

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

Witness: Patrick L. Baryenbruch

40. Refer to the Company's response to AG-1-86.
- a. Refer to page 6 of 11.
 - 1) Explain what "FRCC" is.
 - 2) Explain in detail the concern about the FRCC not being closer to the \$253,000.
 - 3) Identify exactly where the \$253,000 appears in the Baryenbruch study.
 - b. Refer to page 7 of 11.
 - 1) Provide the referenced Excel file pivot table.
 - 2) Provide the basis for the "assumed 50% for benefits" including the supporting documentation.
 - c. Refer to page 11 of 11. Please identify, quantify and explain the "software and hardware expenses" that were included in account 534999 General Overhead but that were apparently excluded in the Baryenbruch calculation of the Service Company's hourly rates.
 - d. Were the "software and hardware expenses" included in account 534999 charged by the Service Company to KAW? If not, explain fully why not.

Response:

- a. Refer to page 6 of 11.
 - 1) "FRCC" is the Field Resource Coordination Center that performs dispatching and oversight of work to operating company field crews.
 - 2) \$253,000 is total regional office charges during the 12 months ended September 30, 2009 to KAWC under the customer service category. In this e-mail, Mr. Miller informs Mr. Baryenbruch that these represent Field Resource Coordination Center charges. At this point, Mr. Baryenbruch was not aware of that fact. Prior to this, Mr. Baryenbruch had created the estimate of FRCC charges as referenced on page 7 of 11 of AG2 #86.

- 3) See page 7 of Mr. Baryenbruch's report where FRCC charges of \$253,212 are included in a table in the lower half of the page.

b. Refer to page 7 of 11.

- 1) Below is the pivot table referenced on page 7.

MCRP1401	Customer Service	
OFFICE	Southeast Region	
Row Labels	Sum of Total	
CORP-Admin & Gen		\$66,368
100053		\$20,898
SE-ALL REGION REGULATED-NO O/H		\$20,898
100061		\$45,470
CO 12 (KY) DIR CHG EXP-NO O/H		\$45,470
Grand Total		\$66,368
Add: Benefits Overhead (50%)	\$	33,184
Total FRCC-related charges to KAWC	\$	99,552

- 2) Shown below is the calculation of the 47% actual benefits percentage of salaries associated with the Service Company's charges to KAWC during the 12 months ended September 30, 2009. The 50% figure mentioned in the email referenced in AG1 #86 was an estimate based on previous American Water studies performed by Mr. Baryenbruch.

Row Labels	Benefits	Labor	Grand Total
501200 - Labor		\$3,584,459	\$ 3,584,459
501203 - Labor Internal Rechg		\$ (182)	\$ (182)
501210 - Labor NS OT		\$ 34,082	\$ 34,082
501211 - Labor OT		\$ 39,318	\$ 39,318
501711 - Incen Plan-Off-Annual		\$ 404,530	\$ 404,530
501712 - Incen Plan-Off-Long Term		\$ (40,269)	\$ (40,269)
501715 - Incen Plan-Other		\$ 2,136	\$ 2,136
501716 - Comp Exp-Options		\$ 9,430	\$ 9,430
501718 - Comp Exp-RSU's		\$ 4,871	\$ 4,871
501719 - Comp Exp-Other		\$ 0	\$ 0
504100 - Group Insurance	\$ 6,862		\$ 6,862
504341 - DC SERP Exp	\$ 342		\$ 342
504342 - 401 K Restoration Exp	\$ 973		\$ 973
504500 - Other Welfare Expense	\$ 63,714		\$ 63,714
504610 - Employee Awards AG	\$ 7,351		\$ 7,351
504620 - Employee Physical Exam AG	\$ 375		\$ 375
507100 - 401k	\$ 67,773		\$ 67,773
508101 - DCP	\$ 71,180		\$ 71,180
508200 - ESPP Oper AG	\$ 6,619		\$ 6,619
534998 - Benefit Overhead	\$ 1,671,249		\$ 1,671,249
685320 - FUTA	\$ 6		\$ 6
685325 - FICA	\$ 2,011		\$ 2,011
685350 - SUTA	\$ 13		\$ 13
Grand Total	\$ 1,898,469	\$4,038,374	\$ 5,936,843
Benefits as Percent of Labor	47%		

- c. Included in the Service Company's charges to KAWC during the 12 months ended September 30, 2009, were corporate infrastructure-related information technology expenses. The cost pool for calculating Service Company hourly rates was adjusted for these expenses because they are not the type of expenses that outside providers recover in their hourly billing rates. The exclusion of these costs is explained on page 13 of Mr. Baryenbruch's study and is quoted below.

Information Technology Infrastructure Expenses – Included in the 12 months ended September 30, 2009 Service Company charges to KAWC are leases, maintenance fees and depreciation related to American Water's enterprise mainframe, server and network infrastructure and corporate business applications. An outside provider that would take over operation of this infrastructure would recover these expenses over and above the labor necessary to operate the data center.

- d. Yes.

For the electronic version of this response, refer to KAW_R_AGDR2#40_052410.pdf.

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Witness: Michael A. Miller

41. Are any functions or services that are provided to KAW from the affiliated Service Company subject to competitive bidding?
- a. If not, explain fully why not.
 - b. If so, please identify all such services provided to KAW from the Service Company in 2007, 2008, 2009 and 2010 which were subject to competitive bidding.
 - c. Please provide the competitive bid documentation related to your response to part b.

Response:

Yes.

- a. Not applicable.
- b. The service company has competitively bid group insurance claims administration, lockbox services, certain payroll services, and collections services.
- c. Due the nature of the information attached, the potential negative impact to either the competitors of AWW or the vendors if this information is disclosed publicly, the Company is providing the data subject to a contemporaneously filed Petition for Confidential Treatment and related confidentiality agreement. Documents are in numerous locations and the attachments are the ones that could be located at this time.

For the electronic version, refer to KAW_R_AGDR2#41_CONF_052410.pdf.

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

Witness: Michael A. Miller

42. Refer to the Company's response to AG-1-89.
- a. Please provide the attachment electronically in Excel.
 - b. Please confirm that the listing by account is only for affiliated Service Company charges to KAW. If this is not what the information shows, please provide by account, the listing of affiliated Service Company charges to KAW for the two periods. (Also provide this electronically in Excel.)
 - c. Referring to account 501712:
 - 1) Explain the negative amount for the 12 months ended 9/30/09.
 - 2) Explain the zero amount for the 12 months ended 9/30/11.
 - d. Refer to accounts 501716 and 501718. Explain the significant increases.
 - e. Explain the decrease in account 506100 Pension.
 - f. For each of the "Contract Services" accounts (531000 through 536000) is this for outside contractors that were hired by the affiliated Service Company? If not, explain in detail what it is for.
 - g. Please provide a detailed itemization of the 12 months ended 9/30/2011 amounts in each of the "Contract Services" accounts (531000 through 536000).
 - h. Please provide a detailed itemization of the costs included in each of the following accounts for the 12 months ended 9/30/2011:
 - 1) 575030 Advertising;
 - 2) 575340 Employee Expense P/R JE;
 - 3) 575640 Penalties Nondeductible;
 - 4) 575670 Relocation Expense;

- 5) 575775 Trade Shows;
 - 6) 625000 Misc Maintenance; and
 - 7) 541000, Rents-Real Property.
- i. Explain the increase in Account 541000, Rents-Real Property.
 - j. Refer to page 4 of 4 of the response to AG-1-89. Are any Service Company charges in any accounts from 690110 (FIT Current) through 840000 (Other Interest Expense) included in KAW's future test year expenses? If not, explain fully why not. If so, identify and explain each such account that contains affiliated Service Company charges that is included in KAW's future test year expenses.

Response:

- a. Please refer to the excel file labeled as KAW_R_AGDR2#42_052410.xls.
- b. The listing of charges by account shown on the Company's response to AG-1-89 represents only affiliated Service Company charges to KAW.
- c. Account 501712 shows a negative balance for the 12 month period ending September 2009 due to the reversal of accruals for Thames personnel who did not receive incentive payments after the RWE divestiture. The 12 month period ending September 2009 does not capture the earlier long term incentive accruals, just the reversing entry that was done in the December 2008. The account shows a zero balance in the future test year period, because it is no longer being used to book long term incentive awards. The company now uses compensation accounts 501716 through 501719 to record long term incentive expenses.
- d. Compensation expenses in accounts 501716 and 501718 increased in the future test year as a result of forecasted increases in grants as a percentage of salary, forecasted salary increases for individuals receiving grants, and a change to graded vesting of grants as opposed to the previous cliff vesting method used in 2008. The change in vesting method increases the amount of options expensed in the first year to 61%, as opposed to the straight line method used with cliff vesting.
- e. Pension expenses are budgeted to decrease over 2009 levels as a result of lower contributions resulting from better economic forecasts for the budget period over 2009. Pension expenses rose significantly in 2009 as a result of higher contributions to offset the drop in the market value of pension assets caused by the 2008-2009 economic downturn and drop in the stock market.

- f. Contract Services accounts 531000 through 536000 are for outside consultants and contractors hired by the Service Company.
- g. It is not possible to provide an itemized listing of expenses in these accounts for the budget period. Budget amounts are prepared using prior historical activity which are then increased by inflation factors for certain expense categories. Please refer to the response provided in KY AG1-405 and supporting attachments for more details on the budget process.
- h. It is not possible to provide an itemized listing of expenses in these accounts for the budget period. Budget amounts are prepared using prior historical activity which are then increased by inflation factors for certain expense categories. Please refer to the response provided in KY AG1-405 and supporting attachments for more details on the budget process.
- i. Total rent expense is made up of accounts 541000 Rents-Real Property and 541001 - Rents Real Property Intercompany. Account 541001 started to be used in 2008 to segregate intercompany rent paid primarily to American Water Resources. Summing both accounts, rent expense increased by \$34,985 or 13.7% over the forecasted two year period.
- j. The dollars shown for accounts 690110 through 840000 are included as part of Kentucky's future test year Service Company expenses. An explanation of the accounts containing charges is listed below:

690110 - Federal Income Tax Current Year - this account represents current year tax liability amounts.

690210 - State Income Tax Current Year - this account represents current year state tax liability amounts.

690610 - Deferred Income Tax Current Year - this account represents deferred federal tax liability from the current year.

690630 - Deferred Income Tax Regulatory Asset - this account is used to record temporary differences caused when the tax basis of an asset or liability differs from that reported on the financial statements.

690650 - Deferred FIT Other - represents deferred federal tax amounts from prior year.

690710 - Deferred SIT Current Year - this account represents deferred state tax liability from the current year.

690750 - Deferred SIT Other - represents deferred state tax amounts from prior year.

710400 - Interest Income Outside - this account represents interest income earned as a result of tax payments or deposits held by outside parties.

710500 - Interest Income Inside - this account contains note receivable interest payments from American Water Capital Corp.

810300 - Interest Capital Lease Outside - represents capital lease payments for a water testing machine from Malvern Instruments which is leased from Malvern Financial Services.

810301 - Interest Capital Lease AW21 - this account contains capital lease payments for building and equipment assets leased internally through American Water Resources.

830100 - Interest STD Inside - represents note payable interest payments made to American Water Capital Corp.

840000 - Other Interest Expense - contains interest payments resulting from late tax payments to state taxing authorities.

For the electronic version of this response, refer to KAW_R_AGDR2#42_052410.pdf.

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Witness: Patrick L. Baryenbruch

43. Refer to the Company's response to AG-1-90.
- a. Please provide a clear "yes" or "no" answer to AG-1-90.
 - b. If the answer is "yes" please provide all data beyond 9/30/2009 and all related analysis of data beyond 9/30/2009. Include all related Excel files electronically.

Response:

- a. Yes, based on the following facts, Mr. Baryenbruch can conclude that Service Company charges to KAWC after 9/30/09 are reasonable:
 - 1) Services provided by the Service Company to KAWC have not materially changed since 9/30/09 and are not expected to change during the forecast test period. Thus, the nature of Service Company services to KAWC will remain the same.
 - 2) Service Company charges to KAWC have not increased significantly since 9/30/09 and are not projected to increase significantly during the forecast test period.
- b. Mr. Baryenbruch's answer to question 43.a is based on discussions with the Company.

For the electronic version, refer to KAW_R_AGDR2#43_052410.pdf.

KENTUCKY-AMERICAN WATER COMPANY
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Witness: Patrick L. Baryenbruch

44. Refer to the Company's response to AG-1-91. Please provide a clear "yes" or "no" answer to AG-1-91(b).

Response:

No. A higher than average service company cost per customer on page 11 of Mr. Baryenbruch's report is not necessarily an indication of the unreasonableness of such costs. Intrinsic factors could result in a per customer cost that is above average. One such factor is the extent to which corporate-type services are centralized in a service company or decentralized within the regulated utilities. Another such factor is the number and size of regulated utilities served.

For the electronic version, refer to KAW_R_AGDR2#44_052410.pdf.

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Witness: Patrick L. Baryenbruch

45. Refer to the Baryenbruch & Company report. Has Mr. Baryenbruch or anyone from his company or anyone from KAW or KAW's affiliated Service Company ever asked any of the companies that have a higher cost per customer than Baryenbruch shows for KAW to explain why their cost per customer is so much higher? If so, please identify all such instances and provide the related notes and documentation.

Response:

No, it was not the purpose of Mr. Baryenbruch's market cost comparison to perform a highly detailed benchmarking study that involves contacting other service companies. The source of Mr. Baryenbruch's service company cost per customer comparison is the FERC Form 60. Information in Form 60 is sufficient to make an overall cost per customer comparison. The Form 60 does not, however, contain the highly detailed information required to pinpoint all the specific reasons for differences among filing service companies. Thus, it is not possible to answer exactly why some service companies have a higher per customer cost. In order to make that determination, an extensive benchmarking study would be required. This would entail considerable time and expense to organize teams of personnel from each service company to document their respective processes, estimate their process costs, meet to compare process information and identify the reasons for cost differences. Mr. Baryenbruch has participated in such benchmarking studies for clients and can attest that such a lengthy and labor intensive study is neither practical nor necessary for purposes of evaluating the reasonableness of the Service Company's charges to KAWC.

For the electronic version, refer to KAW_R_AGDR2#45_052410.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
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Witness: Patrick L. Baryenbruch

46. Refer to the Baryenbruch & Company report. Has Mr. Baryenbruch or anyone from his company ever presented a cost-per customer comparison to a regulatory commission for any of the companies that have a higher cost per customer than Baryenbruch shows for KAW? If so, please identify all such instances and provide the related study and documents.

Response:

Mr. Baryenbruch first began including the service company cost per customer comparison in his market cost comparisons in 2007. The table below shows the studies that showed a higher cost per customer than for the current Kentucky American study.

Client	Service Co Cost/Customer	Test Year
American Water of New Mexico	\$ 68	12/31/07
Dominion Resources, Inc. (Note A)	\$ 145	12/31/07
American Water of Kentucky	\$ 60	7/31/08
Elizabethtown Gas	\$ 68	9/30/08
Columbia Gas of Virginia	\$ 86	12/31/08
American Water of Virginia	\$ 58	9/30/09
Columbia Gas of Virginia	\$ 90	12/31/09

Note A: The comparison for this client was to other service companies serving primarily electric utility affiliates. The cost pool included O&M-related services (e.g., power generation, electric distribution). Thus, the Dominion per customer rate is higher than the other clients where the comparison was for A&G services only.

The reports for each of these client studies is provided with this response.

For the electronic version, refer to KAW_R_AGDR2#46_052410.pdf.

**Market Cost Comparison of Service Company Charges to
New Mexico-American Water Company
12-Months Ended December 31, 2007**



**New Mexico-American Water Company
Market Cost Comparison of Service Company Charges
12-Months Ended December 31, 2007**

Table of Contents

	<u>Page</u>
I – Introduction	1
Purpose of This Study	
Study Results	
II – Background	3
Overview of American Water Service Company	
Service Company Expense Categories	
Charging and Assignment of Service Company Time and Expenses	
III – Service Company Cost Comparison Approach	7
IV – Reasonableness of Service Company Charges	9
NMA's Service Company Cost Per Customer	
Comparison Group Cost Per Customer	
V – Management And Professional Services Hourly Rate Comparison	13
Methodology	
Service Company Hourly Rates	
Outside Service Provider Hourly Rates	
Service Company Versus Outside Provider Cost Comparison	
Other Cost Comparisons	
VI – Customer Accounts Services Cost Comparison	25
Background	
Comparison Group	
Comparison Approach	
New Mexico-American Cost Per Customer	
Electric Utility Group Cost Per Customer	
Summary of Results	
VII – Need For Service Company Services	32
Analysis of Services	
Governance Practices Associated With Service Company Charges	

I - Introduction

Purpose Of This Study

This study was undertaken to answer four questions concerning the services provided by American Water Works Service Company, Inc. ("Service Company") to New Mexico-American Water Company ("NMA"):

1. Were the Service Company's charges to NMA during the 12-months ended December 31, 2007 reasonable?
2. Was NMA charged the lower of cost or market for managerial and professional services provided by the Service Company during 2007?
3. Were the 2007 costs of the Service Company's customer accounts services, including those of the National Call Centers, comparable to those of other utilities?
4. Are the services NMA receives from Service Company necessary?

Study Results

Concerning question 1, the following conclusions were reached:

- American Water's Service Company provides NMA with services similar to those provided by other utility service companies. This was determined based on service company information included in the Form 60, which must be filed with the Federal Energy Regulatory Commission ("FERC") by electric and combination electric/gas utility holding companies.
- American Water's 2007 cost per NMA customer was very reasonable compared to cost per customer for electric and combination electric/gas service companies. During 2007, NMA was charged \$68 per customer by the Service Company compared to an average of \$122 per customer for service companies reporting to the FERC.

Concerning question 2, the following conclusions can be drawn from this study:

- NMA was charged the lower of cost or market for managerial and professional services during the 12-months ended December 31, 2007.
- On average, the hourly rates for outside service providers are 52% higher than the Service Company's hourly rates.
- The managerial and professional services provided by the Service Company are vital and could not be procured externally by NMA without careful supervision on the part of NMA. If these services were contracted entirely to outside providers, NMA would have to add at least one half of one position to manage activities of outside firms. This position would be necessary to ensure the quality and timeliness of services provided.
- If all the managerial and professional services now provided by the Service Company had been outsourced during the 12-months ended December 31, 2007, NMA and its ratepayers would have incurred more than \$610,000 in additional expenses. This amount includes the higher cost of outside providers and the cost of an additional one half NMA position needed to direct the outsourced work.

- This study's hourly rate comparison actually understates the cost advantages that accrue to NMA from its use of the Service Company. Outside service providers generally bill for every hour worked. Service Company exempt personnel, on the other hand, charge a maximum of 8 hours per day even when they work more hours. If the overtime hours of Service Company personnel were factored into the hourly rate calculation, the Service Company would have had an even greater annual dollar advantage than the \$610,000 cited above. For instance, if Service Company overtime is conservatively estimated at 5% (2 hours per week), then that work would have cost an estimated \$26,800 in additional charges from outside providers.
- It would be difficult for NMA to find local service providers with the same specialized water industry expertise as that possessed by the Service Company staff. Service Company personnel spend substantially all their time serving operating water companies. This specialization brings with it a unique knowledge of water utility operations and regulation that is most likely unavailable from local service providers.
- Service Company fees do not include any profit markup. Only its actual cost of service is being recovered from NMA ratepayers.

Concerning question 3, it was determined that the cost of the Service Company's customer accounts services, including those provided by the National Call Center, is within a reasonable range of the average of the neighboring electric utility comparison group. As will be explained further herein, this group of companies provides a reasonable proxy group for comparison to a regulated utility of the size and scope of the Service Company and NMA. During the 12-months ended December 31, 2007, the customer accounts cost for NMA customers was \$32.48 compared to the 2006 average of \$24.88 for neighboring electric utilities. The highest comparison group per customer cost was \$49.27 and the lowest \$8.82.

Concerning question 4, the following conclusions can be drawn:

- The services that the Service Company provides are necessary and would be required even if NMA were a stand-alone water utility.
- There is no redundancy or overlap in the services provided by the Service Company to NMA. For all of the services listed in Schedule 10, there was only one entity that was primarily responsible for the service.

II - Background

Overview Of American Water Works Service Company

American Water's Service Company exists to provide certain shared services to American Water subsidiaries. It follows a service company model used by many utility holding companies that own multiple regulated utilities. By consolidating executive and professional services into a single service company, utility holding companies are able to realize the following benefits for ratepayers:

- **Purchasing Economies** – Common expenses (e.g., insurance, chemicals, piping) can be procured on a much larger scale thereby providing greater bargaining power for the combined entity compared to individual utility operating companies. A service company facilitates corporate-wide purchasing programs through its procurement and contract administration functions.
- **Operating Economies of Scale** – A service company is able to deliver services more efficiently because workloads can be balanced across more persons and facilities. For instance, American Water's Service Company is able to maintain one principal data center for the entire corporation. This is much more cost-efficient than each operating utility funding their own data center with its large fixed hardware, software and staffing costs.
- **Continuity of Service** – Centralizing service company personnel who perform similar services facilitates job cross-training and sharing of knowledge and expertise. This makes it easier to deal with staff turnover and absences and to sustain high levels of service to operating utilities. An individual operating utility might experience considerable disruption if a key professional left and it was necessary to hire outside to fill the vacancy.
- **Maintenance of Corporate-Wide Standards** – Personnel in American Water's Service Company establish standards for many functions (e.g., engineering designs, operating procedures and maintenance practices). It is easier to ensure these standards are followed by every operating utility because their implementation is overseen by the Service Company.
- **Improved Governance** – American Water's Service Company provides another dimension of management and financial oversight that supplements local operating utility management. The Service Company facilitates standard planning and reporting that help ensure operating utilities meet the requirements of their customers in a cost effective manner.
- **Retention of Personnel** – A service company organization provides operating utility personnel with another career path beyond what may be available on a local level. These opportunities tend to improve employee retention.

American Water follows the model for other utility service companies in another important regard. Its services are provided to affiliate operating utilities, like NMA, at cost. American Water's Service Company is not a profit-making entity. It assigns only its actual expenses to the American Water subsidiaries it services.

The Service Company provides services to American Water operating companies from the following locations:

- Corporate Office – Includes American Water's executive management and personnel from the various corporate support services. American Water's corporate office is located in Voorhees, New Jersey.
- National Call Centers – Perform customer service functions, including: customer call processing, service order processing, correspondence processing, credit and collections. American Water maintains two call centers. One in Alton, Illinois that went into operation in 2001 and a second in Pensacola, Florida that went into operation in 2005. Prior to the establishment of these national call centers, customer service functions were performed by employees of NMA, which incurred the expense on its books.
- National Shared Services Center – The Shared Services Center, located in Cherry Hill, New Jersey, provides various financial, accounting and treasury functions that had been performed by individual operating companies. This arrangement has improved and streamlined the Company's financial processes and allowed operating companies to focus on providing utility service.
- Regional Offices – Regional offices provide operating companies with certain support services that can be performed more effectively on a regional basis because individual operating company/center workloads are not sufficient to warrant a full-time staff for these activities. At the same time, these services require closer proximity to operating companies served so they are not provided by the National Shared Services Center. Examples of regional office services include rates and revenues, engineering and operations.
- Belleville Lab – The national trace substance laboratory is located in Belleville, Illinois and performs testing for all American Water operating companies.
- Information Technology Service Centers – American Water's principal data center, located in Hershey, Pennsylvania, supports the IT infrastructure required to run corporate and operating company business applications and the communications systems. IT personnel rotate, as needed, throughout the regional offices and operating companies.

Service Company Expense Categories

The Service Company renders a monthly bill to operating companies. Charges are broken down into the following expense categories:

- Labor – base pay (salaries) of managerial and professional employees
- Labor-Related Overheads - employee benefit costs (payroll taxes, medical coverage, pensions, disability insurance) and other general expenses
- Support - wages and salaries of office support personnel, including secretaries, clerical personnel, telephone operators and mail clerks
- Office Expenses - office rent, equipment leases, telephone, electric, office supplies, property taxes, office maintenance
- Vouchers/Journal Entries – (1) travel expenses incurred by Service Company personnel, (2) other items submitted for reimbursement by employees, including professional association dues, (3) outside service contracts for such things as actuarial services, and (4) various other expenditures, including data center expenses for software licenses and hardware maintenance.

Service Company expenses are either assigned directly or allocated to operating companies, as shown in the table below.

Expense Category	Direct Charged	Allocated	Comments
Labor	X	X	Professional personnel working for one or several operating companies
Labor-Related Overheads	X	X	These are primarily employee benefit costs that relate directly to labor
Support		X	Administrative personnel support the professional staff, thus support costs are allocated on the basis of professional labor
Office Expense		X	Are all allocated on the basis of professional labor
Vouchers/Journals	X	X	May be either directly in support of one operating company (e.g., an engineer traveling from the Corporate Office to the operating company) or allocated to several operating companies

A direct charge occurs when Service Company work or expenses are incurred in support of only one operating company. Direct charge examples include work in support of an operating company's rate case, engineering design work on an operating company's project and the preparation of an operating company's financial statements.

Service Company expenses are allocated when more than one operating company benefits from the underlying work. Examples include assessments of new Federal water quality regulations, development of the company-wide materials procurement contracts and creation of company-wide engineering design standards.

Charging and Assignment Of Service Company Time and Expenses

Service Company transactions are assigned with the following information so there is a proper accounting and eventual charging to an operating company:

- Operating company number, if transaction is a direct charge
- Formula number if transaction is allocated
- Employee hours worked
- Account number for non-labor charges

Charges can originate from the following systems:

- Payroll System
- RVI System (outside vendor payments)
- PCard System (credit card payments)
- Internal Purchase Order System
- Journal entries

The Service Company's time reporting process enables labor and support charges to be assigned to the proper operating company. Labor charges are based on the time reported by managerial and professional Service Company employees. Every week, Service Company professional employees complete an electronic time sheet that shows:

- Operating company (for direct charge)
- Formula number (for allocation)
- Work order (where applicable)
- Authorization number (where applicable)

At month-end, time report information is processed and direct and allocated professional labor hours tabulated for each operating company. Dollar charges are then calculated using the hourly rate of each Service Company professional employee based upon their base salary (i.e., an employee's hours times their hourly rate of pay).

Support (administrative) personnel charge their time to the activity "General Admin." As described in the table on page 4, their labor charges are allocated to operating companies based upon how their office's professional personnel labor charges are assigned. For instance, if 20% of American Water's Western Region's professional labor is assigned to NMA during a month, then 20% of that office's monthly administrative labor charges also are assigned to the operating company.

The overhead cost category is next assigned based on professional and administrative labor costs. Thus, if 20% of the Western Region's accumulated professional and support labor is charged to NMA during the month, then 20% of that month's overhead expenses will be assigned to NMA.

Each Service Company location's office expenses are allocated to operating companies based on how professional labor charges for that office have been assigned. For instance, if 2% of professional labor from one Service Company office is assigned to NMA, then 2% of that office's office expenses would be assigned to NMA. Thus, office expenses are allocated in the very same way as administrative labor.

Vouchers/journal entries may be charged directly or allocated, depending on who benefits from the expenditure. For instance, the cost of a continuing professional education course taken by a professional in a regional office is allocated to the operating companies served by that office. Travel expenses by that same professional to a rate case proceeding are charged directly to the operating company whose case is being heard.

III – Service Company Cost Comparison Approach

During the 12 months ended December 31, 2007, the Service Company billed NMA \$1,316,757 in O&M-related charges, \$112,539 in capital-related charges and \$7,844 other charges. Included in the O&M amount are certain non-recurring expenses and charges from non-Western regions, which are excluded from this market study. As calculated in the table below, net Service Company charges of \$1,252,897 were subjected to a market cost comparison.

	12 Months Ended December 31, 2007
Mgmt Fee Expense (O&M) per P&L	\$ 1,316,757
Less: Non-Recurring Expenses	
Business Change	\$ (3,341)
Divestiture & SOX	\$ (174,226)
Total Non-Recurring Expenses	\$ (177,567)
Less: Non-Western Regions	\$ (6,676)
Net Testable O&M	\$ 1,132,514
Total Capital	\$ 112,539
Total Other	\$ 7,844
Total Testable Service Co Charges	\$ 1,252,897

For purposes of comparing these charges to outside benchmarks, Service Company services were placed into two categories:

- Managerial and Professional Services – Includes such services as management, accounting, legal, human resources, information technology, and engineering.
- Customer Accounts Services – Includes customer-related services, such as call center, credit, billing, collection and payment processing.

Total test period Service Company charges break down between management/professional services and customer account services as follows:

	12 Months Ended Dec. 31, 2007	
	Amount	Hours
Management and Professional Services	\$ 1,031,624	10,864
Customer Account Services	\$ 221,273	6,261
Total Service Company Charges	\$ 1,252,897	17,125

This study's first question—whether Service Company 2007 charges were reasonable—was determined by comparing NMA's net testable O&M Service Company charges per customer to those of electric and combination electric/gas utilities that file FERC Form 60 – Annual Report of Service Companies.

The second question—whether Service Company 2007 charges the lower of cost or market—was evaluated by comparing the cost per hour for managerial and professional services provided by Service Company personnel to hourly billing rates that would be charged by outside providers of equivalent services. Service Company costs per hour were based on actual charges to NMA during the 12 months ended December 31, 2007. Outside providers' billing rates came from surveys or other information from professionals that could perform the services now provided by the Service Company.

The third question—whether Service Company 2007 customer account services charges, including those of the National Call Center costs, were comparable to other utilities—was addressed by comparing NMA’s customer accounts services expenses to those of neighboring electric utilities. This approach was selected because the costs of outside providers of call center services are not publicly available. However, electric utility customer account services expenses can be obtained from the FERC Form 1. The availability and transparency of FERC data adds to the validity of its use in this comparison.

The fourth question—the necessity of Service Company services—was first investigated by determining the services provided to NMA. A determination was then made as to whether these services would be required if NMA were a stand-alone utility.

IV – Reasonableness Of Service Company Charges

NMA’s Service Company Cost Per Customer

During 2007, NMA was charged \$68 per customer in O&M expenses by the Service Company. As shown in the table below, this calculation is made using net testable O&M, which eliminates certain O&M items for which NMA has not requested cost recovery.

	2007
Net Testable Service Company O&M Expenses	\$ 1,132,514
NMA Customers (12/31/07)	16,774
NMA Cost Per Customer	\$ 68

Comparison Group Cost Per Customer

Every centralized service company in a holding company system must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act and 18 C.F.R. paragraph 366.23. This report is designed to collect financial information from service companies that are subject to regulation by the FERC.

Twenty-three utility holding companies filed a Form 60 for 2007. All but two were included in the comparison group. The service company for PNM Resources, Inc. was excluded because its 2007 service company cost per regulated utility customer was clearly an anomaly as a negative number. This result is likely due to the unique manner by which PNM’s service company expenses are reported on Form 60. Duke Energy was also excluded from the comparison group because one of its two service companies did not provide numbers for its Form 60. Thus, it was not possible to develop Duke’s consolidated service company cost per customer for 2007.

Schedule 1 compares the services provided by American Water’s Service Company to the services provided by comparison group service companies. In general, the types of services provided by American Water’s Service Company are similar to those provided by comparison group service companies.

O&M expenses charged to utility affiliates for the comparison group service companies were obtained from Schedule XVII – Schedule of Expense Distribution by Department or Service Function (p. 305 to 305c) of each entity’s FERC Form 60. This schedule shows charges by category of service (e.g., accounting, information technology) and type of cost (e.g., labor, benefits, outside services). The following were eliminated from the comparison group’s total expenses because they are not in American Water Service Company’s 2007 charges to NMA:

- All electric- and gas-related services
- Income taxes (account 409), provision for deferred income taxes (account 410), provision for deferred income taxes – credit (account 411) and investment tax credit (account 411.5).
- Donations (account 426.1)
- Interest on long-term debt (account 427), interest on debt to associate companies (account 430) and other interest expense (account 431)

Comparison group service company 2007 expenses were also adjusted to remove charges to non-regulated affiliates from the cost pool used to calculate the cost per regulated service customer. This determination was made using information from the FERC Form 60 schedule: Account 457 – Analysis of Billing – Associate Companies.

Schedule 2 shows NMA's 2007 Service Company cost per customer of \$68 to be considerably lower than the average of \$122 per customer for the comparison group service companies. Only 4 of 21 comparison group service companies had a lower 2007 cost per customer than NMA. Based on this result, it is possible to conclude that the Service Company's 2007 charges to NMA were reasonable.

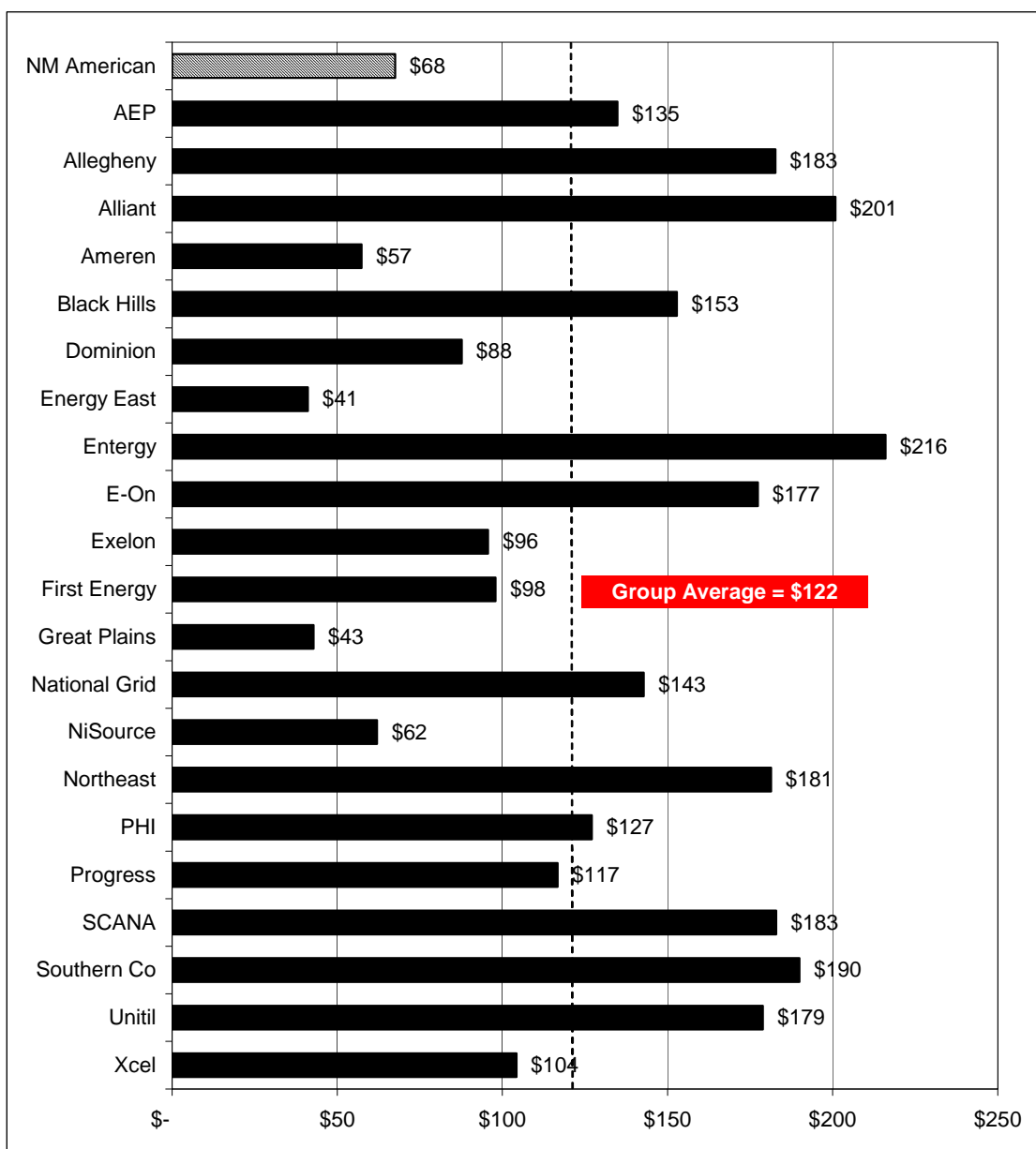
Exhibit Witness: PLB-1
Schedule 1

**New Mexico-American Water Company
Analysis of Service Company Services**

	American Water	17	17	15	16	14	14	15	17	8	7	19	14	14	17	8	17	17	8	19	20	16	10	13	13	11	11	7	17
	American Water	AFP	Allegheny	Alliant	Ameren	Black Hills	Dominion	Energy East	Energy	F-On	Exelon	First Energy	Great Plains	National Grid	NiSource	Northeast	PHI	Progress	SCANA	Southern Co	Unitil	Xcel							
Accounting	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Audit Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Corporate Planning	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Customer Service	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Engineering	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Environmental	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Executive	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
External Affairs	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Facilities Management	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Finance	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Human Resources	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Information Technology	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Investor Relations	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Legal	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Operations	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Regulatory Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Risk Management	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Security	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Service Co Overhead	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Shared Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Supply Chain	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Transportation Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Treasury	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X

Exhibit Witness: PLB-1
 Schedule 2

New Mexico-American Water Company
Comparison of Service Company Annual Costs Per Customer



V – Managerial And Professional Services Hourly Rate Comparison

Methodology

The lower-of-cost-or-market comparison is accomplished by comparing the cost per hour for Service Company managerial and professional services to those of outside service providers to whom these duties could be assigned. Based on the nature of the Service Company services it was determined that the following outside providers could perform the categories of services indicated below:

- Management Consultants – executive and administrative management, risk management services, human resources and communications services
- Attorneys – legal services
- Certified Public Accountants – accounting, financial, information technology and rates and revenues services
- Professional Engineers – engineering, operations and water quality services.

The services provided by the Belleville lab are assumed to be transferable to professional engineers for purposes of this cost comparison. This was done for two reasons. First, there is no readily available survey of hourly billing rates for testing services such as those performed by Belleville. Second, Belleville personnel have similar, scientific educational backgrounds as Service Company engineering personnel. Thus, it is valid to compare the hourly rates of Belleville services to those of outside engineering firms.

Service Company's hourly rate were calculated for each of the four outside service provider categories, based on the dollars and hours charged to NMA during the 12 months ended December 31, 2007. Hourly billing rates for outside service providers were developed using third party surveys or directly from information furnished by outside providers themselves.

It should be noted that by using the Service Company's hours charged NMA during 2007, its hourly rates are actually overstated because Service Company personnel charge a maximum 8 per day even when they work more. Outside service providers generally bill for every hour worked. If the overtime hours of Service Company personnel had been factored into the hourly rate calculation, Service Company hourly rates would have been lower.

The last step in the market cost comparison was to compare the Service Company's average cost per hour to the average cost per hour for outside providers.

Service Company Hourly Rates

Schedule 3 (page 14) details the assignment of 12 months ended December 31, 2007 management and professional Service Company charges by outsider provider category. Schedule 4 (page 15) shows the same assignment for Service Company management and professional hours charged to NMA during the 12 months ended December 31, 2007.

Certain adjustments to these dollar amounts were necessary to calculate Service Company hourly rates that are directly comparable to those of outside providers. Adjustments were made to the following 2007 test period non-labor Service Company charges:

- Contract Services – 12 months ended December 31, 2007 Service Company charges to NMA include almost \$54,000 in expenses associated with the use of outside

professional firms to perform certain corporate-wide services (e.g., legal, financial audit, actuarial services). These professional fees are excluded from the Service Company hourly rate calculation because the related services have effectively been out-sourced already.

- Travel Expenses – In general, client-related travel expenses are not recovered by outside service providers through their hourly billing rate. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, it is appropriate to remove these Service Company charges from the hourly rate calculation.
- Computer Hardware and Software Expenses – Included in the 12 months ended December 31, 2007 Service Company charges to NMA are charges for outside expenses related to leases and maintenance fees related to mainframe, server and network infrastructure, corporate business applications and the communications systems. An outside provider that would take over operation of a data center would recover these expenses over and above the labor necessary to operate the data center.

Schedule 5 (page 16) shows how contract services, travel expenses and computer hardware/software-related Service Company charges are assigned among the four outside provider categories.

Based on the assignment of expenses and hours shown in Schedules 3 and 4 and the excludable items shown in Schedule 5, the Service Company's equivalent costs per hour for the 12 months ended December 31, 2007 are calculated below.

	Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	Total
Total management, professional & technical services charges	\$ 41,025	\$ 283,418	\$ 482,541	\$ 224,640	\$ 1,031,624
Less:					
Contract services	\$ 2,959	\$ 18,219	\$ 28,876	\$ 3,676	\$ 53,730
Travel expenses	\$ 1,187	\$ 14,602	\$ 11,767	\$ 11,499	\$ 39,054
Computer hardware/software	\$ 0	\$ 4,657	\$ 5,612	\$ 2,029	\$ 12,299
Net Service Charges (A)	\$ 36,879	\$ 245,939	\$ 436,285	\$ 207,437	\$ 926,540
Total Hours (B)	302	1,978	5,779	2,805	10,864
Average Hourly Rate (A / B)	\$ 122	\$ 124	\$ 75	\$ 74	

New Mexico-American Water Company
Analysis of 12 Months Ended December 31, 2007 Service Company Charges By Location And Function

Location	Function	12 Months Ended December 31, 2007 Service Company Charges				Total
		Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	
Belleville Lab	Water Quality			\$ 24,664	\$ 24,664	
Call Center	Human Resources		\$ 4,829		\$ 4,829	
Corporate	Accounting			\$ 57,391	\$ 57,391	
	Administration	\$ -	\$ (11,390)	\$ -	\$ (11,390)	
	Audit			\$ 10,150	\$ 10,150	
	Communications				\$ 12,392	
	Engineering			\$ 2,188	\$ 2,188	
	Finance			\$ 28,416	\$ 28,416	
	Human Resources				\$ 39,391	
	Legal	\$ 14,211			\$ 14,211	
	Operations		\$ 27,363	\$ 13,464	\$ 40,827	
	Rates & Revenue			\$ 13,274	\$ 13,274	
	Risk Management		\$ 13,236		\$ 13,236	
	Water Quality			\$ 11,566	\$ 11,566	
Regional Offices	Accounting			\$ 8,120	\$ 8,120	
	Administration		\$ 53,688		\$ 53,688	
	Communications		\$ 27,001		\$ 27,001	
	Engineering			\$ 74,652	\$ 74,652	
	Finance			\$ 140,685	\$ 140,685	
	Human Resources		\$ 35,679		\$ 35,679	
	Legal	\$ 26,814			\$ 26,814	
	Operations		\$ 42,586	\$ 84,671	\$ 127,257	
	Risk Management		\$ 26,671		\$ 26,671	
	Water Quality			\$ 13,435	\$ 13,435	
Information Technology	Information Technology			\$ 128,829	\$ 128,829	
Shared Services	Accounting			\$ 74,530	\$ 74,530	
	Administration		\$ 11,973		\$ 11,973	
	Finance			\$ 6,541	\$ 6,541	
	Rates & Revenue			\$ 14,606	\$ 14,606	
	Total Dollars Charged	\$ 41,025	\$ 283,418	\$ 482,541	\$ 224,640	
				\$	\$ 1,031,624	

Exhibit Witness: PLB-1
Schedule 4

New Mexico-American Water Company
Analysis of 12 Months Ended December 31, 2007 Service Company Hours By Location And Function

Location	Function	12 Months Ended December 31, 2007 Service Company Hours					Total
		Attorney	Management Consultant	Certified Public Accountant	Professional Engineer		
Belleville Lab	Water Quality				344		344
Call Center	Human Resources		59				59
Corporate	Accounting			508			508
	Administration		1				1
	Audit			56			56
	Communications		52				52
	Engineering				19		19
	Finance			153			153
	Human Resources		343				343
	Legal	41					41
	Operations		90		93		183
	Rates & Revenue			49			49
	Risk Management		59				59
	Water Quality				97		97
Regional Offices	Accounting			85			85
	Administration		140				140
	Communications		254				254
	Engineering				938		938
	Finance			1,784			1,784
	Human Resources		314				314
	Legal	260					260
	Operations		368		1,151		1,519
	Risk Management		227				227
	Water Quality				163		163
Information Technology	Information Technology			1,168			1,168
Shared Services	Accounting			1,608			1,608
	Administration		72				72
	Finance			159			159
	Rates & Revenue			208			208
	Total Hours Charged	302	1,978	5,779	2,805		10,864

12 Months Ended December 31, 2007 Service Company Charges Excludable From The Hourly Rate Calculation

New Mexico-American Water Company

Charges By Function	Exclusions From Hourly Rate Calculation			
	Contract Services	Travel Expenses	Computer HW/SW	Total
Accounting	\$ 14,355	\$ 2,045	\$ 399	\$ 16,799
Administration	\$ 2,949	\$ 5,313	\$ 524	\$ 8,787
Audit	\$ 1,289	\$ 196	\$ -	\$ 1,485
Communications	\$ 1,283	\$ 3,096	\$ 25	\$ 4,404
Engineering	\$ 2,363	\$ 4,436	\$ 399	\$ 7,198
Finance	\$ (417)	\$ 5,545	\$ 110	\$ 5,238
Human Resources	\$ 8,363	\$ 3,508	\$ 407	\$ 12,279
Information Technology	\$ 11,594	\$ 3,246	\$ 5,101	\$ 19,941
Legal	\$ 2,959	\$ 1,187	\$ 0	\$ 4,146
Operations	\$ 5,519	\$ 4,404	\$ 493	\$ 10,416
Rates & Revenue	\$ 2,055	\$ 736	\$ 2	\$ 2,793
Risk Management	\$ 458	\$ 3,957	\$ 3,458	\$ 7,873
Water Quality	\$ 958	\$ 1,387	\$ 1,380	\$ 3,725
Total	\$ 53,730	\$ 39,054	\$ 12,299	\$ 105,083

Outside Service Provider Category
Certified Public Accountant
Management Consultant
Certified Public Accountant
Management Consultant
Professional Engineer
Certified Public Accountant
Management Consultant
Certified Public Accountant
Attorney
Management Consultant,
Professional Engineer
Certified Public Accountant
Management Consultant
Professional Engineer

Recap By Outside Provider	Exclusions From Hourly Rate Calculation			
	Contract Services	Travel Expenses	Computer HW/SW	Total
Attorney	\$ 2,959	\$ 1,187	\$ 0	\$ 4,146
Management Consultant	\$ 18,219	\$ 14,602	\$ 4,657	\$ 37,479
Certified Public Accountant	\$ 28,876	\$ 11,767	\$ 5,612	\$ 46,256
Professional Engineer	\$ 3,676	\$ 11,499	\$ 2,029	\$ 17,203
Total	\$ 53,730	\$ 39,054	\$ 12,299	\$ 105,083

Outside Service Provider Hourly Rates

The next step in the cost comparison was to obtain the average billing rates for each outside service provider. The source of this information and the determination of the average rates are described in the paragraphs that follow.

Attorneys

The New Mexico Bar Association does not survey its members as to their hourly billing rates. In addition, publicly available billing rate information could not be found for New Mexico attorneys. Therefore, an estimate of New Mexico attorney rates was developed from a survey of Michigan lawyers conducted annually by the Michigan Lawyers Weekly. As presented in Schedule 6, the average rate for each Michigan firm respondent was adjusted for the cost of living differential between their location and Clovis, New Mexico. The survey includes rates that were in effect during 2007.

Management Consultants

The cost per hour for management consultants was developed from the 2007 annual survey performed by the Association of Management Consulting Firms—an industry trade organization. The first step in the calculation, presented in Schedule 7, was to determine an average rate by consultant position level. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position level. This survey includes rates that were in effect during 2006 for firms in the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison. The survey includes rates that were in effect at December 31, 2006. Thus, the 2006 average rate was escalated to June 30, 2007—the midpoint of the 12 months ended December 31, 2007.

Certified Public Accountants

The average hourly rate for New Mexico certified public accountants was developed from a 2006 survey conducted every two years by the American Institute of Certified Public Accountants (AICPA). Hourly rates in the AICPA survey are the average of firms in Arizona and Texas. The New Mexico Society of CPAs did not participate in the last AICPA survey so New Mexico-only data was not available. The average hourly rate was calculated for a set of typical accountant positions, as shown in Schedule 8. Based on a typical staff assignment by each accountant position, a weighted average hourly rate was calculated. This survey covered hourly rates in effect during 2005. Thus, the 2005 average rate was escalated to June 30, 2007—the midpoint of the 12 months ended December 31, 2007.

Professional Engineers

The Service Company provided hourly rate information for outside engineering firms that were used by American Water's Western Region during 2007. One firm is located in New Mexico and two are located in Arizona. As presented in Schedule 9, an average rate was developed for each engineering position level. Then, using a typical percentage mix of project time by engineering position, a weighted average cost per hour was calculated.

Schedule 6

**New Mexico-American Water Company
Estimated Billing Rates For New Mexico Attorneys Based On
Michigan Attorney Billing Rates**

Billing rates in effect during 2007 (Note A)									
Firm	Michigan Location	Number Of Mich Lawyers	Billing Rate Range				Mich Average	Cost of Living Adjust (B)	Adjusted Rate
			Associate		Partner				
			Low	High	Low	High			
Dickinson Wright PLLC	Detroit	229	\$ 170	\$ 275	\$ 260	\$ 530	\$ 309	113%	\$ 273
Dykema	Detroit	222	\$ 185	\$ 390	\$ 245	\$ 625	\$ 361	113%	\$ 319
Butzel Long	Detroit	209	\$ 165	\$ 400	\$ 220	\$ 550	\$ 334	113%	\$ 295
Bodman LLP	Detroit	128	\$ 125	\$ 215	\$ 210	\$ 495	\$ 261	113%	\$ 231
Jaffe Raitt Heuer & Weiss, PC	Southfield	100	\$ 165	\$ 225	\$ 225	\$ 500	\$ 279	127%	\$ 220
Trott & Trott, PC	Bingham Farms	64	\$ 170	\$ 170	\$ 235	\$ 235	\$ 203	160%	\$ 127
Brooks Kushman PC	Southfield	52	\$ 160	\$ 275	\$ 250	\$ 505	\$ 298	127%	\$ 234
Kemp, Klein, Umphrey, Edelman & May PC	Troy	36	\$ 150	\$ 190	\$ 200	\$ 340	\$ 220	144%	\$ 153
Pepper Hamilton LLP	Detroit	33	\$ 200	\$ 315	\$ 340	\$ 615	\$ 368	113%	\$ 325
Hertz, Schram & Saretsky, PC	Bloomfield Hills	29	\$ 175	\$ 260	\$ 275	\$ 400	\$ 278	175%	\$ 159
Strobl & Sharp, PC	Bloomfield Hills	28	\$ 110	\$ 210	\$ 200	\$ 300	\$ 205	175%	\$ 117
Kupelian Ormond & Magy, PC	Southfield	25	\$ 165	\$ 195	\$ 235	\$ 320	\$ 229	127%	\$ 180
Rader, Fishman & Grauer, PLLC	Bloomfield Hills	25	\$ 130	\$ 250	\$ 275	\$ 495	\$ 288	175%	\$ 164
McShane & Bowie PLC	Grand Rapids	22	\$ 160	\$ 275	\$ 250	\$ 375	\$ 265	126%	\$ 210
Average Billing Rate for 12 months ended December 31, 2007									\$ 215

Note A: Source is Michigan Lawyers Weekly, April 2008

Note B: Source is Sperling's Best Places (<http://www.bestplaces.net/col/col.aspx>). This number represents the cost of living difference between the Michigan city and Clovis, New Mexico. A number over 100% indicates the Michigan city's cost of living is higher than Clovis. A number less than 100% indicates Clovis' cost of living is higher.

Schedule 7

**New Mexico-American Water Company
Billing Rates of U.S. Management Consultants**

A. Calculation of Average Hourly Billing Rate by Consultant Position
Survey billing rates were those in effect in 2006 (Note A)

		Average Hourly Rates (Note A)				
		Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner
Average		\$ 142	\$ 187	\$ 235	\$ 306	\$ 358

B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution
of Time on an Engagement

		Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
Average Hourly Billing Rate (from above)		\$ 142	\$187	\$235	\$306	\$358	
Typical Percent of Time Spent on a Consulting Project		30%	30%	20%	10%	10%	Weighted Average
		\$ 43	\$ 56	\$ 47	\$ 31	\$ 36	\$ 212

Escalation to Midpoint of December 31, 2007 Test Period (Note B)

	CPI at December 31, 2006	201.8
	CPI at June 30, 2007	208.4
	Inflation/Escalation	3.3%
Average Hourly Billing Rate For Management Consultants At June 30, 2007		\$ 219

Note A: source: "Operating Ratios For Management Consulting Firms, 2007 Edition" Association of Management Consulting Firms

Note B: source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt>)

Schedule 8

**New Mexico-American Water Company
Estimated Billing Rates Of New Mexico Certified Public Accountants**

A. Calculation of Average Hourly Billing Rate by Public Accounting Position Survey billing rates were those in effect in 2005 (Note A)				
	Average Hourly Billing Rate (Note A)			
Type of Firm	Staff Accountant	Senior Accountant	Manager	Partner
Average Hourly Rate	\$ 80	\$ 98	\$ 119	\$ 169
B. Calculation of Overall Average Accountant Billing Rate Based Upon Typical Distribution of Time on an Engagement				
	Staff Accountant	Senior Accountant	Manager	Partner
Average Hourly Billing Rate (From Above)	\$ 80	\$ 98	\$ 119	\$ 169
Typical Percent of Time Spent on an Accounting Assignment	30%	30%	20%	20%
	\$ 24	\$ 29	\$ 24	\$ 34
				\$ 111
<u>Escalation to Midpoint of December 31, 2007 Test Period (Note B)</u>				
				196.8
				208.4
				5.9%
				\$ 118

Note A: Source is AICPA's 2006 National PCPS/TSCPA Management of an Accounting Practice Survey (for states of Arizona and Texas)

Note B: source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.txt>)

Exhibit Witness: PLB-1
Schedule 9

**New Mexico-American Water Company
Estimated Billing Rates Of New Mexico/Arizona Engineers**

Note: Billing rates were those in effect in 2007					
A. Calculation of Average Hourly Rate by Engineer Position					
Engineering Firm	Average Hourly Billing Rates				
	Technician Senior Technician	Engineer Design Engineer Project Engineer	Project Manager Sr. Mgr. Engineer	Officer Principal Engineer	
Firm #1	\$53	\$65	\$84	\$96	
Firm #2	\$89	\$98	\$139	\$181	
Firm #3	\$80	\$105	\$155	\$198	
B. Calculation of Overall Average Engineering Hourly Billing Rate					
Average Hourly Billing Rate (From Above)	CAD Drafter Engineer Tech	Engineer Design Engineer Project Engineer Elect Proj Engineer	Project Manager Project Associate Sr. Mgr. Engineer	Officer Principal Engineer	
	\$74	\$89	\$126	\$158	
Typical Percent of Time on an Engineering Assignment	30%	35%	25%	10%	Weighted Average
	\$22	\$31	\$32	\$16	\$101

Source: Information provided by American Water Works Service Company

Service Company Versus Outside Provider Cost Comparison

As shown in the table below, Service Company costs per hour are considerably lower than those of outside providers.

Service Provider	12 Months Ended December 31, 2007		
	Service Company	Outside Provider	Difference-- Service Co. Greater(Less) Than Outside
Attorney	\$ 122	\$ 215	\$ (92)
Management Consultant	\$ 124	\$ 219	\$ (95)
Certified Public Accountant	\$ 75	\$ 118	\$ (42)
Professional Engineer	\$ 74	\$ 101	\$ (27)

Based on these cost per hour differentials and the number of managerial and professional services hours billed to NMA during the 12-months ended December 31, 2007, outside service providers would have cost \$535,895 more than the Service Company (see table below). Thus, on average, outside provider's hourly rates are almost 52% higher than those of the Service Company (\$535,895 / \$ 1,031,624).

Service Provider	12 Months Ended December 31, 2007		
	Hourly Rate Difference-- Service Co. Greater(Less) Than Outside	Service Company Hours Charged	Dollar Difference
Attorney	\$ (92)	302	\$ (27,890)
Management Consultant	\$ (95)	1,978	\$ (187,804)
Certified Public Accountant	\$ (42)	5,779	\$ (244,345)
Professional Engineer	\$ (27)	2,805	\$ (75,856)
Service Company Less Than Outside Providers			\$ (535,895)

If NMA were to use outside service providers rather than the Service Company for managerial and professional services, it would incur other additional expenses besides those associated with higher hourly rates. Managing outside firms who would perform 10,864 hours of work (more than 7 full-time equivalents at 1,500 "billable" hours per FTE per year) would add a significant workload to the existing NMA management team. Thus, it would be necessary for NMA to add at least one half of one position to supervise the outside firms and ensure they delivered quality and timely services. The individuals that would fill this position would need a good understanding of each profession being managed. They must also have management experience and the authority necessary to give them credibility with the outside firms. As calculated in the table below, this position would add another \$74,700 per year to NMA's personnel expenses.

Cost of Adding 1/2 of a Professional Position To NMA's Staff

	Total
New Positions' Salary	\$ 100,000
Benefits (at 49.4%)	\$ 49,400
Office Expenses (15.2%)	\$ 15,200
Total Cost of Full Time Position	\$ 149,400
Percent of Position Required	50%
Half Time Cost of Position	\$ 74,700

Thus, the total effect on the ratepayers of NMA of contracting all services now provided by Service Company would be an increase in their costs of \$610,595 (\$535,895 + \$74,700). Based on the results of this comparison, it is possible to conclude that the Service Company charged NMA at the lower of cost or market for services provided during 2007.

Other Cost Comparisons

Every year, the Belleville Lab conducts a comparison of its cost for performing major tests to the cost of using outside testing laboratories. Over the past several years, these surveys have shown the following results been as follows:

Year	Number of Major Tests Surveyed	Percent Belleville Lower Than Outside Labs
2000	26	15%
2001	25	19%
2002	24	16%
2003	23	10%
2004	24	9%
2005	24	25%
2006	24	31%

These studies provide additional evidence that the Service Company arrangement is the lowest-cost alternative for NMA.

VI – Customer Account Services Cost Comparison

Background

It is difficult to compare the cost of American Water's National Call Centers with outside providers of the same call center-related services. Call center survey data is proprietary and expensive to obtain. For this reason, NMA's National Call Center costs are compared to those of neighboring electric utilities because the data necessary to make this comparison is readily available to the public.

Electric utility cost information comes from their FERC Form 1. FERC's chart of accounts is defined in chapter 18, part 101 of Code of Federal Regulations. FERC accounts that contain call center-related expenses and are used in this study's comparison are:

- Account 903 Customer Accounts Expense – Records and Collection Expense
- Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense.

In addition, labor-related overheads charged to the following FERC accounts must be added to the labor components of Accounts 903 and 905.

- Account 926 Employee Pension and Benefits
- Account 408 Taxes Other Than Income (employer's portion of FICA).

Schedule 10 provides FERC's description of what should be charged to these accounts. In questioning the controller of a large Southeastern electric utility, it was determined that expenses of the activities described below are recorded in the designated FERC accounts.

903 Records and Collection Expense

- Customer Call Center – customer calls/contact, credit, order taking/disposition, bill collection efforts, outage calls
- Call Center IT – maintenance of phone banks, voice recognition units, call center software applications, telecommunications
- Customer billing – bill printing, stuffing and mailing
- Remittance processing – processing of customer payments received in the mail
- Bill payment centers – locations where customers can pay their bills in person

905 Miscellaneous Customer Accounts Expense

- Customer Information System IT – maintenance and support of the customer information system

This study assumes the FERC accounts for other electric and gas utilities contain expenses for the same activities.

**New Mexico-American Water Company
FERC Account Descriptions**

903 – Customer Records and Collection Expenses

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery, and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

**New Mexico-American Water Company
FERC Account Descriptions**

905 – Miscellaneous Customer Accounts Expenses

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

Comparison Group

Electric utilities included in the comparison group are shown in the table below. These are companies whose FERC Form 1 show amounts for accounts 903 and 905.

New Mexico	<ul style="list-style-type: none"> • Public Service Company of New Mexico 	<ul style="list-style-type: none"> • Texas New Mexico Power
Texas	<ul style="list-style-type: none"> • Centerpoint Energy (formerly HL&P) 	<ul style="list-style-type: none"> • El Paso Electric
Arizona	<ul style="list-style-type: none"> • Arizona Public Service 	<ul style="list-style-type: none"> • Tucson Electric
Colorado	<ul style="list-style-type: none"> • Aquilla 	<ul style="list-style-type: none"> • Public Service Company of Colorado
Oklahoma	<ul style="list-style-type: none"> • Empire District Electric • Oklahoma Gas & Electric 	<ul style="list-style-type: none"> • Public Service Company of Oklahoma

It should be noted that Oncor Electric Delivery (formerly Texas Utilities) was not included in the comparison group because it has outsourced customer account services. As a result, much of its expenses related to this function are charged to FERC account 923 – Outside Services rather than FERC accounts 903 and 905. The customer accounts services’ portion of FERC account 923 cannot be isolated from FERC Form 1 information. Thus, a customer accounts services cost comparison to Oncor was not possible.

Comparison Approach

The basis for this comparison is customer account services expenses per customer. NMA’s cost pool was developed to include the same expenses included in electric utility’s FERC accounts 903 and 905. As shown in the graphic below, NMA’s resultant cost pool contains the expenses of Service Company locations and certain operating company expenses.

American Water	Electric Utilities
<u>Service Company</u> Pensacola & Alton Call Centers a. Customer contact b. Customer order processing c. Billing information processing d. Collections e. Correspondence processing f. Customer payment processing <u>Operating Company</u> a. Postage and forms	FERC Acct 903 - Records and Collection Expense and FERC Acct 905 - Misc Customer Accounts Expense a. Customer contact b. Customer order processing c. Bill preparation and mailing d. Collections e. Payment processing f. Correspondence processing

NMA Cost Per Customer

In order to make a valid comparison to neighboring electric utilities, certain adjustments had to be made to the applicable Service Company charges to NMA. It was necessary to adjust the National Call Center charges because electric utilities experience an average of 2.50 calls per customer compared to American Water’s 1.33 calls per customer. Thus, National Call Center expenses had to be increased, for comparison purposes, to reflect its costs at a 2.50 calls per customer level. As shown below, NMA’s adjusted annual expense per customer is \$32.48—the number that can be compared to neighboring electric utilities’ expenses. NMA’s 2007 unadjusted annual expense per customer is \$20.86.

New Mexico-American Water Company		Service Co	Adjustment Fewer Calls For	Adjusted
Cost Component		Charges	Water Cos. (A)	
Service Company				
Call Centers	Call processing, order processing, credit, bill collection	\$ 221,037	\$ 194,910	\$ 415,947
Regional Offices		\$ 236		\$ 236
Service Company	Customer payment processing			\$ 14,160 (B)
Operating Company	Postage & forms			\$ 114,400
Cost Pool Total				\$ 544,743
Total Customers				16,774
12 Months Ended December 31, 2007 Cost Per New Mexico-American Customer				\$ 32.48

Note A: Adjustment for American Water's fewer calls per customer

This adjustment is necessary because water utilities experience fewer calls per customer than do electric utilities

Test year annualized Call Center charges	\$ 221,037
Electric utility industry's avg calls/customer	2.50
American Water's avg calls/customer	1.33
Percent different	88% 88%
Total Adjustment B	\$ 194,910

Note B: Estimated customer payment processing expenses

Number of customer bills	179,238
Bank charge per item	\$ 0.0790
Total estimated annual expense	\$ 14,160

Electric Utility Group Cost Per Customer

Schedule 11 shows the actual 2006 customer accounts expense per customer calculation for the electric utility comparison group. All of the underlying data was taken from the utilities' FERC Form 1.

Summary Of Results

As shown in the table below, NMA's cost per customer is within a reasonable range of the average of the neighboring electric utility comparison group. It can therefore be concluded that NMA's 2007 customer accounts-related expenses, including those of the Alton and Pensacola Call Centers, assigned by the Service Company to NMA were comparable to those of other utilities.

Annual Expense Per Customer	
Texas New Mexico Power	\$ 8.82
CenterPoint Energy (HL&P)	\$ 12.29
Public Service of New Mexico	\$ 18.50
Oklahoma Gas & Electric	\$ 19.93
Public Svc of Colorado	\$ 21.61
Comparison Group Average	\$ 24.88
Acquilla, Inc.	\$ 28.26
El Paso Electric	\$ 31.98
New Mexico-American Water	\$ 32.48
Empire District Electric Company	\$ 33.03
Tucson Electric	\$ 34.02
Public Svc of Oklahoma	\$ 35.55
Arizona Public Service Co	\$ 49.27

New Mexico-American Water Company
Comparison Group 2006 Actual Customer Accounts Expense Per Customer

	New Mexico		Texas		Arizona	
	Public Svc of New Mexico	Texas-New Mexico Power	CenterPoint Energy	El Paso Electric	Az Public Service Co	Tucson Electric
	\$ 6,985,621	\$ 1,901,609	\$ 19,023,675	\$ 7,163,439	\$ 45,761,786	\$ 11,915,625
	\$ 402	\$ 130,500	\$ -	\$ 498,787	\$ 1,117,449	\$ (31,254)
	\$ 6,986,023	\$ 2,032,109	\$ 19,023,675	\$ 7,662,226	\$ 46,879,235	\$ 11,884,371
	\$ 569,066	\$ 129,355	\$ 4,081,833	\$ 2,963,933	\$ 3,065,834	\$ 956,359
	\$ 403,373	\$ 156,680	\$ 1,376,954	\$ 435,512	\$ 1,884,588	\$ 368,128
	\$ 7,958,461	\$ 2,318,144	\$ 24,482,462	\$ 11,061,671	\$ 51,829,657	\$ 13,208,858
	\$ 430,211	\$ 262,929	\$ 1,992,812	\$ 345,929	\$ 1,051,895	\$ 388,307
	\$ 18.50	\$ 8.82	\$ 12.29	\$ 31.98	\$ 49.27	\$ 34.02
	\$ 18,878,471	\$ 2,151,168	\$ 47,857,442	\$ 34,913,362	\$ 77,941,202	\$ 19,935,891
	\$ 174,924,165	\$ 34,060,096	\$ 211,033,868	\$ 67,059,688	\$ 626,287,039	\$ 100,311,686
	10.8%	6.3%	22.7%	52.1%	12.4%	19.9%
	\$ 6,467,683	\$ 4,125,007	\$ 26,203,249	\$ 7,440,377	\$ 30,581,605	\$ 6,021,884
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ 6,467,683	\$ 4,125,007	\$ 26,203,249	\$ 7,440,377	\$ 30,581,605	\$ 6,021,884
	\$ 6,985,621	\$ 1,901,609	\$ 19,023,675	\$ 7,163,439	\$ 45,761,786	\$ 11,915,625
	\$ 402	\$ 130,500	\$ -	\$ 498,787	\$ 1,117,449	\$ (31,254)
	\$ 6,986,023	\$ 2,032,109	\$ 19,023,675	\$ 7,662,226	\$ 46,879,235	\$ 11,884,371
	\$ 1,583,042	\$ 2,060,670	\$ 8,670,705	\$ 2,351,868	\$ 11,315,783	\$ 2,987,710
	\$ 8,569,065	\$ 4,092,779	\$ 27,694,380	\$ 10,014,094	\$ 58,195,018	\$ 14,872,081
	81.5%	49.7%	68.7%	76.5%	80.6%	79.9%
	\$ 5,272,849	\$ 2,048,111	\$ 17,999,395	\$ 5,692,961	\$ 24,635,137	\$ 4,812,124
	\$ 569,066	\$ 129,355	\$ 4,081,833	\$ 2,963,933	\$ 3,065,834	\$ 956,359
	\$ 5,272,849	\$ 2,048,111	\$ 17,999,395	\$ 5,692,961	\$ 24,635,137	\$ 4,812,124
	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
	\$ 403,373	\$ 156,680	\$ 1,376,954	\$ 435,512	\$ 1,884,588	\$ 368,128

Note A
Note B

Customer Account Services Cost Pool

FERC Account Balances:

Acct 903 - Customer Records & Collection (page 322, line 161)
Acct 905 - Misc Customer Accounts (page 322, line 163)
Subtotal

Add: Employee Benefits & Employer FICA (not included in above amounts)
Account 926 - Employee Pension & Benefits
Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

Total Cost Pool

Total Customers (page 304, line 43)

Customer Account Services Expense per Customer

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt
Account 926 - Employee Pension & Benefits (page 323, line 187)
Total O&M Payroll (page 355, line 65)

Benefits as Percent of Payroll

Payroll Applicable to Customer Account Services

Total Payroll Charged to Customer Accounts Function

Electric (page 354, line 7)

Gas (page 354, line 37)

Total Payroll Charged to Customer Accounts

Percent Applicable to Customer Accounts Services (903 and 905):

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal - Total Charges Applicable to Customer Accounts Services

Acct 902 - Meter Reading Expenses (page 322, line 160)

Total Charges Applicable to Customer Accounts Svcs & Meter Reading

Percent Applicable to Customer Accounts Services (903 and 905)

Customer Account Services Portion of Total Payroll

Pension & Benefits Pertaining to Customer Accounts Services

Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Services

Customer Account Services Portion of Total Payroll

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA



Exhibit Witness: PLB-1
Schedule 11
Page 2 of 2

**New Mexico-American Water Company
Comparison Group 2006 Actual Customer Accounts Expense Per Customer**

	Colorado		Oklahoma		Public Svc of Oklahoma	Group Average
	Acquilla	Public Svc of Colorado	Empire District Electric	Oklahoma Gas & Electric		
	\$ 10,189,732	\$ 21,294,135	\$ 4,190,902	\$ 10,601,169	\$ 17,452,301	\$ 156,479,976
	\$ 4,731	\$ 235,495	\$ 321,635	\$ 1,080,693	\$ 3,551	\$ 3,361,989
	\$ 10,194,463	\$ 21,529,630	\$ 4,512,537	\$ 11,681,862	\$ 17,455,852	\$ 159,841,965
Note A	\$ 2,324,990	\$ 5,283,449	\$ 707,574	\$ 2,613,341	\$ 588,329	\$ 23,284,062
Note B	\$ 608,226	\$ 1,653,996	\$ 197,862	\$ 670,885	\$ 330,608	\$ 8,086,812
Total Cost Pool	\$ 13,127,680	\$ 28,467,075	\$ 5,417,973	\$ 14,966,088	\$ 18,374,789	\$ 191,212,839
	\$ 464,588	\$ 1,317,016	\$ 164,035	\$ 751,043	\$ 516,875	\$ 7,685,640
	\$ 28.26	\$ 21.61	\$ 33.03	\$ 19.93	\$ 35.55	\$ 24.88
	\$ 36,457,466	\$ 63,731,780	\$ 11,984,335	\$ 41,929,023	\$ 11,493,366	\$ 367,253,506
	\$ 124,672,077	\$ 260,802,325	\$ 43,733,832	\$ 140,703,693	\$ 84,426,604	\$ 1,868,015,073
	29.2%	24.4%	27.4%	29.8%	13.6%	19.7%
	\$ 7,299,421	\$ 13,497,504	\$ 3,333,454	\$ 15,767,241	\$ 5,595,370	\$ 126,332,795
	\$ 4,347,912	\$ 12,600,944	\$ -	\$ -	\$ -	\$ 16,948,856
	\$ 11,647,333	\$ 26,098,448	\$ 3,333,454	\$ 15,767,241	\$ 5,595,370	\$ 143,281,651
	\$ 10,189,732	\$ 21,294,135	\$ 4,190,902	\$ 10,601,169	\$ 17,452,301	\$ 156,479,976
	\$ 4,731	\$ 235,495	\$ 321,635	\$ 1,080,693	\$ 3,551	\$ 3,361,989
	\$ 10,194,463	\$ 21,529,630	\$ 4,512,537	\$ 11,681,862	\$ 17,455,852	\$ 159,841,965
	\$ 4,739,910	\$ 4,458,697	\$ 1,303,329	\$ 9,321,119	\$ 5,144,623	\$ 539,374,56
	\$ 14,934,373	\$ 25,988,327	\$ 5,815,866	\$ 21,002,981	\$ 22,600,475	\$ 213,779,421
	68.3%	82.8%	77.6%	55.6%	77.2%	74.8%
	\$ 7,950,672	\$ 21,620,858	\$ 2,586,431	\$ 8,769,742	\$ 4,321,677	\$ 107,131,082
	\$ 2,324,990	\$ 5,283,449	\$ 707,574	\$ 2,613,341	\$ 588,329	\$ 21,062,071
	\$ 7,950,672	\$ 21,620,858	\$ 2,586,431	\$ 8,769,742	\$ 4,321,677	\$ 105,709,956
	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
	\$ 608,226	\$ 1,653,996	\$ 197,862	\$ 670,885	\$ 330,608	\$ 8,086,812

Note A: Add: Employee Benefits & Employer FICA (not included in above amounts)
Account 926 - Employee Pension & Benefits
Account 408 - Taxes Other Than Income (Employer's Portion of FICA)
Total Cost Pool
Total Customers (page 304, line 43)
Customer Account Services Expense per Customer

Note B: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt
Account 926 - Employee Pension & Benefits (page 323, line 187)
Total O&M Payroll (page 355, line 65)
Benefits as Percent of Payroll
Payroll Applicable to Customer Account Services
Total Payroll Charged to Customer Accounts Function
Electric (page 354, line 7)
Gas (page 354, line 37)
Total Payroll Charged to Customer Accounts
Percent Applicable to Customer Accounts Services (903 and 905):
Acct 903 - Customer Records & Collection (page 322, line 161)
Acct 905 - Misc Customer Accounts (page 322, line 163)
Subtotal - Total Charges Applicable to Customer Accounts Services
Acct 902 - Meter Reading Expenses (page 322, line 160)
Total Charges Applicable to Customer Accounts Svcs & Meter Reading
Percent Applicable to Customer Accounts Services (903 and 905)
Customer Account Services Portion of Total Payroll
Pension & Benefits Pertaining to Customer Accounts Services
Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Services
Customer Account Services Portion of Total Payroll
Employer's Portion of FICA (6.20% and Medicare (1.45%))
Estimated Employer's Portion of FICA



VII - Need For Service Company Services

Analysis Of Services

The final aspect of this study was an assessment of whether the services that are provided to NMA by the Service Company would be necessary if NMA were a stand-alone water utility. The first step in this evaluation was to determine specifically what the Service Company does for NMA. Based on discussions with Service Company personnel, the matrix in Schedule 12 was created showing which entity—NMA or a Service Company location—is responsible for each of the functions NMA requires to ultimately provide service to its customers. This matrix was reviewed to determine: (1) if there was redundancy or overlap in the services being provided by the Service Company and (2) if Service Company services are typical of those needed by a stand-alone water utility.

Upon review of Schedule 12, the following conclusions can be drawn:

- The services that the Service Company provides are necessary and would be required even if NMA were a stand-alone water utility.
- There is no redundancy or overlap in the services provided by the Service Company to NMA. For all of the services listed in Schedule 12, there was only one entity that was primarily responsible for the service.

Designation Of Responsibility For Water Utility Functions

	Primarily Responsible Provides Support	P S	Performed By:							
			Customer Call Center	Regional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab		
Water Company Function										
Engineering and Construction Management										
CPS Preparation	S		P				S			
Five-Year System Planning	S		P				P			
Engineering Standards & Policies Development										
Project Design										
Major Projects (e.g., new treatment plant)	S		P				S			
Special Projects	S		P				S			
Minor Projects (e.g., pipelines)	P									
Construction Project Management										
Major Projects	S		P							
Special Projects	S		P							
Minor Projects	P									
Hydraulics Review	P		S							
Developers Extensions	P									
Tank Painting	S		P							
Water Quality and Purification										
Water Quality Standards Development										
Research Studies	S		S				P			S
Water Quality Program Implementation	P		S				P			S
Water Treatment Operations & Maintenance	P		S				S			
Compliance Tracking and Chemical Testing	S		S				S			P
Sample Collection and Other Testing	P		S				S			S
Transmission and Distribution										
Preventive Maintenance Program Development	P									
System Maintenance	P									
Leak Detection	P		S							
Customer Service										
Community Relations	S		P				S			
Customer Contact	S									
Call Processing										
Service Order Creation	S		S							
Service Order Processing	P		S							
Customer Credit										
Meter Reading	P		S							S
Customer Bill Preparation										P
Bill Collection	S		S							S
Customer Payment Processing	S									
Meter Standards Development										
Meter Testing, Maintenance & Replacement	P		S				P			

Designation Of Responsibility For Water Utility Functions

Water Company Function	NMA	Performed By:							
		Customer Call Center	Regional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab		
Primarily Responsible P Provides Support S									
Financial Management									
Financial Planning	S		P	S	S				
Financings—Equity			P	S	S				
Financings—Long Term Debt & Preferred (A)			P	S	S				
Short Term Lines of Credit Arrangements (A)			S	S	S				
Investor Relations			S						
Insurance Program Administration					P				
Loss Control/Safety Program Administration	S		P		S				
Pension Fund Asset Management					P				
Cash Management/Disbursements									
Internal Auditing									
Budgeting and Variance Reporting									
Corporate Guidelines & Instructions									
Regional Guidelines & Instructions			P						
Budget Preparation									
Revenue	S		P						
O&M	S		P						
Depreciation and Interest Expense	S		P						
Budget Preparation--Service Company Charges		S	P	S	S				S
Capital Budget Preparation—Projects	S		P						
Capital Budget Preparation—Non-Project Work	S		P						
Prepare Monthly Budget Variance Report ("Budget/Plan Analysis")	S		P						
Prepare Capital Project Budget Status Report	S		P						
Year-End Projections (A)	S		P						
Accounting and Taxes									
Accounts Payable Accounting	S		S	P					
Payroll Accounting	S		S	P					
Work Order Accounting	S		S	P					
Fixed Asset Accounting	S		S	P					
Journal Entry Preparation--Billing Corrections	S		S	P					
Journal Entry Preparation--All Others	S		S	P					
Financial Statement Preparation	S		S	P					
State Commission Reporting	S		S	P					
Income Taxes—State									
Income Taxes—Federal									
Property Taxes									
Gross Receipts Taxes	S		S	P					
	S		S	P					

Note A: Financings and lines of credit are the responsibility of American Capital Corporation

**New Mexico-American Water Company
 Designation Of Responsibility For Water Utility Functions**

Water Company Function	Performed By:					
	Customer Call Center	Regional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab
Primarily Responsible P Provides Support S						
Rates						
Rate Studies & Tariff Change Administration		P				
Rate Case Planning and Preparation		P				
Rate Case Administration		P				
Commission Inquiry Response		P		S		
Legal						
Purchasing and Materials Management						
Specification Development		S	S	P		
Bid Solicitation		S		P		
Contract Administration		S		P		
Ordering						
Inventory Management			S			
Human Resources Management						
Benefit Program Development				P		
Benefits Program Administration		P				
Management Compensation Administration				P		
Wage & Salary Program Design				P		
Wage & Salary Administration	S	P				
Labor Negotiations--Wages	S	P				
Labor Negotiations--Benefits						
Labor Negotiations-- Work Rules	S	P		P		
Training Program Development	S	S				
Training--Course Delivery	S	P				
Affirmative Action/EEO--Plan Development	S	P				
Affirmative Action/EEO--Implementation	S	P				
Information Systems Services						
Service Company Data Centers						
System Operations & Maintenance					P	
Software Maintenance					P	
Network Administration					P	
PC Acquisition & Support					P	
Help Desk			S		P	



Governance Practices Associated With Service Company Charges

There are several ways by which NMA exercises control over Service Company services and charges. The most important of these are described below.

- **Company President Oversight** – The Company President of the state utility is responsible for the overall performance of the each operating company or district in the state. Presently the Western States President is also the President of New Mexico-American. Through the Western States President, New Mexico-American has a significant voice in major business decisions of American Water and has the ability to monitor Service Company quality and spending.
- **Vice President Finance** – The VP Finance of the Western states is responsible for the financial reporting, performance and internal controls of each of the operating companies in the region. The VP Finance monitors the performance and reporting from the Service Company. The VP Finance attends monthly Business Plan Review sessions with the New Mexico-American General Manager and finance group to review actual results and address forecast modifications for the remainder of the year. The VP Finance reports on the quarterly financial results and forecast updates to New Mexico-American's Board of Directors. The rates function reports to the VP Finance, who reviews and authorizes the filing of New Mexico-American rate cases and regularly monitors the status of cases. The operating subsidiary interacts with the VP Finance to discuss various issues.
- **Operating Company Board Oversight** – New Mexico-American's board of directors includes a member of American Water's senior executive team, members of the Division management team and two external Directors. This helps ensure that New Mexico-American's needs are a factor in the delivery of Service Company services.
- **Service Company Budget Review/Approval** – The Western States President sits on the Service Company board and that board must formally approve the budget for Service Company charges for the next year. These budgeted charges are consolidated with the operating company's own spending into an overall budget which must be approved by the operating company's board of directors. New Mexico-American's president is also on the local board.
- **Major Project Review And Approval** – Major projects undertaken by the Service Company must first be reviewed by American Water's senior executive team, which includes the President of the Western States. The President, with input from the Division management team, has the ability to impact all new initiatives and projects before they are authorized.
- **Service Company Bill Scrutiny** – Western States Finance personnel review the monthly Service Company bill for accuracy and reasonableness on a monthly basis. New Mexico's financial analyst has dialogue with regional office personnel concerning the monthly bill and any mistakes or overcharges are credited on a subsequent billing. The Western States' Finance unit prepares an actual to budget comparison of management fees each month for use in identifying unusual variances. Service Company actual to budget comparison is included in the monthly Financial Review Package. Unusual variances are researched, explanations are provided and any corrections are made, as deemed necessary.
- **Service Company Budget Variance Reporting** – Each month, a summary variance analysis is prepared that explains differences between budgeted and actual Service Company spending. In addition, a more detailed monthly variance report, called the "Statement of Expenses and Billed Charges," is produced by Service Company location and shows actual spending for the month.

- **Operating Company Budget Variance Reporting** – The “Budget/Plan Analysis,” produced monthly, has a line item for Management Fees (i.e., Service Company charges). In this way, Service Company budget versus actual charges can be monitored for the month and year-to-date. Additional information exists that allows more detailed analysis of "Regional" and "Corporate" Management Fees.
- **Capital Investment Management Committee (CIMC)** – CIMC is one of American Water’s primary business planning processes. It covers capital and asset planning and is employed throughout American Water. CIMC provides a full range of governance practices, including a formal protocol for assessing system needs, prioritizing expenditures, managing the capital program, approving project spending, delivering projects and measuring outputs. CIMC ensures that:
 - Capital expenditure plans are aligned with the strategic intent of the business
 - The impact of capital expenditure and income plans are fully reflected in operating expense plans
 - The impacts of these plans are understood and affordable
 - Effective controls are in place over budgets (through business plans) and individual capital projects (through appropriate authorization thresholds, management and reporting processes).

The CIMC process was designed to optimize the effectiveness of asset investment. The process is managed at three levels for all American Water companies, including all New Mexico Operating Units. Monthly meetings of the CIMC are held to review capital spending compared to plan, review new project requests, and review updates or modifications to existing projects. The President of New Mexico-American, VP Finance, and others participate as necessary (e.g. operations managers and Rates Manager) and provide the data used in the monthly review schedules.

