

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

Witness: Michael A. Miller

47. Stock-Based Compensation.

- a. List, by amount and account, all stock-based compensation expense charged to KAWC during the test year, including but not limited to executive stock options, performance share awards, accruals made pursuant to SFAS 123R and any other stock-based compensation awards that resulted in cost being charged to KAWC during the test year.
- b. Please provide a description of each distinct stock-based compensation program that resulted in charges to KAWC during the test year.
- c. List, by amount and account, all stock-based compensation expense in KAWC's cost of service for the future test year, including but not limited to executive stock options, performance share awards, accruals made pursuant to SFAS 123R and any other stock-based compensation awards that are projected to be charged to KAWC during the future test year.
- d. Please provide a description of each distinct stock-based compensation program that is projected to be included in the charges to KAWC during the future test year ended.

Response:

- a. Stock-based compensation charged to KAWC during the test year by account:

Account	Description	Test Year
501713	Incentive Plan-Off-Stock Div	10,770
501716	Comp Exp-Options	3,282
501718	Comp Exp-RSU's	2,949
Total		<u>17,001</u>

Stock-based compensation included in Management Fees during the test year by account:

Account	Description	Test Year
501712	Incentive Plan-Off-Long Term	11,918
501716	Comp Exp-Options	87,433
501718	Comp Exp-RSU's	88,148
Total		<u>187,499</u>

- b. Descriptions of each stock-based compensation accounts are below. See the response to KAW_R_AGDR1#15_042610 for the stock based compensation plan.

Account 501716 – Compensation Expense Options – includes accruals based on the estimated costs related to non-qualified stock option grants. These grants provide the participant with an option to purchase shares of AWW stock at an advantaged exercise price if the performance goals have been satisfied, limited by the expiration date of December 31, 2013. A true-up entry is recorded once the options are exercised.

Account 501718 – Compensation Expense Restricted Stock Units – includes accruals based on the estimated costs related to restricted stock unit grants. These grants provide the participant with rights to shares of Company stock that may be redeemed if the performance goals have been satisfied after vesting date of January 1, 2011. A true-up entry is recorded once the grants are exercised.

- c. KAWC Stock-based compensation expense for the future test year by account:

Account	Description	Future Test Year
501713	Incentive Plan-Off-Stock Div	27,228
		<u>27,228</u>

Stock-based compensation included in Management Fees for the future test year by account:

Account	Description	Future Test Year
501716	Comp Exp-Options	102,235
501718	Comp Exp-RSU's	107,089
Total		<u>209,324</u>

- d. See part b.

For the electronic version of this response, refer to KAW_R_AGDR1#47_042610.pdf.

Supplemental Response:

Based on additional work performed in responding the Commission Staff's Second Set of Information Requests, the Company is amending the forecasted test-year level of AIP awards for the employees of AWWSC. Please see the response and attachments to KAW_R_PSCDR2#8_043010 for the new forecasted test-year AWWSC AIP awards which now total \$179,208 compared to the \$209,324 provided in the original response to this question.

For the electronic version of this response, refer to KAW_R_AGDR1#47_SUPPLEMENTAL_050310.