

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

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**Witness:** Michael A. Miller/Sheila Miller/Keith Cartier/Nick Rowe

170. Provide the monthly financial and operating reports for every month from December 2007 to the present.

**Response:**

Please see attached reports applicable to this request that have not been supplied previously. For the monthly financial report from February 2009 – January 2010 refer to KAW\_APP\_EX30\_022610.pdf.

For the electronic version of this response, refer to KAW\_R\_AGDR1#170\_042610.pdf.

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Income Statement - Month To Date  
 Kentucky-American  
 Dec 2007  
 (\$ in Thousands)

Report ID: FRP 1.1  
 American Water Confidential

Close Status: Final  
 source system data with  
 prelim adjs and elims

	MTD Actuals	MTD Reforecast	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>											
1	4,148	4,603	4,512	(454)	(9.87)%	4,512	(364)	(8.06)%	3,600	549	15.25%
2	28	22	22	6	(0.85)%	22	6	26.42%	27	1	4.00%
3	186	188	158	(2)	(0.85)%	158	28	18.02%	146	40	27.56%
4	4,362	4,813	4,692	(450)	(9.35)%	4,692	(329)	(7.02)%	3,772	590	15.64%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>											
<b>PRODUCTION EXPENSES</b>											
5	42	31	41	(11)	(36.25)%	41	(1)	(2.61)%	38	(3)	(8.98)%
6	214	212	230	(2)	(0.72)%	230	17	7.21%	248	34	13.83%
7	138	121	125	(17)	(13.76)%	125	(13)	(10.18)%	95	(42)	(44.58)%
8	17	22	20	5	22.88%	20	3	14.12%	142	125	88.02%
	410	386	415	(24)	(6.27)%	415	6	1.36%	523	113	21.67%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>											
9	532	514	487	(17)	(3.35)%	487	(45)	(9.24)%	366	(175)	(48.16)%
10	26	51	38	23	44.76%	38	10	26.02%	37	56.79%	56.79%
11	94	143	138	5	34.00%	138	44	31.57%	150	55	37.03%
12	21	16	16	(4)	(27.06)%	16	(4)	(27.06)%	22	22	6.53%
	675	724	679	50	6.85%	679	4	0.58%	593	(81)	(13.71)%
13	637	735	569	98	13.32%	569	(67)	(11.84)%	717	80	11.18%
14	77	53	57	(24)	(46.13)%	57	(20)	(34.65)%	61	(16)	(26.03)%
15	77	53	57	(24)	(46.13)%	57	(20)	(34.65)%	61	(16)	(26.03)%
16	43	75	75	31	42.19%	75	31	42.19%	30	(13)	(43.21)%
17	55	85	65	10	15.15%	65	10	15.15%	105	50	47.42%
18	96	129	119	33	25.40%	119	23	19.10%	101	5	5.01%
19	3	3	3	(1)	(25.82)%	3	(1)	(25.82)%	24	21	86.91%
20	49	42	33	(8)	(18.71)%	33	(17)	(50.92)%	61	11	18.80%
21	125	144	159	34	13.53%	159	34	21.53%	525	400	76.26%
22	464	170	197	(294)	(172.92)%	197	(267)	(135.37)%	200	(264)	(132.18)%
	2,634	2,524	2,370	(110)	(4.35)%	2,370	(263)	(11.11)%	2,940	307	10.43%
23	189	600	602	411	68.53%	602	413	68.64%	430	68.48%	68.48%
24	42	42	34	0	0.73%	34	(8)	(22.77)%	40	(2)	(3.78)%
	231	642	636	411	64.06%	636	405	63.72%	428	64.98%	64.98%
25	290	266	238	(24)	(8.86)%	238	(52)	(21.96)%	(22)	(312)	(1,436.22)%
27	3,154	3,432	3,244	(278)	(8.10)%	3,244	90	2.77%	3,578	423	11.84%
	1,208	1,380	1,447	(172)	(12.46)%	1,447	(239)	(16.54)%	195	1,014	521.11%
<b>OTHER INCOME &amp; DEDUCTIONS</b>											
28	0	0	0	0	0.00%	0	0	0.00%	(2)	(2)	(100.00)%
29	488	426	516	(62)	(14.59)%	516	28	5.40%	418	(70)	(16.65)%
30	63	78	7	14	18.59%	7	(57)	(845.27)%	38	(25)	(67.13)%
31	0	0	0	0	0.00%	0	0	0.00%	64	64	100.00%
	551	504	523	(48)	(9.47)%	523	(29)	(5.50)%	518	(34)	(6.51)%
32	108	57	57	51	89.70%	57	51	89.70%	16	92	581.49%
33	51	26	26	25	96.28%	26	25	96.28%	2	46	2,136.73%
34	7	12	12	5	40.00%	12	5	40.00%	6	(1)	(20.53)%
35	-	(38)	-	(38)	(100.00)%	-	-	-	-	-	-
26	-	-	-	-	-	-	-	-	-	-	-
36	-	-	-	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-	-	-	-
39	1	2	(1)	(1)	(59.18)%	(1)	1	59.18%	(54)	55	101.20%
	0	0	0	0	0.00%	0	0	0.00%	(54)	55	101.20%
40	0	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
41	48	37	2	(11)	(30.03)%	2	(46)	(2,708.24)%	5	(43)	(868.55)%
	48	37	2	(11)	(30.03)%	2	(46)	(2,708.24)%	5	(43)	(868.55)%
	47	35	2	12	33.81%	2	45	2,567.32%	59	(12)	969.75%
	(447)	(507)	(454)	59	11.73%	(454)	7	1.47%	(565)	118	20.83%
	781	873	994	(112)	(12.88)%	994	(233)	(23.42)%	(370)	1,131	305.44%
42	43	41	46	(2)	(4.91)%	46	2	4.85%	345	301	87.43%
43	214	344	334	130	37.84%	334	120	35.84%	(372)	(596)	(157.57)%
44	-	0	0	0	0.00%	0	0	0.00%	(6)	(6)	(71.29)%
45	(2)	(1)	0	1	1,030.71%	0	1	1,030.71%	(28)	(28)	(33.88)%
46	238	385	378	149	38.64%	378	142	37.35%	(60)	(286)	(463.03)%
	525	488	615	36	7.43%	615	(90)	(14.70)%	835	266.11%	266.11%
47	518	488	30	7	6.09%	30	(32)	(62.85)%	7	0	0.00%
	1,912	1,534	1,608	(378)	(24.66)%	1,608	(59)	(10.17)%	(317)	835	253.56%
	(1,394)	(1,046)	(1,031)	(348)	(33.33)%	(1,031)	(363)	(35.19)%	(1,571)	177	11.24%



**Operating Revenues:**

MTD revenues are under the plan by (\$302). Water, which excludes intra-company revenue, is under by (\$335) mainly due to lower sales during the month. Sewer revenue is over by \$5. Other revenues are over the plan by \$28 due to higher reconnection and application fees.

**Operating Expenses:**

Production expenses are over the plan by (\$21) mainly due to purchased water (\$28). Labor related expenses are on plan. Labor is over plan by (\$45) mainly due to transfers from service company to Kentucky and is offset by a savings in group insurance \$44.

Management fees are over the plan by (\$67). Regulatory expense is under \$31 due to a smaller amortization of rate case expense. Miscellaneous is under plan by \$34 mainly due to transportation \$10, conservation \$6 and miscellaneous expense \$10. Maintenance expense is over the plan by (\$267). This is due to net negative salvage being over \$(238) due to the large number of retirements that were booked during the month. Depreciation is under the plan by \$413 due to the large number of retirements that were booked during the month. A first time auto-retirement entry was booked that retirees assets that are beyond their useful life. General taxes are over the plan by (\$52) mainly due to an increase in property tax and school tax (\$29). Miscellaneous other deductions are over the plan by (\$46) mainly due to the recent rate order increasing contributions to the Community Action Council by (\$30).

**Other Income & Deductions:**



Income Statement - Month To Date  
 Kentucky - American  
 December 2007  
 (\$ in Thousands)  
 Variance Explanation  
 MTD Actual Vs. MTD Prior Year

Operating Revenues:

Operating Expenses:

Other Income & Deductions:



**Operating Revenues:**

MTD revenues are under the forecast by \$(423). Water, which excludes intra-company revenue, is under by \$(427) mainly due to lower sales during the month. Sewer revenue is over by \$6. Other revenues are under the forecast by (\$2).

**Operating Expenses:**

Production expenses are over the forecast by (\$51) mainly due to purchased water (\$38) and chemicals(\$17). Chemicals are over the forecast due to elevated source water turbidity.

Labor related expenses are under the forecast by \$50. Pension expense and group insurance are both under the forecast due to capital credits from the third payroll in December.

Management fees are under the forecast by \$98. Regulatory expense is under \$31 due to a smaller amortization of rate case expense. Maintenance expense is over the forecast by \$(294). This is due to net negative salvage being over \$(295) due to the large number of retirements that were booked during the month. Depreciation is under the forecast by \$411 due to the large number of retirements that were booked during the month. A first time auto-retirement entry was booked that retires assets that are beyond their useful life. General taxes are over the forecast by (\$24) mainly due to an increase in school tax (\$22). Preferred dividends are over the forecast by (\$38) and are being investigated.

**Other Income & Deductions:**



Income Statement - Quarter To Date  
 Kentucky-American  
 Dec QTD 2007  
 (\$ In Thousands)

Report ID: FFP1.2  
 Annual Year to Date

Close Status: Final  
 source system data with  
 prelim ads and elims

Tuesday, January 15, 2008  
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	QTD Actuals	QTD Reforecast	Variance Favorable (Unfavorable)	% Variance	QTD Plan	Variance Favorable (Unfavorable)	% Variance	QTD Pt. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES.</b>										
1	12,396	13,120	(724)	(5.52)%	13,258	(862)	(6.50)%	11,193	1,203	10.75%
2	84	66	18	26.91%	66	18	26.91%	85	(1)	(0.98)%
3	594	563	31	5.48%	473	121	25.56%	459	135	29.38%
4	13,073	13,749	(676)	(4.91)%	13,797	(724)	(5.25)%	11,736	1,337	11.39%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE.</b>										
<b>PRODUCTION EXPENSES.</b>										
5	58	87	29	33.64%	117	59	50.65%	154	96	62.22%
6	731	723	(8)	(1.11)%	782	51	6.85%	590	(141)	(23.85)%
7	467	401	(66)	(16.34)%	384	(83)	(21.62)%	353	(113)	(32.04)%
8	49	61	12	19.51%	48	(1)	(2.75)%	156	107	68.53%
	1,305	1,272	(32)	(2.53)%	1,331	26	1.97%	1,254	(51)	(4.08)%
<b>O&amp;M LABOR &amp; OVERHEAD.</b>										
9	1,554	1,578	24	1.51%	1,503	(51)	(3.42)%	1,283	(272)	(21.17)%
10	109	153	44	28.32%	114	5	3.96%	192	83	43.13%
11	372	430	57	13.36%	413	41	9.99%	430	58	13.43%
12	54	46	(8)	(16.87)%	46	(8)	(16.87)%	53	(1)	(2.79)%
	2,090	2,207	117	5.28%	2,077	(14)	(0.65)%	1,958	(132)	(6.76)%
<b>Management fees</b>										
13	1,908	2,125	217	10.21%	1,694	(214)	(12.61)%	1,796	(112)	(6.26)%
<b>Shared business services</b>										
14	196	182	(14)	(7.81)%	189	(7)	(3.69)%	171	(25)	(14.58)%
	196	182	(14)	(7.81)%	189	(7)	(3.69)%	171	(25)	(14.58)%
<b>Total contracted services</b>										
16	103	135	31	29.35%	135	31	29.35%	90	(13)	(14.40)%
17	163	195	32	16.31%	195	32	16.31%	209	46	21.88%
18	328	383	54	14.22%	364	25	7.13%	440	46	25.41%
19	8	8	0	4.66%	8	0	4.66%	28	22	74.18%
20	153	121	(32)	(26.20)%	102	(51)	(50.10)%	124	(26)	(22.62)%
21	261	431	170	39.46%	452	272	51.11%	511	59	11.56%
22	791	618	(173)	(27.89)%	695	(156)	(24.80)%	622	(169)	(27.12)%
	7,306	7,677	371	4.63%	7,174	(132)	(1.84)%	7,466	180	2.14%
<b>Total operations and maintenance expense</b>										
23	1,134	1,840	706	38.38%	1,776	643	36.18%	1,698	564	33.24%
24	126	127	1	0.73%	103	(23)	(22.77)%	121	(6)	(3.78)%
	1,260	1,967	707	35.95%	1,879	619	32.96%	1,819	580	30.77%
<b>Depreciation and amortization</b>										
25	864	803	(61)	(7.58)%	717	(147)	(20.45)%	779	(85)	(10.93)%
<b>General taxes</b>										
27	9,429	10,406	1,077	9.74%	9,770	341	3.49%	10,064	634	6.30%
	9,429	10,406	1,077	9.74%	9,770	341	3.49%	10,064	634	6.30%
	3,644	3,303	(341)	(10.34)%	4,028	(383)	(9.52)%	1,972	1,172	117.86%
<b>OTHER INCOME &amp; DEDUCTIONS.</b>										
28	0	0	0	0.00%	0	0	0.00%	(2)	(2)	(100.00)%
29	1,326	1,359	33	2.43%	1,547	222	14.32%	1,272	(54)	(4.27)%
30	261	196	(65)	(33.21)%	33	(228)	(690.37)%	101	(160)	(167.83)%
31	0	0	0	0.00%	0	0	0.00%	65	65	100.00%
	1,587	1,555	(32)	(2.07)%	1,581	7	0.43%	1,436	(151)	(10.54)%
<b>AFUDC - Equity</b>										
32	276	186	(90)	(48.17)%	186	90	48.17%	46	230	497.96%
33	127	85	(42)	(50.21)%	85	42	50.21%	16	111	692.15%
34	21	37	16	43.80%	37	16	43.80%	18	(2)	(13.06)%
35	59	(115)	(174)	(151.40)%	0	(59)	0.00%	0	(59)	0.00%
<b>Preferred dividends of subsidiaries (Consolidated)</b>										
26	-	-	-	-	-	-	-	-	-	-
36	-	-	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-	-	-
39	28	3	(25)	(906.24)%	0	28	381.16%	80	(44)	305.46%
	28	3	(25)	(906.24)%	0	28	381.16%	80	(44)	305.46%
<b>Total other income (deductions)</b>										
40	0	0	0	155.28%	0	0	155.28%	0	0	0.00%
41	64	52	(12)	(22.52)%	7	(57)	(785.10)%	25	(39)	(153.73)%
	64	52	(12)	(22.52)%	7	(57)	(785.10)%	25	(39)	(153.73)%
<b>Total Other Deductions</b>										
42	36	50	14	(28.03)%	7	28	381.16%	80	(44)	305.46%
	(1,181)	(1,485)	304	20.47%	(1,354)	172	12.73%	(1,472)	290	19.72%
<b>Income (loss) before income taxes</b>										
43	140	104	(36)	(34.98)%	123	(17)	(13.82)%	69	(71)	(102.26)%
44	755	732	(23)	(3.10)%	901	146	16.19%	(996)	(1,751)	(175.79)%
45	(1)	(1)	0	73.15%	(1)	0	73.15%	(10)	(9)	(89.34)%
46	(11)	(2)	(9)	384.84%	(2)	9	384.84%	(48)	(37)	(76.74)%
	883	833	(50)	(5.96)%	1,021	138	13.54%	(985)	(1,867)	(189.63)%
	1,560	984	(576)	(60.53)%	1,653	(73)	(4.40)%	1,186	394	33.26%
	79	90	11	13.92%	115	(36)	(31.49)%	20	59	301.09%
	1,502	984	(518)	(52.53)%	1,538	(37)	(2.37)%	1,166	335	28.75%
<b>Net Income (loss)</b>										
	1,912	1,534	(378)	(24.66)%	1,608	(304)	(18.92)%	1,254	(658)	(52.50)%
<b>Common Dividend Declared</b>										
	(411)	(550)	139	25.28%	(70)	(341)	(487.84)%	(68)	(323)	(388.88)%
<b>Current Year Retained Earnings</b>										



**Operating Revenues:**

QTD revenues are under the plan by (\$697). Water, which excludes intra-company revenue, is under by (\$835) mainly due to lower sales during the quarter. Sewer revenue is over by \$18. Other revenues are over the plan by \$121 due to increased reconnection and application fees associated with increased shut-off non-pay orders.

**Operating Expenses:**

Production expenses are at the plan level. Chemical expense is over the plan by (\$83) due to source water quality. This is offset by savings in purchased water \$32 and fuel and power \$51.  
 Labor related expenses are over the plan by (\$14). Labor is over (\$51) mainly due to the transfer of services company employees to Kentucky offset by higher capital labor. Group insurance is under the plan by \$41. Management fees are over the plan by (\$214) mainly due to SOX related expenses.

Miscellaneous is under the plan by \$194 mainly due to transportation and the reversal of penalties \$162. Maintenance expense is over the plan by (\$156) mainly due to increased net negative salvage from the large number of retirements that were booked during the month.

Depreciation is under the plan by \$643 due to the large number of retirements that were booked in December as well as the delay in some of the construction projects at the Kentucky River Station. General taxes are over the plan by (\$147) mainly due to an increase in property tax and school tax (\$87). Preferred dividends are over the plan by (\$59) and are being investigated.

**Other Income & Deductions:**





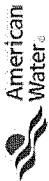
Income Statement - Quarter To Date  
 Kentucky - American  
 QTD 2007  
 (\$ in Thousands)  
 Variance Explanation  
 QTD Actual Vs. QTD Prior Year

Report ID: RFR-12  
 American Water Confidential

Operating Revenues:

Operating Expenses:

Other Income & Deductions:



**Operating Revenues:**

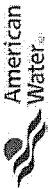
QTD revenues are under the forecast by \$(619). Water, which excludes intra-company revenue, is under by \$(697) mainly due to lower sales during the quarter. Sewer revenue is over by \$18. Other revenues are over the forecast by \$31.

**Operating Expenses:**

Production expenses are over the forecast by \$(59) mainly due to chemicals. Chemicals are over the forecast (\$66) due to source water quality. Labor related expenses are under the forecast by \$117. Labor is under \$24, pension expense is under \$43 and group insurance is under by \$57.

Management fees are under the forecast by \$217. Miscellaneous is under the forecast by \$170 mainly due to the reversal of penalties \$162. Maintenance expense is over the forecast by (\$173) mainly due to increased net negative salvage from the large number of retirements that were booked during the month. Depreciation is under the forecast by \$706 due to the large number of retirements that were booked in December as well as the delay in some of the construction projects at the Kentucky River Station. Preferred dividends are over the forecast by (\$174) and are being investigated.

**Other Income & Deductions:**



Income Statement - Year To Date  
 Kentucky-American  
 Dec YTD 2007  
 (\$ in Thousands)

Report ID: RFR-1.3  
 Annual Water Customers

Close Status: Final  
 source system data with  
 prelim adjs and elims

	YTD Actuals	YTD Reforecast	YTD	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES.</b>											
1	49,936	50,555	(620)	(1.23)%	49,912	24	0.05%	46,785	3,141	6.71%	
2	340	315	25	7.82%	278	62	22.50%	303	37	12.37%	
3	2,222	2,136	86	4.01%	1,891	330	17.46%	1,912	309	16.17%	
4	52,498	53,007	(509)	(0.96)%	52,081	417	0.80%	49,010	3,488	7.12%	
<b>OPERATIONS &amp; MAINTENANCE EXPENSE.</b>											
<b>PRODUCTION EXPENSES.</b>											
5	147	394	248	62.82%	496	350	70.45%	507	360	71.05%	
6	2,828	2,830	3	0.09%	2,980	152	4.47%	2,638	(189)	(7.18)%	
7	1,682	1,630	(52)	(3.79)%	1,590	(92)	(6.39)%	1,496	(186)	(13.09)%	
8	281	277	4	1.41%	232	49	21.12%	284	3	1.06%	
	4,927	5,132	205	4.00%	5,279	352	6.67%	4,965	39	0.78%	
<b>O&amp;M LABOR &amp; OVERHEAD.</b>											
9	5,948	5,985	36	0.60%	5,837	(112)	(1.91)%	5,156	(792)	(15.36)%	
10	580	620	40	6.46%	456	164	27.26%	748	168	22.49%	
11	1,666	1,732	66	2.87%	1,654	(32)	(1.93)%	1,644	(41)	(2.52)%	
12	222	214	8	3.76%	199	23	11.49%	147	(76)	(51.61)%	
	8,436	8,551	115	1.34%	8,146	(291)	(3.57)%	7,695	(741)	(9.63)%	
13	7,520	7,718	198	2.56%	6,988	(532)	(7.62)%	6,612	(908)	(13.73)%	
14	-	-	-	-	-	-	-	-	-	-	
15	769	774	4	0.55%	848	79	9.32%	805	36	4.48%	
<b>Total contracted services</b>											
16	374	405	31	7.76%	406	31	7.77%	370	(4)	(1.07)%	
17	577	620	43	6.91%	781	204	26.15%	649	72	11.16%	
18	1,425	1,505	80	5.33%	1,387	(38)	(2.76)%	1,400	(26)	(1.83)%	
19	30	33	3	6.45%	2	2	4.84%	52	22	41.71%	
20	471	453	(18)	(4.05)%	479	8	1.72%	470	(1)	(0.14)%	
21	1,303	1,511	208	13.73%	2,003	700	34.94%	2,239	935	41.78%	
22	2,295	2,081	(214)	(7.40)%	2,740	505	18.43%	2,285	49	2.16%	
	28,068	28,782	713	2.48%	29,088	1,020	3.51%	27,543	(525)	(1.91)%	
23	6,287	7,018	731	10.41%	6,874	587	8.54%	6,717	429	6.39%	
24	504	505	1	0.25%	411	(94)	(22.78)%	459	(45)	(9.75)%	
	6,791	7,523	732	9.73%	7,285	494	6.78%	7,176	385	5.36%	
<b>Depreciation and amortization</b>											
25	3,057	3,011	(46)	(1.52)%	2,856	(202)	(7.09)%	2,872	(185)	(6.43)%	
27	-	-	-	-	-	-	-	-	-	-	
	37,916	39,316	1,400	3.56%	39,229	1,312	3.34%	37,591	(925)	(0.87)%	
	14,581	13,691	891	6.50%	12,852	1,729	13.45%	11,419	3,162	27.69%	
<b>OTHER INCOME &amp; DEDUCTIONS.</b>											
28	(127)	(127)	0	0.00%	-	127	100.00%	(2)	125	5,643.22%	
29	4,652	4,847	195	4.03%	5,686	1,035	18.20%	5,111	460	8.99%	
30	1,416	1,195	(221)	(18.50)%	291	(1,124)	(365.62)%	409	(1,007)	(246.35)%	
31	(38)	(38)	0	0.00%	-	38	100.00%	65	103	158.54%	
	5,902	5,876	(26)	(0.44)%	5,978	76	1.27%	5,583	(319)	(5.71)%	
32	843	739	104	14.08%	661	162	23.75%	274	569	207.96%	
33	364	335	29	7.69%	309	75	24.30%	117	(268)	(229.95)%	
34	75	97	22	22.87%	131	56	42.90%	73	(2)	(3.01)%	
35	-	(206)	(206)	(100.00)%	-	-	-	-	-	-	
36	-	-	-	-	-	-	-	-	-	-	
37	-	-	-	-	-	-	-	-	-	-	
38	-	-	-	-	-	-	-	-	-	-	
39	196	172	24	13.81%	-	196	100.00%	(130)	327	250.61%	
	196	172	24	13.81%	-	196	100.00%	(130)	327	250.61%	
40	0	0	0	1,470.12%	1	1	155.28%	(1)	0	(20.02)%	
41	319	311	(8)	(2.59)%	277	(42)	(15.06)%	279	(41)	(14.59)%	
	319	311	(8)	(2.59)%	278	(41)	(14.59)%	278	(41)	(14.59)%	
<b>Total Other Deductions</b>											
Other, net	122	139	(16)	(11.68)%	278	(156)	(55.99)%	408	(286)	285.21%	
<b>Total other income (deductions)</b>	(4,872)	(5,244)	372	7.09%	(5,397)	525	9.73%	(5,674)	802	14.13%	
<b>Income (loss) before income taxes</b>	9,709	8,447	1,262	14.94%	7,455	2,254	30.23%	5,745	3,964	69.00%	
State Income Taxes	554	519	(35)	(6.09)%	365	(190)	(52.01)%	455	(99)	(21.83)%	
Federal Income Taxes	3,238	3,054	(184)	(6.04)%	2,595	(643)	(24.77)%	979	(2,259)	(230.83)%	
Tax Saving Acquisition Adjustment	-	-	-	-	-	-	-	-	-	-	
State income taxes (non-operating)	0	0	0	27.64%	(23)	(23)	(100.78)%	(28)	(29)	(100.63)%	
Federal income taxes (non-operating)	3,794	3,562	(232)	(6.12)%	2,848	(946)	(33.22)%	1,263	(2,531)	(200.36)%	
<b>Provision (Benefit) for Income Taxes</b>	5,915	4,865	1,050	21.59%	4,607	1,308	28.39%	4,482	1,433	31.98%	
<b>Net income (loss)</b>	79	0	79	19.97%	460	(381)	(82.87)%	79	0	0.08%	
<b>Net Income To Common Stock</b>	4,865	4,865	0	0.00%	4,147	1,669	40.73%	4,403	1,433	32.55%	
Common Dividend Declared	1,667	1,053	614	58.34%	1,067	600	56.20%	2,397	(730)	(30.44)%	
<b>Current Year Retained Earnings</b>	3,198	3,812	(614)	(19.20)%	3,080	(1,089)	(35.37)%	2,006	(2,163)	(107.81)%	



Income Statement - Year To Date  
 Kentucky-American  
 2018  
 (\$ in Thousands)  
 Variance Explanation  
 YTD Actual Vs. YTD Plan

**Operating Revenues:**

YTD revenues are over the plan by \$444. Water, which excludes intra-company revenue, is over by \$51. Sewer revenue is over by \$62. Other revenues are over the plan by \$330 due to increased reconnection and application fees associated with increased shut-off non-pay orders.

**Operating Expenses:**

Production expenses are under the plan by \$325 mainly due to the elimination of intra-company purchased water \$323. Fuel and power is under the plan by \$132 due to decreased system delivery. This is offset by increased Chemical expense (\$102) due to source water quality. Waste disposal is over the plan by \$28) due to increased biosulfate usage for dechlorination.

Labor related expenses are over the plan by (\$291). Labor is over (\$112) mainly due to the transfer of service company employees to Kentucky. Pension expense is also over the plan by (\$124). Management fees are over the plan by (\$532) mainly due to SOX related expenses. Insurance other than group is under the plan by \$204 due to retro adjustments earlier in the year as well as higher than planned capital credits.

Miscellaneous is under the plan by \$700 due to transportation \$166, miscellaneous operations \$98, communications \$49 and the reversal of penalties \$396. Maintenance expense is under the plan by \$505. This is mainly due to savings in materials and supplies \$188, miscellaneous maintenance \$110 and more construction related paving than forecasted \$130.

**Other Income & Deductions:**



Income Statement - Year To Date  
 Kentucky American  
 Dec 2007  
 (\$ in Thousands)  
 Variance Explanation  
 YTD Actual Vs. YTD Prior Year

Report ID: RFP 1.3  
 American Water Confidential

Operating Revenues:

Operating Expenses:

Other Income & Deductions:



Income Statement - Year To Date  
 Kentucky - American  
 Water  
 2007  
 (\$ in Thousands)  
 Variance Explanation  
 YTD Actual Vs. YTD Reforecast

Report ID: FRP-13  
 American Water Confidential

**Operating Revenues:**

YTD revenues are under the forecast by (\$482). Water, which excludes intra-company revenue, is under by (\$593) mainly due to lower sales during the last four months of the year. Sewer revenue is over by \$25. Other revenues are over the forecast by \$86 mainly due to increased reconnection and application fees.

**Operating Expenses:**

Production expenses are under the forecast by \$178 mainly due to the elimination of intra-company purchased water \$221. Chemicals are over the forecast by (\$62) due to difficult to treat source water during the drought period this fall as well as elevated source water turbidity in December.

Labor related expenses are under the forecast by \$115. Labor is under \$36 due to more capital related work and less overtime than forecasted. Pension expense and group insurance were both under the forecast by \$40 and \$46 respectively.

Management fees are under the forecast by \$198. Regulatory expense is under \$31 due to a smaller amortization of rate case expense. Customer accounting is under the forecast by \$80 due to lower uncollectible expense \$121 offset by increases in bank service charges (\$20), collection agencies (\$12) and forms (\$9). Miscellaneous is under the forecast by \$208. This is mainly due to the reversal of penalties \$160 and reduced miscellaneous expenses \$60.

Maintenance expense is over the forecast by (\$154). This is due to net negative salvage being over \$(290) due to the large number of retirements that were booked during December as well as savings in materials and supplies \$59, miscellaneous maintenance \$43 and more construction related paving than forecasted \$29. Depreciation is under the forecast by \$731 due to the large number of retirements and the auto-retirement entry that was booked in December as well as the delay in some of the construction projects at the Kentucky River Station. General taxes are over the forecast by (\$46) mainly due to an increase in school tax (\$87) offset by savings in payroll taxes. Preferred dividends are over the forecast by (\$206) and are being investigated.

**Other Income & Deductions:**



Revenue Variance Summary  
Dec 2007  
(\$ In Thousands)

Report ID: FRP.2.0  
American Water Confidential

Close Status: Final  
source system data with

Month to Date	Kentucky Growth	KY-Corporate	KY-Pineville Sewer	KY-Management Cont	KY-Operations	Kentucky-American In	Kentucky-American I	Kentucky-American
Water	-	-	-	-	-	-	-	-
Rates	-	-	-	-	-	-	-	-
Demand	-	-	-	-	-	0	-	0
Number of Customers	-	-	-	-	-	-	-	-
Balancing Accounts	-	-	-	-	-	-	-	-
Growth	-	-	-	-	-	-	-	-
Other Water Revenue Variances	-	-	-	-	-	-	-	-
Wastewater Revenue Variances	-	-	-	-	6	-	-	6
Other Revenue Variances	-	-	-	-	-	-	-	-
Total	-	12	-	-	317	-	-	329

Quarter to Date

Quarter to Date	Kentucky Growth	KY-Corporate	KY-Pineville Sewer	KY-Management Cont	KY-Operations	Kentucky-American In	Kentucky-American I	Kentucky-American
Water	-	-	-	-	-	-	-	-
Rates	-	-	-	-	-	-	-	-
Demand	-	-	-	-	-	0	-	0
Number of Customers	-	-	-	-	-	0	-	0
Balancing Accounts	-	-	-	-	-	-	-	-
Growth	-	-	-	-	-	-	-	-
Other Water Revenue Variances	-	-	-	-	-	-	-	-
Wastewater Revenue Variances	-	-	-	-	18	-	-	18
Other Revenue Variances	-	-	-	-	-	-	-	-
Total	-	124	-	-	848	-	-	724

Year to Date

Year to Date	Kentucky Growth	KY-Corporate	KY-Pineville Sewer	KY-Management Cont	KY-Operations	Kentucky-American In	Kentucky-American I	Kentucky-American
Water	-	-	-	-	-	-	-	-
Rates	-	-	-	-	-	-	-	-
Demand	-	-	-	-	-	-	-	-
Number of Customers	-	-	-	-	-	-	-	-
Balancing Accounts	-	-	-	-	-	-	-	-
Growth	-	-	-	-	-	-	-	-
Other Water Revenue Variances	-	-	-	-	-	-	-	-
Wastewater Revenue Variances	-	-	-	-	-	-	-	-
Other Revenue Variances	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

Report Discussion:



Balance Sheet  
Kendall Water System  
Dec 31, 2007

Report ID: FRP 3.0  
American Water Confidential

Close Status: Final  
source system data with  
prelim adjis and elims

Tuesday, January 15, 2008  
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Assets	Actuals	Reforecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Dec	Increase (Decrease)	% Variance
1 Utility Plant	344,833	345,833	(901)	(0.3)%	368,421	(23,488)	(6.4)%	327,533	17,400	5.3%
2 Construction Work in Progress	21,519	21,987	(467)	(2.2)%	-	21,519	-	11,763	9,756	82.9%
3 Accumulated Depreciation	(80,435)	(83,945)	3,509	4.2%	(81,335)	10,900	11.9%	(75,626)	(4,606)	(6.1)%
4 Utility Plant Acquisition Adjustments	327	334	(7)	(2.1)%	-	327	-	348	(21)	(6.1)%
5 Other Utility Plant Adjustments	-	-	-	-	-	-	-	-	-	-
<b>Total Utility Plant</b>	<b>286,344</b>	<b>284,211</b>	<b>2,134</b>	<b>0.8%</b>	<b>277,086</b>	<b>9,258</b>	<b>3.3%</b>	<b>263,816</b>	<b>22,528</b>	<b>8.5%</b>
<b>Total Non-Utility Plant, Net</b>	<b>250</b>	<b>250</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>250</b>	<b>-</b>	<b>250</b>	<b>0</b>	<b>0.0%</b>
<b>Total property, plant and equipment</b>	<b>286,594</b>	<b>284,460</b>	<b>2,134</b>	<b>0.8%</b>	<b>277,086</b>	<b>9,508</b>	<b>3.4%</b>	<b>264,066</b>	<b>22,528</b>	<b>8.5%</b>
Cash and Cash Equivalents	398	(1,169)	1,568	134.1%	1,196	(798)	(66.7)%	79	320	405.7%
Utility customer accounts receivable	1,928	2,207	(279)	(12.7)%	7,475	(5,547)	(74.2)%	2,453	(525)	(21.4)%
Allowance for uncollectible accounts	(223)	(286)	62	21.9%	(289)	36	13.8%	(261)	38	14.5%
Accrued utility revenues	2,562	2,960	(398)	(13.4)%	-	2,562	-	2,510	52	2.1%
Other receivables, net	196	408	(212)	(51.9)%	-	196	-	603	(407)	(67.5)%
Taxes receivable, including federal income	388	(2,670)	3,058	114.5%	2,781	(2,393)	(86.0)%	4,096	(3,708)	(90.5)%
Materials and supplies	635	584	51	8.7%	423	212	50.0%	516	119	23.1%
Receivable from affiliated companies	-	-	-	-	-	-	-	0	0	(100.0)%
Other Current Assets	81	193	(112)	(58.2)%	64	17	26.1%	69	12	16.6%
<b>Current Assets</b>	<b>5,965</b>	<b>2,227</b>	<b>3,737</b>	<b>167.8%</b>	<b>11,680</b>	<b>(5,715)</b>	<b>(48.9)%</b>	<b>10,065</b>	<b>(4,100)</b>	<b>(40.7)%</b>
Regulatory asset - income tax recovery	17	6,385	2,721	74.3%	-	6,385	-	3,611	2,774	76.8%
Debt and preferred stock expense	18	846	368	478	129.6%	603	243	463	383	82.8%
Deferred pension expense	19	-	-	-	-	-	-	-	-	-
Deferred postretirement benefit expense	20	-	-	-	-	-	-	-	-	-
Deferred security costs	21	-	-	-	-	-	-	0	0	(100.0)%
Deferred business services project expense	22	-	-	-	-	-	-	-	-	-
Deferred integration costs	23	-	-	-	-	-	-	-	-	-
Deferred tank painting costs	24	1,859	780	72.3%	8,586	(6,727)	(78.3)%	1,468	391	26.6%
Deferred rate case	25	486	562	(76)	(13.5)%	-	486	421	65	15.4%
Asset premium recoverable thru rates	26	-	-	-	-	-	-	-	-	-
Environmental remediation recoverable thr	27	-	-	-	-	-	-	-	-	-
Other Regulatory Assets	3,181	3,683	(511)	(13.8)%	9,189	3,181	36.2%	3,640	(459)	(12.6)%
<b>Regulatory assets</b>	<b>12,758</b>	<b>9,366</b>	<b>3,392</b>	<b>36.2%</b>	<b>9,189</b>	<b>3,569</b>	<b>38.8%</b>	<b>9,604</b>	<b>3,154</b>	<b>32.8%</b>
Other investments	29	-	-	-	-	-	-	-	-	-
Long term receivable from affiliate	30	-	-	-	-	-	-	-	-	-
Funds restricted for construction	31	-	-	-	-	-	-	-	-	-
Goodwill	32	-	-	-	-	-	-	-	-	-
Intangible assets	33	-	-	-	-	-	-	-	-	-
Other Long Term Assets	34	488	437	50	11.5%	-	488	150	338	224.6%
<b>Total Regulatory &amp; Other LT Assets</b>	<b>13,245</b>	<b>9,803</b>	<b>3,442</b>	<b>35.1%</b>	<b>9,189</b>	<b>4,056</b>	<b>44.1%</b>	<b>9,754</b>	<b>3,491</b>	<b>35.8%</b>
<b>Total Assets</b>	<b>305,804</b>	<b>296,491</b>	<b>9,313</b>	<b>3.1%</b>	<b>297,955</b>	<b>7,849</b>	<b>2.6%</b>	<b>283,885</b>	<b>21,919</b>	<b>7.7%</b>
<b>Capital &amp; Liabilities</b>	<b>36,569</b>	<b>36,569</b>	<b>0</b>	<b>0.0%</b>	<b>44,569</b>	<b>(8,000)</b>	<b>(18.0)%</b>	<b>36,569</b>	<b>0</b>	<b>0.0%</b>
Common Stock	8,056	8,056	0	0.0%	55	8,001	14,547.9%	8,086	0	0.0%
Paid in Capital	30,024	29,348	675	2.3%	29,564	477	1.6%	28,295	1,728	6.1%
Retained Earnings	-	-	-	-	0	0	-	-	-	-
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
Unearned compensation	-	-	-	-	-	-	-	-	-	-
Treasury stock	-	-	-	-	-	-	-	-	-	-
<b>Common stockholder's equity</b>	<b>74,649</b>	<b>73,973</b>	<b>675</b>	<b>0.9%</b>	<b>74,170</b>	<b>478</b>	<b>0.6%</b>	<b>72,920</b>	<b>1,728</b>	<b>2.4%</b>
Preferred Stock without mandatory redemp	1,467	1,467	0	0.0%	1,522	(55)	(3.6)%	1,466	1	0.0%
Long term debt	79,800	79,800	0	0.0%	98,554	(18,754)	(19.0)%	49,900	29,900	59.9%
Redeemable preferred stock at redemption	4,500	4,500	0	0.0%	-	4,500	-	4,500	0	0.0%
<b>Total Capitalization</b>	<b>160,415</b>	<b>159,740</b>	<b>675</b>	<b>0.4%</b>	<b>174,246</b>	<b>(13,831)</b>	<b>(7.9)%</b>	<b>128,786</b>	<b>31,629</b>	<b>24.6%</b>
Short Term Debt	19,356	16,947	2,409	14.2%	2,976	16,380	550.4%	6,674	12,682	190.0%
Current portion of Long-term Debt	3,100	3,100	0	0.0%	-	3,100	-	27,100	(24,000)	(88.6)%
Current portion of redeemable stock at red	-	-	-	-	-	-	-	-	-	-
Accounts Payable	6,308	3,423	2,885	84.3%	2,290	4,018	175.5%	6,529	(220)	(3.4)%
Taxes Accrued	5,202	2,727	2,475	90.8%	4,029	1,173	29.1%	8,805	(3,603)	(40.9)%
Interest Accrued	1,143	957	186	19.4%	0	1,143	-	612	531	86.9%
<b>Total Other Current Liabilities</b>	<b>2,027</b>	<b>1,783</b>	<b>244</b>	<b>13.7%</b>	<b>10,622</b>	<b>(8,595)</b>	<b>(80.9)%</b>	<b>(2,955)</b>	<b>(28,717)</b>	<b>(12.7)%</b>
<b>Total Current Liabilities</b>	<b>37,137</b>	<b>28,937</b>	<b>8,200</b>	<b>28.3%</b>	<b>19,917</b>	<b>17,220</b>	<b>86.5%</b>	<b>52,041</b>	<b>(14,905)</b>	<b>(28.6)%</b>
Customer Advances for Construction	14,653	16,852	(2,199)	(13.0)%	64,441	(49,788)	(77.3)%	16,483	(1,840)	(11.2)%
Deferred Income Taxes	32,882	35,618	(2,736)	(7.1)%	36,402	(3,520)	(9.7)%	34,884	(2,002)	(5.7)%
Deferred investment tax credits	1,216	1,246	(28)	(2.3)%	-	1,218	-	1,303	(85)	(6.5)%
Regulatory liability-cost or removal	12,241	8,221	4,020	48.9%	-	12,241	-	7,587	4,644	61.1%
Accrued pension expense	2,174	2,220	(46)	(2.1)%	2,729	(555)	(20.3)%	2,382	(208)	(8.7)%
Accrued postretirement benefit expense	384	193	191	88.9%	307	77	25.2%	42	343	12.1%
Other Deferred Credits	1,115	219	896	408.8%	1,202	(87)	(37.7)%	222	893	402.5%
<b>Regulatory &amp; Other Long Term Liabilities</b>	<b>64,667</b>	<b>64,570</b>	<b>97</b>	<b>0.2%</b>	<b>103,792</b>	<b>(39,125)</b>	<b>(37.7)%</b>	<b>63,222</b>	<b>1,445</b>	<b>2.3%</b>
<b>Contributions in aid of construction</b>	<b>43,585</b>	<b>43,244</b>	<b>341</b>	<b>0.8%</b>	<b>-</b>	<b>43,585</b>	<b>-</b>	<b>39,835</b>	<b>3,750</b>	<b>9.4%</b>
<b>Total capital and liabilities</b>	<b>305,804</b>	<b>296,491</b>	<b>9,313</b>	<b>3.1%</b>	<b>297,955</b>	<b>7,849</b>	<b>2.6%</b>	<b>283,885</b>	<b>21,919</b>	<b>7.7%</b>





Balance Sheet  
Kentucky-American  
Dec 2007  
(\$ In Thousands)  
Variance Explanation  
Actual Vs. Plan

Report ID: FRP\_3.0  
American Water Confidential

Assets:



Balance Sheet  
Kentucky-American  
Dec 2007  
Variance Explanation  
Actual Vs. Plan

Report ID: FRP.3.0  
American Water Confidential

Capital & Liabilities:



Balance Sheet  
Kentucky-American  
Dec 2007  
(\$ In Thousands)

Variance Explanation  
Actual Vs. Prior Year

Assets:



Balance Sheet  
Kentucky-American  
Dec 2007  
Variance Explanation  
Actual Vs. Prior Year

Report ID: FRP.3.0  
American Water Confidential

Capital & Liabilities:



Balance Sheet  
Kentucky-American  
Dec 2007  
(\$ In Thousands)

Variance Explanation  
Actual Vs. Reforecast

Assets:

Report ID: FRP.3.0  
American Water Confidential



Balance Sheet  
Kentucky-American  
Dec 2007  
Variance Explanation  
Actual Vs. Reforecast

Report ID: FRP.3.0  
American Water Confidential

Capital & Liabilities:



Monthly Financial Reviews

- Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
- All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
- Variance analysis and commentary reflect financial results consistent with operation results.
- All known items for the current period have been reflected in financial discussions.
- Potential risks and opportunities have been identified and mitigating action plans have been developed.
- Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

\_\_\_\_\_  
**Regional Finance Director or Vice President (Signature)**

\_\_\_\_\_  
**(Date)**

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Monthly Financial Reviews

- Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
- All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
- Variance analysis and commentary reflect financial results consistent with operation results.
- All known items for the current period have been reflected in financial discussions.
- Potential risks and opportunities have been identified and mitigating action plans have been developed.
- Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

\_\_\_\_\_  
**Regional Finance Director or Vice President (Signature)**

\_\_\_\_\_  
**(Date)**



Income Statement - Month To Date  
Kentucky-American  
Jan 2008  
(\$ in Thousands)

Report ID: FRP\_1.1  
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Close Status: Final  
source system load with  
prelim eliminations

	MTD Actuals	MTD Reforecast	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pt. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
Water Revenues	4,250	-	4,250	(64)	4,323	(73)	(1.73)%	3,382	877	25.93%
Sewer Revenues	25	-	25	1	23	2	8.70%	28	(3)	(12.31)%
Other Operating Revenues	182	-	182	24	159	23	14.53%	146	36	24.64%
Management Revenues	-	-	-	(40)	4,506	(40)	(0.89)%	3,556	911	25.61%
<b>OPERATING REVENUES</b>	<b>4,457</b>	<b>-</b>	<b>4,457</b>	<b>(40)</b>	<b>4,506</b>	<b>(40)</b>	<b>(0.89)%</b>	<b>3,556</b>	<b>911</b>	<b>25.61%</b>
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
Purchased Water	5	-	(5)	43	49	(43)	(89.02)%	38	32	85.85%
Fuel and Power	278	-	(278)	(112)	166	112	(67.38)%	86	(191)	(221.63)%
Chemicals	118	-	(118)	2	121	(3)	(2.90)%	115	3	2.71%
Waste Disposal	23	-	(23)	(2)	20	3	(10.63)%	26	(3)	(11.15)%
<b>Total production costs</b>	<b>424</b>	<b>-</b>	<b>(424)</b>	<b>(68)</b>	<b>355</b>	<b>68</b>	<b>(19.24)%</b>	<b>265</b>	<b>(159)</b>	<b>(60.09)%</b>
<b>O&amp;M LABOR &amp; OVERHEAD</b>										
Labor	543	-	(543)	26	569	(26)	(4.59)%	484	(69)	(12.13)%
Pensions	58	-	(58)	(15)	43	15	(33.76)%	40	(18)	(44.21)%
Group Insurances	148	-	(148)	17	165	(17)	(10.21)%	141	(8)	(5.40)%
Other benefits	24	-	(24)	(6)	19	5	(30.60)%	22	(2)	(11.15)%
<b>Total employee related</b>	<b>774</b>	<b>-</b>	<b>(774)</b>	<b>23</b>	<b>796</b>	<b>(23)</b>	<b>(2.85)%</b>	<b>687</b>	<b>(87)</b>	<b>(12.59)%</b>
<b>Management fees</b>	<b>351</b>	<b>-</b>	<b>(351)</b>	<b>(30)</b>	<b>321</b>	<b>(30)</b>	<b>(9.33)%</b>	<b>597</b>	<b>246</b>	<b>41.19%</b>
Shared business services	317	-	(317)	5	322	(5)	(1.53)%	-	(317)	50.22%
Contracted services	41	-	(41)	29	70	(29)	(41.16)%	82	(41)	(50.22)%
<b>Total contracted services</b>	<b>358</b>	<b>-</b>	<b>(358)</b>	<b>34</b>	<b>391</b>	<b>(34)</b>	<b>(8.59)%</b>	<b>82</b>	<b>(275)</b>	<b>(334.11)%</b>
<b>Regulatory expense</b>	<b>43</b>	<b>-</b>	<b>(43)</b>	<b>31</b>	<b>75</b>	<b>(31)</b>	<b>(42.19)%</b>	<b>30</b>	<b>(13)</b>	<b>(43.21)%</b>
Insurance Other Than Group	55	-	(55)	6	60	(6)	(9.33)%	52	(3)	(5.53)%
Customer Accounting	59	-	(59)	69	128	(69)	(54.17)%	89	(30)	(33.87)%
Rents	7	-	(7)	(4)	3	4	(120.62)%	(2)	(2)	(63.62)%
General office expense	61	-	(61)	(15)	46	15	(33.24)%	47	(14)	(29.74)%
Miscellaneous	126	-	(126)	139	139	(13)	(9.49)%	9	(14)	(6.92)%
Maintenance	191	-	(191)	52	243	(52)	(21.52)%	225	(34)	(15.12)%
<b>Total operations and maintenance expense</b>	<b>2,447</b>	<b>-</b>	<b>(2,447)</b>	<b>111</b>	<b>2,558</b>	<b>(111)</b>	<b>(4.34)%</b>	<b>2,213</b>	<b>(234)</b>	<b>(10.56)%</b>
Depreciation	403	-	(403)	187	590	(187)	(31.73)%	546	143	26.15%
Amortization	42	-	(42)	(8)	34	8	(22.71)%	(3)	(3)	(6.07)%
<b>Depreciation and amortization</b>	<b>445</b>	<b>-</b>	<b>(445)</b>	<b>179</b>	<b>624</b>	<b>(179)</b>	<b>(28.75)%</b>	<b>584</b>	<b>140</b>	<b>23.87%</b>
General taxes	287	-	(287)	3	289	(3)	(1.00)%	299	13	4.22%
Impairment charges	-	-	-	-	-	-	-	-	-	-
<b>Total operating expenses, net</b>	<b>3,178</b>	<b>-</b>	<b>(3,178)</b>	<b>293</b>	<b>3,472</b>	<b>(293)</b>	<b>(8.45)%</b>	<b>3,097</b>	<b>(62)</b>	<b>(2.63)%</b>
Operating income	1,288	-	1,288	234	1,055	234	24.52%	439	823	160.64%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
Interest Income	-	-	-	-	-	-	-	(2)	(2)	(100.00)%
Interest on long-term debt	488	-	(488)	17	505	(17)	(3.42)%	427	(61)	(14.37)%
Interest on Short-Term Bank Debt	87	-	(87)	(9)	77	9	(11.77)%	35	(51)	(144.14)%
Other Interest Expense	-	-	-	-	-	-	-	-	-	-
<b>Total Interest Expense</b>	<b>575</b>	<b>-</b>	<b>(575)</b>	<b>8</b>	<b>583</b>	<b>(8)</b>	<b>(1.40)%</b>	<b>461</b>	<b>(114)</b>	<b>(24.76)%</b>
AFUDC - Equity	82	-	(82)	17	65	17	25.87%	37	45	120.72%
AFUDC Debt	39	-	(39)	9	30	9	30.22%	17	22	128.37%
Amortization of Debt Expense	7	-	(7)	(1)	6	1	(22.43)%	6	(1)	(20.04)%
Preferred dividends of subsidiaries (Consolidation)	-	-	-	-	-	-	-	(7)	(7)	(100.00)%
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	-	-	-	-	-	-	-	-	-	-
<b>Total other income</b>	<b>1</b>	<b>-</b>	<b>(1)</b>	<b>1</b>	<b>(21)</b>	<b>21</b>	<b>104.47%</b>	<b>21</b>	<b>(21)</b>	<b>(100.00)%</b>
Miscellaneous Amortization	0	-	-	0	0	0	155.28%	0	0	0.00%
Miscellaneous Other Deductions	71	-	(71)	29	100	(29)	(29.00)%	85	14	16.47%
<b>Total Other Deductions</b>	<b>71</b>	<b>-</b>	<b>(71)</b>	<b>29</b>	<b>100</b>	<b>(29)</b>	<b>(30.00)%</b>	<b>85</b>	<b>14</b>	<b>16.47%</b>
<b>Other, net</b>	<b>70</b>	<b>-</b>	<b>(70)</b>	<b>(30)</b>	<b>100</b>	<b>(30)</b>	<b>(30.00)%</b>	<b>106</b>	<b>(35)</b>	<b>(33.00)%</b>
<b>Total other income (deductions)</b>	<b>(51)</b>	<b>-</b>	<b>(51)</b>	<b>63</b>	<b>(594)</b>	<b>63</b>	<b>10.55%</b>	<b>(525)</b>	<b>(7)</b>	<b>(1.28)%</b>
<b>Income (loss) before income taxes</b>	<b>757</b>	<b>-</b>	<b>(757)</b>	<b>316</b>	<b>441</b>	<b>(316)</b>	<b>(71.80)%</b>	<b>(66)</b>	<b>822</b>	<b>1,252.93%</b>
State Income Taxes	48	-	(48)	(17)	31	17	(55.40)%	0	(48)	(194.867.85)%
Federal Income Taxes	279	-	(279)	(109)	170	109	(64.22)%	1	(278)	(27,556.68)%
Tax Saving Acquisition Adjustment	-	-	-	(3)	(3)	3	(66.29)%	(4)	(2)	(50.00)%
State income taxes (non-operating)	(21)	-	21	(11)	(32)	11	(33.24)%	(2)	0	(6.92)%
Federal income taxes (non-operating)	303	-	(303)	(43)	160	43	(26.88)%	(24)	(327)	(1,367.42)%
Provision (Benefit) for Income Taxes	494	-	(494)	38	280	173	(61.86)%	495	(48)	(9.71)%
Net Income (loss)	447	-	(447)	205	242	(205)	(84.80)%	(42)	489	1,171.52%
Preferred Dividend Declared	-	-	-	0	0	0	-	-	-	-
Common Dividend Declared	-	-	-	0	0	0	-	-	-	-
<b>Net Income to Common Stock</b>	<b>447</b>	<b>-</b>	<b>(447)</b>	<b>205</b>	<b>242</b>	<b>(205)</b>	<b>(84.80)%</b>	<b>(42)</b>	<b>489</b>	<b>1,171.52%</b>
<b>Current Year Retained Earnings</b>	<b>447</b>	<b>-</b>	<b>(447)</b>	<b>205</b>	<b>242</b>	<b>(205)</b>	<b>(84.80)%</b>	<b>(42)</b>	<b>489</b>	<b>1,171.52%</b>



**Operating Revenues:**

**Operating Expenses:**  
 Purchased water is under plan by \$43 due to no intra-company purchased water expense. The budget includes purchases from Owenton by Tri-Village in the Northern district but this will no longer happen due to the December 2007 rate order and single tariff pricing across the company. This will also be reflected in revenue and should have a zero effect to net income.

Fuel and power expense is over the plan by \$(112). This is mainly due to increased power costs. Also, during the month, tests were conducted on new equipment that was placed in service. These tests required approximately 138 MG of water to be transferred that was not budgeted. The power costs for these tests is approximately \$(19) and a request to have these costs reclassified to the project will be submitted in February.

Contract services has a favorable variance of \$29 but \$22 of this is due to timing and will be spent later in the year.

Regulatory expense is under plan by \$31. This favorable variance is due to reduced rate case expenses and a longer amortization period than planned. These costs were planned to be amortized over an 18 month period until the next rate case was filed, however, per the December 2007 rate order these costs will be amortized over 36 months.

Customer accounting is under plan by \$69 due to the uncollectible expenses. A favorable uncollectible rate, 5% as well as an adjustment to the reserve account for this variance.

Maintenance expense is under plan by \$57 mainly due to maintenance agreements (Hach, etc.) being budgeted in January but paid evenly over the course of the year.

Depreciation is under plan by \$187 and is being investigated. Approximately \$45 of this variance is due to the increased net negative salvage expense that resulted from a correction to the rates used in power plant. The budget included the lower rates that were used in mid-2007.

Miscellaneous other deductions is under plan by \$25 with \$5 being savings and \$24 being due to timing.

Preferred dividends has a favorable variance of \$32 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.

**Other Income & Deductions:**



Income Statement - Month To Date  
 Kentucky American  
 Jan 2008  
 (\$ in Thousands)  
 Variance Explanation  
 MTD Actual Vs. MTD Reforecast

Operating Revenues:

Operating Expenses:

Other Income & Deductions:



Income Statement - Year To Date  
 Kentucky-American  
 Jan YTD 2008  
 (\$ in thousands)

Report ID: FR3 1.3  
 American Water

Close Status: Final  
 source system load with  
 prelin eliminations

	YTD Actuals	YTD Reforecast	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>								
Water Revenues	4,259	-	4,323	(64)	(1.49)%	3,382	877	25.93%
Sewer Revenues	25	25	28	(3)	(6.57)%	36	(11)	(30.00)%
Other Operating Revenues	182	-	159	24	15.05%	146	36	24.84%
Management Revenues	-	-	-	-	-	-	-	-
Operating Revenues	4,467	-	4,506	(40)	(0.88)%	3,556	911	25.61%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>								
<b>PRODUCTION EXPENSES</b>								
Purchases Water	5	-	49	(44)	(8.80)%	38	11	28.53%
Fuel and Power	278	(5)	166	112	(67.38)%	96	182	(65.77)%
Chemicals	118	(118)	20	138	(1.98)%	115	3	(2.50)%
Waste Disposal	23	(23)	50	(27)	(10.63)%	26	3	(12.71)%
Total production costs	424	(424)	355	(69)	(19.24)%	265	159	(60.09)%
<b>O&amp;M LABOR &amp; OVERHEAD</b>								
Labor	543	(543)	569	26	4.59%	484	59	(12.13)%
Pensions	58	(58)	43	15	(33.76)%	40	18	(44.21)%
Group Insurances	148	(148)	165	17	10.21%	141	7	(5.40)%
Other benefits	24	(24)	19	5	(30.60)%	22	2	(11.15)%
Total employee related	774	(774)	796	23	2.85%	687	87	(12.59)%
Management fees	351	(351)	321	30	(9.33)%	597	246	41.19%
Shared business services	317	(317)	322	5	1.53%	-	(317)	-
Contracted services	41	(41)	70	29	41.16%	82	41	50.22%
Total contracted services	358	(358)	391	34	8.59%	82	(275)	(334.11)%
Regulatory expense	43	(43)	75	31	42.19%	30	(13)	(43.21)%
Insurance Other Than Group	55	(55)	60	6	9.33%	52	(3)	(5.53)%
Customer Accounting	59	(59)	128	69	54.17%	89	30	33.87%
Rents	7	(7)	3	4	(120.62)%	4	(2)	(53.62)%
General office expense	61	(61)	46	15	(33.24)%	47	(14)	(29.74)%
Miscellaneous	126	(126)	139	13	9.49%	135	9	6.92%
Maintenance	191	(191)	243	52	21.52%	225	34	15.12%
Total operations and maintenance expense	2,447	(2,447)	2,558	111	4.34%	2,213	(234)	(10.56)%
Depreciation	403	(403)	590	187	31.73%	546	143	26.15%
Amortization	42	(42)	34	8	(22.71)%	39	(3)	(8.07)%
Depreciation and amortization	445	(445)	624	179	28.75%	584	140	23.87%
General taxes	287	(287)	289	3	1.00%	299	13	4.22%
Impairment charges	-	-	-	-	-	-	-	-
Total operating expenses, net	3,178	(3,178)	3,472	293	8.45%	3,097	(82)	(2.63)%
Operating income	1,288	1,288	1,035	254	24.52%	459	829	180.64%
<b>OTHER INCOME &amp; DEDUCTIONS</b>								
Interest income	-	-	505	17	3.42%	427	(61)	(100.00)%
Interest on long-term debt	488	(488)	77	(9)	(11.77)%	35	(51)	(144.14)%
Interest on Short-Term Bank Debt	87	(87)	-	-	-	-	-	-
Other Interest Expense	-	-	-	-	-	-	-	-
Total interest expense	575	(575)	583	8	1.40%	461	(114)	(24.76)%
AFUDC - Equity	82	82	85	17	25.87%	37	45	120.72%
AFUDC Debt	39	39	30	9	30.22%	17	(22)	(128.37)%
Amortization of Debt Expense	7	(7)	6	(1)	(22.43)%	6	(1)	(20.04)%
Preferred dividends of subsidiaries (Consolidatio	-	-	-	-	-	(7)	7	100.00%
Gain on sale of assets	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-
Miscellaneous Income	1	1	1	1	100.00%	(21)	21	104.47%
Total other income	1	1	1	1	100.00%	(21)	21	104.47%
Miscellaneous Amortization	0	0	0	0	155.28%	0	0	0.00%
Miscellaneous Other Deductions	71	(71)	100	29	29.00%	85	14	16.47%
Total Other Deductions	71	(71)	100	29	29.08%	85	14	16.47%
Other, net	70	70	100	(30)	(30.00)%	106	(35)	88.00%
Total other income (deductions)	(531)	(531)	(594)	63	10.55%	(525)	(7)	(1.28)%
Income (loss) before income taxes	757	757	441	316	71.80%	(66)	822	1,252.93%
State Income Taxes	48	(48)	31	(17)	(55.40)%	0	(48)	(194,867.85)%
Federal Income Taxes	279	(279)	170	(109)	(64.22)%	1	(278)	(27,556.68)%
Tax Saving Acquisition Adjustment	-	-	-	-	-	-	-	-
State income taxes (non-operating)	(3)	3	(8)	(5)	(66.29)%	(4)	(2)	(36.83)%
Federal income taxes (non-operating)	(21)	(21)	(32)	(11)	(35.24)%	(21)	0	1.43%
Provision (Benefit) for Income Taxes	303	(303)	160	(143)	(89.16)%	(24)	(327)	(1,367.42)%
Net income (loss)	454	454	280	173	61.86%	(42)	495	1,187.24%
Preferred Dividend Declared	7	7	38	(32)	(82.88)%	0	7	100.00%
Net Income To Common Stock	447	447	242	205	84.80%	(42)	489	1,171.52%
Common Dividend Declared	-	-	0	0	-	-	-	-
Current Year Retained Earnings	447	447	242	205	84.80%	(42)	489	1,171.52%



Income Statement - Year To Date  
 Kentucky-American  
 Jan 2008  
 (\$ in Thousands)  
 Variance Explanation  
 YTD Actual Vs. YTD Plan

Report ID: RPR 1.3  
 American Water Confidential

Operating Revenues:

Operating Expenses:

Other Income & Deductions:



Income Statement - Year To Date  
 Kentucky-American  
 Jan. 2008  
 (\$ in thousands)  
 Variance Explanation  
 YTD Actual Vs. YTD Reforecast

Report ID: FRP-1.3  
 American Water Confidential

Operating Revenues:

Operating Expenses:

Other Income & Deductions:



Supplementary Tables and Discussion  
Kentucky-American  
Jan 2008

Report ID: BPR.3.7  
American Water Confidential

AWFRP 2.0 - Result of Operations - Revenue Analysis

Revenue Variance Summary (\$ in Thousands)

**Close Status:** Final  
source system load with  
prelim eliminations

	Budget			Forecast			Prior Year		
	MTD	QTD	YTD	MTD	QTD	YTD	MTD	QTD	YTD
Budget / Forecast / Prior Year	4,506	4,506	4,506	-	-	-	3,556	3,556	3,556
Rates	-	-	-	-	-	-	-	-	-
DSIC	-	-	-	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-	-	-	-
Water acquisitions	-	-	-	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-	-	-	-
Other	24	24	24	-	-	-	-	-	-
Fire	-	-	-	-	-	-	-	-	-
Organic growth	-	-	-	-	-	-	-	-	-
Demand / consumption	(40)	(40)	(40)	-	-	-	-	-	-
Sewer	-	-	-	-	-	-	-	-	-
Other Revenue Variances	(24)	(24)	(24)	4,467	4,467	4,467	911	911	911
Actual revenues	4,467	4,467	4,467	4,467	4,467	4,467	4,467	4,467	4,467
Total variance	(40)	(40)	(40)	4,467	4,467	4,467	911	911	911

Thursday, February 14, 2008  
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Supplementary Tables and Discussion  
Kentucky-American  
Jan 2008

Report ID: BPR.3.7  
American Water Confidential

Report Discussion:

Revenues are reduced by not including intra-company sales. The budget includes sales from Owenton to Tri-Village in the Northern district but this will no longer happen due to the December 2007 rate order and single tariff pricing across the company.

This is offset by an increase in reconnection / applications fees in Other Revenue.