Virginia Electric and Power Company
Market Cost Comparison for Charges from
Dominion Resources Services, Inc. and Other Affiliates
during the Year Ended December 31, 2008

**Virginia Electric and Power Company
Market Cost Comparison for Charges from
Dominion Resources Services, Inc. and Other Affiliates
during the Year Ended December 31, 2008**

Table of Contents

	<u>Page</u>
I – Introduction	1
Purpose of This Study	
Study Results	
II – Background	3
Overview of Dominion Resources, Inc.	
Overview of Affiliates Providing Services to Dominion Virginia Power	
DRS' Cost Assignment Process	
III – Affiliate Cost Comparison Approach	9
IV – Question 1 – Reasonableness of Affiliate Charges	10
Dominion Virginia Power's Service Company Cost Per Customer	
Comparison Group Cost Per Customer	
V – Question 2 – Provision of Services at the Lower of Cost or Market	18
Comparison Methodology	
Calculation of Affiliates' Hourly Rates	
Outside Service Provider Hourly Rates	
Affiliates and Outside Provider Cost Comparison	
VI – Question 3 – Reasonableness of DRS' Customer Accounts	33
Services Costs	
Comparison Methodology	
Comparison Group	
Dominion Virginia Power's Cost Per Customer	
Comparison Group Cost Per Customer	
Summary of Results	
VII – Question 4 – Reasonableness of DRS' Cost Allocation Methods	40
VIII – Other Evaluative Factors	52
Governance Practices Associated with DRS Charges	
Cost Allocation Manual	

I – Introduction

Purpose of This Study

This study was undertaken to determine the reasonableness of Virginia Electric and Power Company's ("Dominion Virginia Power" or the "Company") charges from Dominion Resources Services, Inc. ("DRS") and other affiliates for services provided during 2008. Reasonableness was determined by answering the following four questions:

1. Are service-related affiliate charges to Dominion Virginia Power reasonable compared to other utility service companies?
2. Did affiliates provide services to Dominion Virginia Power at the lower of cost or market during 2008?
3. Is the cost of DRS' customer accounts services comparable to those of other utilities?
4. Are DRS' cost allocation methods reasonable?

Study Results

Concerning question 1, the following conclusions were reached:

- DRS and other affiliates provide Dominion Virginia Power with services similar to those provided by other utility service companies.
- DRS' cost per Dominion Virginia Power customer is reasonable and favorable as compared to the cost per customer for similar utility service companies. Dominion Virginia Power was charged an average of \$145 per customer by DRS, approximately 16% lower than an average of \$172 per customer for comparison group service companies. This determination was based on service company information included in Form 60, which must be annually filed with the Federal Energy Regulatory Commission ("FERC") by electric and combination electric/gas utility holding companies. The comparison is based on data from 2007, the latest year for which Form 60 information is currently available.

Concerning question 2, the following conclusions were reached:

- Affiliate services were provided to Dominion Virginia Power during 2008 at the lower of cost or market.
- On average, the hourly rates for outside service providers are 55% higher than comparable hourly rates charged by Dominion Virginia Power's affiliates.
- If all of the managerial and professional services now provided by its affiliates had been outsourced in 2008, Dominion Virginia Power and its customers would have incurred \$167 million in additional expenses.
- Affiliates' charges do not include any profit markup. Only the actual cost of the service provided is being charged and proposed for recovery from Dominion Virginia Power customers.

Concerning question 3, cost of DRS' customer accounts services is well below the average of the neighboring electric utility comparison group. During 2007, Dominion Virginia Power's customer



I – Introduction

accounts cost per customers was \$19.52, or more than 32% below the comparison group's 2007 average of \$28.93.

Regarding question 4, DRS' methods for allocating expenses to affiliates such as Dominion Virginia Power are both reasonable and related to the causation of the allocated expenses. For each of over 290 DRS cost centers that charged Dominion Virginia Power during 2008, the services of those cost centers were found to be necessary for a utility like Dominion Virginia Power to operate. The cost allocation methods employed during 2008 are in accordance with the current DRS Services Agreement dated January 1, 2003, which has been approved by the Virginia State Corporation Commission ("Commission").

Other important factors were noted that evidence the care with which DRS expenses are assigned to affiliates such as Dominion Virginia Power. These include the following:

- Governance Practices Associated With DRS Charges – Several management practices are in place to ensure that DRS' charges to Dominion Virginia Power are appropriate. These include DRS' budgeting and variance analysis processes, and the scrutiny given to DRS' monthly bill by Dominion Virginia Power personnel.
- Cost Allocation Manual – DRS maintains an Accounting Policy and Cost Allocation Manual (CAM) that documents the process by which it assigns costs to affiliate customers. Baryenbruch & Company, LLC's review of the CAM found it to be a comprehensive reference document that provides thorough directions to DRS personnel responsible for assigning expenses to Dominion Virginia Power. DRS' cost allocation methodologies comply with governing requirements in the CAM.

II - Background

Overview of Dominion Resources, Inc.

Dominion Resources, Inc. (“DRI”) is one of the nation's largest producers and transporters of energy, with a portfolio of approximately 26,500 megawatts of generation; 1.2 trillion cubic feet equivalent of proved natural gas and oil reserves; 14,000 miles of natural gas transmission, gathering, and storage pipeline; and 6,000 miles of electric transmission lines. Dominion operates the nation’s largest natural gas storage facility with 975 billion cubic feet of storage capacity, and serves retail energy customers in 12 states.

DRI is organized into three operating business segments and one corporate/non-operating segment, as described below.

Segment	Business Lines
Dominion Virginia Power – operates regulated electric distribution and transmission facilities in most of Virginia and northeastern North Carolina and provides electric service to nearly 2.4 million customers in the two-state area	<ul style="list-style-type: none"> • Electric Transmission • Electric Distribution • Energy and Related Products and Services in Competitive Retail Markets
Dominion Generation – operates DRI’s fleet of regulated and merchant power plants	<ul style="list-style-type: none"> • Utility Power Production • Merchant Power Production
Dominion Energy – operates regulated natural gas distribution, transmission, and storage businesses, included regulated liquefied natural gas (LNG) operations; also operates DRI’s Appalachian-based natural gas and oil exploration business and producer services	<ul style="list-style-type: none"> • Natural Gas Transmission • Natural Gas Distribution • Natural Gas Storage • Gas and Oil Exploration and Production; Production Services
Corporate – Various other businesses not related to the above three major segments	

Source: Dominion 2007 Annual Report; 4Q08 Earnings Release Kit

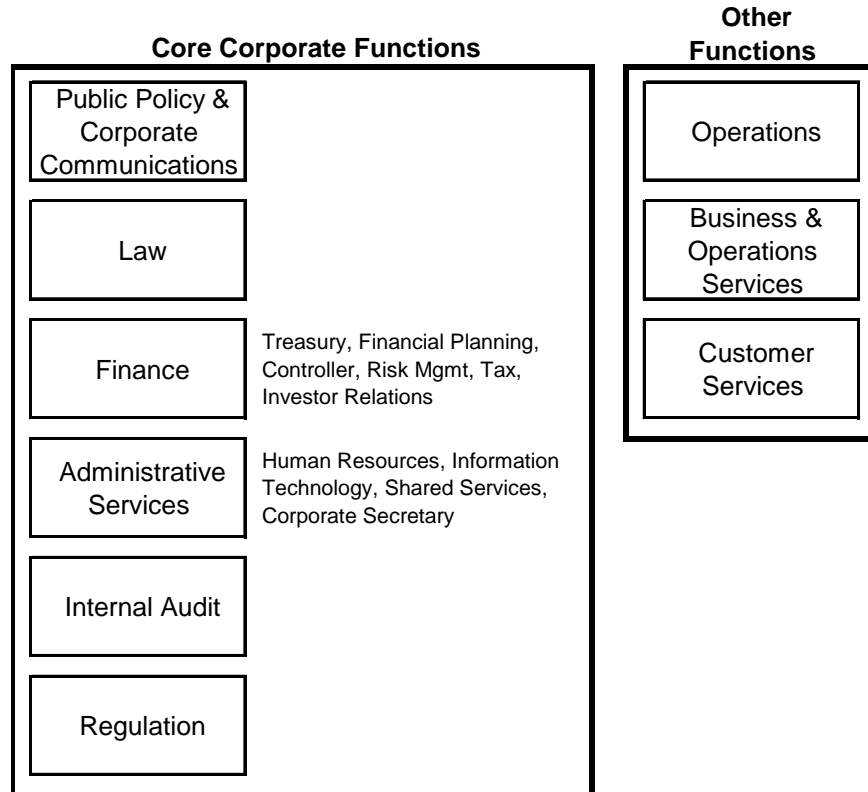
Overview of Affiliates Providing Services to Dominion Virginia Power

During 2008, Dominion Virginia Power was billed approximately \$397 million for services provided by affiliates. As shown in the table below, the large majority of these services came from DRS.

Affiliate	2008 Service-Related Charges
Dominion Resources Services, Inc.	\$ 350,456,982
Dominion Energy Inc.	\$ 2,230,822
Dominion Energy Kewaunee Inc.	\$ 76,003
Dominion Nuclear Connecticut Inc.	\$ 353,077
Dominion Technical Solutions, Inc.	\$ 37,220,958
Dominion Transmission Inc.	\$ 737,386
VP Energy Marketing Inc.	\$ 5,369,631
East Ohio Gas Company	\$ 418,769
Total Affiliate Charges	\$ 396,863,627

II - Background

DRS was incorporated on October 14, 1999 to provide affiliate companies with the services described in Exhibit 1. Exhibit 2 lists the affiliate entities served by DRS. DRS is organized into the following major functional groups. As of December 31, 2008, DRS had 3,285 employees.



DRS is defined as a “centralized service company” and is regulated by FERC. The current Services Agreement between DRS and Dominion Virginia Power is dated January 1, 2003 and designates that DRS provide services at cost. The Commission approved the current Services Agreement in an order dated December 29, 1999 and required that DRS provide services to Dominion Virginia Power at the lower of cost or market. DRS has followed the Commission’s lower of cost or market guideline.

Occasionally, DRS receives services from other DRI affiliates. Dominion Virginia Power has a services agreement with DRS dated January 1, 2003, that specifies it will be compensated for those services at cost. However, since the Commission’s December 29, 1999 order applies to these transactions, services from other DRI affiliates are also provided at the lower of cost or market.

DRS’ Cost Assignment Process

DRS utilizes a work order system (work orders are referred to internally as “projects” or “WBS Elements”) by which to accumulate and distribute expenses in a fair and equitable manner to all affiliates that benefit from its services. Time records are maintained for all service company employees to support the costs that are assigned to each affiliate. DRS’ costs are assigned in their entirety and no residual profit or loss remains on the books.

**Virginia Electric and Power Company
Description of DRS Services**

Service	Service Description
Accounting	Provide advice and assistance to Dominion Companies in accounting matters, including the development of accounting practices, procedures and controls, the maintenance of the general ledger and related subsidiary systems, the preparation and analysis of financial reports, and the processing of certain accounts such as accounts payable, accounts receivable and payroll.
Auditing	Periodically audit the accounting records and other records maintained by Dominion Companies and coordinating their examination, where applicable, with that of independent public accountants. The audit staff will report on their examination and submit recommendations, as appropriate, on improving methods of internal control and accounting procedures.
Legal and Regulatory Services	Provide advice and assistance with respect to legal and regulatory issues as well as regulatory compliance, including PUHCA 2005 authorizations and compliance and regulatory matters under other with Federal and State laws.
Information Technology	Provide the organization and resources for the operation of an information technology function including the development, implementation and operation of a centralized data processing facility and the management of a telecommunications network. This function includes the central processing of computerized applications and support of individual applications in Dominion Companies. Develop, implement, and process those computerized applications for Dominion Companies that can be economically best accomplished on a centralized basis.
Software Pooling	Accept from Dominion Companies ownership of and rights to use, assign, license or sublicense all software owned, acquired or developed by or for Dominion Companies which Dominion Companies can and do transfer or assign to it. Preserve and protect the rights to all such software to the extent reasonable and appropriate under the circumstances; license Dominion Companies, on a non-exclusive, no-charge or at-cost basis, to use all software which DRS has the right to sell, license or sub-license; and, at the relevant Dominion Companies' expense, permit Dominion Companies to enhance any such software and license others to use all such software and enhancements to the extent that DRS shall have the legal right to so permit.
Employee Benefits/ Pension Investment	Provide central accounting for employee benefit and pension plans of Dominion Companies. Advise and assist Dominion Companies in the administration of such plans and prepare and maintain records of employee and company accounts under the said plans, together with such statistical data and reports as are pertinent to the plans.
Human Resources	Advise and assist Dominion Companies in the formulation and administration of human resources policies and programs relating to the relevant Dominion Companies' labor relations, personnel administration, training, wage and salary administration and safety.
Operations	Advise and assist Dominion Companies in the study, planning, engineering and construction of energy plant facilities of each Dominion Company and of the Dominion Companies as a whole, and advise, assist and manage the planning, engineering (including maps and records) and construction operations of Dominion Companies. Develop long-range operational programs for all the Dominion Companies and advise and assist each such Dominion Company in the coordination of such programs with the programs of the other Dominion Companies.

**Virginia Electric and Power Company
Description of DRS Services**

Service	Service Description
Executive and Administrative	Advise and assist Dominion Companies in the solution of major problems and in the formulation and execution of the general plans and policies of Dominion Companies. Advise and assist Dominion Companies as to operations, the issuance of securities, the preparation of filings arising out of or required by the various Federal and State securities, business, public utilities and corporation laws, the selection of executive and administrative personnel, the representation of Dominion Companies before regulatory bodies, proposals for capital expenditures, budgets, financing, acquisition and disposition of properties, expansion of business, rate structures, public relationships and other related matters.
Business and Operations Services	Advise and assist Dominion Companies in all matters relating to operational capacity and the preparation and coordination of operating studies. Manage Dominion Companies' purchase, movement, transfer and accounting of fuel and gas volumes. Compile and communicate information relevant to company operation. Perform general business and operations support services, including business, plant and facilities operation, maintenance and management, travel, aviation, fleet and mail services.
Exploration and Development	Advise and assist Dominion Companies in all geological and exploration matters including the acquisition and surrender of acreage and the development of underground storage facilities. [note: Dominion Virginia Power is not charged for any of these services]
Risk Management	Advise and assist Dominion Companies in securing requisite insurance, in the purchase and administration of all property, casualty and marine insurance, in the settlement of insured claims and in providing risk prevention advice.
Marketing	Plan, formulate and implement marketing programs, as well as provide associated marketing services to assist Dominion Companies with improving customer satisfaction, load retention and shaping, growth of energy sales and deliveries, energy conservation and efficiency. Assist Dominion Companies in carrying out policies and programs for the development of plant locations and of industrial, commercial and wholesale markets and assist with community redevelopment and rehabilitation programs.
Medical	Direct and administer all medical and health activities of Dominion Companies. Provide systems of physical examination for employment and other purposes and direct and administer programs for the prevention of sickness.
Corporate Planning	Advise and assist Dominion Companies in the study and planning of operations, budgets, economic forecasts, capital expenditures and special projects.
Supply Chain	Advise and assist Dominion Companies in the procurement of real and personal property, materials, supplies and services, conduct purchase negotiations, prepare procurement agreements and administer programs of material control.
Rates	Advise and assist Dominion Companies in the analysis of their rate structure in the formulation of rate policies, and in the negotiation of large contracts. Advise and assist Dominion Companies in proceedings before regulatory bodies involving the rates and operations of Dominion Companies and of other competitors where such rates and operations directly or indirectly affect Dominion Companies.

**Virginia Electric and Power Company
Description of DRS Services**

Service	Service Description
Research	Investigate and conduct research into problems relating to production, utilization, testing, manufacture, transmission, storage and distribution of energy. Keep abreast of and evaluate for Dominion Companies all research developments and programs of significance affecting Dominion Companies and the energy industry, conduct research and development in promising areas and advise and assist in the solution of technical problems arising out of Dominion Companies' operations.
Tax	Advise and assist Dominion Companies in the preparation of Federal and other tax returns, and generally advise Dominion Companies as to any problems involving taxes including the provision of due diligence in connection with acquisitions.
Corporate Secretary	Provide all necessary functions required of a publicly held corporation. Coordinate information and activities among shareholders, the transfer agent, and Board of Directors. Provide direct services to security holders. Prepare and file required annual and interim reports to shareholders and the SEC. Conduct the annual meeting of shareholders and ensuring proper maintenance of corporate records.
Investor Relations	Provide fair and accurate analysis of DRI and its operating subsidiaries and its outlook within the financial community. Enhance Dominion's position in the energy industry. Balance and diversify shareholder investment in Dominion through a wide range of activities. Provide feedback to Dominion and its operating subsidiaries regarding investor concerns, trading and ownerships. Hold periodic analysts meetings, and provide various operating data as requested or required by investors.
Environmental Compliance	Provide consulting, cleanup, and other activities as required by Dominion Companies to ensure full compliance with applicable environmental statutes and regulations.
Customer Service	Provide services and systems dedicated to customer service, including billing, remittance, credit, collections, customer relations, call centers, energy conservation support and metering.
Energy Marketing	Provide services and systems dedicated to energy marketing, including marketing and trading of energy commodities, and energy price risk management and development of marketing and sales programs in physical and financial markets.
Treasury/Finance	Provide services related to managing all administrative activities associated with financing, including management of capital structure; cash, credit and risk management activities; investment and commercial banking relationships; oversight of decommissioning trust funds and general financing activities.
External Affairs	Provide services in support of corporate strategies for managing relationships with federal, state and local governments, agencies and legislative bodies. Formulate and assist with public relations, advertising, and external/internal communications programs and with the administration of corporate contribution and community affairs programs.

**Virginia Electric and Power Company
Affiliates Served By DRS**

Entity Suffix	Entity Description	Legal Segment	Billing Segment
CNGC	CNG Coal Company	DRI	Corporate
CNGF	Dominion Field Services, Inc.	DRI	Energy
CNGIR	CNG Iroquois, Inc.	DRI	Energy
CNGP	Dominion Exploration and Production, Inc.	DRI	Energy
CNGPS	Dominion Products & Services, Inc.	DRI	Dominion Virginia Power
CNGR	Dominion Retail Services Company	DRI	Dominion Virginia Power
CNGT	Dominion Transmission, Inc.	DRI	Energy
DALH	Dominion Alliance Holdings, Inc.	DRI	Dominion Virginia Power
DBRAY	Dominion Energy Brayton Point	DEI	Generation
CDI	Dominion Capital, Inc. (DCI)	DCI	Corporate
DCOVE	Dominion Cove Point LNG, LP	DRI	Energy
DEIBD	DEI Business Development	DEI	Generation
DEK	Dominion Energy Kewaunee	DEI	Generation
DELCO	Dominion Elwood	DEI	Generation
DEMI	Dominion Energy Marketing	DEI	Generation
DENE	Dominion Energy New England	DEI	Generation
DETCI	Dominion Energy Terminal Co.	DEI	Generation
DFAIR	Dominion Fairless	DEI	Generation
DGBR	Dominion Greenbrier, Inc.	DRI	Energy
DGLLC	Dominion Greenbrier Pipeline LLC	DRI	Energy
DKINC	Dominion Kincaid, Inc.	DEI	Generation
DLI	Dominion Lands, Inc.	DLI	Corporate
DMANCH	Dominion Energy Manchester Street, Inc.	DEI	Generation
DMORG	Dominion Cogen WV, Inc. (Morgantown)	DEI	Generation
DNC	Dominion Nuclear Connecticut	DEI	Generation
DNNA	Dominion Nuclear North Anna	DEI	Generation
DOES	Dominion Ohio ES Inc.	DRI	Dominion Virginia Power
DRCT	Dominion Resources Capital Trust	DRI	Corporate
DRI	Dominion Resources, Inc. (Parent Company)	DRI	Corporate
DSALEM	Dominion Energy Salem Harbor	DEI	Generation
DSTATE	Dominion State Line	DEI	Generation
DTECH	Dominion Technical Solutions, Inc.	DRI	Dominion Virginia Power
DTSI	DTSI Dominion Telecom Services, Inc.	DRI	Corporate
EOG	EOG East Ohio Gas Company	DRI	Energy
TIOGA	TIOGA Properties, LLC	DRI	Energy
VPCU	Dominion Credit Union	VP	Corporate
VPCUST	VP Customer Service	VP	Dominion Virginia Power
VPD	VP Distribution	VP	Dominion Virginia Power
VPEM	VP Energy Marketing	VP	Energy
VPEMC	VPEM Corporate Enterprise	VP	Corporate
VPEME	VPEM Energy	VP	Energy
VPEMG	VPEM Generation	VP	Generation
VPES	VP Energy Services	VP	Generation
VPET	VP Electric Transmission	VP	Dominion Virginia Power
VPFOS	VP Fossil & Hydro	VP	Generation
VPM	VP Metering	VP	Dominion Virginia Power
VPNS	VP Nuclear Services (VPNS)	VP	Generation
VPNUC	VP Nuclear	VP	Generation
VPOG	VP Other Generation	VP	Generation
VPP	VP Properties	VP	Generation
VPS	VP Services (VPS)	VP	Generation
VPSE	VP Services Energy (VPSE)	VP	Generation
VPTCAP	Telecom Capital Work (Special)	VP	Corporate
HOPE	Hope Gas, Inc.	DRI	Corporate
PNG	Peoples Natural Gas Company	DRI	Corporate

III - Affiliate Cost Comparison Approach

During the 12 months ended December 31, 2008, Dominion Virginia Power was billed approximately \$397 million by affiliates for services provided by affiliates (Dominion Virginia Power was also charged by affiliates for various non-service expenses). These charges were evaluated in connection with this study's four questions, as shown in the table below.

Affiliate	2008 Service-Related Charges	Study Question			
		1 - Reasonableness	2 - LCM Pricing	3 - Cust Acct Svcs Benchmarking	4 - Allocation Methods
Dominion Resources Services, Inc.	\$ 350,456,982	X	X	X	X
Dominion Energy Inc.	\$ 2,230,822	X			
Dominion Energy Kewaunee Inc.	\$ 76,003	X			
Dominion Nuclear Connecticut Inc.	\$ 353,077	X			
Dominion Technical Solutions Inc.	\$ 37,220,958	X	X		
Dominion Transmission Inc.	\$ 737,386	X			
VP Energy Marketing Inc.	\$ 5,369,631	X			
East Ohio Gas Company	\$ 418,769	X		X	
Total Affiliate Charges	\$ 396,863,627				

The first question—were affiliate charges for services reasonable—was answered by comparing Dominion Virginia Power's affiliate charges per customer to those of utility service companies that file a FERC Form 60 – Annual Report of Service Companies. This comparison was made with 2007 Form 60 data, the latest year Form 60 data is available (the filing deadline for the Form 60 is May 1st).

This study's second question—whether affiliates' services were provided to Dominion Virginia Power during 2008 at the lower of cost or market—was determined by comparing the cost per hour for managerial and professional services provided by affiliate personnel, to hourly billing rates that would be charged by outside providers of equivalent services. Affiliates' costs per hour were based on actual charges to Dominion Virginia Power during the 12 months ended December 31, 2008. Outside providers' billing rates came from surveys or other information from professionals that could perform the services now provided by DRS.

The third question—whether DRS customer services charges were comparable to other utilities—was addressed by comparing Dominion Virginia Power's customer accounts services expenses to those of neighboring electric utilities. This approach was selected because the costs of outside providers of call center services are not publicly available. However, electric utility customer account services expenses can be readily obtained from FERC Form 1 data. The availability and transparency of FERC data adds to the validity of its use in this comparison. The comparison was made using 2007 data, the latest year for which FERC Form 1 data is available (the filing deadline for FERC Form 1 is April 18th).

The fourth question—whether DRS' cost allocation methods are reasonable—was answered by evaluating the basis by which each of the 293 DRS cost centers' charges to Dominion Virginia Power during 2008 were assigned. Reasonableness was determined when the allocation methods were related to the causation of the allocated expenses by cost centers providing services to Dominion Virginia Power. The allocation methods used in 2008 were also verified to

III - Affiliate Cost Comparison Approach

be those specified in the current Services Agreement between DRS and Dominion Virginia Power.

IV – Question 1 – Reasonableness of Affiliate Charges

Dominion Virginia Power’s Service Company Cost Per Customer

During the 12 months ended December 31, 2007, Dominion Virginia Power was charged \$343 million by affiliates that provided it with various services. That equates to \$145 per Dominion Virginia Power customer per year, as calculated below. This is the per customer cost that will be compared to the cost of other utility service companies.

Affiliate	2007
Dominion Resources Services, Inc.	\$ 311,085,408
Dominion Energy Inc.	\$ 1,535,781
Dominion Energy Kewaunee Inc.	\$ 102,778
Dominion Nuclear Connecticut Inc.	\$ 1,394,720
Dominion Retail Inc.	\$ 1,633
Dominion Technical Solutions Inc.	\$ 25,792,927
Dominion Transmission Inc.	\$ 3,328
VP Energy Marketing Inc.	\$ 2,753,010
East Ohio Gas Company	\$ 351,031
Total Charges from Affiliates	\$ 343,020,616
Dominion Virginia Power Customers (A)	2,362,318
Cost Per Customer	\$ 145

Note A: Represents the number of retail (regulated) customers. Comparison group service company per customer costs are also based on the number retail customers served.

Comparison Group Cost Per Customer

Every centralized service company in a holding company system must file a Form 60 in accordance with Section 1270 of the Public Utility Holding Company Act of 2005, Section 390 of the Federal Power Act, and 18 C.F.R. §366.23. This report is designed to collect financial information from service companies that are subject to regulation by FERC.

DRS files a Form 60. Twenty-two other utility holding companies filed a Form 60 for 2007. All but two were considered for inclusion in the comparison group. The service company for PNM Resources, Inc. was excluded because its total 2007 service company cost per regulated utility customer was a negative amount, clearly an anomaly. This result is likely due to the unique manner by which PNM’s service company expenses are reported on Form 60. Duke Energy was also excluded from the comparison group because one of its two service companies was not required to provide data for its Form 60. Thus, it was not possible to develop Duke’s consolidated service company cost per customer for 2007.

The remaining twenty services companies were screened to develop a comparison group that is appropriately similar to Dominion Virginia Power. Two criteria were used to narrow this group:

- Proportion of Retail Electric Service – Dominion Virginia Power provides only electric service. The majority of service companies are owned by parents of utility companies that provide a combination of retail electric and gas service. The nature of service company services can differ between electric and gas service functions. In order to have a close alignment to Dominion Virginia Power, the service companies of utility companies with 90% or more electric customers were considered for comparison group inclusion.
- Number of Customers – Total retail customers of utilities served by the 20 service companies varies significantly from 115,000 for Unitil to 6,700,000 for National Grid. In

IV – Question 1 – Reasonableness of Affiliate Charges

order to ensure a similar degree of complexity and breadth to that of Dominion Virginia Power, only utility companies with more than 1 million retail customers were considered for inclusion in the comparison group.

Exhibit 3 shows how 9 service companies were ultimately selected for the comparison group. Exhibit 4 compares the categories of services provided by DRS and the comparison group service companies.

Operating and maintenance expenses charged to utility affiliates for comparison group service companies were obtained from Schedule XVII – Schedule of Expense Distribution by Department or Service Function (P. 305 to 305c) of each entity’s FERC Form 60. This schedule shows charges by category of service (e.g., accounting, information technology) and type of cost (e.g., labor, benefits, outside services). The following were eliminated from the comparison group’s total expenses because they are not in DRS’ 2008 charges to Dominion Virginia Power:

- Income taxes (account 409), provision for deferred income taxes (account 410), provision for deferred income taxes – credit (account 411), and investment tax credit (account 411.5)
- Donations (account 426.1)
- Interest on long-term debt (account 427), interest on debt to associate companies (account 430), and other interest expense (account 431)

Comparison group service company 2007 expenses were also adjusted to remove charges to non-retail affiliates from the cost pool used to calculate the cost per regulated service customer. This determination was made using information from FERC Form 60’s schedule Account 457 – Analysis of Billing – Associate Companies.

Shown in the table below is the calculation of each comparison group service company’s cost per retail customer. 2007 affiliate service-related charges to Dominion Virginia Power were \$145 per customer compared to the comparison group’s average of \$172. Exhibit 5 shows graphically that Dominion Virginia Power’s 2007 affiliate cost per customer is almost 16% or \$27 per customer lower than the comparison group average.

Utility Service Company	Retail-Related Service Company Expenses	Total Retail Customers	Cost Per Customer
Progress	\$351,126,895	3,100,000	\$ 113
FirstEnergy	\$511,129,366	4,500,000	\$ 114
Exelon	\$692,160,758	5,880,000	\$ 118
PHI	\$317,770,893	1,910,000	\$ 166
Northeast	\$356,196,611	2,101,000	\$ 170
AEP	\$928,871,896	5,191,000	\$ 179
Southern Co	\$940,731,642	4,377,000	\$ 215
Entergy	\$732,652,863	2,700,000	\$ 271
Allegheny	\$541,807,275	1,565,000	\$ 346
Comparison Group Total	\$5,372,448,199	31,324,000	\$ 172
Dominion Virginia Power	\$343,020,616	2,362,318	\$ 145

Exhibit 3

Virginia Electric and Power Company
Selection of Utility Service Company Comparison Group

Utility	Retail Customers			Total	Percent ≥ 90%		Over 1M Customers
	Electric	Gas	Total		Electric	Electric	
AEP	5,191,000	-	5,191,000	100%	Yes	Yes	
Allegheny	1,565,000	-	1,565,000	100%	Yes	Yes	
Alliant	981,000	410,000	1,391,000	71%			
Ameren	2,400,000	1,000,000	3,400,000	71%			
Black Hills	105,000	33,000	138,000	76%			
E-On	908,000	318,000	1,226,000	74%			
Energy East	2,014,000	976,000	2,990,000	67%			
Entergy	2,700,000	-	2,700,000	100%	Yes	Yes	
Exelon	5,400,000	480,000	5,880,000	92%	Yes	Yes	
FirstEnergy	4,500,000	-	4,500,000	100%	Yes	Yes	
Great Plains	500,000		500,000	100%			
Nat Grid	3,300,000	3,400,000	6,700,000	49%			
NiSource	457,000	3,382,000	3,839,000	12%			
Northeast	1,898,000	203,000	2,101,000	90%	Yes	Yes	
PHI	1,790,000	120,000	1,910,000	94%	Yes	Yes	
Progress	3,100,000		3,100,000	100%	Yes	Yes	
SCANA	639,000	760,000	1,399,000	46%			
Southern Co.	4,377,000		4,377,000	100%	Yes	Yes	
Unitil	100,000	15,000	115,000	87%	Yes		
Xcel	3,300,000	1,800,000	5,100,000	65%			
Total	45,225,000	12,897,000	58,122,000	78%			

Dom Va Pwr	2,362,318	-	2,362,318
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Included in comparison group

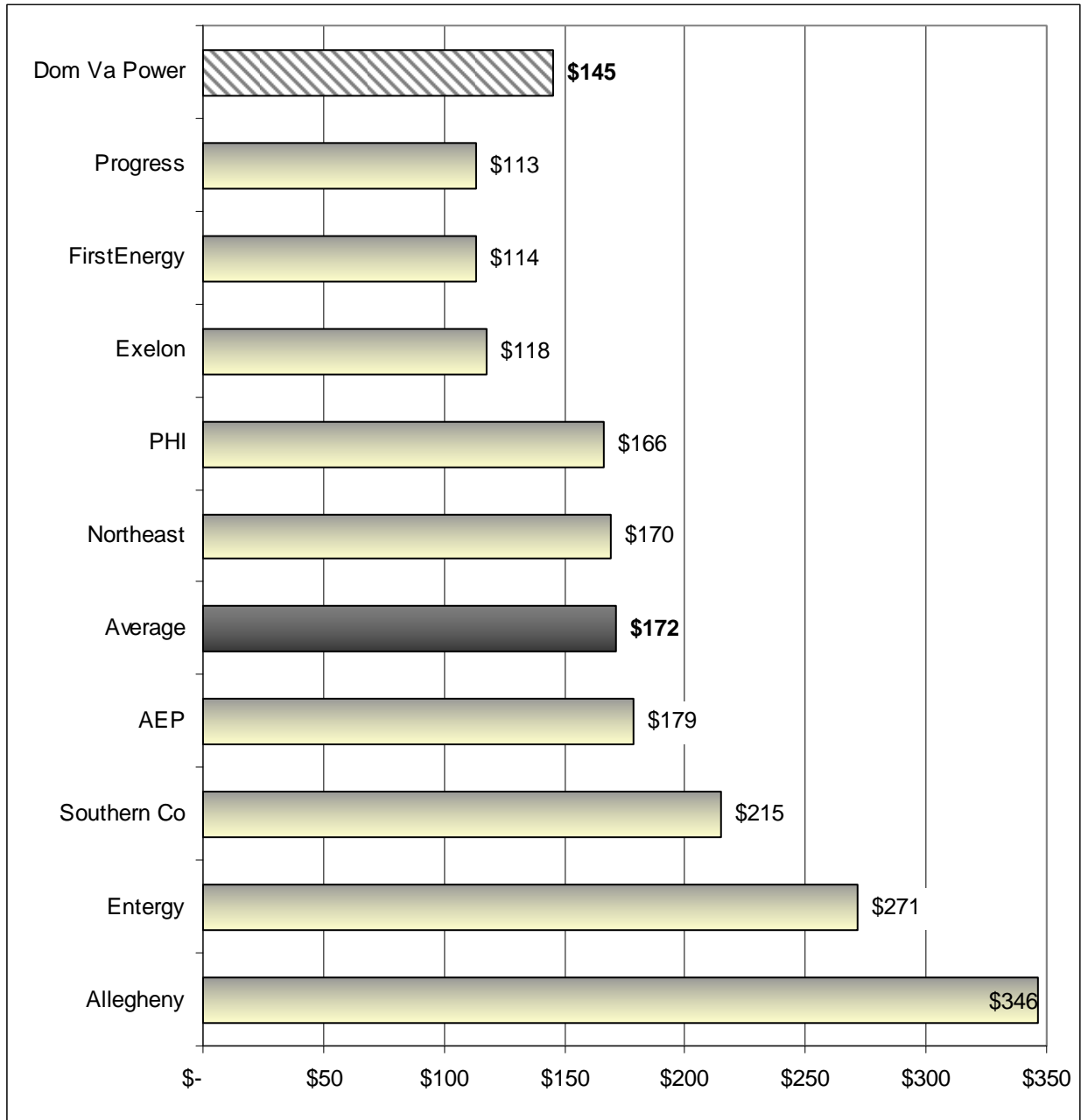
**Virginia Electric and Power Company
Analysis of Service Company Services**

Service Category ^(A)	Utility Service Company									
	Dominion	AEP	Allegheny	Entergy	Exelon	FirstEnergy	Northeast	PHI	Progress	Southern Co.
Accounting	X	X	X	X	X	X			X	
Auditing	X	X	X			X	X		X	X
Business Services	X	X	X		X	X		X	X	
Corporate Planning	X	X	X			X			X	
Customer Service	X	X	X		X	X	X	X		
Energy Marketing	X							X		X
Environmental & Safety	X	X				X		X		X
Executive	X	X	X		X	X	X	X		X
External Affairs	X	X	X	X	X	X	X	X	X	X
Finance	X	X	X	X	X	X	X	X	X	X
Human Resources	X	X	X	X	X	X	X	X	X	X
Information Technology	X	X	X	X	X	X	X	X	X	X
Legal	X	X	X	X	X	X	X	X	X	X
Operations	X	X	X	X	X	X	X	X	X	X
Regulatory Services	X	X	X		X	X			X	
Risk Management	X	X	X			X				
Supply Chain	X	X	X		X	X		X		X
Treasury	X	X	X			X			X	
Total Services	18	16	16	7	12	17	8	12	11	11

Note A: These 18 service categories were developed by Baryenbruch & Company, LLC based on an analysis of the Form 60 data. DRS' 26 services were mapped to these 18 service categories for purposes of this analysis.

Exhibit 5

Virginia Electric and Power Company
Comparison of Service Company Total Annual Costs Per Customer



IV – Question 1 – Reasonableness of Affiliate Charges

Form 60 data were further analyzed to compare the costs of categories of services. Services provided by the comparison group were assigned to 18 service categories shown in the table below.

Accounting	Finance
Auditing	Human Resources
Business Services	Information Technology
Corporate Planning	Legal
Customer Service	Operations
Energy Marketing	Regulatory Services
Environmental & Safety	Risk Management
Executive	Supply Chain
External Affairs	Treasury

Comparison group charges to regulated utility affiliates were assigned to service category cost pools, which were then divided by the number of retail customers. The resultant cost per customer for each service category is shown in Exhibit 6. This schedule, in effect, breaks down the service component of Dominion Virginia Power's and comparison group service companies' total cost per customer that was compared previously in Exhibit 5. Dominion Virginia Power's cost per customer is lower than the comparison group average for 16 of 18 service categories. Per customer cost results are also graphed in Exhibit 7, which shows Dominion Virginia Power's position within the range of comparison group per customer costs.

Further research into the two service categories in which Dominion Virginia Power is higher than average showed the following:

- Information Technology (IT) – DRI centralizes IT functions to the greatest extent possible in order to gain economies of scale. The IT functions for other utility companies typically are not centralized to the same extent. Depreciation and amortization expenses are included in the IT services charges to affiliates. IT assets in other utility companies are often owed by the regulated operating companies, thus their service companies charges would not include the associated depreciation and amortization expenses.
- External Affairs – DRS includes philanthropic-related expenses, including over \$800,000 in charitable donations. As discussed earlier, donations were excluded from comparison group service companies' cost pools. Philanthropic expenses account for approximately \$0.50 of DRS' \$5.69 per customer. DRS' cost also includes \$0.45 per customer in community affairs-related expenses. Most comparison group service companies do not include such expenses. It is possible these expenses are incurred directly by and recorded on the books of their regulated utility affiliates. These two items total \$0.95 per customer for DRS. This is the approximate difference between DRS and the comparison group average.

Based on the results of this benchmarking to comparable service companies, Dominion Virginia Power's service-related charges from affiliates are reasonable.

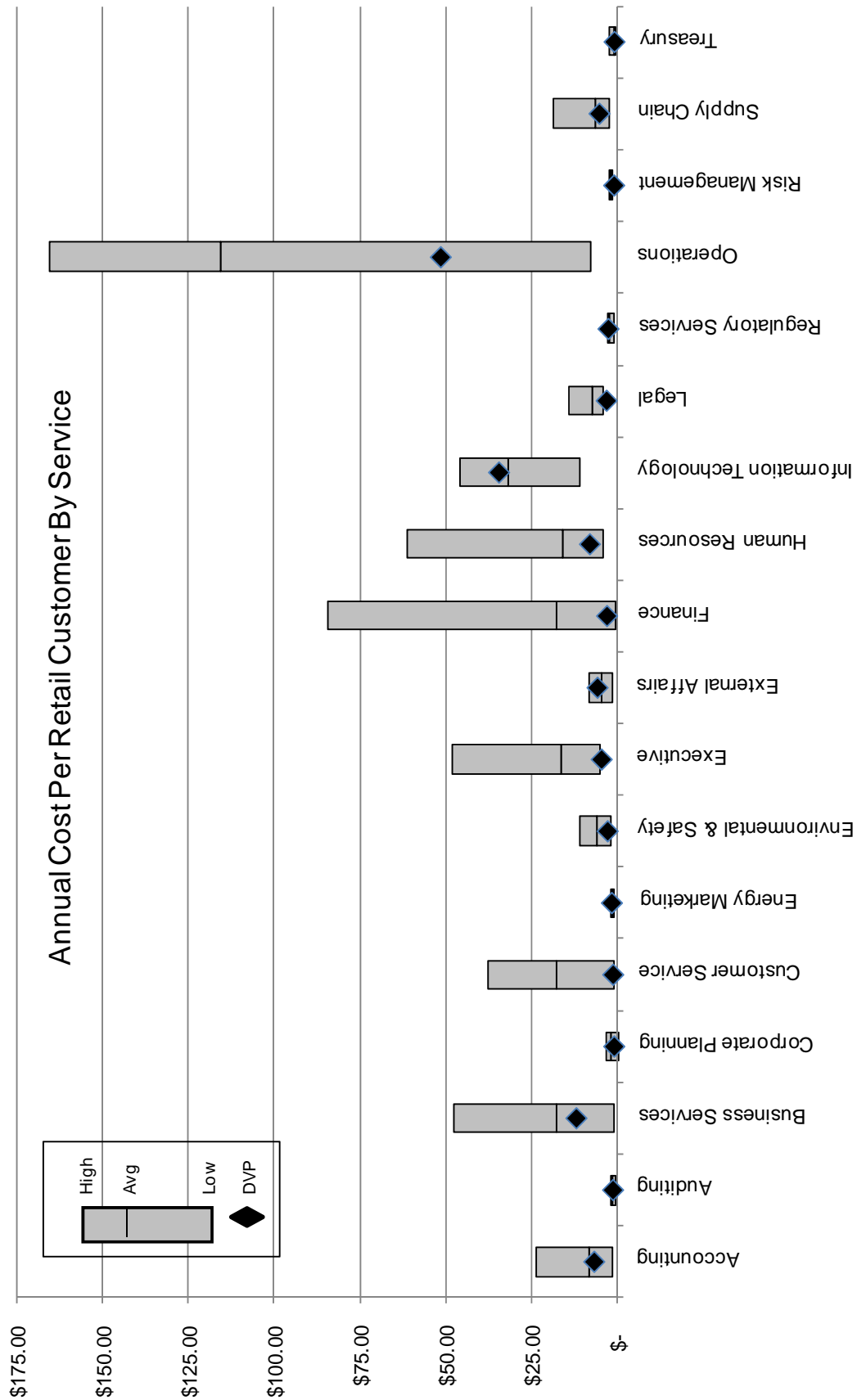
Exhibit 6

**Virginia Electric and Power Company
Annual Cost Per Customer by Service Category – Calculation Detail**

Service Category	Utility Service Company										Comparison Group Average (Adjusted)	Dominion Virginia Power	Dominion Virginia Power Higher(Lower) Than Adjusted Average
	AFP	Allegheny	Entergy	Exelon	FirstEnergy	Northeast	PH	Progress	Southern Co.				
Accounting	\$ (38.72)	\$ 11.89	\$ 23.99	\$ 1.41	\$ 5.51						\$ 8.23	\$ 6.66	\$ (1.58)
Auditing	\$ 1.97	\$ 1.37			\$ 0.69	\$ 1.18		\$ 1.58	\$ 1.63		\$ 1.44	\$ 1.15	\$ (0.29)
Business Services	\$ 28.49	\$ 1.21		\$ 6.34	\$ 5.97		\$ (1.20)	\$ 48.03			\$ 17.93	\$ 11.88	\$ (6.05)
Corporate Planning	\$ 3.23	\$ 3.19			\$ 0.21			\$ 2.31			\$ 2.08	\$ 0.81	\$ (1.27)
Customer Service	\$ 37.97	\$ 15.86		\$ 1.19	\$ 14.81	\$ 23.97	\$ 18.83				\$ 18.06	\$ 1.11	\$ (16.95)
Energy Marketing							\$ 1.40		\$ 1.93		\$ 1.77	\$ 1.50	\$ (0.26)
Environmental & Safety	\$ 6.95				\$ 2.60		\$ 2.06		\$ 11.06		\$ 6.26	\$ 2.72	\$ (3.55)
Executive	\$ 5.38	\$ 31.98		\$ 8.33	\$ 6.49	\$ 48.26	\$ 13.15		\$ 31.77		\$ 16.52	\$ 4.49	\$ (12.03)
External Affairs	\$ 1.74	\$ 3.25	\$ 4.75	\$ 5.30	\$ 5.84	\$ 5.20	\$ 1.87	\$ 8.46	\$ 5.49		\$ 4.76	\$ 5.69	\$ 0.93
Finance	\$ 1.30	\$ 1.45	\$ 84.35	\$ 17.17	\$ 1.43	\$ 29.71	\$ 21.20	\$ 0.85	\$ 25.77		\$ 17.96	\$ 2.91	\$ (15.05)
Human Resources	\$ 14.67	\$ 61.59	\$ 51.36	\$ 7.10	\$ 10.70	\$ 19.13	\$ 7.60	\$ 4.55	\$ 6.78		\$ 15.95	\$ 7.93	\$ (8.02)
Information Technology	\$ 11.11	\$ 28.89	\$ 35.29	\$ 46.06	\$ 25.39		\$ 39.05	\$ 28.41	\$ 43.37		\$ 32.02	\$ 34.55	\$ 2.53
Legal	\$ 5.34	\$ 9.73	\$ 14.29	\$ 7.65	\$ 7.14	\$ 4.41	\$ 5.68	\$ 7.12	\$ 7.46		\$ 7.45	\$ 3.01	\$ (4.44)
Regulatory Services	\$ 2.42	\$ 1.11			\$ 3.18						\$ 2.55	\$ 2.50	\$ (0.04)
Operations	\$ 90.84	\$ 165.49	\$ 57.32	\$ 7.98	\$ 16.26	\$ 37.69	\$ 37.73		\$ 77.24		\$ 115.98	\$ 51.61	\$ (64.37)
Risk Management	\$ 2.74	\$ 1.72			\$ 1.85						\$ 2.24	\$ 0.82	\$ (1.42)
Supply Chain	\$ 3.51	\$ 5.97		\$ 9.17	\$ 4.89		\$ 19.00		\$ 2.42		\$ 6.42	\$ 5.14	\$ (1.28)
Treasury		\$ 1.50			\$ 0.63			\$ 2.40			\$ 1.38	\$ 0.71	\$ (0.67)
Total Cost Per Customer	\$ 178.94	\$ 346.20	\$ 271.35	\$ 117.71	\$ 113.58	\$ 169.54	\$ 166.37	\$ 113.27	\$ 214.93		\$ 145.21		

Exhibit 7

**Virginia Electric and Power Company
Annual Cost Per Customer by Service Category – Dominion Virginia Power’s Position Relative to Comparison Group**



V – Question 2 – Provision of Services at the Lower of Cost or Market

Comparison Methodology

During 2008, two affiliates, DRS and Dominion Technical Solutions, Inc. (“DTech”) billed Dominion Virginia Power approximately \$387.7 million in service-related charges. These represent 98% of affiliate’s service-related charges to Dominion Virginia Power during 2008.

Dominion Virginia Power’s billings from these affiliates were market-tested by comparing the cost per hour for DRS and DTech services to those of outside service providers to whom those services could be outsourced. The outside providers selected for comparison were:

- Attorneys – legal and corporate secretary services
- Management Consultants – executive management, external affairs, human resources, communications services
- Certified Public Accountants – accounting, tax, finance, treasury, internal audit, and rates and regulatory services
- Information Technology Consultants – information technology services
- Professional Engineers – engineering and operations-related services

Calculation of Affiliates’ Hourly Rates

This study assigned DRS and DTech affiliate charges to one of the five outside provider categories (listed above) based on the specific nature of the service provided to Dominion Virginia Power. For instance, the charges from DRS’ internal auditing cost center were assigned to the CPA cost pool.

Certain adjustments were necessary to construct the DRS/DTech-related cost pools that are reflective of how outside providers recover their costs.

- Travel Expenses – In general, client-related travel expenses are not recovered by outside service providers through their hourly billing rates. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, it is appropriate to remove these charges from the DRS/DTech hourly rate calculation.
- Outside Services – These expenses are not associated with the cost of DRS/DTech personnel performing services for Dominion Virginia Power (outside firms perform the work under DRS and DTech direction). Charges from outside professional firms to perform certain corporate-wide services (e.g., legal, financial audit, actuarial services) represent services that have, in effect, already been outsourced by DRS/DTech.
- Other Non-Service Expenses – These are various DRS/DTech-incurred fees and expenses to which Dominion Virginia Power is assigned its appropriate share. They are not related to the performance of services by DRS and DTech personnel for Dominion Virginia Power. An outside provider would not be expected to recover these costs in their hourly billing rates. Examples of these items include financing fees and material expenses.
- Enterprise Software Expenses – DRS arranges for enterprise-wide licenses for certain mainframe and server software. In doing so, DRS lowers the cost of this software through economies of scale. These savings are passed on to Dominion Virginia Power and affiliates who use the applications. Outside providers would expect to recover enterprise software expenses over and above their hourly rates. For instance, an outside provider that would take over support of the corporation’s SAP applications,

V – Question 2 – Provision of Services at the Lower of Cost or Market

would not try to recover the annual license fees paid to SAP in their hourly billing rates. Rather, a separate charge would be established for these costs.

- Transportation-Related Cost Centers – DRS provides aviation services to Dominion Virginia Power and its affiliates. This is a discrete service and not part of the cost of other services.
- Customer Accounts Services-Related Cost Centers – These are DRS services that would not be provided by any of the five outside professional service provider categories. Thus, these costs are tested in connection with the customer account services expense comparison in Chapter VI.

Exhibit 8 is an analysis of these adjustments from DRS/DTech 2008 service-related charges to Dominion Virginia Power. The net testable DRS charges of \$301.5 million were subjected to a lower of cost or market pricing test.

Based on the nature of the services provided by each DRS cost center, testable charges were assigned to the five outside provider categories, as shown in Exhibit 9. A few cost centers provide general support for the DRS organization, and do not provide services directly to Dominion Virginia Power. For purposes of this study, these cost centers were designated as “overhead,” and their expenses are later allocated to the five outside provider cost pools. Office facility cost centers are the largest and make up the majority of overhead charges. Test year DRS hours charged to Dominion Virginia Power are compiled by outside provider category in Exhibit 10. The categorization of hours was also based on the same cost center-by-cost center assignment used for DRS dollar charges.

Based on the cost and hour pools, DRS’ 2008 hourly rates were developed for each of the five provider categories. Exhibit 11 shows the calculations involved in creating hourly rates that are compared to the rates of outside providers.

**Virginia Electric and Power Company
Calculation of 2008 Net Testable DRS Charges**

2008 Charges From Affiliates			
Dominion Resources Services, Inc.	\$	350,456,982	
Dominion Technical Solutions, Inc.	\$	<u>37,220,958</u>	
Total Affiliate Charges	\$	387,677,940	\$ 387,677,940
Less: GL Accounts Eliminated from Market Test			
<u>Travel Expenses</u>			
5302010-Travel Expense	\$	7,949,814	
5302015-Travel - Meals (50% Non-Deductible)	\$	1,058,874	
5302020-Entertainment Expense	\$	115,725	
5302021-Entertainment Expense - Non-Deductible	\$	641,815	
5304500-Aviation Fuel	\$	422,097	
5304510-Gasoline	\$	32,324	
5304520-Fuel-Off Hwy Equip	\$	1,629	
5307000-Rent Expense-Hangars	\$	566	
5307040-Rent Expense - Vehicles	\$	(9,441)	
5399065-Expense Reimbursements from Customers	\$	613,342	
5399070-Vehicle Expenses-M4-Fleet System- Mainte	\$	101,069	
5399071-Vehicle Expenses-M4-Fleet System - Credi	\$	-	
5399072-Vehicle Expenses-M4-Fleet System - Owner	\$	1,895,188	
5399100-Communications - Aviation	\$	<u>8,627</u>	
Total Travel Expenses	\$	12,831,629	\$ (12,831,629)
<u>Outside Services</u>			
5303010-Contractor Labor - Straight Time	\$	11,715,447	
5303015-Contractor Labor OT	\$	127,529	
5303020-Contractor Materials	\$	372	
5303030-Contractor Services	\$	8,842,906	
5303040-Environmental Services	\$	106	
5303110-Office Equipment Maintenance Services	\$	749,497	
5303120-Computer & Software Maintenance Services	\$	11,315,889	
5303130-Building & Grounds Maintenance Services	\$	94,077	
5303140-Security Equipment Maintenance Services	\$	474,142	
5303150-Communications Equipment Maintenance Ser	\$	58,819	
5303160-Network Maintenance Services	\$	748,561	
5303170-Automobile Repairs/Maintenance	\$	45,753	
5303175-Aviation Repairs/Maintenance	\$	404,539	
5303190-Miscellaneous Repairs/Maintenance	\$	119,774	
5303210-Accounting/Auditing Services	\$	1,560,502	
5303220-Legal Services	\$	1,003,584	
5303310-Consultant Services	\$	7,106,335	
5303320-Training Services	\$	1,706,576	
5303810-Employment Agency Services	\$	4,088	
5303820-Collection Agency Services	\$	170	
5303830-Advertising	\$	1,568,493	
5303840-Security & Investigative Services	\$	632,473	
5303850-Testing Services	\$	91,662	
5303860-Broker Service Fees	\$	-	
5303890-Miscellaneous Outside Services	\$	<u>3,303,518</u>	
Total Outside Services	\$	51,674,810	\$ (51,674,810)

**Virginia Electric and Power Company
Calculation of 2008 Net Testable DRS Charges**

Less: GL Accounts Eliminated from Market Test		
<u>Other Non-Service Expenses</u>		
5304200-Material Exp-Non Stk	\$ 1,674,779	
5310010-Operating Permits	\$ 25,729	
5310020-Licensing Fees	\$ 7,360	
5310050-Environmental Fees	\$ 43,001	
5310060-Financing Fees	\$ 1,360,846	
5310080-Bank Fees	\$ 525,273	
5310090-Miscellaneous Fees	\$ 258,074	
5312042-Freestanding Derivatives - MTM - Other	\$ -	
5380010-Operating Gain/Loss-Disposition of Asset	\$ 95,755	
5399074-Vehicle Purchases	\$ -	
5705100-Excise Taxes	\$ -	
Intercompany Money Pool Interest Income/Expense	\$ (240,808)	
Total Non-Services Expenses	\$ 3,750,009	\$ (3,750,009)
Less: DRS Cost Centers Eliminated from Market Test		
Enterprise Software Expense Cost Centers	\$ 3,191,981	
Transportation-Related Cost Centers	\$ 2,890,448	
Market Tested via Customer Acct Svcs Comparison	\$ 11,823,336	
Total Eliminated Cost Centers	\$ 17,905,765	\$ (17,905,765)
Net Testable DRS Billings		\$ 301,515,727

**Virginia Electric and Power Company
2008 Market Testable DRS Charges to Dominion Virginia Power by Outside Service Provider Category**

Service Types (A)	Outside Provider Category					
	Attorney	Management Consultant	Certified Public Accountant	IT Consultant	Professional Engineer	Overhead
Accounting			\$ 7,079,802			
Accounts Payable			\$ 1,430,583			
Auditing			\$ 2,561,479			
Business Operations		\$ 117,132				
Business Planning		\$ 2,667,191				
Corp. Communications		\$ 3,286,200				
Corporate Planning			\$ 3,875,847			
Corporate Secretary	\$ 28,690					
Emp. Benefits/Pension		\$ 1,308,252				
Energy Marketing		\$ 757,305				
Environmental					\$ 5,063,367	
Executive/Admin.	\$ 741,908	\$ 41,259,788				
External Affairs		\$ 5,162,131				\$ 1,341,527
Facilities						\$ 766,206
Fleet						
Generation Business Development		\$ 1,955,147			\$ 23,903,016	
Generation Business Operations						
Generation Human Resources		\$ 3,539,772			\$ 45,476,530	
Generation Operations						\$ 1,624,224
General Services						
Human Resources		\$ 13,067,376				
Information Technology				\$ 66,067,732		
Investor Relations			\$ 41,912			
Legal	\$ 6,023,968					
Operations		\$ 2,638,913			\$ 31,126,941	
Other						\$ 7,251,893
Payroll			\$ 1,122,884			
Procurement			\$ 10,265,973			
Rates			\$ 3,473,865			
Risk Management		\$ 762,343	\$ 1,157,660			
Security		\$ 2,070,009				
Tax			\$ 2,812,260			
Treasury			\$ (314,095)			
Total Cost Pool	\$ 6,794,566	\$ 78,591,560	\$ 33,508,167	\$ 66,067,732	\$ 105,569,854	\$ 10,983,849
						\$ 301,515,727

Note A: The current Services Agreement lists 26 services DRI can provide to Dominion Virginia Power. The list of service types in this analysis is more detailed, but they map directly to the 26 Services Agreement services.

	Outside Provider Category				
	Attorney	Management Consultant	Certified Public Accountant	IT Consultant	Professional Engineer
Accounting			103,339		
Accounts Payable			28,510		
Auditing			34,563		
Business Operations		1,331			
Business Planning		23,596			
Corp Communications		36,628			
Corporate Planning			49,678		
Corporate Secretary	412				
Emp. Benefits/Pension		18,404			
Energy Marketing		9,447			61,584
Environmental					
Executive/Admin	989	55,061			
External Affairs		32,562			
Facilities					
Fleet					
Generation Business Development		16,204			
Generation Business Operations					261,585
Generation Human Resources		45,212			
Generation Operations					452,976
General Services					
Human Resources		331,922			
Information Technology				761,452	
Investor Relations			365		
Legal	46,474				
Operations		30,112			403,748
Other					
Payroll			15,121		
Procurement			127,655		
Rates			38,034		
Risk Management		9,239	15,668		
Security		41,144			
Tax			34,625		
Treasury			3,781		
Total Cost Pool	47,875	650,861	451,339	761,452	1,179,893
					Total
					3,091,421



Exhibit 11

**Virginia Electric and Power Company
2008 DRS Hourly Rate Calculation**

DRS Hourly Rates						
Attorney	Mgmt Consultant	Certified Public Acct	IT Consultant	Professional Engineer	Total	
\$ 6,794,566	\$ 78,591,560	\$ 33,508,167	\$ 66,067,732	\$ 105,569,854	\$ 290,531,879	
\$ 256,875	\$ 2,971,233	\$ 1,266,810	\$ 2,497,757	\$ 3,991,174	\$ 10,983,849	
\$ 7,051,441	\$ 81,562,793	\$ 34,774,977	\$ 68,565,489	\$ 109,561,028	\$ 301,515,727	
47,875	650,861	451,339	761,452	1,179,893	3,091,421	
\$ 147	\$ 125	\$ 77	\$ 90	\$ 93		

Service-Related Charges
Overhead Expenses (A)
Cost Pool Total
Hours

Average DRS Hourly Rate

Note A: These expenses are assigned to the outside provider categories prorata based on the "direct" expenses, as calculated below.

Attorney	Mgmt Consultant	Certified Public Acct	IT Consultant	Professional Engineer	Total
\$ 6,794,566	\$ 78,591,560	\$ 33,508,167	\$ 66,067,732	\$ 105,569,854	\$ 290,531,879
2.3%	27.1%	11.5%	22.7%	36.3%	100.0%
\$ 10,983,849	\$ 10,983,849	\$ 10,983,849	\$ 10,983,849	\$ 10,983,849	
\$ 256,875	\$ 2,971,233	\$ 1,266,810	\$ 2,497,757	\$ 3,991,174	\$ 10,983,849

Service-Related Charges (above)
Percent of Cost Pool Total
Total Overhead Expenses
Allocation of Overhead Expenses

V – Question 2 – Provision of Services at the Lower of Cost or Market

Outside Service Provider Hourly Rates

The next step in the cost comparison was to calculate the average billing rates for each type of outside service provider. The source of this information and the determination of the average rates are described below.

It should be noted that professionals working for three of the five outside provider categories may be licensed to practice by state regulatory bodies. However, not every professional working for these firms is licensed. For instance, among Virginia certified public accounting firms, only more experienced staff are predominantly CPAs, as shown in the table below. Some DRS employees also have professional licenses. Thus, it is valid to compare the DRS' hourly rates to those of the outside professional service providers included in this study.

Position	% In VA Who Are CPAs
Partners/Owners	98%
Directors (over 10 years experience)	86%
Managers (6-10 years experience)	88%
Sr Associates (4-5 years experience)	81%
Associates (1-3 years experience)	23%
New Professionals	0%

Source: AICPA's National PCPS/TSCPA Management of an Accounting Practice Survey (2008)

Attorneys

The Virginia State Bar does not survey its members as to their hourly billing rates. In addition, publicly available billing rate information could not be found for Virginia attorneys. Therefore, an estimate of Virginia attorney rates was developed from two surveys conducted by Lawyers Weekly in the states of Michigan and Massachusetts. As presented in Exhibit 12, the average rate for each firm was adjusted for the cost of living differential between its location and Richmond, Virginia. The Lawyers Weekly surveys included rates in effect at December 31, 2007. Thus, the 2007 average rate was escalated to June 30, 2008—the midpoint of the test year ended December 31, 2008.

Management Consultants

The cost per hour for management consultants was developed from a 2008 survey performed by the Association of Management Consulting Firms—an industry trade organization. The survey includes rates that were in effect during 2007 for firms throughout the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison.

The first step in the calculation, presented in Exhibit 13, was to determine an average rate by consultant position level. From these rates, a weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment, based on Baryenbruch & Company, LLC's experience, by each consultant position level. The 2007 average rate was escalated to June 30, 2008—the midpoint of the test year ended December 31, 2008.

V – Question 2 – Provision of Services at the Lower of Cost or Market

Certified Public Accountants

The average hourly rate for Virginia CPAs was developed from a 2008 survey performed by the American Institute of Certified Public Accountants (AICPA). The Virginia version of this survey was used to develop hourly rates for member firms in Virginia.

As shown in Exhibit 14, a weighted average hourly rate was developed based on a set of accountant positions and a percent of time that is typically applied to an accounting assignment, based on Baryenbruch & Company, LLC's experience. This survey includes rate information in effect during 2007. Thus, the data had to be escalated to June 30, 2008—the test year's midpoint.

Information Technology Consultants

The average hourly rate for information technology consultants and contractors was developed from Baryenbruch & Company, LLC data and from information provided by DRS on hourly rates it actually paid to IT contractors during 2008. As shown in Exhibit 15, that data was compiled, and a weighted average was calculated based on a percent of time that is typically applied to an IT consulting assignment, based on Baryenbruch & Company, LLC's experience,

Professional Engineers

Hourly rate information for professional engineering firms was developed from Baryenbruch & Company, LLC data. As shown in Exhibit 16, an average rate was developed for each engineering position for 9 engineering firms. Then, using a typical percentage mix by position that is typically applied to an engineering assignment, based on Baryenbruch & Company, LLC's experience, a weighted average cost per hour was calculated.



Billing rates as of December 31, 2007 (Note A)										Cost of Living Adjust Rate	
Firm	Location	Number Of Lawyers	Billing Rate Range						Average		Adjusted Rate
			Associate		Partner		High	Low			
			Low	High	Low	High			High	Low	Average
Dickinson Wright PLLC	Detroit, Mi	229	\$ 170	\$ 275	\$ 260	\$ 530	\$ 309	\$ 365	85%	\$ 365	
Dykema	Detroit, Mi	222	\$ 185	\$ 390	\$ 245	\$ 625	\$ 361	\$ 427	85%	\$ 427	
Butzel Long	Detroit, Mi	209	\$ 165	\$ 400	\$ 220	\$ 550	\$ 334	\$ 395	85%	\$ 395	
Bodman LLP	Detroit, Mi	128	\$ 125	\$ 215	\$ 210	\$ 495	\$ 261	\$ 309	85%	\$ 309	
Jaffe Raitt Heuer & Weiss, PC	Southfield, Mi	100	\$ 165	\$ 225	\$ 225	\$ 500	\$ 279	\$ 289	97%	\$ 289	
Trott & Trott, PC	Bingham Farms, Mi	64	\$ 170	\$ 170	\$ 235	\$ 235	\$ 203	\$ 162	125%	\$ 162	
Brooks Kushman PC	Southfield, Mi	52	\$ 160	\$ 275	\$ 250	\$ 505	\$ 298	\$ 308	97%	\$ 308	
Kemp, Klein, Umphrey, Edelman & May PC	Troy, Mi	36	\$ 150	\$ 190	\$ 200	\$ 340	\$ 220	\$ 198	111%	\$ 198	
Pepper Hamilton LLP	Detroit, Mi	33	\$ 200	\$ 315	\$ 340	\$ 615	\$ 368	\$ 435	85%	\$ 435	
Hertz, Schram & Saretsky, PC	Bloomfield Hills, Mi	29	\$ 175	\$ 260	\$ 275	\$ 400	\$ 278	\$ 200	139%	\$ 200	
Strobi & Sharp, PC	Bloomfield Hills, Mi	28	\$ 110	\$ 210	\$ 200	\$ 300	\$ 205	\$ 148	139%	\$ 148	
Kupelian Ormond & Magy, PC	Southfield, Mi	25	\$ 165	\$ 195	\$ 235	\$ 320	\$ 229	\$ 237	97%	\$ 237	
Rader, Fishman & Grauer, PLLC	Bloomfield Hills, Mi	25	\$ 130	\$ 250	\$ 275	\$ 495	\$ 288	\$ 207	139%	\$ 207	
McShane & Bowie PLC	Grand Rapids, Mi	22	\$ 160	\$ 275	\$ 250	\$ 375	\$ 265	\$ 277	96%	\$ 277	
Edwards Angel Palmer & Dodge	Boston, Ma	259	\$ 144	\$ 321	\$ 474	\$ 474	\$ 353	\$ 241	147%	\$ 241	
Sullivan & Worcester	Boston, Ma	137	\$ 245	\$ 530	\$ 415	\$ 700	\$ 473	\$ 322	147%	\$ 322	
Burns & Levinson	Boston, Ma	112	\$ 210	\$ 350	\$ 375	\$ 475	\$ 353	\$ 240	147%	\$ 240	
Bowditch & Dewey	Worcester, Ma	64	\$ 150	\$ 300	\$ 280	\$ 550	\$ 320	\$ 277	115%	\$ 277	
Mirick O'Connell	Worcester, Ma	60	\$ 160	\$ 250	\$ 280	\$ 400	\$ 273	\$ 236	115%	\$ 236	
Hinckley, Allen & Snyder	Boston, Ma	58	\$ 200	\$ 330	\$ 300	\$ 480	\$ 328	\$ 223	147%	\$ 223	
Prince Lobel Glovsky & Tye	Boston, Ma	52	\$ 175	\$ 265	\$ 275	\$ 475	\$ 298	\$ 203	147%	\$ 203	
Robinson & Cole	Boston, Ma	48	\$ 220	\$ 375	\$ 340	\$ 490	\$ 356	\$ 243	147%	\$ 243	
Bromberg & Sunstein	Boston, Ma	42	\$ 250	\$ 450	\$ 500	\$ 725	\$ 481	\$ 328	147%	\$ 328	
Lawson & Weitzen	Boston, Ma	35	\$ 125	\$ 225	\$ 225	\$ 400	\$ 244	\$ 166	147%	\$ 166	
Murtha Cullina	Boston, Ma	34	\$ 165	\$ 290	\$ 250	\$ 500	\$ 301	\$ 205	147%	\$ 205	
Marcus Errico Emmer & Brooks	Braintree, Ma	28	\$ 250	\$ 250	\$ 300	\$ 360	\$ 290	\$ 211	137%	\$ 211	
Rich May	Boston, Ma	25	\$ 150	\$ 300	\$ 300	\$ 400	\$ 288	\$ 196	147%	\$ 196	
Keegan Werlin	Boston, Ma	22	\$ 150	\$ 275	\$ 325	\$ 475	\$ 306	\$ 209	147%	\$ 209	
Barron & Stadfeld	Boston, Ma	21	\$ 160	\$ 230	\$ 250	\$ 350	\$ 248	\$ 169	147%	\$ 169	
Cain Hibbard Myers & Cook	Pittsfield, Ma	19	\$ 150	\$ 200	\$ 210	\$ 235	\$ 199	\$ 171	116%	\$ 171	
Overall Average 2007 Billing Rate										\$ 253	
Escalation to Test Year's Mid-Point - June 30, 2008 (Note B)											
CPI at December 31, 2007										210.0	
CPI at June 30, 2008										218.8	
Inflation/Escalation										4.2%	
Average Billing Rate At June 30, 2008										\$ 264	

Note A: Source is Michigan Lawyers Weekly (April 2008) and Massachusetts Lawyers Weekly (April 2008)

Note B: Source is U.S. Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.txt>)

Note C: Source is Sperling's Best Places (<http://www.bestplaces.net/col/col.aspx>). This percentage represents the cost of living difference between the Michigan and Massachusetts cities and Richmond, Virginia. A number over 100% indicates the Michigan or Massachusetts city's cost of living is higher than Richmond. A number less than 100% indicates Richmond's cost of living is higher.

**Virginia Electric and Power Company
2008 Billing Rates for U.S. Management Consultants**

<p>A. Calculation of Average Hourly Billing Rate by Consultant Position Survey billing rates were those in effect in 2007 (Note A)</p>				
Average Hourly Rates (Note A)				
Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner
\$ 142	\$ 181	\$ 236	\$ 286	\$ 333
Average				
<p>B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement</p>				
Average Hourly Billing Rate (from above)				
Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner
\$ 142	\$ 181	\$ 236	\$ 286	\$ 333
30%	30%	20%	10%	10%
\$ 42	\$ 54	\$ 47	\$ 29	\$ 33
				Weighted Average
				\$ 206
<p>Escalation to Midpoint of December 31, 2008 Test Period (Note B)</p>				
CPI at December 31, 2007				
210.0				
CPI at June 30, 2008				
218.8				
Inflation/Escalation				
4.2%				
Average Hourly Billing Rate For Management Consultants At June 30, 2008				\$ 214

Note A: Source is "Operating Ratios For Management Consulting Firms, 2008 Edition," Association of Management Consulting Firms

Note B: Source is U.S. Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>)

2008 Billing Rates of Virginia Certified Public Accountants

A. Calculation of Average Hourly Billing Rate by Public Accounting Position
 Survey billing rates were those in effect in 2007 (Note A)

Average Hourly Billing Rate (Note A)				
Staff	Senior Accountant	Manager	Partner	
\$ 80	\$ 107	\$ 138	\$ 165	
30%	30%	20%	20%	Weighted Average
\$ 24	\$ 32	\$ 28	\$ 33	\$ 117

Average Hourly Billing Rate by CPA Firm Position

Percent of Accounting Assignment

Escalation to Midpoint of June 30, 2008 Test Period (Note B)

CPI at December 31, 2007	210.0
CPI at June 30, 2008	218.8
Inflation/Escalation	4.2%
Average Hourly Billing Rate For CPAs At June 30, 2008	\$ 122

Note A: Source is AICPA's 2008 National PCPS/TSCPA Management of an Accounting Practice Survey (Virginia edition)

Note B: Source is U.S. Bureau of Labor Statistics (<http://ftp.bls.gov/pub/special.requests/cpi/cpi.txt>)

Exhibit 15

**Virginia Electric and Power Company
 2008 Billing Rates For IT Consultants**

IT Resource Level	2008 Hourly Rate (A)	Overall Average	2008 Rate	% of Project/Assignment
Consultant Positions				
Senior Manager/Partner Consultant	\$ 360	Senior Manager/Partner Consultant	\$ 360	10%
Staff/Manager Consultant	\$ 240	Staff/Manager Consultant	\$ 240	30%
Contractor Positions		Senior Contractor	\$ 110	30%
Senior Contractor	\$ 110	Contractor	\$ 63	30%
Contractor	\$ 63			
		Weighted Average	\$ 160	

Note A: Sources are Baryenbruch & Company, LLC and DRS

**Virginia Electric and Power Company
2008 Billing Rates for Engineers**

<p>Note: Billing rates were those in effect in 2008</p> <p>A. Calculation of Average Hourly Rate by Engineer Position</p>			
Firm Number	Average Hourly Billing Rates		
	Engineer	Project Manager	Officer
	Design Engineer	Sr. Mgr. Engineer	Principal Engineer
Firm #1	\$85	\$136	\$175
Firm #2	\$84	\$134	\$164
Firm #3	\$102	\$162	\$207
Firm #4	\$80	\$127	\$162
Firm #5	\$73	\$112	\$160
Firm #6	\$86	\$139	\$190
Firm #7	\$98	\$132	\$146
Firm #8	\$92	\$138	\$189
Firm #9	\$77	\$110	\$135
<p>B. Calculation of Overall Average Engineering Hourly Billing Rate</p>			
Average Hourly Billing Rate (from above)	Engineer	Project Manager	Officer
	Design Engineer	Project Associate	Principal Engineer
	Project Engineer	Sr. Mgr. Engineer	
	\$86	\$132	\$170
Percent of Engineering Assignment	50%	25%	25%
	\$43	\$33	\$42
			Weighted Average
			\$119

Source: Baryenbruch & Company, LLC data

V – Question 2 – Provision of Services at the Lower of Cost or Market

Affiliates and Outside Providers Cost Comparison

As shown in the table below, DRS/DTech's costs per hour during 2008 are significantly lower than those of outside providers.

Service Provider	Test Year Cost Per Hour Difference		
	DRS	Outside Providers	Difference - DRS Greater(Less) Than Outside
Attorney	\$ 147	\$ 264	\$ (116)
Management Consultant	\$ 125	\$ 214	\$ (89)
Certified Public Accountant	\$ 77	\$ 122	\$ (45)
IT Consultant	\$ 90	\$ 160	\$ (70)
Professional Engineer	\$ 93	\$ 119	\$ (26)

Based on these cost per hour differentials, and the number of hours DRS/DTech billed Dominion Virginia Power during the test year, DRS/DTech's services would have cost approximately \$167 million more from outside providers, as calculated below. This is 55% more than DRS/DTech's total charges to Dominion Virginia Power during the test year ended December 31, 2008 (\$167,068,813 / \$301,515,727 = 55%).

Service Provider	Test Year Total Cost Difference		
	Hourly Rate Difference - DRS Greater(Less) Than Outside	DRS Hours Charged	Dollar Difference
Attorney	\$ (116)	47,875	\$ (5,577,233)
Management Consultant	\$ (89)	650,861	\$ (57,954,951)
Certified Public Accountant	\$ (45)	451,339	\$ (20,103,497)
IT Consultant	\$ (70)	761,452	\$ (53,145,057)
Professional Engineer	\$ (26)	1,179,893	\$ (30,288,076)
Net DRS Less Than Outside Providers			\$ (167,068,813)

DRS and DTech are obligated to provide Dominion Virginia Power with services at the lower of cost or market according to the Commission's order approving the current Services Agreement. As a final step in this lower of cost or market pricing analysis, the 2008 income statements of both DRS and DTech were reviewed. Both were found to have no net income. This provides further evidence that Dominion Virginia Power received services from the two affiliates at their cost, which is below market as discussed above.

VI - Question 3 - Reasonableness of DRS' Customer Accounts Services Costs

Comparison Methodology

Customer Accounts Services covers the following utility functions:

- Customer Call Center – customer calls/contact, credit, order taking/disposition, bill collection efforts, outage calls
- Call Center IT – maintenance of phone banks, voice recognition units, call center software applications, telecommunications
- Customer billing – bill printing, stuffing, and mailing
- Remittance processing – processing customer payments received in the mail
- Bill payment centers – locations where customers can pay their bills in person

It is difficult to compare the cost of DRS' customer accounts services-related charges to Dominion Virginia Power with outside providers of the same services because survey data is proprietary and expensive to obtain. For this reason, Dominion Virginia Power's charges from DRS for customer accounts services are compared to those of neighboring electric utilities because the data necessary to make such comparison is available to the public.

Neighboring electric utility cost information comes from the FERC Form 1 that each utility must file. FERC's chart of accounts is defined in Chapter 18, Part 101 of the Code of Federal Regulations. FERC accounts that contain customer accounts services-related expenses are Account 903 Customer Accounts Expense – Records and Collection Expense and Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense. Exhibit 17 provides FERC's definition of the type of expenses that should be recorded in these accounts.

In addition to the charges in these FERC accounts, labor-related overheads charged to the following FERC accounts must be added to the labor components of Accounts 903 and 905:

- Account 926 Employee Pension and Benefits
- Account 408 Taxes Other Than Income (employer's portion of FICA)

Comparison Group

Neighboring electric utilities included in the comparison group are shown in the table below. These are companies whose FERC Form 1s show amounts for Accounts 903 and 905.

Virginia	• Appalachian Power	
Kentucky	• Duke Energy Kentucky • Kentucky Power	• Kentucky Utilities • Louisville Gas & Electric
West Virginia	• Appalachian Power • Monongahela Power	• Wheeling Power
North Carolina	• Duke Energy Carolinas	• Progress Energy Carolinas
Maryland	• Baltimore Gas & Electric • Delmarva Power & Light	• Potomac Electric
Tennessee	• Kingsport Power	

**Virginia Electric and Power Company
FERC Account Descriptions**

903 – Customer Records and Collection Expenses

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery, and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

FERC Account Descriptions

905 – Miscellaneous Customer Accounts Expenses

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

VI - Question 3 - Reasonableness of DRS' Customer Accounts Services Costs

Dominion Virginia Power Customer Account Services Cost Per Customer

As calculated below, Dominion Virginia Power's 2007 customer account services expense per customer was \$19.52. Besides charges recorded to accounts 903 and 905 on Dominion Virginia Power's books, two other cost components were added into Dominion Virginia Power's cost pool: (1) the cost of postage for Dominion Virginia Power's customer bills printed by DRS and recorded in an administrative and general FERC account by Dominion Virginia Power, and (2) charges from East Ohio Gas for the cost of handling overflow Dominion Virginia Power customer calls to DRS.

Sources of Charges	2007 Amount
Dominion Virginia Power	
Acct 903 - Customer Records & Collection	\$ 32,253,336
Acct 905 - Miscellaneous Customer Accounts	\$ -
Account 926 - Employee Pension & Benefits	\$ 3,831,664
Account 408 - Taxes Other Than Income (Employer's FICA)	\$ 1,451,975
Dominion Resources Services, Inc.	
DRS Cost Center 703227 - Inserting (postage)	\$ 8,224,414
East Ohio Gas Company	\$ 351,031
Total Dominion Virginia Power CAS Expenses	\$ 46,112,420
Total Dominion Virginia Power Customers	2,362,318
Average Cost per Customer	\$ 19.52

Comparison Group Cost Per Customer

Exhibit 18 shows the actual 2007 customer accounts expense per customer calculation for the electric utility comparison group. All of the underlying data were taken from each utility's FERC Form 1.

Summary of Results

As shown in the table below, Dominion Virginia Power's cost per customer is considerably less than the average of the neighboring electric utility comparison group. Based upon this data, DRS' 2007 customer accounts-related expenses charged to Dominion Virginia Power are reasonable.

VI - Question 3 - Reasonableness of DRS' Customer Accounts Services Costs

Average Customer Accounts Expense Per Customer		
Louisville Gas & Electric	\$	13.71
Monongahela Power	\$	16.10
Dominion Virginia Power	\$	19.52
Duke Energy Carolinas	\$	23.98
Progress Energy Carolinas	\$	24.66
Kentucky Utilities	\$	25.91
Wheeling Power	\$	28.08
Comparison Group Average	\$	28.93
Kingsport Power	\$	32.31
Baltimore Gas & Electric	\$	32.50
Duke Energy Kentucky	\$	34.88
Appalachian Power	\$	34.99
Kentucky Power	\$	37.59
Delmarva Power & Light	\$	61.87
Potomac Electric	\$	70.37

**Virginia Electric and Power Company
Comparison Group 2007 Actual Customer Accounts Expense Per Customer**

Virginia		Kentucky				Louisville Gas & Electric
Appalachian Power	Virginia Dom. Power	Duke Energy Kentucky	Kentucky Power	Kentucky Utilities	Kentucky Utilities	Louisville Gas & Electric
\$ 31,314,061	\$ 32,253,336	\$ 3,247,759	\$ 6,205,360	\$ 11,681,015	\$ 4,642,565	\$ 4,642,565
\$ 18,238	-	\$ 75,852	\$ 2,888	\$ 173,641	\$ 215,534	\$ 215,534
\$ 31,332,299	\$ 32,253,336	\$ 3,323,611	\$ 6,208,248	\$ 11,854,656	\$ 4,858,099	\$ 4,858,099
\$ 1,429,385	\$ 3,831,664	\$ 1,080,370	\$ 285,983	\$ 1,738,946	\$ 542,390	\$ 542,390
\$ 534,319	\$ 1,451,975	\$ 264,982	\$ 111,009	\$ 230,888	\$ 94,002	\$ 94,002
\$ 33,296,003	\$ 37,536,975	\$ 4,668,963	\$ 6,605,240	\$ 13,824,490	\$ 5,494,491	\$ 5,494,491
\$ 951,693	\$ 2,362,318	\$ 133,868	\$ 175,705	\$ 533,512	\$ 400,703	\$ 400,703
\$ 34.99	\$ 15.89	\$ 34.88	\$ 37.59	\$ 25.91	\$ 13.71	\$ 13.71
\$ 21,499,955	\$ 120,865,073	\$ 9,725,767	\$ 4,466,809	\$ 22,618,725	\$ 20,138,689	\$ 20,138,689
\$ 105,057,647	\$ 598,702,458	\$ 31,182,162	\$ 22,664,819	\$ 39,257,367	\$ 45,624,056	\$ 45,624,056
20.5%	20.2%	31.2%	19.7%	57.6%	44.1%	44.1%
\$ 8,227,618	\$ 25,945,148	\$ 1,323,882	\$ 1,702,053	\$ 4,110,913	\$ 960,068	\$ 960,068
\$ 8,227,618	\$ 25,945,148	\$ 4,436,687	\$ 1,702,053	\$ 4,110,913	\$ 1,731,124	\$ 1,731,124
\$ 31,314,061	\$ 32,253,336	\$ 3,247,759	\$ 6,205,360	\$ 11,681,015	\$ 4,642,565	\$ 4,642,565
\$ 18,238	-	\$ 75,852	\$ 2,888	\$ 173,641	\$ 215,534	\$ 215,534
\$ 31,332,299	\$ 32,253,336	\$ 3,323,611	\$ 6,208,248	\$ 11,854,656	\$ 4,858,099	\$ 4,858,099
\$ 5,576,254	\$ 11,835,960	\$ 933,492	\$ 1,073,679	\$ 4,292,201	\$ 1,986,061	\$ 1,986,061
\$ 36,908,553	\$ 44,089,296	\$ 4,257,103	\$ 7,281,927	\$ 16,146,857	\$ 6,844,160	\$ 6,844,160
84.9%	73.2%	78.1%	85.3%	73.4%	71.0%	71.0%
\$ 6,984,565	\$ 18,980,062	\$ 3,463,816	\$ 1,451,095	\$ 3,018,139	\$ 1,228,781	\$ 1,228,781
\$ 1,429,385	\$ 3,831,664	\$ 1,080,370	\$ 285,983	\$ 1,738,946	\$ 542,390	\$ 542,390
\$ 6,984,565	\$ 18,980,062	\$ 3,463,816	\$ 1,451,095	\$ 3,018,139	\$ 1,228,781	\$ 1,228,781
7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
\$ 534,319	\$ 1,451,975	\$ 264,982	\$ 111,009	\$ 230,888	\$ 94,002	\$ 94,002

Customer Account Services Cost Pool

FERC Account Balances:

Account 903 - Customer Records & Collection (page 322, line 161)
Account 905 - Misc Customer Accounts (page 322, line 163)

Subtotal

Add: Employee Benefits & Employer FICA (not included in above amounts)
Account 926 - Employee Pension & Benefits
Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

Total Cost Pool

Total Customers (page 304, line 43)

Customer Account Services Expense per Customer

Note A

Note B

Note A: Calculation of Pension & Benefits Pertaining to Customer Account Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 187)
Total O&M Payroll (page 355, line 65)

Benefits as Percent of Payroll

Payroll Applicable to Customer Account Services

Total Payroll Charged to Customer Accounts Function

Electric (page 354, line 7)

Gas (page 354, line 37)

Total Payroll Charged to Customer Accounts

Percent Applicable to Customer Accounts Services (903 and 905):

Account 903 - Customer Records & Collection (page 322, line 161)

Account 905 - Misc Customer Accounts (page 322, line 163)

Subtotal - Total Charges Applicable to Customer Accounts Services

Account 902 - Meter Reading Expenses (page 322, line 160)

Total Charges Applicable to Customer Accounts Svcs & Meter Reading

Percent Applicable to Customer Accounts Services (903 and 905)

Customer Account Services Portion of Total Payroll

Pension & Benefits Pertaining to Customer Accounts Services

Customer Account Services Portion of Total Payroll

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA

VII – Question 4 - Reasonableness of DRS' Cost Allocation Methods

Where possible, DRS directly charges affiliates for the cost of its services. In those instances where direct charging is not possible or practical because more than one affiliate is the recipient of a service, DRS allocated the associated expenses to the benefiting affiliates. Exhibit 19 shows the basis for allocation for each DRS service.

Baryenbruch & Company, LLC evaluated the allocation basis for each DRS cost center by answering following questions:

- Benefit Received – Does Dominion Virginia Power benefit from the cost center's services?
- Fairness of Allocation Bases – Does the basis by which the cost center's expenses are allocated relate to the causation of those expenses?
- Allocation Methods in Accordance with Services Agreement – Where the allocation bases those called for in the current Services Agreement between Dominion Virginia Power and DRS?

