf Other income and deduction variance explanations (taxes)

QTD Actual vs. Plan

FRP 1.xa Revenue variance explanations

Line 1: Water Revenues unfav by 2476k due to wet and cool weather thus lower consumption across all classes of customers (\$1.45m) and due to outcome from the settled rate case (\$1.03), which is offset by higher AFUDC and lower interest expenses

Line 3: Other Operating Revenues favorable by 185k due to higher reconnect fees

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 321k due to lower system delivery (down 15.8%) and lower than projected non-revenue water (14% budget, 10% actual)

Line 7: Chemicals favorable by 283k due to favorable pricing in re-negotiated contracts and lower system delivery

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

Line 23: Depreciation favorable by 294k due to higher composite rates used in plan

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

Line 29: Interest on long-term debt favorable by 1132k due to tax exempt financing of \$71m at lower rates and with deferred interest expense, offset by lower AFUDC & revenues vs. budget (AFUDC/Revenues offset due to outcomes of rate case)

Line 30: Interest on Short-Term Bank Debt favorable by 364k due to lower short term rates than used in the plan

Line 32: AFUDC - Equity favorable by 225k due to the treatment of CWIP in rate base from the settled case, offset by the tax exempt financing

FRP 1.xf Other income and deduction variance explanations (taxes)

QTD Actual vs. Prior Year**FRP 1.xa Revenue variance explanations****FRP 1.xb Operating expense explanations (production costs)****FRP 1.xc Operating expense explanations (other operating)**

Line 10: Pensions unfav by 202k driven by higher pension funding costs in 2009 vs. 2008

Line 11: Group insurances unfav by 154k driven by higher per employee costs and additional FTEs in 2009 vs. 2008 (3 vacancies vs. py)

Line 13: Management fees unfav by 142k due to higher allocated charges from corporate in 2009 vs. 2008

Line 21: Miscellaneous unfav by 206k due to water study write off (\$159k) in August 2009

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)**FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)**

Line 32: AFUDC - Equity favorable by 281k due to new water treatment plant total project (budget of \$162m) in CWIP

Line 33: AFUDC Debt favorable by 125k due to new water treatment plant total project (budget of \$162m) in CWIP

FRP 1.xf Other income and deduction variance explanations (taxes)

summary sheet (summary)
Sep QTD 2009
(\$ in Thousands)

	QTD Actuals	QTD Reference	Variance Favorable (Unfavorable)	% Variance	QTD Plan	Variance Favorable (Unfavorable)	% Variance	QTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
1	17,595	17,819	(224)	(1.22)%	20,042	(2,476)	(12.36)%	16,673	892	5.35%
2	32	88	(56)	(4.40)%	88	(56)	(6.47)%	79	3	4.17%
3	742	723	19	2.58%	556	186	33.28%	671	71	10.60%
4	18,350	18,528	(178)	(1.28)%	20,596	(2,297)	(11.10)%	17,423	967	5.53%
OPERATIONS & MAINTENANCE EXPENSE										
PRODUCTION EXPENSES										
5	38	43	(5)	15.69%	36	0	(0.49)%	34	(3)	(8.25)%
6	928	970	(42)	4.29%	1,249	321	25.68%	1,022	84	9.19%
7	625	708	(83)	11.81%	908	283	31.17%	528	(99)	(18.81)%
8	80	82	(2)	2.29%	82	(2)	(2.82)%	77	(5)	(6.44)%
9	1,670	1,804	(134)	7.43%	2,276	606	26.62%	1,549	(21)	(1.28)%
QA/LABOR & OVERHEAD										
10	1,816	1,775	(41)	(2.31)%	1,757	(59)	(3.34)%	1,669	(147)	(8.82)%
11	55	362	(307)	(1.19)%	337	(19)	(5.66)%	154	(202)	(131.16)%
12	572	523	(49)	(9.21)%	561	(11)	(1.97)%	418	(154)	(36.87)%
13	80	78	2	(2.53)%	78	(2)	(2.82)%	77	(5)	(6.44)%
14	2,824	2,728	(96)	(3.50)%	2,733	(91)	(3.33)%	2,317	(607)	(21.86)%
Management fees										
15	1,063	1,081	(18)	1.67%	953	(110)	(11.50)%	921	(142)	(15.40)%
16	1,082	1,064	18	0.24%	1,009	(52)	(5.18)%	989	(73)	(7.35)%
17	288	258	(30)	(7.24)%	234	(54)	(23.23)%	238	10	3.40%
18	1,350	1,321	(29)	(2.22)%	1,243	(107)	(8.57)%	1,287	(63)	(4.86)%
Total contracted services										
19	76	81	(5)	6.05%	91	14	15.81%	40	(96)	(85.56)%
20	121	172	(51)	29.61%	180	59	32.66%	124	3	2.49%
21	498	469	29	6.54%	465	27	5.81%	374	(64)	(17.15)%
22	164	148	16	(13.04)%	14	7	47.63%	5	(2)	(41.84)%
23	616	611	5	(10.72)%	148	(16)	(11.16)%	226	61	27.24%
24	728	892	(164)	(9.56)%	575	(42)	(7.23)%	410	(206)	(50.30)%
25	9,057	9,113	(56)	(0.61)%	9,376	321	3.42%	8,033	(1,025)	(12.75)%
Total operations and maintenance expense										
26	1,480	1,497	(17)	1.12%	1,774	294	16.57%	1,410	(70)	(4.94)%
27	1,29	131	(2)	1.02%	133	4	3.01%	129	0	(0.10)%
28	1,603	1,627	(24)	1.11%	1,907	298	15.62%	1,539	(70)	(4.54)%
General taxes										
29	840	873	(33)	3.72%	906	66	7.30%	796	(45)	(5.61)%
Impairment charges										
30	11,507	11,612	(105)	0.91%	12,191	685	5.62%	10,362	(1,139)	(10.99)%
31	6,883	7,016	(133)	(1.90)%	8,495	(1,612)	(18.97)%	7,055	(173)	(2.46)%
OTHER INCOME & DEDUCTIONS										
32	1,302	1,301	(1)	(0.05)%	2,434	1,132	46.51%	1,411	109	7.71%
33	53	148	(95)	64.00%	417	384	87.21%	115	52	53.69%
34	8	8	0	(0.04)%	8	(8)	(100.00)%	8	0	0%
35	1,363	1,457	(94)	6.40%	2,851	1,487	52.18%	1,526	162	10.65%
36	469	401	68	16.95%	243	225	92.65%	187	281	150.04%
37	234	179	55	30.81%	111	123	111.47%	109	125	114.79%
38	25	27	(2)	5.76%	32	6	19.51%	23	2	10.40%
39	8	(1)	9	1,018.35%	8	8	100.00%	(31)	39	125.74%
40	0	0	0	1,470.12%	0	0	155.28%	0	0	0.00%
41	36	59	(23)	37.75%	38	1	2.82%	78	39	51.81%
42	36	59	(23)	37.75%	38	1	2.82%	78	39	51.81%
Total Other Deductions										
43	(28)	(59)	(31)	52.26%	(39)	9	24.91%	(107)	78	73.93%
44	(715)	(694)	(21)	25.90%	(2,566)	1,852	72.16%	(1,359)	645	47.42%
45	6,168	6,052	117	1.93%	5,829	240	4.04%	5,696	472	8.29%
46	378	327	(51)	(15.67)%	293	(85)	(28.95)%	332	(45)	(13.64)%
47	1,937	2,044	(107)	5.22%	1,862	45	2.26%	1,948	(11)	0.56%
48	(3)	(2)	(1)	90.77%	(3)	0	(7.42)%	(3)	0	(1.34)%
49	(16)	(5)	(11)	237.85%	(12)	4	51.91%	(11)	5	44.21%
50	2,226	2,384	(158)	2.88%	2,260	(36)	(1.62)%	2,267	(30)	(1.31)%
51	3,872	3,687	185	5.01%	3,669	203	5.54%	3,430	442	12.89%
52	20	20	0	(0.05)%	20	0	(0.16)%	19	0	0.21%
53	3,853	3,658	195	5.04%	3,649	203	5.54%	3,410	442	12.97%
54	2,006	1,691	(315)	(18.65)%	1,691	(315)	(18.65)%	1,395	(611)	(63.82)%
55	1,846	1,977	(131)	(6.61)%	1,958	(112)	(5.73)%	2,015	(189)	(8.39)%

YTD Actual vs. QRF

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

FRP 1.xf Other income and deduction variance explanations (taxes)

YTD Actual vs. Plan

FRP 1.xa Revenue variance explanations

Line 3: Other Operating Revenues favorable by 315k due to higher reconnect fees

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 706k due to lower system delivery (down 11.9%) and lower than planned non revenue water (14.5% plan, 11.3% actual)

Line 7: Chemicals favorable by 281k due to more favorable chemical pricing per contracts negotiated in summer 2009

FRP 1.xc Operating expense explanations (other operating)

Line 15: Contracted services unfav by 175k due to higher than planned temporary labor-maintenance (Volt Services)

Line 21: Miscellaneous favorable by 433k due to lower actual gas prices than planned prices, offset by water study write off (\$159k)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

Line 23: Depreciation favorable by 847k driven by higher composite rates used in the plan

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

Line 29: Interest on long-term debt favorable by 1820k due to financing of \$71m with tax exempt financing, offset by lower AFUDC & revenues vs. budget (AFUDC/Revenues offset due to outcomes of rate case)

Line 30: Interest on Short-Term Bank Debt favorable by 1179k driven by lower than planned short-term interest rates

Line 33: AFUDC Debt favorable by 170k due to the treatment of CWIP in rate base from the settled case, offset by the tax exempt financing

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 42: State Income Taxes unfav by 297k - see tax department

Line 43: Federal Income Taxes unfav by 710k - see tax department

YTD Actual vs. Prior Year

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

Line 7: Chemicals unfav by 495k due to inflation and higher chemical prices in 2009 vs. 2008

FRP 1.xc Operating expense explanations (other operating)

Line 10: Pensions unfav by 570k due to economy and higher funding needed for pensions
Line 11: Group insurances unfav by 351k due to inflation and higher prices in 2009 vs. 2008

Line 15: Contracted services unfav by 226k due to increase in temporary labor -maintenance (Volt Services) in 2009 vs. 2008

Line 18: Customer Accounting unfav by 130k due to higher revenues in 2009 vs. 2008

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

Line 30: Interest on Short-Term Bank Debt favorable by 170k driven by lower short-term interest rates in 2009 vs. 2008

Line 32: AFUDC - Equity favorable by 1924k due to new water treatment plant total project (budget of \$162m) in CWIP

Line 33: AFUDC Debt favorable by 939k due to new water treatment plant total project (budget of \$162m) in CWIP

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 42: State Income Taxes unfav by 146k - see tax department

Close Status: Final
financial source system
data

Income Statement - Iss. to Users
Kentucky with Growth
Sep YTD 2009
(\$ in Thousands)

	YTD Actual	YTD Forecast	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pt. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
Water Revenues	44,223	44,477	(254)	(0.57)%	47,534	(3,311)	(6.97)%	43,044	1,179	2.74%
Sewer Revenues	240	244	(4)	(1.57)%	256	(16)	(6.36)%	231	9	3.84%
Other Operating Revenues	1,985	1,966	19	0.95%	1,669	315	18.88%	1,891	94	4.96%
Management Revenues										
Opening Revenues	46,448	46,667	(219)	(0.51)%	49,460	(3,012)	(6.09)%	45,166	1,282	2.84%
OPERATIONS & MAINTENANCE EXPENSE										
PRODUCTION EXPENSES										
Purchased Water	94	100	(6)	6.75%	108	14	13.27%	87	(6)	(6.98)%
Fuel and Power	2,363	2,405	(42)	1.79%	3,069	706	23.01%	2,429	66	2.71%
Chemicals	1,759	1,843	(84)	4.54%	2,041	281	13.79%	1,764	(495)	(38.18)%
Waste Disposal	172	174	(2)	1.07%	222	50	22.63%	24	24	16.23%
Total production costs	4,388	4,522	(134)	2.95%	5,440	1,052	19.34%	3,986	(402)	(10.08)%
O&M LABOR & OVERHEAD										
Labor	5,019	4,977	(41)	(0.82)%	5,157	(139)	2.69%	4,831	(127)	(2.61)%
Pensions	1,068	1,064	(4)	(0.38)%	1,011	(57)	(5.65)%	488	(576)	(114.60)%
Group Insurances	1,579	1,579	(0)	(0.00)%	1,862	283	18.00%	1,277	(585)	(27.48)%
Other benefits	214	212	(2)	(0.93)%	203	(11)	(5.19)%	(6)	(6)	(2.63)%
Total employee related	7,929	7,833	(96)	(1.22)%	8,113	(185)	2.27%	6,874	(1,054)	(15.34)%
Management fees	3,007	3,025	(18)	0.60%	2,831	(176)	(6.21)%	3,010	3	0.11%
Shared business services	2,953	2,956	(3)	0.09%	3,001	48	1.59%	2,989	36	1.21%
Contracted services	893	866	(27)	(3.02)%	724	(173)	(24.17)%	672	(226)	(33.71)%
Total contracted services	3,851	3,822	(29)	(0.77)%	3,724	(127)	(3.42)%	3,661	(180)	(5.20)%
Regulatory expense	189	173	16	8.83%	189	12	6.54%	180	9	5.00%
Insurance Other Than Group	442	493	(51)	10.13%	539	97	18.08%	333	(109)	(32.56)%
Customer Accounting	1,204	1,235	(31)	2.48%	1,285	81	6.33%	1,074	(109)	(12.10)%
Rent	25	24	(1)	(3.56)%	43	18	41.49%	23	(2)	(8.02)%
General office expense	409	393	16	(4.04)%	450	40	9.00%	500	91	18.19%
Miscellaneous	2,024	1,989	(35)	(1.80)%	2,022	33	1.63%	1,912	(112)	(5.84)%
Total operations and maintenance expense	24,803	24,858	(55)	0.22%	26,485	1,682	6.35%	22,851	(1,922)	(8.40)%
Depreciation	4,379	4,396	(17)	0.38%	5,225	847	16.20%	4,454	75	1.68%
Amortization	387	388	(1)	(0.26)%	400	13	3.25%	384	(2)	(0.54)%
Depreciation and amortization	4,766	4,784	(18)	0.38%	5,625	860	15.28%	4,838	(72)	(1.50)%
General taxes	2,552	2,685	(33)	1.26%	2,695	142	5.28%	2,330	(222)	(8.54)%
Impairment charges										
Total operating expense, net	32,121	32,227	(106)	0.33%	34,805	2,684	7.71%	30,649	(2,072)	(6.50)%
Operating Income	14,327	14,460	(133)	(0.92)%	14,655	(329)	(2.24)%	15,117	(790)	(5.23)%
OTHER INCOME & DEDUCTIONS										
Interest Income	4,124	4,124	(0)	(0.02)%	5,944	1,820	30.61%	(6)	(6)	(100.00)%
Interest on long-term debt	326	421	(95)	22.56%	1,505	1,179	78.35%	495	(170)	34.26%
Interest on Short-Term Bank Debt										
Other Interest Expense	8	8	(0)	(0.04)%	8	(0)	(0.00)%	(8)	(8)	6.82%
Total Interest Expense	4,458	4,553	(94)	2.07%	7,449	2,990	40.15%	4,774	(316)	6.82%
AFUDC - Equity	2,762	2,684	78	2.52%	2,929	234	9.24%	838	1,924	229.49%
AFUDC Debt	1,319	1,284	35	4.36%	1,148	170	14.83%	380	939	247.39%
Amortization of Debt Expense	70	71	(1)	1.18%	76	6	8.25%	67	2	3.54%
Preferred dividends of subsidiaries (Consolidated)										
Gain on sale of assets										
Non-Operating Rental Income										
Dividend Income - Common										
Dividend Income - Preferred										
Miscellaneous Income	60	51	9	17.39%	60	60	0.00%	19	41	218.22%
Total other income	60	51	9	17.39%	60	60	0.00%	19	41	218.22%
Miscellaneous Amortization	0	0	0	45.37%	1	1	155.28%	0	0	0.00%
Miscellaneous Other Deductions	257	279	(22)	7.91%	314	57	18.09%	253	(6)	(1.23)%
Total Other Deductions	257	279	(22)	7.91%	314	57	18.34%	253	(6)	(1.23)%
Other, net	(197)	(228)	(31)	13.62%	(314)	117	37.37%	(294)	37	219.95%
Total other income (deductions)	(84)	(894)	260	27.98%	(4,162)	3,518	84.55%	(3,857)	3,213	83.31%
Income (loss) before income taxes	13,663	13,566	97	0.86%	10,494	3,189	30.39%	11,260	2,423	21.52%
State Income Taxes	865	804	61	6.37%	558	(297)	(53.25)%	709	(146)	(20.62)%
Federal Income Taxes	4,268	4,375	(107)	2.44%	3,558	(710)	(19.94)%	4,000	(268)	(6.70)%
Total income taxes	5,133	5,179	(46)	0.90%	3,916	(1,217)	(30.53)%	4,709	(576)	(14.32)%
Net Income (loss)	8,530	8,387	143	1.70%	6,578	1,852	28.15%	6,551	(277)	(4.21)%
Preferred Dividend Declared	5,204	4,888	316	6.03%	4,152	1,026	24.71%	3,448	(1,755)	(50.51)%
Common Dividend Declared	3,323	3,454	(131)	(3.78)%	2,426	898	36.64%	3,095	228	7.38%
Current Year Retained Earnings										

	MTD Actuals	Retracecast	MTD	Variance Favorable (Unfavorable)	% Variance	MTD Pctg.	Variance Favorable (Unfavorable)	% Variance	MTD Pct. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES											
1	5,708	5,862	6,639	(254)	(4.25)%	6.639%	(931)	(14.02)%	5,511	197	3.57%
2	28	31	31	(4)	(12.17)%		(4)		28	0	0.09%
3	277	258	185	19	7.20%		92	49.39%	225	52	23.17%
4	-	-	-	-	-		-	-	-	-	-
	6,013	6,252	6,856	(239)	(3.82)%	6.856%	(843)	(12.22)%	5,764	249	4.32%
OPERATIONS & MAINTENANCE EXPENSE											
PRODUCTION EXPENSES											
5	10	16	16	7	41.19%	16%	7	41.19%	11	1	7.85%
6	375	416	390	42	10.01%	390%	339	4.01%	339	(36)	(10.53)%
7	178	263	263	84	31.79%	263%	156	46.57%	234	54	23.23%
8	25	25	27	2	7.03%	27%	2	7.03%	17	(8)	(45.91)%
	588	722	769	134	18.54%	769%	181	23.50%	600	12	1.95%
QUALITY LABOR & OVERHEAD											
9	637	586	587	(41)	(6.89)%	587%	(50)	(8.44)%	617	(20)	(3.28)%
10	115	111	112	(4)	(3.78)%	112%	(3)	(2.57)%	53	(62)	(116.55)%
11	191	143	187	(48)	(33.77)%	187%	(4)	(2.23)%	149	(42)	(28.52)%
12	27	25	24	(2)	(8.48)%	24%	(2)	(10.08)%	28	(1)	(4.91)%
	970	874	911	(96)	(10.93)%	911%	(59)	(6.49)%	844	(126)	(14.91)%
Management fees											
13	351	369	320	3	0.71%	320%	(31)	(9.71)%	332	(19)	(5.78)%
14	359	382	337	3	0.71%	337%	(22)	(6.51)%	305	(54)	(17.73)%
15	132	100	84	(32)	(31.85)%	84%	(48)	(57.47)%	84	(48)	(57.01)%
	491	462	421	(29)	(6.35)%	421%	(70)	(16.66)%	389	(102)	(26.22)%
Total contracted services											
16	25	30	30	5	16.25%	30%	5	16.25%	13	(12)	(88.67)%
17	11	62	60	51	82.66%	60%	49	82.47%	15	15	59.16%
18	124	155	155	31	19.81%	155%	31	19.81%	154	30	19.58%
19	6	5	5	(1)	(18.12)%		(1)		(7)	(7)	(702.82)%
20	61	45	43	(16)	(38.61)%	43%	(17)	(40.25)%	6	0	0.08%
21	163	157	194	(6)	(3.72)%	194%	32	16.25%	151	(12)	(7.90)%
22	244	208	219	(36)	(17.22)%	219%	(23)	(11.43)%	271	28	10.18%
	3,033	3,088	3,126	55	1.79%	3,126%	94	2.99%	2,840	(192)	(6.77)%
Total operations and maintenance expense											
23	484	510	592	17	3.29%	592%	99	16.67%	468	(26)	(5.44)%
24	43	44	44	1	3.01%	44%	1	3.01%	44	1	1.17%
	537	555	637	18	3.26%	637%	100	15.72%	512	(25)	(4.87)%
Depreciation and amortization											
25	275	308	307	32	10.56%	307%	31	10.19%	275	(1)	(0.18)%
27	-	-	-	-	-		-	-	-	-	-
	3,845	3,951	4,970	108	2.98%	4,970%	225	5.55%	3,627	(218)	(5.61)%
	2,168	2,301	2,786	(133)	(5.78)%	2,786%	(618)	(22.18)%	2,137	31	1.46%
OTHER INCOME & DEDUCTIONS											
28	-	-	-	-	-		-	-	0	0	0.00%
29	452	452	811	(1)	(0.14)%	811%	359	44.24%	470	18	3.80%
30	14	109	157	95	37.19%	157%	143	91.14%	45	31	68.83%
31	0	0	0	0	-		0	-	0	0	0.00%
	466	560	969	94	16.80%	969%	502	51.86%	515	49	9.45%
AFUDC - Equity											
32	173	105	119	68	64.54%	119%	55	45.96%	196	186	850.40%
33	86	31	54	55	177.46%	54%	32	59.67%	10	76	749.81%
34	9	11	11	2	14.83%	11%	8	14.83%	8	(1)	(8.76)%
35	-	-	-	-	-		-	-	-	-	-
36	-	-	-	-	-		-	-	-	-	-
37	-	-	-	-	-		-	-	-	-	-
38	-	-	-	-	-		-	-	-	-	-
39	9	0	0	9	0.00%	0%	9	0.00%	(32)	41	127.72%
	9	0	0	9	0.00%	0%	9	0.00%	(32)	41	127.72%
Miscellaneous Amortization											
40	0	0	0	0	155.28%	0%	0	155.28%	0	0	0.00%
41	22	44	14	(22)	(50.59)%	14%	(8)	(55.65)%	24	3	11.85%
	22	44	14	(22)	(50.59)%	14%	(8)	(55.65)%	24	3	11.85%
Total Other Deductions											
(13)	(44)	(44)	(14)	30	205.87%	(14)%	(8)	(96.63)%	24	3	11.85%
(22)	(478)	(478)	(820)	250	52.22%	(820)%	592	72.14%	(592)	364	61.41%
1,940	1,823	1,823	1,966	143	7.85%	1,966%	1,545	(1.33)%	1,545	395	25.56%
42	121	70	97	51	73.22%	97%	79	24.32%	79	(42)	(52.78)%
43	508	614	614	107	17.37%	614%	150	22.80%	692	184	26.63%
44	-	-	-	-	-		-	-	-	-	-
45	(3)	(1)	(1)	2	119.42%	(1)%	1	119.42%	(1)	2	265.28%
46	(16)	(14)	(14)	(2)	(251.69)%	(14)%	(1)	(251.69)%	(1)	2	265.28%
	1,329	1,144	1,216	185	16.15%	1,216%	113	9.27%	772	557	72.07%
47	7	7	7	0	(0.16)%	7%	0	(0.16)%	5	0	0.21%
	1,322	1,138	1,210	185	16.25%	1,210%	113	9.32%	766	557	72.65%
2,006	1,893	1,893	1,893	(115)	(18.65)%	1,893%	1,681	(18.65)%	1,681	(212)	(43.82)%
(684)	(553)	(553)	(481)	(72)	(23.61)%	(481)%	(203)	(42.14)%	(629)	(65)	(8.69)%



AMERICAN WATER

Supplementary Tables and Discussion
Kentucky with Growth
Sep 2009

Close Status: Final
financial source system
data

AWFRP 2.0 - Result of Operations - Revenue Analysis

Revenue Variance Summary (\$ in Thousands)

	Budget		Forecast		Prior Year	
	MTD	QTD	MTD	QTD	MTD	QTD
Budget / Forecast / Prior Year	6,856	20,686	6,252	18,628	5,764	17,423
Rates	(1,495)	(1,495)	-	-	(855)	1,365
YTD	49,460	46,687	45,166	1,365	45,166	1,365
DSIC	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-
Water acquisitions	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-
Other	315	315	19	19	94	94
Fire	441	441	49	49	684	684
Organic growth	(1,037)	(2,257)	(303)	(303)	350	(870)
Demand / consumption	(16)	(16)	(4)	(4)	9	9
Sewer	949	715	0	0	(33)	(315)
Other Revenue Variances	6,013	18,390	6,013	18,390	6,013	18,390
Actual revenues	(843)	(2,297)	(239)	(239)	249	967
Total variance	6,013	18,390	6,013	18,390	6,013	18,390
YTD	(843)	(2,297)	(239)	(239)	249	967
YTD	46,448	46,448	46,448	46,448	46,448	46,448
Total variance	(843)	(2,297)	(239)	(239)	249	967

YTD Actual vs. Prior Year

FRP 3.xa Asset variance explanations

Line 2: Construction Work in Progress increase by 65.45M due to construction on the new water treatment plant

FRP 3.xb Asset variance explanations

Line 7: Cash and Cash Equivalents increase by 261k due to timing (year end vs. middle of the year) and various cash entries

Line 9: Utility customer accounts receivable increase by 689k due to higher value of receivables as result of increase in revenues from rate

Line 11: Accrued utility revenues increase by 798k due to higher revenues from rate case

Line 12: Other receivables, net increase by 239k due to higher miscellaneous receivables, mostly driven by timing (year end vs. September)

Line 15: Receivable from affiliated companies increase by 18.06M due to the balance of the tax-exempt financing not yet applied to the project (funds are provided based on actual expenditures)

FRP 3.xc Asset explanations

Line 17: Regulatory assets - income tax recovery increase by 851k due to AFUDC/CWIP resulting from rate case settlement

Line 18: Debt and preferred stock expense increase by 882k due to cash requirement for the financing of the water treatment plant

FRP 3.xd Capital and Liabilities explanations

Line 36: Paid in Capital increase by 22.53M due to equity infusion for the cash needs, primarily due to the water treatment plant (\$162m total for the life of the project)

Line 37: Retained Earnings increase by 3.32M due to increase in retained earnings from 2009 net income

Line 42: Long term debt increase by 68.29M due to tax exempt financing of \$71m in 2009, offset by \$3.1m moved to current portion of long term debt

FRP 3.xe Capital and Liabilities explanations

Line 44: Short Term Debt decrease by 14M due to cash requirement primarily for water treatment plant (\$162m total for the life of the project)

Line 47: Accounts Payable increase by 2.86M driven by increase in liabilities due to inflation and higher costs in 2009 vs. 2008

Line 48: Taxes Accrued decrease by 2.27M driven by timing of tax payments (prior yr federal (\$2.4), current state (\$1.0), prior yr state (\$.8); offset by property tax \$1.9

Line 49: Interest Accrued increase by 1.61M due to timing of interest payments increase in l-t debt for new water treatment plant

Line 50: Total Other Current Liabilities increase by 1.22M due to common stock dividends declared offset by current portion of customer advances for construction

FRP 3.xf Capital and Liabilities explanations

Line 51: Customer Advances for Construction increase by 1.47M due to increased developer work in 2009

Line 52: Deferred Income Taxes increase by 7.91M due to timing of non-current deferred federal income tax

Line 54: Regulatory liability-cost of removal increase by 1.57M due to asset removal costs (\$1m) and a gain on debt extension (\$576k)

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Line 57: Other Deferred Credits decrease by 674k due to a Reg Asset/Liability clean up. Balance from DCA-Other, representing the Gain on Loan payoff of early extinguishment of debt for BD1200024 moved to the Reg Liability account.

	Actuals	Reforecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Dec	Increase (Decrease)	% Variance
ASSETS										
1 Utility Plant	382,211	381,002	1,209	0.3%	381,307	994	0.2%	369,486	12,725	3.4%
2 Construction Work in Progress	119,954	121,800	(1,846)	(1.5%)	105,348	14,605	13.8%	54,501	65,465	120.1%
3 Accumulated Depreciation	(89,583)	(89,156)	(427)	(0.5%)	(92,323)	2,740	3.0%	(84,210)	(5,370)	(6.4)%
4 Utility Plant Acquisition Adjustments	290	290	0	0.0%	312	(22)	(7.1)%	305	(15)	(4.9)%
5 Other Utility Plant Adjustments	412,871	413,937	(1,066)	(0.3%)	394,644	18,227	4.6%	340,078	72,792	21.4%
6 Non-utility Property	270	270	0	0.0%	270	0	0.0%	270	0	0.0%
Total property, plant and equipment	413,141	414,207	(1,066)	(0.3)%	394,914	18,227	4.6%	340,349	72,792	21.4%
7 Cash and Cash Equivalents	495	25,990	(25,495)	(98.1)%	200	295	147.1%	234	261	111.3%
8 Restricted funds	3,032	2,862	170	5.9%	2,871	61	2.0%	2,342	689	28.4%
9 Utility customer accounts receivable	(277)	(300)	23	7.7%	(241)	(36)	(14.8)%	(273)	(4)	(1.4)%
10 Allowance for uncollectible accounts	3,682	4,058	(367)	(8.9)%	3,708	(10)	(0.3)%	2,900	798	27.5%
11 Accrued utility revenues	851	572	279	32.8%	310	541	170.0%	412	239	58.2%
12 Other receivables, net	582	682	(100)	(15.9)%	664	(82)	(12.3)%	577	5	0.9%
13 Materials and supplies	18,054	1,687,301.0%	13	0.0%	13	18,042	134,333.5%	1	18,055	3,118,240.3%
14 Receivable from affiliated companies	475	552	(77)	(14.0)%	230	245	106.4%	411	64	15.9%
15 Other Current Assets	26,711	34,428	(7,717)	(22.4)%	7,855	18,886	240.0%	6,603	20,108	304.5%
Current Assets	4,081	4,033	49	1.2%	6,222	(2,241)	(35.0)%	3,230	851	26.4%
16 Regulatory assets - income tax recovery	1,878	1,288	590	28.2%	695	92	141.2%	795	882	110.9%
17 Debt and preferred stock expense	-	-	-	-	-	-	-	-	-	-
18 Deferred pension expense	-	-	-	-	-	-	-	-	-	-
19 Deferred postretirement benefit expense	-	-	-	-	-	-	-	-	-	-
20 Deferred security costs	-	-	-	-	-	-	-	-	-	-
21 Deferred business services project expense	-	-	-	-	-	-	-	-	-	-
22 Deferred integration costs	1,672	1,682	(10)	(0.6)%	1,462	210	14.4%	1,737	(65)	(3.8)%
23 Deferred tank painting costs	544	538	6	1.0%	556	(52)	(8.7)%	554	(10)	(1.7)%
24 Deferred rate case	-	-	-	-	-	-	-	-	-	-
25 Asset premium recoverable thru rates	-	-	-	-	-	-	-	-	-	-
26 Environmental remediation recoverable thr	2,670	2,805	(135)	(4.1)%	3,075	(693)	(16.4)%	2,780	(190)	(6.9)%
27 Other Regulatory Assets	10,545	10,356	189	1.8%	12,151	(1,606)	(13.2)%	9,076	1,469	16.2%
Regulatory assets	12,215	12,151	64	0.5%	12,151	64	0.5%	12,151	64	0.5%
28 Other investments	-	-	-	-	-	-	-	-	-	-
29 Long term receivable from affiliate	-	-	-	-	-	-	-	-	-	-
30 Funds restricted for construction	-	-	-	-	-	-	-	-	-	-
31 Goodwill	-	-	-	-	-	-	-	-	-	-
32 Intangible assets	-	-	-	-	-	-	-	-	-	-
33 Other Long Term Assets	52	52	0	0.0%	1,029	(977)	(94.9)%	126	(73)	(58.5)%
Total Regulatory & Other LT Assets	10,597	10,409	188	1.8%	13,180	(2,583)	(19.6)%	9,208	1,389	15.1%
Total Assets	450,449	453,043	(2,594)	(0.6)%	415,949	34,500	8.3%	356,160	94,289	26.5%
Capital & Liabilities										
35 Common Stock	36,569	36,569	0	0.0%	36,569	0	0.0%	36,569	0	0.0%
36 Paid in Capital	46,649	46,649	0	0.0%	42,113	4,536	10.8%	24,127	22,526	93.4%
37 Retained Earnings	36,136	36,266	(130)	(0.4)%	35,142	994	2.8%	32,812	3,323	10.1%
38 Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
39 Unearned compensation	-	-	-	-	-	-	-	-	-	-
40 Treasury stock	-	-	-	-	-	-	-	-	-	-
Common stockholder's equity	119,356	119,484	(128)	(0.1)%	113,824	5,532	4.9%	93,507	25,343	27.8%
41 Preferred Stock without mandatory redemp	1,456	1,456	0	0.0%	1,447	9	0.6%	1,456	0	0.0%
42 Long term debt	144,980	144,980	0	0.0%	110,600	34,380	31.1%	76,700	88,280	89.0%
43 Redeemable preferred stock at redemption	4,500	4,500	0	0.0%	4,500	0	0.0%	4,500	0	0.0%
Total Capitalization	270,301	270,430	(129)	(0.0)%	230,370	39,931	17.3%	176,163	94,138	53.4%
44 Short Term Debt	39,105	48,190	(9,085)	(18.9)%	42,974	(3,888)	(9.0)%	53,106	(14,001)	(26.4)%
45 Current Portion of Long-term Debt	3,100	3,100	0	0.0%	3,100	0	0.0%	3,100	0	0.0%
46 Current portion of redeemable stock at red	-	-	-	-	-	-	-	-	-	-
47 Accounts Payable	11,309	14,309	(3,000)	(21.0)%	7,612	3,697	48.6%	8,445	2,864	33.9%
48 Taxes Accrued	2,575	235	(2,814)	(1,198.1)%	2,736	(6,315)	(194.3)%	(308)	(2,271)	(736.8)%
49 Interest Accrued	1,744	1,744	0	0.0%	3,089	(3,433)	(111.1)%	1,150	1,606	139.7%
Total Other Current Liabilities	5,689	3,989	1,699	29.7%	3,805	1,883	49.5%	4,470	1,218	27.3%
Total Current Liabilities	69,379	71,567	(2,188)	(3.1)%	63,325	(3,946)	(6.2)%	69,963	(10,594)	(16.1)%
50 Customer Advances for Construction	13,362	13,011	371	2.8%	16,187	(2,805)	(17.3)%	11,916	1,466	12.3%
51 Deferred Income Taxes	42,552	42,552	0	0.0%	39,155	3,397	8.7%	37,871	7,914	20.9%
52 Deferred investment tax credits	1,069	1,077	(8)	(0.7)%	1,077	(9)	(0.8)%	1,133	(64)	(5.6)%
53 Regulatory liability	11,328	11,328	0	0.0%	11,310	18	0.2%	9,755	1,572	16.1%
54 Accrued pension expense	1,444	1,426	18	1.2%	1,944	(400)	(20.6)%	1,589	54	3.0%
55 Accrued postretirement benefit expense	456	251	205	45.2%	413	44	949.1%	418	38	9.1%
56 Other Deferred Credits	62	62	0	0.0%	4,036	(4,034)	(98.5)%	739	(674)	(91.3)%
Regulatory & Other Long Term Liabilities	73,526	69,726	3,800	5.2%	72,912	614	0.8%	63,219	10,308	16.3%
57 Contributions in aid of construction	47,242	47,321	(79)	(0.2)%	49,342	(2,100)	(4.3)%	46,815	427	0.9%
Total capital and liabilities	450,449	453,043	(2,594)	(0.6)%	415,949	34,500	8.3%	356,160	94,289	26.5%

MTD Actual vs. QRF

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 185k due to lower system delivery (-19%) and reversal of KU accrual which was based on bill that had backbi amounts

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

FRP 1.xf Other income and deduction variance explanations (taxes)

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MTD Actual vs. Plan

FRP 1.xa Revenue variance explanations

Line 1: Water Revenues unfav by 929k due to wet weather (587k) and rate case settlement (342k) offset by AFUDC and tax exempt financing

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 185k due to lower system delivery (down 19%) and lower than projected non-revenue water (14% budget, 10% actual)

Line 7: Chemicals favorable by 125k due to favorable pricing in re-negotiated contracts and lower system delivery

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

Line 29: Interest on long-term debt favorable by 483k due to tax exempt financing of \$71m at lower rates and with deferred interest expense, offset lower AFUDC & revenues vs. budget (AFUDC/Revenues offset due to outcomes of rate case)

FRP 1.xf Other income and deduction variance explanations (taxes)

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MTD Actual vs. Prior Year

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 43: Federal Income Taxes unfav by 158k See Tax Department

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YTD Actual vs. QRF

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

Line 30: Interest on Short-Term Bank Debt favorable by 198k due to favorable s-t rates

FRP 1.xf Other income and deduction variance explanations (taxes)

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YTD Actual vs. Plan

FRP 1.xa Revenue variance explanations

Line 3: Other Operating Revenues favorable by 366k due to higher reconnect fees

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 891k due to lower system delivery (down 19%) and lower than planned non revenue water (14% budget, 10% actual)

Line 7: Chemicals favorable by 406k due to more favorable chemical pricing per contracts negotiated in summer 2009

FRP 1.xc Operating expense explanations (other operating)

Line 15: Contracted services unfav by 182k due to higher than planned temporary labor-maintenance (Volt Services)

Line 21: Miscellaneous favorable by 470k due to lower actual gas prices than planned prices, offset by water study write off (\$159k)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

Line 23: Depreciation favorable by 936k driven by higher composite rates used in the plan

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

Line 29: Interest on long-term debt favorable by 2302k due to financing of \$71m with tax exempt financing, offset by lower AFUDC & revenues vs. budget (AFUDC/Revenues offset due to outcomes of rate case)

Line 30: Interest on Short-Term Bank Debt favorable by 1275k driven by lower than planned short-term interest rates

Line 33: AFUDC Debt favorable by 183k due to the treatment of CWIP in rate base from the settled case, offset by the tax exempt financing

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 42: State Income Taxes unfav by 328k - see tax department

Line 43: Federal Income Taxes unfav by 780k - see tax department

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YTD Actual vs. Prior Year

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

Line 7: Chemicals unfav by 444k due to inflation and higher chemical prices in 2009 vs. 2008

FRP 1.xc Operating expense explanations (other operating)

Line 10: Pensions unfav by 635k due to economy and higher funding needed for pensions
Line 11: Group insurances unfav by 394k due to inflation and higher prices in 2009 vs. 2008

Line 15: Contracted services unfav by 218k due to increase in temporary labor -maintenance (Volt Services) in 2009 vs. 2008

Line 20: General office expense favorable by 129k due to relocation paid in 2008/not in 2009; lower employee expenses and lower cell phone cha

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

Line 30: Interest on Short-Term Bank Debt favorable by 243k driven by lower short-term interest rates in 2009 vs. 2008

Line 32: AFUDC - Equity favorable by 2013k due to new water treatment plant total project (budget of \$162m) in CWIP

Line 33: AFUDC Debt favorable by 1005k due to new water treatment plant total project (budget of \$162m) in CWIP

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 42: State Income Taxes unfav by 177k - see tax department

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YTD Actual vs. QRF

FRP 3.xa Asset variance explanations

FRP 3.xb Asset variance explanations

Line 15: Receivable from affiliated companies increase by 10.11M due to the balance of the tax-exempt financing not yet applied to the project (funds are provided based on actual expenditures)

FRP 3.xc Asset explanations

FRP 3.xd Capital and Liabilities explanations

Line 36: Paid in Capital decrease by 10M Due to timing of forecasted equity infusion (Nov vs. Oct)

FRP 3.xe Capital and Liabilities explanations

Line 44: Short Term Debt increase by 18.91M Due to timing of equity infusion and tax exempt financing receivable

Line 47: Accounts Payable decrease by 2.52M

Line 48: Taxes Accrued decrease by 2.29M

Line 50: Total Other Current Liabilities increase by 2.06M

FRP 3.xf Capital and Liabilities explanations

Line 52: Deferred Income Taxes increase by 3.69M

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IS_Explanations

MTD Actual vs. QRF

FRP 1.xa Revenue variance explanations

Line 1: Water Revenues unfav by 647k due to lower sales than forecasted

FRP 1.xb Operating expense explanations (production costs)

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

FRP 1.xf Other income and deduction variance explanations (taxes)

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MTD Actual vs. Plan

FRP 1.xa Revenue variance explanations

Line 1: Water Revenues unfav by 1025k due to reduced sales (637k) and rate case settlement (378k) offset by AFUDC and tax exempt financing

FRP 1.xb Operating expense explanations (production costs)

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

Line 29: Interest on long-term debt favorable by 606k due to tax exempt financing of \$71m at lower rates and with deferred interest expense, lower AFUDC & revenues vs budget (AFUDC/Revenues offset due to outcomes of rate case)

FRP 1.xf Other income and deduction variance explanations (taxes)

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MTD Actual vs. Prior Year

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 42: State Income Taxes favorable by 208k See Tax Department