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Monthly Financial Reviews

- \_\_\_ Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
- \_\_\_ All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
- \_\_\_ Variance analysis and commentary reflect financial results consistent with operation results.
- \_\_\_ All known items for the current period have been reflected in financial discussions.
- \_\_\_ Potential risks and opportunities have been identified and mitigating action plans have been developed.
- \_\_\_ Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

\_\_\_\_\_  
**Regional Finance Director or Vice President (Signature)**

\_\_\_\_\_  
**(Date)**



Income Statement - Month To Date  
 Kentucky-American  
 Feb 2008  
 (\$ in Thousands)

Report ID: FR9 1.1  
 American Water Distribution

Close Status: Final

	MTD Actuals	MTD Forecast	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
Water Revenues	4,140	-	4,140	(53)	4,194	4,140	(53)	3,450	681	20.02%
Sewer Revenues	27	-	27	4	24	27	3	27	0	0.83%
Other Operating Revenues	201	-	201	42	159	201	42	147	54	36.41%
Management Revenues	-	-	-	-	-	-	-	-	-	-
Operating Revenues	4,369	-	4,369	(7)	4,376	4,369	(7)	3,624	745	20.55%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
Purchased Water	7	-	(7)	40	47	40	7	10	3	27.25%
Fuel and Power	167	-	(167)	(4)	164	167	(3)	204	37	17.96%
Chemicals	136	-	(136)	(27)	108	136	(27)	87	(49)	(55.82)%
Waste Disposal	24	-	(24)	3	27	24	3	26	2	8.61%
Total production costs	334	-	(334)	12	346	334	12	327	(7)	(2.14)%
<b>O&amp;M LABOR &amp; OVERHEAD</b>										
Labor	452	-	(452)	71	523	452	71	428	(23)	(5.42)%
Pensions	58	-	(58)	43	14	58	43	63	6	9.17%
Group Insurance	145	-	(145)	20	165	145	20	133	(13)	(9.68)%
Other benefits	28	-	(28)	6	22	28	6	29	(1)	3.20%
Total employee related	683	-	(683)	71	753	683	71	654	(29)	(4.48)%
Management fees	321	-	(321)	(6)	315	321	(6)	649	328	50.54%
Shared business services	308	-	(308)	(3)	306	308	(2)	-	(308)	-
Contracted services	53	-	(53)	10	64	53	10	58	4	7.53%
Total contracted services	362	-	(362)	8	369	362	8	58	(304)	(526.11)%
Regulatory expense	43	-	(43)	31	75	43	31	30	(13)	(43.86)%
Insurance Other Than Group	39	-	(39)	22	60	39	22	54	15	27.94%
Customer Accounting	82	-	(82)	45	127	82	45	154	72	46.92%
Rents	0	-	0	2	3	0	2	2	1	90.59%
General office expense	42	-	(42)	23	65	42	23	22	(19)	(85.82)%
Miscellaneous	21	-	(21)	32	170	21	32	73	(65)	(89.41)%
Maintenance	138	-	(138)	174	174	138	36	181	(30)	(16.75)%
Total operations and maintenance expense	2,254	-	(2,254)	203	2,457	2,254	203	2,203	(51)	(2.33)%
Depreciation	406	-	(406)	184	590	406	184	548	142	26.85%
Amortization	42	-	(42)	(6)	34	42	(6)	39	(3)	(8.07)%
Depreciation and amortization	448	-	(448)	176	625	448	176	587	138	23.60%
General taxes	253	-	(253)	33	286	253	33	221	(32)	(14.52)%
Impairment charges	-	-	-	-	-	-	-	-	-	-
Total operating expenses, net	2,955	-	(2,955)	413	3,368	2,955	413	3,010	55	1.83%
Operating income	1,413	-	1,413	405	1,008	1,413	405	614	800	130.34%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
Interest Income	488	-	(488)	17	505	488	17	427	(1)	(100.00)%
Interest on long-term debt	67	-	(67)	0	67	67	0	37	(30)	(82.43)%
Interest on Short-Term Bank Debt	-	-	-	-	-	-	-	-	-	-
Other Interest Expense	-	-	-	-	-	-	-	-	-	-
Total Interest expense	555	-	(555)	17	572	555	17	463	(92)	(19.97)%
AFUDC - Equity	88	-	(88)	21	88	88	21	45	44	97.19%
AFUDC Debt	42	-	(42)	11	31	42	11	20	21	104.70%
Amortization of Debt Expense	7	-	(7)	(1)	6	7	(1)	6	(1)	(20.04)%
Preferred dividends of subsidiaries (Consolidation)	-	-	-	-	-	-	-	(7)	(7)	(100.00)%
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	14	-	(14)	14	14	14	14	33	(19)	(56.61)%
Total other income	14	-	(14)	14	14	14	14	33	(19)	(56.61)%
Miscellaneous Amortization	0	-	0	0	0	0	0	0	0	0.00%
Miscellaneous Other Deductions	21	-	(21)	(8)	13	21	(8)	11	(10)	(86.42)%
Total Other Deductions	21	-	(21)	(8)	13	21	(8)	11	(10)	(86.42)%
Other, net	7	-	(7)	7	7	7	7	22	(16)	(39.80)%
Total other income (deductions)	(439)	-	(439)	54	(493)	(439)	54	(388)	(51)	(13.17)%
Income (loss) before income taxes	974	-	(974)	459	515	974	459	226	749	331.51%
State Income Taxes	59	-	(59)	(32)	27	59	(32)	(7)	(67)	(898.88)%
Federal Income Taxes	334	-	(334)	(166)	168	334	(166)	(33)	(367)	(1,116.25)%
Federal Income Tax Acquisition Adjustment	0	-	0	0	0	0	0	1	1	126.41%
State Income taxes (non-operating)	(2)	-	(2)	(3)	(1)	(2)	(3)	5	7	134.29%
Federal Income taxes (non-operating)	39	-	(39)	(202)	189	39	(202)	(35)	(426)	(1,225.07)%
Provision (Benefit) for Income Taxes	563	-	(563)	258	326	563	258	261	323	123.89%
Net income (loss)	577	-	(577)	289	36	577	289	261	316	121.38%
Preferred Dividend Declared	-	-	-	0	0	-	0	-	-	-
Net Income To Common Stock	-	-	-	0	0	-	0	-	-	-
Common Dividend Declared	-	-	-	0	0	-	0	-	-	-
Current Year Retained Earnings	577	-	(577)	289	287	577	289	261	316	121.38%



**Operating Revenues:**

**Operating Expenses:**  
 Purchased water is under plan by \$46 due to no intra-company purchased water expense. The budget includes purchases from Owenston by Tri-Village in the Northern district but this will no longer happen due to the December 2007 rate order and single tariff pricing across the company. This is also reflected in revenue and should have a zero effect to net income.

Fuel and power expense is over the plan by (\$44). This small variance is due to lower than expected consumption (kwh) as well as a fuel adjustment factor that is closer to the base plan amount. Also, during the month, an adjustment was made to recast the fuel and power expenses, from tests on new equipment that were conducted in January, to the project.

Chemicals are over plan by (\$27) due to poor source water conditions. Due to rainfall, turbidity levels were higher than what was included in the base plan. Labor has a favorable variance of \$71. This is mainly due to increased work on capital projects. Approximately 8% more than planned was changed to capital projects during the month \$51. An additional \$13 was due to vacancies.

Regulatory expense is under plan by \$31. This favorable variance is due to reduced rate case expenses and a longer amortization period than planned. These costs were planned to be amortized over an 18 month period until the next rate case was filed, however, per the December 2007 rate order these costs will be amortized over 36 months.

Customer accounting is under plan by \$45 due to the uncollectible expense. Effective collection efforts as well as an adjustment to the reserve account for this variance. General office is under plan by \$23 due to electricity costs. Miscellaneous is under plan by \$32 mainly due to conservation expense \$11 and miscellaneous operations expense \$17 - these are both timing differences. Maintenance expense is over plan by (\$37) mainly due to increased net negative salvage costs (\$45). These will be reprofited in the Q1RF.

Depreciation is under plan by \$184 and is being investigated. Approximately \$45 of this variance is due to the increased net negative salvage expense that resulted from a correction to the rates used in power plant. The budget included the lower rates that were used in mid-2007. General taxes are under plan by \$33. This is mainly due to an \$18 charge that will reverse in March.

Preferred dividends has a favorable variance of \$32 due to the \$4.5M 6.47% issue being included in both long-term debt and preferred dividends. State and Federal Income Tax rates in aggregate are close to plan, based on actual IBT. Statutory State rates were used for calculating State Income tax. March's income tax will reflect adjustments to record taxes at an effective rate.

**Other Income & Deductions:**



Income Statement - Month To Date  
 Kentucky - American  
 Water  
 2018  
 (\$ in Thousands)  
 Variance Explanation  
 MTD Actual Vs. MTD Reforecast

Report ID: FRP-1.1  
 American Water Confidential

Operating Revenues:

Operating Expenses:

Other Income & Deductions:



	YTD Actuals	YTD Reforecast	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>								
Water Revenues	1 8,399	-	8,517	(117)	(1.38)%	6,832	1,568	22.95%
Sewer Revenues	2 53	-	49	4	9.10%	55	(2)	(3.92)%
Other Operating Revenues	3 383	-	317	66	20.82%	293	90	30.65%
Management Revenues	4 -	-	-	-	-	-	-	-
<b>Operating Revenues</b>	<b>8,835</b>	<b>-</b>	<b>8,882</b>	<b>(47)</b>	<b>(0.53)%</b>	<b>7,180</b>	<b>1,655</b>	<b>23.05%</b>
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>								
<b>PRODUCTION EXPENSES</b>								
Purchased Water	5 13	-	96	83	86.75%	48	35	73.43%
Fuel and Power	6 445	-	329	(115)	(35.01)%	200	(155)	(53.34)%
Chemicals	7 254	-	229	(25)	(10.88)%	202	(52)	(25.73)%
Waste Disposal	8 47	-	47	-	1.38%	52	6	10.64%
<b>Total production costs</b>	<b>758</b>	<b>-</b>	<b>701</b>	<b>(56)</b>	<b>(8.05)%</b>	<b>592</b>	<b>(166)</b>	<b>(28.05)%</b>
<b>O&amp;M LABOR &amp; OVERHEAD</b>								
Labor	9 995	-	1,092	98	8.93%	913	(82)	(8.98)%
Pensions	10 115	-	86	(29)	(33.47)%	103	(12)	(11.51)%
Group Insurances	11 294	-	330	37	11.06%	273	(20)	(7.48)%
Other benefits	12 53	-	41	(12)	(28.98)%	51	(2)	(2.85)%
<b>Total employee related</b>	<b>1,456</b>	<b>-</b>	<b>1,550</b>	<b>93</b>	<b>6.02%</b>	<b>1,341</b>	<b>(116)</b>	<b>(8.64)%</b>
<b>Management fees</b>	<b>672</b>	<b>-</b>	<b>636</b>	<b>(36)</b>	<b>(5.69)%</b>	<b>1,246</b>	<b>574</b>	<b>46.06%</b>
Shared business services	14 625	-	627	2	0.36%	-	(625)	-
Contracted services	15 94	-	133	39	29.23%	140	46	32.82%
<b>Total contracted services</b>	<b>719</b>	<b>-</b>	<b>761</b>	<b>41</b>	<b>5.42%</b>	<b>140</b>	<b>(579)</b>	<b>(413.25)%</b>
Regulatory expense	16 86	-	149	63	42.04%	60	(26)	(43.59)%
Insurance Other Than Group	17 94	-	121	27	22.85%	106	(12)	(11.51)%
Customer Accounting	18 140	-	285	145	44.99%	243	102	42.14%
Rents	19 7	-	6	(1)	(22.93)%	6	(1)	(15.49)%
General office expense	20 103	-	110	8	6.97%	70	(33)	(47.78)%
Miscellaneous	21 264	-	309	45	14.72%	208	(56)	(26.63)%
Maintenance	22 402	-	418	16	3.72%	408	4	0.91%
<b>Total operations and maintenance expense</b>	<b>4,701</b>	<b>-</b>	<b>5,016</b>	<b>314</b>	<b>6.26%</b>	<b>4,416</b>	<b>(285)</b>	<b>(6.46)%</b>
Depreciation	23 809	-	1,181	371	31.47%	1,093	284	26.00%
Amortization	24 84	-	68	(16)	(22.77)%	78	(6)	(8.07)%
<b>Depreciation and amortization</b>	<b>893</b>	<b>-</b>	<b>1,249</b>	<b>356</b>	<b>28.49%</b>	<b>1,171</b>	<b>278</b>	<b>23.74%</b>
General taxes	25 539	-	575	36	6.29%	520	(19)	(3.73)%
Impairment charges	27 6,134	-	6,840	706	10.32%	6,107	(26)	(0.43)%
<b>Total operating expenses, net</b>	<b>2,701</b>	<b>-</b>	<b>2,042</b>	<b>659</b>	<b>32.27%</b>	<b>1,073</b>	<b>1,629</b>	<b>151.86%</b>
<b>OTHER INCOME &amp; DEDUCTIONS</b>								
Interest Income	28 -	-	1,011	35	3.42%	853	(2)	(100.00)%
Interest on long-term debt	29 976	-	145	(9)	(6.33)%	72	(81)	(112.73)%
Interest on Short-Term Bank Debt	30 154	-	-	-	-	-	-	-
Other Interest Expense	31 -	-	-	-	-	-	-	-
<b>Total Interest expense</b>	<b>1,130</b>	<b>-</b>	<b>1,155</b>	<b>25</b>	<b>2.20%</b>	<b>923</b>	<b>(206)</b>	<b>(22.36)%</b>
AFUDC - Equity	32 170	-	133	38	28.41%	82	88	107.85%
AFUDC Debt	33 80	-	60	20	33.08%	37	(43)	(115.43)%
Amortization of Debt Expense	34 15	-	12	(3)	(22.43)%	(13)	13	100.00%
<b>Preferred dividends of subsidiaries (Consolidated)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Gain on sale of assets	35 -	-	-	-	-	-	-	-
Non-Operating Rental Income	36 -	-	-	-	-	-	-	-
Dividend Income - Common	37 -	-	-	-	-	-	-	-
Dividend Income - Preferred	38 -	-	-	-	-	-	-	-
Miscellaneous Income	39 15	-	-	15	-	12	3	22.51%
<b>Total other income</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>12</b>	<b>3</b>	<b>22.51%</b>
Miscellaneous Amortization	40 0	-	113	0	155.28%	0	0	0.00%
Miscellaneous Other Deductions	41 92	-	113	21	18.36%	96	4	3.93%
<b>Total Other Deductions</b>	<b>92</b>	<b>-</b>	<b>113</b>	<b>21</b>	<b>18.52%</b>	<b>96</b>	<b>4</b>	<b>3.93%</b>
<b>Other, net</b>	<b>77</b>	<b>-</b>	<b>113</b>	<b>(36)</b>	<b>(32.03)%</b>	<b>83</b>	<b>(7)</b>	<b>18.58%</b>
<b>Total other income (deductions)</b>	<b>(970)</b>	<b>-</b>	<b>(1,087)</b>	<b>116</b>	<b>10.72%</b>	<b>(912)</b>	<b>(58)</b>	<b>(6.33)%</b>
<b>Income (loss) before income taxes</b>	<b>1,731</b>	<b>-</b>	<b>956</b>	<b>776</b>	<b>81.15%</b>	<b>160</b>	<b>1,571</b>	<b>980.76%</b>
State Income Taxes	42 107	-	58	(49)	(85.74)%	(7)	(115)	(1,540.15)%
Federal Income Taxes	43 613	-	337	(275)	(81.60)%	(32)	(845)	(2,023.07)%
Tax Saving Acquisition Adjustment	44 -	-	-	-	-	-	-	-
State income taxes (non-operating)	45 (3)	-	(9)	(6)	(67.26)%	(3)	0	(11.33)%
Federal income taxes (non-operating)	46 684	-	350	(334)	(98.50)%	(59)	(753)	(1,283.11)%
<b>Provision (Benefit) for Income Taxes</b>	<b>1,037</b>	<b>-</b>	<b>606</b>	<b>431</b>	<b>71.14%</b>	<b>219</b>	<b>818</b>	<b>373.76%</b>
<b>Net income (loss)</b>	<b>1,024</b>	<b>-</b>	<b>77</b>	<b>(947)</b>	<b>(92.82)%</b>	<b>219</b>	<b>805</b>	<b>367.77%</b>
Preferred Dividend Declared	48 13	-	77	64	82.88%	0	13	-
<b>Net Income To Common Stock</b>	<b>1,024</b>	<b>-</b>	<b>529</b>	<b>495</b>	<b>93.45%</b>	<b>219</b>	<b>805</b>	<b>367.77%</b>
Common Dividend Declared	-	-	0	0	-	-	-	-
<b>Current Year Retained Earnings</b>	<b>1,024</b>	<b>-</b>	<b>529</b>	<b>495</b>	<b>93.45%</b>	<b>219</b>	<b>805</b>	<b>367.77%</b>



**Operating Revenues:**

Reduced Residential demand +\$93k is being partially offset by increases in commercial demand +\$414k. Fire Service and Public Authority revenues are ahead of Plan by \$48k and \$26k respectively. Customer declines have had a slightly negative impact on revenue.

**Operating Expenses:**

Purchased water is under plan by \$83 due to no intra-company purchased water expense. The budget includes purchases from Owenton by Tri-Village in the Northern district but this will no longer happen due to the December 2007 rate order and single tariff pricing across the company. This is also reflected in revenue and should have a zero effect to net income.

Fuel and power expense is over the plan by (\$115). This is mainly due to increased power costs.

Chemicals are over plan by (\$25) due to poor source water conditions in February. Due to rainfall, turbidity levels were higher than what was included in the base plan.

Labor has a favorable variance of \$98. This is mainly due to increased work on capital projects as well as vacancies totalling approximately \$26. These projects are coming to an end and we will not see this continue throughout the year.

Contract services has a favorable variance of \$39 due to timing. These costs will be reprioritized throughout the remainder of the year.

Regulatory expense is under plan by \$63. This favorable variance is due to reduced rate case expenses and a longer amortization period than planned. These costs were planned to be amortized over an 18 month period until the next rate case was filed, however, per the December 2007 rate order these costs will be amortized over 36 months.

Customer accounting is under plan by \$1.15 mainly due to the uncollectible expenses. Effective collection efforts as well as adjustments to the reserve account for this variance. Miscellaneous is under plan by \$45 mainly due to contract services \$34. Maintenance expense is under plan by \$10 mainly due to increased net negative salvage costs (\$31) offset by temporary savings in materials and supplies \$14, miscellaneous maintenance \$28 and less paving expense \$24. These costs will be reprioritized throughout the remainder of the year.

Depreciation is under plan by \$371 and is being investigated. Approximately \$91 of this variance is due to the increased net negative salvage expense that resulted from a correction to the rates used in power plant. The budget included the lower rates that were used in mid-2007. General taxes are under plan by \$56 mainly due to an \$18 charge that will reverse in March.

Miscellaneous other deductions is under the plan by \$21. This is due to lobbying expense \$15 and donations \$7.

State and Federal Income Tax rates in aggregate are close to Plan, based on actual IGT. Statutory State rates were used for calculating State Income tax. March's income tax will reflect adjustments to record taxes at an effective rate.

Preferred dividends has a favorable variance of \$64 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.

**Other Income & Deductions:**





Income Statement - Year To Date  
 Kentucky-American  
 Feb. 2008  
 (\$ in Thousands)  
 Variance Explanation  
 YTD Actual Vs. YTD Retorecast

Report ID: FRP 1.3  
 American Water Confidential

Operating Revenues:

Operating Expenses:

Other Income & Deductions:



Supplementary Tables and Discussion  
Kentucky-American  
Feb 2008

Report ID: BPR.3.7  
American Water Confidential

Close Status: Final

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	4,376	8,882	-	-	3,624	7,180
Rates	-	-	-	-	675	675
DSIC	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-
Water acquisitions	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-
Other	42	66	-	-	54	54
Fire	-	-	-	-	-	-
Organic growth	(34)	(34)	-	-	30	30
Demand / consumption	(19)	(59)	-	-	(14)	(14)
Sewer	4	4	-	-	-	-
Other Revenue Variances	0	(24)	4,369	8,835	0	910
Actual revenues	4,369	8,835	4,369	8,835	4,369	8,835
Total variance	(7)	(47)	4,369	8,835	745	1,655



Report Discussion:

Supplementary Tables and Discussion  
Kentucky-American  
Feb 2008

Report ID: BPR.3.7  
American Water Confidential

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**Monthly Financial Reviews**

- Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
- All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
- Variance analysis and commentary reflect financial results consistent with operation results.
- All known items for the current period have been reflected in financial discussions.
- Potential risks and opportunities have been identified and mitigating action plans have been developed.
- Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

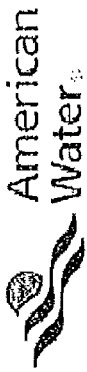
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**Regional Finance Director or Vice President (Signature)**

\_\_\_\_\_  
**(Date)**

	QTD Actuals	QTD Reforecast	QTD Plan	Variance Favorable (Unfavorable)	% Variance	QTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>								
Water Revenues	12,605	12,775	12,775	(170)	(1.33)%	10,621	1,884	18.67%
Sewer Revenues	78	72	72	6	7.78%	82	(5)	(5.51)%
Other Operating Revenues	590	476	476	115	24.10%	440	151	34.23%
Management Revenues	-	-	-	-	-	-	-	-
Operating Revenues	13,273	13,323	13,323	(50)	(0.38)%	11,143	2,130	19.11%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>								
<b>PRODUCTION EXPENSES</b>								
Purchased Water	22	144	144	122	84.72%	80	58	72.32%
Fuel and Power	681	(681)	(681)	(1369)	(38.44)%	489	(192)	(39.14)%
Chemicals	378	353	353	(25)	(7.02)%	326	(52)	(15.79)%
Waste Disposal	71	74	74	3	4.24%	7	66	9.53%
Total production costs	1,151	1,063	1,063	(88)	(8.32)%	573	(585)	(51.20)%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>								
Labor	1,489	(1,489)	(1,489)	133	8.21%	1,442	(48)	(3.30)%
Pensions	173	(173)	(173)	(43)	(31.16)%	147	(26)	(17.50)%
Group insurances	436	(436)	(436)	59	11.93%	451	(15)	(3.38)%
Other benefits	78	(78)	(78)	(19)	(31.88)%	66	(11)	(17.17)%
Total employee related	2,176	(2,176)	(2,176)	131	5.66%	2,107	(69)	(3.28)%
Management fees	1,051	(1,051)	(1,051)	(68)	(6.14)%	746	305	28.54%
Shared business services	956	(956)	(956)	(17)	(1.78)%	-	(956)	(100.00)%
Contracted services	146	(146)	(146)	49	25.19%	193	(47)	(24.48)%
Total contracted services	1,102	(1,102)	(1,102)	33	2.87%	153	(909)	(82.40)%
Regulatory expense	100	(100)	(100)	95	48.86%	90	(9)	(10.42)%
Insurance Other Than Group	98	(98)	(98)	83	45.98%	25	73	29.24%
Customer Accounting	206	(206)	(206)	177	46.22%	347	(141)	(40.71)%
Rents	9	(9)	(9)	8	88.89%	7	(1)	(14.29)%
General office expense	130	(130)	(130)	24	15.58%	99	31	31.21%
Miscellaneous	483	(483)	(483)	2	0.41%	335	(148)	(44.20)%
Maintenance	617	(617)	(617)	(30)	(5.11)%	587	(30)	(5.11)%
Total operations and maintenance expense	7,123	(7,123)	(7,123)	338	4.53%	6,854	(269)	(3.78)%
Depreciation	1,660	(1,660)	(1,660)	112	6.31%	1,543	(117)	(7.05)%
Amortization	128	(128)	(128)	(25)	(24.71)%	117	(11)	(9.78)%
Depreciation and amortization	1,788	(1,788)	(1,788)	86	4.61%	1,760	(28)	(1.63)%
General taxes	853	(853)	(853)	9	1.01%	631	(222)	(35.12)%
Impairment charges	-	-	-	-	-	-	-	-
Total operating expenses, net	9,764	(9,764)	(9,764)	433	4.24%	9,044	(720)	(7.96)%
Operating income	3,509	3,126	3,126	383	12.24%	2,099	1,410	67.18%
<b>OTHER INCOME &amp; DEDUCTIONS</b>								
Interest income	1,463	(1,463)	(1,463)	52	3.45%	1,275	(188)	(14.38)%
Interest on long-term debt	217	(217)	(217)	(31)	(16.58)%	126	(91)	(71.92)%
Other interest expense	-	-	-	-	-	-	-	-
Total interest expense	1,680	(1,680)	(1,680)	21	1.24%	1,403	(277)	(16.49)%
AFUDC - Equity	270	270	270	72	36.16%	130	140	107.54%
AFUDC Debt	127	127	127	37	40.80%	59	68	114.82%
Amortization of Debt Expense	22	(22)	(22)	(4)	(22.43)%	18	(4)	(20.04)%
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	23	(23)	(23)	23	100.00%	43	(20)	(47.23)%
Total other income	23	(23)	(23)	23	100.00%	43	(20)	(47.23)%
Miscellaneous Amortization	0	0	0	0	0.00%	0	0	0.00%
Miscellaneous Other Deductions	105	(105)	(105)	45	28.96%	123	(18)	(14.68)%
Total Other Deductions	105	(105)	(105)	45	30.12%	123	(18)	(14.68)%
Other, net	82	(82)	(82)	(68)	(45.27)%	80	3	6.17%
Total other income (deductions)	(1,387)	(1,387)	(1,387)	194	12.25%	(1,331)	(56)	(4.20)%
Income (loss) before income taxes	2,122	2,122	2,122	576	37.29%	768	1,354	176.38%
State Income Taxes	57	(57)	(57)	34	37.14%	48	(9)	(18.81)%
Federal Income Taxes	775	(775)	(775)	(239)	(44.84)%	310	(465)	(148.63)%
Tax Saving Acquisition Adjustment	-	-	-	-	-	-	-	-
State income taxes (non-operating)	(2)	(2)	(2)	(10)	(80.72)%	(4)	(2)	(40.00)%
Federal income taxes (non-operating)	816	(816)	(816)	(349)	(44.02)%	333	(483)	(144.67)%
Provision (Benefit) for Income Taxes	1,305	(1,305)	(1,305)	115	6.95%	872	433	200.72%
Net income (loss)	1,286	(1,286)	(1,286)	422	48.86%	434	852	156.19%
Preferred Dividend Declared	1,097	(1,097)	(1,097)	804	(36.51)%	972	(125)	(12.90)%
Net Income To Common Stock	189	189	189	129	213.13%	(57)	727	135.21%



	YTD Actuals	YTD Reforecast	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>								
1	12,605	-	12,775	(170)	(1.33)%	10,621	1,984	18.67%
2	78	-	72	6	7.78%	82	(5)	(5.51)%
3	580	-	476	115	24.16%	440	151	34.23%
4	13,273	-	13,323	(50)	(0.38)%	11,143	2,130	19.11%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>								
<b>PRODUCTION EXPENSES</b>								
5	22	-	144	(122)	84.73%	80	58	72.32%
6	681	-	492	(189)	(28.44)%	489	(192)	(39.14)%
7	378	-	353	(25)	(7.02)%	326	(52)	(15.79)%
8	71	-	74	(3)	4.24%	78	7	9.53%
	1,151	-	1,063	(88)	(8.32)%	973	(178)	(18.29)%
<b>QUALITY &amp; OVERHEAD</b>								
9	1,489	-	1,523	(33)	2.21%	1,442	(48)	(3.30)%
10	173	-	130	(43)	(33.14)%	147	(26)	(17.30)%
11	436	-	495	(59)	11.93%	451	15	3.38%
12	78	-	59	(19)	(31.89)%	66	(11)	(17.11)%
	2,176	-	2,307	(131)	5.66%	2,107	(69)	(3.28)%
<b>Management fees</b>								
13	1,051	-	963	(88)	(9.14)%	1,797	746	41.54%
14	956	-	940	(17)	(1.76)%	-	(856)	-
15	146	-	195	(49)	25.19%	193	47	24.48%
	1,102	-	1,135	(33)	2.87%	193	(800)	(470.69)%
<b>Total contracted services</b>								
16	100	-	195	(95)	48.86%	90	(9)	(10.42)%
17	98	-	181	(83)	45.90%	123	25	20.24%
18	206	-	383	(177)	46.22%	347	141	40.71%
19	9	-	8	(1)	(8.87)%	7	(1)	(19.31)%
20	130	-	154	(24)	15.96%	99	(31)	(31.26)%
21	483	-	486	(3)	0.47%	335	(148)	(44.20)%
22	617	-	587	(30)	(5.11)%	581	(36)	(6.19)%
	7,123	-	7,480	(358)	4.53%	5,654	(469)	(7.05)%
<b>Total operations and maintenance expense</b>								
23	1,680	-	1,772	(92)	6.31%	(17)	(1,643)	(1.05)%
24	128	-	103	(25)	(24.71)%	117	(11)	(9.78)%
	1,788	-	1,750	38	4.51%	1,760	(28)	(1.63)%
<b>Depreciation and amortization</b>								
25	853	-	862	(9)	1.04%	631	(222)	(35.12)%
27	9,764	-	10,197	(433)	4.24%	9,044	(720)	(7.96)%
	3,509	-	3,128	383	12.24%	2,099	1,410	67.18%
<b>OTHER INCOME &amp; DEDUCTIONS</b>								
28	1,463	-	1,515	(52)	3.42%	(2)	(2)	(100.00)%
29	217	-	186	(31)	(16.56)%	126	(91)	(71.92)%
30	1,680	-	1,701	(21)	1.24%	1,403	(277)	(19.75)%
31	-	-	-	-	-	0	0	-
	3,360	-	3,402	(42)	1.22%	2,529	(833)	(24.79)%
<b>AFUDC - Equity</b>								
32	270	-	199	(71)	25.93%	130	140	107.54%
33	127	-	90	(37)	40.80%	59	(68)	(114.62)%
34	22	-	18	(4)	(22.43)%	18	(4)	(20.04)%
35	-	-	-	-	-	(20)	20	100.00%
<b>Preferred dividends of subsidiaries (Consolidated)</b>								
36	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-
39	23	-	23	-	0%	43	(20)	(47.23)%
	23	-	23	-	0%	43	(20)	(47.23)%
<b>Miscellaneous Amortization</b>								
40	0	-	0	0	0%	0	0	0%
41	105	-	186	(81)	43.81%	123	18	14.48%
	105	-	186	(81)	43.81%	123	18	14.48%
<b>Total Other Deductions</b>								
42	82	-	150	(68)	45.27%	90	3	61.77%
	(1,387)	-	(1,581)	194	12.25%	(1,331)	(56)	(4.20)%
<b>Total other income (deductions)</b>								
43	775	-	536	(239)	44.64%	310	(465)	(149.63)%
<b>Income (loss) before income taxes</b>								
44	57	-	91	(34)	37.14%	48	(9)	(19.81)%
45	775	-	536	(239)	44.64%	310	(465)	(149.63)%
<b>State Income Taxes</b>								
46	(2)	-	(12)	(10)	80.72%	(4)	(2)	(40.08)%
47	15	-	14	(1)	6.67%	(21)	(7)	(31.53)%
	13	-	13	-	0%	333	(82)	(200.72)%
48	1,306	-	979	(327)	33.39%	434	872	200.72%
	20	-	115	(95)	82.86%	0	20	100.00%
	1,286	-	864	(422)	48.86%	434	852	196.19%
	1,097	-	804	(293)	35.51%	972	(125)	(12.80)%
	189	-	60	129	213.13%	(537)	727	135.21%



Kentucky American Water  
 March, 2008  
 (\$ in Thousands)  
 Variance Explanations  
 YTD (QTD) Actual vs. Plan

Operating Revenues

Lines 2&4 Revenue is under plan by (\$50). Water revenue is under partly due to planned intra-company revenue that is not included. Other revenue is over due to increased reconnection fees \$63 and increased collections for others \$30.

Operating Expenses

Line 5 Purchased water is under plan by \$122 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 adjustment clause.  
 Line 9 Labor is under \$133. This is mainly due to increased work on capital projects as well as vacancies totaling approximately \$30.  
 Line 10 Pension expense is over plan and is being investigated.  
 Line 11 Group insurance expense is under plan and is being investigated.  
 Line 12 Other benefits are over due to employee awards, tuition aid and the defined contribution plan.  
 Line 15 Contracted services are under due to temporary employees \$15, lab testing \$3, materials and supplies \$8, contract services \$23.  
 Line 16 Regulatory expense is under \$95 due to reduced rate case expenses and a longer amortization period than planned.  
 Line 17 Insurance other than group is under \$83 mainly due to a large retro adjustment in March for \$45.  
 Line 18 Customer accounting is under \$177. Uncollectible expense is under \$174 due to favorable collectability.  
 Line 20 General office expense is under \$24 due to electricity \$16 and employee expenses \$6.  
 Line 24 Amortizations are over plan by (\$25) and have been corrected in the Q1RF.

Other Income Deductions

Line 30 Interest on short-term debt is over plan by (\$31) mainly due to the delay of the equity infusion.  
 Line 32 AFUDC equity over plan due to capex timing.  
 Line 33 AFUDC debt over plan due to capex timing.  
 Line 34 Amortization of debt expense is within \$4 of plan.  
 Line 41 Miscellaneous other deductions is under \$45 due to lobbying expense not utilized and donations.  
 Line 42-47 Over plan due to operating results.  
 Line 48 Preferred dividend is under plan \$95 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.





Operating Revenues

Line 2&3 Revenue is over by \$2,130. Water revenue is over by \$1,984 mainly due to the December 2007 rate increase. Other revenue is over by \$151 due to the change in collection/shut-off policies that occurred in May 2007 that resulted in increased reconnection fees.

Operating Expenses

Line 5 Purchased water is under by \$58 due to no intra-company purchased water expense.  
 Line 6 Fuel and power is over mainly due to an increased base rate and fuel adjustment clause.  
 Line 7 Chemicals are over mainly due to the source water conditions we've experienced in 2008.  
 Line 10 Pensions are over due to increased costs over the previous year.  
 Line 12 Other benefits are over (\$11) mainly due to employee awards (\$5), tuition aid (\$4), 401(k) (\$4).  
 Line 13 Management fees and shared business services are combined in 2008 and are over the previous year by (\$210).  
 Line 15 Contracted services are under the previous year by \$47 mainly due to timing.  
 Line 16 Regulatory expense is over due to the overlapping of the previous and current rate case amortizations.  
 Line 17 Insurance other than group is under due to decrease costs in general liability.  
 Line 18 Customer accounting is under \$141. Uncollectible expense is under \$161 due to favorable collectability.  
 Line 19 Rents is within \$1 of prior year.  
 Line 20 General office is (\$31) over due to credit line fees (\$11) and telephone expense (\$19).  
 Line 21 Miscellaneous is over mainly due to penalties non-deductible, miscellaneous operations and transportation costs.  
 Line 25 General taxes are over (\$222) mainly due to increased property taxes (\$180), payroll taxes (\$11) and other taxes (\$30).

Other Income Deductions

Line 28 Interest income is within \$2 of prior year.  
 Line 29 Interest on long-term debt is over the prior year due to 2007 having less LTD (\$24M & \$14M issues vs the \$47M issue that replaced them) as well as lower rates than the \$47M issue.  
 Line 30 Interest on short-term debt is over the prior year due to having more short-term debt in 2008.  
 Line 32 AFUDC equity over due to capex timing.  
 Line 33 AFUDC debt over due to capex timing.  
 Line 34 Amortization of debt expense is within \$4.  
 Line 35 Preferred dividends is over the prior year by (\$20) and needs to be investigated.  
 Line 39 Miscellaneous income is under the prior year mainly due to the M&J items in 2007.  
 Line 42-47 Over prior year due to operating results.



Supplementary Tables and Discussion  
Kentucky-American  
Mar 2008

Report ID: BPR-3.7  
American Water Confidential

**Close Status:** Final  
source system load

**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	4,441	13,323	-	-	3,963	11,143
Rates	-	-	-	-	0	675
DSIC	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-
Water acquisitions	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-
Other	42	108	-	-	0	54
File	-	-	-	-	-	-
Organic growth	3	(31)	-	-	0	30
Demand / consumption	(50)	(109)	-	-	0	(14)
Sewer	1	5	-	-	-	-
Other Revenue Variances	1	(23)	4,437	13,273	474	1,385
<b>Actual revenues</b>	<b>4,437</b>	<b>13,273</b>	<b>4,437</b>	<b>13,273</b>	<b>4,437</b>	<b>13,273</b>
<b>Total variance</b>	<b>(3)</b>	<b>(50)</b>	<b>4,437</b>	<b>13,273</b>	<b>474</b>	<b>2,130</b>



Report Discussion:

Supplementary Tables and Discussion  
Kentucky-American  
Mar 2008

Report ID: BPR 3.7  
American Water Confidential



Kentucky American  
Mar YTD 2008  
(\$ in Thousands)

Close Status: Final  
source system load

	Actuals	Reforecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Dec	Increase (Decrease)	% Variance
<b>55255</b>										
Utility Plant	347,276	-	347,276	(4,517)	351,794	(4,517)	(1.3)%	345,341	1,935	0.6%
Construction Work in Progress	22,331	-	22,331	344	21,987	344	1.6%	21,310	1,021	4.8%
Accumulated Depreciation	(81,492)	-	(81,492)	4,583	(86,075)	4,583	5.3%	(80,435)	(1,038)	(1.3)%
Utility Plant Acquisition Adjustments	321	-	321	(7)	329	(7)	(2.1)%	327	(5)	(1.6)%
Other Utility Plant Adjustments	-	-	-	-	-	-	-	-	-	-
<b>Total Utility Plant</b>	<b>288,435</b>	<b>-</b>	<b>288,435</b>	<b>403</b>	<b>288,033</b>	<b>403</b>	<b>0.1%</b>	<b>286,543</b>	<b>1,893</b>	<b>0.7%</b>
<b>Total Non-Utility Plant, Net</b>	<b>288,705</b>	<b>-</b>	<b>288,705</b>	<b>23</b>	<b>288,283</b>	<b>423</b>	<b>0.1%</b>	<b>286,793</b>	<b>1,913</b>	<b>0.7%</b>
<b>Total Property, Plant and Equipment</b>	<b>577,140</b>	<b>-</b>	<b>577,140</b>	<b>426</b>	<b>576,316</b>	<b>824</b>	<b>0.1%</b>	<b>573,336</b>	<b>3,806</b>	<b>0.7%</b>
Cash and Cash Equivalents	385	-	385	(422)	807	(422)	(52.3)%	398	(13)	(3.4)%
Restricted funds	-	-	-	-	-	-	-	-	-	-
Utility customer accounts receivable	1,835	-	1,835	21	1,813	21	1.2%	1,928	(93)	(4.9)%
Allowance for uncollectible accounts	(118)	-	(118)	(167)	(286)	(167)	58.6%	(223)	105	47.0%
Accrued utility revenues	2,571	-	2,571	(389)	2,960	(389)	(13.1)%	2,562	9	0.4%
Other receivables, net	200	-	200	(408)	608	(408)	(66.9)%	196	4	2.1%
Taxes receivable, including federal income	362	-	362	3,032	(2,670)	3,032	113.6%	388	(26)	(6.6)%
Materials and supplies	597	-	597	13	584	13	2.3%	535	(38)	(5.9)%
Receivable from affiliated companies	10	-	10	10	-	10	-	-	10	242.3%
Other Current Assets	275	-	275	83	193	83	43.2%	81	196	242.3%
<b>Current Assets</b>	<b>6,118</b>	<b>-</b>	<b>6,118</b>	<b>2,308</b>	<b>3,810</b>	<b>2,308</b>	<b>60.4%</b>	<b>5,965</b>	<b>154</b>	<b>2.6%</b>
Regulatory assets - income tax recovery	6,372	-	6,372	69	6,304	69	1.1%	6,385	(13)	(0.2)%
Debt and preferred stock expense	824	-	824	100	724	100	13.8%	846	(22)	(2.6)%
Deferred pension expense	-	-	-	-	-	-	-	-	-	-
Deferred postretirement benefit expense	-	-	-	-	-	-	-	-	-	-
Deferred security costs	-	-	-	-	-	-	-	-	-	-
Deferred business services project costs	-	-	-	-	-	-	-	-	-	-
Deferred integration costs	-	-	-	-	-	-	-	-	-	-
Deferred tank painting costs	1,735	-	1,735	1,891	45	1,891	2.7%	1,859	(123)	(6.6)%
Deferred rate case	396	-	396	(77)	473	(77)	(16.2)%	436	(90)	(18.4)%
Asset premium recoverable thru rates	-	-	-	-	-	-	-	-	-	-
Environmental remediation recoverable thru	-	-	-	-	-	-	-	-	-	-
Other Regulatory Assets	3,118	-	3,118	(448)	3,566	(448)	(12.6)%	3,181	(64)	(2.0)%
<b>Regulatory assets</b>	<b>12,446</b>	<b>-</b>	<b>12,446</b>	<b>(311)</b>	<b>12,757</b>	<b>(311)</b>	<b>(2.4)%</b>	<b>12,758</b>	<b>(312)</b>	<b>(2.4)%</b>
Other investments	-	-	-	-	-	-	-	-	-	-
Long term receivable from affiliate	-	-	-	-	-	-	-	-	-	-
Funds restricted for construction	-	-	-	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-	-
Other Long Term Assets	590	-	590	(437)	1,027	(437)	(42.6)%	488	103	21.0%
<b>Total Regulatory &amp; Other LT Assets</b>	<b>13,036</b>	<b>-</b>	<b>13,036</b>	<b>(159)</b>	<b>13,195</b>	<b>(159)</b>	<b>(1.2)%</b>	<b>13,245</b>	<b>(209)</b>	<b>(1.6)%</b>
<b>Total Assets</b>	<b>307,861</b>	<b>-</b>	<b>307,861</b>	<b>2,573</b>	<b>305,288</b>	<b>2,573</b>	<b>0.8%</b>	<b>306,003</b>	<b>1,857</b>	<b>0.6%</b>
<b>Capital &amp; Liabilities</b>										
Common Stock	36,569	-	36,569	0	36,569	0	0.0%	36,569	0	0.0%
Paid in Capital	16,056	-	16,056	(8,000)	24,056	(8,000)	(33.3)%	8,056	8,000	99.3%
Retained Earnings	30,179	-	30,179	771	29,409	771	2.6%	29,990	189	0.6%
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
Unearned compensation	-	-	-	-	-	-	-	-	-	-
Treasury stock	-	-	-	-	-	-	-	-	-	-
<b>Common stockholder's equity</b>	<b>82,804</b>	<b>-</b>	<b>82,804</b>	<b>(7,229)</b>	<b>90,034</b>	<b>(7,229)</b>	<b>(8.0)%</b>	<b>74,615</b>	<b>8,189</b>	<b>11.0%</b>
Preferred Stock without mandatory redemp	1,467	-	1,467	0	1,467	0	0.0%	1,467	0	0.0%
Long term debt	76,700	-	76,700	76,700	0	76,700	0.0%	79,800	(3,100)	(3.9)%
Redeemable preferred stock at redemption	4,500	-	4,500	4,500	0	4,500	0.0%	4,500	0	0.0%
<b>Total Capitalization</b>	<b>165,471</b>	<b>-</b>	<b>165,471</b>	<b>(7,229)</b>	<b>172,700</b>	<b>(7,229)</b>	<b>(4.2)%</b>	<b>160,382</b>	<b>5,089</b>	<b>3.2%</b>
Short Term Debt	19,408	-	19,408	19,408	19,408	19,408	368.8%	19,356	52	0.3%
Current Portion of Long-term Debt	3,100	-	3,100	3,100	0	3,100	0.0%	3,100	0	0.0%
Current portion of redeemable stock at red	-	-	-	-	-	-	-	-	-	-
Accounts Payable	2,789	-	2,789	(3,540)	6,339	(3,540)	(55.8)%	6,507	(3,708)	(57.0)%
Taxes Accrued	4,468	-	4,468	603	3,865	603	15.6%	5,228	(780)	(14.5)%
Interest Accrued	1,949	-	1,949	1,680	169	1,680	10.1%	1,443	706	61.8%
Total Other Current Liabilities	2,052	-	2,052	4,101	(2,050)	4,101	(50.0)%	2,027	24	1.2%
<b>Total Current Liabilities</b>	<b>33,676</b>	<b>-</b>	<b>33,676</b>	<b>10,451</b>	<b>23,225</b>	<b>10,451</b>	<b>45.0%</b>	<b>37,362</b>	<b>(3,686)</b>	<b>(9.9)%</b>
Customer Advances for Construction	14,309	-	14,309	(3,647)	17,956	(3,647)	(20.3)%	14,653	(344)	(2.3)%
Deferred Income Taxes	33,261	-	33,261	(2,566)	35,827	(2,566)	(7.2)%	32,877	384	1.2%
Deferred investment tax credits	1,187	-	1,187	(46)	1,242	(46)	(3.7)%	1,218	(21)	(1.7)%
Regulatory liability-cost of removal	9,117	-	9,117	896	8,221	896	10.9%	8,772	345	3.9%
Accrued pension expense	1,894	-	1,894	(154)	2,049	(154)	(7.5)%	2,174	(280)	(12.9)%
Accrued postretirement benefit expense	395	-	395	352	43	352	12.1%	384	10	2.7%
Other Deferred Credits	4,257	-	4,257	219	4,038	219	5.4%	4,596	(339)	(7.4)%
<b>Regulatory &amp; Other Long Term Liabilities</b>	<b>64,430</b>	<b>-</b>	<b>64,430</b>	<b>(1,436)</b>	<b>65,866</b>	<b>(1,436)</b>	<b>(2.2)%</b>	<b>64,675</b>	<b>(245)</b>	<b>(0.4)%</b>
Contributions in aid of construction	44,284	-	44,284	788	43,496	788	1.8%	43,585	699	1.6%
<b>Total capital and liabilities</b>	<b>307,861</b>	<b>-</b>	<b>307,861</b>	<b>2,573</b>	<b>305,288</b>	<b>2,573</b>	<b>0.8%</b>	<b>306,003</b>	<b>1,857</b>	<b>0.6%</b>

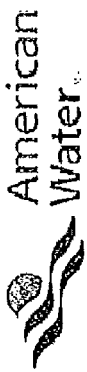


Assets

Line 7 Cash - less than expected in the plan.  
Line 10 Allowance for uncollectible accounts - higher collection ratio planned in March.  
Line 11 Accrued utility revenue - month-to-month fluctuations not budgeted.  
Line 12 Other receivables - decrease in miscellaneous AR (\$244).  
Line 13 Taxes receivable - change in state tax refund receivable.  
Line 28 Other regulatory assets - deferred vacation (\$284), waste disposal (\$35) and other reg assets (\$137).  
Line 34 Other long-term assets - RWIP contracted services \$182.

Capital & Liabilities

Line 36 Paid in capital - \$8M equity infusion in March, \$8M postponed until June 2008.  
Line 44 Short-term debt - timing of \$8M equity.  
Line 47 Accounts payable - balances under planned amount.  
Line 48 Taxes accrued - SIT and FIT higher than estimated by \$735K.  
Line 49 Interest accrued - higher than estimated partly due to delay in equity timing (line 36).  
Line 50 Other current liabilities - accrued vacation (\$284), accrued waste disposal (\$145), unbilled items (\$507).  
Line 51 Customer advances for construction - less than planned.  
Line 54 Regulatory liability, cost of removal - higher net negative salvage than planned.  
Line 57 Other deferred Credits - higher than estimated.



Kentucky American Water  
March, 2008  
(\$ in Thousands)  
Variance Explanations  
YTD (QTD) Actual vs. PY Dec, 2007

Assets

Line 16 Other current assets - increased prepaid taxes and insurance and deferred vacation pay.

Capital & Liabilities

Line 36 Paid in capital - \$8M equity infusion in March 2008.  
Line 47 Accounts payable - general accounts payable (\$1,629) and project expense accrual (\$2,150).  
Line 48 Taxes accrued - property tax payment (\$1,238), accrued FIT \$369.  
Line 49 Interest accrued - accrued interest on long-term debt \$706.  
Line 55 Accrued pension expense - February accrued pension payment (\$481).

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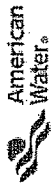
Monthly Financial Reviews

- Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
- All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
- Variance analysis and commentary reflect financial results consistent with operation results.
- All known items for the current period have been reflected in financial discussions.
- Potential risks and opportunities have been identified and mitigating action plans have been developed.
- Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

\_\_\_\_\_ (Signature)  
 \_\_\_\_\_ (Date)





Income Statement - Month To Date

Kentucky-American  
Apr 2008  
(\$ in Thousands)

Report ID: FRP-1.1  
Advanced Water Confidential

	MTD Actuals	MTD Reforecast	MTD Plan	% Variance	Variance Favorable (Unfavorable)	MTD Pr. Yr.	% Variance	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>									
1	4,233	4,280	4,300	0.07%	(16)	3,754	(0.39)%	529	14.08%
2	25	23	23	11.32%	3	28	11.32%	(4)	(13.86)%
3	200	174	159	15.18%	26	185	26.08%	15	8.22%
4	4,508	4,476	4,481	0.71%	32	3,968	0.61%	540	13.61%
<b>OPERATION &amp; MAINTENANCE EXPENSE</b>									
<b>PRODUCTION EXPENSES</b>									
5	11	30	50	64.02%	39	41	78.16%	30	73.58%
6	103	246	107	21.65%	53	162	1.87%	(31)	(19.30)%
7	121	115	111	(5.50)%	(6)	131	(6.87)%	9	11.93%
8	23	43	30	(19.34)%	14	52	(19.34)%	7	22.71%
	350	412	378	15.11%	62	365	7.23%	15	4.21%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>									
<b>Q&amp;M LABOR &amp; OVERHEAD</b>									
9	494	564	569	12.43%	70	473	13.20%	(22)	(4.57)%
10	57	43	(14)	(31.88)%	(14)	54	(5.59)%	(3)	(5.59)%
11	138	165	165	16.52%	27	178	16.52%	40	22.62%
12	20	18	(2)	(12.42)%	(2)	15	(12.42)%	(5)	(33.25)%
	709	790	795	10.31%	86	719	10.31%	11	1.50%
<b>Management fees</b>									
13	325	301	299	(7.79)%	(26)	616	(8.74)%	291	47.23%
14	348	324	324	(7.23)%	(23)	-	(7.23)%	(348)	(44.57)%
15	95	75	75	(26.73)%	(20)	66	(26.73)%	(29)	(44.57)%
	443	399	399	(10.89)%	(44)	66	(10.89)%	(377)	(573.43)%
<b>Regulatory expense</b>									
16	14	15	1	8.89%	46	30	70.51%	17	55.08%
17	47	50	3	6.39%	13	48	21.87%	1	2.86%
18	117	128	128	8.83%	128	92	(43.16)%	(24)	(26.37)%
19	4	3	(1)	(43.16)%	(1)	6	(43.16)%	1	22.08%
20	43	44	41	1.77%	(2)	(1)	(4.36)%	(1)	(3.45)%
21	152	210	186	27.64%	58	138	10.42%	(14)	(10.42)%
22	180	238	205	25.92%	58	163	12.92%	(16)	(10.10)%
	2,383	2,590	2,520	7.98%	207	2,520	5.42%	(98)	(4.28)%
<b>Depreciation</b>									
23	457	508	592	10.15%	592	584	22.90%	128	21.87%
24	42	42	34	0.75%	(7)	39	(21.85)%	(3)	(7.27)%
	498	550	626	8.43%	128	623	20.45%	125	20.05%
<b>Depreciation and amortization</b>									
25	277	290	290	4.27%	12	250	4.27%	(27)	(10.77)%
27	3,158	3,428	3,436	7.59%	277	3,159	8.07%	0	0.01%
	1,350	1,047	1,045	28.93%	303	809	28.14%	540	66.73%
<b>OTHER INCOME &amp; DEDUCTIONS</b>									
28	-	-	-	-	-	0	-	0	(100.00)%
29	470	481	438	2.26%	11	409	3.55%	(61)	(15.00)%
30	53	127	30	58.41%	(23)	86	(76.54)%	33	38.81%
31	-	-	-	-	-	0	-	0	-
	523	608	517	13.97%	(6)	485	(1.08)%	(26)	(5.64)%
<b>AFUDC - Equity</b>									
32	109	102	64	6.40%	64	59	68.26%	50	83.66%
33	51	47	28	10.04%	28	27	75.05%	24	89.87%
34	7	6	6	(22.41)%	(1)	6	(22.41)%	(1)	(20.02)%
35	-	-	-	-	-	(7)	-	(7)	(100.00)%
<b>Preferred dividends of subsidiaries (Consolidated)</b>									
26	-	-	-	-	-	-	-	-	-
36	-	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-	-
39	3	0	3	-	3	153	-	(149)	(97.92)%
	3	0	3	-	3	153	-	(149)	(97.92)%
<b>Total other income</b>									
40	0	0	155.28%	0	0	0	155.28%	0	0.00%
41	21	20	(1)	(5.80)%	25	23	15.10%	2	7.50%
	21	20	(1)	(48.48)%	25	23	170.38%	2	7.30%
<b>Total Other Deductions</b>									
18	20	(2)	(10.25)%	(7)	(7)	129	(27.94)%	(111)	105.82%
(388)	(485)	(455)	19.97%	(455)	87	(292)	14.68%	(96)	(32.94)%
<b>Total other income (deductions)</b>									
<b>Income (loss) before income taxes</b>									
61	28	28	71.19%	400	590	517	62.93%	444	85.82%
43	348	466	120	(117.28)%	(32)	34	(89.08)%	34	(77.01)%
44	-	-	195	25.74%	(151)	153	(77.16)%	(193)	(126.14)%
45	(1)	(2)	(2)	(68.31)%	(2)	7	(74.57)%	7	107.86%
46	(3)	(7)	(4)	(51.22)%	(4)	35	(60.68)%	38	(109.09)%
403	488	83	17.03%	217	(166)	229	(83.59)%	(174)	(75.99)%
558	76	482	635.07%	373	186	288	49.75%	270	93.62%
7	7	0	(0.02)%	38	(32)	0	(62.89)%	7	93.62%
552	69	482	695.10%	335	217	288	64.95%	263	91.35%
0	0	0	-	0	0	0	-	0	-
552	69	482	695.10%	335	217	288	64.95%	263	91.35%



Kentucky American Water  
 April, 2008  
 (\$ in Thousands)  
 Variance Explanations  
 MTD Actual vs. Q1RF

Operating Revenues

Line 2&3 Revenue is over by \$32. Water and sewer revenue had small variances. Other revenue is over \$26 due to increased connection fees and collections for others.

Operating Expenses

Line 5 Purchased water is under by \$19. Purchased water from the Georgetown system was not needed at the planned level.  
 Line 6 Fuel and power is under mainly due to not having to transfer water from the Kentucky River Station (KRS) and a lower fuel adjustment rate.  
 Line 8 Geochemical testing for beneficial reuse permit (\$3).  
 Line 9 Labor is under \$70 mainly due to increased work on capital projects as well as vacancies totaling approximately \$30.  
 Line 10 Pension expense is over and is being investigated.  
 Line 11 Group insurance expense is under and is being investigated.  
 Line 12 Other benefits has a minor variance within (\$2) of the plan amount.  
 Line 13 Management fees and shared business services are over by (\$46) due to Corporate and ITS management fees.  
 Line 15 Contracted services are over due to legal (\$27). This accrual should have went to a project and will reverse in May.  
 Line 19 Rents is within (\$1).  
 Line 21 Miscellaneous is over mainly due to timing of items in the Q1 and several small variances.  
 Line 22 Maintenance is under due to materials and supplies \$23, miscellaneous maintenance \$12 and paving \$25 due to more capital repairs.  
 Line 23 Depreciation is under and is being investigated.

Other Income Deductions

Line 30 Interest on short-term debt is under by \$74 and is being investigated.  
 Line 33 AFUDC debt is within \$5.  
 Line 34 Amortization of debt expense is within (\$1).  
 Line 42-47 Under due to operating results.



Kentucky American Water  
April, 2008  
(\$ in Thousands)  
Variance Explanations  
MTD Actual vs. Plan

Operating Revenues

Lines 2&4 Revenue is over plan by \$27. Water revenue is under partly due to planned intra-company revenue that is not included. Sewer revenue is slightly over plan \$3. Other revenue is over due to increased connection fees \$26 and increased collections for others \$9.

Operating Expenses

Line 5 Purchased water is under plan by \$39 due to no intra-company expense and reduced purchased water in the Northern district.  
Line 8 Geochemical testing for beneficial reuse permit (\$3).  
Line 9 Labor is under \$75 mainly due to increased work on capital projects as well as vacancies totaling approximately \$30.  
Line 10 Pension expense is over plan and is being investigated.  
Line 11 Group insurance expense is under plan and is being investigated.  
Line 12 Other benefits has a minor variance within (\$2) of the plan amount.  
Line 15 Contracted services are over due to legal (\$27). This accrual should have went to a project and will reverse in May.  
Line 16 Regulatory expense is under \$32 due to reduced rate case expenses and a longer amortization period than planned.  
Line 17 Insurance other than group is under \$13 due to a reconciliation of the accounts.  
Line 19 Rents is within \$1.  
Line 22 Maintenance is under due to materials and supplies \$23, miscellaneous maintenance \$26, paving \$25 and is offset by NNS (\$46).  
Line 23 Depreciation is under plan and is being investigated.  
Line 24 Amortizations are over plan by (\$7) and have been corrected in the Q1RF.

Other Income Deductions

Line 30 Interest on short-term debt is over plan by (\$23) mainly due to the delay of the equity infusion.  
Line 32 AFUDC equity over plan due to capex timing.  
Line 33 AFUDC debt over plan due to capex timing.  
Line 34 Amortization of debt expense is within (\$1) of plan.  
Line 41 Miscellaneous other deductions is under \$4 due to lobbying expense not utilized.  
Line 42-47 Over plan due to operating results.  
Line 48 Preferred dividend is under plan \$32 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.





Kentucky American Water  
April, 2008  
(\$ in Thousands)  
Variance Explanations  
YTD Actual vs. Q1RF

Operating Revenues

Line 2&3 Revenue is over by \$32 mainly due to increased connection fees and collections for others.

Operating Expenses

Line 5 Purchased water is under by \$19. Purchase water from the Georgetown system was not needed at the planned level.  
Line 19 Rents is within \$1.

Other Income Deductions

Line 30 Interest on short-term debt is under by \$74 and is being investigated.  
Line 39 Miscellaneous income is within \$3.  
Line 42-47 Under due to operating results.



Kentucky American Water  
 April, 2008  
 (\$ in Thousands)  
 Variance Explanations  
 YTD Actual vs. Plan

Operating Revenues

Lines 2&4 Revenue is under plan by (\$23). Water revenue is under partly due to planned intra-company revenue that is not included. Other revenue is over mainly due to increased reconnection fees \$88 and increased collections for others \$39.

Operating Expenses

- Line 5 Purchased water is under plan by \$161 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 adjustment clause.
- Line 9 Labor is under \$208. This is mainly due to increased work on capital projects as well as vacancies.
- Line 10 Pension expense is over plan and is being investigated.
- Line 11 Group insurance expense is under plan and is being investigated.
- Line 12 Other benefits are over due to employee awards and the defined contribution plan.
- Line 13 Management fees are over due to corporate, region and business change expenses.
- Line 15 Contracted services are under due to contract services \$29, temporary employees \$19 offset by legal (\$27). The legal accrual will reverse.
- Line 16 Regulatory expense is under \$128 due to reduced rate case expenses and a longer amortization period than planned.
- Line 17 Insurance other than group is under \$97 mainly due to a large retro adjustment in March for \$45 which may reverse in later months.
- Line 18 Customer accounting is under \$188. Uncollectible expense is under \$153 and bank service charges are under \$37.
- Line 19 Rents is within \$2.
- Line 20 General office expense is under \$22 mainly due to electricity \$16 and telephone expense \$4.
- Line 23 Depreciation is under and is being investigated.
- Line 24 Amortizations are over plan by (\$33) and have been corrected in the Q1RF.

Other Income Deductions

- Line 30 Interest on short-term debt is over plan by (\$54) mainly due to the delay of the equity infusion.
- Line 32 AFUDC equity is over plan due to capex timing.
- Line 33 AFUDC debt is over plan due to capex timing.
- Line 34 Amortization of debt expense is within (\$5) of plan.
- Line 41 Miscellaneous other deductions is under \$49 due to lobbying expense not utilized and donations.
- Line 42-47 Over plan due to operating results.
- Line 48 Preferred dividend is under plan \$127 due to the \$4.5M 8.47% issue being included in both long-term debt and preferred dividends.



Supplementary Tables and Discussion  
Kentucky-American  
Apr 2008

Report ID: BPR.3.7  
American Water Confidential

Close Status: Day 7  
source system load.

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	4,481	4,481	17,803	4,476	4,476	17,749	3,968	3,968	15,111
Rates	-	-	-	-	-	-	500	500	1,175
DSIC	-	-	-	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-	-	-	-
Water acquisitions	-	-	-	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-	-	-	-
Other	41	41	149	26	26	26	15	15	69
Fire	-	-	-	-	-	-	-	-	-
Organic growth	0	0	(31)	-	-	-	35	35	65
Demand / consumption	(16)	(16)	(125)	3	3	3	(10)	(10)	(24)
Sewer	3	3	8	3	3	3	(4)	(4)	(4)
Other Revenue Variances	(1)	(1)	(24)	0	0	0	4	4	1,388
Actual revenues	4,508	4,508	17,781	4,508	4,508	17,781	4,508	4,508	17,781
Total variance	27	27	(23)	32	32	32	540	540	2,669

Report ID: BPR-3.7  
American Water Confidential

Supplementary Tables and Discussion  
Kentucky-American  
Apr 2008



Report Discussion:

Wednesday, May 14, 2008  
11:27:38 AM



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Monthly Financial Reviews

- Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
- All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
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- All known items for the current period have been reflected in financial discussions.
- Potential risks and opportunities have been identified and mitigating action plans have been developed.
- Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

\_\_\_\_\_  
**Regional Finance Director or Vice President (Signature)**

\_\_\_\_\_  
**(Date)**



Income Statement - Month To Date  
Kentucky-American  
May 2008  
(\$ in Thousands)

Report ID: FRS-14  
Report Name: Water Costbook

Close Status: Final  
source system data,  
prelim adjs and elims

	MTD Actuals	MTD Reforecast	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
1	4,515	4,494	22	0.49%	4,511	4	0.09%	4,070	445	10.95%
2	24	22	2	7.13%	189	55	34.05%	27	(3)	(11.37)%
3	213	166	45	27.03%	169	152	89.91%	152	62	40.78%
4	4,753	4,684	69	1.47%	4,892	61	1.23%	4,248	505	11.88%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
5	10	32	23	69.85%	50	40	80.54%	23	14	58.30%
6	254	250	(3)	(1.29)%	218	(35)	(16.23)%	280	27	9.58%
7	112	139	27	19.34%	139	148	19.19%	148	35	23.93%
8	22	27	5	19.48%	27	5	19.48%	27	5	19.55%
	397	449	52	11.49%	434	37	8.50%	479	81	16.36%
<b>COAL LABOR &amp; OVERHEAD</b>										
9	735	560	(176)	(31.39)%	565	(171)	(31.22)%	500	(235)	(46.98)%
10	57	43	(14)	(24.43)%	43	(14)	(32.43)%	53	(5)	(8.64)%
11	142	165	23	14.07%	165	23	14.07%	79	(67)	(89.07)%
12	18	22	4	19.74%	22	4	19.74%	17	(1)	(5.55)%
	952	790	(162)	(20.49)%	795	(157)	(19.73)%	645	(307)	(47.89)%
<b>Management fees</b>										
13	316	309	(7)	(2.36)%	294	(22)	(7.62)%	705	389	55.16%
14	331	325	(6)	(1.81)%	325	(6)	(1.81)%	-	(331)	(50.58)%
15	60	85	25	29.73%	85	25	29.73%	40	(20)	(50.58)%
	392	411	20	4.78%	411	20	4.78%	40	(392)	(97.65)%
<b>Regulatory expense</b>										
16	13	15	2	8.54%	46	32	70.72%	30	17	55.40%
17	49	50	1	3.67%	60	48	19.61%	48	(1)	(2.34)%
18	162	131	(31)	(19.14)%	130	(52)	(40.10)%	156	(26)	(16.61)%
19	20	4	(16)	(80.00)%	3	1	28.28%	1	(1)	(31.15)%
20	45	43	(2)	(4.44)%	41	(4)	(9.86)%	27	(18)	(69.39)%
21	118	168	50	29.95%	158	40	25.49%	(57)	(175)	(305.57)%
22	222	229	7	3.14%	183	(38)	(20.98)%	173	(48)	(28.41)%
	2,558	2,599	(41)	(1.62)%	2,558	(41)	(1.62)%	2,245	(443)	(19.72)%
<b>Depreciation and amortization</b>										
23	459	508	49	10.68%	502	134	27.55%	585	128	25.84%
24	43	42	(1)	(2.33)%	34	(8)	(24.71)%	39	(4)	(6.78)%
	501	550	49	9.78%	627	125	19.97%	624	122	19.58%
<b>General taxes</b>										
26	283	289	6	2.05%	289	6	2.05%	255	(29)	(11.24)%
27	3,473	3,439	(34)	(0.99)%	3,472	(1)	(0.03)%	3,123	(349)	(11.18)%
	1,280	1,248	(32)	(2.50)%	1,221	60	4.93%	1,125	155	13.81%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
28	(2)	-	2	2.25%	488	2	3.85%	409	(61)	(15.00)%
29	470	481	11	2.25%	477	(12)	(24.34)%	79	20	25.10%
30	59	143	84	58.57%	47	(38)	(100.00)%	(38)	(78)	(100.00)%
31	-	-	-	-	-	-	-	449	(78)	(17.36)%
	527	624	97	15.49%	535	8	1.46%	449	(78)	(17.36)%
<b>AFUDC - Equity</b>										
32	174	98	(76)	(43.73)%	72	102	141.18%	69	105	151.98%
33	47	45	(2)	(4.26)%	33	14	43.98%	18	18	49.72%
34	5	6	(1)	(20.00)%	6	(2)	(31.82)%	8	(2)	(28.57)%
35	-	-	-	-	-	-	-	(7)	(7)	(100.00)%
<b>Amortization of Debt Expense</b>										
36	-	-	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-	-	-
39	(12)	0	(12)	-	-	(12)	-	(3)	(9)	(258.85)%
	(12)	0	(12)	-	-	(12)	-	(3)	(9)	(258.85)%
<b>Miscellaneous Amortization</b>										
40	0	0	0	155.28%	0	0	155.28%	0	0	0.00%
41	27	37	10	28.22%	42	15	36.77%	16	(10)	(61.71)%
	26	37	11	183.50%	42	16	192.05%	16	(10)	(61.71)%
<b>Total Other Deductions</b>										
39	39	37	(2)	(5.13)%	42	(3)	(7.37)%	20	19	197.16%
(352)	(523)	(523)	170	32.53%	(478)	125	26.24%	(381)	29	7.51%
<b>Total other income (deductions)</b>										
42	67	37	(30)	(44.78)%	41	(26)	(62.88)%	81	15	18.03%
43	605	224	(381)	(62.98)%	251	(394)	(141.01)%	266	(339)	(127.55)%
44	(1)	(1)	0	(100.00)%	(3)	(2)	(66.67)%	(1)	0	5.91%
45	(6)	(3)	(3)	(50.00)%	(3)	(7)	(233.33)%	(1)	0	21.01%
46	867	247	(620)	(71.51)%	275	(389)	(141.48)%	341	(323)	(94.79)%
	264	476	(213)	(80.68)%	468	(204)	(43.68)%	403	(139)	(34.58)%
47	257	470	(213)	(82.92)%	423	(172)	(40.18)%	403	(146)	(36.20)%
	0	0	0	(45.28)%	423	(172)	(40.18)%	403	(146)	(36.20)%
<b>Current Year Retained Earnings</b>										
	257	470	(213)	(82.92)%	423	(172)	(40.18)%	403	(146)	(36.20)%



Kentucky American Water  
May, 2008  
(\$ in Thousands)  
Variance Explanations  
MTD Actual vs. Q1RF

Operating Revenues

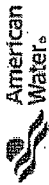
Line 1-3 Revenue is over by \$69. Water revenue is slightly over \$22. Sewer revenue is over due to increased connection fees \$33 and increased collections for others \$15.

