

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

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**Witness: Keith Cartier**

101. Refer to the Company's response to AG-1-105.
- a. Explain how the chemical invoices can reflect contract pricing if the contracts are not final.
  - b. Please provide the pricing and payment term sections and appendices from the 2010 contracts.

**Response:**

- a. Contract bids are binding when American Water is in receipt of a signed acknowledgement to the American Water Purchase Order and/or the Contract Exhibit A Amendment from the supplier.
- b. The 2010 payment terms are contained in the multi-year Master Agreements. Please see attached.

For the electronic version, refer to KAW\_R\_AGDR2#101\_052410.pdf.

**AMENDMENT No. A-3  
TO  
AGREEMENT BETWEEN AMERICAN WATER WORKS SERVICE COMPANY,  
INC. AND APPLIED SPECIALITIES, INC DATED 07/14/2009**

This Amendment No. A-3 to the Agreement ("Amendment") is entered into this 1st day of July, 2010 ("Effective Date") by and between Applied Specialities, Inc. ("Chemical Supplier") and American Water Works Service Company, Inc. ("Services").

**RECITALS**


- A. Chemical Supplier and Services entered into an Agreement dated as of 07/14/2009, (the "Original Agreement");
- B. Chemical Supplier and Services desire to set forth in this Amendment certain modifications to the Original Agreement; and,
- C. In all other respects, the Original Agreement shall control the relationship between the parties, and all references to the "Agreement" in the Original Agreement and this Amendment shall mean the Original Agreement as amended hereby.

NOW, THEREFORE, in consideration of the Recitals and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. **Exhibit A-2—Chemical Price List.** As of the Effective Date of this Amendment, Exhibit A-2 – Chemical Price List shall be deleted in its entirety and replaced with Exhibit A-3 – Chemical Price List ("Exhibit A-3"), which is attached hereto and incorporated into the Agreement. The parties agree that prices listed in Exhibit A-3 shall be effective pursuant to their respective effective dates provided in Exhibit A-3.
2. The parties agree that all open purchase orders in effect pursuant to the Agreement as of the date of this Amendment are cancelled with the exception of the purchase orders listed in Exhibit A-3 which shall be valid in accordance with the corresponding effective dates provided in Exhibit A-3.
3. **Other Provisions.** All other terms and conditions of the Original Agreement and its exhibits and amendments, shall remain in full force and effect to the extent not modified by this Amendment.

IN WITNESS WHEREOF, Chemical Supplier and Services have signed this Amendment in triplicate. One counterpart each has been delivered to both Chemical Supplier and Services.

**Applied Specialities, Inc.**

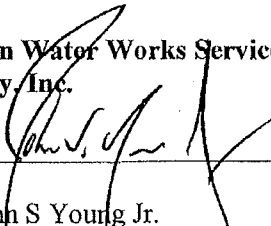
By: 

Print: C. SCHEURMAN

Title: Pres

Date: 4-29-10

**American Water Works Service  
Company, Inc.**

By: 

Print: John S Young Jr.

Title: President

Date: 5/5/2010

Exhibit A-3 Chemical Pricing



Supplier Name	ASI	Business Unit/Location	Part Number	Part Description	Special Conditions	Product Code	Product Code Descrip	Supplier Part Number	Specify min. Zn content (%) for Zn Ortho products:	Blanket PO #	Physical Delivery Address	Special Delivery Requirement
Effective 1-1-2010	Expires 12-31-2010								2010			
50047336	123201-OWN-Production	250D-BULK	Ferric Chlor Polymer, 10% AS2820	(blank)	BC44	Ferric Chloride	AS-2820	(blank)	\$ 0.3100	TBD	220 Water Plant Lane, Owenton, KY 40359	No large trucks. Lift gate required.

**AMENDMENT No. A-3  
TO  
AGREEMENT BETWEEN AMERICAN WATER WORKS SERVICE COMPANY,  
INC. AND BRENNTAG MID-SOUTH, INC. DATED 01/01/2008**

This Amendment No. A-3 to the Agreement ("Amendment") is entered into this 1st day of April, 2010 ("Effective Date") by and between Brenntag Mid-South, Inc. ("Chemical Supplier") and American Water Works Service Company, Inc. ("Services").

**RECITALS**

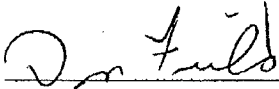
- A. Chemical Supplier and Services entered into an Agreement dated as of 01/01/2008, (the "Original Agreement");
- B. Chemical Supplier and Services desire to set forth in this Amendment certain modifications to the Original Agreement; and,
- C. In all other respects, the Original Agreement shall control the relationship between the parties, and all references to the "Agreement" in the Original Agreement and this Amendment shall mean the Original Agreement as amended hereby.

NOW, THEREFORE, in consideration of the Recitals and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. **Exhibit A-2—Chemical Price List.** As of the Effective Date of this Amendment, Exhibit A-2 – Chemical Price List and any other price list attached to the Agreement shall be deleted in its entirety and replaced with Exhibit A-3 – Chemical Price List ("Exhibit A-3"), which is attached hereto and incorporated into the Agreement. The parties agree that prices listed in Exhibit A-3 shall be effective pursuant to their respective effective dates provided in Exhibit A-3.
2. The parties agree that all open purchase orders in effect pursuant to the Agreement as of the date of this Amendment are cancelled with the exception of the purchase orders listed in Exhibit A-3 which shall be valid in accordance with the corresponding effective dates provided in Exhibit A-3.
3. **Other Provisions.** All other terms and conditions of the Original Agreement and its exhibits and amendments, shall remain in full force and effect to the extent not modified by this Amendment.

IN WITNESS WHEREOF, Chemical Supplier and Services have signed this Amendment in triplicate. One counterpart each has been delivered to both Chemical Supplier and Services.

**Brenntag Mid-South, Inc**

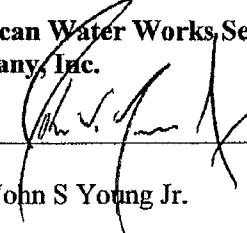
By: 

Print: Don Field

Title: Indy District Mgr.

Date: 4/21/2010

**American Water Works Service  
Company, Inc.**

By: 

Print: John S Young Jr.

Title: President

Date: 5-5-10

Exhibit A-3  
Chemical  
Pricing

Kentucky

Supplier Name	Brenntag	Part Number	Part Description	Special Conditions	Product Code	Product Code Descrip	Supplier Part Number	Specify min. Zn content (%) for Zn Ortho products:	2010	Blanket PO #	Physical Delivery Address	Special Delivery Requirement
Effective 1-1-2010	Expires 12-31-2010											
50141748	1202400-LEX-StkC Ky River Station	150A-BULK	Ammonia - Anhyd, 100% Bulk	(blank)	BC67	Ammonia - Anhydrous	(blank)	(blank)	\$ 0.3800	TBD	6300Cedar creek Lane, Lexington, KY 40515	None
50141748	1202400-LEX-StkC Ky River Station	200A-50LB	Carbon - PAC, Lignite Hydrocharco B-50LB	(blank)	BC97	Carbon - Powdered Activated	(blank)	(blank)	\$ 0.8500	TBD	6300Cedar creek Lane, Lexington, KY 40515	None
50141748	1202400-LEX-StkC Ky River Station	200B-40LB	Carbon - PAC, Lignite Hydrocharco B-40LB	(blank)	BC97	Carbon - Powdered Activated	(blank)	(blank)	\$ 0.8500	TBD	6300Cedar creek Lane, Lexington, KY 40515	None
50141748	1202400-LEX-StkC Ky River Station	220A-2000LB	Chlorine, 100% 2000LB	(blank)	BC72	Chlorine	(blank)	(blank)	\$ 0.1900	TBD	6300Cedar creek Lane, Lexington, KY 40515	None
50141748	1202400-LEX-StkC Ky River Station	300A-55GA	HFS Acid, 23% 55GA	(blank)	BC81	Hydrofluos ilicic Acid	(blank)	(blank)	\$ 0.4300	TBD	6300Cedar creek Lane, Lexington, KY 40515	None
50141748	1202400-LEX-StkC Ky River Station	300A-BULK	HFS Acid, 23% Bulk	(blank)	BC81	Hydrofluos ilicic Acid	(blank)	(blank)	\$ 0.3200	TBD	6300Cedar creek Lane, Lexington, KY 40515	None
50141748	1202400-LEX-StkC Ky River Station	510A-50LB	Sodium Chloride, 90% Pure 50LB	(blank)	BC96	Sodium Chloride	(blank)	(blank)	\$ 0.1800	TBD	6300Cedar creek Lane, Lexington, KY 40515	None

50141748	1202400-LEX-StkC Ky River Station	560A-BULK	Sodium Hydrox,50% Bulk	(blank)	BC93	Sodium Hydroxide 0.50	(blank)	(blank)	\$ 0.0800	TBD	6300Cedar creek Lane, Lexington, KY 40515	None
50141748	1202400-LEX-StkC Ky River Station	601A-BULK	Sodium Thio - Liquid,30% Bulk	(blank)	BC64	Sodium Thiosulfate - Liquid	(blank)	(blank)	\$ 0.1550	TBD	6300Cedar creek Lane, Lexington, KY 40515	None
50141748	1202400-LEX-StkC Ky River Station II	170A-BULK	Ammonia - Aqua,19% Bulk	(blank)	BC68	Liquid Ammonia	(blank)	(blank)	\$ 0.1500	TBD	16035 Hwy 127 South, Owenton, KY 40359	(blank)
50141748	1202400-LEX-StkC Ky River Station II	200A-900LB	Carbon - PAC,Lignite Hydrocarbo B-900LB	(blank)	BC97	Hydrocarbo o B	(blank)	(blank)	\$ 0.8600	TBD	16035 Hwy 127 South, Owenton, KY 40359	(blank)
50141748	1202400-LEX-StkC Ky River Station II	220A-2000LB	Chlorine 100% 2000LB	(blank)	BC72	Chlorine	(blank)	(blank)	\$ 0.1900	TBD	16035 Hwy 127 South, Owenton, KY 40359	(blank)
50141748	1202400-LEX-StkC Ky River Station II	300A-BULK	HFS Acid,23% Bulk	(blank)	BC81	Hydrofluos ilicic Acid	(blank)	(blank)	\$ 0.3200	TBD	16035 Hwy 127 South, Owenton, KY 40359	(blank)
50141748	1202400-LEX-StkC Ky River Station II	460A-330LB	Potassium Permangan ate	(blank)	BC26	Potassium Permanga nate	(blank)	(blank)	\$ 2.5500	TBD	16035 Hwy 127 South, Owenton, KY 40359	(blank)
50141748	1202400-LEX-StkC Ky River Station II	510A-50LB	Sodium Chloride,90 % Pure- 50LB	(blank)	BC96	Sodium Chloride	(blank)	(blank)	\$ 0.1800	(blank)	(blank)	(blank)
50141748	1202400-LEX-StkC Ky River Station II	560A-BULK	Sodium Hydrox,50% Bulk	(blank)	BC93	Sodium Hydroxide 0.50	(blank)	(blank)	\$ 0.0800	TBD	16035 Hwy 127 South, Owenton, KY 40359	(blank)
50141748	1202400-LEX-StkC Ky River Station II	601A-BULK	Sodium Thio - Liquid,30% Bulk	(blank)	BC64	Sodium Thiosulfate - Liquid	(blank)	(blank)	\$ 0.1550	TBD	16035 Hwy 127 South, Owenton, KY 40359	(blank)
50141748	1202401-LEX-StkC Richmond Rd Station	150A-BULK	Ammonia - Anhyd,100% Bulk	(blank)	BC67	Ammonia - Anhydrous	(blank)	(blank)	\$ 0.3800	TBD	2300 Richmond Road, Lexington, KY 40502	None



50141748	1202401-LEX-StkC Richmond Rd Station	200A-1000LB	Carbon - PAC,Lignite Hydrodarco B-1000LB	(blank)	BC97	Carbon - Powdered Activated	(blank)	(blank)	\$ 0.8500	TBD	2300 Richmond Road, Lexington, KY 40502	Supersacs must be on individual pallets and not stacked on each other during shipping
50141748	1202401-LEX-StkC Richmond Rd Station	200A-900LB	Carbon - PAC,Lignite Hydrodarco B-900LB	(blank)	BC97	Carbon - Powdered Activated	(blank)	(blank)	\$ 0.8500	TBD	2300 Richmond Road, Lexington, KY 40502	Supersacs must be on individual pallets and not stacked on each other during shipping
50141748	1202401-LEX-StkC Richmond Rd Station	220A-2000LB	Chlorine ,100%- 2000LB	(blank)	BC72	Chlorine	(blank)	(blank)	\$ 0.1900	TBD	2300 Richmond Road, Lexington, KY 40502	None
50141748	1202401-LEX-StkC Richmond Rd Station	300A-55GA	HFS Acid,23%- 55GA	(blank)	BC81	Hydrofluoric Acid	(blank)	(blank)	\$ 0.4300	TBD	2300 Richmond Road, Lexington, KY 40502	None
50141748	1202401-LEX-StkC Richmond Rd Station	300A-BULK	HFS Acid,23%- Sodium Chloride,90 % Pure- 50LB	(blank)	BC81	Hydrofluoric Acid	(blank)	(blank)	\$ 0.3200	TBD	2300 Richmond Road, Lexington, KY 40502	None
50141748	1202401-LEX-StkC Richmond Rd Station	510A-50LB	Sodium Chloride,50%- 275GA	(blank)	BC96	Sodium Chloride	(blank)	(blank)	\$ 0.1800	TBD	2300 Richmond Road, Lexington, KY 40502	None
50141748	1202401-LEX-StkC Richmond Rd Station	560A-275GA	Sodium Hydroxide,50%- 275GA	(blank)	BC96	Sodium Hydroxide 0.50	(blank)	(blank)	\$ 0.1600	TBD	2300 Richmond Road, Lexington, KY 40502	None

50141748	1202401-LEX-StkC Richmond Rd Station	560A-BULK	Sodium Hydrox, 50% Bulk	(blank)	BC93	Sodium Hydroxide 0.50	(blank)	(blank)	\$ 0.0800	TBD	2300 Richmond Road, Lexington, KY 40502	None
50141748	1202401-LEX-StkC Richmond Rd Station	600A-50LB	Sodium Thio - Dry, 100% - 50LB	(blank)	BC63	Sodium Thiosulfate - Dry	(blank)	(blank)	\$ 0.4800	TBD	2300 Richmond Road, Lexington, KY 40502	None
50141748	123201-OWN-Production	200B-40LB	Carbon-PAC, Lignite Hydrodarco B 40LB	(blank)	BC97	Carbon - Powdered Activated	(blank)	(blank)	\$ 0.9500	TBD	220 Water Plant Lane, Owenton, KY 40359	No large trucks. Lift gate required.
50141748	123201-OWN-Production	220A-150LB	Chlorine , 100%- 150LB	(blank)	BC72	Chlorine	(blank)	(blank)	\$ 0.4000	TBD	220 Water Plant Lane, Owenton, KY 40359. Chlorine cylinders sometimes need to be shipped to two of our distribution sites directly at 505 South Main Street, Owenton, KY 40359 and 4090 Hwy 127 N, Owenton, KY 40359.	No large trucks. Lift gate required.
50141748	123201-OWN-Production	250A-55GA	Ferric Chloride, 38 %-55GA	(blank)	BC44	Ferric Chloride	(blank)	(blank)	\$ 0.1800	TBD	220 Water Plant Lane, Owenton, KY 40359	No large trucks. Lift gate required.
50141748	123201-OWN-Production	300A-55GA	HFS Acid, 23%- 55GA	(blank)	BC81	Hydrofluos ilicic Acid	(blank)	(blank)	\$ 0.4300	TBD	220 Water Plant Lane, Owenton, KY 40359	No large trucks. Lift gate required.
50141748	123201-OWN-Production	460A-55LB	Pot. Perman ganate, 100 %-55LB	(blank)	BC26	Potassium Permanga nate	(blank)	(blank)	\$ 2.6000	TBD	220 Water Plant Lane, Owenton, KY 40359	No large trucks. Lift gate required.

50141748	123201-OWN-Production	555A-55GA	Sodium Hydrox, 30% 55GA	(blank)	BC91	Sodium Hydroxide 0.25	(blank)	(blank)	\$ 0.1500	TBD	220 Water Plant Lane, Owenton, KY 40359	No large trucks. Lift gate required.
50141748	123201-OWN-Production	560A-55GA	Sodium Hydrox, 50% 55GA	(blank)	BC93	Sodium Hydroxide 0.50	(blank)	(blank)	\$ 0.1500	TBD	220 Water Plant Lane, Owenton, KY 40359	No large trucks. Lift gate required.
50141748	123201-OWN-Production	601A-585LB	Sodium Thio - Liquid, 30% - 585LB	(blank)	BC64	Sodium Thiosulfate - Liquid	(blank)	(blank)	\$ 0.3200	TBD	220 Water Plant Lane, Owenton, KY 40359	No large trucks. Lift gate required.
50141748	123201-OWN-Production	640D-55GA	Sulfuric Acid, 38.5% - 55GA	(blank)	BC94	Sulfuric Acid	(blank)	(blank)	\$ 0.2200	TBD	220 Water Plant Lane, Owenton, KY 40359	No large trucks. Lift gate required.
50141748	123301-OWN-Production	140A-55GA	Alum Sulfate - Liquid, 50% - 55GA	(blank)	BC42	Aluminum Sulfate - Liquid	(blank)	(blank)	\$ 0.1800	TBD	385 Carter Lane, Owenton, KY 40359	No large trucks. Lift gate required.
50141748	123301-OWN-Production	220A-150LB	Chlorine ,100% - 150LB	(blank)	BC72	Chlorine	(blank)	(blank)	\$ 0.4000	TBD	385 Carter Lane, Owenton, KY 40359	No large trucks. Lift gate required.
50141748	123301-OWN-Production	630A-150LB	Sulfur Dioxide, 100 % - 150LB	(blank)	BC80	Sulfur Dioxide	(blank)	(blank)	\$ 0.5180	TBD	385 Carter Lane, Owenton, KY 40359	No large trucks. Lift gate required.
50141748	125001-BOWW-Treatment	140A-55GA	Alum Sulfate - Liquid, 50% - 55GA	(blank)	(blank)	(blank)	(blank)	(blank)	\$ 0.1800	TBD	(blank)	(blank)
50141748	125001-BOWW-Treatment	220A-55LB	Chlorine ,100% - 55LB (Tablets) 2.5 inch or smaller	(blank)	BC72	Chlorine	(blank)	(blank)	\$ 2.6000	TBD	American Water Will Call	American Water Will Call
50141748	125001-BOWW-Treatment	326A-55LB	Sodium Sulfite 80%	(blank)	BC41	Aluminum Sulfate - Dry	(blank)	(blank)	\$ 2.3500	TBD	American Water Will Call	American Water Will Call

**AMENDMENT No. A-3  
TO  
AGREEMENT BETWEEN AMERICAN WATER WORKS SERVICE COMPANY,  
INC. AND CEDARCHEM, LLC. DATED 01/01/2009**

This Amendment No. A-3 to the Agreement ("Amendment") is entered into this 1st day of April, 2010 ("Effective Date") by and between CedarChem, LLC, ("Chemical Supplier") and American Water Works Service Company, Inc. ("Services").

**RECITALS**

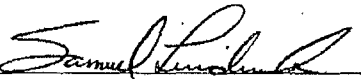
- A. Chemical Supplier and Services entered into an Agreement dated as of 01/01/2009, (the "Original Agreement");
- B. Chemical Supplier and Services desire to set forth in this Amendment certain modifications to the Original Agreement; and,
- C. In all other respects, the Original Agreement shall control the relationship between the parties, and all references to the "Agreement" in the Original Agreement and this Amendment shall mean the Original Agreement as amended hereby.

NOW, THEREFORE, in consideration of the Recitals and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. **Exhibit A-2—Chemical Price List.** As of the Effective Date of this Amendment, Exhibit A-2 – Chemical Price List and any other price list attached to the Agreement shall be deleted in its entirety and replaced with Exhibit A-3 – Chemical Price List ("Exhibit A-3"), which is attached hereto and incorporated into the Agreement. The parties agree that prices listed in Exhibit A-3 shall be effective pursuant to their respective effective dates provided in Exhibit A-3.
2. The parties agree that all open purchase orders in effect pursuant to the Agreement as of the date of this Amendment are cancelled with the exception of the purchase orders listed in Exhibit A-3 which shall be valid in accordance with the corresponding effective dates provided in Exhibit A-3.
3. **Other Provisions.** All other terms and conditions of the Original Agreement and its exhibits and amendments, shall remain in full force and effect to the extent not modified by this Amendment.

IN WITNESS WHEREOF, Chemical Supplier and Services have signed this Amendment in triplicate. One counterpart each has been delivered to both Chemical Supplier and Services.

**CedarChem, LLC.**

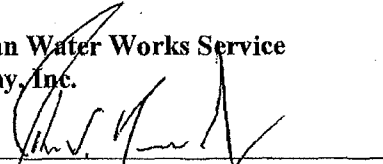
By: 

Print: Samuel Lindmark

Title: MANAGING MEMBER

Date: 4-27-10

**American Water Works Service  
Company, Inc.**

By: 

Print: John S Young Jr.