Line 43: Federal Income Taxes favorable by 1132k See Tax Department

	MTD Actuals	MTD Forecast	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES											
1	4,735	5,382	5,760	(647)	(12.03)%	5,760	(1,025)	(17.80)%	4,728	7	0.15%
2	25	28	28	(2)	(8.78)%	28	(2)	(8.78)%	30	(5)	(16.11)%
3	229	241	185	(12)	(5.10)%	185	43	23.29%	213	15	7.16%
4	4,989	5,651	5,973	(662)	(11.72)%	5,973	(985)	(16.48)%	4,971	18	0.35%
OPERATIONS & MAINTENANCE EXPENSE											
PRODUCTION EXPENSES											
5	6	7	7	1	15.64%	7	1	15.64%	10	4	43.98%
6	283	336	336	83	24.70%	336	83	24.70%	272	19	7.15%
7	165	149	163	(16)	(10.39)%	163	28	14.66%	183	(31)	(23.52)%
8	20	24	24	4	15.83%	24	25	18.05%	25	1	4.00%
9	443	515	560	72	14.01%	560	116	20.74%	440	(3)	(0.69)%
O&M LABOR & OVERHEAD											
10	531	585	578	55	9.35%	578	47	8.13%	511	(19)	(3.81)%
11	78	111	112	34	29.45%	112	34	30.27%	44	(34)	(76.12)%
12	155	109	144	44	22.01%	144	32	17.04%	140	(15)	(11.03)%
13	22	25	2	2	8.27%	2	2	8.27%	21	(1)	(6.31)%
14	786	920	901	134	14.53%	901	115	12.75%	717	(76)	(9.75)%
Management fees											
15	345	366	308	(21)	(5.61)%	308	(37)	(12.00)%	280	(55)	(18.86)%
16	356	367	320	(10)	(2.84)%	320	(36)	(11.16)%	320	(37)	(11.44)%
17	49	70	70	21	29.98%	70	21	29.98%	34	(15)	(45.29)%
18	405	437	390	(31)	(7.18)%	390	(15)	(3.75)%	353	(32)	(14.67)%
19	25	30	30	5	16.25%	30	5	16.25%	13	(12)	(87.95)%
20	53	60	60	7	11.52%	60	7	11.52%	47	(6)	(13.51)%
21	134	147	147	13	8.93%	147	13	8.93%	137	3	2.32%
22	52	47	5	3	55.80%	5	3	55.80%	3	1	38.21%
23	2	4	45	(6)	(10.71)%	45	(6)	(14.32)%	33	(19)	(65.70)%
24	184	146	183	(18)	(12.53)%	183	19	10.36%	124	(40)	(32.27)%
25	228	205	216	(23)	(11.58)%	216	(13)	(5.97)%	189	(40)	(31.16)%
26	2,639	2,878	2,846	238	8.28%	2,846	206	7.25%	2,347	(282)	(12.45)%
27	508	511	598	90	15.08%	598	90	15.08%	468	(40)	(8.46)%
28	43	44	44	1	3.01%	44	1	3.01%	0	(44)	(100.00)%
29	551	585	642	51	7.99%	642	51	14.23%	511	(40)	(7.83)%
30	278	300	299	23	7.82%	299	23	7.82%	293	17	5.78%
31	3,486	3,733	3,727	(267)	(7.15)%	3,727	(321)	(8.48)%	3,151	(315)	(10.01)%
32	1,523	1,918	2,186	(395)	(20.59)%	2,186	(662)	(30.34)%	1,821	(298)	(16.35)%
OTHER INCOME & DEDUCTIONS											
33	482	482	1,058	(1)	(0.11)%	1,058	606	57.26%	488	0	3.43%
34	10	84	54	74	88.41%	54	45	82.10%	84	74	88.38%
35	463	536	1,119	73	15.82%	1,119	650	58.41%	582	89	18.18%
36	181	151	186	(20)	(10.92)%	186	(5)	(2.59)%	188	(7)	(3.53)%
37	91	68	85	23	33.98%	85	7	8.05%	88	5	5.89%
38	10	14	14	4	27.15%	14	4	27.15%	7	3	35.38%
39	(13)	0	(13)	(13)	(100.00)%	(13)	(13)	(100.00)%	(1)	(1)	(7.69)%
40	(13)	0	(13)	(13)	(100.00)%	(13)	(13)	(100.00)%	(1)	(1)	(7.69)%
41	48	0	0	48	155.28%	0	48	155.28%	0	0	0.00%
42	43	37	9	(6)	(16.80)%	9	(34)	(89.16)%	14	(29)	(207.22)%
43	(57)	(97)	(9)	(20)	(52.76)%	(9)	(48)	(538.16)%	(15)	(42)	(1,938.79)%
44	(257)	(967)	(865)	(608)	30.10%	(865)	(608)	70.32%	(500)	43	14.42%
45	1,266	1,551	(284)	(284)	(18.33)%	1,322	(55)	(4.19)%	1,521	(254)	(16.73)%
46	(117)	88	185	185	271.62%	68	185	272.98%	91	208	239.09%
47	(611)	528	1,139	1,139	215.62%	439	1,049	239.12%	521	1,132	217.18%
48	(6)	(1)	(1)	5	662.37%	(1)	5	662.37%	(1)	5	942.00%
49	(47)	(3)	(3)	45	1,575.51%	(3)	45	1,575.51%	(3)	45	1,644.84%
50	(780)	583	1,373	1,373	231.88%	503	1,283	256.16%	608	1,389	228.25%
51	2,047	958	1,085	1,085	113.67%	819	1,228	150.00%	912	1,134	124.35%
52	7	7	7	0	(0.16)%	7	0	(0.16)%	7	0	0.00%
53	2,040	951	1,085	1,085	114.45%	812	1,228	151.20%	906	1,134	125.24%
54	0	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
55	2,040	951	1,085	1,085	114.45%	812	1,228	151.20%	906	1,134	125.24%

Kentucky
Nov Excel FRP.xls
IS_Explanations

YTD Actual vs. QRF

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

Line 30: Interest on Short-Term Bank Debt favorable by 273k due to favorable s-t rates

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 43: Federal Income Taxes favorable by 1228k not final

Kentucky
Nov Excel FRP.xls
IS_Explanations

YTD Actual vs. Plan

FRP 1.xa Revenue variance explanations

Line 3: Other Operating Revenues favorable by 409k due to higher reconnect fees

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 974k due to lower system delivery (down 12.2%) and lower than planned non revenue water (14% budget, actual)

Line 7: Chemicals favorable by 434k due to more favorable chemical pricing per contracts negotiated in summer 2009

FRP 1.xc Operating expense explanations (other operating)

Line 15: Contracted services unfav by 161k due to higher than planned temporary labor-maintenance (Volt Services)

Line 21: Miscellaneous favorable by 489k due to lower actual gas prices than planned prices, offset by water study write off (\$159k)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

Line 23: Depreciation favorable by 1026k driven by higher composite rates used in the plan

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

Line 29: Interest on long-term debt favorable by 2908k due to financing of \$71m with tax exempt financing, offset by lower AFUDC & revenues v budget (AFUDC/Revenues offset due to outcomes of rate case)

Line 30: Interest on Short-Term Bank Debt favorable by 1320k driven by lower than planned short-term interest rates

Line 33: AFUDC Debt favorable by 189k due to the treatment of CWIP in rate base from the settled case, offset by the tax exempt financing

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 42: State Income Taxes unfav by 143k not final

Kentucky
Nov Excel FRP.xls
IS_Explanations

YTD Actual vs. Prior Year

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

Line 7: Chemicals unfav by 475k due to inflation and higher chemical prices in 2009 vs 2008

FRP 1.xc Operating expense explanations (other operating)

Line 10: Pensions unfav by 669k due to economy and higher funding needed for pensions
Line 11: Group insurances unfav by 409k due to inflation and higher prices in 2009 vs 2008

Line 15: Contracted services unfav by 234k due to increase in temporary labor -maintenance (Volt Services) in 2009 vs 2008

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/AFUDC)

Line 30: Interest on Short-Term Bank Debt favorable by 317k driven by lower short-term interest rates in 2009 vs 2008

Line 32: AFUDC - Equity favorable by 2007k due to new water treatment plant total project (budget of \$162m) in CWIP

Line 33: AFUDC Debt favorable by 1010k due to new water treatment plant total project (budget of \$162m) in CWIP

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 43: Federal Income Taxes favorable by 705k not final

Close Status: Pre-tax
financial data, prelim adjs
and elims

Income Statement - Year To Date
Kentucky with Growth
Nov YTD 2009
(\$ in thousands)



	YTD Actuals	YTD Revenues	YTD Pgm	Variance Favorable (Unfavorable)	% Variance	YTD Pgm	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES											
1	54,455	55,901	59,720	(5,266)	(2.59)%	59,720	(5,266)	(2.59)%	53,242	1,213	2.28%
2	293	300	312	(7)	(2.20)%	312	(7)	(2.20)%	286	7	2.62%
3	2,449	2,448	2,040	409	20.04%	2,040	409	20.04%	2,327	122	5.26%
4	57,197	58,648	62,073	(4,876)	(7.85)%	62,073	(4,876)	(7.85)%	55,855	1,342	2.40%
OPERATIONS & MAINTENANCE EXPENSE											
PRODUCTION EXPENSES											
5	111	117	124	5	4.47%	124	5	4.47%	116	4	3.81%
6	2,811	3,120	3,785	309	9.91%	3,785	309	9.91%	3,019	208	6.88%
7	2,086	2,213	2,520	434	20.80%	2,520	434	20.80%	1,611	(775)	(29.49)%
8	212	224	272	60	28.29%	272	60	28.29%	254	42	16.62%
	5,220	5,674	6,701	1,481	28.10%	6,701	1,481	28.10%	4,399	(2,211)	(44.11)%
QA/LABOR & OVERHEAD											
9	6,124	6,154	6,317	193	3.08%	6,317	193	3.08%	5,973	(151)	(2.52)%
10	1,265	1,266	1,236	(29)	(2.37)%	1,236	(29)	(2.37)%	1,595	(659)	(112.34)%
11	1,977	1,977	2,154	177	8.95%	2,154	177	8.95%	1,588	(409)	(26.09)%
12	261	266	327	66	20.22%	327	66	20.22%	252	(6)	(3.57)%
	9,626	9,662	9,935	309	3.11%	9,935	309	3.11%	9,388	(1,238)	(14.76)%
Management fees											
13	3,690	3,762	3,458	(222)	(6.43)%	3,458	(222)	(6.43)%	3,610	(70)	(1.94)%
14	3,656	3,695	3,652	(3)	(0.09)%	3,652	(3)	(0.09)%	3,848	(8)	(0.21)%
15	1,028	1,010	987	(18)	(1.82)%	987	(18)	(1.82)%	734	(234)	(29.40)%
	4,684	4,704	4,519	(165)	(3.51)%	4,519	(165)	(3.51)%	4,442	(241)	(5.46)%
Total contracted services											
16	219	234	249	30	12.01%	249	30	12.01%	207	(12)	(5.74)%
17	560	613	659	108	16.53%	659	108	16.53%	428	(122)	(28.59)%
18	1,518	1,534	1,585	66	4.18%	1,585	66	4.18%	1,424	(69)	(6.70)%
19	26	34	52	23	44.06%	52	23	44.06%	30	2	6.07%
20	463	468	539	57	10.55%	539	57	10.55%	593	110	18.80%
21	1,651	1,627	2,140	489	22.84%	2,140	489	22.84%	1,609	(42)	(2.53)%
22	2,480	2,402	2,518	38	1.50%	2,518	38	1.50%	2,456	(44)	(1.80)%
	30,141	30,751	32,396	2,215	6.85%	32,396	2,215	6.85%	28,167	(1,974)	(7.01)%
Total operations and maintenance expense											
23	5,393	5,417	6,418	1,026	15.99%	6,418	1,026	15.99%	5,381	(3)	(0.04)%
24	473	477	488	16	3.20%	488	16	3.20%	469	(3)	(0.69)%
	5,866	5,893	6,907	1,041	15.08%	6,907	1,041	15.08%	5,850	(6)	(0.09)%
Depreciation and amortization											
25	3,107	3,186	3,284	187	5.67%	3,284	187	5.67%	2,894	(213)	(7.37)%
27	39,114	39,831	42,557	3,443	8.09%	42,557	3,443	8.09%	38,821	(2,193)	(5.94)%
	18,083	18,811	18,516	(1,433)	(7.34)%	18,516	(1,433)	(7.34)%	18,934	(650)	(4.99)%
OTHER INCOME & DEDUCTIONS											
28	5,029	5,028	7,937	2,908	36.64%	7,937	2,908	36.64%	5,223	194	3.71%
29	347	619	1,666	1,320	79.19%	1,666	1,320	79.19%	664	(317)	(47.77)%
30	5,655	5,655	9,604	4,219	43.93%	9,604	4,219	43.93%	5,881	486	8.44%
31	3,107	2,873	2,868	(23)	(0.73)%	2,868	(23)	(0.73)%	1,101	2,007	182.33%
32	1,892	1,981	1,302	(189)	(10.00)%	1,302	(189)	(10.00)%	1,010	1,010	209.54%
33	95	59	104	9	8.49%	104	9	8.49%	82	13	15.31%
34	-	-	-	-	-	-	-	-	-	-	-
35	-	-	-	-	-	-	-	-	-	-	-
36	-	-	-	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-	-	-	-
39	69	51	-	(69)	(100.00)%	-	(69)	(100.00)%	51	18	34.79%
40	0	0	-	0	0.00%	-	0	0.00%	18	18	34.79%
41	309	388	330	(21)	(6.38)%	330	(21)	(6.38)%	275	(34)	(12.42)%
	308	388	330	(22)	(6.96)%	330	(22)	(6.96)%	274	(34)	(12.42)%
Total other income (deductions)											
42	(240)	(337)	(330)	(97)	(28.32)%	(330)	(97)	(28.32)%	(4,604)	3,484	75.88%
	(1,200)	(1,737)	(5,867)	4,747	80.91%	(5,867)	4,747	80.91%	(4,604)	2,634	18.38%
	16,964	17,081	13,649	(3,315)	(20.01)%	13,649	(3,315)	(20.01)%	14,330	30	3.42%
43	860	955	716	(143)	(16.50)%	716	(143)	(16.50)%	890	705	13.99%
44	4,338	5,666	4,607	(269)	(5.85)%	4,607	(269)	(5.85)%	5,043	705	13.99%
45	(12)	(7)	(27)	(15)	(66.59)%	(27)	(15)	(66.59)%	(8)	4	49.51%
46	(65)	(65)	(106)	(41)	(38.81)%	(106)	(41)	(38.81)%	24	4	60.93%
47	11,843	8,502	5,191	(70)	(1.34)%	5,191	(70)	(1.34)%	8,885	764	12.88%
	11,843	10,579	8,458	(3,384)	(28.65)%	8,458	(3,384)	(28.65)%	8,445	40,244	40.24%
48	11,771	10,507	72	(72)	(0.65)%	72	(72)	(0.65)%	72	0	0.00%
	11,771	10,507	8,387	(3,384)	(28.65)%	8,387	(3,384)	(28.65)%	8,373	3,398	40.58%
	5,204	4,888	4,152	(1,052)	(20.10)%	4,152	(1,052)	(20.10)%	3,448	(1,755)	(50.91)%
	6,567	5,619	4,234	(2,333)	(35.58)%	4,234	(2,333)	(35.58)%	4,925	1,642	33.35%



Supplementary Tables and Discussion
Kentucky with Growth
Nov-09

AMERICAN WATER

AWFRP 2.0 - Result of Operations - Revenue Analysis
Revenue Variance Summary (\$ in Thousands)

	Budget			Forecast			Prior Year		
	MTD	QTD	YTD	MTD	QTD	YTD	MTD	QTD	YTD
Budget / Forecast / Prior Year	5,973	12,613	62,073	5,651	11,962	58,648	4,971	10,689	55,855
Rates	(378)	(720)	(2,179)	0	0	0	944	2,031	6,402
DSIC	0	0	0	0	0	0	0	0	0
Surcharges	0	0	0	0	0	0	0	0	0
Balancing accounts	0	0	0	0	0	0	0	0	0
Water acquisitions	0	0	0	0	0	0	0	0	0
Sewer acquisitions	0	0	0	0	0	0	0	0	0
Other	43	58	409	(12)	(17)	1	15	28	122
Fire	0	0	0	0	0	0	0	0	0
Organic growth	(5)	(6)	435	(5)	(6)	435	27	54	630
Demand / consumption	(501)	(1,627)	(1,658)	(220)	(214)	(668)	(732)	(1,144)	(5,879)
Sewer	(2)	(2)	(19)	(2)	(2)	(7)	(5)	(2)	7
Other Revenue Variances	0	0	0	0	0	0	0	0	0
Actual revenues	10,759	57,207	52,208	4,999	10,759	57,207	4,999	10,759	57,207
Total variance	(843)	(2,297)	(3,012)	(239)	(239)	(239)	249	967	1,282

Kentucky
Dec Excel FRP.xls
IS_Explanations

QTD Actual vs. QRF

FRP 1.xa Revenue variance explanations

Line 1: Water Revenues unfav by 1720k due to lower usage across all classes (1520k), primarily in commercial, plus (200k) attributable to spread of rate case results

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 310k due to lower system delivery (down 15% vs plan for qtr) and lower than projected non-revenue water (7% vs 15% plan for qtr)

FRP 1.xc Operating expense explanations (other operating)

Line 22: Maintenance unfav by 129k driven by material and supplies for altitude valves overhaul (87k) and amortized deferred maintenance (38k)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

Line 30: Interest on Short-Term Bank Debt favorable by 234k due to favorable s-t rates

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 42: State Income Taxes unfav by 154k See tax department

Line 47: Federal income taxes (non-operating) favorable by 137k See tax department

End

Kentucky
Dec Excel FRP.xls
IS_Explanations

QTD Actual vs. Plan

FRP 1.xa Revenue variance explanations

Line 1: Water Revenues unfav by 2916k due to lower usage (1960k) and rate case settlement (955k) offset by AFUDC and tax exempt financing

Line 3: Other Operating Revenues favorable by 126k due to higher reconnect fees

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 310k due to lower system delivery (down 15% vs plan for qtr) and lower than projected non-revenue water (7% vs 15% plan for qtr)

Line 7: Chemicals favorable by 169k due to favorable pricing in re-negotiated contracts and lower system delivery

FRP 1.xc Operating expense explanations (other operating)

Line 14: Shared business services unfav by 171k primarily due to IT allocation driven mostly by Remedy write off & consulting/training

Line 21: Miscellaneous favorable by 218k due to lower actual gas prices than planned prices

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

Line 23: Depreciation favorable by 290k due to higher composite rates used in plan

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

Line 29: Interest on long-term debt favorable by 1695k due to tax exempt financing of \$71m at lower rates and with deferred interest expense, offset by lower AFUDC & revenues vs budget (AFUDC/Revenues offset due to outcomes of rate case)

Line 30: Interest on Short-Term Bank Debt favorable by 215k due to lower short term rates than used in the plan

Line 41: Miscellaneous Other Deductions unfav by 268k due to the approved spend on communications regarding the new \$162m water treatment plant

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 42: State Income Taxes unfav by 144k See tax department

Line 43: Federal Income Taxes unfav by 243k See tax department

Line 47: Federal income taxes (non-operating) favorable by 137k See tax department

End

Kentucky
Dec Excel FRP.xls
IS_Explanations

QTD Actual vs. Prior Year

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 165k due to lower system delivery (down 11% from prior year qtr)

FRP 1.xc Operating expense explanations (other operating)

Line 10: Pensions unfav by 193k driven by higher pension funding costs in 2009 vs 2008

Line 11: Group Insurances unfav by 141k driven by higher per employee costs and additional FTEs in 2009 vs 2008 (3 vacancies vs py)

Line 13: Management fees unfav by 132k due to higher allocated charges from corporate in 2009 vs 2008

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

Line 30: Interest on Short-Term Bank Debt favorable by 237k due to lower short term rates than prior year

Line 41: Miscellaneous Other Deductions unfav by 265k due to the approved spend on communications regarding the new \$162m water treatment plant

FRP 1.xf Other income and deduction variance explanations (taxes)

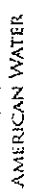
Line 42: State Income Taxes unfav by 169k See tax department

Line 43: Federal Income Taxes unfav by 366k See tax department

Line 47: Federal income taxes (non-operating) favorable by 141k See tax department

End

Income Statement - Quarter To Date
 Kentucky with Growth
 Dec QTD 2009
 (\$ In Thousands)



	QTD Actuals	QTD Rptcast	Variance Favorable (Unfavorable)	% Variance	QTD Plan	Variance Favorable (Unfavorable)	% Variance	QTD Pct. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
Water Revenues	14,802	16,522	(1,720)	(10.41)%	17,718	(2,916)	(16.46)%	14,204	599	4.22%
Sewer Revenues	76	85	(7)	(8.08)%	85	(7)	(8.08)%	78	0	0.09%
Other Operating Revenues	683	723	(40)	(5.84)%	556	126	22.72%	638	45	7.02%
Operating Revenues	15,563	17,330	(1,767)	(10.19)%	18,360	(2,796)	(15.23)%	14,920	644	4.32%
OPERATIONS & MAINTENANCE EXPENSE										
PRODUCTION EXPENSES										
Purchased Water	27	33	6	18.57%	33	6	18.57%	38	11	29.94%
Fuel and Power	651	961	310	32.23%	961	310	32.23%	816	165	20.20%
Chemicals	475	500	25	4.94%	645	168	26.25%	485	10	1.98%
Waste Disposal	62	74	13	17.19%	74	13	17.19%	64	3	4.23%
Total production costs	1,215	1,568	353	22.53%	1,713	498	29.05%	1,404	189	13.43%
O&M LABOR & OVERHEAD										
Labor	1,830	1,811	(19)	(1.02)%	1,786	(44)	(2.46)%	1,684	(106)	(6.00)%
Pensions	318	333	15	4.52%	337	19	5.83%	123	(193)	(184.73)%
Group Insurance	546	596	50	8.42%	561	15	2.59%	406	(141)	(34.66)%
Other benefits	68	80	12	14.78%	90	22	24.32%	70	2	2.56%
Total employee related	2,762	2,820	59	2.08%	2,773	11	0.40%	2,284	(468)	(20.38)%
Management fees	1,021	1,130	109	9.64%	948	(73)	(7.11)%	888	(132)	(14.89)%
Shared business services	1,167	1,119	(47)	(4.24)%	996	(171)	(17.14)%	1,043	(124)	(11.86)%
Contracted services	191	216	25	11.65%	215	25	11.65%	209	18	8.45%
Total contracted services	1,358	1,335	(22)	(1.57)%	1,212	(146)	(12.00)%	1,251	(106)	(8.49)%
Regulatory expense	76	91	15	16.10%	91	15	16.10%	40	(66)	(88.29)%
Insurance Other Than Group	169	181	13	7.07%	180	11	6.20%	157	(12)	(7.46)%
Customer Accounting	413	445	32	7.09%	445	32	7.09%	48	(48)	(10.53)%
Rents	7	14	7	62.16%	14	7	62.16%	12	5	42.73%
General office expense	122	139	18	11.75%	134	12	8.84%	148	24	16.22%
Miscellaneous	418	418	0	0.00%	377	(41)	(9.81)%	(38)	(455)	(104.15)%
Maintenance	746	617	(129)	(20.85)%	550	(196)	(30.83)%	28	(722)	(3.23)%
Total O&M expense	8,303	8,759	455	5.20%	8,792	489	5.56%	7,803	(600)	(6.41)%
Depreciation	1,519	1,533	14	0.90%	1,809	290	16.02%	1,417	(102)	(7.21)%
Amortization	129	133	4	3.01%	133	4	3.01%	138	(1)	(0.89)%
Depreciation and amortization	1,648	1,666	18	1.07%	1,942	294	15.13%	1,545	(103)	(6.58)%
General taxes	894	906	12	1.32%	902	8	0.91%	847	(47)	(5.56)%
Impairment charges	-	-	-	-	-	-	-	-	-	-
Total operating expenses, net	10,845	11,330	485	4.28%	11,636	791	6.80%	10,185	(651)	(6.33)%
Operating Income	4,718	6,000	(1,281)	(21.36)%	6,724	(2,006)	(29.82)%	4,725	(7)	(0.14)%
OTHER INCOME & DEDUCTIONS										
Interest Income	1,357	1,356	(1)	(0.08)%	3,052	1,695	55.53%	1,409	52	3.68%
Interest on long-term debt	29	264	234	88.84%	244	215	87.96%	268	237	88.96%
Interest on Short-Term Bank Debt	1	0	(1)	(1.00)%	0	(1)	(1.00)%	0	(1)	(29.552.71)%
Total interest expense	1,387	1,619	232	14.35%	3,296	1,909	57.91%	1,675	288	17.19%
AFUDC - Equity	544	443	(101)	(22.84)%	544	0	(0.04)%	481	53	10.73%
AFUDC Debt	272	197	(75)	(38.21)%	247	25	10.27%	210	63	29.83%
Amortization of Debt Expense	35	41	6	13.86%	41	6	13.86%	22	13	59.97%
Preferred dividends of subsidiaries (Consolidated)	-	-	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	(8)	0	(8)	(8.00)%	0	(8)	(8.00)%	38	(46)	(119.75)%
Total other income	(8)	(8)	(8)	(8.00)%	0	(8)	(8.00)%	38	(46)	(119.75)%
Miscellaneous Amortization	0	0	0	155.28%	0	0	155.28%	0	0	0.00%
Miscellaneous Other Deductions	291	302	11	3.64%	23	(268)	(1,184.16)%	26	(265)	(1,017.39)%
Total Other Deductions	291	302	11	3.74%	23	(268)	(1,172.91)%	26	(265)	(1,017.39)%
Other, net	(299)	(302)	(3)	1.23%	(23)	(276)	(1,206.07)%	12	(311)	897.63%
Total other income (deductions)	(905)	(1,323)	(418)	(31.61)%	(2,669)	(1,664)	(64.78)%	(984)	79	8.03%
Income (loss) before income taxes	3,814	4,677	(863)	(18.46)%	4,155	(341)	(8.21)%	3,741	72	1.93%
State Income Taxes	355	202	(154)	(76.15)%	211	(144)	(88.21)%	186	(189)	(96.47)%
Federal Income Taxes	1,522	1,589	(67)	(4.38)%	1,379	(243)	(17.63)%	1,255	(366)	(29.13)%
Federal Income Taxes	(23)	(2)	(21)	1,128.32%	(2)	21	1,128.32%	0	23	5,343.57%
Tax Saving Acquisition Adjustment	(144)	(7)	(137)	1,881.47%	(7)	137	1,881.47%	(3)	141	5,038.69%
Federal Income taxes (non-operating)	1,810	1,782	(28)	(1.60)%	1,581	(229)	(14.49)%	1,440	(571)	(26.75)%
Provision (Benefit) for Income Taxes	2,003	2,895	(892)	(30.30)%	2,514	(570)	(22.16)%	2,302	(298)	(12.97)%
Net Income (loss)	26	20	(6)	(6.15)%	20	(6)	(6.15)%	20	0	0.00%
Preferred Dividend Declared	1,984	2,875	(892)	(31.01)%	2,584	(570)	(22.33)%	2,282	(298)	(13.06)%
Net Income to Common Stock	2,000	3,059	(1,059)	(51.95)%	3,099	200	6.44%	2,555	(245)	(13.50)%
Common Dividend Declared	(916)	(224)	(692)	(309.03)%	(845)	(371)	(67.98)%	(273)	(643)	(235.94)%
Current Year Retained Earnings										

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YTD Actual vs. QRF

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 351k due to lower system delivery (down 12.2%) and lower than planned non revenue water (14% budget, 10% actual)

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

Line 30: Interest on Short-Term Bank Debt favorable by 329k due to favorable s-t rates

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 42: State Income Taxes unfav by 205k See tax department

Line 47: Federal income taxes (non-operating) favorable by 148k See tax department

End

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YTD Actual vs. Plan

FRP 1.xa Revenue variance explanations

Line 3: Other Operating Revenues favorable by 442k due to higher reconnect fees

FRP 1.xb Operating expense explanations (production costs)

Line 6: Fuel and Power favorable by 1016k due to lower system delivery (down 12.2%) and lower than planned non revenue water (14% budget, 10% actual)

Line 7: Chemicals favorable by 451k due to more favorable chemical pricing per contracts negotiated in summer 2009

FRP 1.xc Operating expense explanations (other operating)

Line 15: Contracted services unfav by 150k due to higher than planned audit fees (54k), legal fees (88k), and temp labor - Volt Services (43k)

Line 21: Miscellaneous favorable by 651k due to lower actual gas prices than planned prices, offset by water study write off (\$159k)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

Line 23: Depreciation favorable by 1136k driven by higher composite rates used in the plan

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

Line 29: Interest on long-term debt favorable by 3514k due to financing of \$71m with tax exempt financing, offset by lower AFUDC & revenues vs budget (AFUDC/Revenues offset due to outcomes of rate case)

Line 30: Interest on Short-Term Bank Debt favorable by 1394k driven by lower than planned short-term interest rates

Line 33: AFUDC Debt favorable by 196k due to the treatment of CWIP in rate base from the settled case, offset by the tax exempt financing

Line 41: Miscellaneous Other Deductions unfav by 212k due to the approved spend on communications regarding the new \$162m water treatment plant

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 42: State Income Taxes unfav by 441k See tax department

Line 43: Federal Income Taxes unfav by 953k See tax department

End

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YTD Actual vs. Prior Year

FRP 1.xa Revenue variance explanations

FRP 1.xb Operating expense explanations (production costs)

Line 7: Chemicals unfav by 486k due to inflation and higher chemical prices in 2009 vs 2008

FRP 1.xc Operating expense explanations (other operating)

Line 10: Pensions unfav by 764k due to economy and higher funding needed for pensions

Line 11: Group insurances unfav by 491k due to inflation and higher prices in 2009 vs 2008

Line 15: Contracted services unfav by 209k primarily due to increase in temporary labor (118k) and audit fees (54k) in 2009 vs 2008

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

Line 30: Interest on Short-Term Bank Debt favorable by 407k driven by lower short-term interest rates in 2009 vs 2008

Line 32: AFUDC - Equity favorable by 1977k due to new water treatment plant total project (budget of \$162m) in CWIP

Line 33: AFUDC Debt favorable by 1002k due to new water treatment plant total project (budget of \$162m) in CWIP

Line 41: Miscellaneous Other Deductions unfav by 269k due to the approved spend on communications regarding the new \$162m water treatment plant

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 42: State Income Taxes unfav by 315k See tax department

Line 43: Federal Income Taxes unfav by 634k See tax department

End

Income Statement - Year To Date
Kentucky with Growth
Dec YTD 2009
(\$ in Thousands)

	YTD Actuals	YTD Reference	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD P.L.Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
1	59,026	60,989	(1,973)	(3.24)%	65,253	(6,227)	(9.54)%	67,247	1,778	3.11%
2	318	329	(11)	(3.25)%	341	(23)	(6.79)%	309	9	2.90%
3	2,667	2,669	(2)	(0.80)%	2,226	442	19.84%	2,529	138	5.48%
4	82,011	84,017	(2,006)	(3.13)%	87,820	(5,809)	(6.56)%	90,086	1,926	3.20%
5	120	133	13	9.67%	141	20	14.50%	126	5	4.23%
6	3,014	3,366	351	10.44%	4,030	1,016	25.21%	3,245	231	7.11%
7	2,343	2,343	0	0.00%	2,685	342	14.58%	2,486	(466)	(27.77)%
8	234	249	15	6.41%	237	3	1.27%	170	36	20.59%
	5,603	6,091	487	8.69%	7,153	1,550	21.67%	5,360	(213)	(3.96)%
	10,891	10,864	27	(0.35)%	10,886	196	1.80%	9,169	(1,522)	(16.60)%
OPERATIONS & MAINTENANCE EXPENSE										
9	6,848	6,789	59	0.88%	6,943	95	1.36%	6,585	(263)	(3.98)%
10	1,386	1,397	11	0.78%	1,348	(38)	(2.83)%	623	(764)	(122.65)%
11	2,174	2,176	2	0.09%	2,243	68	3.07%	1,682	(491)	(29.21)%
12	282	282	0	0.00%	352	70	19.96%	278	(4)	(1.33)%
	10,891	10,864	27	(0.35)%	10,886	196	1.80%	9,169	(1,522)	(16.60)%
GA&L LABOR & OVERHEAD										
13	4,028	4,185	127	3.05%	3,779	(249)	(6.59)%	3,899	(129)	(3.31)%
14	4,120	4,075	45	(1.10)%	3,997	(123)	(3.08)%	4,032	(88)	(2.18)%
15	3,089	3,083	6	0.20%	3,400	(311)	(9.15)%	2,881	(209)	(7.27)%
	5,209	5,158	51	(1.00)%	4,996	(213)	(5.53)%	4,913	(297)	(6.04)%
16	245	264	19	7.39%	279	35	12.42%	221	(24)	(10.82)%
17	610	674	64	9.45%	719	109	15.11%	480	(120)	(24.53)%
18	1,617	1,679	62	3.70%	1,730	113	6.52%	1,536	(61)	(5.28)%
19	92	98	6	6.52%	97	5	5.26%	85	3	3.53%
20	532	532	0	0.00%	584	52	9.62%	646	115	17.74%
21	1,770	1,767	3	(0.17)%	2,421	651	28.89%	1,702	(68)	(3.98)%
22	2,770	2,695	75	2.71%	2,732	(38)	(1.38)%	2,684	(86)	(3.22)%
	33,106	33,617	511	1.52%	35,277	2,171	6.15%	30,684	(2,422)	(7.89)%
23	5,398	5,929	511	9.48%	7,034	1,136	16.16%	5,871	(27)	(0.46)%
24	516	521	5	1.02%	533	17	3.19%	512	(6)	(1.17)%
	6,414	6,450	36	0.56%	7,567	1,153	15.24%	6,383	(81)	(1.26)%
25	3,446	3,491	44	1.27%	3,597	151	4.18%	3,177	(269)	(8.48)%
27	49,965	49,857	108	0.22%	46,440	3,475	7.18%	40,743	(2,722)	(6.70)%
	19,045	20,460	1,414	(6.91)%	21,379	(2,394)	(10.92)%	19,942	(797)	(4.02)%
OTHER INCOME & DEDUCTIONS										
28	5,481	5,480	1	0.03%	8,996	3,514	39.07%	5,693	(6)	(100.00)%
29	359	359	0	0.00%	1,749	1,390	78.70%	762	(407)	(53.38)%
30	3	3	0	0.00%	3	0	0.00%	3	0	0.00%
31	6,849	6,172	677	10.99%	10,745	4,899	45.60%	6,449	(604)	(9.36)%
32	3,306	3,137	169	5.39%	3,073	233	7.60%	1,330	1,977	148.67%
33	1,591	1,461	130	8.82%	1,396	196	14.09%	989	1,002	101.25%
34	105	113	8	7.62%	117	12	10.25%	90	16	17.52%
35	-	-	-	-	-	-	-	-	-	-
36	-	-	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-	-	-
39	52	51	1	2.51%	52	82	157.69%	57	(5)	(8.64)%
	52	51	1	2.51%	52	52	100.00%	57	(5)	(8.64)%
40	0	0	0	0.00%	1,470,124	1	0.00%	0	0	0.00%
41	548	581	33	5.99%	336	(212)	(62.82)%	279	(269)	(96.66)%
	548	581	33	5.99%	337	(210)	(62.42)%	278	(268)	(96.66)%
	(495)	(530)	35	6.56%	(337)	(188)	(46.93)%	(221)	(274)	88.02%
	(1,549)	(2,217)	668	30.14%	(6,731)	5,182	75.99%	(4,841)	3,292	68.01%
	17,497	18,243	(746)	(4.09)%	14,549	2,848	19.44%	15,001	2,495	16.63%
42	1,210	1,005	205	20.20%	769	(441)	(57.36)%	895	(67)	(7.51)%
43	5,890	5,964	74	1.25%	4,938	(953)	(19.30)%	5,256	(634)	(12.06)%
46	(30)	(7)	23	309.44%	(28)	2	7.10%	(9)	18	241.74%
47	(163)	(15)	148	98.40%	(108)	55	50.87%	(45)	118	261.75%
	6,908	6,947	40	0.57%	6,971	(63)	(0.90)%	6,998	(810)	(13.23)%
	10,589	11,286	(707)	(6.26)%	9,078	1,511	16.85%	8,994	1,665	18.93%
	78	78	0	0.00%	78	0	0.00%	78	0	0.00%
	10,511	11,218	(707)	(6.30)%	9,000	1,511	16.79%	8,825	1,685	19.10%
	8,103	7,988	115	1.45%	7,252	(852)	(11.75)%	6,993	(2,109)	(34.99)%
	2,407	3,230	(823)	(25.47)%	1,748	659	37.72%	2,822	(415)	(14.70)%



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YTD Actual vs. Prior Year**FRP 3.xa Asset variance explanations**

Line 2: Construction Work in Progress increase by 84.3M due to construction on the new water treatment plant
Line 3: Accumulated Depreciation decrease by 6.74M due to accumulation of YTD depreciation expense

FRP 3.xb Asset variance explanations

Line 15: Receivable from affiliated companies increase by 3.44M due to the balance of the tax-exempt financing not yet applied to the project (funds are provided based on actual expenditures)

FRP 3.xc Asset explanations

Line 17: Regulatory assets - income tax recovery increase by 985k due to AFUDC/CWIP resulting from rate case settlement
Line 18: Debt and preferred stock expense increase by 894k due to cash requirement for the financing of the water treatment plant

FRP 3.xd Capital and Liabilities explanations

Line 36: Paid in Capital increase by 32.53M due to equity infusions for the cash needs, primarily due to the water treatment plant (\$162m total for the life of the project)
Line 37: Retained Earnings increase by 2.41M due to increase in retained earnings from 2009 net income

Line 42: Long term debt increase by 68.29M due to tax exempt financing of \$71m in 2009, offset by \$3.1m moved to current portion of long term debt

FRP 3.xe Capital and Liabilities explanations

Line 44: Short Term Debt decrease by 25.68M due to cash requirement primarily for water treatment plant (\$162m total for the life of the

Line 47: Accounts Payable increase by 3.18M driven by increase in liabilities due to inflation and higher costs in 2009 vs. 2008
Line 48: Taxes Accrued increase by 3.21M driven by timing of tax payments - prior yr federal/state taxes, \$1.8 & property tax, \$2.6, offset by current yr federal/state - (\$1.2)
Line 49: Interest Accrued increase by 623k due to timing of interest payments increase in l-t debt for new water treatment plant
Line 50: Total Other Current Liabilities increase by 1.08M due to common stock dividends declared - \$2m, offset by Other Current Liabilities (\$0.9) - Current portion of customer advances for construction (\$1.3), unbilled items - \$0.4

FRP 3.xf Capital and Liabilities explanations

Line 51: Customer Advances for Construction increase by 1.53M due to increased developer work in 2009
Line 52: Deferred Income Taxes increase by 9.4M due to timing of non-current deferred federal income tax

Line 54: Regulatory liability-cost of removal increase by 1.87M due to asset removal costs -\$1.33m and a gain on debt extension- \$544k

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Line 57: Other Deferred Credits decrease by 674k due to a Reg Asset/Liability clean up. Balance from DCA-Other, representing the Gain on Loan payoff of early extinguishment of debt for BD1200024 moved to the Reg Liability account.