Exhibit 20 presents the results of the evaluation. For each of over 290 DRS cost centers that charged Dominion Virginia Power during 2008, the services of those cost centers were found to be pertinent to Dominion Virginia Power, and the allocation methods were found to be reasonable and related to the causation of the allocated expenses. The allocation methods used were also found to be those specified in the current Services Agreement.

**Virginia Electric and Power Company
Allocation Bases for DRS Services**

Service	Allocation Method
Accounting	<ul style="list-style-type: none"> Payroll Accounting - Number of employees on the previous December 31 Accounts Payable Processing - Number of accounts payable documents processed during the preceding year ended December 31 Fixed Assets Accounting - Dominion Company fixed assets added, retired or transferred during the preceding year ended December 31 Accounts Receivable Processing - Number of payments processed during the preceding year ended December 31
Auditing	<ul style="list-style-type: none"> Total operating expenses, excluding purchase gas expense, purchase power expense (including fuel expense), other purchased products and royalties, for the preceding year ended December 31
Legal and Regulatory Services	<ul style="list-style-type: none"> Total operating expenses, excluding purchase gas expense, purchase power expense (including fuel expense), other purchased products and royalties, for the preceding year ended December 31
Information Technology	<ul style="list-style-type: none"> LDC/EDC Computer Applications - Number of customers at the end of the preceding year ended December 31 Other Computer Applications - Number of users or usage of specific computer systems at the end of the preceding year ended December 31 Network Computer Applications - Number of network devices at the end of the preceding year ended December 31 Telecommunications Applications - Number of telecommunications units at the end of the preceding year ended December 31
Software Pooling	<ul style="list-style-type: none"> Number of employees as of the preceding December 31 Number of mainframe units as of the preceding December 31
Employee Benefits/Pension Investment	<ul style="list-style-type: none"> Number of employee and annuitant accounts as of the preceding December 31
Human Resources	<ul style="list-style-type: none"> Number of employees as of the preceding December 31
Operations	<ul style="list-style-type: none"> Total operating expenses, excluding purchase gas expense, purchase power expense (including fuel expense), other purchased products and royalties, for the preceding year ended December 31
Executive and Administrative	<ul style="list-style-type: none"> Total operating expenses, excluding purchase gas expense, purchase power expense (including fuel expense), other purchased products and royalties, for the preceding year ended December 31
Business and Operations Services	<ul style="list-style-type: none"> Energy Services - Energy sale and deliveries for the preceding year ended December 31 Facility Services - Square footage of office space as of the preceding year ended December 31 Fleet Administration - Number of vehicles as of the preceding December 31 Security - The number of employees as of the preceding December 31 Gas Supply - Gas volumes purchased for each Dominion Company for the preceding year ended December 31
Exploration and Development	<ul style="list-style-type: none"> Not applicable to Dominion Virginia Power
Risk Management	<ul style="list-style-type: none"> Insurance premiums for the preceding year ended December 31
Marketing	<ul style="list-style-type: none"> Shared Projects - Annual marketing plan expenses for the preceding year ended December 31 Other Indirect Costs - Total marketing direct and shared project costs billed to each Dominion Company for the preceding year ended December 31

**Virginia Electric and Power Company
Allocation Bases for DRS Services**

Service	Allocation Method
Medical	<ul style="list-style-type: none"> • Number of employees on the previous December 31
Corporate Planning	<ul style="list-style-type: none"> • Total capitalization recorded at preceding December 31
Supply Chain	<ul style="list-style-type: none"> • Purchasing - Dollar value of purchases for the preceding year ended December 31 • Materials Management - Material inventory assets as of the preceding year ended December 31
Rates	<ul style="list-style-type: none"> • Total regulated company operating expenses, excluding purchased gas expense, purchased power expense (including fuel expense), other purchased products and royalties, for the preceding year ended December 31
Research	<ul style="list-style-type: none"> • Gross revenues recorded during the preceding year ended December 31
Tax	<ul style="list-style-type: none"> • Sum of the total income and total deductions as reported for Federal Income Tax purposes on the last return filed.
Corporate Secretary	<ul style="list-style-type: none"> • Direct bill only, no allocation
Investor Relations	<ul style="list-style-type: none"> • Direct bill only, no allocation
Environmental Compliance	<ul style="list-style-type: none"> • Total operating expenses, excluding purchase gas expense, purchase power expense (including fuel expense), other purchased products and royalties, for the preceding year ended December 31
Customer Service	<ul style="list-style-type: none"> • Customer Payment (Remittance) Processing - Number of customer payments processed during the preceding year ended December 31 • Other Customer Services - For metering, the number of gas or electric meters for the preceding year ended December 31, otherwise the number of customers for the preceding year ended December 31
Energy Marketing	<ul style="list-style-type: none"> • Total operating expenses, excluding purchase gas expense, purchase power expense (including fuel expense), other purchased products and royalties, for the preceding year ended December 31
Treasury/Finance	<ul style="list-style-type: none"> • Treasury and Cash Management - Total capitalization recorded at preceding December 31
External Affairs	<ul style="list-style-type: none"> • Total operating expenses, excluding purchase gas expense, purchase power expense (including fuel expense), other purchased products and royalties, for the preceding year ended December 31

**Virginia Electric and Power Company
Evaluation of Allocation Methods for DRS Cost Centers**

Service	Cost Center #/Description	\$ to Dominion Virginia Power	Description of Services Provided	Cost Assignment Method	Benefit Received?	Is Allocation Method Fair?	Allocation Method in Service Agreement?
Accounting	702017 - Del Corp Acctg Staff	\$397,530	Provide income statement variance analysis, account reconciliation support, unclaimed funds monitoring, customer accounting oversight, gas purchase accounting services and management reporting services. Also provides SAP system support for the general ledger and project systems as well as accounting research. Also provides inventory accounting services, miscellaneous billing services, management reporting services and CNG legal reporting	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702018 - Controller-DEL/Cons	\$406,004	Provides SAP system support for the general ledger and project systems as well as accounting research. Also provides inventory accounting services, miscellaneous billing services, management reporting services and CNG legal reporting	O&M expenses excluding cost of sales items	Yes	Yes	Yes
Accounts Payable	702020 - Remit Processing	\$1,352,072	Provides remittance processing services for all customer bills for Virginia Power, EOG, PNG, and HGI.	Number of Customer Payments	Yes	Yes	Yes
	703022 - Misc Receipts	\$243,561	Responsible for all unregulated payment and receipt processing.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702020 - CONTROLLER - DRS	\$3,880,633	Perform all accounting activities for DRS and DRICNG Holding companies. Perform consolidation function for entire enterprise. Manage SAP master data for entire enterprise. Perform corporate benefit plans accounting. Conduct corporate accounting research activities.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702021 - CONTROLLER - GEN	\$348,722	To ensure proper internal controls, excellent customer service and improve processes. Our responsibilities are to ensure the accuracy of transactions recorded to the books and records of the Dominion Energy companies.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702022 - FIXED ASSETS	\$1,999,159	Develops and maintains Capitalization policies; release, review and obasing of capital projects; calculate monthly interest (AFUDC) & depreciation; third party billing and management reporting.	Total additions, retirements and adjustments to fixed assets	Yes	Yes	Yes
	702023 - Energy Controller	\$79,314	To ensure proper internal controls, excellent customer service and improve processes. Our responsibilities are to ensure the accuracy of transactions recorded to the books and records of the Dominion Energy companies.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702060 - DC Tech Acctg Suppt	\$1,150	Prepare all technical accounting, invoicing, disbursement, validation, and reporting activities for physically settled wholesale sales and purchases of power, coal, and emission commodities.	Direct Bill (No Allocation)	Yes	Yes	Yes
	702061 - DC Gen Acct Support	\$0	Prepare all accounting, invoicing, disbursement, validation, and reporting activities for physically settled wholesale sales and purchases of power, coal, and emission commodities. Prepare all regulatory reports required for wholesale power transactions.	Direct Bill (No Allocation)	Yes	Yes	Yes
	702062 - DC Acct Corp Sv Supp	\$2,602	Provide technical support of GAAP issues surrounding energy trading, including implementation of new standards. Perform ITRM accounting for all commodities. Perform accounting functions related to broker fees, option premiums and oil settlements.	Direct Bill (No Allocation)	Yes	Yes	Yes
	702063 - DC Energy Acct Support	\$144	Provides natural gas cost center information for VPSE for use in VEPCO	Direct Bill (No Allocation)	Yes	Yes	Yes
Auditing	702070 - Gen Acctg Supp	\$940,549	Perform accounting function for all electric generation and transmission activities of Dominion companies managed by the Energy segment	Combination of Direct Bill & Allocation (Allocation based on O&M factor)	Yes	Yes	Yes
	702071 - Retail Accounting	\$13,755	Provide accounting services for Dominion Retail	Direct Bill (No Allocation)	Yes	Yes	Yes
	702072 - Fuel Acctg Supp	\$550,443	Develop, maintain and administer Dominion's disbursement policies. Ensure expenditures are in accordance with Dominion's procurement and disbursement policies. Process invoices, disburse funds and record expenditures. Provide expertise to the Dominion companies on disbursement matters.	Direct Bill (No Allocation)	Yes	Yes	Yes
	703345 - ACCOUNTS PAYABLE	\$859,116	Develop, maintain and administer Dominion's disbursement policies. Ensure expenditures are in accordance with Dominion's procurement and disbursement policies. Process invoices, disburse funds and record expenditures. Provide expertise to the Dominion companies on disbursement matters.	Number of Invoices	Yes	Yes	Yes
	703346 - AP Dcs & Info Cntrl	\$435,608	Supply Chain Management Corporate Disbursements document and information control	Number of Invoices	Yes	Yes	Yes
	704030 - A/P - PURCHASING CARD	-\$416,606	Develop, maintain and administer Dominion's travel and business expense policies. Process expense reports, disburse funds and record expenditures. Provide expertise to the Dominion companies on disbursement matters.	Accounts Payable - Pards/Expenses	Yes	Yes	Yes
	702019 - AUDIT SERVICES	\$2,893,360	Perform independent, objective assurance and consulting services with regard to review of internal controls, operations audits, financial audits and system development controls consultation. Performs audits for benefits plans, environmental issues, IT issues and management requests.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702047 - AVIATION COMMON	\$881,844	Administers Dominion aviation program	Combination of Direct Bill & Allocation (Allocation based on O&M factor)	Yes	Yes	Yes
	702050 - AV GULFSTREAM(N600DR)	\$1,199,507	Contains cost of maintaining Gulfstream airplane	Combination of Direct Bill & Allocation (Allocation based on O&M factor)	Yes	Yes	Yes
	702051 - AVIA HAWKR (N600DR)	\$479,209	Contains cost of maintaining Hawker airplane based in Richmond	Combination of Direct Bill & Allocation (Allocation based on O&M factor)	Yes	Yes	Yes
Aviation	702052 - AV Hawker N601DR	\$620,393	Contains cost of maintaining Hawker airplane based in Pittsburgh	Combination of Direct Bill & Allocation (Allocation based on O&M factor)	Yes	Yes	Yes
	702056 - AV HAWKR (N802DR)	\$335,875	Contains cost of maintaining Hawker airplane based in Richmond	Combination of Direct Bill & Allocation (Allocation based on O&M factor)	Yes	Yes	Yes
	702041 - Dominion Capital	\$0	All Dominion Capital staff and business is conducted in this cost center.	Combination of Direct Bill & Allocation (Allocation based on O&M factor)	Yes	Yes	Yes
	702003 - BUS EXCELLENCE STAFF	\$909,477	Manages and organizes the Six Sigma project to improve the Dominion Companies	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	701223 - BUS PLNG & FIN ANML	\$987,225	Develop growth strategies for Dominion Energy's generation, pipeline, and storage businesses. Develop long term, fundamental electric and natural gas forecasts, perform market analysis, and provide support with asset valuations for both electric generation and natural gas pipeline and storage investments.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	701230 - Regulatory Projects	\$980,275	Oversee activities for Energy business unit that integrates RTO, market development, asset development & strategic policy development. Develop market design & implement strategies which minimize risks & maximize opportunities that occur during the formation of new electricity markets in MAIN to Maine.	Direct Bill or Allocation (O&M factor)	Yes	Yes	Yes

**Virginia Electric and Power Company
Evaluation of Allocation Methods for DRS Cost Centers**

Service	Cost Center #/Description	\$ to Dominion Virginia Power	Description of Services Provided	Cost Assignment Method	Benefit Received?	Is Allocation Method Fair?	Allocation Method in Service Agreement?
Business Planning (cont.)	704081 - Gen Plan & Anal	\$241	Support all Generation analysis related to fuel and coordination of long-term capacity and energy positions with corporate views and positions. Coordinate models, analysis and forward price views with BPWA.	Direct Bill (No Allocation)	Yes	Yes	Yes
Corp Communications	702043 - Commun&Editorial	\$584,293	Provides executive speechwriting and communications, business media relations, strategic counsel to senior management on public relations/community relations issues and investor relations support.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	701221 - Adv, Pub Rel, Cr Svc	\$1,830,192	Provides planning and coordinating the dissemination of information through the mass media about the company and its activities. This includes the news media and paid communications through advertising to customers, shareholders and other interested stakeholder groups.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702003 - CREATIVE & GRAPHIC	\$531,547	Provides strategic direction, management and execution of Dominion's brand through corporate identity, brand positioning and consulting. Responsible for design, execution and production of the annual report and for communications to customers through customer bills. Provides a full range of print and visual media from simple to complex including design, execution & production management.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702004 - MEDIA RELATIONS	\$1,623,944	Provides all external communications activities and products for the electric side of Dominion. This includes new releases, standby statements, speeches, bill inserts, flyers, direct mail newsletters and other media relations products, as well as creating and maintaining relationships with key national, state and local reporters.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702005 - MEDIA RELATIONS-GAS	\$1,274	Provides corporate information to national news media and coordinate public relations throughout the natural gas side of the business.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702012 - EMP COMMUNICATIONS	\$973,873	Coordinates and produces electronic and print publications that are distributed to company employees and retirees to keep them informed about the relevant company and industry issues. Employee Communications also organizes video presentations and live meetings to facilitate internal communications.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702013 - CORP COMMUNICATION	\$110,567	Provides internet communications development and application, media and community relations support; shareholder publications writing and productions, and other special projects.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
Corporate Planning	702024 - F&BS - Svc Co	\$41,416	Provides financial forecasting and budget support for Gas LLC's.	Capitalization	Yes	Yes	Yes
	701537 - DRS - Nuc F&BS	\$752,609	Nuclear security, background checks, administer fitness for duty program	Direct Bill (No Allocation)	Yes	Yes	Yes
	702028 - FIN ANAL & PLAN-DRS	\$302,969	Investment analysis and analysis support of large capital projects.	Capitalization	Yes	Yes	Yes
	702029 - FIN ANAL - GENRTN	\$326,722	Provides financial analysis support and acquisition and diversity analysis for the Energy business.	Capitalization	Yes	Yes	Yes
	702030 - FIN ANAL-DELICS & EP	\$1,875	Provides financial analysis support for the Exploration & Producing (E&P) side of the business. Also provide acquisition and diversity analysis of the E&P business.	Direct Bill (No Allocation)	Yes	Yes	Yes
	702129 - FIN ANAL - DELTRANS	\$53,240	Provides financial analysis support and acquisition and diversity analysis for the delivery and transmission areas of the Energy business.	Capitalization	Yes	Yes	Yes
	704005 - GENERATION F&BS	\$339,476	Oversees the Finance area of the Generation Business.	Capitalization	Yes	Yes	Yes
	704080 - Fin Mgmt - Asset Rep	\$168,526	Manages Dominion's Six Sigma Program and Mergers & Acquisitions	Capitalization	Yes	Yes	Yes
	704088 - Gen Fin Plan & Anal	\$1,184,503	Provide financial and analytical support for Generation's operations, business development activities, and environmental strategy.	Capitalization	Yes	Yes	Yes
	704089 - Portfolio Management	\$192,098	The Green House Gas (GHG) Offsets provides expertise and services to create green house gas offsets and for all Dominion entities. Environmental Trading executes trades in support of Dominion's assets. Energy Trading Meteorology provides weather forecasting that benefits the marketing and hedging of Dominion's assets. Quantative Strategies provides analysis in support of asset hedging.	Capitalization	Yes	Yes	Yes
	704105 - ENERGY - F&BS	\$34,406	Support development of Dominion Energy's 5yr plan, forecasting, & other financial planning within Gas Transmission, Gas Distribution, Appalachian E&P, and Producer Services, including Six Sigma Management.	Capitalization	Yes	Yes	Yes
Corporate Secretary	704205 - DRS F&BS - Svc Co	\$618,076	Provide budget and financial analysis for the Service Company areas of operation	Capitalization	Yes	Yes	Yes
	703282 - CORP SECRETARY MGT	\$46,411	Responsible for Board of Director parent company and all subsidiary corporate matters including record keeping and compliance filing.	Direct Bill (No Allocation)	Yes	Yes	Yes
Customer Service	703283 - Corporate Governance	\$0					
	703020 - CPS R&R	\$1,328,395	Resolve all unposted payments and respond to customer inquiries involving payment processing.	Number of Customer Payments	Yes	Yes	Yes
	700321 - CPS Admin	\$793,407	Responsible for all administrative activities for Mail Inserting, US Mail Payments, Research and Resolution, 3rd Party Payments, and Misc. Receipt Processing.	Number of Customer Payments	Yes	Yes	Yes
	700323 - Call Ctr Mgt	\$771,315	Monitor capital and O&M business activities in call centers in all Delivery Companies	Number of Customer Payments	Yes	Yes	Yes
	700877 - Benefits	\$1,389,684	Provides benefits design, benefits administration, and benefits budgeting services for all Dominion Employees	Headcount	Yes	Yes	Yes
Energy Marketing	701674 - DRS BENEFIT PLANS	\$0					
	704014 - DRS Price-Structure	\$262,086	Provide support services for market origination and pricing functions for coal, electric, gas and oil commodity trading.	Direct Bill (No Allocation)	Yes	Yes	Yes
	709122 - TWPG - ENT RISK MGT	\$478,880	Provides oversight, analysis and planning for all Dominion physical and financial trading activities. Trading Compliance team monitors trading activities of all authorized traders to ensure strict adherence to Dominion trading policies and procedures, and monitors and records the market value of all of Dominion's trading obligations daily. Credit Management team evaluates counterparty financial exposure limits and performs contract administration. Risk Systems and Analysis team provides front office trading support, mark-to-market and value-at-risk measurement, market origination support and risk mgt reporting, as well as advising mgt. as to the effectiveness of risk mediation strategies.	O&M expenses excluding cost of sales items	Yes	Yes	Yes

**Virginia Electric and Power Company
Evaluation of Allocation Methods for DRS Cost Centers**

Service	Cost Center #/Description	\$ to Dominion Virginia Power	Description of Services Provided	Cost Assignment Method	Benefit Received?	Is Allocation Method Fair?	Allocation Method in Service Agreement?
Environmental	702028 - DRS Clarkburg	\$31,943	Provides a full range of environmental services to the corporation in order to assure compliance with all applicable environmental laws and regulations.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702029 - DRS Cleveland	\$86,442	Provides a full range of environmental services to the corporation in order to assure compliance with all applicable environmental laws and regulations.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702010 - Envir Pol & Complan	\$691,467	Set environmental policy and ensure that policy is met	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702011 - Envir Oil	\$539,968	Ensure environmental compliance for oil sites	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704024 - Environmental - DENE	\$40,937	Provides a full range of environmental services to the corporation in order to assure compliance with all applicable environmental laws and regulations.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704025 - ENVIR-GENERAL STAFF	\$1,794,165	Provides a full range of environmental services to the corporation in order to assure compliance with all applicable environmental laws and regulations.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704026 - Environ Lab Svcs	\$1,151,844	Provides a full range of environmental services to the corporation in order to assure compliance with all applicable environmental laws and regulations.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704027 - ENVIR-BIOLOGY	\$1,370,976	Provides a full range of environmental services to the corporation in order to assure compliance with all applicable environmental laws and regulations.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704045 - DRSN-MILLSTN ENV MGMT	\$2,459	There were no direct billings to any VP affiliate. Is this cost center trued up with other environmental cost centers and through that process a piece is allocated to VP?	Direct Bill (No Allocation)	Yes	Yes	Yes
	704046 - DRSN-MILLSTONE ENVIR	\$13,074	There were no direct billings to any VP affiliate. Is this cost center trued up with other environmental cost centers and through that process a piece is allocated to VP?	Direct Bill (No Allocation)	Yes	Yes	Yes
	704047 - DRSN-MILLSTNE HAZ WST	\$20	There were no direct billings to any VP affiliate. Is this cost center trued up with other environmental cost centers and through that process a piece is allocated to VP?	Direct Bill (No Allocation)	Yes	Yes	Yes
	704048 - DRSN-M S ENV-PROG GP	\$2,731	There were no direct billings to any VP affiliate. Is this cost center trued up with other environmental cost centers and through that process a piece is allocated to VP?	Direct Bill (No Allocation)	Yes	Yes	Yes
	704082 - New Projects	\$721,116	Activity for specific projects will be charged to a specific "Capital Project." Other miscellaneous charges such as employee training will be allocated to generation (company wide).	Direct Bill (No Allocation)	Yes	Yes	Yes
	700100 - CHIEF EXEC OFFICER	\$5,132,425	Responsible for overseeing Dominion Resources	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	700102 - CHAIRMAN OF BOARD	\$11,439	Responsible for overseeing Dominion Resources	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	700142 - FIN ANVL & PLAN-EXEC	\$32,545	Oversees financial analysis and planning for the consolidated companies	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	700205 - GAS DISTR EXEC	\$0	Oversees the gas distribution side of Delivery Business				
	700228 - DRS RETAIL EXEC	\$0	Oversees Dominion Retail operations				
	700229 - Gas & Elec Energy Exec	\$155,933	Oversees transmission for the Energy Business				
	700240 - Dominion Capital-Exec	\$0	Oversees Dominion Capital operations				
700460 - AUDIT SVCS EXEC	\$389,646	Oversees Auditing services for all of Dominion to insure compliance with procedures.	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
700575 - TAX EXECUTIVE	\$497,689	Oversees Tax Departments for compliance of Federal, State and international laws for all of Dominion	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
700577 - EXTERNAL AFFAIR EXEC	\$2,921,407	Oversees External Affairs and Corporate Communications (which includes Federal, State, and Local legislators) & all Dominion media relations.	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
700806 - HR EXECUTIVE	\$529,360	Oversees HR issues related to employee and labor relations for the Service company and for the entire company.	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
700832 - TREASURY EXECUTIVE	\$1,167,723	Oversees all Treasury departments. Covering Finance and Cash Management.	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
700888 - CHIEF ACT'G OFFICER	\$1,056,740	Oversees accounting for all Dominion companies.	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
700890 - Chief Admin Officer	\$979,729	Oversees Service Company HR, IT, Shared Services and Stockholder Services.	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
701260 - DomEngy Ctrngs Exec	\$0	Oversees the clearinghouse gas trading/portfolio management operations and the field services operations					
701675 - DRS SUPPLMNTL BFT	\$127,856	Service company benefits - Executive	Allocated within DRS before billing	Yes	Yes	Yes	
701720 - CHIEF INFO OFFICER	\$774,799	Oversees all Dominion IT functions (hardware and software).	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
702000 - Generation Executive	\$2,377,676	Oversees the operation of Energy Companies	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
702044 - SHARED SERVICES EXEC	\$432,883	Oversees the Shared Service department of Dominion, including Supply Chain, Fleet, Remittance Processing, and Facilities	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
702901 - Generation DRS Elim	\$1,593,432	Benefit Accounting adjustments for DRS non-managed groups	O&M expenses excluding cost of sales items (generation only)	Yes	Yes	Yes	
702902 - Energy DRS Elim	\$0	Benefit Accounting adjustments for DRS non-managed groups					
702903 - Delivery DRS Elim	\$292,223	Benefit Accounting adjustments for DRS non-managed groups (delivery only)	O&M expenses excluding cost of sales items (delivery only)	Yes	Yes	Yes	
702904 - Producing DRS Elim	\$883,960	Benefit Accounting adjustments for DRS non-managed groups					
703233 - LEGAL SERVICES EXEC	\$883,960	Oversees all Dominion Legal issues. (Inhouse and out)	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
703274 - EXEC - DELIVERY	\$2,932,914	Oversees the operation of Delivery Companies	O&M expenses excluding cost of sales items	Yes	Yes	Yes	

**Virginia Electric and Power Company
Evaluation of Allocation Methods for DRS Cost Centers**

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Executive/Admin (cont.)	703281 - CORP SECRETARY EXEC	\$16,511	Oversees Dominion stockholder services and Corporate Secretary function	Direct Bill (No Allocation)	Yes	Yes	Yes
	703488 - CHIEF FINANCIAL OFFR	\$2,837,163	Oversees the Service Company operations and is the Chief Financial Officer of Dominion	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704000 - DRS Fin Mgt Exec	\$577,316	Oversees financial management for the Service company.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704001 - ELEC DISTRIB EXEC	\$4,519,318	Oversees Electric Distribution - Delivery Operations	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704002 - Regulation Exec	\$1,266,403	Oversees all Dominion generating assets.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704003 - Reg & Int Plng Exec	\$4,336,618	Oversees Bulk Sales for Energy	Direct Bill (No Allocation)	Yes	Yes	Yes
	704004 - FIN EXEC DELIVERY	\$765,142	Oversees the Finance area of the Delivery Business	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704006 - CHIEF ENVIR OFFICER	\$351,754	Oversees Dominion Environmental Services to assure compliance with all applicable environmental laws and regulations.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704008 - NUCLEAR EXEC CORP	\$3,338,393	Oversees the Nuclear business in Energy	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704009 - PORTFOLIO MGT EXEC	\$193,698	Oversees Portfolio Management, Energy Market Services, and Field Services	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704012 - BUS DEV & GEN CONST	\$1,062,129	Executive and Administrative support for new business development & generation construction department	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704018 - FOS & HYD EXEC	\$2,044,442	Oversees all F&H plants for the Energy Business	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704019 - NUCLEAR EXEC SURRY	\$1,730,242	Oversees operation of Surry Nuclear Plant	Direct Bill (No Allocation)	Yes	Yes	Yes
	704020 - NUCLEAR EXEC N_ANNA	\$1,265,691	Oversees operation of North Anna Nuclear Plant	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704021 - Regulatory Fed Exec	\$254,852	Oversees operation of Dominion's regulated transmission operations	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704029 - MILLSTONE EXECUTIVE	\$0	Oversees operation of Millstone Nuclear Plant	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704062 - Gas & Elec Del Exec	\$1,206,624	Delivery Executives	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704085 - Business Plng Exec	\$550,352	Provide Business Planning and Market analysis for all Dominion companies	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704129 - Exec Site VP - DEK	\$0	Executive & Administrative services for the Kewanee Power Plant	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	External Affairs	700237 - Legislative Outreach	\$631,129	Provides operating company support - constituent complaint management; community outreach in support of local operations; management of local charitable giving activity enhancing the quality of life in the communities in which we operate; local permit and ordinance administration; political participation in local government activities and promote positive company image.	O&M expenses excluding cost of sales items	Yes	Yes
	700244 - DRS Gas Philanthropy	\$151,950	Responsible for directing and managing Dominion Foundation and Philanthropy programs for the corporation. Oversee giving programs in all regions for all companies. Provide support to Officers and senior management on various community and corporate relations activities/initiatives (primarily in PA)	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	700578 - State & Federal Affr	\$133,389	Provides General, State and Local advocacy support and education as well as developing and maintaining professional relationships with policy makers, elected officials, staff and opinion leaders. Also includes PAC and grassroots support and overall departmental coordination.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	700581 - COMMUNITY AFFAIRS	\$1,085,480	Provide a positive public perception of the company, through (1) Philanthropic Programs (Energy/Share, Fan Care, Volunteers), (2) Information Programs (Educational Outreach, Grass roots, Speakers Forumand Tours) and (3) Constituency Programs (African American Leadership Series, Executive Roundtables, Special Events).	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	701676 - FEDERAL AFFAIRS	\$1,146,228	Track and draft legislation which affects all aspects of Dominion. Lobby to pass positive legislation or kill adverse legislation. Serve as liaisons to officials who are decision makers for legislation and/or regulations which affect Dominion. Market Dominion to provide a better understanding of who Dominion is and what we do.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	701677 - DT State & Local	\$32,824	Build and maintain relationships with local and state elected officials. Provide a visible presence within Dominion's franchised service area.	Direct Bill (No Allocation)	Yes	Yes	Yes
	701678 - MA STATE & GOVT AFF	\$233,122	Develop responsible public policy positions to enhance the company's competitive position, e.g. increase revenues and reduce expenses. Also provide critical policy analysis of issues and trends affecting Dominion's business strategies.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702006 - NE State+Local Affis	\$37,303	Provides service to the organization by focusing on state legislative actions, state regulatory rulemakings, permitting, project coordination and political action committee coordination/solicitation. Also provides extensive knowledge of the business along with proactively seeking bottom line savings to the organization, builds and maintains relationships as well as providing community involvement.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702007 - CORP PUB POLICY	\$1,041,736	Coordinator of State and Local Govt Affrs & Corp Public Policy. Will also house the services of the Political Affairs Mgr (CSG).	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702014 - CORP PHILANTHROPY	\$1,063,638	Provide services in support of corporation strategies for managing relations with federal, state, and local government and agencies. Responsible for administering the corporate contributions program.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702016 - INTERNET COMM	\$628,760	Creation and maintenance of www.dvm.com	O&M - All VP Companies	Yes	Yes	Yes
	703287 - DRS NUC PUB AFFRS	\$1,1865	Handle public relations, government and regulatory affairs for nuclear	Direct Bill (No Allocation)	Yes	Yes	Yes
	704088 - MW Comm Affrs SILoc	\$51,402	Build and maintain relationships with local and state elected officials. Provide a visible presence within Dominion's franchised service area.	Direct Bill (No Allocation)	Yes	Yes	Yes

**Virginia Electric and Power Company
Evaluation of Allocation Methods for DRS Cost Centers**

Service	Cost Center #/Description	\$ to Dominion Virginia Power	Description of Services Provided	Cost Assignment Method	Benefit Received?	Is Allocation Method Fair?	Allocation Method in Service Agreement?	
Facilities	702030 - DRS FAC MGMT-NORTH	\$247,460	Provide management of the building maintenance and building-related project support for buildings located in various companies in Ohio, Penn, and West Virginia.	Square Footage	Yes	Yes	Yes	
	702031 - DRS FMN - Contr/Proj	\$433,557	Provide building maintenance and building-related project support for buildings located in various companies in Ohio, Penn, and West Virginia.	Square Footage	Yes	Yes	Yes	
	703221 - FACILITIES MGMT	\$581,574	Provide management of the building maintenance, property management, and security functions across the entire enterprise	Square Footage	Yes	Yes	Yes	
	703225 - REAL ESTATE - DRS	\$184,867	Provide property management services (leases/sublease management and property sales) across the entire enterprise	Square Footage	Yes	Yes	Yes	
	704031 - R/E DRS PROPERTIES	\$14,705	Not service related. This includes direct costs for DRS buildings (lease payments, depreciation, etc).	Determined by receiving department cost allocation method	Yes	Yes	Yes	
	704037 - DRS Facilities-Rich	\$21,437	Provide building maintenance and building-related project support for the Tredegar Street Complex. This includes direct costs for DRS buildings (lease payments, depreciation, etc).	Determined by receiving department cost allocation method	Yes	Yes	Yes	
	704090 - DRS Tred Bldg VP/EM	\$0	Capture VP/EM allocated costs from the DEC cost pool					
	704091 - DRS Tred Bldg DE/MI	\$0	Capture DE/MI allocated costs from the DEC cost pool					
	704092 - DRS Tred Bldg CNGR	\$0	Capture CNGR allocated costs from the DEC cost pool					
	704093 - DRS DEC Tred VP/ET	\$0	Capture VP/ET allocated costs from the DEC cost pool					
	704094 - DRS DEC Tred CNGT	\$0	Capture CNGT allocated costs from the DEC cost pool					
	704095 - DRS DEC Tred DTECH	\$0	Capture DTECH allocated costs from the DEC cost pool					
	704137 - DRS Facilities-Hang	\$127,665	Provide building maintenance and building-related project support for the Richmond Hanger.	Direct Bill or Allocation (O&M factor)	Yes	Yes	Yes	
	704237 - DRS Faci-ProfCont	\$13,204	Provide building maintenance and building-related project support for the Tredegar Street Complex.	Square Footage	Yes	Yes	Yes	
	702045 - DRS FLEET S&S	\$817,621	Provides management/oversight to the Fleet Management function across the entire enterprise. Includes Fleet Systems support, Management of the acquisition/disposal function including vehicle specifications, and oversight of the maintenance function.	Number of Vehicles	Yes	Yes	Yes	
	Generation Business	702054 - FLEET DRS (NO LABOR)	\$0	M4 ENTRY	Allocated within DRS before billing			
		700011 - BUS DEVELOPMT	\$2,455	Grow the Company's earnings through the development and acquisition of power generating stations.	Direct Bill (No Allocation)	Yes	Yes	Yes
		704069 - Bus Dev - Nuclear	\$25,151	Nuclear project support for new business development and generation construction department	Direct Bill (No Allocation)	Yes	Yes	Yes
		704086 - Const Fin Mgmt & Con	\$1,623,335	Project support for new business development & generation construction department	Direct Bill (No Allocation)	Yes	Yes	Yes
		704087 - Gen Dev - Bus Devel	\$399,876	Project support for new business development & generation construction department	Direct Bill (No Allocation)	Yes	Yes	Yes
704104 - Bus Dev- Renewables		\$51,521	Renewables project support for new generation construction department	Direct Bill (No Allocation)	Yes	Yes	Yes	
700035 - DRSN - NUC OVERSIGHT		\$2,388,050	Adult nuclear sites to insure compliance with procedures	Direct Bill (No Allocation)	Yes	Yes	Yes	
700920 - DRSN-RECORDS MGMT		\$1,157,775	Provide records management support to nuclear and fossil & hydro	Direct Bill (No Allocation)	Yes	Yes	Yes	
701454 - DRSF - F&H(Inact)		\$1,121	Perform all operations and maintenance activities for VPREG assets.	Direct Bill (No Allocation)	Yes	Yes	Yes	
701510 - DRSN-NUC LIC/OPS SUP		\$2,513,983	Provide licensing and operational support to insure compliance with local, state and federal laws; interact with NRC	Direct Bill (No Allocation)	Yes	Yes	Yes	
701512 - DRSN - EMERGENCY PLAN		\$929,945	Maintain the nuclear EP program, interact with local, state and federal emergency organizations to insure compliance with emergency plans, run drills, maintain EP facilities	Direct Bill (No Allocation)	Yes	Yes	Yes	
701516 - DRSN - NUC TRAINING		\$2,550,359	Oversee nuclear training program (initial, requalification, and special programs), develop course work and training materials, insure compliance with nuclear training requirements	Direct Bill (No Allocation)	Yes	Yes	Yes	
701524 - DRSN - NUC FLT INTEG		\$919,912	Provide licensing and operational support to insure compliance with local, state and federal laws; interact with NRC	Direct Bill (No Allocation)	Yes	Yes	Yes	
701527 - DRSN - EMP CONCERNS		\$462,464	Identify and resolve safety and compliance issues at Dominion's nuclear stations.	Direct Bill (No Allocation)	Yes	Yes	Yes	
701532 - DRSN - ADMIN SVCS		\$926,486	Director of nuclear security and emergency preparedness functions	Direct Bill (No Allocation)	Yes	Yes	Yes	
701534 - DRSN-ACCESS SERVICES		\$1,281,463	Nuclear security, background checks, administer fitness for duty program	Direct Bill (No Allocation)	Yes	Yes	Yes	
701865 - DRSN-NUC ORG EFF		\$294	Provide direction for the move of the nuclear business to a deregulated environment	Direct Bill (No Allocation)	Yes	Yes	Yes	
703038 - DRSN - NUC FUEL PROC		\$1,828,865	Purchase uranium and oversee the processing of nuclear fuel	Direct Bill (No Allocation)	Yes	Yes	Yes	
703173 - DRSF - OPE(Inact)		\$690	Perform all operations and maintenance activities for VPREG assets	Direct Bill (No Allocation)	Yes	Yes	Yes	
703174 - DRSF - OUTAGE PLANNING		\$3,377,317	Perform all operations and maintenance activities for VPREG assets mainly based on outage schedules.	Direct Bill (No Allocation)	Yes	Yes	Yes	
703175 - DRSF-F&H (Inact)	\$59	Provide overall system asset management services for both capital & expense for VP approvals.	Direct Bill (No Allocation)	Yes	Yes	Yes		
703178 - DRSF - EMISSIONS MON	\$2,626,291	Perform all operations and maintenance activities for VPREG assets.	Direct Bill (No Allocation)	Yes	Yes	Yes		
703184 - DRSF - Tech Svc Supp	\$1,787	Provide system ash, coal surveying, lime cost savings	Direct Bill (No Allocation)	Yes	Yes	Yes		
703185 - DRSF - Tech Svc Supp	\$1,322,914	Oversee daily F&H System Operations	Direct Bill (No Allocation)	Yes	Yes	Yes		
703186 - DRSF - Inactive	\$1,555,396	Oversee daily F&H System Operations	Direct Bill (No Allocation)	Yes	Yes	Yes		
703187 - DRSF- Proj Mgmt	\$43,275	Engineering construction to modify existing systems to utilize new synthetic fuel in place of coal	Direct Bill (No Allocation)	Yes	Yes	Yes		
704013 - DRS GEN PROJ MGT	\$2,888,314	Provides process improvement, configuration management & business development support for F&H System stations	Direct Bill (No Allocation)	Yes	Yes	Yes		
704050 - DRSF-CC PROJ UNREG	\$29	Perform all engineering services for Virginia Power & Dominion Energy, Inc. assets.	Direct Bill (No Allocation)	Yes	Yes	Yes		
704062 - DRSF-F&H EXEC ADMIN	\$0	Perform all project management & engineering services for combined cycle CT projects for VPDEI assets	Direct Bill (No Allocation)	Yes	Yes	Yes		
704084 - DRSN-NUC SPEC PROJ	\$297,603	Perform all long term planning & cost evaluations for new & replacement projects	Direct Bill (No Allocation)	Yes	Yes	Yes		
704087 - DRSF-STA OPER MGT	\$578,313	Oversee all regulated and unregulated nuclear six sigma projects	Direct Bill (No Allocation)	Yes	Yes	Yes		
		\$190,590	O&M Management/consulting to Merchant System Stations	Direct Bill (No Allocation)	Yes	Yes	Yes	

**Virginia Electric and Power Company
Evaluation of Allocation Methods for DRS Cost Centers**

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Generation Human Resources	701460 - DRSF - F&H TRAINING	\$3,567,339	Provide training to all areas of Fossil & Hydro. In some cases, this group trains other business areas, but will direct bill in those circumstances.	Direct Bill (No Allocation)	Yes	Yes	Yes
	703296 - DRSF - F&H SAFETY	\$1,132,791	Provide safety awareness to all areas of Fossil & Hydro. In some cases, this group trains other business areas, but will direct bill in those circumstances.	Direct Bill (No Allocation)	Yes	Yes	Yes
Generation Operations	700485 - DRSN - CIVIL ENG	\$1,084,573	Provide general civil engineering support to nuclear sites	Direct Bill (No Allocation)	Yes	Yes	Yes
	700486 - DRSN-NPD SPS ICUP	\$1,687,255	Manage the Surry I&C computer upgrade projects	Direct Bill (No Allocation)	Yes	Yes	Yes
	700487 - DRSN - ENG MECHANICS	\$1,735,591	Provide general engineering support to nuclear sites on mechanical systems	Direct Bill (No Allocation)	Yes	Yes	Yes
	700488 - DRSN - ELEC ENGI & C	\$2,046,488	Provide general engineering support for I&C computers at nuclear sites	Direct Bill (No Allocation)	Yes	Yes	Yes
	700489 - DRSN - CONFIG CONTRL	\$1,000,494	Maintain MOY/AOV program	Direct Bill (No Allocation)	Yes	Yes	Yes
	700499 - DRSN NUC Spent Fuel	\$901,233	Management of nuclear spent fuel and spent fuel storage facilities	Direct Bill (No Allocation)	Yes	Yes	Yes
	700501 - DRSN-NUC SAFETY M&M	\$1,496,801	Provide engineering support for overall nuclear fuel safety	Direct Bill (No Allocation)	Yes	Yes	Yes
	700502 - DRSN - CORE DESIGN II	\$2,016,345	Reactor engineers, maintain integrity of the reactor core design	Direct Bill (No Allocation)	Yes	Yes	Yes
	700503 - DRSN-FUEL PERF ANAL	\$844,612	Monitor fuel performance, determine assemblies to be replaced during refueling outages	Direct Bill (No Allocation)	Yes	Yes	Yes
	700504 - DRSN-NUC SPENT FUEL	\$961,251	Track used fuel, manage spent fuel storage facilities at nuclear sites, resolve storage issues	Direct Bill (No Allocation)	Yes	Yes	Yes
	700528 - DRSN-DESIGN DIR ADM	\$564,320	Oversee all design engineering functions	Direct Bill (No Allocation)	Yes	Yes	Yes
	701156 - DRSN - NUC ANAL/FUEL	\$996,265	Oversee nuclear fuel program	Direct Bill (No Allocation)	Yes	Yes	Yes
	701181 - DRSN - PPA APPS	\$1,279,935	Nuclear Predictive Risk Analysis Support	Direct Bill (No Allocation)	Yes	Yes	Yes
	701456 - DRSF - FH PROJ SUPP	\$2,271,629	Perform all operations and maintenance activities for VPREG assets.	Direct Bill (No Allocation)	Yes	Yes	Yes
	701623 - DRSN-ENPD TURB/RUP	\$2,889,274	Provide engineering support for the turbine upgrade and reactor power upgrade projects	Direct Bill (No Allocation)	Yes	Yes	Yes
	701649 - DRSN-PRA Models	\$1,011,931	Nuclear Predictive Risk Analysis Support	Direct Bill (No Allocation)	Yes	Yes	Yes
	701650 - DRSN-AMECH ENGP/ROC	\$1,911,450	Provide general engineering support for process systems at nuclear sites	Direct Bill (No Allocation)	Yes	Yes	Yes
	701651 - DRSN-NUC ENG ADMIN	\$1,805,875	Oversee nuclear engineering program	Direct Bill (No Allocation)	Yes	Yes	Yes
	701830 - DRSN-CONFIG MGMT	\$5,335	Develop, implement and maintain UFSAR, and EDO-lic programs	Direct Bill (No Allocation)	Yes	Yes	Yes
	701831 - DRSN-NUCLEAR DBD	\$1,483,514	Develop, implement and maintain nuclear design basis documents	Direct Bill (No Allocation)	Yes	Yes	Yes
	701832 - DRSN-Dir Nuc Eng Prg	\$1,811,388	Address engineering issues that were identified during 2003 INPO evaluation.	Direct Bill (No Allocation)	Yes	Yes	Yes
	701833 - DRSN-NUCLEAR PROGMS	\$791,614	Provide engineering support on valve, motor, etc programs.	Direct Bill (No Allocation)	Yes	Yes	Yes
	701850 - DRSN-NUC PROUS DEPT	\$334,074	Director of nuclear projects department, oversee all large nuclear projects, project cost control and estimating	Direct Bill (No Allocation)	Yes	Yes	Yes
	701852 - DRSN-NPD CIVIL/MECH	\$0	Provide engineering support for large civil and mechanical capital and O&M projects at nuclear sites	Direct Bill (No Allocation)	Yes	Yes	Yes
	701853 - DRSN-NPD PROJECTS	\$137,032	Manage nuclear license renewal projects - North Anna and Surry, Millstone, Surry ISFSI	Direct Bill (No Allocation)	Yes	Yes	Yes
	701854 - DRSN-NPD ELEC/I&C PR	\$61,191	Provide lead engineering support on all electrical and I&C projects for nuclear	Direct Bill (No Allocation)	Yes	Yes	Yes
	701855 - DRSN-NPD CIVIL/MECH	\$139,608	Provide lead engineering support on all civil/mech projects for nuclear	Direct Bill (No Allocation)	Yes	Yes	Yes
701856 - DRSN-NPD PROJ CTLS	\$864,210	Provide project cost estimating and reporting assistance to nuclear engineering groups	Direct Bill (No Allocation)	Yes	Yes	Yes	
701860 - DRSN-NEARLY SITE PERM	\$984,939	Evaluate sites for new nuclear construction	Direct Bill (No Allocation)	Yes	Yes	Yes	
703172 - DRSF - SYSTEM SUPP	\$2,710,407	Perform all engineering services for both VPREG & VPDEI assets	Direct Bill (No Allocation)	Yes	Yes	Yes	
703175 - DRSF-F&H	\$0	Provide overall system asset management services for both capital and expense for VP approvals	Direct Bill (No Allocation)	Yes	Yes	Yes	
703176 - DRSF - SYSTEM ENG	\$2,287,203	Perform all engineering services for both VPREG & VPDEI assets.	Direct Bill (No Allocation)	Yes	Yes	Yes	
703179 - DRSF - F&H	\$0	Provide system ash, coal surveying, lime cost savings	Direct Bill (No Allocation)	Yes	Yes	Yes	
703180 - DRSF - ENGINEERING	\$413,718	Perform all engineering services for both VPREG & VPDEI assets.	Direct Bill (No Allocation)	Yes	Yes	Yes	
703181 - DRSF - ELECTRIC I & C	\$5,381,613	Perform all engineering services for both VPREG & VPDEI assets.	Direct Bill (No Allocation)	Yes	Yes	Yes	
703182 - DRSF - BOP SYSTEMS	\$1,549,589	Perform all engineering services for both VPREG & VPDEI assets.	Direct Bill (No Allocation)	Yes	Yes	Yes	
703183 - DRSF - ENGR ENVIRON	\$1,169,420	Perform all operations and maintenance activities for VPREG assets.	Direct Bill (No Allocation)	Yes	Yes	Yes	
703186 - DRSF	\$0	Engineering and construction to modify existing systems to utilize new synthetic fuel in place of coal	Direct Bill (No Allocation)	Yes	Yes	Yes	
703188 - F&H GEN PROJ	\$809,226	Engineer and build new coal facility in Southwest Virginia	Direct Bill (No Allocation)	Yes	Yes	Yes	
704088 - F&H Con-Engineering	\$615,609	Project support for new business development & generation construction department	Direct Bill (No Allocation)	Yes	Yes	Yes	
704089 - Comb Turb & Renew	\$1,013,795	Project support for new business development & generation construction department	Direct Bill (No Allocation)	Yes	Yes	Yes	
703211 - DRS Oil Svc Mgt	\$170,657	Provide management/oversight to various general services functions across the enterprise, including Printing Services, Mailing Services, and Records Management	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
703214 - DRS DOCUMENT SVCS	\$1,151,913	Provide printing services across the entire enterprise.	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
703226 - DRS MAIL	\$446,118	Provide mailing services (except inserting) across the entire enterprise - excludes customer bills.	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
703227 - INSERTING - DRS	\$10,247,339	Provides inserting & mailing services for all customer bills for Virginia Power, EOG, PNG, and HGI.	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
704036 - DRS Records Mgt	\$206,631	Provides oversight & management of the Records Management function across the entire enterprise.	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
704043 - DRS FORMS & PROC	\$182,669	Provides support across the entire enterprise for company forms and procedures.	O&M expenses excluding cost of sales items	Yes	Yes	Yes	

Virginia Electric and Power Company
Evaluation of Allocation Methods for DRS Cost Centers

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Human Resources	700807 - Staffing	\$2,985,210	Manages recruiting, staffing programs, Affirmative Action compliance program, and employee testing programs.	Headcount	Yes	Yes	Yes	
	700808 - DRS HR Support	\$904,207	Supports all of DRS management and employees in attracting, retaining, and motivating workforce. Ensure that DRS is in compliance with laws and regulations	Headcount	Yes	Yes	Yes	
	700824 - HR Planning Admin	\$797,968	Provide HR Planning dept support & administrative services, Six Sigma resources and project management	Headcount	Yes	Yes	Yes	
	702001 - Compensation	\$518,549	Manages corporate pay policy, salary structure, and incentive program development and administration for all Dominion	Headcount	Yes	Yes	Yes	
	702002 - Exec Compensation	\$0	Provide design, development and administration of executive compensation & benefit programs & employment agreements	Headcount	Yes	Yes	Yes	
	702733 - Total Comp Admin	\$193,242	Provides Mergers, Acquisitions, and Divestiture HR coordination for Dominion	Headcount	Yes	Yes	Yes	
	703243 - Employee Relations	\$988,122	Responsible for Policy Development and Interpretation, investigate employee/management concerns, including possible violations of labor laws.	Headcount	Yes	Yes	Yes	
	703244 - Employee Services	\$480,999	Oversee administration of FML, STD, LTD, Workers' Comp and EAP programs and insure compliance with Federal Drug and Alcohol Programs (OSHA, DOT, NRC). Manage the Employee Service Center.	Headcount	Yes	Yes	Yes	
	703245 - Workforce Admin	\$337,192	Perform data analysis and track performance metrics. Overall Dept administration and mgmt.	Headcount	Yes	Yes	Yes	
	703246 - DOM VP Admin	\$349,666	Supports Gas and Electric Delivery management and employees in HR policy administration.	Headcount	Yes	Yes	Yes	
	703250 - Talent Management	\$620,488	Provides leadership learning and development opportunities, consulting services focusing on team and business unit effectiveness, and employee performance management tools, and facilitates succession planning.	Headcount	Yes	Yes	Yes	
	704053 - HR Dom Generation	\$643,066	Supports all Generation (merchant and non-merchant) mgt & employees in HR policy administration.	Headcount	Yes	Yes	Yes	
	704054 - HR Dom Energy	\$38,860	Supports all Energy mgt & employees in HR policy administration.	Headcount	Yes	Yes	Yes	
	704055 - HR F&H Generation	\$1,004,635	Supports all merchant and regulated Fossil and Hydro Generation mgt & employees in HR policy administration.	Headcount	Yes	Yes	Yes	
	704056 - HR Nuclear Generation	\$1,034,672	Supports all merchant and regulated Nuclear Generation mgt & employees in HR policy administration.	Headcount	Yes	Yes	Yes	
	704057 - HR Communications	\$178,677	Prepare & distribute all communications to employees on HR-related topics, Communications strategy/planning and change management support within HR and for business unit leadership and employees.	Headcount	Yes	Yes	Yes	
	704058 - HR Del Elec Oper	\$947,627	Supports Electric Transmission & Distribution mgt and employees in HR policy administration.	Headcount	Yes	Yes	Yes	
	704059 - HR East Ohio Gas	\$590	Supports EOG management and employees in HR policy administration.	Direct Bill (No Allocation)	Yes	Yes	Yes	
	704060 - Divestiture Support	\$45,748	There were some billings to VP affiliates (using HR Alloc) so why is the amount charge to the VP affiliates a credit? Is this cost center trued up with other HR cost centers and through that process a piece is allocated to VP?	Direct Bill (No Allocation)	Yes	Yes	Yes	
	704066 - Business Performance	\$435,128	Develop HR metrics for business productivity and effectiveness, and manager HR data integrity.	Headcount	Yes	Yes	Yes	
	704070 - Gas Labor Relations	\$28,774	Conduct labor negotiations and track costs of labor practices for gas affiliates	Headcount	Yes	Yes	Yes	
	704071 - HR Dom VP Cust Svc	\$603,601	Supports Dominion Virginia Power management and employees in HR policy administration.	Headcount	Yes	Yes	Yes	
	704072 - Loc 60 Labor Reln	\$1,081,328	Conduct labor negotiations and track costs of labor practices for VA Power Local 60	Headcount	Yes	Yes	Yes	
	704073 - Merc Labor Relations	\$5,705	Conduct labor negotiations and track costs of labor practices for the Generation Merchant Plant companies.	Headcount	Yes	Yes	Yes	
	704074 - WF Diversity/Plang	\$390,271	Provide enhanced focus on employee diversity in support of the business units; manage the support of the business units for workforce planning research & best practice identification; take a leadership role with external organizations	Headcount	Yes	Yes	Yes	
	Information Technology	700221 - IT Virginia Pow T&D	\$15,613,617	Labor and expenses for the support of Customer Service, Electric Distribution, Electric Transmission, and Retail	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes
		701264 - CORP TELECOM	\$4,181,314	Labor and expenses for operations and maintenance of the telecommunications department.	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes
	701703 - IT BUS ACT-ADMIN/MGT	\$1,808	Labor and expenses for the support of Application Systems	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	701704 - IT Enterprise Svcs	\$5,101,228	Labor and expenses for the support of Enterprise Applications (Web Services, General Applications, Business Intelligence)	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	701705 - IT BUS ACCT - GEN	\$6,887,490	Labor and expenses for the support of the Generation BU	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	701707 - Production Control	\$1,039,398	Labor and expenses for Production Control and Change Management	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	701708 - IT Strategy	\$805,809	Labor and expenses including consultants, for individuals who manage architecture and standard products	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	701709 - NETWORK RELIAB	\$0	Labor, hardware, and software expenses to provide improved and reliable network services.	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	701710 - Enterprise Tech Sys	\$2,543,222	Labor and expenses for major network and computing software and hardware.	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	701711 - IT Cust Svc & Retail	\$5,987,755	Labor and expenses for the support of the Retail Business	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	

**Virginia Electric and Power Company
Evaluation of Allocation Methods for DRS Cost Centers**

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Information Technology (cont.)	701772 - NETWORK OPERATIONS	\$3,996,077	labor and expenses for operations of Wide Area Network, including network command center					
	701713 - NETWORK OPERS CTR	\$1,981,600	24x7 IT Network monitoring, troubleshooting, and dispatch. Primary contact for major internal customers such as SOC, Gas Control, ROCs, CCS	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	701714 - ITBA - ENERGY	\$2,762,969	labor and expenses for managers, employees, and projects assigned to the business units of ITBA Energy. Business units are Dominion E&P, Clearinghouse, Gas Transmission, and Gas Delivery	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	701730 - IT RISK MGMT	\$2,161,500	labor and expenses for IT Security Policy, Change/Problem Management, SAP Security, and Business Resumption Planning	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	701843 - ENTERPRISE ADMIN/MGT	\$245,291	labor and expenses for managers and directors who manage the enterprise operations and network	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	701994 - HELPLINE SUPPORT	\$1,172,129	labor and expenses including contractors for the corporate IT Helpdesk	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	702035 - IT END USER ACCTS	\$702,699	Staff of employees who provide user computer accounts administration and manage wireless services vendors	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	702041 - IT BUS ACCT - E&P	\$486	labor and expenses for TSA support associated with the E&P Divestiture	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	703012 - LAN GROUP ACTIVITIES	\$7,117,078	labor and expenses for all desktop support and local area network operations.	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	703254 - MAINFRAME SVS ADMIN	\$5,608,901	labor, hardware, and software expenses to design, upgrade, and tune the mainframe	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	703289 - DATA SERVICES	\$2,562,517	labor and expenses for central database management, data management, web and middleware management	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	703357 - DISTR SVS ADMIN	\$6,308,909	total cost of ownership including labor, leases, depreciation of over 1400+ servers	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	703359 - IT ASSET MGMT	\$7,291,931	Hardware and software management including leasing program for all desktop, laptop and PC peripherals that are used by 17000 Dominion employees	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	703385 - IT Enterprise System	\$5,421,535	labor and expenses for the support of Enterprise Applications (SAP, HR Systems, Lotus Notes, etc)	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	703386 - Notes Solution Cir	\$930,938	Supports enterprise electronic mail and calendar services, including web mail access and instant messaging functionality.	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	703640 - IT Process Systems	\$882,506	captures hardware, software, and labor costs for Enterprise applications specifically supporting the SAP application	Direct Bill or IT Allocations (Mainframe, EIDs, etc.)	Yes	Yes	Yes	
	702034 - INVESTOR RELATIONS	\$63,117	Responsible for maintaining communications between the Company and the entire Investment Community. In doing so, Investor Relations directly support senior management by keeping abreast of current equity market conditions and works with other departments in preparing material used to communicate to the investment community through various means.	Direct Bill (No Allocation)	Yes	Yes	Yes	
	Legal	703234 - LEGAL SERVICES	\$6,713,991	Provides legal advice to all of the Dominion companies, including Dominion Services. Legal services addresses all matters typically confronted by a large corporation with both regulated and unregulated business units.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	Operations	700214 - Gas Supply Area Acq	\$0	Responsible for gas supply planning, gas procurement, scheduling, nominations and regulatory support for the three LDCs. Develop and execute comprehensive short and long term plans dealing with appropriate levels of gas supply.				
		704079 - Conservain Load Mgt	\$1,173,147	Design, develop & evaluate conservation load management programs at the corporate level	O&M expenses excluding cost of sales items	Yes	Yes	Yes
Other	704083 - Integr Resource Pin	\$1,904,701	Develop corporate level plans that integrate capacity options, transmission, and CLM programs in support of regulatory & strategic initiatives.	O&M expenses excluding cost of sales items	Yes	Yes	Yes	
	704039 - DRS FAC COST POOL	\$0	Collects DRS facilities costs that are assessed to DRS cost centers					
	704040 - DRS INFRASTRUCT COST	\$0	Collects DRS infrastructure costs that are assessed to DRS cost centers					
	704159 - DRS DEC BLDG	\$0	Redeagor St. DEC building Cost Pool					
	709901 - DRS COMMON	\$7,118,322	Collects miscellaneous expenses (vacation accruals, ST incentive accruals, etc.). Assesses to DRS service cost centers	Allocated based on associated services	Yes	Yes	Yes	
Payroll	703348 - Payroll	\$1,169,000	Provides payroll administration and information for all Dominion Companies. Prints all checks for Payroll, A/P, Rental payments, Customer Refunds.	Headcount	Yes	Yes	Yes	
Procurement	702043 - SCM DRS Sourcing	\$449,016	Supply Chain Management Sourcing activities for all non-IT goods	Value of Purchases	Yes	Yes	Yes	
	702048 - SUPP CH DEL SUPP	\$500,542	Provides strategic sourcing; tactical procurement; inventory management and tracking; field logistics and order fulfillment; transportation services; rubbers goods management; transformer and switch refurbishment; hazardous and excess materials disposal for DDMVP.	Value of Purchases	Yes	Yes	Yes	
	702049 - SUPP CH STRAT SRGG	\$654,444	Develop & implement sourcing strategies to meet the business objectives of all operating groups and corporate functions.	Value of Purchases	Yes	Yes	Yes	
	702053 - SCM IT Sourcing	\$443,767	Supply Chain Management Sourcing for IT groups	Value of Purchases	Yes	Yes	Yes	
	703190 - SUPP CH GEN SUPP	\$465,640	Advise and assist Dominion Energy in the procurement of materials, supplies and services, conduct purchase negotiations, prepare procurement agreements, and administer programs of material control	Value of Purchases	Yes	Yes	Yes	

**Virginia Electric and Power Company
Evaluation of Allocation Methods for DRS Cost Centers**

Service	Cost Center #/Description	\$ to Dominion Virginia Power	Description of Services Provided	Cost Assignment Method	Benefit Received?	Is Allocation Method Fair?	Allocation Method in Service Agreement?
Procurement (cont.)	703191 - SCM Gen Central Sic	\$2,862,223	Advise and assist Dominion Energy in the procurement of materials, supplies and services, conduct purchase negotiations, prepare procurement agreements, and administer programs of material control	Value of Purchases	Yes	Yes	Yes
	703192 - SCM Gen FH Sic	\$113,791	Procure materials, supplies, and services and manage inventories for FH Operations	Value of Purchases	Yes	Yes	Yes
	703193 - SCM Gen Vend Surv	\$642,482	Support procurement of materials, supplies, and services through procurement engineering and vendor surveillance activities.	Value of Purchases	Yes	Yes	Yes
	703194 - SUPP CH GEN SURRY	\$193,146	Manage inventories and provide materials quality inspection activities for Nuclear Operations	Direct Bill (No Allocation)	Yes	Yes	Yes
	703195 - SUPP CH GEN NANNA	\$777	Manage inventories and provide materials quality inspection activities for Nuclear Operations	Direct Bill (No Allocation)	Yes	Yes	Yes
	703196 - SCM Gen Nuc Sourcing	\$539,089	Procure materials, supplies, and services, manage inventories and provide material quality inspection activities for Nuclear Operations.	Value of Purchases	Yes	Yes	Yes
	703197 - SCM Elec T/D Procure	\$669,219	Procure materials, supplies, and services for Elec, Trans & Distr	Value of Purchases	Yes	Yes	Yes
	703198 - SCM INVEST RECOV	\$467,633	Provide investment recovery activities for DomVP, Generation and Gas LDCs.	Value of Purchases	Yes	Yes	Yes
	703199 - SCM Gen DNC Mgt	\$109	Procurement activities supporting Generation Nuclear	Direct Bill (No Allocation)	Yes	Yes	Yes
	703201 - SCM Gen Proc Eng	\$1,705,672	Procurement engineering activities supporting Generation Nuclear	Value of Purchases	Yes	Yes	Yes
	703202 - SCM Gen Inv Mgt	\$936,537	Inventory management activities supporting Generation	Value of Purchases	Yes	Yes	Yes
	703203 - SCM E-Commerce	\$0	Develop and implement Supply Chain Management E-Commerce Applications	Value of Purchases	Yes	Yes	Yes
	703204 - SCM Supp Diversity	\$575,464	Manage minority vendors	Value of Purchases	Yes	Yes	Yes
	703205 - SCM Gen DEK Saurog	\$0	SCM General sourcing - Kewanee	Value of Purchases	Yes	Yes	Yes
	703206 - SCM D Gas Mit Ops	\$0	Procure materials for the 3 gas LDCs	Value of Purchases	Yes	Yes	Yes
	703207 - SCM D Gas Prd Mail	\$0	Procure materials for the 3 gas LDCs	Value of Purchases	Yes	Yes	Yes
Rates	704075 - DRS Rates Regulation	\$38,291	Oversee Dominion's rate and regulatory activities at FERC. Respond to FERC inquiries. Prepare Dominion's rate and certificate applications.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704076 - Pricing & Regulatory	\$0	Addressing pricing & Regulatory issues	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704077 - Reg Compliance	\$2,395,407	Virginia Power cost of service study based on historic information, and support for all regulated affiliate rate filings & audits by regulatory bodies.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	704084 - Reg Case Mgt/Comm'h	\$1,209,089	Manage regulatory proceedings internally, and communicate information about these proceedings to all Dominion stakeholders.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
Risk Management	700720 - CRO - Risk Management	\$126,836	Responsible for Dominion's company-wide risk management function that will include risk identification, assessment, analysis, monitoring, communication and reporting.	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	700722 - Corporate Risk	\$496,362	Manage property & casualty, liability, and D&O insurance programs across the organization.	Insurance Premiums	Yes	Yes	Yes
	702033 - CLAIMS	\$1,205,213	Administer all insurance claims for Dominion	Insurance Premiums	Yes	Yes	Yes
	704061 - Corp Risk Engr	\$620,161	Oversee ways to control or reduce property claims within all of Dominion	Insurance Premiums	Yes	Yes	Yes
	703212 - Security - BGI	\$876,184	Provide Background Investigations and Library/Research activities across the entire enterprise.	Headcount	Yes	Yes	Yes
	703240 - Security - MGR	\$302,668	Provides management/oversight across the entire enterprise for security-related issues	Headcount	Yes	Yes	Yes
	704032 - Security - PHY	\$1,164,257	Provides physical security support (contract guards, technical assistance for security equipment) across the entire enterprise	Headcount	Yes	Yes	Yes
	704035 - Security - INV	\$583,124	Provides investigative services across the entire enterprise, excluding background investigations.	Headcount	Yes	Yes	Yes
	704078 - Security Compliance	\$524,351	Physical security mandated by regulatory requirements-reporting requirements for these activities	Headcount	Yes	Yes	Yes
Shareholder Services	702015 - SHAREHOLDER ADMIN	\$0	Administer the Company's direct stock purchase Plan (Dominion Direct), perform Transfer Agent and Registrar functions and provide record keeping services to 181,000 registered shareholders.	EIDs	Yes	Yes	Yes
Software Pooling	708902 - DRS Appln Software	\$3,026,825	Contains depreciation of application software. Assess to all DRS billing cost centers based on number of Employee IDs.	Mainframe units	Yes	Yes	Yes
	708905 - DRS Mainfrm Software	\$262,640	Contains depreciation of mainframes software. Assess to all DRS billing cost centers based on number of mainframe units.	Tax Return Income & Deductions	Yes	Yes	Yes
Tax	702024 - CORPORATE TAXATION	\$3,232,608	Responsible for all tax compliance and research (excluding payroll & certain benefit plan reporting) for all Dominion affiliates, for all federal, state and local tax audits, and for total income tax accounting.	Tax Return Income & Deductions	Yes	Yes	Yes
	702025 - TAX RESEARCH	\$464,456	Responsible for providing technical tax research related to special projects and business strategies including mergers, acquisitions, divestitures as well as executive compensation and benefit issues.	Tax Return Income & Deductions	Yes	Yes	Yes
	702027 - TAXATION - E&P	\$40,813	Responsible for all tax compliance and research (excluding payroll taxes and certain benefit plan reporting) for the Dominion E&P group of companies. Assist with all federal, state and local tax audits of the E&P affiliates. Coordinates income tax accounting for the E&P affiliates.	Tax Return Income & Deductions	Yes	Yes	Yes
Travel Services	702046 - TRAVEL SERVICES	\$763,821	Administer & maintain travel services policy for all Dominion companies	O&M expenses excluding cost of sales items	Yes	Yes	Yes
	702042 - Asset Management	\$1,566,258	Manage all investments related to retirement plans and nuclear decommissioning	Capitalization	Yes	Yes	Yes
Treasury	700833 - Corporate Finance	\$1,528,299	Responsible for Financing capital spending and acquisitions, liability management, bank and rating agency relationships	Capitalization	Yes	Yes	Yes
	702031 - Short Term Debt Mgt	\$61,253	Manages issuance of commercial paper	Capitalization	Yes	Yes	Yes
	702032 - Treasury Cash Mgmt	\$1,288,682	Manages daily funding of operations and short term investments	Capitalization	Yes	Yes	Yes
		\$350,456,982					

VIII – Other Evaluation Factors

Governance Practices Associated With DRS Charges

Several management practices exist to ensure that DRS charges to Dominion Virginia Power are appropriate. The most important of these approval and monitoring activities are described below.

Budget Process

Every year, DRS prepares a 5-year spending plan, the first two years of which show spending by month for each DRS cost center. The budgeting process begins in mid-July with each DRS cost center manager developing his/her unit's budget. A significant factor in each cost center's budget is the discussions that occur between DRS cost center managers and their affiliate operating unit (e.g., Dominion Virginia Power) customers regarding the level and nature of future services they will require. After cost center budgets have been prepared, they are subjected to DRS management review and approval through September. During September, affiliate operating units are formally presented with their portion of DRS' proposed budget. Affiliates review and approve their DRS budget after considering the levels of services they require from DRS.

Variance Analysis Process

On a monthly basis, DRS Financial & Business Services and DRS Accounting analyze and explain material variances from budget. This variance analysis is applied as follows:

- DRS' income statement line item
- Billings by each of DRS' 26 service categories
- Billings by affiliate (e.g., Dominion Virginia Power)

Dominion Virginia Power's own variance analysis process requires material variances between budget and actual DRS charges be researched and explained.

Affiliate Review of DRS Monthly Bills

Every month, a bill is rendered by DRS to each affiliate customer. An email is sent to Dominion Virginia Power segment controllers notifying them the DRS bill is available for review on the third business day of the month following the applicable billing month. According to corporate policy, inter-company invoices will not be paid until they have been reviewed and approved by the affiliate being billed.

The bill provides sufficient detail for Dominion Virginia Power to use in its variance analysis process. Dominion Virginia Power personnel also have the ability to drill down into SAP's transaction detail to identify and scrutinize the source of charges from DRS cost centers.

After Dominion Virginia Power controllers review their portion of the Dominion Virginia Power bill, they notify DRS Accounting of their approval or any disputes. If the bill is not disputed by the 25th day of the month, the invoice is released for payment.

Cost Allocation Manual

DRS maintains an Accounting Policy and Cost Allocation Manual (CAM) that documents the process by which it assigns costs to affiliate customers. Baryenbruch & Company, LLC's review of the CAM found it to be a comprehensive reference document that provides thorough directions



VIII – Other Evaluation Factors

to DRS personnel responsible for assigning expenses to Dominion Virginia Power. DRS' cost allocation methodologies comply with governing requirements in the CAM.

**Assessment of Service Company Charges to
Kentucky American Water Company
12-Months Ended July 31, 2008**

**Kentucky American Water Company
Assessment of Service Company Charges
12-Months Ended July 31, 2008**

Table of Contents

	<u>Page</u>
I – Introduction	1
Purpose of This Study	
Study Results	
II – Background	3
Overview of American Water Service Company	
Service Company Expense Categories	
Charging and Assignment of Service Company Time and Expenses	
III – Service Company Cost Comparison Approach	7
IV – Management And Professional Services Hourly Rate Comparison	9
Methodology	
Service Company Hourly Rates	
Outside Service Provider Hourly Rates	
Service Company Versus Outside Provider Cost Comparison	
Other Cost Comparisons	
V – Customer Accounts Services Cost Comparison	22
Background	
Comparison Group	
Comparison Approach	
Kentucky American Cost Per Customer	
Electric Utility Group Cost Per Customer	
Summary of Results	
VI – Need For Service Company Services	32
Analysis of Services	
Governance Practices Associated With Service Company Charges	
VII – Comparison to Other Utility Service Companies	38
KAWC’s Service Company Cost Per Customer	
Comparison Group Cost Per Customer	

I - Introduction

Purpose Of This Study

This study was undertaken to answer four questions concerning the services provided by American Water Works Service Company, Inc. ("Service Company") to Kentucky American Water Company ("KAWC"), each of which bears on the reasonableness of those charges as incurred during the 12 months ended July 31, 2008:

1. Was KAWC charged the lower of cost or market for managerial and professional services provided by the Service Company during this test period?
2. Was the 12 months ended July 31, 2008 cost of the Service Company's customer accounts services, including those of the National Call Centers, comparable to those of other utilities?
3. Are the services KAWC receives from Service Company necessary?
4. Were the Service Company's charges to KAWC during the 12-months ended July 31, 2008 comparable to other utility service companies?

Study Results

Concerning question 1, the following conclusions can be drawn from this study:

- KAWC was charged the lower of cost or market for managerial and professional services during the 12-months ended July 31, 2008.
- On average, the hourly rates for outside service providers are 28% higher than the Service Company's hourly rates.
- The managerial and professional services provided by the Service Company are vital and could not be procured externally by KAWC without careful supervision on the part of KAWC. If these services were contracted entirely to outside providers, KAWC would have to add at least one position to manage activities of outside firms. This position would be necessary to ensure the quality and timeliness of services provided.
- If all the managerial and professional services now provided by the Service Company had been outsourced during the 12-months ended July 31, 2008, KAWC and its ratepayers would have incurred nearly \$1,745,000 in additional expenses. This amount includes the higher cost of outside providers and the cost of an additional KAWC position needed to direct the outsourced work.
- This study's hourly rate comparison actually understates the cost advantages that accrue to KAWC from its use of the Service Company. Outside service providers generally bill for every hour worked. Service Company exempt personnel, on the other hand, charge a maximum of 8 hours per day even when they work more hours. If the overtime hours of Service Company personnel were factored into the hourly rate calculation, the Service Company would have had an even greater annual dollar advantage than the \$1,745,000 cited above. For instance, if Service Company overtime is conservatively estimated at 5% (2 hours per week), then that work would have cost an estimated \$80,000 in additional charges from outside providers.

- It would be difficult for KAWC to find local service providers with the same specialized water industry expertise as that possessed by the Service Company staff. Service Company personnel spend substantially all their time serving operating water companies. This specialization brings with it a unique knowledge of water utility operations and regulation that is most likely unavailable from local service providers.
- Service Company fees do not include any profit markup. Only its actual cost of service is being recovered from KAWC ratepayers.

Concerning question 2, it was determined that the cost of the Service Company's customer accounts services, including those provided by the National Call Centers, is close to the average of the neighboring electric utility comparison group. As will be explained further herein, this group of companies provides a reasonable proxy group for comparison to a regulated utility of the size and scope of the Service Company and KAWC. During the 12-months ended July 31, 2008, the customer accounts cost for KAWC customers was \$28.07 compared to the 2007 average of \$27.99 for neighboring electric utilities. The highest comparison group per customer cost was \$39.81 and the lowest \$13.71.

Concerning question 3, the following conclusions can be drawn:

- The services that the Service Company provides are necessary and would be required even if KAWC were a stand-alone water utility.
- There is no redundancy or overlap in the services provided by the Service Company to KAWC. For all of the services listed in Schedule 10, there was only one entity that was primarily responsible for the service.

Concerning question 4, the following conclusions were reached:

- The Service Company provides KAWC with services similar to those provided by other utility service companies. This determination was based on service company information included in the Form 60, which must be filed with the Federal Energy Regulatory Commission ("FERC") by electric and combination electric/gas utility holding companies.
- The Service Company's 12 months ended July 31, 2008 cost per KAWC customer was reasonable compared to cost per customer for electric and combination electric/gas service companies. During the 2008 test period, KAWC was charged an average of \$60 per customer by the Service Company compared to an average of \$121 per customer for service companies reporting to the FERC.

II - Background

Overview Of American Water Works Service Company

American Water's Service Company exists to provide certain shared services to American Water subsidiaries. It follows a service company model used by many utility holding companies that own multiple regulated utilities. By consolidating executive and professional services into a single service company, utility holding companies are able to realize the following benefits for ratepayers:

- Purchasing Economies – Common costs (e.g., insurance, chemicals, piping) can be procured on a much larger scale thereby providing greater bargaining power for the combined entity compared to individual utility operating companies. A service company facilitates corporate-wide purchasing programs through its procurement and contract administration functions.
- Operating Economies of Scale – A service company is able to deliver services more efficiently because workloads can be balanced across more persons and facilities. For instance, American Water's Service Company is able to maintain one principal data center for the entire corporation. This is much more cost-efficient than each operating utility funding its own data center with its large fixed hardware, software and staffing costs.
- Continuity of Service – Centralizing service company personnel who perform similar services facilitates job cross-training and sharing of knowledge and expertise. This makes it easier to deal with staff turnover and absences and to sustain high levels of service to operating utilities. An individual operating utility might experience considerable disruption if a key professional left and it was necessary to hire outside to fill the vacancy.
- Maintenance of Corporate-Wide Standards – Personnel in American Water's Service Company establish standards for many functions (e.g., engineering designs, operating procedures and maintenance practices). It is easier to ensure these standards are followed by every operating utility because their implementation is overseen by the Service Company.
- Improved Governance – American Water's Service Company provides another dimension of management and financial oversight that supplements local operating utility management. The Service Company facilitates standard planning and reporting that help ensure operating utilities meet the requirements of their customers in a cost effective manner.
- Retention of Personnel – A service company organization provides operating utility personnel with another career path beyond what may be available on a local level. These opportunities tend to improve employee retention.

American Water follows the model for other utility service companies in another important regard. Its services are provided to affiliate operating utilities, like KAWC, at cost. American Water's Service Company is not a profit-making entity. It assigns only its actual expenses to the American Water subsidiaries it services.

The Service Company provides services to American Water operating companies from the following locations:

- Corporate Office – Includes American Water's executive management and personnel from the various corporate support services. American Water's corporate office is located in Voorhees, New Jersey.
- National Call Centers – Perform customer service functions, including: customer call processing, service order processing, correspondence processing, credit and collections. American Water maintains two call centers: one in Alton, Illinois that went into operation in 2001 and a second in Pensacola, Florida that went into operation in 2005. Prior to the establishment of these national call centers, customer service functions were performed by employees of KAWC, which incurred the expense on its books.
- National Shared Services Center – The Shared Services Center, located in Cherry Hill, New Jersey, provides various financial, accounting and treasury functions that had been performed by individual operating companies. This arrangement has improved and streamlined the Company's financial processes and allowed operating companies to focus on providing utility service.
- Regional Offices – Regional offices provide operating companies with certain support services that can be performed more effectively on a regional basis because individual operating company/center workloads are not sufficient to warrant a full-time staff for these activities. At the same time, these services require closer proximity to operating companies served so they are not provided by the National Shared Services Center. Examples of regional office services include rates and revenues, engineering and operations.
- Belleville Lab – The national trace substance laboratory is located in Belleville, Illinois, and performs testing for all American Water operating companies.
- Information Technology Service Centers – American Water's principal data center, located in Hershey, Pennsylvania, supports the IT infrastructure required to run corporate and operating company business applications and the communications systems. IT personnel rotate, as needed, throughout the regional offices and operating companies.

Service Company Expense Categories

The Service Company renders a monthly bill to American Water's operating companies. Charges are broken down into the following expense categories:

- Labor – base pay (salaries) of managerial and professional employees
- Labor-Related Overheads - employee benefit costs (payroll taxes, medical coverage, pensions, disability insurance) and other general expenses
- Support - wages and salaries of office support personnel, including secretaries, clerical personnel, telephone operators and mail clerks
- Office Expenses - office rent, equipment leases, telephone, electric, office supplies, property taxes, office maintenance
- Vouchers/Journal Entries – (1) travel expenses incurred by Service Company personnel, (2) other items submitted for reimbursement by employees, including professional association dues, (3) outside service contracts for such things as actuarial services, and (4) various other expenditures, including data center expenses for software licenses and hardware maintenance.

Service Company expenses can be directly charged and allocated to operating companies, as shown in the table below.

Expense Category	Direct Charged	Allocated	Comments
Labor	X	X	Professional personnel working for one or several operating companies
Labor-Related Overheads	X	X	These are primarily employee benefit costs that relate directly to labor
Support		X	Administrative personnel support the professional staff, thus support costs are allocated on the basis of professional labor
Office Expense		X	Are all allocated on the basis of professional labor
Vouchers/Journals	X	X	May be either directly in support of one operating company (e.g., an engineer traveling from the Corporate Office to the operating company) or allocated to several operating companies

A direct charge occurs when Service Company work or expenses are incurred in support of only one operating company. Direct charge examples include work in support of an operating company's rate case, engineering design work on an operating company's project and the preparation of an operating company's financial statements.

Service Company expenses are allocated when more than one operating company benefits from the underlying work. Examples include assessments of new Federal water quality regulations, development of the company-wide materials procurement contracts and creation of company-wide engineering design standards.

Charging and Assignment Of Service Company Time and Expenses

Service Company transactions are assigned with the following information so there is a proper accounting and eventual charging to an operating company:

- Operating company number, if transaction is a direct charge
- Formula number if transaction is allocated
- Employee hours worked
- Account number for non-labor charges

Charges can originate from the following systems:

- Payroll System
- RVI System (outside vendor payments)
- PCard System (credit card payments)
- Internal Purchase Order System
- Journal entries

The Service Company's time reporting process enables labor and support charges to be assigned to the proper operating company. Labor charges are based on the time reported by managerial and professional Service Company employees. Every week, Service Company professional employees complete an electronic time sheet that shows:

- Operating company (for direct charge)
- Formula number (for allocation)
- Work order (where applicable)
- Authorization number (where applicable)

At month-end, time report information is processed and direct and allocated professional labor hours tabulated for each operating company. Dollar charges are then calculated using the hourly rate of each Service Company professional employee based upon their base salary (i.e., an employee's hours times their hourly rate of pay).

Support (administrative) personnel charge their time to the activity "General Admin." As described in the table on page 4, their labor charges are allocated to operating companies based upon how their office's professional personnel labor charges are assigned. For instance, if 20% of American Water's Southeast Region's professional labor is assigned to KAWC during a month, then 20% of that office's monthly administrative labor charges also are assigned to the operating company.

The overhead cost category is next assigned based on professional and administrative labor costs. Thus, if 20% of the Southeast Region's accumulated professional and support labor is charged to KAWC during the month, then 20% of that month's overhead expenses will be assigned to KAWC.

Each Service Company location's office expenses are allocated to operating companies based on how professional labor charges for that office have been assigned. For instance, if 2% of professional labor from one Service Company office is assigned to KAWC, then 2% of that office's office expenses would be assigned to KAWC. Thus, office expenses are allocated in the very same way as administrative labor.

Vouchers/journal entries may be charged directly or allocated, depending on who benefits from the expenditure. For instance, the cost of a continuing professional education course taken by a professional in a regional office is allocated to the operating companies served by that office. Travel expenses by that same professional to a rate case proceeding are charged directly to the operating company whose case is being heard.

III – Service Company Cost Comparison Approach

During the 12 months ended July 31, 2008, the Service Company billed KAWC \$8,347,528 in O&M-related charges, \$486,878 in capital-related charges and \$1,114 in other charges. Included in the O&M amount are certain non-recurring expenses and non-Southeast Region charges which are excluded from this market study. As calculated in the table below, net Service Company charges of \$7,552,811 were subjected to a market cost comparison.

Reconciliation to Testable Service Company Charges		
Total Management Fees (O&M)	\$	7,859,536
Non-Recurring Items:		
Business Change - Corporate	\$	(23,400)
Business Change - Regions	\$	(9,111)
Divestiture & SOX - Corp	\$	(729,860)
Divestiture & SOX - Regions	\$	17,854
Less: Non-Southeast Region Charges	\$	(50,041)
Net Testable O&M	\$	7,064,978
Total Capital	\$	486,878
Total Other	\$	1,114
Total Testable Svc Co Charges	\$	7,552,970

For purposes of comparing these charges to outside benchmarks, Service Company services were placed into two categories:

- Managerial and Professional Services – Includes such services as management, accounting, legal, human resources, information technology, and engineering.
- Customer Accounts Services – Includes customer-related services, such as call center, credit, billing, collection and payment processing.

Total test period Service Company charges break down between management/professional services and customer account services as follows:

	12 Months Ended July 31, 2008	
	Amount	Hours
Management and Professional Services	\$ 5,724,142	48,123
Customer Account Services	\$ 1,828,827	43,730
Total Service Company Charges	\$ 7,552,970	91,853

This study's first question—whether Service Company 12 months ended July 31, 2008 charges were charged at the lower of cost or market—was evaluated by comparing the cost per hour for managerial and professional services provided by Service Company personnel to hourly billing rates that would be charged by outside providers of equivalent services. Service Company costs per hour were based on actual charges to KAWC during the 12 months ended July 31, 2008. Outside providers' billing rates came from surveys or other information from professionals that could perform the services now provided by the Service Company.

The second question—whether Service Company 12 months ended July 31, 2008 customer account services charges, including those of the National Call Center costs, were comparable to other utilities—was addressed by comparing KAWC's customer accounts services expenses to those of neighboring electric utilities. This approach was selected because the costs of outside providers of call center services are not publicly available. However, electric utility customer

account services expenses can be obtained from the FERC Form 1. The availability and transparency of FERC data adds to the validity of its use in this comparison.

The third question—the necessity of Service Company services—was first investigated by determining the services provided to KAWC. A determination was then made as to whether these services would be required if KAWC were a stand-alone utility.

The fourth question—whether Service Company 12 months ended July 31, 2008 charges were reasonable by other comparative measures—was determined by comparing KAWC's net testable O&M Service Company charges per customer to those of electric and combination electric/gas utilities that file FERC Form 60 – Annual Report of Service Companies.

IV – Managerial And Professional Services Hourly Rate Comparison

Methodology

The lower-of-cost-or-market comparison is accomplished by comparing the cost per hour for Service Company managerial and professional services to those of outside service providers to whom these duties could be assigned. Based on the nature of the Service Company services it was determined that the following outside providers could perform the categories of services indicated below:

- Management Consultants – executive and administrative management, risk management services, human resources and communications services
- Attorneys – legal services
- Certified Public Accountants – accounting, financial, information technology and rates and revenues services
- Professional Engineers – engineering, operations and water quality services.