Operating Expenses

Line 5 Purchased water is under by \$23 due to no intra-company expense and reduced purchased water in the Northern district.  
Line 7 Better than anticipated source water quality at each facility.  
Line 8 Timing difference due to being budgeted when purchased and charged out as used.  
Line 9 Labor is over (\$176) mainly due to the FLSA salary overtime payment.  
Line 10 Pension expense is over and will be reforecasted.  
Line 11 Group insurance expense is under and will be reforecasted.  
Line 12 Other benefits has a minor variance and is within \$4 of the forecast.  
Line 15 Contracted services are under \$26 due to the reversal of an April legal accrual (\$27).  
Line 18 Customer accounting is over by (\$50) mainly due to an increase in the uncollectible percentage from .4461% in April to .6216% in May.  
Line 19 Rents has a minor variance and is within \$1 of the forecast.  
Line 21 Savings in miscellaneous operations \$31 and miscellaneous general office \$47 are offset by increased transportation expense (\$35).

Other Income Deductions

Line 30 Interest on short-term debt is under by \$84 and is being investigated.  
Line 32 AFUDC equity is over by \$75 and is being investigated.  
Line 34 Amortization of debt expense has a minor variance and is within (\$2) of the forecast.  
Line 41 Miscellaneous other deductions is under \$10 mainly due to donations \$4 and other small miscellaneous items \$6.  
Line 42-47 Taxes are over the forecast mainly due to the correction of the tax on preferred dividends issue from prior years.



Close Status: Final  
source system data,  
prelim adjs and elims

Income Statement - Year To Date  
Kentucky-American  
May YTD 2008  
(\$ In Thousands)

	YTD Actuals	YTD Reforecast	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>								
1	21,403	21,379	21,695	(183)	0.12%	18,445	2,858	16.04%
2	126	122	117	4	3.39%	138	(12)	(6.44)%
3	1,003	932	793	211	26.60%	776	228	29.32%
4	22,533	22,433	22,495	38	0.17%	19,359	3,174	16.40%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>								
<b>PRODUCTION EXPENSES</b>								
5	43	85	244	202	82.53%	144	101	70.40%
6	1,128	1,178	907	(271)	(24.03)%	692	(189)	(27.03)%
7	612	632	603	(9)	(1.50)%	635	(23)	(3.62)%
8	117	118	121	(3)	(2.56)%	137	(20)	(14.59)%
	1,899	2,013	1,875	(24)	(1.26)%	1,817	(81)	(4.46)%
<b>O&amp;M LABOR &amp; OVERHEAD</b>								
9	2,719	2,613	2,757	(105)	(4.04)%	2,415	(304)	(12.60)%
10	287	269	216	(71)	(24.73)%	254	(33)	(13.01)%
11	716	765	825	51	6.59%	705	(11)	(1.60)%
12	116	118	99	(17)	(16.71)%	98	(17)	(17.58)%
	3,837	3,756	3,897	(80)	(2.14)%	3,471	(366)	(10.54)%
<b>Total employee related</b>								
13	1,892	1,861	1,955	(165)	(8.77)%	3,118	1,426	45.74%
<b>Shared business services</b>								
14	1,635	1,806	1,590	(46)	(2.89)%	-	(1,635)	(100.00)%
15	301	307	356	55	18.24%	299	(2)	(0.78)%
	1,937	1,913	1,945	9	0.45%	299	(1,638)	(547.78)%
<b>Total contracted services</b>								
16	127	129	287	160	55.92%	150	24	15.94%
17	194	199	302	108	35.54%	219	25	11.45%
18	504	485	640	136	27.00%	595	91	15.30%
19	15	14	14	(1)	(6.67)%	14	(1)	(8.92)%
20	218	217	237	18	7.66%	168	(51)	(30.37)%
21	753	862	889	86	5.91%	416	(337)	(81.19)%
22	1,018	1,092	975	(43)	(4.44)%	917	(102)	(11.07)%
	12,194	12,312	12,538	342	2.73%	11,184	(1,010)	(9.03)%
<b>Total operations and maintenance expense</b>								
23	2,575	2,677	2,956	381	12.89%	2,812	236	8.41%
24	212	212	171	(41)	(24.14)%	194	(18)	(9.28)%
	2,788	2,889	3,127	340	10.46%	3,006	218	7.27%
<b>Depreciation and amortization</b>								
25	1,413	1,432	1,440	27	1.87%	1,136	(277)	(24.40)%
27	16,395	16,632	17,104	709	4.34%	15,325	(1,069)	(6.97)%
	6,138	5,801	5,392	747	13.85%	4,033	(2,105)	(52.21)%
<b>OTHER INCOME &amp; DEDUCTIONS</b>								
28	(2)	-	-	-	-	(3)	(1)	(24.42)%
29	2,404	2,425	2,490	86	3.47%	2,097	(307)	(14.62)%
30	323	486	263	(85)	(24.77)%	291	(38)	(12.91)%
31	2,730	2,912	2,753	23	0.85%	2,947	(383)	(16.32)%
32	554	472	395	219	65.18%	259	295	113.85%
33	225	218	152	73	47.91%	118	(108)	(91.61)%
34	37	34	30	(7)	(24.31)%	30	(7)	(21.87)%
35	-	-	-	-	-	(33)	33	100.00%
36	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-
39	13	23	(9)	13	(40.73)%	192	(179)	(92.99)%
40	0	0	0	0	0.00%	0	0	0.00%
41	153	162	217	64	29.55%	163	9	5.84%
	153	162	218	65	29.73%	162	9	5.84%
<b>Other, net</b>								
	139	140	218	(78)	(56.92)%	30	110	98.83%
	(2,128)	(2,395)	(2,513)	386	15.34%	(2,004)	(124)	(6.16)%
<b>Total other income (deductions)</b>								
<b>Income (loss) before income taxes</b>								
42	4,011	3,408	2,878	1,132	38.34%	2,029	1,882	97.69%
43	1,725	1,465	982	(744)	(75.74)%	729	(997)	(136.65)%
44	(4)	(7)	(18)	(14)	(77.75)%	2	6	337.15%
45	(24)	(33)	(70)	(46)	(65.74)%	9	33	370.95%
46	1,883	1,548	1,058	(824)	(77.87)%	903	(979)	(108.43)%
47	2,128	1,858	1,820	308	14.52%	1,126	1,002	89.07%
48	33	33	192	(159)	(82.89)%	0	33	86.15%
	2,095	1,825	1,825	467	24.89%	1,126	970	86.15%
	1,097	1,097	804	(293)	(26.51)%	972	(125)	(12.90)%
	996	728	824	174	21.08%	154	844	549.13%



Kentucky American Water  
May, 2008  
(\$ in Thousands)  
Variance Explanations  
YTD Actual vs. Q1RF

Operating Revenues

Line 1-3 Revenue is over by \$101 due to water \$25 and other revenue \$72. Other revenue is over the forecast due to increased connection fees and collections for others.

Operating Expenses

Line 5 Purchased water is under by \$42. Purchased water from the Georgetown system was not needed at the planned level.  
Line 10 Pensions is over by (\$28) and will be reforecasted.  
Line 11 Group Insurance is under by \$51 and will be reforecasted.

Other Income Deductions

Line 30 Interest on short-term debt is under by \$158 and is being investigated.  
Line 32 AFUDC equity is over by \$82, mainly due to May's variance of \$75, and is being investigated.





Report Discussion:

Supplementary Tables and Discussion  
Kentucky-American  
May 2008

Report ID: BPR-3.7  
American Water Confidential



6-08

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American Water Confidential

Monthly Financial Reviews

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- All known items for the current period have been reflected in financial discussions.
- Potential risks and opportunities have been identified and mitigating action plans have been developed.
- Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

\_\_\_\_\_  
**Regional Finance Director or Vice President (Signature)**

\_\_\_\_\_  
**(Date)**



Kentucky-American  
Jun QTD 2008  
(\$ in thousands)

Approved Water Cost/Recovery  
Close Status: Final  
Pending reviews

	QTD Actuals	QTD Reforecast	Variance Favorable (Unfavorable)	% Variance	QTD Plan	Variance Favorable (Unfavorable)	% Variance	QTD Pct. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
1	13,766	13,508	258	1.91%	13,538	228	1.65%	12,716	1,050	8.25%
2	75	72	3	4.14%	68	7	10.30%	86	(11)	(15.52)%
3	630	601	29	4.78%	476	154	32.45%	527	103	19.45%
4	-	-	-	-	-	-	-	-	-	-
	14,470	14,182	289	2.03%	14,081	389	2.76%	13,330	1,141	8.56%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
5	32	54	(22)	41.16%	151	119	78.00%	127	85	75.00%
6	726	753	(27)	3.59%	662	64	9.67%	771	(45)	5.97%
7	360	361	(1)	0.28%	401	40	10.07%	420	(19)	4.47%
8	88	73	15	17.72%	68	20	29.41%	83	(15)	17.53%
	1,186	1,261	(75)	5.97%	1,282	96	7.49%	1,400	(214)	15.27%
<b>COM. LABOR &amp; OVERHEAD</b>										
9	1,733	1,770	(37)	2.09%	1,675	98	5.85%	1,477	256	17.30%
10	1,171	1,157	14	1.21%	1,300	(129)	(9.92)%	159	(12)	(7.38)%
11	423	445	(22)	5.20%	485	62	12.78%	404	(18)	(4.47)%
12	54	55	(1)	1.85%	57	3	5.26%	51	6	11.76%
	2,381	2,427	(46)	1.93%	2,356	25	1.06%	2,082	289	13.88%
13	1,039	837	202	19.46%	884	155	17.43%	1,839	(800)	46.43%
14	1,044	1,014	30	2.87%	985	59	6.00%	-	(1,044)	(100.00)%
15	228	251	(23)	10.09%	244	(16)	(6.55)%	179	(68)	(38.04)%
	1,272	1,265	7	0.55%	1,229	43	3.50%	1,052	(168)	(16.86)%
16	40	42	(2)	5.00%	137	97	70.61%	90	50	55.22%
17	111	146	(35)	31.50%	181	70	38.67%	132	21	16.11%
18	434	432	2	0.46%	389	45	11.57%	487	(7)	(1.44)%
19	9	9	0	0.00%	8	1	12.50%	9	(1)	(11.11)%
20	144	128	16	11.72%	121	23	18.93%	93	52	55.84%
21	432	457	(25)	5.78%	506	74	14.63%	237	(195)	(82.34)%
22	618	624	(6)	0.97%	632	(14)	(2.22)%	434	(198)	(44.95)%
	7,725	7,769	(44)	0.57%	7,728	2	0.03%	7,083	(683)	(8.92)%
23	1,384	1,467	(83)	5.97%	1,778	394	22.18%	1,765	371	21.17%
24	127	123	4	3.16%	103	24	23.11%	117	(10)	(8.54)%
	1,511	1,590	(79)	5.23%	1,881	370	19.67%	1,872	(6)	(0.32)%
25	682	848	(166)	19.58%	866	184	21.26%	814	133	16.29%
26	-	-	-	-	-	-	-	-	-	-
27	9,917	10,209	(292)	2.95%	10,474	557	5.31%	9,779	(338)	(3.46)%
	4,553	3,973	580	14.61%	3,607	946	26.21%	3,591	1,002	28.21%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
28	(6)	(2)	4	182.81%	-	6	6.00%	(125)	(119)	(96.31)%
29	1,411	1,421	(10)	0.71%	1,463	(52)	3.55%	1,159	(262)	(21.73)%
30	183	157	26	14.14%	140	43	30.71%	425	(262)	61.55%
31	1,588	1,576	12	0.76%	1,602	(16)	(1.00)%	1,421	(181)	(11.96)%
32	381	365	16	4.15%	212	169	79.28%	188	183	102.37%
33	144	137	7	4.89%	96	47	48.96%	83	58	69.76%
34	23	21	2	8.70%	18	5	27.78%	18	(6)	(33.33)%
35	-	-	-	-	-	-	-	(20)	(20)	(100.00)%
36	-	-	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-	-	-
39	27	(9)	36	362.88%	-	27	27.00%	146	(119)	(81.45)%
40	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
41	72	88	(16)	22.22%	110	38	34.55%	108	34	32.17%
	(49)	(85)	36	42.35%	(110)	65	59.09%	40	(85)	(113.62)%
	(1,111)	(1,190)	79	7.02%	(1,422)	311	21.85%	(1,145)	34	2.98%
42	3,442	2,783	659	19.13%	2,168	1,274	58.77%	2,405	1,035	43.06%
43	319	174	(145)	45.45%	119	(200)	(167.14)%	139	(180)	(128.77)%
44	1,277	1,243	34	2.66%	794	(483)	(60.83)%	787	(485)	(61.73)%
45	(3)	(6)	3	100.00%	(9)	6	66.67%	7	10	144.75%
46	1,576	1,390	186	11.85%	1,309	267	20.39%	45	(262)	(58.33)%
47	1,866	1,392	474	25.36%	1,376	490	35.58%	1,428	(48)	(3.36)%
	20	20	0	0.00%	115	(95)	(82.95)%	0	20	20.00%
	1,847	1,373	474	25.84%	1,261	586	46.43%	1,428	(161)	(12.77)%
	956	1,080	(124)	12.97%	793	(163)	(20.55)%	235	(221)	(93.67)%
	890	313	577	64.83%	469	422	89.96%	1,193	(603)	(50.51)%

Notes: 1. Operating Expenses - Common Dividend Declared  
2. Operating Expenses - Common Dividend Declared



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

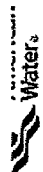
Lines 2&4 Revenue is over plan by \$389. Water revenue is over by \$228. Other revenue is over \$154 due to increased reconnection fees \$93 and increased collections for others \$39.

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.



Kentucky-American  
Jun YTD 2008  
(\$ in Thousands)

Actual Year Overhead  
Close Status: Final  
pending reviews

	YTD Actuals	YTD Reference	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pt. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>								
Water Revenues	26,371	26,113	26,313	258	0.95%	23,337	3,033	13.00%
Sewer Revenues	1,468	150	140	10	1.54%	168	(18)	(8.62)%
Other Operating Revenues	1,220	1,191	951	239	2.41%	957	253	26.17%
Management Revenues	-	-	-	-	-	-	-	-
Operating Revenues	27,743	27,454	27,404	289	1.05%	24,473	3,270	13.35%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>								
<b>PRODUCTION EXPENSES</b>								
Purchased Water	54	76	296	22	29.23%	207	153	79.93%
Fuel and Power	1,468	1,434	1,154	28	1.94%	1,260	(146)	(11.81)%
Chemicals	738	759	754	20	2.68%	746	8	1.07%
Waste Disposal	139	144	142	5	3.58%	161	22	15.53%
Total production costs	2,357	2,413	2,346	75	3.12%	2,373	36	1.51%
<b>QA/LABOR &amp; OVERHEAD</b>								
Labor	3,222	3,258	3,297	37	1.14%	2,919	(303)	(10.39)%
Pensions	344	330	259	(14)	(4.21)%	307	(37)	(12.14)%
Group Insurance	853	881	891	22	2.48%	866	(4)	(0.45)%
Other benefits	132	132	116	0	0.32%	118	(4)	(1.28)%
Total employee related	4,557	4,603	4,563	45	0.99%	4,199	(358)	(8.54)%
Management fees	2,090	1,988	1,847	(102)	(5.11)%	3,737	1,647	44.08%
Shared business services	2,000	1,970	1,924	(30)	(1.53)%	-	(2,000)	(0.30)%
Contracted services	373	397	438	24	6.09%	372	(1)	(0.30)%
Total contracted services	2,374	2,367	2,363	(7)	(0.26)%	372	(2,001)	(57.53)%
Regulatory expenses	140	141	332	1	0.95%	181	40	22.40%
Insurance Other Than Group	209	244	363	35	14.33%	255	46	18.10%
Customer Accounting	700	638	772	(63)	(9.81)%	654	134	16.10%
Rents	18	17	0	0	(2.43)%	16	(2)	(12.37)%
General office expense	275	258	278	(16)	(6.28)%	192	(83)	(43.09)%
Miscellaneous	915	981	982	65	6.65%	572	(343)	(60.00)%
Maintenance	1,233	1,241	1,219	8	0.56%	1,015	(213)	(17.19)%
Total operations and maintenance expenses	14,848	14,881	15,188	43	0.29%	13,746	(1,102)	(8.05)%
Depreciation	3,044	3,127	3,398	83	2.68%	3,398	354	10.42%
Amortization	255	254	205	(1)	(0.28)%	233	(22)	(8.38)%
Depreciation and amortization	3,299	3,381	3,765	82	2.44%	3,631	332	9.15%
General taxes	1,535	1,700	1,727	165	9.76%	1,446	(99)	(6.16)%
Impairment charges	-	-	-	-	-	-	-	-
Total operating expenses, net	18,681	19,973	20,671	292	1.46%	18,823	(859)	(4.56)%
Operating income	3,062	7,481	6,733	580	7.76%	5,650	2,412	42.89%
<b>OTHER INCOME &amp; DEDUCTIONS</b>								
Interest income	(6)	(2)	-	4	182.81%	(127)	(121)	(65.40)%
Interest on long-term debt	2,374	2,895	2,978	11	0.38%	2,438	(438)	(17.37)%
Interest on Short-Term Bank Debt	380	374	305	(7)	(1.74)%	651	171	30.59%
Other Interest Expense	-	-	-	-	-	(38)	(38)	(100.00)%
Total interest expense	3,248	3,267	3,303	8	0.25%	2,824	(424)	(15.03)%
AFUDC-Equity	651	636	411	15	2.28%	318	333	104.48%
AFUDC-Debt	271	284	187	7	2.58%	145	(128)	(87.37)%
Amortization of Debt Expense	44	43	36	(1)	(3.51)%	36	(8)	(21.56)%
Preferred Dividends of Subsidiaries (Consolidated)	-	-	-	-	-	(38)	(38)	(100.00)%
Gain on sale of assets	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-
Miscellaneous Income	50	13	-	36	270.02%	-	-	-
Total other income	50	13	-	36	270.02%	189	(139)	(73.67)%
Miscellaneous Amortization	0	0	0	0	38.02%	0	0	0.00%
Miscellaneous Other Deductions	177	191	260	14	7.22%	229	52	22.69%
Total Other Deductions	(127)	(177)	(260)	50	28.35%	(39)	(88)	(66.35)%
Other, net	(2,498)	(2,577)	(3,002)	78	3.05%	(2,476)	(22)	(0.89)%
Total other income (deductions)	5,564	4,905	3,751	659	13.44%	3,174	2,390	75.31%
Income (loss) before income taxes	376	231	210	(145)	(62.92)%	188	(190)	(101.79)%
State Income Taxes	2,052	2,018	1,270	(94)	(1.86)%	1,088	(954)	(86.38)%
Federal Income Taxes	-	-	-	-	-	-	-	-
Tax Saving Acquisition Adjustment	(6)	(7)	(21)	(3)	(24.41)%	3	8	288.84%
State income taxes (non-operating)	2,381	2,206	1,376	(195)	(8.40)%	1,311	(1,080)	(62.40)%
Federal income taxes (non-operating)	3172	2,898	2,546	474	17.55%	1,862	1,310	70.52%
Provision (Benefit) for Income Taxes	39	38	230	0	(0.15)%	1,662	38	58.21%
Net Income (loss)	3,133	2,059	2,126	474	17.81%	1,862	1,270	70.13%
Preferred Dividend Declared	2,053	2,157	1,587	(103)	(4.90)%	1,207	(845)	(69.15)%
Net Income To Common Stock	1,080	503	539	577	114.84%	656	424	84.88%
Common Dividend Declared	-	-	-	-	-	-	-	-
Current Year Retained Earnings	-	-	-	-	-	-	-	-

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Kentucky-American - Domestic U.S. Water Prod. Summary of All Subsidiaries



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.





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.



Report ID: BPR.3.7  
American Water Confidential

Tuesday, July 15, 2008 5:53:24 PM

Supplementary Tables and Discussion  
Kentucky-American  
Jun 2008



Report Files - Currency: USD, Version: Final, Subsidiary: All Subsidiaries,  
Project: No Project, Water System: No Water System

Class Status: Final  
pending reviews

Kentucky-American  
Jan YTD 2008  
(\$ in Thousands)

Account	Actuals	Reforecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Bal.	Increase (Decrease)	% Variance
Utility Plant	355,889	355,434	1,435	0.4%	368,437	(11,568)	(3.1)%	345,241	11,527	3.3%
Construction Work in Progress	22,053	22,005	48	0.2%	21,567	488	2.3%	21,310	743	3.7%
Accumulated Depreciation	(83,632)	(83,345)	(287)	(0.3)%	(88,217)	4,885	5.2%	(80,435)	(3,197)	(4.0)%
Utility Plant Acquisition Adjustments	316	318	(2)	(0.6)%	323	(7)	(2.2)%	327	(11)	(3.2)%
Other Utility Plant Adjustments	285,646	284,411	1,235	0.4%	302,530	(6,884)	(2.3)%	286,543	9,103	3.2%
Total Utility Plant	270	270	0	0.0%	250	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)%	286,733	9,123	3.2%
Total property, plant and equipment	408	203	205	101.0%	286	121	42.4%	398	9	2.3%
Cash and Cash Equivalents	2,606	2,634	(28)	(1.0)%	2,150	458	21.3%	1,828	660	35.3%
Utility customer accounts receivable	(247)	(210)	(37)	(17.8)%	(286)	39	13.6%	(223)	(24)	(10.6)%
Allowance for uncollectible accounts	2,673	2,733	(60)	(2.2)%	2,960	(67)	(2.9)%	2,562	311	12.1%
Accrued utility revenues	424	244	180	74.0%	408	16	4.0%	196	228	116.2%
Other receivables, net	729	729	0	0.0%	(2,670)	2,670	100.0%	388	(388)	(100.0)%
Taxes receivable, including federal income	638	600	38	6.5%	584	55	9.4%	635	4	0.6%
Materials and supplies	174	0	174	100.0%	193	(19)	(9.7)%	81	94	116.0%
Receivable from affiliated companies	6,879	7,214	(335)	(4.8)%	3,628	3,253	89.7%	5,965	914	15.3%
Other Current Assets	6,448	6,416	32	0.5%	6,171	278	4.5%	6,385	63	1.0%
Regulatory assets - income tax recovery	808	803	5	0.3%	706	99	14.1%	846	(40)	(4.9)%
Debt and preferred stock expense	-	-	-	-	-	-	-	-	-	-
Deferred pension expense	-	-	-	-	-	-	-	-	-	-
Deferred postretirement benefit expense	-	-	-	-	-	-	-	-	-	-
Deferred security costs	-	-	-	-	-	-	-	-	-	-
Deferred business services project expense	-	-	-	-	-	-	-	-	-	-
Deferred integration costs	-	-	-	-	-	-	-	-	-	-
Deferred bank printing costs	1,733	1,759	(26)	(1.5)%	1,514	119	7.4%	1,839	(126)	(6.9)%
Deferred rate case	360	364	(4)	(1.1)%	335	24	7.2%	486	(126)	(26.0)%
Asset premium recoverable thru rates	-	-	-	-	-	-	-	-	-	-
Environmental remediation recoverable thr	3,027	3,127	(99)	(3.2)%	3,439	(411)	(12.0)%	3,181	(154)	(4.9)%
Other Regulatory Assets	12,374	12,468	(94)	(0.8)%	12,285	109	0.9%	12,758	(384)	(3.0)%
Regulatory assets	-	-	-	-	-	-	-	-	-	-
Other Investments	-	-	-	-	-	-	-	-	-	-
Long term receivable from affiliate	-	-	-	-	-	-	-	-	-	-
Funds restricted for construction	-	-	-	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-	-	-	-
Intangible assets	853	767	86	11.2%	437	416	95.0%	488	365	74.9%
Other Long Term Assets	13,227	13,236	(9)	(0.1)%	12,702	525	4.1%	13,245	(19)	(0.1)%
Total Regulatory & Other Lf Assets	318,022	315,131	2,891	0.9%	319,107	(3,086)	(1.0)%	305,003	10,019	3.3%
Capital & Liabilities	36,599	36,599	0	0.0%	36,599	0	0.0%	36,599	0	0.0%
Paid in Capital	24,085	24,085	0	0.0%	24,056	43	0.2%	8,056	16,043	199.1%
Retained Earnings	31,069	30,482	577	1.9%	29,677	1,822	4.0%	29,950	1,080	3.6%
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
Unearned compensation	-	-	-	-	-	-	-	-	-	-
Treasury stock	-	-	-	-	-	-	-	-	-	-
Common stockholders' equity	91,738	91,147	591	0.6%	90,502	1,235	1.4%	74,815	17,123	22.9%
Preferred Stock without mandatory redemp	1,458	1,458	0	0.0%	1,467	(9)	(0.6)%	1,467	(9)	(0.6)%
Long term debt	76,700	76,700	0	0.0%	76,700	0	0.0%	76,800	(3,100)	(3.9)%
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%
Short Term Debt	14,542	15,002	(460)	(3.1)%	14,537	5	0.0%	19,356	(4,814)	(24.9)%
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	4,574	4,555	18	0.4%	6,946	(2,374)	(34.2)%	6,507	(1,833)	(28.2)%
Accounts Payable	3,476	3,250	226	7.0%	3,931	(455)	(11.6)%	5,228	(1,751)	(33.5)%
Taxes Accrued	1,150	1,150	0	0.0%	886	263	29.7%	1,143	8	0.8%
Interest Accrued	2,497	2,180	418	20.1%	6,275	(3,782)	(60.2)%	2,027	470	23.2%
Total Other Current Liabilities	29,339	28,157	202	0.7%	35,682	(6,343)	(17.8)%	37,582	(8,022)	(21.5)%
Total Current Liabilities	14,195	13,965	231	1.7%	18,636	(4,340)	(23.4)%	14,653	(458)	(3.1)%
Customer Advances for Construction	35,901	36,377	(476)	(1.3)%	39,290	(3,389)	(8.6)%	32,877	3,025	9.2%
Deferred Income Taxes	1,178	1,178	0	0.0%	1,219	(44)	(3.6)%	1,218	(4)	(0.3)%
Deferred investment tax credits	9,465	9,348	117	1.3%	8,221	1,244	15.1%	8,772	663	7.5%
Regulatory liability-cost of removal	1,615	1,500	115	7.5%	1,877	(363)	(19.3)%	2,174	(598)	(27.5)%
Accrued pension expense	401	202	199	49.5%	208	193	92.8%	384	17	4.5%
Accrued postretirement benefit expense	4,153	4,181	(28)	(0.7)%	219	3,954	1,795.7%	4,596	(444)	(9.7)%
Other Deferred Credits	66,906	66,850	56	0.1%	66,555	351	0.5%	64,675	2,231	3.5%
Regulatory & Other Long Term Liabilities	45,381	45,339	41	0.1%	43,701	1,679	3.8%	43,585	1,795	4.1%
Contributions in aid of construction	-	-	-	-	-	-	-	-	-	-
Total capital and liabilities	318,022	315,131	2,891	0.9%	319,107	(3,086)	(1.0)%	305,003	10,019	3.3%

Notes: Plan - Current; ISA, Vendor, PMA, Subcontractor, All Subcontractors



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**Monthly Financial Review Package**

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Report ID: PR01.13  
Close Status: Final  
Source System: data with preliminary adjustments and eliminations

Income Statement - Year To Date  
Kentucky  
008  
(\$ in  
thousands)

	YTD Actuals	Reference	YTD Variance Favorable (Unfavorable)	% Variance	YTD Plan	YTD Variance Favorable (Unfavorable)	% Variance	YTD Pt. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
1 Water Revenues	31,698	31,682	138	0.43%	31,782	(84)	(0.26)%	28,340	3,358	11.85%
2 Sewer Revenues	1,776	1,773	3	1.50%	1,753	18	7.37%	1,977	(21)	(10.61)%
3 Other Operating Revenues	1,444	1,379	66	4.75%	1,110	339	30.16%	1,168	276	23.66%
4 Management Revenues	33,319	33,114	205	0.62%	33,055	264	0.80%	29,705	3,613	12.15%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
5 Purchased Water	66	108	42	38.85%	349	283	81.11%	239	173	72.40%
6 Fuel and Power	1,697	1,798	101	5.82%	1,459	(239)	(16.35)%	1,518	(180)	(11.83)%
7 Chemicals	869	923	54	5.83%	923	54	5.83%	875	6	0.65%
8 Waste Disposal	165	169	4	2.65%	174	10	5.52%	184	19	10.45%
Total production costs	2,797	2,998	201	6.71%	2,906	108	3.75%	2,818	18	0.65%
<b>O&amp;M LABOR &amp; OVERHEAD</b>										
9 Labor	3,781	3,851	70	1.81%	3,889	108	2.76%	3,410	(371)	(10.89)%
10 Pensions	302	373	(71)	(4.99)%	302	(89)	(29.55)%	365	(27)	(7.34)%
11 Group Insurance	981	1,046	65	6.25%	1,156	175	15.14%	1,007	26	2.60%
12 Other benefits	157	157	(9)	(5.51)%	133	(32)	(24.14)%	133	(63)	(24.65)%
Total employee related	5,319	5,427	108	1.99%	5,480	181	2.94%	4,915	(405)	(8.23)%
13 Management fees	2,393	2,274	(120)	(5.26)%	2,129	(265)	(12.43)%	4,333	1,940	44.77%
14 Shared business services	2,331	2,304	(27)	(1.18)%	2,258	(73)	(3.23)%	-	(2,331)	(0.34)%
15 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)%	2,765	(41)	(1.48)%	475	(2,332)	(491.53)%
16 Regulatory expense	154	156	2	1.70%	378	225	59.39%	211	57	27.05%
17 Insurance Other Than Group	258	295	36	12.38%	423	165	38.04%	508	50	13.15%
18 Customer Accounting	803	778	(25)	(3.33)%	910	107	11.75%	894	16	1.84%
19 Rents	24	20	(4)	(16.70)%	19	(5)	(24.65)%	21	(2)	(7.48)%
20 General office expense	368	296	(72)	(19.70)%	313	(53)	(16.98)%	248	(118)	(47.48)%
21 Miscellaneous	1,039	1,132	143	12.69%	1,144	260	9.19%	779	(260)	(33.42)%
22 Maintenance	1,438	1,513	78	5.12%	1,454	18	1.22%	1,147	(268)	(25.20)%
Total operations and maintenance expense	17,397	17,720	323	1.83%	17,923	526	2.93%	16,185	(1,211)	(7.48)%
23 Depreciation	3,915	3,882	(33)	(0.85)%	4,147	632	15.25%	3,986	471	11.81%
24 Amortization	298	298	(1)	(0.45)%	240	(58)	(24.31)%	272	(26)	(9.42)%
25 Depreciation and amortization	3,613	3,979	366	10.14%	4,387	574	13.09%	4,258	445	10.46%
26 General taxes	1,804	1,992	188	9.44%	2,019	215	10.65%	1,693	(111)	(6.56)%
27 Impairment charges	-	-	-	-	-	-	-	-	-	-
Total operating expenses, net	23,013	23,690	677	2.85%	24,328	1,315	5.41%	22,136	(877)	(3.96)%
28 Operating Income	10,306	9,423	(882)	(9.36)%	8,727	1,579	18.09%	7,569	2,756	36.15%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
29 Interest income	(6)	(2)	4	182.81%	3,465	6	3.49%	(127)	(121)	(95.40)%
30 Interest on long-term debt	3,304	3,385	81	2.45%	3,465	121	3.49%	2,794	(610)	(22.31)%
31 Interest on Short-Term Bank Debt	415	419	4	0.97%	403	(12)	(3.02)%	748	333	44.59%
Total interest expense	3,785	3,777	8	0.21%	3,868	115	2.97%	3,317	(456)	(13.15)%
32 APUDC - Equity	748	717	(31)	(4.15)%	501	246	49.41%	394	354	89.89%
33 APUDC Debt	317	297	(20)	(6.33)%	228	89	39.16%	179	(138)	(76.89)%
34 Other APUDC	52	49	(3)	(5.65)%	42	(10)	(24.00)%	42	(9)	(21.88)%
35 Gain on sale of assets	-	-	-	-	-	-	-	(46)	46	100.00%
36 Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-
37 Dividend Income - Common	-	-	-	-	-	-	-	-	-	-
38 Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-
39 Miscellaneous Income	37	13	24	175.14%	-	37	37.73%	163	(126)	(77.29)%
Total other income	37	13	24	175.14%	-	37	37.73%	163	(126)	(77.29)%
40 Miscellaneous Amortization	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
41 Miscellaneous Other Deductions	207	207	0	0.00%	271	65	24.02%	234	28	11.88%
Total Other Deductions	207	207	0	0.00%	271	65	24.02%	234	28	11.88%
Other, net	(169)	(194)	(25)	12.68%	(272)	102	37.57%	(71)	(89)	(89.17)%
Total other income (deductions)	(2,009)	(3,006)	(997)	3.25%	(3,465)	544	15.75%	(2,903)	(6)	(0.20)%
Income (loss) before income taxes	7,397	6,417	(980)	15.27%	5,274	2,123	40.25%	4,666	2,730	58.51%
Federal Income Taxes	489	305	(183)	(37.30)%	286	(203)	(71.24)%	282	(207)	(73.14)%
State Income Taxes	2,517	2,514	(3)	(0.11)%	1,789	(727)	(41.40)%	1,625	(891)	(54.83)%
46 Tax Saving Acquisition Adjustment	(7)	(6)	1	(4.31)%	(22)	(15)	(67.62)%	2	8	520.86%
47 State income taxes (non-operating)	(42)	(38)	4	10.85%	(87)	(43)	(51.62)%	15	58	373.63%
Federal income taxes (non-operating)	2,956	2,774	(182)	(6.56)%	1,956	(1,000)	(51.14)%	1,925	(1,031)	(53.57)%
48 Provision (Benefit) for Income Taxes	4,441	3,642	(799)	(18.00)%	3,318	1,122	33.82%	2,741	1,699	61.98%
Net Income (Loss)	46	46	0	0.31%	268	(222)	(82.84)%	0	46	46.00%
Preferred Dividend Declared	3,597	3,597	0	0.00%	3,050	2,741	44.00%	2,741	1,653	60.32%
Common Dividend Declared	2,053	2,157	103	4.97%	1,987	(67)	(3.38)%	1,207	(848)	(70.13)%
Current Year Retained Earnings	2,342	1,440	(902)	(38.53)%	1,653	688	41.60%	1,534	807	52.60%

Tuesday, August 12, 2008  
8:12:54 AM





Monthly Financial Reviews

- Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
- All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
- Variance analysis and commentary reflect financial results consistent with operation results.
- All known items for the current period have been reflected in financial discussions.
- Potential risks and opportunities have been identified and mitigating action plans have been developed.
- Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

\_\_\_\_\_  
**Regional Finance Director or Vice President (Signature)**

\_\_\_\_\_  
**(Date)**





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.

8-08

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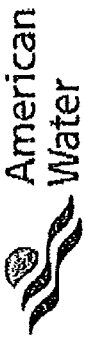
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AWFRP 1.1 - Income Statement - MTD  
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AWFRP 1.3 - Income Statement - YTD  
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AWFRP 2.0 - Result of Operations - Revenue Variance  
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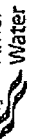
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**Regional Finance Director or Vice President (Signature)**

\_\_\_\_\_  
**(Date)**

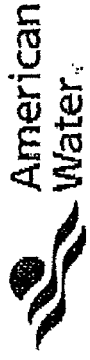


Kentucky with Growth  
Aug 2008  
(\$ in Thousands)

Close Status: Final  
source system financial  
data w/ prelin adjs and  
elim's

	MTD Actuals	MTD Reforecast	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
1	\$ 835	\$ 454	380	6.97%	5,472	313	6.64%	4,794	1,041	21.71%
2	27	4	24	15.16%	24	24	15.16%	28	0	0.81%
3	221	188	34	18.02%	158	63	39.81%	217	4	1.82%
4	6,083	5,666	418	7.37%	5,654	429	7.60%	5,039	1,045	20.73%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
5	11	37	(26)	70.71%	56	45	80.30%	34	23	67.47%
6	393	363	(30)	(8.21)%	300	(91)	(30.91)%	285	(86)	(33.20)%
7	161	163	2	1.34%	169	184	4.30%	22	22	12.44%
8	24	24	0	(0.28)%	21	(3)	(12.37)%	16	(6)	(38.20)%
	589	588	(1)	(0.21)%	546	(43)	(7.50)%	528	(61)	(11.55)%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
9	493	537	44	8.21%	537	44	8.21%	526	33	6.23%
10	53	43	(10)	(22.59)%	43	(10)	(22.59)%	53	0	(0.50)%
11	147	165	18	10.68%	165	18	10.68%	153	5	3.34%
12	18	25	7	28.50%	25	25	28.50%	19	2	8.21%
	711	770	59	7.70%	770	59	7.70%	750	39	5.22%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
13	285	273	(12)	(4.55)%	268	(12)	(4.55)%	627	342	54.53%
14	354	319	(35)	(10.90)%	319	(35)	(10.90)%	-	(354)	(114.20)%
15	485	485	(42)	(8.45)%	71	(41)	(67.41)%	52	(60)	(792.65)%
	1,383	1,383	(77)	(5.57)%	950	(75)	(7.87)%	920	(413)	(44.63)%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
16	13	15	2	10.44%	46	33	70.92%	30	17	55.70%
17	49	50	1	2.86%	60	11	18.53%	52	2	4.82%
18	116	140	23	16.73%	138	22	15.75%	58	(58)	(100.00)%
19	0	3	2	50.00%	3	3	50.00%	1	0	(72.87)%
20	74	38	(35)	(47.19)%	39	(35)	(90.21)%	44	(20)	(66.81)%
21	135	181	46	25.30%	152	141	10.67%	141	6	4.15%
22	205	227	21	9.35%	167	(38)	(22.75)%	130	(75)	(57.50)%
	2,644	2,673	29	1.10%	2,579	(65)	(2.52)%	2,414	(230)	(8.94)%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
23	470	557	86	15.52%	599	128	21.44%	582	112	19.18%
24	43	62	19	41.86%	34	(9)	(25.10)%	39	(4)	(10.12)%
	513	619	106	20.66%	633	120	18.95%	621	108	17.34%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
25	252	287	35	12.30%	287	35	12.30%	290	(2)	(0.74)%
27	3,409	3,559	150	4.22%	3,499	90	2.57%	3,284	(215)	(6.16)%
	2,674	2,106	568	25.98%	2,155	(519)	(24.11)%	1,754	(920)	(52.45)%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
28	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
29	470	481	11	2.26%	488	17	3.55%	296	(174)	(58.92)%
30	36	45	9	21.34%	90	54	60.56%	206	171	82.72%
31	506	526	20	3.90%	578	72	12.47%	502	(4)	(0.72)%
32	112	93	(19)	(15.50)%	133	(21)	(15.50)%	85	27	31.84%
33	53	42	(11)	(25.40)%	60	8	(12.64)%	39	14	35.31%
34	7	6	(1)	(25.00)%	6	(1)	(25.00)%	(7)	(1)	(23.03)%
35	-	-	-	0.00%	-	-	0.00%	-	(7)	(100.00)%
36	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
37	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
38	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
39	14	0	(14)	(100.00)%	0	(14)	(100.00)%	5	9	182.68%
40	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
41	22	14	(8)	(37.50)%	19	(3)	(15.53)%	11	(11)	(85.16)%
	22	(8)	(30)	(137.50)%	19	(3)	(15.53)%	11	(11)	(85.16)%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
42	(8)	(14)	6	42.82%	(19)	11	58.05%	(6)	(2)	278.15%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
43	2,318	1,695	623	36.74%	1,746	573	32.81%	1,367	961	70.83%
44	141	81	(60)	(42.55)%	85	(56)	(66.15)%	87	(54)	(62.30)%
45	791	560	(231)	(29.20)%	581	(210)	(36.24)%	474	(317)	(67.02)%
46	0	(1)	(1)	(100.00)%	(2)	(1)	(77.39)%	0	0	0.00%
47	929	635	(294)	(31.55)%	658	(272)	(41.23)%	568	(90)	(13.55)%
	1,383	1,064	320	23.19%	1,088	301	27.68%	799	590	68.43%
	1,383	1,054	329	23.84%	1,050	333	31.72%	799	584	73.09%
	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
	1,383	1,054	329	23.84%	1,050	333	31.72%	799	584	73.09%

Financial Statements of Public Service Company of Kentucky



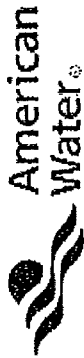
Kentucky American Water  
 August, 2008  
 (\$ in Thousands)  
 Variance Explanations  
 MTD Actual vs. Q2RF

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 paving 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 363. Other revenue is over \$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.

Close Status: Final  
source system: financial  
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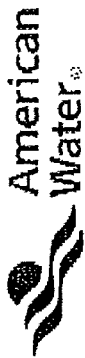
Kentucky with Growth  
Aug YTD 2008  
(\$ in Thousands)

	YTD Actuals	Reforecast	YTD Plan	YTD Variance (Unfavorable)	% Variance	YTD Plan Variance (Unfavorable)	% Variance	YTD Variance (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>									
Water Revenues	37,533	37,016	37,254	517	1.40%	279	0.75%	33,134	13.28%
Sewer Revenues	204	197	187	10	3.49%	17	8.88%	235	19.43%
Other Operating Revenues	1,666	1,567	1,268	399	6.24%	358	31.35%	260	20.23%
Management Revenues	-	-	-	-	-	-	-	-	-
Operating Revenues	39,402	38,779	38,709	693	1.81%	653	1.70%	4,688	13.41%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>									
<b>PRODUCTION EXPENSES</b>									
Purchased Water	77	145	405	405	47.00%	328	81.00%	273	71.79%
Fuel and Power	2,090	2,161	1,755	406	2.38%	345	18.84%	1,812	15.31%
Chemicals	1,030	1,066	1,092	62	5.67%	61	5.67%	1,088	2.69%
Waste Disposal	188	183	176	7	2.13%	7	3.50%	28	6.59%
Total production costs	3,386	3,566	3,451	115	5.53%	65	1.86%	42	1.27%
<b>O&amp;M LABOR &amp; OVERHEAD</b>									
Salaries	4,274	4,388	4,425	152	2.59%	152	3.42%	3,936	8.60%
Pensions	445	416	405	28	6.82%	28	6.82%	418	6.43%
Group Insurance	1,128	1,211	1,321	193	6.85%	193	15.64%	31	2.75%
Other Benefits	183	182	158	25	0.69%	25	15.64%	31	20.48%
Total employee related	6,030	6,198	6,251	223	2.70%	223	3.52%	3,665	6.45%
Management fees	2,679	2,547	2,397	250	6.18%	250	11.73%	2,282	46.00%
Shared business services	2,684	2,822	2,577	245	2.36%	245	4.18%	2,684	11.62%
Contracted services	958	517	579	378	7.53%	378	1.47%	61	6.41%
Total contract services	3,272	3,169	3,156	116	3.26%	116	2.67%	2,746	821.34%
Regulatory expense	167	171	424	257	2.43%	257	50.63%	241	30.84%
Insurance Other Than Group	307	345	484	177	11.00%	177	38.52%	52	14.51%
Customers & Accounting	18	920	1,049	1,031	0.27%	1,031	12.26%	992	7.24%
Rents	24	23	22	1	6.61%	22	10.92%	22	8.75%
General office expense	440	334	305	35	31.70%	35	25.07%	147	60.39%
Miscellaneous	1,175	1,364	1,266	98	13.85%	98	3.05%	254	27.65%
Maintenance	1,641	1,740	1,821	80	5.68%	80	17.26%	277	28.50%
Total operations and maintenance expense	20,241	20,351	20,501	260	1.79%	260	2.29%	1,441	7.75%
Depreciation	3,986	4,239	4,746	761	5.99%	761	16.03%	4,562	12.75%
Amortization	341	338	274	64	0.65%	64	24.40%	311	9.51%
Depreciation and amortization	4,327	4,578	5,020	693	5.59%	693	13.82%	4,873	11.33%
General taxes	2,055	2,279	2,305	250	9.80%	250	10.85%	1,942	6.81%
Impairment charges	-	-	-	-	-	-	-	-	-
Total operating expenses, net	26,422	27,249	27,827	1,405	3.04%	1,405	5.05%	25,420	8.94%
Operating Income	12,980	11,550	10,882	2,098	16.59%	2,098	19.28%	3,323	39.22%
<b>OTHER INCOME &amp; DEDUCTIONS</b>									
Interest Income	6	6	6	6	182.81%	6	3.50%	1,217	95.40%
Interest on long-term debt	3,814	3,847	3,953	339	0.85%	339	78.44%	3,000	25.89%
Interest on Short-Term Bank Debt	45	499	493	448	1.74%	44	8.64%	955	52.78%
Other Interest Expense	0	0	0	0	-	0	-	0	-
Total Interest expense	4,265	4,304	4,446	181	1.03%	181	4.20%	3,819	100.00%
APUC - Equity	861	810	634	227	6.35%	227	35.79%	480	78.56%
APUC Debt	369	339	288	51	9.00%	51	28.20%	218	132.22%
Amortization of Debt Expense	59	55	48	11	7.76%	11	24.13%	53	69.68%
Preferred dividends of subsidiaries (Consolidate)	-	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-
Miscellaneous Income	-	-	-	-	-	-	-	-	-
Total other income	51	13	37	37	276.85%	51	168.25%	168	69.79%
Miscellaneous Amortization	0	0	0	0	-	0	-	0	-
Miscellaneous Other Deductions	228	221	230	7	3.22%	62	21.27%	245	100.00%
Total Other Deductions	228	221	230	7	3.06%	62	21.80%	245	7.05%
Other, net	(177)	(208)	(290)	113	14.68%	113	38.99%	(77)	(76.84)%
Total other income (deductions)	(3,865)	(3,417)	(3,852)	587	4.46%	587	15.46%	(3,900)	35
Income (loss) before income taxes	9,715	8,112	7,030	2,685	19.76%	2,685	38.40%	6,023	61.29%
State income taxes	629	387	370	259	(62.88)%	370	(70.08)%	(260)	(70.60)%
Federal income taxes	3,308	3,074	2,361	713	(7.82)%	(947)	(40.13)%	2,059	(57.59)%
Tax-Saving Acquisition Adjustment	-	-	-	-	-	-	-	-	-
State income taxes (non-operating)	(6)	(9)	(24)	16	(13.13)%	16	(68.25)%	2	555.89%
Federal income taxes (non-operating)	3,886	3,409	2,614	1,272	(13.97)%	1,272	(48.56)%	1,458	(22.33)%
Provision (Benefit) for Income Taxes	5,830	4,703	4,406	1,423	23.96%	1,423	32.11%	3,540	(66.48)%
Preferred Dividend Declared	52	52	307	(255)	(0.55)%	307	(82.95)%	2,237	64.68%
Net Income To Common Stock	5,777	4,650	4,102	1,675	40.93%	1,675	40.93%	3,540	63.20%
Common Dividend Declared	2,053	2,157	1,597	656	4.80%	656	(28.61)%	1,207	(26.13)%
Current Year Retained Earnings	3,724	2,494	2,505	1,229	49.34%	1,229	48.78%	1,333	59.61%

Friday, September 12, 2008  
12:05:28 AM

APUC/Power - Energy Ltd. Water Ltd. Subsidiary All Subsidiary  
12/12/08 10:00 AM





Kentucky American Water  
August, 2008  
(\$ in Thousands)  
Variance Explanations  
YTD Actual vs. Q2RF

Operating Revenues

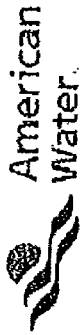
Lines 1&3 Revenue is over by \$616. Water revenue is over \$517 and other revenue is over \$99 mainly due to increased reconnection fees and increased collections for others.

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 \$56 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 (\$68) 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 25 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.



Report ID: BPR.3.7  
American Water Confidential

Friday, September 12, 2008  
12:09:30 AM

Supplementary Tables and Discussion  
Kentucky with Growth  
Aug 2008



Report Discussion:

Report Filters - Currency: USD, Version: Final, Subsidiary: All Subsidiaries,  
Project: No Project, Water System: No Water System

9-08

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American Water Confidential



AMERICAN WATER

**Monthly Financial Reviews**

- Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
- All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
- Variance analysis and commentary reflect financial results consistent with operation results.
- All known items for the current period have been reflected in financial discussions.
- Potential risks and opportunities have been identified and mitigating action plans have been developed.
- Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

\_\_\_\_\_  
**Regional Finance Director or Vice President (Signature)**

\_\_\_\_\_  
**(Date)**

American Water Confidential

Close Status: Final  
pending reviews

Monday, October 13, 2008  
5:22:19 PM

Kentucky with Growth  
Sep QTD 2008  
(\$ In Thousands)

	QTD Actuals	QTD Refersals	Variance Favorable (Unfavorable)	% Variance	QTD Plan	Variance Favorable (Unfavorable)	% Variance	QTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
Water revenues	16,673	16,187	487	3.01%	18,416	1,743	9.47%	14,203	2,471	17.40%
Sewer Revenues	79	76	3	3.88%	72	7	9.72%	88	(9)	(10.07)%
Other Operating Revenues	671	630	41	6.42%	47	624	13.32%	661	10	1.51%
Operating Revenues	17,423	16,893	530	3.14%	18,935	1,042	5.51%	14,952	2,471	16.53%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
Purchased Water	34	51	(17)	34.09%	164	(130)	79.27%	(118)	(152)	(128.48)%
Fuel and Power	1,022	1,004	18	1.82%	899	123	13.68%	837	(185)	(22.17)%
Chemicals	526	507	19	3.74%	507	19	3.74%	479	47	(9.74)%
Waste Disposal	67	78	(11)	16.42%	82	(15)	18.65%	51	(16)	(31.36)%
Total production costs	1,649	1,640	9	0.55%	1,653	4	0.24%	1,249	(400)	(32.05)%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>LABOR &amp; OVERHEAD</b>										
Labor	1,669	1,612	57	3.42%	1,701	(32)	1.88%	1,475	(134)	(9.14)%
Pensions	154	144	10	6.50%	130	24	18.50%	164	(10)	6.10%
Group Insurance	418	434	(16)	3.79%	495	(77)	15.56%	458	40	8.73%
Other benefits	77	70	7	9.74%	61	16	26.23%	50	26	(52.57)%
Total employee related	2,317	2,260	57	2.52%	2,367	(50)	2.11%	2,147	(170)	(7.92)%
Management fees	921	958	(37)	(4.02)%	822	139	16.91%	1,376	(455)	(33.08)%
Shared business services	989	1,013	(24)	2.33%	981	8	0.84%	(988)	(988)	(100.00)%
Contracted services	298	285	13	4.20%	208	90	43.27%	201	(7)	(3.48)%
Total contracted services	1,287	1,269	18	1.39%	1,189	98	8.24%	201	(1,088)	(540.50)%
Regulatory expense	40	42	(2)	5.00%	137	(97)	70.71%	80	50	55.38%
Insurance Other Than Group	124	130	(6)	4.84%	181	(57)	31.50%	188	(34)	(18.03)%
Customer Accounting	37	36	1	2.70%	415	(378)	90.96%	262	(152)	(57.63)%
Realty	5	9	(4)	80.00%	3	2	66.67%	2	3	150.00%
General office expense	226	201	25	11.06%	112	114	101.80%	126	(10)	(7.94)%
Miscellaneous	410	430	(20)	4.88%	483	(73)	15.11%	427	56	13.11%
Maintenance	679	647	32	4.71%	574	105	18.29%	430	(244)	(56.83)%
Total operations and maintenance expense	8,033	7,864	169	2.10%	7,942	91	1.14%	7,016	(1,017)	(14.43)%
Depreciation	1,410	1,502	(92)	6.52%	1,797	(287)	16.03%	346	1,151	332.66%
Amortization	129	127	2	1.55%	103	26	25.24%	145	(18)	(12.41)%
Depreciation and amortization	1,539	1,629	(90)	5.85%	1,900	(361)	18.92%	491	1,048	213.24%
General taxes	795	813	(18)	2.18%	871	(76)	8.61%	748	(48)	(6.39)%
Impairment charges	-	-	-	-	-	-	-	-	-	-
Total operating expenses, net	10,368	10,327	41	0.39%	10,712	(345)	3.22%	9,665	(703)	(6.72)%
Operating income	7,055	6,566	489	7.45%	6,251	804	12.87%	5,287	1,768	28.13%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
Interest income	0	0	0	0.00%	1,463	(1,463)	100.00%	888	(625)	(70.38)%
Interest on long-term debt	1,411	1,411	0	0.00%	1,463	(52)	3.55%	888	(625)	(70.38)%
Interest on short-term debt	115	123	(8)	6.99%	275	(160)	58.18%	603	(488)	(80.93)%
Other interest expense	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Total interest expense	1,526	1,534	(8)	0.52%	1,738	(212)	12.19%	1,491	(247)	(16.84)%
Gain on sale of assets	187	372	(185)	(98.93)%	399	(212)	53.13%	248	(151)	(60.89)%
AR/DC - Equity	109	173	(64)	(58.71)%	181	(72)	39.78%	113	(68)	(60.18)%
AR/DC Debt	23	21	2	8.70%	18	5	27.78%	(5)	(5)	(100.00)%
Amortization of Debt Expense	-	-	-	-	-	-	-	(20)	(20)	(100.00)%
Preferred dividends of subsidiaries (consolidate)	-	-	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	-	-	-	-	-	-	-	-	-	-
Total other income	(31)	1	(32)	(103.23)%	(31)	(31)	100.00%	(21)	(10)	(47.62)%
Miscellaneous Amortization	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Miscellaneous Other Deductions	75	59	16	21.33%	43	32	74.42%	28	(49)	(175.00)%
Total Other Deductions	75	59	16	21.33%	43	32	74.42%	28	(49)	(175.00)%
Other, net	(107)	(93)	(14)	12.99%	(43)	(63)	145.81%	(47)	(145)	(111.50)%
Total other income (deductions)	(1,359)	(1,069)	(290)	21.33%	(1,218)	(141)	11.57%	(1,214)	(145)	(11.50)%
Income (loss) before income taxes	5,696	5,497	199	3.49%	5,033	664	13.19%	4,073	1,624	39.87%
State income taxes	332	314	18	5.42%	243	(89)	36.62%	228	(105)	(46.02)%
Federal income taxes	1,848	1,579	(269)	14.56%	1,670	(168)	10.06%	1,385	(553)	(40.04)%
State income taxes (non-operating)	(3)	(3)	0	0.00%	(4)	(1)	25.00%	1	(1)	(100.00)%
Federal income taxes (non-operating)	(11)	12	(23)	208.33%	(14)	(3)	21.43%	(11)	1	(9.09)%
Provision (Benefit) for income taxes	2,062	2,002	60	2.91%	1,893	(169)	9.44%	1,600	(493)	(30.83)%
Net Income (Loss)	3,430	3,465	(35)	1.02%	3,137	298	9.50%	2,473	962	38.88%
Preferred Dividend Declared	19	20	(1)	5.26%	115	(96)	83.04%	0	19	100.00%
Net Income To Common Stock	3,410	3,445	(35)	1.03%	3,022	398	13.17%	2,473	953	31.53%
Common Dividend Declared	1,935	1,877	(58)	3.00%	1,118	(717)	64.13%	1,050	(67)	(6.38)%
Current Year Retained Earnings	2,015	2,218	(203)	(10.07)%	1,904	112	5.88%	1,422	483	33.96%

Notes: 1. Company 100% Owned Subsidiary of American Water

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 paying \$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



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).  
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



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.



Kentucky with Growth  
Sep YTD 2008  
(\$ in Thousands)

Close Status Find  
Pending Reviews

	YTD Actuals	YTD Reforecast	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
1	43,044	42,557	487	1.14%	42,729	315	0.74%	37,540	5,504	14.68%
2	2,410	2,228	182	7.52%	2,112	298	13.64%	2,258	(25)	(0.77)%
3	1,891	1,850	41	2.17%	1,427	464	32.53%	1,628	263	16.14%
4	45,165	44,636	529	1.16%	44,367	798	1.80%	39,424	5,742	14.55%
<b>OPERATIONS &amp; MAINTENANCE EXPENSES</b>										
5	87	105	(17)	(19.53)%	480	373	80.98%	88	1	1.31%
6	2,425	2,410	15	0.62%	2,053	372	15.20%	2,087	(62)	(2.97)%
7	1,264	1,245	19	1.52%	1,281	(17)	(1.33)%	1,235	30	2.35%
8	206	217	(11)	(5.34)%	224	18	8.02%	211	95	4.50%
	3,968	3,977	(9)	(0.23)%	3,958	12	0.28%	3,622	(36)	(1.00)%
<b>GA&amp;M LABOR &amp; OVERHEAD</b>										
9	4,851	4,854	(3)	(0.06)%	4,888	107	2.14%	4,394	497	11.31%
10	486	488	(2)	(0.41)%	389	105	26.06%	471	(7)	(1.47)%
11	1,277	1,285	(8)	(0.62)%	1,488	209	14.07%	1,313	37	2.79%
12	329	292	37	11.28%	177	152	85.93%	168	84	50.00%
	6,874	6,817	57	0.84%	7,050	175	2.48%	6,348	(528)	(7.48)%
<b>Management fees</b>										
13	3,010	2,957	53	1.76%	2,669	(342)	(12.81)%	5,612	2,602	46.36%
14	2,865	3,015	(150)	(5.24)%	2,905	(64)	(2.20)%	2,989	(24)	(0.80)%
15	672	653	19	2.83%	557	115	20.65%	573	(8)	(1.39)%
	3,661	3,675	(14)	(0.38)%	3,582	79	2.20%	3,73	(3,068)	(83.38)%
<b>Regulatory expense</b>										
16	180	182	(2)	(1.10)%	470	290	61.82%	271	90	33.40%
17	333	339	(6)	(1.80)%	544	211	38.77%	413	80	19.37%
18	1,074	1,060	14	1.32%	1,187	113	9.51%	1,097	23	2.08%
19	23	28	(5)	(21.74)%	24	1	4.18%	23	0	(0.00)%
20	500	475	25	5.00%	389	(111)	(28.42)%	318	(82)	(25.73)%
21	1,325	1,346	(21)	(1.58)%	1,455	129	8.89%	1,043	(283)	(27.11)%
22	1,312	1,380	(68)	(5.18)%	1,793	481	27.38%	1,444	(152)	(10.53)%
	22,381	22,732	(351)	(1.57)%	23,130	250	1.08%	20,782	(2,119)	(10.20)%
<b>Depreciation</b>										
23	4,454	4,546	(92)	(2.07)%	5,346	893	16.70%	5,153	700	13.58%
24	384	383	1	0.26%	308	76	24.68%	378	(6)	(1.59)%
	4,838	4,929	(91)	(1.88)%	5,654	817	14.44%	5,532	64	1.15%
<b>General taxes</b>										
25	2,330	2,348	(18)	(0.78)%	2,558	228	9.73%	2,194	(137)	(6.23)%
27	30,049	30,008	41	0.14%	31,383	1,334	4.26%	28,487	(1,952)	(6.40)%
	15,117	14,928	189	1.26%	12,984	2,133	16.45%	10,957	4,180	38.22%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
28	(6)	(6)	0	0.00%	-	6	6.00%	(127)	(121)	(95.40)%
29	4,285	4,285	0	0.00%	4,440	155	3.61%	3,325	(955)	(23.83)%
30	485	504	(19)	(3.92)%	601	105	17.54%	1,154	659	57.07%
31	-	0	0	0.00%	-	0	0.00%	(38)	(38)	(100.00)%
	4,774	4,783	(9)	(0.19)%	5,041	267	5.29%	4,315	(460)	(10.65)%
<b>AFUDC - Equity</b>										
32	838	1,023	(185)	(18.04)%	810	28	3.51%	587	272	47.92%
33	340	444	(104)	(30.59)%	368	12	3.26%	257	111	43.58%
34	67	65	2	2.99%	54	(14)	(25.69)%	84	(13)	(15.48)%
<b>Amortization of Debt Expense</b>										
35	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
36	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
37	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
38	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
39	19	51	(32)	(69.97)%	-	19	68.88%	188	(149)	(84.62)%
	19	51	(32)	(62.97)%	-	19	15.26%	188	(149)	(84.62)%
<b>Miscellaneous Amortization</b>										
40	0	0	0	0.00%	1	1	100.00%	0	0	0.00%
41	253	256	(3)	(1.18)%	303	50	16.60%	255	2	0.86%
	252	256	(4)	(1.59)%	304	51	16.87%	255	2	0.86%
<b>Total Other Deductions</b>										
	(234)	(185)	(49)	(21.03)%	(304)	70	23.06%	(87)	(147)	(89.77)%
<b>Total other income (deductions)</b>										
	(3,857)	(3,567)	(290)	(8.14)%	(4,220)	363	8.61%	(3,851)	(166)	(4.51)%
<b>Income (loss) before income taxes</b>										
	11,260	11,061	199	1.77%	8,764	2,496	28.48%	7,246	4,014	55.38%
<b>State Income Taxes</b>										
42	709	691	18	2.54%	453	(245)	(68.23)%	414	(285)	(71.12)%
43	4,000	3,731	269	6.72%	2,940	(1,060)	(36.03)%	2,463	(1,517)	(61.08)%
<b>Federal Income Taxes</b>										
44	(8)	(6)	(2)	(2.50)%	(25)	(17)	(68.80)%	1	9	784.05%
45	(65)	(61)	(4)	(6.15)%	(97)	(32)	(33.01)%	13	55	433.85%
	(73)	(67)	(6)	(8.22)%	(122)	(49)	(40.16)%	2,911	(1,747)	(60.01)%
<b>Provision (Benefit) for Income Taxes</b>										
	6,802	6,687	115	1.69%	5,462	1,340	24.53%	4,335	2,267	52.28%
<b>Net Income (Loss)</b>										
	5,243	5,638	(395)	(7.53)%	3,148	(2,086)	(66.29)%	4,335	2,208	50.94%
<b>Net Income to Common Stock</b>										
	3,443	3,310	1,133	32.91%	2,715	(724)	(27.03)%	2,257	(1,911)	(84.76)%
<b>Current Year Retained Earnings</b>										
	3,055	3,298	(243)	(7.71)%	2,433	622	27.21%	2,078	1,017	48.94%

Monday, October 13, 2008  
5:02:18 PM

AMERICAN WATER COMPANY, INC. WATER AND SEWERAGE DIVISION  
KENTUCKY OPERATIONS

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



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.