Title: President

Date: 5-5-10

Kentucky Exhibit A-3 Chemical Pricing

Supplier Name	Cedar Chem	Business Unit/Location	Expiration	Part Number	Part Description	Special Conditions	Product Code	Product Description	Supplier Part Number	Specify min. Zn content (%) for Ortho products	Blanket PO #	Physical Delivery Address	Special Delivery Requirement
Effective 1-1-2010	Expires 12-31-2010												
50366889	1202400-LEX-StkC Ky River Station	Pot. Permanganate, 100%-55LB	Expires 12-31-2010	460A-55LB		(blank)	BC26	Potassium Permanganate	(blank)	(blank)	TBD	6300Cedarcr eek Lane, Lexington, KY 40515	Consistent with MSA
50366889	1202400-LEX-StkC Ky River Station	Sod. Permanganate, 20%-50GA	Expires 12-31-2010	461A-50GA		(blank)	BC26	Sodium Permanganate	F2SP20	(blank)	15139243	6300Cedarcr eek Lane, Lexington, KY 40515	Consistent with MSA
50366889	1202400-LEX-StkC Ky River Station	Zn Ortho(Sulfate), (1:10)-Bulk	Expires 12-31-2010	680C-BULK		(blank)	BC60	Zinc Orthophosphate	Carus 3390	(blank)	15139597	6300Cedarcr eek Lane, Lexington, KY 40515	Consistent with MSA
50366889	1202400-LEX-StkC Ky River Station	Polymr, Cat, Cedar Flocc 524	Expires 12-31-2010	410DD-BULK		(blank)	BC51	Polymer Cationic	(blank)	(blank)	15139240	6300Cedarcr eek Lane, Lexington, KY 40515	Consistent with MSA
50366889	1202400-LEX-StkC Ky River Station	Polymr, Non, Cedar Flocc 550	Expires 12-31-2010	420P-55GA		(blank)	BC52	Polymer Nonionic	(blank)	(blank)	15139242	6300Cedarcr eek Lane, Lexington, KY 40515	Consistent with MSA
50366889	1202400-LEX-StkC Ky River Station II	Polymr, Sludge, Cedar Flocc	Expires 12-31-2010	430A-BULK		(blank)	BC49	Polymer	(blank)	(blank)	TBD	16035 Hwy 127 South, Owenton, KY 40359	Consistent with MSA
50366889	1202400-LEX-StkC Ky River Station II	Zn Ortho(Sulfate), (1:10)-Bulk	Expires 12-31-2010	680C-BULK		(blank)	BC60	Zinc Orthophosphate	CedarClear 321	(blank)	TBD	16035 Hwy 127 South, Owenton, KY 40359	Consistent with MSA

50366889	1202400-LEX-StkC Ky River Station II	Expires 12-31-2010	420P-55GA	Polymer, Non, Cedar Flocc 550	(blank)	BC52	Polymer Nonionic	(blank)	(blank)	\$ 0.7950	TBD	16035 Hwy 127 South, Owenton, KY 40359 2300	Consistent with MSA
50366889	1202401-LEX-StkC Richmond Rd Station	Expires 12-31-2010	430A-50LB	Polymer, Sludge, Cedar Flocc	(blank)	BC49	Polymer	(blank)	(blank)	\$ 2.2500	15139611	Richmond Road, Lexington, KY 40502 2300	Consistent with MSA
50366889	1202401-LEX-StkC Richmond Rd Station	Expires 12-31-2010	460A-55LB	Pot. Permanganate, 100%-55LB	(blank)	BC26	Potassium Permanganate	(blank)	(blank)	\$ 2.5700	15139606	Richmond Road, Lexington, KY 40502 2300	Consistent with MSA
50366889	1202401-LEX-StkC Richmond Rd Station	Expires 12-31-2010	680C-BULK	Zn Ortho(Sulfate), (1:10)-Bulk	(blank)	BC60	Zinc Orthophosphate	Carus 3390	(blank)	\$ 0.4590	15139610	Richmond Road, Lexington, KY 40502 2300	Consistent with MSA
50366889	1202401-LEX-StkC Richmond Rd Station	Expires 12-31-2010	410DD-BULK	Polymer, Cat, Cedar Flocc 524	(blank)	BC51	Polymer Cationic	(blank)	(blank)	\$ 0.2725	15139604	Richmond Road, Lexington, KY 40502 2300	Consistent with MSA
50366889	1202401-LEX-StkC Richmond Rd Station	Expires 12-31-2010	411V-50LB	Polymer, Cat, Cedar Flocc 408	(blank)	BC51	Polymer Cationic	(blank)	(blank)	\$ 2.2500	15139605	Richmond Road, Lexington, KY 40502 2300	Consistent with MSA
50366889	123201-OWN-Production	Expires 12-31-2010	400Y-55GA	Polymer, An, Cedar Flocc 551	(blank)	BC50	Polymer Anionic	Cedar Flocc 551	(blank)	\$ 0.8650	15139206	220 Water Plant Lane, Owenton, KY 40359	No large trucks. Lift gate required.
50366889	123201-OWN-Production	Expires 12-31-2010	410J-55GA	Polymer, Cat, Cedar Flocc 526	(blank)	BC51	Polymer Cationic	(blank)	(blank)	\$ 0.5000	15139210	220 Water Plant Lane, Owenton, KY 40359	No large trucks. Lift gate required.

AMENDMENT No. A-1  
TO  
AGREEMENT BETWEEN AMERICAN WATER WORKS SERVICE COMPANY,  
INC. AND DELTA CHEMICAL CORPORATION DATED JUNE 1, 2009

This Amendment No. A-1 to the Agreement ("Amendment") is entered into this 1st day of January, 2010 ("Effective Date") by and between Delta Chemical Corporation ("Chemical Supplier") and American Water Works Service Company, Inc. ("Services").

RECITALS

- A. Chemical Supplier and Services entered into an Agreement dated as of June 1, 2009, (the "Original Agreement");
- B. Chemical Supplier and Services desire to set forth in this Amendment certain modifications to the Original Agreement; and,
- C. In all other respects, the Original Agreement shall control the relationship between the parties, and all references to the "Agreement" in the Original Agreement and this Amendment shall mean the Original Agreement as amended hereby.

NOW, THEREFORE, in consideration of the Recitals and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. **Exhibit A—Chemical Price List.** As of the Effective Date of this Amendment, Exhibit A – Chemical Price List and any other price list attached to the Agreement shall be deleted in its entirety and replaced with Exhibit A-1 – Chemical Price List ("Exhibit A-1"), which is attached hereto and incorporated into the Agreement. The parties agree that prices listed in Exhibit A-1 shall be effective pursuant to their respective effective dates provided in Exhibit A-1.
2. The parties agree that all open purchase orders in effect pursuant to the Agreement as of the date of this Amendment are cancelled with the exception of the purchase orders listed in Exhibit A-1 which shall be valid in accordance with the corresponding effective dates provided in Exhibit A-1.
3. Prices for Chemicals will be based on the pricing in effect at the time of order only. Prices will not be determined by the prices in effect at the time of delivery.

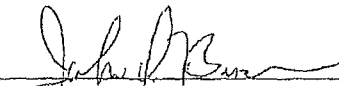



4. **Other Provisions.** All other terms and conditions of the Original Agreement and its exhibits and amendments, shall remain in full force and effect to the extent not modified by this Amendment.

IN WITNESS WHEREOF, Chemical Supplier and Services have signed this Amendment in triplicate. One counterpart each has been delivered to both Chemical Supplier and Services.

**Delta Chemical Corporation**

**American Water Works Service  
Company Inc.**

By: 

By: 

Print: John D. Besson

Print: ~~John S Young Jr.~~ Deborah Emposimato

Title: President

Title: ~~President~~ Director of Supply Chain

Date: May 12, 2010

Date: 5/13/10

Exhibit A-1 Chemical Pricing

Supplier Name	Delta	Effective Dates	Business Unit/Location	Part Number	Part Description	Special Conditions	Product Code	Product Code Description	Supplier Part Number	Specify min. Zn content (%) for Zn Ortho products :	2010	Blanket PO #	Physical Delivery Address	Special Delivery Requirement
Effective 1-1-2010	Expires 12-31-2010													
18565763	Expires 12-31-2010	1202400-LEX-StKC Ky River Station	380F-BULK	PACL,Delipc2020/Str nsn70-Bulk		BC47	Polyaluminum Chloride				\$0.1440	15139239	6300Cedarcreek Lane, Lexington, KY 40515	Consistent with MSA
18565763	Expires 12-31-2010	120252-LEX-StKC Ky River Station II	380F-BULK	PACL,Delipc2020/Str nsn70-Bulk		BC47	Polyaluminum Chloride				\$0.1440	15144473	16035 Hwy 127 South, Owenton, KY 40359	Consistent with MSA
18565763	Expires 12-31-2010	120252-LEX-StKC Ky River Station II	380F-BULK	PolyAluminum Chloride/Polymer Blend			Blended with Polymer				\$0.1790	TBD	16035 Hwy 127 South, Owenton, KY 40359	Consistent with MSA
18565763	Expires 12-31-2010	1202401-LEX-StKC Richmond Rd Station	380F-BULK	PACL,Delipc2020/Str nsn70-Bulk		BC47	Polyaluminum Chloride				\$0.1440	15139603	2300 Richmond Road, Lexington, KY 40502	Consistent with MSA

**AMENDMENT No. A-1  
TO  
AGREEMENT BETWEEN AMERICAN WATER WORKS SERVICE COMPANY,  
INC. AND AQUATIC CONTROL, INC. DATED JUNE 4, 2009**

This Amendment No. A-1 to the Agreement (“Amendment”) is entered into this 1st day of January, 2010 (“Effective Date”) by and between Aquatic Control, Inc. (“Chemical Supplier”) and American Water Works Service Company, Inc. (“Services”).

**RECITALS**

- A. Chemical Supplier and Services entered into an Agreement dated as of June 4, 2009, (the “Original Agreement”);
- B. Chemical Supplier and Services desire to set forth in this Amendment certain modifications to the Original Agreement; and,
- C. In all other respects, the Original Agreement shall control the relationship between the parties, and all references to the “Agreement” in the Original Agreement and this Amendment shall mean the Original Agreement as amended hereby.

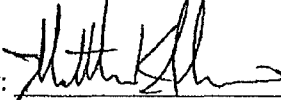
NOW, THEREFORE, in consideration of the Recitals and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. **Exhibit A—Chemical Price List.** As of the Effective Date of this Amendment, Exhibit A – Chemical Price List and any other price list attached to the Agreement shall be deleted in its entirety and replaced with Exhibit A-1 – Chemical Price List (“Exhibit A-1”), which is attached hereto and incorporated into the Agreement. The parties agree that prices listed in Exhibit A-1 shall be effective pursuant to their respective effective dates provided in Exhibit A-1.
2. The parties agree that all open purchase orders in effect pursuant to the Agreement as of the date of this Amendment are cancelled with the exception of the purchase orders listed in Exhibit A-1 which shall be valid in accordance with the corresponding effective dates provided in Exhibit A-1.
3. Prices for Chemicals will be based on the pricing in effect at the time of order only. Prices will not be determined by the prices in effect at the time of delivery.

4. **Other Provisions.** All other terms and conditions of the Original Agreement and its exhibits and amendments, shall remain in full force and effect to the extent not modified by this Amendment.

IN WITNESS WHEREOF, Chemical Supplier and Services have signed this Amendment in triplicate. One counterpart each has been delivered to both Chemical Supplier and Services.

**Aquatic Control, Inc**

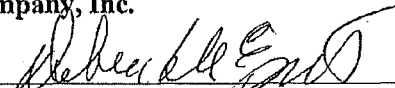
By: 

Print: Matthew K. Johnson

Title: VP Sales + Marketing

Date: 5/11/10

**American Water Works Service  
Company, Inc.**

By: 

Print: ~~John S. Young Jr.~~ Deborah Emposimato

Title: ~~President~~ Director of Supply Chain

Date: 5/13/10

Exhibit A-1 Chemical Pricing													
Supplier Name	Effective Dates	Business Unit/Location	Part Number	Part Description	Special Conditions	Product Code	Product Code	Product Description	Supplier Part Number	Specify min. Zn content (%) for Zn Ortho products:	Blanket PO #	Physical Delivery Address	Special Delivery Requirement
Kentucky													
Supplier Name	Aquatic Control												
Effective 1-1-2010	Expires 12-31-2010												
Supplier Number													
10001049	Expires 12-31-2010	1202401-LEX-SkC Richmond Rd Station	230B-30GA	Copper Sulfate, 20%-30GA		BC44		Copper Sulfate		\$ 1.3600	15139601	Richmond Road, Lexington, KY 40502 220 Water Plant Lane, Owenton, KY 40359	Consistent with MSA
10001049	Expires 12-31-2010	123201-OWN-Production	230A-5LB	Copper Sulfate, 20%-5LB		BC44		Copper Sulfate		\$ 1.7476	15139680		Consistent with MSA

**AMENDMENT No. A-3  
TO  
AGREEMENT BETWEEN AMERICAN WATER WORKS SERVICE COMPANY,  
INC. AND KEMIRA WATER SOLUTIONS, INC. DATED 01/01/2008**

This Amendment No. A-3 to the Agreement ("Amendment") is entered into this 1st day of April, 2010 ("Effective Date") by and between Kemira Water Solutions, Inc. ("Chemical Supplier") and American Water Works Service Company, Inc. ("Services").

**RECITALS**

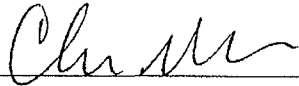
- A. Chemical Supplier and Services entered into an Agreement dated as of 01/01/2008, (the "Original Agreement");
- B. Chemical Supplier and Services desire to set forth in this Amendment certain modifications to the Original Agreement; and,
- C. In all other respects, the Original Agreement shall control the relationship between the parties, and all references to the "Agreement" in the Original Agreement and this Amendment shall mean the Original Agreement as amended hereby.

NOW, THEREFORE, in consideration of the Recitals and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

- 1. **Exhibit A-2—Chemical Price List.** As of the Effective Date of this Amendment, Exhibit A-2 – Chemical Price List and any other price list attached to the Agreement shall be deleted in its entirety and replaced with Exhibit A-3 – Chemical Price List ("Exhibit A-3"), which is attached hereto and incorporated into the Agreement. The parties agree that prices listed in Exhibit A-3 shall be effective pursuant to their respective effective dates provided in Exhibit A-3.
- 2. The parties agree that all open purchase orders in effect pursuant to the Agreement as of the date of this Amendment are cancelled with the exception of the purchase orders listed in Exhibit A-3 which shall be valid in accordance with the corresponding effective dates provided in Exhibit A-3.
- 3. **Other Provisions.** All other terms and conditions of the Original Agreement and its exhibits and amendments, shall remain in full force and effect to the extent not modified by this Amendment.

IN WITNESS WHEREOF, Chemical Supplier and Services have signed this Amendment in triplicate. One counterpart each has been delivered to both Chemical Supplier and Services.

**Kemira Water Solutions, Inc**

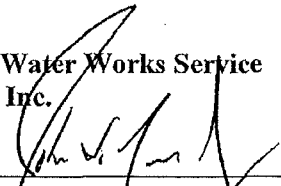
By: 

Print: Christina Addington

Title: Customer Service Mgr.

Date: 4/28/10

**American Water Works Service  
Company, Inc.**

By: 

Print: John S. Young Jr.

Title: President

Date: 5.5.10





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

---

**Witness: Michael A. Miller**

102. Refer to the Company's response to AG-1-109.
- a. Please provide the attachment electronically in Excel.
  - b. For each Service Company cost listed (for each "Object Description") that is paid by the Service Company in cash, please indicate the service period and cash payment as paid by the Service Company to the payee.

**Response:**

- a. Please see file labeled as KAW\_R\_AGDR2#102\_052410.xls for an Excel version of the attachment prepared in response to AG-1-109.
- b. Please see response to question AG-2-89 part c.

For the electronic version of this response, refer to KAW\_R\_AGDR2#102\_052410.pdf.

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

---

**Witness: Michael A. Miller**

103. Refer to the Company's response to AG-1-110.
- a. Please provide a detailed description of the services performed by each "BU Designation".
  - b. What is the Corp –Business Change?
  - c. What is the Corp – AWE Pass Thru?
  - d. What is AWE?
  - e. What are the Corp – Non-Departmental Costs?
  - f. Under Business Development, what are the Corp, WE, CE, SE and NE?
  - g. What is the CSC?
  - h. What is the CCA and CCP within the CSC?
  - i. Provide the comparative cost of CCA and CCP Call Handing for each year, 2006, 2007, 2008 and as budgeted for 2010 and the future test year.
  - j. Indicate how many calls were "handled" by CCA and CCP Call Handing for each year, 2006, 2007, 2008, 2009 and as budgeted for 2010 and the future test year.
  - k. Are there any registered lobbyists in the External Affairs/Communications function of AWWSC? If not, explain fully why not. If so, please identify each registered lobbyist by position title and annual salary and benefits. Also identify all lobbying time for each lobbyist in 2009 and provide the related time sheets.
  - l. Why is KAW being charged for External Affairs from all of these: Corp, WE, CE, SE and NE? Please identify and explain the specific services provided to KW by each of the five distinct affiliated External Affairs business units for 2009.
  - m. Please detail all costs included in the Corp Marketing 032068, \$1,417,355 amount for 2009.
  - n. What is the Corp IFRS Finance?

- o. Why is KAW being charged for Finance from all of these business units: Corp, WE, CE, SE and NE? Please identify and explain the specific services provided to KW by each of the five distinct affiliated Finance business units for 2009.
- p. Why is KAW being charged for Human Resources from all of these business units: Corp, WE, CE, SE and NE? Please identify and explain the specific services provided to KW by each of the five distinct affiliated Human Resources business units for 2009.
- q. What is CORP-ITS-BAD?
- r. Please identify and explain the specific legal services that KAW received from each of these five distinct affiliated Legal business units for 2009: Corp, WE, CE, SE and NE.
- s. Please identify and explain the specific services that KAW received from each of these five distinct affiliated Operational Risk business units for 2009: Corp, WE, CE, SE and NE.
- t. What is Corp-COE?
- u. Please identify and explain the specific services that KAW received from each of these five distinct affiliated Supply Chain business units for 2009: Corp, WE, CE, SE and NE.
- v. What is ED-Customer Relations?
- w. Please identify and explain the specific services that KAW received from ED-Customer Relations in 2009.
- x. Explain what CORP-Regulatory UFS does.
- y. Identify all specific services provided by CORP-Regulatory UFS to KAW during 2009.
- z. What is SSC?
- aa. What is SSC-AWE and why is that being charged to KAW?
- bb. Please identify and explain the specific services that KAW received from each of the AWWSC Business Units under "SSC" including 032084 SSC-Accounts Payable through 032580 SSC-AWE.
- cc. Please identify the specific projects that AWWSC SSC-Rates & Regulation performed during 2009.

**Response:**

- a. Please see attached.
- b. "Corp-Business Change" is a business unit set up to hold costs that were not directly assignable to specific business units similar to the "Corp - Non-Departmental Costs" business unit. Included in the costs for the business change unit is severance pay for 13 individuals who were terminated in 2009.
- c. The business unit "Corp – AWE Pass Thru" is used to incur the labor and labor benefit overhead costs associated with five Service Company employees that work exclusively for American Water Enterprises (AWE). Each of these five employees direct charges his/her time to AWE. The method that the Service Company uses to pool labor benefit overhead and allocate to each operating company's bill creates the appearance that the AWE-Pass Thru business unit charged KAWC, when it did not. The company's response to AG-110 showed \$3,684 billed to KAWC from the "Corp – AWE Pass Thru" business unit and \$5,400 from the "SSC-AWE" business unit. Neither of these business units charged Kentucky during 2009. The charges are for overhead incurred by the other business units at the Corporate and SSC locations, respectively. Please see the following conceptual example explaining how this occurred.

EXPLANATORY EXAMPLE OF SERVICE COMPANY OVERHEAD ALLOCATIONS																																																													
Assume that three, and only three, business units exist at the Corporate Location and they each incurred \$100 of labor and \$50 of labor benefit overhead for the month. The "AWE-Pass Thru" business unit used a formula that direct charged its labor to AWE, while Finance and HR charged a formula that charges a Regulated Operating Company.																																																													
It appears on the Regulated Operating Company's bill that it received \$33 of charges from the "AWE Pass Thru" business unit, when in fact, the Regulated Company received a total of \$300 of charges; \$200 of labor and \$100 of overhead from Finance and HR and AWE received a total of \$150 of charges all from the "AWE-Pass Thru" business unit.																																																													
Each Bus Unit's Overhead is billed using the Location's Labor Percentage																																																													
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Corporate Service Company Location</th> <th style="text-align: center;">Labor</th> <th style="text-align: center;">Formula Charged</th> <th style="text-align: center;">Labor Pct</th> <th style="text-align: center;">Overhead</th> <th style="text-align: center;">Total</th> <th style="text-align: center;">Overhead Pool</th> <th colspan="3" style="text-align: left;">Regulated Operating Company Bill</th> </tr> </thead> <tbody> <tr> <td>"AWE-Pass Thru" business unit</td> <td style="text-align: right;">\$ 100</td> <td>Non-Reg(AWE)</td> <td style="text-align: right;">33.3%</td> <td style="text-align: right;">\$ 50</td> <td style="text-align: right;">\$ 150</td> <td rowspan="3" style="text-align: center; vertical-align: middle;">\$150 33% Non-Reg 67% Regulated</td> <td>"AWE-Pass Thru" business unit</td> <td style="text-align: right;">\$ -</td> <td style="text-align: right;">\$ 33</td> <td style="text-align: right;">\$ 33</td> </tr> <tr> <td>Finance business unit</td> <td style="text-align: right;">\$ 100</td> <td>Regulated</td> <td style="text-align: right;">33.3%</td> <td style="text-align: right;">\$ 50</td> <td style="text-align: right;">\$ 150</td> <td>Finance business unit</td> <td style="text-align: right;">\$ 100</td> <td style="text-align: right;">\$ 33</td> <td style="text-align: right;">\$ 133</td> </tr> <tr> <td>HR business unit</td> <td style="text-align: right;">\$ 100</td> <td>Regulated</td> <td style="text-align: right;">33.3%</td> <td style="text-align: right;">\$ 50</td> <td style="text-align: right;">\$ 150</td> <td>HR business unit</td> <td style="text-align: right;">\$ 100</td> <td style="text-align: right;">\$ 33</td> <td style="text-align: right;">\$ 133</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: right;">\$ 300</td> <td></td> <td></td> <td style="text-align: right;">\$ 150</td> <td style="text-align: right;">\$ 450</td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;">\$ 300</td> </tr> </tbody> </table>										Corporate Service Company Location	Labor	Formula Charged	Labor Pct	Overhead	Total	Overhead Pool	Regulated Operating Company Bill			"AWE-Pass Thru" business unit	\$ 100	Non-Reg(AWE)	33.3%	\$ 50	\$ 150	\$150 33% Non-Reg 67% Regulated	"AWE-Pass Thru" business unit	\$ -	\$ 33	\$ 33	Finance business unit	\$ 100	Regulated	33.3%	\$ 50	\$ 150	Finance business unit	\$ 100	\$ 33	\$ 133	HR business unit	\$ 100	Regulated	33.3%	\$ 50	\$ 150	HR business unit	\$ 100	\$ 33	\$ 133	Total	\$ 300			\$ 150	\$ 450					\$ 300
Corporate Service Company Location	Labor	Formula Charged	Labor Pct	Overhead	Total	Overhead Pool	Regulated Operating Company Bill																																																						
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			\$ 150																																																										

- d. American Water Enterprises (AWE) is the non-regulated subsidiary of American Water. They provide services such as engineering consulting, water line assurance programs and water system management contracts.
- e. "Corp - Non-Departmental Costs" is a business unit setup to hold costs not directly assignable to specific business units. The segregation of costs was done so that the managers would have more control and accountability for the costs in their individual business units.