	Actuals	Reforecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Dec	Increase (Decrease)	% Variance
Assets										
1 Utility Plant	384,865	389,170	(4,304)	(1.1)%	389,474	(4,609)	(1.2)%	369,486	15,380	4.2%
2 Construction Work in Progress	136,797	131,914	6,883	5.2%	116,503	20,294	17.1%	54,501	84,296	154.7%
3 Accumulated Depreciation	(80,950)	(90,804)	(9,854)	(12.3)%	(84,247)	3,297	3.5%	(84,213)	(6,737)	(8.0)%
4 Utility Plant Acquisition Adjustments	284	291	(7)	(2.4)%	312	(21)	(6.8)%	305	(20)	(6.6)%
5 Other Utility Plant Adjustments	432,997	430,571	2,426	0.6%	414,042	18,955	4.6%	340,079	94,919	27.3%
6 Total Utility Plant	770	770	0	0.0%	770	0	0.0%	770	0	0.0%
7 Non-Utility Property	433,267	430,841	2,426	0.6%	414,312	18,955	4.6%	340,349	92,919	27.3%
8 Total property, plant and equipment	1,768	891	(515)	(74.5)%	200	(24)	(12.1)%	234	(68)	(24.8)%
9 Restricted funds	2,612	2,372	241	10.1%	4,210	(1,598)	(38.0)%	2,342	270	11.5%
10 Utility customer accounts receivable	(277)	(304)	27	8.8%	(245)	(32)	(13.2)%	(278)	(4)	(1.3)%
11 Allowance for uncollectible accounts	3,231	4,001	(771)	(19.3)%	3,551	(420)	(11.9)%	2,900	331	11.4%
12 Accrued utility revenues	763	572	191	33.4%	310	453	146.2%	412	352	85.4%
13 Other receivables, net	645	850	(205)	(24.1)%	677	(32)	(4.7)%	577	68	11.8%
14 Taxes receivable, including federal income	3,443	1	3,442	321,663.6%	13	3,428	25,538.4%	1	3,442	594,523.6%
15 Materials and supplies	313	555	(242)	(43.6)%	234	79	33.5%	(98)	(98)	(23.8)%
16 Receivable from affiliated companies	10,508	8,739	1,768	24.8%	8,052	1,855	20.5%	6,603	4,303	65.2%
17 Other Current Assets	4,215	4,015	200	5.0%	6,304	(2,090)	(33.1)%	3,230	985	30.5%
18 Regulatory assets - income tax recovery	1,690	1,256	433	34.5%	654	1,036	158.4%	795	894	112.5%
19 Debt and deferred stock expenses	-	-	-	-	-	-	-	-	-	-
20 Deferred pension expense	-	-	-	-	-	-	-	-	-	-
21 Deferred postretirement benefit expense	-	-	-	-	-	-	-	-	-	-
22 Deferred security costs	-	-	-	-	-	-	-	-	-	-
23 Deferred business services project expense	-	-	-	-	-	-	-	-	-	-
24 Deferred integration costs	1,609	1,637	(29)	(1.8)%	1,417	122	13.5%	1,737	(128)	(7.4)%
25 Deferred tank painting costs	482	451	41	9.1%	508	(16)	(3.2)%	554	(62)	(11.2)%
26 Deferred rate case	-	-	-	-	-	-	-	-	-	-
27 Asset premium recoverable thru rates	2,404	2,392	12	0.5%	2,362	42	1.8%	2,769	(365)	(12.9)%
28 Environmental remediation recoverable thr	10,410	10,252	158	1.5%	12,046	(1,637)	(13.6)%	9,076	1,334	14.7%
29 Other Regulatory Assets	-	-	-	-	-	-	-	-	-	-
30 Other investments	-	-	-	-	-	-	-	-	-	-
31 Long term receivable from affiliate	-	-	-	-	-	-	-	-	-	-
32 Funds restricted for construction	-	-	-	-	-	-	-	-	-	-
33 Goodwill	-	-	-	-	-	-	-	6	(6)	(100.0)%
34 Intangible assets	54	52	2	2.5%	1,029	(975)	(94.8)%	126	(72)	(57.4)%
35 Other Long Term Assets	10,463	10,304	159	1.5%	13,075	(2,612)	(20.0)%	9,208	1,255	13.6%
Total Regulatory & Other LT Assets	454,637	449,884	4,753	1.1%	436,439	18,198	4.2%	356,160	98,477	27.6%
Capital & Liabilities										
35 Common Stock	36,569	36,569	0	0.0%	36,569	0	0.0%	36,569	0	0.0%
36 Paid in Capital	56,656	56,649	7	0.0%	52,114	4,535	8.7%	24,127	32,530	134.8%
37 Retained Earnings	35,220	36,942	(822)	(2.3)%	34,596	623	1.8%	32,812	2,407	7.3%
38 Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
39 Unearned compensation	-	-	-	-	-	-	-	-	-	-
40 Treasury stock	128,444	129,260	(816)	(0.6)%	123,278	5,166	4.2%	93,507	34,937	37.4%
41 Preferred stock without mandatory redemp	1,456	1,456	0	0.0%	1,447	9	0.6%	1,456	0	0.0%
42 Long term debt	144,990	144,980	10	0.0%	136,600	8,380	6.1%	76,700	68,200	89.0%
43 Redeemable preferred stock at redemption	4,500	4,500	0	0.0%	4,500	0	0.0%	4,500	0	0.0%
Total Capitalization	279,390	280,205	(816)	(0.3)%	285,825	(6,535)	(2.3)%	176,163	103,227	58.6%
44 Short Term Debt	27,426	27,827	(402)	(1.4)%	31,277	(3,851)	(12.3)%	53,106	(25,681)	(48.4)%
45 Current Portion of Long-term Debt	3,100	3,100	0	0.0%	3,100	0	0.0%	3,100	0	0.0%
46 Current portion of redeemable stock at red	-	-	-	-	-	-	-	-	-	-
47 Accounts Payable	11,623	15,425	(3,802)	(24.9)%	3,164	8,459	267.4%	8,445	3,178	37.6%
48 Taxes Accrued	2,904	56	2,848	5,052.3%	2,353	551	23.4%	(308)	3,212	1,042.2%
49 Interest Accrued	1,772	(137)	1,909	(1,383.7)%	2,895	(1,122)	(38.8)%	1,150	623	54.2%
50 Total Other Current Liabilities	5,548	3,119	2,429	77.9%	2,879	2,669	92.7%	4,470	1,078	24.1%
Total Current Liabilities	52,373	49,391	2,982	6.0%	45,667	6,706	14.7%	69,963	(17,990)	(25.1)%
Customer Advances for Construction	13,442	13,893	(452)	(3.3)%	17,137	(3,695)	(21.6)%	11,916	1,526	12.8%
51 Deferred income Taxes	47,267	42,895	4,371	10.2%	38,579	7,748	19.8%	37,871	9,396	24.8%
52 Deferred investment tax credits	1,048	1,052	(4)	(0.4)%	1,052	(4)	(0.4)%	1,133	(85)	(7.5)%
53 Regulatory liability	11,628	11,142	487	4.4%	11,094	535	4.8%	9,755	1,874	19.2%
54 Accrued pension expense	1,353	2,147	(794)	(37.0)%	1,653	(300)	(18.2)%	1,389	(37)	(2.6)%
55 Accrued postretirement benefit expense	487	490	(3)	(0.6)%	167	299	175.0%	418	48	11.6%
56 Other Deferred Credits	63	62	1	1.6%	4,036	(4,034)	(98.5)%	736	(674)	(91.5)%
57 Regulatory & Other Long Term Liabilities	75,288	71,063	4,225	5.6%	74,719	549	0.7%	63,219	12,049	19.1%
58 Contributions in aid of construction	47,506	48,605	(899)	(2.1)%	50,228	(2,622)	(5.2)%	46,815	790	1.7%
Total capital and liabilities	454,637	449,884	4,753	1.1%	436,439	18,198	4.2%	356,160	98,477	27.6%



Supplementary Tables and Discussion
Kentucky with Growth
Dec-09

AMERICAN WATER

AWFRP 2.0 - Result of Operations - Revenue Analysis
Revenue Variance Summary (\$ in Thousands)

Budget / Forecast / Prior Year	Budget			Forecast			Prior Year		
	MTD	QTD	YTD	MTD	QTD	YTD	MTD	QTD	YTD
Budget / Forecast / Prior Year	5,747	18,360	67,820	5,368	17,330	64,017	4,231	14,920	60,086
Rates	(284)	(955)	(2,454)	0	0	0	804	2,835	7,206
DSIC	0	0	0	0	0	0	0	0	0
Surcharges	0	0	0	0	0	0	0	0	0
Balancing accounts	0	0	0	0	0	0	0	0	0
Water acquisitions	0	0	0	0	0	0	0	0	0
Sewer acquisitions	0	0	0	0	0	0	0	0	0
Other	33	126	409	(23)	(40)	1	16	45	122
Fire	0	0	0	0	0	0	0	0	0
Organic growth	(7)	(23)	(89)	(4)	(15)	(59)	27	86	346
Demand / consumption	(671)	(1,938)	(3,656)	(523)	(1,705)	(1,941)	(265)	(2,323)	(5,756)
Sewer	(4)	(7)	(19)	(4)	(7)	(7)	1	0	7
Other Revenue Variances	0	0	0	0	0	0	0	0	0
Actual revenues	4,814	15,563	62,011	4,814	15,563	62,011	4,814	15,563	62,011
Total variance	(933)	(2,797)	(5,809)	(554)	(1,767)	(2,006)	583	643	1,925

Kentucky
Jan Excel FRP.xls
IS_Explanations

MTD Actual vs. Plan

FRP 1.xa Revenue variance explanations

Water Revenues are unfavorable by \$238k due to lower OPA usage than planned (\$48k) and lower commercial usage than planned (\$87k). In addition it appears that the December unbilled revenue for commercial was higher than the actual booked revenue resulting in a hit in January of approx. \$130k).

FRP 1.xb Operating expense explanations (production costs)

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

General taxes were favorable by \$92k due to timing. The plan accounted for the accrual of property tax to be paid on CWIP (change from the past), however we have not yet begun accruing for this additional property tax. Will seek to begin accruing in Feb (including Jan).

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

FRP 1.xf Other income and deduction variance explanations (taxes)

End

Kentucky
Jan Excel FRP.xls
IS_Explanations

MTD Actual vs. Prior Year

FRP 1.xa Revenue variance explanations

Line 1: Water Revenues favorable by 890k driven by increased rates (\$773k) and customer growth (\$355k primarily in OPA), offset by a reduction in consumption \$(238 primarily in OPA)

FRP 1.xb Operating expense explanations (production costs)

FRP 1.xc Operating expense explanations (other operating)

FRP 1.xd Operating expense explanations (depreciation/amort and gen taxes)

FRP 1.xe Other income and deduction variance explanations (interest/afudc)

FRP 1.xf Other income and deduction variance explanations (taxes)

Line 43: Federal Income Taxes unfav by 262k See Tax Department

End



AMERICAN WATER

Income Statement - Month To Date
Kentucky with Growth
Jan 2010
(\$ in Thousands)

Report ID: FRP-1.1
Admin: Home Coordinator

Close Status: Final
source: system financial
data

	MTD Actuals	Rebates	MTD Pbn	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
1	4,759	-	4,987	(228)	(4.76)%	3,869	890	23.00%
2	28	-	28	0	0.44%	27	2	6.19%
3	242	-	221	21	9.27%	174	68	39.15%
4	5,029	-	5,246	(217)	(4.14)%	4,089	959	23.58%
OPERATIONS & MAINTENANCE EXPENSE								
PRODUCTION EXPENSES								
5	8	-	10	(2)	16.12%	10	2	21.82%
6	281	-	248	33	(13.87)%	219	(62)	(28.28)%
7	139	-	176	(37)	21.31%	164	25	15.30%
8	23	-	25	(2)	7.95%	14	(9)	(64.89)%
9	451	-	459	(8)	1.73%	408	(44)	(10.76)%
O&M LABOR & OVERHEAD								
9	590	-	624	(34)	5.51%	565	(25)	(4.30)%
10	95	-	109	(14)	13.09%	123	28	22.98%
11	185	-	205	(20)	9.89%	181	(4)	(2.22)%
12	33	-	31	2	(3.69)%	25	(8)	(31.07)%
13	903	-	970	(67)	6.34%	894	(9)	(0.92)%
14	355	-	362	(7)	2.04%	369	15	4.02%
15	352	-	365	(13)	3.79%	358	(4)	(1.04)%
16	69	-	86	(17)	20.99%	59	(9)	(15.91)%
17	431	-	451	(20)	4.47%	418	(13)	(3.19)%
18	25	-	25	0	(3.15)%	13	(12)	(88.10)%
19	53	-	68	(15)	22.83%	54	2	3.00%
20	145	-	148	(3)	2.88%	126	(19)	(14.80)%
21	2	-	3	(1)	38.30%	5	3	60.93%
22	42	-	54	(12)	21.80%	44	2	4.44%
23	160	-	185	(25)	14.28%	145	(15)	(10.56)%
24	226	-	218	8	(3.49)%	181	(45)	(28.05)%
25	2,791	-	2,845	(54)	5.23%	2,688	(104)	(4.64)%
26	506	-	547	(41)	7.40%	479	(27)	(5.74)%
27	43	-	43	0	(1.31)%	43	(1)	(1.71)%
28	550	-	590	(40)	6.77%	521	(29)	(5.41)%
29	316	-	407	(91)	22.50%	286	(30)	(10.38)%
30	3,657	-	3,942	(285)	7.24%	3,475	(182)	(5.23)%
31	1,372	-	1,304	68	5.23%	595	778	130.81%
OTHER INCOME & DEDUCTIONS								
32	452	-	454	(2)	0.48%	471	19	3.99%
33	7	-	17	(10)	56.89%	41	33	81.87%
34	460	-	472	(12)	2.64%	512	52	10.21%
35	210	-	167	43	25.64%	231	(21)	(9.26)%
36	104	-	137	(32)	23.77%	123	(19)	(15.55)%
37	10	-	15	(5)	34.02%	7	3	37.53%
38	-	-	-	-	-	-	-	-
39	19	-	19	0	-	-	-	-
40	0	-	0	0	-	-	-	-
41	124	-	89	35	(39.33)%	37	(87)	(238.53)%
42	104	-	89	15	(38.23)%	36	(68)	(238.53)%
43	260	-	(272)	(532)	(17.36)%	(42)	(62)	674.28%
44	1,112	-	1,032	80	4.49%	(207)	(63)	(25.59)%
45	73	-	52	21	(42.47)%	26	(48)	(185.42)%
46	412	-	361	51	(14.06)%	150	(262)	(174.78)%
47	(6)	-	-	6	-	-	-	-
48	667	-	413	254	(32)	(7.79)%	25	287.13%
49	651	-	618	33	7.79%	222	445	169.68%
50	651	-	651	0	-	216	445	206.32%
51	651	-	651	0	-	216	445	206.32%



AMERICAN WATER

Supplementary Tables and Discussion
Kentucky with Growth
Jan 2010

Close Status: Final
source system financial
data

AWFRP 2.0 - Result of Operations - Revenue Analysis

Revenue Variance Summary (\$ in Thousands)

	Budget		Forecast		Prior Year	
	MTD	QTD	MTD	QTD	MTD	QTD
Budget / Forecast / Prior Year	5,246	5,246	-	-	4,069	4,069
Rates	-	-	-	-	773	773
DSIC	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-
Water acquisitions	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-
Other	-	-	-	-	-	-
Fire	-	-	-	-	-	-
Organic growth	15	15	-	-	355	355
Demand / consumption	(252)	(252)	-	-	(238)	(238)
Sewer	-	-	-	-	2	2
Other Revenue Variances	20	20	5,029	5,029	67	67
Actual revenues	5,029	5,029	5,029	5,029	5,029	5,029
Total variance	(217)	(217)	5,029	5,029	959	959

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 31**

Description of Filing Requirement:

Monthly Budget Variance Reports for 12 Months Pre-Base Period and as available, for Base Period and Subsequent Months

Response:

Please see attached documents monthly budget variance reports for period June 2008 through January 2009. The monthly reports for February 2009-January 2010 are provided in the attachment provided with Exhibit 30. The Company will supplement this information with the reports starting in February 2010 as those reports become available.

For the electronic version, see KAW_APP_EX31_022610.pdf.



Kentucky American Water
June, 2008
(\$ in Thousands)
Variance Explanations
QTD Actual vs. Q2RF

Operating Revenues

Lines 2&4 Revenue is over by \$289. Water revenue is over \$258 and other revenue is over \$29.

Operating Expenses

Line 5 Purchased water is under by \$22 due to reduced purchased water in the Northern district.
Line 6 Fuel and power is under mainly due to not transferring as much water to the Richmond Road Station as expected.
Line 7 Chemicals are under due to very low source water turbidity as a result of little rainfall during the month.
Line 13 Management fees are over primarily due to Corporate and Regional management fees and are being investigated for more details.
Line 18 Customer accounting is over (\$63). Uncollectible expense is over (\$61).
Line 25 General taxes are under by \$166 due to a true-up of property tax expense for 2007 and 2008.

Other Income Deductions

Line 39 Miscellaneous income is over by \$36 mainly due to a billing for damage to company property. This has been reserved for in the uncollectible expense.
Line 42-46 Over due to operating results.



Kentucky American Water
 June, 2008
 (\$ in Thousands)
 Variance Explanations
 QTD Actual vs. Plan

Operating Revenues

Lines 2&4 Revenue is over plan by \$389. Water revenue is over by \$228. Other revenue is over \$154 due to increased reconnection fees \$93 and increased collections for others \$39.

Operating Expenses

Line 5 Purchased water is under plan by \$119 due to no intra-company expense and reduced purchased water in the Northern district.
 Line 13 Management fees are over primarily due to Corporate and Regional management fees and are being investigated for more details.
 Line 16 Regulatory expense is under \$97 due to reduced rate case expenses and a longer amortization period than planned.
 Line 17 Insurance other than group is under \$70 mainly due to a large retro adjustment in June.
 Line 18 Customer accounting is over (\$105). Uncollectible expense is over (\$132) due to an increase in the uncollectible % from .62% in May to .74% in June.
 Line 23 Depreciation is under \$394 due to the increased net negative salvage going to maintenance expense and the lower rates being used.
 Line 24 Amortizations are over plan by (\$24) and have been corrected in the Q2RF.
 Line 25 General taxes are under by \$184 due to a true-up of property tax expense for 2007 and 2008.

Other Income Deductions

Line 32 AFUDC equity is over plan due to capex timing.
 Line 33 AFUDC debt is over plan due to capex timing.
 Line 39 Miscellaneous income is over by \$36 mainly due to a billing for damage to company property. This has been reserved for in the uncollectible expense.
 Line 41 Miscellaneous other deductions is under \$38 mainly due to lobbying expense not utilized.
 Line 42-46 Over plan due to operating results and the correction of the tax on preferred dividends issue from prior years.
 Line 47 Preferred dividend is under plan \$95 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.

Jun QTD 2008
(\$ In Thousands)

	QTD Actuals	Forecast	QTD Plan	Variance Favorable (Unfavorable)	% Variance	QTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water Revenues	13,786	13,508	13,538	228	1.68%	12,716	1,050	8.26%
Sewer Revenues	75	72	68	6	3.18%	36	(12)	(19.52)%
Other Operating Revenues	630	601	476	154	4.78%	527	103	19.45%
Operating Revenues	14,470	14,182	14,081	389	2.03%	13,330	1,141	8.56%
OPERATIONS & MAINTENANCE EXPENSE								
PRODUCTION EXPENSES								
Purchased Water	32	54	151	119	41.16%	127	95	75.00%
Fuel and Power	728	753	662	(63)	3.69%	771	45	5.87%
Chemicals	360	381	401	20	5.37%	420	59	14.07%
Waste Disposal	68	5	68	(1)	6.65%	83	14	17.31%
Total production costs	1,186	1,261	1,282	96	5.97%	1,400	214	15.27%
O&M LABOR & OVERHEAD								
Labor	1,733	1,770	1,875	(58)	2.09%	1,477	(256)	(17.30)%
Pensions	171	157	130	(30)	(8.82)%	159	(12)	(7.38)%
Group Insurances	423	445	495	22	4.91%	404	(19)	(4.67)%
Other benefits	54	55	57	3	0.77%	51	(3)	(5.93)%
Total employee related	2,381	2,427	2,356	(45)	1.87%	2,092	(289)	(13.83)%
Management fees	1,089	937	884	(102)	(10.84)%	1,939	900	46.43%
Shared business services	1,044	1,014	985	(59)	(2.97)%	(1,044)	(1,044)	(100.00)%
Contracted services	228	251	244	16	5.48%	178	(68)	(28.89)%
Total contracted services	1,272	1,265	1,229	(6)	(0.49)%	179	(1,082)	(69.56)%
Regulatory expense	40	42	137	97	3.23%	30	(50)	55.22%
Insurance Other Than Group	111	146	181	35	23.96%	132	21	18.11%
Customer Accounting	494	432	389	(63)	(14.48)%	487	(7)	(1.44)%
Rents	9	9	8	0	(4.89)%	9	(1)	(6.37)%
General office expense	144	128	121	(16)	(12.85)%	83	(52)	(55.54)%
Miscellaneous	432	497	506	65	15.11%	237	(199)	(82.34)%
Maintenance	616	524	532	8	1.32%	434	(182)	(41.95)%
Total operations and maintenance expense	7,725	7,768	7,728	43	0.56%	7,953	(633)	(8.21)%
Depreciation	1,384	1,467	1,778	394	5.67%	371	(21)	21.17%
Amortization	127	126	103	(1)	(0.53)%	(117)	(10)	(8.64)%
Depreciation and amortization	1,511	1,593	1,881	370	5.18%	1,872	361	19.29%
General taxes	682	848	866	166	19.58%	133	814	16.29%
Impairment charges	-	-	-	-	-	-	-	-
Total operating expenses, net	9,917	10,209	10,474	557	2.86%	9,778	(139)	(1.42)%
Operating income	4,553	3,973	3,607	946	14.61%	3,551	1,002	28.21%
OTHER INCOME & DEDUCTIONS								
Interest income	(6)	(2)	-	6	182.81%	(125)	(119)	(86.31)%
Interest on long-term debt	1,411	1,421	1,463	52	3.55%	1,159	(262)	(21.73)%
Interest on Short-Term Bank Debt	163	157	140	(7)	(4.15)%	425	262	61.55%
Other Interest Expense	-	-	-	-	-	(38)	(38)	(100.00)%
Total interest expense	1,568	1,576	1,602	34	2.12%	1,421	(147)	(10.37)%
AFUDC - Equity	381	366	212	168	79.28%	188	193	102.37%
AFUDC Debt	144	137	96	47	5.16%	85	58	68.50%
Amortization of Debt Expense	23	21	18	(5)	(6.75)%	18	(4)	(23.95)%
Preferred dividends of subsidiaries (Consolidated)	-	-	-	-	-	(20)	(20)	(100.00)%
Gain on sale of assets	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-
Miscellaneous Income	27	(9)	36	36	392.88%	146	(119)	(81.45)%
Total other income	27	(9)	36	36	392.88%	146	(119)	(81.45)%
Miscellaneous Amortization	0	0	0	0	1470.12%	0	0	0.00%
Miscellaneous Other Deductions	72	85	110	33	18.06%	106	34	32.17%
Total Other Deductions	72	85	110	38	18.17%	108	34	32.17%
Other, net	(45)	(95)	(110)	65	59.36%	40	(65)	(113.62)%
Total other income (deductions)	(1,111)	(1,190)	(1,422)	311	6.81%	(1,145)	34	2.98%
Income (loss) before income taxes	3,442	2,783	2,186	1,256	23.88%	2,406	1,036	43.06%
State Income Taxes	319	174	(200)	(145)	(83.61)%	139	(180)	(129.87)%
Federal Income Taxes	1,277	1,243	734	(542)	(2.70)%	787	(489)	(62.13)%
State income taxes (non-operating)	(3)	(5)	(9)	(6)	(36.76)%	7	10	144.75%
Federal income taxes (non-operating)	(17)	(22)	(35)	(18)	(22.13)%	45	62	137.87%
Provision (Benefit) for Income Taxes	1,576	1,300	809	(766)	(15.33)%	976	(598)	(61.17)%
Net income (loss)	1,866	1,382	1,376	474	34.01%	1,428	438	30.67%
Preferred Dividend Declared	20	20	15	5	(0.50)%	0	20	28.29%
Net income To Common Stock	1,847	1,373	1,261	585	34.50%	1,428	418	28.29%
Common Dividend Declared	955	1,080	1,033	793	(20.61)%	235	(721)	(305.67)%
Current Year Retained Earnings	890	313	469	422	89.98%	1,193	(303)	(25.37)%

Water & Power - Company Ltd. Unaudited Quarterly & Subsequent



Kentucky American Water
June, 2008
(\$ In Thousands)
Variance Explanations
YTD Actual vs. Q2RF

Operating Revenues

Lines 2&4 Revenue is over by \$289. Water revenue is over \$258 and other revenue is over \$29.

Operating Expenses

Line 5 Purchased water is under by \$22 due to reduced purchased water in the Northern district.
Line 6 Fuel and power is under mainly due to not transferring as much water to the Richmond Road Station as expected.
Line 7 Chemicals are under due to very low source water turbidity as a result of little rainfall during the month.
Line 13 Management fees are over primarily due to Corporate and Regional management fees and are being investigated for more details.
Line 18 Customer accounting is over (\$63). Uncollectible expense is over (\$61).
Line 25 General taxes are under by \$166 due to a true-up of property tax expense for 2007 and 2008.

Other Income Deductions

Line 39 Miscellaneous income is over by \$36 mainly due to a billing for damage to company property. This has been reserved for in the uncollectible expense.
Line 42-46 Over due to operating results.



Kentucky American Water
June, 2008
(\$ in Thousands)
Variance Explanations
YTD Actual vs. Plan

Operating Revenues

Lines 2&4 Revenue is over plan by \$389. Water revenue is over by \$58. Other revenue is over \$269 mainly due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under plan by \$242 due to no intra-company expense and reduced purchased water in the Northern district.
Line 6 Fuel and power is over mainly due to an increased fuel costs.
Line 11 Group insurance is under and is being investigated.
Line 13 Management fees are over primarily due to Corporate and Regional management fees and are being investigated for more details.
Line 16 Regulatory expense is under \$192 due to reduced rate case expenses and a longer amortization period than planned.
Line 17 Insurance other than group is under \$154 due to retro adjustments and lower premiums.
Line 23 Depreciation is under \$506 due to the increased net negative salvage going to maintenance expense and the lower rates being used.
Line 25 General taxes are under by \$193 due to a true-up of property tax expense for 2007 and 2008.

Other Income Deductions

Line 32 AFUDC equity is over plan due to capex timing.
Line 33 AFUDC debt is over plan due to capex timing.
Line 39 Miscellaneous income is over by \$50 mainly due to a billing for damage to company property. This has been reserved for in the uncollectible expense.
Line 41 Miscellaneous other deductions is under \$83 mainly due to lobbying expense not utilized and donations.
Line 42-46 Over plan due to operating results and the correction of the tax on preferred dividends issue from prior years.
Line 47 Preferred dividend is under plan \$191 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.

Jun YTD 2008
(\$ in Thousands)

	YTD Actuals	YTD Reforecast	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pt. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
1	26,371	26,113	258	0.99%	26,313	58	0.22%	23,337	3,033	13.00%
2	152	150	2	1.54%	140	12	8.60%	188	(16)	(9.62)%
3	1,220	1,191	29	2.41%	951	269	28.23%	987	263	26.17%
4	-	-	-	-	-	-	-	-	-	-
	27,743	27,454	289	1.05%	27,404	339	1.24%	24,473	3,270	13.36%
OPERATIONS & MAINTENANCE EXPENSE										
PRODUCTION EXPENSES										
5	54	76	22	29.23%	298	242	81.80%	207	153	73.97%
6	1,406	1,434	28	1.94%	1,154	(252)	(21.87)%	1,260	(146)	(11.61)%
7	738	759	20	2.69%	754	16	2.07%	746	8	1.01%
8	139	144	5	3.38%	142	3	1.85%	161	22	13.53%
	2,337	2,413	75	3.12%	2,345	8	0.32%	2,373	36	1.51%
O&M LABOR & OVERHEAD										
9	3,222	3,259	37	1.14%	3,297	75	2.27%	2,919	378	(10.38)%
10	344	330	(14)	(4.21)%	259	(85)	(32.64)%	307	(37)	(12.14)%
11	853	881	28	3.28%	891	38	4.37%	856	(35)	(4.02)%
12	132	132	0	0.32%	116	(16)	(13.81)%	118	(2)	(1.69)%
	4,557	4,603	45	0.99%	4,663	105	2.26%	4,199	(368)	(8.54)%
Management fees										
13	2,090	1,988	(102)	(5.11)%	1,847	(243)	(13.14)%	3,737	1,647	44.08%
14	2,000	1,970	(30)	(1.53)%	1,924	(76)	(3.95)%	-	(2,000)	(100.00)%
15	373	397	24	6.00%	439	65	14.92%	372	(1)	(0.30)%
	2,374	2,367	(7)	(0.26)%	2,363	(10)	(0.44)%	372	(2,001)	(537.53)%
Total contracted services										
16	140	141	1	0.65%	332	192	57.66%	181	40	22.40%
17	209	244	35	14.33%	363	154	42.36%	285	46	16.10%
18	700	638	(63)	(9.01)%	772	72	9.32%	834	134	16.10%
19	18	17	(1)	(5.56)%	16	(2)	(10.73)%	16	(2)	(12.37)%
20	275	258	(16)	(5.82)%	276	1	0.36%	192	(83)	(43.00)%
21	915	981	65	6.85%	992	76	7.70%	572	(343)	(60.00)%
22	1,243	1,241	(2)	(0.16)%	1,219	(23)	(1.90)%	2,118	885	73.53%
	14,848	14,891	43	0.29%	15,138	340	2.24%	13,746	(1,102)	(8.02)%
Total operations and maintenance expense										
23	3,044	3,127	83	2.66%	3,550	506	14.26%	3,398	354	10.42%
24	285	254	(31)	(10.88)%	205	(79)	(38.54)%	221	(16)	(7.15)%
	3,299	3,381	82	2.44%	3,755	456	12.15%	3,631	(124)	(3.33)%
General taxes										
25	1,535	1,700	165	8.76%	1,727	193	11.17%	1,445	(89)	(6.16)%
27	19,681	19,973	292	1.46%	20,971	989	4.79%	18,823	(859)	(4.56)%
	8,062	7,481	(580)	(7.18)%	6,733	(1,328)	(19.73)%	5,650	(2,412)	(42.69)%
OTHER INCOME & DEDUCTIONS										
28	(6)	(2)	4	182.81%	2,978	6	0.20%	(127)	(121)	(95.40)%
29	2,874	2,855	(19)	(0.66)%	2,978	104	3.48%	2,433	(436)	(17.87)%
30	380	374	(6)	(1.58)%	326	(55)	(16.75)%	551	171	30.98%
31	-	-	-	-	-	-	-	(33)	(36)	(100.00)%
	3,248	3,227	(21)	(0.65)%	3,303	55	1.67%	2,824	(424)	(15.03)%
AFUDC - Equity										
32	651	636	(15)	(2.29)%	411	(240)	(58.44)%	318	(333)	(104.49)%
33	271	264	(7)	(2.58)%	187	(84)	(45.16)%	145	(126)	(87.37)%
34	44	43	(1)	(2.27)%	36	(8)	(22.22)%	36	(8)	(21.99)%
35	-	-	-	-	-	-	-	(39)	39	100.00%
Amortization of Debt Expense										
36	-	-	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-	-	-
39	50	13	(37)	(74.00)%	50	0	0.00%	189	(139)	(73.67)%
	50	13	(37)	(74.00)%	50	0	0.00%	189	(139)	(73.67)%
Miscellaneous Amortization										
40	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
41	177	191	14	7.22%	260	83	31.91%	229	52	22.69%
	177	191	14	7.22%	260	84	32.09%	229	52	22.69%
Other, net										
	(127)	(177)	(50)	(39.37)%	(280)	(153)	(54.48)%	(99)	(88)	(88.35)%
	(2,498)	(2,577)	(79)	(3.16)%	(3,002)	(504)	(16.79)%	(2,475)	(2,475)	(100.00)%
	5,564	4,905	(659)	(11.84)%	3,731	(1,832)	(49.11)%	3,174	(2,390)	(75.31)%
Income (loss) before income taxes										
42	376	231	(145)	(38.56)%	210	(166)	(78.85)%	186	(180)	(101.79)%
43	2,052	2,018	(34)	(1.66)%	1,270	(782)	(61.53)%	1,098	(854)	(86.88)%
46	(5)	(7)	(2)	(40.00)%	(21)	(16)	(76.19)%	3	8	298.84%
47	(31)	(36)	(5)	(16.13)%	(63)	(32)	(50.79)%	55	55	228.91%
	2,981	2,206	(775)	(25.99)%	1,736	(1,016)	(58.59)%	1,311	(1,060)	(80.40)%
	3,172	2,599	(573)	(18.06)%	1,817	(1,016)	(56.03)%	1,862	1,310	70.32%
	39	39	0	0.00%	230	(191)	(82.92)%	0	39	100.00%
	3,133	2,659	(474)	(15.13)%	1,862	(1,007)	(54.08)%	1,862	1,270	68.21%
	2,053	2,157	103	5.02%	1,597	(457)	(28.61)%	1,207	(846)	(70.13)%
	1,080	503	(577)	(53.43)%	528	(551)	(104.04)%	656	424	64.68%



Kentucky American Water
June, 2008
(\$ in Thousands)
Variance Explanations
YTD Actual vs. PY Dec, 2007

Assets

- Line 1 Utility plant - increase in capital spending primarily related to source of supply project.
- Line 9 Accounts receivable higher due to increased revenue.
- Line 11 Accrued utility revenue - increase is primarily due to higher average revenue amounts.
- Line 12 Other receivables variance is due to increased system miscellaneous accounts receivable.
- Line 13 Taxes receivable - it is no longer necessary to reclass the state income tax receivable item.
- Line 25 Deferred rate case - decrease is due to monthly amortization.
- Line 34 Other long-term assets is being investigated.

Capital & Liabilities

- Line 36 Paid in capital - \$8M equity infusion in March 2008 and \$8M equity infusion in June 2008.
- Line 44 Short-term debt decrease is primarily due to the \$16M equity infusion.
- Line 47 Accounts payable - general accounts payable decreased \$1,603 and contract retention decreased \$556.
- Line 48 Taxes accrued is being investigated.
- Line 50 Other current liabilities - increase is primarily due to accrued wages.
- Line 55 Accrued pension expense - timing of pension payments and the difference between accruals and payments.

Assets	Actuals	Reforecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Disc	Increase (Decrease)	% Variance
1 Utility Plant	355,434	355,434	1,435	0.4%	368,437	(11,568)	(3.1)%	345,341	11,527	3.3%
2 Construction Work in Progress	22,093	22,006	87	0.4%	21,987	106	0.5%	21,310	783	3.7%
3 Accumulated Depreciation	(83,632)	(83,345)	(287)	(0.3)%	(83,217)	4,585	5.2%	(80,435)	(3,197)	(4.0)%
4 Utility Plant Acquisition Adjustments	316	316	0	0.0%	323	(7)	(2.2)%	327	(11)	(3.2)%
5 Other Utility Plant Adjustments	295,646	294,411	1,235	0.4%	302,530	(6,884)	(2.3)%	286,543	9,103	3.2%
Total Utility Plant	270	270	0	0.0%	260	20	8.2%	250	20	8.2%
Total Non-Utility Plant, Net	295,916	294,681	1,235	0.4%	302,780	(6,864)	(2.3)%	286,793	9,123	3.2%
Total property, plant and equipment	408	203	205	101.0%	286	121	42.4%	398	9	2.3%
8 Restricted funds	2,608	2,624	(16)	(1.0)%	2,150	458	21.3%	1,928	680	35.3%
9 Utility customer accounts receivable	(247)	(210)	(37)	(17.8)%	(286)	39	(13.6)%	(223)	(24)	(10.6)%
10 Allowance for uncollectible accounts	2,873	2,733	140	5.1%	2,862	(87)	(2.9)%	2,562	311	12.1%
11 Accrued utility revenues	424	244	180	74.0%	408	16	4.0%	196	228	116.2%
12 Other receivables, net	638	729	(91)	(14.4)%	(2,670)	3,388	(100.0)%	(388)	(388)	(100.0)%
13 Taxes receivable, including federal income	0	0	0	0.0%	584	(584)	100.0%	0	584	100.0%
14 Materials and supplies	174	281	(107)	(38.0)%	193	(19)	(9.7)%	81	94	116.0%
15 Receivable from affiliated companies	6,879	7,214	(335)	(4.6)%	3,626	3,253	89.7%	5,965	914	15.3%
16 Other Current Assets	6,448	6,416	32	0.5%	6,171	278	4.5%	6,385	63	1.0%
17 Regulatory assets - income tax recovery	806	803	3	0.3%	706	99	14.1%	846	(40)	(4.8)%
18 Debt and preferred stock expense	-	-	-	-	-	-	-	-	-	-
19 Deferred pension expense	-	-	-	-	-	-	-	-	-	-
20 Deferred postretirement benefit expense	-	-	-	-	-	-	-	-	-	-
21 Deferred security costs	-	-	-	-	-	-	-	-	-	-
22 Deferred business services project expns	-	-	-	-	-	-	-	-	-	-
23 Deferred integration costs	-	-	-	-	-	-	-	-	-	-
24 Deferred tank painting costs	1,733	1,759	(26)	(1.5)%	1,614	119	7.4%	1,859	(126)	(6.8)%
25 Deferred rate case	360	364	(4)	(1.1)%	335	24	7.2%	486	(126)	(26.0)%
26 Asset premium recoverable thru rates	-	-	-	-	-	-	-	-	-	-
27 Environmental remediation recoverable thr	3,027	3,127	(99)	(3.2)%	3,439	(411)	(12.0)%	3,181	(154)	(4.8)%
28 Other Regulatory assets	12,374	12,469	(95)	(0.8)%	12,265	109	0.9%	12,758	(384)	(3.0)%
29 Other investments	-	-	-	-	-	-	-	-	-	-
30 Long term receivable from affiliate	-	-	-	-	-	-	-	-	-	-
31 Funds restricted for construction	-	-	-	-	-	-	-	-	-	-
32 Goodwill	-	-	-	-	-	-	-	-	-	-
33 Intangible assets	-	-	-	-	-	-	-	-	-	-
34 Other Long Term Assets	853	767	86	11.2%	437	416	95.0%	488	365	74.9%
Total Regulatory & Other LT Assets	13,227	13,236	(10)	(0.1)%	12,702	525	4.1%	13,245	(19)	(0.1)%
Total Assets	316,022	315,131	891	0.3%	319,107	(3,086)	(1.0)%	306,003	10,019	3.3%
Capital & Liabilities										
35 Common Stock	36,569	36,569	0	0.0%	36,569	0	0.0%	36,569	0	0.0%
36 Paid in Capital	24,085	24,085	14	0.1%	24,056	43	0.2%	8,056	16,043	199.1%
37 Retained Earnings	31,069	30,492	577	1.9%	29,877	1,192	4.0%	29,990	1,080	3.6%
38 Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
39 Unearned compensation	-	-	-	-	-	-	-	-	-	-
40 Treasury stock	-	-	-	-	-	-	-	-	-	-
Common stockholder's equity	91,738	91,147	591	0.6%	90,502	1,235	1.4%	74,615	17,123	22.9%
41 Preferred Stock without mandatory redemp	1,458	1,458	0	0.0%	1,467	(9)	(0.6)%	1,487	(9)	(0.6)%
42 Long term debt	76,700	76,700	0	0.0%	76,700	0	0.0%	79,800	(3,100)	(3.9)%
43 Redeemable preferred stock at redemption	4,500	4,500	0	0.0%	4,500	0	0.0%	4,500	0	0.0%
Total Capitalization	174,396	173,805	591	0.3%	173,169	1,227	0.7%	160,382	14,014	8.7%
44 Short Term Debt	14,942	15,002	(60)	(0.4)%	14,537	5	0.0%	19,356	(4,814)	(24.9)%
45 Current portion of Long-term Debt	3,100	3,100	0	0.0%	3,100	0	0.0%	3,100	0	0.0%
46 Current portion of redeemable stock at red	-	-	-	-	-	-	-	-	-	-
47 Accounts Payable	4,574	4,565	18	0.4%	6,949	(2,374)	(34.2)%	6,507	(1,933)	(29.7)%
48 Taxes Accrued	3,476	3,250	226	7.0%	3,931	(455)	(11.6)%	5,228	(1,751)	(33.5)%
49 Interest Accrued	1,150	1,150	0	0.0%	886	263	29.7%	1,143	6	0.5%
50 Total Other Current Liabilities	2,497	2,090	418	20.1%	6,279	(3,782)	(60.2)%	2,027	470	23.2%
Total Current Liabilities	29,339	26,137	3,202	12.3%	35,682	(6,343)	(17.8)%	37,362	(8,022)	(21.5)%
51 Customer Advances for Construction	14,195	13,965	231	1.7%	18,536	(4,340)	(23.4)%	14,653	(468)	(3.1)%
52 Deferred Income Taxes	35,901	36,377	(476)	(1.3)%	36,290	(89)	(0.2)%	32,877	3,025	9.2%
53 Deferred investment tax credits	1,175	1,178	(3)	(0.2)%	1,219	(44)	(3.6)%	1,218	(42)	(3.5)%
54 Regulatory liability-cost of removal	9,465	9,348	117	1.3%	8,221	1,244	15.1%	8,772	693	7.9%
55 Accrued pension expense	1,615	1,600	15	0.9%	1,877	(263)	(14.0)%	2,174	(590)	(25.7)%
56 Accrued postretirement benefit expense	401	202	200	98.9%	193	208	107.8%	193	17	4.5%
57 Other Deferred Credits	4,153	4,181	(28)	(0.7)%	219	3,934	1,796.7%	4,596	(444)	(9.7)%
Regulatory & Other Long Term Liabilities	66,906	66,880	26	0.1%	66,555	361	0.5%	64,875	2,231	3.5%
58 Contributions in aid of construction	46,381	45,339	41	0.1%	43,701	1,679	3.8%	43,585	1,795	4.1%
Total capital and liabilities	316,022	315,131	891	0.3%	319,107	(3,086)	(1.0)%	306,003	10,019	3.3%



Kentucky American Water
July, 2008
(\$ in Thousands)
Variance Explanations
MTD Actual vs. Q2RF

Operating Revenues

Lines 2&4 Revenue is under by (\$83). Water revenue is under (\$121) and includes a discretionary adjustment to unbilled revenue. Other revenue is over \$37 due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under by \$20 due to reduced purchased water in the Northern district.
Line 6 Fuel and power is under mainly due to lower than planned system delivery.
Line 7 Chemicals are under by \$33 mainly due to lower than planned system delivery \$14 and a correction to sales tax \$20.
Line 15 Contracted services are over mainly due to outside legal fees.
Line 18 Customer accounting is under \$37 mainly due to a favorable uncollectible expense.
Line 20 General office expense is over (\$54) mainly due to relocation expenses (\$35) and cell phone expense for new equipment purchases.
Line 21 Miscellaneous expense is under mainly due to brochures and transportation expense being less than expected.
Line 22 Maintenance expense is under in paving expense \$20 and materials and supplies \$62 due to timing.



Kentucky American Water
 July, 2008
 (\$ in Thousands)
 Variance Explanations
 MTD Actual vs. Plan

Operating Revenues

Lines 2&4 Revenue is under plan by (\$75). Water revenue is under by (\$142) and includes a discretionary adjustment to unbilled revenue. Other revenue is over \$66 mainly due to increased reconnection fees \$41 and increased collections for others \$14.

Operating Expenses

Line 5 Purchased water is under plan by \$41 due to no intra-company expense and reduced purchased water in the Northern district.
 Line 6 Fuel and power is under plan by \$14 due to lower than planned system delivery.
 Line 7 Chemicals are under plan by \$39 mainly due to lower than planned system delivery \$14 and a correction to sales tax \$20.
 Line 15 Contracted services is over plan mainly due to outside legal fees.
 Line 16 Regulatory expense is under \$32 due to reduced rate case expenses and a longer amortization period than planned.
 Line 18 Customer accounting is under \$35 mainly due to a favorable uncollectible expense.
 Line 20 General office expense is over (\$54) mainly due to relocation expenses (\$35) and cell phone expense for new equipment purchases.
 Line 21 Miscellaneous is under mainly due to conservation expense and miscellaneous operating expense.
 Line 22 Maintenance expense is under mainly due to paving expense \$21.
 Line 23 Depreciation is under \$126 due to the increased net negative salvage going to maintenance expense and the lower rates being used.

Other Income Deductions

Line 47 Preferred dividend is under plan \$32 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.