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-firming.  
 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.



Report ID: BPR.3.7  
American Water Confidential

Monday, October 13, 2008  
5:02:20 PM

Supplementary Tables and Discussion  
Kentucky with Growth  
Sep 2008



AN Report Discussion:

Report Filters - Currency: USD, Version: Final, Subsidiary: All Subsidiaries,  
Project: No Project, Water System: No Water System



AMERICAN WATER

Kentucky with Growth  
Sep YTD 2008  
(\$ in Thousands)

AMERICAN WATER CORPORATION  
Close Status: Final  
pending reviews

Assets	Actuals	Reforecast	Increase (Decrease)	% Variance	Plant	Increase (Decrease)	% Variance	Prior Yr. Dec	Increase (Decrease)	% Variance
1 Utility Plant	362,163	359,793	2,451	0.7%	388,178	(26,010)	(6.7)%	345,341	16,822	4.9%
2 Construction Work in Progress	37,894	38,677	(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%	(86,377)	5,653	(7.4)%	(80,435)	(3,290)	(4.1)%
4 Utility Plant Acquisition Adjustments	316	317	(1)	(0.3)%	318	(2)	(0.5)%	327	(1)	(0.2)%
5 Other Utility Plant Adjustments	316,654	314,882	1,762	0.6%	320,101	(3,447)	(1.1)%	286,543	30,111	10.5%
Total Utility Plant	316,824	315,162	1,762	0.6%	320,350	(3,426)	(1.1)%	286,793	30,131	10.5%
6 Non-utility Property	292	284	8	2.8%	287	5	1.8%	388	(195)	(26.7)%
7 Cash and Cash Equivalents	2,907	3,540	(634)	(17.9)%	3,023	(122)	(4.0)%	1,928	979	50.8%
8 Restricted funds	(255)	(237)	(18)	(7.5)%	(237)	31	10.7%	(223)	(32)	(14.3)%
9 Utility customer accounts receivable	3,060	3,210	(150)	(4.7)%	2,950	100	3.4%	2,582	468	19.4%
10 Allowance for uncollectible accounts	289	0	289	(6.6)%	408	(119)	(29.1)%	188	83	47.5%
11 Accrued utility revenues, net	575	719	(144)	(20.0)%	(2,670)	2,670	100.0%	388	(388)	(100.0)%
12 Other receivables, including federal income taxes receivable and supplies	148	218	(69)	(31.8)%	584	(9)	(1.5)%	685	(60)	(8.4)%
13 Receivable from affiliated companies	7,016	8,057	(1,020)	(12.7)%	4,505	2,511	57.7%	5,965	1,052	17.6%
14 Other Current Assets	818	790	28	3.5%	688	129	18.9%	846	(28)	(3.3)%
15 Regulatory assets - income tax recovery	3,078	6,421	(3,344)	(52.1)%	5,542	(2,864)	(48.2)%	6,385	(3,308)	(51.8)%
16 Debt and preferred stock expense	1,673	1,669	4	0.2%	1,545	129	8.3%	1,859	(186)	(10.0)%
17 Deferred pension expense	362	324	38	11.7%	198	164	82.9%	486	(124)	(26.5)%
18 Deferred postretirement benefit expense	2,804	3,023	(119)	(3.9)%	3,309	(405)	(12.3)%	3,181	(277)	(8.7)%
19 Deferred business services project expense	8,534	12,227	(3,693)	(27.7)%	11,692	(2,847)	(24.4)%	12,768	(3,923)	(30.8)%
20 Deferred integration costs	-	-	-	-	-	-	-	-	-	-
21 Deferred tank painting costs	-	-	-	-	-	-	-	-	-	-
22 Deferred rate case	-	-	-	-	-	-	-	-	-	-
23 Asset premium recoverable thru rates	-	-	-	-	-	-	-	-	-	-
24 Environmental remediation recoverable thru rates	-	-	-	-	-	-	-	-	-	-
25 Other Regulatory Assets	-	-	-	-	-	-	-	-	-	-
26 Regulatory assets	8,825	13,256	(4,431)	(19.9)%	437	388	89.6%	488	337	69.2%
27 Other investments	9,650	9,650	0	0.0%	12,119	(2,469)	(20.3)%	13,245	(3,586)	(27.1)%
28 Long term receivable from affiliate	-	-	-	-	-	-	-	-	-	-
29 Funds restricted for construction	-	-	-	-	-	-	-	-	-	-
30 Goodwill	-	-	-	-	-	-	-	-	-	-
31 Intangible assets	-	-	-	-	-	-	-	-	-	-
32 Other Long Term Assets	-	-	-	-	-	-	-	-	-	-
33 Total Regulatory & Other LT Assets	8,825	13,256	(4,431)	(19.9)%	437	388	89.6%	488	337	69.2%
34 Total Assets	333,600	336,455	(2,855)	(0.8)%	336,874	(3,374)	(1.0)%	306,003	27,597	9.0%
35 Common stock	36,569	36,569	0	0.0%	36,569	0	0.0%	36,569	0	0.0%
36 Paid in Capital	24,117	24,117	0	0.0%	24,056	61	0.3%	8,056	16,061	198.4%
37 Retained Earnings	53,085	53,298	(213)	(0.9)%	31,781	1,304	4.1%	26,980	3,095	10.3%
38 Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
39 Unearned compensation	-	-	-	-	-	-	-	-	-	-
40 Treasury stock	-	-	-	-	-	-	-	-	-	-
41 Common stockholder's equity	53,771	53,970	(199)	(0.2)%	52,406	1,364	2.6%	74,615	(19,155)	(25.7)%
42 Preferred stock without mandatory redemption	1,456	1,456	0	0.0%	1,456	(1)	(0.1)%	1,457	(1)	(0.1)%
43 Long term debt	76,700	76,700	0	0.0%	76,700	0	0.0%	79,800	(3,100)	(3.9)%
44 Redeemable preferred stock at redemption	4,500	4,500	0	0.0%	4,500	0	0.0%	4,500	0	0.0%
45 Total Capitalization	176,426	176,625	(199)	(0.1)%	175,073	1,353	0.8%	180,382	(16,044)	(10.0)%
46 Short Term Debt	23,835	22,930	905	3.9%	27,022	(3,187)	(11.8)%	19,355	4,479	23.1%
47 Current portion of Long-term Debt	3,100	3,100	0	0.0%	3,100	0	0.0%	3,100	0	0.0%
48 Current portion of redeemable stock at red	-	-	-	-	-	-	-	-	-	-
49 Accounts Payable	9,295	10,186	(890)	(8.8)%	7,150	2,145	30.0%	6,507	2,788	42.8%
50 Taxes Accrued	4,905	4,422	483	10.5%	4,461	444	9.9%	5,228	(322)	(6.2)%
51 Interest Accrued	1,910	1,909	1	0.1%	1,698	212	12.5%	1,143	766	67.0%
52 Total Other Current Liabilities	2,655	2,659	(4)	(0.5)%	5,803	(2,953)	(52.7)%	2,027	627	30.9%
53 Total Current Liabilities	45,689	45,246	443	1.0%	49,040	(3,340)	(6.8)%	37,362	8,388	22.3%
54 Customer Advances for Construction	14,298	14,308	(10)	(0.1)%	19,601	(5,303)	(27.1)%	14,653	(956)	(2.4)%
55 Deferred Income Taxes	37,323	36,504	819	2.2%	36,770	533	1.5%	32,877	4,446	13.5%
56 Deferred investment tax credits	1,194	1,186	8	(0.7)%	1,186	(8)	(0.7)%	1,218	(64)	(5.2)%
57 Regulatory liability-cost of removal	1,502	9,322	(7,820)	(52.1)%	8,221	1,101	13.4%	7,772	1,041	11.9%
58 Accrued pension expense	412	212	200	49.1%	1,705	(2,093)	(11.9)%	2,174	(672)	(30.9)%
59 Accrued postretirement benefit expense	770	4,096	(3,327)	(43.2)%	1,893	2,199	113.1%	384	28	7.2%
60 Other Deferred Credits	65,271	67,593	(2,322)	(3.4)%	67,896	(551)	(0.8)%	64,675	(3,927)	(6.1)%
61 Regulatory & Other Long Term Liabilities	46,203	46,990	(787)	(1.7)%	44,966	1,227	2.8%	43,585	2,618	6.0%
62 Contributions in aid of construction	-	-	-	-	-	-	-	-	-	-
63 Total Capital and Liabilities	333,600	336,455	(2,855)	(0.8)%	336,874	(3,374)	(1.0)%	306,003	27,597	9.0%

Notes: Figures - Current Year, Prior Year, Final, Reopening, All Subtotals

Kentucky American Water  
 September 2008  
 (\$ in Thousands)  
 Variance Explanations - Balance Sheet  
 YTD Actual vs. December 2007



Assets

- Lines 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.

**Table of Contents**  
**Monthly Financial Review Package**

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American Water Confidential



**Monthly Financial Reviews**

- Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
- All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
- Variance analysis and commentary reflect financial results consistent with operation results.
- All known items for the current period have been reflected in financial discussions.
- Potential risks and opportunities have been identified and mitigating action plans have been developed.
- Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

\_\_\_\_\_  
**Regional Finance Director or Vice President (Signature)**

\_\_\_\_\_  
**(Date)**

Report ID: FRP-1.1  
Annual Year End Statement

Close Status: Day 7 +  
Prelim Adj's & Elms

Income Statement - Month To Date

Kentucky with Growth  
Oct 2023  
(\$ in Thousands)

	MTD Actuals	MTD Reforest	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES:</b>										
Water Revenues	5,471	5,002	469	8.73%	5,267	204	3.87%	4,676	795	17.02%
Sewer Revenues	24	22	2	8.85%	22	2	8.85%	28	(4)	(13.59)%
Other Operating Revenues	223	180	43	24.07%	199	64	40.50%	206	16	7.89%
Operating Revenues	5,718	5,233	484	9.25%	5,448	270	4.95%	4,910	808	16.45%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE:</b>										
<b>PRODUCTION EXPENSES:</b>										
Purchased Water	18	20	2	8.13%	49	30	62.00%	(3)	(21)	(747.55)%
Fuel and Power	318	322	4	1.26%	272	(46)	(16.74)%	326	8	2.43%
Chemicals	213	205	(8)	(3.80)%	133	(80)	(60.51)%	222	9	4.05%
Waste Disposal	23	21	2	(10.89)%	21	(2)	(8.75)%	16	(4)	(145.13)%
Total production costs	573	568	(4)	(0.76)%	475	(98)	(20.68)%	554	(19)	(3.27)%
<b>QUAL LABOR &amp; OVERHEAD:</b>										
Labor	571	574	3	0.55%	598	15	2.50%	532	(39)	(7.35)%
Pensions	64	43	(21)	(33.07)%	43	(10)	(23.97)%	41	(3)	(6.70)%
Group Insurance	151	165	14	8.42%	165	14	8.42%	142	(9)	(6.10)%
Other benefits	20	18	(2)	(10.00)%	18	(2)	(11.11)%	18	(4)	(22.22)%
Total employee related	797	800	3	0.35%	812	15	1.82%	753	(64)	(8.75)%
Management fees	308	283	(25)	(8.12)%	276	(32)	(11.45)%	641	332	51.75%
Shared business services	339	337	(2)	(0.55)%	337	(2)	(0.55)%	-	(339)	(27.19)%
Contracted services	83	76	(7)	(8.43)%	68	(15)	(17.71)%	70	19	22.41%
Total contracted services	423	413	(10)	(2.36)%	405	(18)	(4.25)%	30	(358)	(512.41)%
Regulatory expense	13	15	2	15.38%	46	32	70.59%	30	17	55.24%
Insurance Other Than Group	48	50	2	4.17%	60	12	24.79%	54	6	11.52%
Customer Accounting	213	138	(75)	(35.21)%	138	(75)	(53.74)%	136	6	4.34%
Rents	4	3	(1)	(25.00)%	3	(1)	(25.00)%	2	(2)	(50.00)%
General office expense	80	32	(48)	(60.00)%	20	(60)	(75.00)%	56	(36)	(64.29)%
Miscellaneous	159	189	30	18.87%	133	(26)	(19.55)%	(11)	(171)	(1,498.80)%
Maintenance	336	281	(55)	(16.37)%	209	(127)	(60.89)%	146	(119)	(128.18)%
Total operations and maintenance expense	2,939	2,758	(181)	(6.17)%	2,578	(361)	(14.13)%	2,412	(527)	(21.87)%
Depreciation	469	562	94	20.04%	602	134	22.17%	595	126	21.23%
Amortization	43	42	(1)	(2.33)%	34	(9)	(26.47)%	42	1	2.33%
Depreciation and amortization	511	604	83	15.37%	637	125	19.65%	637	126	19.73%
General taxes	271	281	10	3.69%	291	20	6.99%	291	21	7.07%
Impairment charges	372	363	(9)	(2.42)%	353	(19)	(5.38)%	340	(13)	(3.75)%
Total operating expenses, net	1,896	1,850	(46)	(2.43)%	1,845	(51)	(2.64)%	1,570	(427)	(22.51)%
<b>Operating Income</b>										
	3,822	3,465	(357)	(9.34)%	3,603	(219)	(6.24)%	3,340	(381)	(11.51)%
<b>OTHER INCOME &amp; DEDUCTIONS:</b>										
Interest income	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Interest on long-term debt	470	471	1	0.08%	488	17	3.55%	350	(128)	(34.40)%
Interest on Short-Term Bank Debt	35	76	41	116.86%	129	94	73.64%	132	33	25.53%
Other interest expense	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Total interest expense	35	76	41	116.86%	129	94	73.64%	132	33	25.53%
Gain on sale of assets	555	547	(8)	(1.44)%	617	62	10.01%	502	(65)	(10.48)%
AR/DG - Equity	74	183	109	147.16%	212	138	65.07%	86	(86)	(100.00)%
AR/DG - Debt	16	86	70	437.50%	96	80	83.33%	39	(23)	(58.07)%
Amortization of Debt Expense	7	6	(1)	(14.29)%	5	(2)	(40.00)%	6	(1)	(16.67)%
Provision of Debt Expense	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
Gain on sale of assets	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
Non-Operating Rental Income	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
Dividend Income - Common	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
Dividend Income - Preferred	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
Miscellaneous Income	33	0	(33)	(100.00)%	33	33	100.00%	12	(21)	(175.00)%
Total Other Income	33	0	(33)	(100.00)%	33	33	100.00%	12	(21)	(175.00)%
Miscellaneous Amortization	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Miscellaneous Other Deductions	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Total Other Deductions	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
<b>Other, net</b>										
	25	(2)	(27)	(108.00)%	(7)	(32)	(461.71)%	2	23	164.23%
Total other income (deductions)	(447)	(290)	(157)	(35.12)%	(324)	(128)	(39.44)%	(321)	(128)	(39.12)%
Income (loss) before income taxes	1,549	1,300	(249)	(16.08)%	1,624	(75)	(4.62)%	1,248	(301)	(18.40)%
State Income Taxes	91	59	(32)	(35.17)%	77	(14)	(18.55)%	71	(6)	(7.79)%
Federal Income Taxes	522	411	(111)	(21.26)%	538	16	2.95%	357	(181)	(35.10)%
Tax Saving Acquisition Adjustment	-	-	-	0.00%	-	-	0.00%	-	-	0.00%
State Income taxes (non-operating)	618	47	(571)	(92.23)%	612	(565)	(92.65)%	5	(560)	(92.13)%
Federal Income taxes (non-operating)	830	803	(27)	(3.25)%	1,012	182	22.00%	788	(14)	(1.73)%
Provision (Benefit) for Income Taxes	924	785	(139)	(15.04)%	974	50	5.31%	720	(204)	(23.24)%
Net Income To Common Stock	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Common Dividend Declared	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Current Year Retained Earnings	924	785	(139)	(15.04)%	974	50	5.31%	720	(204)	(23.24)%

Thursday, November 15, 2023  
2:00 PM

Report Name: C:\Users\mko\OneDrive\Financial\Statements\All Statements  
Report For Project Year: 2023



Kentucky American Water  
September 2008  
(\$ in Thousands)  
Variance Explanations  
MTD Actual vs. Q3RF



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 City Public Schools.

Kentucky American Water  
 September 2008  
 (\$ in Thousands)  
 Variance Explanations  
 MTD Actual vs. Plan



Operating Revenues

Lines 1 & 3 Revenue is over plan by \$270. Water revenue is over by \$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.

Report ID: FR07.13  
Account View: Detailed

Close Status: Day 7 +  
Prelim Adj's & Blns

Income Statement - Year To Date  
Kentucky with Growth  
Oct YTD 2008  
(\$ in Thousands)

	YTD Actuals	YTD Forecast	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
Water Revenues	48,515	47,585	928	1.95%	47,986	519	1.08%	42,216	6,299	14.92%
Sales Revenues	255	250	55	1.98%	224	22	9.24%	284	(29)	(10.15)%
Other Operating Revenues	2,113	2,030	84	4.12%	1,595	528	33.33%	1,834	279	15.22%
Management Revenues	50,884	49,869	1,014	2.03%	49,815	1,069	2.14%	44,334	6,549	14.77%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
Purchased Water	106	125	(19)	16.93%	509	403	78.18%	85	(20)	(23.45)%
Fuel and Power	2,746	2,732	14	(0.51)%	2,225	521	(27.95)%	512	(40)	(7.78)%
Chemicals	1,477	1,450	27	1.85%	1,851	(22)	(13.11)%	2,422	(324)	(13.37)%
Waste Disposal	223	220	3	1.36%	1,344	(84)	(6.22)%	1,447	(80)	(5.54)%
Total production costs	4,558	4,545	13	(0.28)%	4,473	(85)	(1.93)%	4,176	(383)	(9.16)%
<b>O&amp;M LABOR &amp; OVERHEAD</b>										
Labor	5,462	5,408	54	(0.99)%	5,594	122	2.19%	4,926	(695)	(10.88)%
Pensions	551	531	20	(3.85)%	432	119	(27.95)%	512	(40)	(7.78)%
Group Insurances	1,428	1,458	(30)	2.08%	1,851	(22)	(13.11)%	2,422	(324)	(13.37)%
Other benefits	250	220	30	(6.92)%	195	(55)	(28.26)%	28	(28)	(100.00)%
Total employee related	7,672	7,617	55	(0.71)%	7,862	(90)	(1.15)%	7,079	(793)	(10.21)%
Management fees	3,320	3,246	74	(2.28)%	2,945	(375)	(12.72)%	6,253	2,933	46.51%
Shared business services	3,328	3,350	(22)	0.65%	3,242	(86)	(2.55)%	(3,228)	(11)	(0.34)%
Contracted services	781	738	43	(5.56)%	715	66	(8.51)%	843	(111)	(13.28)%
Total contracted services	4,089	4,088	1	(0.02)%	3,957	(132)	(3.23)%	643	(3,445)	(83.79)%
Regulatory expense	184	197	(13)	1.42%	516	301	(62.42)%	107	(107)	(100.00)%
Insurance Other Than Group	381	389	(8)	2.07%	805	224	(36.98)%	467	86	18.46%
Customer Accounting	1,287	1,198	89	(7.41)%	1,323	(37)	(2.79)%	1,232	(64)	(4.40)%
Rents	27	27	0	0.17%	27	0	0.17%	25	(2)	(7.69)%
General office expense	560	507	53	(10.42)%	410	(150)	(36.65)%	374	(185)	(49.54)%
Miscellaneous	1,485	1,515	(30)	1.87%	1,587	102	(6.43)%	1,031	(453)	(33.97)%
Maintenance	2,248	2,161	87	(4.00)%	2,002	(246)	(12.29)%	1,591	(657)	(41.31)%
Total operations and maintenance expense	25,320	25,490	(170)	(0.67)%	25,706	(386)	(1.50)%	23,174	(2,532)	(11.42)%
Depreciation	4,823	5,108	(285)	5.85%	5,849	1,026	(17.25)%	826	(14,374)	(1,749)%
Amortization	427	427	0	(0.52)%	342	85	(24.73)%	420	(7)	(1.69)%
Depreciation and amortization	5,250	5,535	(285)	5.31%	6,191	942	(14.97)%	1,246	(1,161)	(4.67)%
General taxes	2,801	2,839	(38)	1.44%	2,889	288	(9.98)%	2,488	(401)	(13.28)%
Impairment charges	33,770	33,652	118	(0.32)%	34,886	(1,116)	(3.26)%	31,838	(1,953)	(6.10)%
Total operating expenses, net	17,113	18,268	(1,155)	5.59%	14,929	2,184	14.65%	12,507	4,667	36.83%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
Interest income	(6)	(6)	0	0.00%	-	6	(127)	(127)	(65.40)%	
Interest on long-term debt	4,755	4,755	0	0.02%	4,928	173	(3.57)%	3,676	(1,079)	(29.36)%
Interest on Short-Term Bank Debt	860	590	270	(0.04)%	730	160	20.53%	1,306	(726)	(55.60)%
Other Interest Expense	0	0	0	89.93%	-	-	(39)	(39)	(100.00)%	
Total Interest expense	5,329	5,330	(1)	0.01%	5,658	329	(5.81)%	4,817	(612)	(10.63)%
AFUDC - Equity	913	1,211	(298)	(24.65)%	1,022	(110)	(10.74)%	653	260	39.75%
AFUDC - Debt	596	530	66	(25.28)%	464	(132)	(14.79)%	99	(99)	(100.00)%
Amortization of Debt Expense	75	71	4	(5.22)%	60	(15)	(25.54)%	60	(14)	(23.57)%
Preferred Dividends of Subsidiaries (Consolidated)	-	-	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	52	51	1	1.67%	-	52	(128)	(128)	(71.30)%	
Total other income	52	51	1	1.67%	-	52	(128)	(128)	(71.30)%	
Miscellaneous Amortization	0	0	0	128.20%	1	1	155.28%	0	0	0.00%
Miscellaneous Other Deductions	261	238	23	(9.40)%	310	(49)	15.50%	264	4	1.47%
Total Other Deductions	261	238	23	(9.40)%	310	(49)	15.50%	264	4	1.47%
<b>Total other income (deductions)</b>	(208)	(187)	(21)	(11.29)%	(310)	102	32.81%	(84)	(124)	(72.77)%
Income (loss) before income taxes	(4,304)	(3,847)	(457)	(11.89)%	(4,541)	237	(5.22)%	(4,012)	(292)	(7.29)%
State Income Taxes	788	749	39	(6.69)%	530	(259)	(50.84)%	485	(314)	(64.75)%
Federal Income Taxes	4,522	4,142	(380)	(8.19)%	3,479	(1,044)	(30.00)%	2,870	(1,852)	(57.58)%
Tax Saving Acquisition Adjustment	(7)	(9)	2	(12.41)%	(26)	(18)	(71.16)%	1	8	605.08%
State income taxes (non-operating)	5,277	4,890	387	(7.50)%	3,884	(1,393)	(35.87)%	3,374	(1,863)	(56.10)%
Federal income taxes (non-operating)	7,532	7,470	62	0.83%	6,905	1,028	15.30%	5,121	(1,809)	(27.47)%
Provision (Benefit) for Income Taxes	65	65	0	0.17%	353	(318)	(89.71)%	66	(6)	(9.09)%
Net Income	7,467	7,405	62	(0.84)%	6,121	1,346	21.58%	5,055	2,412	47.72%
Preferred Dividend Declared	3,448	3,310	1,138	(4.16)%	2,715	(734)	(27.05)%	2,257	(1,191)	(52.78)%
Common Dividend Declared	4,019	4,094	(75)	(1.84)%	3,407	612	17.87%	2,798	1,221	43.64%

Thursday, November 13, 2008  
10:28:28 AM



Kentucky American Water  
September 2008  
(\$ in Thousands)  
Variance Explanations  
YTD Actual vs. Q3RF



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  
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.



Thursday, November 13, 2008  
6:43:59 PM

**Supplementary Tables and Discussion  
Kentucky with Growth  
Oct 2008**



**AIN Report Discussion:**

Report Filters - Currency: USD, Version: Final, Subsidiary: All Subsidiaries,  
Project: No Project, Water System: No Water System

11-08

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American Water Confidential



Monthly Financial Reviews

- Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
- All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
- Variance analysis and commentary reflect financial results consistent with operation results.
- All known items for the current period have been reflected in financial discussions.
- Potential risks and opportunities have been identified and mitigating action plans have been developed.
- Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

\_\_\_\_\_  
Regional Finance Director or Vice President (Signature)

\_\_\_\_\_  
(Date)

Friday, December 12, 2008  
8:15:29 PM

Report ID: RFR-11  
Annual Water Operations

Close Status: Final  
Financial source system  
data w/ prelin adjs and  
adits

Income Statement - Month To Date  
Kentucky with Growth  
Nov 2008  
(\$ in Thousands)

	MTD Actuals	MTD Reference	MTD Pct	% Variance	Variance Favorable (Unfavorable)	MTD Pct	% Variance	Variance Favorable (Unfavorable)	MTD Pct	% Variance
<b>OPERATING REVENUES</b>										
Water Revenue	4,728	4,788	4,778	(0.94)%	(60)	4,778	(0.91)%	(68)	4,778	(1.01)%
Sewer Revenue	30	22	22	38.61%	8	22	38.61%	28	22	5.74%
Other Operating Revenues	213	175	159	22.28%	39	159	34.63%	201	201	5.98%
Management Revenues	4,971	4,964	4,958	0.15%	7	4,958	0.31%	1,170	3,881	30.78%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>DEPRECIATION EXPENSE</b>										
Purchased Water	10	17	46	38.65%	35	46	76.37%	19	19	46.57%
Fuel and Power	272	287	248	(8.25)%	29	248	(9.30)%	182	182	(42.15)%
Chemicals	133	150	128	11.22%	22	128	(4.03)%	107	27	(24.81)%
Waste Disposal	25	21	21	(18.38)%	4	21	(15.23)%	23	(2)	(9.28)%
Total production costs	440	485	443	8.11%	44	443	6.64%	340	(100)	(28.37)%
<b>ON-LABOR &amp; OVERHEAD</b>										
Lease	511	517	529	1.12%	18	529	3.37%	491	491	(4.14)%
Pensions	44	43	43	(2.93)%	1	43	(2.93)%	40	(4)	(9.09)%
Group Insurance	140	165	165	15.41%	25	165	15.41%	135	(4)	(3.00)%
Other benefits	21	17	17	(22.38)%	4	17	(22.38)%	15	(6)	(26.83)%
Total employee related	717	743	755	3.51%	26	755	5.05%	682	(34)	(6.00)%
Management fees	280	282	266	(3.14)%	16	266	(8.92)%	630	340	55.89%
Shared business services	320	310	310	(5.19)%	10	310	(8.19)%	322	(82)	21.08%
Contracted services	34	84	38	47.04%	50	38	(42.28)%	49	15	(62.24)%
Total contractual services	353	373	359	5.37%	20	359	4.28%	49	(804)	(222.51)%
Regulatory expense	17	15	1	9.22%	32	1	76.85%	30	17	55.24%
Insurance Other Than Group	47	50	40	7.46%	14	40	(22.77)%	54	7	13.58%
Customer Accounting	137	134	132	(2.47)%	3	132	(3.73)%	97	(40)	(41.58)%
Rents	3	3	3	(94.18)%	0	3	(94.18)%	2	(1)	(68.18)%
General office expense	33	39	27	14.22%	12	27	(21.70)%	47	14	29.74%
Miscellaneous	124	162	144	18.86%	18	144	(15.15)%	181	20	(4.20)%
Total operations and maintenance expense	2,397	2,577	2,400	8.82%	180	2,400	2.20%	2,260	(87)	(3.84)%
Depreciation	468	584	504	16.99%	96	504	22.49%	330	(119)	(63.91)%
Amortization	23	22	22	(0.87)%	1	22	(24.78)%	42	(1)	(13.61)%
Degradation and amortization	511	606	636	15.71%	95	636	19.56%	382	(119)	(30.43)%
General taxes	263	286	266	(6.22)%	20	266	(6.22)%	283	(10)	(8.63)%
Impairment charges	3,151	3,469	3,325	9.18%	174	3,325	5.25%	3,334	(215)	(7.37)%
Total operating expenses, net	1,821	1,495	1,632	21.82%	326	1,632	11.59%	867	964	110.06%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
Interest income	0	0	0	0.47%	0	0	3.92%	488	20	4.05%
Average on long-term debt	468	471	468	13.40%	3	468	42.75%	46	(38)	(82.36)%
Interest on Short-Term Bank Debt	84	97	146	0.00%	63	146	0.00%	0	0	0.00%
Other Interest Expense	0	0	0	2.67%	0	0	12.96%	534	(18)	(3.44)%
Total interest expense	552	567	634	13.51%	15	634	(22.65)%	82	106	128.12%
APUDC - Equity	188	217	243	(24.42)%	25	243	(21.83)%	37	49	131.35%
APUDC Debt	86	98	110	(24.20)%	12	110	(24.20)%	7	0	(1.91)%
Amortization of Debt Expense	7	5	6	0.00%	1	6	0.00%	0	0	0.00%
Preferred dividends of subsidiaries (Consolidate)	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Gain on sale of assets	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Non-Operating Rental Income	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Dividend Income - Common	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Dividend Income - Preferred	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Miscellaneous income	(1)	0	0	152.29%	1	0	152.29%	0	(16)	(103.77)%
Total other income	(1)	0	0	152.29%	1	0	152.29%	0	(16)	(103.77)%
Miscellaneous Amortization	0	0	0	128.89%	0	0	128.89%	7	(7)	(100.00)%
Miscellaneous Other Deductions	14	11	16	2.00%	3	16	2.00%	7	(7)	(100.00)%
Total Other Deductions	14	11	16	2.00%	3	16	2.00%	7	(7)	(100.00)%
<b>Other, net</b>	(15)	(11)	(16)	30.68%	4	(16)	3.68%	9	(24)	(6.69)%
Total other income (deductions)	(15)	(11)	(16)	30.68%	4	(16)	3.68%	9	(24)	(6.69)%
Income (loss) before income taxes	(109)	(69)	(69)	(11.53)%	40	(69)	(11.53)%	(419)	113	27.85%
State Income Taxes	81	55	63	(63.31)%	27	63	(63.31)%	26	(65)	(28.18)%
Federal Income Taxes	521	365	443	(14.57)%	164	443	(17.53)%	154	(87)	(28.18)%
Total State and Federal Income Taxes	602	420	506	(28.49)%	191	506	(21.74)%	184	(425)	(231.20)%
State income taxes (non-operating)	912	782	828	10.03%	88	828	10.03%	270	642	237.68%
Federal income taxes (non-operating)	7	7	38	(83.01)%	0	38	(83.01)%	7	(7)	(100.00)%
Provision (Benefit) for Income Taxes	946	746	791	21.48%	100	791	14.52%	284	642	243.65%
Net Income (loss)	0	0	0	21.48%	0	0	14.52%	0	0	0.00%
Preferred Dividend Declared	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Net Income To Common Stock	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Common Dividend Declared	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
Current Year Retained Earnings	906	746	791	21.48%	100	791	14.52%	284	642	243.65%

Friday, December 12, 2008  
8:15:29 PM

Report ID: RFR-11  
Annual Water Operations

Kentucky American Water  
 November 2008  
 (\$ in Thousands)  
 Variance Explanations  
 MTD Actual vs. Q3RF



Operating Revenues

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.

Lines 1 & 3

Operating Expenses

Purchased Water is under reforecast \$7 due reduced purchased water in the Northern district.  
 Waste disposal is over forecast (\$5) due to timing. YTD is fine.

Line 5  
 Line 8

Miscellaneous expense is under forecast \$64 due being underspent in contract services \$21 (c/s accg. \$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).

Lines 12, 15 & 21

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).)

Line 22

Other Income Deductions

AFUDC equity is under reforecast (\$29) due to capex  
 AFUDC debt under reforecast (\$12) due to capex  
 Miscellaneous Other Deductions is over reforecast (\$3) mainly due to community donations.  
 Over due to operating results.

Line 32  
 Line 33  
 Line 41  
 Lines 42 & 43



Kentucky American Water  
November 2008  
(\$ in Thousands)  
Variance Explanations  
MTD Actual vs. Plan



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.

Report ID: RPO13  
American Water Customer

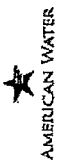
Close Status: Final  
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Income Statement - Year To Date  
Kentucky with Growth  
New YTD 2008  
(\$ in Thousands)

	YTD Actuals	YTD Reference	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD P/L	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
1	53,242	52,957	285	1.89%	52,772	470	0.89%	45,788	7,458	16.29%
2	286	272	14	4.99%	253	33	11.82%	312	65	20.75%
3	2,327	2,204	123	5.58%	1,744	583	33.45%	2,036	291	14.31%
4	55,855	54,833	1,022	1.86%	54,771	1,084	1.98%	48,135	7,720	16.04%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
5	116	141	25	18.11%	555	439	78.11%	105	(11)	(10.21)%
6	3,019	3,029	(10)	(0.33%)	2,573	446	(17.52)%	2,614	(405)	(15.48)%
7	1,611	1,601	10	0.63%	1,522	89	(5.85)%	1,554	(43)	(2.77)%
8	254	259	(5)	(1.95%)	267	13	4.78%	244	10	(4.11)%
9	4,969	5,050	31	0.61%	4,916	53	(1.07)%	4,517	453	(10.58)%
<b>QAM LABOR &amp; OVERHEAD</b>										
10	5,973	5,925	48	(0.80)%	6,113	140	2.29%	5,417	556	(10.27)%
11	586	574	12	(2.07)%	475	109	(23.41)%	552	(76)	(13.78)%
12	1,583	1,623	(40)	(2.53%)	1,816	233	13.37%	1,591	24	(1.49)%
13	252	237	15	6.33%	212	40	(18.81)%	201	11	(5.47)%
14	8,383	8,360	23	(0.27%)	8,616	233	2.82%	7,761	622	(7.33)%
<b>Management fees</b>										
15	3,610	3,527	83	(2.33)%	3,211	409	(12.41)%	3,273	37	(1.13)%
16	3,648	3,680	(32)	(0.87%)	3,552	96	(2.70)%	3,883	(235)	(6.05)%
17	4,442	4,439	3	0.07%	4,328	114	(2.59)%	4,682	(240)	(5.13)%
18	207	211	(4)	(1.95%)	562	355	63.09%	331	124	(37.37)%
19	426	440	(14)	(3.28%)	665	239	56.10%	521	94	(17.86)%
20	1,424	1,332	92	(6.47)%	1,496	72	(5.48)%	1,359	87	(6.37)%
21	30	32	(2)	(6.25%)	27	3	(11.11)%	27	0	0.00%
22	1,698	1,677	21	(1.25%)	1,619	79	(4.82)%	1,771	(173)	(9.77)%
23	1,577	1,577	0	0.00%	1,211	366	(30.22)%	1,173	244	(20.80)%
24	2,436	2,454	(18)	(0.74%)	2,166	270	(12.51)%	1,778	656	(37.48)%
25	28,167	28,067	100	(0.36%)	28,108	59	(0.21)%	25,434	2,733	(10.74)%
26	5,931	5,972	(41)	(0.69%)	6,058	87	(1.44%)	6,058	74	(1.22)%
27	468	468	0	0.00%	462	6	(1.30%)	462	6	(1.30)%
28	5,860	6,159	(299)	(4.94%)	6,528	668	11.45%	6,560	(92)	(1.40)%
29	2,884	2,925	(41)	(1.39%)	3,175	291	9.16%	2,767	108	(3.90)%
30	35,651	37,131	(1,480)	(4.17%)	36,211	1,440	(3.92)%	34,762	1,889	(5.42)%
31	18,924	17,702	1,222	6.90%	16,561	2,363	14.26%	13,375	5,287	(39.58)%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
32	(6)	(6)	0	0.00%	-	6	(6.00)%	(127)	(121)	(95.40)%
33	5,223	5,226	(3)	(0.06%)	5,415	192	(3.69%)	4,164	1,061	(25.44)%
34	964	977	(13)	(1.34%)	876	91	(10.39%)	1,362	(388)	(28.30)%
35	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
36	5,831	6,097	(266)	(4.57%)	6,231	400	(6.42)%	5,351	486	(9.13)%
37	1,101	1,429	(328)	(29.73%)	1,265	164	(13.03)%	736	368	(48.73)%
38	482	528	(46)	(9.47%)	575	93	(16.14)%	334	148	(44.38)%
39	82	77	5	(6.10%)	65	17	(26.42)%	88	(6)	(6.82)%
40	51	51	0	0.00%	-	51	(51.00)%	196	(145)	(73.62)%
41	0	0	0	0.00%	1	1	(100.00)%	0	0	0.00%
42	275	249	26	(10.04%)	328	53	(18.29%)	271	6	(2.22)%
43	(223)	(186)	(37)	(16.67%)	(327)	103	(31.57%)	(75)	(148)	(72.72)%
44	(4,604)	(4,116)	(488)	(11.86%)	(4,343)	261	(6.01)%	(4,425)	(78)	(1.76)%
45	14,330	13,888	442	(3.19%)	11,717	2,613	(22.30)%	8,948	5,382	(61.14)%
46	890	805	85	(9.57%)	583	307	(52.68)%	511	378	(74.29)%
47	5,043	4,537	(506)	(11.61%)	3,922	(1,121)	(28.60)%	3,024	(1,017)	(25.28)%
48	(8)	(8)	0	0.00%	(27)	19	(70.37%)	2	10	(548.57)%
49	(40)	(31)	9	(22.50%)	(105)	65	(61.46)%	21	61	(291.56)%
50	5,835	5,354	481	(9.15%)	4,383	1,452	(33.13)%	3,557	2,278	(64.43)%
51	8,445	8,222	223	(2.64%)	7,594	851	(11.21)%	5,851	2,594	(30.63)%
52	72	72	0	0.00%	422	350	(82.91)%	72	0	(0.00)%
53	8,273	8,150	123	(1.49%)	6,812	1,461	(21.45)%	5,919	2,354	(39.82)%
54	3,448	3,310	138	(4.01%)	2,754	684	(24.84)%	2,257	1,191	(52.79)%
55	4,925	4,940	(15)	(0.30%)	4,198	727	(17.33)%	3,051	1,863	(60.86)%

Printed: December 12, 2008  
4:15:50 PM

Report ID: RPO13  
American Water Customer



Kentucky American Water  
November 2008  
(\$ in Thousands)  
Variance Explanations  
YTD Actual vs. Q3RF



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

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.



Supplementary Tables and Discussion  
Kentucky with Growth  
Nov 2008

**Close Status: Final**  
financial source system  
data w/ prelim adjs and  
ellims

**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	1,887	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)	(82)	(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

Friday, December 12, 2008  
8:15:30 PM

**Supplementary Tables and Discussion  
Kentucky with Growth  
Nov 2008**



**AV Report Discussion:**

Report Filters - Currency: USD, Version: Final, Subsidiary: All Subsidiaries,  
Project: No Project, Water System: No Water System



12/08

American Water Confidential



**Monthly Financial Reviews**

- Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
- All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
- Variance analysis and commentary reflect financial results consistent with operation results.
- All known items for the current period have been reflected in financial discussions.
- Potential risks and opportunities have been identified and mitigating action plans have been developed.
- Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

\_\_\_\_\_  
**Regional Finance Director or Vice President (Signature)**

\_\_\_\_\_  
**(Date)**



Report ID: RPR1.2  
Amesbury, KY  
Case Status: Final  
Source System: Financial  
Data

Thursday, January 16, 2008  
10:22:02 AM

Income Statement - Quarter To Date  
Kentucky with Growth  
Dear QTD 2008  
(\$ in Thousands)

	QTD Actuals	Revised	QTD Plan	Variance Favorable (Unfavorable)	% Variance	QTD Plan	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>								
Water Revenues	14,204	14,380	14,631	(427)	(2.92)%	12,836	84	(0.65)%
Sewer Revenues	78	66	66	12	15.38%	84	(8)	(9.52)%
Other Operating Revenues	529	529	476	53	9.97%	584	(55)	(9.42)%
Management Revenues								
Operating Revenues	14,811	14,974	15,172	(253)	(1.67)%	13,073	1,846	14.12%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>								
<b>PRODUCTION EXPENSES</b>								
Purchased Water	38	57	144	105	73.45%	58	20	34.30%
Fuel and Power	816	859	741	(75)	(9.12)%	731	(86)	(11.71)%
Chemicals	485	487	376	(109)	(22.63)%	467	(18)	(3.90)%
Waste Disposal	64	70	71	1	1.56%	49	21	42.04%
Total production costs	1,404	1,472	1,332	(72)	(5.59)%	1,305	(99)	(7.39)%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>								
<b>LABOR &amp; OVERHEAD</b>								
Salaries	1,894	1,701	1,737	43	2.45%	1,554	(140)	(9.00)%
Pensions	125	130	130	5	3.63%	109	(16)	(14.15)%
Group Insurance	408	488	488	83	18.62%	372	(39)	(8.94)%
Other benefits	70	68	58	(14)	(20.51)%	54	(15)	(28.44)%
Total employee related	2,597	2,387	2,413	(20)	(0.84)%	2,090	(204)	(8.16)%
Management fees	888	883	819	(69)	(7.74)%	1,908	1,025	115.16%
Shared business services	1,043	978	978	(67)	(6.84)%	1,955	977	93.54%
Contracted services	209	186	182	(27)	(14.53)%	195	(13)	(6.72)%
Total contracted services	1,252	1,172	1,158	(63)	(5.03)%	1,955	783	62.52%
Regulatory expense	40	44	137	87	70.89%	103	63	60.88%
Insurance Other Than Group	197	163	181	26	13.22%	153	(6)	(3.98)%
Customer Accounting	42	40	390	(63)	(15.24)%	328	(64)	(16.45)%
Rents	12	8	7	(4)	(33.33)%	8	(1)	(12.50)%
General office expense	145	169	174	7	4.82%	163	(6)	(3.50)%
Miscellaneous	377	500	416	(89)	(17.80)%	281	(116)	(41.48)%
Maintenance	771	780	537	(243)	(31.69)%	793	20	2.48%
Total operations and maintenance expense	7,863	7,931	7,443	(320)	(4.21)%	7,306	(497)	(6.80)%
Depreciation	1,417	1,711	1,827	1,110	78.33%	1,194	(623)	(52.19)%
Amortization	128	128	103	(25)	(19.53)%	128	(2)	(1.56)%
Depreciation and amortization	1,545	1,839	1,930	384	24.84%	1,266	(266)	(17.20)%
General taxes	847	871	871	24	2.78%	864	17	1.98%
Impairment charges	-	-	-	-	-	-	-	-
Total operating expenses, net	10,185	10,638	10,284	(89)	(0.87)%	9,429	(755)	(8.12)%
Operating Income	4,726	4,336	4,889	(164)	(3.45)%	3,644	1,051	28.66%
<b>OTHER INCOME &amp; DEDUCTIONS</b>								
Interest Income	0	0	0	0	0.00%	0	0	0.00%
Interest on long-term debt	1,408	1,412	1,462	54	3.87%	1,206	(83)	(5.90)%
Interest on Short-Term Bank Debt	286	283	448	165	58.30%	261	(15)	(5.73)%
Other Interest Expense	0	0	0	0	0.00%	0	0	0.00%
Total Interest Expense	1,694	1,705	1,910	211	12.45%	1,567	(83)	(5.50)%
AFUDC - Equity	491	650	897	206	29.83%	276	(121)	(17.54)%
AFUDC - Debt	210	284	317	(107)	(50.71)%	127	(83)	(65.14)%
Amortization of Debt Expense	22	18	18	(4)	(18.18)%	21	(2)	(7.79)%
Preferred dividends of subsidiaries (Consolidated)	-	-	-	-	-	59	(59)	(100.00)%
Gain on sale of assets	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-
Miscellaneous Income	38	0	38	38	100.00%	28	(10)	(36.25)%
Total Other Income	38	0	38	38	100.00%	28	(10)	(36.25)%
Miscellaneous Amortization	0	0	0	0	0.00%	0	0	0.00%
Miscellaneous Other Deductions	28	45	60	34	58.33%	84	38	58.29%
Total Other Deductions	28	45	60	34	58.33%	84	38	58.29%
Other, net	12	(45)	57	(69)	(57.50)%	(96)	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)	(4.85)%	2,463	1,278	51.90%
State Income Taxes	186	162	188	2	0.85%	174	(15)	(7.30)%
Federal Income Taxes	1,256	1,133	1,311	54	4.14%	755	(382)	(50.45)%
Tax Savings Acquisition Adjustment	0	(4)	(2)	(2)	(50.00)%	(1)	(1)	(50.00)%
State income taxes (non-operating)	1,440	1,358	1,467	47	3.17%	916	(823)	(57.12)%
Federal income taxes (non-operating)	2,002	2,168	2,432	(131)	(6.52)%	1,547	(765)	(48.81)%
Provision (Benefit) for Income Taxes	20	20	115	(95)	(475.00)%	79	(69)	(87.20)%
Net Income (Loss)	2,262	2,135	2,317	(85)	(3.82)%	1,468	(814)	(55.47)%
Preferred Dividend Declared	2,555	2,575	2,449	(106)	(4.13)%	1,912	(643)	(25.43)%
Common Dividend Declared	(475)	(440)	(441)	(172)	(37.88)%	(444)	172	38.53%



Report ID: FRP1.3  
American Water Consolidated  
Close Status: Final  
source system financial  
data

Thursday, January 14, 2010  
10:25:03 AM

Income Statement - Year To Date  
Month Ending  
January 2010  
(\$ in thousands)

	YTD Actuals	YTD Forecast	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pt. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>								
Water Revenues	57,247	56,937	57,360	(113)	(0.20)%	49,656	(37)	14.64%
Sewer Revenues	3,305	3,264	3,278	32	1.13%	340	(81)	(9.09)%
Other Operating Revenues	2,528	2,379	1,902	1,687	32.86%	2,222	507	13.83%
Operating Revenues	60,080	59,510	59,540	546	0.92%	52,498	7,588	14.45%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>								
Production Expenses								
Purchased Water	126	162	604	(478)	22.55%	147	21	14.37%
Fuel and Power	3,246	3,269	2,794	451	(13.82)%	2,826	(580)	(14.78)%
Chemicals	1,748	1,732	1,637	95	(5.48)%	1,692	(47)	(3.29)%
Waste Disposal	270	287	285	2	0.70%	281	(13)	(4.62)%
Total production costs	5,390	5,448	5,330	60	(1.13)%	4,927	(468)	(9.41)%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>								
LABOR & OVERHEAD								
Salaries	6,535	6,535	6,735	(200)	(3.00)%	5,848	687	(10.49)%
Pensions	623	617	518	99	(15.66)%	500	117	(23.31)%
Group Insurance	1,632	1,792	1,984	(1,152)	63.89%	1,686	3	0.20%
Other benefits	278	257	233	24	(10.15)%	222	(55)	(25.34)%
Total employee related	9,068	9,201	9,470	(302)	(3.28)%	8,436	(734)	(8.88)%
Management fees	3,889	3,841	3,488	351	(9.01)%	3,520	369	(9.35)%
Shared business services	4,032	3,969	3,881	88	(2.22)%	3,881	1	(0.03)%
Contracted services	881	856	829	27	(3.08)%	789	92	(10.50)%
Total contracted services	4,813	4,845	4,710	103	(2.15)%	4,679	(44)	(0.94)%
Regulatory expense	221	226	607	(386)	63.46%	374	(153)	(40.98)%
Insurance Other Than Group	450	502	726	(276)	61.16%	577	(87)	(15.01)%
Customer Accounting	1,536	1,464	1,588	(124)	(8.15)%	1,425	(111)	(7.77)%
Utilities	35	35	32	3	(9.38)%	30	(4)	(14.62)%
Central office expense	546	584	464	120	(26.08)%	471	(75)	(16.25)%
Miscellaneous	1,702	1,846	1,870	(74)	(4.23)%	1,905	(159)	(8.32)%
Maintenance	2,684	2,671	2,330	341	(12.81)%	2,235	(445)	(20.05)%
Total operations and maintenance expense	30,634	30,653	30,614	39	(0.13)%	28,068	(2,586)	(8.44)%
Depreciation	5,871	6,256	7,173	(1,302)	22.18%	6,287	416	(6.92)%
Amortization	512	509	444	65	(12.79)%	504	(8)	(1.58)%
Depreciation and amortization	6,383	6,765	7,617	(934)	15.04%	6,791	408	6.01%
General taxes	3,177	3,218	3,468	(291)	8.43%	3,067	(120)	(3.81)%
Impairment charges	-	-	41,667	(41,667)	3.42%	37,916	(3,751)	(10.41)%
Total operating expenses, net	40,243	40,647	41,667	423	1.05%	37,916	(2,327)	(5.81)%
Operating Income	19,837	18,863	17,873	964	5.40%	14,581	(5,256)	(27.20)%
<b>OTHER INCOME &amp; DEDUCTIONS</b>								
Interest income	(8)	(8)	-	8	0.00%	(127)	(119)	(95.40)%
Interest on long-term debt	5,693	5,697	5,903	(206)	3.55%	4,665	(1,032)	(22.39)%
Interest on Short-Term Bank Debt	782	797	1,044	(262)	27.04%	1,416	(619)	(46.18)%
Other interest expense	0	0	69,533	(69,533)	0.00%	302	(69,231)	(100.00)%
Total interest expense	6,449	6,488	6,947	(498)	7.16%	5,902	(547)	(8.48)%
AFUDC - Equity	1,330	1,673	1,507	166	(11.79)%	845	(532)	(62.95)%
AFUDC Debt	588	737	684	(96)	(13.07)%	586	(10)	(1.70)%
Amortization of Debt Expense	90	83	71	12	(25.32)%	75	(14)	(19.45)%
Preferred dividends of subsidiaries (Consolidated)	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-
Miscellaneous Income	-	-	-	-	-	-	-	-
Total other income	57	51	57	6	12.85%	196	(139)	(70.65)%
Miscellaneous Amortization	0	0	1	(1)	0.00%	0	1	0.00%
Miscellaneous Other Deductions	278	281	363	(84)	23.14%	319	40	12.86%
Total Other Deductions	(278)	(281)	(363)	85	(30.61)%	319	40	12.86%
Total other income (deductions)	(221)	(230)	(306)	85	(38.15)%	(122)	(88)	(83.52)%
Income (loss) before income taxes	(4,841)	(4,390)	(6,190)	349	6.73%	(4,872)	31	0.64%
State Income Taxes	15,001	14,574	12,883	2,318	18.28%	8,709	5,292	64.51%
Federal Income Taxes	895	852	641	(241)	(27.13)%	588	(303)	(52.26)%
State Income taxes (non-operating)	5,255	4,863	4,257	596	(11.31)%	3,238	(2,027)	(62.34)%
State Income taxes (operating)	(9)	(12)	(19)	7	(77.78)%	0	9	4.87.08%
Federal Income taxes (non-operating)	(46)	(46)	(62)	16	(34.78)%	1	45	3,504.31%
Federal income taxes (operating)	6,093	5,751	4,758	1,339	(23.15)%	3,827	(2,270)	(69.30)%
Provision (Benefit) for Income Taxes	8,004	8,822	7,425	979	12.35%	5,882	3,022	51.38%
Net income (loss)	78	79	460	(382)	(62.87)%	79	0	(0.59)%
Preferred Dividend Declared	3,652	3,744	3,652	82	2.25%	3,603	3,022	84.15%
Net Income To Common Stock	6,093	5,885	5,164	839	(13.25)%	4,169	(1,854)	(43.98)%
Common Dividend Declared	2,822	2,859	2,301	521	(22.85)%	1,634	1,189	72.75%



Thursday, January 15, 2009  
10:23:04 AM

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

**Supplementary Tables and Discussion  
Kentucky with Growth  
Dec 2008**





Business Sheet  
Kentucky with Growth  
Dec YTD 2008  
(\$ in Thousands)

REPORTED PERIOD  
American Water Companies  
Close Status: Final  
source system financial  
data

	Actuals	Reforecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Dec	Increase (Decrease)	% Variance
<b>Assets</b>										
1 Utility Plant	369,486	370,515	(1,030)	(0.3)%	408,049	(36,533)	(9.0)%	345,341	24,144	7.0%
2 Construction Work in Progress	54,501	48,063	6,438	13.3%	21,987	32,514	147.8%	21,310	33,191	155.8%
3 Accumulated Depreciation	(84,213)	(86,752)	2,539	2.9%	(92,595)	8,373	(9.0)%	(80,435)	(3,778)	(4.7)%
4 Utility Plant Acquisition Adjustments	305	312	(7)	(2.3)%	313	(6)	(1.9)%	327	(22)	(6.8)%
5 Other Utility Plant Adjustments	340,078	332,168	7,911	2.4%	337,182	2,916	0.7%	288,543	53,535	18.7%
Total Utility Plant	630,170	634,848	(4,678)	(0.7)%	679,761	(44,913)	(6.6)%	655,543	29,327	4.5%
6 Non-utility Property	340,349	332,438	7,911	2.4%	338,012	2,337	0.7%	288,793	53,556	18.7%
Total property, plant and equipment	970,519	967,286	3,233	0.3%	1,017,773	(50,487)	(5.0)%	944,336	26,943	2.9%
7 Cash and Cash Equivalents	234	264	(30)	(12.2)%	266	(32)	(11.9)%	398	(154)	(38.7)%
8 Restricted funds	2,342	2,918	(576)	(24.6)%	2,322	600	25.8%	1,928	414	21.5%
9 Utility customer accounts receivable	(273)	(237)	(36)	(13.1)%	(266)	(7)	(2.7)%	(223)	(44)	(19.7)%
10 Allowance for uncollectible accounts	2,900	3,210	(310)	(10.7)%	2,960	250	8.4%	2,562	338	13.2%
11 Accrued utility revenues	412	310	102	32.3%	408	4	1.0%	195	215	109.7%
12 Other receivables, net	577	719	(142)	(19.7)%	(2,670)	3,247	121.6%	388	(388)	(100.0)%
13 Taxes receivable, including federal income	1	13	(12)	(95.7)%	584	(573)	(98.1)%	635	(56)	(8.9)%
14 Materials and supplies	411	218	193	46.9%	193	224	116.1%	81	330	406.2%
15 Receivable from affiliated companies	6,603	7,415	(811)	(12.3)%	3,797	2,818	74.2%	5,965	639	10.7%
16 Other Current Assets	3,230	6,376	(3,146)	(48.3)%	5,821	6,355	108.7%	6,385	(3,155)	(49.4)%
<b>Current Assets</b>	795	772	23	3.0%	765	107	14.0%	846	(50)	(6.0)%
17 Regulatory assets - income tax recovery	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-
24 Deferred tank painting costs	1,797	1,599	198	11.0%	1,474	253	17.2%	1,859	(122)	(6.6)%
25 Deferred rate case	554	279	274	49.3%	60	493	816.4%	485	68	14.0%
26 Asset premium recoverable thru rates	2,760	2,983	(223)	(8.1)%	3,179	(420)	(13.2)%	3,181	(422)	(13.3)%
27 Environmental remediation recoverable thr	9,076	11,918	(2,842)	(31.3)%	11,100	(2,024)	(18.2)%	12,758	(3,882)	(30.4)%
<b>Regulatory assets</b>	12,887	15,772	(2,885)	(22.6)%	15,949	(3,062)	(19.2)%	15,949	(3,062)	(19.2)%
29 Other investments	-	-	-	-	-	-	-	-	-	-
30 Long term receivable from affiliate	-	-	-	-	-	-	-	-	-	-
31 Funds restricted for construction	6	6	-	-	6	-	-	-	-	-
32 Goodwill	-	-	-	-	-	-	-	-	-	-
33 Intangible assets	-	-	-	-	-	-	-	-	-	-
34 Other Long Term Assets	126	1,029	(903)	(71.6)%	437	(311)	(71.3)%	488	(352)	(72.2)%
<b>Total Regulatory &amp; Other LT Assets</b>	9,208	12,948	(3,740)	(40.6)%	11,538	(2,330)	(20.2)%	13,245	(4,098)	(30.9)%
<b>Total Assets</b>	355,160	352,801	2,359	0.7%	353,347	2,813	0.8%	305,003	50,157	16.4%
<b>Capital &amp; Liabilities</b>										
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	24,127	0	0.0%	24,056	70	0.3%	8,056	16,070	199.5%
37 Retained Earnings	32,812	32,848	(36)	(0.1)%	31,649	1,193	3.7%	29,990	2,822	9.4%
38 Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
39 Unearned compensation	-	-	-	-	-	-	-	-	-	-
40 Treasury stock	-	-	-	-	-	-	-	-	-	-
<b>Common stockholder's equity</b>	93,508	93,530	(22)	(0.0)%	92,274	1,233	1.3%	74,615	18,833	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%
<b>Total Capitalization</b>	176,164	176,186	(22)	(0.0)%	174,941	1,222	0.7%	160,382	15,761	9.8%
44 Short Term Debt	53,106	43,333	9,774	22.8%	48,138	7,969	17.7%	19,956	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	3,445	7,074	(3,629)	(105.4)%	4,598	3,847	83.7%	6,507	1,938	29.8%
48 Taxes Accrued	(908)	2,103	(2,411)	(267.3)%	2,157	(2,499)	(114.7)%	5,228	(5,536)	(105.9)%
49 Interest Accrued	1,150	1,150	0	0.0%	1,662	(512)	(30.3)%	1,143	6	0.6%
50 Total Other Current Liabilities	4,470	2,795	1,675	59.9%	3,410	1,060	31.1%	2,027	2,442	120.5%
<b>Total Current Liabilities</b>	63,969	59,554	4,415	6.9%	60,065	9,897	16.5%	37,362	32,601	87.3%
51 Customer Advances for Construction	11,816	15,137	(3,321)	(28.1)%	21,082	(9,198)	(43.6)%	14,655	(2,737)	(18.7)%
52 Deferred Income Taxes	37,871	37,125	746	2.0%	37,391	460	1.3%	32,877	4,984	15.2%
53 Deferred investment tax credits	1,133	1,137	(4)	(0.4)%	1,161	(28)	(2.4)%	1,215	(65)	(5.3)%
54 Regulatory liability	9,755	10,165	(410)	(4.2)%	9,221	1,534	16.5%	8,772	983	11.2%
55 Accrued pension expense	1,389	1,315	74	5.3%	1,584	(144)	(9.1)%	2,174	(785)	(36.1)%
56 Accrued postretirement benefit expense	418	212	206	49.3%	193	225	116.4%	384	34	8.8%
57 Other Deferred Credits	735	4,098	(3,363)	(45.7)%	219	517	236.0%	4,598	(3,890)	(84.8)%
<b>Regulatory &amp; Other Long Term Liabilities</b>	63,219	69,209	(5,990)	(9.5)%	69,772	(6,553)	(9.4)%	64,575	(1,456)	(2.3)%
58 Contributions in aid of construction	46,815	47,853	(1,038)	(2.2)%	48,569	(1,754)	(3.6)%	43,585	3,230	7.4%
<b>Total capital and liabilities</b>	355,160	352,801	2,359	0.7%	353,347	2,813	0.8%	305,003	50,157	16.4%

Report Date: October 15, 2009, Member Of: Gasbarrini, M. Incubation,  
Reported For: Project Water System In Water System



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



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.



Kentucky American Water  
December, 2008  
(\$ in Thousands)  
Variance Explanations  
QTD Actual vs. QTD Prior Year

Operating Revenues

Line 1 Water revenues are higher (favorable) by \$1,808 due to higher Residential sales (\$920), Public authority sales (\$220), and Commercial sales (\$529) from rate increase.

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.



Kentucky American Water  
December, 2008  
(\$ in Thousands)  
Variance Explanations  
YTD Actual vs. Plan



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.

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



Kentucky American Water  
December, 2008  
(\$ in Thousands)  
Variance Explanations  
YTD Actual vs. Prior YTD

<u>Operating Revenues</u>	
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)
<u>Operating Expenses</u>	
Line 6	Fuel and Power is higher than prior (unfavorable) by \$417, due to fuel costs related to power generation (-\$71 Purchased Power P; -\$325 Purchased Power WT; -\$24 Fuel and Power)
Line 9	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)
Line 13	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)
Line 16	Regulatory expense is lower than prior (favorable) by \$153, due to reduced rate case expenses (\$165) 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)
<u>Other Income &amp; Deductions</u>	
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; Pinetville 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.