- f. The terms Corp WE CE SE and NE stand for Corporate (Corp); western region (WE); central region (CE); southeast region; and northeast region (NE). The Corporate business units provide policy, governance and strategy to the entire American System. The regional departments provide direct service for the operating companies within that region. KAWC receives service from the SE region. During 2009 the Service Company began transitioning from providing service from four regions to a two divisional structure: Eastern and Western. During 2009 transition, KAWC received service from business development, external affairs, finance, human resources, legal, operational risk and supply chain from employees designated in the Western, Central, and Northeast regions. Once the divisional structure is completed and all functions have divisional business units established, KAWC will receive charges for service from the Eastern Division business units and governance from the corporate business units.
- g. “CSC” refers to the Customer Service Center. There are two customer call centers - one located in Alton, Illinois and another in Pensacola, Florida that provide customer billing and call handling services to the American system companies.
- h. “CCA” refers to the Alton, Illinois customer call center location. “CCP” refers to the Pensacola, Florida call center location.
- i. Please see attached.
- j. Customer calls handled for the period 2003 to 2009 by the Alton and Pensacola call centers were:

<b>Year</b>	<b>Calls Handled</b>
<b>2003</b>	2,976,363
<b>2004</b>	3,542,496
<b>2005</b>	4,181,441
<b>2006</b>	4,182,186
<b>2007</b>	4,402,125
<b>2008</b>	4,468,156
<b>2009</b>	4,273,248

Budgeted call volume for 2010 is 4,113,295. Budgeted call volume is based on history plus known changes that would increase and decrease call volume. For 2010, growth was factored in, and certain technology improvements in the IVR (voice recognition system) and implementation of Web Self Service are expected to enable some customers to self serve. The company’s new internet self-service customer program is assumed to be attributable to a decrease in expected call volume from 2009 to 2010. Budgeted call volume for 2011 will remain close to 2010 levels.

- k. There are no registered lobbyists employed in the External Affairs/Communication function of AWWSCo. We do however hire outside lobbyists from time to time, usually for one-year contracts, to promote water-industry related issues to government officials
- l. Please see the response to part f above.
- m. Please see attached for a listing of Service Company marketing costs for business unit 032068.
- n. "Corp IFRS Finance" refers to Corporate International Financial Reporting Standards Finance business unit. It was set up to track costs to modify our reporting system to be IFRS compliant.
- o. Please see the response to part f above.
- p. Please see the response to part f above.
- q. "CORP-ITS-BAD" refers to the Corporate Information Technology Services Business Applications Development business unit. They support and design enhancements to the existing business applications used by the American System companies.
- r. Please see the response to part f above.
- s. Please see the response to part f above.
- t. "Corp-COE" refers to the Corporate Center of Excellence business unit. It consists of an engineering staff which performs water system design services for the regulated water companies.
- u. Please see the response to part f above.
- v. "ED - Customer Relations" refers to Eastern Division Customer Relations. The department is made up of 4 different groups - FRCC (Field Resource Coordination Center), Operation Support, Premise Quality Analyst and "Billing Payment and Collections" who support the Eastern division companies.
- w. Kentucky American received services from all 4 groups within the ED-Customer Relations unit. The FRCC function is responsible for directing and coordinating field resources and service order-related activities as well as providing field related event management, planning and allocation. The Operation Support function is responsible for non-revenue water reports and associated SOX controls, as well as resolving any customer service and billing concerns and closing any paper service orders sent by the eastern division states. The Premise Quality Analyst function ensures that each new premise is set up with the correct tax and billing information as well as implementing related SOX controls. The Billing Payment and Collection function works with each state to ensure they have the appropriate number of payment locations, provides reporting and

analysis of collection and revenue impacting data, and resolves billing and collection problems. In addition to the previously mentioned responsibilities the department works with operating company personnel on special projects or additional support needs.

- x. “CORP-Regulatory UFS” refers to Corporate Regulatory Utility Financial Services. For all American regulated companies, Regulatory provides policy guidance and support in matters that could impact rates and regulation; helps insure accuracy and consistency with regard to testimony and discovery in rate and other regulatory proceedings in connection with system-wide issues; through educational regulatory and other forums, promotes recognition of the challenges of the water and wastewater industry and regulatory best practices, and provides internal training and education with regard to regulatory issues and requirements.
- y. During 2009, Kentucky American was charged for its portion of these activities based on a formula which allocated charges based on based on customer counts.
- z. “SSC” refers to the Shared Services Center which is located in Cherry Hill NJ. See response to part bb below for a listing of services performed at this location.
- aa. The business unit “SSC-AWE” is provides accounting service for AWE. All charges for the business unit are directly charged to AWE. Please see the response to part c for an explanation for why the Company’s response to AG-110 showed charges of \$5,400 to KAWC.
- bb. The Shared Services Center provided Kentucky with the following specific services:
  - Administration - management team responsible for the administration of the center
  - Accounts Payable - vendor invoice processing and payments
  - General Accounting - journal entry processing and financial statement preparation
  - Tax - state gross receipts, franchise, sales and use and property tax processing.
  - Rates & Regulation - rate case support, general data requests and customer rate changes
  - Cash Operations - lockbox reconciliation, cash posting and customer reconciliations
  - Utility Plant Accounting - accounting for utility plant and other fixed assets
  - Employee Services - employee payroll, tax withholding and paycheck processing
  - Business Support Services - requests for specialized reporting and user help requests.
  - SSC-AWE - accounting services for AWE
- cc. The SSC-Rates and Regulations business unit charged Kentucky for specific work performed on the case filed 10/31/2008 and the current case. Rates work included preparing schedules used in the workpapers, exhibits and testimony. The group also prepared responses to data requests in this case. In addition, they also direct charged Kentucky for customer rate changes made in the company’s billing software, as well as general rate issues benefitting all regulated companies which

were charged to Kentucky based on a formula which allocated charges based on customer counts.

For the electronic version of this response, refer to KAW\_R\_AGDR2#103\_052410.pdf.



Total Service Company and Kentucky-American  
2009 Service Company Charges (O&M)  
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Function	BU	BU Name	Company		BU Description
			TOTAL SC	KY-AM	
Admin	032000	CORP-Balance Sheet	(0)	-	Used for all balance sheet entries (e.g. cash, prepaids, NUPA, etc). Entries/balances in this BU are not billed to affiliates.
	032088	CORP-Business Change	132,442	4,663	Contains severance charges for terminated employees as a result of business change initiative
	032089	CORP-AWE Pass-Thru	889,189	3,684	labor and labor benefit overhead costs associated with five Service Company employees that work exclusively for American Water Enterprises (AWE).
	032098	CORP-Non-Departmental Costs	1,177,683	44,950	for costs not directly assignable to specific business units
<b>Admin Total</b>			<b>2,199,314</b>	<b>53,297</b>	
Audit	032060	CORP-Audit	1,800,222	60,213	Corporate Internal Audit Group is the objective provider of assurance and consulting services throughout the organization with the responsibility to evaluate risk exposures relating to the organization's governance, operations and information systems
<b>Audit Total</b>			<b>1,800,222</b>	<b>60,213</b>	
Benefit Svc Ctr	032014	CORP-Benefits Service Center	1,492,782	47,317	Corporate Benefit Service Center handles employee, retiree and dependant questions regarding the management and receipt of benefits to which they are entitled under benefit plans and programs
<b>Benefit Svc Ctr Total</b>			<b>1,492,782</b>	<b>47,317</b>	
Business Development	032020	CORP-Corporate Bus Development	2,011,480	44,171	Business Development focuses on developing national, regional, and state business opportunities that can enhance growth and economies of scale and facilitate transference of state of the art water resource management technology and best practices. Local business development personnel identify suitable business opportunities in their assigned territories and they assist in devising and implementing plans to secure sustainable, financially sound business growth
	033020	WE-Business Development	433,456	198	Western Region Business Development
	033520	CE-Business Development	693,862	639	Central Region Business Development
	035020	SE-Business Development	538,830	155,411	Southeast Region Business Development
	036520	NE-Business Development	284	10	Northeast Region Business Development
<b>Business Development Total</b>			<b>3,677,912</b>	<b>200,429</b>	
Business Transformation	032040	CORP-Business Transformation	55,340	39	Corporate initiative to identify and implement process improvements and technology enhancements for Service Company functional category process cycles
	032051	CORP-Bsns Trans-Procure To Pay	14,465	(4)	Enhancements for the procure to pay process cycle (Supply Chain functions)
	032052	CORP-Bsns Trans-Recruit To Ret	18,586	(3)	Enhancements for the recruit to retire process cycle (Human Resource Development)
	032053	CORP-Bsns Trans-Record To Rpt	20,359	(3)	Enhancements for the record to report process cycle (Financial and Operating data preparation and reporting)
	032054	CORP-Bsns Trans-Order To Cash	14,854	(3)	Enhancements for the order to cash process cycle (Order Processing and Billing)
	032055	CORP-Bsns Trans-Plan, Bld, Ret	16,328	(4)	Enhancements for the plan, build and retire process cycle (Capital Asset Management)
	032056	CORP-Bsns Trans-Ord To Compl	19,015	(6)	Enhancements for the Service Request to Completion cycle (Customer Service and Field Resource Coordination)
<b>Business Transformation Total</b>			<b>158,946</b>	<b>16</b>	
CSC	034005	CCA-Administration	2,907,784	105,839	Alton Call Center administration function
	034070	CCA-Call Handling	10,438,591	392,546	Alton Call Center Call Handling function manages initial customer care, which involves receiving customer calls, answering customer inquiries, and initiating service orders or escalating inquiries for further review.
	034071	CCA-Billing	7,135,210	255,558	Alton Call Center Billing department generates and distributes customer bills, resolves billing exceptions, handles special accounts, creates standardization throughout billing, and administers daily, weekly and monthly integrity reports
	034072	CCA-Collections	2,854,834	81,415	Alton Call Center collections department reduce and manage the accounts receivable by supporting communication and distributions of regulatory notice to customers (approaching or at "past due status"), maintaining relationships with collection agencies, as well as resolution of customer payment disputes.
	034073	CCA-Operations & Performance	5,570,822	198,350	Alton Call Center Operations and Performance group designs analytical tools and presents information that tracks the overall performance of the Customer Service Center for opportunities to enhance the customer experience.
	034074	CCA-Business Services	1,330,664	47,544	Specialized services to the Call Center, such as water quality questions, unusual customer requests
	034075	CCA-Education & Development	1,249,592	44,428	Alton Call Center Education and Development group supports the training and development of the staff across the CSC. This team develops and maintains all training materials for classroom and reference purposes. Additionally, the E&D group supports supervisors in coaching programs designed to improve customer service provided by Customer Service Representatives and increase operating efficiency across the CSC.
	037005	CCP-Administration	1,090,118	38,606	Pensacola Call Center unit - same function as Alton unit described above

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	037070	CCP-Call Handling	12,111,369	429,672	Pensacola Call Center unit - same function as Alton unit described above
	037073	CCP-Operations and Support	3,220,028	114,237	Pensacola Call Center unit - same function as Alton unit described above
	037075	CCP-Education & Development	721,970	25,571	Pensacola Call Center unit - same function as Alton unit described above
<b>CSC Total</b>			<b>48,630,983</b>	<b>1,733,766</b>	
External Affairs/Communication	032022	CORP-Government Affairs	557,180	17,946	The Government Affairs team actively works to make sure American Water has a seat at the table when water and wastewater legislation is being discussed. Goals of this team are to shape, drive, and influence proposed legislation so that greater and earlier understandings of impacts to the water and wastewater industry are obtained
	032025	CORP-External Affairs	960,376	32,051	External Affairs employees provide information to community and state leadership about company plans, capital improvement programs, and rate case communications, to ensure that customer communication is performed consistently across all states within the operating area.
	032068	CORP-Marketing	1,417,355	48,499	Corporate Marketing provides the necessary communication support for the design, development, and implementation of educational and informational materials directed at customers and local officials served by American Water's regulated subsidiaries
	032085	CORP-External Communications	1,062,543	34,050	The External Communications team handles a wide variety of public communications. These include media relations, community relations and coordination of American Water's speaker's bureau. Additionally, this team sets policy, strategy, and governance for media relations, customer awareness & communications and the national external communications.
	032086	CORP-Internal Communications	396,399	13,240	The Internal communications team keeps employees informed and solicits valuable feedback and questions from them. Producing resources such as surveys, internal publications and announcements.
	032087	CORP-Corp Social Resp	531,883	16,810	Corporate Responsibility focuses on activities that are designed to embed a high ethical, social and environmental standards across American Water, to document performance, and to engage the communities served by American Water and other stakeholders in this dialogue
	033025	WE-External Affairs	777,925	265	Western Region External Affairs - local external affairs personnel.
	033525	CE-External Affairs	1,295,118	1,788	Central Region External Affairs - local external affairs personnel.
	035025	SE-External Affairs	588,899	156,812	Southeast Region External Affairs - local external affairs personnel.
	036525	NE-External Affairs	327,550	224	Northeast Region External Affairs - local external affairs personnel.
<b>External Affairs/Communication Total</b>			<b>7,915,229</b>	<b>321,686</b>	
Finance	032007	CORP-Finance	2,373,809	79,658	Corporate Finance provides financial governance under the direction of American Water's Chief Financial Officer (CFO) and working with Service Company senior management to develop and implement financial policy.
	032017	CORP-Planning & Reporting	2,813,788	96,163	Corporate planning group reviews the accounting of, and coordinates the preparation of budgets and financial forecasts for the operating companies and the Service Company. This functional group implements expense controls and performs variance analysis in addition to detailed reviews of Service Company charges to the state Operating Companies.
	032027	CORP-Reporting & Compliance	3,054,800	100,448	Corporate Reporting and Compliance provides research and interpretation of accounting pronouncements of regulatory agencies such as the Financial Accounting Standards Board and the Internal Revenue Service. It reviews and approves financial statements prepared periodically prior to their release. It is also responsible for the implementation of required internal controls that protect the interests of customers and investors.
	032047	CORP-Income Tax	2,278,845	80,042	Corporate income tax prepares federal income taxes for the American System
	032057	CORP-Treasury	2,073,458	72,276	Corporate Treasury administers the investment by American Water in the common equity of the operating companies and the borrowing levels and debt compliance requirements of American Water Capital Corporation ("AWCC") and the state Operating Companies. AWCC is a wholly owned subsidiary of American Water that pools the financial needs of the American Water subsidiaries in order to secure cost-effective financing
	033007	WE-Finance	1,922,377	6,427	Western Region Finance - local staff devoted to regional financial issues
	033507	CE-Finance	3,420,190	7,356	Central Region Finance - local staff devoted to regional financial issues
	035007	SE-Finance	4,021,295	561,146	Southeast Region Finance - local staff devoted to regional financial issues
	036507	NE-Finance	2,259,271	14,633	Northeast Region Finance - local staff devoted to regional financial issues
	037777	CORP-IFRS-Finance	111,000	3,641	Corporate International Financial Reporting Standards Finance was setup to track costs to modify our financial reporting system to be IFRS compliant
<b>Finance Total</b>			<b>24,328,833</b>	<b>1,021,790</b>	
Human Resources	032002	CORP-HR Comp/Benefits	1,624,194	50,880	HR Compensation team designs, implements, and manages compensation programs that ensure cost-effective operations and provide strong competitive market positioning
	032003	CORP-HR Talent Development	983,903	32,840	HR Talent Benefits department implements "best in class" recruitment strategies to select top talent and meet the long-term needs of the business and to analyze American Water's organizational structure to determine staffing and training needs and ensure the right mix of workforce characteristics to achieve company objectives.

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					The Labor Relations unit provides training and support for field negotiations teams and information regarding national labor market trends. Support is provided with regard to labor relations by overseeing recruiting, administering the applicant tracking system and background screening for applicants (criminal background, drug testing, education confirmation, etc.). The unit also provides guidance for various employee development initiatives (supervisory training, ethics/respect training, etc.)
	032004	CORP-HR Labor Relations	431,724	14,256	
	032006	CORP-Business Center HR	910,658	30,335	Manages HR issues regarding Corporate Center employees
	032013	CORP-HR Systems & Processes	751,587	25,316	Develops systems & processes for HR function
					Corporate Human Resources develops and administers HR-related policies and practices and conducts industry-wide HR policy research and analysis for all levels of management to assure compliance with regulatory and statutory requirements. In addition, they also prepare required reports to governmental agencies at the state
	032018	CORP-Human Resources	1,359,523	46,643	and federal levels.
	032028	CORP-ED Human Resources	505,591	60,259	Eastern Division Human Resources
	032038	CORP-WD Human Resources	1,685,148	18,634	Western Division Human Resources
	033018	WE-Human Resources	209,287	9	Western Region Human Resources staff
	033518	CE-Human Resources	656,713	1,230	Central Region Human Resources staff
	034018	CCA-Human Resources	1,078,290	38,275	Call Center Human Resources staff
	035018	SE-Human Resources	79,001	9,200	Southeast Region Human Resources staff
	036518	NE-Human Resources	16,699	5	Northeast Region Human Resources staff
<b>Human Resources Total</b>			<b>10,292,320</b>	<b>327,881</b>	
					Investor Relations prepares financial information and conduct meetings for/with the investment community and responds to the questions and concerns of investors, monitors the investment community and provides feedback to management on current concerns and issues.
Investor Relations	032037	CORP-Investor Relations	988,761	19,364	
<b>Investor Relations Total</b>			<b>988,761</b>	<b>19,364</b>	
ITS	032030	CORP-ITS Client Rel Admin	241,763	8,403	Director of Client Relations and Security Operations ITS Service Desk logs, tracks and responds to daily user hardware and software problems through the organization. The staff resolves help desk issues involving all end-user computer systems
	032031	CORP-Service Desk	1,308,176	45,829	Business Application Development team provides second and third level break/fix support for all application-related technology solutions including critical business applications (JDE, ECIS, ServiceFirst, Hyperion, IAM, etc.). The team also addresses on-going enhancement requests and maintenance [upgrades] to these critical business applications
	032032	CORP-ITS-BAD-Core Shared	1,322,325	45,899	
	032033	Chg Ctrl & Desktop Automation	284,752	10,190	Part of Client Services
					ITS Applications Administration and Security provides many levels of end user support. These functions include end user desktop support, service desk support, user access provisioning, change control management, desktop and software patching, cyber-security monitoring, vulnerability management, and security testing
	032034	CORP-ITS Appl Adm & Security	234,829	8,391	Used for Director of Security - In 2009 this area was realigned to BU 032030.
	032035	CORP-ITS Sec Arch & Strategy	198,407	7,087	(BU032035 is currently inactive)
	032071	CORP-ITS Admin	1,529,909	54,576	ITS CIO & VP and assistants
					ITS Project Management Office is responsible for the management of all projects within ITS. This team is responsible for managing projects using a standard methodology that enables consistent administration of a standard process applied to all projects allowing for consistent budget and schedule management and quality delivery
	032072	CORP-ITS PMO	2,300,899	82,367	
					Director of Infrastructure & Operations, responsible for the operations, support and maintenance of all data center, voice and data communications infrastructure. Includes admin assistant and Infrastructure engineer.
	032073	CORP-ITS Infra/Oper Admin	407,126	14,354	
					ITS Production is responsible for the operations, support, and maintenance of the data center, batch processing functions, and voice and data communications infrastructure. This includes responsibility for all the servers in the data center, back-up and recovery processes, data storage voice and network performance and our bill print and distribution operations.
	032074	CORP-ITS Production	10,411,934	373,311	
					The Enterprise Server team implements, maintains, administers and supports the enterprise servers, storage and networking hardware, and voice, video and e-mail communications. This includes responsibility for all the servers in the data center, back-up recovery processes, data storage voice and network performance and our bill print and distribution operations.
	032075	CORP-Enterprise Server	4,914,939	175,813	
	032076	CORP-Communications	4,108,593	145,760	The Communications team is responsible for all of the voice and data communications infrastructure.