Income Statement - Month To Date

Kentucky-American
Jul 2008

(\$ In Thousands)

Close Status: Final
source system data with
preliminary adjustments
and eliminations

	MTD Actuals	MTD Reforecast	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
1	5,327	5,448	5,469	(121)	(2.22)%	5,003	325	6.49%
2	24	23	23	1	4.23%	29	(5)	(15.39)%
3	224	188	153	37	19.61%	201	23	11.55%
4	-	-	-	-	-	-	-	-
	5,576	5,659	5,651	(83)	(1.47)%	5,233	343	6.56%
OPERATIONS & MAINTENANCE EXPENSE								
PRODUCTION EXPENSES								
5	12	32	54	41	77.33%	32	20	62.41%
6	291	364	305	73	20.14%	257	(33)	(12.91)%
7	131	169	169	39	22.73%	129	(2)	(1.39)%
8	26	25	33	7	21.30%	23	(3)	(10.25)%
	460	586	561	101	18.00%	442	(17)	(3.92)%
COAL LABOR & OVERHEAD								
9	559	592	592	33	5.53%	491	(68)	(13.88)%
10	48	43	43	(5)	(10.96)%	58	10	17.89%
11	122	165	165	44	26.37%	151	30	19.68%
12	33	24	17	(9)	(37.10)%	15	(18)	(120.88)%
	762	824	817	62	7.56%	716	(46)	(6.48)%
13	304	286	282	(18)	(6.29)%	597	293	49.10%
14	330	333	333	3	0.88%	-	(330)	-
15	103	80	69	(23)	(22.89)%	102	(1)	(0.51)%
	433	413	403	(20)	(4.87)%	102	(331)	(323.92)%
16	14	15	46	1	8.82%	30	17	55.08%
17	49	50	2	2	3.02%	52	3	5.53%
18	103	140	138	37	26.21%	99	(4)	(4.20)%
19	6	3	3	(3)	(99.04)%	6	0	(7.30)%
20	91	37	37	(54)	(146.16)%	56	(36)	(62.76)%
21	124	202	153	78	38.56%	207	83	40.10%
22	203	272	234	69	29.45%	132	(71)	(83.79)%
	2,549	2,528	2,734	280	9.85%	2,439	(109)	(4.48)%
23	471	566	588	84	15.16%	588	117	19.83%
24	43	42	39	(1)	(1.56)%	41	(3)	(9.78)%
	514	598	632	84	13.96%	627	113	17.99%
25	269	291	291	22	7.59%	247	(22)	(8.91)%
27	-	-	-	-	-	-	-	-
	3,332	3,717	3,657	385	10.37%	3,313	(19)	(0.58)%
	2,244	1,942	1,993	302	15.55%	1,919	325	16.91%
OTHER INCOME & DEDUCTIONS								
28	0	0	-	0	0.00%	0	0	0.00%
29	470	481	488	17	2.26%	296	(174)	(88.92)%
30	35	40	77	42	54.92%	197	162	82.35%
31	-	-	-	-	-	0	0	0.00%
	505	521	565	60	10.57%	493	(12)	(2.41)%
32	98	80	90	8	8.11%	76	22	28.74%
33	45	33	41	5	11.66%	35	11	33.00%
34	7	6	6	(1)	(22.54)%	6	(1)	(21.29)%
35	-	-	-	-	-	(7)	(7)	(100.00)%
36	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-
39	(13)	0	-	(13)	-	(26)	13	51.00%
	(13)	0	-	(13)	-	(26)	13	51.00%
40	0	0	0	0	155.28%	0	0	0.00%
41	30	17	11	(13)	(78.23)%	5	(24)	(441.39)%
	30	17	11	(13)	(76.99)%	5	(24)	(441.39)%
42	(42)	(17)	(11)	(26)	(154.19)%	(32)	(11)	492.39%
	(411)	(430)	(451)	40	8.80%	(427)	16	3.71%
43	1,833	1,512	1,543	321	21.22%	1,493	340	22.81%
44	113	75	75	(38)	(49.94)%	96	(17)	(17.48)%
45	465	496	510	31	6.20%	528	63	11.85%
46	(2)	(1)	(1)	1	269.73%	-	-	-
	(11)	(2)	(1)	9	451.95%	(6)	2	7.99%
	595	568	580	4	0.62%	614	49	7.99%
47	1,268	944	963	324	34.37%	879	389	44.32%
	1,262	937	924	325	34.62%	875	383	43.58%
	0	0	0	0	-	0	0	-
	1,262	937	924	325	34.62%	879	383	43.58%



Kentucky American Water
 July, 2008
 (\$ in Thousands)
 Variance Explanations
 YTD Actual vs. Q2RF

Operating Revenues

Lines 2&4 Revenue is over by \$205. Water revenue is over \$136 and other revenue is over \$66 mainly due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under by \$42 due to reduced purchased water in the Northern district.
 Line 6 Fuel and power is under mainly due to reduced system delivery.
 Line 7 Chemicals are under due to very low source water turbidity and reduced system delivery.
 Line 21 Miscellaneous is under due to favorable variances in conservation \$38, brochures \$18, transportation \$34, miscellaneous \$18 and electricity \$15.
 Line 25 General taxes are under by \$188 mainly due to a true-up of property tax expense for 2007 and 2008.

Other Income Deductions

Line 42-46 Over due to operating results.



Kentucky American Water
 July, 2008
 (\$ in Thousands)
 Variance Explanations
 YTD Actual vs. Plan

Operating Revenues

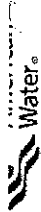
Lines 2&4 Revenue is over plan by \$264. Water revenue is under by \$84. Other revenue is over \$335 mainly due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under plan by \$283 due to no intra-company expense and reduced purchased water in the Northern district.
 Line 6 Fuel and power is over mainly due to an increased fuel costs.
 Line 11 Group insurance is under and is being investigated.
 Line 13 Management fees are over primarily due to Corporate and Regional management fees.
 Line 16 Regulatory expense is under \$225 due to reduced rate case expenses and a longer amortization period than planned.
 Line 17 Insurance other than group is under \$165 due to retro adjustments and lower premiums.
 Line 23 Depreciation is under \$632 due to the increased net negative salvage going to maintenance expense and the lower rates being used.
 Line 25 General taxes are under by \$215 mainly due to a true-up of property tax expense for 2007 and 2008.

Other Income Deductions

Line 32 AFUDC equity is over plan due to capex timing.
 Line 33 AFUDC debt is over plan due to capex timing.
 Line 41 Miscellaneous other deductions is under \$65 mainly due to lobbying expense not utilized and donations.
 Line 42-46 Over plan due to operating results and the correction of the tax on preferred dividends issue from prior years.
 Line 47 Preferred dividend is under plan \$223 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.



Kentucky American
Water
(\$ in thousands)

	YTD Actuals	YTD Reforecast	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pn. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
Water Revenues	31,698	31,562	138	0.43%	31,782	(84)	(0.26)%	29,340	3,358	11.85%
Sewer Revenues	176	173	3	1.80%	163	13	7.97%	197	(21)	(10.61)%
Other Operating Revenues	1,444	1,379	66	4.75%	1,110	335	30.18%	1,168	276	23.66%
Operating Revenues	33,319	33,114	205	0.62%	33,055	264	0.80%	29,705	3,613	12.16%
OPERATIONS & MAINTENANCE EXPENSE										
PRODUCTION EXPENSES										
Purchased Water	66	108	42	38.85%	349	283	81.11%	239	173	72.40%
Fuel and Power	1,697	1,798	101	5.62%	1,469	(239)	(16.35)%	1,518	(180)	(11.83)%
Chemicals	869	923	54	5.83%	874	54	6.25%	875	6	0.65%
Waste Disposal	165	163	2	1.23%	174	10	5.82%	184	19	10.45%
Total production costs	2,797	2,998	201	6.71%	2,906	108	3.73%	2,816	18	0.66%
QA/M LABOR & OVERHEAD										
Labor	3,781	3,851	70	1.81%	3,888	108	2.76%	3,410	(371)	(10.89)%
Pensions	392	373	(19)	(4.99)%	302	(89)	(29.55)%	365	(27)	(7.34)%
Group Insurances	981	1,046	65	6.25%	1,156	175	15.14%	1,007	26	2.60%
Other benefits	185	157	(28)	(15.14)%	(32)	(133)	(24.14)%	(33)	(33)	(24.65)%
Total employee related	5,319	5,427	108	1.99%	5,430	161	2.94%	4,815	(405)	(8.23)%
Management fees	2,393	2,274	(120)	(5.26)%	2,129	(265)	(12.43)%	4,333	1,940	44.77%
Shared business services	2,331	2,304	(27)	(1.18)%	2,258	(73)	(3.23)%	-	(2,331)	(100.00)%
Contracted services	476	477	1	0.17%	508	32	6.33%	475	(2)	(0.34)%
Total contracted services	2,807	2,781	(26)	(0.95)%	2,766	(41)	(1.48)%	475	(2,332)	(491.53)%
Regulatory expense	154	156	3	1.70%	378	225	59.39%	211	57	27.06%
Insurance Other Than Group	258	295	36	12.39%	423	165	39.04%	308	50	16.13%
Customer Accounting	803	778	(26)	(3.33)%	910	107	11.75%	934	130	13.94%
Rentals	24	20	(4)	(16.70)%	19	(5)	(24.66)%	(2)	(11.04)%	(47.48)%
General office expense	366	296	(70)	(19.13)%	313	(53)	(16.89)%	246	(118)	(33.42)%
Miscellaneous	1,039	1,182	143	12.03%	1,144	105	9.19%	779	(260)	(26.20)%
Maintenance	1,436	1,513	77	5.36%	1,454	18	1.22%	1,147	(289)	(25.20)%
Total operations and maintenance expense	17,397	17,720	323	1.82%	17,923	526	2.93%	16,785	(1,211)	(7.48)%
Depreciation	3,515	3,682	167	4.55%	4,147	632	15.25%	3,986	471	11.81%
Amortization	298	286	(12)	(4.03)%	240	(58)	(24.31)%	272	(28)	(9.42)%
Depreciation and amortization	3,813	3,979	166	4.17%	4,387	574	13.08%	4,258	445	10.46%
General taxes	1,804	1,992	188	9.44%	2,019	215	10.65%	1,693	(111)	(6.56)%
Impairment charges	-	-	-	-	-	-	-	-	-	-
Total operating expenses, net	23,013	23,690	677	2.85%	24,328	1,315	5.41%	22,136	(877)	(3.86)%
Operating income	10,306	9,423	882	9.38%	8,727	1,579	18.09%	7,569	2,756	36.15%
OTHER INCOME & DEDUCTIONS										
Interest income	(6)	(2)	4	182.81%	-	-	-	(127)	(121)	(95.40)%
Interest on long-term debt	3,344	3,366	22	0.65%	3,465	121	3.49%	2,734	(610)	(22.31)%
Interest on Short-Term Bank Debt	415	413	(2)	(0.41)%	403	(12)	(3.02)%	333	(70)	(21.32)%
Other Interest Expense	-	-	-	-	-	-	-	748	333	44.53%
Total interest expense	3,753	3,777	24	0.63%	3,868	317	8.21%	3,317	(436)	(13.15)%
AFUDC - Equity	749	717	32	4.48%	501	248	49.41%	354	89.89%	25.36%
AFUDC Debt	317	287	30	9.46%	228	89	39.16%	179	(138)	(76.89)%
Amortization of Debt Expense	52	49	(3)	(5.65)%	42	(10)	(24.00)%	42	(9)	(21.88)%
Preferred dividends of subsidiaries (Consolidated)	-	-	-	-	-	-	-	(46)	46	100.00%
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-
Miscellaneous income	37	13	24	175.14%	-	-	-	163	(126)	(77.29)%
Total other income	37	13	24	175.14%	-	-	-	163	(126)	(77.29)%
Miscellaneous Amortization	0	0	0	406.46%	271	65	23.82%	0	0	0.00%
Miscellaneous Other Deductions	207	207	0	0.38%	272	65	24.02%	234	28	11.88%
Total Other Deductions	206	207	1	0.46%	272	65	24.02%	234	28	11.88%
Other, net	(169)	(194)	25	12.68%	(272)	(102)	37.67%	(71)	(98)	(89.17)%
Total other income (deductions)	(2,909)	(3,006)	98	3.25%	(3,463)	544	15.75%	(2,803)	(6)	(0.20)%
Income (loss) before income taxes	7,397	5,417	980	15.27%	5,274	2,123	40.25%	4,656	2,730	58.51%
State income taxes	489	306	(183)	(59.73)%	286	(203)	(71.24)%	282	(207)	(73.14)%
Federal income taxes	2,517	2,514	(3)	(0.11)%	1,780	(737)	(41.40)%	1,625	(851)	(51.83)%
Provision (Benefit) for income taxes	(7)	(8)	1	14.29%	(22)	(15)	(67.62)%	2	9	520.86%
State income taxes (non-operating)	(42)	(38)	4	10.85%	(67)	(25)	(37.50)%	15	58	373.63%
Federal income taxes (non-operating)	2,956	2,774	(182)	(6.56)%	1,958	(1,000)	(51.14)%	1,925	(1,031)	(53.57)%
Provision (Benefit) for income taxes	4,441	3,642	798	21.91%	3,318	1,122	33.84%	2,741	1,696	61.99%
Preferred Dividend Declared	45	46	1	2.22%	268	(223)	(82.84)%	0	46	100.00%
Net Income to Common Stock	4,395	3,527	798	22.19%	3,050	1,345	44.09%	2,741	1,655	60.32%
Common Dividend Declared	2,053	2,157	103	4.80%	1,597	(457)	(28.61)%	1,207	(850)	(70.13)%
Current Year Retained Earnings	2,342	1,440	902	62.62%	1,453	888	61.10%	1,534	807	52.60%



Kentucky American Water
August, 2008
(\$ in Thousands)
Variance Explanations
MTD Actual vs. Q2RF

Operating Revenues

Lines 1&3 Revenue is over by \$414. Water revenue is over \$380. Other revenue is over 34 due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under by \$26 due to reduced purchased water in the Northern district.
Line 6 Fuel and power is over (\$30) mainly due to higher energy costs.
Line 7 Chemicals are under by \$2 due to the increased costs from the source water quality offset by the reversal of the use tax.
Line 9 Labor is under by \$44 due to more capital work than in reforecast.
Lines 13&14 Management Fees are over (\$47) mainly due to corporate and ITS.
Line 15 Contracted services are over (\$42) mainly due to outside legal fees (\$19) and employment service fee (\$19).
Line 18 Customer accounting is under \$23 mainly due to a favorable uncollectible expense.
Line 20 General office expense is over (\$35) mainly due to relocation expenses (\$21) and cell phone expense (\$15) which is being investigated.
Line 21 Miscellaneous expense is under \$46 mainly due to transportation expense \$8 and miscellaneous expense \$25 being less than expected.
Line 22 Maintenance expense is under \$21 due mainly to paying expense.



Kentucky American Water
August, 2008
(\$ in Thousands)
Variance Explanations
MTD Actual vs. Plan

Operating Revenues

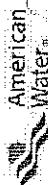
Lines 1&3 Revenue is over plan by \$426. Water revenue is over by \$63 mainly due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under plan by \$45 due to no intra-company expense and reduced purchased water in the Northern district.
Line 6 Fuel and power is over plan by (\$93) due to higher energy costs.
Line 7 Chemicals are under plan by \$7 due to the increased costs from the source water quality offset by the reversal of the use tax.
Line 9 Labor is under by \$44 due to more capital work than in reforecast.
Lines 13&14 Management Fees are over (\$52) mainly due to corporate and ITS.
Line 15 Contracted services is over (\$41) plan mainly due to outside legal fees.
Line 16 Regulatory expense is under \$33 due to reduced rate case expenses and a longer amortization period than planned.
Line 18 Customer accounting is under \$22 mainly due to a favorable uncollectible expense.
Line 20 General office expense is over (\$35) mainly due to relocation expenses (\$21) and cell phone expense (\$15) for new equipment purchases.
Line 21 Miscellaneous operating is under \$16.
Line 22 Maintenance expense is over (\$38) mainly due to being over in maintenance expense ARO and under in paving.
Line 23 Depreciation is under \$128 due to the increased net negative salvage going to maintenance expense and the lower rates being used.

Other Income Deductions

Line 47 Preferred dividend is under plan \$32 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.



Income Statement - Month To Date

Sheet 10 - Page 11
American Water Corporation

Close Status: Final
source system financial
data w/ premium adis and
elim.

Check
Mark

Line	MTD Actuals		MTD Forecast		Variance Favorable (Unfavorable)		% Variance		MTD Pr. Vr.		Variance Favorable (Unfavorable)		% Variance	
	MTD Actuals	Forecast	MTD Forecast	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Vr.	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Vr.	Variance Favorable (Unfavorable)	% Variance			
OPERATING REVENUES:														
1	5,335	5,454	380	6.37%	5,472	363	6.64%	4,794	1,041	21.71%				
2	27	27	24	15.16%	24	0	0.00%	28	0	(0.91)%				
3	221	188	34	18.02%	159	63	39.61%	217	4	1.83%				
4	5,083	5,666	419	7.37%	5,654	620	7.60%	5,039	1,045	20.73%				
OPERATIONS & MAINTENANCE EXPENSE:														
PRODUCTION EXPENSES:														
5	11	37	26	70.71%	55	45	20.30%	34	23	67.47%				
6	393	383	(10)	(2.59)%	300	(93)	(30.01)%	299	(88)	(33.20)%				
7	161	183	22	13.67%	169	8	4.97%	184	15	12.14%				
8	24	24	0	0.00%	22	(2)	(9.09)%	18	(6)	(33.33)%				
9	568	568	(1)	(0.18)%	516	(43)	(7.59)%	528	(61)	(11.53)%				
LABOR & OVERHEAD:														
10	483	537	44	8.21%	537	44	8.21%	526	33	6.28%				
11	53	43	(10)	(22.59)%	43	(10)	(22.59)%	53	0	0.00%				
12	147	165	18	10.68%	165	18	10.68%	153	(14)	(9.24)%				
13	18	25	7	28.50%	25	7	28.50%	19	(6)	(31.58)%				
14	711	770	59	7.70%	770	59	7.70%	750	(20)	(2.61)%				
15	285	273	(12)	(4.55)%	268	(17)	(6.20)%	627	342	54.53%				
16	354	318	(36)	(10.50)%	319	(35)	(10.50)%	319	(35)	(10.50)%				
17	112	70	(42)	(60.45)%	71	(41)	(67.41)%	52	(60)	(114.29)%				
18	465	388	(77)	(19.78)%	390	(75)	(19.37)%	392	(73)	(17.26)%				
19	13	15	2	10.14%	46	33	70.92%	30	17	55.70%				
20	49	50	1	2.06%	60	11	18.53%	2	(2)	(4.82)%				
21	116	140	23	16.73%	138	22	15.75%	58	(98)	(100.29)%				
22	0	3	3	93.50%	0	0	0.00%	1	0	0.00%				
23	74	38	(36)	(92.21)%	39	(35)	(90.71)%	44	(29)	(66.81)%				
24	133	181	48	25.30%	152	19	10.67%	141	(6)	(4.15)%				
25	205	227	22	9.95%	167	(38)	(22.79)%	130	(75)	(57.50)%				
26	2,044	2,673	299	11.00%	2,673	(65)	(2.52)%	2,414	(230)	(9.54)%				
27	470	557	86	16.62%	589	118	21.44%	582	12	18.18%				
28	43	42	(1)	(1.90)%	34	(9)	(25.12)%	39	5	11.63%				
29	513	599	86	13.30%	633	120	18.95%	621	(12)	(1.74)%				
30	252	287	35	12.30%	287	35	12.30%	250	(37)	(14.80)%				
31	3,409	3,559	150	4.22%	3,499	(60)	(1.73)%	3,284	(1,225)	(37.98)%				
32	2,674	2,106	(568)	(21.24)%	2,185	(489)	(18.30)%	1,754	(920)	(52.45)%				
OTHER INCOME & DEDUCTIONS:														
33	0	0	0	0.00%	0	0	0.00%	0	0	0.00%				
34	470	481	11	2.26%	486	16	3.58%	286	(174)	(68.92)%				
35	36	45	9	21.34%	90	54	60.56%	208	171	82.72%				
36	0	0	0	0.00%	0	0	0.00%	0	0	0.00%				
37	506	528	22	3.90%	578	72	12.47%	502	(76)	(14.90)%				
38	112	93	(19)	(20.83)%	133	(21)	(15.50)%	85	(27)	(31.84)%				
39	53	42	(11)	(25.40)%	60	(8)	(12.84)%	39	(14)	(36.31)%				
40	7	6	(1)	(14.29)%	6	(1)	(16.67)%	6	0	0.00%				
41	0	0	0	0.00%	0	0	0.00%	0	0	0.00%				
42	0	0	0	0.00%	0	0	0.00%	0	0	0.00%				
43	0	0	0	0.00%	0	0	0.00%	0	0	0.00%				
44	0	0	0	0.00%	0	0	0.00%	0	0	0.00%				
45	0	0	0	0.00%	0	0	0.00%	0	0	0.00%				
46	0	0	0	0.00%	0	0	0.00%	0	0	0.00%				
47	1,383	1,054	(329)	(23.80)%	1,050	(333)	(23.80)%	799	(584)	(42.23)%				
48	0	0	0	0.00%	0	0	0.00%	0	0	0.00%				
49	0	0	0	0.00%	0	0	0.00%	0	0	0.00%				
50	1,383	1,054	(329)	(23.80)%	1,050	(333)	(23.80)%	799	(584)	(42.23)%				



Kentucky American Water
 August, 2008
 (\$ in Thousands)
 Variance Explanations
 YTD Actual vs. Q2RF

Operating Revenues

Line 1&3 Revenue is over by \$616. Water revenue is over \$517 and other revenue is over \$99 mainly due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under by \$68 due to reduced purchased water in the Northern district.
 Line 6 Fuel and power is under \$71 mainly due to reduced system delivery.
 Line 7 Chemicals are under \$66 due to very low source water turbidity and reduced system delivery.
 Lines 13&14 Management fees are over (\$194) primarily due to Corporate and Regional management fees.
 Line 20 General office expenses is over (\$106) mainly due to relocation expense (\$63), telephone (\$22) and (\$8) employee expenses.
 Line 21 Miscellaneous is under \$189 due to favorable variances in conservation \$46, brochures \$22, transportation \$42, miscellaneous \$32 and electricity \$23.
 Line 22 Maintenance is under \$99 mainly due to miscellaneous maintenance items due to timing.
 Line 25 General taxes are under by \$223 mainly due to a true-up of property tax expense for 2007 and 2008.

Other Income Deductions

Line 42-46 Over due to operating results.



Kentucky American Water
August, 2008
(\$ in Thousands)
Variance Explanations
YTD Actual vs. Plan

Operating Revenues

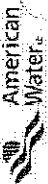
Lines 1&3 Revenue is over plan by \$677. Water revenue is over by \$279. Other revenue is over \$398 mainly due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under plan by \$328 due to no intra-company expense and reduced purchased water in the Northern district.
Line 6 Fuel and power is over (\$331) mainly due to increased fuel costs.
Line 11 Group insurance is under \$193.
Lines 13&14 Management fees are over (\$389) primarily due to Corporate and Regional management fees.
Line 16 Regulatory expense is under \$257 due to reduced rate case expenses and a longer amortization period than planned.
Line 17 Insurance other than group is under \$177 due to retro adjustments and lower premiums.
Line 23 Depreciation is under \$761 due to the increased net negative salvage going to maintenance expense and the lower rates being used.
Line 26 General taxes are under by \$250 mainly due to a true-up of property tax expense for 2007 and 2008.

Other Income Deductions

Line 32 AFUDC equity is over plan due to capex timing.
Line 33 AFUDC debt is over plan due to capex timing.
Line 41 Miscellaneous other deductions is under \$62 mainly due to lobbying expense not utilized and donations.
Line 42-46 Over plan due to operating results and the correction of the tax on preferred dividends issue from prior years.
Line 48 Preferred dividend is under plan \$254 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.



Close Status: Final
 source system financial
 data w/ prelim adjs and
 elims

	YTD Actuals	YTD Forecast	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
1 Water Sales	37,533	37,046	517	1.40%	37,054	279	0.75%	93,134	4,389	13.28%
2 Sewer Revenues	204	197	7	3.49%	187	17	8.38%	228	(21)	(6.40)%
3 Other Operating Revenues	1,696	1,597	99	6.34%	1,286	399	31.36%	1,385	280	20.23%
4 Management Revenues	38,402	38,779	(327)	(1.61)%	38,799	(693)	(1.79)%	34,744	4,958	13.41%
OPERATIONS & MAINTENANCE EXPENSE										
5 Purchased Water	77	145	(68)	47.00%	405	328	81.00%	273	196	71.79%
6 Fuel and Power	1,030	2,161	(1,131)	3.30%	1,759	(311)	(18.84)%	1,812	(277)	(15.31)%
7 Chemicals	183	193	(10)	5.15%	1,092	61	6.62%	1,058	28	2.65%
8 Waste Disposal	3,388	3,358	200	5.98%	3,451	55	1.88%	200	11	5.58%
Total production costs	4,274	4,388	114	2.58%	4,426	152	3.42%	3,936	(539)	(6.60)%
GA&M LABOR & OVERHEAD										
9 Labor	445	410	35	8.89%	346	(99)	(28.65)%	418	(27)	(6.43)%
10 Group Insurance	1,128	1,211	(83)	6.88%	1,321	193	14.58%	1,199	31	2.70%
11 Other benefits	183	182	1	0.68%	153	29	19.54%	152	(31)	(20.48)%
12 Total employee related	6,030	6,192	167	2.70%	6,251	220	3.52%	5,655	(385)	(6.45)%
Management fees	2,679	2,517	(132)	(5.16)%	2,397	(281)	(11.73)%	4,990	2,282	48.09%
14 Shared business services	2,684	2,622	(62)	(2.36)%	2,577	(108)	(4.16)%	-	(2,684)	(11.62)%
15 Contracted services	588	517	71	13.90%	579	9	1.47%	527	(61)	(11.62)%
16 Total contracted services	3,272	3,139	133	4.10%	3,156	(116)	(3.69)%	527	(274)	(52.13)%
17 Regulatory expense	167	171	(4)	(2.43)%	424	257	60.63%	341	74	36.64%
18 Insurance	307	345	(38)	11.00%	484	177	36.52%	389	52	14.51%
19 Other Tran Group	920	917	3	0.27%	1,049	130	12.28%	992	71	7.24%
20 Customer Accounting	24	23	1	4.61%	22	(2)	(10.92)%	22	(2)	(8.75)%
21 General office expense	400	334	66	19.70%	(88)	(88)	(25.07)%	282	(147)	(50.39)%
22 Miscellaneous	1,175	1,364	(189)	13.86%	1,295	171	9.33%	920	(284)	(27.88)%
23 Maintenance	1,641	1,740	(99)	5.88%	1,621	(20)	(1.23)%	1,277	(364)	(28.50)%
24 Total operations and maintenance expense	20,041	20,983	(942)	4.70%	20,361	(461)	(2.28)%	18,988	(1,441)	(7.45)%
25 Depreciation	3,986	4,239	(253)	6.35%	4,746	760	16.09%	4,568	582	12.75%
26 Amortization	341	333	8	2.37%	274	67	(24.40)%	311	(20)	(9.51)%
27 Depreciation and amortization	4,327	4,572	(245)	5.50%	5,020	694	13.82%	4,879	553	11.33%
28 General taxes	2,065	2,279	(214)	9.80%	2,306	260	10.86%	1,942	(113)	(5.81)%
29 Impairment charges	26,272	27,240	(968)	3.60%	27,827	1,405	5.05%	25,420	(1,001)	(3.94)%
30 Total operating expense, net	12,960	11,530	1,430	12.58%	10,862	2,098	19.28%	9,323	3,657	39.22%
OTHER INCOME & DEDUCTIONS										
31 Interest income	(6)	(2)	4	182.81%	6	6	100.00%	(127)	(121)	(95.40)%
32 Interest on long-term debt	3,814	3,877	(63)	1.65%	3,953	138	3.50%	3,030	(784)	(25.89)%
33 Interest on Short-Term Bank Debt	461	459	2	0.44%	493	43	8.94%	955	504	52.78%
34 Other Interest Expense	0	0	0	0.00%	0	0	0.00%	(39)	(39)	(100.00)%
35 Total Interest expense	4,289	4,304	(15)	(0.35)%	4,446	187	4.20%	3,819	(440)	(11.52)%
36 AFUDC - Equity	881	810	71	8.06%	634	227	36.78%	480	382	79.55%
37 AFUDC - Debt	369	338	31	8.30%	288	81	28.29%	218	(152)	(69.68)%
38 Amortization of Debt Expense	59	55	4	7.76%	48	(11)	(24.13)%	(59)	53	100.00%
39 Preferred dividends of subsidiaries (Consolidated)	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
40 Gain on sale of assets	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
41 Non-Operating Rental Income	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
42 Dividend Income - Common	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
43 Dividend Income - Preferred	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
44 Miscellaneous Income	51	13	37	276.89%	0	51	100.00%	168	(117)	(69.79)%
45 Total other income (deductions)	5,200	5,200	0	0.00%	5,200	0	0.00%	5,200	0	0.00%
46 Miscellaneous Amortization	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
47 Miscellaneous Other Deductions	228	221	7	3.22%	290	62	21.90%	245	17	7.05%
48 Total Other Deductions	(177)	(177)	0	0.00%	(177)	0	0.00%	(177)	0	0.00%
49 Other, net	(3,265)	(3,477)	212	6.46%	(3,862)	597	15.46%	(3,300)	35	1.07%
Income (loss) before income taxes	9,715	8,112	1,603	16.76%	7,020	2,695	38.40%	6,023	3,692	61.29%
50 State Income Taxes	628	387	(241)	(38.39)%	370	(259)	(70.00)%	369	(260)	(70.60)%
51 Federal Income Taxes (non-operating)	3,308	3,074	(234)	(7.07)%	2,351	(947)	(40.19)%	2,059	(1,209)	(57.58)%
52 Federal income taxes (non-operating)	(8)	(9)	1	13.13%	(24)	(16)	(63.25)%	2	9	595.89%
53 Tax Saving Acquisition Adjustment	3,898	3,009	889	22.80%	2,614	(1,284)	(46.59)%	14	58	422.35%
54 State income taxes (non-operating)	5,830	4,703	1,127	23.96%	4,406	1,424	32.31%	3,540	2,290	64.65%
55 Provision (Benefit) for Income Taxes	52	52	0	0.00%	52	0	0.00%	52	0	0.00%
56 Net Income (loss)	5,777	4,650	1,127	24.23%	4,100	(677)	(16.51)%	3,540	2,237	63.20%
57 Preferred Dividend Declared	2,053	2,157	(104)	(5.06)%	1,997	(467)	(23.37)%	1,207	(846)	(70.13)%
58 Common Dividend Declared	3,724	2,494	1,230	49.34%	2,603	1,121	48.78%	1,391	59.61%	59.61%

Kentucky American Water
September 2008
(\$ in Thousands)
Variance Explanations - Income Statement
QTD Actual vs. Q3RF



Operating Revenues

Lines 2&4 Revenue is over by \$530. Water revenue is over \$487 mainly due to higher residential sales and public authority sales as well as a low NRW percentage for the month. No discretionary revenue adjustment was made in September. Other revenue is over \$40 due to collections for others and new customers.

Operating Expenses

Line 5 Purchased water is under by \$17 due to reduced purchased water in the Northern district.
Line 8 Waste Disposal is under by \$11 due to expired aged PO receipts that were reversed.
Line 9 Labor is over (\$57) due to the meter registers being moved from CWIP to expense.
Line 13 Management fees are over (\$30) primarily due to Regional management fees.
Line 20 General Office is over (\$24) primarily due to relocation expenses (\$4), cell phones(\$9), electricity (\$3), employee expense (\$3), and credit line fees of (\$2).
Line 22 Other Maintenance Expense is over (\$32) due to the write off of the meter registers (\$60) offset by paving \$16, materials and supplies \$7 and miscellaneous maintenance of \$5.
Line 23 Depreciation is under \$92 mainly due lower rates being used.

Other Income Deductions

Line 32 AFUDC equity is under reforecast mainly due to correction of workorders that were originally set up as IPs not blankets.
Line 33 AFUDC debt is under reforecast mainly due to correction of workorders that were originally set up as IPs not blankets.
Line 39 Miscellaneous income is under by (\$32) mainly due to a write off for damage to company property.
Line 42 Over due to operating results.

Kentucky American Water
September 2008
(\$ in Thousands)

Variance Explanations - Income Statement
QTD Actual vs. Plan



AMERICAN WATER

Operating Revenues

Lines 2&4 Revenue is over plan by \$460. Water revenue is over by \$276. Other revenue is over \$176 mainly due to increased reconnection fees of \$123, increased collections for others \$41 and initiated service fees of \$11.

Operating Expenses

Line 5 Purchased water is under plan by \$131 due to no intra-company expense and reduced purchased water in the Northern district.
Line 6 Fuel & Power is over plan (\$100) due to increased fuel costs.
Line 8 Waste Disposal is under plan \$15 mainly due to June receipts that A/P has determined are not due the vendor.
Line 16 Regulatory expense is under \$97 due to reduced rate case expenses and a longer amortization period than planned.

Line 20 General Office is over plan by (\$112) mainly due to relocation (\$60), cell phone (\$36) and other miscellaneous office expenses of (\$16).
Lines 12, 15&21 Miscellaneous is over plan by (\$76) mainly due to contract services - legal (\$61) and transportation (\$12).
Line 22 Other Maintenance Expense is over plan by (\$92) primarily due to an increase in net negative salvage going to maintenance expense (\$145) offset by paving expense being underspent by \$50. The meter register expense of \$60 that hit in September was offset by materials and supplies being underspent in July by \$62.

Line 23 Depreciation is under \$387. This was due to an increase in net negative salvage going to maintenance expense and lower rates being used.
Line 24 Amortizations are over plan by (\$26).
Line 25 General taxes are under by \$75 due to a true-up of property tax expense for 2007 and 2008.

Other Income Deductions

Line 32 AFUDC equity is under plan mainly due to the correction of workorders setup as IPs not blankets.
Line 33 AFUDC debt is under plan mainly due to the correction of workorders setup as IPs not blankets.
Line 39 Miscellaneous income is under by (\$31) mainly due to a write off for damage to company property.
Line 41 Miscellaneous other deductions is over (\$33) mainly due to contributions.
Line 42 Over plan due to operating results and the correction of the tax on preferred dividends issue from prior years.
Line 43 Over plan primarily due to tax issue of \$170.
Line 47 Preferred dividend is under plan \$95 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.

Kentucky American Water
September 2008
(\$ in Thousands)

Variance Explanations - Income Statement
QTD Actual vs. Prior Year



AMERICAN WATER

Operating Revenues

Line 2 Water revenue is over prior year by \$2,470 mainly due to the December 2007 rate increase.

Operating Expenses

Line 5 Purchased water is over prior year by \$152 due to a top-side adjustment that was made in 2007 for no intra-company expense and reduced purchased water in the Northern district.

Line 6 Fuel & Power is over prior year (\$185) due to increased fuel costs.

Line 9 Labor is over prior year by (\$194) partially due to merit increases as well as new positions.

Line 16 Regulatory expense is under \$50 due to reduced rate case expenses and a longer amortization period than prior year.

Line 18 Customer accounting is over (\$112) due to an increase in uncollectible accounts.

Line 20 General Office is over prior year by (\$100) mainly due to relocation expenses.

Line 22 Other Maintenance Expense is over prior year by (\$250) primarily due to an increase in net negative salvage going to maintenance expense (\$153), and materials & supplies (\$70).

Line 23 Depreciation is under \$346. This was due to an increase in net negative salvage going to maintenance expense and lower rates being used.

Other Income Deductions

Line 29 Interest on long-term debt is over prior year (\$523) due to having increase in long-term debt from prior year.

Line 30 Interest on short-term debt is under prior year \$488 due to lower rates and decrease in short-term debt from prior year.

Line 42 Over prior year due to operating results.

Line 43 Over prior year partially due to tax issue of \$170 as well as operating results.

Sep QTD 2008
(\$ in Thousands)

	QTD Actuals	QTD Reforecast	Variance Favorable (Unfavorable)	% Variance	QTD Plan	Variance Favorable (Unfavorable)	% Variance	QTD P.T. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
1	16,673	16,187	487	3.01%	16,416	257	1.57%	14,203	2,471	17.40%
2	79	76	3	3.96%	72	8	10.83%	88	(9)	(10.07)%
3	671	630	40	6.42%	476	195	41.01%	861	10	1.47%
4	17,423	16,893	530	3.14%	16,963	460	2.71%	14,952	2,471	16.53%
OPERATIONS & MAINTENANCE EXPENSE										
PRODUCTION EXPENSES										
5	34	51	(17)	34.05%	164	131	79.55%	(119)	(152)	(128.48)%
6	1,022	1,004	(18)	(1.82)%	899	(123)	(13.69)%	837	(185)	(22.17)%
7	526	507	(19)	(3.74)%	507	(19)	(3.76)%	479	(47)	(6.74)%
8	67	78	(11)	13.91%	82	15	18.65%	51	(16)	(32.25)%
	1,643	1,640	(3)	(0.55)%	1,853	4	0.24%	1,249	(400)	(32.05)%
SALESLABOR & OVERHEAD										
9	1,669	1,612	(57)	(3.51)%	1,701	32	1.89%	1,475	(194)	(13.14)%
10	154	144	(10)	(6.94)%	130	(24)	(18.90)%	164	10	6.10%
11	418	434	16	3.78%	498	80	15.66%	458	40	8.78%
12	37	70	(33)	87.71%	61	(24)	39.34%	50	(11)	(21.56)%
	2,317	2,260	(57)	(2.52)%	2,387	70	2.93%	2,147	(170)	(7.92)%
Management fees										
13	921	868	(53)	(5.84)%	822	(99)	(12.09)%	1,876	955	50.90%
Shared business services										
14	969	1,013	44	4.54%	981	(12)	(1.22)%	981	12	1.22%
15	298	286	(12)	(4.20)%	208	(90)	(43.38)%	201	(89)	(8.98)%
	1,267	1,299	32	2.53%	1,189	(78)	(6.59)%	201	(1,088)	(540.56)%
Regulatory expense										
16	40	42	2	3.40%	137	97	70.71%	90	50	55.39%
17	124	130	6	4.21%	181	57	31.56%	158	34	21.43%
18	374	380	6	1.60%	415	41	9.86%	262	(153)	(36.95)%
19	5	3	(2)	(40.00)%	8	3	34.89%	7	(1)	(14.29)%
20	228	201	(27)	(12.38)%	114	(112)	(98.03)%	126	(100)	(78.92)%
21	410	430	20	4.88%	463	53	11.43%	471	61	12.87%
22	679	647	(32)	(4.98)%	574	(105)	(18.47)%	430	(244)	(59.19)%
	8,033	7,884	(149)	(1.89)%	7,942	(61)	(0.77)%	7,016	(1,017)	(14.49)%
Total operations and maintenance expenses										
23	1,410	1,502	92	6.12%	1,797	387	21.52%	1,756	346	19.68%
24	129	127	(2)	(1.22)%	103	(26)	(25.73)%	145	16	10.92%
	1,539	1,629	90	5.55%	1,899	360	18.96%	1,900	361	19.01%
General charges										
25	796	813	18	2.18%	871	75	8.63%	748	(48)	(6.36)%
27	10,368	10,327	(41)	(0.39)%	10,712	345	3.22%	9,665	(703)	(7.27)%
	7,055	6,566	(489)	(7.45)%	6,251	(804)	12.87%	5,287	1,768	33.45%
OTHER INCOME & DEDUCTIONS										
28	0	0	0	0.00%	-	0	0.00%	0	0	0.00%
29	1,411	1,411	0	0.03%	1,463	52	3.55%	888	(523)	(38.92)%
30	115	123	8	6.71%	275	160	58.14%	603	488	80.91%
31	0	0	0	100.00%	-	0	0.00%	0	0	0.00%
	1,526	1,534	8	0.56%	1,738	212	12.19%	1,481	(35)	(2.35)%
AFUDC - Equity										
32	187	372	(185)	(48.80)%	399	(212)	(53.03)%	248	(61)	(24.55)%
33	109	173	(64)	(37.06)%	181	(72)	(39.88)%	113	(4)	(3.56)%
34	23	21	(2)	(10.97)%	18	(5)	(28.58)%	18	(5)	(26.97)%
35	-	-	-	0.00%	-	-	0.00%	(20)	(20)	(100.00)%
Preferred dividends of subsidiaries (Consolidated)										
36	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
37	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
38	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
39	(31)	1	(32)	(3,468.27)%	-	(31)	(100.00)%	(21)	(10)	(48.48)%
	(31)	1	(32)	(3,468.27)%	-	(31)	(100.00)%	(21)	(10)	(48.48)%
Miscellaneous Amortization										
40	0	0	0	1,470.12%	43	(43)	(100.00)%	0	0	0.00%
41	76	59	(17)	(22.55)%	43	(33)	(75.94)%	26	(49)	(189.27)%
	76	59	(17)	(22.55)%	43	(33)	(75.94)%	26	(49)	(189.27)%
Total Other Deductions										
42	(107)	(59)	(48)	(82.57)%	(43)	(63)	(146.80)%	(47)	(59)	142.79%
	(1,359)	(1,069)	(290)	(27.18)%	(1,218)	(141)	(11.56)%	(1,214)	(145)	(11.90)%
Income (loss) before income taxes										
43	5,698	5,497	199	3.52%	5,033	664	13.19%	4,073	1,624	39.87%
44	332	314	(18)	(5.75)%	243	(89)	(36.77)%	228	(105)	(46.02)%
45	1,948	1,679	(269)	(16.04)%	1,070	(278)	(27.85)%	1,385	(563)	(40.64)%
46	(3)	(3)	0	0.00%	(4)	(1)	(25.00)%	(1)	1	97.06%
47	2,267	2,002	(265)	(13.20)%	1,856	(411)	(22.15)%	1,600	(667)	(41.66)%
48	3,430	3,495	(65)	(1.87)%	3,137	(293)	(9.34)%	2,473	957	38.72%
49	19	20	(1)	(5.26)%	115	(95)	(83.05)%	0	19	38.72%
	3,410	3,476	(66)	(1.93)%	3,022	(388)	(12.85)%	2,473	(338)	(10.31)%
	1,395	1,257	(138)	(10.97)%	1,118	(277)	(24.76)%	1,050	(345)	(32.84)%
	2,015	2,218	(203)	(9.16)%	1,904	112	5.86%	1,422	593	41.69%

Kentucky American Water
September 2008
(\$ in Thousands)
Variance Explanations - Income Statement
YTD Actual vs. Q3RF



Operating Revenues

Lines 2&4 Revenue is over by \$530. Water revenue is over \$487 and other revenue is over \$40.

Operating Expenses

Line 5 Purchased water is under by \$17 due to reduced purchased water in the Northern district.
Line 8 Waste Disposal is under by \$11 due to expired aged PO receipts that were reversed.
Line 13 Management fees are over (\$30) primarily due to Regional management fees.
Line 20 General Office is over (\$24) primarily due to cell phone accruals.

Other Income Deductions

Line 32 AFUDC equity is under plan mainly due to the correction of workorders that were set up as IPs not blankets.
Line 33 AFUDC debt is under plan mainly due to the correction of workorders that were set up as IPs not blankets.
Line 39 Miscellaneous income is under by (\$32) mainly due to a write off for damage to company property.
Line 42 Over due to operating results.

Kentucky American Water
September 2008
(\$ in Thousands)

Variance Explanations - Income Statement
YTD Actual vs. Plan



AMERICAN WATER

Operating Revenues

Lines 2&4 Revenue is over plan by \$799. Water revenue is over by \$371. Other revenue is over \$409 mainly due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under plan by \$373 due to no intra-company expense and reduced purchased water in the Northern district.
 Line 6 Fuel and power is over plan (\$307) mainly due to an increased fuel costs.
 Line 10 Pensions is over plan (\$109).
 Line 11 Group insurance is under plan \$209.
 Line 13 Management fees are over plan (\$423) primarily due to Corporate and Regional management fees.
 Line 16 Regulatory expense is under \$290 due to reduced rate case expenses and a longer amortization period than planned.
 Line 17 Insurance other than group is under \$211 due to retro adjustments and lower premiums.
 Line 18 Customer Accounting is under plan by \$111 due to favorable collectible expense.
 Line 20 General Office is over plan by (\$111) mainly due to relocation (\$80), and cell phone (\$31).
 Other Maintenance Expense is over plan by (\$134) primarily due to the increase in net negative salvage going to maintenance expense of (\$422) offset by paving expense being under plan by \$137, materials and supplies under plan by \$107, and miscellaneous maintenance expense under plan by \$36.
 Line 22 Depreciation is under \$893 due to the increased net negative salvage going to maintenance expense and the lower rates being used.
 Line 23 General taxes are under by \$269 due to a true-up of property tax expense for 2007 and 2008.
 Line 25

Other Income Deductions

Line 32 AFUDC equity is under plan mainly due to the correction of workorders set up as IPs not blankets.
 Line 33 AFUDC debt is under plan mainly due to the correction of workorders set up as IPs not blankets.
 Line 39 Miscellaneous income is under by (\$19) mainly due to a billing for damage to company property.
 Line 41 Miscellaneous other deductions is under \$50 mainly due to lobbying expense not utilized.
 Line 42 Over plan due to operating results and the correction of the tax on preferred dividends issue from prior years.
 Line 43 Over partially due to tax issue of \$170 as well as operating results and the correction of tax on preferred dividends issue from prior years.
 Line 47 Preferred dividend is under plan \$286 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.