The services provided by the Belleville lab are assumed to be transferable to professional engineers for purposes of this cost comparison. This was done for two reasons. First, there is no readily available survey of hourly billing rates for testing services such as those performed by Belleville. Second, Belleville personnel have similar, scientific educational backgrounds as Service Company engineering personnel. Thus, it is valid to compare the hourly rates of Belleville services to those of outside engineering firms.

The Service Company's hourly rate were calculated for each of the four outside service provider categories, based on the dollars and hours charged to KAWC during the 12 months ended July 31, 2008. Hourly billing rates for outside service providers were developed using third party surveys or directly from information furnished by outside providers themselves.

It should be noted that by using the Service Company's hours charged KAWC during the 12 months ended December 31, 2008, its hourly rates are actually overstated because Service Company personnel charge a maximum 8 per day even when they work more. Outside service providers generally bill for every hour worked. If the overtime hours of Service Company personnel had been factored into the hourly rate calculation, then Service Company hourly rates would have been lower.

The last step in the market cost comparison was to compare the Service Company's average cost per hour to the average cost per hour for outside providers.

Service Company Hourly Rates

Schedule 1 (page 11) details the assignment of 12 months ended July 31, 2008 management and professional Service Company charges by outsider provider category. Schedule 2 (page 12) shows the same assignment for Service Company management and professional hours charged to KAWC during the 12 months ended July 31, 2008.

Certain adjustments to these dollar amounts were necessary to calculate Service Company hourly rates that are directly comparable to those of outside providers. Adjustments were made to the following 2008 test period non-labor Service Company charges:

- **Contract Services** – 12 months ended July 31, 2008 Service Company charges to KAWC include over \$383,000 in expenses associated with the use of outside professional firms to perform certain corporate-wide services (e.g., legal, financial audit, actuarial services). These professional fees are excluded from the Service Company hourly rate calculation because the related services have effectively been out-sourced already.
- **Travel Expenses** – In general, client-related travel expenses are not recovered by outside service providers through their hourly billing rate. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, it is appropriate to remove these Service Company charges from the hourly rate calculation.
- **Computer Hardware and Software Expenses** – Included in the 12 months ended July 31, 2008 Service Company charges to KAWC are charges for outside expenses related to leases and maintenance fees related to mainframe, server and network infrastructure, corporate business applications and the communications systems. An outside provider that would take over operation of a data center would recover these expenses over and above the labor necessary to operate the data center.

Schedule 3 (page 13) shows how contract services, travel expenses and computer hardware/software-related Service Company charges are assigned among the four outside provider categories.

Based on the assignment of expenses and hours shown in Schedules 1 and 2 and the excludable items shown in Schedule 3, the Service Company's equivalent costs per hour for the 12 months ended July 31, 2008 are calculated below.

	Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	Total
Total testable management & professional charges	\$ 291,662	\$ 2,209,038	\$ 2,416,857	\$ 806,585	\$ 5,724,142
Less:					
Contract services	\$ 9,655	\$ 116,547	\$ 232,727	\$ 24,523	\$ 383,452
Travel expenses	\$ -	\$ 22,123	\$ 54,548	\$ 20,286	\$ 96,958
Computer hardware/software	\$ 3,387	\$ 56,059	\$ 43,833	\$ 46,985	\$ 150,264
Net Service Charges (A)	\$ 278,619	\$ 2,014,309	\$ 2,085,749	\$ 714,791	\$ 5,093,468
Total Hours (B)	3,599	9,514	26,141	8,870	48,123
Average Hourly Rate (A / B)	\$ 77	\$ 212	\$ 80	\$ 81	

Kentucky American Water Company
Analysis of 12 Months Ended July 31, 2008 Service Company Charges By Location And Function

Location	Function	12 Months Ended July 31, 2008 Service Company Charges				Total
		Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	
Belleville Lab	Water Quality				\$ 186,737	\$ 186,737
Call Center	Human Resources		\$ 33,855			\$ 33,855
Corporate	Accounting			\$ 336,339		\$ 336,339
	Administration		\$ 718,676			\$ 718,676
	Audit			\$ 48,650		\$ 48,650
	Communications		\$ 66,004			\$ 66,004
	Engineering				\$ 24,295	\$ 24,295
	Finance			\$ 137,954		\$ 137,954
	Human Resources		\$ 178,942			\$ 178,942
	Legal	\$ 67,808				\$ 67,808
	Operations		\$ 115,054		\$ 189,616	\$ 304,670
	Rates & Revenue			\$ 16,035		\$ 16,035
	Risk Management		\$ 85,250			\$ 85,250
	Water Quality				\$ 49,779	\$ 49,779
Regional Offices	Accounting			\$ 25,276		\$ 25,276
	Administration		\$ 438,197			\$ 438,197
	Communications		\$ 95,236			\$ 95,236
	Engineering				\$ 95,059	\$ 95,059
	Finance			\$ 280,782		\$ 280,782
	Human Resources		\$ 193,549			\$ 193,549
	Legal	\$ 223,854				\$ 223,854
	Operations		\$ 118,985		\$ 241,196	\$ 360,181
	Risk Management		\$ 39,935			\$ 39,935
	Water Quality				\$ 19,903	\$ 19,903
Information Technology	Information Technology			\$ 1,159,787		\$ 1,159,787
Shared Services	Accounting			\$ 342,329		\$ 342,329
	Administration		\$ 125,357			\$ 125,357
	Finance			\$ 43,125		\$ 43,125
	Rates & Revenue			\$ 26,580		\$ 26,580
	Total Dollars Charged	\$ 291,662	\$ 2,209,038	\$ 2,416,857	\$ 806,585	\$ 5,724,142

Kentucky American Water Company
Analysis of 12 Months Ended July 31, 2008 Service Company Hours By Location And Function

Location	Function	12 Months Ended July 31, 2008 Service Company Hours				Total
		Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	
Belleville Lab	Water Quality				2,185	2,185
Call Center	Human Resources		430			430
Corporate	Accounting			3,786		3,786
	Administration		175			175
	Audit			401		401
	Communications		412			412
	Engineering				153	153
	Finance			1,070		1,070
	Human Resources		1,770			1,770
	Legal		286			286
	Operations		551		1,861	2,412
	Rates & Revenue			90		90
	Risk Management		439			439
	Water Quality				695	695
Regional Offices	Accounting			397		397
	Administration		86			86
	Communications		1,299			1,299
	Engineering				1,138	1,138
	Finance			2,246		2,246
	Human Resources		2,313			2,313
	Legal	3,313				3,313
	Operations		1,119		2,604	3,723
	Risk Management		423			423
	Water Quality				234	234
Information Technology	Information Technology					
Shared Services	Accounting			9,358		9,358
	Administration		499			7,301
	Finance			1,180		499
	Rates & Revenue			312		1,180
Total Hours Charged		3,599	9,514	26,141	8,870	48,123

**Kentucky American Water Company
12 Months Ended July 31, 2008 Service Company Charges Excludable From The Hourly Rate Calculation**

Charges By Function	Exclusions From Hourly Rate Calculation			
	Contract Services	Travel Expenses	Computer HW/SW	Total
Accounting	\$ 103,793	\$ 1,612	\$ 10,773	\$ 116,178
Administration	\$ 38,800	\$ 36	\$ 6,738	\$ 45,573
Audit	\$ 8,416	\$ 27	\$ 1,984	\$ 10,427
Communications	\$ 11,565	\$ 143	\$ 9,410	\$ 21,119
Engineering	\$ (339)	\$ 169	\$ 1,892	\$ 1,722
Finance	\$ 44,540	\$ 276	\$ 10,732	\$ 55,547
Human Resources	\$ 45,503	\$ 2,998	\$ 15,490	\$ 63,990
Information Technology	\$ 75,880	\$ 52,634	\$ 18,173	\$ 146,686
Legal	\$ 9,655	\$ -	\$ 3,387	\$ 13,042
Operations	\$ 16,214	\$ 12,932	\$ 53,636	\$ 82,783
Rates & Revenue	\$ 99	\$ -	\$ 2,171	\$ 2,271
Risk Management	\$ 19,739	\$ 15,537	\$ 8,828	\$ 44,104
Water Quality	\$ 9,588	\$ 10,596	\$ 7,048	\$ 27,233
Total	\$ 383,452	\$ 96,958	\$ 150,264	\$ 630,674

Outside Service Provider Category
Certified Public Accountant
Management Consultant
Certified Public Accountant
Management Consultant
Professional Engineer
Certified Public Accountant
Management Consultant
Certified Public Accountant
Attorney
Management Consultant, Professional Engineer
Certified Public Accountant
Management Consultant
Professional Engineer

Recap By Outside Provider	Exclusions From Hourly Rate Calculation			
	Contract Services	Travel Expenses	Computer HW/SW	Total
Attorney	\$ 9,655	\$ -	\$ 3,387	\$ 13,042
Management Consultant	\$ 116,547	\$ 22,123	\$ 56,059	\$ 194,730
Certified Public Accountant	\$ 232,727	\$ 54,548	\$ 43,833	\$ 331,108
Professional Engineer	\$ 24,523	\$ 20,286	\$ 46,985	\$ 91,794
Total	\$ 383,452	\$ 96,958	\$ 150,264	\$ 630,674

Outside Service Provider Hourly Rates

The next step in the cost comparison was to obtain the average billing rates for each outside service provider. The source of this information and the determination of the average rates are described in the paragraphs below.

It should be noted that professionals working for 3 of the 4 outside provider categories may be licensed to practice by state regulatory bodies. However, not every professional working for these firms is licensed. For instance, among certified public accounting firms within Kentucky's regions, only more experienced staff are predominantly CPAs, as shown in the table below. Some employees of the Service Company also have professional licenses. Thus, it is valid to compare the Service Company's hourly rates to those of the outside professional service providers included in this study.

Position	Firm Size		
	Small	Medium	Large
Partners/Owners	97.8%	96.6%	98.1%
Directors (over 10 years experience)	na	72.7%	78.0%
Managers (6-10 years experience)	na	50.0%	91.9%
Sr Associates (4-5 years experience)	100.0%	20.0%	72.2%
Associates (1-3 years experience)	na	40.0%	31.4%
New Professionals	na	0.0%	15.0%

Attorneys

The Kentucky Bar Association does not survey its members as to their hourly billing rates. In addition, publicly available billing rate information could not be found for Kentucky attorneys. Therefore, an estimate of Kentucky attorney rates was developed from a survey of Michigan lawyers conducted annually by the Michigan Lawyers Weekly. As presented in Schedule 4, the average rate for each Michigan firm respondent was adjusted for the cost of living differential between their location and Lexington, Kentucky. The survey includes rates that were in effect during 2007.

Management Consultants

The cost per hour for management consultants was developed from the 2007 annual survey performed by the Association of Management Consulting Firms, an industry trade organization. The first step in the calculation, presented in Schedule 5, was to determine an average rate by consultant position level. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position level. This survey includes rates that were in effect during 2006 for firms in the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison. The survey 2006 average rate was escalated to January 31, 2008—the midpoint of the 12 months ended July 31, 2008.

Certified Public Accountants

The average hourly rate for Kentucky certified public accountants was developed from a 2006 survey performed by the American Institute of Certified Public Accountants (AICPA). Hourly rates in the AICPA survey are the average of firms in Kentucky's region. The average hourly rate was calculated for a set of typical accountant positions, as shown in Schedule 6. Based on a typical staff assignment by each accountant position, a weighted average hourly rate was calculated. This survey covered hourly rates in effect during 2005. Thus, the 2005 average rate was escalated to January 31, 2008, the midpoint of the 12 months ended July 31, 2008.

Professional Engineers

The Service Company provided hourly rate information for outside engineering firms that could have been used by KAWC in 2007 and 2008. As presented in Schedule 7, an average rate was developed for each engineering position level. Then, using a typical percentage mix of project time by engineering position, a weighted average cost per hour was calculated.

Schedule 4

**Kentucky American Water Company
Estimated Billing Rates For Kentucky Attorneys Based On
Michigan Attorney Billing Rates**

Billing rates as of December 31, 2007 (Note A)									
Firm	Michigan Location	Number Of Mich Lawyers	Billing Rate Range				Average	Cost of Living Adjust (C)	Adjusted Rate
			Associate		Partner				
			Low	High	Low	High			
Dickinson Wright PLLC	Detroit	229	\$ 170	\$ 275	\$ 260	\$ 530	\$ 309	86%	\$ 361
Dykema	Detroit	222	\$ 185	\$ 390	\$ 245	\$ 625	\$ 361	86%	\$ 422
Butzel Long	Detroit	209	\$ 165	\$ 400	\$ 220	\$ 550	\$ 334	86%	\$ 390
Bodman LLP	Detroit	128	\$ 125	\$ 215	\$ 210	\$ 495	\$ 261	86%	\$ 305
Jaffe Raitt Heuer & Weiss, PC	Southfield	100	\$ 165	\$ 225	\$ 225	\$ 500	\$ 279	98%	\$ 285
Trott & Trott, PC	Bingham Farms	64	\$ 170	\$ 170	\$ 235	\$ 235	\$ 203	127%	\$ 160
Brooks Kushman PC	Southfield	52	\$ 160	\$ 275	\$ 250	\$ 505	\$ 298	98%	\$ 304
Kemp, Klein, Umphrey, Edelman & May PC	Troy	36	\$ 150	\$ 190	\$ 200	\$ 340	\$ 220	112%	\$ 196
Pepper Hamilton LLP	Detroit	33	\$ 200	\$ 315	\$ 340	\$ 615	\$ 368	86%	\$ 430
Hertz, Schram & Saretsky, PC	Bloomfield Hills	29	\$ 175	\$ 260	\$ 275	\$ 400	\$ 278	140%	\$ 198
Strobl & Sharp, PC	Bloomfield Hills	28	\$ 110	\$ 210	\$ 200	\$ 300	\$ 205	140%	\$ 146
Kupelian Ormond & Magy, PC	Southfield	25	\$ 165	\$ 195	\$ 235	\$ 320	\$ 229	98%	\$ 234
Rader, Fishman & Grauer, PLLC	Bloomfield Hills	25	\$ 130	\$ 250	\$ 275	\$ 495	\$ 288	140%	\$ 205
McShane & Bowie PLC	Grand Rapids	22	\$ 160	\$ 275	\$ 250	\$ 375	\$ 265	97%	\$ 273
Overall Average 2007 Billing Rate									\$ 279

Note A: Source is Michigan Lawyers Weekly, April 2008

Note B: Source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>)

Note C: Source is Sperling's Best Places (<http://www.bestplaces.net/col/col.aspx>). This number represents the cost of living difference between the Michigan city and Lexington, Ky. A number over 100% indicates the Michigan city's cost of living is higher than Lexington. A number less than 100% indicates Lexington's cost of living is higher.

Schedule 5

**Kentucky American Water Company
Billing Rates of U.S. Management Consultants**

A. Calculation of Average Hourly Billing Rate by Consultant Position						
Survey billing rates were those in effect in 2006 (Note A)						
Average Hourly Rates (Note A)						
	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
Average	\$ 142	\$ 187	\$ 235	\$ 306	\$ 358	
B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement						
	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
Average Hourly Billing Rate (from above)	\$ 142	\$187	\$235	\$306	\$358	
Typical Percent of Time Spent on a Consulting Project	30%	30%	20%	10%	10%	Weighted Average
	\$ 43	\$ 56	\$ 47	\$ 31	\$ 36	\$ 212
<u>Escalation to Midpoint of July 31, 2008 Test Period (Note B)</u>						
						CPI at December 31, 2006 201.8
						CPI at January 31, 2008 211.1
						Inflation/Escalation 4.6%
Average Hourly Billing Rate For Management Consultants At January 31, 2008						\$ 222

Note A: source: "Operating Ratios For Management Consulting Firms, 2007 Edition" Association of Management Consulting Firms

Note B: source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt>)

Schedule 6

**Kentucky American Water Company
Billing Rates Of Kentucky Certified Public Accountants**

A. Calculation of Average Hourly Billing Rate by Public Accounting Position Survey billing rates were those in effect in 2005 (Note A)				
	Average Hourly Billing Rate (Note A)			
Type of Firm	Staff Accountant	Senior Accountant	Manager	Partner
Average Hourly Rate	\$ 65	\$ 77	\$ 112	\$ 150
B. Calculation of Overall Average Accountant Billing Rate Based Upon Typical Distribution of Time on an Engagement				
	Staff Accountant	Senior Accountant	Manager	Partner
Average Hourly Billing Rate (From Above)	\$ 65	\$ 77	\$ 112	\$ 150
Typical Percent of Time Spent on an Accounting Assignment	30%	30%	20%	20%
	\$ 20	\$ 23	\$ 22	\$ 30
				Weighted Average \$ 95
			CPI at December 31, 2005	196.8
			CPI at January 31, 2008	211.1
			Inflation/Escalation	7.3%
			Average Hourly Billing Rate For CPAs At January 31, 2008	\$ 102

Note A: Source is AICPA's 2006 National PCPS/TSCPA Management of an Accounting Practice Survey

Note B: source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.txt>)

Exhibit PLB-1
Schedule 7

**Kentucky American Water Company
Billing Rates Of Kentucky Engineers**

Note: Billing rates were those in effect in 2007 and 2008

A. Calculation of Average Hourly Rate by Engineer Position

Name of Firm	Average Hourly Billing Rates			
	Technician	Engineer	Project Manager	Officer
	Senior Technician	Design Engineer Project Engineer	Sr. Mgr. Engineer	Principal Engineer
Firm #1	\$73	\$85	\$136	\$175
Firm #2	\$76	\$84	\$134	\$164
Firm #3	\$80	\$102	\$162	\$207
Firm #4	\$60	\$80	\$127	\$162
Firm #5	\$70	\$73	\$112	\$160
Firm #6	\$55	\$86	\$139	\$190

B. Calculation of Overall Average Engineering Hourly Billing Rate

	CAD Drafter	Engineer	Project Manager	Officer	Weighted Average
	Engineer Tech	Design Engineer Project Engineer Elect Proj Engineer	Project Associate Sr. Mgr. Engineer	Principal Engineer	
Average Hourly Billing Rate (From Above)	\$69	\$85	\$135	\$176	
Typical Percent of Time on an Engineering Assignment	30%	35%	25%	10%	
	\$21	\$30	\$34	\$18	\$102

Source: Information provided by American Water Works Service Company

Service Company Versus Outside Provider Cost Comparison

As shown in the table below, Service Company costs per hour are considerably lower than those of outside providers.

Service Provider	12 Months Ended July 31, 2008		
	Service Company	Outside Provider	Difference-- Service Co. Greater(Less) Than Outside
Attorney	\$ 77	\$ 279	\$ (202)
Management Consultant	\$ 212	\$ 222	\$ (10)
Certified Public Accountant	\$ 80	\$ 102	\$ (22)
Professional Engineer	\$ 81	\$ 102	\$ (21)

Based on these cost per hour differentials and the number of managerial and professional services hours billed to KAWC during the 12-months ended July 31, 2008, outside service providers would have cost \$1,595,514 more than the Service Company (see table below). Thus, on average, outside provider's hourly rates are 28% higher than those of the Service Company (\$1,595,514 / \$5,724,142).

Service Provider	12 Months Ended July 31, 2008		
	Hourly Rate Difference-- Service Co. Greater(Less) Than Outside	Service Company Hours Charged	Dollar Difference
Attorney	\$ (202)	3,599	\$ (726,242)
Management Consultant	\$ (10)	9,514	\$ (98,587)
Certified Public Accountant	\$ (22)	26,141	\$ (583,251)
Professional Engineer	\$ (21)	8,870	\$ (187,433)
Service Company Less Than Outside Providers			\$ (1,595,514)

If KAWC were to use outside service providers rather than the Service Company for managerial and professional services, it would incur other additional expenses besides those associated with higher hourly rates. Managing outside firms who would perform 48,123 hours of work (around 32 full-time equivalents at 1,500 "billable" hours per FTE per year) would add a significant workload to the existing KAWC management team. Thus, it would be necessary for KAWC to add at least one position to supervise the outside firms and ensure they delivered quality and timely services. The individual that would fill this position would need a good understanding of each profession being managed. They must also have management experience and the authority necessary to give them credibility with the outside firms. As calculated in the table below, this position would add another \$149,400 per year to KAWC's personnel expenses.

Cost of Adding a Professional Position To KAWC's Staff

	Total
New Position's Salary	\$ 100,000
Benefits (49.4%)	\$ 49,400
Office Expenses (15.2%)	\$ 15,200
Total Cost of Full Time Position	\$ 149,400

Thus, the total effect on the ratepayers of KAWC of contracting all services now provided by the Service Company would be an increase in their costs of \$1,744,914 (\$1,595,514 + \$149,400).

Based on the results of this comparison, it is possible to conclude that the Service Company charged KAWC at the lower of cost or market for services provided during the 12 months ended July 31, 2008.

Other Cost Comparisons

Every year, the Belleville Lab conducts a comparison of its cost for performing major tests to the cost of using outside testing laboratories. Over the past several years, these surveys have shown the following results been as follows:

Year	Number of Major Tests Surveyed	Percent Belleville Lower Than Outside Labs
2000	26	15%
2001	25	19%
2002	24	16%
2003	23	10%
2004	24	9%
2005	24	25%
2006	24	31%

These studies provide additional evidence that the Service Company arrangement is the lowest-cost alternative for KAWC.

V – Customer Account Services Cost Comparison

Background

It is difficult to compare the cost of American Water's National Call Centers with outside providers of the same call center-related services. Call center survey data is proprietary and expensive to obtain. For this reason, KAWC's National Call Center costs are compared to those of neighboring electric utilities because the data necessary to make this comparison is readily available to the public.

Electric utility cost information comes from the FERC Form 1 that each must file. FERC's chart of accounts is defined in chapter 18, part 101 of Code of Federal Regulations. FERC accounts that contain call center-related expenses and are used in this study's comparison are:

- Account 903 Customer Accounts Expense – Records and Collection Expense
- Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense.

In addition, labor-related overheads charged to the following FERC accounts must be added to the labor components of Accounts 903 and 905.

- Account 926 Employee Pension and Benefits
- Account 408 Taxes Other Than Income (employer's portion of FICA).

Schedule 8 provides FERC's description of what should be charged to these accounts. In questioning the controller of a large Southeastern electric utility, it was determined that expenses of the activities described below are recorded in the designated FERC accounts.

903 Records and Collection Expense

- Customer Call Center – customer calls/contact, credit, order taking/disposition, bill collection efforts, outage calls
- Call Center IT – maintenance of phone banks, voice recognition units, call center software applications, telecommunications
- Customer billing – bill printing, stuffing and mailing
- Remittance processing – processing of customer payments received in the mail
- Bill payment centers – locations where customers can pay their bills in person

905 Miscellaneous Customer Accounts Expense

- Customer Information System IT – maintenance and support of the customer information system

This study assumes the FERC accounts for other electric and gas utilities contain expenses for the same activities.

**Kentucky American Water Company
FERC Account Descriptions**

903 – Customer Records and Collection Expenses

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery, and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

**Kentucky American Water Company
FERC Account Descriptions**

905 – Miscellaneous Customer Accounts Expenses

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

Comparison Group

Electric utilities included in the comparison group are shown in the table below. These are companies whose FERC Form 1 shows amounts for accounts 903 and 905.

Kentucky	<ul style="list-style-type: none"> • Duke Energy – Kentucky • Kentucky Power 	<ul style="list-style-type: none"> • Kentucky Utilities • Louisville Gas & Electric
West Virginia	<ul style="list-style-type: none"> • Wheeling Power 	
Virginia	<ul style="list-style-type: none"> • Appalachian Power 	<ul style="list-style-type: none"> • Virginia Electric Power
Ohio	<ul style="list-style-type: none"> • Cleveland Electric • Columbus Southern Power • Dayton Power & Light • Duke Energy – Ohio 	<ul style="list-style-type: none"> • Ohio Edison • Ohio Power • Toledo Edison
Missouri	<ul style="list-style-type: none"> • Aquila • Kansas City Power & Light 	<ul style="list-style-type: none"> • Union Electric
Indiana	<ul style="list-style-type: none"> • Duke Energy – Indiana • Indiana Michigan Power 	<ul style="list-style-type: none"> • Indianapolis Power & Light • NIPSCO
Illinois	<ul style="list-style-type: none"> • Central Illinois Light • Central Illinois Public Service • Commonwealth Edison 	<ul style="list-style-type: none"> • Illinois Power • Interstate Power & Light • MidAmerica Energy
Tennessee	<ul style="list-style-type: none"> • Kingsport Power 	

Comparison Approach

The basis for this comparison is customer account services expenses per customer. KAWC's cost pool was developed to include the same expenses included in electric utility's FERC accounts 903 and 905. As shown in the graphic below, KAWC's resultant cost pool contains the expenses of Service Company locations and certain operating company expenses.

American Water
<u>Service Company</u>
Pensacola & Alton Call Centers
a. Customer contact
b. Customer order processing
c. Billing information processing
d. Collections
e. Correspondence processing
f. Customer payment processing
<u>Operating Company</u>
a. Postage and forms

Electric Utilities
FERC Acct 903 - Records and Collection Expense and FERC Acct 905 - Misc Customer Accounts Expense
a. Customer contact
b. Customer order processing
c. Bill preparation and mailing
d. Collections
e. Payment processing
f. Correspondence processing

KAWC Cost Per Customer

In order to make a valid comparison to neighboring electric utilities, certain adjustments had to be made to the applicable Service Company charges to KAWC. It was necessary to adjust the National Call Center call handling charges because electric utilities experience an average of 2.50 calls per customer compared to American Water's 1.33 calls per customer. Thus, National Call Center call handling charges had to be increased for comparison purposes, to reflect its costs at a 2.50 calls per customer level. As shown below, KAWC's adjusted annual expense per customer is \$28.07—the number that can be compared to neighboring electric utilities' expenses. KAWC's 12 months ended July 31, 2008 unadjusted annual expense per customer is \$23.22.

Kentucky-American Cost Per Customer		Year Ended 7/31/2008	Adjustment Fewer Service Co Calls For	Adjusted
Cost Component		Charges	Water Cos. (A)	
Service Company				
Call Centers	Call processing, order processing, credit, bill collection	\$ 1,648,336	\$ 567,707	\$ 2,216,043
Regional Offices		\$ 180,491		\$ 180,491
Operating Company	Customer payment processing			\$ 166,689 Note B
Operating Company	Postage & forms			\$ 724,532
Cost Pool Total				\$ 3,287,755
Total Customers				117,119
12 Months Ended July 31, 2008 Cost Per KAWC Customer				\$ 28.07

Note A: Adjustment for American Water's fewer calls per customer

This adjustment is necessary because water utilities experience fewer calls per customer than do electric utilities

Call handling expenses		\$ 643,808
Electric utility industry's avg calls/customer	2.50	
American Water's avg calls/customer	1.33	
Percent different	88%	88%
Total Adjustment		\$ 567,707

Note B: Estimated customer payment processing expenses

Number of customers	117,119
Number of payments/customer/year	12
Total payments processed/year	1,405,428
Bank charge per item	\$ 0.1186
Total estimated annual expense	\$ 166,689

Electric Utility Group Cost Per Customer

Schedule 9 shows the actual 2007 customer accounts expense per customer calculation for the electric utility comparison group. All of the underlying data were taken from each utility's FERC Form 1.

Summary Of Results

As shown in the table below, KAWC's cost per customer is close to the average of the neighboring electric utility comparison group. It can therefore be concluded that KAWC's 12 months ended July 31, 2008 customer accounts-related expenses, including those of the Alton and Pensacola Call Centers, assigned by the Service Company to KAWC are reasonable compared to those of other utilities.

Average Customer Accounts Expense Per Customer		
Louisville Gas & Electric	\$	13.71
Interstate Power & Light	\$	15.86
Virginia Electric Power	\$	15.89
Ohio Edison	\$	19.04
Dayton Power & Light	\$	19.15
Illinois Power	\$	19.83
Indianapolis Power & Light	\$	20.62
Cleveland Electric Illuminating	\$	21.33
Union Electric	\$	23.46
Aquila	\$	23.72
Kansas City Power & Light	\$	25.09
Toledo Edison	\$	25.77
Kentucky Utilities	\$	25.91
Central Illinois Public Service	\$	26.50
MidAmerican Energy	\$	27.50
Comparison Group Average	\$	27.99
Kentucky American Water	\$	28.07
Wheeling Power	\$	28.08
Northern Indiana Public Service	\$	28.32
Indiana Michigan Power	\$	31.74
Duke Energy Indiana	\$	32.14
Kingsport Power	\$	32.31
Central Illinois Light	\$	34.22
Duke Energy Kentucky	\$	34.88
Appalachian Power	\$	34.99
Ohio Power	\$	35.00
Duke Energy Ohio	\$	36.10
Kentucky Power	\$	37.59
Columbus & Southern Power	\$	38.57
Commonwealth Edison	\$	39.81

It should be noted that comparison group per customer costs at the low end are unusually low given the nature of Customer Accounts expenses. For instance, the annual cost of forms and postage alone is around \$6.20 per customer for KAWC. It would be expected that this cost would be the same for every utility in the comparison group because all likely mail customer bills monthly. Thus, for a low-end cost utility like Louisville Gas & Electric, that leaves only \$7.51 (\$13.71-\$6.20) to cover labor and information technology expenses that Customer Accounts services require. It is possible that the very low end cost utilities record the cost of supporting their customer information systems to an A&G FERC account rather than to a Customer Accounts FERC account (903).

Kentucky American Water Company
Comparison Group 2007 Actual Customer Accounts Expense Per Customer

	Kentucky			West Virginia		Virginia	
	Duke Energy Kentucky	Kentucky Power	Kentucky Utilities	Louisville Gas & Electric	Wheeling Power	Appalachian Power	Virginia Electric Power
Customer Account Services Cost Pool							
FERC Account Balances:							
Act 903 - Customer Records & Collection (page 322, line 161)	\$ 3,247,759	\$ 6,205,360	\$ 11,681,015	\$ 4,642,565	\$ 1,083,477	\$ 31,314,061	\$ 32,253,336
Act 905 - Misc Customer Accounts (page 322, line 163)	\$ 75,852	\$ 2,888	\$ 173,641	\$ 215,534	\$ 1,480	\$ 18,238	\$ -
Subtotal	\$ 3,323,611	\$ 6,208,248	\$ 11,854,656	\$ 4,858,099	\$ 1,084,957	\$ 31,332,299	\$ 32,253,336
Add: Employee Benefits & Employer FICA (not included in above amounts)	\$ 1,080,370	\$ 285,983	\$ 1,738,946	\$ 542,390	\$ 55,868	\$ 1,429,385	\$ 3,831,664
Account 926 - Employee Pension & Benefits	\$ 264,982	\$ 111,009	\$ 230,888	\$ 94,002	\$ 19,665	\$ 534,319	\$ 1,451,975
Account 408 - Taxes Other Than Income (Employer's Portion of FICA)	\$ 4,668,963	\$ 6,605,240	\$ 13,824,490	\$ 5,494,491	\$ 1,160,489	\$ 33,296,003	\$ 37,536,975
Total Customers (page 304, line 43)	133,868	175,705	533,512	400,703	41,332	951,693	2,362,318
Customer Account Services Expense per Customer	\$ 34.88	\$ 37.59	\$ 25.91	\$ 13.71	\$ 28.08	\$ 34.99	\$ 15.89
Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt							
Account 926 - Employee Pension & Benefits (page 323, line 187)	\$ 9,725,767	\$ 4,466,809	\$ 22,618,725	\$ 20,138,689	\$ 369,460	\$ 21,499,955	\$ 120,865,073
Total O&M Payroll (page 355, line 65)	\$ 31,182,162	\$ 22,664,819	\$ 39,257,367	\$ 45,624,056	\$ 1,699,949	\$ 105,057,647	\$ 598,702,458
Benefits as Percent of Payroll	31.2%	19.7%	57.6%	44.1%	21.7%	20.5%	20.2%
Payroll Applicable to Customer Account Services	\$ 1,323,882	\$ 1,702,053	\$ 4,110,913	\$ 960,068	\$ 357,852	\$ 8,227,618	\$ 25,945,148
Total Payroll Charged to Customer Accounts Function	\$ 3,112,805	\$ 4,436,687	\$ 1,702,053	\$ 1,731,124	\$ 357,852	\$ 8,227,618	\$ 25,945,148
Electric (page 354, line 7)	\$ 3,247,759	\$ 6,205,360	\$ 11,681,015	\$ 4,642,565	\$ 1,083,477	\$ 31,314,061	\$ 32,253,336
Gas (page 354, line 37)	\$ 75,852	\$ 2,888	\$ 173,641	\$ 215,534	\$ 1,480	\$ 18,238	\$ -
Total Payroll Charged to Customer Accounts	\$ 3,323,611	\$ 6,208,248	\$ 11,854,656	\$ 4,858,099	\$ 1,084,957	\$ 31,332,299	\$ 32,253,336
Percent Applicable to Customer Accounts Services (903 and 905):	\$ 933,492	\$ 1,073,679	\$ 4,292,201	\$ 1,986,061	\$ 425,426	\$ 5,576,254	\$ 11,835,960
Act 903 - Customer Records & Collection (page 322, line 161)	\$ 4,257,103	\$ 7,281,927	\$ 16,146,857	\$ 6,844,160	\$ 1,510,383	\$ 36,908,553	\$ 44,089,296
Act 905 - Misc Customer Accounts (page 322, line 163)	78.1%	85.3%	73.4%	71.0%	71.8%	84.9%	73.2%
Subtotal - Total Charges Applicable to Customer Accounts Services	\$ 3,463,816	\$ 1,451,095	\$ 3,018,139	\$ 1,228,781	\$ 257,057	\$ 6,984,565	\$ 18,980,062
Act 902 - Meter Reading Expenses (page 322, line 160)	\$ 1,080,370	\$ 285,983	\$ 1,738,946	\$ 542,390	\$ 55,868	\$ 1,429,385	\$ 3,831,664
Total Charges Applicable to Customer Accounts Svcs & Meter Reading	\$ 3,463,816	\$ 1,451,095	\$ 3,018,139	\$ 1,228,781	\$ 257,057	\$ 6,984,565	\$ 18,980,062
Percent Applicable to Customer Accounts Services (903 and 905)	\$ 1,080,370	\$ 285,983	\$ 1,738,946	\$ 542,390	\$ 55,868	\$ 1,429,385	\$ 3,831,664
Customer Account Services Portion of Total Payroll	\$ 3,463,816	\$ 1,451,095	\$ 3,018,139	\$ 1,228,781	\$ 257,057	\$ 6,984,565	\$ 18,980,062
Customer Account Services Portion of Total Payroll	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Pension & Benefits Pertaining to Customer Accounts Services	\$ 264,982	\$ 111,009	\$ 230,888	\$ 94,002	\$ 19,665	\$ 534,319	\$ 1,451,975
Employer's Portion of FICA (6.20%) and Medicare (1.45%)							
Estimated Employer's Portion of FICA							

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt
Account 926 - Employee Pension & Benefits (page 323, line 187)
Total O&M Payroll (page 355, line 65)
Benefits as Percent of Payroll
Payroll Applicable to Customer Account Services
Total Payroll Charged to Customer Accounts Function
Electric (page 354, line 7)
Gas (page 354, line 37)
Total Payroll Charged to Customer Accounts
Percent Applicable to Customer Accounts Services (903 and 905):
Act 903 - Customer Records & Collection (page 322, line 161)
Act 905 - Misc Customer Accounts (page 322, line 163)
Subtotal - Total Charges Applicable to Customer Accounts Services
Act 902 - Meter Reading Expenses (page 322, line 160)
Total Charges Applicable to Customer Accounts Svcs & Meter Reading
Percent Applicable to Customer Accounts Services (903 and 905)
Customer Account Services Portion of Total Payroll
Pension & Benefits Pertaining to Customer Accounts Services
Customer Account Services Portion of Total Payroll
Employer's Portion of FICA (6.20%) and Medicare (1.45%)
Estimated Employer's Portion of FICA



Kentucky American Water Company
Comparison Group 2007 Actual Customer Accounts Expense Per Customer

Ohio						
Cleveland Electric Illum.	Columbus Southern Pwr	Dayton Power & Light	Duke Energy - Ohio	Ohio Edison	Ohio Power	Toledo Edison
\$ 14,571,985	\$ 27,013,658	\$ 8,528,580	\$ 18,251,514	\$ 20,280,096	\$ 23,346,691	\$ 6,786,566
\$ 493,177	\$ 30,647	\$ -	\$ 7,279	\$ 507,437	\$ 36,717	\$ 156,298
\$ 15,065,162	\$ 27,044,305	\$ 8,528,580	\$ 18,258,793	\$ 20,787,533	\$ 23,383,408	\$ 6,942,864
\$ 836,948	\$ 1,264,559	\$ 991,292	\$ 5,237,196	\$ (1,424,285)	\$ 1,098,295	\$ 982,446
\$ 274,236	\$ 428,016	\$ 333,191	\$ 1,290,860	\$ 450,184	\$ 418,833	\$ 150,795
\$ 16,176,347	\$ 28,736,880	\$ 9,853,063	\$ 24,786,849	\$ 19,813,432	\$ 24,900,536	\$ 8,076,105
758,319	745,133	514,405	686,578	1,040,662	711,406	313,413
\$ 21.33	\$ 38.57	\$ 19.15	\$ 36.10	\$ 19.04	\$ 35.00	\$ 25.77
\$ 7,650,920	\$ 11,597,859	\$ 18,464,446	\$ 52,482,158	\$ (11,505,519)	\$ 22,732,455	\$ 7,749,820
\$ 32,770,179	\$ 51,314,234	\$ 81,127,271	\$ 169,094,889	\$ 47,537,720	\$ 113,320,078	\$ 15,549,239
23.3%	22.6%	22.8%	31.0%	-24.2%	20.1%	49.8%
\$ 4,890,691	\$ 6,589,685	\$ 6,193,463	\$ 8,774,665	\$ 8,447,511	\$ 6,727,321	\$ 2,640,178
\$ 4,890,691	\$ 6,589,685	\$ 6,193,463	\$ 22,336,017	\$ 8,447,511	\$ 6,727,321	\$ 2,640,178
\$ 14,571,985	\$ 27,013,658	\$ 8,528,580	\$ 18,251,514	\$ 20,280,096	\$ 23,346,691	\$ 6,786,566
\$ 493,177	\$ 30,647	\$ -	\$ 7,279	\$ 507,437	\$ 36,717	\$ 156,298
\$ 15,065,162	\$ 27,044,305	\$ 8,528,580	\$ 18,258,793	\$ 20,787,533	\$ 23,383,408	\$ 6,942,864
\$ 5,488,077	\$ 4,808,046	\$ 3,599,111	\$ 5,910,289	\$ 9,052,734	\$ 5,348,894	\$ 2,356,336
\$ 20,553,239	\$ 31,852,351	\$ 12,127,691	\$ 24,169,082	\$ 29,840,267	\$ 28,732,302	\$ 9,299,200
73.3%	84.9%	70.3%	75.5%	69.7%	81.4%	74.7%
\$ 3,584,790	\$ 5,594,986	\$ 4,355,441	\$ 16,873,984	\$ 5,884,763	\$ 5,474,942	\$ 1,971,180
\$ 836,948	\$ 1,264,559	\$ 991,292	\$ 5,237,196	\$ (1,424,285)	\$ 1,098,295	\$ 982,446
\$ 3,584,790	\$ 5,594,986	\$ 4,355,441	\$ 16,873,984	\$ 5,884,763	\$ 5,474,942	\$ 1,971,180
7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
\$ 274,236	\$ 428,016	\$ 333,191	\$ 1,290,860	\$ 450,184	\$ 418,833	\$ 150,795

Customer Account Services Cost Pool

FERC Account Balances:

Acct 903 - Customer Records & Collection (page 322, line 161)
Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal

Add: Employee Benefits & Employer FICA (not included in above amounts)
Account 926 - Employee Pension & Benefits

Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

Total Cost Pool

Total Customers (page 304, line 43)

Customer Account Services Expense per Customer

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 187)
Total O&M Payroll (page 355, line 65)

Benefits as Percent of Payroll

Payroll Applicable to Customer Account Services

Total Payroll Charged to Customer Accounts Function

Electric (page 354, line 7)

Gas (page 354, line 37)

Total Payroll Charged to Customer Accounts

Percent Applicable to Customer Accounts Services (903 and 905):

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal - Total Charges Applicable to Customer Accounts Services

Acct 902 - Meter Reading Expenses (page 322, line 160)

Total Charges Applicable to Customer Accounts Svcs & Meter Reading

Percent Applicable to Customer Accounts Services (903 and 905)

Customer Account Services Portion of Total Payroll

Pension & Benefits Pertaining to Customer Accounts Services

Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Services

Customer Account Services Portion of Total Payroll

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA

Kentucky American Water Company
Comparison Group 2007 Actual Customer Accounts Expense Per Customer

	Missouri			Indiana			NIPSCO
	Aquila	Kansas City Power & Light	Union Electric	Duke Energy Indiana	Indiana Mich Power	Indianapolis Power & Light	
Customer Account Services Cost Pool							
FERC Account Balances:							
Acct 903 - Customer Records & Collection (page 322, line 161)	\$ 7,864,226	\$ 10,445,176	\$ 23,559,069	\$ 20,424,866	\$ 17,077,474	\$ 7,808,040	\$ 7,640,560
Acct 905 - Misc Customer Accounts (page 322, line 163)	\$ 3,970	\$ 6,055	\$ 393,593	\$ 71,323	\$ 101,472	\$ 67,688	\$ 148,310
Subtotal	\$ 7,868,196	\$ 10,451,231	\$ 23,952,662	\$ 20,496,189	\$ 17,178,946	\$ 7,875,728	\$ 7,788,870
Add: Employee Benefits & Employer FICA (not included in above amounts)							
Account 926 - Employee Pension & Benefits	\$ 2,740,462	\$ 2,054,257	\$ 2,890,852	\$ 3,670,837	\$ 927,402	\$ 1,466,355	\$ 3,921,459
Account 408 - Taxes Other Than Income (Employer's Portion of FICA)	\$ 531,626	\$ 393,973	\$ 833,653	\$ 710,258	\$ 360,378	\$ 306,353	\$ 1,159,163
Total Cost Pool	\$ 11,140,285	\$ 12,899,461	\$ 27,677,167	\$ 24,877,285	\$ 18,466,726	\$ 9,648,436	\$ 12,869,492
Total Customers (page 304, line 43)	469,707	514,210	1,179,789	773,954	581,882	467,864	454,471
Customer Account Services Expense per Customer	\$ 23.72	\$ 25.09	\$ 23.46	\$ 32.14	\$ 31.74	\$ 20.62	\$ 28.32
Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt							
Account 926 - Employee Pension & Benefits (page 323, line 187)	\$ 36,497,609	\$ 60,859,546	\$ 84,255,317	\$ 64,187,707	\$ 31,214,137	\$ 35,834,278	\$ 29,700,994
Total O&M Payroll (page 355, line 65)	\$ 92,551,964	\$ 152,573,359	\$ 317,610,780	\$ 162,345,980	\$ 158,555,087	\$ 97,863,363	\$ 114,764,234
Benefits as Percent of Payroll	39.4%	39.9%	26.5%	39.5%	19.7%	36.6%	25.9%
Payroll Applicable to Customer Account Services	\$ 6,278,707	\$ 6,966,789	\$ 15,228,065	\$ 12,278,547	\$ 5,707,798	\$ 6,869,864	\$ 7,923,830
Total Payroll Charged to Customer Accounts Function	\$ 4,539,711	\$ 6,966,789	\$ 3,584,281	\$ 12,278,547	\$ 5,707,798	\$ 6,869,864	\$ 12,737,067
Gas (page 354, line 37)	\$ 10,818,418	\$ 6,966,789	\$ 18,812,346	\$ 12,278,547	\$ 5,707,798	\$ 6,869,864	\$ 20,660,897
Total Payroll Charged to Customer Accounts	\$ 7,864,226	\$ 10,445,176	\$ 23,559,069	\$ 20,424,866	\$ 17,077,474	\$ 7,808,040	\$ 7,640,560
Percent Applicable to Customer Accounts Services (903 and 905):	3.970	6.055	393.593	71.323	101.472	67.688	148.310
Acct 903 - Customer Records & Collection (page 322, line 161)	\$ 7,868,196	\$ 10,451,231	\$ 23,952,662	\$ 20,496,189	\$ 17,178,946	\$ 7,875,728	\$ 7,788,870
Acct 905 - Misc Customer Accounts (page 322, line 163)	\$ 4,380,613	\$ 3,687,007	\$ 17,397,091	\$ 6,609,800	\$ 3,635,670	\$ 5,634,982	\$ 2,831,519
Subtotal - Total Charges Applicable to Customer Accounts Services	\$ 12,248,809	\$ 14,138,238	\$ 41,349,753	\$ 27,105,989	\$ 20,814,616	\$ 13,510,710	\$ 10,620,389
Acct 902 - Meter Reading Expenses (page 322, line 160)	64.2%	73.9%	57.9%	75.6%	82.5%	58.3%	73.3%
Total Charges Applicable to Customer Accounts Svcs & Meter Reading	\$ 6,949,364	\$ 5,149,971	\$ 10,897,423	\$ 9,284,421	\$ 4,710,822	\$ 4,004,614	\$ 15,152,462
Percent Applicable to Customer Accounts Services (903 and 905)	\$ 2,740,462	\$ 2,054,257	\$ 2,890,852	\$ 3,670,837	\$ 927,402	\$ 1,466,355	\$ 3,921,459
Customer Account Services Portion of Total Payroll	\$ 6,949,364	\$ 5,149,971	\$ 10,897,423	\$ 9,284,421	\$ 4,710,822	\$ 4,004,614	\$ 15,152,462
Customer Account Services Portion of Total Payroll	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Pension & Benefits Pertaining to Customer Accounts Services	\$ 531,626	\$ 393,973	\$ 833,653	\$ 710,258	\$ 360,378	\$ 306,353	\$ 1,159,163
Employer's Portion of FICA (6.20%) and Medicare (1.45%)							
Estimated Employer's Portion of FICA							

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt
Account 926 - Employee Pension & Benefits (page 323, line 187)
Total O&M Payroll (page 355, line 65)
Benefits as Percent of Payroll
Payroll Applicable to Customer Account Services
Total Payroll Charged to Customer Accounts Function
Gas (page 354, line 37)
Total Payroll Charged to Customer Accounts
Percent Applicable to Customer Accounts Services (903 and 905):
Acct 903 - Customer Records & Collection (page 322, line 161)
Acct 905 - Misc Customer Accounts (page 322, line 163)
Subtotal - Total Charges Applicable to Customer Accounts Services
Acct 902 - Meter Reading Expenses (page 322, line 160)
Total Charges Applicable to Customer Accounts Svcs & Meter Reading
Percent Applicable to Customer Accounts Services (903 and 905)
Customer Account Services Portion of Total Payroll
Pension & Benefits Pertaining to Customer Accounts Services
Customer Account Services Portion of Total Payroll
Employer's Portion of FICA (6.20%) and Medicare (1.45%)
Estimated Employer's Portion of FICA



Exhibit PLB-1
Schedule 9
Page 4 of 4

Kentucky American Water Company
Comparison Group 2007 Actual Customer Accounts Expense Per Customer

	Illinois				Tennessee		
	Central Illinois Light	Central Illinois Pub Service	Commonwealth Edison	Illinois Power	Interstate Power & Light	MidAmerica Energy	Kingsport Power
\$	5,596,991	8,716,470	120,610,588	10,989,619	6,841,367	14,254,909	1,473,454
\$	223,985	302,592		568,738	28,667	309,674	401
\$	5,820,976	9,019,062	120,610,588	11,558,357	6,870,034	14,564,583	1,473,855
Note A	1,037,533	812,658	25,649,317	69,710	1,133,450	3,583,729	44,764
\$	334,233	442,805	5,100,185	541,271	372,012	1,552,522	20,029
\$	7,192,743	10,274,525	151,360,089	12,169,339	8,375,496	19,700,834	1,538,648
	210,178	387,776	3,802,140	613,536	528,093	716,315	47,624
\$	34,22	26,50	39,81	19,83	15,86	27,50	32,31
\$	8,354,060	8,570,858	115,712,143	870,134	23,724,694	38,097,558	234,574
\$	35,179,031	61,047,440	300,765,220	88,316,487	101,787,427	215,743,804	1,371,988
	23.7%	14.0%	38.5%	1.0%	23.3%	17.7%	17.1%
\$	3,140,575	5,666,365	85,366,508	7,085,972	6,582,592	16,414,627	287,440
\$	2,647,376	2,677,418		4,384,260	2,494,279	14,720,361	
\$	5,787,951	8,343,783	85,366,508	11,470,232	9,076,871	31,134,988	287,440
\$	5,596,991	8,716,470	120,610,588	10,989,619	6,841,367	14,254,909	1,473,454
\$	223,985	302,592		568,738	28,667	309,674	401
\$	5,820,976	9,019,062	120,610,588	11,558,357	6,870,034	14,564,583	1,473,855
\$	1,890,408	3,981,834	33,825,388	7,179,283	5,953,252	7,779,904	200,527
\$	7,711,384	13,000,896	154,435,976	18,737,640	12,823,286	22,344,487	1,674,382
	75.5%	69.4%	78.1%	61.7%	53.6%	65.2%	88.0%
\$	4,369,063	5,788,301	66,669,082	7,075,439	4,862,904	20,294,407	261,818
\$	1,037,533	812,658	25,649,317	69,710	1,133,450	3,583,729	44,764
\$	4,369,063	5,788,301	66,669,082	7,075,439	4,862,904	20,294,407	261,818
	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
\$	334,233	442,805	5,100,185	541,271	372,012	1,552,522	20,029

Group Average
\$ 563,120,389
20,116,586
27.99

Customer Account Services Cost Pool

FERC Account Balances:
Acct 903 - Customer Records & Collection (page 322, line 161)
Acct 905 - Misc Customer Accounts (page 322, line 163)
Subtotal
Add: Employee Benefits & Employer FICA (not included in above amounts)
Account 926 - Employee Pension & Benefits

Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

Total Cost Pool

Total Customers (page 304, line 43)

Customer Account Services Expense per Customer

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 187)
Total O&M Payroll (page 355, line 65)

Benefits as Percent of Payroll

Payroll Applicable to Customer Account Services

Total Payroll Charged to Customer Accounts Function

Electric (page 354, line 7)

Gas (page 354, line 37)

Total Payroll Charged to Customer Accounts

Percent Applicable to Customer Accounts Services (903 and 905):

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal - Total Charges Applicable to Customer Accounts Services

Acct 902 - Meter Reading Expenses (page 322, line 160)

Total Charges Applicable to Customer Accounts Svcs & Meter Reading

Percent Applicable to Customer Accounts Services (903 and 905)

Customer Account Services Portion of Total Payroll

Pension & Benefits Pertaining to Customer Accounts Services

Customer Account Services Portion of Total Payroll

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA



VI - Need For Service Company Services

Analysis Of Services

The third aspect of this study was an assessment of whether the services that are provided to KAWC by the Service Company would be necessary if KAWC were a stand-alone water utility. The first step in this evaluation was to determine specifically what the Service Company does for KAWC. Based on Baryenbruch & Company, LLC's experience working with the Service Company and information from Service Company personnel, the matrix in Schedule 10 was created showing which entity—KAWC or a Service Company location—is responsible for each of the functions KAWC requires to ultimately provide service to its customers. This matrix was reviewed to determine: (1) if there was redundancy or overlap in the services being provided by the Service Company and (2) if Service Company services are typical of those needed by a stand-alone water utility.

Upon review of Schedule 10, the following conclusions can be drawn:

- The services that the Service Company provides are necessary and would be required even if KAWC were a stand-alone water utility.
- There is no redundancy or overlap in the services provided by the Service Company to KAWC. For all of the services listed in Schedule 10, there was only one entity that was primarily responsible for the service.

Designation Of Responsibility For Water Utility Functions

	Primarily Responsible Provides Support	P S	Performed By:							
			KAWC	Customer Call Center	Regional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab	
Water Company Function										
Engineering and Construction Management										
CPS Preparation	P							S		
Five-Year System Planning	P							S		
Engineering Standards & Policies Development								P		
Project Design										
Major Projects (e.g., new treatment plant)	P							S		
Special Projects	P							S		
Minor Projects (e.g., pipelines)										
Construction Project Management										
Major Projects	P							S		
Special Projects	P							S		
Minor Projects	P									
Hydraulics Review	P							S		
Developers Extensions	P									
Tank Painting	P									
Water Quality and Purification										
Water Quality Standards Development								S		P
Research Studies	S							S		P
Water Quality Program Implementation	P							S		
Water Treatment Operations & Maintenance	P							S		
Compliance Tracking and Chemical Testing	P							S		S
Sample Collection and Other Testing	S							S		P
Transmission and Distribution										
Preventive Maintenance Program Development	P									
System Maintenance	P									
Leak Detection	P									
Customer Service										
Community Relations	P							S		
Customer Contact	S									
Call Processing										
Service Order Creation	S							S		
Service Order Processing	P									
Customer Credit										
Meter Reading	P									
Customer Bill Preparation										
Bill Collection	S									S
Customer Payment Processing	S									P
Meter Standards Development	S									
Meter Testing, Maintenance & Replacement	P									

Designation Of Responsibility For Water Utility Functions

Water Company Function	KAWC	Performed By:					
		Customer Call Center	Regional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab
Primarily Responsible P							
Provides Support S							
Financial Management							
Financial Planning	S		P		S		
Financings—Equity	S		P		S		
Financings--Long Term Debt & Preferred (A)	S		P				
Short Term Lines of Credit Arrangements (A)	S				P		
Investor Relations			S				
Insurance Program Administration	S				P		
Loss Control/Safety Program Administration	P						
Pension Fund Asset Management							
Cash Management/Disbursements				P			
Internal Auditing							
Budgeting and Variance Reporting							
Corporate Guidelines & Instructions							
Regional Guidelines & Instructions			P				
Budget Preparation							
Revenue	P		S				
O&M	P		S				
Depreciation and Interest Expense	S		S				
Budget Preparation--Service Company Charges	S	S	P	P	S	S	S
Capital Budget Preparation—Projects	P						
Capital Budget Preparation—Non-Project Work	P						
Prepare Monthly Budget Variance Report ("Budget/Plan Analysis")	P						
Prepare Capital Project Budget Status Report	P						
Year-End Projections (A)	P						
Accounting and Taxes							
Accounts Payable Accounting	S			P			
Payroll Accounting	S			P			
Work Order Accounting	S			P			
Fixed Asset Accounting	S			P			
Journal Entry Preparation--Billing Corrections	S			P			
Journal Entry Preparation--All Others	S			P			
Financial Statement Preparation	S			P			
State Commission Reporting	S		S				
Income Taxes—State							
Income Taxes—Federal							
Property Taxes			S				
Gross Receipts Taxes	S		S				

Note A: Financings and lines of credit are the responsibility of American Capital Corporation

Kentucky American Water Company
Designation Of Responsibility For Water Utility Functions

Water Company Function	KAWC	Performed By:					
		Customer Call Center	Regional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab
Primarily Responsible P Provides Support S							
Water Company Function							
Rates							
Rate Studies & Tariff Change Administration	S	P					
Rate Case Planning and Preparation	S	P					
Rate Case Administration	S	P					
Commission Inquiry Response	S	P		S			
Legal							
Purchasing and Materials Management							
Specification Development	S	S	S				
Bid Solicitation	S	P	P				
Contract Administration	S	P	P				
Ordering	P						
Inventory Management	P		S				
Human Resources Management							
Benefit Program Development							
Benefits Program Administration		P			P		
Management Compensation Administration	S						
Wage & Salary Program Design					P		
Wage & Salary Administration	P	S					
Labor Negotiations--Wages	P	S					
Labor Negotiations--Benefits							
Labor Negotiations--Work Rules	S	P			P		
Training Program Development	S	S					
Training--Course Delivery	S	S			P		
Affirmative Action/EEO--Plan Development	P						
Affirmative Action/EEO--Implementation	P						
Information Systems Services							
Service Company Data Centers							
System Operations & Maintenance							P
Software Maintenance							P
Network Administration		P					S
PC Acquisition & Support		P					S
Help Desk		S					P



Governance Practices Associated With Service Company Charges

There are several ways by which KAWC exercises control over Service Company services and charges. The most important of these are described below.

- **President of Regulated Operations Oversight** – The President of Regulated Operations is on the Executive Management Team (EMT) of American Water. This position is responsible for the overall performance of each operating company in American Water. As part of the EMT, the President of Regulated Operations has equal say with other EMT members in major business decisions of American Water and has the ability to monitor Service Company performance quality and spending. The President of Regulated Operations also has dialogue with each operating company president to address local concerns.
- **Regional Vice President & Treasurer** – The Regional Vice President and Treasurer of the southeast states is responsible for the financial reporting, performance and internal controls of each of the operating companies in the region. The Vice President and Treasurer monitors the performance and reporting from the Service Company and follows up on instances where the quality and timeliness of services are not as expected. The operating company interacts with the Regional VP & Treasurer to discuss any concerns with billings, etc.
- **Operating Company Board Oversight** – KAWC board of directors includes members of American Water's EMT, members of the regional management team and business and community leaders from outside the Company. KAWC's president is Chairman of the KAWC board. This helps ensure that KAWC's needs are a factor in the delivery of Service Company services.
- **Service Company Budget Review/Approval** – The President of Regulated Operations sits on the Service Company board and that board must formally approve the budget for Service Company charges for the next year. These budgeted charges are consolidated with the operating company's own spending into an overall budget which must be approved by the operating company's board of directors. KAWC's president also sits on the Service Company board.
- **Major Project Review And Approval** – Major projects undertaken by the Service Company must first be reviewed by American Water's Executive Management Team, which includes the President of Regulated Operations. With input from the local presidents and Regional Vice President & Treasurer, they have the ability to impact all new initiatives and projects before they are authorized.
- **Service Company Bill Scrutiny** – Southeast Region Finance personnel review the monthly Service Company bill for accuracy and reasonableness on a monthly basis. KAWC's financial analyst has dialogue with regional office personnel concerning the monthly bill and any mistakes or overcharges are credited on a subsequent billing. The Southeast Region Finance unit prepares an actual to budget comparison of management fees each month for use in identifying unusual variances. Service Company actual to budget comparison is included in the monthly FRP. Unusual variances are researched, explanations are provided and any corrections are made, as necessary.
- **Service Company Budget Variance Reporting** – Each month, a summary variance analysis is prepared that explains differences between budgeted and actual Service Company spending. In addition, a more detailed monthly variance report, called the "Statement of Expenses and Billed Charges," is produced by Service Company location and shows actual spending for the month.

- **Operating Company Budget Variance Reporting** – The “Budget/Plan Analysis,” produced monthly, has a line item for Management Fees (i.e., Service Company charges). In this way, Service Company budget versus actual charges can be monitored for the month and year-to-date. Additional information exists that allows more detailed analysis of "Regional" and "Corporate" Management Fees.

- **Capital Investment Management (“CIM”)** – CIM is one of American Water’s primary business planning processes. It covers capital and asset planning and is employed throughout American Water. CIM provides a full range of governance practices, including a formal protocol for assessing system needs, prioritizing expenditures, managing the capital program, approving project spending, delivering projects and measuring outputs. CIM ensures that:
 - Capital expenditure plans are aligned with the strategic intent of the business
 - The impact of capital expenditure and income plans are fully reflected in operating expense plans
 - The impacts of these plans are understood and affordable, and
 - Effective controls are in place over budgets (through business plans) and individual capital projects (through appropriate authorization thresholds, management and reporting processes).

The CIM process was designed to optimize the effectiveness of asset investment. The process is managed at two levels for all American Water companies, including all KAWC Operating Units. Monthly meetings of the CIM are held to review capital spending compared to plan, review new project requests, and review updates or modifications to existing projects. The President of KAWC, VP Finance, and others participate as necessary (e.g. KAWC operations managers and Rates Manager) and provide the data used in the monthly review schedules.

VII – Other Comparative Measures Of Reasonableness Of Service Company Charges

KAWC’s Service Company Cost Per Customer

During the 12 months ended July 31, 2008, KAWC was charged \$60 per customer in O&M expenses by the Service Company. As shown in the table below, this calculation is based on net testable O&M, which eliminates certain O&M items for which KAWC has not requested cost recovery.

	12 Months Ended July 31, 2008
Net Testable Service Company O&M Expenses	\$ 7,064,978
KAWC American Customers (12/31/07)	117,119
KAWC American Cost Per Customer	\$ 60

Comparison Group Cost Per Customer

Every centralized service company in a holding company system must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act and 18 C.F.R. paragraph 366.23. This report is designed to collect financial information from service companies that are subject to regulation by the FERC.

Twenty-three utility holding companies filed a Form 60 for 2007. All but two were included in the comparison group. The service company for PNM Resources, Inc. was excluded because its 2007 service company cost per regulated utility customer was clearly an anomaly as a negative number. This result is likely due to the unique manner by which PNM’s service company expenses are reported on Form 60. Duke Energy was also excluded from the comparison group because one of its two service companies did not provide numbers for its Form 60. Thus, it was not possible to develop Duke’s consolidated service company cost per customer for 2007.

Schedule 11 compares the services provided by American Water’s Service Company to the services provided by comparison group service companies. In general, the types of services provided by American Water’s Service Company are similar to those provided by comparison group service companies.

O&M expenses charged to utility affiliates for the comparison group service companies were obtained from Schedule XVII – Schedule of Expense Distribution by Department or Service Function (p. 305 to 305c) of each entity’s FERC Form 60. This schedule shows charges by category of service (e.g., accounting, information technology) and type of cost (e.g., labor, benefits, outside services). The following were eliminated from the comparison group’s total expenses because they are not in American Water Service Company’s 2007 charges to KAWC:

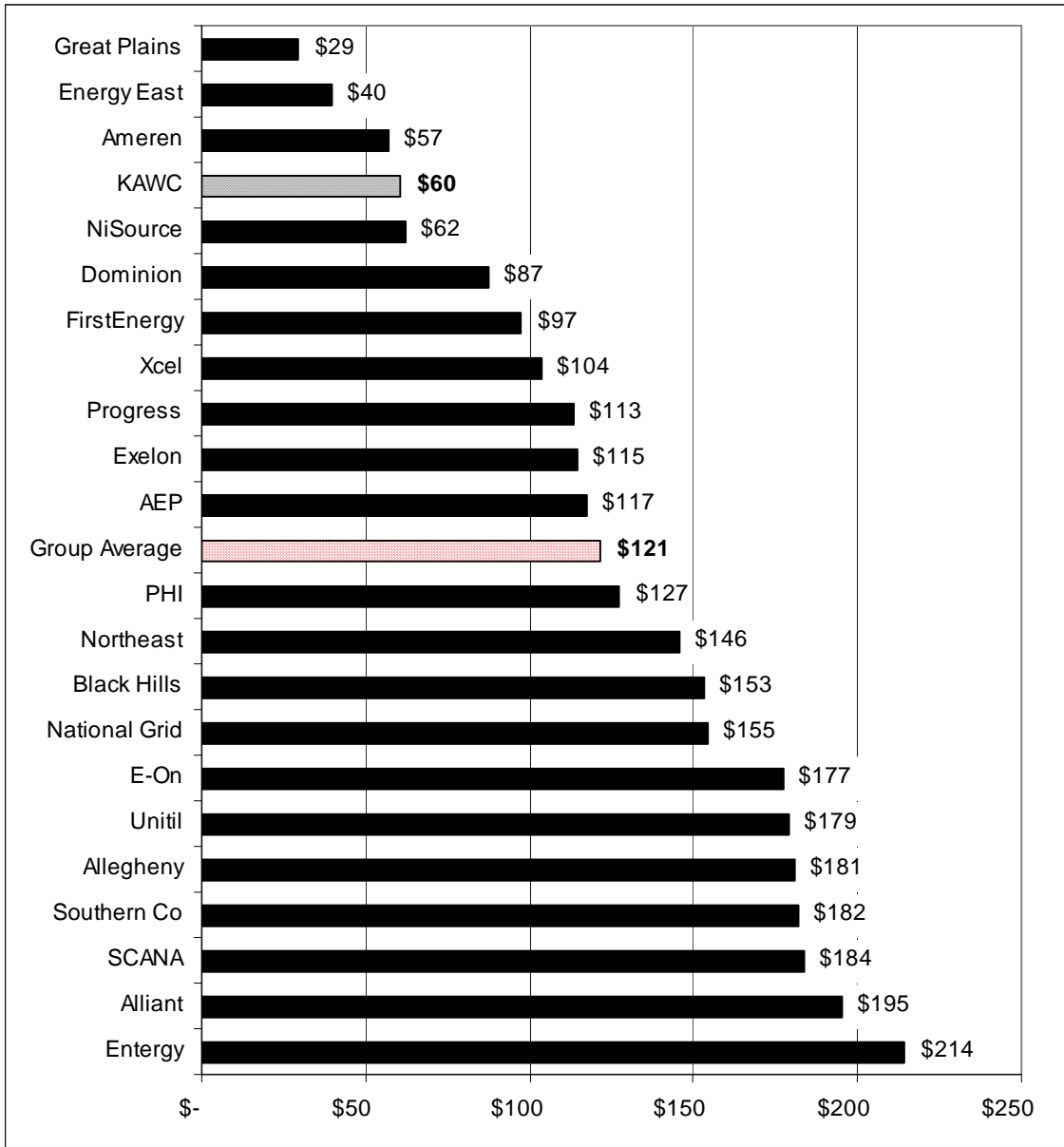
- All electric- and gas-specific services
- Income taxes (account 409), provision for deferred income taxes (account 410), provision for deferred income taxes – credit (account 411) and investment tax credit (account 411.5).
- Donations (account 426.1)
- Interest on long-term debt (account 427), interest on debt to associate companies (account 430) and other interest expense (account 431)

Comparison group service company 2007 expenses were also adjusted to remove charges to non-regulated affiliates from the cost pool used to calculate the cost per regulated service customer. This determination was made using information from the FERC Form 60 schedule: Account 457 – Analysis of Billing – Associate Companies.

Schedule 12 shows KAWC's 12 months ended July 31, 2008 Service Company cost per customer of \$60 to be considerably lower than the average of \$121 per customer for the comparison group service companies. Only 3 of 21 comparison group service companies had a lower 2007 cost per customer than KAWC. These results further support the conclusion that the Service Company's 2007 charges to KAWC were reasonable.

**Kentucky American Water Company
Analysis of Service Company Services**

Service Category	American Water	AEP	Alliegheny	Alliant	Ameren	Black Hills	Dominion	Energy East	Entergy	F-On	Exelon	First Energy	Great Plains	KeySpan	NiSource	Northeast	PHI	Progress	SCANA	Southern Co	Unitil	Xcel
Accounting	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X					X	X
Audit Services	X	X	X	X	X	X	X	X		X		X	X	X	X	X				X		X
Corporate Planning	X	X	X		X	X	X			X		X		X	X	X			X			X
Customer Service	X	X	X	X	X	X	X			X		X		X	X	X			X			X
Engineering	X	X		X										X	X					X	X	X
Environmental		X		X	X	X	X			X		X		X	X	X			X	X		
Executive	X	X	X	X	X	X	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X
External Affairs	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Facilities Management				X					X		X	X		X					X			X
Finance	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Human Resources	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Information Technology	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Investor Relations	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Legal	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Operations	X													X	X	X	X	X	X	X	X	X
Regulatory Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Risk Management	X	X	X			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Security			X							X	X											
Service Co Overhead		X			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Shared Services	X	X			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Supply Chain	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Transportation Services			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Treasury	X		X		X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Total Services	18	18	15	16	14	16	17	11	6	19	14	17	8	20	20	8	10	13	10	7	17	17



Elizabethtown Gas Company
Market Cost Comparison For AGL Services Company Charges
During The Year Ended September 30, 2008

**Elizabethtown Gas Company
Market Cost Comparison For AGL Services Company Charges
During The Year Ended September 30, 2008**

Table of Contents

	<u>Page</u>
I – Introduction	1
Purpose of This Study	
Study Results	
II – Background	2
Overview of AGL Resources, Inc.	
AGSC Cost Assignment Process	
III – Service Company Cost Comparison Approach	7
IV – Management And Professional Services Hourly Rate Comparison	8
Comparison Methodology	
Calculation of AGSC’s Hourly Rates	
Outside Service Provider Hourly Rates	
AGSC Versus Outside Provider Cost Comparison	
Other Cost Comparisons	
V – Customer Accounts Services Cost Comparison	20
Background	
Comparison Group	
Comparison Approach	
Elizabethtown Gas Cost Per Customer	
Electric Utility Group Cost Per Customer	
Summary of Results	
VI – Cost Comparison to Other Utility Service Companies	29
ETG’s Service Company Cost Per Customer	
Comparison Group Cost Per Customer	
VII – Other Evaluative Factors	33
Governance Practices Associated With AGSC Charges	
AGSC Cost Saving Initiatives	

I – Introduction

Purpose Of This Study

This study was undertaken to answer three questions concerning the services provided by AGL Services Company (AGSC) to Elizabethtown Gas Company (ETG), each of which bears on the reasonableness of those charges as incurred during the 12 months ended September 30, 2008:

1. Was ETG charged the lower of cost or market for managerial and professional services provided by the AGSC during the test period?
2. Was the 12 months ended September 30, 2008 cost of the Service Company's customer accounts services comparable to those of other utilities?
3. Were AGSC's charges to ETG during the 12-months ended September 30, 2008 reasonable compared to other utility service companies?

Study Results

Concerning question 1, the following conclusions can be drawn from this study:

- ETG was charged the lower of cost or market for managerial and professional services during the 12-months ended September 30, 2008.
- On average, the hourly rates for outside service providers are 65% higher than the AGSC's hourly rates.
- If all the managerial and professional services now provided by AGSC had been outsourced during the 12-months ended September 30, 2008, ETG and its ratepayers would have incurred \$12 million in additional expenses.
- AGSC fees do not include any profit markup. Only its actual cost of service is being recovered from ETG ratepayers.

Concerning question 2, it was determined that the cost of AGSC's customer accounts services, including those provided by the National Call Centers, is below the average of the neighboring electric utility comparison group. As will be explained further herein, this group of companies provides a reasonable proxy group for comparison to a regulated utility of the size and scope of AGSC and ETG. During the 12-months ended September 30, 2008, the customer accounts cost per ETG customers was \$36.76 compared to the 2007 average of \$38.95 for neighboring electric utilities. The highest comparison group per customer cost was \$80.86 and the lowest \$13.25.

Concerning question 3, the following conclusions were reached:

- AGSC provides ETG with services similar to those provided by other utility service companies. This determination was based on service company information included in the Form 60, which must be filed with the Federal Energy Regulatory Commission ("FERC") by electric and combination electric/gas utility holding companies.
- The Service Company's 12 months ended September 30, 2008 cost per ETG customer was reasonable compared to cost per customer for electric and combination electric/gas service companies. During the test period, ETG was charged an average of \$68 per customer by the Service Company compared to an average of \$127 per customer for service companies reporting to the FERC.



II - Background

Overview of AGL Resources, Inc.

ETG is a wholly owned subsidiary of AGL Resources, Inc. (AGLR), an energy services holding company whose principle business is the distribution of natural gas to approximately 2.2 million end-use customers in Georgia, Virginia, Tennessee, New Jersey, Florida and Maryland. AGLR is organized into four operating business segments and one corporate/non-operating segment, as shown below.

Segment	Subsidiaries
Distribution Operations	<ul style="list-style-type: none"> • Atlanta Gas Light Company • Chattanooga Gas Company • Elizabethtown Gas Company • Elkton Gas Company • Florida City Gas Company • Virginia Natural Gas, Inc.
Retail Energy Operations	<ul style="list-style-type: none"> • SouthStar Energy Services LLC
Wholesale Energy Services	<ul style="list-style-type: none"> • Sequent Energy Management, L.P.
Energy Investments	<ul style="list-style-type: none"> • AGL Networks, LLC • Pivotal Jefferson Island Storage & Hub, LLC • Pivotal Propane of Virginia, Inc.
Corporate	<ul style="list-style-type: none"> • AGL Capital Corporation • AGL Services Company

Source: AGL Resources (<http://www.aglresources.com/investor/facts.aspx>)

AGL Services Company (AGSC) provides affiliate companies, including ETG, with management and administrative services listed below and defined in Exhibit 1.

Rates and regulatory	Information systems and technology
Internal auditing	Executive
Strategic planning	Investor relations
External relations	Customer services
Gas supply and capacity management	Employee services
Legal services and risk management	Engineering
Marketing	Business support
Financial services	Other

Exhibit 2 lists the regulated and non-regulated affiliate entities that are provided service by AGSC.

Services provided by AGSC to ETG are governed by a services agreement executed on July 9, 2008 with an effective date of January 1, 2006.

**Elizabethtown Gas Company
Definition Of AGSC Services**

Rates and Regulatory	AGSC assists the AGLR System Companies in the analysis of their rate structures and in the formulation of rate policies and advises and assists AGLR System Companies in proceedings before regulatory bodies involving the rates and operations of AGLR System Companies and of other competitors where such rates and operations directly or indirectly affect the AGLR System Companies. AGSC also assists AGLR System Companies by analyzing pipeline safety, environmental and safety regulations; writing the appropriate procedures to assist the system companies to stay in compliance with those regulations; providing internal reviews to assure operational, environmental and safety compliance; assisting in work with state and federal pipeline safety regulators and managing leak survey, pipeline integrity, locate and right of way contractors.
Internal Auditing	AGSC performs periodic reviews of operational, compliance, financial and information systems for AGLR System Companies.
Strategic Planning	AGSC advises and assists AGLR System Companies with the preparation of strategic business plans and corporate strategies.
External Relations	AGSC maintains relationships with government policy makers, conducts lobbying activities and provides community relations support.
Gas Supply and Capacity Management	AGSC provides gas control, scheduling, capacity planning and monitoring services. AGSC manages a centralized gas control center which provides natural gas delivery for natural gas distribution affiliates. AGSC also provides scheduling functions between the natural gas distribution affiliates and the pipelines for their daily supply. AGSC provides capacity planning services for each natural gas distribution affiliate including identifying present and future gas requirements to meet the needs of each natural gas distribution affiliate. AGSC provides monitoring of natural gas storage facilities and telecommunications networks. AGSC also coordinates the management of gas supply for natural gas distribution affiliates who offer retail services and coordinates gas transmission and storage services for all natural gas distribution affiliates to ensure the most efficient use of services and to capture economies of scale as a larger purchaser in the market. Individually, natural gas distribution affiliates may, however, remain as the contract party under any agreement.
Legal Services and Risk Management.	AGSC provides various legal services and general legal oversight. In addition, AGSC provides insurance, claims, security, environmental and safety related services and performs corporate secretarial functions.
Marketing	AGSC assists AGLR System Companies by providing analysis, implementation and maintenance of line extension policies, by providing analysis of tariff rates in response to customer needs and by developing marketing strategies and programs.
Financial Services	AGSC provides various services to AGLR System Companies including corporate tax, treasury, corporate accounting and reporting, general ledger maintenance and all accounting recordkeeping, processing certain accounts such as accounts payable, cash management, and others as may be deemed necessary, including hedging policy and oversight, financial planning and regulatory support (for all natural gas distribution affiliates and other AGLR System Company that interact with regulators or regulated companies) . Each AGLR System Company may also maintain its own corporate and accounting group and engage AGSC to provide advice and assistance on accounting matters, including the development of accounting practices, procedures and controls, the preparation and analysis of financial reports and the filing of financial reports with regulatory bodies, on a system-wide basis.

**Elizabethtown Gas Company
Definition Of AGL Services Company Services**

Information Systems and Technology	AGSC provides the AGLR System Companies with production support of web, mainframe and distributed computing applications, servers and networks. Also, provides deskside asset management, disaster recovery, data network, application security and voice communications services.
Executive	AGSC utilizes the executive staff of AGLR in order to assist the AGLR System Companies in formulating and executing general plans and policies, including operations, issuances of securities, appointment of executive personnel, budgets and financing plans, expansion of services, acquisitions and dispositions of property, public relationships and other related matters.
Investor Relations	AGSC maintains relationships with the financial community, provides shareholder services for the benefit of AGLR System Companies.
Customer Services	AGSC provides billing, mailing, remittance processing, call center and customer communication services for customers; by providing credit and collections support and analysis; by providing support for response to customer complaints and by providing customer service surveys to improve service and efficiency.
Employee Services	AGSC assists AGLR System Companies in developing employee relations policies and programs, and training personnel in a coordinated manner throughout the AGLR System Companies. Each AGLR System Company may maintain a human resources group to handle the individualized application of policies and programs. AGSC also provides payroll services, management of the employee benefit plans and employee communications
Engineering	AGSC provides engineering services for the AGLR System Companies. These services include infrastructure expansion and improvements, system analysis and modeling, GIS mapping and updates and maintenance and general engineering expertise.
Business Support – Purchasing	AGSC provides procurement services to AGLR System Companies.
Business Support – Facilities Management	AGSC provides facilities management services for offices owned by AGLR System Companies.
Business Support – Fleet	AGSC provides fleet services for vehicles owned or leased by AGLR System Companies.
Business Support – Other	AGSC provides other services to AGLR System companies such as records management, media and visual services and business process services.
Other	AGSC provides other services, such as business development, as requested by AGLR System Companies.

Exhibit 2

**Elizabethtown Gas Company
Affiliates Served By AGL Services Company**

AGL Resources Inc. Entity	
Regulated	Atlanta Gas Light Company Chattanooga Gas Company Elizabethtown Gas Company Elkton Gas Services Florida City Gas Jefferson Island Storage & Hub Pivotal Utility Holdings Inc Virginia Natural Gas
FERC Regulated	Golden Triangle Pivotal Jefferson Isd Stg &Hub
Non-Regulated	AGL C&I Energy Services Inc. AGL Capital Corporation AGL Capital Trust AGL Capital Trust II AGL Energy Corporation AGL Investments, Inc. AGL Networks, LLC AGL Peaking Services AGL Resources Inc. AGL Services Company Compass Energy Services Inc. Customer Care Services Company Distribution Operations Corp Georgia Natural Gas Company Global Energy Res Insurance Co NUI Capital, Inc. NUI Energy Brokers NUI Headquarters Pinnacle LNG, Inc. Pivotal Energy Services, Inc. Pivotal Propane of Virginia In Pivotal Storage, Inc Sequent Energy Canada Corp Sequent Energy Mngmt, LP-Corp Sequent Holdings, LLC Sequent LLC TIC Enterprises

II - Background

AGSC Cost Assignment Process

AGSC provides services to operating companies at cost, as stipulated in the current service agreement with ETG. Within its accounting system, AGSC identifies its service costs through “account codes” including cost centers, account numbers, capital projects and O&M projects. This data enables AGSC to accumulate its expenses and properly assign them to the affiliate companies it serves.

To the extent practicable, AGSC expenses are assigned directly to affiliates being served. AGSC expenses that cannot be assigned directly are allocated among affiliates on a basis that is pertinent to the underlying services. The table shows the methods by which such costs of service are allocated to AGSC affiliates.

Service Category	Allocation Basis
Rates and Regulatory	End-Use Customers Ratio
Internal Auditing	Composite Ratio (employees, assets, operating expenses, operating margin)
Strategic Planning	Composite Ratio
External Relations	Composite Ratio
Gas Supply and Capacity Mgmt	End-Use Customers Ratio
Legal Services and Risk Mgmt	Composite Ratio
Marketing	End-Use Customers Ratio
Financial Services	Composite Ratio
Information Services	Composite Ratio
Executive	Composite Ratio
Investor Relations	Composite Ratio
Customer Services	
- Call Center Services	Call/Phone Volume Ratio
- Non-Call Center Services	End-Use Customers Ratio
Employee Services	Employees Ratio
Engineering	End-Use Customers Ratio
Business Support	Composite Ratio

III - Service Company Cost Comparison Approach

During the 12 months ended September 30, 2008, AGSC billed ETG \$18,458,588. These charges were compared to outside benchmarks as shown in the table below.

Service Category	Year Ended Sep 30, 2008	Outside Cost Comparison Method
Customer Services	\$ 3,759,288	Comparison to Neighboring Utilities
Employee Services	\$ 1,259,355	
Engineering	\$ 773,944	
Executive	\$ 764,545	
External Relations	\$ 422,847	
Facilities Mgt	\$ 1,672,099	
Financial Services	\$ 1,421,711	
Fleet	\$ 124,934	
Gas Supply & Capacity Mgmt	\$ 590,409	
Information Services	\$ 4,606,750	
Internal Audit	\$ 129,143	
Investor Relations	\$ 43,923	
Legal Services	\$ 1,289,593	
Marketing Services	\$ 325,736	
Other	\$ 702,811	
Rates and Regulatory	\$ 436,746	
Supply Chain Management	\$ 134,724	
Outside Service Provider Total	\$ 14,699,270	Comparison to Outside Service Provider Hourly Billing Rates
Total AGSC Billings to ETG	\$ 18,458,558	

This study's first question—whether AGSC's 12 months ended September 30, 2008 charges were priced at the lower of cost or market—was evaluated by comparing the cost per hour for managerial and professional services provided by AGSC personnel to hourly billing rates that would be charged by outside providers of equivalent services. AGSC costs per hour were based on actual charges to ETG during the 12 months ended September 30, 2008. Outside providers' billing rates came from surveys or other information from professionals that could perform the services now provided by AGSC.

The second question—whether AGSC 12 months ended September 30, 2008 customer services charges were comparable to other utilities—was addressed by comparing ETG's customer accounts services expenses to those of neighboring electric utilities. This approach was selected because the costs of outside providers of call center services are not publicly available. However, electric utility customer account services expenses can be readily obtained from the Federal Energy Regulatory Commission's (FERC) Form 1. The availability and transparency of FERC data adds to the validity of its use in this comparison.

The third question—whether AGSC 12 months ended September 30, 2008 charges were reasonable—was determined by comparing ETG's AGSC charges per customer to those of electric and combination electric/gas utilities that file FERC Form 60 – Annual Report of Service Companies.

IV - Management And Professional Services Hourly Rate Comparison

Comparison Methodology

AGSC's billings to ETG during the twelve months ended September 30, 2008 were market tested by comparing the cost per hour for AGSC services to those of outside service providers to whom AGSC services could be outsourced. The outside providers selected for comparison were:

- Attorneys – legal services
- Certified Public Accountants – accounting, finance, internal audit, investor relations, information technology and rates and regulatory services
- Professional Engineers – engineering, gas management and operations-related services
- Management Consultants - executive management, external relations, human resources, communications services, marketing

Calculation Of AGSC Hourly Rates

During the twelve months ended September 30, 2008, AGSC billed ETG approximately \$14.7 million for management and professional services. Exhibit 3 shows the results of this analysis and the designation of the outside provider for each market-testable service.

AGSC test year charges were compiled by each of the four outside provider category in Exhibit 4. Test year AGSC hours charged to ETG are compiled by outside provider category in Exhibit 5.

In the process of analyzing AGSC's billings to ETG, some outside services charges were noted. These represent expenses that are, in effect, already outsourced by AGSC and could not be avoided by ETG if it were to receive services from someone other than AGSC. Therefore, the amounts in the pertinent accounts had to be excluded from the AGSC hourly rate calculation. Excluded accounts are shown in Exhibit 6.

Based on previously described cost and hour data for the twelve months ended September 30, 2008, the AGSC's hourly rates by service provider category are calculated in the table below.