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					The Security team is responsible for management of security risks to company information resources and the maintenance of the confidentiality, integrity and availability of company intellectual property. This includes enforcing compliance with applicable regulatory and legislative requirements and developing and managing the framework of Information Security including policy, standards, procedures and guidelines.
	032077	CORP-ITS Security Operations	1,274,906	45,543	
	032078	CORP-ITS Adm Business Appl Dev	614,106	21,403	Director of Business Application Development and managerial assistance. Business Application Development team provides second and third level break/fix support for all application-related technology solutions including critical business applications (JDE, ECIS, ServiceFirst, Hyperion, IAM, etc.). The team also addresses on-going enhancement requests and maintenance [upgrades] to these critical business applications
	032079	CORP-ITS-BAD-Middle Office App	1,523,477	58,668	Business Application Development team provides second and third level break/fix support for all application-related technology solutions including critical business applications (JDE, ECIS, ServiceFirst, Hyperion, IAM, etc.). The team also addresses on-going enhancement requests and maintenance [upgrades] to these critical business applications
	032080	CORP-ITS-BAD-Back Office Apps	2,003,642	72,142	Business Application Development team provides second and third level break/fix support for all application-related technology solutions including critical business applications (JDE, ECIS, ServiceFirst, Hyperion, IAM, etc.). The team also addresses on-going enhancement requests and maintenance [upgrades] to these critical business applications
	032081	CORP-ITS-BAD-Quality&Methodlgy	772,094	27,636	Business Application Development team provides second and third level break/fix support for all application-related technology solutions including critical business applications (JDE, ECIS, ServiceFirst, Hyperion, IAM, etc.). The team also addresses on-going enhancement requests and maintenance [upgrades] to these critical business applications
	032082	CORP-ITS-BAD-Customer Facing	1,395,134	48,520	Business Application Development team provides second and third level break/fix support for all application-related technology solutions including critical business applications (JDE, ECIS, ServiceFirst, Hyperion, IAM, etc.). The team also addresses on-going enhancement requests and maintenance [upgrades] to these critical business applications
	032083	CORP-ITS-BAD-Field Svc Apps	1,661,001	60,058	Business Application Development team provides second and third level break/fix support for all application-related technology solutions including critical business applications (JDE, ECIS, ServiceFirst, Hyperion, IAM, etc.). The team also addresses on-going enhancement requests and maintenance [upgrades] to these critical business applications
	032093	CORP-ITS-Architecture	1,846,520	65,126	ITS Architecture team focuses on long range ITS technology planning to standardize enabling technologies that provide value to the business, are cost effective to implement and maintain, and are standards in the marketplace.
	033531	CE-Western CS & S	3,207,438	57,292	Divisional network & PC support provided to users in operating companies
	035031	SE-ITS Client Relations	78,712	11,595	Divisional network & PC support provided to users in operating companies
	036531	NE-Eastern CS & S	516,724	20,381	Divisional network & PC support provided to users in operating companies
<b>ITS Total</b>			<b>42,157,405</b>	<b>1,460,344</b>	
					The Central Laboratory, located in Belleville, Illinois, is a key service offering supporting American Water's mission to provide high quality drinking water to customers and the communities it serves. The Laboratory employs highly skilled scientific personnel and is certified by the Department of the Environment and other state water quality certification programs where American Water operating companies provide service. These certifications are done in accordance with the requirements set forth by the National Environmental Laboratory Accreditation Conference. The centralized laboratory provides timely, accurate and cost-effective water chemistry analytical services to assure regulatory compliance, support treatment process control and optimization, maintain and improve distribution system water quality, and address customer inquiries related to water quality.
Laboratory	034517	BVLAB-Water Quality	5,294,296	193,954	
<b>Laboratory Total</b>			<b>5,294,296</b>	<b>193,954</b>	
					The legal team performs a "governance" role to provide effective and efficient legal services as well as functional teams to support legal issues. Functional teams include, SEC Counsel, Ethics and Compliance Counsel and two Divisional General Counsels. Other duties include the Parent and operating company Corporate Secretary function and the preparation of required materials for the parent and state Operating Company Boards of Directors meetings, as well as maintenance of official Corporate documents and records. Members of the Law function also provide legal advice regarding litigation, regulatory matters including SEC, ethics and compliance, business development, contract negotiations, financings, labor (including collective bargaining, and the handling of grievances and arbitrations), purchasing and general corporate matters. Members of the law team also provide advice regarding the interpretation of environmental laws and regulations.
Legal	032015	CORP-Legal	3,091,649	101,220	
	033015	WE-Legal	874,807	208	Western Region Legal - local legal staff supporting Western region companies

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	033515	CE-Legal	2,066,318	4,198	Central Region Legal - local legal staff supporting Central region companies
	035015	SE-Legal	1,036,527	225,693	Southeast Region Legal - local legal staff supporting Southeast region companies
	036515	NE-Legal	577,142	302	Northeast Region Legal - local legal staff supporting Northeast region companies
<b>Legal Total</b>			<b>7,646,444</b>	<b>331,620</b>	
Operation Services	032011	CORP-Chief Operating Officer	1,684,303	55,150	The COO works with American Water and Service Company senior management to develop and administer policy which provides efficient and effective operational services
	032016	CORP-Maintenance Services	75,714	8,885	Maintenance Services is charged with establishing, maintaining and enhancing the Service Company's reliability-focused maintenance programs and process control and monitoring (SCADA) systems. The Maintenance Services Team has been defined as a flexible, multi-skilled technical maintenance group shared across operations delivering value added services, (i.e. key accountabilities that are meant to enhance asset reliability and contribute to the Company's strategic themes of Operational Excellence, Customer Experience, Growth and Environmental Stewardship & Compliance).
	032019	CORP-Operational Risk	916,134	30,561	Operation Risk administers the following programs for the operating companies: Health and Safety; Operational and Physical Security; Event Management; Business Continuity and Emergency Response Planning; Hazardous Materials Management; Accident Investigation and Claims Management related to Workers Compensation; and General and Auto Liability.
	032064	CORP-Operational Performance	709,124	23,402	Develop operating practices
	032065	CORP-Asset Management	212,801	6,208	The Asset Management team maintains the water and wastewater system planning standards and provides technical resources to the state Operating Companies as needed to support or perform system specific capital improvement master planning
	033016	WE-Maintenance	521,086	2,704	Maintenance Services is charged with establishing, maintaining and enhancing the Service Company's reliability-focused maintenance programs and process control and monitoring (SCADA) systems.
	033019	WE-Operational Risk	337,497	110	Operation Risk administers the following programs for the operating companies: Health and Safety; Operational and Physical Security; Event Management; Business Continuity and Emergency Response Planning; Hazardous Materials Management; Accident Investigation and Claims Management related to Workers Compensation; and General and Auto Liability.
	033516	CE-Maintenance	1,155,888	15,265	Maintenance Services is charged with establishing, maintaining and enhancing the Service Company's reliability-focused maintenance programs and process control and monitoring (SCADA) systems.
	033519	CE-Operational Risk	1,074,175	23,824	Operation Risk administers the following programs for the operating companies: Health and Safety; Operational and Physical Security; Event Management; Business Continuity and Emergency Response Planning; Hazardous Materials Management; Accident Investigation and Claims Management related to Workers Compensation; and General and Auto Liability.
	035016	SE-Maintenance	715,421	115,747	Maintenance Services is charged with establishing, maintaining and enhancing the Service Company's reliability-focused maintenance programs and process control and monitoring (SCADA) systems.
	035019	SE-Operational Risk	25,370	2,591	Operation Risk administers the following programs for the operating companies: Health and Safety; Operational and Physical Security; Event Management; Business Continuity and Emergency Response Planning; Hazardous Materials Management; Accident Investigation and Claims Management related to Workers Compensation; and General and Auto Liability.
	036516	NE-Maintenance	123,555	680	Maintenance Services is charged with establishing, maintaining and enhancing the Service Company's reliability-focused maintenance programs and process control and monitoring (SCADA) systems.
	036519	NE-Operational Risk	414,303	411	Operation Risk administers the following programs for the operating companies: Health and Safety; Operational and Physical Security; Event Management; Business Continuity and Emergency Response Planning; Hazardous Materials Management; Accident Investigation and Claims Management related to Workers Compensation; and General and Auto Liability.
	036550	CORP-COE-Engineering	220,886	5,243	Engineering leads the Service Company's functional initiatives in the areas of Asset Planning and Capital Investment Management ("CIM"), Technical Services and Design Management, and Project Delivery and Construction Management.

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					Corporate Technical Services is responsible for maintaining the technical standards, specifications, approved product listings, etc. applicable to the asset base. This team also provides specialized engineering expertise in the areas of treatment process selection and design, and the structural, geotechnical, electrical and control system disciplines. Resources from this group are used, upon request, to augment the state Operating Company staffs to study alternatives and develop conceptual design solutions and manage the detailed design effort for larger or more complex capital projects.
	036551	CORP-COE-Technical Services	260,290	6,538	
<b>Operation Services Total</b>			<b>8,446,548</b>	<b>297,320</b>	
Procurement	032009	CORP-Supply Chain-Pass Thru	2,495	3	Previously used to record misc Telephone costs by Supply Chain to affiliates. This BU was inactivated in 2010.
					Supply Chain handles strategic sourcing on behalf of the state Operating Companies. Through strategic sourcing, Supply Chain procures goods and materials, such as chemicals, pipe, meters, hydrants and other items directly from manufacturers, thus eliminating the mark-up from distributors and maintaining a direct vendor management relationship with the manufacturer. For goods and materials that cannot be procured nationally, procurement professionals perform a similar function by working with regional suppliers to obtain beneficial pricing on items such as copper tubing and certain other items which must be purchased regionally. Strategic sourcing also includes the sourcing of local contractors who perform duties such as, street paving, residual removal/disposal and distribution system routine replacement and repair
	032010	CORP-Supply Chain-Sourcing	1,964,807	71,225	Western Region Supply Chain - Supply chain staff devoted to Western Region companies
	033010	WE-Supply Chain	133,302	38	Central Region Supply Chain - Supply chain staff devoted to Western Region companies
	033510	CE-Supply Chain	182,887	1,094	Southeast Region Supply Chain - Supply chain staff devoted to Western Region companies
	035010	SE-Supply Chain	145,787	19,572	Northeast Region Supply Chain - Supply chain staff devoted to Western Region companies
	036510	NE-Supply Chain	1,624	36	
<b>Procurement Total</b>			<b>2,430,902</b>	<b>91,969</b>	
Property	032042	CORP-1000 Voorhees Building	634,810	22,764	Property management of ITS CITE Office located in Voorhees NJ consisting of employees who provide services such as (mail room clerks, receptionists and Facilities Management)
	032046	CORP-3906 Church Road	496,473	16,300	Property management of Supply Chain/Engineering group office located in Mount Laurel NJ consisting of employees who provide services such as (mail room clerks, receptionists and Facilities Management)
	032062	CORP-Building Services	7,799,327	280,418	Support staff for Corporate Office located in Voorhees NJ consisting of employees who provide services such as (mail room clerks, receptionists and Facilities Management)
	032063	CORP-Building Services Woodcre	3,112,340	99,709	Mailroom and other support staff for SSC location in Cherry Hill NJ
	036576	NE-Building Services Woodcrest	45,938	18	Mailroom and other support staff for NE Region location in Cherry Hill NJ
<b>Property Total</b>			<b>12,088,889</b>	<b>419,209</b>	
Regulated Operations	032023	CORP-Eastern Division Ops	677,845	300,704	Divisional Operations provides oversight of business strategy, financial performance, growth strategy, and build and maintain regulatory relationships. Additionally, they provide guidance to the state Operating Companies to build and maintain effective state government and community relationships, to establish consistent best practices and drive company efforts to focus externally to further develop relationships outside the company.
					Divisional Operations provides oversight of business strategy, financial performance, growth strategy, and build and maintain regulatory relationships. Additionally, they provide guidance to the state Operating Companies to build and maintain effective state government and community relationships, to establish consistent best practices and drive company efforts to focus externally to further develop relationships outside the company.
	032024	Corp-Western Division Ops	7,493	305	Corporate Operations provides oversight of business strategy, financial performance, growth strategy and governance at the corporate level
	032026	CORP-Regulated Ops	1,472,983	52,835	
					I&ES functional group is led by the Director of Innovation and Environmental Stewardship who governs the efforts in the areas of environmental compliance, applied research and, innovation program. Engineers in the unit are charged with setting Environmental Policy and directing the Service Company's programs for water quality, environmental compliance and stewardship, applied research, to look for innovations that enhance water and wastewater services, increase efficiencies and benefit the water industry as a whole.
	032066	CORP-Innov & Env Stewardship	1,810,262	50,122	
	033001	WE-Production	15	0	Divisional Production personnel
	033002	WE-Network	416	0	Divisional network personnel

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					Customer Relations staff provides support to Regulated Operations through two primary teams: Operations Support and Field Resource Coordination Center (FRCC). These teams manage service orders originating from the Customer Service Center by dispatch and assignment of the service order through back-office support, such as assisting with the proper closing of the pending service requests initiated by the customer and other follow up issues.
	033003	WE-Customer Relations	387,090	177	
	033004	WE-Technical Services	(1)	-	Technical Services is responsible for maintaining the technical standards, specifications, approved product listings, etc. applicable to the asset base. This team also provides specialized engineering expertise in the areas of treatment process selection and design, and the structural, geotechnical, electrical and control system disciplines.
	033005	WE-Administration	1,114,537	1,214	Divisional Administration personnel and Building services
	033006	WE-Service Delivery	363,537	178	Divisional field service personnel
	033011	WE-Environmental Mgmt	27,070	1	Divisional WQ personnel
					Engineering leads the Service Company's functional initiatives in the areas of Asset Planning and Capital Investment Management ("CIM"), Technical Services and Design Management, and Project Delivery and Construction Management.
	033014	WE-Engineering	219,302	730	
	033028	WE-Asset Planning	240	0	Divisional capital asset personnel
	033501	CE-Production	1,701	(4)	Divisional Production personnel
	033502	CE-Network	870,827	1,573	Divisional network personnel
					Customer Relations staff provides support to Regulated Operations through two primary teams: Operations Support and Field Resource Coordination Center (FRCC). These teams manage service orders originating from the Customer Service Center by dispatch and assignment of the service order through back-office support, such as assisting with the proper closing of the pending service requests initiated by the customer and other follow up issues.
	033503	CE-Customer Relations	3,219,737	6,576	
	033505	CE-Administration	2,688,940	11,220	Divisional Administration personnel and Building services
	033511	CE-Environmental Mgmt	447,561	774	Divisional WQ personnel
					Engineering leads the Service Company's functional initiatives in the areas of Asset Planning and Capital Investment Management ("CIM"), Technical Services and Design Management, and Project Delivery and Construction Management.
	033514	CE-Engineering	478,379	3,014	
	035001	SE-Production	1	(2)	Divisional Production personnel
	035002	SE-Network	427,308	19,831	Divisional network personnel
					Customer Relations staff provides support to Regulated Operations through two primary teams: Operations Support and Field Resource Coordination Center (FRCC). These teams manage service orders originating from the Customer Service Center by dispatch and assignment of the service order through back-office support, such as assisting with the proper closing of the pending service requests initiated by the customer and other follow up issues.
	035003	SE-Customer Relations	1,864,241	210,078	
	035005	SE-Administration	1,155,083	157,860	Divisional Administration personnel and Building services
	035011	SE-Environmental Mgmt	1	(1)	Divisional WQ personnel
					Engineering leads the Service Company's functional initiatives in the areas of Asset Planning and Capital Investment Management ("CIM"), Technical Services and Design Management, and Project Delivery and Construction Management.
	035014	SE-Engineering	76,022	9,334	
					Customer Relations staff provides support to Regulated Operations through two primary teams: Operations Support and Field Resource Coordination Center (FRCC). These teams manage service orders originating from the Customer Service Center by dispatch and assignment of the service order through back-office support, such as assisting with the proper closing of the pending service requests initiated by the customer and other follow up issues.
	035503	ED-Customer Relations	992,385	125,222	
	036501	NE-Production	422,542	434	Divisional Production personnel
	036502	NE-Network	(0)	-	Divisional network personnel
	036505	NE-Administration	1,008	27	Divisional Administration personnel and Building services
<b>Regulated Operations Total</b>			<b>18,726,526</b>	<b>952,203</b>	
Regulatory Services	032050	CORP-Backfill Reg App	5	0	backfill personnel for special projects
					Corporate Regulatory Utility Financial Services works with senior management of American Water and the Service Company to develop and administer policy to provide effective and efficient regulatory services and to build and maintain positive relationships with regulatory officials. This function also provides support for litigation involving rate cases and other regulatory proceedings or investigations, as well as civil litigation.
	032069	CORP-Regulatory UFS	692,446	23,766	
<b>Regulatory Services Total</b>			<b>692,451</b>	<b>23,766</b>	

Total Service Company and Kentucky-American  
 2009 Service Company Charges (O&M)  
 By Function and Business Unit  
 AGDR2#103(a)

Function	BU	BU Name	Company		BU Description
			TOTAL SC	KY-AM	
SSC	032084	SSC-Accounts Payable	1,929,458	54,303	Shared Services Center Accounts Payable is responsible for vendor invoice processing, Purchase Card (P-card) administration and processing, and employee expense reimbursement processing for each of the regulated and non-regulated subsidiaries of American Water
	032505	SSC-Administration	2,479,403	83,626	Shared Services Administration provides leadership to the SSC by setting the vision, developing strategy and plans to deliver the goals established in collaboration with the subsidiaries that the SSC services. Oversight and analysis of metrics and developing action plans to improve the end-to-end processes supports the subsidiaries in identifying and implementing efficiencies in administrative processes that contributes to their responsibility of managing costs.
	032570	SSC-General Accounting	3,051,849	109,100	Shared Services General Accounting maintains the books and records for each of the regulated and non-regulated subsidiaries of American Water. In addition to the preparation of internal reporting, for some entities, external financial reporting, Public Utility Commission reporting, and certified annual reports are required to be prepared.
	032571	SSC-Tax	1,206,664	41,988	Shared Services Tax prepares and files the general tax returns for each of the regulated subsidiaries of American Water and is currently incorporating the same process for the non-regulated subsidiaries of American Water. Tax filings consist of property, gross receipts, franchise, and sales and use taxes.
	032572	SSC-Business Support Services	1,277,248	43,366	Shared Services Business Support Services supports shared service center operations providing business system administration and support, employee development/training, project management, business partner & stakeholder relationship management and performance management (budget and process performance) for the SSC.
	032574	SSC-Rates & Regulation	1,364,193	43,061	Shared Services Rates & Regulation provides assists the state or divisional rates and regulatory employees to coordinate resources to develop financial, operational and projected information which document and support rate case filings in all state jurisdictions including the research and development of responses to data requests by regulators and interveners. In addition, these employees compile the information from state Operating Companies on capital budgets, operational items and extracts data from accounting and other systems to prepare forward-looking adjustments to historic data.
	032575	SSC-Cash Operations	1,776,585	64,495	Shared Services Cash Operations provides lockbox support and customer account reconciliation for the American system companies
	032577	SSC-Utility Plant Accounting	1,821,229	56,487	Shared Services UPA group maintains the fixed asset records for the regulated subsidiaries and certain non-regulated subsidiaries and administers the fixed asset sub-ledger system (PowerPlant) to appropriately capture and report property records. They also perform the month end processes to update the value of the Company's property records and inventory, including work order processing, application of appropriate overheads and AFUDC, work-in-progress transfers, accrual postings and depreciation calculations.
	032578	SSC-Project Management	315,869	10,531	Shared Services Project Management is responsible for managing continuous improvement projects, enhancement initiatives and business acquisition transition activities to ensure successful implementation. Project managers are responsible for directing and controlling the progress of projects affecting the SSC
	032579	SSC-Employee Services	2,555,743	80,121	Shared Services Employee Services processes payroll and withholding and issues paychecks to all regulated and non-regulated employees of American Water. This group maintains effective working relationships as the single point of contact for all inquiries related to paychecks and related accounting entries.
	032580	SSC-AWE	1,116,667	5,400	Shared Services AWE group provides the accounting, accounts payable and employee services functions mentioned above to the AWE non-regulated companies.
<b>SSC Total</b>			<b>18,894,909</b>	<b>592,479</b>	
<b>Grand Total</b>			<b>217,863,671</b>	<b>8,148,624</b>	



**Kentucky American Water Company**  
**Case No. 2010-00036**  
**Attorney General's Second Request for Information**  
**AGDR3#103(i)**  
**Call Handling BU Costs (O&M only)**

<b>Alton Call Handling (CCA)</b>		
	<b>Total SC</b>	<b>KYAWC</b>
2006	7,430,036	257,463
2007	8,786,649	310,909
2008	8,925,341	314,999
2009	10,438,591	392,546
2010 Budget	10,086,474	369,154
Future Test Year	11,098,833	395,386

<b>Pensacola Call Handling (CCP)</b>		
	<b>Total SC</b>	<b>KYAWC</b>
2006	7,070,152	247,928
2007	9,332,732	331,293
2008	9,577,118	338,035
2009	12,111,369	429,672
2010 Budget	12,974,560	474,855
Future Test Year	12,002,772	428,227

**Kentucky-American Water Company**  
**Case No. 2010-00036**  
**Attorney General's Second Request for Information**  
**AGDR2#103(m)**  
**Corporate Marketing Business Unit 032068**  
**2009 Charges by Object Account (O&M)**

<b>Object Account</b>	<b>Description</b>	<b>Amount</b>
501200	Labor	495,560
501711	Incentive Plan	78,224
504100	Group Insurance Maintenance	(281)
504500	Other Welfare Maintenance	2,500
507100	401k	13,206
508101	Defined Contribution Plan	25,324
534998	Benefit Overhead	118,807
534999	General Overhead	56,512
535000	Contract Services - Other	316,273
550000	Transportation	6,600
575000	Miscellaneous	1,554
575030	Advertising	95,364
575130	Brochures and Handouts	5,837
575140	Charitable Contributions Deductible	8
575220	Community Relations	60
575250	Condemnation Costs	3,045
575280	Dues/Membership Deductible	1,347
575340	Employee Expense	49,963
575342	Employee Exp Conference Registration	3,970
575350	Meals Deductible	2,690
575351	Meals Non Deductible	2,690
575620	Office & Admin Supplies	3,006
575625	Overnight Shipping	3,348
575715	Software Licenses & Support	1,000
575740	Telephone	1,474
575741	Cell Phone	5,086
575775	Trade Shows	122,610
575998	PCard Undistributed	(0)
675250	Computer Equipment Hardware	1,547
722306	Gains Other Non-Ordinary	32
<b>Grand Total</b>		<b>1,417,355</b>

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

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**Witness: Michael A. Miller**

104. Refer to the Company's response to AG-1-111.
- a. Please provide the pre-revision budget and indicate which specific items were revised and by how much.
  - b. Why is the Corp-Non-Departmental Costs a negative amount for 2010.
  - c. Please show in detail how the 2010 original and revised budget amounts for each AWWSC Business Unit were developed.

**Response:**

- a. Please see attached for a breakdown of both budget versions by functional category along with the change in each category.
- b. The Service Company budget is prepared assuming 100% staffing levels with an offsetting amount for projected employee vacancies throughout the year. This vacancy figure is budgeted in the Corporate Non-Departmental Costs business unit as a negative offsetting amount.
- c. Please see the response and attachment supplied for Kentucky AG-1-405 for an explanation of how the Service Company budget was developed and supporting schedules.

For the electronic version of this response, refer to KAW\_R\_AGDR2#104\_052410.pdf.

Kentucky-American Water Company

Case No. 2010-00036

Attorney General's Second Request for Information

Question 2-104

2010 Service Company Budget by Function (O&M only)

Pre-revision and Revised

Function	Pre-Revision		Revised Budget		Difference	
	Total Service Co.	KY_AM	Total Service Co.	KY_AM	Total Service Co.	KY_AM
Admin	(995,414)	(39,768)	(2,470,534)	(81,034)	(1,475,120)	(41,265)
Audit	1,687,590	56,046	1,966,736	65,316	279,146	9,271
Benefit Svc Ctr	1,609,997	50,891	1,652,892	52,247	42,895	1,356
Business Development	3,953,820	184,071	4,224,638	340,976	270,817	156,905
Business Transformation	1,636,288	-	1,530,805	-	(105,483)	-
Call Center (CSC)	52,580,712	1,803,027	49,847,123	1,824,352	(2,733,589)	21,325
External Affairs/Communication	8,623,462	339,990	8,872,083	378,680	248,621	38,691
Finance	25,543,069	1,401,959	21,135,654	838,567	(4,407,415)	(563,392)
Human Resources	11,581,827	357,237	11,610,117	395,316	28,290	38,079
Investor Relations	1,221,357	25,442	1,244,595	24,381	23,239	(1,061)
ITS	46,815,565	1,569,704	51,695,115	1,712,713	4,879,550	143,009
Laboratory	5,630,821	207,424	5,471,057	200,150	(159,764)	(7,274)
Legal	8,676,221	407,041	8,890,808	312,919	214,587	(94,122)
Operation Services	9,025,211	284,706	8,204,279	299,242	(820,931)	14,536
Procurement	3,482,210	148,391	2,478,616	106,503	(1,003,594)	(41,888)
Property	12,392,037	391,264	11,931,823	402,976	(460,214)	11,712
Regulated Operations	20,008,146	1,021,140	18,135,994	1,294,530	(1,872,152)	273,389
Regulatory Services	741,836	24,077	724,507	23,514	(17,329)	(563)
Shared Services (SSC)	20,645,721	623,785	19,545,216	587,838	(1,100,506)	(35,947)
<b>Grand Total</b>	<b>234,860,476</b>	<b>8,856,426</b>	<b>226,691,526</b>	<b>8,779,186</b>	<b>(8,168,951)</b>	<b>(77,240)</b>

**KENTUCKY-AMERICAN WATER COMPANY**  
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**ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller**

105. Refer to the Company's response to AG-1-114.
- a. Please explain why there was no cost for 501716, 501717 or 501718 (options, restricted stock and restricted stock units, respectively) in 2007?
  - b. Why are the 2009 amounts for 501716 and 501718 (options, restricted stock units, respectively) for 2009 so much higher than 2008?
  - c. Why is the 2009 amount for 541001 rents-real property intercompany so much higher than either 2007 or 2008?
  - d. Why is the 2009 amount for 5457000 insurance general liability so much higher than either 2007 or 2008?
  - e. Why is KAW being charged by the affiliated Service Company for account 680112, Depreciation Exp-Non-Utility?
  - f. How much expense for affiliated Service Company charges for account 680112, Depreciation Exp-Non-Utility did KAW include in its base period and FTY expenses?
  - g. Why have affiliated Service Company property taxes charged to KAW for 2009 decreased by so much compared to 2007 and 2008?
  - h. How much expense for affiliated Service Company charges for account, 685200, Property Taxes did KAW include in its base period and FTY expenses?
  - i. How much expense for affiliated Service Company charges for each of the following items did KAW include in its base period and FTY expenses?
    - 1) 690120, FIT prior year adjustment,
    - 2) 690220, SIT prior year adjustment,
    - 3) 690620, Deferred FIT prior year adjustment,
    - 4) 690720, Deferred SIT prior year adjustment,
    - 5) 722306, Gains Other Non-OR (what does the OR stand for?),

- 6) 721304, Gains (Losses) NUP Disposals (what does the NUP stand for?),
  - 7) 810301, Interest Cap Lease-AW02,
  - 8) 830100 Interest on Short Term Debt Inside, and
  - 9) 840000 Other Interest Expense.
- j. With respect to account 810301, Interest Cap Lease-AW02, please provide the amount of outstanding lease balance as of 12/31/2007, 12/31/2008, 12/31/2009 and for each month of the future test year.
- k. With respect to account 810301, Interest Cap Lease-AW02 please provide a schedule of monthly lease payments.