Kentucky American Water
September 2008
(\$ in Thousands)

Variance Explanations- Income Statement
YTD Actual vs. Prior Year



Operating Revenues

Lines 2&4 Revenue is over prior year \$5,742. Water revenue is over \$5,504 due to the December 2007 rate increase. Other revenue is over \$263 mainly due to the change in collection/shut off policies that occurred in May 2007 resulting in increased reconnection fees.

Operating Expenses

Line 6 Fuel and power is over prior year (\$332) mainly due to increased fuel costs.
 Line 9 Labor is over prior year (\$497) mainly due to merit increases and new positions.
 Line 16 Regulatory expense is under \$91 due to reduced rate case expenses and a longer amortization period than prior planned.
 Line 20 General Office is over prior year by (\$182) mainly due to relocation (\$80), employee expenses (\$43), and cell phone (\$42).
 Lines 12,15&21 Miscellaneous is over prior year by (\$422) mainly due to materials & supplies (\$100), legal (\$62), contract services - other (\$63), transportation (\$143), and community relations (\$20).
 Line 22 Other Maintenance Expense is over prior year by (\$468) primarily due to the increase in net negative salvage going to maintenance expense of (\$335), and materials and supplies (\$124).
 Line 23 Depreciation is under \$699 due to the increased net negative salvage going to maintenance expense and the lower rates being used.

Other Income Deductions

Line 29 Interest on long-term debt is over prior year (\$958) due to having increase in long-term debt from prior year.
 Line 30 Interest on short-term debt is under prior year \$658 due to lower rates and decrease in short-term debt from prior year.
 Line 32 AFUDC equity is over due to capex timing.
 Line 39 Miscellaneous income is under by (\$149) mainly due to the M&J items in 2007.
 Line 42-46 Over prior year due to operating results.

	YTD Actuals	YTD Reforecast	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Ft. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
1	43,044	42,557	487	1.14%	42,729	315	0.74%	37,640	5,604	14.66%
2	231	228	3	1.33%	2,063	(376)	(18.28)%	2,087	(32)	(1.53)%
3	1,891	1,850	40	2.19%	1,427	464	32.53%	1,628	263	16.14%
4	45,166	44,636	530	1.19%	44,367	799	1.80%	39,424	5,742	14.56%
OPERATIONS & MAINTENANCE EXPENSE										
PRODUCTION EXPENSES										
6	87	105	17	16.55%	460	373	80.99%	88	1	1.31%
7	2,428	2,410	(18)	(0.76)%	2,063	(376)	(18.28)%	2,087	(32)	(1.53)%
8	1,264	1,245	19	1.52%	1,261	(3)	(0.28)%	1,225	(39)	(3.20)%
9	208	217	18	4.96%	224	16	7.26%	211	5	2.57%
10	3,968	3,977	(9)	(0.23)%	3,938	30	0.76%	3,622	364	10.06%
S&M LABOR & OVERHEAD										
11	4,891	4,834	57	(1.17)%	4,998	107	2.14%	4,384	(497)	(11.31)%
12	488	488	0	0.00%	488	0	0.00%	488	0	0.00%
13	1,297	1,298	(1)	(0.08)%	1,496	(199)	(13.33)%	1,313	(27)	(2.06)%
14	209	202	7	3.38%	177	32	17.84%	168	(41)	(24.34)%
15	6,874	6,817	57	(0.84)%	7,050	175	2.49%	6,346	(528)	(8.33)%
16	3,010	2,957	53	(1.80)%	2,669	(342)	(12.81)%	2,602	67	2.54%
17	2,969	3,013	(44)	(1.49)%	2,905	(64)	(2.20)%	2,802	103	3.68%
18	672	660	12	1.82%	647	25	3.86%	573	(74)	(11.29)%
19	3,661	3,673	(12)	(0.33)%	3,552	109	3.07%	3,133	(419)	(12.43)%
20	180	182	(2)	(1.10)%	470	290	61.62%	271	90	33.40%
21	333	339	(6)	(1.81)%	544	211	38.77%	413	80	19.37%
22	1,074	1,060	14	1.35%	1,187	113	9.51%	1,097	23	2.08%
23	23	26	(3)	(12.98)%	24	1	4.48%	23	0	(0.93)%
24	500	475	25	(5.23)%	389	111	(28.42)%	318	(182)	(57.24)%
25	1,325	1,345	(20)	(1.50)%	1,293	32	2.48%	1,043	(250)	(19.27)%
26	1,912	1,880	32	(1.71)%	1,753	159	8.89%	1,444	(283)	(17.11)%
27	22,381	22,732	(351)	(1.55)%	23,130	250	1.08%	20,762	(2,119)	(10.20)%
28	4,454	4,546	(92)	(2.07)%	5,346	893	16.70%	5,153	700	13.58%
29	384	383	1	0.26%	308	76	(24.73)%	378	(6)	(1.59)%
30	4,838	4,928	(90)	(1.83)%	5,654	817	14.44%	5,532	684	12.54%
31	2,330	2,348	(18)	(0.76)%	2,598	268	10.32%	2,194	(137)	(6.23)%
32	30,049	30,098	(49)	(0.16)%	31,383	1,334	4.25%	28,487	(1,562)	(5.48)%
33	15,117	14,928	189	1.27%	12,984	2,133	16.43%	10,937	4,180	38.22%
OTHER INCOME & DEDUCTIONS										
34	(6)	(6)	0	0.00%	-	6	0.00%	(127)	(121)	(95.40)%
35	4,285	4,285	0	0.00%	4,440	155	3.51%	3,326	(959)	(28.83)%
36	495	504	(9)	(1.84)%	601	105	17.54%	1,154	659	57.07%
37	-	0	0	100.00%	-	-	-	(38)	(38)	(100.00)%
38	4,774	4,793	(19)	(0.40)%	5,041	267	5.29%	4,315	(460)	(10.66)%
39	838	1,023	(185)	(18.04)%	810	28	3.51%	567	272	47.82%
40	360	444	(84)	(14.44)%	368	12	3.20%	267	122	47.51%
41	67	65	2	(3.43)%	54	(14)	(25.69)%	54	(13)	(23.64)%
42	-	-	-	-	-	-	-	(59)	59	100.00%
43	-	-	-	-	-	-	-	-	-	-
44	-	-	-	-	-	-	-	-	-	-
45	19	51	(32)	(62.97)%	(304)	70	23.06%	(87)	(147)	(89.77)%
46	0	0	0	0.00%	1	1	155.28%	0	0	0.00%
47	253	236	17	(6.51)%	303	50	16.60%	255	2	0.86%
48	252	236	16	(6.38)%	304	51	16.87%	255	2	0.86%
49	(234)	(185)	(48)	(26.01)%	(304)	363	8.61%	(3,691)	(1,666)	(4.51)%
50	(3,857)	(3,567)	(290)	(8.14)%	(4,220)	876	20.76%	7,246	4,014	55.39%
51	11,260	11,061	199	1.80%	8,764	2,496	28.48%	4,14	(295)	(71.12)%
52	709	691	18	(2.62)%	453	(255)	(56.28)%	414	(295)	(71.12)%
53	4,000	3,751	(249)	(6.22)%	2,940	(1,060)	(36.03)%	2,483	(1,517)	(61.08)%
54	(8)	(8)	0	0.00%	(25)	17	(66.88)%	9	784.05%	784.05%
55	(42)	(19)	23	118.46%	(97)	(55)	(56.57)%	13	55	433.65%
56	4,658	4,384	274	(6.02)%	3,272	(1,387)	(42.38)%	2,911	(1,747)	(60.01)%
57	6,602	6,667	(65)	(0.98)%	5,492	1,110	20.20%	4,335	2,267	52.29%
58	59	59	0	0.00%	345	(286)	(82.96)%	59	59	100.00%
59	6,543	6,609	(66)	(1.01)%	5,148	1,395	27.11%	4,335	2,208	50.94%
60	3,448	3,310	(138)	(4.01)%	2,715	(734)	(27.03)%	2,257	(1,191)	(62.78)%
61	3,095	3,288	(193)	(6.16)%	2,433	652	27.21%	2,078	1,017	48.94%

Kentucky American Water
September 2008
(\$ in Thousands)

Variance Explanations - Balance Sheet
YTD Actual vs. December 2007



AMERICAN WATER

Assets

Line 1 - 5 Utility plant - increase in capital spending primarily related to source of supply project.
 Line 9 Accounts receivable higher due to increased revenue.
 Line 11 Accrued utility revenue - increase is primarily due to higher average revenue amounts.
 Line 12 Other receivables variance is due to increased system miscellaneous accounts receivable.
 Line 13 Taxes receivable - it is no longer necessary to reclass the state income tax receivable item.
 Line 16 Other current assets increased due to an increase in deferred vacation pay.
 Line 24 Deferred tank painting costs decreased due to monthly amortization.
 Line 25 Deferred rate case - decrease is due to monthly amortization.
 Line 34 Other long-term assets increased \$337 due primarily to engineering clearing distribution OH.

Capital & Liabilities

Line 36 Paid in capital - \$8M equity infusion in March 2008 and \$8M equity infusion in June 2008.
 Line 42 Long term debt decreased due to the sinking fund payment of \$3.1M.
 Line 44 Short-term debt increase is primarily due to capital spending.
 Line 47 Accounts payable increased.
 Line 48 Taxes accrued decreased due to quarterly payment.
 Line 49 Interest accrued increased due to timing.
 Line 50 Other current liabilities increased \$628 primarily due to accrued power \$165, accrued wages \$140, incentive plan cash annual \$250 and municipal tax \$55.
 Line 52 Deferred income taxes increased
 Line 55 Accrued pension expense - timing of pension payments and the difference between accruals and payments.

Assets	Actuals	Retirecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Dec	Increase (Decrease)	% Variance
1 Utility Plant	362,163	359,733	2,431	0.7%	388,173	(26,010)	(6.7)%	345,341	16,822	4.9%
2 Construction Work in Progress	37,899	39,677	(1,778)	(4.5)%	21,987	15,912	72.4%	21,310	16,589	77.8%
3 Accumulated Depreciation	(83,724)	(84,835)	1,110	1.3%	(90,377)	6,653	7.4%	(80,435)	(3,280)	(4.1)%
4 Utility Plant Acquisition Adjustments	316	317	(1)	(0.3)%	318	(2)	(0.6)%	327	(11)	(3.2)%
5 Other Utility Plant Adjustments	-	-	-	-	-	-	-	-	-	-
Total Utility Plant	316,654	314,852	1,762	0.6%	320,101	(3,447)	(1.1)%	286,543	30,111	10.5%
6 Non-Utility Property	270	270	0	0.0%	260	250	8.2%	250	20	8.2%
Total property, plant and equipment	316,924	315,162	1,762	0.6%	320,360	(3,428)	(1.1)%	286,793	30,131	10.5%
7 Cash and Cash Equivalents	282	284	28	10.7%	5	5	1.8%	398	(106)	(26.7)%
8 Restricted funds	-	-	-	-	-	-	-	-	-	-
9 Utility customer accounts receivable	2,907	3,540	(634)	(17.9)%	3,029	(122)	(4.0)%	1,928	979	50.8%
10 Allowance for uncollectible accounts	(255)	(237)	(18)	(7.6)%	(288)	31	10.7%	(223)	(32)	(14.3)%
11 Accrued utility revenues	3,060	3,210	(150)	(4.7)%	2,960	100	3.4%	2,562	498	19.4%
12 Other receivables, net	289	310	(20)	(6.7)%	408	(119)	(28.1)%	196	93	47.5%
13 Taxes receivable, including federal income	-	0	0	0.0%	(2,670)	2,670	100.0%	388	(388)	(100.0)%
14 Materials and supplies	575	719	(144)	(20.0)%	584	(9)	(1.5)%	635	(60)	(9.4)%
15 Receivable from affiliated companies	15	13	(2)	(100.0)%	-	-	-	-	-	-
16 Other Current Assets	148	218	(69)	(31.8)%	193	(45)	(23.1)%	81	68	83.8%
Current Assets	7,016	8,037	(1,020)	(12.7)%	4,505	2,511	55.7%	5,965	1,052	17.6%
17 Regulatory assets - income tax recovery	3,078	6,421	(3,344)	(52.1)%	5,942	(2,864)	(48.2)%	6,385	(3,308)	(51.8)%
18 Debt and prepaid stock expense	818	790	28	3.5%	688	129	18.8%	848	(28)	(3.3)%
19 Deferred pension expense	-	-	-	-	-	-	-	-	-	-
20 Deferred postretirement benefit expense	-	-	-	-	-	-	-	-	-	-
21 Deferred security costs	-	-	-	-	-	-	-	-	-	-
22 Deferred business services project expans	-	-	-	-	-	-	-	-	-	-
23 Deferred integration costs	-	-	-	-	-	-	-	-	-	-
24 Deferred tank painting costs	1,673	1,869	(196)	(11.6)%	1,545	129	8.3%	1,859	(186)	(10.0)%
25 Deferred rate case	362	324	38	11.7%	198	164	82.9%	486	(124)	(25.5)%
26 Asset premium recoverable thru rates	-	-	-	-	-	-	-	-	-	-
27 Environmental remediation recoverable thr	-	-	-	-	-	-	-	-	-	-
Other Regulatory Assets	2,904	3,023	(119)	(3.9)%	3,309	(405)	(12.3)%	3,181	(277)	(8.7)%
Regulatory assets	8,834	12,227	(3,393)	(27.7)%	11,882	(2,847)	(24.4)%	12,753	(3,923)	(30.8)%
29 Other investments	-	-	-	-	-	-	-	-	-	-
30 Long term receivable from affiliate	-	-	-	-	-	-	-	-	-	-
31 Funds restricted for construction	-	-	-	-	-	-	-	-	-	-
32 Goodwill	-	-	-	-	-	-	-	-	-	-
33 Intangible assets	-	-	-	-	-	-	-	-	-	-
34 Other Long Term Assets	825	1,029	(204)	(19.8)%	437	388	88.6%	493	337	69.2%
Total Regulatory & Other LT Assets	9,659	13,256	(3,597)	(27.1)%	12,119	(2,460)	(20.3)%	13,245	(3,586)	(27.1)%
Total Assets	333,600	336,455	(2,855)	(0.8)%	336,974	(3,374)	(1.0)%	306,003	27,997	9.0%
Capital & Liabilities										
35 Common Stock	36,569	36,569	0	0.0%	36,569	0	0.0%	36,569	0	0.0%
36 Paid in Capital	24,113	24,113	4	0.0%	24,056	61	0.3%	24,056	16,061	189.4%
37 Retained Earnings	33,085	33,288	(203)	(0.6)%	31,781	1,304	4.1%	28,990	3,095	10.3%
38 Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
39 Unearned compensation	-	-	-	-	-	-	-	-	-	-
40 Treasury stock	-	-	-	-	-	-	-	-	-	-
Common stockholder's equity	93,771	93,970	(199)	(0.2)%	92,406	1,364	1.5%	74,615	19,156	25.7%
41 Preferred Stock without mandatory redemp	1,456	1,456	0	0.0%	1,467	(11)	(0.8)%	1,467	(11)	(0.8)%
42 Long term debt	76,700	76,700	0	0.0%	76,700	0	0.0%	79,800	(3,100)	(3.9)%
43 Redeemable preferred stock at redemption	4,500	4,500	0	0.0%	4,500	0	0.0%	4,500	0	0.0%
Total Capitalization	176,428	176,625	(199)	(0.1)%	175,073	1,353	0.8%	160,382	16,044	10.0%
44 Short Term Debt	23,835	22,980	885	3.9%	27,022	(3,187)	(11.8)%	19,356	4,479	23.1%
45 Current portion of Long-term Debt	3,100	3,100	0	0.0%	3,100	0	0.0%	3,100	0	0.0%
46 Current portion of redeemable stock at red	-	-	-	-	-	-	-	-	-	-
47 Accounts Payable	9,295	10,196	(900)	(8.8)%	7,150	2,145	30.0%	6,507	2,788	42.8%
48 Taxes Accrued	4,805	4,422	483	10.9%	4,461	444	9.9%	5,228	(322)	(6.2)%
49 Interest Accrued	1,910	1,909	1	0.0%	1,688	212	12.5%	1,143	766	67.0%
50 Total Other Current Liabilities	2,665	2,669	(4)	(0.1)%	5,608	(2,953)	(52.7)%	2,027	627	30.9%
Total Current Liabilities	45,689	45,246	453	1.0%	49,040	(3,340)	(6.8)%	37,362	8,338	22.3%
51 Customer Advances for Construction	14,298	14,309	(12)	(0.1)%	19,601	(5,303)	(27.1)%	14,853	(356)	(2.4)%
52 Deferred Income Taxes	37,323	36,504	819	2.2%	36,770	553	1.5%	32,877	4,446	13.5%
53 Deferred investment tax credits	1,154	1,162	(8)	(0.7)%	1,186	(24)	(2.0)%	1,218	(64)	(5.2)%
54 Regulatory liability-cost of removal	9,813	9,822	(9)	(0.1)%	8,221	1,592	19.4%	8,772	1,041	11.9%
55 Accrued pension expense	1,502	1,487	15	1.0%	1,705	(203)	(11.9)%	2,174	(672)	(30.9)%
56 Accrued postretirement benefit expense	412	212	200	94.1%	193	219	113.1%	384	28	7.2%
57 Other Deferred Credits	65,271	67,693	(2,422)	(3.4)%	67,898	(551)	(0.8)%	64,598	(3,827)	(5.9)%
Regulatory & Other Long Term Liabilities	46,203	48,990	(787)	(1.7)%	44,966	1,237	2.8%	43,585	2,618	6.0%
58 Contributions in aid of construction	33,600	33,655	(2,855)	(8.5)%	33,674	(3,374)	(10.0)%	306,003	27,997	9.0%
Total capital and liabilities	333,600	336,455	(2,855)	(0.8)%	336,974	(3,374)	(1.0)%	306,003	27,997	9.0%

Kentucky American Water
Oct. September 2008
(\$ in Thousands)
Variance Explanations
MTD Actual vs. Q3RF



AMERICAN WATER

Operating Revenues

Lines 1 & 3 Revenue is over by \$484. Water revenue is over \$439. Other revenue is over \$43 due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 18 Customer accounting is over (\$74) mainly due the uncollectible for D.F. Bailey of \$66. This was a duplicate payment to a vendor last year and most likely will not be collected.
Line 19 Rent is over (\$1) due to timing. September rent was underforecast.
Line 20 General Office is over (\$28) due to \$13 for travel for the board and NAWC meetings, \$8 for telephone, \$3 for janitorial, \$2 for electricity, \$1 for dues/memberships, and \$1 for general office supplies.
Line 25 Maintenance is over (\$54) due to the timing of a change in a ball valve. The dollars are in the Q3RF for November but were spent in October.

Other Income Deductions

Line 32 AFUDC equity due to true-up on WOs that should not have had AFUDC. Researching with S. Kelly.
Line 33 AFUDC debt due to true-up on WOs that should not have had AFUDC. Researching with S. Kelly.
Line 39 Miscellaneous income is over by \$33. The bill for the restoration work was paid in September, but the insurance company (USAA) was billed in October.
Line 41 Miscellaneous other deductions are over the reforecast (\$6) due mainly to a \$4 donation to Fayette Cty Public Schools.

Oct. Kentucky American Water
September 2008
(\$ in Thousands)
Variance Explanations
MTD Actual vs. Plan



AMERICAN WATER

Operating Revenues

Lines 1 & 3 Revenue is over plan by \$270. Water revenue is over by \$204. Other revenue is over \$64 mainly due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under plan by \$30 due to no intra-company expense and reduced purchased water in the Northern district.
 Line 6 Fuel and power is over plan by (\$46) due to higher energy costs.
 Line 7 Chemicals are over plan (\$80) due to the increased costs from the source water quality and an increase in chemical cost.
 Lines 12, 15 & 21 Miscellaneous expense is over plan (\$52) mainly due to \$25 postage for the mass mailing of the post cards explaining to customers how to read their water bill, \$14 transportation, \$7 conservation and \$6 supplies.
 Line 16 Regulatory expense is under \$32 due to reduced rate case expenses and a longer amortization period than planned.
 Line 18 Customer accounting is over (\$76) mainly due to the uncollectible for D.F. Bailey. This is the vendor that was paid twice last year.
 Line 19 Rent is over (\$1) due to timing. September was under plan.
 Line 20 General Office is over (\$39) due to \$13 for travel for the board and NAWC meetings, \$8 for telephone, \$6 credit line fees, \$3 for janitorial, \$2 for electricity, \$1 for dues/memberships, and \$1 for general office supplies.
 Line 22 Maintenance is over (\$127). \$66 is due to the timing of a change in a ball valve, \$49 is due to net negative salvage going to maintenance expense, and \$12 is for accruals for general contract work with Happy's General Contracting.
 Line 23 Depreciation is under \$134 due to the increased net negative salvage going to maintenance expense and the lower rates being used.

Other Income Deductions

Line 32 AFUDC equity due to true-up on WOs that should not have had AFUDC. Researching with S. Kelly.
 Line 33 AFUDC debt due to true-up on WOs that should not have had AFUDC. Researching with S. Kelly.
 Line 47 Preferred dividend is under plan \$32 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.

	MTD Actuals	MTD Reforecast	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Vr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
1	5,471	5,032	439	8.73%	5,267	204	3.87%	4,676	795	17.00%
2	24	22	2	8.85%	199	64	40.50%	206	69	(13.58)%
3	223	180	43	24.07%						7.86%
4										
	5,718	5,233	484	9.25%	5,448	270	4.96%	4,910	808	16.45%
OPERATIONS & MAINTENANCE EXPENSE										
PRODUCTION EXPENSES										
5	18	20	2	8.13%	49	30	62.00%	(3)	(21)	(747.55)%
6	318	322	4	1.26%	272	(46)	(16.74)%	328	8	4.03%
7	213	205	(8)	(3.90)%	133	80	60.51%	222	9	2.43%
8	273	271	2	(0.76)%	21	(2)	(8.76)%	(14)	10	(145.13)%
9	571	574	3	0.56%	476	(95)	(20.59)%	554	(18)	(3.27)%
10	54	43	(11)	(23.97)%	588	16	2.60%	532	(56)	(7.95)%
11	151	189	38	25.16%	43	(10)	(23.97)%	47	(13)	(30.76)%
12	22	18	(4)	(18.18)%	165	14	8.42%	142	(9)	(6.10)%
13	797	800	3	0.35%	812	15	1.82%	733	(64)	(8.75)%
14	309	289	(20)	(7.15)%	276	(33)	(11.85)%	641	332	51.75%
15	89	76	(13)	(17.14)%	337	(2)	(0.55)%	(339)	(19)	(27.19)%
16	428	413	(15)	(3.60)%	405	(23)	(5.82)%	70	(358)	(512.41)%
17	13	15	2	9.22%	46	32	70.62%	30	17	55.24%
18	48	50	2	5.15%	60	13	20.84%	54	6	11.52%
19	213	138	(75)	(35.21)%	136	(76)	(55.74)%	136	6	(66.80)%
20	60	32	(28)	(46.67)%	20	(39)	(196.14)%	55	(3)	(5.95)%
21	359	169	(190)	(53.20)%	132	(27)	(20.58)%	(171)	(11)	(1,486.80)%
22	168	281	113	67.26%	209	(127)	(60.58)%	146	(189)	(128.18)%
23	2,839	2,758	(81)	(2.85)%	2,575	(264)	(14.13)%	2,412	(427)	(17.87)%
24	469	562	93	19.83%	602	134	22.17%	595	126	21.23%
25	43	42	(1)	(2.33)%	34	(8)	(24.71)%	42	(1)	(1.58)%
26	511	604	93	18.37%	637	125	19.65%	637	126	19.73%
27	271	291	20	6.93%	291	20	6.93%	291	21	7.07%
28										
29	3,721	3,553	(168)	(4.51)%	3,593	(219)	(6.24)%	3,340	(381)	(11.41)%
30	1,996	1,560	(436)	(21.84)%	1,945	51	2.64%	1,570	427	27.18%
OTHER INCOME & DEDUCTIONS										
31	0	0	0	0.00%	488	17	3.55%	350	(120)	(34.40)%
32	470	471	1	0.08%	129	44	34.42%	88	88	44.44%
33	85	76	(9)	(11.19)%	0	0	0.00%	0	0	0.00%
34	0	0	0	0.00%	617	62	10.01%	502	(63)	(10.48)%
35	555	547	(8)	(1.49)%	212	(138)	(65.07)%	98	(12)	(13.95)%
36	74	188	114	154.05%	96	(80)	(83.33)%	38	(23)	(59.07)%
37	16	6	(10)	(62.50)%	6	(1)	(24.17)%	8	(1)	(22.87)%
38	7	6	(1)	(14.29)%	0	0	0.00%	59	59	100.00%
39	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
40	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
41	8	2	(6)	(75.00)%	7	(1)	(15.26)%	8	1	15.51%
42	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
43	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
44	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
45	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
46	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
47	924	796	(128)	(13.85)%	974	(50)	(5.12)%	720	204	23.34%
48	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
49	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
50	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
51	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
52	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
53	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
54	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
55	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
56	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
57	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
58	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
59	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
60	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
61	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
62	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
63	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
64	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
65	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
66	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
67	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
68	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
69	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
70	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
71	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
72	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
73	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
74	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
75	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
76	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
77	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
78	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
79	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
80	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
81	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
82	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
83	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
84	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
85	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
86	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
87	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
88	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
89	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
90	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
91	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
92	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
93	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
94	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
95	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
96	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
97	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
98	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
99	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
100	0	0	0	0.00%	0	0	0.00%	0	0	0.00%

Oct. Kentucky American Water
September 2008
(\$ in Thousands)
Variance Explanations
YTD Actual vs. Q3RF



AMERICAN WATER

Operating Revenues

Lines 1 & 3 Revenue is over by \$1,014. Water revenue is over \$926 and other revenue is over \$84 mainly due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under by \$19 due to reduced purchased water in the Northern district.
Line 20 General office expenses is over (\$53) mainly due to relocation expense.

Other Income Deductions

Line 32 AFUDC equity due to true-up on WOs that should not have had AFUDC. Researching with S. Kelly.
Line 33 AFUDC debt due to true-up on WOs that should not have had AFUDC. Researching with S. Kelly.

Kentucky American Water
Oct. September 2008
 (\$ in Thousands)
 Variance Explanations
 YTD Actual vs. Plan



Operating Revenues

Lines 1 & 3 Revenue is over plan by \$1,068. Water revenue is over by \$519. Other revenue is over \$528 mainly due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under plan by \$403 due to no intra-company expense and reduced purchased water in the Northern district.
 Line 6 Fuel and power is over (\$421) mainly due to increased fuel costs.
 Line 10 Pensions is over (\$119).
 Line 11 Group insurance is under \$223.
 Lines 13&14 Management fees are over (\$461) primarily due to Corporate and Regional management fees.
 Line 16 Regulatory expense is under \$322 due to reduced rate case expenses and a longer amortization period than planned.
 Line 17 Insurance other than group is under \$224 due to retro adjustments and lower premiums.
 Line 20 General office expense is over plan (\$150) mainly due to relocation \$80, cell phone \$34, travel \$26, \$7 office supplies.
 Line 22 Maintenance is over plan (\$246) mainly due to the increase in net negative salvage going to maintenance expense of (\$471) offset by paving expense being under plan by \$141 and miscellaneous maintenance being under plan by \$77.
 Line 23 Depreciation is under \$1,026 due to the increased net negative salvage going to maintenance expense and the lower rates being used.
 Line 25 General taxes are under by \$288 mainly due to a true-up of property tax expense for 2007 and 2008.

Other Income Deductions

Line 30 Interest on ST debt is under plan \$150 due to lower rates.
 Line 32 AFUDC equity due to true-up on WOs that should not have had AFUDC. Researching with S. Kelly.
 Line 33 AFUDC debt due to true-up on WOs that should not have had AFUDC. Researching with S. Kelly.
 Line 48 Preferred dividend is under plan \$318 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.

Kentucky with Growth
Oct YTD 2008
(\$ in Thousands)

	YTD Actuals	Ratio/Fcst	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pt. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
1	48,515	47,589	47,998	519	1.08%	42,216	6,289	14.92%
2	285	280	232	22	1.95%	284	(29)	(10.15)%
3	2,113	2,030	1,885	528	4.12%	1,834	279	15.22%
4	50,884	49,869	49,815	1,068	2.05%	44,334	6,549	14.77%
5	106	125	509	403	16.23%	86	(20)	(23.45)%
6	2,746	2,732	2,325	242	(0.51)%	2,422	(324)	(13.37)%
7	1,477	1,450	1,651	(84)	(1.86)%	1,447	(30)	(2.08)%
8	229	228	245	16	3.58%	221	(8)	(3.80)%
9	4,559	4,545	4,473	(86)	(0.29)%	4,176	(383)	(8.16)%
10	5,462	5,409	5,584	122	(0.99)%	4,925	(536)	(10.88)%
11	531	531	432	(20)	(3.83)%	512	(40)	(7.78)%
12	1,428	1,458	1,651	30	2.08%	1,456	28	1.92%
13	230	220	220	(11)	(4.82)%	220	(45)	(24.01)%
14	7,672	7,617	7,862	180	(0.71)%	7,079	(593)	(6.37)%
15	3,320	3,246	2,945	(74)	(2.28)%	2,625	2,933	46.91%
16	3,328	3,350	3,242	(22)	0.65%	(86)	(2,653)	(18.28)%
17	761	735	715	(26)	(3.40)%	643	(118)	(15.28)%
18	4,069	4,066	3,957	(3)	(0.08)%	643	(3,416)	(83.76)%
19	194	197	516	322	1.42%	301	107	35.58%
20	381	389	605	224	2.07%	467	86	18.46%
21	1,287	1,188	1,323	(89)	(7.41)%	1,232	(54)	(4.40)%
22	27	30	27	0	8.16%	25	(2)	(7.08)%
23	560	507	410	(53)	(10.42)%	374	(185)	(49.54)%
24	1,485	1,515	1,877	102	1.97%	1,651	(166)	(43.97)%
25	2,248	2,161	2,302	(87)	(4.00)%	1,951	(297)	(13.11)%
26	25,820	25,790	25,706	(30)	(1.29)%	23,174	(2,646)	(11.42)%
27	4,923	5,108	5,949	185	3.63%	5,749	826	14.37%
28	427	425	342	(2)	(0.52)%	420	(7)	(1.59)%
29	5,348	5,533	5,251	183	3.31%	5,169	819	13.28%
30	2,601	2,639	2,889	38	1.44%	(116)	2,485	(4.67)%
31	33,770	33,662	34,886	(109)	(0.32)%	31,828	(1,943)	(6.10)%
32	17,113	16,208	14,929	906	5.56%	12,507	4,607	36.63%
OTHER INCOME & DEDUCTIONS								
33	(6)	(6)	-	0	0.00%	(127)	(121)	(66.40)%
34	4,765	4,765	4,928	173	0.02%	3,676	(1,079)	(28.36)%
35	580	580	730	150	0.04%	1,306	726	55.60%
36	3,329	3,330	5,658	0	89.93%	(38)	(38)	(100.01)%
37	913	1,211	1,022	(299)	(24.66)%	653	(512)	(16.63)%
38	396	530	464	(134)	(25.29)%	286	89	33.44%
39	76	71	60	(4)	(5.22)%	60	(14)	(23.57)%
40	-	-	-	-	-	-	-	-
41	-	-	-	-	-	-	-	-
42	-	-	-	-	-	-	-	-
43	-	-	-	-	-	-	-	-
44	52	51	52	1	1.67%	180	(128)	(71.30)%
45	52	51	52	1	1.67%	180	(128)	(71.30)%
46	0	0	1	(2)	128.20%	0	0	0.00%
47	261	238	310	(22)	(9.40)%	264	4	1.47%
48	260	238	310	(22)	(8.52)%	264	4	1.47%
49	(209)	(187)	(310)	(21)	(11.39)%	(84)	(124)	(72.77)%
50	(4,304)	(3,847)	(4,541)	(457)	(11.88)%	(4,012)	(289)	(7.28)%
51	12,809	12,381	10,388	448	3.63%	8,494	4,315	50.80%
52	799	749	530	(50)	(6.66)%	485	(314)	(64.76)%
53	4,522	4,142	3,473	(380)	(9.18)%	2,870	(1,652)	(57.58)%
54	-	-	-	-	-	-	-	-
55	(7)	(8)	(26)	(1)	(12.41)%	9	605.49%	318.26%
56	(38)	7	(99)	45	602.41%	17	55	318.26%
57	5,277	4,800	3,684	(366)	(7.00)%	3,374	(1,903)	(65.40)%
58	7,532	7,470	6,508	62	0.83%	5,121	2,412	47.10%
59	65	65	383	0	(0.17)%	66	9	(0.56)%
60	7,467	7,405	6,121	62	0.84%	5,056	2,412	47.72%
61	3,448	3,310	2,715	(138)	(4.16)%	2,267	(1,191)	(62.78)%
62	4,019	4,094	3,407	(75)	(1.84)%	2,798	1,221	43.64%

Close Status: Day 7 +
Prelim Adj's & Ellims



AWFRP 2.0 - Result of Operations - Revenue Analysis

Revenue Variance Summary (\$ in Thousands)

	Budget		Forecast		Prior Year			
	MTD	QTD	MTD	QTD	MTD	QTD	YTD	YTD
Budget / Forecast / Prior Year	5,448	5,448	5,233	5,233	4,910	4,910	44,334	44,334
Rates	-	-	-	-	(5,578)	(5,578)	-	-
DSIC	-	-	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-	-	-
Water acquisitions	-	-	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-	-	-
Other	(60)	(60)	(40)	(40)	(263)	(263)	-	-
Fire	-	-	-	-	-	-	-	-
Organic growth	(25)	(25)	-	-	(120)	(120)	-	-
Demand / consumption	(17)	(17)	(487)	(487)	194	194	-	-
Sewer	(3)	(3)	(3)	(3)	25	25	-	-
Other Revenue Variances	375	375	1,014	1,014	6,550	6,550	6,549	6,549
Actual revenues	5,718	5,718	5,718	5,718	5,718	5,718	50,884	50,884
Total variance	270	270	484	484	808	808	808	6,549

Kentucky American Water
November 2008
(\$ in Thousands)
Variance Explanations
MTD Actual vs. Q3RF



AMERICAN WATER

Operating Revenues

Lines 1 & 3 Revenue is over by \$7. Water revenue is under (\$40) offset by other revenue which is over \$39 due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased Water is under reforecast \$7 due reduced purchased water in the Northern district.
Line 8 Waste disposal is over forecast (\$5) due to timing. YTD is fine.

Lines 12, 15 & 21 Miscellaneous expense is under forecast \$64 due being underspent in contract services \$21 (c/s acctg. \$2, c/s legal \$3, c/s other \$16), other operating \$4, temporary employees \$5, materials & supplies \$6, transportation \$26 (mainly due to the credit to transportation expense due to the change in OH percentage from 9% to 16%; \$18), advertising \$2, miscellaneous \$2, security \$2, offset by other benefits (ESOP) being over reforecast (\$4).

Line 22 Maintenance is under \$104. This is due to a true-up to the prepaid account \$13, materials and supplies \$25, miscellaneous \$8, def amort \$4, as well as due to timing of maintenance on equipment that was done in October but budgeted in the November forecast \$54. (October was over forecast (\$54).)

Other Income Deductions

Line 32 AFUDC equity is under reforecast (\$29) due to capex
Line 33 AFUDC debt under reforecast (\$12) due to capex
Line 41 Miscellaneous Other Deductions is over reforecast (\$3) mainly due to community donations.
Lines 42 & 43 Over due to operating results.



AMERICAN WATER

Operating Revenues

Lines 1 & 3 Revenue is over plan by \$15. Water revenue is under by (\$48) offset by other revenue which is over \$55 mainly due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 8 Waste Disposal is over plan (\$4) due to timing. If you look at YTD we are fine.
 Lines 12, 15 & 21 Miscellaneous expense is under plan by \$25 mostly due to the credit to transportation expense due to the change in OH percentage from 9% to 16%.
 Line 16 Regulatory expense is under \$32 due to reduced rate case expenses and a longer amortization period than planned.
 Line 20 General Office is over (\$6) due to credit line fees (\$3), telephone (\$8), offset by travel savings of \$5.

Line 22 Maintenance is over (\$25) due to increased net negative salvage of (\$50) offset by materials and supplies of \$10 and miscellaneous/paving of \$15.
 Line 23 Depreciation is under \$136 due to the increased net negative salvage going to maintenance expense and the lower rates.

Other Income Deductions

Line 32 AFUDC Equity is under plan (\$55) due to capex.
 Line 33 AFUDC Debt is under plan (\$24) due to capex.
 Lines 42-46 Over due to operating results.
 Line 47 Preferred dividend is under plan \$32 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.

	MTD Actuals	MTD Forecast	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
Water Revenues	4,728	4,788	(40)	(0.84)%	4,776	(48)	(1.01)%	3,572	1,156	32.36%
Sewer Revenues	30	20	10	50.00%	22	8	36.36%	2	28	8.74%
Other Operating Revenues	213	175	38	22.25%	159	55	34.63%	201	12	5.98%
Management Revenues	-	-	-	-	-	-	-	-	-	-
Operating Revenues	4,971	4,964	7	0.15%	4,955	15	0.31%	3,801	1,170	30.78%
OPERATIONS & MAINTENANCE EXPENSE										
PRODUCTION EXPENSES										
Purchased Water	10	17	7	38.65%	46	36	78.37%	13	9	48.67%
Fuel and Power	272	297	24	8.25%	248	(24)	(9.90)%	192	(6)	(42.15)%
Chemicals	183	150	17	11.22%	128	(5)	(4.09)%	107	(27)	(24.81)%
Waste Disposal	25	21	4	(18.25)%	3	(3)	(18.25)%	23	(2)	(9.28)%
Total production costs	440	485	44	9.11%	443	3	0.66%	340	(100)	(29.37)%
QA/M LABOR & OVERHEAD										
Labor	511	517	6	1.12%	529	18	3.37%	491	(20)	(4.14)%
Pensions	44	43	(1)	(2.89)%	40	(4)	(10.26)%	40	(4)	(10.26)%
Group Insurance	140	165	25	15.41%	165	25	15.41%	135	(4)	(3.08)%
Other benefits	21	17	(4)	(22.58)%	17	(4)	(22.58)%	15	(6)	(68.89)%
Total employee related	717	743	26	3.51%	765	38	5.05%	682	(34)	(5.03)%
Management fees	280	282	(9)	(3.14)%	286	(6)	(3.14)%	630	340	53.93%
Shared business services	320	310	10	(3.19)%	310	(10)	(3.19)%	-	(320)	-
Contracted services	34	64	30	47.04%	59	25	43.25%	49	15	31.05%
Total contracted services	353	373	20	5.37%	369	16	4.28%	49	(514)	(622.34)%
Regulatory expense	13	15	2	6.22%	48	32	70.62%	30	17	55.24%
Insurance Other Than Group	47	50	3	7.46%	60	14	22.77%	54	7	18.58%
Customer Accounting	137	134	(3)	(2.47)%	132	(5)	(3.73)%	97	(40)	(41.58)%
Rent	3	3	0	0.00%	3	0	0.00%	2	(1)	(69.15)%
General office expense	33	39	6	14.22%	27	(6)	(21.70)%	47	14	28.97%
Miscellaneous	124	162	38	23.26%	135	10	7.69%	147	23	18.74%
Maintenance	189	283	94	35.61%	164	(25)	(15.05)%	181	(8)	(4.20)%
Total operations and maintenance expense	2,347	2,577	230	8.92%	2,400	53	2.20%	2,260	(87)	(3.84)%
Depreciation	488	564	76	18.99%	604	116	22.48%	350	(119)	(33.91)%
Amortization	43	42	(1)	(1.11)%	34	(9)	(24.29)%	42	(1)	(3.81)%
Depreciation and amortization	511	606	95	15.71%	638	127	19.96%	392	(119)	(30.49)%
General taxes	263	286	23	8.22%	286	23	8.22%	283	(10)	(3.62)%
Impairment charges	-	-	-	-	-	-	-	-	-	-
Total operating expenses, net	3,151	3,469	318	9.18%	3,325	174	5.23%	2,934	(216)	(7.37)%
Operating income	1,821	1,465	356	21.82%	1,632	189	11.59%	867	964	110.09%
OTHER INCOME & DEDUCTIONS										
Interest income	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Interest on long-term debt	468	471	3	0.47%	488	19	3.92%	488	20	4.03%
Interest on Short-Term Bank Debt	84	97	13	13.40%	146	62	42.75%	46	(38)	(83.26)%
Other Interest Expense	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Total Interest expense	552	567	15	2.57%	634	82	12.89%	534	(18)	(3.44)%
AFUDC - Equity	188	217	29	(13.51)%	243	(55)	(22.65)%	82	106	128.12%
AFUDC Debt	86	98	12	(12.12)%	110	(24)	(21.83)%	37	49	131.35%
Amortization of Debt Expense	7	6	1	(14.29)%	6	(1)	(24.28)%	7	0	(1.91)%
Preferred dividends of subsidiaries (Consolidated)	-	-	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	(1)	0	1	100.00%	-	(1)	(100.00)%	16	(16)	(103.77)%
Total other income	(1)	0	1	100.00%	-	(1)	(100.00)%	16	(16)	(103.77)%
Miscellaneous Amortization	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Miscellaneous Other Deductions	14	11	3	(21.43)%	16	2	12.86%	7	(7)	(103.12)%
Total Other Deductions	14	11	3	(21.43)%	16	2	12.86%	7	(7)	(103.12)%
Other, net	(15)	(11)	4	(30.69)%	(16)	1	6.88%	9	(24)	(66.67)%
Total other income (deductions)	(300)	(269)	(31)	(11.53)%	(303)	3	0.88%	(413)	113	27.36%
Income (loss) before income taxes	1,521	1,226	295	23.07%	1,329	192	14.42%	454	1,067	236.10%
State Income Taxes	91	56	35	(38.36)%	63	(27)	(43.36)%	26	(65)	(263.03)%
Federal Income Taxes	521	395	126	(31.88)%	443	(78)	(17.59)%	154	(367)	(238.18)%
State income taxes (non-operating)	(1)	(1)	0	(42.11)%	(1)	(1)	(42.11)%	0	1	275.25%
Federal income taxes (non-operating)	(3)	24	27	(111.38)%	(5)	(2)	(47.61)%	4	6	175.11%
Provision (Benefit) for Income Taxes	608	474	134	(28.49)%	500	(98)	(21.74)%	184	(425)	(231.28)%
Net Income (loss)	912	752	160	21.29%	828	83	10.02%	270	642	237.68%
Preferred Dividend Declared	7	7	0	(0.75)%	38	(32)	(83.01)%	7	0	(0.75)%
Net Income To Common Stock	906	745	160	21.48%	791	115	14.52%	264	642	243.63%
Common Dividend Declared	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Current Year Retained Earnings	906	745	160	21.48%	791	115	14.52%	264	642	243.63%

Kentucky American Water
November 2008
(\$ in Thousands)
Variance Explanations
YTD Actual vs. Q3RF



AMERICAN WATER

Operating Revenues

Lines 1 & 3 Revenue is over by \$1,022. Water revenue is over \$886 due to stronger sales, partially offset by lower customer count, and other revenue is over \$123 mainly due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under by \$26 due to reduced purchased water in the Northern district.