	Outside Provider Category				Total
	Management Consultant	Attorney	Certified Public Accountant	Professional Engineer	
Mgmt/Professional Service-Related AGSC Charges (Exhibit 4)	\$ 3,475,295	\$ 1,289,593	\$ 6,772,996	\$ 1,364,353	\$ 12,902,238
Add: Overhead-Related AGSC Charges (A)	\$ 483,402	\$ 179,703	\$ 943,442	\$ 190,485	\$ 1,797,033
Less: Excluded Charges (Exhibit 6)	(816,652)	(195,692)	(2,207,962)	(268,851)	(3,489,156)
Net Cost Pool Expenses	\$ 3,142,045	\$ 1,273,604	\$ 5,508,477	\$ 1,285,988	\$ 11,210,114
Total Hours (Exhibit 5)	38,281	7,904	58,453	39,502	144,140
Average Hourly Rate	\$ 82	\$ 161	\$ 94	\$ 33	

Note A: Overheads are assigned to the outside provider categories on a prorata basis, as shown below:

	Management Consultant	Attorney	Certified Public Accountant	Professional Engineer	Total
	Service-Related Charges	\$ 3,475,295	\$ 1,289,593	\$ 6,772,996	\$ 1,364,353
Percent of Cost Pool Total	26.9%	10.0%	52.5%	10.6%	100.0%
Total Overhead	\$ 1,797,033	\$ 1,797,033	\$ 1,797,033	\$ 1,797,033	
Allocated Overhead	\$ 483,402	\$ 179,703	\$ 943,442	\$ 190,485	\$ 1,797,033

Exhibit 3

**Elizabethtown Gas Company
Determination Of Market Testability And Designation Of Outside Provider
12-Months Ended September 30, 2008**

Service Category	Year Ended		Outside Cost Comparison
	Year	Ended	
Employee Services	\$	1,259,355	Management Consultant
Engineering	\$	773,944	Professional Engineer
Executive	\$	764,545	Management Consultant
External Relations	\$	422,847	Management Consultant
Facilities Mgt	\$	1,672,099	Overhead
Financial Services	\$	1,421,711	Certified Public Accountant
Fleet	\$	124,934	Overhead
Gas Supply & Capacity Mgmt	\$	590,409	Professional Engineer
Information Services	\$	4,606,750	Certified Public Accountant
Internal Audit	\$	129,143	Certified Public Accountant
Investor Relations	\$	43,923	Certified Public Accountant
Legal Services	\$	1,289,593	Attorney
Marketing Services	\$	325,736	Management Consultant
Other	\$	702,811	Management Consultant
Rates and Regulatory	\$	436,746	Certified Public Accountant
Supply Chain Management	\$	134,724	Certified Public Accountant
AGSC Billings to ETG	\$	14,699,270	

Note: Amounts above exclude outside services and T&E billed to ETG

Exhibit 4

**Elizabethtown Gas Company
AGSC Amounts Charged ETG By Outside Service Provider Category
12-Months Ended September 30, 2008**

	Management and Professional Services - Outside Provider Category				
	Management Consultant	Attorney	Certified Public Accountant	Professional Engineer	Overhead
Customer Services					
Employee Services	\$ 1,259,355				
Engineering				\$ 773,944	
Executive	\$ 764,545				
External Relations	\$ 422,847				
Facilities Mgt					\$ 1,672,099
Financial Services			\$ 1,421,711		
Fleet					\$ 124,934
Gas Supply & Capacity Mgmt				\$ 590,409	
Information Services			\$ 4,606,750		
Internal Audit			\$ 129,143		
Investor Relations			\$ 43,923		
Legal Services		\$ 1,289,593			
Marketing Services	\$ 325,736				
Other	\$ 702,811				
Rates and Regulatory			\$ 436,746		
Supply Chain Management			\$ 134,724		
Total Cost Pool	\$ 3,475,295	\$ 1,289,593	\$ 6,772,996	\$ 1,364,353	\$ 1,797,033
					\$ 14,699,270

**Elizabethtown Gas Company
AGSC Hours Charged ETG By Outside Service Provider Category
12-Months Ended September 30, 2008**

	Management and Professional Services - Outside Provider Category			
	Management Consultant	Attorney	Certified Public Accountant	Professional Engineer
Customer Services				
Employee Services	18,889			
Engineering				25,296
Executive	6,656			
External Relations	3,235			
Facilities Mgt				
Financial Services			21,557	
Fleet				
Gas Supply & Capacity Mgmt				14,206
Information Services			25,311	
Internal Audit			2,511	
Investor Relations			230	
Legal Services		7,904		
Marketing Services	4,464			
Other	5,038			
Rates and Regulatory			5,281	
Supply Chain Management			3,562	
Total Cost Pool	38,281	7,904	58,453	39,502
			Total	144,140

Exhibit 6

**Elizabethtown Gas Company
Excluded AGSC Outside Services Charges
12-Months Ended September 30, 2008**

Service Category/Outside Expense	Outside Provider Category				
	Management Consultant	Attorney	Certified Public Accountant	Professional Engineer	
Employee Services					
Outside Services	\$ 442,814				
Travel Expenses	\$ 51,711				
Engineering					
Outside Services				\$ 169,492	
Travel Expenses				\$ 59,521	
Executive					
Outside Services	\$ 106,598				
Travel Expenses	\$ 41,358				
External Relations					
Outside Services	\$ 30,185				
Travel Expenses	\$ 6,193				
Financial Services					
Outside Services			\$ 282,592		
Travel Expenses			\$ 21,300		
Gas Supply & Capacity Mgmt					
Outside Services				\$ 30,449	
Travel Expenses				\$ 9,389	
Information Services					
Outside Services			\$ 1,769,652		
Travel Expenses			\$ 14,919		
Internal Audit					
Outside Services			\$ 1,522		
Travel Expenses			\$ 3,393		
Investor Relations					
Outside Services			\$ 18,650		
Travel Expenses			\$ 2,458		
Legal Services					
Outside Services		\$ 166,976			
Travel Expenses		\$ 28,716			
Marketing Services					
Outside Services	\$ 6,856				
Travel Expenses	\$ 13,621				
Other					
Outside Services	\$ 104,698				
Travel Expenses	\$ 12,617				
Rates and Regulatory					
Outside Services			\$ 55,986		
Travel Expenses			\$ 26,099		
Strategic Planning and Dev					
Outside Services					
Travel Expenses					
Supply Chain Management					
Outside Services			\$ 8,306		
Travel Expenses			\$ 3,085		
Total Excluded Outside Expenses	\$ 816,652	\$ 195,692	\$ 2,207,962	\$ 268,851	\$ 3,489,156

IV - Management And Professional Services Hourly Rate Comparison

Outside Service Provider Hourly Rates

The next step in the cost comparison was to calculate the average billing rates for each type of outside service provider. The source of this information and the determination of the average rates are described in the paragraphs that follow.

It should be noted that professionals working for 3 of the 4 outside provider categories may be licensed to practice by state regulatory bodies. However, not every professional working for these firms is licensed. For instance, among New Jersey certified public accounting firms only more experienced staff are predominantly CPAs, as shown in the table below. Some employees of the AGSC also have professional licenses. Thus, it is valid to compare the AGSC's hourly rates to those of the outside professional service providers included in this study.

Position	% In NJ Who Are CPAs
Partners/Owners	98%
Directors (over 10 years experience)	82%
Managers (6-10 years experience)	82%
Sr Associates (4-5 years experience)	50%
Associates (1-3 years experience)	17%
New Professionals	4%

Source: AICPA's National PCPS/TSCPA Management
of an Accounting Practice Survey (2008)

Management Consultants

The cost per hour for management consultants was developed from a 2008 survey performed by the Association of Management Consulting Firms—an industry trade organization. The survey includes rates that were in effect during 2007 for firms throughout the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison.

The first step in the calculation, presented in Exhibit 7, was to determine an average rate by consultant position level. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position level. The 2007 average rate was escalated to March 31, 2008—the midpoint of the test year ended September 30, 2008.

Attorneys

The New Jersey Bar Association does not survey its members as to their hourly billing rates. In addition, publicly available billing rate information could not be found for New Jersey attorneys. Therefore, an estimate of New Jersey attorney rates was developed from a survey of Massachusetts lawyers conducted annually by the Massachusetts Lawyers Weekly. As presented in Exhibit 8, the average rate for each Massachusetts firm respondent was adjusted for the cost of living differential between their location and Elizabeth, New Jersey. The survey includes rates that were in effect during 2007. This average was escalated to March 31, 2008—the midpoint of the test year ended September 30, 2008.

IV - Management And Professional Services Hourly Rate Comparison

Certified Public Accountants

The average hourly rate for New Jersey certified public accountants was developed from a 2008 survey performed by the American Institute of Certified Public Accountants (AICPA). Hourly rates in the AICPA survey come from member firms in New Jersey.

As shown in Exhibit 9, a weighted average hourly rate was developed based on a set of accountant positions and an assumed percent of time on a typical assignment. This survey includes rate information in effect during 2007. Thus the data had to be escalated to March 31, 2008—the test year's midpoint.

Professional Engineers

ETG provided hourly rate information for an engineering firm that is sometimes used by the company when outside engineering services are required. As shown in Exhibit 10, an average rate was developed for each engineering position. Then, using a typical percentage mix by position for a typical engineering project, a weighted average cost per hour was calculated.

**Elizabethtown Gas Company
Billing Rates Of U.S. Management Consultants**

<p>A. Calculation of Average Hourly Billing Rate by Consultant Position Survey billing rates were those in effect in 2007 (Note A)</p>				
Average Hourly Rates (Note A)				
Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner
\$ 142	\$ 181	\$ 236	\$ 286	\$ 333
Average				
<p>B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement</p>				
Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner
\$ 142	\$ 181	\$ 236	\$ 286	\$ 333
30%	30%	20%	10%	10%
Average Hourly Billing Rate (from above)				
Typical Percent of Time Spent on a Consulting Project				
\$ 42	\$ 54	\$ 47	\$ 29	\$ 33
				Weighted Average
				\$ 206
<p>Escalation to Midpoint of September 30, 2008 Test Period (Note B)</p>				
		CPI at December 31, 2007		210.0
		CPI at March 31, 2008		213.5
		Inflation/Escalation		1.7%
Average Hourly Billing Rate For Management Consultants At March 31, 2008				\$ 209

Note A: source: "Operating Ratios For Management Consulting Firms, 2008 Edition" Association of Management Consulting Firms

Note B: source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiiai.txt>)

**Elizabethtown Gas Company
Billing Rates Of New Jersey Attorneys**

Billing rates as of December 31, 2007 (Note A)										Cost of Living Adjust Rate	
Firm	Mass Location	Number Of Mass Lawyers	Billing Rate Range				Average	Partner	High		Low
			Associate	High	Low	High					
Edwards Angel Palmer & Dodge	Boston	259	\$ 144	\$ 144	\$ 474	\$ 474	\$ 309	\$ 474	\$ 474	113%	\$ 274
Sullivan & Worcester	Boston	137	\$ 245	\$ 530	\$ 415	\$ 700	\$ 473	\$ 700	\$ 700	113%	\$ 418
Burns & Levinson	Boston	112	\$ 210	\$ 350	\$ 375	\$ 475	\$ 353	\$ 475	\$ 475	113%	\$ 312
Bowditch & Dewey	Worcester	64	\$ 150	\$ 300	\$ 280	\$ 550	\$ 320	\$ 550	\$ 550	89%	\$ 361
Mirick O'Connell	Worcester	60	\$ 160	\$ 250	\$ 280	\$ 400	\$ 273	\$ 400	\$ 400	89%	\$ 307
Hinckley, Allen & Snyder	Boston	58	\$ 200	\$ 330	\$ 300	\$ 480	\$ 328	\$ 480	\$ 480	113%	\$ 290
Prince Lobel Glovsky & Tye	Boston	52	\$ 175	\$ 265	\$ 275	\$ 475	\$ 298	\$ 475	\$ 475	113%	\$ 263
Robinson & Cole	Boston	48	\$ 220	\$ 375	\$ 340	\$ 490	\$ 356	\$ 490	\$ 490	113%	\$ 315
Bromberg & Sunstein	Boston	42	\$ 250	\$ 450	\$ 500	\$ 725	\$ 481	\$ 725	\$ 725	113%	\$ 426
Lawson & Weitzen	Boston	35	\$ 125	\$ 225	\$ 225	\$ 400	\$ 244	\$ 400	\$ 400	113%	\$ 216
Murtha Cullina	Boston	34	\$ 165	\$ 290	\$ 250	\$ 500	\$ 301	\$ 500	\$ 500	113%	\$ 267
Marcus Errico Emmer & Brooks	Braintree	28	\$ 250	\$ 250	\$ 300	\$ 360	\$ 290	\$ 360	\$ 360	106%	\$ 274
Rich May	Boston	25	\$ 150	\$ 300	\$ 300	\$ 400	\$ 288	\$ 400	\$ 400	113%	\$ 255
Keegan Werlin	Boston	22	\$ 150	\$ 275	\$ 325	\$ 475	\$ 306	\$ 475	\$ 475	113%	\$ 271
Barron & Stadfeld	Boston	21	\$ 160	\$ 230	\$ 250	\$ 350	\$ 248	\$ 350	\$ 350	113%	\$ 219
Cain Hibbard Myers & Cook	Pittsfield	19	\$ 150	\$ 200	\$ 210	\$ 235	\$ 199	\$ 235	\$ 235	89%	\$ 222
Overall Average 2007 Billing Rate										\$ 293	

Escalation to Test Year's Mid-Point - March 31, 2008 (Note B)

CPI at December 31, 2007	210.0
CPI at March 31, 2008	213.5
Inflation/Escalation	1.7%
Average Billing Rate At March 31, 2008	\$ 298

Note A: Source is Massachusetts Lawyers Weekly, April 2008
 Note B: Source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>)
 Note C: Source is Sperling's Best Places (<http://www.bestplaces.net/col/col.aspx>). This percentage represents the cost of living difference between the Massachusetts city and Elizabeth, NJ. A number over 100% indicates the Massachusetts city's cost of living is higher than Elizabeth. A number less than 100% indicates Elizabeth's cost of living is higher.

**Elizabethtown Gas Company
 Billing Rates Of New Jersey Certified Public Accountants**

A. Calculation of Average Hourly Billing Rate by Public Accounting Position Survey billing rates were those in effect in 2007 (Note A)				
Average Hourly Billing Rate (Note A)				
Staff Accountant	Senior Accountant	Manager	Partner	
\$ 96	\$ 133	\$ 177	\$ 194	
30%	30%	20%	20%	Weighted Average
\$ 29	\$ 40	\$ 35	\$ 39	\$ 143
Average Hourly Billing Rate by CPA Firm Position				
Typical Percent of Time Spent on an Accounting Assignment				
<u>Escalation to Midpoint of September 30, 2008 Test Period (Note B)</u>				
	CPI at December 31, 2007			210.0
	CPI at March 31, 2008			213.5
	Inflation/Escalation			1.7%
Average Hourly Billing Rate For CPAs At March 31, 2008				\$ 145

Note A: Source is AICPA's 2008 National PCPS/TSCPA Management of an Accounting Practice Survey

Note B: source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.txt>)

**Elizabethtown Gas Company
Billing Rates Of New Jersey Engineers**

Note: Billing rates were those in effect in 2008

Calculation of Average Hourly Rate by Engineer Position

	Average Hourly Billing Rates				Weighted Average
	Technician Senior Technician	Engineer Design Engineer Project Engineer	Project Manager Sr. Mgr. Engineer	Officer Principal Engineer	
Average Hourly Billing Rate by Engineering Position	\$70	\$106	\$146	\$162	
Typical Percent of Time on an Engineering Assignment	30%	35%	25%	10%	
	\$21	\$37	\$36	\$16	\$111

Source: Information provided by Elizabethtown Gas Company

IV - Management And Professional Services Hourly Rate Comparison

As shown in the table below, AGSC's costs per hour during the test year ended September 30, 2008 are considerably lower than those of outside providers.

Service Provider	Test Year Cost Per Hour Difference		
	AGSC	Outside Providers	Difference-- AGSC Greater(Less) Than Outside
Management Consultant	\$ 82	\$ 209	\$ (127)
Attorney	\$ 161	\$ 298	\$ (137)
Certified Public Accountant	\$ 94	\$ 145	\$ (51)
Professional Engineer	\$ 33	\$ 111	\$ (78)

As calculated below, based on these cost per hour differentials and the number of hours AGSC billed ETG during the test year, AGSC's services would have cost \$12 million more from outside providers. This is 68% more than AGSC's total charges to ETG during the test year ended September 30, 2008 (\$12,015,443 / \$18,458,558 = 65%).

Service Provider	Test Year Total Cost Difference		
	Hourly Rate Difference-- AGSC Greater(Less) Than Outside	AGSC Hours Charged	Dollar Difference
Management Consultant	\$ (127)	38,281	\$ (4,858,765)
Attorney	\$ (137)	7,904	\$ (1,081,999)
Certified Public Accountant	\$ (51)	58,453	\$ (2,983,655)
Professional Engineer	\$ (78)	39,502	\$ (3,091,024)
Net AGSC Less Than Outside Providers			\$ (12,015,443)

V - Customer Accounts Services Cost Comparison

Background

It is difficult to compare the cost of AGSC's customer services charges to ETG with outside providers of the same services because survey data is proprietary and expensive to obtain. For this reason, AGSC's test year customer services charges are compared to those of neighboring electric utilities because the data necessary to make this comparison is readily available to the public.

Electric utility cost information comes from the FERC Form 1 that each must file. FERC's chart of accounts is defined in chapter 18, part 101 of Code of Federal Regulations. FERC accounts that contain customer account-related expenses and are used in this study's comparison are:

- Account 903 Customer Accounts Expense – Records and Collection Expense
- Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense.

In addition, labor-related overheads charged to the following FERC accounts must be added to the labor components of Accounts 903 and 905.

- Account 926 Employee Pension and Benefits
- Account 408 Taxes Other Than Income (employer's portion of FICA).

Exhibit 11 provides FERC's description of what should be charged to these accounts. In questioning the controller of a large electric utility, it was determined that expenses of the activities described below are recorded in the designated FERC accounts.

903 Records and Collection Expense

- Customer Call Center – customer calls/contact, credit, order taking/disposition, bill collection efforts, outage calls
- Call Center IT – maintenance of phone banks, voice recognition units, call center software applications, telecommunications
- Customer billing – bill printing, stuffing and mailing
- Remittance processing – processing of customer payments received in the mail
- Bill payment centers – locations where customers can pay their bills in person

905 Miscellaneous Customer Accounts Expense

- Customer Information System IT – maintenance and support of the customer information system

This study assumes the FERC accounts for other electric and gas utilities contain expenses for the same activities.



**Elizabethtown Gas Company
FERC Account Descriptions**

903 – Customer Records and Collection Expenses

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery, and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

**Elizabethtown Gas Company
FERC Account Descriptions**

905 – Miscellaneous Customer Accounts Expenses

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

V - Customer Accounts Services Cost Comparison

Comparison Group

Neighboring electric utilities included in the comparison group are shown in the table below. These are companies whose FERC Form 1 shows amounts for accounts 903 and 905.

New Jersey	<ul style="list-style-type: none"> • Atlantic City Electric • Jersey Central Power 	<ul style="list-style-type: none"> • Public Service Electric & Gas • Rockland Electric
New York	<ul style="list-style-type: none"> • Central Hudson Gas & Electric • Consolidated Edison • New York State Electric & Gas 	<ul style="list-style-type: none"> • Niagara Mohawk Electric Power • Rochester Gas & Electric
Pennsylvania	<ul style="list-style-type: none"> • Duquesne Light • Metropolitan Edison • PECO Energy • Pennsylvania Electric 	<ul style="list-style-type: none"> • Pennsylvania Power • PPL Electric Utilities • West Penn Power
Delaware	<ul style="list-style-type: none"> • Delmarva Power & Light 	

Comparison Approach

The basis for this comparison is customer account services expenses per customer. ETG’s cost pool was developed to include the same expenses included in electric utility’s FERC accounts 903 and 905. As shown in the graphic below, ETG’s resultant cost pool contains the expenses of AGSC and certain expenses it incurs itself.

Elizabethtown Gas Company
<u>AGSC</u>
a. Customer contact
b. Customer order processing
c. Billing information processing
d. Collections
e. Correspondence processing
<u>ETG</u>
a. Postage and forms
b. Customer payment processing

Electric Utilities
FERC Acct 903 - Records and Collection Expense <u>and</u> FERC Acct 905 - Misc Customer Accounts Expense
a. Customer contact
b. Customer order processing
c. Bill preparation and mailing
d. Collections
e. Payment processing
f. Correspondence processing

V - Customer Accounts Services Cost Comparison

ETG Cost Per Customer

In order to make a valid comparison to neighboring electric utilities, it was necessary to adjust the AGSC call center call handling charges because electric utilities experience an average of 2.50 calls per customer compared to ETG's 1.54 calls per customer. Thus, AGSC call center call handling charges had to be increased for comparison purposes, to reflect its costs at a 2.50 calls per customer level. As shown below, ETG's adjusted annual expense per customer is \$36.76—the number that can be compared to neighboring electric utilities' expenses. Included in this amount are the estimated incremental charges from AGSC to establish a call center in New Jersey. ETG's 12 months ended September 30, 2008 unadjusted annual expense per customer is \$21.46.

Elizabethtown Gas 12-Months Ended September 30, 2008 Cost Per Customer

	Cost Component	YE 9/30/08 Service Co Charges	Adjustment Fewer Calls For Gas Cos. (A)	Adjusted
AGSC	Call processing, order processing, credit, bill collection	\$ 6,634,153	\$ 1,296,613	\$ 7,930,766
ETG	Customer payment processing			\$ 475,046 (B)
ETG	Postage & forms			\$ 1,617,199
			Cost Pool Total	\$ 10,023,011
			Total ETG Customers	272,639
			12 Months Ended September 30, 2008 Cost Per ETG Customer	\$ 36.76

Note A: Adjustment for AGSC's fewer calls per customer

This adjustment is necessary because gas utilities experience fewer calls per customer than do electric utilities

Call handling expenses		\$ 2,080,564
Electric utility industry's avg calls/customer	2.50	
AGSC's avg calls/customer	1.54	
Percent different	62%	62%
Total Adjustment		\$ 1,296,613

Note B: Estimated customer payment processing expenses

Number of customers	272,639
Number of payments/customer/year	12
Total payments processed/year	3,271,667
Bank charge per item	\$ 0.1452
Total estimated annual expense	\$ 475,046

Electric Utility Group Cost Per Customer

Exhibit 12 shows the actual 2007 customer accounts expense per customer calculation for the electric utility comparison group. All of the underlying data were taken from each utility's FERC Form 1.

V - Customer Accounts Services Cost Comparison

Summary Of Results

As shown in the table below, ETG's cost per customer is less than the average of the neighboring electric utility comparison group. It can therefore be concluded that ETG's 12 months ended September 30, 2008 customer accounts-related expenses that were assigned to ETG are reasonable compared to those of other utilities.

Customer Account Services Expenses Per Customer	
West Penn Power Company	\$ 13.25
Pennsylvania Electric Company	\$ 13.97
Jersey Central Power & Light Company	\$ 16.15
Metropolitan Edison Company	\$ 16.23
Duquesne Light Company	\$ 17.18
Pennsylvania Power Company	\$ 17.24
Rochester Gas & Electric Corporation	\$ 26.05
PPL Electric Utilities Corporation	\$ 27.14
New York State Electric & Gas Corporation	\$ 32.66
Niagra Mohawk Power Corporation	\$ 33.92
Elizabethtown Gas Company	\$ 36.76
Comparison Group Average	\$ 38.95
Consolidated Edison Company	\$ 41.81
Central Hudson Gas & Electric Company	\$ 42.06
PECO Energy Company	\$ 55.43
Delmarva Power & Light Company	\$ 61.87
Atlantic City Electric Company	\$ 64.62
Public Service Electric & Gas	\$ 65.16
Rockland Electric Company	\$ 80.86

**Elizabethtown Gas Company
Comparison Group 2007 Actual Customer Accounts Expense Per Customer**

	New York				
	Central Hudson Gas & Electric	Consolidated Edison	New York State Electric & Gas	Niagra Mohawk Power	Rochester Gas & Electric
	\$ 6,792,859	\$ 107,555,864	\$ 26,372,490	\$ 35,758,154	\$ 8,525,074
	\$ 2,132,137	\$ 372,972	\$ 89,302	\$ 402,337	\$ 8,126
	\$ 8,924,996	\$ 107,928,836	\$ 26,461,792	\$ 36,160,491	\$ 8,533,200
	\$ 2,919,480	\$ 20,066,841	\$ 266,903	\$ 10,397,245	\$ 353,189
	\$ 486,257	\$ 7,290,483	\$ 1,740,902	\$ 2,096,265	\$ 471,829
	\$ 12,330,733	\$ 135,286,160	\$ 28,469,597	\$ 48,654,002	\$ 9,358,218
	\$ 293,201	\$ 3,236,036	\$ 871,630	\$ 1,434,258	\$ 359,257
	\$ 42,06	\$ 41,81	\$ 32,66	\$ 33,92	\$ 26,05
	\$ 24,192,586	\$ 118,006,273	\$ 1,615,397	\$ 78,351,514	\$ 3,205,198
	\$ 52,672,115	\$ 560,429,460	\$ 137,733,049	\$ 206,497,064	\$ 55,971,970
	45.9%	21.1%	1.2%	37.9%	5.7%
	\$ 6,917,158	\$ 99,942,846	\$ 23,752,723	\$ 26,798,684	\$ 4,325,330
	\$ 1,237,398	\$ 21,938,274	\$ 4,399,319	\$ 5,046,591	\$ 3,445,952
	\$ 8,154,556	\$ 121,881,120	\$ 28,152,042	\$ 31,845,275	\$ 7,771,282
	\$ 6,792,859	\$ 107,555,864	\$ 26,372,490	\$ 35,758,154	\$ 8,525,074
	\$ 2,132,137	\$ 372,972	\$ 89,302	\$ 402,337	\$ 8,126
	\$ 8,924,996	\$ 107,928,836	\$ 26,461,792	\$ 36,160,491	\$ 8,533,200
	\$ 2,524,974	\$ 30,102,933	\$ 6,273,505	\$ 5,863,233	\$ 2,218,615
	\$ 11,449,970	\$ 138,031,769	\$ 32,735,297	\$ 42,023,724	\$ 10,751,815
	77.9%	76.2%	80.8%	86.0%	79.4%
	\$ 6,356,294	\$ 95,300,433	\$ 22,756,888	\$ 27,402,159	\$ 6,167,694
	\$ 2,919,480	\$ 20,066,841	\$ 266,903	\$ 10,397,245	\$ 353,189
	\$ 6,356,294	\$ 95,300,433	\$ 22,756,888	\$ 27,402,159	\$ 6,167,694
	7.65%	7.65%	7.65%	7.65%	7.65%
	\$ 486,257	\$ 7,290,483	\$ 1,740,902	\$ 2,096,265	\$ 471,829

Customer Account Services Cost Pool

FERC Account Balances:

Acct 903 - Customer Records & Collection (page 322, line 161)
Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal

Add: Employee Benefits & Employer FICA (not included in above amounts)

Account 926 - Employee Pension & Benefits

Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

Total Cost Pool

Total Customers (page 304, line 43)

Customer Account Services Expense per Customer

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 187)

Total O&M Payroll (page 355, line 65)

Benefits as Percent of Payroll

Payroll Applicable to Customer Account Services

Total Payroll Charged to Customer Accounts Function

Electric (page 354, line 7)

Gas (page 354, line 37)

Total Payroll Charged to Customer Accounts

Percent Applicable to Customer Accounts Services (903 and 905):

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal - Total Charges Applicable to Customer Accounts Services

Acct 902 - Meter Reading Expenses (page 322, line 160)

Total Charges Applicable to Customer Accounts Svcs & Meter Reading

Percent Applicable to Customer Accounts Services (903 and 905)

Customer Account Services Portion of Total Payroll

Pension & Benefits Pertaining to Customer Accounts Services

Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Services

Customer Account Services Portion of Total Payroll

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA



**Elizabethtown Gas Company
Comparison Group 2007 Actual Customer Accounts Expense Per Customer**

Pennsylvania							
	Duquesne Light	Metropolitan Edison	PECO Energy	Pennsylvania Electric	Pennsylvania Power	PPL Electric Utilities	West Penn Power
Customer Account Services Cost Pool							
FERC Account Balances:							
Acct 903 - Customer Records & Collection (page 322, line 161)	\$ 6,737,679	\$ 9,890,607	\$ 44,969,347	\$ 10,340,968	\$ 2,890,828	\$ 28,563,240	\$ 7,242,682
Acct 905 - Misc Customer Accounts (page 322, line 163)	\$ 6,737,679	\$ 9,897,733	\$ 79,531,897	\$ 10,470,955	\$ 3,010,847	\$ 29,553,501	\$ 7,242,682
Subtotal	\$ 13,475,358	\$ 19,788,340	\$ 124,501,244	\$ 20,811,923	\$ 5,901,675	\$ 58,116,741	\$ 14,485,364
Add: Employee Benefits & Employer FICA (not included in above amounts)							
Account 926 - Employee Pension & Benefits	\$ 2,882,752	\$ (1,381,989)	\$ 5,155,926	\$ (2,549,675)	\$ (352,049)	\$ 6,625,261	\$ 1,756,974
Account 408 - Taxes Other Than Income (Employer's Portion of FICA)	\$ 443,792	\$ 250,883	\$ 1,529,319	\$ 303,672	\$ 82,837	\$ 1,414,208	\$ 420,205
Total Cost Pool	\$ 10,064,223	\$ 8,626,626	\$ 86,217,142	\$ 8,224,953	\$ 2,741,635	\$ 37,592,970	\$ 9,419,861
Total Customers (page 304, line 43)	585,837	543,811	1,555,342	588,871	158,987	1,385,081	711,050
Customer Account Services Expense per Customer	\$ 17.18	\$ 16.23	\$ 55.43	\$ 13.97	\$ 17.24	\$ 27.14	\$ 13.25
Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt							
Account 926 - Employee Pension & Benefits (page 323, line 187)	\$ 31,719,047	\$ (13,720,330)	\$ 32,224,495	\$ (23,125,715)	\$ (2,234,231)	\$ 32,626,364	\$ 16,946,481
Total O&M Payroll (page 355, line 65)	\$ 63,830,893	\$ 32,558,865	\$ 124,944,222	\$ 36,004,272	\$ 6,872,052	\$ 91,036,928	\$ 52,980,284
Benefits as Percent of Payroll	49.7%	-42.1%	25.8%	-64.2%	-32.5%	35.8%	32.0%
Total Payroll Charged to Customer Accounts Function	\$ 9,475,692	\$ 5,280,949	\$ 19,294,311	\$ 6,944,688	\$ 1,675,705	\$ 20,006,926	\$ 8,515,659
Electric (page 354, line 7)	\$ 9,475,692	\$ 5,280,949	\$ 19,294,311	\$ 6,944,688	\$ 1,675,705	\$ 20,006,926	\$ 8,515,659
Gas (page 354, line 37)	\$ -	\$ -	\$ 4,308,224	\$ -	\$ -	\$ -	\$ -
Total Payroll Charged to Customer Accounts	\$ 9,475,692	\$ 5,280,949	\$ 23,602,535	\$ 6,944,688	\$ 1,675,705	\$ 20,006,926	\$ 8,515,659
Percent Applicable to Customer Accounts Services (903 and 905):							
Acct 903 - Customer Records & Collection (page 322, line 161)	\$ 6,737,679	\$ 9,890,607	\$ 44,969,347	\$ 10,340,968	\$ 2,890,828	\$ 28,563,240	\$ 7,242,682
Acct 905 - Misc Customer Accounts (page 322, line 163)	\$ -	\$ 67,126	\$ 34,562,550	\$ 129,987	\$ 120,019	\$ 990,261	\$ -
Subtotal - Total Charges Applicable to Customer Accounts Services	\$ 6,737,679	\$ 9,957,733	\$ 79,531,897	\$ 10,470,955	\$ 3,010,847	\$ 29,553,501	\$ 7,242,682
Acct 902 - Meter Reading Expenses (page 322, line 160)	\$ 4,267,654	\$ 6,077,049	\$ 14,367,596	\$ 7,847,777	\$ 1,648,497	\$ 2,430,838	\$ 3,985,713
Total Charges Applicable to Customer Accounts Svcs & Meter Reading	\$ 11,005,333	\$ 16,034,782	\$ 93,899,493	\$ 18,318,732	\$ 4,659,344	\$ 31,984,339	\$ 11,228,395
Percent Applicable to Customer Accounts Services (903 and 905)	61.2%	62.1%	84.7%	57.2%	64.6%	92.4%	64.5%
Customer Account Services Portion of Total Payroll	\$ 5,801,203	\$ 3,279,513	\$ 19,991,102	\$ 3,969,571	\$ 1,082,833	\$ 18,486,382	\$ 5,492,879
Pension & Benefits Pertaining to Customer Accounts Services	\$ 2,882,752	\$ (1,381,989)	\$ 5,155,926	\$ (2,549,675)	\$ (352,049)	\$ 6,625,261	\$ 1,756,974
Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Services							
Customer Account Services Portion of Total Payroll	\$ 5,801,203	\$ 3,279,513	\$ 19,991,102	\$ 3,969,571	\$ 1,082,833	\$ 18,486,382	\$ 5,492,879
Employer's Portion of FICA (6.20%) and Medicare (1.45%)	\$ 7.65%	\$ 7.65%	\$ 7.65%	\$ 7.65%	\$ 7.65%	\$ 7.65%	\$ 7.65%
Estimated Employer's Portion of FICA	\$ 443,792	\$ 250,883	\$ 1,529,319	\$ 303,672	\$ 82,837	\$ 1,414,208	\$ 420,205

VI – Cost Comparison To Other Utility Service Companies

ETG’s Service Company Cost Per Customer

During the 12 months ended September 30, 2008, ETG was charged \$68 per customer in O&M expenses by the Service Company. As shown in the table below, this calculation is based on net testable O&M, which eliminates certain O&M items for which ETG has not requested cost recovery.

	12 Months Ended Sep. 30, 2008
AGSC Billings to ETG	\$ 18,458,558
ETG Customers (average)	272,639
AGSC Cost Per ETG Customer	\$ 68

Comparison Group Cost Per Customer

Every centralized service company in a holding company system must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act and 18 C.F.R. paragraph 366.23. This report is designed to collect financial information from service companies that are subject to regulation by the FERC.

Twenty-three utility holding companies filed a Form 60 for 2007. All but two were included in the comparison group. The service company for PNM Resources, Inc. was excluded because its 2007 service company cost per regulated utility customer was clearly an anomaly as a negative number. This result is likely due to the unique manner by which PNM’s service company expenses are reported on Form 60. Duke Energy was also excluded from the comparison group because one of its two service companies did not provide numbers for its Form 60. Thus, it was not possible to develop Duke’s consolidated service company cost per customer for 2007.

Exhibit 14 compares the services provided by AGSC to the services provided by comparison group service companies. In general, the types of services provided by AGSC are similar to those provided by comparison group service companies.

O&M expenses charged to utility affiliates for the comparison group service companies were obtained from Schedule XVII – Schedule of Expense Distribution by Department or Service Function (p. 305 to 305c) of each entity’s FERC Form 60. This schedule shows charges by category of service (e.g., accounting, information technology) and type of cost (e.g., labor, benefits, outside services). The following were eliminated from the comparison group’s total expenses because they are not in AGSC’s 2008 charges to ETG:

- All electric-specific services
- Income taxes (account 409), provision for deferred income taxes (account 410), provision for deferred income taxes – credit (account 411) and investment tax credit (account 411.5).
- Donations (account 426.1)
- Interest on long-term debt (account 427), interest on debt to associate companies (account 430) and other interest expense (account 431)

VI – Cost Comparison To Other Utility Service Companies

Comparison group service company 2007 expenses were also adjusted to remove charges to non-regulated affiliates from the cost pool used to calculate the cost per regulated service customer. This determination was made using information from the FERC Form 60 schedule: Account 457 – Analysis of Billing – Associate Companies.

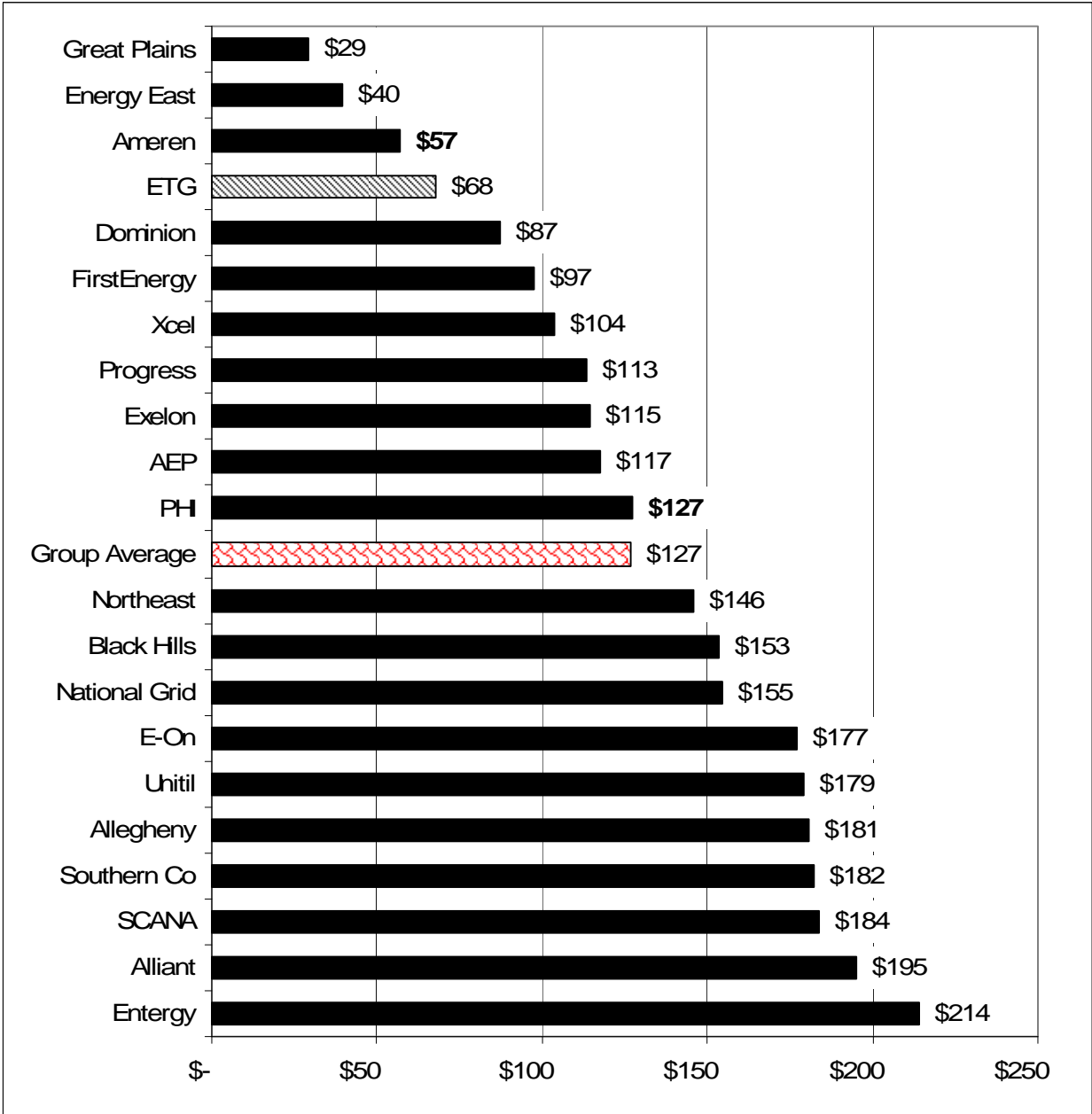
Exhibit 15 shows ETG's 12 months ended September 30, 2008 Service Company cost per customer of \$68 to be considerably lower than the average of \$127 per customer for the comparison group service companies. Only 3 of 20 comparison group service companies had a lower 2007 cost per customer than ETG. These results further support the conclusion that the Service Company's 2007 charges to ETG were reasonable.

**Elizabethtown Gas Company
Analysis of Service Company Services**

Service Category	AGSC	AEP	Allegheny	Alliant	Ameren	Black Hills	Dominion	Energy East	Energy	E-On	Exelon	First Energy	Great Plains	KeySpan	NiSource	Northeast	PHI	Progress	SCANA	Southern Co	Unitil	Xcel
Accounting	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Audit Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Corporate Planning	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Customer Service	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Engineering	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Environmental	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Executive	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
External Affairs	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Facilities Management	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Finance	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Human Resources	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Information Technology	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Investor Relations	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Legal	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Operations	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Regulatory Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Risk Management	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Security	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Service Co Overhead	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Shared Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Supply Chain	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Transportation Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Treasury	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Total Service Categories	22	18	15	16	14	16	17	11	6	19	14	17	8	20	20	8	10	13	10	7	17	17

Exhibit 15

Elizabethtown Gas Company
Comparison of Service Company Annual Costs Per Customer



VII – Other Evaluative Factors

Governance Practices Associated With AGSC Charges

A number of management practices exist to ensure that AGSC charges to operating companies are appropriate. Specifically, certain review, approval and monitoring activities are performed by AGSC and ETG personnel that work to control the on-going level of AGSC charges to ETG. Examples of such governance activities include the following.

- AGL Services Company Oversight – Every operating company president is an officer of AGL Resources. This gives them a say in major business decisions and the ability to monitor service quality and spending levels.
- AGL Services Budget Review/Approval – Each year, AGL Resources presents its consolidated budget to its Board of Directors for approval. Every operating company president must formally approve its individual budget, which includes AGL Services charges for the next year.
- Project Review And Approval – Major projects undertaken by AGL Services must first be reviewed by the operating companies that will pay for the initiative. Consultants used on these projects who are hired by AGL Services must also be approved by operating companies. This process is achieved through the process of having projects approved by the Management Committee, which includes the presidents of all AGLR operating companies.
- AGL Services Budget Variance Reporting – A summary and explanation of year-to-date budget variances is prepared for the entire AGL Services on a monthly basis. In addition, a monthly variance report is produced by AGL Services budget managers and shows budget versus actual spending for the month and year-to-date by cost category.
- ETG Budget Variance Reporting – ETG's monthly budget variance report contains a line item for AGL Services charges. In this way, AGL Services budget versus actual charges can be monitored by ETG personnel for the month and year-to-date.

AGSC Cost Saving Initiatives

ETG and its customers have realized cost savings due to ETG's association with AGSC. Described below are several examples where AGSC initiatives produced such savings for ETG. These examples provide further evidence that AGSC is the low-cost service provider.

- When ETG was acquired by AGLR, its materials were housed in several locations and a large portion was in the hands of construction contractors. At May 1, 2005, the value of that inventory was almost \$2,500,000. By implementing several AGSC-initiated process improvements and putting into place new controls the value of ETG's material inventory has been reduced to \$430,636 as of October 1, 2008. This has freed up over \$2 million in capital and reduced the associated carrying costs and overheads.
- Process improvements that helped reduce materials inventory included materials standardization. This process converted ETG's old non-sequential numbered material items to AGLR's system-wide materials numbering scheme. This standardization reduced the number of ETG's SKUs and allowed AGSC's Supply Chain department to consolidate purchases and improve leverage with vendors. The move to material standardization will allow all AGLR operating utilities to take advantage of volume discounts associated with larger scale buying power.

VII – Other Evaluative Factors

- Part of the inventory reduction was accomplished by moving the materials and management of construction materials over to the construction contractor. Using their capital, the contractors are directed to purchase project materials direct from the AGLR third party materials supplier. The contractor must manage those materials required to complete their projects. They are allowed to invoice AGLR for only the materials used on the project. This forces the contractor to be more responsible and become better stewards of the materials thereby reducing waste and scrap.
- A recent process improvement which reduced inventory and will improve operating efficiency is the move to consignment material depots. These depots, situated in ETG's three service locations, are used to store 350-500 high turnover field service material item which are owned by a third party supplier. The quantities stored in the depot are managed to economical levels by the third party supplier and AGSC's Supply Chain department. ETG is billed for only the items withdrawn from the depot inventory. Because the ordering and replenishment of this inventory is managed by ETG internal staff, ETG is not charge a service fee for that service.
- A process improvement currently being implemented is the move to truck stock material kitting or the packaging of a specific set and quantity of material items. The kitting of materials will reduce material waste because there will be no excess materials to become damaged while being transported on trucks. Vehicle lives can be extended because fewer items and weight are being transported. This can add to the life of a vehicle and reduce maintenance. Kitting will enable trucks to be in a high state of readiness because the kits will contain items associated with the work requirements of the field service staff. Finally, kits are stored in the depots and owned by the third party supplier until they are withdrawn for use by ETG.
- Before it was acquired by AGLR, ETG utilized McJunkin Red Man as its partial third party materials integrator for approximately 600 SKUs. The mark-up on this arrangement was 22% on the cost of the materials. After the acquisition, this agreement was cancelled and ETG was brought underneath the AGLR enterprise agreement. As a result, McJunkin Red Man became the full third party integrator for ETG with approximately 2,200 SKUs under contract. At that time, the mark-up percentage to the third party integrator was established at 17%--a 5% savings on ETG's original 600 SKU. Since ETG has come underneath the AGLR enterprise agreement, it has saved approximately \$313,000 on original 600 items from the mark-up percentage.
- Before it was acquired, ETG utilized ERT technology from Itron, Inc. to whom it paid \$50.00 per residential ERT device and \$70.00 per commercial ERT device. ETG was subsequently added to the AGLR enterprise Itron agreement, which brought down its prices to \$46.00 per residential ERT device and \$65.00 per commercial ERT Device. AGSC was subsequently able to negotiate even lower prices from Itron thus bringing down the price per residential ERT device to \$34.75 and price per commercial ERT device to \$58.00. Based on the volume of ERT devices procured for ETG since being acquired, it realized total savings of approximately \$519,000.

Columbia Gas of Virginia, Inc.
2009 Affiliate Company Charges
Market Cost Comparison

April 2010

Columbia Gas of Virginia, Inc.
2009 Affiliate Company Charges Market Cost Comparison

Table of Contents

	<u>Page</u>
I – Introduction	1
Purpose of This Study	
Study Results	
II – Background	3
Overview of CGV Affiliate Company Services	
NCSC Billing of Affiliate Companies	
Affiliate Operating Company Billing of Other Affiliates	
III – Affiliate Cost Comparison Approach	6
Analysis of CGV Charges from Affiliates	
Comparison Methodology for Charges from Affiliates	
Analysis of CGV Charges to Affiliates	
IV – Question 1 – Reasonableness of Service-Related Affiliate Charges	9
CGV’s Cost per Customer	
Comparison Group Cost per Customer	
V – Question 2 – Provision of Services at the Lower of Cost or Market	13
Methodology	
NCSC Hourly Rates	
Outside Service Provider Hourly Rates	
NCSC versus Outside Provider Cost Comparison	
VI – Question 3 – Reasonableness of Customer Account Services Costs	26
Comparison Methodology	
Comparison Group	
CGV Cost per Customer	
Comparison Group Cost per Customer	
Summary of Results	

I - Introduction

Purpose of This Study

This study was undertaken to determine the reasonableness of Columbia Gas of Virginia, Inc.'s ("CGV") charges from NiSource Corporate Services Company ("NCSC") and several NiSource operating companies for services provided during 2009. Reasonableness was determined by answering the following three questions:

1. Are 2009 service-related affiliate charges to CGV reasonable compared to other utility service companies?
2. Did NCSC provide services to CGV at the lower of cost or market during 2009?
3. Is the 2009 cost of NCSC's customer accounts services comparable to those of other utilities?

Study Results

Concerning question 1, the following conclusions were reached:

- The cost per CGV customer for services from NCSC and other affiliates is reasonable and favorable as compared to the cost per customer for similar utility service companies. CGV was charged an average of \$90 per customer by NCSC and other affiliates, approximately 24% lower than the average of \$112 per customer for comparison group service companies. This determination was based on service company information included in Form 60, which must be annually filed with the Federal Energy Regulatory Commission ("FERC") by electric and combination electric/gas utility holding companies. The comparison is based on data from 2008, the latest year for which Form 60 information is currently available.

Concerning question 2, the following conclusions were reached:

- NCSC's services were provided to CGV during 2009 at the lower of cost or market.
- On average, the hourly rates for outside service providers are 82% higher than comparable hourly rates charged by NCSC.
- If all of the managerial and professional services now provided by its affiliates had been outsourced in 2009, CGV and its customers would have incurred \$16.5 million in additional expenses.

I - Introduction

- Affiliates' charges do not include any profit markup. Only the actual cost of the service provided is being charged CGV and its customers.

Concerning question 3, the cost of NCSC and other affiliate's customer accounts services is well below the average of the neighboring electric utility comparison group. During 2009, CGV's customer accounts cost per customers was \$17.01 compared to the utility comparison group's 2008 average of \$29.13.

Based on this study's results, it can be concluded that CGV's 2009 service-related charges from NCSC and other affiliates are reasonable.

CGV's service-related charges to affiliates are not significant (approximately \$205,000 in labor-related expenses). Affiliates are charged at CGV's fully loaded cost. The majority of these services are construction-related and not easily benchmarked to publicly available outside provider hourly rate information. For these reasons, no market testing was performed on these transactions.



II – Background

Overview of CGV Affiliate Company Services

NCSC provides the following types of services to NiSource operating companies, including CGV:

- Accounting
- Payroll
- Auditing
- Employee benefits
- Planning
- Risk management
- Tax
- Legal
- Environmental
- Financial
- Information technology
- Telecommunications.

NCSC Billing of Affiliate Companies

NiSource Corporate Services (“NCSC”) was regulated by the Securities and Exchange Commission (“SEC”) under the Public Utility Holding Company Act of 1935 (“PUHCA”) until February 8, 2006, when the Public Utility Holding Company Act (“PUHCA 2005”) was enacted. PUHCA 2005 transferred regulatory jurisdiction over public utility holding companies from the SEC to the Federal Energy Regulatory Commission (“FERC”). NCSC continued to follow the SEC Uniform System of Accounts for Mutual Service Companies and Subsidiary Service Companies until January 1, 2008. Effective January 1, 2008, the FERC requires service companies to move to its Uniform System of Accounts.

Pursuant to FERC Order No. 684 issued October 19, 2006, Centralized Service Companies must use a cost accumulation system, provided such system supports the allocation of expenses to the services performed and readily identifies the source of the expense and the basis for the allocation. NCSC has long used a job order system to collect costs that are applicable and billable to all affiliates including Columbia Gas of Virginia. Each job order details the affiliate(s) to be charged for the specified services and the basis for allocating charges when more than one affiliate receives the same service.

The service agreement between CGV and NCSC stipulates that all services will be provided at cost. Allocations among affiliates are only made when it is impractical to charge an affiliate directly.

The Bases of Allocation, shown in Schedule 1, are used by the Corporate Services Accounting Department for apportioning Job Order charges to affiliates.



II – Background

Categories of billings assigned by NCSC to affiliates include the following:

- Convenience Billings – Includes charges for expenses paid by NCSC on behalf of affiliates to third party providers of services. These charges are considered “pass-through” costs, flowing through NCSC for the convenience and benefit of all affiliates. Typical charges include external audit fees, employee benefits, vehicle leasing, corporate insurance and wire transfers for hedging margin accounts.
- Payroll Funding – Includes CGV payroll costs that are disbursed by NCSC. NCSC makes these payments on behalf of all subsidiaries and CGV wires the requisite cash to NCSC on a monthly basis.
- Contract billings - Includes charges for the costs incurred by NCSC to render the services that are agreed to be provided according to the Service Agreement. The charges may be direct or allocated, depending upon the nature of the expense.

The relationship between NCSC and CGV is set forth in a Service Agreement dated September 21, 2005, as amended by an Amendment to the Service Agreement dated November 1, 2007, which was approved by the Virginia State Corporation Commission (VSCC) by Order dated September 25, 2009 in case No. PUE-2009-00063.

Affiliate Operating Company Billing of Other Affiliates

Besides NCSC, other affiliate entities charge CGV for various goods and services. These items are charged to CGV at fully loaded cost.

Schedule 1

Columbia Gas of Virginia, Inc.
Bases for Allocating Service Company Charges to Affiliates

<p>Basis 1 - Gross Fixed Assets and Total Operating Expenses Fifty percent of the total job order charges will be allocated on the basis of the relation of the affiliate's gross fixed assets to the total gross fixed assets of all benefited affiliates; the remaining 50% will be allocated on the basis of the relation of the affiliate's total operating expenses to the total operating expenses of all benefited affiliates.</p>
<p>Basis 2 - Gross Fixed Assets Job order charges will be allocated to each benefited affiliate on the basis of the relation of its total gross fixed assets to the sum of the total gross fixed assets of all benefited affiliates.</p>
<p>Basis 7 - Gross Depreciable Property and Total Operating Expenses Fifty percent of the total job order charges will be allocated on the basis of the relation of the affiliate's total operating expenses to the total of all the benefited affiliates' total operating expense; the remaining 50% will be allocated on the basis of the relation of the affiliate's gross depreciable property to the gross depreciable property of all benefited affiliates.</p>
<p>Basis 8 - Gross Depreciable Property Job order charges will be allocated to each benefited affiliate on the basis of the relationship of its total depreciable property to the sum of the total depreciable property of all benefited affiliates.</p>
<p>Basis 9 - Automobile Units Job order charges will be allocated to each benefited affiliate on the basis of its number of automobile units to the total number of all automobile units of the benefited affiliates.</p>
<p>Basis 10 - Number of Retail Customers Job order charges will be allocated to each benefited affiliate on the basis of its number of retail customers to the total number of all retail customers of the benefited affiliates.</p>
<p>Basis 11 - Number of Regular Employees Job order charges will be allocated to each benefited affiliate on the basis of the relation of its number of regular employees to the total number of all regular employees of the benefited affiliates.</p>
<p>Basis 13 - Fixed Allocation Job order charges will be allocated to each benefited affiliate on the basis of fixed percentages on an individual project basis.</p>
<p>Basis 14 - Number of Transportation Customers Job order charges will be allocated to each benefited affiliate on the basis of the relation of its Transportation Customers to the total of all Transportation Customers of the benefited affiliates.</p>
<p>Basis 15 - Total Employees and Customers Job order charges will be allocated to each benefited affiliate on the basis of the relation of its number of employees and customers to the total of all employees and customers of the benefited affiliates.</p>
<p>Basis 16 - Total Plant, State Employees and Customers Job order charges will be allocated to each benefited affiliate on the basis of the relation of its Plant, State Employees and Customers to the total of all Plant, State Employees and Customers of the benefited affiliates.</p>
<p>Basis 17 - Total Tariff and Transportation Throughput Job order charges will be allocated to each benefited affiliate on the basis of the relation of its Tariff and Transportation Throughput to the total of all Tariff and Transportation Throughput of the benefited affiliates.</p>
<p>Basis 20 - Direct Costs Job order charges will be allocated to each benefited affiliate on the basis of the relation of its direct costs billed by Service Corporation to the total of all direct costs billed by Service Corporation.</p>

III – Affiliate Cost Comparison Approach

Analysis of CGV Charges from Affiliates

During 2009, the following affiliate entities charged CGV approximately \$211 million.

Affiliate Entity	Total
NiSource Corporate Services	\$ 172,588,469
Columbia Gulf Transmission	\$ 1,779,733
Columbia Network Services	\$ 8,208
Columbia Gas of Kentucky	\$ 7,108
Columbia Gas of Ohio	\$ 2,900,952
Columbia Gas of Maryland	\$ 8,848
Columbia Gas of Pennsylvania	\$ 619,759
Columbia Gas Transmission	\$ 23,233,767
NiSource, Inc.	\$ 355,575
NiSource Finance	\$ 9,376,440
Bay State Gas	\$ -
NiSource Money Pool	\$ 281,424
Total	\$ 211,160,283

These charges were analyzed to determine which were service-related and could be subjected to a cost comparison. The table below shows the amounts charged CGV during 2009 by type of transaction. The first three items—Interest on Debt and Taxes, Gas Purchase and Transportation Expense, and Convenience Billings and Payroll—do not involve the provision of services.

Type of Transaction	2009 Affiliate Charges To CGV	Cost Comparison Testing Disposition		
		Involves A Service?	Comparative Data Available?	Evaluated In This Study?
Interest on Debt and Taxes	\$ 9,657,864	No	na	No
Gas Purchase and Transportation Expenses	\$ 24,785,322	No	na	No
Convenience Billings and Payroll	\$ 152,508,902	No	na	No
Contract Services	\$ 20,079,567	Yes	Yes	Yes
Billings From Other Affiliates - Balance Sheet Accts	\$ 1,692,170	Limited	No	No
Billings From Other Affiliates - Income Statement Accts	\$ 2,436,458	Limited	Yes	Yes
Total 2009 Affiliate Company Billings	\$ 211,160,283			

Contract Services charges are for management, professional and technical services. Comparative information is available for these charges, thus they were included in the scope of this study.

NiSource regulated operating companies will sometimes support one another in times of emergency or when one's backlog of work exceeds its available resources. This sharing arrangement is meant to reduce the cost of service for all ratepayers. The Billings From Other Affiliates line items in the table above relate to this shared support arrangement.

III – Affiliate Cost Comparison Approach

Much of the total \$1.7 million in Billings From Other Affiliates – Balance Sheet was for construction costs charged by Columbia Gas of Ohio. Only \$168,000 of these charges was labor-related. No publicly available market information was found for outside provider of construction services. Thus, this study did not subject these 2009 charges to a cost comparison.

Most From Other Affiliates - Income Statement-related transactions are for various operations services and customer account services. Of the \$2.4 million in these charges, approximately \$557,000 was for labor-related services. Some comparison data was found for these services so, to the extent possible, they were included in the scope of this study.

Comparison Methodology for Charges from Affiliates

2009 affiliate charges that are included in the scope of this study are evaluated in connection with three questions, as shown in the table below.

Type of Transaction	2009 Affiliate Charges To CGV	Study Question		
		1 - Reasonableness	2 - LCM Pricing	3 - Cust Acct Services
Contract Services	\$ 20,079,567	X	X	X
Billings From Other Affiliates - Income Stmt. Accts	\$ 2,436,458	X		X

The first question—were affiliate charges for services reasonable—was answered by comparing CGV’s affiliate charges per customer to those of utility service companies that file a FERC Form 60 – Annual Report of Service Companies. This comparison was made with 2008 Form 60 data, the latest year Form 60 data is available (the filing deadline for the Form 60 is May 1st).

This study’s second question—whether NCSC’s services were provided to CGV during 2009 at the lower of cost or market—was determined by comparing the cost per hour for managerial and professional services provided by NCSC personnel, to hourly billing rates that would be charged by outside providers of equivalent services. NCSC’s costs per hour were based on actual charges to CGV during the 12 months ended December 31, 2009. Outside providers' billing rates came from surveys or other information from professionals that could perform the services now provided by NCSC.

The third question—whether affiliate customer account services charges were comparable to other utilities—was addressed by comparing CGV’s total customer accounts services expenses to those of neighboring electric utilities. This approach was selected because the costs of outside providers of call center

III – Affiliate Cost Comparison Approach

services are not publicly available. However, electric utility customer account services expenses can be readily obtained from FERC Form 1 data. The availability and transparency of FERC data adds to the validity of its use in this comparison. The comparison was made using 2008 data, the latest year for which FERC Form 1 data is available (the filing deadline for FERC Form 1 is April 18th).

Analysis of CGV Charges to Affiliates

CGV charged affiliates approximately \$1.5 million during 2009, as shown below.

	2009 Charges From CGV
Billings to Other Affiliates - Balance Sheet Accounts	\$ 1,251,972
Billings to Other Affiliates - Income Statement Accounts	\$ 213,217
Total Charges To Affiliates	\$ 1,465,189

Most Balance Sheet-related billings consist of construction work CGV performed for affiliate operating companies. Only \$166,000 of these charges was labor-related.

Income Statement-related billings consists of rent charged to NCSC for its employees located in CGV’s Chester, Virginia offices and charges for a variety of services CGV provided to affiliate operating companies. This cost sharing arrangement ultimately provides system ratepayers with lower costs of service. Here too, a relatively small portion of these charges were labor related (\$38,000).

CGV charges affiliates its fully loaded cost for these items. No market testing was performed on 2009 charges to affiliates because the costs that are service-related are not material.

IV – Question 1 – Reasonableness of Service-Related Affiliate Charges

CGV's Cost per Customer

During 2009, CGV was charged \$90 per customer in service-related charges from NCSC and other affiliates.

2009 NCSC Contract Charges		\$ 20,079,567
Non-A&G Functions Excluded from Comparison Group Cost Pool:		
0025200 - Distribution Operations - East	\$ 108,666	
0053200 - Engineering Services	\$ 266,732	
0019300 - Customer Engagement	\$ 53,295	
0019400 - Columbus Gas Procurement	\$ 240,678	
0019500 - Columbus Gas Operations	\$ 266,455	
0019600 - Columbus Planning	\$ 125,219	
0019700 - Gas Supply - BSG/NU	\$ 619	
0019800 - Gas Transportation Operations	\$ 337,420	
0019900 - Commodity & Performance	\$ 142,131	
0021100 - Ludlow Gas Control	\$ 1,240	
0053700 - Gas Systems Planning and Modeling	\$ 237,906	
0052900 - Operations	\$ 127,035	
0052800 - Operations Planning	\$ 146,720	
Total Excluded Non-A&G Functions	\$ 1,384,746	\$ (1,384,746)
Cost Items Excluded From Comparison Group Cost Pool:		
Capital Costs		
3034 - Capitalized Portion - Inflights	\$ (19,930)	
3054 - Capitalized Portn-PCs & Laptops	\$ (122,301)	
3064 - Capitalized Portion - WMS	\$ (9,483)	
3074 - Capitalized Portion - RFS	\$ (45,937)	
3065 - Cap Portion - WMS Conv. Billed	\$ (41,498)	
Income Taxes		
9604 - Income Taxes Federal	\$ 198,785	
9605 - Income Taxes State	\$ 68,183	
9606 - Deferred Income Taxes Federal	\$ 63,688	
9607 - Deferred Income Taxes State	\$ (20,040)	
Net Excluded Cost Items	\$ 71,467	\$ (71,467)
Net NCSC Service-Related Charges		\$ 18,623,355
Other Affiliate 2009 Billings (O&M)		
Columbia Network Services	\$ 8,208	
Columbia Gas of Kentucky	\$ 3,951	
Columbia Gas of Ohio	\$ 1,286,939	
Columbia Gas of Maryland	\$ 2,976	
Columbia Gas of Pennsylvania	\$ 562,609	
Columbia Gas Transmission	\$ 228,178	
NiSource, Inc.	\$ 343,597	
Total Other Affiliates	\$ 2,436,458	\$ 2,436,458
Total 2009 NCSC and Other Affiliate Service-Related Charges		\$ 21,059,813
Total CGV Customers at 12/31/09		235,077
2009 CGV Cost Per Customer		\$ 90

IV – Question 1 – Reasonableness of Service-Related Affiliate Charges

Comparison Group Cost per Customer

Every centralized service company in a holding company system must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act and 18 C.F.R. paragraph 366.23. This report is designed to collect financial information from service companies that are subject to regulation by the FERC.

NCSC files a Form 60. For 2008, 23 other utility service companies that serve utilities that provide regulated electric and, in some cases, gas service to retail customers. In order to make a valid comparison of this group’s costs to NCSC’s charges to CGV, it was necessary to isolate expenses that that they have in common. These include A&G/O&M-related charges associated with the following FERC accounts:

901 – Supervision	921 – Office supplies and expenses
903 – Customer records and collection expenses	923 – Outside services employed
905 – Miscellaneous customer accounts expenses	926 – Employee pensions and benefits
907 – Supervision	928 – Regulatory commission expenses
910 – Misc customer service and info expenses	930.2 – Miscellaneous general expenses
911 – Supervision	931 – Rents
920 - Administrative and general salaries	935 – Maintenance of structures and equipment

O&M expenses charged to utility affiliates for the comparison group service companies were obtained from Schedule XVI – Analysis of Charges for Service Associate and Non-Associate Companies (p. 303 to 306) of each entity’s FERC Form 60. This schedule shows charges by FERC Account.

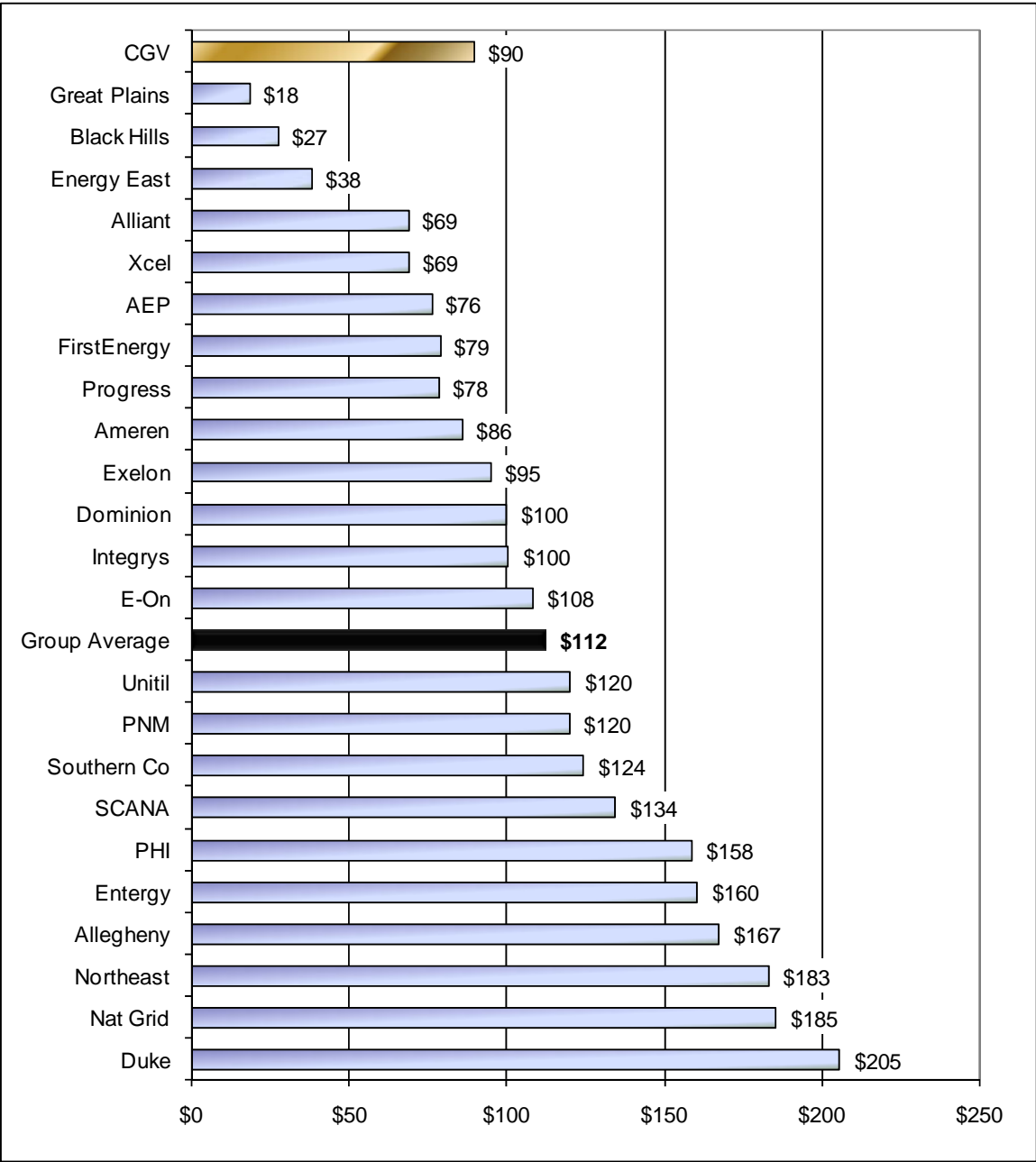
Comparison group service company 2008 expenses were also adjusted to remove charges to non-regulated affiliates from the cost pool used to calculate the cost per regulated service customer. This determination was made using information from the FERC Form 60 schedule: Account 457 – Analysis of Billing – Associate Companies.

A&G expenses per regulated utility customer for the 23 utility companies other than NCSC that file Form 60 for 2008 are calculated below.

Utility Company	2008 Regulated Retail Service Company A&G Expenses	Regulated Retail Customers	Cost per Customer
AEP	\$396,340,118	5,213,000	\$ 76
Allegheny	\$263,588,707	1,577,873	\$ 167
Alliant	\$205,754,832	3,000,000	\$ 69
Ameren	\$291,684,710	3,400,000	\$ 86
Black Hills	\$20,763,828	759,400	\$ 27
Dominion	\$357,718,046	3,588,500	\$ 100
Duke	\$923,936,645	4,500,000	\$ 205
Energy East	\$113,714,789	2,989,800	\$ 38
Entergy	\$432,575,683	2,700,000	\$ 160
E-On	\$136,276,177	1,263,000	\$ 108
Exelon	\$558,687,014	5,885,000	\$ 95
FirstEnergy	\$354,028,109	4,499,000	\$ 79
Great Plains	\$15,000,708	820,000	\$ 18
Integrus	\$216,364,166	2,157,000	\$ 100
Nat Grid	\$1,240,706,398	6,700,000	\$ 185
Northeast	\$302,138,730	1,654,000	\$ 183
PHI	\$302,463,412	1,910,000	\$ 158
Progress	\$242,677,256	3,100,000	\$ 78
PNM	\$102,688,385	859,000	\$ 120
SCANA	\$191,207,825	1,424,300	\$ 134
Southern Co	\$546,498,605	4,402,000	\$ 124
Unitil	\$20,341,422	169,600	\$ 120
Xcel	\$367,626,617	5,345,000	\$ 69
Group Total	\$7,602,782,182	67,916,473	\$ 112

Exhibit 2 shows CGV's 2009 NCSC cost per customer of \$90 to be lower than the average of \$112 per customer for the comparison group service companies. Based on this result, it is possible to conclude that 2009 affiliate charges to CGV were reasonable.

Columbia Gas of Virginia, Inc.
Comparison of Service Company Annual Costs Per Customer



V – Question 2 – Provision of Services at the Lower of Cost or Market

Methodology

NCSC's 2009 corporate services-related billings to CGV are market tested by comparing the cost per hour for NCSC services to those of outside service providers to whom these duties could be assigned.

The first step was to determine which types of outside providers could assume Service Company services. Based on the nature of these services it was determined that the following outside service providers could perform the categories of services indicated.

- Attorneys - corporate secretarial and legal services
- Certified Public Accountants - accounting, finance, information systems and rates and regulatory
- Professional Engineers – engineering and operations services
- Management Consultants - executive and administrative management, risk management services, human resources and communications services

The next step was to calculate NCSC's hourly rate for each of the four outside service provider categories, based on the dollars and hours charged to CGV during the 12-months ended December 31, 2009.

Hourly billing rates for outside service providers were next determined using information from pertinent surveys.

Finally, the NCSC's average cost per hour was compared to the average cost per hour for outside providers.

NCSC Hourly Rates

The first step in determining NCSC's hourly rates is to determine the appropriate expenses to be included in the calculation. As shown below, certain NCSC charges were excluded from the hourly rate calculations. Excluded cost elements are charges that are, in effect, already outsourced (e.g., IBM outsourcing, outside services expenses) or items that an outside provider would not typically recover in their hourly rates (e.g., travel expenses). The net result of these adjustments is the total applicable cost pool that is subjected to the lower-of-cost-or-market testing.



V – Question 2 – Provision of Services at the Lower of Cost or Market

2009 Total Contract Billings from NCSC	\$ 20,079,567
Less: Excludable Cost Elements:	
2504 - Expert Witness Fees	\$ 774
3000 - Consulting Services	\$ 485,847
3001 - Advertising Services	\$ 61,194
3002 - Legal Services	\$ 408,998
3003 - Auditing Services	\$ (1,524)
3005 - Contract Retainages	\$ 11,626
3006 - Engineering Services	\$ 109
3007 - Laboratory Services	\$ 2,425
3009 - Operations Services	\$ 129,321
3011 - Temporary Personnel Services	\$ 75,221
3012 - Security Services	\$ 10,678
3015 - Other Outside Services	\$ 408,505
3016 - Other Maintenance Services	\$ 181
3019 - Tool & Equipment Repair	\$ 37
3021 - Env Health & Safety Services	\$ 5,347
3030 - Outsourcing - Est. Fixed Costs	\$ (66,715)
3031 - Outsourcing - Variable Costs	\$ 476,849
3032 - Transition Costs	\$ 26,388
3033 - Sales Tax	\$ 94,187
3034 - Capitalized Portion - Inflights	\$ (19,930)
3035 - Supplemental Contract Costs	\$ 42,916
3036 - Service Level Agreements	\$ (164,972)
3037 - Miscellaneous Reimbursements	\$ 10,738
3038 - Request for Service (RFS)	\$ 74,670
3040 - Outsourcing - Act. Fixed Costs	\$ 5,957,717
3041 - Outsourcing-Variable Csts-RRCs	\$ (121,782)
3048 - RFS - Variable Costs - ARCs	\$ 24,188
3054 - Capitalized Portn-PCs & Laptops	\$ (122,301)
3064 - Capitalized Portion - WMS	\$ (9,483)
3074 - Capitalized Portion - RFS	\$ (45,937)
3100 - Business Expenses	\$ 238,698
3101 - Meals Special Cases Only	\$ 1,472
3102 - Meals and Entertainment	\$ 97,601
3357 - Vehicle Maint/Other Costs Clrd	\$ 1,652
3634 - Purchase of Property	\$ 184
3645 - Sale of Property	\$ 10,699
3065 - Cap Portion - WMS Conv. Billed	\$ (41,498)
9604 - Income Taxes Federal	\$ 198,785
9605 - Income Taxes State	\$ 68,183
9606 - Deferred Income Taxes Federal	\$ 63,688
9607 - Deferred Income Taxes State	\$ (20,040)
2009 Testable Contract Billings from NCSC (Note A)	<u>\$ 11,704,872</u>

Note A: This total breaks down as following for later analysis:

Service-Related Charges	\$ 10,610,139
Overhead-Related Charges	\$ 1,094,733
2009 Testable Contract Billings from NCSC	<u>\$ 11,704,872</u>

V – Question 2 – Provision of Services at the Lower of Cost or Market

The next step was to assign NCSC’s service-related charges to the four outside service provider cost pools—attorney, certified public accountant, engineer and management consultant. Among other things, NCSC assigns a “department” to all affiliate charges. Based on the nature of services performed by these departments, NCSC’s charges were assigned to the four outside provider cost pools, as shown in Schedule 3.

Schedule 4 shows the assignment of staff hours by department to the four outside service provider cost pools. It should be noted that only exempt personnel hours are included in Schedule 4 because outside providers sometimes do not charge clients for administrative/secretarial support (i.e., non-exempt staff). Instead, they recover the cost of non-exempt staff through the hourly rates of the firm’s professionals. Some outside providers bill customers for non-exempt personnel, but this study chose to be conservative in this regard. By excluding non-exempt hours from the hourly rate denominator, there are fewer hours to divide into the cost pool. Consequently, NCSC’s hourly rates are somewhat higher using this approach.

Within the total 2009 NCSC charges are overhead-related items associated with sustaining NCSC personnel. Most of these expenses are depreciation expense and rent on various NCSC facilities and equipment. The 2009 amounts by department are shown below. Since these expenses would also be incurred by outside service providers, it is necessary to add them into the NCSC cost pools.

Department	2009
0005000 - Aviation Services	138,877
0007100 - Insurance - Premiums	67,053
0042000 - General	533,005
0047000 - Facilities Management	306,464
0049000 - Real Estate Management	5,922
0087000 - Materials and Supplies	11,611
0088000 - Fleet Management	31,801
Total	1,094,733

Based on the assignment of expenses and hours to outside provider categories, NCSC’s 2009 equivalent cost per hour is calculated below.

V – Question 2 – Provision of Services at the Lower of Cost or Market

NCSC Hourly Rates					
	Attorney	Certified Public Acct	Professional Engineer	Mgmt Consultant	Total
Service-Related Charges	\$ 835,240	\$ 3,656,659	\$ 2,843,390	\$ 3,274,849	\$ 10,610,139
Overhead Expenses (Note A)	\$ 86,177	\$ 377,289	\$ 293,377	\$ 337,889	\$ 1,094,733
Cost Pool Total	\$ 921,417	\$ 4,033,948	\$ 3,136,768	\$ 3,612,739	\$ 11,704,872
Hours	11,634	63,688	53,567	56,676	185,565
Average Hourly Rate	\$ 79	\$ 63	\$ 59	\$ 64	

Note A: These expenses are assigned to the outside provider categories prorata based on the "direct" expenses, as calculated below.

	Attorney	Certified Public Acct	Professional Engineer	Mgmt Consultant	Total
Service-Related Charges	\$ 835,240	\$ 3,656,659	\$ 2,843,390	\$ 3,274,849	\$ 10,610,139
Percent of Cost Pool Total	7.9%	34.5%	26.8%	30.9%	100.0%
Allocation Of Overhead Expenses	\$ 86,177	\$ 377,289	\$ 293,377	\$ 337,889	\$ 1,094,733

Schedule 3

Columbia Gas of Virginia, Inc.
Outside Provider Cost Pools For 2009 NCSC Contract Billings Charges

Department	Outside Provider				Total
	Attorney	Certified Public Accountant	Professional Engineer	Mgmt Consultant	
Accounts Payable		\$ 67,023			\$ 67,023
Administrative Services				\$ 32,599	\$ 32,599
Audit		\$ 196,475			\$ 196,475
Business Continuity				\$ 14,282	\$ 14,282
Capital Management and Analysis		\$ 308,863			\$ 308,863
Consolidated Financial Reporting		\$ 194,993			\$ 194,993
Consolidated Taxes		\$ 231,529			\$ 231,529
Corporate Affairs				\$ 42,949	\$ 42,949
Corporate Communications				\$ 94,965	\$ 94,965
Corporate Development				\$ 28,187	\$ 28,187
Corporate Human Resources				\$ 171,500	\$ 171,500
Corporate Secretary	\$ 25,538				\$ 25,538
Corporate Security				\$ 52,469	\$ 52,469
Credit Risk Management				\$ 54,660	\$ 54,660
Customer Services		\$ 307,926			\$ 307,926
Distribution Operations			\$ 108,666		\$ 108,666
Distribution Operations Management				\$ 153,359	\$ 153,359
Engineering Services			\$ 266,732		\$ 266,732
Enterprise Transformation				\$ 219,559	\$ 219,559
Environmental, Health & Safety			\$ 282,800		\$ 282,800
ESS Administration			\$ 62,050		\$ 62,050
Executive				\$ 290,811	\$ 290,811
Finance & Strategies		\$ 336,244			\$ 336,244
Financial Planning		\$ 95,436			\$ 95,436
Gas Supply			\$ 1,167,058		\$ 1,167,058
Gas Systems Planning and Modeling			\$ 237,906		\$ 237,906
Governmental Affairs				\$ 33,826	\$ 33,826
HR Support				\$ 216,837	\$ 216,837
Information Technology		\$ 164,653			\$ 164,653
Insurance				\$ 47,981	\$ 47,981
Investor Relations				\$ 14,592	\$ 14,592
IT Security & Compliance		\$ 379,724			\$ 379,724
Legal	\$ 809,701				\$ 809,701
Logistics			\$ 131,184		\$ 131,184
New Business Processes				\$ 1,146,839	\$ 1,146,839
NiSource Training				\$ 1,285	\$ 1,285
OD/HRIS Exec / Organizational Devel				\$ 24,259	\$ 24,259
Operations			\$ 127,035		\$ 127,035
Operations Planning			\$ 146,720		\$ 146,720
Payroll Services		\$ 25,153			\$ 25,153
Performance Management		\$ 83,635			\$ 83,635
Regulated Revenue Management				\$ 52,329	\$ 52,329
Regulatory		\$ 242,693			\$ 242,693
Retail Services				\$ 12,309	\$ 12,309
Revenue Transactions		\$ 350,051			\$ 350,051
Risk Management				\$ 11,242	\$ 11,242
Segment Accounting		\$ 525,397			\$ 525,397
Standards and Compliance				\$ 558,015	\$ 558,015
Supply Chain Administration			\$ 283,951		\$ 283,951
Technical Operations			\$ 29,287		\$ 29,287
Treasury		\$ 125,502			\$ 125,502
Work Management - GIS			\$ 1		\$ 1
Work Management System		\$ 21,363			\$ 21,363
Total	\$ 835,240	\$ 3,656,659	\$ 2,843,390	\$ 3,274,849	\$ 10,610,139

Columbia Gas of Virginia, Inc.
Outside Provider Hour Pools For 2009 NCSC Contract Billings Charges

Department	Outside Provider				Total
	Attorney	Certified Public Accountant	Professional Engineer	Mgmt Consultant	
Accounts Payable		1,572			1,572
Administrative Services				345	345
Audit		3,141			3,141
Business Continuity				249	249
Capital Management and Analysis		6,620			6,620
Consolidated Financial Reporting		3,355			3,355
Consolidated Taxes		4,146			4,146
Corporate Affairs				479	479
Corporate Communications				1,289	1,289
Corporate Development				406	406
Corporate Human Resources				3,173	3,173
Corporate Secretary	489				489
Corporate Security				797	797
Credit Risk Management				750	750
Customer Services		3,397			3,397
Distribution Operations			913		913
Distribution Operations Management				1,017	1,017
Engineering Services			5,280		5,280
Enterprise Transformation				3,520	3,520
Environmental, Health & Safety			5,054		5,054
ESS Administration			488		488
Executive				1,635	1,635
Finance & Strategies		6,846			6,846
Financial Planning		1,289			1,289
Gas Supply			23,449		23,449
Gas Systems Planning and Modeling			5,614		5,614
Governmental Affairs				395	395
HR Support				3,918	3,918
Information Technology		-			-
Insurance				903	903
Investor Relations				139	139
IT Security & Compliance		3,258			3,258
Legal	11,145				11,145
Logistics			2,234		2,234
New Business Processes				25,595	25,595
NiSource Training				-	-
OD/HRIS Exec / Organizational Devel				461	461
Operations			1,686		1,686
Operations Planning			2,361		2,361
Payroll Services		494			494
Performance Management		1,708			1,708
Regulated Revenue Management				717	717
Regulatory		5,243			5,243
Retail Services				221	221
Revenue Transactions		8,272			8,272
Risk Management				151	151
Segment Accounting		12,844			12,844
Standards and Compliance				10,518	10,518
Supply Chain Administration			6,053		6,053
Technical Operations			435		435
Treasury		1,504			1,504
Work Management - GIS			-		-
Work Management System		-			-
Total	11,634	63,688	53,567	56,676	185,565

V – Question 2 – Provision of Services at the Lower of Cost or Market

Outside Service Provider Hourly Rates

The next step in the lower of cost or market comparison was to calculate the average billing rates for each type of outside service provider. The source of this information and the determination of the average rates are described in the paragraphs that follow.

Attorneys

The Virginia Bar Association does not survey its members as to their hourly billing rates. In addition, publicly available billing rate information could not be found for Virginia attorneys (Virginia Lawyers Weekly used to ask for hourly rates in its annual survey but eliminated that question a few years ago). Therefore, an estimate of Virginia attorney rates was developed from surveys of Michigan and Massachusetts lawyers conducted annually by the publications, Michigan Lawyers Weekly and Massachusetts Lawyers Weekly. As presented in Schedule 5, the average rate for each Michigan and Massachusetts firm respondent was adjusted for the cost of living differential between their location and Richmond, Virginia. The survey includes hourly rates that were in effect at December 31, 2007. Thus, the 2007 average rate was escalated to June 30, 2009—the midpoint of 2009.

Certified Public Accountants

The average hourly rate for Virginia certified public accountants was developed from a 2008 survey conducted by the American Institute of Certified Public Accountants (AICPA) every two years. Hourly rates in the AICPA survey are the average of firms in Virginia. The average hourly rate was calculated for a range of accountant positions, as shown in Schedule 6. Based on a typical staff assignment by each accountant position, a weighted average hourly rate was calculated. This survey covered hourly rates in effect during 2007. Thus, the 2007 average rate was escalated to June 30, 2009—the midpoint of 2009.

Professional Engineers

CGV provided 2009 hourly rate information for three engineering firms that are periodically used by the company when outside engineering services are required. As shown in Schedule 7, an average rate was developed for a range of engineering positions. Then, using a typical percentage mix by position for a typical engineering project, a weighted average cost per hour was calculated.

Management Consultants

The cost per hour for management consultants was developed from the 2009 annual survey performed by the Association of Management Consulting Firms—an industry trade organization. The first step in the calculation, presented in



Schedule 8, was to determine an average rate by consultant position. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison. This survey includes rates that were in effect at December 31, 2008 for firms in the United States. This 2008 average rate was escalated to June 30, 2009—the midpoint of 2009.