**Response:**

- a. There are no costs in compensation object accounts 501716, 501717 or 501718 in the year 2007 because those accounts were not being used at that time. Prior to 2008, charges pertaining to those accounts were being charged to object account 501712 - long term incentive.
- b. Compensation expenses in accounts 501716 and 501718 increased in the 2009 as a result of a full year of expense in 2009 as compared to only eight months of compensation expense incurred in 2008. Other factors contributing to the increase were an extra 3-year cycle in 2009, as well as a change to graded vesting of grants as opposed to the previous cliff vesting method used in 2008. The change in vesting method increased the amount of options expensed in the first year to 61%, as opposed to the straight line method used with cliff vesting. Also affecting the increase were a rise in grant percentages and salary increases of individuals eligible to receive grants.
- c. Amounts in account 541001 are higher in 2009 over the prior two years as a result of the reclassification of certain rental expenses from account 541000 to account 541001. Looking at the total of both accounts for the three year period, total rental expenses rose only by 3.3% from 2007 to 2009.
- d. General liability costs increased from 2007 to 2009 as a result of increases in insurance premiums relating to property and casualty insurance including general liability, auto liability and workers compensation. The premiums for these coverages are based upon payroll, number of vehicles for underwriting exposure, and historical claims experience. Insurance premiums for these coverages have risen due to the increases in Service Company staffing levels over the three year period, as well as other inflationary year-to-year cost increases.

- e. The depreciation expense in account 680112 represents non-utility plant related assets such as computers and other equipment formerly classified under account 680110 - Depreciation Expense General which are used daily in providing service to the AWW subsidiaries including KAW. The account designation has no relationship to non-utility property as it is used in the NARUC system of accounts or excluded from rate recovery at a regulated subsidiary. For comparative purposes, total depreciation expense for the 2007 to 2009 period would include amounts charged under both accounts.
- f. Amounts for Service Company depreciation expense allocated to Kentucky for the base year and future test years are as follows:

Object Account	Object Description	12 Mo May 2010	12 Mo Sep 2011
		Base Yr Total	Future test Yr Total
680110	Depreciation Exp-General	47,538	
680112	Depreciation Exp-Non Utility	692,525	855,845
		740,063	855,845

- g. The amount of Service Company property taxes allocated to Kentucky decreased in 2009 as the result of a large decrease in the amount of personal property asset taxes filed in Florida related to the Pensacola Call Center. The assessed value of the Pensacola of assets was significantly reduced which lowered the 2009 tax liability.
- h. Amounts for Service Company property tax expense allocated to Kentucky for the base year and future test years are as follows:

Object Account	Object Description	12 Mo May 2010	12 Mo Sep 2011
		Base Yr Total	Future test Yr Total
685200	Property Taxes	3,784	5,331

- i. Amounts for Service Company expenses allocated to Kentucky for the accounts requested above in the base year and future test years are as follows:

Object Account	Object Description	12 Mo May 2010	12 Mo Sep 2011
		Base Yr Total	Future test Yr Total
690120	FIT-Prior Year Adjustment	38,432	
690220	SIT-Prior Year Adjustment	10,274	
690620	Def FIT-Pr Yr Adjustment	(37,035)	
690720	Def SIT-Pr Yr Adjustment	(9,884)	

722306	Gains Other Non-OR Gains/(Losses) <b>Net Utility</b>	18,542	
721304	<b>Plant</b> Disposals	2,656	
810301	Interest Cap Lease	122,458	132,376
830100	Interest STD Inside	970	1,592
840000	Other Interest Expense	6	1,419

- j. Service Company capital lease balances from December 2007 to September 2011 are listed below.

**Service Company  
Capital Lease Balances as of:**

<b>12/31/2007</b>	63,918,004
<b>12/31/2008</b>	51,136,103
<b>12/31/2009</b>	36,841,222
<b>9/30/2010</b>	27,149,249
<b>9/30/2011</b>	17,435,399

- k. Service Company capital lease payments for 2009 and monthly through September 2011 are shown below.

**Service Company Capital Lease Payments  
2009 through September 2011**

	<b>2009</b>	<b>2010</b>	<b>2011</b>
Jan		1,534,582	1,041,260
Feb		1,526,147	1,041,260
Mar		1,526,147	1,041,260
Apr		1,221,276	1,041,260
May		1,221,276	905,379
Jun		1,221,276	905,379
Jul		1,041,260	905,379
Aug		1,041,260	905,379
Sep		1,041,260	891,255
Oct		1,041,260	
Nov		1,041,260	
Dec		1,041,260	
<b>Total</b>	<b>18,413,332</b>	<b>14,498,262</b>	<b>8,677,808</b>

For the electronic version, refer to KAW\_R\_AGDR2#105\_052410.pdf.



**KENTUCKY-AMERICAN WATER COMPANY  
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**Witness: Michael A. Miller**

106. Refer to the Company's response to AG-1-116 and 117. Please provide the attachments electronically in Excel.

**Response:**

Please refer to the following excel files:

KAW\_R\_AGDR2#106\_ATTACHMENT1\_052410.xls.  
KAW\_R\_AGDR2#106\_ATTACHMENT2\_052410.xls.

For the electronic version of this response, refer to  
KAW\_R\_AGDR2#106\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY**  
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**Witness: Lance Williams**

107. Refer to the Company's response to AG-1-118.
- a. Please provide the attachment electronically in Excel.
  - b. Explain on page 7 of 9 why there are no Direct Read meter replacements after June 2011.
  - c. Do the "Direct Read" need to be manually read?
  - d. Are the Direct Read meters obsolete in terms of today's technology and considerations of meter-reading efficiency? If not, explain fully why not.
  - e. Why is KAW continuing to buy and install Direct Read meters in 2010 (page 8) and in 2011 (through June)?

**Response:**

- a. See the excel file labeled as KAW\_R\_AGDR2#107\_052410.xls. .
- b. There are a total of 5,327 5/8" periodic meter changes scheduled for year 2011. These are planned to be replaced with direct read meters and will be completed by June of 2011.
- c. Yes, but they only require a touch read and do not require the meter lid to be removed.
- d. No, the areas where we have direct read meters are in densely populated areas and is still an efficient way to read meters. We do understand the benefits of the newer technologies and have plans to replace these direct read meters with radio read meters.
- e. These direct read meters are used for our 5/8" periodic replacement program where the meters are scattered in our system. The savings obtained from direct read replacement are used to replace direct read meters with radio read meters in strategically targeted areas as can be seen in 2010 and June – October 2011.

For the electronic version of this response, refer to  
KAW\_R\_AGDR2#107\_052410.pdf

**KENTUCKY-AMERICAN WATER COMPANY**  
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**Witness: Sheila Miller/Michael A. Miller**

108. Refer to the Company's response to AG-1-125.
- a. Show in detail how the amounts for each year were derived including, but not limited to, all application of the five year average process to derive each year's amount.
  - b. The response indicates that "An AW subsidiary can enjoy a lower premium with an effective loss control and safety program which mitigates frequency and severity of claims." Please identify, quantify and explain KAW's loss control and safety program.
  - c. Please identify, quantify and explain exactly how KAW as an AW subsidiary has reduced its premiums.
  - d. Please identify all losses incurred by KAW for each year, 2000 through 2009 and as projected for 2010 and 2011.
  - e. Are the credit amounts for each year 2007, 2008 and 2009 listed in the response a reduction to expense? If not, explain fully why not.

**Response:**

- a. The Company objects to this question on the grounds that providing the data in the format requested would be unduly burdensome and costly due to the voluminous amount of information reviewed by AW and its insurance brokers. Notwithstanding the objection the Company is providing supporting documentation for the insurance adjustments and retro accruals included in the response to AG-1-125. The information related to 2009 was supplied in response to AG-2-70.

The description of the premium allocation methodology applies at inception when new policies are renewed and issued beginning in 2000. The premium percentage developed at inception for each Business Unit shall apply for the given policy period with every retrospective adjustment or retroactive accrual.

Insurance Other Than Group (IOTG) insurance including General Liability, Auto Liability and Workers Compensation, like most insurance policies, are issued for an annual policy period. Insurance, subject to a **retrospective adjustment**, will have its initial review of losses several months or years

following the expiration of the policy period. Every policy is subject to negotiation including the timing of the initial retrospective adjustment. This separation period, which can range anywhere from 18 to 60 months following that expiration date until the first adjustment, allows claims to mature and develop where the insurance company should have a better idea of the amount of monies it needs to ultimately settle all claims. The retrospective adjustment is completed by the insurance company, an additional or return premium is promulgated for each policy period, and a combined premium or credit is issued. There is an exchange of monies between the Company and the insurance company. All IOTG policies from 1975 to 2005 are currently subject to the annual retrospective review process.

The policy, which will have its initial retrospective review, can be subject to sizeable adjustment as much as several million dollars. This can be caused by significant deterioration of claims experience as a result of many factors including natural catastrophic events, severe injuries embroiled in litigation, and incurred but not reported losses.

The Company experienced several adverse retrospective adjustments where eighteen million dollars had to be collected to adequately fund payment of claims from 1997 to 2003. Premiums were collected in quarterly installments beginning from 2001 to 2005 in order to smooth this cost for rate recovery. Due to the timing of rate filings, a significant part of this cost was not recovered. In order to avoid this adverse financial impact to the Company again, a **retroactive accrual** process was initiated to prospectively review the more current policy periods which were not subject to the insurance company retrospective adjustment review yet. Quarterly claims reviews are completed and an analysis of the adequacy of the insurance company's collateral loss fund is performed. The Company advises its Business Units to appropriately adjust its balance sheet in anticipation of the retrospective adjustment.

The five year average process is applied at the inception of each policy period. The average claims, actual historical claims experience as well as trending and loss development factors are all incorporated in the retrospective adjustment and retroactive accrual processes.

The premiums listed for policy periods from 2004 to 2009 are products of the **retroactive accrual** process. The Company's Corporate Finance department advised its records indicate the following premiums applied in the years listed in the Company's AG-1-125 response:

2004 \$67,654.25 was paid instead of \$28,648.80

2006 (\$41,990.24) was credited instead of \$27,442.22

- b. The Loss Control and Safety Programs at Kentucky American Water involve administering casualty and property insurance, including claims. The loss control function at KAW pro-actively addresses areas in the business where claims historically have occurred to address measures for prevention of and mitigation of those claims on a going forward basis. Each claim is reviewed and contact made with the claimant to explore solutions to the claim that would minimize the financial impact of the claim to establish adjustments to Company actions as appropriate. The monthly review of claims and frequency rates helps minimize claims experience and improve on the occurrence frequency ratios which are a measure of the effectiveness of the loss control program. Loss Control also is the focal point of contact and communication between insurance companies, consultants and other agencies providing risk management. The loss control function proactively provides training programs that impact employee and customer safety issues and potential injury and claims experience. Training programs are provided regularly each year to address various safety issues, workplace safety environments, and safe vehicle operation. There are also regular training programs for major areas, such as confined space regulations, safe underground excavation procedures, chlorine safety and breathing apparatus use, CPR training, defensive driving, etc. All efforts above are to consistently improve the safety record and reduce insurance claims against all policy types.

c.

Policy Period	Premium		Taxes		5 Yr Avg Losses %	General Liability	5 Yr Avg Losses %	Auto Liability	5 Yr Avg Losses %
	Workers Compensation	Workers Compensation	Workers Compensation	Workers Compensation					
2004	70,300	8,053	0.67%	225,575	1.11%	81,550	3.42%		
2005	122,803	8,950	1.58%	186,375	0.71%	33,884	0.60%		
2006	127,723	10,118	1.14%	307,886	0.64%	34,014	0.54%		
2007	166,965	14,280	1.85%	240,153	0.64%	32,566	1.02%		
2008	169,504	9,316	2.05%	227,791	0.76%	36,741	1.13%		
2009	164,882	11,503	2.18%	257,192	0.91%	38,394	0.51%		

While the Company's premiums have remained stable over the last three years, it has effectively managed and controlled its losses where the Company can plan its premium cost more efficiently in a time where the insurance markets have been very volatile. Because 50% of the Company's insurance cost is directly related to claims experience, the Company can directly impact its insurance costs through an effective loss control program aimed at reducing claims experience.

- d. The Company objects to this question on the grounds that providing the information in the requested format would be unduly burdensome and require the creation of extensive material not readily available in the format requested. Notwithstanding the objection see the attached schedule which summarizes

the claims experience by policy type. Since the 2010/2011 timeframes remain forecasts at this time, no actual claims history is available for that period.

The Company's insurance brokers provide guidance in projecting insurance cost for 2010 and 2011. The Company's loss history is an element in many factors utilized by brokers in estimating cost. AW insurance brokers provided us with their best estimates for 2010 and 2011 in view of current insurance market conditions and influences.

Many forces affect the price, availability and security of the insurance product. Some are external, such as changes in interest rates and the stock market, regulatory activity, the number and severity of natural disasters, growth in litigation and rising medical costs. Others are internal, such as the level of competition among insurers.

Beginning in 2009, the commercial insurance market hardened. The hardening market will evolve uniquely unlike others experienced over the past 50 years. Among the many unknowns which could affect insurance pricing, terms and conditions in the coming years are the the length and depth of the recession and the occurrence of a major insured catastrophe.

#### Rating Agencies Raise Capital Requirements for Catastrophes:

Ratings agencies have changed the way they assess the adequacy of an insurer's capital. Until recently, rating agencies looked at a company's exposures to losses relative to a catastrophic event that was likely to occur once every 100 years. But events that were once thought to be relatively rare are occurring with increasing frequency. With forecasts of above average hurricane losses for the next decade or so, agencies have raised the threshold for capital adequacy to an event that is expected to occur once in 250 years. In addition, they are looking at potential losses from catastrophes in the aggregate — two mega disasters in quick succession, for example — and requiring a company's estimates of its probable maximum loss to include such items as demand surge. Demand surge in this context is the increase in the cost of labor and materials as demand for building contractors to repair damage after a natural disaster rises. This pushes up the size of claims. Not surprisingly, since the 2005 and 2008 hurricane seasons, many insurers have adopted more conservative approaches to managing their exposure to catastrophic losses. Those that do not may face rating downgrades, which in turn affects their costs of raising capital and, if the downgrades are severe enough, their ability to attract new business.

e. Yes.

For the electronic version, refer to KAW\_R\_AGDR2#108\_052410.pdf.

For KAWC 2008 December 10

	<u>Policy Period</u>	<u>Total To Be Collected</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Check Sum</u>
KAWC	10/1/97-98	(12,848.00)	(6,424.00)	(6,424.00)				(12,848.00)
	10/1/98-99	163,517.00	54,505.64	54,505.68	54,505.68			163,517.00
	10/1/99-00	116,873.82		38,958	38,957.85	38,957.85		116,873.82
	10/1/00-01	59,614.00		8,518.00	17,032.00	17,032.00	17,032.00	59,614.00
	10/1/01-02	86,616.11		54,539.00	8,748.30	11,664.40	11,664.40	86,616.11
	Total	413,772.93	<b>48,081.64</b>	<b>150,096.80</b>	<b>119,243.83</b>	<b>67,654.25</b>	<b>28,696.40</b>	413,772.93

Other Retrospective Rating Adjustments:

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2006</u>	<u>2007</u>
KAWC				(54,507.43)	(1,044.45)







Insurance Retro Accrual Entries (Allocation Computation)

2006  
JW  
CONF

Source	Beg Balances				Ending Deferred Liability		Summary JE				
	A JDE	B JDE	C General Acct.	D SAP	E =(A+B+C+D)	F Calculated ref I-3	G =(F-E)	H =(F-E)	I =(F-E)	J =(F-E)	K =(G+H+J)
	JDE xx.26240/1186707 Def. Liability/Asset	JDE xx.262180 Deferred Liability	xx.223235 Deferred Liability	xx.223235 Deferred Liability	Total Deferred Liabilities	Total Deferred Liability	JDE xx.262180 Deferred Liability	JDE xx.223235 Deferred Liability	Non-Reg Deferred Liability Accounts	Insurance Expense	
02-AWK	(60,367.60)	-	-	-	(60,367.60)	(77,569.63)	(17,202.03)	-	-	17,202.03	XX.557000
03-SC	358,484.65	-	-	-	358,484.65	177,941.39	(180,543.26)	-	-	180,543.26	
05-CA	207,533.44	-	-	-	207,533.44	51,688.30	(155,845.14)	-	-	155,845.14	
09-IL	264,500.58	-	-	-	264,500.58	(73,129.77)	(337,630.35)	-	-	337,630.35	
10-IN	86,515.07	-	-	-	86,515.07	(51,655.74)	(138,170.81)	-	-	138,170.81	
11-IA	28,025.17	-	-	-	28,025.17	(11,655.83)	(39,681.00)	-	-	39,681.00	
12-KY	25,730.70	-	-	-	25,730.70	(30,765.92)	(56,496.62)	-	-	56,496.62	
13-MD	(434.09)	-	-	-	(434.09)	(5,512.81)	(5,078.72)	-	-	5,078.72	
16-MI	-	(240.86)	-	-	(240.86)	(2,062.78)	(1,821.92)	-	-	1,821.92	
17-MO	333,742.99	-	-	-	333,742.99	(66,931.96)	(400,674.95)	-	-	400,674.95	
18-NJ	236,151.65	-	-	-	236,151.65	(100,453.42)	(336,605.07)	-	-	336,605.07	
19-NM	(2,441.75)	-	-	-	(2,441.75)	(11,019.44)	(8,577.67)	-	-	8,577.67	
22-OH	12,549.92	-	-	-	12,549.92	(18,113.83)	(30,663.75)	-	-	30,663.75	
23-AZ	95,437.32	-	-	-	95,437.32	25,430.83	(70,006.49)	-	-	70,006.49	
24-PA	1,117,320.01	-	-	-	1,117,320.01	337,676.13	(779,643.88)	-	-	779,643.88	
26-TN	33,091.08	-	-	-	33,091.08	(22,632.79)	(55,723.87)	-	-	55,723.87	
27-VA	24,636.22	-	-	-	24,636.22	(13,956.00)	(38,592.22)	-	-	38,592.22	
28-WV	163,088.36	-	-	-	163,088.36	51,944.85	(111,153.51)	-	-	111,153.51	
30-HI	19,366.28	-	-	-	19,366.28	6,161.22	(13,205.06)	-	-	13,205.06	
38-LI	100,353.98	-	-	-	100,353.98	28,843.75	(71,510.23)	-	-	71,510.23	
50-TX	6,984.24	-	-	-	6,984.24	5,202.57	(1,781.67)	-	-	1,781.67	
52-EWC	136,397.84	-	-	-	136,397.84	35,466.28	(100,931.56)	-	-	100,931.56	
53-MTH	6,929.15	-	-	-	6,929.15	6,679.86	(249.29)	-	-	249.29	
	3,193,605.21	(240.86)	-	-	3,193,364.35	241,575.28	(2,949,967.15)	(1,821.92)	-	2,951,789.07	
AWR	-	-	-	-	15,280.00	(5,108.13)	-	-	(20,388.13)	20,388.13	
AWM	-	-	-	-	13,750.00	(8,180.13)	-	-	(21,930.13)	21,930.13	
AWE	-	-	-	-	657,388.30	394,533.04	-	-	(262,855.26)	262,855.26	
MISC	-	-	-	-	686,418.30	381,244.78	-	-	(305,173.52)	305,173.52	
	3,193,605.21	(240.86)	-	-	3,879,782.65	622,820.06	(2,949,967.15)	(1,821.92)	-	(305,173.52)	3,256,962.59

Approved by: James Kalinovich

Prepared by: Mahaveer Jain

Reviewed by: Jim Li

- 1 email from Shawn Glynn
- 2 email from John Strong
- 3 email from Jennifer Rodriguez

PREPARER: *Jeff*  
REVIEWER: *[Signature]*

Insurance Retro Accrual Entries (Allocation Computation)

2007  
1st Qtr

Source	Beg Balances				Total Deferred Liabilities	Ending Deferred Liability
	A JDE Def. Liability/Asset	B JDE Deferred Liability	C General Acct. SAP Deferred Liability	D AWE Accl. Non-Reg Deferred Liability		
02-AWK	xx:241261/146105					
03-SC						
05-CA						
08-IL						
10-IN						
11-IA						
12-KY						
13-MD						
16-MI						
17-MO						
18-NJ						
19-NM						
22-OH						
23-AZ						
24-PA						
26-TN						
27-VA						
28-WV						
30-HI						
38-LI						
50-TX						
52-EWC						
53-MTH						
AWR						
AWM						
AWE						
MISC						

2,327,907.65						
(1,526,633.25)						
(5,321.16)						
(19,093.05)						
427,266.38						
402,852.16						
(1,123,783.08)						
(3,854,542.90)						
(112,831.12)						
(3,967,374.02)						