Other Income Deductions

Line 32 AFUDC Equity is under reforecast (\$328) primarily due the correction of the incorrect coding on WOs.
Line 33 AFUDC Debt is under reforecast (\$146) primarily due to the correction of the incorrect coding on WOs.
Line 41 Miscellaneous Other Deductions is over reforecast (\$25) due to community donations.
Line 42 & 43 Over due to operating results



AMERICAN WATER

Kentucky American Water
November 2008
(\$ in Thousands)
Variance Explanations
YTD Actual vs. Plan

Operating Revenues

Lines 1 & 3 Revenue is over plan by \$1,084. Water revenue is over by \$470 due to stronger sales, partially offset by lower customer count. Other revenue is over \$583 mainly due to increased reconnection fees and increased collections for others.

Operating Expenses

Line 5 Purchased water is under plan by \$439 due to no intra-company expense and reduced purchased water in the Northern district.
Line 6 Fuel and power is over (\$446) mainly due to increased fuel costs.

Line 10 Pensions is over (\$121).

Line 11 Group insurance is under \$248.

Lines 13&14 Management fees are over (\$495) primarily due to Corporate and Regional management fees.

Line 16 Regulatory expense is under \$354 due to reduced rate case expenses and a longer amortization period than planned.

Line 17 Insurance other than group is under \$237 due to retro adjustments and lower premiums.

Line 20 General office expense is over plan (\$156) mainly due to relocation (\$79), credit line fees (\$37), telephone (\$44), travel (\$15), (\$6) office supplies offset by janitorial supplies \$3, trash removal \$1, water & waste water expense \$2, and dues/memberships \$4.

Line 22 Maintenance is over plan (\$271) mainly due to the increase in net negative salvage going to maintenance expense of (\$521) offset by paving expense being under plan by \$147 and miscellaneous/other maintenance being under plan by \$103.

Line 23 Depreciation is under \$1,162 due to the increased net negative salvage going to maintenance expense and the lower rates being used.

Line 25 General taxes are under by \$282 due to a true-up of property tax expense for 2007 and 2008.

Other Income Deductions

Line 30 Interest on ST debt is under plan \$212 due to lower rates.

Line 32 AFUDC Equity is under plan (\$165) due the correction of the incorrect coding on WOs.

Line 33 AFUDC Debt is under plan (\$17) due to the correction of the incorrect coding on WOs.

Lines 42-46 Over due to operating results, and \$170 tax adjustment

Line 48 Preferred dividend is under plan \$350 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.

Close Status: Final
financial source system
data w/ prelim adjts and
elim

	YTD Actuals	YTD Reforecast	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pct.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
1	53,242	52,357	52,772	886	1.69%	470	0.89%	16.28%
2	286	272	255	14	4.99%	30	11.82%	(8.46)%
3	2,207	2,204	1,744	583	5.56%	2,036	33.45%	14.31%
4	55,855	54,833	54,771	1,022	1.86%	1,084	1.98%	16.04%
OPERATIONS & MAINTENANCE EXPENSE								
OPERATION EXPENSES								
5	116	141	555	25	18.11%	439	79.11%	(10.21)%
6	3,019	3,023	2,573	446	0.35%	2,814	(7.32)%	(15.48)%
7	1,611	1,591	1,522	20	(0.69)%	(89)	(5.86)%	(9.65)%
8	4,959	2,539	267	5	1.82%	15	4.76%	(4.31)%
			4,916	31	0.61%	(93)	(1.70)%	(10.88)%
9	5,973	5,925	6,113	(48)	(0.80)%	140	2.29%	(10.27)%
10	586	574	475	(22)	(3.77)%	(121)	(25.41)%	(7.96)%
11	1,568	1,823	1,816	56	3.43%	248	13.67%	1.49%
12	252	237	212	(15)	(6.21)%	(39)	(18.61)%	(25.00)%
	3,388	3,360	3,616	(28)	(0.34)%	228	2.65%	(6.08)%
13	3,610	3,527	3,211	(83)	(2.35)%	(399)	(12.41)%	6.88%
14	3,648	3,660	3,652	12	0.32%	(96)	(2.70)%	(3.48)%
15	794	793	774	5	0.62%	(20)	(2.53)%	(14.79)%
	4,442	4,459	4,323	17	0.38%	(116)	(2.66)%	(84.87)%
16	207	211	4	4	1.96%	562	63.09%	37.37%
17	428	440	665	237	2.89%	351	35.89%	17.96%
18	1,424	1,332	(92)	(92)	(6.91)%	32	2.19%	(7.10)%
19	30	32	30	2	4.83%	(1)	(2.74)%	(3)
20	593	545	437	(47)	(6.69)%	(156)	(35.72)%	(40.63)%
21	1,609	1,677	1,721	68	4.03%	112	6.53%	(35.50)%
22	2,436	2,454	2,166	(18)	(0.72)%	(271)	(12.50)%	(37.52)%
	28,167	28,067	28,106	(100)	(0.36)%	(61)	(0.22)%	(10.74)%
23	5,391	5,372	6,653	281	4.96%	1,162	17.74%	11.60%
24	469	467	376	(3)	(0.62)%	(63)	(24.73)%	(1.59)%
	5,860	6,139	6,329	278	4.34%	1,089	16.43%	10.97%
25	2,894	2,923	3,175	32	1.08%	232	8.88%	(4.58)%
26	3,621	3,731	3,821	110	0.57%	1,250	3.37%	(6.21)%
27	18,934	17,702	16,561	1,232	6.96%	2,373	14.33%	41.58%
OTHER INCOME & DEDUCTIONS								
28	(6)	(6)	0	0	0.00%	6	0.00%	(95.40)%
29	5,223	5,226	5,415	3	0.06%	182	3.55%	(25.44)%
30	664	677	876	13	1.88%	212	24.24%	50.90%
31	0	0	0	0	0.00%	0	0.00%	(106.01)%
	5,881	5,897	6,291	16	0.27%	410	6.82%	(6.92)%
32	1,101	1,429	1,265	(328)	(22.97)%	(165)	(13.03)%	49.73%
33	482	528	575	(45)	(9.34)%	(83)	(16.14)%	44.38%
34	82	77	65	(6)	(6.70)%	(17)	(26.42)%	(21.25)%
35	-	-	-	-	-	-	-	-
36	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-
39	51	51	0	0	0.50%	51	0.00%	(73.92)%
	51	51	0	0	0.50%	51	0.00%	(73.92)%
40	0	0	327,448	1	0.00%	1	155.28%	0.00%
41	275	249	(25)	(25)	(10.16)%	51	15.75%	(1.20)%
	274	249	(25)	(25)	(10.04)%	52	16.05%	(1.20)%
42	(223)	(168)	(25)	(25)	(12.49)%	103	31.67%	(72.72)%
	(4,604)	(4,116)	(4,488)	488	(11.86)%	239	4.94%	(4.05)%
43	14,330	13,586	744	744	5.47%	11,717	25.39%	60.14%
44	890	806	(85)	(85)	(10.57)%	593	(50.04)%	(74.22)%
45	5,043	4,597	(506)	(506)	(11.16)%	3,922	(28.60)%	(66.78)%
46	(8)	(9)	(27)	(19)	(15.33)%	(19)	(70.82)%	548.67%
47	(60)	31	72	(281)	(28.71)%	(64)	(61.46)%	251.98%
	5,885	5,364	4,383	(521)	(8.84)%	(1,502)	(25.28)%	(66.43)%
48	8,445	8,222	7,334	891	2.70%	1,111	16.15%	56.65%
	72	72	0	0	(0.23)%	(350)	(82.97)%	(0.58)%
49	8,373	8,150	6,912	1,461	2.75%	1,461	21.13%	57.43%
	3,468	3,310	2,715	(158)	(4.81)%	(75)	(27.03)%	(52.78)%
	4,926	4,840	4,196	727	1.75%	727	17.32%	60.36%



AMERICAN WATER

Supplementary Tables and Discussion
Kentucky with Growth
Nov 2008

Close Status: Final
financial source system
data w/ prelim adjs and
elms

AWFRP 2.0 - Result of Operations - Revenue Analysis
Revenue Variance Summary (\$ in Thousands)

	Budget			Forecast			Prior Year		
	MTD	QTD	YTD	MTD	QTD	YTD	MTD	QTD	YTD
Budget / Forecast / Prior Year	4,956	10,404	54,771	4,964	10,197	54,833	3,801	8,711	48,135
Rates	0	0	0	0	0	0	7,265	1,687	7,265
DSIC	-	-	-	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-	-	-	-
Water acquisitions	-	-	-	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-	-	-	-
Other	583	523	583	123	83	123	291	28	291
Fire	-	-	-	-	-	-	-	-	-
Organic growth	(441)	(466)	(441)	(441)	(441)	(441)	466	346	466
Demand / consumption	912	895	912	1,326	839	1,326	(276)	(92)	(276)
Sewer	30	27	30	14	11	14	(26)	(1)	(26)
Other Revenue Variances	(1,069)	(694)	0	(1,015)	0	0	(6,550)	0	0
Actual revenues	4,971	10,689	55,855	4,971	10,689	55,855	4,971	10,689	55,855
Total variance	15	285	1,084	7	492	1,022	1,170	1,978	7,720



Kentucky American Water
December, 2008
(\$ in Thousands)
Variance Explanations
QTD Actual vs. Q3RF

Operating Revenues

Operating Expenses

Line 23 Depreciation is under reforecast (favorable) by \$294 due to lower actual composite depreciation rates and lower in-service balances.

Other Income & Deductions

Line 32 AFUDC equity is under reforecast by \$159. This is due to ST Debt levels vs CWIP balances



AMERICAN WATER

Kentucky American Water
December, 2008
(\$ in Thousands)
Variance Explanations
QTD Actual vs. Plan

Operating Revenues

Line 3 Other Operating revenue is over (favorable) by \$163, mainly due to Reconnection fees (-\$310), Initiated service fees (\$136), and Collection for others (\$291)

Operating Expenses

Line 22 Maintenance expense is higher than prior by \$234 (unfavorable) due to Net Negative Salvage (-\$150) and M&S Maintenance (-\$100)
Line 23 Depreciation is under plan (favorable) by \$410 due to lower actual composite depreciation rates and lower in-service balances.

Other Income & Deductions

Line 30 Interest on Short Term bank debt is lower than projected (favorable) by \$177. This is primarily due to lower rates.
Line 32 AFUDC equity is under plan by \$206. This is due to ST Debt levels and CWIP balances.



Operating Revenues

Line 1 Water revenues are higher (favorable) by \$1,808 due to higher Residential sales (\$920), Public authority sales (\$529) from rate increase, and Commercial sales (\$220).

Operating Expenses

Line 13 Management fees are lower than prior year (favorable) by \$1,020 due to Management Fees (\$917); Corporate-P13880 (\$217) and Regional fees (-\$120)

Line 18 Customer accounting is higher than prior year (unfavorable) by \$134 due to Uncollect Accounts (-\$68) and Uncollect Accts - MI's (-\$59)

Line 23 Depreciation is over PY due to a higher in-service balance and a depreciation credit booked in Q4, 2007 partially offset by higher depreciation rates in Oct and Nov.

Other Income & Deductions

Line 32 AFUDC equity is over PY by \$215 (favorable), due to CWIP balance.

Line 43 Federal income tax is higher than PY (unfavorable) by \$502. Variance explanations will be provided by the tax group.



	QTD Actuals	QTD Reforecast	QTD Plan	Variance Favorable (Unfavorable)	% Variance	QTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
1 Water Revenues	14,204	14,390	14,631	(176)	(1.23)%	12,396	(1,808)	(14.58)%
2 Sewer Revenues	78	66	84	12	18.03%	84	(6)	(7.00)%
3 Other Operating Revenues	638	529	478	110	20.73%	594	44	7.49%
4 Management Revenues								
Operating Revenues	14,920	14,974	15,173	(55)	(0.37)%	13,073	1,846	14.12%
OPERATIONS & MAINTENANCE EXPENSE								
PRODUCTION EXPENSES								
5 Purchased Water	38	57	144	105	33.48%	58	(20)	34.30%
6 Fuel and Power	815	859	741	(42)	(4.93)%	731	(86)	(11.71)%
7 Chemicals	485	487	376	110	22.73%	467	(20)	(3.90)%
8 Waste Disposal	64	70	71	5	7.82%	49	(15)	(30.93)%
Total production costs	1,404	1,472	1,332	(68)	(4.86)%	1,306	(96)	(7.59)%
O&M LABOR & OVERHEAD								
9 Labor	1,694	1,701	1,737	43	2.46%	1,554	(140)	(9.00)%
10 Pensions	125	130	130	5	3.63%	109	(15)	(14.15)%
11 Group Insurances	406	498	498	92	18.82%	372	(33)	(8.94)%
12 Other benefits	70	56	56	14	(23.51)%	54	(19)	(28.44)%
Total employee related	2,294	2,384	2,420	90	3.77%	2,090	(204)	(9.76)%
13 Management fees	888	893	819	(69)	(8.43)%	1,808	(920)	53.44%
14 Shared business services	1,043	976	978	(67)	(6.84)%	-	(1,043)	(6.52)%
15 Contracted services	209	185	182	27	(14.63)%	195	(13)	(6.52)%
Total contracted services	1,251	1,172	1,158	(80)	(6.78)%	195	(1,056)	(53.71)%
16 Regulatory expense	40	44	137	97	9.22%	103	63	60.88%
17 Insurances Other Than Group	157	163	181	25	13.62%	163	6	3.96%
18 Customer Accounting	462	404	399	(58)	(14.36)%	328	(234)	(40.69)%
19 Rents	12	(4)	(4)	8	(47.30)%	8	(4)	(55.70)%
20 General office expense	146	109	(72)	74	(34.28)%	153	7	4.35%
21 Miscellaneous	377	500	416	183	24.68%	261	(116)	(44.48)%
22 Maintenance	771	780	537	(243)	(23.31)%	791	20	2.48%
Total operations and maintenance expense	7,803	7,931	7,483	(320)	(4.21)%	7,306	(497)	(6.80)%
23 Depreciation	1,417	1,711	1,827	294	17.18%	1,134	(283)	(25.00)%
24 Amortization	128	126	103	(23)	(18.01)%	125	(2)	(1.60)%
25 Depreciation and amortization	1,545	1,837	1,930	384	15.89%	1,260	(285)	(22.66)%
26 General taxes	847	871	871	24	2.78%	864	17	1.98%
27 Impairment charges	10,195	10,638	10,284	444	4.17%	9,429	(765)	(8.12)%
Total operating expenses, net	4,725	4,336	4,869	(389)	(3.98)%	3,644	1,081	28.66%
OTHER INCOME & DEDUCTIONS								
28 Interest Income	0	0	-	0	0.00%	0	0	0.00%
29 Interest on long-term debt	1,409	1,412	1,463	54	3.87%	1,326	(83)	(5.95)%
30 Interest on Short-Term Bank Debt	266	203	443	237	35.92%	261	(6)	(1.90)%
31 Other Interest Expense	0	0	-	0	0.00%	0	0	0.00%
Total Interest Expense	1,675	1,705	1,806	231	12.10%	1,587	(88)	(5.54)%
32 AFUDC - Equity	491	650	697	206	(29.53)%	276	(215)	(77.94)%
33 AFUDC Debt	210	294	317	(84)	(26.56)%	127	(83)	65.14%
34 Amortization of Debt Expense	22	18	18	(4)	(24.22)%	21	(2)	(7.73)%
35 Preferred dividends of subsidiaries (Consolidated)	-	-	-	-	-	59	(59)	(100.00)%
36 Gain on sale of assets	-	-	-	-	-	-	-	-
37 Non-Operating Rental Income	-	-	-	-	-	-	-	-
38 Dividend Income - Common	-	-	-	-	-	-	-	-
39 Dividend Income - Preferred	-	-	-	-	-	-	-	-
Miscellaneous Income	38	0	38	38	0.00%	28	10	36.25%
Total other income	38	0	38	38	0.00%	28	10	36.25%
40 Miscellaneous Amortization	0	0	0	0	155.28%	0	0	0.00%
41 Miscellaneous Other Deductions	26	45	60	34	56.33%	64	38	59.23%
Total Other Deductions	26	45	60	34	56.33%	64	38	59.23%
Other, net	12	(45)	(90)	72	120.79%	(36)	48	(23.04)%
Total other income (deductions)	(984)	(823)	(970)	(14)	(1.44)%	(1,181)	198	16.72%
Income (loss) before income taxes	3,741	3,513	3,919	(178)	(4.63)%	2,463	1,278	51.90%
42 Federal Income Taxes	186	182	198	2	0.85%	174	(13)	(7.30)%
43 State Income Taxes	1,256	1,193	1,311	54	4.14%	755	(502)	(66.45)%
44 Federal Income Tax Savings Acquisition Adjustment	0	(4)	(2)	(2)	(82.75)%	(1)	(1)	(69.11)%
45 State Income Taxes (non-operating)	(3)	67	(10)	(7)	(70.52)%	(11)	(8)	(75.07)%
46 Provision (Benefit) for Income Taxes	1,440	1,388	1,487	47	3.17%	915	(523)	(67.12)%
47 Net Income (loss)	2,302	2,165	2,432	147	6.82%	1,547	765	48.81%
48 Preferred Dividend Declared	20	20	0	(95)	(83.01)%	79	(59)	(25.20)%
Net Income to Common Stock	2,282	2,135	2,317	147	6.89%	1,468	814	55.47%
Common Dividend Declared	2,555	2,575	2,449	(109)	(4.31)%	1,912	(643)	(33.51)%
Current Year Retained Earnings	(273)	(440)	(132)	(141)	(106.81)%	(444)	172	38.63%



AMERICAN WATER

Kentucky American Water
December, 2008
(\$ In Thousands)
Variance Explanations
YTD Actual vs. YTD Q3RF

Operating Revenues

Operating Expenses

Other Income & Deductions

Line 32 AFUDC equity is under reforecast by \$344. This is due mainly to correction of work orders that were originally set up as IPs not blankets
Line 33 AFUDC debt is under reforecast by \$148. This is due mainly to correction of work orders that were originally set up as IPs not blankets



Operating Revenues

Line 3 Other Operating revenue is over by \$627 (favorable), mainly due to Reconnection fees (-\$1,205), Collections for others (\$1,071) and Initiate Service fee (\$617).

Operating Expenses

Line 5 Purchased Water is lower than projected (favorable) by \$478. This is due to reduced PW Requirements
 Line 6 Fuel and Power is higher than plan (unfavorable) by \$451 due to fuel costs related to power generation (-\$293 Purchased Power P; -\$37 Purchased power TD; -\$117 Purchased Power WT)
 Line 11 Group Insurance is lower than plan (favorable) by \$302. Group Insurance B (-\$147); Capitalized credits (\$338) and PBOP (\$107)
 Line 13 Management fees expense is higher than plan (unfavorable) by \$411 due to increases in Corp \$228 and Regional \$183 higher direct charges
 Line 16 Regulatory expense is lower than plan (favorable) by \$387 due to reduced rate case expenses (\$399 Amort. Rate case) and a longer amortization period than planned
 Line 17 Insurance Other than Group expense is lower than plan (favorable) by \$236 (\$294 General Liab-Operating; -\$101 insurance AG)
 Line 20 General Office expense is higher than plan by \$182 (unfavorable) primarily due to Relocation expense (\$80), Telephone (\$40), and cell phone (\$83).
 Line 22 Maintenance expense is higher than prior by \$353 (unfavorable) due Net Negative Salvage (-\$572) and Paving/Backfill (\$130)
 Line 23 Depreciation is lower than plan (favorable) by \$1,303 due to Net Negative Salvage going to maintenance and lower rates being used (\$284 Dep exp-General; \$265 Amort CIAC tax; \$754 Amort CIAC non-tax)

Other Income & Deductions

Line 30 Interest on Short Term bank debt is lower than plan (favorable) by \$282. This is due to lower rates and decrease in short-term debt from plan.
 Line 32 AFUDC equity is under plan by \$177 (unfavorable). This is due mainly to correction of work orders that were originally set up as IPs not blankets
 Line 42 State income tax is higher than plan (unfavorable) by \$254. Variance explanations will be provided by the tax group.
 Line 43 Federal income tax is higher than plan (unfavorable) by \$1,005. Variance explanations will be provided by the tax group.



Operating Revenues

Line 1 Water Revenues is over prior YTD (favorable) by \$7,312, mainly due to Residential sales (\$3,373), Public authority sales (\$991), Commercial Sales (\$2,337) and Sales for Resale (\$301) generated from December 2007 rate increase.

Line 3 Other Operating revenue is over prior YTD (favorable) by \$307 due to Reconnection charges (\$201) and Collect for others (\$94)

Operating Expenses

Line 6 Fuel and Power is higher than prior (unfavorable) by \$417, due to fuel costs related to power generation (-\$71 Purchased Power WT; -\$24 Fuel and Power) Labor is higher than prior (unfavorable) by \$637. This is due to merit increases and new positions (-\$316 Administrative; -\$46 Super/Eng; -\$91 Operating; -\$83 maintenance) Management Fees are lower than prior year (favorable) by \$3,621. This is due to Management Fee/Corporate (\$3,161); Corp/P13880 (\$736) and Regional Mgmt Fees (-\$234) Regulatory expense is lower than prior (favorable) by \$153, due to reduced rate case expenses (\$166) and a longer amortization period than prior planned.

Line 20 General Office expense is higher than prior by \$175 (unfavorable) due to Relocation expense (\$80), Employee expense (\$41), and telecommunications (\$44).

Line 21 Miscellaneous expense is higher than prior by \$399 (unfavorable) due to Penalties/Non-deductible (-\$396) This was a credit in 2007 related to the release of a liability.

Line 22 Maintenance expense is higher than prior by \$448 (unfavorable) due to General Maintenance (-\$195) and Net Neg Salvage (-\$199)

Other Income & Deductions

Line 29 Interest on Long Term debt is higher than prior (unfavorable) by \$1,042. This is due to full year impact of LT debt issued mid-year 2007.

Line 30 Interest on Short Term bank debt is lower than prior (favorable) by \$654. This is due to lower rates and decrease in short-term debt from prior year.

Line 32 AFUDC equity is higher than prior YTD by \$487, primarily due to CWIP balance.

Line 33 AFUDC debt is higher than prior by \$205, primarily due to CWIP balance.

Line 39 Miscellaneous income is lower than prior YTD (unfavorable) by \$139; Pineville O&M contract collected a settlement true up amount in April 2007 (\$126).

Line 42 State income tax is higher than prior YTD (unfavorable) by \$307. Variance explanations will be provided by the tax group.

Line 43 Federal income tax is higher than prior YTD (unfavorable) by \$2,018. Variance explanations will be provided by the tax group.

	YTD Actuals	YTD Retire	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES											
Water Revenues	57,247	56,937	57,360	(310)	0.54%	57,360	(310)	0.20%	48,936	(8,424)	14.64%
Sewer Revenues	3,209	284	278	32	5.08%	278	32	11.37%	340	(61)	(9.09)%
Other Operating Revenues	2,628	2,378	1,802	826	6.31%	1,802	826	32.36%	2,222	400	13.33%
Operating Revenues	60,086	59,610	59,640	476	0.30%	59,640	476	0.92%	52,498	7,142	14.45%
OPERATIONS & MAINTENANCE EXPENSE											
PRODUCTION EXPENSES											
Purchased Water	128	182	604	(476)	22.55%	604	(476)	79.20%	147	457	14.37%
Fuel and Power	3,245	3,269	2,794	475	0.74%	2,794	475	(16.12)%	2,828	(34)	(4.76)%
Chemicals	1,749	1,732	1,637	167	(1.00)%	1,637	167	(6.84)%	1,682	(45)	(3.39)%
Waste Disposal	270	287	235	52	5.68%	235	52	8.28%	281	(6)	(3.72)%
Total production costs	5,590	5,449	5,330	141	1.03%	5,330	141	(1.13)%	4,927	403	(8.41)%
O&M LABOR & OVERHEAD											
Labor	6,585	6,535	6,735	150	(0.77)%	6,735	150	2.22%	5,948	787	(10.71)%
Pensions	823	817	518	304	(0.86)%	518	304	(20.14)%	580	238	(7.36)%
Group Insurances	1,682	1,792	1,984	(302)	8.09%	1,984	(302)	15.21%	1,886	98	0.20%
Other benefits	278	233	243	35	(6.15)%	243	35	(19.67)%	222	121	(28.34)%
Total employees related	9,169	9,202	9,470	301	0.36%	9,470	301	3.18%	8,436	1,034	(8.69)%
Management fees	3,899	3,841	3,488	403	(1.52)%	3,488	403	(11.78)%	7,520	(4,032)	48.15%
Shared business services	4,032	3,989	3,881	108	(1.08)%	3,881	108	(3.80)%	-	(4,032)	-
Contracted services	881	855	829	52	(2.80)%	829	52	(6.21)%	789	40	(11.11)%
Total contracted services	4,813	4,845	4,710	143	(1.40)%	4,710	143	(4.30)%	769	4,141	(538.62)%
Regulatory expense	221	228	607	(386)	2.44%	607	(386)	63.66%	374	233	46.88%
Insurance Other Than Group	480	502	728	(248)	2.34%	728	(248)	32.46%	577	151	18.01%
Customer Accounting	1,538	1,464	1,586	72	(4.94)%	1,586	72	3.15%	1,425	161	(7.77)%
Rents	35	35	3	32	(1.05)%	3	32	(8.47)%	30	3	(4.00)%
General office expense	646	584	484	162	(10.54)%	484	162	(39.30)%	471	113	(14.62)%
Miscellaneous	1,702	1,846	1,870	(74)	7.78%	1,870	(74)	9.00%	1,303	567	(30.58)%
Maintenance	2,884	2,671	2,330	554	(0.49)%	2,330	554	(15.16)%	2,235	99	(20.05)%
Total operations and maintenance expense	30,684	30,663	30,614	70	(0.07)%	30,614	70	(0.23)%	28,088	2,526	(9.32)%
Depreciation	5,871	6,266	7,173	(1,302)	6.17%	7,173	(1,302)	18.16%	6,287	886	6.62%
Amortization	512	509	411	98	(0.70)%	411	98	(24.73)%	504	(93)	(1.59)%
Depreciation and amortization	6,383	6,765	7,584	(821)	5.65%	7,584	(821)	15.84%	6,791	793	6.01%
General taxes	3,177	3,219	3,488	292	1.30%	3,488	292	8.43%	3,057	431	(3.91)%
Impairment charges	40,243	40,647	41,667	(424)	4.93%	41,667	(424)	3.42%	37,816	3,851	(6.14)%
Total operating expenses, net	19,842	18,964	17,873	1,869	4.63%	17,873	1,869	11.02%	14,581	5,292	36.08%
OTHER INCOME & DEDUCTIONS											
Interest Income	(6)	(6)	-	6	0.00%	-	6	(121)	(127)	(85.40)%	
Interest on long-term debt	5,953	5,957	5,903	54	0.08%	5,903	54	3.55%	4,652	1,251	(22.38)%
Interest on Short-Term Bank Debt	762	737	1,044	(282)	4.39%	1,044	(282)	27.04%	1,418	(374)	46.18%
Other Interest Expense	0	0	0	0	69.93%	0	0	(38)	(38)	(100.01)%	
Total Interest Expense	6,449	6,488	6,947	(499)	0.59%	6,947	(499)	7.16%	5,902	545	(9.28)%
AFUDC - Equity	1,330	1,344	1,507	(173)	(20.54)%	1,507	(173)	(11.78)%	843	664	57.75%
AFUDC Debt	589	737	684	53	(20.07)%	684	53	(13.87)%	384	300	55.34%
Amortization of Debt Expense	80	83	71	12	(7.95)%	71	12	(25.32)%	75	(4)	(19.28)%
Preferred dividends of subsidiaries (Consolidated)	-	-	-	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	57	51	6	51	12.65%	6	51	(139)	195	(70.88)%	
Total other income	67	51	57	16	12.65%	57	16	(139)	186	(70.69)%	
Miscellaneous Amortization	0	0	1	1	1,470.12%	1	1	155.25%	0	1	0.00%
Miscellaneous Other Deductions	279	281	363	(84)	0.81%	363	(84)	23.14%	319	44	12.66%
Total Other Deductions	278	281	363	(85)	0.95%	363	(85)	23.42%	319	40	12.66%
Other, net	(221)	(230)	(363)	142	3.95%	(363)	142	39.15%	(122)	(99)	(83.52)%
Total other income (deductions)	(4,841)	(4,390)	(5,190)	349	(10.27)%	(5,190)	349	6.73%	(4,872)	31	0.64%
Income (loss) before income taxes	15,001	14,574	12,683	2,891	12.65%	12,683	2,891	18.28%	9,709	5,292	54.51%
Federal Income Taxes	895	852	641	253	(5.03)%	641	253	(39.64)%	588	304	(52.28)%
State Income Taxes	5,250	4,863	4,251	609	(5.06)%	4,251	609	(23.05)%	3,238	1,013	(62.34)%
State income taxes (non-operating)	(9)	(12)	(27)	18	(28.01)%	(27)	18	(68.30)%	9	18	4,987.08%
Tax Saving Acquisition Adjustment	(45)	48	(107)	62	193.80%	(107)	62	(57.81)%	1	108	3,304.91%
Provision (Benefit) for Income Taxes	6,098	5,751	4,768	1,333	(6.02)%	4,768	1,333	(28.15)%	3,827	2,271	(59.32)%
Net income (loss)	8,904	8,822	7,925	897	9.92%	7,925	897	12.35%	5,882	3,043	51.38%
Preferred Dividend Declared	78	79	480	(402)	(0.27)%	480	(402)	(62.97)%	79	0	(0.59)%
Net Income To Common Stock	8,826	8,743	7,445	1,301	9.94%	7,445	1,301	13.22%	5,803	3,022	52.03%
Common Dividend Declared	8,003	5,885	5,164	2,819	(2.00)%	5,164	2,819	(16.25)%	4,169	1,650	(43.98)%
Current Year Retained Earnings	2,022	2,859	2,301	521	(1.27)%	2,301	521	22.65%	1,634	667	72.75%



AMERICAN WATER

Kentucky American Water
Dec-08
(\$ in Thousands)
Variance Explanations
YTD Actual vs. Prior YTD

Assets

Line 2 Construction work in Progress is higher than prior year by primarily driven by the Water Treatment plant (\$42M) partially offset by other CWIP balance change.
 Line 7 Cash and cash equivalent is lower than prior year by \$164. (-\$112 Deutsche Bank; -\$29 Cash-Mellon lockbox; -\$23 Cash-Intransit)
 Line 9 Utility customer accounts receivable increased by \$414, primarily due to higher rates and an increase in DSO.
 Line 11 Accrued utility revenues is higher than prior year by \$338 due to higher average revenue amounts
 Line 12 Other receivables, net is higher by \$215 due to increased system miscellaneous accounts receivable (\$299 misc A/R; -\$44 Medicare subsidy; -\$83 Provision for uncollect; \$43 A/R Retro ins)
 Line 13 Taxes receivable is lower than last year by \$388 due to SIT refund receivable at year-end 2007.
 Line 16 Other current assets increased by \$330 due to an increase in prepaid taxes (\$291) and prepaid other (\$34)
 Line 28 Other Regulatory Assets is less than prior year by \$422 due to amortizations.
 Line 34 Other Long Term Assets is lower than prior year by \$362, balance is \$0 as of December 2008

Liabilities

Line 36 Paid in Capital is higher than prior year by \$16,070 due to \$16M equity infusion (\$8M in each March/June)
 Line 44 Short term debt is higher by \$3,750 due to capital spending related to the Water Treatment Plant
 Line 47 Accounts payable is higher than prior year by \$1,938 (-\$341 A/P General; \$247 Contract Retention; \$1,856 A/P projected expense accrual)
 Line 48 Taxes accrued is lower than prior year by \$5,536. Variance explanations will be provided by the tax group. (-\$1,937 local property tax; -\$3,750 FIT accrual; -\$270 SIT accrual; \$390 Sales and Use tax)
 Line 50 Total Other Current Liabilities is higher than prior year by \$2,442 due to accrued power (\$38), accrued wages (\$50), advances for construction (current) (\$2,500); Accrued vacation pay (\$46);
 Accrued waste disposal (\$50); accrued legal (-\$85); Accrued bank fees (-\$33); and Accrued Rent (-\$12)
 Line 51 Customer Advances for Construction is lower than prior year by \$2,737
 Line 52 Deferred Income Tax is higher than prior year by \$4,994 detail following from tax department.
 Line 54 Regulatory liability is higher by \$983 primarily due to cost of removal.
 Line 55 Accrued pension expense is lower by \$785 than prior year due to a timing of pension payments.
 Line 57 Other Deferred Credits are lower than prior year by \$614 (-\$248 Def Compensation costs; -\$130 other deferred credits; -\$113 def FIT; -\$74 SIT; -\$49 ITC Gross up 3%)

Account	Actuals	Reforecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Dec	Increase (Decrease)	% Variance
1 Utility Plant	369,486	370,515	(1,030)	(0.3)%	408,049	(38,563)	(9.5)%	345,341	24,144	7.0%
2 Construction Work in Progress	54,501	48,093	6,408	13.3%	21,310	32,783	147.9%	33,191	21,589	155.8%
3 Accumulated Depreciation	(64,213)	(66,752)	2,539	(2.9)%	(92,585)	8,373	9.0%	(80,435)	(3,778)	(4.7)%
4 Utility Plant Acquisition Adjustments	305	312	(7)	(2.3)%	313	(8)	(2.6)%	327	(22)	(6.8)%
5 Other Utility Plant Adjustments	-	-	-	-	-	-	-	-	-	-
Total Utility Plant	340,079	332,168	7,911	2.4%	337,762	2,316	0.7%	286,543	53,535	18.7%
6 Non-Utility Property	270	270	0	0.0%	250	20	8.2%	250	20	8.2%
Total Property, plant and equipment	340,349	332,438	7,911	2.4%	338,012	2,337	0.7%	286,793	53,556	18.7%
7 Cash and Cash Equivalents	264	264	(0)	(11.2)%	266	(2)	(0.8)%	398	(164)	(41.2)%
8 Restricted funds	-	-	-	-	-	-	-	-	-	-
9 Utility customer accounts receivable	2,342	2,918	(576)	(19.7)%	2,322	21	0.9%	1,928	414	21.5%
10 Allowance for uncollectible accounts	(273)	(237)	(36)	(15.3)%	(266)	(7)	(2.7)%	(223)	(44)	(20.1)%
11 Accrued utility revenues	2,800	3,210	(410)	(14.7)%	2,860	(60)	(2.1)%	2,562	338	13.2%
12 Other receivables, net	412	310	102	32.8%	408	4	1.0%	215	197	91.7%
13 Taxes receivable, including federal income	0	0	0	0.0%	(2,670)	2,670	100.0%	388	(388)	(100.0)%
14 Materials and supplies	577	719	(142)	(19.7)%	584	(7)	(1.1)%	655	(68)	(10.4)%
15 Receivable from affiliated companies	1	13	(12)	(96.7)%	-	13	100.0%	-	13	100.0%
16 Other Current Assets	411	218	193	88.8%	193	218	112.9%	81	330	409.0%
Current Assets	6,603	7,416	(811)	(10.9)%	3,797	2,806	73.9%	5,965	639	10.7%
17 Regulatory assets - income tax recovery	3,230	6,376	(3,146)	(49.3)%	5,921	(2,691)	(42.5)%	6,385	(3,155)	(49.4)%
18 Debt and preferred stock expense	795	772	23	3.0%	765	30	4.0%	846	(60)	(6.0)%
19 Deferred pension expense	-	-	-	-	-	-	-	-	-	-
20 Deferred postretirement benefit expense	-	-	-	-	-	-	-	-	-	-
21 Deferred security costs	-	-	-	-	-	-	-	-	-	-
22 Deferred business services project expense	-	-	-	-	-	-	-	-	-	-
23 Deferred integration costs	-	-	-	-	-	-	-	-	-	-
24 Deferred tank painting costs	1,737	1,589	138	8.7%	1,474	263	17.8%	1,859	(122)	(6.6)%
25 Deferred rate case	554	279	274	98.2%	80	474	816.4%	485	68	14.0%
26 Asset premium recoverable thru rates	-	-	-	-	-	-	-	-	-	-
27 Environmental remediation recoverable thru	-	-	-	-	-	-	-	-	-	-
28 Other Regulatory Assets	2,760	2,893	(133)	(4.9)%	3,179	(420)	(13.2)%	3,181	(422)	(13.3)%
Regulatory assets	9,076	11,919	(2,843)	(23.9)%	11,100	(2,024)	(18.2)%	12,758	(3,682)	(28.9)%
29 Other Investments	-	-	-	-	-	-	-	-	-	-
30 Long term receivable from affiliate	-	-	-	-	-	-	-	-	-	-
31 Funds restricted for construction	6	6	0	0.0%	6	0	0.0%	6	0	0.0%
32 Goodwill	-	-	-	-	-	-	-	-	-	-
33 Intangible assets	-	-	-	-	-	-	-	-	-	-
Other Long Term Assets	126	1,029	(903)	(87.8)%	437	(312)	(71.3)%	488	(362)	(74.2)%
Total Regulatory & Other LT Assets	9,202	12,948	(3,746)	(28.9)%	11,538	(2,333)	(20.2)%	13,246	(4,038)	(30.5)%
Total Assets	358,160	352,801	5,359	1.0%	353,347	2,813	0.8%	306,003	50,157	16.4%
Capital & Liabilities										
35 Common Stock	36,569	36,569	0	0.0%	36,569	0	0.0%	36,569	0	0.0%
36 Paid in Capital	24,127	24,113	14	0.1%	24,068	70	0.3%	8,056	16,070	198.5%
37 Retained Earnings	32,812	32,848	(36)	(0.1)%	31,649	1,163	3.7%	29,990	2,822	9.4%
38 Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
39 Unearned compensation	-	-	-	-	-	-	-	-	-	-
40 Treasury stock	-	-	-	-	-	-	-	-	-	-
Common stockholder's equity	93,507	93,530	(23)	0.0%	92,274	1,233	1.3%	74,615	18,893	25.3%
41 Preferred Stock without mandatory redemp	1,456	1,456	0	0.0%	1,467	(11)	(0.8)%	1,467	(11)	(0.8)%
42 Long term debt	76,700	76,700	0	0.0%	76,700	0	0.0%	79,800	(3,100)	(3.9)%
43 Redeemable preferred stock at redemption	4,500	4,500	0	0.0%	4,500	0	0.0%	4,500	0	0.0%
Total Capitalization	176,163	176,186	(23)	0.0%	174,941	1,222	0.7%	160,382	16,781	9.8%
44 Short Term Debt	53,105	43,333	9,772	22.8%	48,138	7,969	17.7%	19,356	33,750	174.4%
45 Current portion of Long-term Debt	3,100	3,100	0	0.0%	3,100	0	0.0%	3,100	0	0.0%
46 Current portion of redeemable stock at red	-	-	-	-	-	-	-	-	-	-
47 Accounts Payable	8,445	7,074	1,371	19.4%	4,598	3,847	83.7%	6,507	1,938	29.8%
48 Taxes Accrued	(308)	(2,103)	(1,795)	(114.7)%	(2,157)	(2,466)	(114.3)%	(5,228)	(5,536)	(105.9)%
49 Interest Accrued	1,150	1,150	0	0.0%	1,662	(512)	(30.8)%	1,143	6	0.6%
Total Other Current Liabilities	4,470	2,795	1,675	59.9%	3,410	1,060	31.1%	2,027	2,442	120.5%
Total Current Liabilities	69,963	59,554	10,409	17.8%	60,065	9,897	16.5%	37,562	32,001	87.3%
51 Customer Advances for Construction	11,916	15,137	(3,221)	(21.3)%	21,052	(9,136)	(43.4)%	14,653	(2,737)	(18.7)%
52 Deferred Income Taxes	37,871	37,126	745	2.0%	37,391	480	1.3%	32,877	4,994	15.2%
53 Deferred investment tax credits	1,133	1,137	(4)	(0.4)%	1,161	(28)	(2.4)%	1,218	(65)	(5.3)%
54 Regulatory liability	9,755	10,185	(430)	(4.2)%	8,221	1,534	18.7%	8,772	983	11.2%
55 Accrued pension expense	1,389	1,315	74	5.6%	1,534	(144)	(9.4)%	2,174	(765)	(36.1)%
56 Accrued postretirement benefit expense	418	212	206	87.0%	193	219	116.4%	384	34	8.8%
57 Other Deferred Credits	63,279	69,209	(5,930)	(8.7)%	69,772	(6,553)	(23.6)%	64,575	(3,860)	(4.0)%
Regulatory & Other Long Term Liabilities	47,853	47,853	(1,039)	(2.2)%	48,599	(1,754)	(3.6)%	43,565	3,230	7.4%
Contributions in aid of construction	352,801	352,801	0	0.0%	353,347	(2,813)	(0.8)%	306,003	50,157	16.4%



Supplementary Tables and Discussion
Kentucky with Growth
Dec 2008

Close Status: Final
source system financial
data

AWFRP 2.0 - Result of Operations - Revenue Analysis

Revenue Variance Summary (\$ in Thousands)

	Budget		Forecast		Prior Year	
	MTD	QTD	MTD	QTD	MTD	QTD
Budget / Forecast / Prior Year	4,769	15,173	4,777	14,974	4,362	13,073
Rates	0	0	0	0	(7,265)	(5,578)
DSIC	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-
Water acquisitions	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-
Other	(583)	(60)	(123)	(40)	(291)	(263)
Fire	-	-	-	-	-	-
Organic growth	441	(25)	441	0	(466)	(120)
Demand / consumption	(912)	(17)	(1,326)	(487)	276	194
Sewer	(30)	(3)	(14)	(3)	26	25
Other Revenue Variances	546	(147)	475	475	7,588	7,588
Actual revenues	4,231	14,920	4,231	14,920	4,231	14,920
Total variance	(538)	(253)	(547)	(55)	(132)	1,846
		546		475		7,588
		60,086		60,086		60,086



AMERICAN WATER

Kentucky American Water
Jan-09
(\$ in Thousands)
I/S Variance Explanations
MTD Actual vs. Plan

Operating Revenues

Line 1 Revenue is down for January. Residential, Commercial and Industrial Usage were below Plan. OPA revenues were also negatively impacted by the reversal of December's unbilled accrual \$95k

Operating Expenses

Line 6 Fuel and Power was lower than Plan primarily due to lower system delivery
Line 7 Chemical costs are lower than Plan due to reduced usage
Line 10 Pensions/OPEBs are higher than budget. Plan was \$50 and actual is \$135
Line 13 Management fees have \$18k unfavorable posting due to correction of true-up from last year. Insurance costs were being amortized over a 2 year period, but should have been only on one year. An adjustment was made in January to cover the unamortized amount. Increased Pension and O/S Services costs were also unfavorable.
Line 21 Miscellaneous costs are lower than Plan primarily due to lower overall Transportation Costs.
Line 23 Depreciation Expenses are favorable based on an overall lower composite depreciation rate. In Service Utility Plant is virtually equal to Plan

Other Income & Deductions

Line 30 Interest on Short term bank debt is favorable by \$141K due to lower than Plan interest rates and a lower than plan average daily balance.