Columbia Gas of Virginia, Inc.
Estimated 2009 Billing Rates For Virginia Attorneys Based On
Michigan and Massachusetts Attorney Billing Rates

Billing rates as of December 31, 2007 (Note A)									
Firm	Location	Number Of Lawyers	Billing Rate Range				Average	Cost of Living Adjust (C)	Adjusted Rate
			Associate		Partner				
			Low	High	Low	High			
Dickinson Wright PLLC	Detroit, Mi	229	\$ 170	\$ 275	\$ 260	\$ 530	\$ 309	85%	\$ 365
Dykema	Detroit, Mi	222	\$ 185	\$ 390	\$ 245	\$ 625	\$ 361	85%	\$ 427
Butzel Long	Detroit, Mi	209	\$ 165	\$ 400	\$ 220	\$ 550	\$ 334	85%	\$ 395
Bodman LLP	Detroit, Mi	128	\$ 125	\$ 215	\$ 210	\$ 495	\$ 261	85%	\$ 309
Jaffe Raitt Heuer & Weiss, PC	Southfield, Mi	100	\$ 165	\$ 225	\$ 225	\$ 500	\$ 279	97%	\$ 289
Trott & Trott, PC	Bingham Farms, Mi	64	\$ 170	\$ 170	\$ 235	\$ 235	\$ 203	125%	\$ 162
Brooks Kushman PC	Southfield, Mi	52	\$ 160	\$ 275	\$ 250	\$ 505	\$ 298	97%	\$ 308
Kemp, Klein, Umphrey, Edelman & May PC	Troy, Mi	36	\$ 150	\$ 190	\$ 200	\$ 340	\$ 220	111%	\$ 198
Pepper Hamilton LLP	Detroit, Mi	33	\$ 200	\$ 315	\$ 340	\$ 615	\$ 368	85%	\$ 435
Hertz, Schram & Saretsky, PC	Bloomfield Hills, Mi	29	\$ 175	\$ 260	\$ 275	\$ 400	\$ 278	139%	\$ 200
Strobl & Sharp, PC	Bloomfield Hills, Mi	28	\$ 110	\$ 210	\$ 200	\$ 300	\$ 205	139%	\$ 148
Kupelian Ormond & Magy, PC	Southfield, Mi	25	\$ 165	\$ 195	\$ 235	\$ 320	\$ 229	97%	\$ 237
Rader, Fishman & Grauer, PLLC	Bloomfield Hills, Mi	25	\$ 130	\$ 250	\$ 275	\$ 495	\$ 288	139%	\$ 207
McShane & Bowie PLC	Grand Rapids, Mi	22	\$ 160	\$ 275	\$ 250	\$ 375	\$ 265	96%	\$ 277
Edwards Angel Palmer & Dodge	Boston, Ma	259	\$ 144	\$ 321	\$ 474	\$ 474	\$ 353	147%	\$ 241
Sullivan & Worcester	Boston, Ma	137	\$ 245	\$ 530	\$ 415	\$ 700	\$ 473	147%	\$ 322
Burns & Levinson	Boston, Ma	112	\$ 210	\$ 350	\$ 375	\$ 475	\$ 353	147%	\$ 240
Bowditch & Dewey	Worcester, Ma	64	\$ 150	\$ 300	\$ 280	\$ 550	\$ 320	115%	\$ 277
Mirick O'Connell	Worcester, Ma	60	\$ 160	\$ 250	\$ 280	\$ 400	\$ 273	115%	\$ 236
Hinckley, Allen & Snyder	Boston, Ma	58	\$ 200	\$ 330	\$ 300	\$ 480	\$ 328	147%	\$ 223
Prince Lobel Glosky & Tye	Boston, Ma	52	\$ 175	\$ 265	\$ 275	\$ 475	\$ 298	147%	\$ 203
Robinson & Cole	Boston, Ma	48	\$ 220	\$ 375	\$ 340	\$ 490	\$ 356	147%	\$ 243
Bromberg & Sunstein	Boston, Ma	42	\$ 250	\$ 450	\$ 500	\$ 725	\$ 481	147%	\$ 328
Lawson & Weitzen	Boston, Ma	35	\$ 125	\$ 225	\$ 225	\$ 400	\$ 244	147%	\$ 166
Murtha Cullina	Boston, Ma	34	\$ 165	\$ 290	\$ 250	\$ 500	\$ 301	147%	\$ 205
Marcus Errico Emmer & Brooks	Braintree, Ma	28	\$ 250	\$ 250	\$ 300	\$ 360	\$ 290	137%	\$ 211
Rich May	Boston, Ma	25	\$ 150	\$ 300	\$ 300	\$ 400	\$ 288	147%	\$ 196
Keegan Werlin	Boston, Ma	22	\$ 150	\$ 275	\$ 325	\$ 475	\$ 306	147%	\$ 209
Barron & Stadfeld	Boston, Ma	21	\$ 160	\$ 230	\$ 250	\$ 350	\$ 248	147%	\$ 169
Cain Hibbard Myers & Cook	Pittsfield, Ma	19	\$ 150	\$ 200	\$ 210	\$ 235	\$ 199	116%	\$ 171
Overall Average 2007 Billing Rate									\$ 253
<u>Escalation to Test Year Midpoint (June 30, 2009) (Note B)</u>									
								CPI at December 31, 2007	210.0
								CPI at June 30, 2009	215.7
								Inflation/Escalation	2.7%
Average Billing Rate At June 30, 2009									\$ 260

Note A: Source is Michigan Lawyers Weekly (April 2008) and Massachusetts Lawyers Weekly (April 2008)

Note B: Source is U.S. Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>)

Note C: Source is Sperling's Best Places (<http://www.bestplaces.net/col/col.aspx>). This percentage represents the cost of living difference between the Michigan and Massachusetts cities and Richmond, Virginia. A number over 100% indicates the Michigan or Massachusetts city's cost of living is higher than Richmond. A number less than 100 % indicates Richmond's cost of living is higher.

Columbia Gas of Virginia, Inc.
2009 Billing Rates Of Virginia Certified Public Accountants

A. Calculation of Average Hourly Billing Rate by Public Accounting Position
Survey billing rates were those in effect in 2007 (Note A)

Average Hourly Billing Rate (Note A)					
	Staff Accountant	Senior Accountant	Manager	Partner	
Average Hourly Billing Rate by CPA Firm Position	\$ 80	\$ 107	\$ 138	\$ 165	
Percent of Accounting Assignment	30%	30%	20%	20%	Weighted Average
	\$ 24	\$ 32	\$ 28	\$ 33	\$ 117
<u>Escalation to Test Year Midpoint (June 30, 2008) (Note B)</u>					
				CPI at December 31, 2007	210.0
				CPI at June 30, 2009	215.7
				Inflation/Escalation	2.7%
				Average Hourly Billing Rate For CPAs At June 30, 2009	\$ 120

Note A: Source is AICPA's 2008 National PCPS/TSCPA Management of an Accounting Practice Survey (Virginia edition)

Note B: Source is U.S. Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.ai.txt>)

Columbia Gas of Virginia, Inc.
2009 Billing Rates Of Virginia Engineers

Note: Billing rates were those in effect in 2009

A. Calculation of Average Hourly Rate by Engineer Position

Name of Firm	Average Hourly Billing Rates		
	Engineer Tech Land Agent CAD Technician	Engineer Land Surveyor Envir. Scientist	Licensed Professional Engineer
Firm #1	\$75	\$90	\$125
Firm #2	\$63	\$74	\$82
Firm #3	\$65	\$88	\$98

B. Calculation of Overall Average Engineering Hourly Billing Rate

Average Hourly Billing Rate (From Above)	Engineer Tech Land Agent CAD Technician	Engineer Land Surveyor Envir. Scientist	Licensed Professional Engineer	Weighted Average
		\$68	\$84	
Typical Percent of Time on an Engineering Assignment	33%	33%	34%	
	\$22	\$28	\$35	\$84

Source: Information provided by Columbia Gas of Virginia. Firm names are confidential.

Schedule 8

Columbia Gas of Virginia, Inc.
2009 Billing Rates Of U.S. Management Consultants

Survey billing rates in effect in 2008 (Note A)					
A. Calculation of Average Hourly Billing Rate by Consultant Position					
	Average Hourly Rates (Note A)				
	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner
Average	\$ 147	\$ 196	\$ 268	\$ 295	\$ 384
B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement					
	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner
Average Hourly Billing Rate (from above)	\$ 147	\$196	\$268	\$295	\$384
Percent of Consulting Assignment	30%	30%	20%	10%	10%
	\$ 44	\$ 59	\$ 54	\$ 29	\$ 38
					Weighted Average \$ 224
<u>Escalation to the Test Year's Mid-Point (March 31, 2009) (Note B)</u>					
				CPI at December 31, 2008	210.2
				CPI at June 30, 2009	215.7
				Inflation/Escalation	2.6%
				Average Hourly Billing Rate For Management Consultants At June 30, 2009	\$ 230

Note A: Source is "Operating Ratios For Management Consulting Firms, 2009 Edition," Association of Management Consulting Firms

V – Question 2 – Provision of Services at the Lower of Cost or Market

NCSC Versus Outside Provider Cost Comparison

As shown in the table below, NCSC's costs per hour are considerably lower than those of outside providers.

Service Provider	2009 Cost/Hour Difference		
	NCSC	Outside Providers	Difference-- NCSC Greater(Less) Than Outside
Attorney	\$ 79	\$ 260	\$ (181)
Certified Public Accountant	\$ 63	\$ 120	\$ (57)
Professional Engineer	\$ 59	\$ 84	\$ (26)
Management Consultant	\$ 64	\$ 230	\$ (167)

As calculated below, based on these cost per hour differentials and the number of hours that NCSC billed CGV during 2009, the services would cost \$16.5 million more from outside providers. This is 82% more ($\$16,534,801 / \$20,079,567 = 82\%$) than NCSC's total 2009 contract billings to CGV.

Service Provider	2009 Total Cost Difference		
	Hourly Rate Difference-- NCSC Greater(Less) Than Outside	NCSC Hours Charged	Dollar Difference
Attorney	\$ (181)	11,634	\$ (2,103,955)
Certified Public Accountant	\$ (57)	63,688	\$ (3,600,141)
Professional Engineer	\$ (26)	53,567	\$ (1,388,540)
Management Consultant	\$ (167)	56,676	\$ (9,442,166)
			\$ (16,534,801)

Comparison Methodology

Customer Accounts Services covers the following utility functions:

- Customer Call Center – customer calls/contact, credit, order taking/disposition, bill collection efforts, outage calls
- Call Center IT – maintenance of phone banks, voice recognition units, call center software applications, telecommunications
- Customer billing – bill printing, stuffing, and mailing
- Remittance processing – processing customer payments received in the mail
- Bill payment centers – locations where customers can pay their bills in person

It is difficult to compare the cost of NCSC and other affiliate's customer accounts services-related charges to CGV with outside providers of the same services because survey data is proprietary and expensive to obtain. For this reason, CGV's charges from affiliates for customer accounts services are compared to those of neighboring electric utilities because the data necessary to make such comparison is available to the public.

Neighboring electric utility cost information comes from the FERC Form 1 that each utility must file. FERC's chart of accounts is defined in Chapter 18, Part 101 of the Code of Federal Regulations. FERC accounts that contain customer accounts services-related expenses are Account 903 Customer Accounts Expense – Records and Collection Expense and Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense. Schedule 9 provides FERC's definition of the type of expenses that should be recorded in these accounts.

In addition to the charges in these FERC accounts, labor-related overheads charged to the following FERC accounts must be added to the labor components of Accounts 903 and 905:

- Account 926 Employee Pension and Benefits
- Account 408 Taxes Other Than Income (employer's portion of FICA)



Columbia Gas of Virginia, Inc.
FERC Account Descriptions

903 – Customer Records and Collection Expenses

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery, and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

905 – Miscellaneous Customer Accounts Expenses

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

VI – Question 3 – Reasonableness of Customer Account Services Costs

Comparison Group

Neighboring electric utilities included in the comparison group are shown in the table below. These are companies whose FERC Form 1s show amounts for Accounts 903 and 905.

Virginia	• Appalachian Power	• Virginia Electric & Power
Kentucky	• Duke Energy Kentucky • Kentucky Power	• Kentucky Utilities • Louisville Gas & Electric
West Virginia	• Appalachian Power • Monongahela Power	• Wheeling Power
North Carolina	• Duke Energy Carolinas	• Progress Energy Carolinas
Maryland	• Baltimore Gas & Electric • Delmarva Power & Light	• Potomac Electric
Tennessee	• Kingsport Power	

CGV Cost per Customer

As calculated in Schedule 10, CGV’s annual customer accounts expense per customer is \$17.01. CGV’s cost pool includes the same expense items that are included in the neighboring electric utilities’ customer accounts expenses.

Comparison Group Cost per Customer

Schedule 11 shows the actual 2009 customer accounts expense per customer calculation for the electric utility comparison group. All of the underlying data were taken from each utility’s FERC Form 1.

Summary of Results

As shown in the table below, CGV’s cost per customer is below the electric utility comparison group average. Based upon this data, 2009 charges from NCSC and other affiliates for customer account services are reasonable.

Customer Account Services Expenses/Customer	
Louisville Gas & Electric	\$ 15.67
Virginia Electric & Power	\$ 16.15
Monongahela Power	\$ 16.17
Columbia Gas of Virginia	\$ 17.01
Duke Energy Carolinas	\$ 21.65
Progress Energy Carolinas	\$ 22.99
Wheeling Power	\$ 26.12
Kentucky Utilities	\$ 28.42
Comparison Group Average	\$ 29.13
Duke Energy Kentucky	\$ 29.65
Appalachian Power	\$ 32.57
Kingsport Power	\$ 32.60
Baltimore Gas & Electric	\$ 35.46
Kentucky Power	\$ 36.02
Delmarva Power & Light	\$ 69.08
Potomac Electric	\$ 76.47

**Columbia Gas of Virginia, Inc.
CGV 2009 Customer Accounts Expense Per Customer**

NiSource Company	Source of Charges	Amount	
Service Company (12)	0019300 - Customer Engagement	\$ 1	
	0021200 - Customer Programs	\$ 47,268	
	0030300 - Performance Management	\$ 86,833	
	0052900 - Operations	\$ 838	
	0053000 - Revenue Transactions	\$ 215,306	
	0053600 - Bill Printing & Inserting	\$ 305,106	
	0054500 - CISC Electronic Access	\$ 1,957	
	0056100 - Paymnet Exception Proces:	\$ 129,355	
	0056200 - DIS Billing - CDC	\$ 62,655	
	0056300 - CDC Sales	\$ 150,133	
	0099100 - IBM Billing - Call Center	\$ 1,323,170	
	0099500 - IBM Billing - Meter to Cash	\$ 151,503	
	CG-Ohio (34)	1827 - Damage Prevention	\$ 8,180
		1837 - Cash Processing	\$ 46,167
		1838 - Bill Exception Processing	\$ 7,507
		1839 - Revenue Recovery	\$ 76,056
	CG-Pennsylvania (37)	1826 - Meter Reading & Collections	\$ 8,329
1838 - Bill Exception Processing		\$ 28	
1839 - Revenue Recovery		\$ 67,254	
CG-Virginia	1817 - Technical Operations	\$ (21)	
	1826 - Meter Reading & Collections	\$ 44	
	1827 - Damage Prevention	\$ 6,367	
	1837 - Cash Processing	\$ 194,067	
	1839 - Revenue Recovery	\$ 5,112	
	2518 - Operations Support	\$ (7)	
	Distribution Operations (A)	\$ 903,043	
	Customer Payment Processing (B)	\$ 201,696	
	Customer Accounts Cost Pool Total	\$ 3,997,946	
	CGV customers at 12/31/08	235,077	
	2009 Cost Per Customer	\$ 17.01	

Note A: Also includes charges for billing-related postage

Note B: Payment Processing Expenses

CGV customers at 12/31/09	235,077
Number of customer payments/year	12
Total payments	<u>2,820,924</u>
Bank processing cost/payment	\$ 0.0715
Total Payment Processing Expense	<u>\$ 201,696</u>

Columbia Gas of Virginia, Inc.
Comparison Group 2008 Actual Customer Accounts Expense Per Customer

	Virginia		West Virginia	
	Appalachian Power	Virginia Electric Power	Appalachian Power	Monongahela Power Wheeling Power
	\$ 29,231,353	\$ 32,985,338		\$ 5,020,473
	\$ 1,894	\$ -		\$ -
	\$ 29,233,247	\$ 32,985,338		\$ 5,020,473
Note A	\$ 1,415,185	\$ 3,978,170		\$ 849,338
Note B	\$ 548,440	\$ 1,573,799		\$ 294,683
Total Cost Pool	\$ 31,196,872	\$ 38,537,306		\$ 6,164,494
Total Customers (page 304, line 43)	957,875	2,386,208	see Virginia	381,193
Customer Account Services Expense per Customer	\$ 32.57	\$ 16.15		\$ 16.17
	\$ 23,000,789	\$124,252,946		\$ 16,659,462
	\$116,519,186	\$642,556,137		\$ 75,556,781
	19.7%	19.3%		22.0%
				19.1%
	\$ 8,480,076	\$ 27,320,711		\$ 6,101,855
	\$ -	\$ -		\$ -
	\$ 8,480,076	\$ 27,320,711		\$ 6,101,855
	\$ 29,231,353	\$ 32,985,338		\$ 5,020,473
	\$ 1,894	\$ -		\$ -
	\$ 29,233,247	\$ 32,985,338		\$ 5,020,473
	\$ 5,345,473	\$ 10,819,819		\$ 2,932,203
	\$ 34,578,720	\$ 43,805,157		\$ 7,952,676
	84.5%	75.3%		63.1%
	\$ 7,169,154	\$ 20,572,530		\$ 3,852,062
	\$ 1,415,185	\$ 3,978,170		\$ 849,338
	\$ 7,169,154	\$ 20,572,530		\$ 3,852,062
	7.65%	7.65%		7.65%
	\$ 548,440	\$ 1,573,799		\$ 294,683
				\$ 18,802

Customer Account Services Cost Pool

FERC Account Balances:

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal

Add: Employee Benefits & Employer FICA (not included in above amounts)

Account 926 - Employee Pension & Benefits

Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

Total Cost Pool

Total Customers (page 304, line 43)

Customer Account Services Expense per Customer

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 187)

Total O&M Payroll (page 355, line 65)

Benefits as Percent of Payroll

Payroll Applicable to Customer Account Services

Total Payroll Charged to Customer Accounts Function

Electric (page 354, line 7)

Gas (page 354, line 37)

Total Payroll Charged to Customer Accounts

Percent Applicable to Customer Accounts Services (903 and 905):

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal - Total Charges Applicable to Customer Accounts Services

Acct 902 - Meter Reading Expenses (page 322, line 160)

Total Charges Applicable to Customer Accounts Svcs & Meter Reading

Percent Applicable to Customer Accounts Services (903 and 905)

Customer Account Services Portion of Total Payroll

Pension & Benefits Pertaining to Customer Accounts Services

Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Services

Customer Account Services Portion of Total Payroll

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA

Columbia Gas of Virginia, Inc.
Comparison Group 2008 Actual Customer Accounts Expense Per Customer

	Maryland			North Carolina	
	Baltimore Gas & Electric	Delmarva Power & Light	Potomac Electric	Duke Energy Carolinas	Prog Energy Carolinas
\$ 28,731,040	\$ 32,574,788	\$ 51,049,711	\$ 44,487,077	\$ 25,567,705	
\$ 4,115,795	\$ -	\$ -	\$ 2,782,661	\$ 3,147,580	
\$ 32,846,835	\$ 32,574,788	\$ 51,049,711	\$ 47,269,738	\$ 28,715,285	
\$ 8,208,844	\$ 1,184,741	\$ 6,217,334	\$ 2,666,465	\$ 3,505,221	
\$ 2,528,394	\$ 551,639	\$ 1,009,884	\$ 1,253,668	\$ 1,049,423	
\$ 43,584,072	\$ 34,311,168	\$ 58,276,929	\$ 51,189,871	\$ 33,269,929	
1,229,181	496,682	762,094	2,364,417	1,447,424	
\$ 35.46	\$ 69.08	\$ 76.47	\$ 21.65	\$ 22.99	
\$ 45,202,255	\$ 6,458,817	\$ 25,000,866	\$ 113,864,381	\$ 104,610,824	
\$ 181,995,810	\$ 39,311,821	\$ 53,083,661	\$ 699,798,490	\$ 409,402,544	
24.8%	16.4%	47.1%	16.3%	25.6%	
\$ 25,480,677	\$ 7,184,790	\$ 13,534,519	\$ 18,553,510	\$ 16,538,900	
\$ 13,071,562	\$ 1,796,197	\$ -	\$ -	\$ -	
\$ 38,552,239	\$ 8,980,987	\$ 13,534,519	\$ 18,553,510	\$ 16,538,900	
\$ 28,731,040	\$ 32,574,788	\$ 51,049,711	\$ 44,487,077	\$ 25,567,705	
\$ 4,115,795	\$ -	\$ -	\$ 2,782,661	\$ 3,147,580	
\$ 32,846,835	\$ 32,574,788	\$ 51,049,711	\$ 47,269,738	\$ 28,715,285	
\$ 5,467,374	\$ 7,995,878	\$ 1,289,369	\$ 6,246,835	\$ 5,904,985	
\$ 38,314,209	\$ 40,570,666	\$ 52,339,080	\$ 53,516,573	\$ 34,620,270	
85.7%	80.3%	97.5%	88.3%	82.9%	
\$ 33,050,899	\$ 7,210,967	\$ 13,201,097	\$ 16,387,812	\$ 13,717,953	
\$ 8,208,844	\$ 1,184,741	\$ 6,217,334	\$ 2,666,465	\$ 3,505,221	
\$ 33,050,899	\$ 7,210,967	\$ 13,201,097	\$ 16,387,812	\$ 13,717,953	
7.65%	7.65%	7.65%	7.65%	7.65%	
\$ 2,528,394	\$ 551,639	\$ 1,009,884	\$ 1,253,668	\$ 1,049,423	

Customer Account Services Cost Pool

FERC Account Balances:

Acct 903 - Customer Records & Collection (page 322, line 131)

Acct 905 - Misc Customer Accounts (page 322, line 133)

Subtotal

Add: Employee Benefits & Employer FICA (not included in above amounts)

Account 926 - Employee Pension & Benefits

Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

Total Cost Pool

Total Customers (page 304, line 43)

Customer Account Services Expense per Customer

Note A

Note B

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 187)

Total O&M Payroll (page 355, line 65)

Benefits as Percent of Payroll

Payroll Applicable to Customer Account Services

Total Payroll Charged to Customer Accounts Function

Electric (page 354, line 7)

Gas (page 354, line 37)

Total Payroll Charged to Customer Accounts

Percent Applicable to Customer Accounts Services (903 and 905):

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal - Total Charges Applicable to Customer Accounts Services

Acct 902 - Meter Reading Expenses (page 322, line 160)

Total Charges Applicable to Customer Accounts Svcs & Meter Reading

Percent Applicable to Customer Accounts Services (903 and 905)

Customer Account Services Portion of Total Payroll

Pension & Benefits Pertaining to Customer Accounts Services

Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Services

Customer Account Services Portion of Total Payroll

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA

**Market Cost Comparison of Service Company Charges to
Virginia American Water Company
12-Months Ended September 30, 2009**

**Virginia American Water Company
Market Cost Comparison of Service Company Charges
12-Months Ended September 30, 2009**

Table of Contents

	<u>Page</u>
I – Introduction	1
Purpose of This Study	
Study Results	
II – Background	3
Overview of American Water Works	
Service Company Expense Categories	
Charging and Assignment of Service Company Time and Expenses	
III – Service Company Cost Comparison Approach	7
IV – Question 1 – Reasonableness of Service Company Charges	9
VAWC’s Service Company Cost per Customer	
Comparison Group Cost per Customer	
V – Question 2 – Provision of Services at Lower of Cost or Market	12
Methodology	
Service Company Hourly Rates	
Outside Service Provider Hourly Rates	
Service Company versus Outside Provider Cost Comparison	
Other Cost Comparisons	
VI – Question 3 – Reasonableness of Customer Accounts Services Costs	25
Background	
Comparison Group	
Comparison Approach	
Virginia American Cost per Customer	
Electric Utility Group Cost per Customer	
Summary of Results	
VII – Question 4 – Need for Service Company Services	33
Analysis of Services	
Governance Practices Associated With Service Company Charges	

I – Introduction

Purpose of This Study

This study was undertaken to answer four questions concerning the services provided by American Water Works Service Company, Inc. (Service Company) to Virginia American Water Company (VAWC):

1. Were the Service Company's charges to VAWC during the 12 months ended September 30, 2009 reasonable?
2. Was VAWC charged the lower of cost or market for managerial and professional services provided by the Service Company during the 12 months ended September 30, 2009?
3. Were the 12 months ended September 30, 2009 costs of the Service Company's customer accounts services, including those of the National Call Centers, comparable to those of other utilities?
4. Are the services VAWC receives from the Service Company necessary?

Study Results

Concerning question 1, the following conclusion was reached:

- The Service Company's costs for the 12 months ended September 30, 2009 per VAWC customer was very reasonable. For example, during the 12 months ended September 30, 2009, VAWC was charged \$58 per customer for administrative and general ("A&G")-related services provided by the Service Company. This compares favorably to costs per customer for electric and combination electric/gas service companies that average \$109 for service companies reporting to the Federal Energy Regulatory Commission ("FERC"). Only 3 of the 24 utility service companies that filed a FERC Form 60 for 2008 had a lower A&G cost per customer than VAWC's charges from the Service Company.

Deleted:

Concerning question 2, the following conclusions were drawn from this study:

- VAWC was charged the lower of cost or market for managerial and professional services during the 12 months ended September 30, 2009.
- On average, the hourly rates for outside service providers are 60% higher than the Service Company's hourly rates.
- The managerial and professional services provided by the Service Company are vital and could only be procured effectively by VAWC from outside professionals if it provided careful supervision to those service providers. If these services were contracted entirely to outside providers, VAWC would have to add at least one position to manage activities of outside firms. This position would be necessary to ensure the quality and timeliness of services provided.
- If all the managerial and professional services now provided by the Service Company had been outsourced during the 12 months ended September 30, 2009, VAWC and its ratepayers would have incurred more than \$2.2 million in additional expenses. This amount includes the higher cost of outside providers and the cost of one VAWC position needed to direct the outsourced work.

I – Introduction

- This study's hourly rate comparison actually understates the cost advantages that accrue to VAWC from its use of the Service Company. Outside service providers generally bill for every hour worked. Service Company exempt personnel, on the other hand, charge a maximum of 8 hours per day even when they work more hours. If the overtime hours of Service Company personnel were factored into the hourly rate calculation, the Service Company would have had an even greater annual dollar advantage than the \$2.2 million cited above. For instance, if Service Company overtime is conservatively estimated at 5% (2 hours per week), then that work would have cost an estimated \$100,000 in additional charges from outside providers.
- It would be difficult for VAWC to find local service providers with the same specialized water industry expertise as that possessed by the Service Company staff. Service Company personnel spend substantially all their time serving operating water companies. This specialization brings with it a unique knowledge of water utility operations and regulation that is most likely unavailable from local service providers.
- Service Company fees do not include any profit markup. Only its actual cost of service is being recovered from VAWC customers.

Concerning question 3, the following conclusion was reached:

- The cost of the Service Company's customer accounts services, including those provided by the National Call Center, is below the average of the neighboring electric utility comparison group. As will be explained further, this group of companies provides a reasonable proxy group for comparison to a regulated utility of the size and scope of the Service Company and VAWC. During the 12-months ended September 30, 2009, the customer accounts cost for VAWC customers was \$27.58 compared to the 2008 average of \$29.13 for neighboring electric utilities. The highest comparison group per customer cost was \$76.47 and the lowest \$15.67.

Concerning question 4, the following conclusions was drawn:

- The services that the Service Company provides are necessary and would be required even if VAWC were a stand-alone water utility.
- Furthermore, there is no redundancy or overlap in the services provided by the Service Company to VAWC. For all of the services listed in Exhibit 11, there was only one entity primarily responsible for the service and thus no duplication of efforts between the Service Company and VAWC.

II – Background

Overview of American Water Works Service Company

American Water's Service Company exists to provide certain shared services to American Water subsidiaries. It follows a service company model used by many utility holding companies that own multiple regulated utilities. By consolidating executive and professional services into a single service company, utility holding companies are able to realize the following benefits for ratepayers:

- Purchasing Economies – Common expenses (e.g., insurance, chemicals, piping) can be procured on a much larger scale thereby providing greater bargaining power for the combined entity compared to individual utility operating companies. A service company facilitates corporate-wide purchasing programs through its procurement and contract administration functions.
- Operating Economies of Scale – A service company is able to deliver services more efficiently because workloads can be balanced across more persons and facilities. For instance, American Water's Service Company is able to maintain one principal data center for the entire corporation. This is much more cost-efficient than each operating utility funding its own data center with its large fixed hardware, software and staffing costs.
- Continuity of Service – Centralizing service company personnel who perform similar services facilitates job cross-training and sharing of knowledge and expertise. This makes it easier to deal with staff turnover and absences and to sustain high levels of service to operating utilities. An individual operating utility might experience considerable disruption if a key professional left and it was necessary to hire outside to fill the vacancy.
- Maintenance of Corporate-Wide Standards – Personnel in American Water's Service Company establish standards for many functions (e.g., engineering designs, operating procedures and maintenance practices). It is easier to ensure these standards are followed by every operating utility because their implementation is overseen by the Service Company.
- Improved Governance – American Water's Service Company provides another dimension of management and financial oversight that supplements local operating utility management. The Service Company facilitates standard planning and reporting that help ensure operating utilities meet the requirements of their customers in a cost effective manner.
- Retention of Personnel – A service company organization provides operating utility personnel with another career path beyond what may be available on a local level. These opportunities tend to improve employee retention.

American Water follows the model for other utility service companies in another important regard. Its services are provided to affiliate operating utilities, like VAWC, at cost. American Water's Service Company is not a profit-making entity. It assigns only its actual expenses to the American Water subsidiaries it services.

The Service Company provides services to American Water operating companies from the following locations:

II – Background

- Corporate Office – Includes American Water’s executive management and personnel from the various corporate support services. American Water’s corporate office is located in Voorhees, New Jersey.
- National Call Centers – Perform customer service functions, including: customer call processing, service order processing, correspondence processing, credit and collections. American Water maintains two call centers. One is in Alton, Illinois that went into operation in 2001 and a second is in Pensacola, Florida that went into operation in 2005. Prior to the establishment of these national call centers, customer service functions were performed by employees of VAWC in a manner that was not as comprehensive as that now provided by the national call centers.
- National Shared Services Center – The Shared Services Center, located in Cherry Hill, New Jersey, provides financial, accounting and treasury functions that had been performed by individual operating companies. This arrangement has improved and streamlined the Company’s financial processes and allowed operating companies to focus on providing utility service.
- Regional Offices – Regional offices provide operating companies with certain support services that can be performed more effectively on a regional basis because individual operating company/center workloads are not sufficient to warrant a full-time staff for these activities. At the same time, these services require closer proximity to operating companies served so they are not provided by the National Shared Services Center. Examples of regional office services include rates and revenues, engineering, operations and field resource coordination.
- Belleville Lab – The national trace substance laboratory is located in Belleville, Illinois and performs testing for all American Water operating companies.
- Information Technology (“IT”) Service Centers – American Water’s principal data center, located in Hershey, Pennsylvania, supports the IT infrastructure required to run corporate and operating company business applications and the communications systems. IT personnel rotate, as needed, throughout the regional offices and operating companies.

Service Company Expense Categories

The Service Company renders a monthly bill to operating companies. Charges are broken down into the following expense categories:

- Labor – base pay (salaries) of managerial and professional employees
- Labor-Related Overheads - employee benefit costs (payroll taxes, medical coverage, pensions, disability insurance) and other general expenses
- Support - wages and salaries of office support personnel, including secretaries, clerical personnel, telephone operators and mail clerks
- Office Expenses - office rent, equipment leases, telephone, electric, office supplies, property taxes, office maintenance
- Vouchers/Journal Entries – (1) travel expenses incurred by Service Company personnel, (2) other items submitted for reimbursement by employees, including professional association dues, (3) outside service contracts for such things as actuarial

II – Background

services, and (4) various other expenditures, including data center expenses for software licenses and hardware maintenance.

Service Company expenses are either assigned directly or allocated to operating companies, as shown in the table below.

Expense Category	Direct		Comments
	Charged	Allocated	
Labor	X	X	Professional personnel working for one or several operating companies
Labor-Related Overheads	X	X	These are primarily employee benefit costs that relate directly to labor
Support		X	Administrative personnel support the professional staff, thus support costs are allocated on the basis of professional labor
Office Expense		X	Are all allocated on the basis of professional labor
Vouchers/Journals	X	X	May be either directly in support of one operating company (e.g., an engineer traveling from the Corporate Office to the operating company) or allocated to several operating companies

A direct charge occurs when Service Company work or expenses are incurred in support of only one operating company. Direct charge examples include work in support of an operating company's rate case, engineering design work on an operating company's project and the preparation of an operating company's financial statements.

Service Company expenses are allocated when more than one operating company benefits from the underlying work. Examples include assessments of new Federal water quality regulations, development of the company-wide materials procurement contracts and creation of company-wide engineering design standards.

Charging and Assignment Of Service Company Time and Expenses

Service Company transactions are assigned with the following information so there is a proper accounting and eventual charging to an operating company:

- Operating company
- Formula number
- Work order (where applicable)
- Authorization number (where applicable)

Charges can originate from the following systems:

- Payroll System
- RVI System (outside vendor payments)
- PCard System (credit card payments)
- Internal Purchase Order System
- Journal entries

II – Background

The Service Company's time reporting process enables labor and support charges to be assigned to the proper operating company. Labor charges are based on the time reported by managerial and professional Service Company employees. Every week, Service Company professional employees complete an electronic time sheet that shows:

- Formula number (this is linked to operating company within American Water's financial system)
- Employee hours worked
- Account number for non-labor charges

At month-end, time report information is processed and direct and allocated professional labor hours tabulated for each operating company. Dollar charges are then calculated using the hourly rate of each Service Company professional employee based upon their base salary (i.e., an employee's hours times their hourly rate of pay).

Support (administrative) personnel charge their time to the activity "General Admin." As described in the table on page 5, their labor charges are allocated to operating companies based upon how their office's professional personnel labor charges are assigned. For instance, if 2% of American Water's Shared Services' professional labor is assigned to VAWC during a month, then 2% of that office's monthly administrative labor charges also are assigned to the operating company.

The overhead cost category is next assigned based on professional and administrative labor costs. Thus, if 2% of the Shared Services' accumulated professional and support labor is charged to VAWC during the month, then 2% of that month's overhead expenses will be assigned to VAWC.

Each Service Company location's office expenses are allocated to operating companies based on how professional labor charges for that office have been assigned. For instance, if 2% of professional labor from one Service Company office is assigned to VAWC, then 2% of that office's office expenses would be assigned to VAWC. Thus, office expenses are allocated in the very same way as administrative labor.

Vouchers/journal entries may be charged directly or allocated, depending on who benefits from the expenditure. For instance, the cost of a continuing professional education course taken by a professional in a regional office is allocated to the operating companies served by that office. Travel expenses by that same professional to a rate case proceeding are charged directly to the operating company whose case is being heard.

III – Service Company Cost Comparison Approach

During the 12 months ended September 30, 2009, the Service Company billed VAWC \$3,814,848 in O&M-related charges and \$645,553 in capital-related charges. Included in the O&M amount are certain non-recurring expenses which are excluded from this market study. As calculated in the table below, net testable Service Company charges of \$4,467,146 were subjected to a market cost comparison.

	12 Months Ended Sep. 30, 2009
Mgmt Fee Expense (O&M)	\$ 3,814,848
Add(Subtract): Non-Recurring Items	
Sarbanes-Oxley	\$ 6,745
Net O&M Expenses	\$ 3,821,593
Mgmt Fees - Capital	\$ 645,553
Total Testable AWWSC Charges	\$ 4,467,146

For purposes of comparing these charges to certain outside benchmarks, Service Company services were placed into two categories:

- Managerial and Professional Services – Includes such services as management, accounting, legal, human resources, information technology, and engineering.
- Customer Accounts Services – Includes customer-related services, such as call center, credit, billing, collection and payment processing.

Total test period Service Company charges break down between management/professional services and customer account services as follows:

	12 Months Ended Sep 30, 2009	
	Amount	Hours
Management and Professional Services	\$ 3,485,883	37,564
Customer Account Services	\$ 981,263	25,779
Total Service Company Charges	\$ 4,467,146	63,343

This study's first question—whether Service Company 12 months ended September 30, 2009 charges were reasonable—was determined by comparing VAWC's A&G-related Service Company charges per customer to the same charges for utility companies that must file the FERC Form 60 – Annual Report of Service Companies.

The second question—whether Service Company charges during the 12 months ended September 3, 2009 were at the lower of cost or market—was evaluated by comparing the cost per hour for managerial and professional services provided by Service Company personnel to hourly billing rates that would be charged by outside providers of equivalent services. Service Company costs per hour were based on actual charges to VAWC during the 12 months ended September 30, 2009. Outside providers' billing rates came from surveys or other information from professionals that could perform the services now provided by the Service Company.

III – Service Company Cost Comparison Approach

The third question—whether Service Company's 12 months ended September 30, 2009 customer account services charges, including those of the National Call Center costs, were comparable to other utilities—was addressed by comparing VAWC's customer accounts services expenses to those of neighboring electric utilities. This approach was selected because the costs of outside providers of call center services are not publicly available. However, electric utility customer account services expenses can be obtained from the FERC Form 1. The availability and transparency of FERC data adds to the validity of its use in this comparison.

The fourth question—the necessity of Service Company services—was investigated by defining the services provided to VAWC and determining if these services would be required if VAWC were a stand-alone utility.

IV – Question 1 – Reasonableness of Service Company Charges

VAWC’s Service Company Cost per Customer

During the 12 months ended September 30, 2009, VAWC was charged \$58 per customer by the Service Company for A&G/O&M-related services. The calculation of this amount, shown in the table below, starts with total net testable Service Company charges and adjusts for capital and non-A&G functions (engineering, operations and water quality) charges. These adjustments are necessary to develop a per customer cost that is comparable to cost of utility service companies.

	12 Months ended Sep 30, 2009 Svc. Co. Charges
Testable Service Company charges	\$ 4,467,146
Less: Capital charges	\$ (645,553)
Less: Non-A&G function O&M charges	
Engineering	\$ (5,905)
Operations	\$ (511,757)
Water Quality	\$ (128,477)
Net A&G/O&M-related charges	\$ 3,175,454
VAWC customers	54,437
VAWC Cost Per Customer	\$ 58

Comparison Group Cost Per Customer

Every centralized service company in a holding company system must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act and 18 C.F.R. paragraph 366.23. This report is designed to collect financial information from service companies that are subject to regulation by the FERC.

For 2008, a Form 60 was filed by 24 utility service companies, all of which serve utilities that provide regulated electric and, in some cases, gas service to retail customers. In order to make a valid comparison of this group’s costs to those of American Water Works Service Company, it was necessary to isolate expenses that they have in common. These include A&G/O&M-related charges associated with the following FERC accounts:

901 – Supervision	921 – Office supplies and expenses
903 – Customer records and collection expenses	923 – Outside services employed
905 – Miscellaneous customer accounts expenses	926 – Employee pensions and benefits
907 – Supervision	928 – Regulatory commission expenses
910 – Misc customer service and info expenses	930.2 – Miscellaneous general expenses
911 – Supervision	931 – Rents
920 - Administrative and general salaries	935 – Maintenance of structures and equipment

O&M expenses charged to utility affiliates for the comparison group service companies were obtained from Schedule XVI – Analysis of Charges for Service Associate and Non-Associate Companies (p. 303 to 306) of each entity’s FERC Form 60. This schedule shows charges by FERC Account.

Comparison group service company 2008 expenses were also adjusted to remove charges to non-regulated affiliates from the cost pool used to calculate the cost per regulated service customer. This determination was made using information from the FERC Form 60 schedule: Account 457 – Analysis of Billing – Associate Companies.

IV – Question 1 – Reasonableness of Service Company Charges

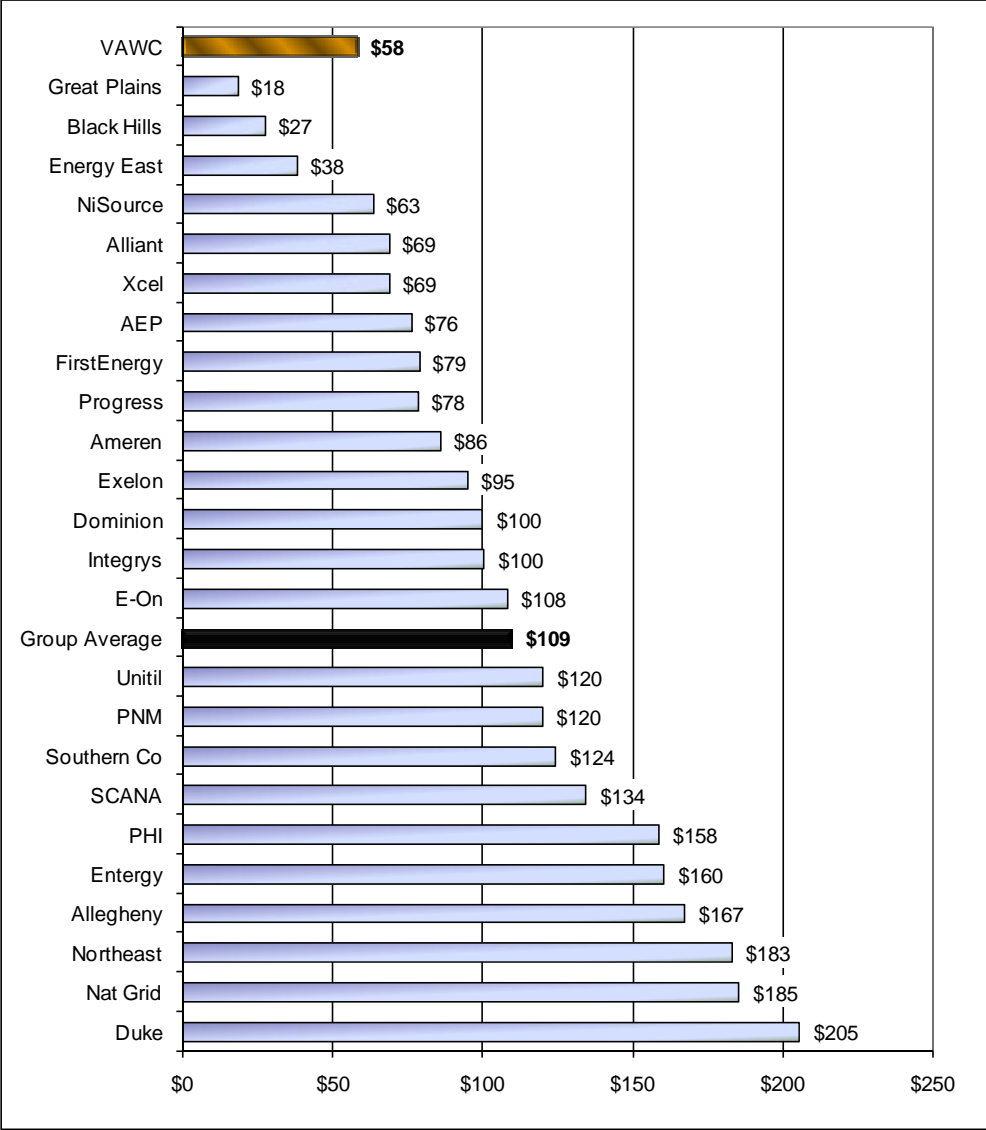
A&G expenses per regulated utility customer for the 24 utility companies that file Form 60 for 2008 are calculated below.

Utility Company	2008 Regulated		Cost per Customer
	Company A&G Expenses	Regulated Retail Customers	
AEP	\$396,340,118	5,213,000	\$ 76
Allegheny	\$263,588,707	1,577,873	\$ 167
Alliant	\$205,754,832	3,000,000	\$ 69
Ameren	\$291,684,710	3,400,000	\$ 86
Black Hills	\$20,763,828	759,400	\$ 27
Dominion	\$357,718,046	3,588,500	\$ 100
Duke	\$923,936,645	4,500,000	\$ 205
Energy East	\$113,714,789	2,989,800	\$ 38
Entergy	\$432,575,683	2,700,000	\$ 160
E-On	\$136,276,177	1,263,000	\$ 108
Exelon	\$558,687,014	5,885,000	\$ 95
FirstEnergy	\$354,028,109	4,499,000	\$ 79
Great Plains	\$15,000,708	820,000	\$ 18
Integrys	\$216,364,166	2,157,000	\$ 100
Nat Grid	\$1,240,706,398	6,700,000	\$ 185
NiSource	\$237,380,009	3,750,000	\$ 63
Northeast	\$302,138,730	1,654,000	\$ 183
PHI	\$302,463,412	1,910,000	\$ 158
Progress	\$242,677,256	3,100,000	\$ 78
PNM	\$102,688,385	859,000	\$ 120
SCANA	\$191,207,825	1,424,300	\$ 134
Southern Co	\$546,498,605	4,402,000	\$ 124
Unitil	\$20,341,422	169,600	\$ 120
Xcel	\$367,626,617	5,345,000	\$ 69
Group Total	\$7,840,162,191	71,666,473	\$ 109

Exhibit 1 shows VAWC's 12 months ended September 30, 2009 Service Company cost per customer of \$58 to be considerably lower than the average of \$109 per customer for the comparison group service companies. Only 3 of 24 comparison group service companies had a lower cost per customer than VAWC. Based on this result, it is possible to conclude that the Service Company's 12 months ended September 30, 2009 charges to VAWC were reasonable.

Exhibit 1

Virginia-American Water Company
Comparison of Service Company Annual Costs Per Customer



V – Question 2 – Provision of Services at the Lower of Cost or Market

Methodology

The lower-of-cost-or-market comparison is accomplished by comparing the cost per hour for Service Company managerial and professional services to those of outside service providers to whom these duties could be assigned. Based on the nature of the Service Company services it was determined that the following outside providers could perform the categories of services indicated below:

- Management Consultants – executive and administrative management, risk management services, human resources and communications services
- Attorneys – legal services
- Certified Public Accountants – accounting, financial, information technology and rates and revenues services
- Professional Engineers – engineering, operations and water quality services.

The services provided by the Belleville lab are assumed to be transferable to professional engineers for purposes of this cost comparison. This was done for two reasons. First, there is no readily available survey of hourly billing rates for testing services such as those performed by Belleville. Second, Belleville personnel have similar, scientific educational backgrounds as Service Company engineering personnel. Thus, it is valid to compare the hourly rates of Belleville services to those of outside engineering firms.

Service Company's hourly rate were calculated for each of the four outside service provider categories, based on the dollars and hours charged to VAWC during the 12 months ended September 30, 2009. Hourly billing rates for outside service providers were developed using third party surveys or directly from information furnished by outside providers themselves.

It should be noted that by using the Service Company's hours charged VAWC during the 12 months ended September 30, 2009, its hourly rates are actually overstated because Service Company personnel charge a maximum 8 per day even when they work more. Outside service providers generally bill for every hour worked. If the overtime hours of Service Company personnel had been factored into the hourly rate calculation, Service Company hourly rates would have been lower.

The last step in the market cost comparison was to compare the Service Company's average cost per hour to the average cost per hour for outside providers.

Service Company Hourly Rates

Exhibit 2 (page 14) details the assignment of 12 months ended September 30, 2009 management and professional Service Company charges by outsider provider category. Exhibit 3 (page 15) shows the same assignment for Service Company management and professional hours charged to VAWC during the 12 months ended September 30, 2009.

Certain adjustments to these dollar amounts were necessary to calculate Service Company hourly rates that are directly comparable to those of outside providers. Adjustments were made to the following 12 months ended September 30, 2009 test period non-labor Service Company charges:

V – Question 2 – Provision of Services at the Lower of Cost or Market

- Contract Services – 12 months ended September 30, 2009 Service Company charges to VAWC include expenses associated with the use of outside professional firms to perform certain corporate-wide services (e.g., legal, financial audit, actuarial services). These professional fees are excluded from the Service Company hourly rate calculation because the related services have effectively been out-sourced already.
- Travel Expenses – In general, client-related travel expenses are not recovered by outside service providers through their hourly billing rate. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, it is appropriate to remove these Service Company charges from the hourly rate calculation.
- Information Technology Infrastructure Expenses – Included in the 12 months ended September 30, 2009 Service Company charges to VAWC are leases, maintenance fees and depreciation related to American Water's enterprise mainframe, server and network infrastructure and corporate business applications. An outside provider that would take over operation of this infrastructure would recover these expenses over and above the labor necessary to operate the data center.

Exhibit 4 (page 16) shows how contract services, travel expenses and computer hardware/software-related Service Company charges are assigned among the four outside provider categories.

Based on the assignment of expenses and hours shown in Exhibits 2 and 3 and the excludable items shown in Exhibit 4, the Service Company's equivalent costs per hour for the 12 months ended September 30, 2009 are calculated below.

	Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	Total
Total management, professional & technical services charges	\$ 92,848	\$ 1,008,025	\$ 1,672,626	\$ 712,384	\$ 3,485,883
Less:					
Contract services	\$ 9,381	\$ 43,756	\$ 174,947	\$ 4,570	\$ 232,653
Travel expenses	\$ 1,204	\$ 28,146	\$ 21,502	\$ 25,144	\$ 75,996
IT infrastructure expenses	\$ 2,957	\$ 116,455	\$ 98,265	\$ 21,465	\$ 239,141
Net Service Charges (A)	\$ 79,306	\$ 819,669	\$ 1,377,912	\$ 661,205	\$ 2,938,092
Total Hours (B)	443	7,391	18,771	10,960	37,564
Average Hourly Rate (A / B)	\$ 179	\$ 111	\$ 73	\$ 60	

Exhibit 2

Virginia-American Water Company
Analysis of 12 Months Ended September 30, 2009 Service Company Charges By Location And Function

		12 Months Ended September 30, 2009 Service Company Charges				
Location	Function	Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	Total
Belleville Lab	Water Quality		\$ 17,611		\$ 93,478	\$ 93,478
Call Center	Human Resources					\$ 17,611
Corporate	Accounting		\$ 144,300	\$ 222,392		\$ 222,392
	Administration					\$ 144,300
	Audit		\$ 43,664	\$ 24,483		\$ 24,483
	Communications					\$ 43,664
	Finance		\$ 122,707	\$ 128,390		\$ 128,390
	Human Resources					\$ 122,707
	Information Technology					\$ 3,004
	Legal	\$ 45,736		\$ 3,004		\$ 3,004
	Operations		\$ 80,301		\$ 199,542	\$ 279,843
	Rates & Revenue			\$ 35,409		\$ 35,409
	Risk Management		\$ 28,770			\$ 28,770
	Water Quality				\$ 57,122	\$ 57,122
Regional Offices	Accounting			\$ 14,564		\$ 14,564
	Administration		\$ 250,021			\$ 250,021
	Communications		\$ 73,843			\$ 73,843
	Engineering				\$ 93,710	\$ 93,710
	Finance			\$ 287,037		\$ 287,037
	Human Resources		\$ 37,593			\$ 37,593
	Legal	\$ 47,111				\$ 47,111
	Operations		\$ 147,047		\$ 266,427	\$ 413,473
	Risk Management		\$ 9,921			\$ 9,921
	Water Quality				\$ 2,106	\$ 2,106
Information Technology	Information Technology			\$ 698,940		\$ 698,940
Shared Services	Accounting			\$ 196,408		\$ 196,408
	Administration		\$ 52,246			\$ 52,246
	Finance			\$ 33,764		\$ 33,764
	Rates & Revenue			\$ 28,235		\$ 28,235
	Total Dollars Charged	\$ 92,848	\$ 1,008,025	\$ 1,672,626	\$ 712,384	\$ 3,485,883

Exhibit 3

**Virginia-American Water Company
Analysis of 12 Months Ended September 30, 2009 Service Company Hours By Location And Function**

12 Months Ended September 30, 2009 Service Company Hours						
Location	Function	Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	Total
Belleville Lab	Water Quality				1,227	1,227
Call Center	Human Resources		237			237
Corporate	Accounting			2,194		2,194
	Administration		134			134
	Audit			261		261
	Communications		210			210
	Finance			671		671
	Human Resources		1,062			1,062
	Information Technology			11		11
	Legal	210				210
	Operations		371		2,520	2,891
	Rates & Revenue			229		229
	Risk Management		337			337
	Water Quality				661	661
Regional Offices	Accounting			174		174
	Administration		1,425			1,425
	Communications		1,036			1,036
	Engineering				1,477	1,477
	Finance			3,469		3,469
	Human Resources		574			574
	Legal	233				233
	Operations		1,617		5,044	6,661
	Risk Management		156			156
	Water Quality				31	31
Information Technology	Information Technology			5,979		5,979
Shared Services	Accounting			4,478		4,478
	Administration		232			232
	Finance			882		882
	Rates & Revenue			422		422
	Total Hours Charged	443	7,391	18,771	10,960	37,564

Exhibit 4

Virginia-American Water Company
12 Months Ended September 30, 2009 Service Company Charges Excludable From The Hourly Rate Calculation

Charges By Function	Exclusions From Hourly Rate Calculation			
	Contract Services	Travel Expenses	IT HW/SW	Total
Accounting	\$ 77,411	\$ 2,539	\$ 2,724	\$ 82,674
Administration	\$ 13,144	\$ 3,287	\$ 107,895	\$ 124,326
Audit	\$ 1,626	\$ 637	\$ 233	\$ 2,496
Communications	\$ 8,153	\$ 4,557	\$ 794	\$ 13,503
Engineering	\$ -	\$ 184	\$ 81	\$ 265
Finance	\$ 42,266	\$ 6,984	\$ 6,111	\$ 55,361
Human Resources	\$ 20,156	\$ 5,526	\$ 2,448	\$ 28,130
Information Technology	\$ 48,743	\$ 9,580	\$ 87,940	\$ 146,263
Legal	\$ 9,381	\$ 1,204	\$ 2,957	\$ 13,542
Operations	\$ 6,760	\$ 36,046	\$ 10,046	\$ 52,853
Rates & Revenue	\$ 4,900	\$ 1,763	\$ 1,256	\$ 7,919
Risk Management	\$ 603	\$ 1,691	\$ 1,895	\$ 4,188
Water Quality	\$ (490)	\$ 2,000	\$ 14,761	\$ 16,270
Total	\$ 232,653	\$ 75,996	\$ 239,141	\$ 547,791

Outside Service Provider Category
Certified Public Accountant
Management Consultant
Certified Public Accountant
Management Consultant
Professional Engineer
Certified Public Accountant
Management Consultant
Certified Public Accountant
Attorney
Management Consultant,
Professional Engineer
Certified Public Accountant
Management Consultant
Professional Engineer

Recap By Outside Provider	Exclusions From Hourly Rate Calculation			
	Contract Services	Travel Expenses	IT HW/SW	Total
Attorney	\$ 9,381	\$ 1,204	\$ 2,957	\$ 13,542
Management Consultant	\$ 43,756	\$ 28,146	\$ 116,455	\$ 188,356
Certified Public Accountant	\$ 174,947	\$ 21,502	\$ 98,265	\$ 294,714
Professional Engineer	\$ 4,570	\$ 25,144	\$ 21,465	\$ 51,179
Total	\$ 232,653	\$ 75,996	\$ 239,141	\$ 547,791

V – Question 2 – Provision of Services at the Lower of Cost or Market

Outside Service Provider Hourly Rates

The next step in the cost comparison was to obtain the average billing rates for each outside service provider. The source of this information and the determination of the average rates are described in the paragraphs that follow.

It should be noted that professionals working for three of the five outside provider categories may be licensed to practice by state regulatory bodies. However, not every professional working for these firms is licensed. For instance, among Virginia certified public accounting firms, only more experienced staff are predominantly CPAs (see table below). Some Service Company employees also have professional licenses. Thus, it is valid to compare the Service Company's hourly rates to those of the outside professional service providers included in this study.

Position	Virginia Average
Partners/Owners	98%
Directors (11+ years experience)	86%
Managers (6-10 years experience)	88%
Sr Associates (4-5 years experience)	81%
Associates (1-3 years experience)	23%
New Professionals	0%

Source: AICPA's National PCPS/TSCPA Management of an Accounting Practice Survey (2008)

Attorneys

The Virginia State Bar does not survey its members as to their hourly billing rates. In addition, publicly available billing rate information could not be found for Virginia attorneys. Therefore, an estimate of Virginia attorney rates was developed from two surveys conducted by Lawyers Weekly in the states of Michigan and Massachusetts. As presented in Exhibit 5, the average rate for each firm was adjusted for the cost of living differential between its location and Richmond, Virginia. The Lawyers Weekly surveys included rates in effect at December 31, 2007. Thus, the 2007 average rate was escalated to March 31, 2009—the midpoint of the test year ended September 30, 2009.

Management Consultants

The cost per hour for management consultants was developed from a 2009 survey performed by the Association of Management Consulting Firms—an industry trade organization. The survey includes rates that were in effect during 2008 for firms throughout the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison.

The first step in the calculation, presented in Exhibit 6, was to determine an average rate by consultant position level. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position level. The 2008 average rate was escalated to March 31, 2009—the midpoint of the 12 months ended September 30, 2009.

V – Question 2 – Provision of Services at the Lower of Cost or Market

Certified Public Accountants

The average hourly rate for Virginia CPAs was developed from a 2008 survey performed by the American Institute of Certified Public Accountants (AICPA). The Virginia version of this survey was used to develop hourly rates for member firms in Virginia.

As shown in Exhibit 7, a weighted average hourly rate was developed based on a set of accountant positions and a percent of time that is typically applied to an accounting assignment. This survey includes rate information in effect during 2007. Thus, the data had to be escalated to March 31, 2009—the test year’s midpoint.

Professional Engineers

The Company provided hourly rate information for outside engineering firms that could have been used by VAWC in 2009. As presented in Exhibit 8, an average rate was developed for each engineering position level. Then, using a typical percentage mix of project time by engineering position, a weighted average cost per hour was calculated.

Exhibit 5

**Virginia-American Water Company
Estimated Billing Rates For Virginia Attorneys Based On
Michigan and Massachusetts Attorney Billing Rates**

Billing rates as of December 31, 2007 (Note A)		Number Of Lawyers	Billing Rate Range				Average	Cost of Living Adjust (C)	Adjusted Rate
Firm	Location		Associate		Partner				
			Low	High	Low	High			
Dickinson Wright PLLC	Detroit, Mi	229	\$ 170	\$ 275	\$ 260	\$ 530	\$ 309	85%	\$ 365
Dykema	Detroit, Mi	222	\$ 185	\$ 390	\$ 245	\$ 625	\$ 361	85%	\$ 427
Butzel Long	Detroit, Mi	209	\$ 165	\$ 400	\$ 220	\$ 550	\$ 334	85%	\$ 395
Bodman LLP	Detroit, Mi	128	\$ 125	\$ 215	\$ 210	\$ 495	\$ 261	85%	\$ 309
Jaffe Raitt Heuer & Weiss, PC	Southfield, Mi	100	\$ 165	\$ 225	\$ 225	\$ 500	\$ 279	97%	\$ 289
Trott & Trott, PC	Bingham Farms, Mi	64	\$ 170	\$ 170	\$ 235	\$ 235	\$ 203	125%	\$ 162
Brooks Kushman PC	Southfield, Mi	52	\$ 160	\$ 275	\$ 250	\$ 505	\$ 298	97%	\$ 308
Kemp, Klein, Umphrey, Edelman & May PC	Troy, Mi	36	\$ 150	\$ 190	\$ 200	\$ 340	\$ 220	111%	\$ 198
Pepper Hamilton LLP	Detroit, Mi	33	\$ 200	\$ 315	\$ 340	\$ 615	\$ 368	85%	\$ 435
Hertz, Schram & Saretzky, PC	Bloomfield Hills, Mi	29	\$ 175	\$ 260	\$ 275	\$ 400	\$ 278	139%	\$ 200
Strobl & Sharp, PC	Bloomfield Hills, Mi	28	\$ 110	\$ 210	\$ 200	\$ 300	\$ 205	139%	\$ 148
Kupelian Omond & Magy, PC	Southfield, Mi	25	\$ 165	\$ 195	\$ 235	\$ 320	\$ 229	97%	\$ 237
Rader, Fishman & Grauer, PLLC	Bloomfield Hills, Mi	25	\$ 130	\$ 250	\$ 275	\$ 495	\$ 288	139%	\$ 207
McShane & Bowie PLC	Grand Rapids, Mi	22	\$ 160	\$ 275	\$ 250	\$ 375	\$ 265	96%	\$ 277
Edwards Angel Palmer & Dodge	Boston, Ma	259	\$ 144	\$ 321	\$ 474	\$ 474	\$ 353	147%	\$ 241
Sullivan & Worcester	Boston, Ma	137	\$ 245	\$ 530	\$ 415	\$ 700	\$ 473	147%	\$ 322
Burns & Levinson	Boston, Ma	112	\$ 210	\$ 350	\$ 375	\$ 475	\$ 353	147%	\$ 240
Bowditch & Dewey	Worcester, Ma	64	\$ 150	\$ 300	\$ 280	\$ 550	\$ 320	115%	\$ 277
Mirick O'Connell	Worcester, Ma	60	\$ 160	\$ 250	\$ 280	\$ 400	\$ 273	115%	\$ 236
Hinckley, Allen & Snyder	Boston, Ma	58	\$ 200	\$ 330	\$ 300	\$ 480	\$ 328	147%	\$ 223
Prince Lobel Glosky & Tye	Boston, Ma	52	\$ 175	\$ 265	\$ 275	\$ 475	\$ 298	147%	\$ 203
Robinson & Cole	Boston, Ma	48	\$ 220	\$ 375	\$ 340	\$ 490	\$ 356	147%	\$ 243
Bromberg & Sunstein	Boston, Ma	42	\$ 250	\$ 450	\$ 500	\$ 725	\$ 481	147%	\$ 328
Lawson & Weitzen	Boston, Ma	35	\$ 125	\$ 225	\$ 225	\$ 400	\$ 244	147%	\$ 166
Murtha Cullina	Boston, Ma	34	\$ 165	\$ 290	\$ 250	\$ 500	\$ 301	147%	\$ 205
Marcus Errico Emmer & Brooks	Braintree, Ma	28	\$ 250	\$ 250	\$ 300	\$ 360	\$ 290	137%	\$ 211
Rich May	Boston, Ma	25	\$ 150	\$ 300	\$ 300	\$ 400	\$ 288	147%	\$ 196
Keegan Werlin	Boston, Ma	22	\$ 150	\$ 275	\$ 325	\$ 475	\$ 306	147%	\$ 209
Barron & Stadfeld	Boston, Ma	21	\$ 160	\$ 230	\$ 250	\$ 350	\$ 248	147%	\$ 169
Cain Hibbard Myers & Cook	Pittsfield, Ma	19	\$ 150	\$ 200	\$ 210	\$ 235	\$ 199	116%	\$ 171
Overall Average 2007 Billing Rate									\$ 253
<u>Escalation to Test Year's Mid-Point - March 31, 2009 (Note B)</u>									
CPI at December 31, 2007									210.0
CPI at March 31, 2009									212.7
Inflation/Escalation									1.3%
Average Billing Rate At March 31, 2009									\$ 256

Note A: Source is Michigan Lawyers Weekly (April 2008) and Massachusetts Lawyers Weekly (April 2008)

Note B: Source is U.S. Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.txt>)

Note C: Source is Sperling's Best Places (<http://www.bestplaces.net/col/col.aspx>). This percentage represents the cost of living difference between the Michigan and Massachusetts cities and Richmond, Virginia. A number over 100% indicates the Michigan or Massachusetts city's cost of living is higher than Richmond. A number less than 100% indicates Richmond's cost of living is higher.

Exhibit 6

**Virginia-American Water Company
Billing Rates of U.S. Management Consultants**

Survey billing rates in effect in 2008 (Note A)

A. Calculation of Average Hourly Billing Rate by Consultant Position

		Average Hourly Rates (Note A)				
		Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner
Average		\$ 147	\$ 196	\$ 268	\$ 295	\$ 384

B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement

		Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
Average Hourly Billing Rate (from above)		\$ 147	\$196	\$268	\$295	\$384	
Percent of Consulting Assignment		30%	30%	20%	10%	10%	Weighted Average
		\$ 44	\$ 59	\$ 54	\$ 29	\$ 38	\$ 224

Escalation to the Test Year's Mid-Point (March 31, 2009) (Note B)

CPI at December 31, 2008	210.2
CPI at March 31, 2009	212.7
Inflation/Escalation	1.2%
Average Hourly Billing Rate For Management Consultants At March 31, 2009	\$ 227

Note A: Source is "Operating Ratios For Management Consulting Firms, 2009 Edition," Association of Management Consulting Firms

Exhibit 7

**Virginia-American Water Company
Estimated Billing Rates Of Virginia Certified Public Accountants**

Survey billing rates were those in effect in 2007 (Note A)

Type of Firm	Average Hourly Billing Rate (Note A)			
	Staff Accountant	Senior Accountant	Manager	Partner
Average Hourly Rate	\$ 87	\$ 109	\$ 123	\$ 168

B. Calculation of Overall Average Accountant Billing Rate Based Upon Typical Distribution of Time on an Engagement

Type of Firm	Staff Accountant	Senior Accountant	Manager	Partner	Weighted Average
	Average Hourly Billing Rate (From Above)	\$ 87	\$ 109	\$ 123	
Typical Percent of Time Spent on an Accounting Assignment	30%	30%	20%	20%	
	\$ 26	\$ 33	\$ 25	\$ 34	\$ 117

Escalation to Midpoint of March 31, 2009 Test Period (Note B)

CPI at December 31, 2007	210.0
CPI at March 31, 2009	212.7
Inflation/Escalation	1.3%
Average Hourly Billing Rate For CPAs At March 31, 2009	\$ 118

Note A: Source is AICPA's 2008 National PCPS/TSCPA Management of an Accounting Practice Survey (Virginia edition)

Note B: Source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>)

Exhibit 8

**Virginia-American Water Company
 Estimated Billing Rates Of Virginia Engineers**

Billing rates in effect in 2009

A. Calculation of Average Hourly Rate by Engineer Position

Name of Firm	Average Hourly Billing Rates			
	Technician	Engineer	Project Manager	Officer
	Senior Technician	Design Engineer Project Engineer	Sr. Mgr. Engineer	Principal Engineer
Firm #1	\$73	\$85	\$135	\$175
Firm #2	\$70	na	\$129	\$160
Firm #3	\$53	\$63	\$118	\$155

B. Calculation of Overall Average Engineering Hourly Billing Rate

	Technician	Engineer	Project Manager	Officer	Weighted Average
	Senior Technician	Design Engineer Project Engineer	Sr. Mgr. Engineer	Principal Engineer	
Average Hourly Billing Rate (From Above)	\$65	\$74	\$127	\$163	
Typical Percent of Time on an Engineering Assignment	30%	35%	25%	10%	
	\$20	\$26	\$32	\$16	\$93

Source: Information provided by American Water Works Service Company

V – Question 2 – Provision of Services at the Lower of Cost or Market

Service Company versus Outside Provider Cost Comparison

As shown in the table below, Service Company costs per hour are considerably lower than those of outside providers.

Service Provider	12 Months Ended September 30, 2009		
	Service Company	Outside Provider	Difference-- Service Co. Greater(Less) Than Outside
Attorney	\$ 179	\$ 256	\$ (77)
Management Consultant	\$ 111	\$ 227	\$ (116)
Certified Public Accountant	\$ 73	\$ 118	\$ (45)
Professional Engineer	\$ 60	\$ 93	\$ (33)

Based on these cost per hour differentials and the number of managerial and professional services hours billed to VAWC during the 12-months ended September 30, 2009, outside service providers would have cost \$2,094,318 more than the Service Company (see table below). Thus, on average, outside provider's hourly rates are 60% higher than those of the Service Company (\$2,094,318 / \$3,485,883).

Service Provider	12 Months Ended September 30, 2009		
	Hourly Rate Difference-- Service Co. Greater(Less) Than Outside	Service Company Hours Charged	Dollar Difference
Attorney	\$ (77)	443	\$ (34,228)
Management Consultant	\$ (116)	7,391	\$ (859,040)
Certified Public Accountant	\$ (45)	18,771	\$ (837,603)
Professional Engineer	\$ (33)	10,960	\$ (363,447)
Service Company Less Than Outside Providers			\$ (2,094,318)

It should be noted that the cost differential associated with using outside providers is even greater because Service Company personnel do not charge for more than 8 hours per day even when they work more. Outside providers generally charge clients for all hours worked. If, for instance, Service Company personnel worked 5% overtime (2 hours) per week on VAWC's behalf, that would have amounted to over 1,800 additional hours of work during the 12 months ended September 30, 2009. Based on the hourly rate differentials above, this overtime would have added another \$104,000 to the cost of using outside provider.

If VAWC were to use outside service providers rather than the Service Company for managerial and professional services, it would incur other additional expenses besides those associated with higher hourly rates. Managing outside firms who would perform over 37,000 hours of work (more than 25 full-time equivalents at 1,500 "billable" hours per FTE per year) would add a significant workload to the existing VAWC management team. Thus, it would be necessary for VAWC to add at least one position to supervise the outside firms and ensure they delivered quality and timely services. The individuals that would fill this position would need a good understanding of each profession being managed. They must also have management experience and the authority necessary to give them credibility with the outside firms. As calculated in the table below, this position would add almost \$150,000 per year to VAWC's personnel expenses.

V – Question 2 – Provision of Services at the Lower of Cost or Market

Cost of Adding 1 Professional Position To VAWC's Staff

	<u>Total</u>
New Positions' Salary	\$ 100,000
Benefits (at 49.4%)	\$ 49,400
Office Expenses (15.2%)	\$ 15,200
Cost of One Position	\$ 149,400

Thus, the total effect on the ratepayers of VAWC of contracting all services now provided by Service Company would be an increase in their costs of \$2,243,718 (\$2,094,318 + \$149,400). Based on the results of this comparison, it is possible to conclude that the Service Company charged VAWC at the lower of cost or market for services provided during the 12 months ended September 30, 2009.

VI - Question 3 - Reasonableness of Customer Accounts Services Costs

Background

Customer Accounts Services covers the following utility functions:

- Customer Call Center – customer calls/contact, credit, order taking/disposition, bill collection efforts, outage calls
- Call Center IT – maintenance of phone banks, voice recognition units, call center software applications, telecommunications
- Customer billing – bill printing, stuffing, and mailing
- Remittance processing – processing customer payments received in the mail
- Bill payment centers – locations where customers can pay their bills in person

It is difficult to compare the cost of the Service Company’s customer accounts services-related charges to VAWC with outside providers of the same services because survey data is proprietary and expensive to obtain. For this reason, VAWC’s charges from the Service Company for customer accounts services are compared to those of neighboring electric utilities because the data necessary to make such comparison is available to the public.

Neighboring electric utility cost information comes from the FERC Form 1 that each utility must file. FERC’s chart of accounts is defined in Chapter 18, Part 101 of the Code of Federal Regulations. FERC accounts that contain customer accounts services-related expenses are Account 903 Customer Accounts Expense – Records and Collection Expense and Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense. Exhibit 9 provides FERC’s definition of the type of expenses that should be recorded in these accounts.

In addition to the charges in these FERC accounts, labor-related overheads charged to the following FERC accounts must be added to the labor components of Accounts 903 and 905:

- Account 926 Employee Pension and Benefits
- Account 408 Taxes Other Than Income (employer’s portion of FICA)

Comparison Group

Electric utilities included in the comparison group are shown in the table below. These are companies whose FERC Form 1 show amounts for accounts 903 and 905.

Virginia	• Appalachian Power	• Virginia Electric Power
West Virginia	• Appalachian Power	• Wheeling Power
	• Monongahela Power	
Maryland	• Baltimore Gas & Electric	• Potomac Electric
	• Delmarva Power & Light	
North Carolina	• Duke Energy Carolinas	• Progress Energy Carolinas
Kentucky	• Duke Energy Kentucky	• Kentucky Utilities
	• Kentucky Power	• Louisville Gas & Electric
Tennessee	• Kingsport Power	

Virginia-American Water Company FERC Account Descriptions

903 – Customer Records and Collection Expenses

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery, and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

**Virginia-American Water Company
FERC Account Descriptions**

905 – Miscellaneous Customer Accounts Expenses

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

VI - Question 3 - Reasonableness of Customer Accounts Services Costs

VAWC Cost per Customer

As calculated below, VAWC's 12 months ended September 30, 2009 customer account services expense per customer was \$27.58. The cost pool used to calculate this average includes charges for Service Company services (e.g., call center, billing, payment processing) and postage and forms expenses, which are incurred directly by VAWC. It was necessary to adjust the National Call Center charges because electric utilities experience an average of 2.50 calls per customer compared to American Water's 1.32 calls per customer. Thus, National Call Center expenses had to be increased, for comparison purposes, to reflect its costs at a 2.50 calls per customer level.

Virginia-American Cost Per Customer		Year Ended	Adjustment	
		9/30/2009	Fewer	
		Service Co	Calls For	
Cost Component		Charges	Water Cos. (A)	Adjusted
Service Company				
Call Centers	Call processing, order processing, credit, bill collection	\$ 833,451	\$ 316,716	\$ 1,150,168
Regional Offices		\$ 147,812		\$ 147,812
Operating Company	Customer payment processing			\$ 38,868 Note B
Operating Company	Postage & forms			\$ 164,723
Cost Pool Total				\$ 1,501,570
Total Customers				54,437
12 Months Ended September 30, 2009 Cost Per VAWC Customer				\$ 27.58

Note A: Adjustment for American Water's fewer calls per customer

This adjustment is necessary because water utilities experience fewer calls per customer than do electric utilities

Call handling expenses		\$ 352,162	
Electric utility industry's avg calls/customer	2.50		
American Water's avg calls/customer	1.32		
Percent different	90%		90%
Total Adjustment		\$ 316,716	

Note B: Estimated customer payment processing expenses

Number of customers	54,437	
Number of payments/customer/year	4.2	
Total payments processed/year	228,635	
Bank charge per item	\$ 0.1700	(subject to check)
Total estimated annual expense	\$ 38,868	

Electric Utility Group Cost per Customer

Exhibit 10 shows the actual 2008 customer accounts expense per customer calculation for the electric utility comparison group. All of the underlying data was taken from the utilities' FERC Form 1.

VI - Question 3 - Reasonableness of Customer Accounts Services Costs

Summary of Results

As shown in the table below, VAWC's cost per customer is below the average cost of the neighboring electric utility comparison group. It can therefore be concluded that VAWC's 12 months ended September 30, 2009 customer accounts-related expenses, including those of the Alton and Pensacola Call Centers, assigned by the Service Company to VAWC were comparable to those of other utilities.

Average Customer Accounts Expense Per Customer	
Louisville Gas & Electric	\$ 15.67
Virginia Electric Power	\$ 16.15
Monongahela Power	\$ 16.17
Duke Power	\$ 22.99
Prog Energy - Carolinas	\$ 21.65
Wheeling Power	\$ 26.12
Virginia American Water	\$ 27.58
Kentucky Utilities	\$ 28.42
Comparison Group Average	\$ 29.13
Duke Energy Kentucky	\$ 29.65
Appalachian Power	\$ 32.57
Kingsport Power	\$ 32.60
Baltimore Gas & Electric	\$ 35.46
Kentucky Power	\$ 36.02
Delmarva Power & Light	\$ 69.08
Potomac Electric	\$ 76.47

Deleted: September 30, 2009

Virginia-American Water Company
Comparison Group 2008 Actual Customer Accounts Expense Per Customer

Customer Account Services Cost Pool

FERC Account Balances:

Acct 903 - Customer Records & Collection (page 322, line 161)
Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal

Add: Employee Benefits & Employer FICA (not included in above amounts)
Account 926 - Employee Pension & Benefits
Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

Total Cost Pool

Total Customers (page 304, line 43)

Customer Account Services Expense per Customer

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 187)

Total O&M Payroll (page 355, line 65)

Benefits as Percent of Payroll

Payroll Applicable to Customer Account Services

Total Payroll Charged to Customer Accounts Function

Electric (page 354, line 7)

Gas (page 354, line 37)

Total Payroll Charged to Customer Accounts

Percent Applicable to Customer Accounts Services (903 and 905):

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal - Total Charges Applicable to Customer Accounts Services

Account 902 - Meter Reading Expenses (page 322, line 160)

Total Charges Applicable to Customer Accounts Svcs & Meter Reading

Percent Applicable to Customer Accounts Services (903 and 905)

Customer Account Services Portion of Total Payroll

Pension & Benefits Pertaining to Customer Accounts Services

Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Services

Customer Account Services Portion of Total Payroll

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA

	Virginia		West Virginia		
	Appalachian Power	Virginia Electric Power	Appalachian Power	Monongahela Power	Wheeling Power
	\$ 29,231,353	\$ 32,985,338		\$ 5,020,473	\$ 1,013,571
	\$ 1,894	\$ -		\$ -	\$ 286
	\$ 29,233,247	\$ 32,985,338		\$ 5,020,473	\$ 1,013,857
Note A	\$ 1,415,185	\$ 3,978,170		\$ 849,338	\$ 46,865
Note B	\$ 548,440	\$ 1,573,799		\$ 294,683	\$ 18,802
	\$ 31,196,872	\$ 38,537,306		\$ 6,164,494	\$ 1,079,524
	957,875	2,386,208		381,193	41,334
	\$ 32.57	\$ 16.15	see Virginia	\$ 16.17	\$ 26.12
	\$ 23,000,789	\$124,252,946		\$ 16,659,462	\$ 402,736
	\$116,519,186	\$642,556,137		\$ 75,556,781	\$ 2,112,138
	19.7%	19.3%		22.0%	19.1%
	\$ 8,480,076	\$ 27,320,711		\$ 6,101,855	\$ 339,964
	\$ -	\$ -		\$ -	\$ -
	\$ 8,480,076	\$ 27,320,711		\$ 6,101,855	\$ 339,964
	\$ 29,231,353	\$ 32,985,338		\$ 5,020,473	\$ 1,013,571
	\$ 1,894	\$ -		\$ -	\$ 286
	\$ 29,233,247	\$ 32,985,338		\$ 5,020,473	\$ 1,013,857
	\$ 5,345,473	\$ 10,819,819		\$ 2,932,203	\$ 388,499
	\$ 34,578,720	\$ 43,805,157		\$ 7,952,676	\$ 1,402,356
	84.5%	75.3%		63.1%	72.3%
	\$ 7,169,154	\$ 20,572,530		\$ 3,852,062	\$ 245,783
	\$ 1,415,185	\$ 3,978,170		\$ 849,338	\$ 46,865
	\$ 7,169,154	\$ 20,572,530		\$ 3,852,062	\$ 245,783
	7.65%	7.65%		7.65%	7.65%
	\$ 548,440	\$ 1,573,799		\$ 294,683	\$ 18,802

Virginia-American Water Company
Comparison Group 2008 Actual Customer Accounts Expense Per Customer

	Maryland			North Carolina		
	Baltimore Gas & Electric	Delmarva Power & Light	Potomac Electric	Duke Energy Carolinas	Prog Energy Carolinas	
	\$ 28,731,040	\$ 32,574,788	\$ 51,049,711	\$ 44,487,077	\$ 25,567,705	
	\$ 4,115,795	\$ -	\$ -	\$ 2,782,661	\$ 3,147,580	
	\$ 32,846,835	\$ 32,574,788	\$ 51,049,711	\$ 47,269,738	\$ 28,715,285	
Note A	\$ 8,208,844	\$ 1,184,741	\$ 6,217,334	\$ 2,666,465	\$ 3,505,221	
Note B	\$ 2,528,394	\$ 551,639	\$ 1,009,884	\$ 1,253,668	\$ 1,049,423	
Total Cost Pool	\$ 43,584,072	\$ 34,311,168	\$ 58,276,929	\$ 51,189,871	\$ 33,269,929	
Total Customers (page 304, line 43)	1,229,181	496,682	762,094	2,364,417	1,447,424	
Customer Account Services Expense per Customer	\$ 35.46	\$ 69.08	\$ 76.47	\$ 21.65	\$ 22.99	
	\$ 45,202,255	\$ 6,458,817	\$ 25,000,866	\$ 113,864,381	\$ 104,610,824	
	\$ 181,995,810	\$ 39,311,821	\$ 53,083,661	\$ 699,798,490	\$ 409,402,544	
	24.8%	16.4%	47.1%	16.3%	25.6%	
	\$ 25,480,677	\$ 7,184,790	\$ 13,534,519	\$ 18,553,510	\$ 16,538,900	
	\$ 13,071,562	\$ 1,796,197	\$ -	\$ -	\$ -	
	\$ 38,552,239	\$ 8,980,987	\$ 13,534,519	\$ 18,553,510	\$ 16,538,900	
	\$ 28,731,040	\$ 32,574,788	\$ 51,049,711	\$ 44,487,077	\$ 25,567,705	
	\$ 4,115,795	\$ -	\$ -	\$ 2,782,661	\$ 3,147,580	
	\$ 32,846,835	\$ 32,574,788	\$ 51,049,711	\$ 47,269,738	\$ 28,715,285	
	\$ 5,467,374	\$ 7,995,878	\$ 1,289,369	\$ 6,246,835	\$ 5,904,985	
	\$ 38,314,209	\$ 40,570,666	\$ 52,339,080	\$ 53,516,573	\$ 34,620,270	
	85.7%	80.3%	97.5%	88.3%	82.9%	
	\$ 33,050,899	\$ 7,210,967	\$ 13,201,097	\$ 16,387,812	\$ 13,717,953	
	\$ 8,208,844	\$ 1,184,741	\$ 6,217,334	\$ 2,666,465	\$ 3,505,221	
	\$ 33,050,899	\$ 7,210,967	\$ 13,201,097	\$ 16,387,812	\$ 13,717,953	
	7.65%	7.65%	7.65%	7.65%	7.65%	
	\$ 2,528,394	\$ 551,639	\$ 1,009,884	\$ 1,253,668	\$ 1,049,423	

Customer Account Services Cost Pool

FERC Account Balances:

Acct 903 - Customer Records & Collection (page 322, line 131)
Acct 905 - Misc Customer Accounts (page 322, line 133)

Subtotal

Add: Employee Benefits & Employer FICA (not included in above amounts)

Account 926 - Employee Pension & Benefits

Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

Total Cost Pool

Total Customers (page 304, line 43)

Customer Account Services Expense per Customer

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 187)

Total O&M Payroll (page 355, line 65)

Benefits as Percent of Payroll

Payroll Applicable to Customer Account Services

Total Payroll Charged to Customer Accounts Function

Electric (page 354, line 7)

Gas (page 354, line 37)

Total Payroll Charged to Customer Accounts

Percent Applicable to Customer Accounts Services (903 and 905):

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal - Total Charges Applicable to Customer Accounts Services

Acct 902 - Meter Reading Expenses (page 322, line 160)

Total Charges Applicable to Customer Accounts Svcs & Meter Reading

Percent Applicable to Customer Accounts Services (903 and 905)

Customer Account Services Portion of Total Payroll

Pension & Benefits Pertaining to Customer Accounts Services

Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Services

Customer Account Services Portion of Total Payroll

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA

Virginia-American Water Company
Comparison Group 2008 Actual Customer Accounts Expense Per Customer

Customer Account Services Cost Pool

FERC Account Balances:

Acct 903 - Customer Records & Collection (page 322, line 131)
Acct 905 - Misc Customer Accounts (page 322, line 133)

Subtotal

Add: Employee Benefits & Employer FICA (not included in above amounts)

Account 926 - Employee Pension & Benefits
Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

Total Cost Pool

Total Customers (page 304, line 43)

Customer Account Services Expense per Customer

	Kentucky			Tennessee	
	Kentucky Power	Kentucky Utilities	Louisville Gas & Electric	Kingsport Power	
\$	3,221,753	\$ 5,948,209	\$ 12,515,610	\$ 4,626,491	\$ 1,473,158
\$	(46,234)	\$ 4,229	\$ 334,960	\$ 336,884	\$ 425
\$	3,175,519	\$ 5,952,438	\$ 12,860,570	\$ 4,963,375	\$ 1,473,583
\$	574,297	\$ 288,710	\$ 1,972,749	\$ 1,054,370	\$ 32,646
\$	243,542	\$ 105,032	\$ 424,973	\$ 262,847	\$ 24,728
\$	3,993,358	\$ 6,326,180	\$ 15,248,292	\$ 6,280,591	\$ 1,530,957
\$	134,703	\$ 175,646	\$ 536,441	\$ 400,699	\$ 46,961
\$	29,65	\$ 36,02	\$ 28,42	\$ 15,67	\$ 29,13

	Group Average
\$	\$330,989,546
\$	11,360,858
\$	29,13

Note A
Note B

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 187)
Total O&M Payroll (page 355, line 65)

Benefits as Percent of Payroll

Payroll Applicable to Customer Account Services

Total Payroll Charged to Customer Accounts Function

Electric (page 354, line 7)

Gas (page 354, line 37)

Total Payroll Charged to Customer Accounts

Percent Applicable to Customer Accounts Services (903 and 905):

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal - Total Charges Applicable to Customer Accounts Services

Acct 902 - Meter Reading Expenses (page 322, line 160)

Total Charges Applicable to Customer Accounts Svcs & Meter Reading

Percent Applicable to Customer Accounts Services (903 and 905)

Customer Account Services Portion of Total Payroll

Pension & Benefits Pertaining to Customer Accounts Services

Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Services

Customer Account Services Portion of Total Payroll

Employer's Portion of FICA (6.20% and Medicare (1.45%))

Estimated Employer's Portion of FICA

	Kentucky			Tennessee	
	Kentucky Power	Kentucky Utilities	Louisville Gas & Electric	Kingsport Power	
\$	6,333,174	\$ 4,765,373	\$ 24,119,043	\$ 22,418,737	\$ 199,803
\$	35,107,273	\$ 24,348,550	\$ 67,918,514	\$ 73,056,617	\$ 1,978,375
	18.0%	19.6%	35.5%	30.7%	10.1%
\$	2,613,424	\$ 1,602,234	\$ 7,181,104	\$ 2,668,667	\$ 368,129
\$	1,559,494	\$ -	\$ -	\$ 2,175,749	\$ -
\$	4,172,918	\$ 1,602,234	\$ 7,181,104	\$ 4,844,416	\$ 368,129
\$	3,221,753	\$ 5,948,209	\$ 12,515,610	\$ 4,626,491	\$ 1,473,158
\$	(46,234)	\$ 4,229	\$ 334,960	\$ 336,884	\$ 425
\$	3,175,519	\$ 5,952,438	\$ 12,860,570	\$ 4,963,375	\$ 1,473,583
\$	986,864	\$ 993,970	\$ 3,761,113	\$ 2,034,678	\$ 204,604
\$	4,162,383	\$ 6,946,408	\$ 16,611,683	\$ 6,998,053	\$ 1,678,187
	76.3%	85.7%	77.4%	70.9%	87.8%
\$	3,183,556	\$ 1,372,968	\$ 5,555,204	\$ 3,435,906	\$ 323,247
\$	574,297	\$ 288,710	\$ 1,972,749	\$ 1,054,370	\$ 32,646
\$	3,183,556	\$ 1,372,968	\$ 5,555,204	\$ 3,435,906	\$ 323,247
	7.65%	7.65%	7.65%	7.65%	7.65%
\$	243,542	\$ 105,032	\$ 424,973	\$ 262,847	\$ 24,728

VI - Question 4 – Need for Service Company Services

Analysis of Services

The final aspect of this study was an assessment of whether the services that are provided to VAWC by the Service Company would be necessary if VAWC were a stand-alone water utility. The first step in this evaluation was to determine specifically what the Service Company does for VAWC. Based on discussions with Service Company personnel, the matrix in Exhibit 11 was created showing which entity—VAWC or a Service Company location—is responsible for each of the functions VAWC requires to ultimately provide service to its customers. This matrix was reviewed to determine: (1) if there was redundancy or overlap in the services being provided by the Service Company and (2) if Service Company services are typical of those needed by a stand-alone water utility.