Approved by: *[Signature]*  
James Kalinovich

Reviewed by: *[Signature]*  
Jim

Prepared by: *[Signature]*  
Mahaveer Jain

1\* email from John Strong  
2\* email from Jennifer Rodriguez



Insurance Retro Accrual Entries (Allocation Computation) 09/30/07

2007  
RED QRT

Source	Reg Balances		Total Deferred Liabilities	Ending Deferred Liability	Summary JE	
	A JDE	B AWE Acct			E (D-C)	F (D-C)
	JDE	Non-Reg Deferred Liability Accounts		Calculated ref L3	JDE	XX-557000 Insurance Expense
	xx.241261/146105	Def. Liability/Asset		Total	xx.241261/146105	Def. Liability/Asset
02-AWK	10	98,070.39	(59,221.75)	172,715.67	3,746.78	(3,746.78)
03-SC	10	98,070.39	(59,221.75)	172,715.67	74,705.28	(74,705.28)
05-CA	10	(79,847.83)	(79,847.83)	(269,292.66)	(22,298.56)	22,298.56
09-IL	10	(212,938.08)	(212,938.08)	(81,727.96)	(56,354.58)	56,354.58
10-IN	10	(73,256.38)	(73,256.38)	(4,808.29)	(8,471.58)	8,471.58
11-4A	10	(5,226.75)	(5,226.75)	(36,783.16)	818.46	(618.46)
12-KY	10	(34,564.02)	(34,564.02)	(6,870.57)	(2,219.14)	2,219.14
13-MD	10	(6,181.22)	(6,181.22)	(1,890.44)	(689.35)	689.35
16-MI	10	(1,823.28)	(1,823.28)	(998,129.60)	(67.16)	67.16
17-MO	10	(296,460.64)	(296,460.64)	(266,925.45)	(101,668.99)	101,668.99
18-NJ	10	(232,274.60)	(232,274.60)	(11,166.96)	(34,650.85)	34,650.85
19-NM	10	(9,859.27)	(9,859.27)	(25,580.32)	(1,307.69)	1,307.69
22-OH	10	(23,389.67)	(23,389.67)	(47,841.86)	(2,190.65)	2,190.65
23-AZ	10	50,848.48	50,848.48	(911,896.90)	(3,006.88)	3,006.88
24-PA	10	(184,485.25)	(184,485.25)	(5,114.36)	(127,411.65)	127,411.65
26-TN	10	(49,250.24)	(49,250.24)	(4,678.96)	(6,185.77)	6,185.77
27-VA	10	(1,506.81)	(1,506.81)	(146,310.13)	(42,076.50)	42,076.50
28-WV	10	(104,233.63)	(104,233.63)	(7,463.81)	1,630.92	(1,630.92)
30-HI	10	5,832.89	5,832.89	(132,632.45)	(34,261.55)	34,261.55
38-LI	10	(98,370.90)	(98,370.90)	(1,770.36)	(663.88)	663.88
50-TX	10	2,434.74	2,434.74	155,108.39	13,629.79	(13,629.79)
52-EWC	10	141,478.60	141,478.60	5,961.03	(180.69)	180.69
53-MTH	10	6,141.72	6,141.72	(1,510,200.47)	(342,116.98)	342,116.98
	10	(1,168,083.49)	(1,168,083.49)	(1,583.11)	398.45	(398.45)
	10	(1,168,083.49)	(1,168,083.49)	(59,816.87)	(19,668.71)	19,668.71
	10	(1,168,083.49)	(1,168,083.49)	715,572.35	44,062.80	(44,062.80)
	10	629,579.83	629,579.83	654,372.37	24,792.54	(24,792.54)
	10	629,579.83	629,579.83	(855,828.11)	24,792.54	317,324.45
	10	629,579.83	629,579.83	(538,503.66)		

Approved by: *[Signature]* 9/19/07  
Date: 9/19/07  
Name: JAMES KALINOVICH

Prepared by: *[Signature]* 9/19/07  
Date: 9/19/07  
Name: MEHA TEJ-DJIN

Reviewed by: *[Signature]* 9/25/07  
Date: 9/25/07  
Name: JAMES P. LI



I2

Insurance Retro Accrual Entries (Allocation Computation) 03/31/2008

Source	Beg Balances			Total Deferred Liabilities	Ending Deferred Liability	Summary JE		
	A JDE	B AWE Acct	C =(A+B)			E =(D-C)	F =(D-C)	G =(E-F)
02-AWK	JDE	Non-Reg Deferred Liability Accounts	Total Deferred Liabilities	Total Deferred Liability	JDE	Non-Reg Deferred Liability Accounts	Insurance Expense	
03-SC	xx:241261/146105				xx:241261/146105			
05-CA	Def. Liability/Asset				Def. Liability/Asset			
09-IL	10 (54,337.57)		(54,337.57)	(17,392.41)	36,945.16		(36,945.16)	
10-JN	10 (244,872.04)		244,872.04	342,422.68	97,550.64		(97,550.64)	
11-IA	10 (129,668.72)		(129,668.72)	49,563.80	179,232.52		(179,232.52)	
12-KY	10 (322,760.72)		(322,760.72)	6,422.15	329,182.87		(329,182.87)	
13-MD	10 (91,826.47)		(91,826.47)	36,050.50	127,876.97		(127,876.97)	
16-MI	10 (5,022.04)		(5,022.04)	22,479.07	27,501.05		(27,501.05)	
17-MO	10 (39,320.48)		(39,320.48)	5,935.66	45,256.14		(45,256.14)	
18-NJ	10 (7,564.32)		(7,564.32)	(2,261.92)	5,302.40		(5,302.40)	
19-NM	10 (1,968.56)		(1,968.56)	(18.37)	1,950.19		(1,950.19)	
22-OH	10 (499,820.53)		(499,820.53)	(51,828.32)	446,992.21		(446,992.21)	
23-AZ	10 (307,449.31)		(307,449.31)	(65,163.11)	242,286.20		(242,286.20)	
24-PA	10 (12,376.72)		(12,376.72)	(5,188.01)	7,188.71		(7,188.71)	
26-TN	10 (28,196.06)		(28,196.06)	1,654.37	29,850.43		(29,850.43)	
27-VA	10 (44,271.72)		(44,271.72)	78,196.48	33,924.76		(33,924.76)	
28-WV	10 (461,185.45)		(461,185.45)	366,983.58	818,169.03		(818,169.03)	
30-HI	10 (60,979.03)		(60,979.03)	(665.00)	60,314.03		(60,314.03)	
38-LJ	10 (7,705.53)		(7,705.53)	38,153.34	30,447.81		(30,447.81)	
50-TX	10 (194,420.51)		(194,420.51)	(29,777.18)	164,643.33		(164,643.33)	
52-EWC	10 (8,432.75)		(8,432.75)	19,072.58	10,639.83		(10,639.83)	
53-MTH	10 (166,629.82)		(166,629.82)	(48,421.21)	118,208.61		(118,208.61)	
	10 (544.45)		(544.45)	2,655.98	2,081.53		(2,081.53)	
	10 (160,613.30)		(160,613.30)	237,034.26	76,420.96		(76,420.96)	
	10 (5,229.93)		(5,229.93)	6,428.38	1,198.45		(1,198.45)	
			(1,910,856.59)	982,317.23	2,893,173.82		(2,893,173.82)	
			(876.58)	(1,129.21)	(252.63)		(252.63)	
			(76,010.16)	(61,903.30)	24,106.86		(24,106.86)	
			710,300.14	889,273.71	178,973.57		(178,973.57)	
			633,413.40	836,241.20	202,827.80		(202,827.80)	
			(1,277,443.19)	1,818,568.43	2,893,173.82		(3,095,001.52)	

Reviewed by: *[Signature]* 3/25/08  
 Approved by: *[Signature]* James Kallinovich  
 Prepared by: *[Signature]* Mahaveer Jain  
 Date: 03/24/2008







Insurance Retro Accrual Entries (Allocation Computation) 12/31/2008

Source	Beg Balances		Total Deferred Liabilities	Summary JE	
	A JDE	B AWE Acct		F =(D-C)	G =(E-F)
02-AWK	JDE	Non-Reg Deferred Liability Accounts		JDE	Insurance Expense
03-SC	XX.241261/146105			XX.241261/146105	
05-CA	Def. Liability/Asset	Liabilities		Def. Liability/Asset	Non-Reg Deferred Liability Accounts
09-IL	(25,053.35)			1,601.42	
10-IN	162,005.78			(106,042.17)	
11-IA	211,933.27			68,821.41	
12-KY	440,682.26			(158,087.09)	
13-MD	153,612.56			70,993.99	
16-MI	42,240.79			22,892.91	
18-NU	57,128.80			28,193.95	
19-NM	2,953.41			2,080.97	
22-OH	1,674.52			760.51	
23-AZ	506,465.42			(226,466.67)	
24-PA	330,744.86			317,583.13	
26-TN	5,751.15			4,594.97	
27-VA	22,126.22			(4,594.97)	
28-WV	124,065.87			51,087.10	
30-HI	1,079,165.80			396,729.66	
38-LI	36,588.74			23,686.43	
50-TX	34,531.06			20,578.57	
52-EWC	66,538.44			58,844.69	
53-MTH	22,459.12			6,721.33	
	82,923.98			36,809.86	
	1,601.14			(2,775.29)	
	3,362,139.74			(1,619,141.54)	
					1,619,141.54
					(4,462.97)
					(22,290.45)
					154,331.38
					(181,084.80)
					181,084.80

Ending Deferred Liability	D Calculated ref I-3
Total Deferred Liability	(23,451.93)
	55,963.61
	143,111.86
	282,595.17
	82,618.57
	19,347.88
	28,934.85
	872.44
	914.01
	279,998.75
	13,161.73
	1,156.17
	5,133.99
	16,992.24
	72,978.77
	682,436.14
	14,902.31
	13,952.49
	7,683.74
	15,737.79
	46,114.02
	(1,174.15)
	1,742,998.21
	(3,616.93)
	(5,876.75)
	738,257.98
	728,764.90
	2,471,763.11

Beg Balances	C =(A+B)
Non-Reg Deferred Liability Accounts	
	(25,053.35)
	162,005.78
	211,933.27
	440,682.26
	153,612.56
	42,240.79
	57,128.80
	2,953.41
	1,674.52
	506,465.42
	330,744.86
	5,751.15
	22,126.22
	124,065.87
	1,079,165.80
	36,588.74
	34,531.06
	66,538.44
	22,459.12
	82,923.98
	1,601.14
	3,362,139.74
	846.64
	16,413.70
	892,589.36
	909,849.70
	909,849.70
	4,271,989.45

Note: EWC and MTH have been consolidated with NJ

Reviewed by: *[Signature]* Date: 12/5/08  
James Kalinovich

Approved by: *[Signature]* Date: 12/5/08  
James Kalinovich

Prepared by: *[Signature]* Date: 12/5/08  
Mehaveg Jain



KAWC Annual Claims Summary by Line of Coverage

	1997	1998	1999	2000	10/1/01-10/1/02	10/1/02-12/31/03	1/1/04-1/1/05	1/1/05-1/1/06	1/1/06-1/1/07	1/1/07-1/1/08	1/1/08-1/1/09	1/1/09-1/1/10
WC	42,280	35,755	16,363	1,897	51,377	256,590	55,200	155,911	22,810	123,754	165,632	\$247,494.00
GL	95,367	317,578	111,676	26,720	52,610	168,285	142,547	165,793	28,883	158,540	133,227	148,925.00
AL	76,701	73,827	671	2,966	23,930	7,115	120	3,809	1,453	6,262	11,503	\$9,429.00

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
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**Witness: Linda C. Bridwell/ Michael A. Miller/ Sheila Miller**

109. Refer to the Company's response to AG-1-133.
- a. Explain why there is AFUDC of over \$2 million in the 2008 rate case and the KRS II certification case but zero in the current rate case.
  - b. Identify all AFUDC that KAW has recorded on KRS II by month actual, and as projected for the remainder of the FTY period.

**Response:**

- a. There is no AFUDC in the forecasted test year for the KRS II project because this project transfers to utility plant in September 2010.
- b. See attached.

For the electronic version, refer to KAW\_R\_AGADR2#109\_052410.pdf.

**Kentucky American Water Company  
AGADR2#109-KRS II AFUDC**

<u>funding project</u>	<u>month</u>	<u>Afudc Amount</u>	
12020607- New WTP on Pool 3 Of Kentucky Ri	200609	\$ 134	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200610	\$ 570	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200611	\$ 1,079	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200612	\$ 2,679	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200701	\$ 5,248	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200702	\$ 6,942	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200703	\$ 9,040	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200704	\$ 12,350	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200705	\$ 16,402	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200706	\$ 18,838	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200707	\$ 18,376	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200708	\$ 20,162	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200709	\$ 21,124	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200710	\$ 22,401	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200711	\$ 23,758	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200712	\$ 25,623	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200801	\$ 26,272	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200802	\$ 26,641	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200803	\$ 26,932	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200804	\$ 27,275	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200805	\$ 27,663	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200806	\$ 28,059	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200807	\$ 31,348	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200808	\$ 48,225	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200809	\$ 93,838	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200810	\$ 132,910	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200811	\$ 166,939	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200812	\$ 215,601	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200901	\$ 255,430	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200902	\$ 429,387	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200903	\$ 372,678	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200904	\$ 424,406	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200905	\$ 476,580	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200906	\$ 383,747	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200907	\$ 418,383	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200908	\$ 414,000	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200909	\$ 494,054	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200910	\$ 525,184	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200911	\$ 551,367	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	200912	\$ 564,884	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	201001	\$ 571,774	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	201002	\$ 598,896	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	201003	\$ 631,126	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	201004	\$ 649,623	Actual
12020607- New WTP on Pool 3 Of Kentucky Ri	201005	\$ 830,444	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201006	\$ 845,509	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201007	\$ 859,725	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201008	\$ 873,335	Forecast

**Kentucky American Water Company**  
**AGADR2#109-KRS II AFUDC**

12020607- New WTP on Pool 3 Of Kentucky Ri	201009	\$	-	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201010	\$	-	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201011	\$	-	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201012	\$	-	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201101	\$	-	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201102	\$	-	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201103	\$	-	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201104	\$	-	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201105	\$	-	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201106	\$	-	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201107	\$	-	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201108	\$	-	Forecast
12020607- New WTP on Pool 3 Of Kentucky Ri	201109	\$	-	Forecast
Total		\$	<u>12,226,959</u>	

**KENTUCKY-AMERICAN WATER COMPANY**  
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**Witness: Dr. Edward L. Spitznagel**

110. Refer to the Company's response to AG-1-138. Does Dr. Spitznagel have any other studies, treatises or documents to support his premise that: "Water has a very inelastic demand compared with other utilities" besides the description provide in that response? If not, explain fully why not. If so, please identify the other studies, treatises or documents that support his premise.

**Response:**

M. Espey, J. Espey, and W.D. Shaw, Price elasticity of residential demand for water: A meta-analysis. *Water Resources Research*, **33**(6) 1369-1374 (1977). This article examined 124 price elasticity estimates for residential water from 24 journal articles, finding the median short-run price elasticity to be  $-0.38$  (Figure 1 on page 1371). A value of  $-1.0$  is the breakpoint between demand being inelastic and elastic, with numbers of absolute value (magnitude) less than 1 representing inelastic demand.

J.M. Dalhuisen, R.J.G.M Florax, H.L.F. de Groot, and P. Nijkamp. Price and income elasticities of residential water demand: A meta-analysis. *Land Economics*, **79**(2) 292-308 (2003). This article examined 296 price elasticity estimates for residential water from 64 journal articles, finding the median price elasticity to be  $-0.35$  (page 295, top of second column). Immediately following this estimate is the statement: "However the number of estimates deviating from  $-1$  is considerably larger for estimates greater than  $-1$  than for those smaller than  $-1$ , providing substantial evidence for water demand being price inelastic." In the next paragraph, it is stated that the median *income* elasticity of water demand was 0.24. This estimate, in fact, is even more germane because it speaks directly to people's behavior in an economic downturn. That is, they will tend not to give up water consumption in proportion to their reduction in income. The authors state: "Approximately 10% of the estimates is greater than 1 and hence, again corroborating theoretical expectations, water demand appears to be inelastic in terms of income changes." [Notes: (1) Price elasticity is negative because it indicates the rate of decrease of usage with increasing price. (2) Income elasticity is positive because it indicates the rate of increase of usage with increasing income.]

M. Williams and B. Suh. The demand for water by customer class. *Applied Economics*, **18** 1275-1289 (1986). Using five different models, with sample sizes ranging from 82 to 86, the authors estimate the price elasticity of residential water consumption to be in the range  $-0.1795$  to  $-0.4835$ , with a median value of  $-0.2534$ . Using five models, with sample sizes ranging from 100 to 140, the authors estimate the price elasticity of commercial water consumption to be in the range  $-0.1406$  to  $-0.3602$ , with a median value of  $-0.3065$ .

For the electronic version, refer to KAW\_R\_AGDR2#110\_052410.pdf.



**KENTUCKY-AMERICAN WATER COMPANY  
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**Witness: Michael A. Miller/Dr. Edward L. Spitznagel**

111. Refer to the Company's response to AG-1-139. Was Dr. Spitznagel's weather normalization methodology ever not accepted in any utility rate case in which it was presented? If so, please identify the case and explain fully the circumstances.

**Response:**

Please refer to the third paragraph of the response to KAW\_R\_AGDR1#139\_042610.

For the electronic version of this response, refer to KAW\_R\_AGDR2#111\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY**  
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**Witness: Keith Cartier/Sheila Miller**

112. Refer to the Company's response to AG-1-141.
- a. Explain exactly what caused the actual kWh decrease from 2007 to 2008 and from 2008 to 2009.
  - b. Explain in detail why the 2009 actual kWh was so much lower than budgeted.
  - c. Explain in detail why the 2009 actual electric costs were so much lower than budgeted.
  - d. Does the 2010 budget reflect a continuing decline in kWh and electric costs from 2009? If not, explain fully why not.
  - e. Does the FTY forecast reflect a continuing decline in kWh and electric costs from 2009? If not, explain fully why not.

**Response:**

- a. The decrease in actual kWh consumption in 2008 compared to 2007, and in 2009 compared to 2008 is directly and primarily attributed to the relative decreases in system delivery for those periods. Electrical rework at KRS1 was also completed, which in 2009 included adding an additional Kentucky Utilities transformer and additional KU electric metering.
- b. Although kwhs are not explicitly budgeted, the forecasted kwhs are used to develop the fuel and power budget. The primary driver for below anticipated kwh consumption was system delivery being so much lower than budget. The lower level of system delivery was primarily attributable to weather related lower sales volume than budgeted.
- c. As indicated above, lower than budgeted costs were primarily related to lower than budgeted sales volume. In 2009, rain events also maintained the water level in Jacobson Reservoir more consistently than anticipated. Consequently, the transfer pumps from Kentucky River to Richmond Road Station were not needed to the degree planned.
- d. The 2010 budget reflects expected system delivery (which is different than 2009 actual) and the addition of KRS 2 and the new Woodlake Road

booster station for October through December. These facilities were not in place in prior years. The electric consumption and costs of those facilities add a different dynamic with their respective pumps and motors, so kwh consumption totals and electricity costs for 2010 and future years will not be readily trended back to historic levels. The electricity budgets reflect 6MGD produced and pumped from KRS2, through the Woodlake booster, on to central Kentucky distribution system. The KRS 1 electricity consumption and cost reflect removing that 6MGD from its monthly dispatch.

- e. The forecasted test-year fuel and power expense has been calculated using a system delivery synchronized with the normalized water sales used in the Company's filing. See the response to AG-2-59.

For the electronic version, refer to KAW\_R\_AGDR2#112\_052410.pdf.

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**Witness: Keith Cartier**

113. Refer to the Company's response to AG-1-143.
- a. Please identify each affiliated utility that has implemented CMMS and the date of their implementation.
  - b. Please identify, quantify and explain all identifiable savings at each affiliated utility that has implemented CMMS since its date of implementation.
  - c. Has KAW included \$8,107 in the FTY for CMMS? If not, explain fully why not and identify the amount included by KAW by account.

**Response:**

- a. Implementation of CMMS will be phased in over time at the various AWW regulated subsidiaries. See the currently implementation schedule below.

	Implementation
AZAWC	Aug-09
ILAWC	Apr-10
KYAWC	May-10
MOAWC	May 09 - May 10
NJAWC	Dec 08 - Dec 09
PAAWC	Jan 09 - May 10
VAAWC	Nov 09 - Feb 10

- b. The CMMS system is intended to enhance visibility and decision making around maintenance programs. No specific savings were targeted, though the expectation would be that over time, service improvements would occur as equipment failures and resulting implications to production and distribution system reliability are mitigated.
- c. No.

For the electronic version, refer to KAW\_R\_AGDR2#113\_052410.pdf.

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**Witness: Keith Cartier**

114. Refer to the Company's response to AG-1-151.
- a. Please identify the annual amounts KAW billed to the Kentucky River Authority or any other entities for leak detection services for each year, 2005 through 2009, and for 2010 to date.
  - b. Please identify the annual leak detection expenses related to providing leak detection services for non-affiliated entities in each year, 2005 through 2009, and for 2010 to date.

**Response:**

- a. Leak detection billings are detailed in the table below:

	<b>Billed</b>
<b>Year</b>	<b>Amount</b>
2005	2,531.78
2008	686.37
2009	3,581.12
2010	5,006.91

- b. Billed amount referenced in a. above is typically expenses plus 15% administrative costs.

For the electronic version, refer to KAW\_R\_AGDR2#114\_052410.pdf.

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

115. Refer to the Company's response to AG-1-159. Please provide the attachments electronically in Excel.

**Response:**

Please refer to the excel files labeled as follows:

2010/2011 Business Plan allocations to KAW from AWWSC-  
KAW\_R\_AGDR2\_115\_052410\_SCB.xls

Capital Expenditures plan for 2009 -  
KAW\_R\_AGDR2#115\_052410\_2009 SCEP.xls

Capital Expenditures plans for 2010/2011-  
KAW\_R\_AGDR2#115\_052410\_SCEP A-S.xls  
KAW\_R\_AGDR2#115\_052410\_SCEP IP.xls

Exhibit 11 - KAW\_R\_AGDR2#115\_052410\_Exh 11.xls

Exhibit 13 Capital Expenditures - KAW\_R\_AGDR2#115\_052410\_Ex 13 CE.xls

Exhibit 13 Income Statement -KAW\_R\_AGDR2#115\_052410\_Ex 13 IS.xls

Exhibit 24 Rate Base -KAW\_R\_AGDR2#115\_052410\_Exh 24.xls

The following information was not prepared in excel and is not available in excel:  
The Income Statement Year-To-Date, Kentucky with Growth, December YTD  
2009, Exhibit 18, Exhibit 21, Exhibit 22, Exhibit 25, and Exhibit 26.

The following exhibits were provided in response to  
KAW\_R\_AGDR1#1\_042610: Exhibit 17, Exhibit 19, and Exhibit 23.

For the electronic version of this response, refer to  
KAW\_R\_AGDR2#115\_052410.pdf.