Kentucky American Water  
Dec-06  
(\$ 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 (\$239 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 \$33,750 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 (-\$246 Def Compensation costs; -\$130 other deferred credits; -\$113 def FIT; -\$74 SIT; -\$49 ITC Gross up 3%)

Month of December

KY

	Budget		Forecast		Prior Year	
	MTD	QTD	MTD	QTD	MTD	QTD
Budget / Forecast / Prior Year Rates	4,769	15,173	4,777	14,974	4,362	13,073
						1,321
						52,498
						7,265
DSIC						
Surcharges						
Balancing accounts						
Water acquisitions						
Sewer acquisitions						
Other	43	163	27	110	16	44
Fire	-	-	-	-	-	-
Organic growth	8	(458)	-	(441)	40	386
Demand / consumption	(590)	30	(574)	265	(182)	102
Sewer	1	12	1	12	(5)	(6)
						307
						(386)
						433
						(31)
Other Revenue Variances						
Actual revenues	4,231	14,920	4,231	14,920	4,231	14,920
Total variance	(538)	(253)	(546)	(54)	(131)	1,847
Total Variance Validation Check	(538)	(253)	(546)	(54)	(131)	1,847
						7,588
						60,086
						7,588
						7,588

*John. 09*

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AWFRP 2.0 - Result of Operations - Revenue Variance  
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**Monthly Financial Reviews**

- Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
- All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
- Variance analysis and commentary reflect financial results consistent with operation results.
- All known items for the current period have been reflected in financial discussions.
- Potential risks and opportunities have been identified and mitigating action plans have been developed.
- Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

\_\_\_\_\_  
**Regional Finance Director or Vice President (Signature)**

\_\_\_\_\_  
**(Date)**

Close Status: Final  
source system with  
preliminary consolidation  
entries

Income Statement - Month To Date  
Kentucky with Growth  
Jan. 2009  
(\$ in Thousands)

	MTD Actuals	MTD Referencecast	Variance Favorable (Unfavorable)	% Variance	MTD Plan	Variance Favorable (Unfavorable)	% Variance	MTD Pt. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
Water Revenues	3,859	-	3,859	(8.22)%	4,215	(346)	(8.22)%	4,259	(390)	(9.15)%
Sewer Revenues	27	-	27	(3.39)%	28	(1)	(3.39)%	25	2	5.66%
Other Operating Revenues	174	-	174	(6.38)%	185	(12)	(6.38)%	182	(9)	(4.78)%
Nonoperating Revenues	-	-	-	-	-	-	-	-	-	-
Operating Revenues	4,059	-	4,059	(8.11)%	4,429	(369)	(8.11)%	4,467	(397)	(8.89)%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
Purchased Water	10	-	(10)	10.53%	12	2	10.53%	5	(5)	(95.53)%
Fuel and Power	219	-	(219)	22.10%	278	59	22.10%	278	59	20.86%
Chemicals	184	-	(184)	19.34%	203	39	19.34%	118	(46)	(38.51)%
Waste Disposal	14	-	(14)	5.07%	15	1	5.07%	23	9	37.85%
Total production costs	408	-	(408)	20.25%	511	103	20.25%	424	16	3.79%
<b>SALE LABOR &amp; OVERHEAD</b>										
Labor	555	-	(555)	1.84%	575	20	1.84%	543	(22)	(3.89)%
Pensions	123	-	(123)	(44.28)%	50	(73)	(44.28)%	58	(6)	(11.45)%
Group Insurances	181	-	(181)	(15.27)%	157	(24)	(15.27)%	148	(3)	(2.23)%
Other benefits	25	-	(25)	17.23%	30	5	17.23%	24	(1)	(5.33)%
Total employee related	884	-	(884)	(9.97)%	813	(71)	(9.97)%	774	(49)	(6.00)%
Management fees	369	-	(369)	(29.12)%	286	(83)	(29.12)%	351	(18)	(5.19)%
Shared business services	358	-	(358)	(6.44)%	337	(22)	(6.44)%	317	(42)	(13.21)%
Contracted services	59	-	(59)	21.93%	76	17	21.93%	118	42	44.53%
Total contracted services	418	-	(418)	(1.22)%	413	(5)	(1.22)%	358	(60)	(16.82)%
Regulatory expense	13	-	(13)	0.65%	14	1	0.65%	43	30	88.75%
Insurance Other Than Group	54	-	(54)	9.24%	60	6	9.24%	55	0	0.82%
Customer Accounting	126	-	(126)	7.31%	136	10	7.31%	59	(57)	(114.81)%
Rents	5	-	(5)	(9.49)%	6	1	(9.49)%	7	1	22.16%
General office expense	44	-	(44)	17.65%	53	9	17.65%	61	17	28.38%
Miscellaneous	145	-	(145)	21.16%	183	39	21.16%	128	(19)	(14.98)%
Maintenance	191	-	(191)	8.58%	209	18	8.58%	191	0	(0.13)%
Total operations and maintenance expense	2,668	-	(2,668)	0.57%	2,663	5	0.57%	2,447	(221)	(9.01)%
Depreciation	479	-	(479)	16.31%	572	93	16.31%	403	(76)	(18.83)%
Amortization	43	-	(43)	3.95%	44	1	3.95%	42	(1)	(1.81)%
Depreciation and amortization	521	-	(521)	15.41%	616	95	15.41%	445	(77)	(17.20)%
General taxes	286	-	(286)	3.65%	297	11	3.65%	287	1	0.22%
Impairment charges	-	-	-	-	-	-	-	-	-	-
Total operating expenses, net	3,475	-	(3,475)	3.37%	3,596	121	3.37%	3,178	(298)	(9.33)%
Operating Income	595	-	595	(28.59)%	833	(238)	(28.59)%	1,288	(894)	(53.85)%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
Interest Income	471	-	(471)	2.02%	481	10	2.02%	488	7	3.45%
Interest on long-term debt	41	-	(41)	71.50%	162	121	71.50%	87	(46)	52.79%
Interest on Short-Term Bank Debt	-	-	-	-	-	-	-	-	-	-
Other Interest Expense	-	-	-	-	-	-	-	-	-	-
Total Interest expense	512	-	(512)	22.72%	643	131	22.72%	575	(63)	(10.89)%
AFUDC - Equity	231	-	231	(28.86)%	325	94	(28.86)%	82	(44)	182.22%
AFUDC Debt	123	-	123	(16.52)%	148	25	(16.52)%	39	(85)	220.12%
Amortization of Debt Expense	7	-	(7)	(26.37)%	6	(1)	(26.37)%	7	0	(1.47)%
Preferred dividends of subsidiaries (Consolidate)	-	-	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	(6)	-	(6)	-	-	-	-	-	-	-
Miscellaneous Income	(6)	-	(6)	-	-	-	-	-	-	-
Total Other Income	(6)	-	(6)	-	-	-	-	-	-	-
Miscellaneous Amortization	0	-	0	15.28%	0	0	15.28%	0	0	0.00%
Miscellaneous Other Deductions	37	-	(37)	70.95%	124	87	70.95%	71	34	48.55%
Total Other Deductions	36	-	(36)	70.70%	125	89	70.70%	71	34	48.55%
Other, net	(42)	-	(42)	86.05%	(125)	83	86.05%	(70)	28	(779.45)%
Total other income (deductions)	(207)	-	(207)	35.31%	(320)	113	35.31%	(531)	324	61.06%
Income (loss) before income taxes	368	-	368	(24.40)%	513	(145)	(24.40)%	757	(689)	(48.78)%
State Income Taxes	26	-	(26)	24.67%	34	8	24.67%	22	48	48.53%
Federal Income Taxes	150	-	(150)	28.97%	211	61	28.97%	279	129	48.21%
Tax Saving Acquisition Adjustment	-	-	-	-	-	-	-	-	-	-
State income taxes (non-operating)	(2)	-	(2)	(83.36)%	(10)	(9)	(83.36)%	(3)	(1)	(38.55)%
Federal income taxes (non-operating)	(9)	-	(9)	15.33%	(40)	(31)	15.33%	(21)	(12)	(57.44)%
Provision (Benefit) for Income Taxes	(15)	-	(15)	(29.97)%	(55)	(40)	(29.97)%	(30)	(23)	(50.94)%
Net Income (loss)	222	-	222	3.17%	318	96	3.17%	454	(231)	(2.56)%
Preferred Dividend Declared	216	-	(216)	(30.86)%	311	95	(30.86)%	447	(231)	(51.73)%
Net Income To Common Stock	-	-	-	-	-	-	-	-	-	-
Common Dividend Declared	-	-	-	-	-	-	-	-	-	-
Current Year Retained Earnings	216	-	216	(30.86)%	311	95	(30.86)%	447	(231)	(51.73)%





Report ID: FRP-13  
American Water Commercial

Close Status: Final  
source system with  
preliminary consolidation  
entries

Monday, February 16, 2009  
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Income Statement - Year To Date  
Kentucky with Growth  
Jan YTD 2009  
(\$ In Thousands)

	YTD Actuals	YTD Reforecast	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>								
1 Water Revenues	3,869	-	4,215	(346)	(8.22)%	4,259	(390)	(9.15)%
2 Sewer Revenues	27	-	(1)	28	(3.39)%	25	1	5.86%
3 Other Operating Revenues	174	-	185	(11)	(6.38)%	182	(8)	(4.78)%
4 Management Revenues	-	-	-	-	-	-	-	-
<b>Operating Revenues</b>	<b>4,069</b>	<b>-</b>	<b>4,429</b>	<b>(360)</b>	<b>(8.11)%</b>	<b>4,467</b>	<b>(397)</b>	<b>(8.89)%</b>
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>								
<b>PRODUCTION EXPENSES</b>								
5 Purchased Water	10	-	12	(2)	10.53%	5	(5)	(95.53)%
6 Fuel and Power	219	-	282	(63)	22.10%	278	58	20.96%
7 Chemicals	164	-	203	(39)	19.34%	118	(46)	(38.61)%
8 Waste Disposal	14	-	15	(1)	5.07%	23	9	37.85%
<b>Total production costs</b>	<b>408</b>	<b>-</b>	<b>511</b>	<b>(103)</b>	<b>20.25%</b>	<b>424</b>	<b>16</b>	<b>3.79%</b>
<b>OPERATIONAL OVERHEAD</b>								
9 Labor	565	-	575	(10)	1.74%	543	(22)	(3.98)%
10 Pensions	123	-	123	-	(144.28)%	58	(66)	(113.45)%
11 Group Insurance	181	-	157	(24)	(15.27)%	148	(33)	(22.23)%
12 Other benefits	95	-	30	65	(17.28)%	24	(71)	(7.39)%
<b>Total employee related</b>	<b>864</b>	<b>-</b>	<b>813</b>	<b>(51)</b>	<b>(9.37)%</b>	<b>774</b>	<b>(90)</b>	<b>(10.30)%</b>
13 Management fees	369	-	286	(83)	(29.12)%	351	(18)	(5.19)%
14 Shared business services	358	-	337	(21)	(6.44)%	317	(41)	(13.21)%
15 Contracted services	39	-	76	(37)	21.93%	41	(38)	(64.69)%
<b>Total contracted services</b>	<b>418</b>	<b>-</b>	<b>413</b>	<b>(5)</b>	<b>(1.22)%</b>	<b>388</b>	<b>(30)</b>	<b>(7.18)%</b>
16 Regulatory expense	13	-	14	(1)	0.65%	43	30	68.75%
17 Insurance Other Than Group	54	-	54	-	9.24%	55	1	0.82%
18 Customer Accounting	126	-	136	(10)	7.31%	59	(67)	(114.81)%
19 Rents	5	-	5	-	(6.49)%	7	2	22.16%
20 General office expense	44	-	53	(9)	17.65%	61	17	28.38%
21 Miscellaneous	145	-	183	(38)	21.16%	126	(19)	(14.98)%
22 Maintenance	191	-	209	(18)	8.59%	191	0	(0.13)%
<b>Total operations and maintenance expense</b>	<b>2,663</b>	<b>-</b>	<b>2,683</b>	<b>(20)</b>	<b>0.57%</b>	<b>2,447</b>	<b>(216)</b>	<b>(8.01)%</b>
23 Depreciation	479	-	572	(93)	16.31%	403	(76)	(13.83)%
24 Amortization	43	-	44	(1)	3.89%	42	(1)	(0.61)%
25 Depreciation and amortization	521	-	616	(95)	15.41%	445	(77)	(17.20)%
26 General taxes	286	-	297	(11)	3.65%	287	(9)	(3.03)%
27 Impairment charges	-	-	-	-	-	-	-	-
<b>Total operating expenses, net</b>	<b>3,475</b>	<b>-</b>	<b>3,596</b>	<b>(121)</b>	<b>3.37%</b>	<b>3,178</b>	<b>(297)</b>	<b>(8.33)%</b>
<b>Operating income</b>	<b>595</b>	<b>-</b>	<b>833</b>	<b>(238)</b>	<b>(28.59)%</b>	<b>1,288</b>	<b>(694)</b>	<b>(53.85)%</b>
<b>OTHER INCOME &amp; DEDUCTIONS</b>								
28 Interest income	471	-	451	(20)	2.02%	488	(17)	3.45%
29 Interest on long-term debt	41	-	186	(145)	71.50%	87	(58)	52.79%
30 Interest on Short-term Bank Debt	-	-	-	-	-	-	-	-
31 Other Interest Expense	512	-	663	(151)	22.72%	575	(68)	10.89%
32 AFUDC - Equity	231	-	325	(94)	(28.86)%	82	(249)	(182.22)%
33 AFUDC Debt	123	-	148	(25)	(16.52)%	39	(84)	(220.12)%
34 Amortization of Debt Expense	7	-	6	(1)	(25.87)%	-	6	(1.47)%
35 Preferred dividends of subsidiaries (Consolidated)	-	-	-	-	-	-	-	-
36 Gain on sale of assets	-	-	-	-	-	-	-	-
37 Non-Operating Rental Income	-	-	-	-	-	-	-	-
38 Dividend Income - Common	-	-	-	-	-	-	-	-
39 Dividend Income - Preferred	-	-	-	-	-	-	-	-
40 Miscellaneous Income	(6)	-	(6)	-	-	-	-	-
<b>Total other income</b>	<b>(6)</b>	<b>-</b>	<b>(6)</b>	<b>-</b>	<b>-</b>	<b>(7)</b>	<b>(1)</b>	<b>(730.89)%</b>
41 Miscellaneous Amortization	0	-	0	0	155.28%	0	0	0.00%
Miscellaneous Other Deductions	37	-	124	(87)	70.69%	71	(34)	48.55%
<b>Total Other Deductions</b>	<b>36</b>	<b>-</b>	<b>125</b>	<b>(89)</b>	<b>70.70%</b>	<b>71</b>	<b>(34)</b>	<b>48.55%</b>
Other, net	(42)	-	(125)	(83)	68.05%	(70)	(28)	(779.45)%
<b>Total other income (deductions)</b>	<b>(207)</b>	<b>-</b>	<b>(320)</b>	<b>(113)</b>	<b>35.31%</b>	<b>(324)</b>	<b>(308)</b>	<b>(48.78)%</b>
<b>Income (loss) before income taxes</b>	<b>388</b>	<b>-</b>	<b>513</b>	<b>(125)</b>	<b>(24.40)%</b>	<b>757</b>	<b>(369)</b>	<b>(48.78)%</b>
42 State Income Taxes	26	-	34	(8)	24.67%	48	22	46.53%
43 Federal Income Taxes	150	-	211	(61)	28.97%	279	(129)	48.21%
44 Tax Saving Acquisition Adjustment	-	-	-	-	-	-	-	-
45 State income taxes (non-operating)	(2)	-	(10)	(8)	(38.36)%	(3)	(1)	(38.55)%
46 Federal income taxes (non-operating)	165	-	195	(30)	15.33%	303	(138)	45.56%
47 Provision (Benefit) per Income Taxes	222	-	318	(96)	(29.97)%	454	(231)	(50.94)%
<b>Net income (loss)</b>	<b>222</b>	<b>-</b>	<b>318</b>	<b>(96)</b>	<b>(29.97)%</b>	<b>454</b>	<b>(231)</b>	<b>(50.94)%</b>
48 Preferred Dividend Declared	7	-	7	-	3.17%	7	0	2.59%
<b>Net income To Common Stock</b>	<b>215</b>	<b>-</b>	<b>311</b>	<b>(96)</b>	<b>(30.66)%</b>	<b>447</b>	<b>(231)</b>	<b>(51.73)%</b>
Common Dividend Declared	216	-	311	(95)	(30.68)%	447	(231)	(51.73)%
<b>Current Year Retained Earnings</b>	<b>216</b>	<b>-</b>	<b>311</b>	<b>(95)</b>	<b>(30.68)%</b>	<b>447</b>	<b>(231)</b>	<b>(51.73)%</b>

**Close Status:** Final source system with preliminary consolidation entries

Supplementary Tables and Discussion  
Kentucky with Growth  
Jan 2009



**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)

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Supplementary Tables and Discussion  
Kentucky with Growth  
Jan 2009



AM Report Discussion:

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.

## **Operations Review December 2007**

## Operational Issues Review

### 1. Source of Supply

Kentucky American Water ("KAW") continues to move forward and received bids for construction of a treatment plant on Pool 3 of the Kentucky River. The 404 permit application for construction in the waters from the US to the US Army Corps of Engineers was approved. The permit application for a 401B permit for stream flow crossings was approved by the KY DOW. The company still awaits the approval of one highway permit.

KAW and BWSC have executed an agreement to allow for the design expansion and are negotiating on a partnership agreement. In June, a joint letter from KAW and BWSC was sent to Senator Mitch McConnell requesting federal support of \$35 million to help defray the BWSC capital cost of the project.

KAW has made several presentations about the project to numerous business and civic groups. A group of property owners in Franklin County have formed to oppose the project. In June, the Franklin Fiscal Court voted 4-2 to oppose the company's plan to construct a pipeline through part of Franklin County and a water treatment plant in Owen County, just north of Franklin. The Owen County Fiscal Court passed a resolution supporting the project, along with the City of Owenton and the Owen County Chamber of Commerce.

Louisville Water Company made a presentation to the LFUCG Council indicating that a project to purchase water from them would be cheaper. They also filed a motion to intervene in the Certificate Case, and the motion was granted. KAW made a presentation to the LFUCG on August 21 and again on September 18. The Kentucky Attorney General's witness has filed testimony supporting the project. On November 13, rebuttal testimony was presented at a meeting in Frankfort. Frankfort Mayor Bill May announced his support for the Louisville Water Company recommendation.

KAW filed with the Public Service Commission a Certificate of Convenience and Necessity on March 30, 2007. PSC hearings were held on November 26, 27, and 28. A post hearing data request was ordered by the commission to be submitted on January 9, 2008. Briefs for the project are due to the commission on January 16, 2008 and the Commission could issue an order in February, 2008.

### 2. Operational Costs: Energy, Chemicals, Residuals

Fuel and Power is under plan by \$16,610 for the month of December and under plan \$132,389 for YTD. There are two primary reasons for this underage: the fuel adjustment cost dropped again from \$0.00735/KWH to \$0.00254/KWH, and system delivery was under budget.

Chemicals are over plan for December by \$12,707 and over plan YTD with a variance of \$101,580. Excess rain (6.91 inches) in December led to an increase in the amount of chemicals required to address elevated turbidity in the source water. YTD chemical costs are over plan due to additional treatment necessary under summer drought conditions.

**Kentucky American Water  
 Operations Review December 2007**

Additional rainfall in October and December has eliminated all drought indications according to the Palmer Drought Index and has brought the total annual rainfall total to within 2.2 inches of normal.

**3. Rate Case/Orders: Timing, Value, Issues**

A rate filing was submitted on April 30, 2007 to request a 25% rate increase to cover the cost of infrastructure investment. KAW filed its Notice of Intent to file the case with the KY Public Service Commission on April 2, 2007 per the required regulations. An agreement was reached with the Attorney General to settle the rate case on August 29, the first unanimous settlement of a Kentucky American Water rate case in over 20 years. On September 14, Kentucky American Water and all parties to its rate request went before the Kentucky Public Service Commission and agreed to a settlement that calls for \$8 million total in annual increases and single tariff pricing. The settlement was reached by all parties, including Kentucky American Water, the Attorney General's Office, Lexington Fayette Urban County Government, Community Action Council, and the Kentucky Industrial Utility Customers. It includes an increase in contributions to the H2O Help to Others Program, which will be paid by Kentucky American Water stockholders, not customers. On November 29, 2007, the PSC issued the order affirming the settlement in all respects. The new customer tariffs were effective December 1, 2007.

**4. Commission Activity: Customer Complaints, Compliance**

2007	YTD Collections		YTD Billing		YTD Totals	
	Total	Justified	Total	Justified	Total	Justified
KY	40	0	39	0	79	0

**5. Divestitures**

The KY PSC issued an Order dated April 16, 2007, approving the divestiture application and the IPO, subject to certain conditions. RWE, KAW, and all other Applicants accepted these conditions in a filing dated April 26, 2007. American Water has received all necessary approvals in 13 states. On August 27, American Water filed a registration statement on Form S-1 with the SEC related to the proposed initial public offering of its common stock.

## 6. Major Operational Projects

- \$2.7 million in main replacements, including completion of Second Street, Madison Place and Merino Street, Lackawanna Drive, and Bucoto Court, to be completed in 2007. Main replacements on Saunier Street, Bruce Street, and Columbia Avenue are complete. New Circle Road also completed in 2007. South Limestone has been postponed until 2008 because of concerns with the University of Kentucky construction.
- Replacement of 30,000 feet of main in Owen County was completed in 2007 and the extension of 160,000 feet of main in Owen County is to be completed in March 2008.
- Replacement of residuals handling equipment at Richmond Road Station began in March 2007 and is 90% complete. Final completion expected in February 2008.
- Pump replacement at Parkers Mill Road tank began in March and was completed in October 2007.
- Reliability of treatment facilities, including intake pump and transfer pump replacement is scheduled for completion in March 2008. This project was temporarily delayed this summer and fall due to system delivery demand of plant facilities. Currently three of the six intake pumps have been replaced and one of the two transfer pumps is installed.
- Installation of 6,400 feet of 20-inch main in Clays Mill Road prior to the first phase of widening began in 2007, to be completed in March 2008.
- Installation of booster pump facilities in Mallard Point subdivision to improve area pressures began in 2006 and was completed in December 2007.
- The Northern District intake pump was remodeled and new pumps were installed; the project was completed in June.
- The Northern District Perry tank repair and repainting was completed in June with additional foundation repair completed in November 2007.
- The Northern District Sparta tank repair and repainting was completed in October 2007.

The third quarter net capex total of \$25 million was completed by December 31, 2007 as forecasted in the Q3RF.



**Kentucky American Water  
Operations Review December 2007**

**7. Operational Regulatory Compliance: Status**

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
<b>Regulatory Maintenance:</b>					
Meter Changes	9,981	8,501	0		→

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
<b>Maintenance:</b>					
Valve Operation (<16" ) PUC*	100.0%	100.0%	0.0%		↑
Valve Operation (>16" ) PUC*	100.0%	100.0%	0.0%		→
Hydrant Inspection*	100.0%	100.0%	0.0%		→
Tank Painting (#/\$000's)*	2of3/\$555	2of3/\$308	1/\$247		→
*Not regulatory issue in KY.					

**Note:** KAW has completed hydrant inspections and small valve operations by year end.

**8. Policy Compliance Issues**

None to report at this time.

**9. Union/Labor Issues/Activities**

There are no current grievances at this time. The company entered into a new three-year contract with the Firemen and Oilers Union which provided for a 3% annual increase for each year of the agreement. The overall favorable relationship between union and management, as well as the collective efforts of the management negotiating team, resulted in a decisive 33 to 9 union vote to accept the proposed contract on October 4. The quick ratification of the contract is a testament to continued success of company teamwork and employee dedication. KAW will begin preparation for contract negotiations with the internal customer service group whose contract expires December 16, 2007. In November, KAW was informed that the inside union group is considering decertification from the Firemen and Oilers Union.

#### **10. Explanation of NOV's, OSHA violations, etc.**

- A routine sample taken in March at the Owenton, KY wastewater plant failed a required biological toxicity test. The company has not received an NOV for this in 2007. KAW has reviewed the issue thoroughly, putting measures in place to avoid a repeat occurrence. To date, the company has received no response from the state agency regarding this incident and has no NOV's recorded this year.
- There were 3 occupational injuries and 3 vehicular accidents reported in December. None of the injuries resulted in lost time accidents. Of the 3 occupational injuries, two employees were placed on restricted duties. All three vehicular accidents were preventable. Additional defensive driving training will be a part of employee development in 2008.

#### **11. Revenue Generating Projects/Opportunities**

None to report at this time.

#### **12. O&M, DBO Contracts – Significant Operational/Financial Variances**

#### **13. Other Operational Issues**

- Fire hydrant painting in Fayette County, which includes color coding, started in April. It is a two-year project that will bring KAW's system into alignment with the national fire safety code recommendations. KAW is working in cooperation with the LFUCG fire department and the project is on schedule as planned.
- KAW continues to see above normal numbers of non-pay orders being created and worked by the field service group. However, the total number of orders continues to decline from November totals thereby reducing overtime hours in the network department. Overall, the field services group worked over twice as many non-pay orders in 2007 as compared to 2006. This effort has significantly lowered the charge-off percentage for KAW.
- Fire hydrant inspection information will be provided each month to the Lexington Fire Department beginning the first week of January as agreed in the last rate case.



# Regulatory Compliance

## December YTD

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
Regulatory Maintenance:					
Meter Changes	9,981	8,501	0	⊖	↑

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
Maintenance:					
Valve Operation (<16" ) PUC*	100.0%	100.0%	0.0%	⊖	↑
Valve Operation (>16" ) PUC*	100.0%	100.0%	0.0%	⊖	↑
Hydrant Inspection*	100.0%	100.0%	0.0%	⊖	↑
Tank Painting (#/\$000's)*	2of3/\$555	2of3/\$308	1/\$247	⊖	↑
*Not regulatory issue in KY.					

Note: KAW plans to complete hydrant inspections and small valve operations by year end.



Company Proprietary and Confidential Information, Not for External Distribution \*

Kentucky American  
2008 Annual Business Plan  
(\$ in Thousands)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YearTotal
<b>OPERATING REVENUES</b>													
Water Revenues	4,323	4,194	4,259	4,300	4,511	4,727	5,469	5,472	5,475	5,287	4,776	4,588	57,360
Sewer Revenues	25	24	23	23	22	23	23	24	25	22	22	22	278
Other Operating Revenues	159	159	159	159	159	159	159	159	159	159	159	159	1,902
Management Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Revenues	4,506	4,376	4,441	4,481	4,692	4,909	5,651	5,654	5,659	5,468	4,956	4,769	59,540
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>													
<b>PRODUCTION EXPENSES</b>													
Purchased Water	49	47	49	50	50	51	54	56	55	49	46	49	604
Fuel and Power	166	164	162	197	218	247	305	300	295	272	248	221	2,794
Chemicals	121	108	124	111	139	151	169	169	169	133	128	115	1,637
Waste Disposal	20	27	26	20	27	20	33	21	28	21	21	28	295
Total production costs	355	346	361	378	434	470	561	546	547	475	443	414	5,330
<b>O&amp;M LABOR &amp; OVERHEAD</b>													
Labor	569	523	530	569	565	541	592	537	572	586	529	622	6,735
Pensions	43	43	43	43	43	43	43	43	43	43	43	43	518
Group Insurance	165	165	165	165	165	165	165	165	165	165	165	168	1,984
Other benefits	19	22	18	18	22	17	17	25	19	18	17	21	233
Total employee related	796	753	757	795	795	765	817	770	799	812	755	854	9,470
Management fees	643	620	639	623	619	627	615	587	600	613	576	606	7,369
Shared business services	-	-	-	-	-	-	-	-	-	-	-	-	-
Contracted services	70	64	62	75	86	83	69	71	68	68	59	55	829
Total contracted services	70	64	62	75	86	83	69	71	68	68	59	55	829
Regulatory expense	75	75	46	46	46	46	46	46	46	46	46	46	607
Insurance Other Than Group	60	60	60	60	60	60	60	60	60	60	60	60	726
Customer Accounting	128	127	138	130	132	132	138	138	138	132	130	130	1,586
Rents	3	3	3	3	3	3	3	3	3	3	3	3	32
General office expense	46	65	44	41	39	37	37	39	38	20	27	27	464
Miscellaneous	139	174	176	166	158	183	153	152	159	132	135	149	1,870
Maintenance	243	174	169	205	183	244	234	167	172	209	164	165	2,330
Total operations and maintenance expense	2,558	2,457	2,445	2,520	2,556	2,632	2,734	2,579	2,629	2,575	2,400	2,508	30,614
Depreciation and amortization	590	590	591	592	592	593	598	599	600	602	604	620	7,173
Amortization	34	34	34	34	34	34	34	34	34	34	34	34	411
Depreciation and amortization	624	625	626	626	627	628	632	633	634	637	638	655	7,584
General taxes	289	286	286	289	289	287	291	287	293	291	286	294	3,469
Impairment charges	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses, net	3,472	3,368	3,357	3,436	3,472	3,567	3,657	3,499	3,556	3,503	3,325	3,456	41,667
Operating income	1,035	1,008	1,084	1,045	1,221	1,342	1,993	2,155	2,103	1,945	1,632	1,313	17,873
<b>OTHER INCOME &amp; DEDUCTIONS</b>													
Interest income	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest on long-term debt	505	505	505	488	488	488	488	488	488	488	488	488	5,903
Interest on Short-Term Bank Debt	77	67	42	30	47	62	77	90	107	129	146	168	1,044
Other Interest Expense	0	0	0	0	0	0	0	0	0	0	0	0	0
Total interest expense	583	572	546	517	535	550	565	578	595	617	634	655	6,947
AFUDC - Equity	65	68	66	64	72	76	90	133	176	212	212	242	1,507
AFUDC - Debt	30	31	30	29	33	34	41	60	80	96	110	110	684
Amortization of Debt Expense	6	6	6	6	6	6	6	6	6	6	6	6	71
Preferred dividends of subsidiaries (Consolidated)	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other income	0	0	0	0	0	0	0	0	0	0	0	0	0
Miscellaneous Amortization	100	13	37	25	42	43	43	19	13	7	16	37	363
Miscellaneous Other Deductions	-100	-13	-37	-25	-42	-43	-43	-19	-13	-7	-16	-37	-363
Other, net	-594	-493	-494	-485	-478	-489	-451	-409	-359	-321	-303	-347	-5,190
Total other income (deductions)	441	515	580	590	743	853	1,543	1,746	1,744	1,624	1,329	966	12,683
Income (loss) before income taxes	31	27	33	32	41	46	75	85	83	77	63	48	641
State Income Taxes	170	168	198	195	251	288	510	581	580	538	443	329	4,251
Federal Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Saving Acquisition Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-
State income taxes (non-operating)	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal income taxes (non-operating)	-	-	-	-	-	-	-	-	-	-	-	-	-
Provision for income taxes	160	189	216	217	275	317	580	658	653	612	500	375	4,756
Net income (loss)	280	326	373	373	468	536	963	1,088	1,086	1,012	829	591	7,925
Preferred Dividend Declared	38	38	38	38	38	38	38	38	38	38	38	38	460
Net income To Common Stock	242	287	335	335	429	497	924	1,050	1,048	974	791	553	7,465



# **Operations Review First Quarter 2008**

## Operational Issues Review

### 1. Source of Supply

Briefs were filed with the Public Service Commission March 20 and the record on the Certificate Case closed with no further delays. Louisville Water Company had asked for an additional informal conference or mediation, which was denied. Indications are that an Order may come as early as the end of April.

KAW requested and received revised bids for 90 and 120 days beyond the original term (with early May and early June expirations). The revised May bids reflect an increase of \$5.6 million over the initial project bids and would be the costs in place should the PSC rule favorably in April. KAW met with all contractors to develop a strategy for quick Notice of Award and groundbreaking.

There were no source of supply issues impacting current operations. YTD rainfall through March is significantly higher than normal (16.2 inches vs. 11.2 inches). Reservoir levels at Jacobson and Lower Thomas Lake are at 100% capacity, and the March average Kentucky River flow through Lock 10 is 20% greater than average.

### 2. Operational Costs: Energy, Chemicals, Residuals

	March YTD	March YTD Plan	Variance	Q1RF	Q1RF Variance
Purchased Water	22,047	144,350	(122,303)	36,930	(14,883)
Fuel and Power	680,935	514,684	166,251	652,188	28,747
Chemicals	377,661	352,874	24,787	378,369	(708)
Waste Disposal	70,670	73,802	(3,132)	73,147	(2,477)
<b>Total Production</b>	<b>1,151,313</b>	<b>1,085,710</b>	<b>65,603</b>	<b>1,140,634</b>	<b>10,679</b>

Fuel and Power expenses were reforecast to increase 25% for the year, reflecting both a higher energy cost (\$/kwh) and higher electric consumption (based on kWhs/mg pumped) than in the original plan. (Other plan reductions will offset this projected increase.) The reforecast was based on a review of the most recent two-year consumption pattern, which showed increases in consumption over prior years, most likely attributable to efficiency losses over time. Completion in March of the Kentucky River Station pump and motor upgrades may serve to mitigate the increasing consumption trend in the future.

### 3. Rate Case/Orders: Timing, Value, Issues

A formal filing with the PSC documenting the sewer charges for Northern Division waste water tariff was filed on March 21.

**Kentucky American Water  
 Operations Review First Quarter 2008**

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In addition, testing of the Kentucky River withdrawal fee rate was performed in March. The tariff is reviewed and adjusted annually to determine the appropriate rate charged to customers based on the fees imposed by the KRA. The new rates are effective April 1, 2008 on all customer bills.

**4. Commission Activity: Customer Complaints, Compliance**

	YTD Collections	YTD Billing	YTD Total
2008	6	13	19
2007	3	15	18

**5. Divestitures**

There has been no additional activity to report.

**6. Major Operational Projects**

- The Kentucky River Station reliability project was essentially completed in March. All six intake pumps and both transfer pumps have been replaced and are in service. Minor electrical work remains once Kentucky Utilities installs a redundant transformer late in 2008.
- Replacement of residuals handling equipment at Richmond Road Station began in March 2007 and is 95% complete. Final completion is expected in April 2008.
- The extension of 160,000 feet of main in Owen County was completed in March 2008.
- Installation of 6,400 feet of 20-inch main in Clays Mill Road, begun in 2007, is to be completed in April 2008.
- A project to enhance operation of the Russell Cave Road tank and assist in supply to Toyota during peak demand periods has been accelerated, with design approved through CIMC and construction expected to begin later in 2008. Replacement of smaller diameter mains with 34,000 feet of 20-inch main on US 460 will also enable Muddy Ford tank to be taken out of service for maintenance more readily.



**Kentucky American Water  
Operations Review First Quarter 2008**

**7. Operational Regulatory Compliance: Status**

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
<b>Regulatory Maintenance:</b>					
Meter Changes (1)	4,737	4,764	27	G	→

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
<b>Other Program Maintenance:</b>					
Valve Operation (<16" ) PUC	857	896	39	G	→
Valve Operation (>16" ) PUC	200	149	0	G	↑
Tank Painting (#/\$000's)	1 of 1 YTD \$13K	1 of 1 FY \$281K	0	G	→
Hydrant Inspections (2)	0	0	0	G	→

(1) Meter Changes - To date, 4,737 of 2008's planned total of 19,050 5/8-inch meters have been changed. These represent both routine change-outs and those change-outs arising from the former meter life pilot program.

(2) Fire Hydrant Inspection Information – Fire hydrant inspections are scheduled to begin in April.

**8. Regulatory Policy Compliance Issues**

None to report at this time.

**9. Union/Labor Issues/Activities**

The inside union group submitted paperwork to the National Labor Relations Board to request decertification from the union. The decertification is now complete and the former inside bargaining group are currently non-union team members.

There is one grievance related to a confined space issue currently under review. We continue to meet with the bargaining unit to resolve this issue.

**10. Explanation of NOV's, OSHA violations, etc.**

On January 14, 2008, KAW received an NOV from the Division of Water (DOW) for improper maintenance of erosion control and sedimentation on a construction project on Clays Mill Road. The contractor also received an NOV. Additionally, the NOV cited lack of

**Kentucky American Water  
Operations Review First Quarter 2008**

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filing a Notice of Intent for construction in a streambed. KAW placed the contractor on probation and reviewed internal procedures to ensure compliance by contractors in the future. KAW received notice in March that the DOW is satisfied with the company's response and no further enforcement or fine will be forthcoming.

The company also received a NOV in January for failing a required biological toxicity test in the 4<sup>th</sup> quarter of 2007. The testing was performed in November at the Owenton, KY wastewater plant. KAW has reviewed the issue thoroughly, putting measures in place to avoid a repeat occurrence. Disciplinary action was taken with the operator at the plant.

### **11. Revenue Generating Projects/Opportunities**

No new projects to report.

### **12. O&M Contracts – Significant Operational/Financial Variances**

The Kentucky Finance Cabinet contacted KAW on March 12 regarding the final year's renewal of the Bluegrass Station Operations agreement. The O&M contract was initially signed in 2003 for a two-year term, with four annual renewals. Kentucky American CDC is currently reviewing the agreement for final recommendation. KAW continues to operate the facility pending CDC action.

### **13. Other Operational Issues**

On March 31, 2008, KAW's Richmond Road Station was presented with a Certificate of Recognition for meeting the Area-Wide Optimization for both settled and filtered water in 2007. The Richmond Road station is considered a "totally optimized plant" for turbidity by the Drinking Water Branch of the Kentucky Division of Water. This is the second year that the facility has been honored with this award that recognizes efforts to optimize or refine coagulation, flocculation, sedimentation and filtration.

#### **Significant Events**

A water leak was discovered in the basement of the Kentucky River Station control building in January. Ultimately, Field Operations and Production personnel found the leak to be on a 30" lock-joint pipe line that conveys water from the filtration units to the clearwell. Four of the plant's ten treatment units were down for several days once the pipe was uncovered, and before the repair could be made. A contractor repaired the line March 3 by welding a plate over the hole and then grouting the area around the repair. The leak occurred between two chemical dosing points, with indications that corrosion may have been a contributing factor. No customers were affected by this repair.

A late afternoon leak on a 12-inch line in Scott County resulted in a boil water advisory to approximately 1500 customers March 20. Although the leak was isolated and repaired in a timely manner, the 20 psi drop in pressure mandated that a precautionary boil water advisory be issued. KAW communicated the advisory through the Reverse 911 system as well as through local TV and radio media outlets. KAW also made immediate contact

**Kentucky American Water  
Operations Review First Quarter 2008**

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with the administration of Northern Elementary School and delivered bottled water to enable the school to remain open the following day. The advisory was lifted March 22, 2008.

There have been 55 leaks repaired YTD compared to 95 for the same period last year.

KAW is continuing to revisit its NRW strategy, with focus on identified areas of concern and potential revenue losses. During March, all water loading station accounts were reviewed to confirm that inactive accounts were deactivated at the assigned stations and the account holder's information was verified. The confirmation of this information will minimize the potential for unauthorized use through inactive accounts that should be deactivated at the stations.

**Field Service**

Met appointment performance: 99.6%

**Customer Billing**

Lexington-Fayette Urban County Government passed an ordinance to increase sewer user fees beginning May 1, 2008. The programming changes are currently being tested and will be ready for implementation by May 1.

There were two significant customer accounts that required backbilling adjustments in March due to set-up or coding errors. One account required wastewater backbilling as a unique premise set-up was not identified from the current validation/exception reports. Additional reports were implemented in March to prevent future occurrences of this nature. That initial review surfaced a water backbilling requirement for another unrelated account, attributable to an error in the customer billing department. An account set-up code had been changed in mid-2007, resulting in a subsequent drop of meter reading data in the billing process. The billing department has since removed permissions to change set-ups, so new errors of this nature are less likely to occur. Both customers were personally notified by KAW representatives.

**Safety and Loss Control**

On January 8, a field service representative was struck on the passenger side of his truck while driving through an intersection. The employee missed three work days which resulted in the first lost time incident in over one year. The employee was not at fault.

There were no injuries or accidents reported in March. KAW is still on track to conduct defensive driving training for the employees in the second quarter. Competent person training was performed in March to ensure that field personnel are aware of OSHA requirements and are knowledgeable in detecting unsafe conditions at the job site. Excavation safety training and hearing and respiratory fit testing are planned during April.

**Kentucky American Water Company  
Board Report – April 2008**

**Financial Performance**

**Year to Date Results – Actual to Budget:**

Operating Income was \$0.383 million 12.2% over budget for the 3 months ended March 2008. Revenues were \$0.050 million under budget -.38%.

OPEX – variances were \$0.338 million favorable.

1. Production costs were \$0.088 higher than Plan due to increased fuel costs only partially offset by lower purchased water.
2. Employee related expenses were \$0.131 million favorable primarily due to higher than Plan capital projects and vacancies.
3. Management fees were \$0.088 million unfavorable due to increased regional fees of \$.010 million and corporate \$0.078 million.
4. Customer accounting expense was \$0.177 million favorable due to a decrease in the uncollectible reserve.
5. Regulatory expense is favorable to Plan \$0.095 million due to reduced rate case expenses and a longer amortization period than planned.
6. Insurance other than Group is favorable \$0.083 million primarily due to a Q1 true-up in March.

Depreciation is \$0.112 million favorable or 6.3%

**Forecast (Full Year):**

The official Q1RF forecast has not yet been completed.

**Regulatory Climate**

Nothing to Report.



Income Statement - Year To Date  
Kentucky-American  
Mar YTD 2008  
(\$ In Thousands)

Close Status: Final source system load

	YTD Actuals	YTD Plan	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>				
Water Revenues	1 12,605	12,775	(170)	(1.33)%
Sewer Revenues	2 78	72	6	7.78%
Other Operating Revenues	3 590	476	115	24.10%
Management Revenues	4 0	0	0	
<b>Operating Revenues</b>	<b>13,273</b>	<b>13,323</b>	<b>(50)</b>	<b>(0.38)%</b>
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>				
<b>PRODUCTION EXPENSES</b>				
Purchased Water	5 22	144	122	84.73%
Fuel and Power	6 681	492	(189)	(38.44)%
Chemicals	7 378	353	(25)	(7.02)%
Waste Disposal	8 71	74	3	4.24%
<b>Total production costs</b>	<b>1,151</b>	<b>1,063</b>	<b>(88)</b>	<b>(8.32)%</b>
<b>O&amp;M LABOR &amp; OVERHEAD</b>				
Labor	9 1,489	1,623	133	8.21%
Pensions	10 173	130	(43)	(33.14)%
Group insurances	11 436	495	59	11.93%
Other benefits	12 78	59	(19)	(31.88)%
<b>Total employee related</b>	<b>2,176</b>	<b>2,307</b>	<b>131</b>	<b>5.66%</b>
Management fees	13 1,051	953	(88)	(9.14)%
Shared business services	14 956	940	(17)	(1.76)%
Contacted services	15 146	195	49	25.19%
<b>Total contacted services</b>	<b>1,102</b>	<b>1,135</b>	<b>33</b>	<b>2.87%</b>
Regulatory expense	16 100	195	95	48.86%
Insurance Other Than Group	17 98	181	83	45.90%
Customer Accounting	18 206	383	177	46.22%
Rents	19 9	8	(1)	(8.87)%
General office expense	20 130	154	24	15.56%
Miscellaneous	21 483	486	2	0.47%
Maintenance	22 617	587	(30)	(5.11)%
<b>Total operations and maintenance expense</b>	<b>7,123</b>	<b>7,460</b>	<b>338</b>	<b>4.53%</b>
Depreciation	23 1,660	1,772	112	6.31%
Amortization	24 128	103	(25)	(24.71)%
<b>Depreciation and amortization</b>	<b>1,788</b>	<b>1,875</b>	<b>86</b>	<b>4.61%</b>
General taxes	25 853	862	9	1.01%
Impairment charges	27 0	0	0	
<b>Total operating expenses, net</b>	<b>9,764</b>	<b>10,197</b>	<b>433</b>	<b>4.24%</b>
<b>Operating Income</b>	<b>3,509</b>	<b>3,126</b>	<b>383</b>	<b>12.24%</b>
<b>OTHER INCOME &amp; DEDUCTIONS</b>				
Interest Income	28 0	0	0	
Interest on long-term debt	29 1,463	1,515	52	3.42%
Interest on Short-Term Bank Debt	30 217	186	(31)	(16.58)%
Other Interest Expense	31 0	0	0	
<b>Total Interest expense</b>	<b>1,680</b>	<b>1,701</b>	<b>21</b>	<b>1.24%</b>
AFUDC - Equity	32 270	199	72	36.16%
AFUDC Debt	33 127	90	37	40.80%
Amortization of Debt Expense	34 22	18	(4)	(22.43)%
Preferred dividends of subsidiaries (Consolidation only)	35 0	0	0	
Gain on sale of assets	26 0	0	0	
Non-Operating Rental Income	36 0	0	0	
Dividend Income - Common	37 0	0	0	
Dividend Income - Preferred	38 0	0	0	
Miscellaneous Income	39 23	0	23	
<b>Total other income</b>	<b>23</b>	<b>0</b>	<b>23</b>	
Miscellaneous Amortization	40 0	0	0	155.28%
Miscellaneous Other Deductions	41 105	150	45	29.96%
<b>Total Other Deductions</b>	<b>105</b>	<b>150</b>	<b>45</b>	<b>30.12%</b>
Other, net	82	150	(68)	(45.27)%
<b>Total other income (deductions)</b>	<b>(1,387)</b>	<b>(1,581)</b>	<b>194</b>	<b>12.25%</b>
<b>Income (loss) before income taxes</b>	<b>2,122</b>	<b>1,545</b>	<b>576</b>	<b>37.29%</b>
State Income Taxes	42 57	91	34	37.14%
Federal Income Taxes	43 775	536	(239)	(44.64)%
Tax Saving Acquisition Adjustment	46 0	0	0	
State income taxes (non-operating)	47 (2)	(12)	(10)	(80.72)%
Federal income taxes (non-operating)	47 (14)	(48)	(34)	(70.30)%
<b>Provision (Benefit) for Income Taxes</b>	<b>816</b>	<b>566</b>	<b>(249)</b>	<b>(44.02)%</b>
<b>Net Income (loss)</b>	<b>1,306</b>	<b>979</b>	<b>327</b>	<b>33.39%</b>
Preferred Dividend Declared	48 20	115	(95)	(82.88)%
<b>Net Income To Common Stock</b>	<b>1,286</b>	<b>864</b>	<b>422</b>	<b>48.86%</b>



Balance Sheet  
Kentucky-American  
Mar YTD 2008  
(\$ In Thousands)

Close Status: Final source system load

	Actuals	Plan	Increase (Decrease)	% Variance
<b>Assets</b>				
Utility Plant	1 347,276	351,794	(4,517)	(1.3)%
Construction Work in Progress	2 22,331	21,987	344	1.6%
Accumulated Depreciation	3 (81,492)	(86,076)	4,583	5.3%
Utility Plant Acquisition Adjustments	4 321	329	(7)	(2.1)%
Other Utility Plant Adjustments	5 0	0	0	
<b>Total Utility Plant</b>	<b>288,436</b>	<b>288,033</b>	<b>403</b>	<b>0.1%</b>
<b>Total Non-Utility Plant, Net</b>	<b>6 270</b>	<b>250</b>	<b>20</b>	<b>8.2%</b>
<b>Total property, plant and equipment</b>	<b>288,706</b>	<b>288,283</b>	<b>423</b>	<b>0.1%</b>
Cash and Cash Equivalents	7 385	807	(422)	(52.3)%
Restricted funds	8 0	0	0	
Utility customer accounts receivable	9 1,835	1,813	21	1.2%
Allowance for uncollectible accounts	10 (118)	(286)	167	58.6%
Accrued utility revenues	11 2,571	2,960	(389)	(13.1)%
Other receivables, net	12 200	408	(208)	(50.9)%
Taxes receivable, including federal income	13 362	(2,670)	3,032	113.6%
Materials and supplies	14 597	584	13	2.3%
Receivable from affiliated companies	15 10	0	10	
Other Current Assets	16 276	193	83	43.2%
<b>Current Assets</b>	<b>6,118</b>	<b>3,810</b>	<b>2,308</b>	<b>60.6%</b>
Regulatory assets - income tax recovery	17 6,372	6,304	69	1.1%
Debt and preferred stock expense	18 824	724	100	13.8%
Deferred pension expense	19 0	0	0	
Deferred postretirement benefit expense	20 0	0	0	
Deferred security costs	21 0	0	0	
Deferred business services project expenses	22 0	0	0	
Deferred integration costs	23 0	0	0	
Deferred tank painting costs	24 1,736	1,691	45	2.7%
Deferred rate case	25 396	473	(77)	(16.2)%
Asset premium recoverable thru rates	26 0	0	0	
Environmental remediation recoverable thru rates	27 0	0	0	
Other Regulatory Assets	28 3,118	3,566	(448)	(12.6)%
<b>Regulatory assets</b>	<b>12,446</b>	<b>12,757</b>	<b>(311)</b>	<b>(2.4)%</b>
Other investments	29 0	0	0	
Long term receivable from affiliate	30 0	0	0	
Funds restricted for construction	31 0	0	0	
Goodwill	32 0	0	0	
Intangible assets	33 0	0	0	
Other Long Term Assets	34 590	437	153	35.0%
<b>Total Regulatory &amp; Other L/T Assets</b>	<b>13,036</b>	<b>13,195</b>	<b>(159)</b>	<b>(1.2)%</b>
<b>Total Assets</b>	<b>307,861</b>	<b>305,288</b>	<b>2,573</b>	<b>0.8%</b>
<b>Capital &amp; Liabilities</b>				
Common Stock	35 36,569	36,569	0	0.0%
Paid in Capital	36 16,056	24,056	(8,000)	(33.3)%
Retained Earnings	37 30,179	29,409	771	2.6%
Accumulated other comprehensive income	38 0	0	0	
Unearned compensation	39 0	0	0	
Treasury stock	40 0	0	0	
<b>Common stockholder's equity</b>	<b>82,804</b>	<b>90,034</b>	<b>(7,229)</b>	<b>(8.0)%</b>
Preferred Stock without mandatory redemption requirements	41 1,467	1,467	0	0.0%
Long term debt	42 76,700	76,700	0	0.0%
Redeemable preferred stock at redemption value	43 4,500	4,500	0	0.0%
<b>Total Capitalization</b>	<b>165,471</b>	<b>172,700</b>	<b>(7,229)</b>	<b>(4.2)%</b>
Short Term Debt	44 19,408	4,140	15,268	368.8%
Current Portion of Long-term Debt	45 3,100	3,100	0	0.0%
Current portion of redeemable stock at redemption value	46 0	0	0	
Accounts Payable	47 2,799	6,339	(3,540)	(55.8)%
Taxes Accrued	48 4,468	3,865	603	15.6%
Interest Accrued	49 1,849	1,680	169	10.1%
Total Other Current Liabilities	50 2,052	4,101	(2,050)	(50.0)%
<b>Total Current Liabilities</b>	<b>33,676</b>	<b>23,225</b>	<b>10,451</b>	<b>45.0%</b>
Customer Advances for Construction	51 14,309	17,956	(3,647)	(20.3)%
Deferred Income Taxes	52 33,261	35,827	(2,566)	(7.2)%
Deferred investment tax credits	53 1,197	1,242	(46)	(3.7)%
Regulatory liability-cost of removal	54 9,117	8,221	896	10.9%
Accrued pension expense	55 1,894	2,049	(154)	(7.5)%
Accrued postretirement benefit expense	56 395	352	43	12.1%
Other Deferred Credits	57 4,257	219	4,038	1,843.5%
<b>Regulatory &amp; Other Long Term Liabilities</b>	<b>64,430</b>	<b>65,866</b>	<b>(1,436)</b>	<b>(2.2)%</b>
Contributions in aid of construction	58 44,284	43,496	788	1.8%
<b>Total capital and liabilities</b>	<b>307,861</b>	<b>305,288</b>	<b>2,573</b>	<b>0.8%</b>



Cash Flow Statement  
Kentucky-American  
Mar YTD 2008  
(\$ In Thousands)

Cash Flow (\$ Millions)	YTD Actuals		YTD Plan	
<b>Cash flows from operating activities</b>				
Net (loss) income	\$	1.31	\$	0.98
Adjustments:				
Depreciation and amortization	\$	1.79	\$	1.88
Gain on disposition of property	\$	-	\$	-
Changes in Deferred Taxes	\$	0.36	\$	2.97
Changes in Working Capital	\$	(3.90)	\$	3.64
Other operating activities	\$	(0.80)	\$	(2.03)
<b>Net cash provided by operating activities</b>	\$	<b>(1.25)</b>	\$	<b>7.44</b>
<b>Cash flows from investing activities</b>				
Capital expenditures	\$	(2.96)	\$	(7.13)
Acquisitions, net of cash acquired				
Other investing activities	\$	(0.02)	\$	-
<b>Net cash used in investing activities</b>	\$	<b>(2.98)</b>	\$	<b>(7.13)</b>
<b>Cash flows from financing activities</b>				
Net borrowings (repayments) of short-term debt	\$	0.05	\$	(15.22)
Customer advances and contributions, net of refunds	\$	0.36	\$	3.21
Change in long-term debt	\$	(3.10)	\$	(3.10)
Proceeds from issuance of common stock	\$	8.00	\$	16.00
Redemption of common stock				
Redemption of preferred stock				
Dividends paid	\$	(1.10)	\$	(0.80)
<b>Net cash provided by (used in) financing activities</b>	\$	<b>4.21</b>	\$	<b>0.09</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	\$	<b>(0.02)</b>	\$	<b>0.41</b>
Cash and cash equivalents at beginning of year	\$	0.40	\$	0.40
<b>Cash and cash equivalents at end of year</b>	\$	<b>0.38</b>	\$	<b>0.81</b>



**KENTUCKY**  
**AMERICAN WATER**

**Operations Review**  
**June 2008**





Kentucky American Water  
Operations Review June 2008

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## Operational Issues Review

### 1. Source of Supply and New Water Treatment Plant

There are no source of supply issues impacting current operations. Precipitation for the month of June was less than normal (3.6" vs. 4.6"); contributing to system delivery being 52.5MG more than plan for the month. Flows in the Kentucky River trended downward throughout the month, and Jacobson Reservoir was at 96% of capacity at month end. YTD rainfall through June remained higher than normal (30 vs. 24 inches).

**Water Treatment Plant** - Contracts were executed with Reynolds-Rogers for the new water treatment plant and intake on May 28. Land closing occurred on June 17 on treatment plant property, and construction began that same day. The project is moving ahead very quickly. A progress meeting was held June 26, and the intake property closing was finalized June 30.

**Transmission Main** - Contracts were executed with Garney Construction for the 42-inch transmission main on May 23. KY DOT permits for Districts 5 and 7 were received in June. All permits for the project along the pipeline route have now been secured. The easement acquisition team began following up contacts, and letters to property owners and elected officials were mailed at the end of May. A progress meeting for the pipeline work was held June 25. Work schedules are being coordinated between easement acquisition and construction. Kentucky American Water is encouraged by response to follow-up easement acquisition conversations. Construction on the pipeline should begin in late July.

**Booster Station** - Contracts were executed with PAE for the booster station on June 2, and the land closing occurred on June 16. Construction began June 23. A construction partnering meeting with contractors and consultants for the entire water supply project was held June 25.

As a requirement of the recent Order on the water supply project, the first quarterly status report was filed with the PSC on July 1.

The Citizens for Alternative Water Solutions (CAWS), a local grassroots opposition group, filed an appeal in Franklin Circuit Court on June 24 on the PSC Order to deny a rehearing of the certificate application request. Intervenors in the water supply case (AG, BWSC, LFUCG) and the PSC have all asked for dismissal of the Appeal. Because of the critical nature of the project and the low probability of a successful appeal by CAWS, Kentucky American Water will continue to move forward with the project. Kentucky American Water is continuing to meet with local officials, property owners, and regulators on the project status. The project is on track with schedule and costs.



**Kentucky American Water  
Operations Review June 2008**

**2. Operational Costs: Energy, Chemicals, Residuals**

	June Actual	June Plan	Variance	YTD Actual	YTD Plan	Variance
<b>Purchased Water</b>	11,151	51,400	(40,249)	53,811	295,600	(241,789)
<b>Fuel and Power</b>	278,881	254,847	24,034	1,406,495	1,199,702	206,793
<b>Chemicals</b>	126,562	151,139	(24,577)	738,160	753,727	(15,567)
<b>Waste Disposal</b>	23,538	20,471	3,067	140,379	141,604	(1,225)
<b>Total Production</b>	440,132	477,857	(37,725)	2,338,845	2,390,633	(51,788)

Due to lack of rainfall in June, water was transferred to Richmond Road Station and Jacobson Reservoir all month. Budgeted transfer for June was 450MG and 481MG was actually transferred. A portion of this water was used to replenish the water stored in the reservoir. The water stored in Jacobson Reservoir increased by nearly 20% during the month and was at 96% of capacity by month end. This is critical in order to prepare our system to meet summer demand challenges. System delivery for June 2008 was 52MG higher than budgeted.

Chemicals were \$24,577 under budget due to very little source water turbidity (average of about 15 NTU well below the budgeted 63 NTU), also attributed to less precipitation in June.

**3. Rate Case/Orders: Timing, Value, Issues**

No new activity to report this period.

**4. Commission Activity: Customer Complaints, Compliance**

	YTD Collections	YTD Billing	YTD Total
2008	14	25	39
2007	11	25	36

**5. Divestitures**

No additional activity to report.



**Kentucky American Water  
Operations Review June 2008**

**6. Major Operational Projects**

Design is 50% complete for the Carrick Pike main extension that will replace smaller diameter mains with approximately 34,000 feet of 16-inch main. This project will enhance operation of the Russell Cave Road tank while also assisting the supply to Toyota during peak demand periods. The main will also enable Muddy Ford tank to be taken out of service for maintenance more readily. Construction is expected to begin in fall 2008.

North Broadway replacement is currently under design with construction expected to begin later in 2008 for the replacement of approximately 5,400 feet of 6-inch CI main with 12-inch main. Approximately 1,100 feet of small mains on Granard Ave, Morrison Ave and Davidson Court will also be replaced with 8-inch main. The project will substantially increase fire flows for this downtown area, and replace mains which date back to early 1900s.

Construction for approximately 4,700 feet of 8-inch DI main on Yarnallton Road from Kearney Road to the North Yarnallton blow-off is expected to begin in September and be completed by year-end. This project will increase reliability in the area by looping together a back feed from Georgetown Road to the Leestown Road corridor by boring under Interstate 64 to tie in mains currently separated by the Interstate.

<b>12-KY Gross</b>	<b>Original</b>	<b>Q1RF</b>	<b>Q2RF</b>
Full Year Budget	\$55,679,329	\$48,442,182	\$48,442,182
To Date Budget	\$9,675,319	\$10,107,117	\$8,714,373
To Date Actual	\$11,724,307	\$11,724,307	\$11,724,307
To Date Variance	\$2,048,988	\$1,617,190	\$3,009,935

Variance to plan and reforecast primarily attributable to Pool 3 Water Treatment Plant construction beginning ahead of assumed planning dates.



Kentucky American Water  
Operations Review June 2008

### 7. Operational Regulatory Compliance: Status

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
<b>Regulatory Maintenance:</b>					
Meter Changes (1)	12,190	9,528	0	⊖	↑

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
<b>Other Program Maintenance:</b>					
Valve Operation (<16" ) PUC (2)	2209	2565	356	Y	→
Valve Operation (>16" ) PUC	209	239	30	⊖	→
Tank Painting (#/\$000's) (3)	1 of 1 YTD \$76K	1 of 1 FY \$281K	0		
Hydrant Inspections (4)	1760	2825	1,065	Y	→

(1) Meter Changes – To date, 12,190 of 2008's planned total of 19,050 5/8-inch meters have been changed. These represent both routine change-outs, and those change-outs arising from the former meter life pilot program.

(2) Small valve operation is 14% behind plan, largely due to resource limitations associated with extended illnesses and restricted duty assignments. Additional resourcing plans are being developed that are expected to enable achieving year-end target.

(3) The fairgrounds tank painting project in Owenton has been cancelled until such time as water supply issues (with tank out of service) are adequately mitigated.

(4) Fire Hydrant Inspection Information – Fire hydrant inspections continued in June. The program began one month later than planned but is expected to meet year-end target. Information is logged and submitted to the Lexington Fire Department monthly, as agreed.

### 8. Regulatory Policy Compliance Issues

None to report at this time.



**Kentucky American Water  
Operations Review June 2008**

**9. Union/Labor Issues/Activities**

The Union has requested that the confined space grievance be moved to mediation following the Company's response at the 3<sup>rd</sup> step grievance meeting. The Company's position, supported by OSHA, is current practice in compliance with all OSHA regulations. Union had perceived field operations practices to be different than production practices, leading to their initial grievance related to a single person reclassifying permitted space to non-permitted space.

**10. Explanation of NOV's, OSHA violations, etc.**

No NOV's were reported in June.

There were 3 vehicular accidents and 2 occupational injuries reported during the month. Two of the vehicular accidents were non-chargeable and one of the occupational injuries was non-recordable. YTD KAW results remain on track to meet the year-end target.

KAW	Month	2008 YTD	2008 Year End Target	2007 YTD	2007 Year End
Injury Frequency Rate	9.57	2.91	5.76	3.06	6.06

There were no OSHA or DOT citations issued during the month.

**11. Revenue Generating Projects/Opportunities**

**Current Business Development Strategy and Initiative**

KAW has initiated a strong business development strategy that incorporates name recognition, branding, market identification and market segmentation. Business Development has identified specific target markets that include municipalities with water / waste water treatment plants and utility districts that provide water distribution in more rural settings. During May 2008, more than 250 letters were sent to Kentucky mayors indicating KAW's interest in developing a working relationship with their respective municipal systems. The letter outlines three business models—operations and management agreements (O & M), public-private partnerships (PPP), and an acquisition model. Additional correspondence will be directed to county judge executives who have some influence with local water districts.

KAW has identified and initiated negotiations with three municipalities that have expressed a keen interest in pursuing one of the KAW business models. The municipalities are: City of Jackson with 2340 water customers and 1194 sewer customers; City of North Middletown with 500 water and 500 waste water customers; and City of Georgetown, a billing services contract. Two additional municipalities with favorable responses and levels of interest include City of Midway and Elkhorn City. The BD lead has also identified and made initial



contact with 12 additional municipalities and/or utility districts in Kentucky and is developing a pipeline of prospects throughout the State of Kentucky.

## 12. O&M Contracts – Significant Operational/Financial Variances

### Year-to-Date Contracts

On June 20, 2008, KAW signed a renewal agreement for an Operations and Management contract with Bluegrass Station (Kentucky Procurement Office). The renewal will mature in January 2009. The income stream from the contract is projected to be \$116,214 with an EBIT of \$47,086. The Bluegrass Station previously commissioned an engineering study of water infrastructure upgrades needed to support current operations and future growth expectations of the facility. The study has been temporarily placed on hold. As the O & M contractor, KAW is well positioned to take advantage of any future RFP's relative to a design-build-operations (DBO) agreement.

## 13. Other Operational Issues

The Kentucky River and Richmond Road plants were recognized for receiving the **Partnership for Safe Water** Director's Award 10 consecutive years. The award goes to utilities that examine their treatment plants and create plans to improve them. Only three other water utilities have received the award for a decade. Dillard Griffin, KAW manager of production operations, accepted the award on behalf of KAW at the annual AWWA conference in Atlanta June 10. A recognition breakfast is scheduled for July 15 to convey awards to individual plant operators to acknowledge their role.

### Employee Development/Training

Change management training is planned for members of the field operations group in July as individuals assume new organization roles. In addition, several management employees will attend a management seminar for people who supervise and manage others on August 20-21, 2008.

Approximately 35 employees attended the insider trading training session that was offered on June 13, 2008. Tom Wyatt joined the meeting by phone, to provide an overview of information presented at a recent AW presidents meeting.

### Main Breaks/Leaks

There were 7 main breaks in June 2008 compared to 23 in June 2007. The drought conditions of 2007 and increased construction levels contributed to the larger number of breaks in the prior year. In June 2008, three of seven main breaks were caused by contractor damage.



**Kentucky American Water  
Operations Review June 2008**

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**Field Service**

Met appointment performance is 97% through June.

KAW hosted the Eastern Division's "Train the Trainer" session for field service representatives June 23-25 in Lexington. Representatives from Kentucky American, West Virginia, Tennessee, Virginia and Pennsylvania attended this training to ensure SOX compliance, share best practices and identify weak or gray areas in field service processes. One of the outcomes expected from the training session is improved levels of customer satisfaction.

**Kentucky American Water  
Board Report – July 2008**

**Financial Performance**

**Year-to-Date Results – Actual to Budget:**

Operating income was \$1.328 million 19.73% over budget for the six months ending June 2008. Revenues were \$0.339 million over budget 1.24%.

OPEX – variances were \$0.989 million favorable.

1. Production costs were on budget. Fuel and power was \$0.252 million unfavorable due to higher energy costs offset by lower purchased water costs \$0.242 million favorable in the Northern district.
2. Employee related expenses were \$0.105 million favorable primarily due to higher than plan capital projects offset by a one-time FLSA-related overtime payment.
3. Management fees were \$0.319 million unfavorable due to increased corporate fees of \$0.163 million, regional \$0.079 million and shared business services \$0.076 million.
4. Regulatory expense was favorable to plan \$0.192 million due to reduced rate case expenses and a longer amortization period than planned.
5. Insurance other than group was \$0.154 million favorable mainly due to retro adjustments in the first and second quarters.
6. General taxes were \$0.193 million favorable primarily due to a property tax true-up from 2007 and the first six months of 2008.

Depreciation and amortizations were favorable to plan by \$0.456.

**Forecast (Full Year):**

Operating income is forecasted to be \$0.334 million favorable for the year. Revenues are forecasted to be slightly over plan. Operating expenses are forecasted to be favorable by \$0.288 million. Production costs are forecasted to be unfavorable by \$0.254 million due to increased fuel costs offset by savings in purchased water. Management fees are expected to be unfavorable by \$0.213 million primarily due to Sox and ITS related expenses. Regulatory expense is forecasted to be favorable by \$0.377 million due to the reduced rate case expense and longer amortization period. Depreciation is forecasted to be favorable by \$0.675 million.