Upon review of Exhibit 12, the following conclusions can be drawn:

- The services that the Service Company provides are necessary and would be required even if VAWC were a stand-alone water utility.
- There is no redundancy or overlap in the services provided by the Service Company to VAWC. For all of the services listed in Exhibit 12, there was only one entity that was primarily responsible for the service.

Virginia-American Water Company
Designation Of Responsibility For Water Utility Functions

Primarily Responsible Provides Support	Water Company Function	Performed By:						
		VAWC	Customer Call Center	Divisional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab
P	Engineering and Construction Management	S				P		
S	CPS Preparation	S		S		P		
	Five-Year System Planning					P		
	Engineering Standards & Policies Development					P		
	Project Design					P		
	Major Projects (e.g., new treatment plant)					S		
	Special Projects							
	Minor Projects (e.g., pipelines)							
	Construction Project Management					S		
	Major Projects					S		
	Special Projects							
	Minor Projects							
	Hydraulics Review			S				
	Developers Extensions							
	Tank Painting					S		
	Water Quality and Purification							
	Water Quality Standards Development					P		S
	Research Studies	S				P		S
	Water Quality Program Implementation	P				S		S
	Water Treatment Operations & Maintenance	P				S		
	Compliance Tracking and Chemical Testing	S				S		P
	Sample Collection and Other Testing	P						S
	Transmission and Distribution							
	Preventive Maintenance Program Development	P						
	System Maintenance	P						
	Leak Detection	P						
	Customer Service							
	Community Relations	S		P		S		
	Customer Contact	S						
	Call Processing		P					
	Service Order Creation	S	P	S				
	Service Order Processing	P	S	S				
	Customer Credit		P	S				
	Meter Reading	P	S	S				S
	Customer Bill Preparation		S	S				P
	Bill Collection	S	P	S				S
	Customer Payment Processing	S						
	Meter Standards Development	S						
	Meter Testing, Maintenance & Replacement	P			P			

Virginia-American Water Company
Designation Of Responsibility For Water Utility Functions

Virginia-American Water Company
Designation Of Responsibility For Water Utility Functions

Water Company Function	Performed By:						
	VAWC	Customer Call Center	Divisional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab
Financial Management							
Financial Planning	S		P	S	S		
Financings--Equity				S	P		
Financings--Long Term Debt & Preferred (A)			S	S	P		
Short Term Lines of Credit Arrangements (A)			S	S	P		
Investor Relations			S		P		
Insurance Program Administration					P		
Loss Control/Safety Program Administration	P				S		
Pension Fund Asset Management					P		
Cash Management/Disbursements				P			
Internal Auditing					P		
Budgeting and Variance Reporting							
Corporate Guidelines & Instructions					P		
Regional Guidelines & Instructions							
Budget Preparation			P				
Revenue	P		S				
O&M	P		S				
Depreciation and Interest Expense	S		P	S			
Budget Preparation--Service Company Charges		S	P	S	S	S	S
Capital Budget Preparation--Projects	P				S		
Capital Budget Preparation--Non-Project Work	P				S		
Prepare Monthly Budget Variance Report ("Budget/Plan Analysis")	P		S		S		
Prepare Capital Project Budget Status Report	P		S		S		
Year-End Projections (A)	P						
Accounting and Taxes							
Accounts Payable Accounting	S		S	P			
Payroll Accounting	S		S	P			
Work Order Accounting	S		S	P			
Fixed Asset Accounting	S		S	P			
Journal Entry Preparation--Billing Corrections	S		S	P			
Journal Entry Preparation--All Others	S		S	P			
Financial Statement Preparation	S		S	P			
State Commission Reporting	S		S	P			
Income Taxes--State					P		
Income Taxes--Federal					P		
Property Taxes					P		
Gross Receipts Taxes	S		S	P			

Note A: Financings and lines of credit are the responsibility of American Capital Corporation

Virginia-American Water Company
Designation Of Responsibility For Water Utility Functions

Water Company Function	Performed By:					
	Customer Call Center	Divisional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab
Primarily Responsible P Provides Support S						
Water Company Function						
Rates						
Rate Studies & Tariff Change Administration		P				
Rate Case Planning and Preparation		P				
Rate Case Administration		P				
Commission Inquiry Response		P		S		
Legal						
Purchasing and Materials Management						
Specification Development		S	S	P		
Bid Solicitation		S		P		
Contract Administration				P		
Ordering						
Inventory Management			S			
Human Resources Management						
Benefit Program Development				P		
Benefits Program Administration		P				
Management Compensation Administration				P		
Wage & Salary Program Design				P		
Wage & Salary Administration		P		P		
Labor Negotiations--Wages		P				
Labor Negotiations--Benefits				P		
Labor Negotiations-- Work Rules		P				
Training Program Development		S		P		
Training--Course Delivery		S				
Affirmative Action/EEO--Plan Development		S				
Affirmative Action/EEO--Implementation		S				
Information Systems Services						
Service Company Data Centers						
System Operations & Maintenance					P	
Software Maintenance					P	
Network Administration					P	
PC Acquisition & Support					P	
Help Desk			S			

VI - Question 4 – Need for Service Company Services

Governance Practices Associated With Service Company Charges

There are several ways by which VAWC exercises control over Service Company services and charges. The most important of these are described below.

- **President of Regulated Operations Oversight** – The President of Regulated Operations is on the Executive Management Team (EMT) of American Water. This position is responsible for the overall performance of each operating company in American Water. As part of the EMT, the President of Regulated Operations has equal say with other EMT members in major business decisions of American Water and has the ability to monitor Service Company performance quality and spending. The President of Regulated Operations also addresses local concerns with each operating company president.
- **Divisional Vice President & Treasurer** – The Divisional Vice President and Treasurer of the Eastern Division is responsible for the financial reporting, performance and internal controls of each of the operating companies in the division. The Vice President and Treasurer monitors the performance and reporting from the Service Company and follows up on instances where the quality and timeliness of services are not as expected. The operating company interacts with the Divisional VP & Treasurer to discuss any concerns with billings, etc.
- **Operating Company Board Oversight** – VAWC board of directors includes members of American Water’s EMT, members of the divisional management team and business and community leaders from outside the Company. VAWC’s president is Chairman of the VAWC board. This helps ensure that VAWC’s needs are a factor in the delivery of Service Company services.
- **Service Company Budget Review/Approval** – The President of Regulated Operations sits on the Service Company board and that board must formally approve the budget for Service Company charges for the next year. These budgeted charges are consolidated with the operating company’s own spending into an overall budget which must be approved by the operating company’s board of directors. VAWC’s president also sits on the Service Company board.
- **Major Project Review And Approval** – Major projects undertaken by the Service Company must first be reviewed by American Water’s Executive Management Team, which includes the President of Regulated Operations. With input from the local presidents and Divisional Vice President & Treasurer, they have the ability to impact all new initiatives and projects before they are authorized.
- **Service Company Bill Scrutiny** – VAWC Finance personnel review the monthly Service Company bill for accuracy and reasonableness on a monthly basis. VAWC’s financial manager discusses the monthly bill with Shared Services Center office personnel and any mistakes or overcharges are credited on a subsequent billing. The VAWC Finance Manager prepares an actual-to-budget comparison of management fees each month for use in identifying unusual variances. Service Company actual-to-budget comparison is included in the monthly Financial Review Package (FRP). Unusual variances are researched, explanations are provided and any necessary corrections are made.
- **Service Company Budget Variance Reporting** – Each month, a summary variance analysis is prepared that explains differences between budgeted and actual Service Company spending. In addition, a more detailed monthly variance report, called the “Statement of Expenses and Billed Charges,” is produced by Service Company location and shows actual spending for the month.

VI - Question 4 – Need for Service Company Services

- **Operating Company Budget Variance Reporting** – The “Budget/Plan Analysis,” produced monthly, has a line item for Management Fees (i.e., Service Company charges). In this way, Service Company budget versus actual charges can be monitored for the month and year-to-date. Additional information exists that allows more detailed analysis of “Divisional” and “Corporate” Management Fees.
- **Capital Investment Management (“CIM”)** – CIM is one of American Water’s primary business planning processes. It covers capital and asset planning and is employed throughout American Water. CIM provides a full range of governance practices, including a formal protocol for assessing system needs, prioritizing expenditures, managing the capital program, approving project spending, delivering projects and measuring outputs. CIM ensures that:
 - Capital expenditure plans are aligned with the strategic intent of the business
 - The impact of capital expenditure and income plans are fully reflected in operating expense plans
 - The impacts of these plans are understood and affordable, and
 - Effective controls are in place over budgets (through business plans) and individual capital projects (through appropriate authorization thresholds, management and reporting processes).

The CIM process was designed to optimize the effectiveness of asset investment. The process is managed at two levels for all American Water companies, including all VAWC Operating Units. Monthly meetings of the CIM are held to review capital spending compared to plan, review new project requests, and review updates or modifications to existing projects. The President of VAWC and others participate as necessary (e.g. VAWC operations managers and Rates Manager) and provide the data used in the monthly review schedules.

Columbia Gas of Virginia, Inc.
2009 Affiliate Company Charges
Market Cost Comparison

April 2010

Columbia Gas of Virginia, Inc. 2009 Affiliate Company Charges Market Cost Comparison

Table of Contents

	<u>Page</u>
I – Introduction	1
Purpose of This Study	
Study Results	
II – Background	3
Overview of CGV Affiliate Company Services	
NCSC Billing of Affiliate Companies	
Affiliate Operating Company Billing of Other Affiliates	
III – Affiliate Cost Comparison Approach	6
Analysis of CGV Charges from Affiliates	
Comparison Methodology for Charges from Affiliates	
Analysis of CGV Charges to Affiliates	
IV – Question 1 – Reasonableness of Service-Related Affiliate Charges	9
CGV’s Cost per Customer	
Comparison Group Cost per Customer	
V – Question 2 – Provision of Services at the Lower of Cost or Market	13
Methodology	
NCSC Hourly Rates	
Outside Service Provider Hourly Rates	
NCSC versus Outside Provider Cost Comparison	
VI – Question 3 – Reasonableness of Customer Account Services Costs	26
Comparison Methodology	
Comparison Group	
CGV Cost per Customer	
Comparison Group Cost per Customer	
Summary of Results	

I - Introduction

Purpose of This Study

This study was undertaken to determine the reasonableness of Columbia Gas of Virginia, Inc.'s ("CGV") charges from NiSource Corporate Services Company ("NCSC") and several NiSource operating companies for services provided during 2009. Reasonableness was determined by answering the following three questions:

1. Are 2009 service-related affiliate charges to CGV reasonable compared to other utility service companies?
2. Did NCSC provide services to CGV at the lower of cost or market during 2009?
3. Is the 2009 cost of NCSC's customer accounts services comparable to those of other utilities?

Study Results

Concerning question 1, the following conclusions were reached:

- The cost per CGV customer for services from NCSC and other affiliates is reasonable and favorable as compared to the cost per customer for similar utility service companies. CGV was charged an average of \$90 per customer by NCSC and other affiliates, approximately 24% lower than the average of \$112 per customer for comparison group service companies. This determination was based on service company information included in Form 60, which must be annually filed with the Federal Energy Regulatory Commission ("FERC") by electric and combination electric/gas utility holding companies. The comparison is based on data from 2008, the latest year for which Form 60 information is currently available.

Concerning question 2, the following conclusions were reached:

- NCSC's services were provided to CGV during 2009 at the lower of cost or market.
- On average, the hourly rates for outside service providers are 82% higher than comparable hourly rates charged by NCSC.
- If all of the managerial and professional services now provided by its affiliates had been outsourced in 2009, CGV and its customers would have incurred \$16.5 million in additional expenses.



I - Introduction

- Affiliates' charges do not include any profit markup. Only the actual cost of the service provided is being charged CGV and its customers.

Concerning question 3, the cost of NCSC and other affiliate's customer accounts services is well below the average of the neighboring electric utility comparison group. During 2009, CGV's customer accounts cost per customers was \$17.01 compared to the utility comparison group's 2008 average of \$29.13.

Based on this study's results, it can be concluded that CGV's 2009 service-related charges from NCSC and other affiliates are reasonable.

CGV's service-related charges to affiliates are not significant (approximately \$205,000 in labor-related expenses). Affiliates are charged at CGV's fully loaded cost. The majority of these services are construction-related and not easily benchmarked to publicly available outside provider hourly rate information. For these reasons, no market testing was performed on these transactions.

II – Background

Overview of CGV Affiliate Company Services

NCSC provides the following types of services to NiSource operating companies, including CGV:

- Accounting
- Payroll
- Auditing
- Employee benefits
- Planning
- Risk management
- Tax
- Legal
- Environmental
- Financial
- Information technology
- Telecommunications.

NCSC Billing of Affiliate Companies

NiSource Corporate Services (“NCSC”) was regulated by the Securities and Exchange Commission (“SEC”) under the Public Utility Holding Company Act of 1935 (“PUHCA”) until February 8, 2006, when the Public Utility Holding Company Act (“PUHCA 2005”) was enacted. PUHCA 2005 transferred regulatory jurisdiction over public utility holding companies from the SEC to the Federal Energy Regulatory Commission (“FERC”). NCSC continued to follow the SEC Uniform System of Accounts for Mutual Service Companies and Subsidiary Service Companies until January 1, 2008. Effective January 1, 2008, the FERC requires service companies to move to its Uniform System of Accounts.

Pursuant to FERC Order No. 684 issued October 19, 2006, Centralized Service Companies must use a cost accumulation system, provided such system supports the allocation of expenses to the services performed and readily identifies the source of the expense and the basis for the allocation. NCSC has long used a job order system to collect costs that are applicable and billable to all affiliates including Columbia Gas of Virginia. Each job order details the affiliate(s) to be charged for the specified services and the basis for allocating charges when more than one affiliate receives the same service.

The service agreement between CGV and NCSC stipulates that all services will be provided at cost. Allocations among affiliates are only made when it is impractical to charge an affiliate directly.

The Bases of Allocation, shown in Schedule 1, are used by the Corporate Services Accounting Department for apportioning Job Order charges to affiliates.



II – Background

Categories of billings assigned by NCSC to affiliates include the following:

- Convenience Billings – Includes charges for expenses paid by NCSC on behalf of affiliates to third party providers of services. These charges are considered “pass-through” costs, flowing through NCSC for the convenience and benefit of all affiliates. Typical charges include external audit fees, employee benefits, vehicle leasing, corporate insurance and wire transfers for hedging margin accounts.
- Payroll Funding – Includes CGV payroll costs that are disbursed by NCSC. NCSC makes these payments on behalf of all subsidiaries and CGV wires the requisite cash to NCSC on a monthly basis.
- Contract billings - Includes charges for the costs incurred by NCSC to render the services that are agreed to be provided according to the Service Agreement. The charges may be direct or allocated, depending upon the nature of the expense.

The relationship between NCSC and CGV is set forth in a Service Agreement dated September 21, 2005, as amended by an Amendment to the Service Agreement dated November 1, 2007, which was approved by the Virginia State Corporation Commission (VSCC) by Order dated September 25, 2009 in case No. PUE-2009-00063.

Affiliate Operating Company Billing of Other Affiliates

Besides NCSC, other affiliate entities charge CGV for various goods and services. These items are charged to CGV at fully loaded cost.

Schedule 1

Columbia Gas of Virginia, Inc.
Bases for Allocating Service Company Charges to Affiliates

<p>Basis 1 - Gross Fixed Assets and Total Operating Expenses Fifty percent of the total job order charges will be allocated on the basis of the relation of the affiliate's gross fixed assets to the total gross fixed assets of all benefited affiliates; the remaining 50% will be allocated on the basis of the relation of the affiliate's total operating expenses to the total operating expenses of all benefited affiliates.</p>
<p>Basis 2 - Gross Fixed Assets Job order charges will be allocated to each benefited affiliate on the basis of the relation of its total gross fixed assets to the sum of the total gross fixed assets of all benefited affiliates.</p>
<p>Basis 7 - Gross Depreciable Property and Total Operating Expenses Fifty percent of the total job order charges will be allocated on the basis of the relation of the affiliate's total operating expenses to the total of all the benefited affiliates' total operating expense; the remaining 50% will be allocated on the basis of the relation of the affiliate's gross depreciable property to the gross depreciable property of all benefited affiliates.</p>
<p>Basis 8 - Gross Depreciable Property Job order charges will be allocated to each benefited affiliate on the basis of the relationship of its total depreciable property to the sum of the total depreciable property of all benefited affiliates.</p>
<p>Basis 9 - Automobile Units Job order charges will be allocated to each benefited affiliate on the basis of its number of automobile units to the total number of all automobile units of the benefited affiliates.</p>
<p>Basis 10 - Number of Retail Customers Job order charges will be allocated to each benefited affiliate on the basis of its number of retail customers to the total number of all retail customers of the benefited affiliates.</p>
<p>Basis 11 - Number of Regular Employees Job order charges will be allocated to each benefited affiliate on the basis of the relation of its number of regular employees to the total number of all regular employees of the benefited affiliates.</p>
<p>Basis 13 - Fixed Allocation Job order charges will be allocated to each benefited affiliate on the basis of fixed percentages on an individual project basis.</p>
<p>Basis 14 - Number of Transportation Customers Job order charges will be allocated to each benefited affiliate on the basis of the relation of its Transportation Customers to the total of all Transportation Customers of the benefited affiliates.</p>
<p>Basis 15 - Total Employees and Customers Job order charges will be allocated to each benefited affiliate on the basis of the relation of its number of employees and customers to the total of all employees and customers of the benefited affiliates.</p>
<p>Basis 16 - Total Plant, State Employees and Customers Job order charges will be allocated to each benefited affiliate on the basis of the relation of its Plant, State Employees and Customers to the total of all Plant, State Employees and Customers of the benefited affiliates.</p>
<p>Basis 17 - Total Tariff and Transportation Throughput Job order charges will be allocated to each benefited affiliate on the basis of the relation of its Tariff and Transportation Throughput to the total of all Tariff and Transportation Throughput of the benefited affiliates.</p>
<p>Basis 20 - Direct Costs Job order charges will be allocated to each benefited affiliate on the basis of the relation of its direct costs billed by Service Corporation to the total of all direct costs billed by Service Corporation.</p>

III – Affiliate Cost Comparison Approach

Analysis of CGV Charges from Affiliates

During 2009, the following affiliate entities charged CGV approximately \$211 million.

Affiliate Entity	Total
NiSource Corporate Services	\$ 172,588,469
Columbia Gulf Transmission	\$ 1,779,733
Columbia Network Services	\$ 8,208
Columbia Gas of Kentucky	\$ 7,108
Columbia Gas of Ohio	\$ 2,900,952
Columbia Gas of Maryland	\$ 8,848
Columbia Gas of Pennsylvania	\$ 619,759
Columbia Gas Transmission	\$ 23,233,767
NiSource, Inc.	\$ 355,575
NiSource Finance	\$ 9,376,440
Bay State Gas	\$ -
NiSource Money Pool	\$ 281,424
Total	\$ 211,160,283

These charges were analyzed to determine which were service-related and could be subjected to a cost comparison. The table below shows the amounts charged CGV during 2009 by type of transaction. The first three items—Interest on Debt and Taxes, Gas Purchase and Transportation Expense, and Convenience Billings and Payroll—do not involve the provision of services.

Type of Transaction	2009 Affiliate Charges To CGV	Cost Comparison Testing Disposition		
		Involves A Service?	Comparative Data Available?	Evaluated In This Study?
Interest on Debt and Taxes	\$ 9,657,864	No	na	No
Gas Purchase and Transportation Expenses	\$ 24,785,322	No	na	No
Convenience Billings and Payroll	\$ 152,508,902	No	na	No
Contract Services	\$ 20,079,567	Yes	Yes	Yes
Billings From Other Affiliates - Balance Sheet Accts	\$ 1,692,170	Limited	No	No
Billings From Other Affiliates - Income Statement Accts	\$ 2,436,458	Limited	Yes	Yes
Total 2009 Affiliate Company Billings	\$ 211,160,283			

Contract Services charges are for management, professional and technical services. Comparative information is available for these charges, thus they were included in the scope of this study.

NiSource regulated operating companies will sometimes support one another in times of emergency or when one's backlog of work exceeds its available resources. This sharing arrangement is meant to reduce the cost of service for all ratepayers. The Billings From Other Affiliates line items in the table above relate to this shared support arrangement.

III – Affiliate Cost Comparison Approach

Much of the total \$1.7 million in Billings From Other Affiliates – Balance Sheet was for construction costs charged by Columbia Gas of Ohio. Only \$168,000 of these charges was labor-related. No publicly available market information was found for outside provider of construction services. Thus, this study did not subject these 2009 charges to a cost comparison.

Most From Other Affiliates - Income Statement-related transactions are for various operations services and customer account services. Of the \$2.4 million in these charges, approximately \$557,000 was for labor-related services. Some comparison data was found for these services so, to the extent possible, they were included in the scope of this study.

Comparison Methodology for Charges from Affiliates

2009 affiliate charges that are included in the scope of this study are evaluated in connection with three questions, as shown in the table below.

Type of Transaction	2009 Affiliate Charges To CGV	Study Question		
		1 - Reasonableness	2 - LCM Pricing	3 - Cust Acct Services
Contract Services	\$ 20,079,567	X	X	X
Billings From Other Affiliates - Income Stmt. Accts	\$ 2,436,458	X		X

The first question—were affiliate charges for services reasonable—was answered by comparing CGV’s affiliate charges per customer to those of utility service companies that file a FERC Form 60 – Annual Report of Service Companies. This comparison was made with 2008 Form 60 data, the latest year Form 60 data is available (the filing deadline for the Form 60 is May 1st).

This study’s second question—whether NCSC’s services were provided to CGV during 2009 at the lower of cost or market—was determined by comparing the cost per hour for managerial and professional services provided by NCSC personnel, to hourly billing rates that would be charged by outside providers of equivalent services. NCSC’s costs per hour were based on actual charges to CGV during the 12 months ended December 31, 2009. Outside providers' billing rates came from surveys or other information from professionals that could perform the services now provided by NCSC.

The third question—whether affiliate customer account services charges were comparable to other utilities—was addressed by comparing CGV’s total customer accounts services expenses to those of neighboring electric utilities. This approach was selected because the costs of outside providers of call center

III – Affiliate Cost Comparison Approach

services are not publicly available. However, electric utility customer account services expenses can be readily obtained from FERC Form 1 data. The availability and transparency of FERC data adds to the validity of its use in this comparison. The comparison was made using 2008 data, the latest year for which FERC Form 1 data is available (the filing deadline for FERC Form 1 is April 18th).

Analysis of CGV Charges to Affiliates

CGV charged affiliates approximately \$1.5 million during 2009, as shown below.

	2009 Charges From CGV
Billings to Other Affiliates - Balance Sheet Accounts	\$ 1,251,972
Billings to Other Affiliates - Income Statement Accounts	\$ 213,217
Total Charges To Affiliates	\$ 1,465,189

Most Balance Sheet-related billings consist of construction work CGV performed for affiliate operating companies. Only \$166,000 of these charges was labor-related.

Income Statement-related billings consists of rent charged to NCSC for its employees located in CGV’s Chester, Virginia offices and charges for a variety of services CGV provided to affiliate operating companies. This cost sharing arrangement ultimately provides system ratepayers with lower costs of service. Here too, a relatively small portion of these charges were labor related (\$38,000).

CGV charges affiliates its fully loaded cost for these items. No market testing was performed on 2009 charges to affiliates because the costs that are service-related are not material.

IV – Question 1 – Reasonableness of Service-Related Affiliate Charges

CGV's Cost per Customer

During 2009, CGV was charged \$90 per customer in service-related charges from NCSC and other affiliates.

2009 NCSC Contract Charges		\$ 20,079,567
Non-A&G Functions Excluded from Comparison Group Cost Pool:		
0025200 - Distribution Operations - East	\$ 108,666	
0053200 - Engineering Services	\$ 266,732	
0019300 - Customer Engagement	\$ 53,295	
0019400 - Columbus Gas Procurement	\$ 240,678	
0019500 - Columbus Gas Operations	\$ 266,455	
0019600 - Columbus Planning	\$ 125,219	
0019700 - Gas Supply - BSG/NU	\$ 619	
0019800 - Gas Transportation Operations	\$ 337,420	
0019900 - Commodity & Performance	\$ 142,131	
0021100 - Ludlow Gas Control	\$ 1,240	
0053700 - Gas Systems Planning and Modeling	\$ 237,906	
0052900 - Operations	\$ 127,035	
0052800 - Operations Planning	\$ 146,720	
Total Excluded Non-A&G Functions	\$ 1,384,746	\$ (1,384,746)
Cost Items Excluded From Comparison Group Cost Pool:		
Capital Costs		
3034 - Capitalized Portion - Inflights	\$ (19,930)	
3054 - Capitalized Portn-PCs & Laptops	\$ (122,301)	
3064 - Capitalized Portion - WMS	\$ (9,483)	
3074 - Capitalized Portion - RFS	\$ (45,937)	
3065 - Cap Portion - WMS Conv. Billed	\$ (41,498)	
Income Taxes		
9604 - Income Taxes Federal	\$ 198,785	
9605 - Income Taxes State	\$ 68,183	
9606 - Deferred Income Taxes Federal	\$ 63,688	
9607 - Deferred Income Taxes State	\$ (20,040)	
Net Excluded Cost Items	\$ 71,467	\$ (71,467)
Net NCSC Service-Related Charges		\$ 18,623,355
Other Affiliate 2009 Billings (O&M)		
Columbia Network Services	\$ 8,208	
Columbia Gas of Kentucky	\$ 3,951	
Columbia Gas of Ohio	\$ 1,286,939	
Columbia Gas of Maryland	\$ 2,976	
Columbia Gas of Pennsylvania	\$ 562,609	
Columbia Gas Transmission	\$ 228,178	
NiSource, Inc.	\$ 343,597	
Total Other Affiliates	\$ 2,436,458	\$ 2,436,458
Total 2009 NCSC and Other Affiliate Service-Related Charges		\$ 21,059,813
Total CGV Customers at 12/31/09		235,077
2009 CGV Cost Per Customer		\$ 90

IV – Question 1 – Reasonableness of Service-Related Affiliate Charges

Comparison Group Cost per Customer

Every centralized service company in a holding company system must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act and 18 C.F.R. paragraph 366.23. This report is designed to collect financial information from service companies that are subject to regulation by the FERC.

NCSC files a Form 60. For 2008, 23 other utility service companies that serve utilities that provide regulated electric and, in some cases, gas service to retail customers. In order to make a valid comparison of this group’s costs to NCSC’s charges to CGV, it was necessary to isolate expenses that they have in common. These include A&G/O&M-related charges associated with the following FERC accounts:

901 – Supervision	921 – Office supplies and expenses
903 – Customer records and collection expenses	923 – Outside services employed
905 – Miscellaneous customer accounts expenses	926 – Employee pensions and benefits
907 – Supervision	928 – Regulatory commission expenses
910 – Misc customer service and info expenses	930.2 – Miscellaneous general expenses
911 – Supervision	931 – Rents
920 - Administrative and general salaries	935 – Maintenance of structures and equipment

O&M expenses charged to utility affiliates for the comparison group service companies were obtained from Schedule XVI – Analysis of Charges for Service Associate and Non-Associate Companies (p. 303 to 306) of each entity’s FERC Form 60. This schedule shows charges by FERC Account.

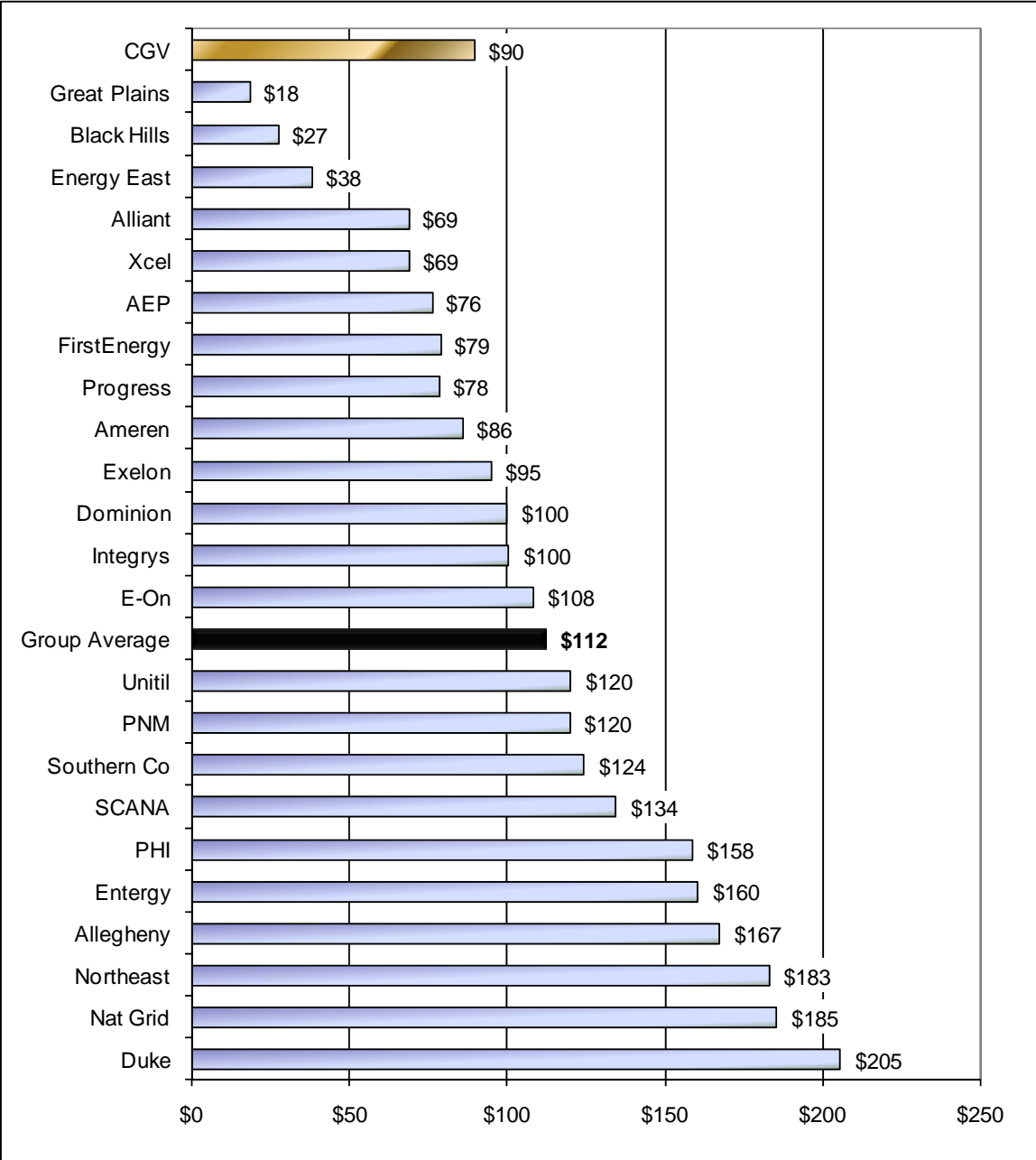
Comparison group service company 2008 expenses were also adjusted to remove charges to non-regulated affiliates from the cost pool used to calculate the cost per regulated service customer. This determination was made using information from the FERC Form 60 schedule: Account 457 – Analysis of Billing – Associate Companies.

A&G expenses per regulated utility customer for the 23 utility companies other than NCSC that file Form 60 for 2008 are calculated below.

Utility Company	2008 Regulated Retail Service Company A&G Expenses	Regulated Retail Customers	Cost per Customer
AEP	\$396,340,118	5,213,000	\$ 76
Allegheny	\$263,588,707	1,577,873	\$ 167
Alliant	\$205,754,832	3,000,000	\$ 69
Ameren	\$291,684,710	3,400,000	\$ 86
Black Hills	\$20,763,828	759,400	\$ 27
Dominion	\$357,718,046	3,588,500	\$ 100
Duke	\$923,936,645	4,500,000	\$ 205
Energy East	\$113,714,789	2,989,800	\$ 38
Entergy	\$432,575,683	2,700,000	\$ 160
E-On	\$136,276,177	1,263,000	\$ 108
Exelon	\$558,687,014	5,885,000	\$ 95
FirstEnergy	\$354,028,109	4,499,000	\$ 79
Great Plains	\$15,000,708	820,000	\$ 18
Integrus	\$216,364,166	2,157,000	\$ 100
Nat Grid	\$1,240,706,398	6,700,000	\$ 185
Northeast	\$302,138,730	1,654,000	\$ 183
PHI	\$302,463,412	1,910,000	\$ 158
Progress	\$242,677,256	3,100,000	\$ 78
PNM	\$102,688,385	859,000	\$ 120
SCANA	\$191,207,825	1,424,300	\$ 134
Southern Co	\$546,498,605	4,402,000	\$ 124
Unitil	\$20,341,422	169,600	\$ 120
Xcel	\$367,626,617	5,345,000	\$ 69
Group Total	\$7,602,782,182	67,916,473	\$ 112

Exhibit 2 shows CGV's 2009 NCSC cost per customer of \$90 to be lower than the average of \$112 per customer for the comparison group service companies. Based on this result, it is possible to conclude that 2009 affiliate charges to CGV were reasonable.

Columbia Gas of Virginia, Inc.
Comparison of Service Company Annual Costs Per Customer



V – Question 2 – Provision of Services at the Lower of Cost or Market

Methodology

NCSC's 2009 corporate services-related billings to CGV are market tested by comparing the cost per hour for NCSC services to those of outside service providers to whom these duties could be assigned.

The first step was to determine which types of outside providers could assume Service Company services. Based on the nature of these services it was determined that the following outside service providers could perform the categories of services indicated.

- Attorneys - corporate secretarial and legal services
- Certified Public Accountants - accounting, finance, information systems and rates and regulatory
- Professional Engineers – engineering and operations services
- Management Consultants - executive and administrative management, risk management services, human resources and communications services

The next step was to calculate NCSC's hourly rate for each of the four outside service provider categories, based on the dollars and hours charged to CGV during the 12-months ended December 31, 2009.

Hourly billing rates for outside service providers were next determined using information from pertinent surveys.

Finally, the NCSC's average cost per hour was compared to the average cost per hour for outside providers.

NCSC Hourly Rates

The first step in determining NCSC's hourly rates is to determine the appropriate expenses to be included in the calculation. As shown below, certain NCSC charges were excluded from the hourly rate calculations. Excluded cost elements are charges that are, in effect, already outsourced (e.g., IBM outsourcing, outside services expenses) or items that an outside provider would not typically recover in their hourly rates (e.g., travel expenses). The net result of these adjustments is the total applicable cost pool that is subjected to the lower-of-cost-or-market testing.



V – Question 2 – Provision of Services at the Lower of Cost or Market

2009 Total Contract Billings from NCSC	\$ 20,079,567
Less: Excludable Cost Elements:	
2504 - Expert Witness Fees	\$ 774
3000 - Consulting Services	\$ 485,847
3001 - Advertising Services	\$ 61,194
3002 - Legal Services	\$ 408,998
3003 - Auditing Services	\$ (1,524)
3005 - Contract Retainages	\$ 11,626
3006 - Engineering Services	\$ 109
3007 - Laboratory Services	\$ 2,425
3009 - Operations Services	\$ 129,321
3011 - Temporary Personnel Services	\$ 75,221
3012 - Security Services	\$ 10,678
3015 - Other Outside Services	\$ 408,505
3016 - Other Maintenance Services	\$ 181
3019 - Tool & Equipment Repair	\$ 37
3021 - Env Health & Safety Services	\$ 5,347
3030 - Outsourcing - Est. Fixed Costs	\$ (66,715)
3031 - Outsourcing - Variable Costs	\$ 476,849
3032 - Transition Costs	\$ 26,388
3033 - Sales Tax	\$ 94,187
3034 - Capitalized Portion - Inflights	\$ (19,930)
3035 - Supplemental Contract Costs	\$ 42,916
3036 - Service Level Agreements	\$ (164,972)
3037 - Miscellaneous Reimbursements	\$ 10,738
3038 - Request for Service (RFS)	\$ 74,670
3040 - Outsourcing - Act. Fixed Costs	\$ 5,957,717
3041 - Outsourcing-Variable Csts-RRCs	\$ (121,782)
3048 - RFS - Variable Costs - ARCs	\$ 24,188
3054 - Capitalized Portn-PCs & Laptops	\$ (122,301)
3064 - Capitalized Portion - WMS	\$ (9,483)
3074 - Capitalized Portion - RFS	\$ (45,937)
3100 - Business Expenses	\$ 238,698
3101 - Meals Special Cases Only	\$ 1,472
3102 - Meals and Entertainment	\$ 97,601
3357 - Vehicle Maint/Other Costs Clrd	\$ 1,652
3634 - Purchase of Property	\$ 184
3645 - Sale of Property	\$ 10,699
3065 - Cap Portion - WMS Conv. Billed	\$ (41,498)
9604 - Income Taxes Federal	\$ 198,785
9605 - Income Taxes State	\$ 68,183
9606 - Deferred Income Taxes Federal	\$ 63,688
9607 - Deferred Income Taxes State	\$ (20,040)
2009 Testable Contract Billings from NCSC (Note A)	<u>\$ 11,704,872</u>

Note A: This total breaks down as following for later analysis:

Service-Related Charges	\$ 10,610,139
Overhead-Related Charges	\$ 1,094,733
2009 Testable Contract Billings from NCSC	<u>\$ 11,704,872</u>

V – Question 2 – Provision of Services at the Lower of Cost or Market

The next step was to assign NCSC’s service-related charges to the four outside service provider cost pools—attorney, certified public accountant, engineer and management consultant. Among other things, NCSC assigns a “department” to all affiliate charges. Based on the nature of services performed by these departments, NCSC’s charges were assigned to the four outside provider cost pools, as shown in Schedule 3.

Schedule 4 shows the assignment of staff hours by department to the four outside service provider cost pools. It should be noted that only exempt personnel hours are included in Schedule 4 because outside providers sometimes do not charge clients for administrative/secretarial support (i.e., non-exempt staff). Instead, they recover the cost of non-exempt staff through the hourly rates of the firm’s professionals. Some outside providers bill customers for non-exempt personnel, but this study chose to be conservative in this regard. By excluding non-exempt hours from the hourly rate denominator, there are fewer hours to divide into the cost pool. Consequently, NCSC’s hourly rates are somewhat higher using this approach.

Within the total 2009 NCSC charges are overhead-related items associated with sustaining NCSC personnel. Most of these expenses are depreciation expense and rent on various NCSC facilities and equipment. The 2009 amounts by department are shown below. Since these expenses would also be incurred by outside service providers, it is necessary to add them into the NCSC cost pools.

Department	2009
0005000 - Aviation Services	138,877
0007100 - Insurance - Premiums	67,053
0042000 - General	533,005
0047000 - Facilities Management	306,464
0049000 - Real Estate Management	5,922
0087000 - Materials and Supplies	11,611
0088000 - Fleet Management	31,801
Total	1,094,733

Based on the assignment of expenses and hours to outside provider categories, NCSC’s 2009 equivalent cost per hour is calculated below.

V – Question 2 – Provision of Services at the Lower of Cost or Market

NCSC Hourly Rates					
	Attorney	Certified Public Acct	Professional Engineer	Mgmt Consultant	Total
Service-Related Charges	\$ 835,240	\$ 3,656,659	\$ 2,843,390	\$ 3,274,849	\$ 10,610,139
Overhead Expenses (Note A)	\$ 86,177	\$ 377,289	\$ 293,377	\$ 337,889	\$ 1,094,733
Cost Pool Total	\$ 921,417	\$ 4,033,948	\$ 3,136,768	\$ 3,612,739	\$ 11,704,872
Hours	11,634	63,688	53,567	56,676	185,565
Average Hourly Rate	\$ 79	\$ 63	\$ 59	\$ 64	

Note A: These expenses are assigned to the outside provider categories prorata based on the "direct" expenses, as calculated below.

	Attorney	Certified Public Acct	Professional Engineer	Mgmt Consultant	Total
Service-Related Charges	\$ 835,240	\$ 3,656,659	\$ 2,843,390	\$ 3,274,849	\$ 10,610,139
Percent of Cost Pool Total	7.9%	34.5%	26.8%	30.9%	100.0%
Allocation Of Overhead Expenses	\$ 86,177	\$ 377,289	\$ 293,377	\$ 337,889	\$ 1,094,733

Schedule 3

Columbia Gas of Virginia, Inc.
Outside Provider Cost Pools For 2009 NCSC Contract Billings Charges

Department	Outside Provider				Total
	Attorney	Certified Public Accountant	Professional Engineer	Mgmt Consultant	
Accounts Payable		\$ 67,023			\$ 67,023
Administrative Services				\$ 32,599	\$ 32,599
Audit		\$ 196,475			\$ 196,475
Business Continuity				\$ 14,282	\$ 14,282
Capital Management and Analysis		\$ 308,863			\$ 308,863
Consolidated Financial Reporting		\$ 194,993			\$ 194,993
Consolidated Taxes		\$ 231,529			\$ 231,529
Corporate Affairs				\$ 42,949	\$ 42,949
Corporate Communications				\$ 94,965	\$ 94,965
Corporate Development				\$ 28,187	\$ 28,187
Corporate Human Resources				\$ 171,500	\$ 171,500
Corporate Secretary	\$ 25,538				\$ 25,538
Corporate Security				\$ 52,469	\$ 52,469
Credit Risk Management				\$ 54,660	\$ 54,660
Customer Services		\$ 307,926			\$ 307,926
Distribution Operations			\$ 108,666		\$ 108,666
Distribution Operations Management				\$ 153,359	\$ 153,359
Engineering Services			\$ 266,732		\$ 266,732
Enterprise Transformation				\$ 219,559	\$ 219,559
Environmental, Health & Safety			\$ 282,800		\$ 282,800
ESS Administration			\$ 62,050		\$ 62,050
Executive				\$ 290,811	\$ 290,811
Finance & Strategies		\$ 336,244			\$ 336,244
Financial Planning		\$ 95,436			\$ 95,436
Gas Supply			\$ 1,167,058		\$ 1,167,058
Gas Systems Planning and Modeling			\$ 237,906		\$ 237,906
Governmental Affairs				\$ 33,826	\$ 33,826
HR Support				\$ 216,837	\$ 216,837
Information Technology		\$ 164,653			\$ 164,653
Insurance				\$ 47,981	\$ 47,981
Investor Relations				\$ 14,592	\$ 14,592
IT Security & Compliance		\$ 379,724			\$ 379,724
Legal	\$ 809,701				\$ 809,701
Logistics			\$ 131,184		\$ 131,184
New Business Processes				\$ 1,146,839	\$ 1,146,839
NiSource Training				\$ 1,285	\$ 1,285
OD/HRIS Exec / Organizational Devel				\$ 24,259	\$ 24,259
Operations			\$ 127,035		\$ 127,035
Operations Planning			\$ 146,720		\$ 146,720
Payroll Services		\$ 25,153			\$ 25,153
Performance Management		\$ 83,635			\$ 83,635
Regulated Revenue Management				\$ 52,329	\$ 52,329
Regulatory		\$ 242,693			\$ 242,693
Retail Services				\$ 12,309	\$ 12,309
Revenue Transactions		\$ 350,051			\$ 350,051
Risk Management				\$ 11,242	\$ 11,242
Segment Accounting		\$ 525,397			\$ 525,397
Standards and Compliance				\$ 558,015	\$ 558,015
Supply Chain Administration			\$ 283,951		\$ 283,951
Technical Operations			\$ 29,287		\$ 29,287
Treasury		\$ 125,502			\$ 125,502
Work Management - GIS			\$ 1		\$ 1
Work Management System		\$ 21,363			\$ 21,363
Total	\$ 835,240	\$ 3,656,659	\$ 2,843,390	\$ 3,274,849	\$ 10,610,139

**Columbia Gas of Virginia, Inc.
Outside Provider Hour Pools For 2009 NCSC Contract Billings Charges**

Department	Outside Provider				Total
	Attorney	Certified Public Accountant	Professional Engineer	Mgmt Consultant	
Accounts Payable		1,572			1,572
Administrative Services				345	345
Audit		3,141			3,141
Business Continuity				249	249
Capital Management and Analysis		6,620			6,620
Consolidated Financial Reporting		3,355			3,355
Consolidated Taxes		4,146			4,146
Corporate Affairs				479	479
Corporate Communications				1,289	1,289
Corporate Development				406	406
Corporate Human Resources				3,173	3,173
Corporate Secretary	489				489
Corporate Security				797	797
Credit Risk Management				750	750
Customer Services		3,397			3,397
Distribution Operations			913		913
Distribution Operations Management				1,017	1,017
Engineering Services			5,280		5,280
Enterprise Transformation				3,520	3,520
Environmental, Health & Safety			5,054		5,054
ESS Administration			488		488
Executive				1,635	1,635
Finance & Strategies		6,846			6,846
Financial Planning		1,289			1,289
Gas Supply			23,449		23,449
Gas Systems Planning and Modeling			5,614		5,614
Governmental Affairs				395	395
HR Support				3,918	3,918
Information Technology		-			-
Insurance				903	903
Investor Relations				139	139
IT Security & Compliance		3,258			3,258
Legal	11,145				11,145
Logistics			2,234		2,234
New Business Processes				25,595	25,595
NiSource Training				-	-
OD/HRIS Exec / Organizational Devel				461	461
Operations			1,686		1,686
Operations Planning			2,361		2,361
Payroll Services		494			494
Performance Management		1,708			1,708
Regulated Revenue Management				717	717
Regulatory		5,243			5,243
Retail Services				221	221
Revenue Transactions		8,272			8,272
Risk Management				151	151
Segment Accounting		12,844			12,844
Standards and Compliance				10,518	10,518
Supply Chain Administration			6,053		6,053
Technical Operations			435		435
Treasury		1,504			1,504
Work Management - GIS			-		-
Work Management System		-			-
Total	11,634	63,688	53,567	56,676	185,565

V – Question 2 – Provision of Services at the Lower of Cost or Market

Outside Service Provider Hourly Rates

The next step in the lower of cost or market comparison was to calculate the average billing rates for each type of outside service provider. The source of this information and the determination of the average rates are described in the paragraphs that follow.

Attorneys

The Virginia Bar Association does not survey its members as to their hourly billing rates. In addition, publicly available billing rate information could not be found for Virginia attorneys (Virginia Lawyers Weekly used to ask for hourly rates in its annual survey but eliminated that question a few years ago). Therefore, an estimate of Virginia attorney rates was developed from surveys of Michigan and Massachusetts lawyers conducted annually by the publications, Michigan Lawyers Weekly and Massachusetts Lawyers Weekly. As presented in Schedule 5, the average rate for each Michigan and Massachusetts firm respondent was adjusted for the cost of living differential between their location and Richmond, Virginia. The survey includes hourly rates that were in effect at December 31, 2007. Thus, the 2007 average rate was escalated to June 30, 2009—the midpoint of 2009.

Certified Public Accountants

The average hourly rate for Virginia certified public accountants was developed from a 2008 survey conducted by the American Institute of Certified Public Accountants (AICPA) every two years. Hourly rates in the AICPA survey are the average of firms in Virginia. The average hourly rate was calculated for a range of accountant positions, as shown in Schedule 6. Based on a typical staff assignment by each accountant position, a weighted average hourly rate was calculated. This survey covered hourly rates in effect during 2007. Thus, the 2007 average rate was escalated to June 30, 2009—the midpoint of 2009.

Professional Engineers

CGV provided 2009 hourly rate information for three engineering firms that are periodically used by the company when outside engineering services are required. As shown in Schedule 7, an average rate was developed for a range of engineering positions. Then, using a typical percentage mix by position for a typical engineering project, a weighted average cost per hour was calculated.

Management Consultants

The cost per hour for management consultants was developed from the 2009 annual survey performed by the Association of Management Consulting Firms—an industry trade organization. The first step in the calculation, presented in



Schedule 8, was to determine an average rate by consultant position. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison. This survey includes rates that were in effect at December 31, 2008 for firms in the United States. This 2008 average rate was escalated to June 30, 2009—the midpoint of 2009.

Columbia Gas of Virginia, Inc.
Estimated 2009 Billing Rates For Virginia Attorneys Based On
Michigan and Massachusetts Attorney Billing Rates

Billing rates as of December 31, 2007 (Note A)										
Firm	Location	Number Of Lawyers	Billing Rate Range					Average	Cost of Living Adjust (C)	Adjusted Rate
			Associate		Partner					
			Low	High	Low	High				
Dickinson Wright PLLC	Detroit, Mi	229	\$ 170	\$ 275	\$ 260	\$ 530	\$ 309	85%	\$ 365	
Dykema	Detroit, Mi	222	\$ 185	\$ 390	\$ 245	\$ 625	\$ 361	85%	\$ 427	
Butzel Long	Detroit, Mi	209	\$ 165	\$ 400	\$ 220	\$ 550	\$ 334	85%	\$ 395	
Bodman LLP	Detroit, Mi	128	\$ 125	\$ 215	\$ 210	\$ 495	\$ 261	85%	\$ 309	
Jaffe Raitt Heuer & Weiss, PC	Southfield, Mi	100	\$ 165	\$ 225	\$ 225	\$ 500	\$ 279	97%	\$ 289	
Trott & Trott, PC	Bingham Farms, Mi	64	\$ 170	\$ 170	\$ 235	\$ 235	\$ 203	125%	\$ 162	
Brooks Kushman PC	Southfield, Mi	52	\$ 160	\$ 275	\$ 250	\$ 505	\$ 298	97%	\$ 308	
Kemp, Klein, Umphrey, Edelman & May PC	Troy, Mi	36	\$ 150	\$ 190	\$ 200	\$ 340	\$ 220	111%	\$ 198	
Pepper Hamilton LLP	Detroit, Mi	33	\$ 200	\$ 315	\$ 340	\$ 615	\$ 368	85%	\$ 435	
Hertz, Schram & Saretsky, PC	Bloomfield Hills, Mi	29	\$ 175	\$ 260	\$ 275	\$ 400	\$ 278	139%	\$ 200	
Strobl & Sharp, PC	Bloomfield Hills, Mi	28	\$ 110	\$ 210	\$ 200	\$ 300	\$ 205	139%	\$ 148	
Kupelian Ormond & Magy, PC	Southfield, Mi	25	\$ 165	\$ 195	\$ 235	\$ 320	\$ 229	97%	\$ 237	
Rader, Fishman & Grauer, PLLC	Bloomfield Hills, Mi	25	\$ 130	\$ 250	\$ 275	\$ 495	\$ 288	139%	\$ 207	
McShane & Bowie PLC	Grand Rapids, Mi	22	\$ 160	\$ 275	\$ 250	\$ 375	\$ 265	96%	\$ 277	
Edwards Angel Palmer & Dodge	Boston, Ma	259	\$ 144	\$ 321	\$ 474	\$ 474	\$ 353	147%	\$ 241	
Sullivan & Worcester	Boston, Ma	137	\$ 245	\$ 530	\$ 415	\$ 700	\$ 473	147%	\$ 322	
Burns & Levinson	Boston, Ma	112	\$ 210	\$ 350	\$ 375	\$ 475	\$ 353	147%	\$ 240	
Bowditch & Dewey	Worcester, Ma	64	\$ 150	\$ 300	\$ 280	\$ 550	\$ 320	115%	\$ 277	
Mirick O'Connell	Worcester, Ma	60	\$ 160	\$ 250	\$ 280	\$ 400	\$ 273	115%	\$ 236	
Hinckley, Allen & Snyder	Boston, Ma	58	\$ 200	\$ 330	\$ 300	\$ 480	\$ 328	147%	\$ 223	
Prince Lobel Glosky & Tye	Boston, Ma	52	\$ 175	\$ 265	\$ 275	\$ 475	\$ 298	147%	\$ 203	
Robinson & Cole	Boston, Ma	48	\$ 220	\$ 375	\$ 340	\$ 490	\$ 356	147%	\$ 243	
Bromberg & Sunstein	Boston, Ma	42	\$ 250	\$ 450	\$ 500	\$ 725	\$ 481	147%	\$ 328	
Lawson & Weitzen	Boston, Ma	35	\$ 125	\$ 225	\$ 225	\$ 400	\$ 244	147%	\$ 166	
Murtha Cullina	Boston, Ma	34	\$ 165	\$ 290	\$ 250	\$ 500	\$ 301	147%	\$ 205	
Marcus Errico Emmer & Brooks	Braintree, Ma	28	\$ 250	\$ 250	\$ 300	\$ 360	\$ 290	137%	\$ 211	
Rich May	Boston, Ma	25	\$ 150	\$ 300	\$ 300	\$ 400	\$ 288	147%	\$ 196	
Keegan Werlin	Boston, Ma	22	\$ 150	\$ 275	\$ 325	\$ 475	\$ 306	147%	\$ 209	
Barron & Stadfeld	Boston, Ma	21	\$ 160	\$ 230	\$ 250	\$ 350	\$ 248	147%	\$ 169	
Cain Hibbard Myers & Cook	Pittsfield, Ma	19	\$ 150	\$ 200	\$ 210	\$ 235	\$ 199	116%	\$ 171	
Overall Average 2007 Billing Rate									\$ 253	
<u>Escalation to Test Year Midpoint (June 30, 2009) (Note B)</u>										
								CPI at December 31, 2007	210.0	
								CPI at June 30, 2009	215.7	
								Inflation/Escalation	2.7%	
Average Billing Rate At June 30, 2009									\$ 260	

Note A: Source is Michigan Lawyers Weekly (April 2008) and Massachusetts Lawyers Weekly (April 2008)

Note B: Source is U.S. Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>)

Note C: Source is Sperling's Best Places (<http://www.bestplaces.net/col/col.aspx>). This percentage represents the cost of living difference between the Michigan and Massachusetts cities and Richmond, Virginia. A number over 100% indicates the Michigan or Massachusetts city's cost of living is higher than Richmond. A number less than 100 % indicates Richmond's cost of living is higher.

Columbia Gas of Virginia, Inc.
2009 Billing Rates Of Virginia Certified Public Accountants

A. Calculation of Average Hourly Billing Rate by Public Accounting Position
Survey billing rates were those in effect in 2007 (Note A)

Average Hourly Billing Rate (Note A)					
	Staff Accountant	Senior Accountant	Manager	Partner	
Average Hourly Billing Rate by CPA Firm Position	\$ 80	\$ 107	\$ 138	\$ 165	
Percent of Accounting Assignment	30%	30%	20%	20%	Weighted Average
	\$ 24	\$ 32	\$ 28	\$ 33	\$ 117
<u>Escalation to Test Year Midpoint (June 30, 2008) (Note B)</u>					
					CPI at December 31, 2007 210.0
					CPI at June 30, 2009 215.7
					Inflation/Escalation 2.7%
					Average Hourly Billing Rate For CPAs At June 30, 2009 \$ 120

Note A: Source is AICPA's 2008 National PCPS/TSCPA Management of an Accounting Practice Survey (Virginia edition)

Note B: Source is U.S. Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.ai.txt>)

Columbia Gas of Virginia, Inc.
2009 Billing Rates Of Virginia Engineers

Note: Billing rates were those in effect in 2009

A. Calculation of Average Hourly Rate by Engineer Position

Name of Firm	Average Hourly Billing Rates		
	Engineer Tech Land Agent CAD Technician	Engineer Land Surveyor Envir. Scientist	Licensed Professional Engineer
Firm #1	\$75	\$90	\$125
Firm #2	\$63	\$74	\$82
Firm #3	\$65	\$88	\$98

B. Calculation of Overall Average Engineering Hourly Billing Rate

Average Hourly Billing Rate (From Above)	Engineer Tech Land Agent CAD Technician	Engineer Land Surveyor Envir. Scientist	Licensed Professional Engineer	Weighted Average
		\$68	\$84	
Typical Percent of Time on an Engineering Assignment	33%	33%	34%	
	\$22	\$28	\$35	\$84

Source: Information provided by Columbia Gas of Virginia. Firm names are confidential.

Schedule 8

Columbia Gas of Virginia, Inc.
2009 Billing Rates Of U.S. Management Consultants

Survey billing rates in effect in 2008 (Note A)						
A. Calculation of Average Hourly Billing Rate by Consultant Position						
Average	Average Hourly Rates (Note A)					
	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
	\$ 147	\$ 196	\$ 268	\$ 295	\$ 384	
B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement						
Average Hourly Billing Rate (from above)	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
	\$ 147	\$196	\$268	\$295	\$384	
	30%	30%	20%	10%	10%	Weighted Average
Percent of Consulting Assignment	\$ 44	\$ 59	\$ 54	\$ 29	\$ 38	\$ 224
<u>Escalation to the Test Year's Mid-Point (March 31, 2009) (Note B)</u>						
				CPI at December 31, 2008	210.2	
				CPI at June 30, 2009	215.7	
				Inflation/Escalation	2.6%	
Average Hourly Billing Rate For Management Consultants At June 30, 2009					\$ 230	

Note A: Source is "Operating Ratios For Management Consulting Firms, 2009 Edition," Association of Management Consulting Firms

V – Question 2 – Provision of Services at the Lower of Cost or Market

NCSC Versus Outside Provider Cost Comparison

As shown in the table below, NCSC's costs per hour are considerably lower than those of outside providers.

Service Provider	2009 Cost/Hour Difference		
	NCSC	Outside Providers	Difference-- NCSC Greater(Less) Than Outside
Attorney	\$ 79	\$ 260	\$ (181)
Certified Public Accountant	\$ 63	\$ 120	\$ (57)
Professional Engineer	\$ 59	\$ 84	\$ (26)
Management Consultant	\$ 64	\$ 230	\$ (167)

As calculated below, based on these cost per hour differentials and the number of hours that NCSC billed CGV during 2009, the services would cost \$16.5 million more from outside providers. This is 82% more ($\$16,534,801 / \$20,079,567 = 82\%$) than NCSC's total 2009 contract billings to CGV.

Service Provider	2009 Total Cost Difference		
	Hourly Rate Difference-- NCSC Greater(Less) Than Outside	NCSC Hours Charged	Dollar Difference
Attorney	\$ (181)	11,634	\$ (2,103,955)
Certified Public Accountant	\$ (57)	63,688	\$ (3,600,141)
Professional Engineer	\$ (26)	53,567	\$ (1,388,540)
Management Consultant	\$ (167)	56,676	\$ (9,442,166)
			\$ (16,534,801)

Comparison Methodology

Customer Accounts Services covers the following utility functions:

- Customer Call Center – customer calls/contact, credit, order taking/disposition, bill collection efforts, outage calls
- Call Center IT – maintenance of phone banks, voice recognition units, call center software applications, telecommunications
- Customer billing – bill printing, stuffing, and mailing
- Remittance processing – processing customer payments received in the mail
- Bill payment centers – locations where customers can pay their bills in person

It is difficult to compare the cost of NCSC and other affiliate's customer accounts services-related charges to CGV with outside providers of the same services because survey data is proprietary and expensive to obtain. For this reason, CGV's charges from affiliates for customer accounts services are compared to those of neighboring electric utilities because the data necessary to make such comparison is available to the public.

Neighboring electric utility cost information comes from the FERC Form 1 that each utility must file. FERC's chart of accounts is defined in Chapter 18, Part 101 of the Code of Federal Regulations. FERC accounts that contain customer accounts services-related expenses are Account 903 Customer Accounts Expense – Records and Collection Expense and Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense. Schedule 9 provides FERC's definition of the type of expenses that should be recorded in these accounts.

In addition to the charges in these FERC accounts, labor-related overheads charged to the following FERC accounts must be added to the labor components of Accounts 903 and 905:

- Account 926 Employee Pension and Benefits
- Account 408 Taxes Other Than Income (employer's portion of FICA)



Columbia Gas of Virginia, Inc.
FERC Account Descriptions

903 – Customer Records and Collection Expenses

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery, and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

905 – Miscellaneous Customer Accounts Expenses

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

VI – Question 3 – Reasonableness of Customer Account Services Costs

Comparison Group

Neighboring electric utilities included in the comparison group are shown in the table below. These are companies whose FERC Form 1s show amounts for Accounts 903 and 905.

Virginia	• Appalachian Power	• Virginia Electric & Power
Kentucky	• Duke Energy Kentucky • Kentucky Power	• Kentucky Utilities • Louisville Gas & Electric
West Virginia	• Appalachian Power • Monongahela Power	• Wheeling Power
North Carolina	• Duke Energy Carolinas	• Progress Energy Carolinas
Maryland	• Baltimore Gas & Electric • Delmarva Power & Light	• Potomac Electric
Tennessee	• Kingsport Power	

CGV Cost per Customer

As calculated in Schedule 10, CGV’s annual customer accounts expense per customer is \$17.01. CGV’s cost pool includes the same expense items that are included in the neighboring electric utilities’ customer accounts expenses.

Comparison Group Cost per Customer

Schedule 11 shows the actual 2009 customer accounts expense per customer calculation for the electric utility comparison group. All of the underlying data were taken from each utility’s FERC Form 1.

Summary of Results

As shown in the table below, CGV’s cost per customer is below the electric utility comparison group average. Based upon this data, 2009 charges from NCSC and other affiliates for customer account services are reasonable.

Customer Account Services Expenses/Customer	
Louisville Gas & Electric	\$ 15.67
Virginia Electric & Power	\$ 16.15
Monongahela Power	\$ 16.17
Columbia Gas of Virginia	\$ 17.01
Duke Energy Carolinas	\$ 21.65
Progress Energy Carolinas	\$ 22.99
Wheeling Power	\$ 26.12
Kentucky Utilities	\$ 28.42
Comparison Group Average	\$ 29.13
Duke Energy Kentucky	\$ 29.65
Appalachian Power	\$ 32.57
Kingsport Power	\$ 32.60
Baltimore Gas & Electric	\$ 35.46
Kentucky Power	\$ 36.02
Delmarva Power & Light	\$ 69.08
Potomac Electric	\$ 76.47

**Columbia Gas of Virginia, Inc.
CGV 2009 Customer Accounts Expense Per Customer**

NiSource Company	Source of Charges	Amount	
Service Company (12)	0019300 - Customer Engagement	\$ 1	
	0021200 - Customer Programs	\$ 47,268	
	0030300 - Performance Management	\$ 86,833	
	0052900 - Operations	\$ 838	
	0053000 - Revenue Transactions	\$ 215,306	
	0053600 - Bill Printing & Inserting	\$ 305,106	
	0054500 - CISC Electronic Access	\$ 1,957	
	0056100 - Paymnet Exception Proces:	\$ 129,355	
	0056200 - DIS Billing - CDC	\$ 62,655	
	0056300 - CDC Sales	\$ 150,133	
	0099100 - IBM Billing - Call Center	\$ 1,323,170	
	0099500 - IBM Billing - Meter to Cash	\$ 151,503	
	CG-Ohio (34)	1827 - Damage Prevention	\$ 8,180
		1837 - Cash Processing	\$ 46,167
		1838 - Bill Exception Processing	\$ 7,507
		1839 - Revenue Recovery	\$ 76,056
	CG-Pennsylvania (37)	1826 - Meter Reading & Collections	\$ 8,329
1838 - Bill Exception Processing		\$ 28	
1839 - Revenue Recovery		\$ 67,254	
1817 - Technical Operations		\$ (21)	
CG-Virginia	1826 - Meter Reading & Collections	\$ 44	
	1827 - Damage Prevention	\$ 6,367	
	1837 - Cash Processing	\$ 194,067	
	1839 - Revenue Recovery	\$ 5,112	
	2518 - Operations Support	\$ (7)	
	Distribution Operations (A)	\$ 903,043	
	Customer Payment Processing (B)	\$ 201,696	
Customer Accounts Cost Pool Total		\$ 3,997,946	
CGV customers at 12/31/08		235,077	
2009 Cost Per Customer		\$ 17.01	

Note A: Also includes charges for billing-related postage

Note B: Payment Processing Expenses

CGV customers at 12/31/09	235,077
Number of customer payments/year	12
Total payments	<u>2,820,924</u>
Bank processing cost/payment	\$ 0.0715
Total Payment Processing Expense	<u>\$ 201,696</u>

Columbia Gas of Virginia, Inc.
Comparison Group 2008 Actual Customer Accounts Expense Per Customer

	Virginia		West Virginia	
	Appalachian Power	Virginia Electric Power	Appalachian Power	Monongahela Power Wheeling Power
	\$ 29,231,353	\$ 32,985,338		\$ 5,020,473
	\$ 1,894	\$ -		\$ -
	\$ 29,233,247	\$ 32,985,338		\$ 5,020,473
	\$ 1,415,185	\$ 3,978,170		\$ 849,338
	\$ 548,440	\$ 1,573,799		\$ 294,683
	\$ 31,196,872	\$ 38,537,306		\$ 6,164,494
	\$ 957,875	\$ 2,386,208		\$ 381,193
	\$ 32.57	\$ 16.15	see Virginia	\$ 16.17
				\$ 26.12
	\$ 23,000,789	\$124,252,946		\$ 16,659,462
	\$116,519,186	\$642,556,137		\$ 75,556,781
	19.7%	19.3%		22.0%
	\$ 8,480,076	\$ 27,320,711		\$ 6,101,855
	\$ -	\$ -		\$ -
	\$ 8,480,076	\$ 27,320,711		\$ 6,101,855
	\$ 29,231,353	\$ 32,985,338		\$ 5,020,473
	\$ 1,894	\$ -		\$ -
	\$ 29,233,247	\$ 32,985,338		\$ 5,020,473
	\$ 5,345,473	\$ 10,819,819		\$ 2,932,203
	\$ 34,578,720	\$ 43,805,157		\$ 7,952,676
	84.5%	75.3%		63.1%
	\$ 7,169,154	\$ 20,572,530		\$ 3,852,062
	\$ 1,415,185	\$ 3,978,170		\$ 849,338
	\$ 7,169,154	\$ 20,572,530		\$ 3,852,062
	7.65%	7.65%		7.65%
	\$ 548,440	\$ 1,573,799		\$ 294,683
				\$ 18,802

Customer Account Services Cost Pool

FERC Account Balances:

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal

Add: Employee Benefits & Employer FICA (not included in above amounts)

Account 926 - Employee Pension & Benefits

Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

Total Cost Pool

Total Customers (page 304, line 43)

Customer Account Services Expense per Customer

Note A

Note B

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 187)

Total O&M Payroll (page 355, line 65)

Benefits as Percent of Payroll

Payroll Applicable to Customer Account Services

Total Payroll Charged to Customer Accounts Function

Electric (page 354, line 7)

Gas (page 354, line 37)

Total Payroll Charged to Customer Accounts

Percent Applicable to Customer Accounts Services (903 and 905):

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal - Total Charges Applicable to Customer Accounts Services

Acct 902 - Meter Reading Expenses (page 322, line 160)

Total Charges Applicable to Customer Accounts Svcs & Meter Reading

Percent Applicable to Customer Accounts Services (903 and 905)

Customer Account Services Portion of Total Payroll

Pension & Benefits Pertaining to Customer Accounts Services

Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Services

Customer Account Services Portion of Total Payroll

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA

Columbia Gas of Virginia, Inc.
Comparison Group 2008 Actual Customer Accounts Expense Per Customer

	Maryland			North Carolina	
	Baltimore Gas & Electric	Delmarva Power & Light	Potomac Electric	Duke Energy Carolinas	Prog Energy Carolinas
\$ 28,731,040	\$ 32,574,788	\$ 51,049,711	\$ 44,487,077	\$ 25,567,705	
\$ 4,115,795	\$ -	\$ -	\$ 2,782,661	\$ 3,147,580	
\$ 32,846,835	\$ 32,574,788	\$ 51,049,711	\$ 47,269,738	\$ 28,715,285	
\$ 8,208,844	\$ 1,184,741	\$ 6,217,334	\$ 2,666,465	\$ 3,505,221	
\$ 2,528,394	\$ 551,639	\$ 1,009,884	\$ 1,253,668	\$ 1,049,423	
\$ 43,584,072	\$ 34,311,168	\$ 58,276,929	\$ 51,189,871	\$ 33,269,929	
1,229,181	496,682	762,094	2,364,417	1,447,424	
\$ 35.46	\$ 69.08	\$ 76.47	\$ 21.65	\$ 22.99	
\$ 45,202,255	\$ 6,458,817	\$ 25,000,866	\$ 113,864,381	\$ 104,610,824	
\$ 181,995,810	\$ 39,311,821	\$ 53,083,661	\$ 699,798,490	\$ 409,402,544	
24.8%	16.4%	47.1%	16.3%	25.6%	
\$ 25,480,677	\$ 7,184,790	\$ 13,534,519	\$ 18,553,510	\$ 16,538,900	
\$ 13,071,562	\$ 1,796,197	\$ -	\$ -	\$ -	
\$ 38,552,239	\$ 8,980,987	\$ 13,534,519	\$ 18,553,510	\$ 16,538,900	
\$ 28,731,040	\$ 32,574,788	\$ 51,049,711	\$ 44,487,077	\$ 25,567,705	
\$ 4,115,795	\$ -	\$ -	\$ 2,782,661	\$ 3,147,580	
\$ 32,846,835	\$ 32,574,788	\$ 51,049,711	\$ 47,269,738	\$ 28,715,285	
\$ 5,467,374	\$ 7,995,878	\$ 1,289,369	\$ 6,246,835	\$ 5,904,985	
\$ 38,314,209	\$ 40,570,666	\$ 52,339,080	\$ 53,516,573	\$ 34,620,270	
85.7%	80.3%	97.5%	88.3%	82.9%	
\$ 33,050,899	\$ 7,210,967	\$ 13,201,097	\$ 16,387,812	\$ 13,717,953	
\$ 8,208,844	\$ 1,184,741	\$ 6,217,334	\$ 2,666,465	\$ 3,505,221	
\$ 33,050,899	\$ 7,210,967	\$ 13,201,097	\$ 16,387,812	\$ 13,717,953	
7.65%	7.65%	7.65%	7.65%	7.65%	
\$ 2,528,394	\$ 551,639	\$ 1,009,884	\$ 1,253,668	\$ 1,049,423	

Customer Account Services Cost Pool

FERC Account Balances:

Acct 903 - Customer Records & Collection (page 322, line 131)

Acct 905 - Misc Customer Accounts (page 322, line 133)

Subtotal

Add: Employee Benefits & Employer FICA (not included in above amounts)

Account 926 - Employee Pension & Benefits

Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

Total Cost Pool

Total Customers (page 304, line 43)

Customer Account Services Expense per Customer

Note A

Note B

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 187)

Total O&M Payroll (page 355, line 65)

Benefits as Percent of Payroll

Payroll Applicable to Customer Account Services

Total Payroll Charged to Customer Accounts Function

Electric (page 354, line 7)

Gas (page 354, line 37)

Total Payroll Charged to Customer Accounts

Percent Applicable to Customer Accounts Services (903 and 905):

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal - Total Charges Applicable to Customer Accounts Services

Acct 902 - Meter Reading Expenses (page 322, line 160)

Total Charges Applicable to Customer Accounts Svcs & Meter Reading

Percent Applicable to Customer Accounts Services (903 and 905)

Customer Account Services Portion of Total Payroll

Pension & Benefits Pertaining to Customer Accounts Services

Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Services

Customer Account Services Portion of Total Payroll

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA

Columbia Gas of Virginia, Inc.
Comparison Group 2008 Actual Customer Accounts Expense Per Customer

	Kentucky			Tennessee
	Duke Energy Kentucky	Kentucky Power	Kentucky Utilities	Kingsport Power
	\$ 3,221,753	\$ 5,948,209	\$ 12,515,610	\$ 1,473,158
	\$ (46,234)	\$ 4,229	\$ 334,960	\$ 425
	\$ 3,175,519	\$ 5,952,438	\$ 12,850,570	\$ 1,473,583
	\$ 574,297	\$ 268,710	\$ 1,972,749	\$ 32,646
	\$ 243,542	\$ 105,032	\$ 424,973	\$ 24,728
	\$ 3,993,358	\$ 6,326,180	\$ 15,248,292	\$ 1,530,957
	\$ 134,703	\$ 175,646	\$ 536,441	\$ 46,961
	\$ 29.65	\$ 36.02	\$ 28.42	\$ 32.60
				\$ 29.13
	\$ 6,333,174	\$ 4,765,373	\$ 24,119,043	\$ 199,803
	\$ 35,107,273	\$ 24,348,550	\$ 67,918,514	\$ 1,978,375
	18.0%	19.6%	35.5%	10.1%
	\$ 2,613,424	\$ 1,602,234	\$ 7,181,104	\$ 368,129
	\$ 1,559,494	\$ -	\$ -	\$ -
	\$ 4,172,918	\$ 1,602,234	\$ 7,181,104	\$ 368,129
	\$ 3,221,753	\$ 5,948,209	\$ 12,515,610	\$ 1,473,158
	\$ (46,234)	\$ 4,229	\$ 334,960	\$ 425
	\$ 3,175,519	\$ 5,952,438	\$ 12,850,570	\$ 1,473,583
	\$ 986,864	\$ 993,970	\$ 3,761,113	\$ 204,604
	\$ 4,162,383	\$ 6,946,408	\$ 16,611,683	\$ 1,678,187
	76.3%	85.7%	77.4%	87.8%
	\$ 3,183,556	\$ 1,372,968	\$ 5,555,204	\$ 323,247
	\$ 574,297	\$ 268,710	\$ 1,972,749	\$ 32,646
	\$ 3,183,556	\$ 1,372,968	\$ 5,555,204	\$ 323,247
	7.65%	7.65%	7.65%	7.65%
	\$ 243,542	\$ 105,032	\$ 424,973	\$ 24,728

Customer Account Services Cost Pool

FERC Account Balances:

Acct 903 - Customer Records & Collection (page 322, line 131)

Acct 905 - Misc Customer Accounts (page 322, line 133)

Subtotal

Add: Employee Benefits & Employer FICA (not included in above amounts)

Account 926 - Employee Pension & Benefits

Account 408 - Taxes Other Than Income (Employer's Portion of FICA)

Total Cost Pool

Total Customers (page 304, line 43)

Customer Account Services Expense per Customer

Note A

Note B

Note A: Calculation of Pension & Benefits Pertaining to Customer Acct Mgmt

Account 926 - Employee Pension & Benefits (page 323, line 187)

Total O&M Payroll (page 355, line 65)

Benefits as Percent of Payroll

Payroll Applicable to Customer Account Services

Total Payroll Charged to Customer Accounts Function

Electric (page 354, line 7)

Gas (page 354, line 37)

Total Payroll Charged to Customer Accounts

Percent Applicable to Customer Accounts Services (903 and 905):

Acct 903 - Customer Records & Collection (page 322, line 161)

Acct 905 - Misc Customer Accounts (page 322, line 163)

Subtotal - Total Charges Applicable to Customer Accounts Services

Account 902 - Meter Reading Expenses (page 322, line 160)

Total Charges Applicable to Customer Accounts Svcs & Meter Reading

Percent Applicable to Customer Accounts Services (903 and 905)

Customer Account Services Portion of Total Payroll

Pension & Benefits Pertaining to Customer Accounts Services

Note B: Calculation of Employer's FICA Pertaining to Customer Accounts Services

Customer Account Services Portion of Total Payroll

Employer's Portion of FICA (6.20%) and Medicare (1.45%)

Estimated Employer's Portion of FICA

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

Witness: Patrick L. Baryenbruch

47. The response to AG-1-91 states in part that: "Mr. Baryenbruch uses the overall service company cost per customer comparison, one of several data points, to conclude as to the reasonableness of a client regulated utility's charges from service company affiliates."
- a. Identify each of the other "data points" relied upon by Mr. Baryenbruch for his conclusion.
 - b. Please confirm that Mr. Baryenbruch concludes that a company showing below average affiliated service company cost per customer has a reasonable level of such costs. If this cannot be confirmed, explain fully why not.
 - c. Please explain in detail why it would not be equally logical to conclude using the same data that a company showing above average affiliated service company cost per customer has an unreasonable level of such costs.
 - d. Please confirm that Mr. Baryenbruch concludes that a company showing below average customer service cost per customer has a reasonable level of such costs. If this cannot be confirmed, explain fully why not.
 - e. Please explain in detail why it would not be equally logical to conclude using the same data that a company showing above average customer service cost per customer has an unreasonable level of such costs.

Response:

- a. (1) Service company cost per customer, (2) customer accounts cost per customer, and (3) lower of cost or market pricing for Service Company charges
- b. In general, Mr. Baryenbruch's standard for concluding on the reasonableness of affiliate charges is based on whether those costs fall within the range of an appropriate comparison group. A below average per customer cost is certainly within the range and therefore would be considered reasonable.

- c. “Reasonable” does not mean below average in terms of Mr. Baryenbruch’s comparisons. In general, Mr. Baryenbruch’s standard for concluding on the reasonableness of affiliate charges is based on whether those costs fall within the range of an appropriate comparison group.
- d. See the response to subpart b above.
- e. See the response to subpart c above.

For the electronic version, refer to KAW_R_AGDR1#47_052410.pdf.

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

Witness: Patrick L. Baryenbruch

48. Refer to the Baryenbruch report. Please explain in detail how Mr. Baryenbruch and his firm would adjust and modify the FERC Form 60 and FERC Form 1 data for a presentation of per-customer information to a regulatory commission for a firm such as PHI, Entergy, Allegheny, Northeast, National Grid or Duke that he shows as having a much higher than average result.

Response:

Mr. Baryenbruch would not adjust or modify the per customer cost information from the FERC Form 60 for these utilities. It is his policy not to adjust external benchmark data. The data would be presented to a regulatory commission as is.

For the electronic version, refer to KAW_R_AGDR2#48_052410.pdf.

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

Witness: Patrick L. Baryenbruch

49. The response to AG-1-91(a) states in part that: "it is not possible to answer why some service companies have a higher per customer cost." The response to AG-1-92(a) states in part that: "it is not possible to answer why some service companies have a higher or lower per customer cost." Please confirm that no one at Mr. Baryenbruch's firm or at KAW or at the affiliate AWWSC knows "exactly" or specifically or even roughly why any of the companies analyzed by Mr. Baryenbruch's firm have a lower or higher per customer affiliated service company cost than KAW because no one has done a detailed analysis of why the cost is lower or higher.
- a. If this cannot be confirmed without reservation, provide all of the related analysis and explanations of exactly or specifically or even roughly the other companies' per customer affiliated service company costs are higher or lower than KAW's.

Response:

It was not the purpose of Mr. Baryenbruch's study to identify and quantify all the reasons that account for the cost per customer differences among the service companies in the comparison group. Mr. Baryenbruch's purpose was to determine if KAWC's Service Company cost per customer during the 12 months ended September 30, 2009 was within the range of other utility service companies providing the same type of services to their regulated utility affiliates.

This question implies cost differences could be determined merely by "a detailed analysis." This notion is wildly incorrect. The process of determining the specific reasons for cost differences among the service company comparison group would involve a significant amount of time and resources. In order to make that determination, an extensive benchmarking study would be required. This would entail considerable time and expense to organize teams of personnel from each service company to document their respective processes, estimate their process costs, meet to compare process information and identify the reasons for cost differences.

Mr. Baryenbruch has participated in such benchmarking studies for clients and can attest that such a lengthy and labor intensive study is neither practical nor necessary for purposes of evaluating the reasonableness of the Service Company's charges to KAWC.

For the electronic version, refer to KAW_R_AGDR2#49_052410.pdf.

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

Witness: Patrick L. Baryenbruch

50. Please admit that Mr. Baryenbruch does not know why, and has not investigated any specific reasons why, the affiliated Service Company charges to KAW are higher or lower than any other utility's affiliated service company charges.
- a. If your answer is anything other than an unqualified admission, please explain fully and provide all explanations and analysis that Mr. Baryenbruch possesses which identify specific and reasons why one company's cost per customer is higher or lower than another company's.

Response:

It was not the purpose of Mr. Baryenbruch's study to identify and quantify all the reasons that account for the cost per customer differences among the service companies in the comparison group. Mr. Baryenbruch's purpose was to determine if KAWC's Service Company cost per customer during the 12 months ended September 30, 2009 was within the range of other utility service companies providing the same type of services to their regulated utility affiliates.