	MTD Actuals	MTD Reforecast	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES										
1	3,869	-	3,869	(946)	4,215	(346)	(8.22)%	4,259	(390)	(9.15)%
2	27	-	27	(330)	28	(1)	(3.30)%	25	1	5.66%
3	174	-	174	(12)	185	(12)	(6.38)%	182	(9)	(4.78)%
4	4,069	-	4,069	(359)	4,428	(359)	(8.11)%	4,467	(397)	(8.83)%
5	10	-	(10)	1	12	1	10.63%	5	(5)	(95.63)%
6	219	-	(219)	62	282	62	22.10%	278	58	20.96%
7	164	-	(164)	39	203	39	19.34%	118	(46)	(38.61)%
8	14	-	(14)	1	15	1	5.07%	23	9	37.85%
9	408	-	(408)	103	511	103	20.25%	424	16	3.79%
CAMPAIGN & OVERHEAD										
10	565	-	(565)	11	575	11	1.84%	543	(22)	(3.98)%
11	123	-	(123)	(73)	50	(73)	(144.28)%	58	(66)	(113.45)%
12	181	-	(181)	(24)	157	(24)	(15.27)%	148	(33)	(22.23)%
13	25	-	(25)	5	30	5	17.25%	24	(1)	(3.39)%
14	894	-	(894)	(81)	813	(81)	(9.97)%	774	(121)	(15.50)%
15	369	-	(369)	(83)	286	(83)	(29.12)%	351	(18)	(5.19)%
16	358	-	(358)	(22)	337	(22)	(6.44)%	317	(42)	(13.21)%
17	59	-	(59)	17	76	17	21.95%	41	(18)	(44.59)%
18	418	-	(418)	(6)	413	(6)	(1.22)%	358	(60)	(16.82)%
19	13	-	(13)	0	14	0	0.65%	43	30	68.75%
20	54	-	(54)	6	60	6	9.24%	55	0	0.82%
21	120	-	(120)	10	136	10	7.31%	99	(67)	(114.81)%
22	5	-	(5)	0	5	0	(9.49)%	1	(4)	(22.16)%
23	44	-	(44)	9	53	9	17.65%	61	17	28.38%
24	145	-	(145)	39	183	39	21.16%	126	(19)	(14.98)%
25	181	-	(181)	191	209	191	8.55%	191	0	(0.13)%
26	2,668	-	(2,668)	15	2,683	15	0.57%	2,447	(221)	(8.01)%
27	479	-	(479)	93	572	93	16.31%	403	(76)	(18.83)%
28	43	-	(43)	2	44	2	3.85%	42	(1)	(1.51)%
29	521	-	(521)	95	616	95	15.41%	445	(77)	(17.20)%
30	286	-	(286)	11	297	11	3.65%	287	1	0.22%
31	3,475	-	(3,475)	121	3,595	121	3.37%	3,176	(398)	(9.33)%
32	595	-	(595)	(238)	833	(238)	(28.69)%	1,288	(694)	(53.86)%
OTHER INCOME & DEDUCTIONS										
33	471	-	(471)	10	481	10	2.02%	488	17	3.45%
34	41	-	(41)	182	141	(41)	(77.50)%	87	46	52.79%
35	512	-	(512)	150	663	150	22.72%	575	63	10.89%
36	231	-	(231)	(84)	325	(84)	(26.86)%	82	(243)	(182.22)%
37	123	-	(123)	(24)	148	(24)	(16.52)%	39	(65)	(220.12)%
38	7	-	(7)	(2)	6	(2)	(25.81)%	7	0	(1.47)%
39	(6)	-	(6)	(6)	-	-	-	-	-	-
40	(6)	-	(6)	(6)	-	-	-	1	(7)	(730.89)%
41	37	-	(37)	88	124	88	155.28%	0	0	0.00%
42	36	-	(36)	128	128	128	70.95%	71	34	48.56%
43	(42)	-	(42)	(125)	(125)	(125)	66.05%	(70)	28	(779.45)%
44	(207)	-	(207)	113	(320)	113	35.31%	(531)	324	61.06%
45	388	-	(388)	(125)	513	(125)	(24.40)%	757	(369)	(48.78)%
46	26	-	(26)	8	34	8	24.67%	48	22	46.53%
47	150	-	(150)	61	211	61	28.97%	278	(67)	(46.21)%
48	(2)	-	(2)	(9)	(10)	(9)	(83.36)%	(3)	(1)	(38.55)%
49	(3)	-	(3)	(31)	(34)	(31)	(77.85)%	(21)	(12)	(57.44)%
50	165	-	(165)	30	195	30	15.35%	300	138	45.66%
51	222	-	(222)	(95)	318	(95)	(29.87)%	464	(231)	(60.94)%
52	7	-	(7)	0	7	0	3.17%	7	0	2.56%
53	216	-	(216)	(95)	311	(95)	(30.66)%	447	(231)	(51.73)%
54	216	-	(216)	(95)	311	(95)	(30.66)%	447	(231)	(51.73)%

OPERATIONS & MAINTENANCE EXPENSE

PRODUCTION EXPENSES

OPERATIONS & MAINTENANCE EXPENSE

PRODUCTION EXPENSES

OPERATIONS & MAINTENANCE EXPENSE

PRODUCTION EXPENSES

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PRODUCTION EXPENSES

OPERATIONS & MAINTENANCE EXPENSE



Supplementary Tables and Discussion
Kentucky with Growth
Jan 2009

Close Status: Final
source system with
preliminary consolidation
entries

AWFRP 2.0 - Result of Operations - Revenue Analysis

Revenue Variance Summary (\$ in Thousands)

	Budget		Forecast		Prior Year	
	MTD	QTD	MTD	QTD	MTD	QTD
Budget / Forecast / Prior Year	4,429	4,429	-	-	4,467	4,467
Rates	-	-	-	-	-	-
DSIC	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-
Water acquisitions	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-
Other	(12)	(12)	-	-	(9)	(9)
Fire	-	-	-	-	-	-
Organic growth	(7)	(7)	-	-	38	38
Demand / consumption	(244)	(244)	-	-	(332)	(332)
Sewer	(1)	(1)	-	-	1	1
Other Revenue Variances	(95)	(95)	4,069	4,069	(95)	(95)
Actual revenues	4,069	4,069	4,069	4,069	4,069	4,069
Total variance	(359)	(359)	4,069	4,069	(397)	(397)

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 32**

Description of Filing Requirement:

Independent Auditor's Annual Opinion Report and any Written Findings of Material Weaknesses in Internal Controls

Response:

Please refer to Exhibit 28 - Page 84 of 106 for the Independent Auditor's 2008 Annual Opinion Report. There were no findings of material weakness in internal controls.

For electronic version, see KAW_APP_EX32_022610.pdf for this document and KAW_APP_EX28_022610.pdf for the Independent Auditor's 2008 Annual Opinion Report.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 33**

Description of Filing Requirement:

Summary of Last Depreciation Study

Response:

A depreciation study was prepared by Gannett Fleming and sponsored by John Spanos in Case Number 2007-00143. Please see attached depreciation rates that were approved in Case No. 2007-00143. The Company has prepared a depreciation study filed with this case. Please see the testimony and exhibits of John Spanos. For the electronic version of the depreciation study, see KAW_DT_JJS_022610.pdf.

For electronic version, see KAW_APP_EX33_022610.pdf.

KENTUCKY AMERICAN WATER COMPANY

Depreciation Rates Per KAWC's Updated Depreciation Study

<u>DEPRECIABLE GROUP</u> (1)	<u>ACCRUAL RATE</u>
<u>STRUCTURES & IMPROVEMENTS</u>	
304.10 SOURCE OF SUPPLY	3.03
304.20 POWER & PUMPING STRUCTURES	1.94
304.30 WATER TREATMENT	1.91
304.40 TRANSMISSION & DISTRIBUTION	4.34
304.60 OFFICE BUILDINGS	2.01
304.70 STORE, SHOP & GARAGE STRUCTURES	2.33
304.80 MISCELLANEOUS STRUCTURES	4.19
305.00 COLLECTING AND IMPOUNDING RESERVOIRS	1.50
306.00 LAKE, RIVER AND OTHER INTAKES	2.29
309.00 SUPPLY MAINS	1.82
310.10 OTHER POWER GENERATION EQUIPMENT	3.16
<u>PUMPING EQUIPMENT</u>	
311.20 ELECTRIC	2.45
311.30 DIESEL	2.47
311.40 HYDRAULIC	2.31
320.10 PURIFICATION SYSTEM - EQUIPMENT	2.21
330.10 DISTRIBUTION RESERVOIRS AND STANDPIPES	2.25
331.00 MAINS & ACCESSORIES	1.66
333.00 SERVICES	3.24
<u>METERS</u>	
334.10 METERS	2.78
334.11 BRONZE CASE	2.86
334.12 PLASTIC CASE	2.87
334.13 OTHER	2.81
334.20 METER INSTALLATIONS	2.92
335.00 FIRE HYDRANTS	1.72
339.10 OTHER SOURCE OF SUPPLY PLANT	19.96
<u>OFFICE FURNITURE & EQUIPMENT</u>	
340.10 FURNITURE	7.48
340.21 MAINFRAME	8.04
340.22 PERSONAL COMPUTERS	9.52
340.23 PERIPHERAL-OTHER	17.49
340.30 COMPUTER SOFTWARE	6.87
340.32 COMPUTER SOFTWARE-PERSONAL	-
340.33 COMPUTER SOFTWARE-OTHER	18.00
340.50 OTHER	7.17

<u>TRANSPORTATION EQUIPMENT</u>		
341.10	LIGHT DUTY TRUCKS	7.22
341.20	HEAVY DUTY TRUCKS	6.48
341.30	AUTOS	10.90
341.40	OTHER	6.39
342.00	STORES EQUIPMENT	5.18
343.00	TOOLS, SHOP AND GARAGE EQUIPMENT	5.67
344.00	LABORATORY EQUIPMENT	7.10
345.00	POWER OPERATED EQUIPMENT	4.45
346.10	COMMUNICATION EQUIPMENT - NON-TELEPHONE	6.12
347.00	MISCELLANEOUS EQUIPMENT	5.23
348.00	OTHER TANGIBLE PROPERTY	5.55
	Composite Depreciation Rate	2.39

* The accrual rate for new additions in Account 340.32 will be 20%

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 34**

Description of Filing Requirement:

List of Software, Programs and Models Used

Response:

Please see attached.

For electronic version, refer to KAW_APP_EX34_022610.pdf.

A list of all commercially available or in-house developed computer software, programs and models used in the development of the schedules and workpapers associated with the filing of the utility's application are listed below.

<u>SOFTWARE</u>	<u>DESCRIPTION</u>
<i>Microsoft Office</i>	MS Office is a suite of personal computer applications designed to integrate with each other and provide a similar interface to the data maintained within each application. Applications included in the MS Office suite are MS Excel, MS Access, and MS Word. MS Office is manufactured by Microsoft Corporation.
<i>MS Excel</i>	MS Excel was used by the Company to formulate their budget information and was used to complete the computation of water utilization projections and the cost of service allocation study. MS Excel is an electronic spreadsheet application manufactured by Microsoft Corporation.
<i>MS Access</i>	MS Access was used by the Company to manage, organize, and control large amounts of data that can be formatted into a data base file. MS Access is an electronic data base management system manufactured by Microsoft Corporation.
<i>MS Word</i>	MS Word was used to prepare testimony and other miscellaneous schedules. MS Word is an electronic word processing application manufactured by Microsoft Corporation.
<i>Adobe Acrobat</i>	Acrobat was used by the Company to create and manage Portable Document Format (PDF) files. Acrobat is a universal document exchange application and is manufactured by Adobe Systems Incorporated.
<i>Hyperion</i>	Hyperion is used by the Company to create balance sheets, income statements and cash flow analyses and is used to consolidate financial data for financial reporting. Hyperion is a business performance and business intelligence application manufactured by Hyperion Solutions Corporation.

SOFTWARE

DESCRIPTION

PeopleSoft World FIS

PeopleSoft World (formerly J. D. Edwards Financials) is used by the Company as an enterprise financial application including general ledger, accounts payable, procurement, materials inventory, asset management, payroll and human resource administration. PeopleSoft World is manufactured by PeopleSoft Incorporated.

Orcom's E-CIS

E-CIS is used by the Company as an enterprise customer information system for retaining water consumptions, billing, collecting, and tracking customer's service work. E-CIS is an electronic customer information system application and is owned by Alliance Data Systems.

PowerPlant

PowerPlant is a financial asset lifecycle management software system designed specifically for the utility industry. PowerPlant covers capital budgeting, project accounting (including overhead and AFUDC calculations), fixed asset accounting (including book and tax depreciation), property tax accounting, and income tax accounting (including deferred tax and tax provision).

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 35**

Description of Filing Requirement:

Affiliate, General or Home Office Allocations

Response:

Please see attached.

For electronic version, refer to KAW_APP_EX35_022610.pdf

KENTUCKY-AMERICAN WATER
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
AFFILIATE, GENERAL OR HOME OFFICE ALLOCATIONS

Kentucky-American Water Company (KAWC) has amounts charged and allocated to it by American Water Works Service Company, Inc. (Service Company) and American Anglian Environmental Technology, L. P.

American Water Works Service Company, Inc.

	<u>Amounts Allocated/ Charged to KAWC</u> (000)
2005	\$5,913
2006	6,612
2007	7,516
2008	7,931
Base Period	8,485
Forecasted Period	9,028

A contract between KAWC and the Service Company provides detailed language outlining the methodologies utilized in the allocation of Service Company charges to Kentucky-American Water. The contract became effective October 1, 1989.

The methods used to allocate charges to KAWC during the base period and the forecasted test period was based on this Service Company contract. Service Company costs are allocated to KAWC based upon actual time charged or allocated by Service Company employees as reflected in their daily timesheets. All costs of Service Company employees that are identified as related exclusively to KAWC are charged directly to KAWC. Service Company costs incurred in rendering services to KAWC, and other operating companies, are allocated among the group of companies receiving the service rendered. The allocation of these costs is based on the number of customers served at the immediate preceding calendar year end. Appropriate overhead costs actually incurred by the Service Company are added to the employee costs. Overhead costs include support personnel (secretary, mailroom clerk, telephone operator, etc.), employee benefits (group insurance, pensions, payroll taxes, etc.), building costs (rent, depreciation, maintenance, etc.), and other items (stationary, postage, legal fees, etc.). These overhead costs are assigned to each of the affiliated companies based on the labor cost dollars that were either directly billed or allocated using the formula allocation.

American Anglian Environmental Technology, L.P.

	<u>Amounts Charged To KAWC</u>
2005	\$97,127
2006	99,700
2007	110,573

2008	\$127,275
Base Period	74,366
Forecasted Period	22,694

KAWC also has a lease agreement with American Anglian Environmental Technology, L.C. (AAET). AAET's bid produced the best cost to Kentucky-American Water. Forecasted test period and base period amounts were calculated based upon current contracts and anticipated contracts for GAC.

Service Company Charges in Rate Filings

The Service Company charges to the various regulated subsidiaries for the services rendered reflect the contractual arrangement in the current Service Company Agreement. However, even in those jurisdictions which must approve the Service Company Agreement (i.e., because it is an "affiliate arrangement"), the regulatory commissions still assert that they have the right to approve the amount and nature of those charges in rate filings. As a consequence, as the regulated company prepares its rate filing, Rate Department personnel review the statements and supporting information for the Service Company activities charged to the Company. This contractual agreement is also subject to review by the outside auditors. During the course of these pre-filing reviews, any charge or allocation not appropriate for rate recovery is adjusted prior to the filing of the case. Thereafter, these charges are also reviewed by the regulatory staffs during their audits or reviews of the reasonableness of those charges. The first contract, labeled "1971 Agreement" was in force until September 30, 1989. The second contract, labeled "1989 Agreement" became effective October 1, 1989. Both contracts provide detailed language outlining the methodologies utilized in the allocation of Service Company charges to Kentucky-American Water.

The methods used to allocate charges to KAWC during the base period and the forecasted test period are based on the 1989 Service Company contract.

Annual Business Plan

Each year, each office and department of the Service Company is required to develop a Business Plan for the following year. During the year, each month of the business plan versus actual performance of the various Service Company offices and departments is reviewed.

Annual business plan guidelines are prepared for various areas of forecasting for the future such as for labor increases, group insurance, risk insurance, office space costs, etc. These guidelines are then followed by each office and department in the preparation for the annual business plan for the following year.

All of this is done with an eye toward providing the most professional, efficient services possible for the regulated company at the lowest reasonable cost.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 36**

Description of Filing Requirement:

Cost of Service Study

Response:

Please see attached.

For electronic version, refer to KAW_APP_EX36_022610.pdf.

Exhibit No. 36
Witness: P. R. Herbert

KENTUCKY AMERICAN WATER COMPANY
Lexington, Kentucky

COST OF SERVICE
ALLOCATION STUDY
AS OF SEPTEMBER 30, 2011
AND
PROPOSED CUSTOMER RATES

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

February 18, 2010

Kentucky American Water Company
2300 Richmond Road
Lexington, KY 40502

Attention Mr. Nick O. Rowe, President

Gentlemen:

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Pursuant to your request, we have conducted a cost of service allocation study based on pro forma revenue requirements for the test year ending September 30, 2011, and have prepared proposed rate schedules designed to produce the pro forma revenue requirements.

The attached report presents the results of the study, as well as supporting schedules which set forth the detailed cost allocation calculations. Schedule A on page 6 presents a comparison of the cost of service by customer classification with the pro forma revenues produced by each classification under present and proposed rates.

Respectfully submitted,

GANNETT FLEMING, INC.
Valuation and Rate Division



PAUL R. HERBERT
President



CONSTANCE E. HEPPENSTALL
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KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE ALLOCATION STUDY
AS OF SEPTEMBER 30, 2011
AND PROPOSED CUSTOMER RATES

PART I. INTRODUCTION

PLAN OF REPORT

The report sets forth the results of the cost of service allocation study as of September 30, 2011, prepared for Kentucky American Water Company. Part I, Introduction, contains statements with respect to the basis of the study, the procedures employed, and a summary of the results of the study. Part II, Cost of Service by Customer Classification, presents detailed schedules of the allocation of costs to customer classifications, as well as the bases for the allocations. Part III, Proposed Customer Rates, sets forth a comparison of the present and proposed rate structures, and the development of the proposed service charges.

BASIS OF THE STUDY

The purpose of the study was to allocate costs to several customer classifications based on considerations of quantity of water consumed, variability of rate of flow, and costs associated with metering, billing and accounting. The allocation study was based on recognized procedures for allocating the several categories of costs to customer classifications in proportion to each classification's use of the facilities, commodities and services which entail the total cost of providing water service.

ALLOCATION PROCEDURES

The allocation study was based on the Base-Extra Capacity Method for allocating costs to customer classifications. The method is described in the 2000 and prior editions of the Water Rates Manual, published by the American Water Works Association. The four basic categories of cost responsibility are base, extra capacity, customer and fire protection costs. The following discussions present a brief description of these costs and the manner in which they were allocated.

Base Costs are costs that tend to vary with the quantity of water used, plus costs associated with supplying, treating, pumping and distributing water to customers under average load conditions, without the elements necessary to meet peak demands. Base costs were allocated to customer classifications on the basis of average daily usage.

Extra Capacity Costs are costs associated with meeting usage requirements in excess of the average. They include operating and capital costs for additional plant and system capacity beyond that required for average use. The extra capacity costs in this study are subdivided into costs necessary to meet maximum day extra demand and costs to meet maximum hour extra demand. The extra capacity costs were allocated to customer classifications on the bases of each classification's maximum day and hour usage in excess of average usage. (Extra capacity costs related to fire protection are allocated directly to the fire protection classifications.)

Customer Costs are costs associated with serving customers regardless of their usage or demand characteristics. Customer costs include the operating and capital costs related to meters and services, meter reading costs, and billing and collecting

costs. The customer costs were allocated on the bases of the relative cost of meters and services and the number of customers.

Fire Protection Costs are costs associated with providing the facilities to meet the potential peak demand of fire protection service. Fire protection costs are subdivided into costs to meet Public Fire Protection and Private Fire Protection demands. Operating and capital costs for hydrants were allocated directly to the Public Fire Protection classification. The extra capacity costs assigned to fire protection service were allocated to Public and Private Fire Protection on the basis of the total relative demands of the hydrants and fire service lines.

RESULTS OF STUDY

The results of the cost of service allocation study are set forth in Part II. The data summarized for each district in Schedule A, Comparison of Cost of Service with Revenues Under Present and Proposed Rates for the Test Year Ended September 30, 2011, constitute the principal results of the cost allocation studies and subsequent rate designs.

The cost of service by customer classification shown in column 2 of Schedule A is developed in Schedule B, Cost of Service for the Twelve Months Ended September 30, 2011, Allocated to Customer Classifications. The allocation of the total cost of service to the several customer classifications was performed by applying the allocation factors referenced in column 2 of Schedule B to the cost of service set forth in column 3. The bases for the allocation factors are presented in Schedule C.

Schedule D sets forth the experienced average day and maximum day system sendout and the maximum day ratios from 1990 through 2009. Schedule E presents

the basis for allocating demand related costs of fire service to private and public fire protection classifications.

DESIGN OF PROPOSED RATES

A comparison of the present and proposed rate structures is presented in Schedule G of Part III of the report. The proposed rates maintain the existing rate structure consisting of service charges by meter size applicable to all classes and single-block consumption charges for each classification. The service charges were developed on Schedule F, based on the cost of service related to meters, services, billing and collecting including meter reading. The overall increase to the service charges is approximately 1.8%.

The consumption charges as well as private and public fire rates were increased so that the revenues under proposed rates would move toward the indicated cost of service as shown in Schedule A.

KENTUCKY AMERICAN WATER COMPANY

COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES
FOR THE TEST YEAR ENDED SEPTEMBER 30, 2011

Customer Classification (1)	Cost of Service		Revenues, Present Rates		Revenues, Proposed Rates		Proposed Increase	
	Amount (2)	Percent (3)	Amount (4)	Percent (5)	Amount (6)	Percent (7)	Amount (8)	Percent Increase (9)
Residential	\$ 47,792,266	52.8%	\$35,142,235 (a)	54.2%	\$ 48,192,529 (a)	53.3%	\$ 13,050,294	37.1%
Commercial	23,395,225	25.8%	16,389,110	25.3%	23,401,316	25.8%	7,012,206	42.8%
Industrial	2,691,608	3.0%	1,533,405	2.4%	2,288,614	2.5%	755,209	49.3%
Public Authority	8,256,012	9.1%	5,636,110	8.7%	8,259,143	9.1%	2,623,033	46.5%
Sales for Resale	2,368,843	2.6%	1,588,731	2.5%	2,367,137	2.6%	778,406	49.0%
Private Fire Service	2,474,855	2.7%	1,716,893	2.7%	2,472,547	2.7%	755,654	44.0%
Public Fire Service	3,622,964	4.0%	\$2,747,004	4.2%	3,619,630	4.0%	872,626	31.8%
Total Sales	90,601,773	100.0%	64,753,488	100.0%	90,600,916	100.0%	25,847,428	39.9%
Other Revenues	3,770,138		\$3,770,137		\$3,770,137		-	0.0%
Total	\$ 94,371,911		\$68,523,625		\$ 94,371,053		\$ 25,847,428	37.7%

(a) Includes Miscellaneous sales.

**PART II. COST OF SERVICE BY
CUSTOMER CLASSIFICATION**

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2011, ALLOCATED TO CUSTOMER CLASSIFICATIONS

Account (1)	Factor Ref. (2)	Cost of Service (3)	Residential (4)	Commercial (5)	Industrial (6)	Public Authorities (7)	Sales for Resale (8)	Private (9)	Fire Protection Public (10)
OPERATION AND MAINTENANCE EXPENSES									
SOURCE OF SUPPLY EXPENSES									
-OPERATION-									
600 Supervision & Engineering	2	-	-	-	-	-	-	-	-
601 Operation Expense and Labor Expenses	2	-	-	-	-	-	-	-	-
602 Purchased Water	1	120,655	58,916	36,896	4,947	14,756	4,476	302	362
603 Miscellaneous Expenses	2	58,932	29,507	18,051	2,257	6,883	2,039	88	106
604 Rents	2	-	-	-	-	-	-	-	-
Total Operation		179,587	88,423	54,947	7,204	21,639	6,515	390	468
-MAINTENANCE-									
610 Supervision & Engineering	2	-	-	-	-	-	-	-	-
612 Maint Coll & Impound Res	1	-	-	-	-	-	-	-	-
613.1 Maint Lakes, River & Intakes	2	-	-	-	-	-	-	-	-
613.2 Amort Lakes, River & Intakes	2	-	-	-	-	-	-	-	-
614 Wells and Springs Maint	2	-	-	-	-	-	-	-	-
616 Maint Supply Mains Maint	2	-	-	-	-	-	-	-	-
617 Maint Misc Water Source Expenses	2	162,505	81,366	49,775	6,224	18,981	5,623	244	293
Labor	2	-	-	-	-	-	-	-	-
Total Maintenance		162,505	81,366	49,775	6,224	18,981	5,623	244	293
Total Source of Supply		342,092	169,789	104,722	13,428	40,620	12,138	634	761
POWER AND PUMPING EXPENSES									
620 Pumping Supervision & Eng Electric	6	0	-	-	-	-	-	-	-
622 Pump Power Prod Labor & Exp Expenses	6	0	-	-	-	-	-	-	-
623 Pump Fuel and Power Purchase	6	94,553	44,837	27,326	3,319	10,023	2,912	2,752	3,385
624 Pump Labor and Expenses	1	4,375,564	2,136,598	1,338,054	179,399	535,134	162,334	10,939	13,127
Expenses	6	0	-	-	-	-	-	-	-
Labor	6	0	-	-	-	-	-	-	-
626 Misc Pumping Expenses Electric	6	0	-	-	-	-	-	-	-
627 Rents	6	0	-	-	-	-	-	-	-
Total Operation		4,470,137	2,181,435	1,365,379	182,718	545,157	165,246	13,690	16,512

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2011, ALLOCATED TO CUSTOMER CLASSIFICATIONS

Account (1)	Factor Ref (2)	Cost of Service (3)	Residential (4)	Commercial (5)	Industrial (6)	Public Authorities (7)	Sales for Resale (8)	Private (9)	Fire Protection Public (10)
-MAINTENANCE-									
630 Supervision & Engineering	6	289,278	137,176	83,601	10,154	30,663	8,910	8,418	10,356
631 Pump Struc & Imp Maint									
Expenses	6	0	-	-	-	-	-	-	-
Labor	6	0	-	-	-	-	-	-	-
632 Pump Maint Power Prod Equipment									
Expenses	6	0	-	-	-	-	-	-	-
Labor	6	0	-	-	-	-	-	-	-
633 Pump Maint Pumping Equipment									
Expenses	6	0	-	-	-	-	-	-	-
Labor	6	0	-	-	-	-	-	-	-
Total Maintenance		289,278	137,176	83,601	10,154	30,663	8,910	8,418	10,356
Total Power and Pumping		4,759,415	2,318,610	1,448,981	192,871	575,820	174,156	22,108	26,868
WATER TREATMENT									
-OPERATION-									
640 Supervision and Engineering	2	910,309	455,792	278,828	34,865	106,324	31,497	1,365	1,639
641 Chemicals	1	1,772,730	865,624	542,101	72,682	216,805	65,768	4,432	5,318
642 Labor and Expenses									
Expenses	2	180,304	90,278	55,227	6,906	21,060	6,239	270	325
Labor	2	1,473,758	737,911	451,412	56,445	172,135	50,992	2,211	2,653
643 Misc Water Treatment Exp-Current									
Expenses - Other	2	119,635	59,901	36,644	4,582	13,973	4,139	179	215
Expenses - Waste Disposal	1	340,226	166,132	104,041	13,949	41,610	12,622	851	1,021
Labor	2	0	-	-	-	-	-	-	-
Rents	2	0	-	-	-	-	-	-	-
Total Operation		4,796,963	2,375,639	1,468,253	189,429	571,906	171,257	9,308	11,170
-MAINTENANCE-									
650 Supervision and Engineering	2	0	-	-	-	-	-	-	-
651 Structures and Improvements									
Expenses	2	269,778	135,078	82,633	10,332	31,510	9,334	405	486
Labor	2	0	-	-	-	-	-	-	-
652 General Water Equip									
Expenses	2	17,813	8,919	5,456	682	2,081	616	27	32
Labor	2	0	-	-	-	-	-	-	-
Total Maintenance		287,591	143,997	88,089	11,015	33,591	9,951	431	518

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2011, ALLOCATED TO CUSTOMER CLASSIFICATIONS

Account (1)	Factor Ref. (2)	Cost of Service (3)	Residential (4)	Commercial (5)	Industrial (6)	Public Authorities (7)	Sales for Resale (8)	Fire Protection	
								Private (9)	Public (10)
Total Water Treatment Expenses		5,084,553	2,519,635	1,556,342	200,443	605,497	181,208	9,740	11,688
TRANSMISSION AND DISTRIBUTION EXPENSES									
-OPERATION-									
660 Supervision and Engineering	11	724,023	327,621	198,455	22,590	66,755	18,752	40,328	49,523
661 Storage Facilities Expense	5	0	-	-	-	-	-	-	-
662 Lines Expense									
Expenses	7	31,503	14,258	8,632	983	2,905	816	1,755	2,155
Labor	7	969,566	438,826	265,661	30,250	89,394	25,112	54,005	66,318
663 Meter Expense									
Expenses	9	0	-	-	-	-	-	-	-
Labor	9	0	-	-	-	-	-	-	-
664 Customer Installation Expenses									
Expenses	10	0	-	-	-	-	-	-	-
Labor	10	0	-	-	-	-	-	-	-
665 Maps and Records									
Expenses	11	0	-	-	-	-	-	-	-
Labor	11	37,516	16,976	10,283	1,171	3,459	972	2,090	2,566
665 Miscellaneous Expenses									
Expenses - Other	11	329,764	149,218	90,388	10,289	30,404	8,541	18,368	22,556
Expenses - Distribution Reservoirs	5	0	-	-	-	-	-	-	-
Labor	11	0	-	-	-	-	-	-	-
666 Rents	11	7,926	3,587	2,173	247	731	205	441	542
Total Operation		2,100,299	950,485	575,592	65,529	193,648	54,398	116,987	143,660

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2011, ALLOCATED TO CUSTOMER CLASSIFICATIONS

Account (1)	Factor Ref. (2)	Cost of Service (3)	Residential (4)	Commercial (5)	Industrial (6)	Public Authorities (7)	Sales for Resale (8)	Fire Protection		(10)
								Private (9)	Public	
-MAINTENANCE-										
670 Supervision and Engineering	12	0	-	-	-	-	-	-	-	-
671 T & D Structures & Improve Maint Expenses	12	0	-	-	-	-	-	-	-	-
Labor	12	0	-	-	-	-	-	-	-	-
672 Reservoirs and Standpipes Expenses	5	255,074	103,535	62,468	6,938	20,227	5,561	25,252	31,094	
Labor	5	0	-	-	-	-	-	-	-	
673 T & D Mains Expenses	7	0	-	-	-	-	-	-	-	
Labor	7	887,585	401,721	243,198	27,693	81,835	22,988	49,439	60,711	
675 Services Expenses	10	0	-	-	-	-	-	-	-	
Labor	10	320,856	268,492	33,979	289	3,786	160	14,150	-	
676 Meters Expenses	9	0	-	-	-	-	-	-	-	
Labor	9	107,293	83,881	18,036	494	3,444	343	1,094	-	
677 Hydrants Expenses	8	0	-	-	-	-	-	-	-	
Labor	8	0	-	-	-	-	-	-	-	
678 Miscellaneous Plant Expenses	12	376,070	205,334	85,631	8,462	26,174	6,957	21,549	21,962	
Labor	12	0	-	-	-	-	-	-	-	
Total Maintenance		1,946,878	1,062,964	443,312	43,875	135,467	36,010	111,484	113,767	
Total Transmission and Distribution		4,047,177	2,013,449	1,018,904	109,404	329,115	90,408	228,470	257,427	
CUSTOMER ACCOUNTS										
901 Supervision	13	62,112	55,795	4,547	25	379	12	1,335	19	
902 Meter Reading Expenses Expenses	14	0	-	-	-	-	-	-	-	
Labor	14	682,306	618,988	50,491	273	4,152	136	8,256	-	
903 Recording and Collecting Expenses Expenses	13	1,189,966	1,068,946	87,106	476	7,259	238	25,584	357	
Labor	13	69,950	62,836	5,120	28	427	14	1,504	21	
904 Uncollectible Accounts	20	725,096	623,510	77,730	-	-	-	23,856	-	
905 Misc Customer Accounting Expenses	13	0	-	-	-	-	-	-	-	
907 Customer Service Expenses Labor	13	0	-	-	-	-	-	-	-	
Total Customers' Accounting and Collecting Expenses		2,729,430	2,430,076	224,993	802	12,226	401	60,535	397	

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2011, ALLOCATED TO CUSTOMER CLASSIFICATIONS

Account (1)	Factor Ref. (2)	Cost of Service (3)	Residential (4)	Commercial (5)	Industrial (6)	Public Authorities (7)	Sales for Resale (8)	Private (9)	Fire Protection Public (10)
ADMINISTRATIVE AND GENERAL EXPENSES									
-OPERATION-									
920 Administrative & General Salaries Expenses	15	0	-	-	-	-	-	-	-
Labor	15	1,410,517	847,862	317,789	33,570	102,827	29,057	41,610	37,802
Miscellaneous Office Expenses	15	624,827	375,583	140,773	14,871	45,550	12,871	18,432	16,745
923 Outside Services									
Customer Related	13	1,804,958	1,621,394	132,123	722	11,010	361	38,807	541
Employee Related	16	421,778	236,027	104,348	11,599	35,429	10,080	11,978	12,316
Water Quality	1	209,499	102,298	64,065	8,589	25,622	7,772	524	628
Other	15	7,551,130	4,538,984	1,701,270	179,717	550,477	155,553	222,758	202,370
924 Property Insurance	15	192,767	115,872	43,430	4,588	14,053	3,971	5,667	5,166
925 Workers Compensation	16	131,821	73,767	32,613	3,625	11,073	3,151	3,744	3,849
925.4 General Liability	15	419,691	252,276	94,556	9,989	30,595	8,646	12,381	11,248
926 Employee Pensions and Benefits	16	3,969,884	2,221,547	982,149	109,172	333,470	94,880	112,745	115,921
928 Regulatory Expenses	19	366,462	198,036	92,129	10,481	32,212	9,235	10,078	14,292
930 Miscellaneous General Expense	15	1,385,082	832,573	312,059	32,965	100,972	28,533	40,860	37,120
931 Administrative and General Rents	15	19,728	11,859	4,445	470	1,438	406	582	529
Total Operation		18,508,142	11,428,078	4,021,749	420,357	1,294,729	364,517	520,185	458,528
-MAINTENANCE-									
932 Maintenance of General Plant	15	191,101	114,871	43,055	4,548	13,931	3,937	5,637	5,122
Total Maintenance									
Total Administrative and General Expenses		18,699,243	11,542,949	4,064,804	424,905	1,308,660	368,453	525,823	463,649
Total Operation and Maintenance Expenses		35,661,911	20,994,509	8,418,746	941,854	2,871,939	826,764	847,310	760,790
503 DEPRECIATION EXPENSE									
303 Other P/E Intangibles	17	63,771	31,758	16,938	1,964	6,045	1,728	1,951	3,386
310 Land and Land Rights	2	0	-	-	-	-	-	-	-
311 Source of Supply Struct & Improv	2	545,936	273,350	167,220	20,909	63,765	18,889	819	983
312 Collecting & Impounding Reservoirs	1	13,167	6,429	4,026	540	1,610	488	33	40
313 Lake, River and Other Intakes	2	161,554	80,890	49,484	6,188	18,870	5,590	242	291
314 Wells and Springs	2	0	-	-	-	-	-	-	-
316 Supply Mains	2	131,049	65,616	40,140	5,019	15,307	4,534	197	236

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2011, ALLOCATED TO CUSTOMER CLASSIFICATIONS

Account (1)	Factor Ref. (2)	Cost of Service (3)	Residential (4)	Commercial (5)	Industrial (6)	Public Authorities (7)	Sales for Resale (8)		Fire Protection Private (9)		Public (10)
							Public	Private	Private	Public	
321 Pumping Structures & Improvements	6	310,658	147,314	89,780	10,904	32,930	9,568	9,040	11,122		
322 Boiler Plant Equipment	6	91,149	43,223	26,342	3,199	9,662	2,807	2,652	3,263		
323 Other Power Production Equipment	6	397,622	188,552	114,913	13,957	42,148	12,247	11,571	14,235		
325 Electric Pumping Equipment	6	16,094	7,632	4,651	955	1,706	496	468	576		
326 Diesel Pumping Equipment	6	191	91	55	7	20	6	6	7		
328 Other Pumping Equipment	6	207,195	98,252	59,879	7,273	21,963	6,382	6,029	7,418		
331 Water Treat Structures & Improv	2	1,643,197	822,749	503,311	62,934	191,925	56,855	2,465	2,958		
332 Water Treat and Equipment	2	1,220,102	610,905	373,717	46,730	142,508	42,216	1,830	2,196		
334 GAC	2	40,355	20,206	12,361	1,546	4,713	1,396	61	73		
341 T & D Structures & Improvements	7	26,660	12,066	7,305	832	2,458	690	1,485	1,824		
342 Distrib. Reservoirs & Standpipes	5	285,656	115,348	69,957	7,770	22,653	6,227	28,280	34,821		
343 Transmission & Distribution Mains											
Distribution	4	981,517	443,253	267,365	29,642	86,570	23,851	58,695	72,141		
Transmission	3	2,604,593	1,190,299	728,505	90,900	277,910	82,045	105,486	129,448		
345 Services	10	564,524	472,394	59,783	508	6,661	282	24,896	-		
346 Meters	9	472,941	369,745	79,501	2,176	15,181	1,513	4,824	-		
347 Meter Installations	9	463,733	362,546	77,954	2,133	14,886	1,484	4,730	-		
348 Hydrants	8	160,681	-	-	-	-	-	-	160,681		
390 General Structures & Improvements	15	88,888	53,431	20,026	2,116	6,480	1,831	2,622	2,382		
390.1 Office Structures	15	63,462	38,147	14,298	1,510	4,626	1,307	1,872	1,701		
390.2 Stores Shop and Gar. Structures	15	66,333	39,873	14,945	1,579	4,836	1,366	1,957	1,778		
390.3 Miscellaneous Structures & Improv	15	95,784	57,576	21,580	2,280	6,983	1,973	2,826	2,567		
391 Office Furniture and Equipment	15	15,596	9,375	3,514	371	1,137	321	460	418		
391.20 Computers & Peripheral Equipment	15	51,072	30,699	11,507	1,216	3,723	1,052	1,507	1,369		
391.21 Personal Comp and Periph	15	(98,823)	(59,403)	(22,265)	(2,352)	(7,204)	(2,036)	(2,915)	(2,648)		
391.22 Computers and Periph Other	15	52,855	31,771	11,908	1,258	3,853	1,089	1,559	1,417		
391.25 Computer Mainframe Software	15	(9,631)	(5,789)	(2,170)	(229)	(702)	(198)	(284)	(258)		
391.26 Personal software	15	(87,794)	(52,773)	(19,780)	(2,089)	(6,400)	(1,809)	(2,590)	(2,353)		
391.28 Other Software	15	(25,571)	(15,371)	(5,761)	(609)	(1,864)	(527)	(754)	(685)		
391.30 Other Office Equipment	15	413	248	93	10	30	9	12	11		
392.11 Transportation Equip-Light Trucks	15	49,751	29,905	11,209	1,184	3,627	1,025	1,468	1,333		
392.12 Transportation Equip-Heavy Trucks	15	24,643	14,813	5,552	587	1,796	508	727	660		
392.2 Transportation Equip-Cars	15	9,412	5,658	2,121	224	686	194	278	252		
392.3 Transportation Equip-Other	15	22,190	13,338	4,999	528	1,618	457	555	595		
393 Stores Equipment	15	598	359	135	14	44	12	18	16		
394 Tools, Shop & Garage Equipment	15	64,338	38,674	14,438	1,531	4,690	1,325	1,898	1,724		
395 Laboratory Equipment	2	10,228	5,121	3,133	392	1,195	354	15	18		
396 Power Operated Equipment	15	31,742	19,080	7,151	755	2,314	654	936	851		
397 Communication Equipment	15	233,292	140,232	52,561	5,552	17,007	4,806	6,882	6,252		

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2011, ALLOCATED TO CUSTOMER CLASSIFICATIONS

Account	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Public Authorities	Sales for Resale	Private	Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
398 Miscellaneous Equipment	15	67,289	40,447	15,160	1,601	4,905	1,386	1,985	1,803
399 Other Tangible Property	15	(42,336)	(25,448)	(9,538)	(1,008)	(3,086)	(872)	(1,249)	(1,135)
Total Depreciation Expense		11,086,076	5,773,182	2,908,061	332,116	1,029,784	293,523	285,643	463,766
404 AMORTIZATION EXPENSE									
AFUDC	18	80,244	39,993	21,313	2,472	7,607	2,175	2,455	4,229
Acquisition Adjustment	18	7,614	3,795	2,022	235	722	206	233	401
Property Losses	2	145,863	73,034	44,678	5,587	17,037	5,047	219	263
Total Amortizations		233,721	116,822	68,013	8,293	25,366	7,428	2,907	4,893
507.1 TAXES, OTHER THAN INCOME									
Federal and State Payroll Taxes	16	621,307	347,683	153,711	17,086	52,190	14,849	17,645	18,142
Property Taxes	18	4,429,174	2,207,500	1,176,389	136,419	419,886	120,031	135,533	233,417
Gross Receipts and surtax	19	151,649	81,951	38,125	4,337	13,330	3,822	4,170	5,914
Other General Taxes	18	0	-	-	-	-	-	-	-
Total Taxes, Other Than Income		5,202,130	2,637,135	1,368,225	157,842	485,405	138,701	157,348	257,474
507.2 INCOME TAXES									
Utility Operating Income Available for Return	18	11,070,812	5,517,693	2,940,408	340,981	1,049,513	300,019	338,767	583,432
Total Cost of Service	18	31,117,251	15,508,843	8,264,745	958,412	2,949,916	843,278	952,188	1,639,880
Less: Other Water Revenues	19	94,371,911	50,548,183	23,968,197	2,739,496	8,411,924	2,409,713	2,584,164	3,710,234
Reconnection/Activation - T&D Related	7	289,029	156,192	72,662	8,266	25,406	7,284	7,948	11,272
Reconnection/Activation - Customer Service Related	13	603,424	273,110	165,338	18,827	55,636	15,629	33,611	41,274
AFUDC	18	723,356	649,790	52,950	289	4,412	145	15,552	217
Billing and Collecting Services	13	646,180	322,056	171,625	19,902	61,258	17,511	19,773	34,054
Total Other Water Revenues		1,508,148	1,354,770	110,396	603	9,200	302	32,425	452
Total Cost of Service Related to Sales of Water		3,770,138	2,755,918	572,972	47,888	155,911	40,870	109,309	87,270
Total Cost of Service Related to Sales of Water		90,601,773	47,792,266	23,395,225	2,691,608	8,256,012	2,368,843	2,474,855	3,622,964

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS

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

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

Customer Classification <u>(1)</u>	Average Daily Consumption, CCF <u>(2)</u>	Allocation Factor <u>(3)</u>
Residential	22,576	0.4883
Commercial	14,136	0.3058
Industrial	1,894	0.0410
Other Public Authority	5,656	0.1223
Sales for Resale	1,717	0.0371
Private Fire Protection	114	0.0025
Public Fire Protection	140	0.0030
Total	<u><u>46,234</u></u>	<u><u>1.0000</u></u>

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

Factors are based on the weighting of the factors for average daily consumption (Factor 1) and the factors derived from maximum day extra capacity demand for each customer classification, as follows:

Customer Classification <u>(1)</u>	Average Daily Consumption		Maximum Day Extra Capacity		Allocation Factor <u>(6)=(3)+(5)</u>
	Allocation Factor 1 <u>(2)</u>	Weighted Factor <u>(3)=(2)x 0.6061</u>	Allocation Factor <u>(4)</u>	Weighted Factor <u>(5)=(4)x 0.3939</u>	
Residential	0.4883	0.2960	0.5196	0.2047	0.5007
Commercial	0.3058	0.1853	0.3073	0.1210	0.3063
Industrial	0.0410	0.0249	0.0339	0.0134	0.0383
Other Public Authority	0.1223	0.0741	0.1085	0.0427	0.1168
Sales for Resale	0.0371	0.0225	0.0307	0.0121	0.0346
Private Fire Protection	0.0025	0.0015			0.0015
Public Fire Protection	0.0030	0.0018			0.0018
Total	<u><u>1.0000</u></u>	<u><u>0.6061</u></u>	<u><u>1.0000</u></u>	<u><u>0.3939</u></u>	<u><u>1.0000</u></u>

The derivation of the maximum day extra capacity factors in column 4 and the basis for the column 3 and 5 weightings are presented on the following page.