Income Statement - Year To Date  
Kentucky-American  
Jun YTD 2008  
(\$ In Thousands)

Report ID: FRP.1.3  
American Water Confidential  
Close Status: Final pending reviews

	YTD Actuals	YTD Plan	Variance Fav / (Unfav)	% Variance	YTD Pr. Yr.	Variance Fav / (Unfav)	% Variance	
<b>OPERATING REVENUES</b>								
Water Revenues	1	26,371	26,313	58	0.22%	23,337	3,033	13.00%
Sewer Revenues	2	152	140	12	8.60%	168	(16)	(9.62)%
Other Operating Revenues	3	1,220	951	269	28.29%	967	253	26.17%
Management Revenues	4	0	0	0		0	0	
<b>Operating Revenues</b>		<b>27,743</b>	<b>27,404</b>	<b>339</b>	<b>1.24%</b>	<b>24,473</b>	<b>3,270</b>	<b>13.36%</b>
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>								
<b>PRODUCTION EXPENSES</b>								
Purchased Water	5	54	296	242	81.80%	207	153	73.97%
Fuel and Power	6	1,406	1,154	(252)	(21.87)%	1,260	(146)	(11.61)%
Chemicals	7	738	754	16	2.07%	746	8	1.01%
Waste Disposal	8	139	142	3	1.85%	161	22	13.53%
<b>Total production costs</b>		<b>2,337</b>	<b>2,345</b>	<b>8</b>	<b>0.32%</b>	<b>2,373</b>	<b>36</b>	<b>1.51%</b>
<b>O&amp;M LABOR &amp; OVERHEAD</b>								
Labor	9	3,222	3,297	75	2.27%	2,919	(303)	(10.39)%
Pensions	10	344	259	(85)	(32.64)%	307	(37)	(12.14)%
Group insurances	11	859	991	131	13.27%	856	(4)	(0.42)%
Other benefits	12	132	116	(16)	(13.91)%	118	(14)	(12.25)%
<b>Total employee related</b>		<b>4,557</b>	<b>4,663</b>	<b>106</b>	<b>2.26%</b>	<b>4,199</b>	<b>(358)</b>	<b>(8.54)%</b>
<b>Management fees</b>	13	2,090	1,847	(243)	(13.14)%	3,737	1,647	44.08%
Shared business services	14	2,000	1,924	(76)	(3.85)%	0	(2,000)	
Contracted services	15	373	439	65	14.92%	372	(1)	(0.30)%
<b>Total contracted services</b>		<b>2,374</b>	<b>2,363</b>	<b>(10)</b>	<b>(0.44)%</b>	<b>372</b>	<b>(2,001)</b>	<b>(537.53)%</b>
Regulatory expense	16	140	332	192	57.86%	181	40	22.40%
Insurance Other Than Group	17	209	363	154	42.36%	255	46	18.10%
Customer Accounting	18	700	772	72	9.32%	834	134	16.10%
Rents	19	18	16	(2)	(10.73)%	16	(2)	(12.37)%
General office expense	20	275	276	1	0.36%	192	(83)	(43.00)%
Miscellaneous	21	915	992	76	7.70%	572	(343)	(60.00)%
Maintenance	22	1,233	1,219	(13)	(1.10)%	1,015	(218)	(21.48)%
<b>Total operations and maintenance expense</b>		<b>14,848</b>	<b>15,188</b>	<b>340</b>	<b>2.24%</b>	<b>13,746</b>	<b>(1,102)</b>	<b>(8.02)%</b>
Depreciation	23	3,044	3,550	506	14.26%	3,398	354	10.42%
Amortization	24	255	205	(50)	(24.24)%	233	(22)	(9.36)%
<b>Depreciation and amortization</b>		<b>3,299</b>	<b>3,755</b>	<b>456</b>	<b>12.15%</b>	<b>3,631</b>	<b>332</b>	<b>9.15%</b>
General taxes	25	1,535	1,727	193	11.17%	1,445	(89)	(6.16)%
Impairment charges	27	0	0	0		0	0	
<b>Total operating expenses, net</b>		<b>19,681</b>	<b>20,571</b>	<b>989</b>	<b>4.79%</b>	<b>18,823</b>	<b>(859)</b>	<b>(4.56)%</b>
<b>Operating Income</b>		<b>8,062</b>	<b>6,733</b>	<b>1,328</b>	<b>19.73%</b>	<b>5,650</b>	<b>2,412</b>	<b>42.69%</b>
<b>OTHER INCOME &amp; DEDUCTIONS</b>								
Interest Income	28	(6)	0	6		(127)	(121)	(95.40)%
Interest on long-term debt	29	2,874	2,978	104	3.48%	2,438	(436)	(17.87)%
Interest on Short-Term Bank Debt	30	380	326	(55)	(16.75)%	551	171	30.99%
Other Interest Expense	31	0	0	0		(38)	(38)	(100.00)%
<b>Total Interest expense</b>		<b>3,248</b>	<b>3,303</b>	<b>55</b>	<b>1.67%</b>	<b>2,824</b>	<b>(424)</b>	<b>(15.03)%</b>
AFUDC - Equity	32	651	411	240	58.44%	318	333	104.49%
AFUDC Debt	33	271	187	84	45.16%	145	(126)	(87.37)%
Amortization of Debt Expense	34	44	36	(9)	(24.24)%	36	(8)	(21.99)%
Preferred dividends of subsidiaries (Consolidation only)	35	0	0	0		(39)	39	100.00%
Gain on sale of assets	26	0	0	0		0	0	
Non-Operating Rental Income	36	0	0	0		0	0	
Dividend Income - Common	37	0	0	0		0	0	
Dividend Income - Preferred	38	0	0	0		0	0	
Miscellaneous Income	39	50	0	50		189	(139)	(73.67)%
<b>Total other Income</b>		<b>50</b>	<b>0</b>	<b>50</b>		<b>189</b>	<b>(139)</b>	<b>(73.67)%</b>
Miscellaneous Amortization	40	0	0	1	155.28%	0	0	0.00%
Miscellaneous Other Deductions	41	177	260	83	31.91%	229	52	22.69%
<b>Total Other Deductions</b>		<b>177</b>	<b>260</b>	<b>84</b>	<b>32.09%</b>	<b>229</b>	<b>52</b>	<b>22.69%</b>
<b>Other, net</b>		<b>(127)</b>	<b>(260)</b>	<b>133</b>	<b>51.24%</b>	<b>(39)</b>	<b>(88)</b>	<b>(96.35)%</b>
<b>Total other income (deductions)</b>		<b>(2,498)</b>	<b>(3,002)</b>	<b>504</b>	<b>16.79%</b>	<b>(2,476)</b>	<b>(22)</b>	<b>(0.88)%</b>
<b>Income (loss) before income taxes</b>		<b>5,564</b>	<b>3,731</b>	<b>1,832</b>	<b>49.11%</b>	<b>3,174</b>	<b>2,390</b>	<b>75.31%</b>
State Income Taxes	42	376	210	(166)	(78.85)%	186	(190)	(101.79)%
Federal Income Taxes	43	2,052	1,270	(782)	(61.53)%	1,098	(954)	(86.88)%
Tax Saving Acquisition Adjustment		0	0	0		0	0	
State income taxes (non-operating)	46	(5)	(21)	(16)	(74.97)%	3	8	299.84%
Federal income taxes (non-operating)	47	(31)	(83)	(52)	(52.61)%	24	55	229.91%
<b>Provision (Benefit) for Income Taxes</b>		<b>2,391</b>	<b>1,376</b>	<b>(1,016)</b>	<b>(73.84)%</b>	<b>1,311</b>	<b>(1,080)</b>	<b>(82.40)%</b>
<b>Net income (loss)</b>		<b>3,172</b>	<b>2,356</b>	<b>817</b>	<b>34.67%</b>	<b>1,862</b>	<b>1,310</b>	<b>70.32%</b>
Preferred Dividend Declared	48	39	230	(191)	(82.92)%	0	39	
<b>Net Income To Common Stock</b>		<b>3,133</b>	<b>2,126</b>	<b>1,007</b>	<b>47.39%</b>	<b>1,862</b>	<b>1,270</b>	<b>68.21%</b>



Balance Sheet  
Kentucky-American  
Jun YTD 2008  
(\$ In Thousands)

Report ID: FRP.3.0  
American Water Confidential  
Close Status: Final pending reviews

	Actuals	Plan	Incr (Decr)	% Variance	Prior Yr. Dec	Incr (Decr)	% Variance
<b>Assets</b>							
Utility Plant	1	356,869	368,437	(11,568)	345,341	11,527	3.3%
Construction Work in Progress	2	22,093	21,987	106	21,310	783	3.7%
Accumulated Depreciation	3	(83,632)	(88,217)	4,585	(80,435)	(3,197)	(4.0)%
Utility Plant Acquisition Adjustments	4	316	323	(7)	327	(11)	(3.2)%
Other Utility Plant Adjustments	5	0	0	0	0	0	
<b>Total Utility Plant</b>		<b>295,646</b>	<b>302,530</b>	<b>(6,884)</b>	<b>286,543</b>	<b>9,103</b>	<b>3.2%</b>
<b>Total Non-Utility Plant, Net</b>	6	<b>270</b>	<b>250</b>	<b>20</b>	<b>250</b>	<b>20</b>	<b>8.2%</b>
<b>Total property, plant and equipment</b>		<b>295,916</b>	<b>302,780</b>	<b>(6,864)</b>	<b>286,793</b>	<b>9,123</b>	<b>3.2%</b>
Cash and Cash Equivalents	7	408	286	121	398	9	2.3%
Restricted funds	8	0	0	0	0	0	
Utility customer accounts receivable	9	2,608	2,150	458	1,928	680	35.3%
Allowance for uncollectible accounts	10	(247)	(286)	39	(223)	(24)	(10.6)%
Accrued utility revenues	11	2,873	2,960	(87)	2,562	311	12.1%
Other receivables, net	12	424	408	16	196	228	116.2%
Taxes receivable, including federal income	13	0	(2,670)	2,670	388	(388)	(100.0)%
Materials and supplies	14	638	584	55	635	4	0.6%
Receivable from affiliated companies	15	0	0	0	0	0	
Other Current Assets	16	174	193	(19)	81	94	116.0%
<b>Current Assets</b>		<b>6,879</b>	<b>3,626</b>	<b>3,253</b>	<b>5,965</b>	<b>914</b>	<b>15.3%</b>
Regulatory assets - income tax recovery	17	6,448	6,171	278	6,385	63	1.0%
Debt and preferred stock expense	18	806	706	99	846	(40)	(4.8)%
Deferred pension expense	19	0	0	0	0	0	
Deferred postretirement benefit expense	20	0	0	0	0	0	
Deferred security costs	21	0	0	0	0	0	
Deferred business services project expenses	22	0	0	0	0	0	
Deferred integration costs	23	0	0	0	0	0	
Deferred tank painting costs	24	1,733	1,614	119	1,859	(126)	(6.8)%
Deferred rate case	25	360	335	24	486	(126)	(26.0)%
Asset premium recoverable thru rates	26	0	0	0	0	0	
Environmental remediation recoverable thru rates	27	0	0	0	0	0	
Other Regulatory Assets	28	3,027	3,439	(411)	3,181	(154)	(4.8)%
<b>Regulatory assets</b>		<b>12,374</b>	<b>12,265</b>	<b>109</b>	<b>12,758</b>	<b>(384)</b>	<b>(3.0)%</b>
Other investments	29	0	0	0	0	0	
Long term receivable from affiliate	30	0	0	0	0	0	
Funds restricted for construction	31	0	0	0	0	0	
Goodwill	32	0	0	0	0	0	
Intangible assets	33	0	0	0	0	0	
Other Long Term Assets	34	853	437	416	488	365	74.9%
<b>Total Regulatory &amp; Other L/T Assets</b>		<b>13,227</b>	<b>12,702</b>	<b>525</b>	<b>13,245</b>	<b>(19)</b>	<b>(0.1)%</b>
<b>Total Assets</b>		<b>316,022</b>	<b>319,107</b>	<b>(3,086)</b>	<b>306,003</b>	<b>10,019</b>	<b>3.3%</b>
<b>Capital &amp; Liabilities</b>							
Common Stock	35	36,569	36,569	0	36,569	0	0.0%
Paid in Capital	36	24,099	24,056	43	8,056	16,043	199.1%
Retained Earnings	37	31,069	29,877	1,192	29,990	1,080	3.6%
Accumulated other comprehensive income	38	0	0	0	0	0	
Unearned compensation	39	0	0	0	0	0	
Treasury stock	40	0	0	0	0	0	
<b>Common stockholder's equity</b>		<b>91,738</b>	<b>90,502</b>	<b>1,235</b>	<b>74,615</b>	<b>17,123</b>	<b>22.9%</b>
Preferred Stock without mandatory redemption requirements	41	1,458	1,467	(9)	1,467	(9)	(0.6)%
Long term debt	42	76,700	76,700	0	79,800	(3,100)	(3.9)%
Redeemable preferred stock at redemption value	43	4,500	4,500	0	4,500	0	0.0%
<b>Total Capitalization</b>		<b>174,396</b>	<b>173,169</b>	<b>1,227</b>	<b>160,382</b>	<b>14,014</b>	<b>8.7%</b>
Short Term Debt	44	14,542	14,537	5	19,356	(4,814)	(24.9)%
Current Portion of Long-term Debt	45	3,100	3,100	0	3,100	0	0.0%
Current portion of redeemable stock at redemption value	46	0	0	0	0	0	
Accounts Payable	47	4,574	6,949	(2,374)	6,507	(1,933)	(29.7)%
Taxes Accrued	48	3,476	3,931	(455)	5,228	(1,751)	(33.5)%
Interest Accrued	49	1,150	886	263	1,143	6	0.6%
Total Other Current Liabilities	50	2,497	6,279	(3,782)	2,027	470	23.2%
<b>Total Current Liabilities</b>		<b>29,339</b>	<b>35,682</b>	<b>(6,343)</b>	<b>37,362</b>	<b>(8,022)</b>	<b>(21.5)%</b>
Customer Advances for Construction	51	14,195	18,536	(4,340)	14,653	(458)	(3.1)%
Deferred Income Taxes	52	35,901	36,290	(389)	32,877	3,025	9.2%
Deferred investment tax credits	53	1,175	1,219	(44)	1,218	(42)	(3.5)%
Regulatory liability-cost of removal	54	9,465	8,221	1,244	8,772	693	7.9%
Accrued pension expense	55	1,615	1,877	(263)	2,174	(560)	(25.7)%
Accrued postretirement benefit expense	56	401	193	208	384	17	4.5%
Other Deferred Credits	57	4,153	219	3,934	4,596	(444)	(9.7)%
<b>Regulatory &amp; Other Long Term Liabilities</b>		<b>66,906</b>	<b>66,555</b>	<b>351</b>	<b>64,676</b>	<b>2,231</b>	<b>3.5%</b>
Contributions in aid of construction	58	45,381	43,701	1,679	43,585	1,795	4.1%
<b>Total capital and liabilities</b>		<b>316,022</b>	<b>319,107</b>	<b>(3,086)</b>	<b>306,003</b>	<b>10,019</b>	<b>3.3%</b>



**KENTUCKY**  
**AMERICAN WATER**

**Operations Review**  
**September 2008**



Kentucky American Water  
Operations Review September 2008

## Operational Issues Review

### 1. Source of Supply and New Water Treatment Plant

Kentucky American Water had been subject to water withdrawal restrictions due to low flows in the Kentucky River for portions of September and early October. The lower river flow also prompted KAW to begin sampling and reporting river water quality results to KY Division of Water. The restriction did not impact service to customers, given the level of customer demand. Although precipitation for the month of September was less than average (1.42" vs. 3.11"), with central Kentucky now in a moderate drought, water releases from upstream impoundments have increased river flows above the threshold which triggers restrictions.

#### Water Treatment Plant

Excavation and site work on the water treatment plant and booster station continued in July, following the June groundbreaking. Construction is progressing as scheduled, with slabs and walls formed for various sections of the Water Treatment Plant and Intake station. The first change order was processed for \$477,902 to include changes at the intake station as required by building code, installation of the third raw water screen and piping for reliability and additional blasting work adjacent to the treatment building. The road to the intake station was cleared and graded, and grading work was completed at the intake site.

Approximately 11,706 feet of pipe was installed in September, raising the total length installed to 21,834. Fifty percent of easements have been acquired, with another 35 percent in active negotiations. Meetings were held on September 19th and 26th with Franklin County Emergency Services to coordinate road closures for pipeline installation in the right-of-way. The contractor has made adjustments to allow traffic flow to continue around trenching equipment following the Transportation Cabinet's recent refusal to permit road closure on Indian Gap Road. Work is continuing on Iron Works Pike between Newtown Pike and I-75.

KAW held a public meeting August 25 with property owners to discuss corridor enhancement opportunities and concerns as part of an effort to develop stakeholder input. The meeting provided some additional insight although most attendees continued to express strong opposition to the project in general. KAW also met with a non-profit organization that is focused on the preservation of dry stone fences, many of which are along the corridor.

Excavation work is continuing on the booster station site, with materials ordered for pipe connections. The tank subcontractor is expected to begin in October. This portion of the project is also on schedule.

Overall, the project is on schedule with the project approximately 18% complete. A procedural schedule has not been set in the Franklin Circuit Court for the appeal by Citizens for Alternative Water Supply of Kentucky American Water's Certificate of Convenience and Necessity approved by the Kentucky Public Service Commission. On



**Kentucky American Water  
Operations Review September 2008**

September 19, four property owners in Franklin County filed a Petition for a Declaration of Rights by the Franklin Circuit Court, challenging Kentucky American Water's ability to condemn property for easements in Franklin County if necessary. KAW will file its response on October 13. Some property owners have indicated they are not willing to negotiate while this issue is pending in the court.

**2. Operational Costs: Energy, Chemicals, Residuals**

	September Actual	September Plan	Variance	September YTD	September YTD Plan	Variance
Purchased Water	11	55	(45)	87	460	(373)
Fuel and Power	339	302	37	2,429	2,053	376
Chemicals	234	169	65	1,264	1,261	3
Waste Disposal	17	28	(11)	206	224	(18)
<b>Total Production</b>	<b>600</b>	<b>554</b>	<b>46</b>	<b>3,986</b>	<b>3,998</b>	<b>(11)</b>

Fuel and power is over plan for the month primarily attributable to increased energy costs. Production costs remain below plan YTD, attributable to lower purchased water which offset higher than plan fuel and power. The chemical overage is due to the need to enhance coagulation at KRS to meet regulatory requirements and the need to feed excess carbon at KRS and RRS. System delivery ended September 191 million gallons below plan and 459 million gallons under plan for the quarter.

**3. Rate Case/Orders: Timing, Value, Issues**

Schedules and filing information are being assembled in preparation of a fall rate filing.

**4. Commission Activity: Customer Complaints, Compliance**

Year	YTD Collections	YTD Billing	Pipeline	YTD Total
2008	26	39	1	66
2007	33	32	0	65

**5. Divestitures**

No additional activity to report.



**Kentucky American Water  
Operations Review September 2008**

**6. Major Operational Projects**

The Carrick Pike main extension project will replace smaller diameter mains with approximately 28,000 feet of 16-inch main. This project will enhance operation of the Russell Cave Road tank while assisting the supply to Toyota during peak demand periods. The main will also enable Muddy Ford tank to be taken out of service for maintenance more readily. Bids for construction were received on September 17. Easement acquisition is progressing with construction expected to begin in late fall 2008.

The North Broadway Main Replacement Project will substantially increase fire flows for the downtown area of Lexington. The project will also replace approximately 5,400 feet of 6-inch main which dates back to the late 1800's and early 1900's. The first phase of the project, which is about to commence will be the replacement of approximately 1,100 feet of small mains on Granard Avenue and Morrison Avenue. This will connect to the mains on North Broadway. The remainder of the project on North Broadway will begin in early Spring 2009.

Construction for approximately 4,700 feet of 8-inch DI main on Yarnallton Road from Kearney Road to the North Yarnallton blow-off is nearing completion and is scheduled to be in service by mid-October 2008. This project will increase reliability in the area by looping together a back feed from Georgetown Road to the Leestown Road corridor by boring under Interstate 64 to tie in mains currently separated by the Interstate.

12-KY Gross	Original	Q1RF	Q2RF	Q3RF
Full Year Budget	\$55,679,329	\$48,442,182	\$48,442,182	\$52,800,082
To Date Budget	\$33,361,629	\$25,076,006	\$25,691,230	\$33,601,543
To Date Actual	\$34,502,198	\$34,502,198	\$34,502,198	\$34,502,198
To Date Variance	\$1,140,569	\$9,426,192	\$8,810,968	\$900,655

Actual spend is ahead of plan, primarily attributable \$1.627 work on the Water Treatment Plant project.

**7. Operational Regulatory Compliance: Status**

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
<b>Regulatory Maintenance:</b>					
Meter Changes (1)	20,330	14,292	0	G	↑



**Kentucky American Water  
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<b>Other Program Maintenance:</b>					
Valve Operation (<16" ) PUC (2)	3345	3921	576	Y	→
Valve Operation (>16" ) PUC	209	329	120	Y	↓
Tank Painting (#/\$000's) (3)	1 of 1 YTD \$72K	1 of 1 FY \$281K	0		
Hydrant Inspections (4)	4775	5700	925	Y	↑

(1) Meter Changes – To date, 20,330 meters have been replaced. These represent both routine periodic change-outs, and those change-outs arising from the former meter life pilot program.

(2) Valve operations remain behind plan, attributable in part to redirection of personnel to other activities including NRW and leak repair. An assessment is underway to determine whether, and how, the year end target can be attained.

(3) The fairgrounds tank painting project in Owenton has been cancelled until such time as water supply issues (with tank out of service) are adequately mitigated.

(4) Fire Hydrant Inspection Information – Fire hydrant inspections continued in September. Inspections continue to lag plan, attributable to the program beginning one month later than expected. Inspections are expected to meet year-end target, though are likely to extend beyond the October planned completion time frame.

**8. Regulatory Compliance - Other**

The Kentucky Public Service Commission conducted inspections of the Rockwell Village and Owenton wastewater treatment facilities, including lift stations in August. The PSC also inspected the Northern Division water system, including the Owenton water treatment plant. PSC staff found no deficiencies and were generally complimentary of operations.

Also in August, the Kentucky Division of Water conducted an unannounced inspection of our Northern Division waste water treatment plant. During this inspection, they reviewed data, observed all sampling and analyses, and collected split samples. No deviations were noted. The DOW also performed an inspection of the Central Division bacteriological laboratory, which passed certification.

Kentucky American has retained Gannett Fleming, Inc. to assist in developing a leak mitigation plan and Strand Associates, Inc. to assist in development of a water conservation/demand management plan. This satisfies Condition No. 8 of the Commission's April 25, 2008 Order requiring KAW to retain a qualified consultant to



**Kentucky American Water  
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review these plans consistent with the best practices in the water industry. The first report providing initial status to the PSC is due November 1.

On September 23, KAW hosted a tour of its facilities for PSC Commissioners and staff, and representatives from the Attorney General's office. KAW provided technical demonstrations of certain operational practices, as well as information regarding the Company and key personnel. The event provided a close-up view of water company operations for newer commissioners and staff, and an opportunity for newer KAW team members to interact with the PSC staff. PSC Executive Director Stephanie Stumbo personally sent a letter to thank the KAW team for its efforts and hospitality.

**9. Union/Labor Issues/Activities**

The mediation on the confined space issue was held on September 29, 2008. The Company and the Union agreed on a resolution to the grievance.

**10. Explanation of NOVs, OSHA violations, etc.**

There were no notices of violation reported in September.

There were 3 occupational injuries and 4 chargeable vehicular accidents reported during the quarter. One of the occupational injuries reported was denied by the company but is currently under investigation by Travelers Insurance. The other two occupational injuries were non-recordable. YTD KAW results remain on track to meet the year-end target.

	September	2008 YTD	2008 Year End Target	2007 YTD	2007 Year End
Injury Frequency Rate	0.00	2.83	5.76	4.93	6.06

**11. Revenue Generating Projects/Opportunities**

KAW expects to present a request to the regional Commercial Development Committee for development approval on two local projects during October. The City of North Middletown has approximately 375 water and 250 sewer customers and purchases water from KAW. South Shore Water Company (investor owned), located in Greenup County, provides water to 2,282 customers including the City of South Shore.

Business development activities are on-going with Elkhorn City in Pike County and Jackson Municipal in Breathitt County. Elkhorn City has 550 water and 500 sewer customers. Jackson Municipal has 2,189 water and 1,197 sewer customers.

New contacts for the month of September 2008 include Center Ridge Water District in Calloway County (Western KY) serving 350 residential customers and Cedarbrook, a privately owned waste water treatment facility in Harrison County.





**Kentucky American Water  
Operations Review September 2008**

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A follow-up meeting with the Mayor of Midway and his water/sewer staff continued to build consensus with the Mayor. Midway currently purchases water from KAW and operates their own waste water treatment plant.

**12. O&M Contracts – Significant Operational/Financial Variances**

**Year-to-Date Contracts**

No activity to report this period.

**13. Other Operational Issues**

Kentucky American Water was one of just seven companies, out of 70 nominees, who received 2008 Republic Bank We CARE awards at the annual We CARE dinner held recently. The company was nominated in the Public Works, Services and Education category for the award, which recognizes companies who contribute to the community through corporate giving programs and employee volunteerism. WLEX-TV (NBC) was a media sponsor of the event, and will be showcasing winners in its news segments the next few weeks.

The Kentucky Division of Water (DOW) recently approved an internal general permitting process for Kentucky American Water. Company personnel can now internally review and approve main extension projects for 3 to 12 inch mains, and up to 10,000 feet in length. Previously every project was submitted to the DOW for this review, along with a permit fee for each project. Projects were not started until the DOW-approved permit was received. KAW began the extensive application process in 2005, actively participating in the process which established baseline standards for all utilities hoping to qualify for in-house review. Continued follow-up inquiries after the initial 2006 application eventually resulted in the recently executed order. The new process is expected to reduce overall operating costs; however, the greater benefit is that KAW expects to have faster turnaround time for projects which no longer have to wait in the DOW queue for permit approval. The majority of KAW projects are expected to fall into this self-approval category, with only the larger replacement/extension projects still requiring DOW approval.

There were two boil water advisories posted in September, one resulting from a 3<sup>rd</sup> party hit to a water main, the other attributable to a main break.

**Non-Revenue Water**

Field Operations and Production staff worked together to assess non-revenue water used in blow offs for water quality purposes. There are currently 10 blowoffs running in the outer lying areas of Scott and Clark counties which are necessary to address issues related to low demand from the small number of customers served. Changes made to blow off flow rates have reduced non-revenue water.



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Operations Review September 2008**

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Newer versions of permalog leak monitoring equipment are replacing all 895 units that have been in use throughout the system. A representative of Fluid Conservation Systems is doing the work to address equipment performance issues. Approximately 300 were replaced in September, with the remainder scheduled for replacement in October.

**Kentucky American Water  
Board Report – September 2008**

**Financial Performance**

**Year-to-Date Results – Actual to Budget:**

Operating income was \$2.133 million 16.43% over budget for the nine months ending September 2008. Revenues were \$0.799 million over budget 1.80%.

Operations and Maintenance Expenses were \$0.250 million favorable.

1. Production costs were virtually on budget. Fuel and power was \$0.376 million unfavorable due to higher energy costs offset by lower purchased water costs \$0.373 million favorable in the Northern district and termination of intercompany purchases.
2. Employee related expenses were \$0.175 million favorable primarily due to higher than plan capital projects offset by a one-time FLSA-related overtime payment.
3. Management fees were \$0.342 million unfavorable due to increased corporate fees of \$0.241 million, regional \$0.101 million. Shared business services were \$0.084 million unfavorable related primarily to ITS costs.
4. Regulatory expense was favorable to plan \$0.290 million due to reduced rate case expenses and a longer amortization period than reflected in the Plan.
5. Insurance other than group was \$0.211 million favorable mainly due to retro adjustments in the first, second and third quarters.
6. General taxes were \$0.268 million favorable primarily due to property tax true-up associated with the 2007 return and the first nine months of 2008.

Depreciation and amortizations were favorable to plan by \$0.817.

**Forecast (Full Year):**

Operating income is forecasted to be \$1.091 million favorable for the year. Revenues are forecasted to be slightly over plan. Total Operating Expenses are forecasted to be favorable by \$1.020 million. Production costs are forecasted to be unfavorable by \$0.119 million due to increased fuel costs offset by savings in purchased water. Management fees are expected to be unfavorable by \$0.353 million primarily due to SOX related expenses. Shared Business Services are forecast to be over Plan by \$0.108 million primarily due to ITS related costs. Regulatory expense is forecasted to be favorable by \$0.381 million due to the reduced rate case expense and longer amortization period. Depreciation is forecasted to be favorable by \$0.917 million.



P&L Comparison  
(\$ In Thousands)

		FY Q3RF	Plan	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>					
Water Revenues	1	56,937	57,380	(423)	-1%
Sewer Revenues	2	294	278	16	6%
Other Operating Revenues	3	2,379	1,902	477	25%
Management Revenues	4	0	0	0	
<b>Operating Revenues</b>		<b>59,610</b>	<b>59,540</b>	<b>70</b>	<b>0%</b>
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>					
<b>PRODUCTION EXPENSES</b>					
Purchased Water	5	162	604	442	73%
Fuel and Power	6	3,269	2,794	(475)	-17%
Chemicals	7	1,732	1,637	(95)	-6%
Waste Disposal	8	287	295	8	3%
<b>Total production costs</b>		<b>5,449</b>	<b>5,330</b>	<b>(119)</b>	<b>-2%</b>
<b>O&amp;M LABOR &amp; OVERHEAD</b>					
Labor	9	6,535	6,735	200	3%
Pensions	10	617	518	(99)	-19%
Group insurances	11	1,792	1,984	192	10%
Other benefits	12	257	233	(24)	-10%
<b>Total employee related</b>		<b>9,202</b>	<b>9,470</b>	<b>268</b>	<b>3%</b>
Management fees	13	3,841	3,488	(353)	-10%
Shared business services	14	3,989	3,881	(108)	-3%
Contracted services	15	856	829	(27)	-3%
<b>Total contracted services</b>		<b>4,845</b>	<b>4,710</b>	<b>(135)</b>	<b>-3%</b>
Regulatory expense	16	226	607	381	63%
Insurance Other Than Group	17	502	726	224	31%
Customer Accounting	18	1,464	1,586	122	8%
Rents	19	35	32	(3)	-9%
General office expense	20	584	464	(120)	-26%
Miscellaneous	21	1,846	1,870	24	1%
Maintenance	22	2,671	2,330	(341)	-15%
<b>Total operations and maintenance expense</b>		<b>30,663</b>	<b>30,614</b>	<b>(49)</b>	<b>0%</b>
Depreciation	23	6,256	7,173	917	13%
Amortization	24	509	411	(98)	-24%
<b>Depreciation and amortization</b>		<b>6,765</b>	<b>7,584</b>	<b>819</b>	<b>11%</b>
General taxes	25	3,219	3,469	250	7%
Impairment charges	27	0	0	0	
<b>Total operating expenses, net</b>		<b>40,647</b>	<b>41,667</b>	<b>1,020</b>	<b>2%</b>
<b>Operating Income</b>		<b>18,964</b>	<b>17,873</b>	<b>1,091</b>	<b>6%</b>
<b>OTHER INCOME &amp; DEDUCTIONS</b>					
Interest Income	28	(6)	0	6	100%
Interest on long-term debt	29	5,697	5,903	206	3%
Interest on Short-Term Bank Debt	30	797	1,044	247	24%
Other Interest Expense	31	0	0	0	
<b>Total interest expense</b>		<b>6,488</b>	<b>6,947</b>	<b>459</b>	<b>7%</b>
AFUDC - Equity	32	1,673	1,507	166	11%
AFUDC Debt	33	737	684	53	8%
Amortization of Debt Expense	34	83	71	(12)	-17%
Preferred dividends of subsidiaries (Consolidation only)	35	0	0	0	
Gain on sale of assets	26	0	0	0	
Non-Operating Rental Income	36	0	0	0	
Dividend Income - Common	37	0	0	0	
Dividend Income - Preferred	38	0	0	0	
Miscellaneous Income	39	51	0	51	100%
<b>Total other income</b>		<b>51</b>	<b>0</b>	<b>51</b>	<b>100%</b>
Miscellaneous Amortization	40	0	1	0	11000%
Miscellaneous Other Deductions	41	281	363	82	23%
<b>Total Other Deductions</b>		<b>281</b>	<b>363</b>	<b>82</b>	<b>23%</b>
Other, net,		(230)	(363)	133	37%
<b>Total other income (deductions)</b>		<b>(4,390)</b>	<b>(5,190)</b>	<b>800</b>	<b>15%</b>
<b>Income (loss) before income taxes</b>		<b>14,574</b>	<b>12,683</b>	<b>1,891</b>	<b>15%</b>
State Income Taxes	42	852	641	(211)	-33%
Federal Income Taxes	43	4,863	4,251	(612)	-14%
Tax Saving Acquisition Adjustment	44	0	0	0	
State income taxes (non-operating)	46	(12)	(27)	(15)	56%
Federal income taxes (non-operating)	47	48	(107)	(155)	145%
<b>Provision for income taxes</b>		<b>5,751</b>	<b>4,758</b>	<b>(993)</b>	<b>-21%</b>
<b>Net income (loss)</b>		<b>8,822</b>	<b>7,925</b>	<b>897</b>	<b>11%</b>

Income Statement - Year To Date  
Kentucky with Growth  
Sep. YTD 2008  
(\$ in Thousands)



	YTD Actuals	YTD Reforecast	Variance Favorable	% Variance	YTD Plan	Variance Favorable	% Variance	YTD Pr. Yr.	Variance Favorable	% Variance
<b>OPERATING REVENUES</b>										
Water Revenues	43,044	42,587	457	1.14%	42,729	316	0.74%	37,540	5,604	14.65%
Sewer Revenues	231	228	3	1.3%	212	119	55.2%	263	16.14%	
Other Operating Revenues	1,897	1,845	52	2.79%	1,442	453	31.4%	0		
Nonrecurring Revenues	0	0	0	0%	0	0	0%	0	0%	
Operating Revenues	45,168	44,336	832	1.86%	44,367	799	1.80%	39,424	5,742	14.55%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
Purchased Water	87	105	17	16.55%	480	373	89.96%	69	1.31%	
Fuel and Power	2,429	2,470	41	1.7%	2,428	1	0.04%	2,087	332	15.20%
Chemicals	1,978	1,945	33	1.7%	1,921	57	2.9%	1,628	313	15.5%
Water Treatment	206	217	11	5.3%	224	18	8.02%	211	5	2.57%
Total production costs	3,686	3,737	51	1.4%	3,598	12	0.33%	3,522	64	1.8%
<b>O&amp;M LABOR &amp; OVERHEAD</b>										
Labor	4,891	4,834	57	1.17%	4,988	107	2.14%	4,394	494	11.31%
Pensions	1,978	1,988	10	0.5%	1,977	11	0.56%	1,977	1	0.05%
Group Insurance	1,245	1,245	0	0%	1,245	0	0%	1,245	0	0%
Other Benefits	209	202	7	3.3%	177	32	17.84%	168	9	5.36%
Total employee related	8,374	8,317	57	0.68%	7,650	175	2.29%	6,346	2,028	24.4%
Management fees	3,010	2,857	153	5.1%	2,669	184	6.9%	2,602	68	2.6%
Shared business services	2,989	3,013	24	0.8%	2,995	194	6.5%	2,989	0	0%
Contracted services	672	672	0	0%	647	25	3.8%	573	74	12.8%
Total contracted services	3,661	3,673	12	0.3%	3,552	109	3.07%	3,133	538	17.2%
Regulatory expense	180	182	2	1.1%	470	290	61.62%	271	90	33.40%
Insurance Other Than Group	333	339	6	1.8%	544	211	38.77%	413	80	19.37%
Customer Accounting	1,074	1,000	74	6.9%	1,187	113	9.51%	1,097	22	2.08%
Rents	23	26	3	12.9%	24	2	8.3%	23	1	4.3%
General office expense	470	470	0	0%	470	0	0%	470	0	0%
Miscellaneous	1,320	1,346	26	1.9%	1,455	111	7.6%	1,482	27	1.8%
Maintenance	1,912	1,890	22	1.1%	1,733	159	9.2%	1,444	289	20.0%
Total operations and maintenance expense	22,861	22,732	129	0.6%	23,130	250	1.08%	20,762	2,118	10.2%
Depreciation	4,454	4,516	62	1.4%	5,346	893	16.7%	5,153	700	13.5%
Amortization	384	393	9	2.3%	388	4	1.0%	378	6	1.6%
Depreciation and amortization	4,838	4,928	90	1.9%	5,654	817	14.4%	5,532	69	1.2%
General taxes	2,330	2,348	18	0.8%	2,598	268	10.32%	2,194	404	18.4%
Impairment charges	0	0	0	0%	0	0	0%	0	0	0%
Operating expenses, net	30,049	30,008	41	0.1%	31,383	1,334	4.25%	28,487	1,562	5.46%
Operating income	15,117	14,628	489	3.3%	12,984	2,133	16.43%	10,937	4,180	38.22%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
Interest income	(6)	(6)	0	0%	0	6	0%	(12)	6	(50.0%)
Interest on long-term debt	4,285	4,415	130	3.0%	4,440	156	3.5%	3,526	859	24.3%
Interest on Short-term Bank Debt	492	500	8	1.6%	601	105	17.54%	1,154	559	57.0%
Other Interest Expense	0	0	0	0%	0	0	0%	(38)	38	(100.0%)
Total interest expense	4,774	4,783	9	0.2%	5,041	267	5.23%	4,313	468	10.65%
AFUDC - Equity	833	1,023	(185)	(18.0%)	810	28	3.5%	567	272	47.9%
AFUDC Debt	390	444	(54)	(14.4%)	388	12	3.20%	257	122	47.5%
Amortization of Debt Expense	57	66	(9)	(15.7%)	54	(14)	(25.9%)	54	0	0%
Preferred dividends of subsidiaries (Consolidation only)	0	0	0	0%	0	0	0%	(59)	59	(100.0%)
Gain on sale of assets	0	0	0	0%	0	0	0%	0	0	0%
New-Operating Rental Income	0	0	0	0%	0	0	0%	0	0	0%
Dividend Income - Common	0	0	0	0%	0	0	0%	0	0	0%
Dividend Income - Preferred	0	0	0	0%	0	0	0%	0	0	0%
Miscellaneous Income	19	51	(32)	(62.97%)	0	19	0%	168	(149)	(88.82%)
Total other income	19	51	(32)	(62.97%)	0	19	0%	168	(149)	(88.82%)
Miscellaneous Amortization	0	0	0	0%	1	1	100.0%	0	1	100.0%
Miscellaneous Other Deductions	253	235	18	7.1%	303	50	16.80%	255	2	0.8%
Total Other Deductions	(234)	(185)	(349)	(26.01%)	(304)	70	23.06%	(97)	(147)	(88.77%)
Total other income (deductions)	(3,857)	(3,667)	(230)	(8.14%)	(4,220)	363	8.61%	(3,691)	(166)	(4.51%)
Income (loss) before income taxes	11,260	11,061	199	1.8%	8,764	2,496	28.48%	7,246	4,014	55.39%
Sale Income Taxes	709	691	18	2.6%	453	256	56.29%	414	295	71.2%
Federal Income Taxes	4,000	3,791	209	5.2%	2,940	1,060	36.03%	2,440	(1,511)	(61.68%)
Tax Saving Acquisition Adjustment	0	0	0	0%	0	0	0%	0	0	0%
State income taxes (non-operating)	0	0	0	0%	0	0	0%	0	0	0%
State income taxes (operating)	0	0	0	0%	0	0	0%	0	0	0%
Provision for Income Taxes	4,000	3,791	209	5.2%	2,940	1,060	36.03%	2,440	(1,511)	(61.68%)
Preferred Dividend Declared	6,602	6,667	(65)	(1.0%)	5,482	1,120	20.20%	4,335	2,267	52.29%
Net Income (Loss)	5,543	6,609	(1,066)	(19.1%)	5,148	1,386	27.11%	4,335	2,267	52.29%



Balance Sheet  
Kentucky with Growth  
Sep YTD 2008  
(\$ in Thousands)

Assets	Actuals	Reforecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Dec	Increase (Decrease)	% Variance
Utility Plant	1 363,163	350,733	2,431	0.7%	388,173	(26,010)	(6.7)%	345,341	16,822	4.9%
Construction Work in Progress	2 37,899	39,677	(1,778)	(4.5)%	21,987	15,912	72.8%	21,310	16,589	77.8%
Accumulated Depreciation	3 (83,724)	(84,835)	1,110	1.3%	(80,377)	6,653	7.4%	(80,435)	(3,230)	(4.1)%
Utility Plant Accumulation Adjustments	4 310	317	(7)	(2.3)%	318	(8)	(2.5)%	327	(17)	(5.2)%
Other Utility Plant Adjustments	5 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Total Utility Plant	316,648	314,892	1,756	0.6%	320,101	(4,453)	(1.1)%	286,543	30,104	10.5%
Non-utility Property	6 270	270	0	0.0%	250	20	8.2%	250	20	8.2%
Total property, plant and equipment	316,918	315,162	1,756	0.6%	320,350	(4,432)	(1.1)%	286,793	30,125	10.5%
Cash and Cash Equivalents	7 292	264	28	10.7%	287	5	1.8%	388	(106)	(28.7)%
Restricted funds	8 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Utility customer accounts receivable	9 2,907	3,540	(633)	(17.9)%	3,023	122	(4.0)%	1,928	979	50.8%
Allowance for uncollectible accounts	10 (1,760)	(1,811)	51	(2.9)%	(2,060)	31	(1.5)%	(2,231)	(32)	(1.4)%
Accrued utility revenues	11 3,969	3,210	759	19.2%	2,980	100	3.4%	488	488	100.0%
Accounts payable	12 289	310	(20)	(6.5)%	408	(119)	(29.1)%	196	83	47.5%
Taxes receivable, including federal income	13 0	0	0	0.0%	(2,670)	2,670	100.0%	383	(383)	(100.0)%
Materials and supplies	14 575	719	(144)	(20.0)%	594	(9)	(1.5)%	635	(60)	(9.4)%
Receivable from affiliated companies	15 148	218	(69)	(31.8)%	193	0	0.0%	81	68	83.8%
Other Current Assets	16 7,016	8,037	(1,020)	(12.7)%	4,595	2,511	(55.7)%	5,955	1,052	17.6%
Regulatory assets - income tax recovery	17 3,078	6,421	(3,344)	(82.1)%	5,942	(2,894)	(48.2)%	6,385	(3,308)	(51.8)%
Debt and preferred stock expense	18 818	790	28	3.5%	688	129	18.5%	846	(28)	(3.3)%
Deferred pension expense	19 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Deferred postretirement benefit expense	20 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Deferred security costs	21 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Deferred business services project expenses	22 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Deferred integration costs	23 1,673	1,660	13	0.2%	1,545	129	8.3%	1,859	(186)	(10.0)%
Deferred tank painting costs	24 362	324	38	11.7%	138	164	82.5%	486	(124)	(25.5)%
Asset premium recoverable thru rates	25 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Environmental remediation recoverable thru rates	26 2,804	3,023	(219)	(3.9)%	3,309	(405)	(12.3)%	3,161	(27)	(0.7)%
Other Regulatory Assets	27 8,834	12,227	(3,393)	(27.7)%	11,682	(2,847)	(24.4)%	12,758	(3,926)	(30.8)%
Regulatory assets	28 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Other investments	29 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Long term receivable from affiliate	30 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Funds restricted for construction	31 6	6	0	0.0%	6	0	0.0%	6	0	0.0%
Goodwill	32 6	6	0	0.0%	6	0	0.0%	6	0	0.0%
Intangible assets	33 820	1,029	(209)	(19.8)%	437	388	88.6%	488	(337)	(69.2)%
Other Long Term Assets	34 9,666	13,256	(3,590)	(27.1)%	12,119	(2,463)	(20.2)%	13,245	(3,530)	(27.0)%
Total Regulatory & Other LT Assets	333,600	335,455	(1,855)	(0.6)%	338,974	(3,374)	(1.0)%	306,003	27,397	9.0%
Total Assets	333,600	335,455	(1,855)	(0.6)%	338,974	(3,374)	(1.0)%	306,003	27,397	9.0%
Capital & Liabilities	35 36,569	36,569	0	0.0%	36,589	0	0.0%	36,589	0	0.0%
Paid in Capital	36 24,117	24,113	4	0.0%	24,056	61	0.3%	8,056	16,061	199.4%
Retained Earnings	37 33,085	33,288	(203)	(0.6)%	31,781	1,304	4.1%	28,990	3,095	10.3%
Accumulated other comprehensive income	38 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Unearned compensation	39 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Treasury stock	40 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Common stockholder's equity	41 93,771	93,970	(199)	(0.2)%	92,406	1,364	1.5%	74,615	19,156	25.7%
Preferred Stock without mandatory redemption requl	42 1,456	1,456	0	0.0%	1,456	(1)	(0.1)%	1,467	(11)	(0.8)%
Long term debt	43 7,400	7,400	0	0.0%	7,500	100	1.3%	79,800	(81,000)	(3.9)%
Redeemable preferred stock at redemption value	44 176,428	176,625	(197)	(0.1)%	175,073	1,353	0.8%	160,382	16,044	10.0%
Total Capitalization	44 23,835	22,950	885	3.9%	27,022	(3,187)	(11.8)%	19,355	4,479	23.1%
Short Term Debt	45 3,100	3,100	0	0.0%	3,100	0	0.0%	3,100	0	0.0%
Current portion of Long-term Debt	46 0	0	0	0.0%	0	0	0.0%	0	0	0.0%
Current portion of redeemable stock at redemption v	47 9,295	10,196	(900)	(8.9)%	7,150	2,145	30.0%	6,507	2,788	42.8%
Accounts Payable	48 4,905	4,422	483	10.9%	4,461	444	9.9%	5,228	(926)	(17.6)%
Taxes Accrued	49 1,910	1,909	1	0.0%	1,898	12	0.6%	2,072	(67)	(3.2)%
Interest Accrued	50 2,689	2,689	0	0.0%	2,693	(4)	(0.1)%	2,072	627	30.9%
Total Other Current Liabilities	45,699	45,246	453	1.0%	48,040	(3,340)	(6.9)%	37,362	8,338	22.3%
Total Current Liabilities	51 14,298	14,209	89	0.1%	19,601	(5,303)	(27.1)%	14,653	(355)	(2.4)%
Customer Advances for Construction	52 37,324	36,504	820	2.2%	36,770	553	1.5%	32,877	4,446	13.5%
Deferred Income Taxes	53 1,154	1,162	(8)	(0.7)%	1,186	(32)	(2.7)%	1,218	(64)	(5.2)%
Revenue liability - credits	54 9,813	9,822	(9)	(0.1)%	8,221	1,602	19.4%	8,772	1,041	11.9%
Revenue liability - cost of removal	55 1,502	1,487	15	1.0%	1,705	(203)	(11.9)%	2,174	(672)	(30.9)%
Accrued pension expense	56 412	212	200	94.1%	193	219	113.1%	384	28	7.2%
Accrued postretirement benefit expense	57 770	4,096	(3,327)	(81.2)%	551	219	251.3%	4,396	(3,627)	(83.5)%
Other Deferred Credits	58 55,271	67,593	(12,322)	(34.4)%	67,896	(2,624)	(3.9)%	64,675	597	0.9%
Regulatory & Other Long Term Liabilities	58 46,203	46,990	(787)	(1.7)%	44,966	1,227	2.8%	43,585	2,618	6.0%
Contributions in aid of construction	59 333,600	335,455	(1,855)	(0.6)%	338,974	(3,374)	(1.0)%	306,003	27,397	9.0%
Total capital and liabilities	333,600	335,455	(1,855)	(0.6)%	338,974	(3,374)	(1.0)%	306,003	27,397	9.0%



**KENTUCKY**  
AMERICAN WATER

**Operations Review**  
**November 2008**



**Kentucky American Water  
Operations Review November 2008**

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## **Operational Issues Review**

### **1. Source of Supply and New Water Treatment Plant**

There are no current source-of-supply issues. Central Kentucky remained in a moderate drought status through November. Precipitation was less than average at 2.5 vs. 3.4 inches for the month.

#### **Water Treatment Plant**

The water treatment plant foundation work was completed and concrete walls on all of the treatment processes are under construction. The structural caissons at the raw water intake site were completed at the end of November and construction work is beginning on the intake building. Work is on budget and on schedule for completion in May 2010.

Approximately 17,705 feet of pipe was installed in October and November, raising the total pipeline length installed to 41,276. Easement acquisition continues, with 86 of 111 easements signed, or 77%. Fifteen easements are still in negotiations and are potentially acquirable. The remaining 10 have either responded negatively and were not pursued pending negotiations on alignment of adjacent properties. KAW continues to work with the Kentucky Transportation Cabinet on complaints regarding construction within the right-of-way. Additionally, the Transportation Cabinet is now requiring pavement restoration beyond what was originally required in the contractor's bid which may require an increase in the project costs. Work is on budget and on schedule for completion in late 2009.

Excavation work was completed and construction of the walls for the booster pump station and three million gallon storage tank started in October. The concrete slab for the tank foundation was completed in November and the tank contractor has since demobilized for the winter. Work continues on the booster pump station building and grading work on site. Work is on budget and on schedule for completion in fourth quarter 2009.

Overall, the project is approximately 25% complete, and is on budget with a scheduled completion date of May 2010. The Franklin Circuit Court has not issued a procedural schedule in the appeal of the Certificate of Convenience and Necessity. A hearing was held November 10 in Franklin Circuit Court regarding a request by four property owners to determine if Kentucky American Water has the ability to exercise eminent domain in Franklin County for this project. Judge Shepherd requested that parties consider negotiations for an additional 30 days on potential easements.





**Kentucky American Water  
Operations Review November 2008**

**2. Operational Costs: Energy, Chemicals, Residuals**

	November Actual	November Plan	Variance	November YTD	November YTD Plan	Variance
Purchased Water	10	46	(36)	116	555	(439)
Fuel and Power	272	255	17	3,019	2,657	362
Chemicals	133	128	5	1,611	1,522	89
Waste Disposal	26	21	5	255	267	(12)
<b>Total Production</b>	<b>441</b>	<b>450</b>	<b>(9)</b>	<b>5,000</b>	<b>5,000</b>	<b>-</b>

Increased costs for chemicals and fuel and power in 2008 were offset by the positive budget variance in purchased water.

**3. Rate Case/Orders: Timing, Value, Issues**

Kentucky American Water filed a request for a rate increase with the PSC on October 31, 2008. The request was for approximately \$18.5 million, or 31.27%. KAW has answered Staff's initial Data Request. The Attorney General's (AG) office, the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, and the Lexington Fayette Urban County Government (LFUCG) have intervened. In addition an individual customer has moved to intervene, and KAW has filed in opposition to that motion. The PSC issued an Order on November 26 suspending the rates and setting a procedural schedule. The first data request from all parties is due December 18. KAW and the AG have reached an informal agreement for the AG's office to submit earlier. KAW has received the AG's data requests and is attempting to provide responses before the holidays. Hearings are scheduled to begin April 14.

**4. Commission Activity: Customer Complaints, Compliance**

Year	YTD Collections	YTD Billing	YTD Total
2008	33	54	87
2007	37	42	79

**5. Divestitures**

No additional activity to report.

**6. Major Operational Projects**

Easement acquisition is progressing slower than anticipated on the Carrick Pike main extension project, which will replace smaller diameter mains with approximately 28,000 feet of 16-inch main. This project will enhance operation of the Russell Cave Road tank



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while assisting the supply to Toyota during peak demand periods. The main will also enable Muddy Ford tank to be taken out of service for maintenance more readily. Currently, the anticipated start date is 2009 once easement acquisition is substantially complete.

The North Broadway Main Replacement Project will substantially increase fire flows for the downtown area of Lexington. The project will also replace approximately 5,400 feet of 6-inch main which dates back to the late 1800's and early 1900's. The first phase of the project started with construction on Morrison Ave. The contractor will begin installing meter services on Granard Avenue in January and will complete construction in early 2009. The remainder of the project, along North Broadway, is expected to start in March 2009.

12-KY Gross	Original	Q1RF	Q2RF	Q3RF
Full Year Budget	\$55,679,329	\$48,442,182	\$48,442,182	\$52,800,082
To Date Budget	\$49,531,414	\$39,348,731	\$39,613,457	\$45,672,509
To Date Actual	\$51,077,499	\$51,077,499	\$51,077,499	\$51,077,499
To Date Variance	\$1,546,085	\$11,728,768	\$11,464,042	\$5,404,990

Actual spend is ahead of plan, primarily attributable \$7.9 million work on the Water Treatment Plant project.

**7. Operational Regulatory Compliance: Status**

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
<b>Regulatory Maintenance:</b>					
Meter Changes (1)	21,587	17,468	0	G	↑

<b>Other Program Maintenance:</b>					
Valve Operation (<16" ) PUC (2)	3859	4840	981	Y	→
Valve Operation (>16" ) PUC	243	409	166	Y	→
Tank Painting (#/\$000's) (3)	1 of 1 YTD \$50K	1 of 1 FY \$281K	0		
Hydrant Inspections (4)	6891	6891	0	G	↑

(1) To date, 21587 meters have been replaced. These represent both routine periodic change-outs, and those change-outs arising from the former meter life pilot program.



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(2) Valve operations remain behind plan, attributable in part to redirection of personnel to other activities including NRW and leak repair. Small valves will continue to be addressed as part of five year cycle. Large valves not operated this year will be targeted early 2009.

(3) The fairgrounds tank painting project in Owenton has been cancelled until such time as water supply issues (with tank out of service) are adequately mitigated.

(4) All planned inspections were reported completed through November.

**8. Regulatory Compliance – Other**

The Kentucky Cabinet for Health and Family Services performed inspections of the fluoride program at the Kentucky River Station and Richmond Road Station in November. The inspector noted that both plants were well run and professional. No deficiencies were noted.

**9. Union/Labor Issues/Activities**

There are no union issues pending at this time.

**10. Explanation of NOVs, OSHA violations, etc.**

There were no notices of violation reported in November.

There were two vehicular accidents reported during the month and one of the accidents resulted in an occupational injury. The employee was transported to the hospital by local medical personnel and released that evening. The employee sustained injuries to his back, shoulder and neck resulting in a total of 8 days away from work.

YTD KAW results remain on track to meet the year-end target.

	November	2008 YTD	2008 Year End Target	2007 YTD	2007 Year End
Injury Frequency Rate	8.62	3.10	5.76	6.06	4.90

**11. Revenue Generating Projects/Opportunities**

A team of KAW personnel performed an on-site inspection of the water assets of South Shore Water Works Company in November. A similar inspection for the City of North Middletown Municipal Water and Sewer occurred December 3. Inspection information for both is being evaluated to move potential proposals forward.

KAW is currently working on a proposal with Lexington Fayette Urban County Government (LFUCG) to provide billing services for the recently announced storm water



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fee. The customer base is estimated to be 110,000. Collection of the proposed fee is projected to begin April 1, 2009, subject to approval by LFUCG Council.

**12. O&M Contracts – Significant Operational/Financial Variances**  
No activity to report this period.

**13. Other Operational Issues**

Excavation equipment damaged a PVC main in Clark County November 26, requiring issuance of a boil water advisory as pressure dropped below 20 psi. Approximately 90 residential and 1 commercial customers were affected. KAW communicated this advisory through the utilization of the Reverse 911 system and door to door notification by company personnel. The advisory was lifted on November 27, 2008.

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Board Report – November 2008**

**Financial Performance**

**Year-to-Date Results – Actual to Budget:**

Operating income was \$2.373 million 14.33% over budget for the eleven months ending November 2008. Revenues were \$1.084 million over budget 1.98%.

OPEX – variances were \$1.290 million favorable.

1. Production costs were slightly over budget. Fuel and power was \$0.446 million unfavorable due to higher energy costs offset by lower purchased water costs \$0.439 million favorable in the Northern district. Chemicals costs were over budget \$.089 due to higher costs.
2. Employee related expenses were \$0.228 million favorable primarily due to higher than plan capital projects offset by a one-time FLSA-related overtime payment.
3. Management fees and shared business services were \$0.495 million unfavorable due to higher than plan corporate fees of \$0.248 million, regional \$0.151 million and shared business services \$0.096 million.
4. Regulatory expense was favorable to plan \$0.354 million due to lower than plan rate case expenses and a longer amortization period than planned.
5. Insurance other than group was \$0.237 million favorable mainly due to retro adjustments in the first, second and third quarters.
6. General taxes were \$0.282 million favorable primarily due to a property tax true-up from 2007 and the first eleven months of 2008.

Depreciation and amortizations were favorable to plan by \$1.069.

**Forecast (Full Year):**

Operating income is forecasted to be \$1.091 million favorable for the year. Revenues are forecasted to be slightly over plan. Operating expenses are forecasted to be favorable by \$1.020 million. Production costs are forecasted to be unfavorable by \$0.119 million due to increased fuel costs offset by savings in purchased water. Management fees are expected to be unfavorable by \$0.461 million primarily due to Sox and ITS related expenses. Regulatory expense is forecasted to be favorable by \$0.381 million due to the reduced rate case expense and longer amortization period. Depreciation is forecasted to be favorable by \$0.917 million.

Balance Sheet  
Kentucky-American  
Nov YTD 2008  
(\$ in Thousands)

AMERICAN WATER

Assets	Actuals	Increase		% Variance	Plan	Increase		% Variance	Prior Yr. Dec.	Increase (Decrease)	% Variance
		Reforecast	(Decrease)			(Decrease)	(Decrease)				
Utility Plant	1 363,934	362,716	1,218	0.3%	399,232	(35,296)	(8.8)%	345,341	18,593	5.4%	
Construction Work in Progress	2 52,099	48,766	3,333	6.8%	21,987	30,112	137.0%	21,310	30,789	144.5%	
Accumulated Depreciation	3 (84,319)	(86,099)	1,780	2.1%	(91,833)	7,513	(8.2)%	(80,435)	(3,885)	(4.8)%	
Utility Plant Acquisition Adjustments	4 308	0	(7)	(2.3)%	314	(6)	(2.6)%	327	(20)	(6.3)%	
Other Utility Plant Adjustments	5 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Total Utility Plant	332,020	325,696	6,324	1.9%	329,700	2,319	0.7%	286,543	45,476	15.9%	
Non-utility Property	6 270	270	0	0.0%	250	20	8.2%	250	20	8.2%	
Total property, plant and equipment	332,250	325,966	6,324	1.9%	329,950	2,304	0.7%	286,793	45,497	15.9%	
Cash and Cash Equivalents	7 (57)	255	(312)	(122.4)%	3,631	(3,688)	(101.6)%	398	(455)	(114.3)%	
Restricted funds	8 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Utility customer accounts receivable	9 3,035	3,131	(96)	(3.1)%	2,564	472	18.4%	1,928	1,107	57.4%	
Allowance for uncollectible accounts	10 (285)	(287)	(2)	(0.7)%	(286)	1	0.1%	(223)	(62)	(27.8)%	
Accrued utility revenues	11 3,139	3,210	(71)	(2.2)%	2,960	179	6.0%	2,562	577	22.5%	
Other receivables, net	12 507	310	197	63.6%	408	99	24.2%	198	311	156.2%	
Taxes receivable, including federal income	13 0	0	0	0.0%	(2,670)	2,670	100.0%	388	(388)	(100.0)%	
Materials and supplies	14 610	719	(109)	(15.2)%	584	26	4.5%	635	(25)	(3.9)%	
Receivable from affiliated companies	15 0	13	(13)	(96.4)%	0	13	100.0%	0	13	100.0%	
Other Current Assets	16 158	218	(60)	(37.9)%	183	(65)	(35.5)%	81	78	96.3%	
Total Current Assets	7,107	7,618	(511)	(7.2)%	7,384	(277)	(3.7)%	5,965	1,142	19.2%	
Regulatory assets - income tax recovery	17 3,163	6,391	(3,228)	(50.5)%	5,735	(2,572)	(44.8)%	6,385	(3,223)	(50.5)%	
Debt and preferred stock expense	18 803	778	25	3.2%	771	32	4.1%	846	(43)	(5.1)%	
Deferred pension expense	19 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Deferred postretirement benefit expense	20 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Deferred security costs	21 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Deferred business services project expenses	22 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Deferred integration costs	23 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Deferred tank painting costs	24 1,735	1,622	113	6.9%	1,498	237	15.8%	1,859	(124)	(6.7)%	
Deferred rate case	25 494	294	200	88.0%	106	388	365.2%	486	8	1.7%	
Asset premium recoverable thru rates	26 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Environmental remediation recoverable thru rates	27 2,954	2,936	18	0.6%	3,223	(269)	(8.3)%	3,181	(27)	(0.8)%	
Other Regulatory Assets	28 9,149	12,022	(2,873)	(23.9)%	11,333	(2,184)	(19.3)%	12,758	(3,609)	(28.3)%	
Total Regulatory assets	0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Other investments	29 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Long term receivable from affiliate	30 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Funds restricted for construction	31 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Goodwill	32 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Intangible assets	33 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Other Long Term Assets	34 126	1,029	(903)	(81.5)%	437	(312)	(71.3)%	488	(362)	(74.2)%	
Total Regulatory & Other LT Assets	9,281	13,051	(3,770)	(28.9)%	11,770	(2,490)	(21.2)%	13,245	(3,965)	(29.9)%	
Total Assets	348,678	345,635	3,043	0.9%	349,105	(427)	(0.1)%	305,003	42,575	13.9%	
Capital & Liabilities											
Common Stock	35 36,569	36,569	0	0.0%	36,569	0	0.0%	36,569	0	0.0%	
Paid in Capital	36 24,123	24,113	10	0.0%	24,056	67	0.3%	8,056	16,067	199.4%	
Retained Earnings	37 34,915	34,830	85	0.2%	33,546	1,369	4.1%	29,990	4,925	16.4%	
Accumulated other comprehensive income	38 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Unearned compensation	39 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Treasury stock	40 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Common stockholder's equity	95,607	95,512	95	0.1%	94,171	1,436	1.5%	74,615	20,982	28.1%	
Preferred Stock without mandatory redemption requirements	41 1,456	1,456	0	0.0%	1,467	(11)	(0.8)%	1,467	(11)	(0.8)%	
Long term debt	42 76,700	76,700	0	0.0%	76,700	0	0.0%	79,800	(3,100)	(3.9)%	
Redeemable preferred stock at redemption value	43 4,500	4,500	0	0.0%	4,500	0	0.0%	4,500	0	0.0%	
Total Capitalization	178,262	178,167	95	0.1%	176,338	1,425	0.8%	160,382	17,881	11.1%	
Short Term Debt	44 34,821	34,616	206	0.6%	39,316	(4,494)	(11.4)%	19,356	15,465	79.9%	
Current Portion of Long-term Debt	45 3,100	3,100	0	0.0%	3,100	0	0.0%	3,100	0	0.0%	
Current portion of redeemable stock at redemption value	46 0	0	0	0.0%	0	0	0.0%	0	0	0.0%	
Accounts Payable	47 11,102	3,776	7,326	66.0%	2,142	8,960	418.4%	6,507	4,594	70.6%	
Taxes Accrued	48 5,909	3,175	2,733	46.3%	2,197	3,778	172.4%	5,228	81	1.5%	
Interest Accrued	49 1,322	1,322	0	0.0%	1,507	(185)	(12.3)%	1,143	179	15.6%	
Total Other Current Liabilities	50 18,062	52,056	(34,994)	(193.8)%	5,182	(28,814)	(557.1)%	2,027	(38)	(1.8)%	
Total Current Liabilities	58,062	52,056	6,007	11.5%	54,354	(3,709)	(6.8)%	37,362	20,701	55.4%	
Customer Advances for Construction	51 14,483	14,909	(426)	(2.9)%	20,906	(6,423)	(30.7)%	14,653	(170)	(1.2)%	
Deferred income taxes	52 37,853	36,908	955	2.6%	37,174	690	1.9%	32,877	4,987	15.2%	
Deferred investment tax credits	53 1,140	1,147	(7)	(0.6)%	1,172	(32)	(2.7)%	1,218	(78)	(6.4)%	
Regulatory liability-cost of removal	54 9,657	10,053	(406)	(4.2)%	8,221	1,432	17.5%	8,772	885	10.1%	
Accrued pension expense	55 1,822	1,263	559	30.7%	1,482	(219)	(14.8)%	2,174	(852)	(39.2)%	
Accrued postretirement benefit expense	56 357	4,950	(4,593)	(128.4)%	219	289	132.0%	384	(28)	(7.2)%	
Other Deferred Credits	57 4,747	4,950	(203)	(4.3)%	4,526	424	9.4%	4,596	(353)	(8.3)%	
Regulatory & Other Long Term Liabilities	65,570	68,737	(3,168)	(4.8)%	69,472	(3,902)	(5.6)%	64,675	688	1.4%	
Contributions in aid of construction	58 46,783	47,675	(892)	(1.9)%	48,441	(1,668)	(3.4)%	43,585	3,198	7.3%	
Total capital and liabilities	348,678	345,635	3,043	0.9%	349,105	(427)	(0.1)%	305,003	42,575	13.9%	





**KENTUCKY**  
**AMERICAN WATER**

**Quarterly Operations Review**  
**March 2009**





Kentucky American Water  
Operations Review March 2009

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## Operational Issues Review

### 1. Source of Supply and New Water Treatment Plant

There are no current source-of-supply issues. Precipitation was less than average at 2.39 vs. 4.41 inches for the month. For the year, rainfall is slightly less than average at 9.25 vs. 11.20 inches.

#### Water Treatment Plant

Concrete construction work continued through March on the walls of the treatment plant and piping installation. At the raw water intake, work was completed on the wet well of the pumping station and coffer dam construction was started. Steel sheet piling installation began on March 30 and the subcontractor will work for three weeks to complete this portion of construction. A progress conference call was conducted on March 11, and a progress meeting was held on site March 25. Work continues on schedule and on budget.

An additional 7,215 feet of pipe was installed in March for a total of 72,110 feet installed. To date, 99 of 110 easements have been acquired (90%), with five in active negotiations. A progress call was held March 10 and a progress meeting was held on March 24. Work is on budget and on schedule.

At the booster pump station and tank site, the tank contractor started erecting the steel shell diagram and will begin concrete of the outside core wall. Construction of the masonry walls for the pump station building began as well. A progress conference call was held March 10, and a progress meeting was held on site March 25. Work continues on schedule and on budget.

Inclement winter weather slowed down progress on all three contracts in February, as expected. Currently the project is approximately 40% complete, on budget and on schedule for completion by May 2010.

The KY Public Service Commission completed the filing of all case documents with the Franklin Circuit Court for the appeal of the Certificate of Convenience and Necessity, and motions for a procedural schedule were submitted by all parties. Commissioners were appointed in the Pinkston condemnation case. KAW requested that the Department of Transportation reconsider allowing a road closure on two portions of the construction project where the right-of-way installation will be very confined.