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**Witness: Michael A. Miller**

116. Refer to the Company's response to AG-1-160. Was any operational savings reflected in the base period or FTY related to the implementation of any of the systems listed in the response? If not, explain fully why not. If so, please identify, quantify and explain the related operating cost savings for the base period, and separately for the FTY.

**Response:**

No. The projects are related to replacements of existing systems, new systems that reflect current technology, and systems to improve customer service and access. None of the systems are expected to generate savings.

For the electronic version, refer to KAW\_R\_AGDR2#116\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY**  
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**Witness: Michael A. Miller**

117. Refer to the Company's response to AG-1-161.
- a. What was the final cost of the E-CIS?
  - b. If the final cost was different from the \$71,416,845 mentioned on page 5 of 21 of the response, please identify, quantify and explain all differences between that amount and the final E-CIS cost.
  - c. Please identify all rate base and depreciation expenses included in the BASE PERIOD and FTY by KAW related to the E-CIS by account.
  - d. Was any amount of rate base for E-CIS included in KAW's last rate case? If not, explain fully why not. If so, please identify, quantify and explain in detail.
  - e. Was any amount of depreciation expense for E-CIS included in KAW's last rate case? If not, explain fully why not. If so, please identify, quantify and explain in detail.
  - f. Did KAW have a choice as to whether or not to participate in the AWWC national call center? If not, explain fully why not. If so, please explain all factors considered by KAW in making its decision to participate.
  - g. What was the cost of the E-CIS at the time that KAW made its decision to participate in the national call center?
  - h. Please show by account KAW's customer service cost for the two years before KAW began participation in the AWWC national call center, and for each year after KAW began participation in the AWWC national call center through 2009.
  - i. Are there any other costs in KAW's filing related to the AWWC national call center besides the pro rated amounts of CSC Totals (\$1,824,352 for 2010 affiliated Service Company charges and \$1,799,179 for 2011 affiliated Service Company charges) shown on the responses to AG-1-111 and 112, respectively? If not, explain fully why not. If so, please identify, quantify and explain all additional costs and charges to KAW in the FTY related to the national call center.



**Response:**

General – The Company objects to this inquiry on the grounds of relevance to the current proceeding in that it references an investment that has now been in service for a number of years, and has been fully reviewed by the Commission. The system in question has also been fully depreciated and is in essence providing service to Kentucky American customers at no capital cost.

- a. \$73,741,277.
- b. The same page of the reference in the attached order states the Company's total cost is as stated above. Kentucky American does not have access to the Indiana Commission's records from which the amount stated in the question is quoted.
- c. Net rate base and depreciation expense in the Company's filing in this proceeding is zero related to ECIS.
- d. The Company included the balance of UP in 340300 – Mainframe Software and the accumulated depreciation offset to rate base related to that account in rate base. The Company did not attempt to determine the level of rate base by each asset within the property class. In addition, the 2008 case ended in settlement at a level well below the Company's requested increase with no specific reference to the level of rate base.
- e. The Company calculated depreciation expense related to account 340300 at the asset class depreciation rate included in the settlement agreement signed by the AG in case number 2007-00143. The Company did not attempt to determine the level of depreciation expense by each asset with the property class in the 2008 rate case. In addition, the 2008 case ended in settlement at a level well below the Company's requested increase with no specific reference to the level of depreciation expense.
- f. Yes. The decision was made in the year 2000, and the Company fully supported the implementation of the E-CIS system which replaced an in-house customer accounting and billing system that was no longer meeting customer expectations and was not Y-2K compliant. There were a number of factors included in the decision which were disclosed and fully reviewed in Case No. 2004-00103 before the Commission.
- g. The amount expended on the total project at the end of 2000 was \$24,974,309.
- h. The Company objects to this question on the grounds that the information requested is not relevant to this proceeding and the Company does not have the data for the periods prior to the transition to the national call

center in the format requested. Notwithstanding the objection, prior to the transition to the National Call Center KAW provided customer service and billing function locally, and other than after hours emergency calls, the office was open from 8:00 AM to 4:30 PM Monday thru Friday. The costs related to customer service, billing and credit functions were not captured in one business unit, they were included in any number of expense categories, such as, labor, pensions, group insurance and OPEB's, insurance other, customer accounting expenses (miscellaneous type expenses), general taxes, etc. The Company does not have or possess the information summarizing all of those costs for the two years prior to the transition to the national call center. The Company did generate an analysis of the costs of the national call center, the national shared service center, and the movement to the SE Region compared to the costs of providing those service on a limited basis locally prior to the realignments of those functions. That analysis can be found in the direct testimony of Michael A. Miller, Exhibit 5, in case number 2004-00103.

- i. No. Other deferred transition costs related to Kentucky American's utilization of the Call Center and Shared Services Center in the amount of \$995,021 were written off by the Company in 2005 as a result of the Commission's order in Case No. 2004-00103

For the electronic version, refer to KAW\_R\_AGDR2#117\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
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**Witness: Michael A. Miller**

118. Refer to the Company's response to AG-1-166. This response indicates that KAW records a liability for annual incentive plan expense and then reduces that liability when the AIP is paid. Please show in detail exactly where and how KAW reflected the AIP cost in its lead-lag study, and how KAW determined the payment lag related to AIP.

**Response:**

The AIP is paid through labor which is shown in page 144 (Labor) WP1-12 of the Lead/Lag Study. AIP was not specifically adjusted in the Lead/Lag study. The AIP is paid by March 15 of the following year in which it was earned. The adjustment from KAW\_R\_PSCDR1#1a\_WP1-12\_031610 page 144 of 168 (Labor) would result in a new figure of 20.80 days versus 12.00 days originally filed.

For the electronic version of this response, refer to KAW\_R\_AGDR2#118\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
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**Witness: Sheila Miller/Michael A. Miller**

119. Refer to the Company's response to AG-1-168. Did KAW include any AFUDC in the income statement in its filing related to KAW's inclusion of CWIP in rate base? If not, explain fully why not. If so, please identify the amount of AFUDC included in the base period and FTY.

**Response:**

Yes, the Company included AFUDC in the amount of \$646,180 in other revenues (above the line) for the forecasted test year. The Company did not include AFUDC in the base period. The base period AFUDC in the amount of \$3,959,563 was included below the line since it had no impact on the increase requested in the Company's filing.

For the electronic version, refer to KAW\_R\_AGDR2#119\_052410.pdf.

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**Witness: Michael A. Miller**

120. Refer to the Company's response to AG-1-177. Please respond to the request posed in AG-1-177 with respect to 2010 and 2011.

**Response:**

No changes in accounting principles are expected in 2010/2011 and none were reflected in the forecasted test-year filing.

For the electronic version, refer to KAW\_R\_AGDR2#120\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
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**Witness: Sheila Miller**

121. Refer to the Company's response to AG-1-178.
- a. Please show specifically and in detail exactly how KAW removed from the base period and FTY "all costs specifically ordered by the Commission to not be recovered in rates."
  - b. Please identify each cost that KAW believes was "specifically ordered by the Commission to not be recovered in rates."

**Response:**

- a. Please refer to the response to PSC-1-1a and AG-1-1, WP 3-13. While the budget for 2010 and 2011 included expenses in the categories, the Company eliminated those charges in the appropriate account numbers. The WP 3-13 will show either the absence of the applicable account number (reflect zero cost in rate filing) or an amount reduced from the budgeted amount. Please recognize the Company did not simply file its budget expense levels for the forecasted test-year, but instead adjusts the budget amounts based on the latest historical information as required, or the most current information available, or to reflect consistency with the Commissions rules or Orders. The adjustment made to reflect the content of this question by account number are as follows:
  - 1) Relocation Expense – account number 575670.16.  
  
FTY per budget - \$10,300  
  
BTY per budget – \$67,370  
  
FTY                   - \$0
  - 2) Lobbying Expenses – account number 575560.16  
  
FTY per budget - \$0  
  
BTY per budget - \$0  
  
FTY                   - \$0

- 3) Advertising Expense. Other – account number 575030.16 to eliminate non-educational advertising. Please see Exhibit 37, Schedule F-4.

FTY per budget - \$27,584

BTY per budget - \$17634

FTY - \$6,180

- 4) Penalties Expense – account number 575640.16. While the Commission has not provided an Order concerning penalties, the Company eliminated the expense because it believes this expense is non-recurring.

FTY per budget - \$0

BTY per budget - \$(4,781)

FTY - \$0

- b. See the response to subpart a. above.

For the electronic version of this response, refer to KAW\_R\_AGDR2#121\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY**  
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**Witness: Michael A. Miller**

122. Has KAW or AWWSC or AWWC changed its income tax accounting for repair and maintenance method?
- a. If so, when was this done?
  - b. Please identify and provide all related correspondence and estimates.
  - c. What impact has the change in the income tax accounting for repair and maintenance had on the Accumulated Deferred Income Tax balances as of 12/31/2008 and 12/31/2009 and for each month of the FTY? Show in detail all impacts and include workpapers and supporting calculations.

**Response:**

Yes, American Water Works Company, Inc. ("AWWC") changed the method of accounting for repairs and maintenance for its regulated subsidiaries.

- a. AWWC filed Form 3115, Application for Change in Accounting Method on December 31, 2008.
- b. See attached Form 3115 and attachments filed on December 31, 2008.
- c. The method change has increased the deferred tax liability on KAW. Please refer to response AG-2-16(a) 2009 FAS 109 Deferred Tax Analysis (Row 170 – "Repairs").

For the electronic version, refer to KAW\_R\_AGDR2#122\_052410.pdf.



Form **3115**  
(Rev. December 2003)  
Department of the Treasury  
Internal Revenue Service

# Application for Change in Accounting Method

OMB No. 1545-0152

Name of filer (name of parent corporation if a consolidated group) (see instructions)		Identification number (see instructions) 51-0063696	
American Water Works Company, Inc. & Subs		Principal business activity code number (see instructions) 221300	
Number, street, and room or suite no. If a P.O. box, see the instructions. PO Box 5600, ATTN: Income Tax		Tax year of change begins (MM/DD/YYYY)	01/01/2008
City or town, state, and ZIP code Cherry Hill, NJ 08003		Tax year of change ends (MM/DD/YYYY)	12/31/2008
Name of applicant(s) (if different than filer) and identification number(s) (see instructions) See attached		Name of contact person (see instructions) Robert Weiss	
		Contact person's telephone number (202) 414-1421	

If the applicant is a member of a consolidated group, check this box

If Form 2848, Power of Attorney and Declaration of Representative, is attached, check this box

**Check the box to indicate the applicant.**

- Individual
- Corporation
- Controlled foreign corporation (Sec. 957)
- 10/50 corporation (Sec. 904(d)(2)(E))
- Qualified personal service corporation (Sec. 448(d)(2))
- Exempt organization. Enter Code section \_\_\_\_\_
- Cooperative (Sec. 1381)
- Partnership
- S corporation
- Insurance co. (Sec. 816(a))
- Insurance co. (Sec. 831)
- Other (specify) \_\_\_\_\_

**Check the appropriate box to indicate the type of accounting method change being requested.**

- (see instructions)
- Depreciation or Amortization
  - Financial Products and/or Financial Activities of Financial Institutions
  - Other (specify) Routine Repairs and Maintenance Costs on Network Assets

**Caution:** The applicant must provide the requested information to be eligible for approval of the requested accounting method change. The applicant may be required to provide information specific to the accounting method change such as an attached statement. The applicant must provide all information relevant to the requested accounting method change, even if not specifically requested by the Form 3115.

Part I Information For Automatic Change Request	Yes	No
1 Enter the requested designated accounting method change number from the <b>List of Automatic Accounting Method Changes</b> (see instructions). Enter only one method change number, except as provided for in the instructions. If the requested change is not included in that list, check "Other," and provide a description.  (a) Change No. _____ (b) Other <input type="checkbox"/> Description _____		
2 Is the accounting method change being requested one for which the scope limitations of section 4.02 of Rev. Proc. 2002-9 (or its successor) do not apply? . . . . . If "Yes," go to Part II.		
3 Is the tax year of change the final tax year of a trade or business for which the taxpayer would be required to take the entire amount of the section 481(a) adjustment into account in computing taxable income? . . . . . If "Yes," the applicant is not eligible to make the change under automatic change request procedures.		

**Note:** Complete Part II below and then Part IV, and also Schedules A through E of this form (if applicable).

Part II Information For All Requests	Yes	No
4a Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any Federal income tax return(s) under examination (see instructions)? . . . . . If you answered "No," go to line 5.		
b Is the method of accounting the applicant is requesting to change an issue (with respect to either the applicant or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) either (i) under consideration or (ii) placed in suspense (see instructions)? . . . . .		

**Signature (see instructions)**

Under penalties of perjury, I declare that I have examined this application, including accompanying schedules and statements, and to the best of my knowledge and belief, the application contains all the relevant facts relating to the application, and it is true, correct, and complete. Declaration of preparer (other than applicant) is based on all information of which preparer has any knowledge

Filer

Preparer (other than filer/applicant)

Signature and date

Signature of individual preparing the application and date

Mark N. Chesla, Vice President and Controller  
Name and title (print or type)

Gwynneth H. Stott  
Name of individual preparing the application (print or type)

PricewaterhouseCoopers LLP  
Name of firm preparing the application



<b>Part II Information For All Requests (continued)</b>	Yes	No						
<b>13</b> Attach a detailed and complete description of the applicant's trade(s) or business(es), and the principal business activity code for each. If the applicant has more than one trade or business as defined in <b>SEE STMT ATTACHED</b> Regulations section 1.446-1(d), describe: whether each trade or business is accounted for separately; the goods and services provided by each trade or business and any other types of activities engaged in that generate gross income; the overall method of accounting for each trade or business; and which trade or business is requesting to change its accounting method as part of this application or a separate application.	X							
<b>14</b> Will the proposed method of accounting be used for the applicant's books and records and financial statements? For insurance companies, see the instructions . . . . . If "No," attach an explanation.		X						
<b>15a</b> Has the applicant engaged, or will it engage, in a transaction to which section 381(a) applies (e.g., a reorganization, merger, or liquidation) during the proposed tax year of change determined without regard to any potential closing of the year under section 381(b)(1)? . . . . .		X						
<b>b</b> If "Yes," for the items of income and expense that are the subject of this application, attach a statement identifying the methods of accounting used by the parties to the section 381(a) transaction immediately before the date of distribution or transfer and the method(s) that would be required by section 381(c)(4) or (c)(5) absent consent to the change(s) requested in this application.								
<b>16</b> Does the applicant request a <b>conference of right</b> with the IRS National Office if the IRS proposes an adverse response? . . . . .	X							
<b>17</b> If the applicant is changing to or from the cash method or changing its method of accounting under sections 263A, 448, 460, or 471, enter the gross receipts of the 3 tax years preceding the year of change.  <table style="width:100%; border-collapse: collapse;"> <tr> <td style="width:33%; border-bottom: 1px solid black;">1st preceding year ended: mo. yr.</td> <td style="width:33%; border-bottom: 1px solid black;">2nd preceding year ended: mo. yr.</td> <td style="width:33%; border-bottom: 1px solid black;">3rd preceding year ended: mo. yr.</td> </tr> <tr> <td style="border-bottom: 1px solid black;">\$</td> <td style="border-bottom: 1px solid black;">\$</td> <td style="border-bottom: 1px solid black;">\$</td> </tr> </table>	1st preceding year ended: mo. yr.	2nd preceding year ended: mo. yr.	3rd preceding year ended: mo. yr.	\$	\$	\$		
1st preceding year ended: mo. yr.	2nd preceding year ended: mo. yr.	3rd preceding year ended: mo. yr.						
\$	\$	\$						

<b>Part III Information For Advance Consent Request</b>	Yes	No
<b>18</b> Is the applicant's requested change described in any revenue procedure, revenue ruling, notice, regulation, or other published guidance as an automatic change request? . . . . . If "Yes," attach an explanation describing why the applicant is submitting its request under advance consent request procedures.		X
<b>19</b> Attach a full explanation of the legal basis supporting the proposed method for the item being changed. Include a detailed and complete description of the facts that explains how the law specifically applies to the applicant's situation and that demonstrates that the applicant is authorized to use the proposed method. Include all authority (statutes, regulations, published rulings, court cases, etc.) supporting the proposed method. The applicant should include a discussion of any authorities that may be contrary to its use of the proposed method. <b>SEE STMT ATTACHED</b>		
<b>20</b> Attach a copy of all documents related to the proposed change (see instructions). <b>SEE STATEMENT ATTACHED</b>		
<b>21</b> Attach a statement of the applicant's reasons for the proposed change. <b>SEE STATEMENT ATTACHED</b>		
<b>22</b> If the applicant is a member of a consolidated group for the year of change, do all other members of the consolidated group use the proposed method of accounting for the item being changed? . . . . . If "No," attach an explanation.		X
<b>23a</b> Enter the amount of <b>user fee</b> attached to this application (see instructions). <b>\$ 6,410</b>		
<b>b</b> If the applicant qualifies for a reduced user fee, attach the necessary information or certification required by Rev. Proc. 2003-1 (or its successor) (see instructions).		

<b>Part IV Section 481(a) Adjustment</b>	Yes	No
<b>24</b> Do the procedures for the accounting method change being requested require the use of the cut-off method? If "Yes," do not complete lines 25, 26, and 27 below.		X
<b>25</b> Enter the section 481(a) adjustment. Indicate whether the adjustment is an increase (+) or a decrease (-) in income. <b>\$ To Be Determined</b> Attach a summary of the computation and an explanation of the methodology used to determine the section 481(a) adjustment. If it is based on more than one component, show the computation for each component. If more than one applicant is applying for the method change on the same application, attach a list of the name, identification number, principal business activity code (see instructions), and the amount of the section 481(a) adjustment attributable to each applicant.		
<b>26</b> If the section 481(a) adjustment is an increase to income of less than \$25,000, does the applicant elect to take the entire amount of the adjustment into account in the year of change? . . . . .	N/A	
<b>27</b> Is any part of the section 481(a) adjustment attributable to transactions between members of an affiliated group, a consolidated group, a controlled group, or other related parties? . . . . . If "Yes," attach an explanation.		X

Schedule A—Change in Overall Method of Accounting (If Schedule A applies, Part I below must be completed.) N/A

Part I Change in Overall Method (see instructions) N/A

1 Enter the following amounts as of the close of the tax year preceding the year of change. If none, state "None." Also, attach a statement providing a breakdown of the amounts entered on lines 1a through 1g.

Table with 2 columns: Description (a-h) and Amount. Row h shows Net section 481(a) adjustment with a value of \$ 0.

2 Is the applicant also requesting the recurring item exception under section 461(h)(3)? [ ] Yes [ ] No

3 Attach copies of the profit and loss statement (Schedule F (Form 1040) for farmers) and the balance sheet, if applicable, as of the close of the tax year preceding the year of change. On a separate sheet, state the accounting method used when preparing the balance sheet.

Part II Change to the Cash Method For Advance Consent Request (see instructions) N/A

Applicants requesting a change to the cash method must attach the following information:

- 1 A description of inventory items (items whose production, purchase, or sale is an income-producing factor) and materials and supplies used in carrying out the business.
2 An explanation as to whether the applicant is required to use the accrual method under any section of the Code or regulations.

Schedule B—Change in Reporting Advance Payments (see instructions) N/A

1 If the applicant is requesting to defer advance payment for services under Rev. Proc. 71-21, 1971-2 C.B. 549, attach the following information:

- a Sample copies of all service agreements used by the applicant that are subject to the requested change in accounting method.
b If any parts or materials are provided, explain whether the obligation to provide parts or materials is incidental (of minor or secondary importance) to an agreement providing for the performance of personal services.
c If the change relates to contingent service contracts, explain how the contracts relate to merchandise that is sold, leased, installed, or constructed by the applicant and whether the applicant offers to sell, lease, install, or construct without the service agreement.
d A description of the method the applicant will use to determine the amount of income earned each year on service contracts and why that method clearly reflects income earned and related expenses in each year.
e An explanation of how the method the applicant will use to determine the amount of gross receipts each year will be no less than the amount included in gross receipts for purposes of its books and records. See section 3.11 of Rev. Proc. 71-21.

2 If the applicant is requesting a deferral of advance payments for goods under Regulations section 1.451-5, attach the following information:

- a Sample copies of all agreements for goods or items requiring advance payments used by the applicant that are subject to the requested change in accounting method.
b A statement providing that the entire advance payment is for goods or items. If not entirely for goods or items, a statement that an amount equal to 95% of the total contract price is properly allocable to the obligation to provide activities described in Regulations section 1.451-5(a)(1)(i) or (ii) (including services as an integral part of those activities).
c An explanation of how the method the applicant will use to determine the amount of gross receipts each year will be no less than the amount included in gross receipts for purposes of its books and records. See Regulations section 1.451-5(b)(1).

**Schedule C—Changes Within the LIFO Inventory Method** (see instructions)

N / A

**Part I General LIFO Information**

N / A

Complete this section if the requested change involves changes within the LIFO inventory method. Also, attach a copy of all **Forms 970**, Application To Use LIFO Inventory Method, filed to adopt or expand the use of the LIFO method.

- 1 Attach a description of the applicant's present and proposed LIFO methods and submethods for each of the following items:
  - a Valuing inventory (e.g., unit method or dollar-value method).
  - b Pooling (e.g., by line or type or class of goods, natural business unit, multiple pools, raw material content, simplified dollar-value method, inventory price index computation (IPIC) pools, etc.).
  - c Pricing dollar-value pools (e.g., double-extension, index, link-chain, link-chain index, IPIC method, etc.).
  - d Determining the current year cost of goods in the ending inventory (e.g., most recent purchases, earliest acquisitions during the year, average cost of purchases during the year, etc.).
- 2 If any present method or submethod used by the applicant is not the same as indicated on Form(s) 970 filed to adopt or expand the use of the method, attach an explanation.
- 3 If the proposed change is not requested for all the LIFO inventory, specify the inventory to which the change is and is not applicable.
- 4 If the proposed change is not requested for all of the LIFO pools, specify the LIFO pool(s) to which the change is applicable.
- 5 Attach a statement addressing whether the applicant values any of its LIFO inventory on a method other than cost. For example, if the applicant values some of its LIFO inventory at retail and the remainder at cost, the applicant should identify which inventory items are valued under each method.
- 6 If changing to the IPIC method, attach a completed Form 970 and a statement indicating the indexes, tables, and categories the applicant proposes to use.