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 2. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE AND
MAXIMUM DAY EXTRA CAPACITY FUNCTIONS, cont.

Customer Classification	Average Daily Consumption, CCF	Maximum Day Extra Capacity		
		Factor*	Rate of Flow, CCF Per Day	Allocation Factor
(1)	(2)	(3)	(4)=(2)x(3)	(5)
Residential	22,576	0.90	20,318	0.5196
Commercial	14,136	0.85	12,016	0.3073
Industrial	1,894	0.70	1,326	0.0339
Other Public Authority	5,656	0.75	4,242	0.1085
Sales for Resale	1,717	0.70	1,202	0.0307
Total	<u>45,979</u>		<u>39,104</u>	<u>1.0000</u>

The weighting of the factors is based on the maximum day ratio of 1.65, based on a review of maximum day ratios experienced during the period 1990 through 2009 (see Schedule D).

	Maximum Day Ratio	Weight
Average Day	1.00	0.6061
Maximum Day Extra Capacity	<u>0.65</u>	<u>0.3939</u>
Total	<u>1.65</u>	<u>1.0000</u>

* Ratio of maximum day to average day minus 1.0.

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 3. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE, MAXIMUM DAY EXTRA CAPACITY AND FIRE PROTECTION FUNCTIONS.

Factors are based on the weighting of the average daily consumption, the maximum day extra capacity demand, and the fire protection demand for each customer classification.

Customer Classification	Average Daily Consumption		Maximum Day Extra Capacity		Fire Protection		Allocation Factor (8)=(3)+(5)+(7)
	Allocation Factor (2)	Weighted Factor (3)=(2) X 0.5533	Allocation Factor (4)	Weighted Factor (5)=(4) X 0.3596	Allocation Factor (6)	Weighted Factor (7)=(6) X 0.0871	
Residential	0.4883	0.2701	0.5196	0.1869			0.4570
Commercial	0.3058	0.1692	0.3073	0.1105			0.2797
Industrial	0.0410	0.0227	0.0339	0.0122			0.0349
Other Public Authority	0.1223	0.0677	0.1085	0.0390			0.1067
Sales for Resale	0.0371	0.0205	0.0307	0.0110			0.0315
Private Fire Protection	0.0025	0.0014			0.4484	0.0391	0.0405
Public Fire Protection	0.0030	0.0017			0.5516	0.0480	0.0497
Total	<u>1.0000</u>	<u>0.5533</u>	<u>1.0000</u>	<u>0.3596</u>	<u>1.0000</u>	<u>0.0871</u>	<u>1.0000</u>

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 3. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE, MAXIMUM DAY EXTRA CAPACITY AND FIRE PROTECTION FUNCTIONS, cont.

The weighting of the factors is based on the potential demand of general and fire protection service. The bases for the potential demand of general service are the maximum day ratio of 1.65 and the average daily system sendout for 2009 of 38.094 MGD. The system demand for fire protection is 10,000 Gallons per minute for 10 hours.

	<u>Ratio</u>	<u>Rate of Flow, (GPD)</u>	<u>Weight</u>
Average Day	1.00	38,094,699	0.5533
Maximum Day Extra Capacity	<u>0.65</u>	<u>24,761,554</u>	<u>0.3596</u>
Subtotal	<u>1.65</u>	62,856,253	0.9129
Fire Protection		<u>6,000,000</u>	<u>0.0871</u>
Total		<u>68,856,253</u>	<u>1.0000</u>

The public and private fire protection allocation factors in column 6 on the previous page are based on the relative potential demands (see Schedule E).

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

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

Factors are based on the weighting of the average daily consumption, the maximum day extra capacity demand, and the fire protection demand for each customer classification.

Customer Classification	Average Hourly Consumption		Maximum Hour Extra Capacity		Fire Protection		Allocation Factor (9)=(4)+(6)+(8)
	CCF (2)	Allocation Factor (3)	Allocation Factor (5)	Weighted Factor (4)=(3) X 0.3475	Allocation Factor (6)=(5) X 0.5212	Allocation Factor (7)	
Residential	940.7	0.4883	0.5410	0.1697	0.2819		0.4516
Commercial	589.0	0.3057	0.3188	0.1062	0.1662		0.2724
Industrial	78.9	0.0410	0.0307	0.0142	0.0160		0.0302
Other Public Authority	235.7	0.1223	0.0877	0.0425	0.0457		0.0882
Sales for Resale	71.5	0.0371	0.0218	0.0129	0.0114		0.0243
Private Fire Protection	4.8	0.0025		0.0009		0.4484	0.0598
Public Fire Protection	5.9	0.0031		0.0011		0.5516	0.0735
Total	1,926.5	1.0000	1.0000	0.3475	0.5212	1.0000	1.0000

The maximum hour extra capacity factors in column 5 are determined on the next page.

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 4. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE AND MAXIMUM HOUR EXTRA CAPACITY FUNCTIONS, cont.

The weighting of the factors is based on the potential demand of general and fire protection service. The bases for the potential demand of general service are the maximum hour ratio of 2.5 and the average daily system sendout for 2009 of 38.094 MGD. The system demand for fire protection is 10,000 gallons per minute.

	Ratio	Rate of Flow, (GPM)	Weight
Average Hour	1.00	26,455	0.3475
Maximum Hour Extra Capacity	<u>1.50</u>	<u>39,683</u>	<u>0.5212</u>
Subtotal	<u><u>2.50</u></u>	66,138	0.8687
Fire Protection		<u>10,000</u>	<u>0.1313</u>
Total		<u><u>76,138</u></u>	<u><u>1.0000</u></u>

The maximum hour extra capacity factors in column 5 of the previous page are determined as follows:

Customer Classification	Average Hourly Consumption CCF	Maximum Hour Extra Capacity		
		Factor*	1,000 Gallons Per Hour	Allocation Factor
(1)	(2)	(3)	(4)=(2)x(3)	(5)
Residential	940.7	1.70	1,599.2	0.5410
Commercial	589.0	1.60	942.4	0.3188
Industrial	78.9	1.15	90.7	0.0307
Other Public Authority	235.7	1.10	259.3	0.0877
Sales for Resale	<u>71.5</u>	0.90	<u>64.4</u>	<u>0.0218</u>
Total	<u><u>1,915.8</u></u>		<u><u>2,956.0</u></u>	<u><u>1.0000</u></u>

* Ratio of Maximum Hour To Average Hour Minus 1.0.

The public and private fire protection allocation factors in column 7 on the previous page are based on the relative potential demands (see Schedule E).

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 5. ALLOCATION OF COSTS ASSOCIATED WITH STORAGE FACILITIES.

Factors are based on the weighting of the average hourly consumption, the maximum hour extra capacity demand, and the fire protection demand for each customer classification.

Customer Classification (1)	Average Hourly Consumption		Maximum Hour Extra Capacity		Fire Protection		Allocation Factor (9)=(4)+(6)+(8)
	CCF (2)	Allocation Factor (3)	Allocation Factor (5)	Weighted Factor (6)=(5) X 0.4685	Allocation Factor (7)	Weighted Factor (8)=(7) X 0.2191	
Residential	940.7	0.4883	0.5410	0.2534			0.4059
Commercial	589.0	0.3057	0.3188	0.1494			0.2449
Industrial	78.9	0.0410	0.0307	0.0144			0.0272
Other Public Authority	235.7	0.1223	0.0877	0.0411			0.0793
Sales for Resale	71.5	0.0371	0.0218	0.0102			0.0218
Private Fire Protection	4.8	0.0025			0.4484	0.0982	0.0990
Public Fire Protection	5.9	0.0031			0.5516	0.1209	0.1219
Total	1,926.5	1.0000	1.0000	0.4685	1.0000	0.2191	1.0000

The weighting of the factors is based on the ratio of the capacity required for a 3 hour demand of fire flow, as related to total storage capacity. The calculation is shown on the following page.

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 5. ALLOCATION OF COSTS ASSOCIATED WITH STORAGE FACILITIES, cont.

The weighting of the factors is based on the ratio of the capacity required for a 3 hour demand of fire flow, as related to total storage capacity.

$$\text{Fire Protection Weight} = \frac{10,000 \text{ GPM} \times 60 \text{ Min.} \times 10 \text{ Hrs.}}{27,386,000 \text{ Gallons}} = 0.2191$$

$$\text{General Service Weight} = 1.0000 - 0.2191 = 0.7809$$

The weighting of the average hourly consumption and maximum hour extra demand for general service is based on the maximum hour ratio, as follows:

	Maximum Hour Ratio	Percent	Weight
Average Hour	1.00	40.00	0.3124
Extra Capacity Maximum Hour	1.50	60.00	0.4685
Total	2.50	100.00	0.7809

Customer Classification	Average Hourly Consumption CCF	Maximum Hour Extra Capacity		
		Factor*	CCF Per Hour	Allocation Factor
(1)	(2)	(3)	(4)=(2)x(3)	(5)
Residential	940.7	1.7	1,599.2	0.5410
Commercial	589.0	1.6	942.4	0.3188
Industrial	78.9	1.2	90.7	0.0307
Other Public Authority	235.7	1.1	259.3	0.0877
Sales for Resale	71.5	0.9	64.4	0.0218
Total	1,915.8		2,956.0	1.0000

* Ratio of Maximum Hour To Average Hour Minus 1.0.

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 6. ALLOCATION OF COSTS ASSOCIATED WITH POWER AND PUMPING FACILITIES.

Factors are based on the weighting of the maximum daily consumption, Factor 2, the maximum daily consumption with fire, Factor 3, and the maximum hour consumption, Factor 4, for each customer classification, as follows:

Customer Classification	Maximum Daily Consumption		Maximum Daily Consumption w/ Fire		Maximum Hourly Consumption		Allocation Factor
	Allocation Factor 2	Weighted Factor (3)=(2)X	Allocation Factor 3	Weighted Factor (5)=(4)X	Allocation Factor 4	Weighted Factor (7)=(6)X	
(1)	(2)	(3)=(2)X	(4)	(5)=(4)X	(6)	(7)=(6)X	(8)=(3)+(5)+(7)
		0.4248		0.3062		0.2690	
Residential	0.5007	0.2127	0.4570	0.1400	0.4516	0.1215	0.4742
Commercial	0.3063	0.1301	0.2797	0.0856	0.2724	0.0733	0.2890
Industrial	0.0383	0.0163	0.0349	0.0107	0.0302	0.0081	0.0351
Other Public Authority	0.1168	0.0496	0.1067	0.0327	0.0882	0.0237	0.1060
Sales for Resale	0.0346	0.0147	0.0315	0.0096	0.0243	0.0065	0.0308
Private Fire Protection	0.0015	0.0006	0.0405	0.0124	0.0598	0.0161	0.0291
Public Fire Protection	0.0018	0.0008	0.0497	0.0152	0.0735	0.0198	0.0358
Total	<u>1.0000</u>	<u>0.4248</u>	<u>1.0000</u>	<u>0.3062</u>	<u>1.0000</u>	<u>0.2690</u>	<u>1.0000</u>

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

	Horsepower of Pumps	Weight
Associated with Maximum Day	10,330	0.4248
Associated with Maximum Day and Fire	7,447	0.3062
Associated with Maximum Hour	6,541	0.2690
Total	<u>24,318</u>	<u>1.0000</u>

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 7. ALLOCATION OF COSTS ASSOCIATED WITH TRANSMISSION AND DISTRIBUTION MAINS.

Factors are based on the weighting of the maximum daily consumption with fire, Factor 3, and the maximum hour consumption, Factor 5, for each customer classification, as follows:

Customer Classification	Maximum Daily Consumption w/ Fire		Maximum Hourly Consumption		Allocation Factor
	Allocation Factor 3	Weighted Factor	Allocation Factor 4	Weighted Factor	
(1)	(2)	(3)=(2)X 0.2145	(4)	(5)=(4)X 0.7855	(6)=(3)+(5)
Residential	0.4570	0.0979	0.4516	0.3547	0.4526
Commercial	0.2797	0.0600	0.2724	0.2140	0.2740
Industrial	0.0349	0.0075	0.0302	0.0237	0.0312
Other Public Authority	0.1067	0.0229	0.0882	0.0693	0.0922
Sales for Resale	0.0315	0.0068	0.0243	0.0191	0.0259
Private Fire Protection	0.0405	0.0087	0.0598	0.0470	0.0557
Public Fire Protection	0.0497	0.0107	0.0735	0.0577	0.0684
Total	1.0000	0.2145	1.0000	0.7855	1.0000

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

	Total Footage of Mains	Weight
Transmission Mains	2,249,898	0.2145
Distribution Mains	8,237,458	0.7855
Total	10,487,356	1.0000

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 8. ALLOCATION OF COSTS ASSOCIATED WITH FIRE HYDRANTS.

Costs are assigned directly to Public Fire Protection.

<u>Customer Classification</u> (1)	<u>Allocation Factor</u> (3)
Public Fire Protection	1.0000
Total	<u>1.0000</u>

FACTOR 9. ALLOCATION OF COSTS ASSOCIATED WITH METERS.

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

<u>Customer Classification</u> (1)	<u>5/8" Dollar Equivalents</u> (2)	<u>Allocation Factor</u> (3)
Residential	113,109	0.7818
Commercial	24,325	0.1681
Industrial	662	0.0046
Other Public Authority	4,643	0.0321
Sales for Resale	460	0.0032
Private Fire	<u>1,478</u>	<u>0.0102</u>
Total	<u>144,677</u>	<u>1.0000</u>

KENTUCKY-AMERICAN WATER COMPANY

BASIS FOR ALLOCATING METER COSTS TO CUSTOMER CLASSIFICATIONS

Meter Size (1)	5/8" Dollar Equivalent (2)	Residential		Commercial		Industrial		Other Public Authority		Sales for Resale		Private Fire Protection		Total	
		Number of Meters (3)	Weighting (4)=(2)X(3)	Number of Meters (5)	Weighting (6)=(2)X(5)	Number of Meters (7)	Weighting (8)=(2)X(7)	Number of Meters (9)	Weighting (10)=(2)X(9)	Number of Meters (11)	Weighting (12)=(2)X(11)	Number of Meters (13)	Weighting (14)=(2)X(11)	Number of Meters (15)	Weighting (16)
5/8	1.0	109,238	109,238	4,676	4,676	2	2	139	139	0	0	1,478	1,478	115,533	115,533
1	1.8	1,786	3,215	2,357	4,243	2	4	177	319	0	0	0	0	4,322	7,781
1-1/2	5.4	12	65	169	913	2	11	27	146	4	22	0	0	214	1,157
2	7.0	73	511	1,797	12,579	23	161	355	2,485	7	49	0	0	2,255	15,785
3	14.0	0	0	5	70	0	0	1	14	0	0	0	0	6	84
4	27.0	0	0	32	864	12	324	40	1,080	7	189	0	0	91	2,457
6	40.0	2	80	12	480	4	160	9	360	5	200	0	0	32	1,280
8	50.0	0	0	10	500	0	0	2	100	0	0	0	0	12	600
Total		111,111	113,109	9,058	24,325	45	662	750	4,643	23	460	1,478	1,478	122,465	144,677

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 10. ALLOCATION OF COSTS ASSOCIATED WITH SERVICES.

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

Customer Classification	3/4" Dollar Equivalents	Allocation Factor
(1)	(2)	(3)
Residential	113,019	0.8368
Commercial	14,304	0.1059
Industrial	123	0.0009
Other Public Authority	1,594	0.0118
Sales for Resale	71	0.0005
Private Fire Protection	5,959	0.0441
	<hr/>	<hr/>
Total	<u>135,070</u>	<u>1.0000</u>

KENTUCKY-AMERICAN WATER COMPANY

BASIS FOR ALLOCATING SERVICE COSTS TO CUSTOMER CLASSIFICATIONS

Service Size (1)	3/4" Dollar Equivalent (2)	Residential		Commercial		Industrial		Other Public Authority		Sales for Resale		Private Fire Protection		Total	
		Number of Services (3)	Weighting (4)=(2)X(3)	Number of Services (5)	Weighting (6)=(2)X(5)	Number of Services (7)	Weighting (8)=(2)X(7)	Number of Services (9)	Weighting (10)=(2)X(9)	Number of Services (11)	Weighting (12)=(2)X(11)	Number of Services (13)	Weighting (14)=(2)X(11)	Number of Services (15)	Weighting (16)
3/4	1.00	76,974 *	76,974	4,676	4,676	2	2	139	139	0	0	0	0	81,791	81,791
1	2.00	17,918 *	35,836	2,357	4,714	2	4	177	354	0	0	0	0	20,454	40,908
1-1/2	2.20	12	26	169	372	2	4	27	59	4	9	0	0	214	470
2	2.40	73	175	1,797	4,313	23	55	355	852	7	17	65	156	2,320	5,568
4	3.50	0	0	37	130	12	42	41	144	7	25	372	1,303	469	1,644
6	4.00	2	8	12	48	4	16	9	36	5	20	783	3,132	815	3,260
8	5.10	0	0	10	51	0	0	2	10	0	0	246	1,255	258	1,316
10	8.90	0	0	0	0	0	0	0	0	0	0	7	62	7	62
12	9.50	0	0	0	0	0	0	0	0	0	0	4	38	4	38
>12	12.70	0	0	0	0	0	0	0	0	0	0	1	13	1	13
Total		94,979	113,019	9,058	14,304	45	123	750	1,594	23	71	1,478	5,959	106,333	135,070

*Adjusted to reflect that approximately 32,264 residential customers are served by 1-inch service lines each serving two residences.

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 11. ALLOCATION OF TRANSMISSION AND DISTRIBUTION OPERATION SUPERVISION AND ENGINEERING AND MISCELLANEOUS EXPENSES.

Factors are based on transmission and distribution operation expenses other than those being allocated, as follows:

Customer Classification	Transmission & Distribution Operating Expenses	Allocation Factor
(1)	(2)	(3)
Residential	\$ 453,084	0.4525
Commercial	274,293	0.2741
Industrial	31,233	0.0312
Other Public Authority	92,299	0.0922
Sales for Resale	25,928	0.0259
Private Fire Protection	55,760	0.0557
Public Fire Protection	68,473	0.0684
Total	<u>1,001,069</u>	<u>1.0000</u>

FACTOR 12. ALLOCATION OF TRANSMISSION AND DISTRIBUTION MAINTENANCE SUPERVISION AND ENGINEERING, STRUCTURES AND IMPROVEMENTS, AND OTHER EXPENSES.

Factors are based on transmission and distribution maintenance expenses other than those being allocated, as follows:

Customer Classification	Transmission & Distribution Maintenance Expenses	Allocation Factor
(1)	(2)	(3)
Residential	\$ 857,629	0.5460
Commercial	357,681	0.2277
Industrial	35,413	0.0225
Other Public Authority	109,293	0.0696
Sales for Resale	29,053	0.0185
Private Fire Protection	89,935	0.0573
Public Fire Protection	91,804	0.0584
Total	<u>\$1,570,808</u>	<u>1.0000</u>

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 13. ALLOCATION OF BILLING AND COLLECTING COSTS.

Factors are based on the total number of customers.

<u>Customer Classification</u> (1)	<u>Total Customers</u> (2)	<u>Allocation Factor</u> (3)
Residential	111,111	0.8983
Commercial	9,058	0.0732
Industrial	45	0.0004
Other Public Authority	750	0.0061
Sales for Resale	23	0.0002
Private Fire Protection	2,658	0.0215
Public Fire Protection	38	0.0003
 Total	 <u><u>123,683</u></u>	 <u><u>1.0000</u></u>

FACTOR 14. ALLOCATION OF METER READING COSTS.

Factors are based on the number of metered customers.

<u>Customer Classification</u> (1)	<u>Total Metered Customers</u> (2)	<u>Allocation Factor</u> (3)
Residential	111,111	0.9072
Commercial	9,058	0.0740
Industrial	45	0.0004
Other Public Authority	750	0.0061
Sales for Resale	23	0.0002
Private Fire Protection	1,478	0.0121
 Total	 <u><u>122,465</u></u>	 <u><u>1.0000</u></u>

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 15. ALLOCATION OF ADMINISTRATIVE AND GENERAL EXPENSES

Factors are based on the allocation of all other operation and maintenance expenses excluding purchased water, power, chemicals and waste disposal.

Customer Classification	Operation & Maintenance Expenses	Allocation Factor
(1)	(2)	(3)
Residential	\$6,224,290	0.6011
Commercial	2,332,851	0.2253
Industrial	245,971	0.0238
Other Public Authority	754,974	0.0729
Sales for Resale	213,110	0.0206
Private Fire Protection	304,965	0.0295
Public Fire Protection	277,313	0.0268
Total	\$10,353,473	1.0000

FACTOR 15A. ALLOCATION OF CASH WORKING CAPITAL

Factors are based on the allocation of operation and maintenance expenses including purchased water, power, chemicals, waste disposal, and administrative and general expenses.

Customer Classification	Operation & Maintenance Expenses	Allocation Factor
(1)	(2)	(3)
Residential	\$20,994,509	0.5886
Commercial	8,418,746	0.2362
Industrial	941,854	0.0264
Other Public Authority	2,871,939	0.0805
Sales for Resale	826,764	0.0232
Private Fire Protection	847,310	0.0238
Public Fire Protection	760,790	0.0213
Total	\$35,661,911	1.0000

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 16. ALLOCATION OF LABOR RELATED TAXES AND BENEFITS.

Factors are based on the allocation of direct labor expense.

Customer Classification	Direct Labor Expense	Allocation Factor
(1)	(2)	(3)
Residential	\$4,498,713	0.5596
Commercial	1,988,726	0.2474
Industrial	221,164	0.0275
Other Public Authority	675,613	0.0840
Sales for Resale	191,858	0.0239
Private Fire Protection	228,556	0.0284
Public Fire Protection	234,992	0.0292
Total	<u>\$8,039,623</u>	<u>1.0000</u>

FACTOR 17. ALLOCATION OF ORGANIZATION, FRANCHISES AND CONSENTS,
MISCELLANEOUS INTANGIBLE PLANT AND OTHER RATE BASE ELEMENTS.

Factors are based on the allocation of the original cost less depreciation other than those items being allocated, as follows:

Customer Classification	Original Cost Less Depreciation	Allocation Factor
(1)	(2)	(3)
Residential	\$197,588,276	0.4980
Commercial	105,400,643	0.2656
Industrial	12,235,107	0.0308
Other Public Authority	37,618,003	0.0948
Sales for Resale	10,769,889	0.0271
Private Fire Protection	12,140,223	0.0306
Public Fire Protection	21,055,453	0.0531
Total	<u>\$396,807,594</u>	<u>1.0000</u>

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 18. ALLOCATION OF INCOME TAXES AND INCOME AVAILABLE FOR RETURN.

Factors are based on the allocation of the original cost measure of value rate base as shown on the following pages and summarized below.

Customer Classification <u>(1)</u>	Original Cost Measure of Value <u>(2)</u>	Allocation Factor <u>(3)</u>
Residential	\$180,738,822	0.4984
Commercial	96,314,223	0.2656
Industrial	11,183,739	0.0308
Other Public Authority	34,369,121	0.0948
Sales for Resale	9,843,612	0.0271
Private Fire Protection	11,108,618	0.0306
Public Fire Protection	<u>19,113,894</u>	<u>0.0527</u>
Total	<u><u>\$362,672,028</u></u>	<u><u>1.0000</u></u>

FACTOR 19. ALLOCATION OF REGULATORY COMMISSION EXPENSES, ASSESSMENTS AND OTHER WATER REVENUES.

The factors are based on the allocation of the total cost of service, excluding those items being allocated.

Customer Classification <u>(1)</u>	Total Cost of Service <u>(2)</u>	Allocation Factor <u>(3)</u>
Residential	\$52,218,132	0.5404
Commercial	24,285,304	0.2514
Industrial	2,764,011	0.0286
Other Public Authority	8,492,475	0.0879
Sales for Resale	2,430,099	0.0252
Private Fire Protection	2,655,725	0.0275
Public Fire Protection	<u>3,765,808</u>	<u>0.0390</u>
Total	<u><u>\$96,611,553</u></u>	<u><u>1.0000</u></u>

KENTUCKY AMERICAN WATER COMPANY
COST OF SERVICE FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2011, ALLOCATED TO CUSTOMER CLASSIFICATIONS

Account (1)	Factor Ref. (2)	Cost of Service (3)	Residential (4)	Commercial (5)	Industrial (6)	Public Authorities (7)	Sales for		Fire Protection Public (10)	
							Resale (8)	Private (9)		
RATE BASE										
301 Organization	17	37,450	18,650	9,947	1,153	3,550	1,015	1,146	1,989	
302 Franchise and Consents	17	70,261	34,990	18,661	2,164	6,661	1,904	2,150	3,731	
303 Other P/E Intangibles	17	6,340	3,157	1,684	195	601	172	194	337	
303.6 Other P/E Comprehensive Studies	17	516,446	257,190	137,168	15,907	48,959	13,996	15,803	27,423	
310 Land and Land Rights	2	953,579	477,457	292,081	36,522	111,378	32,994	1,430	1,716	
311 Source of Supply Struct & Improv	2	15,946,932	7,984,629	4,884,545	610,767	1,862,602	551,764	23,920	28,704	
312 Collecting & Impounding Reservoirs	1	634,189	309,674	193,935	26,002	77,561	23,528	1,585	1,903	
313 Lake, River and Other Intakes	2	6,012,952	3,010,685	1,841,767	230,296	702,313	208,048	9,019	10,823	
314 Wells and Springs	2	0	-	-	-	-	-	-	-	
316 Supply Mains	2	4,501,356	2,253,829	1,378,765	172,402	525,758	155,747	6,752	8,102	
320 Pumping Land & Land Rights	6	195,364	92,642	56,460	6,857	20,709	6,017	5,685	6,994	
321 Pumping Structures & Improvements	6	8,601,353	4,078,762	2,485,791	301,907	911,743	264,922	250,299	307,928	
323 Other Power Production Equipment	6	2,690,040	1,275,617	777,422	94,420	285,144	82,853	78,280	96,303	
325 Electric Pumping Equipment	6	14,424,653	6,840,170	4,168,725	506,305	1,529,013	444,279	419,757	516,403	
326 Diesel Pumping Equipment	6	346,201	164,169	100,052	12,152	36,697	10,663	10,074	12,394	
328 Other Pumping Equipment	6	8,163,505	3,871,134	2,359,253	286,539	865,332	251,436	237,558	292,253	
330 Land and Land Rights	2	561,501	281,144	171,988	21,505	65,583	19,428	842	1,011	
331 Water Treat Structures & Improv	2	42,088,824	21,073,874	12,891,807	1,612,002	4,915,975	1,456,273	63,133	75,760	
332 Water Treat and Equipment	2	33,105,046	16,575,697	10,140,076	1,267,923	3,866,669	1,145,435	49,658	59,589	
334 GAC	2	143,074	71,637	43,824	5,480	16,711	4,950	215	258	
340 Land and Land Rights	7	8,047,212	3,642,168	2,204,936	251,073	741,953	208,423	448,230	550,429	
341 T & D Structures & Improvements	7	479,875	217,191	131,486	14,972	44,244	12,429	26,729	32,823	
342 Distrib. Reservoirs & Standpipes	5	12,116,129	4,917,937	2,967,240	329,559	960,809	264,132	1,199,497	1,476,956	
343 Transmission & Distribution Mains										
Distribution	4	47,195,418	21,313,451	12,856,032	1,425,302	4,162,636	1,146,849	2,822,286	3,468,863	
Transmission	3	125,239,690	57,234,539	35,029,541	4,370,865	13,363,075	3,945,050	5,072,207	6,224,413	
345 Services	10	8,831,169	7,389,922	935,221	7,948	104,208	4,416	389,455	-	
346 Meters	9	15,247,471	11,920,473	2,563,100	70,138	489,444	48,792	155,524	-	
347 Meter Installations	9	11,434,249	8,939,296	1,922,097	52,598	367,039	36,590	116,629	-	
348 Fire Hydrants	8	7,167,217	-	-	-	-	-	-	7,167,217	
390 Office Structures	15	9,402,661	5,651,940	2,118,420	223,783	685,454	193,695	277,378	251,991	
391 Office Furniture and Equipment	15	(1,295,739)	(778,869)	(291,930)	(30,839)	(94,459)	(26,692)	(38,224)	(34,726)	
392 Transportation Equip.	15	1,644,818	988,700	370,577	39,147	119,907	33,883	48,522	44,081	

KENTUCKY AMERICAN WATER COMPANY
COST OF SERVICE FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2011, ALLOCATED TO CUSTOMER CLASSIFICATIONS

Account	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Public Authorities	Sales for Resale	Private	Fire Protection	Public
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(10)
393 Stores Equipment	15	(513)	(308)	(116)	(12)	(37)	(11)	(15)	(14)	
394 Tools, Shop & Garage Equipment	15	1,089,426	654,854	245,448	25,928	79,419	22,442	32,138	29,197	
395 Laboratory Equipment	2	60,335	30,210	18,481	2,311	7,047	2,088	91	109	
396 Power Operated Equipment	15	591,209	355,376	133,199	14,071	43,099	12,179	17,441	15,844	
397 Communication Equipment	15	1,091,976	656,387	246,022	25,989	79,605	22,495	32,213	29,265	
398 Miscellaneous Equipment	15	803,750	483,134	181,085	19,129	58,593	16,557	23,711	21,541	
399 Other Tangible Property	15	(171,258)	(102,943)	(38,584)	(4,076)	(12,485)	(3,528)	(5,052)	(4,590)	
Total Plant in Service, Net of Accumulated Depreciation, Contributions and Advances		387,974,161	192,188,563	103,546,205	12,048,366	37,052,512	10,615,211	11,796,262	20,727,021	
OTHER RATE BASE ELEMENTS										
Utility Plant Acquisition Adjustments	17	2,342	1,166	622	72	222	63	72	124	
Accumulated Amortization	17									
CWIP - Water Treatment Plant and Supply Mains	2	572,250	286,526	175,280	21,917	66,839	19,800	858	1,030	
CWIP - Transmission Mains	3									
CWIP - Reservoirs and Standpipes	5									
CWIP - Distribution Mains	4	3,893,635	1,758,366	1,060,626	117,588	343,419	94,615	232,839	286,182	
CWIP - Meters and Meter Installations	9									
CWIP - Services	10									
CWIP - Hydrants	8									
CWIP - Customer Billing Software	13	2,235,817	2,008,434	163,662	894	13,638	447	48,070	671	
CWIP - Financial Software	15	2,235,817	1,343,950	503,730	53,212	162,991	46,058	65,957	59,920	
CWIP - Other	15	526,411	316,426	118,600	12,529	38,375	10,844	15,529	14,108	
Working Capital Allowance	15A	2,634,000	1,550,372	622,151	69,538	212,037	61,109	62,689	56,104	
Other Working Capital Allowance	15A	642,421	378,129	151,740	16,960	51,715	14,904	15,290	13,684	
Deferred Income Taxes	17	(40,026,731)	(19,933,312)	(10,631,100)	(1,232,823)	(3,794,534)	(1,084,724)	(1,224,818)	(2,125,419)	
Deferred Investment Tax Credits	17	(76,952)	(38,322)	(20,438)	(2,370)	(7,295)	(2,085)	(2,355)	(4,086)	
Deferred Maintenance										
Treatment Plant	2	1,031,814	516,629	316,045	39,518	120,516	35,701	1,548	1,857	
Distribution Reservoir	5	1,676,424	680,461	410,556	45,599	132,940	36,548	165,966	204,356	
Deferred Debits										
Source of Supply	2	1,698,131	850,254	520,138	65,038	198,342	58,755	2,547	3,057	
General	15	2,342	1,408	528	56	171	48	69	63	
Other Rate Base Elements	17	(2,349,854)	(1,170,227)	(624,121)	(72,376)	(222,766)	(63,681)	(71,906)	(124,777)	
Total Other Rate Base Elements		(25,302,133)	(11,449,741)	(7,231,983)	(864,648)	(2,683,390)	(771,600)	(687,844)	(1,613,127)	
Total Original Cost Measure of Value		362,672,028	180,738,822	96,314,223	11,183,739	34,369,121	9,843,612	11,108,618	19,113,894	

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 20. ALLOCATION OF UNCOLLECTIBLE ACCOUNTS

Factors are based on the net charge-offs by customer classification.

<u>Customer Classification</u> (1)	<u>Net Charge-Offs</u> (2)	<u>Allocation Factor</u> (3)
Residential	\$394,368	0.8599
Commercial	49,150	0.1072
Industrial	0	0.0000
Other Public Authority	0	0.0000
Sales for Resale	0	0.0000
Private Fire	<u>15,101</u>	<u>0.0329</u>
Total	<u><u>\$458,619</u></u>	<u><u>1.0000</u></u>

KENTUCKY-AMERICAN WATER COMPANY

SUMMARY OF AVERAGE DAY AND PEAK DAY DELIVERY FOR THE YEARS 1990-2009

Year (1)	Annual Sendout (MG) (2)	Average Day (MGD) (3)	Peak Day (MGD) (4)	Date (5)	Ratio (6)
2009	13,905	38.09	53.40	7/17	1.40
2008	15,644	42.86	63.09	8/21	1.47
2007	15,734	43.11	64.30	6/15	1.49
2006	15,619	42.79	67.22	8/7	1.57
2005	16,068	44.02	69.65	8/2	1.58
2004	14,931	40.91	56.89	6/29	1.39
2003	15,005	41.11	61.37	7/8	1.49
2002	15,956	43.72	71.82	8/5	1.64
2001	14,962	40.99	56.04	6/19	1.37
2000	14,565	39.90	66.37	6/13	1.66
1999	15,077	41.31	61.18	8/11	1.48
1998	14,799	40.55	64.67	9/14	1.60
1997	14,419	39.50	60.70	7/18	1.54
1996	14,265	39.08	53.70	6/30	1.37
1995	14,549	39.86	63.77	7/14	1.60
1994	14,471	39.65	58.36	6/16	1.47
1993	14,290	39.15	60.39	7/8	1.54
1992	13,303	36.45	47.22	7/13	1.30
1991	13,450	36.85	56.42	8/7	1.53
1990	12,557	34.40	58.05	7/9	1.69

KENTUCKY AMERICAN WATER COMPANY

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

Description (1)	Restrictive Diameters Squared (2)	Quantity (3)	Relative Demand* (4)=(2)x(3)	Allocation Factor (5)
<u>PRIVATE FIRE PROTECTION</u>				
Fire Lines				
2 -inch	4.0	65	390	
3 -inch	9.0	0	0	
4 -inch	16.0	372	8,937	
6 -inch	36.0	783	42,278	
8 -inch	64.0	246	23,616	
10 -inch	100.0	7	1,050	
12 -inch	144.0	4	864	
14 -inch	196.0	0	0	
16 -inch	256.0	1	384	
Private Hydrants	27.6	1,180	48,842	
Total Private Fire Protection		<u>2,658</u>	<u>126,361</u>	<u>0.4484</u>
<u>PUBLIC FIRE PROTECTION</u>				
4 -1/4 inch w/ 2-2 1/2, 1-4 1/2	20.3	6,297	127,829	
5 -1/4 inch w/ 2-2 1/2, 1-4 1/2	27.6	1,000	27,600	
Total Public Fire Protection		<u>7,297</u>	<u>155,429</u>	<u>0.5516</u>
Total Fire Protection		<u>9,955</u>	<u>281,790</u>	<u>1.0000</u>

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

PART III. PROPOSED CUSTOMER RATES

KENTUCKY-AMERICAN WATER COMPANY
CALCULATION OF MONTHLY SERVICE CHARGES

<u>Cost Function</u> (1)	<u>Cost of Service (Schedule D)</u> (2)	<u>Number of Units</u> (3)	<u>Description</u> (4)	<u>Cost Per Unit Per Month</u> (5)
Meters	\$ 4,337,138	143,199	5/8-inch meter equivalents	\$ 2.52
Services	2,650,946	129,111	3/4-inch service equivalents	1.71
Billing & Collecting	<u>7,131,700</u>	120,987	Number of customers	<u>4.91</u>
Total	<u>\$ 14,119,783</u>			<u>\$ 9.14</u>

<u>Meter Size</u> (1)	<u>Capacity Ratio</u>	<u>Present Rate</u>	<u>Proposed Rate</u>
5/8-inch	1.0	\$ 8.60	\$ 9.15
3/4-inch	1.5	12.90	13.70
1-inch	2.5	21.50	22.90
1-1/2-inch	5.0	43.00	45.80
2-inch	8.0	68.80	73.20
3-inch	15.0	129.00	137.30
4-inch	25.0	215.00	228.80
6-inch	50.0	430.00	457.50
8-inch	80.0	688.00	732.00

KENTUCKY-AMERICAN WATER COMPANY
COMPARISON OF PRESENT AND PROPOSED RATES

Meter Charges, Per Month:

<u>Meter Size</u>	<u>Present Rate</u>	<u>Proposed Rate</u>
5/8	\$ 8.60	\$ 9.15
3/4	12.90	13.70
1	21.50	22.90
1-1/2	43.00	45.80
2	68.80	73.20
3	129.00	137.30
4	215.00	228.80
6	430.00	457.50
8	688.00	732.00

<u>Consumption Charges:</u>	<u>Per Thousand Gallons</u>		<u>Per CCF</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
Residential	\$ 3.77200	\$ 5.76133	\$ 2.82900	\$ 4.32100
Commercial	\$ 3.48667	\$ 5.25067	\$ 2.61500	\$ 3.93800
Industrial	\$ 2.81867	\$ 4.26667	\$ 2.11400	\$ 3.20000
Other Public Authority	\$ 3.29467	\$ 4.96667	\$ 2.47100	\$ 3.72500
Sales for Resale	\$ 3.27067	\$ 4.92000	\$ 2.45300	\$ 3.69000
Hidden Leak	\$ 0.94300	\$ 1.44033	\$ 0.70725	\$ 1.08025

Fire Protection:

<u>Private Fire Line Size</u>	<u>Present Rate</u>	<u>Proposed Rate</u>
	<u>Per Annum</u>	<u>Per Annum</u>
2	\$72.91	\$ 105.00
4	\$293.43	\$ 422.58
6	\$660.03	\$ 950.53
8	\$1,173.45	\$1,689.92
10	\$1,833.98	\$2,641.17
12	\$2,641.62	\$3,804.28
14	\$3,596.08	\$5,178.83
16	\$4,695.89	\$6,762.70
Private Fire Hydrant	652.13	939.15
Public Fire Hydrant	371.87	490.00