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**2. Operational Costs: Energy, Chemicals, Residuals**

	<b>March Actual</b>	<b>March Plan</b>	<b>Variance</b>	<b>March YTD</b>	<b>March YTD Plan</b>	<b>Variance</b>
<b>Purchased Water</b>	16	14	2	33	34	(1)
<b>Fuel and Power</b>	251	270	(19)	704	787	(83)
<b>Chemicals</b>	171	176	(5)	506	514	(9)
<b>Waste Disposal</b>	17	30	(13)	44	60	(16)
<b>Total Production</b>	454	489	(35)	1,286	1,395	(109)

March fuel and power costs remain slightly under plan for the month and year to date. Slight under budget variances are due to lower system delivery than planned.

**3. Rate Case/Orders: Timing, Value, Issues**

All intervening parties to Kentucky American Water's rate case recently agreed to a proposed settlement, calling for a revenue increase of \$10.3 million. Kentucky American Water filed an \$18.5 million, or 31.27% request for a rate increase with the PSC on October 31, 2008. KAW had answered PSC Staff's initial and second set of data requests, as well as the initial set from Lexington-Fayette Urban County Government (LFUCG), the Attorney General (AG), and the Community Action Council (CAC) for Lexington-Fayette and surrounding counties. CAC filed testimony seeking increased contributions from KAW. The AG filed testimony recommending a total increase of \$3.873 million, essentially rejecting KAW's request to receive CWIP for ongoing investments in the new supply plant. Instead, the AG recommended AFUDC on all plant investments with the full rate impact for the new plant to be reflected in the next rate case. A hearing on the proposed settlement, which does include some CWIP recognition, will be held on April 14, 2009, and a PSC Order is expected by the end of May, 2009.

**4. Commission Activity: Customer Complaints, Compliance**

The overall number of complaints is slightly higher than prior year results, with collection complaints higher and billing complaints lower than for the same period last year.

	<b>YTD Collections</b>	<b>YTD Billing</b>	<b>YTD Total</b>
2008	6	13	19
2009	15	6	21

**5. Divestitures**

No additional activity to report.

**6. Major Operational Projects**



**Kentucky American Water  
Operations Review March 2009**

Easement acquisitions are progressing on the Carrick Pike main extension project. This project entails replacement of smaller diameter mains with approximately 28,000 feet of 16-inch main. This main replacement will enhance operation of the Russell Cave Road tank while assisting the supply to Toyota during peak demand periods. The main will also enable Muddy Ford tank to be taken out of service for maintenance more readily. No start date is currently scheduled.

The North Broadway Main Replacement Project will substantially increase fire flow for the downtown area of Lexington. The project will also replace approximately 5,400 feet of 6-inch main which dates back to the late 1800's and early 1900's. The water line relocation on Shawnee Ave and Morrison Avenue is complete. Service renewals on these streets will begin in April and should be complete by the end of May. Water line relocation on Granard Avenue will begin in April and should be complete by the end of April. Service renewals on Granard Avenue will begin following completion of the water line relocation and should be complete by the end of June. The remainder of the project along North Broadway, installing the 12-inch main, is expected to start in May.

The Kentucky River Plant reliability project is nearing final completion. The second feed from the electric utility was energized and placed in service on April 1, 2009. The electrical study for the automatic transfer switch and substation is being reviewed by the engineer before final programming. This work is scheduled for the week of April 19.

Capital Expenditure results year-to-date, and the quarter 1 reforecast, reflect the higher than original plan spend for the water treatment project.

<b>12-KY Gross</b>	<b>Original</b>	<b>Q1RF</b>
Full Year Budget	\$82,568,841	\$98,885,357
To Date Budget	\$18,292,138	\$25,109,597
To Date Actual	\$25,917,886	\$25,917,886
To Date Variance	\$7,625,748	\$808,289

**7. Operational Regulatory Compliance: Status**

<b>KY</b>	<b>Actual (YTD)</b>	<b>Plan (YTD)</b>	<b>Backlog</b>	<b>Status</b>	<b>Trend</b>
<b>Regulatory Maintenance:</b>					
Meter Changes (1)	2,321	1,262	0	G	→
<b>Other Program Maintenance:</b>					
Valve Operation (<16" ) (2)	1224	1150	0	G	→



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Valve Operation (>16" )	127	105	0	G	→
Hydrant Inspections (3)	409	385	0	G	→

(1) To date, 2,321 meters were replaced for the periodic meter change-outs. There are 17,087 periodic meter change-outs planned for the year.

(2) Both small and large valve operations are on track for 2009.

(3) Hydrant inspections started in March.

**8. Regulatory Compliance – Other**

Nothing to report.

**9. Union/Labor Issues/Activities**

KAW held an Employee Appreciation Breakfast February 25. Employees who celebrated milestone service anniversaries during 2008 were recognized, as well as those employees with perfect attendance. Sixteen retirees attended the breakfast and toured the renovated office facilities.

A grievance related to discipline associated with an auto accident was reported in March. Mediation is scheduled for April 27, 2009

**10. Explanation of NOV's, OSHA violations, etc.**

There were no notices of violation reported in March.

**11. Revenue Generating Projects/Opportunities**

The Commonwealth of Kentucky awarded Kentucky American Water the O & M contract for Bluegrass Station on April 9. The two-year contract will generate \$119,465 in annual revenues with a projected 17.8% net profit margin. The two-year contract has four additional one-year options. KAW also sells Bluegrass Station more than 55 million gallons of water annually.

Kentucky American Water plans to submit to the state and national Commercial Development Committee (CDC) a request to enter into a non-binding letter of intent to acquire South Shore Water Works. South Shore consists of 2,282 water customers in Greenup County, KY.

KAW has three additional opportunities in the pipeline including North Middletown, Elkhorn City and Center Ridge Water District. KAW continues to discuss a



**Kentucky American Water  
Operations Review March 2009**

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billing services agreement with Lexington-Fayette Urban County Government (LFUCG) to collect an impending storm water fee.

**12. O&M Contracts – Significant Operational/Financial Variances**

No activity to report this period.

**13. Other Operational Issues**

No KAW customers lost service during the January ice storm event. KAW experienced outages at the Jacobson Reservoir pump house and several booster stations, although generators provided continuity of service to all critical areas. All lost power was restored within five days.

The ice storm and cold temperatures during the last week of January did not significantly impact the number of main breaks. Normal ground contraction and expansion with fluctuating temperatures resulted in main breaks consistent with prior year results.

Main Breaks	2008	2009
March YTD	55	52

In February, KAW planned and executed repairs to a leaking 30-inch main on a major commercial artery, minimizing traffic disruption while continuing service to customers. Repairs to the main required that it be shut down and that a boil water advisory be issued as a precautionary measure. KAW crews laid temporary lines to businesses from other mains in the area, enabling them to remain open while repairs were being made to the main. The planning ensured that customers continued to receive water service during the entire repair event.

There was one work-related injury during March and one non-chargeable vehicle accident reported during the month.

**Kentucky American Water  
Board Report – March 2009**

**Financial Performance**

**Quarter-to-Date Results – Actual to Budget:**

Operating Revenues were unfavorable by \$216K, 1.65% below budget for the First Quarter of 2009. Revenues were unfavorable to than Plan primarily due to lower usage for the Commercial and Industrial Classes

OPEX – variances were \$1M favorable.

1. Production costs were lower than Budget. Fuel and power were lower than Plan by +\$83K primarily due to lower system delivery.
2. Labor costs were favorable by \$152K largely due to higher capitalization rates and an AIP adjustment.
3. Increased Contract Services were due to higher than Plan legal costs
4. Lower fuel costs account for the majority of the favorable Misc./Travel Expense variance.
5. Depreciation is favorable to Plan due to an overall lower composite depreciation rate.
6. Favorable Property taxes are due to a one time adjustment of \$66k and lower than expected 2009 property taxes to date.
7. Lower than Plan Short-term Interest rates have impacted results favorably as well.

Kentucky American Water



AMERICAN WATER

## Income Statement

\$ in Thousands

	YTD Actuals	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>							
1	12,254	12,491	(237)	(1.90)%	12,605	(351)	(2.79)%
2	78	82	(4)	(5.05)%	78	0	0.49%
3	581	556	25	4.46%	590	(9)	(1.50)%
4	0	0	0		0	0	
	12,913	13,129	(216)	(1.65)%	13,273	(360)	(2.71)%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>							
<b>PRODUCTION EXPENSES</b>							
5	33	34	1	1.93%	22	(11)	(49.43)%
6	704	787	83	10.53%	681	(23)	(3.37)%
7	506	514	8	1.66%	378	(128)	(33.95)%
8	44	60	16	27.34%	71	27	38.23%
	1,286	1,395	109	7.78%	1,151	(135)	(11.73)%
<b>O&amp;M LABOR &amp; OVERHEAD</b>							
9	1,518	1,670	152	9.09%	1,489	(29)	(1.93)%
10	361	337	(24)	(7.24)%	173	(189)	(109.51)%
11	528	561	33	5.87%	436	(92)	(21.00)%
12	73	93	20	21.10%	78	5	5.93%
	2,481	2,660	180	6.78%	2,176	(305)	(14.00)%
13	907	927	19	2.07%	1,051	143	13.63%
14	915	975	60	6.18%	956	42	4.35%
15	282	234	(48)	(20.72)%	146	(136)	(93.57)%
	1,197	1,209	12	0.98%	1,102	(95)	(8.61)%
16	40	41	0	0.65%	100	59	59.47%
17	151	180	28	15.83%	98	(53)	(54.15)%
18	385	399	14	3.46%	206	(180)	(87.22)%
19	10	14	4	30.27%	9	(1)	(12.95)%
20	121	155	34	21.80%	130	9	6.86%
21	472	609	138	22.59%	483	12	2.42%
22	682	633	(49)	(7.18)%	617	(65)	(9.54)%
	7,633	8,222	589	7.17%	7,123	(510)	(7.16)%
23	1,439	1,721	282	16.39%	1,660	221	13.31%
24	128	133	5	3.58%	128	0	(0.31)%
	1,568	1,854	287	15.47%	1,788	221	12.33%
25	764	891	127	14.28%	853	89	10.48%
27	0	0	0		0	0	
	9,964	10,987	1,003	9.15%	9,764	(200)	(2.05)%
	2,949	2,162	(787)	(36.39)%	3,509	(560)	(15.95)%
<b>OTHER INCOME &amp; DEDUCTIONS</b>							
28	0	0	0		0	0	
29	1,411	1,425	14	1.00%	1,463	53	3.60%
30	141	606	466	76.81%	217	76	35.20%
31	0	0	0		0	0	
	1,551	2,031	480	23.63%	1,680	129	7.68%
32	1,063	1,080	(17)	(1.54)%	270	793	293.32%
33	487	490	3	1.27%	127	370	291.20%
34	22	18	(4)	(25.87)%	22	0	1.47%
35	0	0	0		0	0	
26	0	0	0		0	0	
36	0	0	0		0	0	
37	0	0	0		0	0	
38	0	0	0		0	0	
39	35	0	(35)	(100.00)%	23	12	54.50%
	35	0	(35)	(100.00)%	23	12	54.50%
40	0	0	0	155.28%	0	0	0.00%
41	133	169	37	21.71%	105	(28)	(26.32)%
	133	170	37	21.87%	105	(28)	(26.32)%
Other, net	(97)	(170)	72	42.57%	(82)	(15)	(80.82)%
	(111)	(648)	537	82.90%	(1,387)	1,276	92.01%
	2,838	1,514	(1,324)	(87.44)%	2,122	717	33.78%
42	126	100	(26)	(26.12)%	57	(68)	(119.76)%
43	708	540	(168)	(31.09)%	775	67	8.70%
46	0	0	0		0	0	
47	0	(14)	(14)	(102.61)%	(2)	(3)	(115.30)%
47	1	(54)	(55)	(102.51)%	(14)	(15)	(109.57)%
	835	571	(264)	(46.22)%	816	(19)	(2.39)%
	2,003	943	(1,060)	(112.39)%	1,306	697	53.38%
48	20	20	0	0.95%	20	0	0.36%
	1,983	924	(1,060)	(114.75)%	1,286	697	54.19%
	1,708	1,603	(105)	(6.56)%	1,097	(611)	(55.71)%
	275	(680)	955	140.47%	189	86	45.34%



**KENTUCKY**  
**AMERICAN WATER**

**Quarterly Operations Review**  
**June 2009**





**Kentucky American Water  
Operations Review June 2009**

## Operational Issues Review

### 1. Source of Supply and New Water Treatment Plant

There are no current source-of-supply issues. Precipitation was greater than average for the month of June (5.2 vs. 4.6 inches). Year to date through June 30, rainfall is slightly ahead of normal (25.3 vs. 24 inches).

#### Water Treatment Plant

Work continued through June on the concrete walls of the treatment building. The residuals building masonry was started and the residuals presses were installed. The raw water intake construction continued with the installation of the pipe to the river.

An additional 8,193 feet of pipe was installed for a total of 92,722 feet (or 17.56 miles) of main. Six land easements remain to be obtained for the transmission line. KAW has secured nearly 95% of required easements (106 of 112) and is currently in earnest negotiations with two owners. Four easements remain at risk, although KAW and its representatives continue negotiations to obtain all needed land easements.

The KY Transportation Cabinet granted a permit revision to allow four road closures between June 12 and August 10 along the pipeline route in Franklin County (Garney Contract A). In order to meet that schedule, Garney Construction re-directed the trencher and pipe crew from Contract B in Scott County to assist in Franklin County. Pavement restoration continued in portions of Franklin County. Additional pavement requirements in Franklin County by the KY Transportation Cabinet are being addressed.

The tank contractor completed construction of the tank in June. Tank painting is expected to be completed by early August. The booster pump station work continues with the pumps being set and building roof completed.

Overall, the project is 55% complete and is on budget and on schedule to be completed in May 2010.

### 2. Operational Costs: Energy, Chemicals, Residuals

	June Actual	June Reforecast	Variance	June YTD	June YTD Reforecast	Variance
Purchased Water	7	10	3	57	60	3
Fuel and Power	243	414	171	1,435	1,606	171
Chemicals	249	222	(27)	1,134	1,107	(27)
Waste Disposal	13	28	15	92	107	15
<b>Total Production</b>	<b>513</b>	<b>674</b>	<b>162</b>	<b>2,718</b>	<b>2,880</b>	<b>162</b>



**Kentucky American Water  
Operations Review June 2009**

June fuel and power costs remain under plan for the month and year to date, primarily attributable to lower than plan system delivery. Above plan chemical costs are driven by high turbidity levels in the Kentucky River due to the wet weather patterns in 2009.

**3. Rate Case/Orders: Timing, Value, Issues**

A Kentucky Public Service Commission Order was issued in May approving the proposed rate settlement agreement. The new rates were effective June 1. All intervening parties to Kentucky American Water's rate case had agreed to a proposed settlement, calling for a revenue increase of \$10.3 million. Kentucky American Water had filed an \$18.5 million, or 31.27% request for a rate increase with the PSC on October 31, 2008. The AG filed testimony recommending a total increase of \$3.873 million, essentially rejecting KAW's request to receive CWIP for ongoing investments in the new supply plant. Instead, the AG recommended AFUDC on all plant investments with the full rate impact for the new plant to be reflected in the next rate case. The approved settlement included CWIP recognition on \$20M rather than the \$66M KAW initially requested.

**4. Commission Activity: Customer Complaints, Compliance**

The overall number of complaints to the Kentucky Public Service Commission year to date is slightly higher than 2008 results for the same period, although a greater percentage of this year's complaints have been related to collection activity.

	YTD Collections	YTD Billing	YTD Total
2008	14	27	41
2009	31	15	46

**5. Divestitures**

No additional activity to report.

**6. Major Operational Projects**

The North Broadway Main Replacement Project will replace approximately 5,400 feet of 6-inch main which dates back to the late 1800's and early 1900's. The project will also substantially increase fire flow for the downtown area of Lexington. The project entails water line relocations on Shawnee Avenue, Morrison Avenue and Granard Avenue, all of which are completed. The installation of 12-inch main along North Broadway has begun and is progressing on schedule. This construction is taking place in the evenings after rush hour.



**Kentucky American Water  
Operations Review June 2009**

Capital Expenditure results year-to-date, and the second quarter reforecast, reflect the higher than original plan spend for the water treatment project.

12-KY Gross	Original	Q1RF	Q2RF
Full Year Budget	\$82,568,841	\$98,885,357	\$99,055,070
To Date Budget	\$40,627,810	\$56,310,387	\$52,956,736
To Date Actual	\$51,974,850	\$51,974,850	\$51,974,850
To Date Variance	\$11,347,040	\$(4,335,537)	\$(981,8876)

**7. Operational Regulatory Compliance: Status**

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
<b>Regulatory Maintenance:</b>					
Meter Changes (1)	8,655	7,890	0	G	→

<b>Other Program Maintenance:</b>					
Valve Operation (<16" ) (2)	3,182	2,785	0	G	→
Valve Operation (>16" )	310	330	20	Y	→
Hydrant Inspections (3)	3,017	3,009	0	G	→

(1) To date, 8655 meters were replaced for the periodic meter change-outs. There are 18,935 periodic meter change-outs planned for the year.

(2) Both small and large valve operations are on track to complete 2009 plan.

(3) Hydrant inspections started in March and are on target for 2009 completion.

**8. Regulatory Compliance – Other**

The citizen's opposition group impacted by the construction of the new water treatment plant (Citizens for Alternative Water Solutions "CAWS") applied for a rehearing of the Certificate of Necessity. The PSC denied the Application for Rehearing on June 5, 2008. CAWS filed an appeal in the Franklin County Circuit Court on June 23, 2008. The record was filed on February 2, 2009, and an Order approving an agreed-upon briefing schedule was issued on February 25, 2009. CAWS filed its brief on May 15, 2009; KAW's brief is due on August 4.



**Kentucky American Water  
Operations Review June 2009**

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**9. Union/Labor Issues/Activities**

Arbitration is being scheduled for the third quarter to resolve a grievance issue with the Union. There were two additional grievances filed in June, one regarding uniforms and the second regarding supervisor interaction.

**10. Explanation of NOV's, OSHA violations, etc.**

There were no notices of violation reported during the quarter. KAW is working with KY Division of Water regarding an NOV issued to the transmission pipeline contractor (Garney).

**11. Revenue Generating Projects/Opportunities**

The Commonwealth of Kentucky awarded Kentucky American Water the O & M contract for Bluegrass Station on April 9. The two-year contract will generate approximately \$119,000 in annual revenues with a projected 17.8% net profit margin. The two-year contract has four additional one-year options. KAW also sells Bluegrass Station more than 55 million gallons of water annually.

Kentucky American Water has tendered a non-binding letter of intent to acquire the stock of South Shore Water Works which consist of 2, 282 water customers located in Greenup County, KY. This offer is contingent upon acceptance by the owner, and subject to due diligence inspection of finances and facilities.

Lexington Fayette Urban County Government (LFUCG) recently approved a contract with Kentucky American Water to bill and collect LFUCG's new water quality management fee. Billing for the new fee is slated to begin January 2010. The initial contract expires October 2011, to coincide with the sewage billing/collection contract and the landfill fee billing/collection contract. The water quality management fee contract is projected to yield annual revenue of approximately \$376,000, subject to annual CPI adjustments.

KAW continues to explore alternative relationships with North Middletown, recently meeting with HMB Engineering to discuss potential corrective measures that would alleviate the wastewater system's current inflow and infiltration (I & I) issues. The I & I problems cause the wastewater treatment plant to operate out of compliance at times. KAW and North Middleton stakeholders are also evaluating funding and O&M contract options that may lead to an operating agreement for KAW to correct the problems and bring the system into compliance.

**12. O&M Contracts – Significant Operational/Financial Variances**

No activity to report this period.



**Kentucky American Water  
Operations Review June 2009**

**13. Other Operational Issues**

KAW operations personnel and contractors recently completed an emergency repair at the Kentucky River Station. On Thursday, June 18, a significant leak occurred on one of two 30-inch mains leading from the filters to the clearwell. The 50 year old concrete lock joint pipe was failing just below chemical feed injection points, threatening the plant's operational stability. A temporary repair band was manufactured, delivered and installed in one day to enable continued operation through the weekend. Excavation and site preparation began Saturday, and the repair began in earnest Monday morning. The repair involved removing four of the ten filters (limiting plant capacity) while two 30" valves, and 50' of 30" line were installed. The installation included feeding pipe through two chemical feed vaults. The repair was completed in two long working days, allowing the plant to return to full capacity by Wednesday June 24. Customer service was not affected, and the plant remained in compliance during the repair event.

There was one preventable vehicular accident in June. The OSHA recordable injury rate through June 30 is 9.1, compared to 2.9 for the same period in 2008.

Kentucky American Water conducted its annual water main flushing program in Fayette County during the last week in April.

KAW recently implemented a number of strategies to improve results for the Customer Satisfaction Survey. A small focused team is routinely diving into customer comments and transaction histories to identify actionable items in local processes, and training opportunities for customer service representatives. KAW has also begun recognizing those field service reps who receive a "5" for their performance, and a "5" on question 29. Strategies still under development include a communications approach to ensure key themes are appropriately delivered and received by customers. Results have improved over Q4 2008 and are on plan to meet year end 2009 targets.

Question	Question Text	2007 Results	2008 Results	Current YTD	2009 Target
Q29	Satisfaction with Outcome of Contact (% Extremely and Very Satisfied)	87%	83%	85%	85%
Q27	Number of Times Contacted AW (%Contacted Once)	87%	75%	79%	N/A
Q29b	Reason for Contact Completely Addressed (%Yes)	87%	93%	98%	N/A
Q7i	CSR Overall Performance (% Excellent and Very Good)	87%	89%	87%	N/A
Q21i	FSR Overall Performance (% Excellent and Very Good)	87%	93%	100%	93%
Q22h	FSR Arrived as Scheduled During Agreed Upon Appointment Window (%Yes)	87%	74%	100%	90%



**Kentucky American Water  
Operations Review June 2009**

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**14. Communications and government affairs**

Kentucky American Water made financial contributions, hosted informational booths and provided 'in-kind' services at the following events:

- Reforest the Bluegrass (April 11, Lexington)
- Downtown Trash Bash (April 22, Lexington)
- American Red Cross Hero of the Year Celebration (April 23, Lexington)
- Georgetown/Scott County 50<sup>th</sup> Anniversary Banquet Sponsor (April 24, Lexington)
- Arbor Day at the Arboretum (April 25, UK Arboretum, Lexington)
- Water for People Campaign (month of April, Lexington)
- Girl Scouts Thin Mint 5K (May 16, KY Horse Park, Georgetown)
- Founder's Day at McConnell Springs (May 16, Lexington)
- 9th Annual Chamber of Commerce Sporting Clays Shoot (June 6, Owenton)
- Liquid Assets: The Story of our Water Infrastructure (June 9, Lexington)
- Ducky Blast for Cash for Big Brothers/Big Sisters (June 27, Lexington)
- Water Professionals Conference (July 12 – 15, Lexington)
- River Sweep (July 18, Richmond)

**Kentucky American Water  
Board Report – Q2 2009**

**Financial Performance**

**Quarter-to-Date Results – Actual to Plan:**

Operating Revenues were unfavorable by \$499k, 3.19% below Plan for the Second Quarter of 2009. The largest driver of the revenue variance is from the rate case, which is completely offset by higher AFUDC. This accounts for a majority of the variance. In addition, revenues were unfavorable to than Plan primarily due to lower usage for the Commercial and Industrial Classes.

OPEX – were \$996k favorable to Plan.

1. Production costs were \$338k lower than Budget. Fuel and power were lower than Plan by \$303k primarily due to lower system delivery.
2. Labor costs were favorable by \$96k largely due to vacancy rates (5 vacant positions)
3. Miscellaneous expenses were favorable by \$337k, driven by lower than Planned fuel (gasoline) prices.
4. Depreciation is favorable by \$271k, driven by changes to Plant

Interest expense is favorable to Plan by \$1.0M, driven by lower short term rates and delays in issuance of \$45M of long-term debt (issued in June, budgeted in March).

Net income is \$818k favorable to Plan.

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Not Confidential  
Case Status: Final  
pending reviews

Balance Sheet  
Kentucky Growth  
Jun 09  
(\$ in Thousands)



Assets	Actuals	Reforecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Dec	Increase (Decrease)	% Variance
Utility Plant	378,067	378,970	(903)	(0.2)%	377,313	754	0.2%	369,486	8,581	2.3%
Construction Work in Progress	97,109	97,255	(146)	(0.1)%	98,463	7,526	6.3%	54,501	42,668	76.2%
Accumulated Depreciation	(87,590)	(87,590)	0	0.0%	(87,590)	0	0.0%	(84,213)	(3,165)	(3.3)%
Utility Plant Acquisition Adjustments	295	297	(2)	(0.6)%	312	(17)	(5.4)%	305	(10)	(3.2)%
Other Utility Plant Adjustments	388,073	388,961	(888)	(0.2)%	376,673	11,401	3.0%	340,079	47,995	14.1%
<b>Total Utility Plant</b>	270	270	0	0.0%	270	0	0.0%	270	0	0.0%
<b>Total property, plant and equipment</b>	388,344	389,231	(888)	(0.2)%	376,943	11,401	3.0%	340,349	47,995	14.1%
Cash and Cash Equivalents	382	(44,988)	45,350	100.8%	200	182	90.6%	234	147	62.9%
Restricted funds	2,534	2,726	(194)	(7.1)%	2,536	(2)	(0.1)%	2,342	191	8.2%
Utility customer accounts receivable	(241)	(249)	(8)	(3.3)%	(233)	(33)	(11.1)%	(273)	33	11.9%
Allowance for uncollectible accounts	3,653	3,324	329	9.0%	3,628	34	1.0%	2,900	763	26.3%
Accrued utility revenues	721	572	149	20.7%	310	411	132.7%	412	310	75.2%
Other receivables, net	722	713	9	1.3%	693	29	4.2%	577	145	25.1%
Taxes receivable, including federal income	9,555	9,584	(29)	(0.3)%	9,541	71	0.7%	9,554	1,850	19.3%
Materials and supplies	522	603	(81)	(15.5)%	228	296	131.0%	411	111	27.0%
Receivable from affiliated companies	17,857	(37,237)	55,094	148.0%	7,368	10,489	142.4%	6,603	11,253	170.4%
<b>Current Assets</b>	3,974	3,857	118	3.1%	6,340	(2,366)	(37.3)%	3,230	744	23.0%
Regulatory assets - income tax recovery	1,262	748	514	68.8%	727	535	73.6%	795	467	58.7%
Debt and preferred stock expense	-	-	-	-	-	-	-	-	-	-
Deferred pension expense	-	-	-	-	-	-	-	-	-	-
Deferred postretirement benefit expense	-	-	-	-	-	-	-	-	-	-
Deferred security costs	-	0	0	0.0%	0	0	0.0%	-	-	-
Deferred business services project expense	-	-	-	-	-	-	-	-	-	-
Deferred litigation costs	-	-	-	-	-	-	-	-	-	-
Deferred business services	1,748	1,758	(10)	(0.6)%	1,507	241	16.0%	1,737	11	0.6%
Deferred tax planning costs	604	678	(75)	(11.0)%	685	(81)	(11.8)%	554	50	9.0%
Deferred rate case	-	-	-	-	-	-	-	-	-	-
Asset premium-recoverable thru rates	2,740	2,891	(151)	(5.2)%	2,988	(247)	(8.3)%	2,760	(19)	(0.7)%
Environmental remediation/recoverable thru rates	10,328	9,931	396	4.0%	12,246	(1,918)	(15.7)%	9,078	1,252	13.8%
<b>Regulatory assets</b>	-	-	-	-	-	-	-	-	-	-
Other investments	-	-	-	-	-	-	-	-	-	-
Long term receivable from affiliate	-	-	-	-	-	-	-	-	-	-
Funds restricted for construction	-	-	-	-	-	-	-	6	(6)	(100.0)%
Goodwill	-	-	-	-	-	-	-	-	-	-
Intangible assets	126	138	(12)	(9.0)%	1,092	(953)	(87.3)%	126	0	0.0%
<b>Other Long Term Assets</b>	10,454	10,070	384	3.8%	13,275	(2,822)	(21.3)%	9,208	1,246	13.5%
<b>Total Regulatory &amp; Other LT Assets</b>	416,654	362,064	54,590	15.1%	397,536	19,068	4.8%	356,160	60,494	17.0%
<b>Capital &amp; Liabilities</b>	36,569	36,569	0	0.0%	36,569	0	0.0%	36,569	0	0.0%
Common Stock	46,645	46,645	0	0.0%	42,113	4,533	10.8%	24,127	22,519	93.3%
Paid in Capital	34,239	34,952	(663)	(1.9)%	33,183	1,106	3.3%	32,812	1,477	4.5%
Retained Earnings	-	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
Unearned compensation	-	-	-	-	-	-	-	-	-	-
Treasury Stock	117,504	118,166	(662)	(0.6)%	111,865	5,307	5.0%	93,957	23,995	25.7%
Common stockholder's equity	1,455	1,456	(1)	(0.1)%	1,447	9	0.6%	1,455	0	0.0%
Preferred Stock without mandatory redemp	118,990	118,600	390	0.3%	110,600	8,000	7.8%	76,700	42,290	55.1%
Long term debt	4,500	4,500	0	0.0%	4,500	0	0.0%	4,500	0	0.0%
Redeemable preferred stock at redemption	242,450	242,722	(272)	(0.1)%	228,412	14,038	6.1%	176,163	66,286	37.6%
<b>Total Capitalization</b>	37,196	(12,250)	49,446	408.6%	29,267	7,929	27.1%	53,106	(15,910)	(30.0)%
Short Term Debt	3,100	3,100	0	0.0%	3,100	0	0.0%	3,100	0	0.0%
Current portion of Long-term Debt	14,067	10,703	3,365	31.4%	7,552	6,616	86.3%	8,445	5,622	66.6%
Current portion of redeemable stock at red	(80)	(1,069)	1,009	94.4%	2,735	(2,795)	(102.2)%	(305)	248	80.5%
Accounts Payable	1,152	660	492	134.3%	2,348	(1,196)	(50.9)%	1,150	2	0.2%
Taxes Accrued	4,023	4,007	15	0.4%	3,872	151	3.9%	4,477	(447)	(10.0)%
<b>Total Other Current Liabilities</b>	59,478	4,983	54,495	1,093.6%	48,874	10,605	21.7%	69,963	(10,485)	(15.0)%
<b>Total Current Liabilities</b>	12,710	12,791	(81)	(0.6)%	15,687	(2,977)	(19.0)%	11,916	794	6.7%
Customer Advances for Construction	40,811	40,533	278	0.7%	38,984	1,627	4.7%	37,871	2,940	7.8%
Deferred Income Taxes	1,091	1,093	(2)	(0.2)%	1,110	(20)	(1.8)%	1,133	(42)	(3.7)%
Deferred investment tax credits	11,095	11,110	(15)	(0.1)%	10,930	165	1.5%	9,795	1,340	13.7%
Regulatory liability	1,510	1,510	0	0.0%	1,384	126	9.1%	1,389	149	10.7%
Accrued pension expense	451	245	206	84.0%	418	351	352.1%	418	33	7.8%
Accrued postretirement benefit expense	62	62	0	0.0%	4,096	(4,034)	(98.5)%	736	(674)	(91.6)%
Other Deferred Credits	67,758	67,345	413	0.6%	72,041	(4,283)	(5.9)%	63,219	4,539	7.2%
<b>Regulatory &amp; Other Long Term Liabilities</b>	47,015	47,015	(46)	(0.1)%	48,260	(1,282)	(2.7)%	46,815	153	0.3%
<b>Contributions in aid of construction</b>	416,654	362,064	54,590	15.1%	397,537	19,067	4.8%	356,160	60,494	17.0%

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Project: KAW Project, Water System - All Year System



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Cross Status: Final  
pending reviews

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Income Statement  
Kentucky  
Jun L '09  
(\$ in Thousands)

Quarter To Date  
growth  
'09

	QTD Actuals	QTD Reforecast	Variance Favorable (Unfavorable)	% Variance	QTD Plan	Variance Favorable (Unfavorable)	% Variance	QTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
Water Revenues	14,404	14,568	(164)	(1.13)%	15,002	(598)	(3.99)%	13,766	638	4.63%
Sewer Revenues	80	83	(3)	(3.68)%	86	6	(7.49)%	75	5	6.88%
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%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
Purchased Water	24	27	3	11.72%	38	14	36.38%	32	8	23.84%
Fuel and Power	751	902	171	18.97%	1,033	303	29.25%	726	(5)	(0.70)%
Chemicals	620	601	(28)	(4.52)%	618	(1)	(1.64)%	360	(268)	(74.36)%
Waste Disposal	48	63	15	23.32%	80	31	39.17%	68	20	28.85%
Total production costs	1,432	1,593	161	10.12%	1,770	338	19.08%	1,186	(246)	(20.73)%
<b>G&amp;M LABOR &amp; OVERHEAD</b>										
Labor	1,685	1,695	10	0.61%	1,730	45	2.65%	1,733	48	2.79%
Pensions	351	349	(2)	(0.59)%	357	(6)	(1.69)%	379	(79)	(20.83)%
Group Insurances	528	557	28	5.11%	531	26	4.89%	423	(105)	(24.88)%
Other benefits	61	67	6	9.24%	61	0	0.00%	54	(7)	(12.38)%
Total employee related	2,624	2,668	44	1.64%	2,720	96	3.51%	2,381	(243)	(10.21)%
Management fees	1,037	1,019	(18)	(1.76)%	952	(85)	(8.97)%	1,039	2	0.19%
Shared business services	977	993	17	1.66%	1,016	40	3.89%	1,044	67	6.44%
Contracted services	328	307	(21)	(6.25)%	256	(72)	(28.18)%	228	(100)	(44.01)%
Total contracted services	1,305	1,300	(5)	(0.32)%	1,272	(33)	(2.59)%	1,272	(33)	(2.59)%
Regulatory expense	52	57	5	9.30%	57	5	9.38%	40	(11)	(28.25)%
Insurance Other Than Group	169	171	2	1.15%	180	10	5.74%	111	(58)	(52.00)%
Customer Accounting	381	359	(21)	(5.93)%	421	41	9.63%	494	114	26.00%
Rents	10	10	0	27.73%	14	4	46.88%	9	(1)	(14.27)%
General office expense	124	147	23	15.82%	147	23	15.82%	144	(3)	(2.08)%
Miscellaneous	267	342	75	21.89%	604	337	55.79%	432	(165)	(38.18)%
Maintenance	714	642	(72)	(10.20)%	34	(34)	(4.83)%	616	(88)	(15.09)%
Total operations and maintenance expense	8,113	8,310	197	2.38%	8,885	772	8.69%	7,725	(502)	(5.92)%
Depreciation	1,460	1,545	85	5.53%	1,730	271	15.64%	1,384	(76)	(5.52)%
Amortization	129	130	1	1.02%	133	4	3.15%	127	(2)	(1.53)%
Depreciation and amortization	1,589	1,676	87	5.18%	1,864	275	14.75%	1,511	(78)	(5.18)%
General taxes	949	860	(89)	(10.29)%	888	(51)	(5.68)%	682	(207)	(39.18)%
Impairment charges	10,650	10,846	196	1.80%	11,646	896	8.55%	9,917	(733)	(7.29)%
Total operating expenses, net	4,495	4,439	(55)	(1.25)%	3,999	496	12.41%	4,553	(68)	(1.27)%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
Interest income	1,412	1,605	193	12.04%	2,086	673	32.29%	1,411	(6)	(0.41)%
Interest on long-term debt	132	152	20	13.38%	482	350	72.63%	168	32	19.32%
Interest on Short-Term Bank Debt	1,544	1,758	214	12.15%	2,567	1,023	39.86%	1,568	24	1.55%
Total interest expense	1,230	1,328	98	7.36%	1,206	25	2.05%	381	850	233.30%
AFUDC - Equity	588	618	(30)	(4.78)%	548	41	7.47%	144	445	309.00%
AFUDC Debt	22	25	3	12.27%	27	5	17.45%	23	0	(1.45)%
Amortization of Debt Expense	-	-	-	-	-	-	-	-	-	-
Pretaxed 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)	(38.34)%
Total other income	17	12	(5)	(37.08)%	-	-	-	27	(10)	(38.34)%
Miscellaneous Amortization	0	0	0	1,470.12%	0	0	155.28%	0	0	0.00%
Miscellaneous Other Deductions	83	87	(4)	(4.69)%	107	24	17.68%	72	(16)	(22.11)%
Total Other Deductions	83	87	(4)	(4.69)%	107	24	17.68%	72	(16)	(22.11)%
Other, net	(71)	(74)	(3)	4.29%	(94)	(23)	33.52%	(45)	(26)	(16.23)%
Total other income (deductions)	182	89	(93)	103.98%	(94)	1,129	119.16%	(1,111)	1,293	116.35%
Income (loss) before income taxes	4,677	4,529	(148)	3.27%	3,051	1,626	53.29%	3,442	1,235	35.87%
State income taxes	351	275	(76)	(21.65)%	1,036	(665)	(64.21)%	319	(32)	(10.14)%
Federal income taxes	1,623	1,530	(93)	(5.73)%	1,036	(592)	(57.24)%	1,277	(346)	(27.13)%
Total income taxes	1,974	1,805	(169)	(8.57)%	2,072	(1,476)	(71.21)%	1,596	(346)	(21.81)%
Net income (loss)	2,703	2,724	21	0.78%	975	(997)	(102.74)%	1,846	(871)	(47.21)%
Pretaxed Dividend Declared	2,691	2,723	32	1.17%	1,873	(818)	(43.70)%	1,847	845	45.74%
Net income To Common Stock	1,489	1,492	(3)	(0.20)%	858	(631)	(73.51)%	956	(533)	(55.74)%
Common Dividend Declared	1,202	1,231	29	2.33%	1,015	(187)	(18.48)%	890	312	35.00%

Kentucky with Growth

PP-13  
Comments  
Close Status: Final  
pending reviews

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	YTD Actuals		YTD Plan		Income Statement Kentud Jun '09 (\$ in Thousands)		Year To Date growth '09		YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
	Refcast	% Variance	YTD Plan	% Variance	Kentud Jun '09	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)			
<b>OPERATING REVENUES</b>											
Water Revenues	26,658	(164)	27,493	(835)	26,371	(3,04)%	26,371	287	1,09%		
Sewer Revenues	158	(3)	168	(11)	152	(6,30)%	152	6	3,67%		
Other Operating Revenues	1,243	27	1,113	130	1,220	11,68)%	1,220	23	1,86%		
Management Revenues											
Operating Revenues	28,058	(140)	28,774	(716)	27,743	(2,49)%	27,743	315	1,14%		
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>											
<b>PRODUCTION EXPENSES</b>											
Purchased Water	60	3	72	14	54	20,22)%	54	(3)	(6,18)%		
Fuel and Power	1,435	171	1,620	385	1,406	21,18)%	1,406	(23)	(2,00)%		
Chemicals	1,143	(28)	1,133	(10)	738	(0,14)%	738	(396)	(53,69)%		
Waste Disposal	107	43	140	48	139	34,03)%	139	47	33,52)%		
Total production costs	2,880	161	3,165	446	2,337	14,10)%	2,337	(381)	(16,30)%		
<b>O&amp;M LABOR &amp; OVERHEAD</b>											
Labor	3,219	10	3,400	197	3,222	5,80)%	3,222	20	0,61%		
Pensions	712	(1)	674	(38)	660	(5,63)%	660	(53)	(7,44)%		
Group Insurances	1,056	28	1,121	65	869	(3,83)%	869	(197)	(20,91)%		
Other benefits	134	6	140	6	133	27,44)%	133	(7)	(5,19)%		
Total employee related	5,105	44	5,380	275	4,557	5,12)%	4,557	(548)	(12,02)%		
<b>Management fees</b>											
Shared business services	1,944	(18)	1,878	(66)	2,090	(9,53)%	2,090	145	6,95%		
Contracted services	1,891	17	1,991	100	2,000	5,01)%	2,000	109	5,44%		
Total contracted services	610	(21)	480	(121)	373	(24,61)%	373	(237)	(63,37)%		
<b>Total operations and maintenance expense</b>	2,502	(4)	2,481	(21)	2,374	(0,83)%	2,374	(128)	(6,38)%		
Regulatory expense	92	5	98	6	140	5,27)%	140	48	34,16%		
Insurance Other Than Group	321	2	323	2	209	(10,78)%	209	(112)	(33,37)%		
Customer Accounting	766	745	820	54	700	(6,03)%	700	(66)	(9,40)%		
Rents	17	20	28	11	18	38,42)%	18	0	1,53%		
General office expense	245	268	302	57	275	(18,86)%	275	30	10,76%		
Miscellaneous	739	813	1,213	475	915	39,12)%	915	177	23,94)%		
Maintenance	1,296	(22)	1,391	85	1,433	5,15)%	1,433	(63)	(5,13)%		
Total operations and maintenance expense	15,745	197	17,107	1,361	14,848	7,36)%	14,848	(897)	(6,04)%		
Depreciation	2,899	2,985	3,452	553	3,044	16,01)%	3,044	145	4,75%		
Amortization	257	259	286	29	255	(0,52)%	255	(2)	(0,82)%		
Depreciation and amortization	3,156	3,243	3,718	562	3,299	15,11)%	3,299	142	4,31%		
General taxes	1,712	1,624	1,788	76	1,535	(4,26)%	1,535	(178)	(11,58)%		
Impairment charges											
Total operating expenses, net	20,614	198	22,613	1,999	19,681	(8,84)%	19,681	(933)	(4,74)%		
Operating Income	7,444	35	6,161	(1,283)	8,062	20,83)%	8,062	(618)	(7,66)%		
<b>OTHER INCOME &amp; DEDUCTIONS</b>											
Interest income	3,016	193	3,510	688	2,874	19,59)%	2,874	(6)	(0,00)%		
Interest on long-term debt	272	20	293	20	380	74,95)%	380	108	28,36%		
Interest on Short-Term Bank Debt											
Other Interest Expense											
Total Interest Expense	3,085	214	4,588	1,503	3,248	32,69)%	3,248	183	4,72%		
AFUDC - Equity	2,294	(89)	2,286	8	651	0,36)%	651	1,643	252,38%		
AFUDC Debt	1,085	(30)	1,038	47	271	4,54)%	271	814	300,66%		
Amortization of Debt Expense	44	3	45	0	44	0,29)%	44	0	(0,01)%		
Preferred dividends of subsidiaries (Consolidated)											
Gain on sale of assets											
Non-Operating Rental Income											
Dividend Income - Common											
Dividend Income - Preferred											
Miscellaneous Income	52	47	5	52	50	9,56)%	50	2	3,99%		
Total other income	52	47	5	52	50	9,56)%	50	2	3,99%		
Miscellaneous Amortization	0	0	0	0	0	88,02)%	0	0	0,00%		
Miscellaneous Other Deductions	219	(1)	276	56	177	(20,14)%	177	(44)	(24,60)%		
Total Other Deductions	220	(1)	277	56	177	(20,53)%	177	(44)	(24,60)%		
<b>Other, net</b>	(169)	(172)	(277)	108	(127)	39,07)%	(127)	(42)	28,60%		
Total other income (deductions)	7,515	(22)	(1,596)	1,667	(2,488)	104,44)%	(2,488)	2,569	102,83%		
<b>Income (loss) before income taxes</b>											
State Income Taxes	477	400	765	288	564	64,61)%	564	1,951	35,07%		
Federal Income Taxes	2,391	2,238	4,576	(754)	2,052	(47,86)%	2,052	(279)	(13,59)%		
Tax Saving Acquisition Adjustment	(4)	(6)	(23)	(19)	(5)	(82,95)%	(5)	(1)	(27,61)%		
State Income taxes (non-operating)	(3)	(11)	(69)	(66)	(28)	(96,79)%	(28)	(90,89)%			
Federal Income taxes (non-operating)	2,801	2,621	1,730	(1,071)	2,391	(61,84)%	2,391	(410)	(17,13)%		
Net Income (Loss) for Income Taxes	4,714	4,746	2,835	1,878	3,172	66,24)%	3,172	1,542	48,60%		
Net Income (Loss)	39	0	39	0	39	0,00)%	39	0	(0,01)%		
Preferred Dividend Declared	4,675	4,706	2,796	1,878	3,133	67,17)%	3,133	1,542	49,21%		
Net Income to Common Stock	3,197	2,567	2,461	(736)	2,053	(29,91)%	2,053	(1,144)	(65,73)%		
Common Dividend Declared	1,477	2,140	335	1,142	1,080	340,84)%	1,080	397	36,81%		



**KENTUCKY**  
**AMERICAN WATER**

**Quarterly Operations Review**  
**September 2009**



**Kentucky American Water  
Operations Review September 2009**

**Operational Issues Review**

**1. Source of Supply and New Water Treatment Plant**

There are no current source-of-supply issues. Precipitation was greater than average for the month of September (5.9 vs. 3.1 inches). As of September 30, rainfall is 21% more than normal (43.3 vs. 35.7 inches) for the year to date and 50% more than normal for the third quarter (18.0 vs. 11.9 inches).

**Water Supply Project Update**

Work continued through September on concrete and masonry work of treatment building. Raw water intake construction continued with the intake work nearly completed at the river. Roofing was placed on part of the treatment building and flocculators were installed in the flocculation basins. A progress meeting was held on September 23 and progress calls were held September 2, 9, 16, and 30. Work is on budget and on schedule.

An additional 7,896 feet of pipe was installed for a total of 126,034 feet or 23.87 miles (78%) of main. Work on Contract A in Franklin County continues around the fish hatchery and tunnel, with installation at the tunnel completed and tied in. In Scott County, progress continues along Iron Works Road. Easements on five parcels remain to be acquired; negotiations continue. A progress meeting was held on September 22, with progress conference calls on September 8, 15, and 29. Additional pavement requirements in Franklin County by the KY Transportation Cabinet are being addressed. Work continues on schedule and on budget.

Work continued on the booster station building and installation of equipment. Yard piping installation began at the end of August. A progress meeting was held September 23. Work continues on schedule and on budget.

A meeting was held on September 24 at the treatment plant to coordinate filling, disinfection, and flushing between all three contracts. Overall, the project is 70% complete and is on budget and on schedule to be substantially complete by late summer 2010.

**2. Operational Costs: Energy, Chemicals, Residuals**

	<b>September Actual</b>	<b>Sept Plan</b>	<b>Variance</b>	<b>Sept YTD</b>	<b>Sept YTD Reforecast</b>	<b>Reforecast Variance</b>
<b>Purchased Water</b>	10	16	6	94	100	6
<b>Fuel and Power</b>	375	416	41	2,363	2,405	42
<b>Chemicals</b>	179	263	84	1,759	1,843	84
<b>Waste Disposal</b>	25	27	2	172	174	2
<b>Total Production</b>	589	722	133	4,388	4,522	134



**Kentucky American Water  
 Operations Review September 2009**

September fuel and power costs remain under plan for the month and year to date, primarily attributable to lower than plan system delivery. Below plan chemical costs are driven by lower negotiated prices, better source water quality from the Kentucky River and lower than planned system delivery.

**3. Rate Case/Orders: Timing, Value, Issues**

No updates for September.

**4. Commission Activity: Customer Complaints, Compliance**

The overall number of complaints to the Kentucky Public Service Commission year to date is slightly higher than 2008 results for the same period, although a greater percentage of this year's complaints have been related to collection activity.

	YTD Collections	YTD Billing	Other Total	YTD Total
2008	39	26	1	66
2009	43	29	2	74

**5. Divestitures**

No additional activity to report.

**6. Major Operational Projects**

The South Limestone Water Main Replacement Project between Avenue of Champions and Vine Street is currently under construction. This project is being constructed in conjunction with the Lexington-Fayette Urban County Government's South Limestone Streetscape Project. The Project includes the replacement of existing 6-inch cast iron water main (dating back to the early 1900's, with a portion pre-1900's) with approximately 2400 LF of 12-inch ductile iron water main. The project is scheduled to be complete by the end of the year.

The North Broadway Main Replacement Project will replace approximately 5,400 feet of 6-inch main which dates back to the late 1800's and early 1900's. The water line relocation on Shawnee Ave, Granard Avenue, and Morrison Avenue is complete. Service renewals are also complete on these streets. The remainder of the project along North Broadway includes the installation of approximately 5,500 LF of 12-inch main between Church Street and Loudon Avenue. Currently, approximately 2,400 LF of main has been constructed from Church Street through Fourth Street. Construction of service line renewals is also occurring in this section. This construction is taking place in the evening after rush hour traffic and is scheduled to be complete in the spring of 2010.

The KY 607 Water Main Extension Project in Owen County completes a vital loop in the southern portion of the Northern System. The project includes the construction of approximately 15,900 LF of 6-inch main along KY 607 between US 127 and Herman



**Kentucky American Water  
Operations Review September 2009**

Greene Road. Construction on the project began on July 13, 2009, and the project was placed into service on September 24, 2009.

The Newtown Pike Downtown Relocation Project between Main Street and Versailles Road started at the end of September. This project is being constructed in conjunction with the Kentucky Transportation Cabinet's Newtown Pike Extension Project. The project includes the relocation of approximately 400 LF of 20-inch water main, 1,200 LF of 16-inch water main, 200 LF of 12-inch water main and 600 LF of 8-inch water main. The project is scheduled to be complete in the spring of 2010.

Capital Expenditure results year-to-date, and the third quarter reforecast, reflect the higher than original plan spend for the water treatment project.

12-KY Gross	Original	Q1RF	Q2RF	Q3RF
Full Year Budget	\$82,568,841	\$98,885,357	\$99,055,070	\$98,010,411
To Date Budget	\$61,921,044	\$84,562,239	\$82,289,575	\$79,705,965
To Date Actual	\$78,718,957	\$78,718,957	\$78,718,957	\$78,718,957
To Date Variance	\$16,797,913	\$(5,843,282)	\$(3,570,618)	\$(987,008)

**7. Operational Regulatory Compliance: Status**

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
<b>Regulatory Maintenance:</b>					
Meter Changes (1)	13,988	14,180	192	C	↓

<b>Other Program Maintenance:</b>					
Valve Operation (<16" ) (2)	4,301	4,300	0	C	→
Valve Operation (>16" )	456	422	0	C	→
Hydrant Inspections (3)	6,450	5,859	0	C	→

(1) To date, 13,988 meters were replaced for the periodic meter change-outs. There are 18,935 periodic meter change-outs planned for the year.

(2) Large valve operations are complete and small valves are on track to complete 2009 plan.



**Kentucky American Water  
Operations Review September 2009**

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(3) Hydrant inspections are ahead of target for 2009 completion. KAW planned inspections total 7,035 for the year.

**8. Regulatory Compliance – Other**

The citizens group impacted by the construction of the new water treatment plant (Citizens for Alternative Water Solutions "CAWS") had applied for a rehearing of the Certificate of Necessity. The PSC denied the Application for Rehearing on June 5, 2008. CAWS filed an appeal in the Franklin County Circuit Court on June 23, 2008. The record was filed on February 2, 2009, and an Order approving an agreed-upon briefing schedule was issued on February 25, 2009. CAWS's filed its brief on May 15, 2009. KAW filed its brief on August 14, as did the Attorney General, the PSC, and the BWSC. CAWS filed its reply brief on September 28. All parties are currently awaiting a ruling from the judge.

**9. Union/Labor Issues/Activities**

An arbitration hearing scheduled for October was cancelled as a settlement was reached on the grievance issue.

**10. Explanation of NOV's, OSHA violations, etc.**

Kentucky American Water's Rockwell Village Wastewater Treatment Plant was issued an exceedance related to the 7-day geometric mean sample for fecal coliforms. The plant had recently switched to a different chlorine tablet that dissolved more rapidly, which contributed to the exceedance, as did use of a contract lab for this particular sample. The plant has switched to a more stable tablet to avoid future occurrences. A violation is not anticipated based upon this incident as the total month result was within limits.

The Kentucky Public Service Commission and the Kentucky Division of Water both performed inspections of our Northern Division sewer system in September 2009. No deviations were noted.

**11. Financing activities**

An additional \$26 million of tax-exempt financing was closed in September. This second issue through the Owen County Fiscal Courts, at 5.62%, raised the total tax exempt financing for the KRS II Treatment Plant and Pipeline project to \$71 million.

**12. Revenue Generating Projects/Opportunities**

Business development activities in September 2009 for Kentucky American Water included representation and a booth at the Kentucky League of Cities held at the Northern Kentucky Convention Center on the 23<sup>rd</sup> & 24<sup>th</sup>. The conference was attended by Mayors, Council Members, Commissioners and Directors from most municipalities in State.



**Kentucky American Water  
Operations Review September 2009**

American Water continues to promote Applied Water Management's water reuse (reuse of wastewater) program with Toyota Manufacturing with a proposed meeting in October 2009 including Gary Lohse, Sr. Mgr. of Engineering for AWM and Toyota's facilities management team.

**13. O&M Contracts – Significant Operational/Financial Variances**

No activity to report this period.

**14. Other Operational Issues**

There were three vehicular accidents in September. However, the OSHA recordable incident rate at September is 0.00%. The OSHA recordable injury rate is 8.61 YTD.

KAW implemented a number of strategies to improve results for the Customer Satisfaction Survey. Results have improved through 2009 and are on plan to meet year end 2009 targets.

<b>Customer Satisfaction Results</b>					
<b>Kentucky - 2009 YTD</b>					
<b>Question</b>	<b>Question Text</b>	<b>2007 Results</b>	<b>2008 Results</b>	<b>2009 YTD</b>	<b>2009 Target</b>
Q29	Satisfaction with Outcome of Contact (% Extremely and Very Satisfied)	87%	83%	88%	85%
Q27	Number of Times Contacted AW (%Contacted Once)	87%	75%	80%	N/A
Q29b	Reason for Contact Completely Addressed (%Yes)	87%	93%	96%	N/A
Q7i	CSR Overall Performance (% Excellent and Very Good)	87%	89%	89%	N/A
Q21i	FSR Overall Performance (% Excellent and Very Good)	87%	93%	100%	93%
Q22h	FSR Arrived as Scheduled During Agreed Upon Appointment Window (%Yes)	87%	74%	70%	90%





**Kentucky American Water  
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**15. Communications and Government Affairs**

Government affairs facilitated a panel discussion, along with the Lexington Fayette Urban County Government Environmental Quality Commissioner Cheryl Taylor, following a showing of the documentary, "Liquid Assets Panel and the University of Kentucky" on September 16.

KAW also led a tour of the new pipeline and water treatment plant for members of the Bluegrass Area Development District on 9/25, including several mayors and representatives of area municipal water utilities.

Community Relations activities in September included the following:

- A "Day of Water" at Springhouse Gardens on Sept 5 to present on the subjects of water quality, environmental stewardship and water conservation.
- Issued a press release about the pipeline construction project crossing, in an environmentally sensitive manner, the North Elkhorn Creek. The release resulted in media articles for two major dailies in the area (Herald Leader and Frankfort State Journal).
- Conducted a two-day tour program (50 8th grade students each day) of the Richmond Road Water Treatment Plant. In addition to the tour, students were provided with a presentation of water quality and conservation. Messaging was also provided on solving Central Kentucky water supply shortfall. The children also received the new water treatment brochure.

**Kentucky American Water  
Board Report – Q3 2009**

**Financial Performance**

**Quarter-to-Date Results – Actual to Plan:**

Operating Revenues were unfavorable by \$2,297k, 11.10% below Plan for the Third Quarter of 2009. The primary drivers of the variance are rate case results offset by interest expense and higher AFUDC (\$1.03M) and lower than planned customer demand (\$1.45M).

Operating expenses were \$685k favorable to Plan.

1. Production costs were favorable by \$606k, driven by lower chemical prices from re-negotiated contracts and lower power costs from improved NWR and lower water sales
2. Depreciation was favorable by \$294k, driven by lower than planned composite depreciation rates
3. Management fees were unfavorable by \$110k, driven by additional costs for the FRCC during the transition to the new center in Lexington, KY
4. Labor was unfavorable by \$91k, driven by reclassification of labor that was capitalized to the incorrect work order

Interest expenses were favorable to Plan by \$1,487k, driven by tax exempt financings, which are capitalized against the Water Treatment Plant project during construction, lower rates on long-term debt (tax exempt financings) and lower short term interest rates. AFUDC was favorable by \$348k, driven by rate case outcome vs. Plan.

Net income was \$203k favorable to Plan.

**Year-to-Date Results – Actual to Plan:**

Operating Revenues were unfavorable by \$3,012k, 6.09% below Plan for 2009. The primary drivers of the variance are rate case results offset by lower interest costs and higher AFUDC (\$1.03M) and lower than planned customer demand (\$2.28M).

Operating expenses were \$2,684k favorable to Plan.

1. Production costs were favorable by \$1,052k, driven by lower chemical prices from re-negotiated contracts and lower power costs from improved NWR and lower water sales
2. Labor was favorable by \$185k, driven by lower headcount in early 2009 vs. Plan

3. Contracted services was \$175k unfavorable to Plan, driven by higher than expected temporary labor for maintenance
4. Miscellaneous was favorable \$433k, driven by lower than Planned fuel (gas) prices and capitalization of fleet costs, offset by water study write-off in Q3 of 2009 (\$159k)
5. Depreciation was favorable by \$294k, driven by lower than planned composite depreciation rates

Interest expenses were favorable to Plan by \$2,990k, driven by tax exempt financings, which are capitalized against the Water Treatment Plant project during construction, lower rates on long-term debt (tax exempt financings), timing of long-term debt offerings and lower short term interest rates. AFUDC was favorable by \$404k, driven by rate case outcome vs. Plan.

Net income was \$2,081k favorable to Plan.