**Part II Change in Pooling Inventories**

N / A

- 1 If the applicant is proposing to change its pooling method or the number of pools, attach a description of the contents of, and state the base year for, each dollar-value pool the applicant presently uses and proposes to use.
- 2 If the applicant is proposing to use natural business unit (NBU) pools or requesting to change the number of NBU pools, attach the following information (to the extent not already provided) in sufficient detail to show that each proposed NBU was determined under Regulations section 1.472-8(b)(1) and (2):
  - a A description of the types of products produced by the applicant. If possible, attach a brochure.
  - b A description of the types of processes and raw materials used to produce the products in each proposed pool.
  - c If all of the products to be included in the proposed NBU pool(s) are not produced at one facility, the applicant should explain the reasons for the separate facilities, indicate the location of each facility, and provide a description of the products each facility produces.
  - d A description of the natural business divisions adopted by the taxpayer. State whether separate cost centers are maintained and if separate profit and loss statements are prepared.
  - e A statement addressing whether the applicant has inventories of items purchased and held for resale that are not further processed by the applicant, including whether such items, if any, will be included in any proposed NBU pool.
  - f A statement addressing whether all items including raw materials, goods-in-process, and finished goods entering into the entire inventory investment for each proposed NBU pool are presently valued under the LIFO method. Describe any items that are not presently valued under the LIFO method that are to be included in each proposed pool.
  - g A statement addressing whether, within the proposed NBU pool(s), there are items both sold to unrelated parties and transferred to a different unit of the applicant to be used as a component part of another product prior to final processing.
- 3 If the applicant is engaged in manufacturing and is proposing to use the multiple pooling method or raw material content pools, attach information to show that each proposed pool will consist of a group of items that are substantially similar. See Regulations section 1.472-8(b)(3).
- 4 If the applicant is engaged in the wholesaling or retailing of goods and is requesting to change the number of pools used, attach information to show that each of the proposed pools is based on customary business classifications of the applicant's trade or business. See Regulations section 1.472-8(c).



**Part III Method of Cost Allocation** (Complete this part if the requested change involves either property subject to section 263A or long-term contracts as described in section 460 (see instructions).)

N / A

**Section A—Allocation and Capitalization Methods**

N / A

Attach a description (including sample computations) of the present and proposed method(s) the applicant uses to capitalize direct and indirect costs properly allocable to real or tangible personal property produced and property acquired for resale, or to allocate and, where appropriate, capitalize direct and indirect costs properly allocable to long-term contracts. Include a description of the method(s) used for allocating indirect costs to intermediate cost objectives such as departments or activities prior to the allocation of such costs to long-term contracts, real or tangible personal property produced, and property acquired for resale. The description must include the following:

- 1 The method of allocating direct and indirect costs (i.e., specific identification, burden rate, standard cost, or other reasonable allocation method).
2 The method of allocating mixed service costs (i.e., direct reallocation, step-allocation, simplified service cost using the labor-based allocation ratio, simplified service cost using the production cost allocation ratio, or other reasonable allocation method).
3 The method of capitalizing additional section 263A costs (i.e., simplified production with or without the historic absorption ratio election, simplified resale with or without the historic absorption ratio election including permissible variations, the U.S. ratio, or other reasonable allocation method).

**Section B—Direct and Indirect Costs Required To Be Allocated** (Check the appropriate boxes in Section B showing the costs that are or will be fully included, to the extent required, in the cost of real or tangible personal property produced or property acquired for resale under section 263A or allocated to long-term contracts under section 460. Mark "N/A" in a box if those costs are not incurred by the applicant. If a box is not checked, it is assumed that those costs are not fully included to the extent required. Attach an explanation for boxes that are not checked.)

N / A

Table with 28 rows of cost categories and 2 columns: Present method, Proposed method.



**Part III Method of Cost Allocation** (see instructions) (continued)

N / A

**Section C—Other Costs Not Required To Be Allocated** (Complete Section C only if the applicant is requesting to change its method for these costs.)

N / A

	Present Method	Proposed Method
1 Marketing, selling, advertising, and distribution expenses . . . . .		
2 Research and experimental expenses not included on line 26 above . . . . .		
3 Bidding expenses not included on line 22 above . . . . .		
4 General and administrative costs not included in Section B above . . . . .		
5 Income taxes . . . . .		
6 Cost of strikes . . . . .		
7 Warranty and product liability costs . . . . .		
8 Section 179 costs . . . . .		
9 On-site storage . . . . .		
10 Depreciation, amortization, and cost recovery allowance not included on line 11 above . . . . .		
11 Other costs (Attach a list of these costs.) . . . . .		

**Schedule E—Change in Depreciation or Amortization** (see instructions)

N / A

Applicants requesting approval to change their method of accounting for depreciation or amortization complete this section. Applicants must provide this information for each item or class of property for which a change is requested.

**Note:** See the *List of Automatic Accounting Method Changes* in the instructions for information regarding automatic changes under sections 56, 167, 168, 197, 1400I, 1400L, or former section 168. Do not file Form 3115 with respect to certain late elections and election revocations (see instructions).

- 1 Is depreciation for the property determined under Regulations section 1.167(a)-11 (CLADR)? . . . . .  Yes  No  
If "Yes," the only changes permitted are under Regulations section 1.167(a)-11(c)(1)(iii).
- 2 Is any of the depreciation or amortization required to be capitalized under any Code section (e.g., section 263A)? . . . . .  Yes  No  
If "Yes," enter the applicable section .....
- 3 Has a depreciation or amortization election been made for the property (e.g., the election under section 168(f)(1))? . . . . .  Yes  No  
If "Yes," state the election made .....
- 4a To the extent not already provided, attach a statement describing the property being changed. Include in the description the type of property, the year the property was placed in service, and the property's use in the applicant's trade or business or income-producing activity.
- b If the property is residential rental property, did the applicant live in the property before renting it? . . . . .  Yes  No
- c Is the property public utility property? . . . . .  Yes  No
- 5 To the extent not already provided in the applicant's description of its present method, explain how the property is treated under the applicant's present method (e.g., depreciable property, inventory property, supplies under Regulations section 1.162-3, nondepreciable section 263(a) property, property deductible as a current expense, etc.).
- 6 If the property is not currently treated as depreciable or amortizable property, provide the facts supporting the proposed change to depreciate or amortize the property.
- 7 If the property is currently treated and/or will be treated as depreciable or amortizable property, provide the following information under both the present (if applicable) and proposed methods:
  - a The Code section under which the property is or will be depreciated or amortized (e.g., section 168(g)).
  - b The applicable asset class from Rev. Proc. 87-56, 1987-2 C.B. 674, for each asset depreciated under section 168 (MACRS) or under section 1400L; the applicable asset class from Rev. Proc. 83-35, 1983-1 C.B. 745, for each asset depreciated under former section 168 (ACRS); an explanation why no asset class is identified for each asset for which an asset class has not been identified by the applicant.
  - c The facts to support the asset class for the proposed method.
  - d The depreciation or amortization method of the property, including the applicable Code section (e.g., 200% declining balance method under section 168(b)(1)).
  - e The useful life, recovery period, or amortization period of the property.
  - f The applicable convention of the property.



**American Water Works Company, Inc.**  
**EIN: 51-0063696**  
**Attachments to Form 3115, Application for Change in Accounting Method**  
**Tax Year 1/1/2008 - 12/31/2008**

American Water Works Company, Inc.  
EIN 51-0063696

### Name of Applicant

American Water Works Company, Inc., a parent of an affiliated group of corporations filing a consolidated tax return, is filing this application on behalf of the following list of entities, collectively referred to as the "Taxpayer".

Legal Entity	EIN	Principal Business Activity Code	§481(a) Adjustment	User Fee
American Water Works Co., Inc.	51-0063696	551112	TBD	\$3,800
American Lake Water Co.	06-1396121	221300	TBD	90
American Water (USA), Inc.	98-0165920	221300	TBD	90
American Water Engineering, Inc.	76-0654201	221300	TBD	90
Arizona - American Water Co.	86-0096580	221300	TBD	90
Bluefield Valley Water Works Co.	66-6022446	221300	TBD	90
California - American Water Co.	51-0104148	221300	TBD	90
Edison Water Company	22-3519296	221300	TBD	90
Hawaii - American Water Co.	99-0108667	221300	TBD	90
Illinois-American Water Co.	51-0105894	221300	TBD	90
Indiana - American Water Co.	35-0936102	221300	TBD	90
Iowa - American Water Co.	42-0735216	221300	TBD	90
Kentucky – American Water Co.	61-0485002	221300	TBD	90
Liberty Water Co.	22-3596293	221300	TBD	90
Long Island American Water	11-1516966	221300	TBD	90
Maryland – American Water Co.	52-0265025	221300	TBD	90
Michigan - American Water Co.	38-1657784	221300	TBD	90
Missouri - American Water Co.	44-0578460	221300	TBD	90
New Jersey - American Water Co.	22-1546642	221300	TBD	90
New Mexico - American Water Co.	85-0344576	221300	TBD	90
Ohio – American Water Co.	31-4399620	221300	TBD	90
Pennsylvania - American Water Co.	25-1008096	221300	TBD	90
Southwest Utilities, Inc.	74-2211380	221300	TBD	90
Tennessee - American Water Co.	62-0529095	221300	TBD	90
Texas - American Water Co.	20-4368657	221300	TBD	90
Virginia - American Water Co.	54-0119650	221300	TBD	90
United Water Virginia, Inc.	22-3239760	221300	TBD	90
Walker Water Works, Inc.	76-0115681	221300	TBD	90
West Virginia – American Water Co	55-0307487	221300	TBD	90
Waterek, Inc.	94-1737182	221300	TBD	90
<b>Total</b>			<b>TBD</b>	<b>\$6,410</b>

**Page 2, Part II, Question 12a, 12b, 12c, 12d****a) The item being changed:**

The Taxpayer is requesting permission to change its method of accounting for routine repair and maintenance costs properly deductible under Internal Revenue Code section 162 that are currently being capitalized and depreciated. Specifically, the taxpayer wishes to currently expense incidental costs associated with the routine repair and maintenance of all its network assets. See examples of routine repair and maintenance items under the response to Question 12c below.

**b) The applicant's present method for the item being changed:**

The Taxpayer operates a regulated public water utility and follows its regulatory method of accounting for federal income tax purposes for the costs it incurs in performing routine repairs and maintenance. Under its regulatory method of accounting, incidental repair costs that (i) did not materially add to the value of the property, (ii) did not appreciably prolong the life of the property but rather kept the property in an ordinarily efficient operating condition, (iii) were not in the nature of replacements that arrest deterioration and appreciably prolong the life of the property, and (iv) did not adapt the property to a new or different use, were capitalized and depreciated as a part of the network asset property.

**c) The applicant's proposed method for the item being changed:**

Under the Taxpayer's proposed method of accounting, the Taxpayer will deduct the costs of incidental repairs incurred in connection with the routine repair and maintenance of its network assets, pursuant to section 162. Under the proposed method the Taxpayer will examine the facts and circumstances of its routine repair and maintenance work to determine which costs are currently deductible under section 162 and Treas. Reg. section 1.162-4.

The Taxpayer performs routine repair and maintenance on network assets on an ongoing basis, depending on need. The Taxpayer hereby represents as to its proposed method of accounting that each incidental repair or maintenance cost to be deducted will not:

- 1) Materially add to the value of the property;
- 2) Appreciably prolong the useful life of the property, but will keep it in an ordinarily efficient operating condition;
- 3) Be in the nature of replacements that arrest deterioration and appreciably prolong the life of the property; or,
- 4) Adapt the property to a new or different use.

The Taxpayer represents that the costs at issue are not incurred as part of a plan of rehabilitation.

The proposed method of accounting is being requested for 2001-2007 vintages of network asset property.

Below are examples of items being reclassified as repairs and maintenance, all of which (i) did not materially add to the value of the property, (ii) did not appreciably prolong the life of the property but rather kept the property in an ordinarily efficient operating condition, (iii) were not in the nature of replacements that arrest deterioration and appreciably prolong the life of the property, and (iv) did not adapt the property to a new or different use:

- Relocations - These costs include the removal and replacement of property that is placed on a right-of-way belonging to another landowner. The relocation costs are not associated with the acquisition of a capital asset; rather they include the equipment, labor, and overhead necessary to move property that is already in use by the taxpayer.
- Hydrant and Valve Replacements - Hydrants and valves or valve actuators are functional interdependent components of the larger unit of property, the piping system or equipment. Thus, a hydrant or valve replacement does not constitute a replacement of a unit of property.
- Main, service lines, and lateral repairs/replacements - Portions of pipe related to the mains, service lines, and laterals are repaired or replaced ordinarily to repair damages, often in an unscheduled or emergency manner. These portions of pipe are components of the entire length of pipe, or larger unit of property, and therefore do not constitute a replacement of a unit of property.
- Other repairs/replacements to network assets that do not constitute a replacement of a unit of property.
- Miscellaneous Equipment Repairs - Costs associated with the projects in question.

**d) The applicant's present overall method of accounting:**

The Taxpayer's overall method of accounting is the accrual method.

**Page 3, Part II, Question 13, Description of Applicant's Trades and Businesses**

American Water Works, Inc. and its subsidiaries operate as public water and wastewater utility companies that pump, treat, and distribute water to and from residential, commercial, and industrial customers in the United States.

**Page 3, Part II, Question 14, Proposed Method and Use in Financial Statements**

The Taxpayer will not use its proposed method of accounting for its books and records or for its financial statements. The taxpayer will continue to use its regulatory method of accounting for repairs and maintenance for its books and records and financial statements.

**Page 3, Part II, Question 16**

**Request for Conference of Right with National Office**

If the Commissioner has any questions as to whether this Application for Change in Accounting Method should be ruled as requested, it is requested that a conference of right with the IRS National Office be granted to permit the Taxpayer to supplement its position in oral discussion. Notice of time and place of such hearing should be sent to:

Mr. Robert Weiss  
PricewaterhouseCoopers LLP  
1301 K Street, NW, Suite 800W  
Washington, DC 20005-3333

**Page 3, Part III, Question 19. Legal Basis Supporting Proposed Method Change**

IRC section 162 and Treasury Regulation section 1.162-1(a) allow a deduction for all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including “incidental repairs.”

Treasury Regulation section 1.162-4 allows a deduction for the cost of incidental repairs that neither materially adds to the value of the property nor appreciably prolongs its useful life, but keeps it in an ordinarily efficient operating condition. Treasury Regulation section 1.162-4 also provides that the cost of repairs in the nature of replacements that arrest deterioration and appreciably prolong the life of the property must be capitalized and depreciated in accordance with section 167. Section 263(a) provides that no deduction is allowed for any amount paid for permanent improvements or betterments made to increase the value of any property or for any amount expended in restoring property or in making good the exhaustion thereof for which an allowance is, or has been, made. Treasury Regulation section 1.263(a)-1(b) provides that capitalization is only required in the case of expenditures that either, (1) materially increases the value of property, (2) substantially prolongs the useful life of property, or (3) adapts the property to a new or different use. Amounts paid or incurred for incidental repairs and maintenance of property are not capital expenditures.

Despite the above discussed authority that the cost of incidental repairs and maintenance may be deducted under section 162, the Taxpayer has erroneously capitalized certain of such costs by using its regulatory method of accounting for federal income tax purposes. The Taxpayer represents that the repair and maintenance costs to be deducted under its proposed method of accounting *did not, and will not,* (i) materially add to the value of the

property, (ii) appreciably prolong the life of the property but rather kept or will keep the property in an ordinarily efficient operating condition, (iii) be in the nature of replacements that arrest deterioration and appreciably prolong the life of the property, and (iv) adapt the property to a new or different use. Consequently, the Taxpayer respectfully requests permission to change its method of accounting for the costs of performing incidental repairs and maintenance to properly deduct such costs under IRC section 162.

**Page 3, Part III, Line 20**

The Taxpayer believes there are no documents relevant to the proposed change in accounting method.

**Page 3, Part III, Question 21, Reasons for Proposed Change**

In determining whether to deduct incidental repair and maintenance costs for federal income tax purposes, the Taxpayer has been following its regulatory method of accounting. This method is not in conformity with the rules under IRC section 162 and Treasury Regulation section 1.162-4, as well as the regulations under Treasury Regulation section 1.263(a)-1(b). The Taxpayer seeks to change its method of accounting for these costs to one that is proper under IRC section 162 and Treasury Regulation section 1.162-4.

**Page 3, Part III, Line 23**

The user fee is provided on page 1 of this attachment to the Form 3115. The letter ruling requests, and all information and underlying documents, are substantially identical.

**Page 3, Part IV, Question 25**

The net Section 481(a) adjustment will be provided. The adjustment will be the difference between the present method and proposed method, and will reflect the remaining basis in the capitalized repairs and maintenance costs affected by the method change. Thus, the net section 481(a) adjustment will be the difference between the (a) repair expenditures claimed under the proposed method less (b) depreciation expense claimed on the improperly capitalized repair expenditures that will now be deducted under the proposed method, properly accounting for capitalized costs that have been retired. This net section 481(a) adjustment will be recognized in full in the year of change.

**Request for Faxed Documents**

Procedural Statement under Section 9.04(3) of Rev. Proc. 2008-1

The Taxpayer requests that a copy of any document related to this request (e.g., a request for additional information or the letter ruling) for change in method of accounting be provided to the Taxpayer's authorized representatives via fax (fax numbers provided below).

Authorized Representatives' Fax Number:

Robert Weiss, PricewaterhouseCoopers LLP: (813) 281- 6587

Gwynneth Stott, PricewaterhouseCoopers LLP: (813) 741- 4242

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

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

130. Please identify, by account, all PwC charges to KAW directly and, separately, to KAW from affiliated allocations and charges, by account, for each period: 2007, 2008, 2009, base period and FTY.

<b>Response:</b>	<u>KAW</u>	<u>AWWSC</u>
2007	\$101,038	\$503
2008	\$ 79,443	\$1,067
2009	\$113,795	\$11,147
Base Period	\$140,507	\$13,738
Forecasted Test Year	\$110,166	\$11,552

For the electronic version, refer to KAW\_R\_AGDR2#130\_052410.pdf.

**THIS DOCUMENT CONTAINS  
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**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2010-00036  
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller**

132. Please identify the amount of regulatory liability for cost of removal that KAW has recorded, by account, as of each of the following dates: 12/31/2007; 12/31/2008; 12/31/2009; 3/31/2010 and each month of the FTY.

**Response:**

See attached.

For the electronic version, refer to KAW\_R\_AGDR2#132\_052410.pdf.

Kentucky American Water Company  
Regulatory Liability Cost of Removal  
AGDR2#132

12/31/2007	(1,175,372.53)
12/31/2008	(982,942.47)
12/31/2009	(1,330,162.46)
3/31/2010	(337,519.01)
Oct-10	\$ (45,508)
Nov-10	\$ (30,023)
Dec-10	\$ (14,220)
Jan-11	\$ (31,015)
Feb-11	\$ (33,213)
Mar-11	\$ (31,542)
Apr-11	\$ (33,745)
May-11	\$ (58,795)
Jun-11	\$ (71,760)
Jul-11	\$ (69,063)
Aug-11	\$ (57,948)
Sep-11	\$ (66,379)

**KENTUCKY-AMERICAN WATER COMPANY**  
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**Witness: Linda C. Bridwell**

133. Concerning the response to AGDR 1-423. For each of the last ten years, please provide KAW's actual system maximum hour to maximum day ratio.

**Response:**

<b>Year</b>	<b>Maximum Day (MGD)</b>	<b>Maximum Hour (MGD)</b>	<b>Ratio</b>
2009	52.557	76.652	1.459
2008	62.302	96.576	1.550
2007	64.299	84.092	1.308
2006	67.22	82.652	1.230
2005	69.65	109.398	1.571
2004	56.89	76.75	1.349
2003	61.37	83.63	1.363
2002	71.82	107.5	1.497
2001	56.04	91.625	1.635
2000	66.37	85.076	1.282

For the electronic version, refer to KAW\_R\_AGDR2#133\_052410.pdf.

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**Witness: Paul R. Herbert**

134. Concerning the response to AGDR 1-428. Please provide a calculation for KAW of the number of person-days required to read each class of meters, as described in the response.

**Response:**

See the excel spreadsheet, labeled as KAW\_R\_AGER2#134\_052410.xls for the calculation of the number of person-days required to read each class of meters. See the summary below:

<u>Customer Class</u>	<u>Monthly Person-Days</u>	<u>Annual Person-Days</u>
Residential	141.09	1,693
Commercial	17.11	205
Industrial	.14	2
Other Public Authority	1.41	17
Sales for Resale	<u>.07</u>	<u>1</u>
Total	159.94	1,918

For the electronic version, refer to KAW\_R\_AGDR2#134\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY**  
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**Witness: Paul R. Herbert**

135. Concerning the response to AGDR 1-430 and the file **Net Charge-Offs by Class.xls**, it appears that Factor 20 was developed using net charge-offs for all utility types:
- a. Is this a correct statement of the data used for factor 20?
  - b. What do each of the Utility Codes (W, S, O, U) stand for?
  - c. Which Utility Codes are related to the billing for services that are part of the proposed revenue requirement in this case (that is, those associated with the provision of water service)?
  - d. Are customer classes that are not shown in the file (such as Industrial) accounted for separately, or did they have no net charge-offs during the period December 2008 through November 2009?
  - e. Do the amounts shown on the printed attachment (430b) reflect all net charge-offs or only those for certain Utility Codes (and, if so, which codes)? Please provide a comparable table showing net charge-offs only for the Utility Codes identified in subpart c of this question.

**Response:**

- a. Yes.
- b. W is Water, S is Sewer, O is Other, U is Unmetered
- c. Water, Other and Unmetered related to Private Fire.
- d. Industrial and Sales for Resale customers had no charge offs.
- e. The amounts on the printed attachment (430b) reflect all net charge offs. See attached for a table showing only net charge-offs for the utility codes identified in part c. above.

For the electronic version, refer to KAW\_R\_AGDR2#135\_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
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**Witness: Paul R. Herbert**

136. Concerning the response to AGDR 1-432 and KAW Exh. 36, p. 43 of 44:
- a. Is it correct that the “Billing and Collecting” cost shown in the exhibit is the total of “Billing & Collecting” and “Uncollectible Accounts” costs shown in the attachment to the data request? If not, please provide a workpaper showing the development of the “Billing and Collecting” cost in the exhibit.
  - b. Subpart b of the response to the data request states that “such costs were allocated directly to private and public fire classifications in the attached schedule.” Please state specifically where in the schedule attached to the data request uncollectible accounts costs were allocated directly to the fire classes.

**Response:**

- a. It is correct that the “Billing and Collecting” cost shown in the exhibit is the total of “Billing and Collecting” and “Uncollectible Accounts” shown in the attachment to data request AGDR 1-432.
- b. Uncollectible Accounts expense inadvertently was not allocated directly to the Private Fire class. The correct allocation is shown below:

<u>Cost Function</u>	<u>Percentage*</u>	<u>Amount</u>
Billing& Collecting	96.67%	\$700,950
Private Fire	3.33%	<u>24,146</u>
Total		\$725,096

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\* Revised Factor 20 based on response to AGDR 2-135.

For the electronic version, refer to KAW\_R\_AGDR2#136\_052410.pdf.