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Income Statement  
Quarterly  
(\$ in Thousands)

	QTD Actuals	QTD - Forecast	Variance Favorable (Unfavorable)	% Variance	QTD - Plan	Variance Favorable (Unfavorable)	% Variance	QTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
<b>OPERATING REVENUES</b>										
1	17,585	17,819	(234)	(1.33)%	20,042	(2,476)	(12.36)%	16,673	882	5.35%
2	62	56	6	9.68%	88	(26)	(29.55)%	79	3	4.17%
3	742	723	19	2.58%	566	176	31.28%	671	71	10.60%
4	18,390	18,602	(212)	(1.14)%	20,696	(2,297)	(11.10)%	17,423	967	5.55%
5	36	43	7	19.44%	36	0	0.00%	34	(2)	(5.88)%
6	928	970	42	4.53%	1,249	(321)	(25.68)%	1,022	94	9.18%
7	625	709	84	13.44%	908	283	31.17%	526	(99)	(18.81)%
8	80	82	2	2.50%	82	0	0.00%	67	(15)	(22.62)%
	1,670	1,804	134	7.99%	2,276	606	26.62%	1,849	(427)	(23.16)%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
9	1,816	1,775	41	2.26%	1,757	59	3.34%	1,669	147	8.82%
10	356	352	4	1.12%	337	19	5.64%	154	(202)	(131.16)%
11	572	523	49	8.57%	561	11	1.97%	418	(154)	(36.87)%
12	80	78	2	2.50%	78	0	0.00%	77	(1)	(1.28)%
	2,824	2,728	96	3.39%	2,733	(9)	(0.33)%	2,317	(507)	(18.56)%
13	1,063	1,081	18	1.67%	963	110	11.50%	921	142	15.40%
14	1,062	1,064	2	0.19%	1,009	53	5.15%	989	73	7.35%
15	288	256	32	11.11%	234	54	23.08%	298	10	3.40%
	1,350	1,321	29	2.15%	1,243	107	8.57%	1,287	(65)	(4.96)%
<b>COAL LABOR &amp; OVERHEAD</b>										
16	76	81	5	6.58%	91	14	15.81%	40	(69)	(89.56)%
17	121	172	51	42.15%	180	59	32.86%	124	3	2.49%
18	438	469	31	7.08%	465	27	5.81%	374	(64)	(17.15)%
19	6	7	1	16.67%	14	7	47.63%	5	(2)	(41.84)%
20	164	148	16	9.76%	148	16	11.16%	226	61	27.24%
21	616	611	5	0.81%	575	41	7.13%	410	(206)	(50.30)%
22	728	692	36	4.93%	679	49	7.21%	679	(48)	(7.13)%
	9,037	9,113	76	0.84%	9,378	321	3.42%	8,033	(1,025)	(12.76)%
23	1,480	1,497	17	1.15%	1,774	294	16.57%	1,410	(70)	(4.94)%
24	129	131	2	1.55%	133	4	3.01%	129	0	0.00%
	1,609	1,627	18	1.12%	1,907	298	15.62%	1,539	(70)	(4.54)%
25	840	873	33	3.93%	906	66	7.30%	796	(45)	(5.61)%
27	11,507	11,612	105	0.91%	12,191	685	5.62%	10,368	(1,139)	(10.99)%
	6,893	7,016	123	1.78%	8,495	1,612	18.97%	7,055	(173)	(2.45)%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
28	1,302	1,301	1	0.08%	2,434	1,132	46.51%	1,411	109	7.71%
29	53	53	0	0.00%	417	364	87.21%	115	62	53.69%
30	8	8	0	0.00%	8	0	0.00%	0	(8)	(100.00)%
31	1,363	1,457	94	6.90%	2,351	1,487	63.24%	1,526	162	10.65%
32	469	401	68	14.50%	243	225	92.65%	187	281	150.04%
33	234	179	55	23.50%	111	123	111.47%	109	125	114.78%
34	25	27	2	8.00%	32	6	19.51%	23	2	10.49%
35	-	-	-	-	-	-	-	-	-	-
36	-	-	-	-	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-	-	-
38	-	-	-	-	-	-	-	-	-	-
39	8	(1)	9	112.50%	-	8	8.00%	(3)	39	125.74%
40	0	0	0	0.00%	0	0	0.00%	0	0	0.00%
41	38	59	21	55.26%	38	1	2.63%	76	39	51.81%
	36	59	23	63.89%	38	1	2.76%	76	39	51.81%
	(28)	(99)	31	52.26%	(38)	9	24.51%	(107)	78	73.95%
	(715)	(964)	250	35.00%	(2,566)	1,852	72.16%	(1,359)	645	47.42%
42	6,168	6,082	86	1.39%	5,929	240	4.04%	5,696	472	8.29%
43	1,937	2,044	107	5.52%	1,982	45	2.26%	1,943	11	0.56%
44	(3)	(2)	1	33.33%	(3)	0	0.00%	(3)	0	0.00%
45	(16)	(5)	11	68.75%	(12)	4	31.91%	(1)	5	44.21%
46	2,356	2,364	8	0.34%	2,260	96	4.25%	2,287	(30)	(1.31)%
47	3,872	3,687	185	4.78%	3,669	203	5.54%	3,400	442	12.89%
48	20	20	0	0.00%	20	0	0.00%	19	1	5.26%
	3,853	3,668	185	4.80%	3,649	203	5.57%	3,410	442	12.89%
	2,005	1,691	314	15.66%	1,691	(315)	(18.65)%	1,385	(611)	(43.82)%
	1,846	1,977	(131)	(7.09)%	1,958	(112)	(5.73)%	2,015	(169)	(8.39)%

Kentucky with Growth

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Income Statement  
Kentucky  
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(\$ in Thousands)

	YTD Actuals	YTD	Variance	% Variance	YTD Plan	Variance	% Variance	YTD	Variance	% Variance
		Forecast	Favorable			(Unfavorable)		Pr. Yr.	(Unfavorable)	
<b>OPERATING REVENUES</b>										
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)%	258	(16)	(6.36)%	231	9	3.84%
Other Operating Revenues	1,985	1,966	19	0.95%	1,869	315	18.38%	1,891	94	4.96%
Management Revenues	-	-	-	-	-	-	-	-	-	-
Operating Revenues	46,448	46,687	(239)	(0.51)%	49,460	(3,012)	(6.09)%	45,166	1,282	2.84%
<b>OPERATIONS &amp; MAINTENANCE EXPENSE</b>										
<b>PRODUCTION EXPENSES</b>										
Purchased Water	94	100	(6)	6.75%	108	14	13.27%	87	(5)	(5.99)%
Fuel and Power	2,363	2,405	(42)	1.73%	2,094	76	3.27%	2,420	(6)	(0.25)%
Chemicals	1,759	1,843	(84)	4.78%	2,041	282	13.79%	1,963	(4)	(0.20)%
Waste Disposal	1,722	1,759	(37)	2.15%	2,022	50	22.43%	206	34	16.29%
Total production costs	4,388	4,522	(134)	2.96%	5,440	1,052	19.34%	3,986	(402)	(10.08)%
<b>QA/LABOR &amp; OVERHEAD</b>										
Labor	5,019	4,977	(41)	(0.82)%	5,157	139	2.69%	4,891	(127)	(2.61)%
Pensions	1,068	1,064	(4)	(0.39)%	1,011	498	(5.05)%	498	(570)	(114.60)%
Group Insurance	1,628	1,573	(48)	(3.05)%	1,682	54	3.23%	1,277	(351)	(27.48)%
Other benefits	214	212	(2)	(0.99)%	263	49	18.50%	209	(6)	(2.83)%
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	2,986	(33)	0.09%	3,001	48	1.59%	2,889	36	1.21%
Contracted services	898	886	(12)	(1.34)%	724	(175)	(24.17)%	672	(226)	(32.71)%
Total contracted services	3,851	3,822	(29)	(0.77)%	3,724	(127)	(3.42)%	3,561	(190)	(5.20)%
Regulatory expense	169	173	(4)	2.33%	189	20	10.65%	180	12	6.54%
Insurance Other Than Group	442	493	(51)	10.33%	539	97	18.08%	333	(109)	(22.56)%
Customer Accounting	1,204	1,235	(31)	2.48%	1,285	81	6.33%	1,074	(130)	(12.10)%
Rents	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	1,355	1,349	(6)	(0.43)%	1,788	433	24.22%	1,325	(30)	(2.23)%
Maintenance	2,024	1,988	(36)	(1.80)%	2,092	59	2.81%	1,912	(18)	(0.90)%
Total operations and maintenance expense	24,803	24,858	(55)	0.22%	26,485	1,682	6.35%	22,881	(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)	0.34%	400	13	3.25%	384	(2)	(0.64)%
Depreciation and amortization	4,766	4,784	(18)	0.38%	5,625	860	15.28%	4,838	(72)	(1.50)%
General taxes	2,552	2,585	(33)	1.26%	2,695	142	5.28%	2,330	(222)	(9.54)%
Impairment charges	-	-	-	-	-	-	-	-	-	-
Total operating expenses, net	32,121	32,227	(106)	0.33%	34,805	2,684	7.71%	30,049	(2,072)	(6.90)%
Operating income	14,327	14,460	(133)	(0.92)%	14,656	(529)	(3.24)%	15,117	(790)	(5.23)%
<b>OTHER INCOME &amp; DEDUCTIONS</b>										
Interest income	-	-	-	-	-	-	-	-	-	-
Interest on long-term debt	4,124	4,124	-	(0.02)%	5,944	1,820	30.61%	4,285	(6)	(0.00)%
Interest on Short-Term Bank Debt	306	421	(115)	22.55%	1,505	1,179	78.35%	485	(170)	34.26%
Other interest expense	-	8	(8)	(0.04)%	-	-	-	-	(8)	(0.02)%
Total interest expense	4,430	4,553	(123)	2.07%	7,449	2,930	40.15%	4,774	(316)	6.62%
AFUDC - Equity	2,762	2,694	68	2.52%	2,659	234	9.24%	838	1,824	229.48%
AFUDC - Debt	1,319	1,294	(25)	(1.89)%	1,448	170	14.63%	380	(839)	(247.38)%
Other	70	71	(1)	2.18%	76	6	8.25%	67	2	3.54%
Total other income	60	51	9	17.39%	-	60	-	19	41	218.29%
Miscellaneous Amortization	0	0	0	45.37%	1	1	155.28%	0	0	0.00%
Miscellaneous Other Deductions	257	279	(22)	7.81%	314	57	18.09%	253	(6)	(1.79)%
Total Other Deductions	(197)	(228)	(31)	13.62%	(314)	117	37.37%	(234)	37	219.95%
Total other income (deductions)	(644)	(894)	(250)	27.96%	(4,162)	3,518	84.53%	(3,857)	3,213	83.31%
Income (loss) before income taxes	13,683	13,566	(117)	0.86%	10,494	3,189	30.39%	11,260	2,423	21.52%
State Income Taxes	855	804	(51)	(6.37)%	958	(297)	(53.25)%	709	(148)	(20.62)%
Federal Income Taxes	4,268	4,375	(107)	2.44%	3,558	(710)	(19.94)%	4,000	(266)	(6.70)%
Tax Saving Acquisition Adjustment	(7)	(5)	(2)	25.33%	(26)	(19)	(73.90)%	(6)	(2)	(18.38)%
State income taxes (non-operating)	5,097	5,165	(68)	1.32%	(3,071)	(8,236)	(27.17)%	(452)	(23)	(55.50)%
Federal income taxes (non-operating)	8,586	8,401	185	2.00%	6,904	2,062	29.86%	4,565	(459)	(6.43)%
Provision (Benefit) for Income Taxes	59	59	0	0.03%	66	6	9.25%	1,984	0	0.06%
Net income (loss)	8,327	8,342	(15)	2.22%	5,445	2,081	32.25%	6,543	1,984	30.33%
Preferred Dividend Declared	5,204	4,888	(316)	(6.45)%	4,152	(1,052)	(25.52)%	3,448	(1,755)	(60.31)%
Common Dividend Declared	3,323	3,454	(131)	(3.79)%	2,293	1,030	44.91%	3,085	228	7.38%

Kentucky with Growth

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	Actuals	Reforecast	Increase (Decrease)	% Variance	Plan	Increase (Decrease)	% Variance	Prior Yr. Dec.	Increase (Decrease)	% Variance
<b>Assets</b>										
1 Utility Plant	382,211	381,002	1,209	0.3%	381,007	904	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	13.9%	54,501	65,453	120.1%
3 Accumulated Depreciation	(89,583)	(89,196)	(487)	(0.5)%	(92,323)	2,740	3.0%	(84,213)	(5,370)	(6.4)%
4 Utility Plant Acquisition Adjustments	290	291	(1)	(0.3)%	312	(22)	(7.1)%	305	(15)	(4.9)%
5 Other Utility Plant Adjustments	412,871	413,937	(1,066)	(0.3)%	384,644	18,227	4.8%	340,079	72,792	21.4%
6 Non-utility Property	270	270	0	0.0%	270	0	0.0%	270	0	0.0%
7 Total property, plant and equipment	413,141	414,207	(1,066)	(0.3)%	384,914	18,227	4.8%	340,349	72,792	21.4%
8 Cash and Cash Equivalents	495	25,990	(25,495)	(98.1)%	200	295	147.1%	234	261	111.3%
9 Restricted funds	3,032	2,862	170	5.9%	2,971	61	2.0%	2,242	689	30.8%
10 Utility customer accounts receivable	(2,777)	(3,000)	223	(7.7)%	(2,411)	(589)	(24.3)%	(2,730)	(41)	(1.5)%
11 Allowance for uncollectible accounts	3,698	4,059	(361)	(9.9)%	3,708	(10)	(0.3)%	2,900	798	27.5%
12 Acquired utility revenues	651	572	79	13.8%	310	341	110.0%	412	239	58.2%
13 Other receivables, net	582	692	(110)	(18.9)%	684	(92)	(13.3)%	577	105	18.2%
14 Taxes receivable, including federal income	18,055	18,054	1	0.0%	18,042	13	0.1%	18,055	(1)	(0.0)%
15 Materials and supplies	475	552	(77)	(16.3)%	230	245	106.5%	411	64	15.6%
16 Receivables from affiliated companies	26,711	34,428	(7,717)	(28.9)%	7,855	18,356	240.0%	6,603	20,108	304.5%
17 Other Current Assets	4,081	4,033	48	1.2%	6,322	(2,241)	(35.4)%	3,230	851	26.4%
18 Regulatory assets - income tax recovery	1,578	1,298	280	29.2%	695	982	141.2%	795	882	110.9%
19 Debt and preferred stock expense	-	-	-	-	-	-	-	-	-	-
20 Deferred pension expense	-	-	-	-	-	-	-	-	-	-
21 Deferred postretirement benefit expense	-	-	-	-	-	-	-	-	-	-
22 Deferred security costs	-	-	-	-	-	-	-	-	-	-
23 Deferred business services project expense	-	-	-	-	-	-	-	-	-	-
24 Deferred integration costs	-	-	-	-	-	-	-	-	-	-
25 Deferred tank painting costs	1,672	1,662	10	0.6%	1,462	210	14.4%	1,737	(65)	(3.8)%
26 Deferred rate case	544	539	5	1.0%	596	(52)	(8.7)%	554	(10)	(1.7)%
27 Asset premium recoverable thru rates	-	-	-	-	-	-	-	-	-	-
28 Environmental remediation recoverable thr	2,570	2,805	(235)	(8.4)%	3,075	(605)	(19.4)%	2,760	(180)	(6.5)%
29 Other Regulatory Assets	10,545	10,356	188	1.8%	12,151	(1,606)	(13.2)%	9,076	1,469	16.2%
30 Other investments	-	-	-	-	-	-	-	-	-	-
31 Long term receivable from affiliate	-	-	-	-	-	-	-	-	-	-
32 Funds restricted for construction	-	-	-	-	-	-	-	-	-	-
33 Goodwill	-	-	-	-	-	-	-	6	(6)	(100.0)%
34 Intangible assets	-	-	-	-	-	-	-	-	-	-
35 Other Long Term Assets	52	52	0	0.0%	1,029	(977)	(94.9)%	128	(73)	(56.5)%
36 Total Regulatory & Other LT Assets	10,597	10,409	188	1.8%	13,180	(2,583)	(19.6)%	9,208	1,389	15.1%
37 Total Assets	450,449	459,043	(8,594)	(1.9)%	415,949	34,500	8.3%	356,160	94,289	26.5%
<b>Capital &amp; Liabilities</b>										
38 Common Stock	36,569	36,569	0	0.0%	36,569	0	0.0%	36,569	0	0.0%
39 Paid in Capital	46,651	46,649	2	0.0%	42,113	4,538	10.8%	24,127	22,525	93.4%
40 Retained Earnings	36,136	36,266	(131)	(0.4)%	35,142	994	2.8%	32,812	3,323	10.1%
41 Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
42 Unearned compensation	-	-	-	-	-	-	-	-	-	-
43 Treasury stock	-	-	-	-	-	-	-	-	-	-
44 Common stockholder's equity	119,356	119,484	(128)	(0.1)%	119,824	5,532	4.9%	93,507	25,848	27.6%
45 Preferred Stock without mandatory redemp	1,456	1,456	0	0.0%	1,447	9	0.6%	1,456	0	0.0%
46 Long term debt	144,990	144,990	0	0.0%	110,600	34,390	31.1%	76,700	68,290	89.0%
47 Redeemable preferred stock at redemption	4,500	4,500	0	0.0%	4,500	0	0.0%	4,500	0	0.0%
48 Total Capitalization	270,301	270,430	(128)	(0.0)%	230,370	39,931	17.3%	176,163	94,138	53.4%
49 Short Term Debt	39,105	48,190	(9,085)	(23.2)%	42,974	(3,868)	(9.0)%	53,106	(14,001)	(26.4)%
50 Current Portion of Long-term Debt	3,100	3,100	0	0.0%	3,100	0	0.0%	3,100	0	0.0%
51 Current portion of redeemable stock at red	11,309	14,309	(3,000)	(26.5)%	7,612	6,697	88.0%	8,445	2,864	33.9%
52 Accounts Payable	(2,767)	(2,767)	0	0.0%	(2,736)	(31)	(1.1)%	(308)	(2,271)	(736.8)%
53 Taxes Accrued	1,744	1,744	0	0.0%	1,744	0	0.0%	1,744	0	0.0%
54 Interest Accrued	5,688	5,689	(1)	(0.0)%	5,689	(1)	(0.0)%	5,689	(1)	(0.0)%
55 Total Other Current Liabilities	59,379	71,967	(12,588)	(21.2)%	63,245	(3,946)	(6.2)%	69,963	(10,584)	(15.1)%
56 Total Current Liabilities	13,332	13,011	321	2.4%	16,187	(2,855)	(17.6)%	11,916	1,466	12.3%
57 Customer Advances for Construction	45,785	42,532	3,253	7.1%	39,155	6,630	16.9%	37,871	7,914	20.9%
58 Deferred Income Taxes	1,059	1,077	(18)	(1.7)%	1,077	(18)	(1.7)%	1,133	(64)	(5.6)%
59 Deferred investment tax credits	11,328	11,358	(30)	(0.3)%	11,310	48	0.4%	1,572	1,572	16.1%
60 Regulatory liability	1,444	1,426	18	1.2%	1,044	400	38.3%	1,389	54	3.9%
61 Accrued pension expense	456	261	196	43.0%	44	412	935.5%	418	38	9.1%
62 Accrued postretirement benefit expense	73,526	69,726	3,800	5.2%	72,912	614	0.8%	63,219	10,308	16.3%
63 Other Deferred Credits	47,242	47,321	(79)	(0.2)%	49,342	(2,100)	(4.3)%	46,815	427	0.9%
64 Regulatory & Other Long Term Liabilities	450,449	459,043	(8,594)	(1.9)%	415,949	34,500	8.3%	356,160	94,289	26.5%
65 Contributions in aid of construction	-	-	-	-	-	-	-	-	-	-
66 Total capital and liabilities	450,449	459,043	(8,594)	(1.9)%	415,949	34,500	8.3%	356,160	94,289	26.5%

Report files - Company: USD, Version: Final, Subsystem: All Subsystems  
Project: No Project, Water System: No Water System



**KENTUCKY**  
AMERICAN WATER

**Quarterly Operations Review**  
**November 2009**



**Kentucky American Water  
Operations Review November 2009**

**Operational Issues Review**

**1. Source of Supply and New Water Treatment Plant**

There are no current source-of-supply issues. Although precipitation during November was less than normal (0.97 vs. 3.3 inches), year-to-date rainfall has been 27% more than normal (50.0 vs. 39.3 inches).

**Water Supply Project Update**

Work continued through November with masonry work on the treatment building and raw water intake. The intake related work within the river was completed. Roofing is complete on all of the treatment buildings with the exception of the filter room. Leak testing continues on the flocculators, clarifiers, filters and sludge clarifiers. A progress meeting was held on November 18 and progress calls were held November 4, 11, and 25. Work is on budget and on schedule.

An additional 5,036 feet of pipe was installed in November for a total of 137,410 feet or 26.02 miles (85%). All of the pipe on Contract A in Franklin County has been installed, with testing and disinfection to follow in 2010. Work continues on Contract B in Scott County and Franklin County along US 460 and Woodlake Road. All easements have been acquired. A progress meeting was held on November 17, with progress conference calls on November 3, 10, and 24. Additional pavement requirements in Franklin County by the KY Transportation Cabinet are being addressed. Work continues on schedule and on budget.

Work continued on the booster station building and installation of equipment. Yard piping installation is complete. A progress meeting was held November 17. Work continues on schedule and on budget.

Overall, the project is 78% complete and is on budget and on schedule to be substantially complete in summer 2010.

**2. Operational Costs: Energy, Chemicals, Residuals**

	<b>November Actual</b>	<b>Nov Plan</b>	<b>Variance</b>	<b>Nov YTD</b>	<b>Nov YTD Plan</b>	<b>Plan Variance</b>
<b>Purchased Water</b>	15	7	(8)	121	124	3
<b>Fuel and Power</b>	253	336	83	2,811	3,785	974
<b>Chemicals</b>	165	193	28	2,086	2,520	434
<b>Waste Disposal</b>	20	24	4	212	272	60
<b>Total Production</b>	453	560	107	5,230	6,701	1,471

November fuel and power costs remain under plan for the month and year to date, primarily attributable to lower than plan system delivery. Below plan chemical costs are driven by lower prices and lower than planned system delivery.





**Kentucky American Water  
 Operations Review November 2009**

**3. Rate Case/Orders: Timing, Value, Issues**

No updates for November.

**4. Commission Activity: Customer Complaints, Compliance**

The overall number of complaints to the Kentucky Public Service Commission year to date is slightly higher than 2008 results for the same period.

	YTD Collections	YTD Billing	Other Total	YTD Total
2008	53	33	1	87
2009	49	35	5	89

**5. Divestitures**

No additional activity to report.

**6. Major Operational Projects**

The South Limestone Water Main Replacement Project between Avenue of Champions and Vine Street is currently under construction. This project is being constructed in conjunction with the Lexington-Fayette Urban County Government's South Limestone Streetscape Project. The Project includes the replacement of existing 6-inch cast iron water main (dating back to the early 1900's, with a portion pre-1900's) with approximately 2400 feet of 12-inch ductile iron water main. Currently, approximately 1,250 feet of main has been constructed between Avenue of Champions and Maxwell Street. Construction of service line renewals in this section is scheduled to be complete during first week of December. Construction of the remainder of the main replacement between Maxwell Street and Vine Street is underway. The project is scheduled to be complete by the end of the year.

The North Broadway area main replacement project replaces nearly one mile of old pipe on Broadway and neighborhood side streets, including mains which date back to the late 1800's and early 1900's. The water and service line replacements on Granard Avenue and Morrison Avenue are complete as are the service renewals. Approximately 2800 feet along Broadway has been constructed from Church Street to Fifth Street. Service line renewals are also complete in this section. Pavement restoration is complete between Church and Third Streets. Work on this project is taking place in the evening after rush hour traffic.

The Newtown Pike Downtown Relocation Project between Main Street and Versailles Road is currently under construction. This project is being constructed in conjunction with the Kentucky Transportation Cabinet's Newtown Pike Extension Project. The project includes the relocation of approximately 400 linear feet of 20-inch water main, 1,200 linear feet of 16-inch water main, 200 linear feet of 12-inch water main and 600 linear feet of 8-inch water main. Construction for the project is approximately 30% complete and it is scheduled to be finished in the spring of 2010.



**Kentucky American Water  
Operations Review November 2009**

Capital Expenditure results year-to-date, and the third quarter reforecast, reflect the higher than original plan spend for the water treatment project.

12-KY Gross	Original	Q1RF	Q2RF	Q3RF
Full Year Budget	\$82,568,841	\$98,885,357	\$99,055,070	\$98,010,411
To Date Budget	\$75,488,862	\$95,315,176	\$95,228,639	\$92,975,677
To Date Actual	\$93,434,088	\$93,434,088	\$93,434,088	\$93,434,088
To Date Variance	\$17,945,226	\$(1,881,088)	\$(1,794,551)	\$(458,411)

**7. Operational Regulatory Compliance: Status**

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
<b>Regulatory Maintenance:</b>					
Meter Changes (1)	15,757	15,680	0	G	→

<b>Other Program Maintenance:</b>					
Valve Operation (<16" ) (2)	5,021	4,913	0	G	→
Valve Operation (>16" )	459	422	0	G	→
Hydrant Inspections (3)	7,571	7,035	0	G	→

(1) To date, 15,757 meters were replaced for the periodic meter change-outs.

(2) Large and small valve operations are complete and above planned totals for 2009.

(3) Hydrant inspections are complete and above planned totals for 2009.

**8. Regulatory Compliance – Other**

The citizens group impacted by the construction of the new water treatment plant (Citizens for Alternative Water Solutions "CAWS") had applied for a rehearing of the Certificate of Necessity. The PSC denied the Application for Rehearing on June 5, 2008. CAWS filed an appeal in the Franklin County Circuit Court on June 23, 2008. The record was filed on February 2, 2009, and an Order approving an agreed upon briefing schedule was issued on February 25, 2009. CAWS filed its brief on May 15, 2009. KAW filed its brief on August 14, 2009 as did the Attorney General, the PSC, and the BWSC. CAWS filed its reply brief on September 28, 2009. Oral argument was held on November 9, 2009. All parties are currently awaiting a ruling from the judge.

On July 8, 2009, KAW was repairing a downtown water main break when an OSHA inspector, responding to television coverage, visited and inspected the worksite.



**Kentucky American Water  
Operations Review November 2009**

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Subsequently, on September 3, 2009, OSHA issued two citations for alleged violations. The first referenced working in a hole greater than five feet in depth without an adequate protective system, and the second is for not adequately bracing the protective system in which workers were working. KAW contested both charges on September 22, 2009, claiming (1) that workers did not work in the hole unprotected after it was dug to a depth of greater than five feet; and (2) that the protective system installed (a "manguard") did not require bracing as described by the OSHA inspector due to the manner in which excavation was prepared prior to installing the "manguard" protective shell.. OSHA filed its formal Complaint in the matter on September 30; 2009. KAW filed its answer on October 21, 2009. An initial informal conference scheduled for November 30, 2009 was re-scheduled to January 11, 2010.

**9. Union/Labor Issues/Activities**

Currently the company has two active grievances. One grievance is related to a pay issue and the other one is related to the union's desire to automatically incorporate the employees for the new plant into the existing bargaining unit.

**10. Explanation of NOV's, OSHA violations, etc.**

The Lexington Fayette County Urban County Government (LFUCG) performed storm water inspections of the Kentucky River Station and Richmond Road Station in October with no violations identified. However Kentucky American Water has agreed to the inspector's request that KAW provide additional training in regard to erosion and sediment control.

The Kentucky Public Service Commission performed an inspection of the Central Division water operations in November. Although final results have not been received, no violations were noted during the inspection.

**11. Financing activities**

The second debt issue through the Owen County Fiscal Courts, at 5.62%, raised the total tax exempt financing for the KRS II Treatment Plant and Pipeline project to \$71 million. American Water Works Company infused \$10 million of equity to Kentucky American in November 2009.

**12. Revenue Generating Projects/Opportunities**

KAW made a presentation to the City of Clinton in Hickman County. Clinton is currently owned by Utilities, Inc. The Mayor expressed an interest in assisting KAW in a potential purchase of the water and wastewater assets from Utilities, Inc. Clinton serves approximately 1,200 water and wastewater customers.

KAW is teaming up with American Water's Applied Water Management subsidiary to offer solutions to KAW customers in areas of potential water reuse. KAW facilitated two recent discussions with Toyota Manufacturing and the University of Kentucky. Follow up activities are expected with both customers.



**Kentucky American Water  
Operations Review November 2009**

**13. O&M Contracts – Significant Operational/Financial Variances**

No activity to report this period.

**14. Other Operational Issues**

There were two vehicle accidents in November. The OSHA recordable incident rate in November is 8.8, with YTD results at 10.2.

KAW implemented a number of strategies to improve results for the Customer Satisfaction Survey. Results have improved through 2009 and are on plan to meet year end 2009 targets.

<b>Customer Satisfaction Results</b>					
<b>Kentucky – November 2009 YTD</b>					
<b>Question</b>	<b>Question Text</b>	<b>2007 Results</b>	<b>2008 Results</b>	<b>2009 YTD</b>	<b>2009 Target</b>
Q29	Satisfaction with Outcome of Contact (% Extremely and Very Satisfied)	87%	83%	90%	85%
Q27	Number of Times Contacted AW (% Contacted Once)	87%	75%	82%	N/A
Q29b	Reason for Contact Completely Addressed (%Yes)	87%	93%	97%	N/A
Q7i	CSR Overall Performance (% Excellent and Very Good)	87%	89%	90%	N/A
Q21i	FSR Overall Performance (% Excellent and Very Good)	87%	93%	100%	93%
Q22h	FSR Arrived as Scheduled During Agreed Upon Appointment Window (%Yes)	87%	74%	78%	90%

**15. Government Affairs and Communications**

In late November, the Kentucky Division of Water received public comment on a number of new and amended regulations, including one regarding staffing requirements at water treatment plants. The issue was a concern to the company due to the potential fiscal impact of the regulation. Through communications with regulators, the new proposed rules were considerably scaled back, mitigating significant increases in personnel costs had the new requirements been implemented as originally proposed.

KAW regularly attends meetings of the Kentucky Infrastructure Authority, the Kentucky River Authority and relevant legislative committee hearings. New for this month, was the inaugural



**Kentucky American Water  
Operations Review November 2009**

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meeting of the Kentucky Waterways Subcommittee on November 3, 2009, a sub-committee of the Interim Joint Committee on Transportation.

Kentucky American Water provided a guided tour of its new water treatment project to approximately 30 representatives of Commerce Lexington. The makeup of the group included members of the business community and other VIP's within the Central Kentucky area.

Kentucky American Water employees volunteered to provide water and conservation literature at the "Worth the Wait 5-K Race." The event supports a local children's adoption agency.

In addition, KAW sponsored or participated in:

- Lexington Urban League's Annual Awards Banquet
- Owen County 4-H program
- Bluegrass Tomorrow Vision Awards Banquet
- Sanders-Brown Center on Aging Foundation
- Diabetes Gala
- Hospice of the Bluegrass annual "Autumn Affair" fund-raiser
- Festival Latino program
- Dry Stone Conservancy's Walling Competition

**Kentucky-American Water  
Board Report – December 2009**

**Financial Performance**

**Year-to-Date Results – Actual to Plan:**

Operating Revenues were unfavorable by \$4,876k, 7.85% below Plan for Year-To-date 2009. The primary driver of the variance is water revenue which is \$5,266k unfavorable due to lower than planned customer demand (\$3,087k) and results from the 2009 rate case (\$2,179k) which are offset by AFUDC and tax exempt financing. Other operating revenues were favorable to Plan by \$409k due to higher reconnect fees.

Operating expenses were \$3,443k favorable to Plan.

1. Production costs were favorable by \$1,481k, driven by lower per-unit chemical prices and lower than planned fuel and power as a result of lower system delivery
2. Labor costs were favorable by \$309k, driven by position vacancies and lower than planned pension and other benefits expense
3. Management fees and contracted services were \$387k unfavorable to Plan, driven by higher costs from corporate functions and higher than planned temporary labor
4. Miscellaneous expenses were favorable to plan by \$489k, driven by lower fuel (gas) prices
5. Depreciation was favorable by \$1,026k, driven by lower actual composite rates

Other Income and Deductions were \$4,747 favorable to Plan.

6. Interest on Long term was favorable to the Plan by \$2,908k due to the receipt of \$71m in tax-exempt financing resulting in less than planned rates (this is offset by lower AFUDC and revenues versus plan due to outcomes of the rate case)
7. Interest on short term debt is favorable to the Plan by \$1,320k due to lower than planned short-term interest rates
8. AFUDC debt and equity were favorable to the Plan by \$428k due to results from the rate case (allowed to earn AFUDC on construction work in process for the new \$162m water treatment plant). Additional favorable AFUDC was offset by the favorable results from the tax exempt financing

Year-to-Date Net income was \$2,096k favorable to Plan.

Income Statement - Year To Date  
Kentucky with Growth  
Nov '09  
(\$ In '000)

	YTD Actuals	YTD Reference	Variance Favorable (Unfavorable)	% Variance	YTD Plan	Variance Favorable (Unfavorable)	% Variance	YTD Pt. Yr.	Variance Favorable (Unfavorable)	% Variance	
<b>OPERATING REVENUES</b>											
Water Revenues	54,455	55,901	(1,446)	(2.59)%	59,720	(5,266)	(8.82)%	53,242	1,213	2.28%	
Sewer Revenues	293	300	(7)	(2.20)%	312	(19)	(6.10)%	286	7	2.62%	
Other Operating Revenues	2,449	2,448	1	0.06%	2,040	409	20.04%	2,327	122	5.26%	
Operating Revenues	57,197	58,648	(1,451)	(2.47)%	62,073	(4,876)	(7.85)%	55,855	1,342	2.40%	
<b>PRODUCTION EXPENSES</b>											
Unfinished Water	111	117	6	4.47%	124	13	10.27%	116	4	3.81%	
Fuel and Power	2,811	3,120	309	9.91%	3,785	974	25.75%	3,019	208	6.88%	
Chemicals	2,086	2,213	127	5.76%	2,520	434	17.23%	1,611	(475)	(29.49)%	
Waste Disposal	212	224	12	5.29%	232	60	22.01%	254	42	16.62%	
Total production costs	5,220	5,674	454	8.00%	6,701	1,481	22.10%	4,939	(221)	(4.41)%	
<b>QAM LABOR &amp; OVERHEAD</b>											
Labor	6,124	6,154	30	0.48%	6,317	193	3.06%	5,973	(151)	(2.52)%	
Pensions	1,265	1,286	21	1.63%	1,266	(20)	(2.37)%	596	(689)	(112.34)%	
Group Insurance	1,977	1,977	0	0.02%	2,056	79	3.85%	1,588	(409)	(26.09)%	
Other benefits	261	265	4	1.89%	327	66	20.22%	252	(99)	(35.77)%	
Total employee related	9,626	9,682	56	0.58%	9,935	309	3.11%	8,388	(1,238)	(14.76)%	
Management fees	3,680	3,782	81	2.16%	3,458	(222)	(6.43)%	3,610	(70)	(1.94)%	
Shared business services	3,656	3,695	39	1.06%	3,652	(4)	(0.09)%	3,648	(8)	(0.21)%	
Contracted services	1,028	1,010	(18)	(1.82)%	887	(151)	(18.61)%	794	(234)	(29.40)%	
Total contracted services	4,684	4,704	21	0.44%	4,519	(165)	(3.64)%	4,442	(241)	(5.43)%	
Regulatory expense	219	234	15	6.30%	249	30	12.01%	207	(12)	(5.74)%	
Insurance Other Than Group	550	613	62	10.18%	659	109	16.53%	428	(122)	(20.58)%	
Customer Accounting	1,519	1,534	16	1.01%	1,565	66	4.18%	1,424	(95)	(6.70)%	
Rents	29	34	5	14.55%	52	23	44.96%	30	1	6.07%	
General office expense	483	486	3	0.72%	539	57	10.55%	593	110	18.66%	
Miscellaneous	1,651	1,627	(25)	(1.52)%	2,140	489	22.84%	1,608	(42)	(2.63)%	
Maintenance	2,480	2,402	(78)	(3.26)%	2,518	38	1.50%	2,436	(44)	(1.80)%	
Total operations and maintenance expense	30,141	30,751	610	1.96%	32,356	2,215	6.85%	28,167	(1,974)	(7.01)%	
Depreciation	5,393	5,417	24	0.44%	6,418	1,026	15.93%	5,391	(2)	(0.04)%	
Amortization	473	477	4	0.84%	488	16	3.20%	469	(8)	(0.69)%	
Depreciation and amortization	5,866	5,893	28	0.47%	6,907	1,041	15.03%	5,860	(5)	(0.09)%	
General taxes	3,107	3,186	79	2.49%	3,294	187	5.67%	2,894	(213)	(7.37)%	
Impairment charges	-	-	-	-	49,597	3,443	8.09%	36,927	(2,193)	(5.94)%	
Total operating expenses, net	39,114	39,831	717	1.80%	42,597	3,443	8.09%	38,927	(2,193)	(5.94)%	
Operating income	18,083	18,817	(734)	(3.90)%	19,516	(1,433)	(7.34)%	18,934	(850)	(4.49)%	
<b>OTHER INCOME &amp; DEDUCTIONS</b>											
Interest income	5,029	5,028	(1)	(0.02)%	7,937	2,908	36.64%	5,223	194	3.71%	
Interest on long-term debt	347	619	273	44.02%	1,666	1,320	79.19%	664	(317)	(47.77)%	
Interest on Short-Term Bank Debt	9	8	(1)	(9.42)%	9,604	4,219	43.93%	5,381	498	8.44%	
Other interest expense	5,385	5,655	271	4.79%	9,604	4,219	43.93%	5,381	498	8.44%	
Total interest expense	32	3,107	2,975	134	4.52%	2,868	239	8.35%	1,101	2,007	182.93%
AFUDC - Equity	1,492	1,381	(111)	(8.00)%	1,302	189	14.54%	482	(1,010)	(209.34)%	
AFUDC Debt	95	99	4	4.12%	104	9	8.49%	82	(13)	(15.31)%	
Amortization of Debt Expense	-	-	-	-	-	-	-	-	-	-	
Preferred dividends of subsidiaries (Consolidatio	-	-	-	-	-	-	-	-	-	-	
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-	
Non-Operating Rental Income	-	-	-	-	-	-	-	-	-	-	
Dividend Income - Common	-	-	-	-	-	-	-	-	-	-	
Dividend Income - Preferred	-	-	-	-	-	-	-	-	-	-	
Miscellaneous income	69	51	(18)	(26.10)%	69	69	100.00%	51	(18)	(34.79)%	
Total other income	69	51	(18)	(26.10)%	69	69	100.00%	51	(18)	(34.79)%	
Miscellaneous Amortization	0	0	0	0.00%	1	1	155.28%	0	0	0.00%	
Miscellaneous Other Deductions	309	388	79	25.57%	330	21	6.35%	275	(64)	(12.42)%	
Total Other Deductions	309	388	79	25.57%	330	21	6.35%	275	(64)	(12.42)%	
Other, net	(240)	(337)	97	28.92%	(330)	91	27.48%	(223)	(16)	(4.72)%	
Total other income (deductions)	(1,120)	(1,737)	617	55.52%	(5,867)	4,747	80.91%	(4,604)	3,484	75.68%	
Income (loss) before income taxes	16,964	17,081	(117)	(0.69)%	13,649	3,315	24.28%	14,330	2,634	18.38%	
State Income Taxes	1,061	955	(106)	(11.06)%	716	(345)	(48.10)%	890	(171)	(19.19)%	
Federal Income Taxes	5,441	5,566	125	2.24%	4,607	(834)	(18.10)%	5,043	(398)	(7.89)%	
Tax Saving Acquisition Adjustment	(14)	(7)	8	114.55%	(27)	(13)	(47.15)%	(8)	6	81.92%	
Federal Income taxes (non-operating)	6,409	6,502	93	1.43%	5,191	(1,218)	(23.47)%	5,885	(624)	(6.90)%	
Provision (Benefit) for Income Taxes	10,595	10,579	(16)	(0.23)%	8,458	2,096	24.78%	8,445	2,110	24.98%	
Net Income (loss)	72	70	(2)	(2.78)%	72	0	0.14%	72	0	0.05%	
Preferred Dividend Declared	10,483	10,507	24	0.23%	8,387	(2,098)	(24.99)%	8,373	(2,110)	(25.20)%	
Net Income To Common Stock	5,204	4,888	(315)	(6.05)%	4,152	(1,052)	(25.32)%	3,448	(1,255)	(50.97)%	
Common Dividend Declared	5,279	5,619	340	6.46%	4,234	(1,045)	(24.67)%	4,925	354	7.20%	

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

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**Witness:**      **Michael A. Miller**

171.    Provide the twelve months-ending return on common equity for each month from January 2007 to the present.

**Response:**

Please see attached.

For the electronic version, refer to KAW\_R\_AGDR1#171\_042610.pdf.





**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

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**Witness:**     **Michael A. Miller**

172. Provide each and every statement or memorandum by management discussing the Company's level of earnings and/or return from January 2007 to the present.

**Response:**

None. Please see the response to KAW\_R\_AGDR1#170 and the information provided in Exhibit 30 with the Company's filing for the monthly financial reports prepared for management.

For the electronic version of this response, refer to KAW\_R\_AGDR1#172\_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

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**Witness:** Michael A. Miller/Sheila Miller/Linda Bridwell/Keith Cartier

173. Please provide the latest 3-year operating forecasts.

**Response:**

Please see the response to KAW\_R\_AGDR1#159.

For the electronic version of this response, refer to KAW\_R\_AGDR1#173\_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

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**Witness:**     **Linda C. Bridwell**

174.   Please supply a copy of the latest Ten Year Demand Forecast.

**Response:**

Please see attached.

For the electronic version, refer to KAW\_R\_AGDR1#174\_042610.pdf.

**KENTUCKY AMERICAN WATER COMPANY**  
WATER DEMAND MODEL  
U of L PROJECTIONS & UNACCOUNTED-FOR of 13%

MODEL UPDATE MARCH, 1992  
RUN DATE 04/12/10  
DIRECTORY: \\Engineering\Demand Projections  
FILENAME: 04DEMFOR.XLs  
SHEET: 04updtUL04

ELAST. % OF USE

ADVANCED PLUMBING CODE EFFECTS CALCULATION

Calendar Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2020	2025	2030
Assumed Inflation Rate for the Year (CPI)					5.4%	4.21%	3.01%	2.99%	3.60%	2.50%	3.20%	2.29%	1.56%	3.45%	2.21%	2.80%	1.60%	2.30%	2.70%	2.89%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Water/Sewer Rate Increase for the Year					4.04%	5.51%	51.80%	0.00%	3.32%	6.65%	6.19%	3.10%	0.00%	0.00%	0.00%	7.79%	20.00%	0.00%	0.00%	8.83%	0.00%	20.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Losses and Non-Revenue Uses for Year					13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
% GROWTH FOR YEAR - REFERENCE CASE			1.1%	1.1%	1.0%	1.0%	0.9%	0.8%	0.8%	0.7%	0.7%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	2.2%	0.5%	0.5%	0.5%	0.5%	1.9%	1.6%	1.1%	1.1%	
Calendar Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2020	2025	2030
Total Population (Fayette County)	217701	220526	222912	222904	225366	228881	232395.2	235910	239424	242939	246454	249968	253483	256997	260512	262185	262648	265478	266451	268080	270190	272300	274410	276520	281613	295938	310262	320737	331212
Apartment Population	70546	71462	72235	72232	75741	76922	78103	79285	80466	81647	82828	84009	85190	86372	87553	88061.6	88570.2	89078.9	89587.6	90096	90605	91113.7	91622.4	92131.1	94644	99459	104273	107793	111314
U of K Full Time Residents	8153	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200	8200
Inmates of Institutions	3793	4116	4439	4761	5084	5163	5243	5322	5401	5480	5560	5639	5718	5798	5877	5911	5945.14	5979.29	6013.43	6048	6081.72	6115.87	6150.01	6184.16	6353	6676	6999	7235	7472
Remaining Population Served (SFR, Fayette Co)	135,209	136,748	138,039	137,710	136,341	138,595	140,849	143,103	145,358	147,612	149,866	152,120	154,374	156,628	158,882	159,853	160,824	161,795	162,765	163,736	164,707	165,678	166,648	167,619	172,416	181,603	190,790	197,508	204,227
Outside County Population Served	4720	4979	5256	5436	5557	5721	5899	6050	6288	6584	6926	7529	8187	8791	9511	9938	10491	11042	11591	12396	13183	13465	13746	14026	13560	14915	16265	17477	18688
New Residents											2597	5454	8366	11224	14198	15595	17119	18641	20162	21937	23694	24947	26199	27450	31781	42323	52860	60790	68719
Actual Number of Total Customers	69437	71500	73348	74653	76274	77871	79600	81301	83382	85180	87403	89491	93391	96477	99199	101580	103659	105332	107424	109892	112063								
Usage Per Customer (gpd)	515	535	500	453	453	477	460	486	486	470	483	469	457	411	413	415	371	355	395	402	403								
Single Family Residential Per Capita Use (gpd)	85.54	89.11	85.17	76.13	79.55	80.38	75.73	80.74	84.51	82.69	80.81	82.20	83.47	84.63	83.05	82.17	80.45	78.51	75.84	75.65	78.13	79.05	80.33	81.38	81.86	81.86	81.86	81.86	81.86
New Resident SFR Per Capita Use (gpd)											80.42	82.09	83.68	85.09	83.35	81.52	78.08	78.80	76.17	74.93	78.75	77.15	80.33	81.38	81.86	81.86	81.86	81.86	81.86
Single Family Residential											0.08	0.02	-0.04	-0.09	-0.06	0.13	0.47	-0.06	-0.07	0.14	-0.13	0.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fayette Co. Residential use (in mgd).....	11.97	12.63	12.21	10.90	11.29	11.60	11.11	12.04	12.82	12.75	13.69	13.11	14.06	12.68	13.18	13.37	12.40	12.65	13.19	15.97	14.83	13.92	13.95	13.96	14.22	14.96	15.70	16.25	16.81
Apartment Population	70546	71462	72235	72232	75741	76922	78103	79285	80466	81647	82828	84009	85190	86372	87553	88062	88570	89079	89588	90096	90605	91114	91622	92131	94644	99459	104273	107793	111314
New Residents											1181	2362	3544	4725	5906	6415	6923	7432	7941	8449	8958	9467	9975	10484	12988	17812	22626	26146	29667
Number of Customers											75.81	81.90	85.09	87.84	87.21	87.66	82.24	77.93	74.92	87.66	71.82	69.80	70.01	69.04	69.27	189.49	185.37	184.38	182.34
Usage Per Customer											75.58	81.84	85.22	88.14	87.40	87.23	80.73	78.11	75.12	87.14	72.18	68.75	70.01	69.04	69.27	189.49	185.37	184.38	182.34
Existing Apart. Resident Per Capita Use (gpd)	79.66	83.04	78.91	80.71	75.56	74.57	74.17	76.04	77.23	77.03	105.05	90.11	89.77	74.08	79.31	77.93	68.58	74.70	67.63	70.27	67.83	69.64	69.81	68.79	69.13	69.13	69.13	69.13	69.13
New Resident MFR Per Capita Use (gpd)											0.05	0.01	-0.03	-0.06	-0.04	0.09	0.30	-0.04	-0.04	0.10	-0.07	0.21	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Multi-Family Residential	1.37	1.41	1.39	1.33	1.40	1.40	1.42	1.49	1.57	1.45	1.71	1.49	1.53	0.96	1.21	1.18	0.88	1.19	1.36	1.43	1.40								
Garden Apartments	4.20	4.47	4.26	4.45	4.27	4.28	4.32	4.49	4.58	4.82	5.89	5.08	5.01	4.38	4.78	4.18	4.55	4.68	4.88	4.73									
High Rise Apartments	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.06	0.06	0.02	1.10	1.00	1.11	1.05	0.96	0.91	1.02	0.91	0.02	0.02	0.02								
Apartment use (in mgd).....	5.62	5.93	5.70	5.83	5.72	5.74	5.79	6.03	6.21	6.29	8.70	7.57	7.65	6.40	6.94	6.86	6.07	6.65	6.06	6.33	6.15	6.31	6.36	6.30	6.50	6.81	7.13	7.36	7.59
Outside Counties (see "Counties" pages)																													
Individual Cust. Use (in mgd)....	0.40	0.44	0.45	0.41	0.44	0.46	0.45	0.49	0.53	0.54	0.60	0.61	0.93	0.88	0.96	0.99	0.94	0.99	1.06	1.35	1.30	1.25	1.26	1.28	1.24	1.34	1.45	1.54	1.63
Bulk Sales Use (in mgd).....	0.53	0.77	0.73	0.61	0.58	0.64	0.63	0.78	0.75	0.71	0.80	0.85	1.08	1.46	1.39	1.38	1.37	1.17	1.22	1.24	1.06	1.19	1.18	1.16	1.18	1.26	1.32	1.37	1.42
Commercial Use (mgd)	7.75	8.10	7.74	7.18	7.48	7.79	7.53	7.93	8.37	7.84	8.12	8.18	8.40	8.37	8.04	8.06	7.83	7.21	8.98	9.95	9.45	8.73	8.91	9.25	9.41	9.89	10.37	10.72	11.07
Toyota Usage (mgd)			0.41	0.74	0.89	0.94	1.09	1.05	1.25	1.40	1.37	1.61	1.70	1.62	1.48	1.39	1.48	1.27	1.20	1.26	1.15	1.21	1.21	1.19	1.20	1.20	1.20	1.20	1.20
Industrial Use (mgd,non-Toyota)	1.64	1.58	1.49	1.36	1.44	1.39	1.23	1.24	1.23	1.23	1.31	1.38	1.43	1.30	1.18	1.07	0.96	0.97	0.93	0.96	0.88	0.93	0.93	0.92	0.95	0.99	1.04	1.08	1.11
University of Kentucky																													
U of K Base Demand including residences (Main Campus only)	1.20	1.31	1.30	1.50	1.46	1.55	1.47	1.57	1.73	1.63	1.45																		
U of K Student Population	23696	22461	22879	23297	23081	24132	24197	24288	24217	24378	24200																		
U of K per student use (g/d)	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00																		
U of K student usage on campus (mgd).....	0.24	0.22	0.23	0.23	0.23	0.24	0.24	0.24	0.24	0.24	0.24																		
Total U of K Main Campus Usage (mgd)	1.44	1.53	1.53	1.73	1.69	1.79	1.71	1.81	1.97	1.88	1.69	1.67	1.80	1.77	1.60	1.57	1.60	1.79	1.74	1.77	1.61	1.71	1.70	1.67	1.69	1.69	1.68	1.69	1.69
Calendar Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2020	2025	2030
Other Public Use (in mgd).....	0.76	1.00	1.40	1.32	1.48	1.50	1.64	1.67	1.60	1.52	1.35	1.37	1.32	1.52	2.32	2.64	0.86	0.75	1.30	0.32	1.61	1.08	1.01	1.24	1.13	1.19	1.25	1.29	1.33
Total System Usage (mgd).....	29.70	31.55	31.20	29.67	30.57	31.40	30.73	32.56	34.19	33.61	37.03	35.73	37.44	35.13	36.14	36.34	32.57	32.46	34.62	37.81	36.74	35.08	35.24	35.70	36.28	37.98	39.69	40.95	42.21
Losses and Non-Revenue Use (%)	16.90%	17.60%	15.00%	12.30%	11.60%	15.40%	16.10%	17.64%	15.69%	16.01%	12.25%	14.90%	12.30%	11.50%	11.90%	13.70%	15.20%	13.30%	18.50%	14.50%	18.70%	14.80%	14.80%	14.80%	14.80%	14.80%	14.80%	14.80%	14.80%
Losses and Non-Revenue Use (mgd).....	6.04	6.74	5.51	4.16	4.01	5.71	5.90	6.97	6.36	6.41	5																		

Calendar Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2020	2025	2030					
Assumed Inflation Rate for the Year (CPI)					5.4%	4.21%	3.01%	2.99%	3.60%	2.50%	3.20%	2.29%	1.56%	3.45%	2.21%	2.80%	1.60%	2.30%	2.70%	2.89%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	
Projected Water/Sewer Rate Increase for the Year					4.04%	5.51%	51.80%	0.00%	3.32%	6.65%	6.19%	3.10%	0.00%	0.00%	0.00%	7.79%	20.00%	0.00%	0.00%	8.83%	0.00%	20.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	
Losses and Non-Revenue Uses for Year					1.1%	1.1%	1.0%	1.30%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
% GROWTH FOR YEAR - REFERENCE CASE					1.1%	0.0%	1.1%	1.6%	1.5%	1.5%	1.5%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%

FAUCETS	13.73	3.00
ELIGIBLE POPULATION,%		
TOILETS	0.15	0.65
SHOWERHEADS	0.25	0.9
FAUCETS	0.25	0.9
PARTICIPATION RATE		

FOR SAME CONDITIONS UNDER HOT, DRY SCENARIO:

TOTAL SYSTEM USAGE (mgd).....	31.48	33.44	33.08	31.45	32.41	33.28	32.58	34.51	36.24	35.63	39.25	37.87	39.69	37.23	38.30	38.52	34.52	34.41	36.70	40.08	38.95	37.18	37.36	37.84	38.46	40.26	42.07	43.41	44.75					
LOSSES AND NON-REVENUE USE (%)	16.90%	17.60%	15.00%	12.30%	11.60%	15.40%	16.10%	17.64%	15.69%	16.01%	12.25%	14.90%	12.30%	11.50%	11.90%	13.70%	15.20%	13.30%	18.50%	14.50%	18.70%	14.80%	14.80%	14.80%	14.80%	14.80%	14.80%	14.80%	14.80%	14.80%	14.80%	14.80%	14.80%	
Average Day Demand w/out Conservation (mgd)	37.89	40.58	38.91	35.87	36.66	39.34	38.83	41.90	42.99	44.38	45.04	46.17	45.80	42.37	44.00	45.11	40.62	40.44	43.19	46.91	45.76	43.63	43.83	44.37	45.08	47.13	49.18	50.71	52.22					
Maximum Day w/out Conservation (mgd)	63.63	67.60	65.73	61.56	63.02	66.30	65.34	69.70	72.16	74.51	76.60	77.71	77.73	72.25	74.95	76.19	68.42	68.79	71.34	78.86	75.33	73.45	73.78	74.66	75.79	79.10	82.40	84.86	87.31					
ACTUAL MAXIMUM DAY (mgd)	57.47	54.89	63.91	47.72	58.52	56.42	47.22	59.49	58.36	63.77	53.70	60.70	64.67	61.18	66.37	56.04	71.82	61.37	56.89	69.65	67.22													
CONSERVATION IMPACTS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	-1.95	-0.31	-1.67	-0.55	-0.30	-0.53	-1.39	-1.96	-1.12	-3.71	-1.83	-4.02	-1.89	-2.07	-2.27	-1.93	-2.00	-2.06	-2.12	-2.17					
Projected Average Day Demand (mgd)	37.89	40.58	38.91	35.87	36.66	39.34	38.83	41.90	42.99	42.42	44.73	44.50	45.26	42.07	43.48	43.72	38.66	39.32	39.48	45.08	41.74	41.74	41.76	42.10	43.15	45.13	47.11	48.59	50.06					
6-mo Summer Avg. Day Dem.: 95% C. I. (mgd) w/out cons.		52	50	46	47	50	50	53	55	56	57	58	58	54	56	57	52	52	55	59	58	55	56	56	57	60	62	64	66					
6-mo Summer Avg. Day Dem.: 99% C. I. (mgd) w/out cons.		53	51	47	48	51	51	54	56	57	58	60	59	55	57	58	53	53	56	61	59	57	57	57	58	61	63	65	67					
6-mo Summer Avg. Day Dem.: 95% C. I. (mgd) w cons.		52	50	46	47	50	50	53	55	56	57	58	58	54	56	57	52	52	55	59	58	55	56	56	57	60	62	64	66					
6-mo Summer Avg. Day Dem.: 99% C. I. (mgd) w cons.		53	51	47	48	51	51	54	56	57	58	60	59	55	57	58	53	53	56	61	59	57	57	57	58	61	63	65	67					
MAX DAY: 95% EXCEEDANCE (mgd).....	60.63	64.73	62.80	58.59	60.07	63.37	62.35	66.83	69.17	69.57	73.29	73.03	74.25	69.08	71.38	71.75	63.38	64.58	67.50	76.88	71.18	71.43	71.57	72.25	73.73	76.96	80.19	82.61	85.00					
IN PLANT USE(mgd)	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	
TOTAL MAX DAY PRODUCTION (mgd)[95%excd]	56.49	65.51	49.32	60.12	58.02	48.82	61.09	70.77	71.17	74.89	74.63	75.85	70.68	72.98	73.35	64.98	66.18	69.10	78.48	72.78	73.03	73.17	73.85	75.33	78.56	81.79	84.21	86.60						

SURROUNDING COUNTIES--INDIVIDUAL CUSTOMER WATER DEMAND

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2020	2025	2030						
<b>WOODFORD COUNTY</b>																																			
Population	18,884	19,076	19,900	19,928	19,955	20,270	20,585	20,934	21,283	21,632	21,988	22,344	22,689	23,033	23,208	23,373	23,523	23,671	23,939	24,246	24,386	24,526	24,666	24,806	24,607	25,568	26,529	27,070	27,610						
No. of resid. connections	138	137	142	139	141	142	145	149	151	152	153	155	163	171	179	180	184	189	193	196	197	198	199	200	199	207	214	219	223						
Persons per household	2.80	2.80	2.81	2.76	2.71	2.69	2.68	2.66	2.65	2.63	2.62	2.61	2.59	2.58	2.57	2.56	2.55	2.54	2.54	2.53	2.52	2.51	2.51	2.50	2.49	2.48	2.48	2.48	2.48	2.48	2.48	2.48			
Population Served	386	384	399	384	382	383	388	397	400	400	401	404	423	442	460	461	471	481	491	497	498	499	501	502	497	515	532	543	554						
Existing Customer Per capita use (GPD)	85.54	89.11	85.17	76.13	79.55	80.38	75.73	80.74	84.51	82.69	87.32	82.09	86.52	76.65	78.29	78.72	72.36	73.21	75.67	90.67	83.35	78.78	78.44	78.05	77.79	77.79	77.79	77.79	77.79	77.79	77.79	77.79			
New Customer Per Capita Use (GPD)											78.59	73.88	77.87	68.98	70.46	70.85	65.12	65.89	68.10	81.60	75.01	70.90	70.60	70.24	70.01	70.01	70.01	70.01	70.01	70.01	70.01	70.01			
WOODFORD CO. WATER DEMAND (in MGD).....	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.04	0.03	0.04	0.04	0.03	0.03	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04		
<b>SCOTT COUNTY</b>																																			
Population	22,689	23,501	22,760	23,314	23,867	24,135	24,403	25,360	26,317	27,274	27,731	29,446	30,423	31,397	33,061	34,478	35,444	36,729	37,901	39,380	40,506	41,632	42,758	43,884	44,322	49,597	54,871	59,534	64,196						
No. of resid. connections	1055	1149	1287	1373	1446	1507	1571	1628	1716	1799	1926	2142	2362	2560	2770	2920	3114	3307	3501	3789	4071	4184	4297	4411	4265	4772	5279	5728	6177						
Persons per household	2.90	2.90	2.77	2.73	2.68	2.67	2.66	2.65	2.64	2.63	2.62	2.62	2.62	2.61	2.60	2.60	2.60	2.60	2.59	2.59	2.59	2.58	2.58	2.57	2.57	2.57	2.56	2.56	2.56	2.56	2.56	2.56	2.56		
Population Served	3060	3332	3565	3748	3890	4039	4195	4330	4547	4749	5073	5629	6193	6697	7230	7610	8102	8592	9082	9814	10528	10804	11079	11353	10960	12240	13515	14664	15812						
Existing Customer Per Capita Use (GPD)	85.54	89.11	85.17	76.13	79.55	80.38	75.73	80.74	84.51	82.69	87.32	82.09	86.52	76.65	78.29	78.72	72.36	73.21	75.67	90.67	83.35	78.78	78.44	78.05	77.79	77.79	77.79	77.79	77.79	77.79	77.79	77.79	77.79		
New Customer Per Capita Use (GPD)											78.59	73.88	77.87	68.98	70.46	70.85	65.12	65.89	68.10	81.60	75.01	70.90	70.60	70.24	70.01	70.01	70.01	70.01	70.01	70.01	70.01	70.01	70.01		
SCOTT CO. WATER DEMAND (in MGD).....	0.26	0.30	0.30	0.29	0.31	0.32	0.32	0.35	0.38	0.39	0.44	0.45	0.52	0.50	0.55	0.58	0.56	0.60	0.65	0.84	0.83	0.80	0.82	0.83	0.80	0.89	0.98	1.06	1.14						
<b>BOURBON COUNTY</b>																																			
Population	19,188	19,088	18,978	19,277	19,236	19,248	19,261	19,273	19,286	19,298	19,310	19,323	19,335	19,348	19,360	19,507	19,494	19,563	19,694	19,833	19,919	20,004	20,090	20,175	20,215	20,836	21,457	21,969	22,481						
No. of resid. connections	394	391	394	407	409	419	427	433	441	477	486	506	538	575	645	663	683	704	724	751	781	784	788	791	765	789	812	832	851						
Persons per household	2.70	2.70	2.73	2.68	2.62	2.62	2.60	2.59	2.57	2.56	2.55	2.52	2.52	2.50	2.49	2.48	2.48	2.47	2.47	2.46	2.45	2.45	2.44	2.44	2.43	2.42	2.41	2.41	2.41	2.41	2.41	2.41	2.41		
Population Served	1064	1056	1076	1091	1076	1096	1111	1121	1135	1221	1237	1281	1355	1440	1606	1647	1693	1739	1785	1847	1917	1920	1924	1927	1860	1909	1958	2005	2052						
Existing Customer Per capita use (GPD)	85.54	89.11	85.17	76.13	79.55	80.38	75.73	80.74	84.51	82.69	87.32	82.09	86.52	76.65	78.29	7																			



Calendar Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2020	2025	2030
Assumed Inflation Rate for the Year (CPI)					5.4%	4.21%	3.01%	2.99%	3.60%	2.50%	3.20%	2.29%	1.56%	3.45%	2.21%	2.80%	1.60%	2.30%	2.70%	2.89%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Water/Sewer Rate Increase for the Year					4.04%	5.51%	51.80%	0.00%	3.32%	6.65%	6.19%	3.10%	0.00%	0.00%	0.00%	7.79%	20.00%	0.00%	0.00%	8.83%	0.00%	20.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Losses and Non-Revenue Uses for Year					13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
% GROWTH FOR YEAR - REFERENCE CASE			1.1%	1.1%	1.0%	1.0%	0.9%	0.8%	0.8%	0.7%	0.7%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	2.2%	0.5%	0.5%	0.5%	0.5%	1.9%	1.6%	1.1%	1.1%	
INTERIOR HOME CONSULTATION SAVINGS PER HOUSEHOLD																							23.76	23.76	23.76	23.76			
HOUSEHOLDS PARTICIPATING ANNUAL SAVINGS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	200	200	200	200	0.00	0.00	
CUMULATIVE SAVINGS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.00	0.00	0.00	0.00	
COMMERCIAL/INDUSTRIAL INTERNAL AUDIT SAVINGS PER COMMERCIAL UNIT																								523	523	523			
UNITS PARTICIPATING ANNUAL SAVINGS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.10	0.00	0.00	0.00	0.00	
SAVINGS PER INDUSTRIAL UNIT																								70824	70824	70824			
UNITS PARTICIPATING ANNUAL SAVINGS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1	1	1	0.00	0.00	0.00	
CUMULATIVE SAVINGS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.18	0.35	0.00	0.00	0.00	0.00	
INDUSTRIAL/UK EXTERIOR AUDIT UNIVERSITY OF KENTUCKY	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
SAVINGS PER INDUSTRIAL UNIT																													
UNITS PARTICIPATING ANNUAL SAVINGS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
CUMULATIVE SAVINGS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
INCREASED LEAK DETECTION	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.91	0.21	1.47	0.24	-0.14	0.05	0.91	1.48	0.64	3.23	1.35	3.54	1.40	1.41	1.43	1.45	1.52	1.58	1.63	
TOTAL SAVINGS FROM CONSERVATION	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	1.95	0.31	1.67	0.55	0.30	0.53	1.39	1.96	1.12	3.71	1.83	4.02	1.89	2.07	2.27	1.93	2.00	2.06	2.12	

FAUCETS	13.73	3.00
ELIGIBLE POPULATION, %		
TOILETS	0.15	0.65
SHOWERHEADS	0.25	0.9
FAUCETS	0.25	0.9
PARTICIPATION RATE		



**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller/Sheila Miller**

175. Please provide a complete side-by-side presentation of the filing showing actual 2009, base period ending May 31, 2010 and forward-looking test period ending September 30, 2011.

**Response:**

See attached.

For the electronic version, refer to KAW\_R\_AGDR1#175\_042610.pdf.

Kentucky-American Water Company  
AGDR1#175  
Case No. 2010-00036

	Actual 12/31/2009	Base Period Amount	13-month avg Forecasted Amount
Rate Base Components			
Utility Plant in Service	381,225,710	385,169,760	566,014,484
Property Held for Future Use	-	-	-
Utility Plant Acquisition Adjustments	284,296	11,963	2,342
Accumulated Depreciation	(100,385,556)	(103,121,670)	(110,085,251)
Net Utility Plant in Service	281,124,450	282,060,053	455,931,575
Construction Work in Progress	138,797,378	160,146,033	9,463,931
Working Capital Allowance	N/A	3,804,000	2,634,000
Other Working Capital Allowance	639,198	642,421	642,421
Contributions in Aid of Construction	(46,837,411)	(47,860,213)	(48,865,890)
Customer Advances	(13,441,748)	(16,921,528)	(19,089,182)
Deferred Income Taxes	(36,239,467)	(38,238,685)	(40,026,731)
Deferred Investment Tax Credits	(86,522)	(83,332)	(76,952)
Deferred Maintenance	1,608,740	2,422,653	2,708,236
Deferred Debits	1,786,882	1,757,661	1,700,474
Other Rate Base Elements	(5,541,714)	(2,430,828)	(2,349,854)
Total Rate Base	321,809,786	345,298,235	362,672,028

Kentucky-American Water Company  
AGDR1#175  
Case No. 2010-00036

Capital Structure Class of Capital	Amount Outstanding 12/31/2009	Percent To Total	JDITC 12/31/2009	Total 12/31/2009	Base Period		Forecast Period	
					Adjusted Capital	Adjusted Capital	Adjusted Capital	Adjusted Capital
Short Term Debt	29,552,050	9.57%	91,991	29,644,041	46,493,434	8,843,758		
Long Term Debt	144,990,000	46.93%	451,331	145,441,331	140,682,835	191,353,809		
Preferred Stock	5,955,600	1.93%	18,539	5,974,139	5,951,739	5,949,504		
Common Equity	128,446,369	41.58%	399,834	128,846,203	140,772,902	163,873,149		
<b>Total Capital</b>	<b>308,944,019</b>	<b>100.00%</b>	<b>961,695</b>	<b>309,905,714</b>	<b>333,900,910</b>	<b>370,020,221</b>		

Kentucky-American Water Company  
AGDR1#175  
Case No. 2010-00036

Income Statement

	Twelve Months 12/31/2009	Base Period 5/31/2010	Forecast per 9/30/2011
Operating Revenues	61,710,499	67,042,231	93,725,732
Operating Expenses:			
Operation & Maintenance	32,881,853	33,264,400	35,661,911
Depreciation	5,826,151	7,867,005	11,086,076
Amortization	515,734	516,980	233,721
Taxes Other	3,439,505	4,080,774	5,202,130
State Income Taxes	1,180,221	1,177,694	1,690,164
Federal Income Taxes	5,727,343	6,319,076	9,380,648
Total Operating Expenses	49,570,807	53,225,929	63,254,650
Utility Operating Income	12,139,692	13,816,302	30,471,081
Other Income/Net	4,402,115	7,040,676	646,180
Income Before Deductions	16,541,807	20,856,978	31,117,261
Income Deductions			
Interest on LTD	5,481,409	9,044,525	11,716,890
Amortization of Debt Expense	105,230	148,576	98,679
Interest on Bank Debt	355,136	181,336	322,913
Other Interest	8,920	-	-
Total Income Deductions	5,950,695	9,374,437	12,138,482
Net Income	10,591,112	11,482,542	18,978,779

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2010-00036**  
**ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

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**Witness:**     **Michael A. Miller**

176. Please list all year end closing accounting entries, both internal and those made by your external auditors, for 2007, 2008 and 2009.

**Response:**

There were no entries made by external auditors for KAW during 2007, 2008, and 2009, and they found no adjustments that meet the materiality criteria for a reopening of the Company's books during their year-end audit process. Please refer to the response to KAW\_R\_AGDR1#166\_042610 for the entries the auditors reflected in the annual reports for the 2007-2009 periods, but were recorded on the books in the subsequent year.

Please see below for a listing of the standard entries performed monthly as needed as well as at year end for Kentucky in addition to the normal monthly accounting close:

- Amortization per rate cases
- Various accruals for unbilled portions of bank fees, utility bills, stationary, relocation costs, purchase water, waste disposal costs, vehicle leases, paving costs, legal bills
- Accruals for invoices received and not yet processed as well as invoices not yet received
- Accruals for inter-company transactions
- Reserves for past due accounts receivables
- Accruals for unbilled revenue as well as reserves for any pending customer credits not yet processed
- Fixed asset entries including depreciation, AFUDC and inventory issuances
- Adjustments in tax estimates
- Accrual for interest expense and income

For electronic version of this response, refer to KAW\_W\_AGDR1#176\_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller**

177. List each change in accounting principles made by the Company during 2007, 2008, 2009 and as forecasted for 2010 and 2011.
- a. For each such change, state the revenue and/or expense or capital impact in this filing.

**Response:**

There were no changes in accounting principles that affected Kentucky during 2007, 2008, and 2009.

For the electronic version, refer to KAW\_R\_AGDR1#177\_042610.pdf.

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2010-00036**  
**ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller**

178. Please list all procedures the Company follows to ensure that there was a proper assignment of costs to the test year and that the test year only includes charges incurred during the test period.

**Response:**

The Company starts with the six months of actual data for the base period which is analyzed to determine expenses that are not appropriate for rate recovery and to determine the balance for rate base and capital. The Company then uses its budget to begin the process of producing the forecasted test-year filing. Discussions are held between the rate department and KAWC management to determine customer growth, employee levels, capital budgets, changes in operations, etc. that may impact the rate filing. This information is then used to adjust the budget numbers to reflect the latest available up to date data and operations of the system. Chemical and power suppliers are contacted to obtain the latest bid prices or possible changes in chemical prices and power costs in the forecasted period. The budgeted data are reviewed to make certain no one-time or non-recurring costs are included or that all costs specifically ordered by the Commission to not be recovered in rates are in fact not included in the filing. The latest information regarding employee benefit costs is obtained from the actuaries. The case is then developed from this data and reviewed thoroughly by the rate department and KAWC management. The process is arduous and thorough regarding producing accurate representation of the Company's cost of service in the filing.

For the electronic version, refer to KAW\_R\_AGDR1#178\_042610.pdf