The process of determining the specific reasons for cost differences among the service company comparison group would involve a significant amount of time and resources. In order to make that determination, an extensive benchmarking study would be required. This would entail considerable time and expense to organize teams of personnel from each service company to document their respective processes, estimate their process costs, meet to compare process information and identify the reasons for cost differences.

Mr. Baryenbruch has participated in such benchmarking studies for clients and can attest that such a lengthy and labor intensive study is neither practical nor necessary for purposes of evaluating the reasonableness of the Service Company's charges to KAWC.

For the electronic version, refer to KAW_R_AGDR2#50_052410.pdf.

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

Witness: Michael A. Miller

51. Comparable information for KAW and its utility affiliates. Refer to the Company's response to AG-1-96.
- a. Please provide the underlying information used to produce the O&M Expense per Connection comparisons show on KAW's response to AG-1-96, page 3 of 3. To the extent that such calculations or any related calculations were made in Excel, please provide such information in Excel.
 - b. Please identify any and all other per-customer expense data that KAW and its affiliates have available, including but not limited to per-account information, in the format that is available for 2008 and 2009 that could be used to compare KAW with the other American Water Works Company affiliated water utility companies. To the extent that such comparable information is available in Excel, please include the related Excel files.

Response:

- a. The Company objects to this request because it is vague, requests data that may not be available in the format requested, and is overly broad and potentially burdensome to produce. Notwithstanding the objection, please refer to the excel file labeled KAW_R_AGDR2#51_052410.xls.

A review or conclusions reached from these unadjusted data are not valid for the rate making process unless many other factors are considered. The costs associated with operation of any water utility are unique and influenced by any number of factors which must be considered in order to arrive at any meaningful conclusions from the data. Each water system's costs are influenced by the following types of factors:

1. Multi-district vs. one combined operation.
2. Size of system – economies of scale.
3. Source of finished water – purchased supply (totally O&M expense) vs. owned treatment facilities (partially capital costs).

4. Source of raw water – ground water, surface water, purchased water (large impact on chemical usage and residuals costs).
5. Geography, Terrain, and Elevation – mountainous area creates higher power usage and costs, vs. flat service area, and the type of soil (rocky, sandy, etc.) impacts costs.
6. The various tariff prices and structures of numerous electric utilities.
7. Age of the system – impacts level of maintenance and replacement programs.
8. Customer density – efficiency, more or less travel time, etc.
9. Union Contracts.

While this list is not and is not intended to be all inclusive, it does provide examples of why the operating costs from one water system to another vary, however, it would be nearly impossible to quantify the impact of those variables.

KAW and AWW use the O&M cost per connection to identify basic trends among common or like system types. This data is considered informational and is not used exclusively in making business decisions.

- b. The O&M cost is the only information regularly maintained by customer connection.

For the electronic version of this response, refer to KAW_R_AGDR2#51_052410.pdf.

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

Witness: Michael A. Miller/Patrick L. Baryenbruch

52. Refer to the Company's response to AG-1-97. The Company's response did not provide the requested consolidating accounting information. (The Attorney General notes that the Company's response to AG 1-97 is the subject of a Motion to Compel. While the Attorney General reserves the right to ask supplemental questions for any response the Commission may compel, the Attorney General, nonetheless, submits these supplemental questions.)
- a. Please provide consolidating accounting information for American Water Works for 2008 and 2009. Please show the amounts for each subsidiary by account and all eliminations and adjustments in the consolidation.
 - b. Please provide consolidating accounting information for American Water Works for the first quarter of 2010. Please show the amounts for each subsidiary by account and all eliminations and adjustments in the consolidation.
 - c. Please provide all consolidating schedules and accounting information that American Water Works supplied to PriceWaterhouseCoopers for 2008 and 2009 and for the first quarter of 2010.
 - d. Please provide the information requested in AG-1-97 and in parts a through c above electronically in Excel.
 - e. Please admit that the American Water Works Company Inc. 2008 and 2009 audited financial statements referenced in the response to AG-1-97 do NOT include the consolidating information detail that was requested in AG-1-97. If your response is anything other than an unqualified admission, explain fully and identify and provide a copy of the documents relied upon.
 - f. Please admit that American Water Works Company Inc., prepares consolidating information each year and provides such information to its independent auditors. If your response is anything other than an unqualified admission, explain fully and identify and provide a copy of the documents relied upon.

- g. Please admit that it is not burdensome to provide to the Kentucky AG the same information that already exists that American Water Works Company Inc., has already prepared and has provided to its auditors, PriceWaterhouseCoopers. If your response is anything other than an unqualified admission, explain fully and identify and provide a copy of the documents relied upon.
- h. Please admit that American Water Works Company Inc., prepares consolidating information not only for financial statement preparation purposes but also for purposes of preparing and filing its consolidated federal income tax return. If your response is anything other than an unqualified admission, explain fully and identify and provide a copy of the documents relied upon.
- i. Please admit that each of the American Water Works Company Inc. utility operating subsidiaries is required to maintain accounting records using the Uniform System of Accounts. If your response is anything other than an unqualified admission, explain fully and identify and provide a copy of the documents relied upon.
- j. Please admit that each of the American Water Works Company Inc., utility operating subsidiaries does in fact maintain accounting records using the Uniform System of Accounts. If your response is anything other than an unqualified admission, explain fully and identify and provide a copy of the documents relied upon.
- k. Please admit that accounting information maintained pursuant to the Uniform System of Accounts for water utilities may be more relevant and useful for purposes of comparing KAW's expenses per customer than electric utility information which uses a different Uniform System of Accounts. If your response is anything other than an unqualified admission, explain fully and identify and provide a copy of the documents relied upon.
- l. Please provide the number of customers served by each affiliated water and wastewater utility as of each of the following dates: 12/31/2006, 12/31/2007, 12/31/2008, 12/31/2009 and 3/31/2010.

Response:

The Company has filed a response to the AG's Motion to Compel information related to AG 1 Item No. 97 and incorporates that response here and continues its objections to AG 1 Item No. 97.

- a. The Company continues its objection to this data request as provided in the response to AG-1-97 and its response to the AG's Motion to Compel.

- b. See the response to part a.
- c. See the response to part a.
- d. See the response to part a.
- e. The Company does not admit. The audited financial statements of AWW do reflect all entries necessary to present the AWW financial position on a consolidated basis along with corresponding audit notes as required under U. S. GAAP. The report reflects the financial statements, which fairly represent the financial position of AWW on a consolidated basis in all material ways.
- f. The Company does not admit. PwC has been the independent auditor for AWW for many decades and has accumulated knowledge, insight and working papers on a host of consolidating items in previous years' audits that do not have to be duplicated each year, but only updated as required. AWW provides its independent auditor the information as requested by PwC necessary to complete the current year's audit of its books and records on a consolidated basis which is comprised of various and voluminous data requests from the auditors.
- g. The Company does not admit. It would be burdensome to accumulate and produce the massive amount of information (particularly by account by subsidiary as requested by the AG in data request AG-1-97) from each subsidiary required to prepare the AWW financial statements on a consolidated basis. The information requested is not relevant to the determination of the cost of service of KAW, the subject of the Company's application in this proceeding.
- h. The Company does not admit. Please see the response to subpart f. above. AWW prepares and files its Federal Income Taxes on a consolidated basis. KAW has provided those consolidated FIT returns in response to AG-1-211.
- i. Each regulated subsidiary is required to maintain and present information to its regulatory commission under each regulatory commission's rules and regulations regarding NARUC accounting, although the Company is aware that various jurisdictions use different versions or older versions of the NARUC COA, so the NARUC account numbers are not consistent across all AWW regulated subsidiaries.
- j. The Company's accounting system is able to covert data to each state's requirements for presentation of rate cases and other filings to the Commission under its rules and regulations, as KAW has done in this proceeding.

- k. The Company does not admit. Electric utilities generally do not own water companies. Thus, the FERC's uniform system of accounts for electric utilities does not contain water utility operations and maintenance (O&M)-related accounts that are included in the KPSC's uniform system of accounts for water companies. However, both systems of accounts do contain a set of accounts for expenses that are similar for electric and water utilities: (1) customer account services and (2) administrative and general expenses. Mr. Baryenbruch's cost per customer comparisons are performed on these two categories of similar expenses. The fact that the systems of accounts are different did not prevent Mr. Baryenbruch from making valid comparisons using electric utility cost information from the FERC Form 1 and Form 60.
- l. See attached.

For the electronic version of this response, refer to KAW_R_AGDR2#52_052410.pdf.

AMERICAN WATER WORKS SERVICE COMPANY, INC.
CUSTOMER COUNT
AS OF 12/31/2008

* E-town & Mt Holly Water merged w/INJAY

CO #	COMPANY NAME	WATER	WASTEWATER	TOTAL	%			
05	CALIFORNIA-AMERICAN	168,384	2,469	170,853	5.19%			
09	ILLINOIS-AMERICAN	285,611	22,123	307,734	9.27%			
10	INDIANA-AMERICAN	283,424	462	283,886	8.55%			
11	IOWA-AMERICAN	60,720	-	60,720	1.83%			
12	KENTUCKY-AMERICAN	118,149	718	118,867	3.58%			
13	MARYLAND-AMERICAN	4,859	-	4,859	0.15%			
16	MICHIGAN-AMERICAN	3,669	-	3,669	0.11%			
17	MISSOURI-AMERICAN	485,794	1,093	486,887	13.76%			
18	NEW JERSEY-AMERICAN	609,607	28,952	638,559	19.22%			
19	NEW MEXICO-AMERICAN	-	-	-	-			
22	OHIO-AMERICAN	51,122	6,574	57,696	1.74%			
23	ARIZONA-AMERICAN	105,943	50,840	156,783	4.72%			
24	PENNSYLVANIA-AMERICAN	632,156	16,802	648,958	19.61%			
25	TENNESSEE-AMERICAN	74,774	-	74,774	2.25%			
26	VIRGINIA-AMERICAN	54,431	-	54,431	1.64%			
27	WEST VIRGINIA-AMERICAN	170,404	-	170,404	5.13%			
28	HAWAII-AMERICAN	-	9,901	9,901	0.30%			
30	LONG ISLAND-AMERICAN	73,927	-	73,927	2.23%			
38	UNITED WATER VIRGINIA	2,574	-	2,574	0.08%			
42	TEXAS-AMERICAN	4,155	1,073	5,228	0.16%			
50	ELIZABETHTOWN WATER Co *	-	-	-	-			
52	ELIZABETHTOWN WATER Co *	-	-	-	-			
53	MT HOLLY WATER Co *	-	-	-	-			
Total					3,176,655	41,017	3,317,672	100.01%

AMERICAN WATER WORKS SERVICE COMPANY, INC.
CUSTOMER COUNT
AS OF 12/31/2007

CO #	COMPANY NAME	WATER	WASTEWATER	TOTAL	%			
05	CALIFORNIA-AMERICAN	169,196	2,248	171,444	5.17%			
09	ILLINOIS-AMERICAN	284,593	22,147	306,740	9.27%			
10	INDIANA-AMERICAN	282,632	454	283,086	8.58%			
11	IOWA-AMERICAN	60,403	-	60,403	1.83%			
12	KENTUCKY-AMERICAN	117,088	705	117,793	3.58%			
13	MARYLAND-AMERICAN	4,853	-	4,853	0.15%			
16	MICHIGAN-AMERICAN	3,891	-	3,891	0.12%			
17	MISSOURI-AMERICAN	483,959	1,088	485,047	14.06%			
18	NEW JERSEY-AMERICAN	381,846	28,365	410,211	12.40%			
19	NEW MEXICO-AMERICAN	-	-	-	-			
22	OHIO-AMERICAN	16,774	16,774	33,548	0.99%			
23	ARIZONA-AMERICAN	51,000	6,578	57,578	1.74%			
24	PENNSYLVANIA-AMERICAN	102,683	50,835	153,518	4.64%			
25	TENNESSEE-AMERICAN	630,132	14,586	644,720	19.48%			
26	VIRGINIA-AMERICAN	74,540	-	74,540	2.25%			
27	WEST VIRGINIA-AMERICAN	54,253	-	54,253	1.64%			
28	HAWAII-AMERICAN	167,909	-	167,909	5.08%			
30	LONG ISLAND-AMERICAN	9,273	-	9,273	0.28%			
38	UNITED WATER VIRGINIA	73,873	-	73,873	2.23%			
42	TEXAS-AMERICAN	2,535	-	2,535	0.08%			
50	ELIZABETHTOWN WATER Co *	4,026	1,063	5,089	0.15%			
52	ELIZABETHTOWN WATER Co *	208,482	-	208,482	6.30%			
53	MT HOLLY WATER Co *	16,244	-	16,244	0.49%			
Total					3,170,932	137,364	3,308,296	100.00%

AMERICAN WATER WORKS SERVICE COMPANY, INC.
CUSTOMER COUNT
AS OF 12/31/2006

CO #	COMPANY NAME	WATER	WASTEWATER	TOTAL	%			
05	CALIFORNIA-AMERICAN	174,690	2,281	176,971	5.38%			
09	ILLINOIS-AMERICAN	282,121	21,951	304,072	9.24%			
10	INDIANA-AMERICAN	280,666	459	281,125	8.54%			
11	IOWA-AMERICAN	59,986	-	59,986	1.82%			
12	KENTUCKY-AMERICAN	115,830	1,045	116,875	3.55%			
13	MARYLAND-AMERICAN	4,776	-	4,776	0.15%			
16	MICHIGAN-AMERICAN	3,741	-	3,741	0.11%			
17	MISSOURI-AMERICAN	483,351	1,014	484,365	14.11%			
18	NEW JERSEY-AMERICAN	370,608	28,000	398,608	12.11%			
19	NEW MEXICO-AMERICAN	-	-	-	-			
22	OHIO-AMERICAN	16,556	-	16,556	0.50%			
23	ARIZONA-AMERICAN	51,209	6,802	58,011	1.76%			
24	PENNSYLVANIA-AMERICAN	100,637	50,265	150,902	4.58%			
25	TENNESSEE-AMERICAN	626,891	19,208	646,099	19.61%			
26	VIRGINIA-AMERICAN	73,701	-	73,701	2.24%			
27	WEST VIRGINIA-AMERICAN	54,551	-	54,551	1.66%			
28	HAWAII-AMERICAN	166,477	-	166,477	5.06%			
30	LONG ISLAND-AMERICAN	9,256	-	9,256	0.28%			
38	UNITED WATER VIRGINIA	73,495	-	73,495	2.23%			
42	TEXAS-AMERICAN	2,422	-	2,422	0.07%			
50	ELIZABETHTOWN WATER Co *	4,088	1,076	5,164	0.16%			
52	ELIZABETHTOWN WATER Co *	208,731	-	208,731	6.34%			
53	MT HOLLY WATER Co *	16,415	-	16,415	0.50%			
Total					3,150,924	141,157	3,292,081	100.00%

AMERICAN WATER WORKS SERVICE COMPANY, INC.
CUSTOMER COUNT
12/31/2009

CO #	COMPANY NAME	Hyperion System 9			%
		WATER	WASTEWATER	TOTAL	
05	CALIFORNIA-AMERICAN	169,342	2,512	171,854	5.17%
09	ILLINOIS-AMERICAN	276,871	31,605	308,476	9.27%
10	INDIANA-AMERICAN	282,625	463	283,088	8.51%
11	IOWA-AMERICAN	60,853		60,853	1.83%
12	KENTUCKY-AMERICAN	118,855	718	119,573	3.59%
13	MARYLAND-AMERICAN	4,875		4,875	0.15%
16	MICHIGAN-AMERICAN	3,679		3,679	0.11%
17	MISSOURI-AMERICAN	456,404	1,092	457,496	13.75%
18	NEW JERSEY-AMERICAN	610,192	29,278	639,470	19.22%
19	NEW MEXICO-AMERICAN	17,195		17,195	0.52%
22	OHIO-AMERICAN	50,578	6,563	57,141	1.72%
23	ARIZONA-AMERICAN	106,365	51,408	157,773	4.74%
24	PENNSYLVANIA-AMERICAN	634,977	17,300	652,277	19.61%
26	TENNESSEE-AMERICAN	74,475		74,475	2.24%
27	VIRGINIA-AMERICAN	54,898		54,898	1.65%
28	WEST VIRGINIA-AMERICAN	170,912	1,094	172,006	5.17%
30	HAWAII-AMERICAN		9,904	9,904	0.30%
38	LONG ISLAND-AMERICAN	73,966		73,966	2.22%
42	UNITED WATER VIRGINIA	2,594		2,594	0.08%
50	TEXAS-AMERICAN	4,170	1,081	5,251	0.16%
	Total	3,173,826	153,018	3,326,844	100.00%

Customer Count at 3/31/10

Company / LOB	Actual	Sewer	Water
New Jersey American	639,736	29,380	610,356
Long Island Water Corp	73,985		73,985
Bluefield Valley Water Works Company	167		167
West Virginia-American	171,818	1,097	170,721
United Water Virginia, Inc.	2,593		2,593
Virginia-American	54,973		54,973
Tennessee-American	74,587		74,587
Pennsylvania American	653,845	17,440	636,405
Maryland-American	4,872		4,872
Kentucky-American	119,208		119,208
Ohio-American	57,303	6,578	50,725
Missouri-American	453,632	1,110	452,522
Michigan-American	3,627		3,627
Iowa-American	60,992		60,992
Indiana-American	283,917	462	283,455
Illinois-American	308,751	31,611	277,140
Illinois Lake Water Company	1		1
Texas-American	5,306	1,095	4,211
New Mexico-American	17,269		17,269
Hawaii-American	9,904		9,904
California-American	172,131	2,509	169,622
Arizona-American	158,404	51,599	106,805
Total	3,327,021	152,785	3,174,236

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

Witness: Michael A. Miller

53. Please provide all pre-consolidated and consolidating information for KAW and for American Water Works Company Inc. for all income statement accounts for 2007, 2008 and 2009.

Response:

The Company objects to this question on the grounds that the information is not relevant to this proceeding, and would be unduly burdensome and costly to produce. The production of the financial information for each subsidiary of AWW by account number would be an extremely burdensome and costly undertaking. The information for regulated subsidiaries (other than KAW) and for non-regulated subsidiaries is not relevant to this proceeding. The AG has previously been provided large amounts of data in numerous data requests regarding AWWSC, AWCC and AWE, the only AWW subsidiaries who have charges included in KAW's filing in this case.

For the electronic version, refer to KAW_R_AGDR2#53_052410.pdf.

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

Witness: Michael A. Miller

54. Please provide all pre-consolidated and consolidating information for KAW and for American Water Works Company Inc. for all balance sheet accounts for 2007, 2008 and 2009.

Response:

The Company objects to this question on the grounds that the information is not relevant to this proceeding, and would be unduly burdensome and costly to produce. The production of the financial information for each subsidiary of AWW by account number would be an extremely burdensome and costly undertaking. The information for regulated subsidiaries (other than KAW) and for non-regulated subsidiaries is not relevant to this proceeding. The AG has previously been provided large amounts of data in numerous data requests regarding AWWSC, AWCC and AWE, the only AWW subsidiaries who have charges included in KAW's filing in this case.

For the electronic version, refer to KAW_R_AGDR2#54_052410.pdf.

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

Witness: Sheila Miller

55. Refer to the response to PSC DR1-1, WP3-1, pages 31 through 33 of 42.
- a. Explain why several positions do not have anything in the "Date Hired" column.
 - b. Explain the items "portion to Boonesboro" and "portion to sewer" on page 33.

Response:

- a. Those positions were vacant at the time of the filing. Please see the response to AG-2-18.
- b. These two individuals charge a portion of their time directly to the KAW sewer operations. The Company is not seeking an increase for its sewer tariffs in this case. Therefore a portion of the DCP-OPEB's were eliminated from this application to reflect the historical percentage of time charged to sewer operations.

For the electronic version of this response, refer to KAW_R_AGDR2#55_052410.pdf.

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

Witness: Michael A. Miller/Sheila Miller

56. Refer to the response to PSC DR1-1, WP3-1, pages 34-39 of 42.
- a. Please identify, quantify and explain all 401(k) amounts related to Incentive Compensation.
 - b. Explain why 401(k) amounts are computed on Incentive Compensation for certain employees and provide the related employee communications.
 - c. Identify the amount of 401(k) expense related to Incentive Compensation for each period: 2008, 2009, 2010, base period, and future test year.

Response:

- a. Incentive was included as part of the base wages for the 401(k) calculation for the following individuals in the Company's forecasted test year:

	<u>Incentive</u>	<u>Co Match</u> <u>401(k) %</u>	
Michael Galavotti	13,754	4%	550
Ray Golden	13,844	4%	554
John-Mark Hack	23,814	4%	953
Jason Hurt	7,345	4%	294
Ronald Kruchinski	8,192	4%	328
Lance Williams	<u>25,020</u>	4%	<u>1,001</u>
	91,969		3,679

- b. The base pay for the enhanced match of the 401(k) for those non-union employees hired on or after January 1, 2006 who are not eligible to accrue benefits under the Defined Benefit Pension Plan as of January 1, 2006 includes the base salary or hourly wages including all overtime payments,

shift differentials, and annual incentive plan awards, but excludes bonuses, commissions, severance pay and other forms of premium compensation. See the attached pages from the employee savings plan manual explaining the 401(k) match.

- c. See below. The base period amount was the incentive that was paid in 2010. Thus 2010 and the base period are the same totals. The forecasted test period is detailed in response to part a above.

	<u>2008</u>	<u>2009</u>	<u>Base Period & 2010</u>
Michael Galavotti	464.36	459.36	561.72
Ray Golden	-	-	-
John-Mark Hack	-	431.40	971.60
Jason Hurt	247.84	246.20	298.88
Ronald Kruchinski	95.88	95.48	316.92
Lance Williams	-	419.00	1,015.76
	<u>808.08</u>	<u>1,651.44</u>	<u>3,164.88</u>

For the electronic version, refer to KAW_R_AGDR2#56_052410.pdf.

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

Witness: Michael A. Miller

57. Refer to the response to PSC DR1-1, WP3-1, page 40. Please provide the AIP performance evaluation forms for 2008 and 2009 for each position listed on that page (i.e., each position that exceeds the FICA base).

Response:

Please see the response to AG-2-10.

For the electronic version, refer to KAW_R_AGDR2#57_052410.pdf.

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

Witness: Michael A. Miller

58. Refer to the response to PSC DR1-1, WP3-1, pages 41-42 of 42.
- a. Please show in detail how each figure in the "AIP Rate 2009" column was derived.
 - b. Please provide the AIP performance evaluation forms 2009 for each position listed on those pages.
 - c. The title of the pages is "AIP & LTIP." Please break out the amounts shown between (1) AIP and (2) LTIP, showing the AIP and LTIP amounts separately.

Response:

- a. The rate is determined by the wage band applicable to each position.
- b. Please see the response to AG-2-19.
- c. Page 42 of the WP referenced in this question provides subtotals for both the AIP and LTIP.

For the electronic version, refer to KAW_R_AGDR2#58_052410.pdf.

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

Witness: Sheila Miller

59. Refer to the response to PSC DR1-1, WP3-2. Please show exactly how KAW adjusted its budgeted fuel and purchased power cost to synchronize with the adjusted water sales levels proposed by KAW for the future test year. If KAW has not yet done this, please provide all information necessary to make such calculations.

Response:

The fuel and power costs were adjusted for the water sales levels proposed by the Company in the forecasted test year. The calculation is included in the excel file provided in response to KAW_R_AGDR1#1_042610 labeled as FP&CHEM10.xls, Pumpage tab. The calculation is shown on the work paper referenced in the question above, page 18 of 32. The budgeted system delivery was detailed by month and the ratio of sales each month to the total budgeted system delivery was calculated to arrive at the ratio of monthly delivery to total delivery. The budgeted monthly system delivery ratio was then applied to normalized system delivery as calculated at the top of page 18. These calculations adjust for weather normalization to synchronize the system delivery in the forecasted test-year to the normalized water sales. The normalized system delivery was then allocated to each treatment plant based on the budgeted ratio of delivery at each plant to the total budgeted system delivery. The normalized system delivery at each treatment plant was then used to calculate the total KWH and fuel and power cost for the forecasted test-year as shown on WP 3-1, pages 2-17 of 32.

The same normalized system delivery for the forecasted test-year was used in the forecasted test-year calculation of chemical expense as shown on WP 3-3, pages 2-11 of 13.

For the electronic version of this response, refer to KAW_R_AGDR2#59_052410.pdf.

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

Witness: Keith Cartier/Sheila Miller

60. Refer to the response to PSC DR1-1, WP3-2. Has KAW included any fuel and purchased power costs based on assumed rate increase that have not been approved by the Kentucky Public Service Commission? If so, please identify, quantify and explain all such amounts.

Response:

Yes. The Company utilized the following rates in preparing the fuel and power adjustment:

KRS High Service; Intake and 2nd Lift; and Kentucky River to Number 4:

Energy Cost - The Company utilized the proposed energy cost for the Time-of-Day Primary Service Rate TODP as proposed by Kentucky Utilities.

Customer charge (KRS High Service only) – The Company utilized the proposed customer charge for the Time-of-Day Primary Service Rate TODP as proposed by Kentucky Utilities.

RRS High Service; Number Four Res Pumps Low Service (Jacobson Reservoir):

Energy Cost - The Company utilized the proposed energy cost for the Time-of-Day Primary Service Rate TODP as proposed by Kentucky Utilities. This facility utilizes the Power Service tariff and the energy cost is the same on both tariffs. Therefore the Company utilized the proposed rate as provided from Kentucky Utilities.

Pool 3 booster station:

Energy cost – The Company utilized the proposed energy cost for the Time-of-Day Primary Service Rate TODP as proposed by Kentucky Utilities.

For the electronic version, refer to KAW_R_AGDR2#60_052410.pdf.

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

Witness: Sheila Miller/Keith Cartier

61. Refer to the response to PSC DR1-1, WP3-3.
- a. Please show exactly how KAW adjusted its chemical cost budget for chemical usage to synchronize with the adjusted water sales levels proposed by KAW for the future test year. If KAW has not yet done this, please provide all information necessary to make such calculations.
 - b. Has KAW included any chemical costs based on assumed price increases that are not supported by actual contracts or by supplier invoices? If so, please identify, quantify and explain all such amounts.

Response:

- a. KAW did synchronize chemical usage to adjusted water sales, see the information provided in response to KAW_R_AGDR2#59_052410.
- b. Yes the Company applied price changes to the current 2010 contract prices for January through September 2011. Those price changes and explanations were provided in response to KAW_R_PSCDR2#16(b)_043010.

For the electronic version of this document, refer to KAW_R_AGDR2#61_052410.pdf.

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

Witness: Keith Cartier/Sheila Miller

62. Waste disposal. Refer to the response to PSC DR1-1, WP3-4.
- a. Provide the invoices and supporting documentation for the \$245,000 on page 2 of 3.
 - b. Provide the invoices and supporting documentation for the \$184,628 on page 2 of 3.
 - c. Provide a citation to any orders or rulings relied upon for the deferral and prospective amortization of the \$245,000.
 - d. Explain in detail how the amortization period for the \$245,000 was selected.

Response:

- a. The \$245,000 is an estimate for the KRS Lagoon cleaning to be performed June 2011. Since the expense has not been incurred there is no invoice or supporting documentation.
- b. See attached.
- c. The deferral and two year amortization of the KRS Lagoon has been consistent with prior filings since 2000 and has been accepted by the commission. See the Commission's Order in Case No. 2004-00103.
- d. See response to part c. A two year amortization period is historically what the commission has authorized and consistent with the period KAW performs the cleaning.

For the electronic version, refer to KAW_R_AGDR2#62_052410.pdf.

C. B. Construction Company

P.O. Box 965
233 East French Ave.
Burnside, Kentucky 42519
(606) 561-9963

RECEIVED

JUN - 5 2009

SSC-MAILROOM

12000793
9

Kentucky American Water Co.
PO Box 5610
CherryHill, NJ 08034

DATE: June 2, 2009

JOB: Sludge Removal

WORK BASKET #A12SEC05

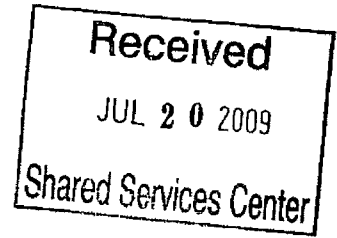
INVOICE #060209

CONTRACT PRICE	\$180,000.00
PREVIOUS BILLINGS	-0-
THIS BILLING (Mobilization & Set-up)	25,000.00
BALANCE ON CONTRACT	155,000.00

TOTAL AMOUNT OF THIS INVOICE \$25,000.00

C. B. Construction Company

P.O. Box 965
233 East French Ave.
Burnside, Kentucky 42519
(606) 561-9963



Kentucky American Water Co.
PO Box 5610
Cherry Hill, NJ 08034

DATE: July 15, 2009

WORK BASKET #A12SEC05

ATTN: Mr. Joe White

12000793
NSX

JOB: Sludge Removal

INVOICE #150709

CONTRACT PRICE	\$180,000.00
PREVIOUS BILLING	25,000.00
THIS BILLING 100% Complete	155,000.00
BALANCE ON CONTRACT	-0-

ADDITIONAL BILLING:

Weed-eating	2,000.00
Regrading Road	1,500.00
Spraying Fence	1,000.00
Chemical (for spraying)	<u>127.00</u>

TOTAL AMOUNT OF THIS INVOICE \$159,627.00

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

Witness: Michael A. Miller

63. Please provide a copy of the American Water Works consolidated federal income tax returns for tax years 2007, 2008 and 2009 including all supporting schedules and consolidating schedules.

Response:

Please see the response to AG-1-211.

For the electronic version of this response, refer to
KAW_R_AGDR2#63_052410.pdf.

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

Witness: Michael A. Miller

64. Affiliate Management Fees. Refer to the response to PSC DR1-1, WP3-5, page 3 of 3.
- a. Show in detail how the "Original Budget" amount of \$8,975,578 was developed. Include complete supporting detail. To the extent the detail was developed using Excel, please include all related Excel files.
 - b. Why is the forecast amount of \$9,082,929 higher than the "Original Budget" amount of \$8,975,578? Identify, quantify and explain all additional costs that were added to the Original Budget to derive the forecast amount for these affiliated charges.

Response:

- a. The Company objects to this question on the grounds that the request is unduly burdensome and costly to produce. The AWWSC budget comprises over 1,500 hundred employees located in numerous offices and locations in the over 20 states where AWWSC provides services to the subsidiary regulated utilities. To accumulate the detailed back-up would involve a massive effort to collect tens of thousands of documents and copy them into a file for providing a response to the question.

Notwithstanding the objection the Company responds. Please see the response to AG-1-405 which provided significant data regarding the 2010/2011 AWWSC budgets, budget assumptions and discussion of the software on which the budget resides. The AWWSC budget is prepared much like the budget of any other company and much like the forecasted test-year filing in this case. The process begins with the selection of a base period on which to project future costs. Assumptions for the impacts of inflation, wage increases, benefit plan increases, and utility cost increases are formulated and used consistently by the various business units to develop budgets. At AWWSC, the process involves a budget for each business unit and/or functional area. Because AWWSC is a service company the vast majority of its expenses are related to employee costs (labor and employee benefit costs). The process at each business unit and/or functional area involves reviewing the current employee level, including projection of filling vacancies, adding positions based on workload or eliminating positions. Once the employee level is determined

then it is a matter of taking the current salaries and adjusting for the wage increase assumptions (based on the Company's salary administration plan or per union contract). Employee benefits are then determined based upon either the burden rate by plan definition (i.e. 401-k, DCP, AIP, etc.) or by using the actuarially determined DBP costs (OPEB's & Pensions). Payroll taxes are calculated based on the salary levels. There is also a review and projection of travel expense, general office expenses, miscellaneous expenses, lease expenses, etc., and those are adjusted for non-recurring or new expenses as required and adjusted for inflation. There is a capital spending plan developed and the impact on depreciation is determined based on the plant in service. Each business unit and/or functional area reviews the overall budget developed for that area, adjusts as necessary, and then submits it to AWWSC corporate for compiling the total AWWSC budget. Once the total budget is compiled it is reviewed by Senior Management and adjusted as required. The final step would be to have the budget approved by the AWWSC Board of Directors including the President of KAW who sits on that Board.

The Company has provided detailed summaries of the 2010, 2011 and forecasted test-year AWWSC charges previously in response to AG-1-108, AG-1-111, AG-1-112, AG-1-113, AG-1-117 and PSC-2-20 in various formats as requested. In addition, the response to AG-1-108 provides an explanation of how the total AWWSC budget is allocated to each subsidiary.

Please see the response to PSC-2-20 which provides a detailed explanation of the factors increasing AWWSC charges from those included in the Company's 2004 rate case through the amount requested in the forecasted test-year in this case.

- b. The \$9.082 million number was the original forecasted amount included in the Company's filing based on the data provide by AWWSC to the rate department. The \$8.975 million was originally loaded into the KAW JDE budget in error. Subsequently the Company received notification after filing this case that the AWWSC budgets had been amended. As previously supplied in response to AG-1-113, the Company has lowered the level of AWWSC charges requested in this case to \$8.949 million. Please also refer to the response to PSC-2-20 which again indicated the AWWSC charges requested in this case are now \$8.949 million.

For the electronic version of this response, refer to KAW_R_AGDR2#64_052410.pdf.

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

Witness: Michael A. Miller

65. Affiliate Management Fees. Refer to the response to PSC DR1-1, WP3-5, page 2 of 3.
- a. Show in detail how each amount listed on WP3-5, page 2, for each affiliated company department and function was developed, including all supporting budget detail and assumptions.
 - b. Explain what each affiliated department listed on that page does, and identify all services provided by each department to KAW.
 - c. Why are the "Mmgt Fees-Corporate" a subtraction?
 - d. What is the "Aud Going out to K" function? Provide a detailed breakout of the services and costs included in that line item.
 - e. For each affiliated department that charges cost to KAW listed on WP3-5, page 2 of 3, please provide comparable information for each period: 2008, 2009, 2010, base period, and future test year.
 - f. Identify, quantify and explain all Business Development activities in each period: 2008, 2009, 2010, base period, and future test year.
 - g. Explain what SSC is and what services it provides.
 - h. Explain what CSC is and what services it provides.
 - i. Explain what ITS is and what services it provides.
 - j. Provide a breakout of all costs in the Management Fees – Eastern Division line.
 - k. Why does the title on page 2 state: "Revised 2010 management fee plan 12/23/09"?
 - 1) Have there been subsequent revisions after 12/23/09 to the projected management fees for any of these line items? If not, explain fully why not. If so, please provide each subsequent revision.

- 2) Please provide the version of the “management fee plan” before the revision.
- 3) Please identify, quantify and explain each item that was revised.

Response:

- a. Please see the response to AG-2-64.
- b. Please see the attached document which provides a detailed summary of the various functions and activities of AWWSC. Also see the 1989 Service Company Agreement previously supplied in response to PSC-1-29a.
- c. The Corporate employees charge their time and are tracked by functional area and charged to each subsidiary according to the timesheet direct or allocated formulas. The credit is generated when the overheads are cleared from the home corporate business unit to the functional area where they reported their time.
- d. It was a misprint in the file pagination. This refers to the Auditing Function.
- e. The Company objects to this question on the grounds that it is duplicative. The information by business unit has already been provided to the AG in previous data requests needed to make this side by side comparison. Please see the following responses: AG-1-107-2009/2010 data; AG-1-109-Base and Forecasted Test-Year Data; AG-1-110-2009 Data; AG-1-111-2010 Data; AG-1-112-2011 Data; AG-1-113-FTY Data.
- f. KAW is provided Business Development (“BD”) support from one Eastern Division Mgr. of BD dedicated to regulated opportunities in KY and TN, and one Eastern Division BD Analyst that provides financial modeling support for the nine Eastern Division regulated subsidiaries. The Company also receives BD support from Corporate in the areas of policy guidance and oversight, analytical tools, consultation with BD personnel in other regions or subsidiaries, research on BD opportunities in KY, and access to a national data base of BD opportunities and applicable RFP’s. The BD team is dedicated to growing the regulated business of KAW for the benefit of both the existing KAW customers and the Company. Please see the response to part b. above for a description of the functions performed for KAW.
- g. The SSC is the National Shared Service Center. Please see the response to part b. above for a description of the functions performed for KAW.

- h. The CSC is the nation Customer Service Center. Please see the response to part b. above for a description of the functions performed for KAW.
- i. The ITS is Information Technology Services. Please see the response to part b. above for a description of the functions performed for KAW.
- j. The Company objects to this question on the grounds that it is duplicative, and vague as to the period. Please see the responses to AG-1-116 and AG-1-117 for information previously supplied regarding regional AWWSC charges.
- k. The date refers to the date the file was established and provided to KAW.
 - 1) Yes. There has been one revision to the AWWSC budgeted costs to KAW since the filing of Company's application in this proceeding. The Company has previously supplied the one revision as previously noted in the response to AG-1-113 and PSC-1-20.
 - 2) The Company objects to this question on the grounds that any preliminary budget prepared prior to approval of the AWWSC Board of Directors is not final and therefore not relevant to this proceeding.
 - 3) Please see the response to subpart k. 2 above.

For the electronic version of this response, refer to KAW_R_AGDR2#65_052410.pdf.

American Water Works Service Company

Functional Area Analysis

The following analysis provides an overview of the American Water Works Service Company (“Service Company”) organization, the organizational structure for providing those services, the functional areas within the Service Company, a brief description of the various services provided by each functional area to the AWW operating companies, and the number of Service Company employees by function. The services available from the Service Company to Kentucky American are authorized by the 1989 Service Company Agreement between the Service Company and Kentucky American.

The business and professional functions provided by the Service Company to the state operating companies are the types of business functions that are common to most companies and would be required by the local operating water companies if the Service Co. did not exist. In addition, the main purpose of the Service Co. is to utilize the economies-of-scale which can be realized through the provision of common business and professional services “at-cost” without profit across the state operating business partners of American Water.

The Service Company provides business and professional services which are necessary, common to the industry and shared across multiple jurisdictions. The Service Company and the state operating companies engage in a relationship that allows the local operating companies to concentrate on the day-to-day tasks of

providing potable water service to their customers at the required volumes, pressure and quality while the Service Company concentrates on the various global issues and the general services, which will be discussed further in this document, to attain a Partnership of Service. This partnership is graphically displayed on Attachment 1.

An analysis of the functional areas and number of Service Company personnel engaged in those areas was undertaken to show the number of employees in each functional area and the relationship and interrelationship between the Service Company and the state operating companies. In addition, the functional areas were further broken down into the overall sub-functions of Governance, Corporate functions, Business Services, and State or Subsidiary Support. The analysis was based on the 1,642 total Service Company employees as of August 9, 2009. An analysis of the various business units was performed to identify the functions performed.

For purposes of this discussion, the Service Co. can be broken down into thirteen business or professional functions as follows:

- Administration and Property
- Audit
- Business Development
- Business Transformation
- Customer Service
- External Affairs and Communications
- Finance
- Human Resources
- Information Systems (Technology)
- Legal
- Operation Services
- Regulatory Services

Water Quality

The number of Service Co. employees by functional and sub-functional areas is broken down and displayed as a matrix on Attachment 2 and as a pie chart on Attachment 3. The presentation shows that approximately two-thirds (66%) of the Service Co. employees are involved in the Business Services sub-function consisting primarily of the Customer Service Call Centers in Alton, Illinois and Pensacola, Florida and the Shared (Financial) Services Center in Cherry Hill, New Jersey. The other sub-functions were comprised of: 3% involved in Governance functions; 12% involved in corporate functions; and 20% in direct support of the state operating units.

Administration and Property

This area of the Service Company consists of a total of 18 employees who provide services in the areas of Building Management services (mail room clerks, receptionists and Facilities Management and Operations Services). There are several other functions with very small staffs classified in this category.

Audit

The 9 employees in this area consist of a Vice President of Internal Audit and 8 Auditors. They oversee the certification of financial statements of the operating companies as well as ensure the compliance with GAAP, IRS and other reporting requirements including SOX testing. They audit the entire financial business model in addition to operational field audits.

Business Development

There are 13 employees dedicated to the business development function concentrating on corporate and regional (state) business development issues. The employees in this area perform research and analysis to identify and examine viable merger or acquisition candidates to grow and develop the business into service areas that will benefit from the management expertise and economies-of-scale American Water offers. The Corporate staff provides policy guidance and oversight as well as analytical tools and consultation with divisional and state personnel.

Business Transformation

There are 11 employees engaged in the activity of reviewing the various business processes, work flows, data and system requirements which are currently in place with the objective of aligning those areas to meet the current requirements more efficiently and effectively in the present business environment and into the future. Among other duties, they examine the business processes of: Order to Completion (Customer Service and Field Resource Coordination) ; Record to Report (Financial and Operating data preparation and reporting); Recruit to Retire (Human Resource Development); Order to Cash (Customer Service Order Processing and Billing); Plan/Build/Retire (Capital Asset Management); Procurement to Payment (Supply Chain functions); Information Systems (Effective and strategic deployment of information technology). By the nature of their focus, these employees perform a function on a corporate level that directly impacts the state operating companies as well.

Customer Service

By far, the Service Company employs the largest percentage of its employees to directly serve the needs of the customers of American Water. The vast majority of those employees (666) are located at the national Customer Call Centers in Alton, Illinois and Pensacola, Florida. The Alton facility operates 24/7. The services provided at the centers include: Customer Call Handling which handles customer care, receives customer calls, answers customer inquiries, and initiates service orders or escalates inquiries for further review; Customer Billing which generates and distributes customer bills, resolves billing exceptions, handles special accounts, creates standardization throughout billing, and runs daily, weekly and monthly integrity reports; Collections, which is a function to reduce and manage the Accounts Receivable by maintaining relationships with collection agencies as well as resolution of customer payment disputes. Other employees are involved in Special Handling, Time Critical services, Training and Quality Assurance. In addition, the state operating companies receive dispatching, service order scheduling, and back office support from the 85 employees located at the Regional Field Resource Coordination Centers (FRCC), which are responsible for local dispatch of service orders from the Call Center. The FRCC schedules available resources in each state to perform the service orders generated each day, and to coach and assist field technicians to improve service quality. In addition, the FRCC - Service Support process provides the back-office follow-up which assists in the proper closing of the pending service request initiated by the customer. Meter Management creates meter reading schedules and uploads reads into the

billing systems. Quality Assurance, as part of SOX, reviews new premises being created in the billing system to ensure proper functionality, review incoming payments and open service orders pending for termination due to non-payment and perform follow-up.

External Affairs and Communications

The Senior Vice President of Corporate communications and a Director of Government Affairs maintain communication with government entities on a national level while providing governance for all communication activities at the operating company level with customers, employees, state and local government officials, and the various regulatory agencies. In addition, they guide the 14 employees at the corporate level who perform communications and government relations activities related investor relations, screening communications of the subsidiaries regarding SEC requirements, and central management and development of the AWW and AWW subsidiaries' web pages. In addition, this group of employees assists the AWW subsidiaries with critical an/or special communications and government relations activities as required.; External Communications, sets policy, strategy and governance for media relations, customer awareness & communications and the national external communications; Internal Communications provides communications for the benefit of American Water employees such as newsletters, emails, intranet, and different talking points for conference calls on topics such as company policies and changes across the entire company. The 19 regional External Affairs employees directly 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 and uniformly across all states within the region.

Finance

Of the 327 employees involved in finance, 10 provide the financial governance and consist of four Vice Presidents in the areas of Controller, Treasurer, Finance and Accounting, and Planning and Reporting along with Directors of Division Finance, Internal Controls, Corporate Accounting and Tax. In addition, there are 52 employees who serve corporate functions in the areas of Finance, Income Taxes (including the preparation and filing of both federal and state income tax returns), Treasury, Reporting and Compliance, and Planning.

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 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 the most cost-effective financing for them.

The Controller function performs research and interpretation of accounting pronouncements of regulatory agencies such as the Financial Accounting Standards Board and the Internal Revenue Service and provides governance and guidance on

accounting matters to all AWW subsidiaries. The Controller function reviews and approves financial statements prepared periodically prior to their release, and oversees the financial reporting function for audited financial statements and SEC reporting. The Controller function is also responsible for the implementation of required internal controls that protect the interests of customers and investors.

Planning and Reporting 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 Operating Companies.

The vast majority of the Finance employees (189) provide Financial Business Services at the Shared (Financial) Services Center located in Cherry Hill, New Jersey. These services include:

Accounting (102)- General Accounting maintains the books and records for all state operating companies in addition to the preparation of external financial reporting and annual reports while providing a single point of contact for the Regional Vice Presidents of Finance;

Utility Plant Accounting - Accounts for property, plant, and equipment including the disposal of assets for AWW subs, including AWWSC;

Accounts Payable – Performs invoice processing, P-card (Purchase Card) administration and reconciliations from Accounts Payable to the General Ledger for AWW subs, including AWWSC;

Cash Management (20) – Performs debt administration, funding and assessment, including, check printing for payroll and Accounts Payable checks and all cash receipts reconciliation for AWW subs, including AWWSC. This function also acts as an in-house bank for all subsidiaries and is responsible for payment of debt, provides short-term financing and long term financing with parent, analyzes the cash coming into bank from customers of the subsidiaries and moves cash to one account for concentration and funding which uses American Water Capital Corp. to handle disbursements and receipts.

Employee Services (27) – Performs payroll processing and files payroll related taxes for AWW Subs, including AWWSC.

Rates and Regulation - SSC (12) – Assists the state or regional rates and regulatory employees to coordinate resources to develop financial, operational and projected information which document and support rate cases 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. For some jurisdictions, they manage rate case filings including the hiring and managing of consultants and outside experts in addition to providing expert testimony in selected state rate filings.

General Tax (12) – Prepares Gross Receipts Taxes, Property Taxes, Franchise Taxes, and other general taxes for AWW subs, including AWWSC. These employees perform all tax activities except for State/Federal income taxes and payroll related taxes.

There are 76 Finance employees who interact directly and routinely with the State Operating Companies in the areas of:

Rates and Regulation - Divisional (31) who coordinate information from state operating companies on capital budgets, operational items, extract data from accounting and other systems to prepare forward-looking adjustments to historic data. Manage rate case filings including the hiring and managing of consultants and outside experts in addition to providing expert testimony in state rate filings.

Planning, Budgeting and Forecasting -Regional (26) provides governance in the preparation of budgets and forecasts for revenues, expenses, taxes, the capital spending program and financings while analyzing monthly results.

Capital Compliance (1) ensures that the operating company's are operating within the bounds of and in accordance with bond covenants and debt payments made in a timely manner.

Human Resources

The 58 employees involved in the Human Resources function ("HR") are responsible for all employees from the beginning of their employment to the termination of their employment and/or retirement. HR is organized into five areas: Compensation and Benefits, Employee and Labor Relations, HR Systems and Processes, Business Center and Corporate Staffing, and Organizational and Talent Development. These functional areas administer company wide compensation and benefits plans, performance review procedures and forms, HR-related policy and practice administration, compliance with state and federal employment laws and reporting requirements, as well as HR policy analysis and research.

The areas of service provided include employee benefits program management, discrimination issue management, collective bargaining unit negotiation strategies, as well as, employee issues, including best practice hiring practices, employee development programs, training and relocations. The areas of service provided by HR are further segmented into:

Compensation

HR designs, implements, and manages compensation programs that:

1. Ensures cost-effective operations and provide strong competitive market positioning. In establishing compensation levels, HR conducts extensive research regarding market-based compensation levels applicable to each employee position;
2. Supports the attraction and retention of talent;
3. Reinforce the culture of performance;
4. Puts accountability in the hands of line management and;
5. Assures compliance with regulatory and statutory requirements.

HR also develops and administers HR-related policies and practices and conducts industry-wide HR policy research and analysis for all levels of management. In addition, HR prepares required reports to governmental agencies at the state and federal levels.

Benefits Service Center – Business Services

The 15 employees working in the Benefits and Compensation area operate a national Benefits Service Center (BSC) for the Service Company as well as the Operating Companies. The BSC is staffed with specialized employees who have the knowledge and skill-sets necessary to address employee and retiree questions and to resolve questions, asked on a daily basis, by active employees, retirees and their dependents, regarding the management and receipt of benefits to which they are entitled under benefit plans and programs.

Since the Service Company utilizes a bid process to select benefit service providers for the Operating Companies, multiple providers may be selected to provide various types of benefits. As a result, it is more efficient for the Service Company to staff,

equip and operate the BSC to address the benefit administration questions of active employees, retirees and their dependents through a single source rather than to rely on separate communication by the affected individuals with multiple providers.

Through the BSC, the Operating Companies receive a cost advantage from large volume purchasing of benefits plans covering all Operating Companies, and a reduced cost for administration and vendor selection.

HR supports Operating Company personnel with regard to labor relations by:

1. Providing training for field negotiations teams;
2. Providing information regarding national labor market trends;
3. Oversight of recruiting using a variety of national and regional job boards for all Operating Companies. This approach reduces the cost of access to these services by leveraging the combined size of the Operating Companies to obtain better pricing while localizing recruiting efforts. As a result, state subsidiaries incur a lower cost for recruiting than it would if this process were handled on a stand-alone basis;
4. Oversight of and administering the applicant tracking system. In this regard, HR negotiates price advantages for the identification of candidates based on the combined volume of Operating Company use of these services involved;
5. Oversight of and administering background screening for applicants (criminal background, drug testing, education confirmation, etc.) HR also obtains volume purchase discount for the Operating Companies for background check services; and
6. Provision of training tools and guidance for various employee development initiatives (supervisory training, ethics/respect training, etc.).

The operating companies are directly served by 3 Divisional Directors and 18 General HR employees.

Information Systems

The Information Systems (ITS) organization is comprised of 165 employees. It is guided by the Chief Information Officer and a Director of Strategy and Architecture. The Business Services aspect of ITS, in addition to Service Desk and Desktop Automation, is comprised of six functional areas: Enterprise Architecture, Security Architecture, Production / Project Management, Business Application Development, Client Services and Support, and Infrastructure and Operations.

The Enterprise Architecture team focuses on long range ITS technology planning. The objective is to focus on technologies that provide value to the operating companies, are cost-effective to implement and maintain, and are consistent with expected performance standards. The objective of Security Architecture is to develop strategies, policies, and standards for ITS resources that will ensure information security. Key responsibilities of this organization include developing information security processes that achieve risk management objectives and information security controls and measures that protect Operating Company customers' identities.

The Production and Project Management team is responsible for the operations, support, and maintenance of the data center, voice and data communications infrastructure. This includes responsibility for all the servers in the data center, back-up and recovery processes, voice and network performance, and bill print and distribution operations.

The Business Application Development team focuses on the design, development, and delivery of software applications necessary for Operating Company requirements.

Business Application Development also provides maintenance support for all application-related technology. The team also addresses ongoing enhancement requests and upgrades to applications.

The Client Services and Support organization 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. In addition, there are 28 employees who provide regional ITS support directly to the state operating companies to support and maintain the day-to-day business computer needs.

As compared to a stand-alone operation for each Operating Company, the Service Company ITS Function reduces the per-customer cost incurred for information technology services by taking advantage of economies of scale and scope, volume discounts where applicable, and by spreading IT costs over the larger customer base of the combined Operating Companies. For example, ITS is able to drive down the per customer cost of software licenses based on total volume purchases of the required licenses. Similarly, ITS is able to leverage the server infrastructure, purchasing fewer larger servers to house applications, instead of multiple smaller servers at each Operating Company, all of which have to be monitored, patched, and maintained. With the ITS approach, fewer total servers can then be maintained by fewer individuals, with less time consumed. Similarly, applications can be developed and maintained centrally instead of at each Operating Company. The individual

Operating Company approach, by contrast would require application changes to be made multiple times, as well as more resources with more idle time, because of the number of skill-sets required and the lower volume of work in each of those skill-sets for a single Operating Company.

The ability to efficiently employ the specialized skills of personnel is also a key benefit provided by ITS. The operation and maintenance of a single software application requires multiple people with specialized skills because most of the requisite skills are not found within a single individual. Through ITS, the operating companies have direct access to a team of skilled technicians that directly support the operating companies on a regional basis to provide solutions based upon individual assessment of unique requirements.

Legal

Members of the legal function are responsible for corporate governance responsibilities, such as the Corporate Secretary function for the Operating Companies and the preparation of required materials for the Operating Company Board of Directors meetings. Members of the Legal function team 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 legal team also provide advice regarding the interpretation of environmental laws and regulations.

The Legal team consists of members who provide legal support for many aspects of Operating Company functions. When specialized legal counsel is required, members of the legal function make decisions to select and retain outside counsel, as required. In addition, Legal function team members handle certain civil litigation and manage claims made against the Operating Companies. Legal team members negotiate for, and review, property easements, leases, and handle acquisitions and dispositions of real estate. Team members also conduct discussions with developer representatives regarding the installation of main extensions and draft-related agreements. The legal team members conduct negotiations with governmental bodies regarding franchises for operations within the boundaries of particular governmental entities. Members of the Legal team also assure compliance with all business registration, licensing and corporate reporting requirements.

As regulated entities, operating companies must comply with a host of national, state and local laws, rules and regulations, and are subject to regulation by various state and federal administrative agencies. The legal function provides the operating companies with access to specialized legal personnel with knowledge and experience related to the areas of law that affect their operations on a shared and cost-effective basis. The Legal function provides the operating companies with access to legal expertise at a cost below that of retaining outside counsel.

Operations Services

Operations Services is a multi-disciplined department comprised of technical, operations and business professionals serving American Water subsidiaries in the following functional areas: Engineering; Maintenance & SCADA Services; Innovation and Environmental Stewardship; Supply Chain; Best Operating Practices; and Operational Risk Management. Each of these groups is responsible for establishing and implementing functional strategies with supporting policies, practices and standards. These groups also provide specialized consultancy expertise and resources to the Operating Companies, as appropriate, to address issues or events, support implementation of functional strategies and augment Operating Company staff on larger or more complex projects. The Operations Services Department leverages both economies of scale and scope, as well as expertise to provide highly experienced, specialized resources to the Operating Companies in a cost-effective manner. The guidance is provided by the President of Regulated Operations along with Senior Division Vice Presidents, Service Company President and Vice Presidents in Operations and Risk Management. From a corporate function the Operations Services teams are also charged with driving best practices in their respective functional areas to produce service level benefits and operational efficiencies that otherwise would be lost.

The following sections provides greater detail on each of the Operations Services functional areas.

The Engineering group 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.

The Asset Management group maintains the water and wastewater system planning standards and provides technical resources to the Operating Companies as needed to support or perform system specific capital improvement master planning. The output of the asset planning effort is the primary input to Operating Companies and the Service Company's Capital Investment Programs ("CIP") and the Engineering function is charged with establishing and administering the corresponding CIM Policy, Practice and Standards, etc. used to implement the CIP.

The Technical Services team within Engineering 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 Operating Company staffs to study alternatives and develop conceptual design solutions and manage the detailed design effort for larger or more complex capital projects.

The Operational Performance (Project Delivery and Construction Management) team is charged with developing and maintaining the various project delivery models and supporting documents needed to satisfy the range of projects (size, complexity, schedule drivers, etc.) to be delivered in the CIP. Project delivery methods include traditional design-bid-build delivery and a range of alternative project delivery methods. The Project Delivery team provides guidance and training on the selection of project delivery methods. Resources from this group are used to augment the Operating Company staffs on larger and more complex projects to develop bidding

and contract documents, administer the bidding and award of contracts and to manage the construction, field inspection and facility commissioning tasks. The group also provides technical services in the areas of maintenance management, equipment testing and diagnostics, and Supervisory Control and Data Acquisition (“SCADA”) systems. The resources and expertise in this department supplement the Operating Company staff and are charged with implementing the Service Company’s Reliability Centered Maintenance (“RCM”) and SCADA strategies. RCM is a widely recognized best practice that proactively considers service level requirements, related asset criticality, asset failure cost and other factors, in order to set forth an appropriate and cost-effective maintenance plan. RCM also requires the assessment of asset condition, performance of equipment diagnostic testing and predictive maintenance tasks. The Service Company has developed the expertise within the Maintenance Services staff to provide these services which include infrared thermography, advanced vibration analysis, motor winding analysis, insulating and lubrication oil testing, ultrasonic testing, as well as other more traditional electrical and mechanical testing and diagnostic techniques. When deficiencies are identified through the diagnostic testing, the Maintenance Services Department also performs the needed repairs. The Maintenance Services team has also recently completed the design and configuration of a Computerized Maintenance Management System (CMMS) for the Operating Companies. Currently, around 2,000 assets are being managed within the American Water system, and the expanded deployment of this system is continuing. SCADA services provided by this group include setting strategy, technical and equipment standards and providing programming services and field technician

support. These services address ongoing equipment and control system calibration, maintenance and repairs, emergency response support during operational events and providing system configuration input, design support and control system programming for new and expanded facilities.

Supply Chain

The Supply Chain Business Services engages 37 employees in 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. By consolidating the purchasing needs of all operating companies, each operating company benefits from economies of scale that would not otherwise be obtained. Purchasing Performance savings are the difference between the market price quoted to the Supply Chain Department and the price paid by the operating companies for goods and materials procured and measures the savings achieved through Supply Chain's strategic sourcing activities. Within the Supply Chain Department there is an energy management group which works with local operating company operations staff and third-party electric providers

to enter into long-term contracts that lock in rates for the operating companies' large consumption locations. The goals of this energy supply procurement process are to achieve lower pricing than would be possible without an agreement and to reduce price volatility. Where operating company facilities are served under a regulated tariff instead of by a competitive provider, the Supply Chain takes steps to ensure that its facilities are served at the most appropriate and cost-effective rate schedule.

Supply Chain also administers American Water's Supplier Diversity Program.

American Water recognizes the value of supplier diversity as a strategic business decision and our Supplier Diversity Policy broadens the supplier base, increases competition, and ensures that American Water receives the finest materials and services at the best available cost.

The Best Operating Practices ("BOP") team specializes in the areas of water treatment and production facility operations, distribution system operations and maintenance, and field customer service. This team also administers Customer Satisfaction and Service Quality survey programs. The team collaborates with numerous operational working teams to develop practices or strategies in the areas of distribution system operations and maintenance, meter reading, material inventory, and field customer service. The BOP team also conducts targeted operational reviews.

The Operational Risk Management function administers the following programs for the state 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; General and Auto Liability.

Through these focused efforts the state operating companies have been able to achieve improvements in terms of reduced injury rates, lost workday cases, and workers compensation claims. The reduction of work-related injuries is a positive indicator of business performance showing that safe working conditions, worker productivity and effective safety programs are not mutually exclusive, but rather are synergistic. Strong safety performance results in higher productivity, improved business efficiencies and customer service through decreased employee absenteeism, decreased overtime and decreased administrative costs. It also results in higher employee morale which positively impacts productivity. In the area of security, the Service Company supports the efforts of operating companies to insure the safety and security of operating company customers and employees.

Regulatory Services

Regulatory Services function provides the operating companies with expertise and support as needed with respect to regulatory issues and policies. This function also provides support for litigation involving rate cases and other regulatory proceedings or investigations, as well as civil litigation.

Water Quality

The Water Quality functional area is led by the Director of Environmental Excellence who governs the efforts in the areas of Water Quality Operations as well as Research

and Environmental Engineering. To assist in this effort on a corporate level is an environmental scientist, as well as environmental compliance specialist and auditors assisted by regional directors of Water Quality who interact directly with the operating companies

The Innovation and Environmental Stewardship Function is a team of scientists and environmental engineers charged with setting Environmental Policy and directing the Service Company's programs for water quality, environmental compliance and stewardship, and applied research. The team is also responsible for regulatory interface (for example, with US EPA), including the direct input and collaboration on new or updated water quality or environmental regulations. This team also conducts comprehensive facility environmental audits and provides expert resources to operations when needed to address difficult treatment, water quality or other complex environmental issues. The applied research efforts of this function are tailored to serve the needs of the operating companies and include nationally recognized work in the areas of drinking water quality, infrastructure needs, and wastewater. The research activities are well aligned with operating company needs.

Belleville Central Water Quality Laboratory

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.

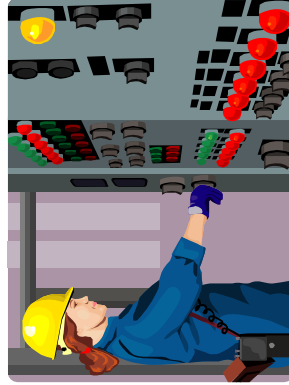
As a dedicated facility, the Laboratory consolidates all analytical testing and archived data in a single location and is able to offer a higher level of service, at a lower cost, when compared to the alternative of commercial laboratories. The higher service levels include sample kit scheduling, shipping and management, filing of analytical reports to meet regulatory compliance requirements, comparison of test results to regulatory limits and action levels with immediate issuance of alerts as needed, and the handling of rush or special requests. The Laboratory works closely with the USEPA and other laboratories to maintain an expert position on challenging and new analytical methods and upcoming regulations. In 2008, the Laboratory became one of only 14 laboratories in the country to achieve certification for the testing methods related to Phase 2 of the United States Environmental Protection Agency ("USEPA") Unregulated Contaminant Monitoring Rule (UCMR2). Through these efforts, the Laboratory is able to provide expert guidance to American Water field personnel for complex water chemistry conditions and analytical requirements for current and new regulations.



AMERICAN WATER

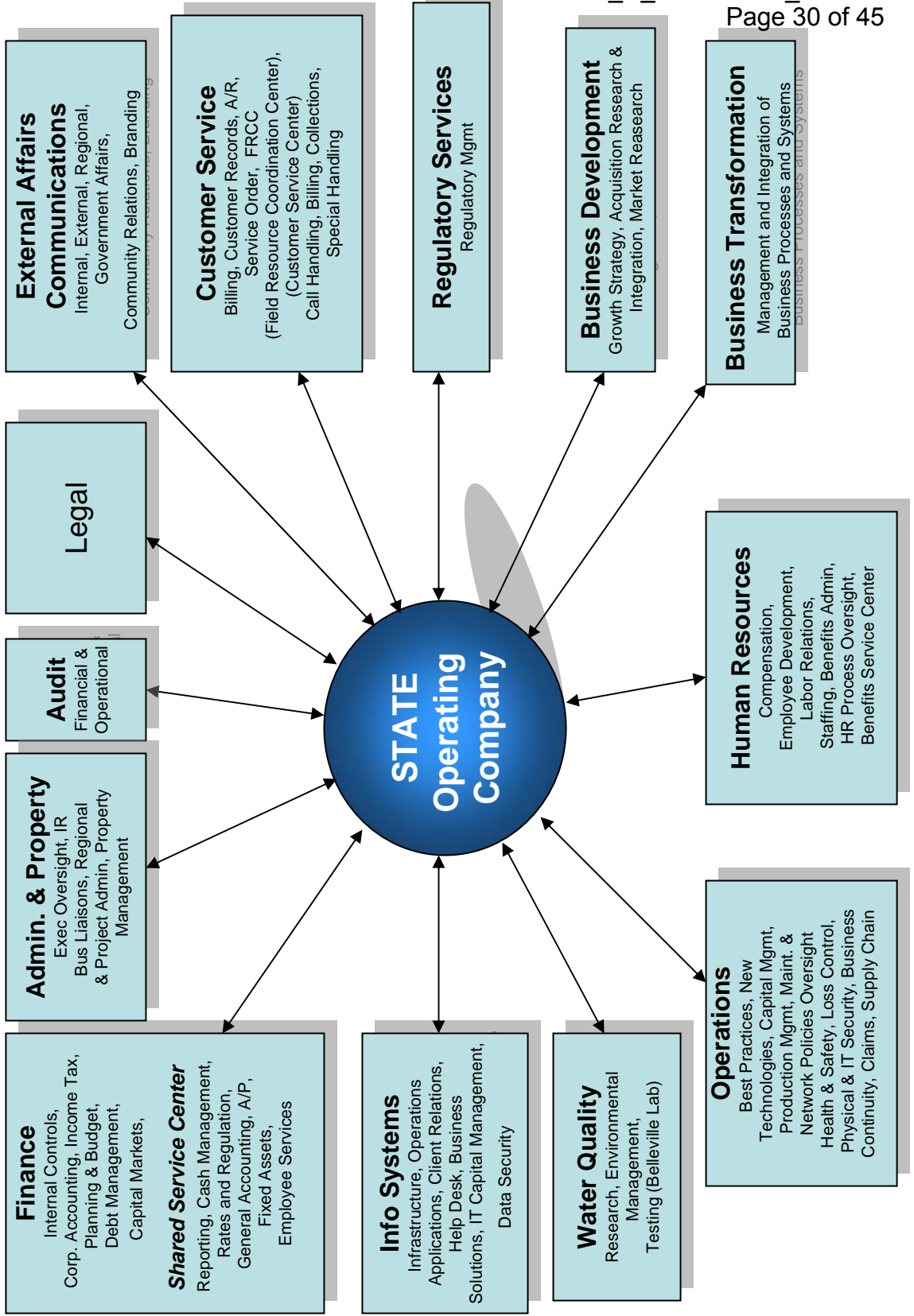
Operating Companies

Service Company



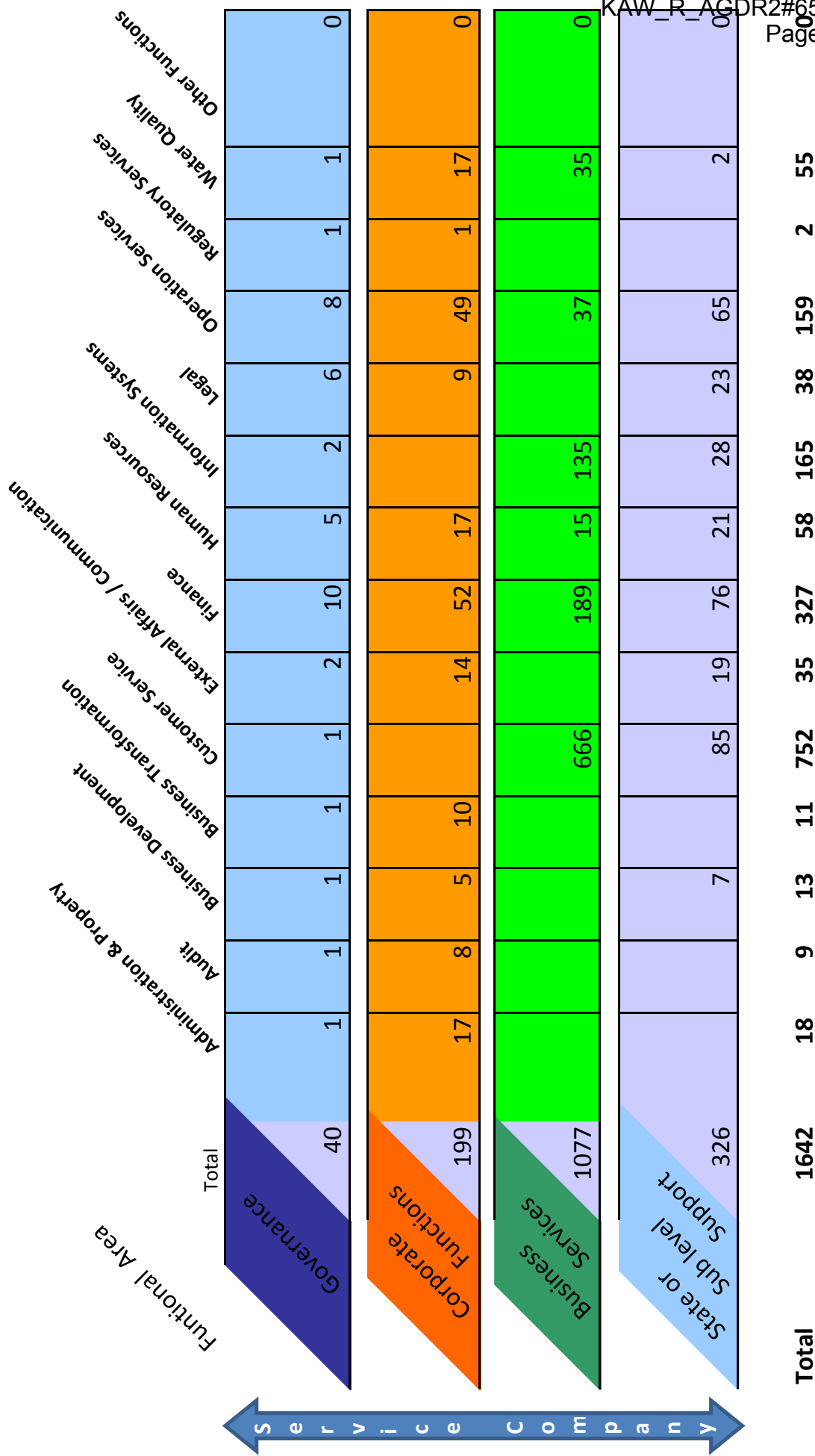
Customer

American Water Works Service Company



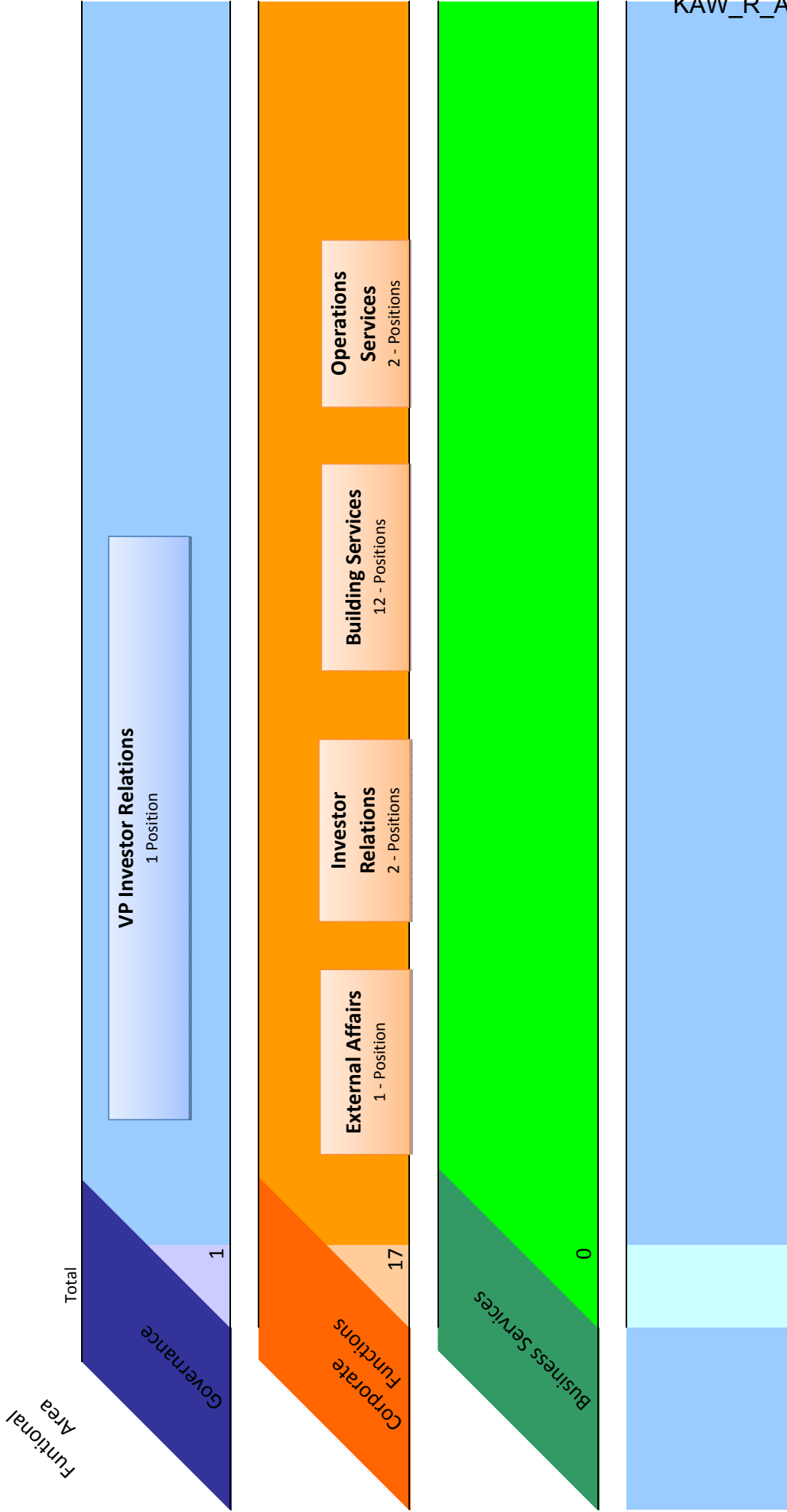
American Water Works Service Co.

Employees by Functional Area



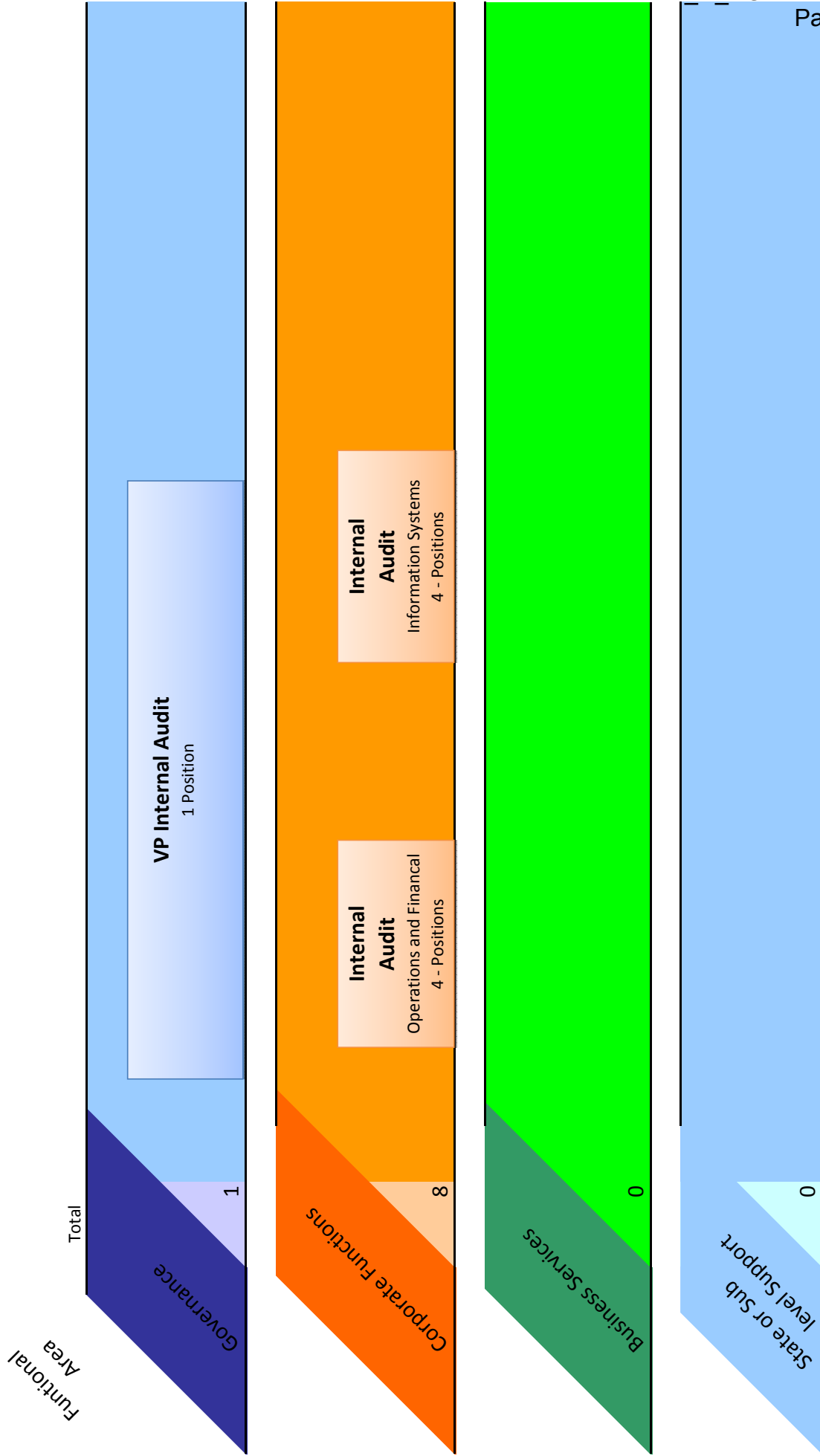
American Water Works Service Co.

Admin and Property Employees by Functional Area



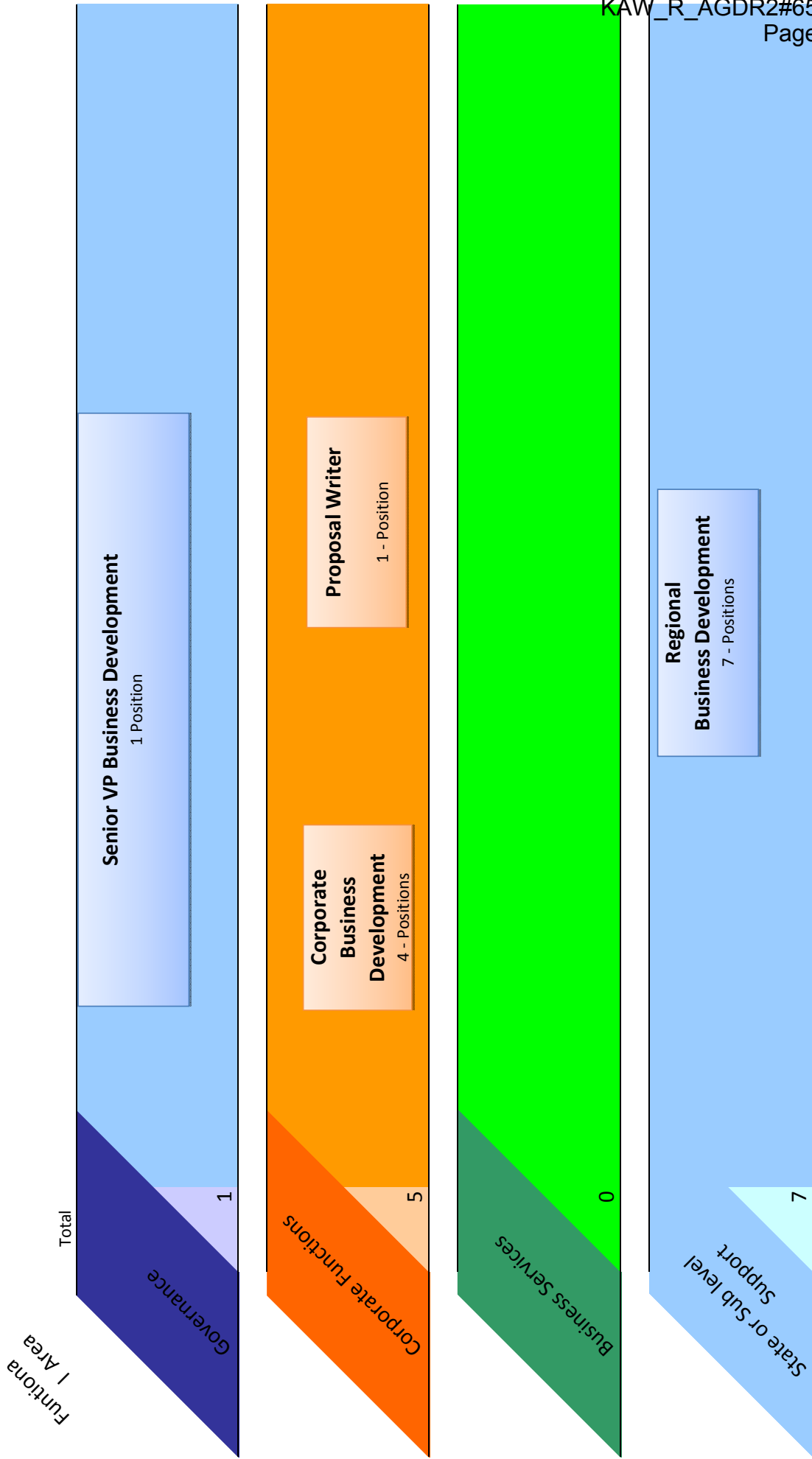
American Water Works Service Co.

Audit Employees by Functional Area



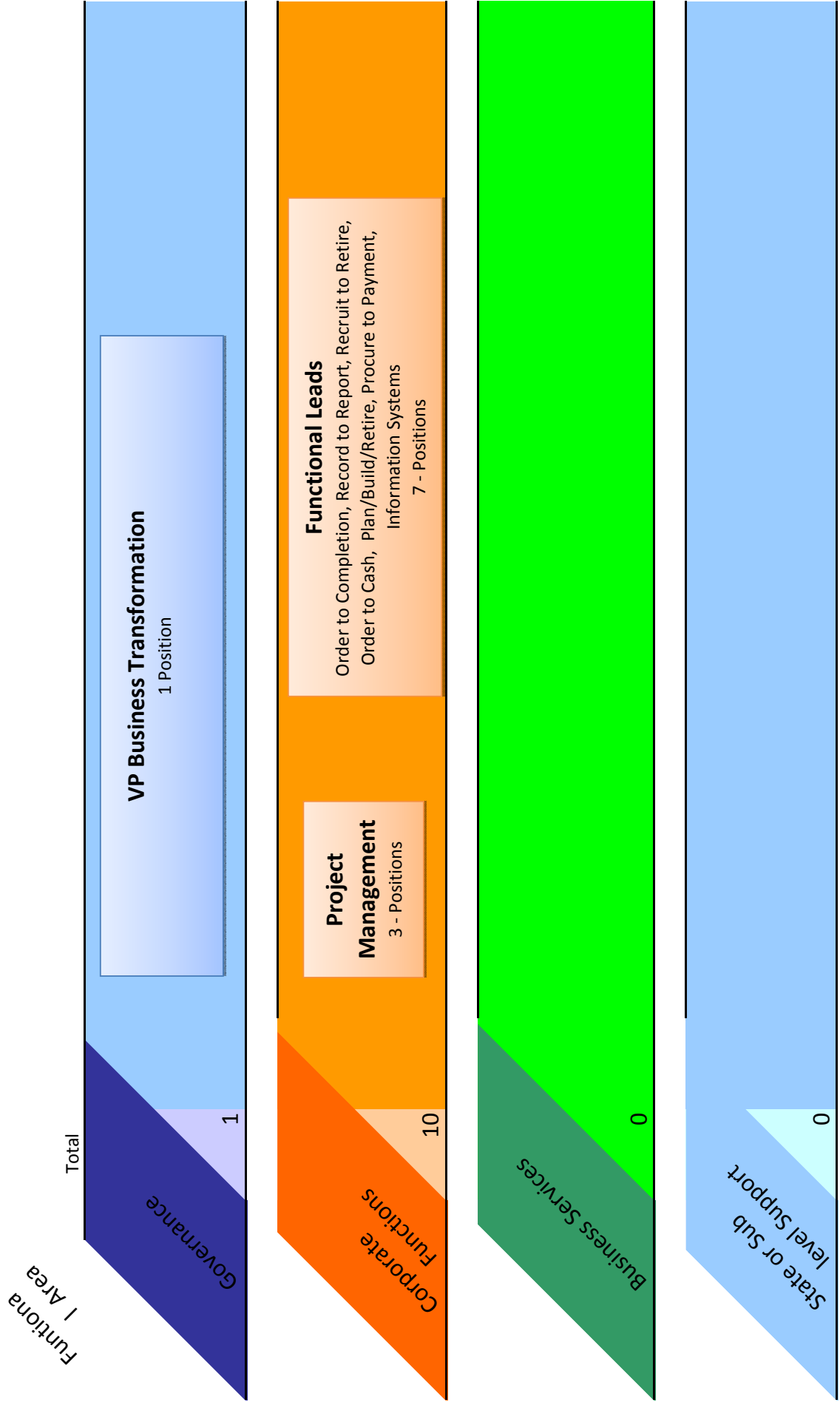
American Water Works Service Co.

Business Development Employees by Functional Area



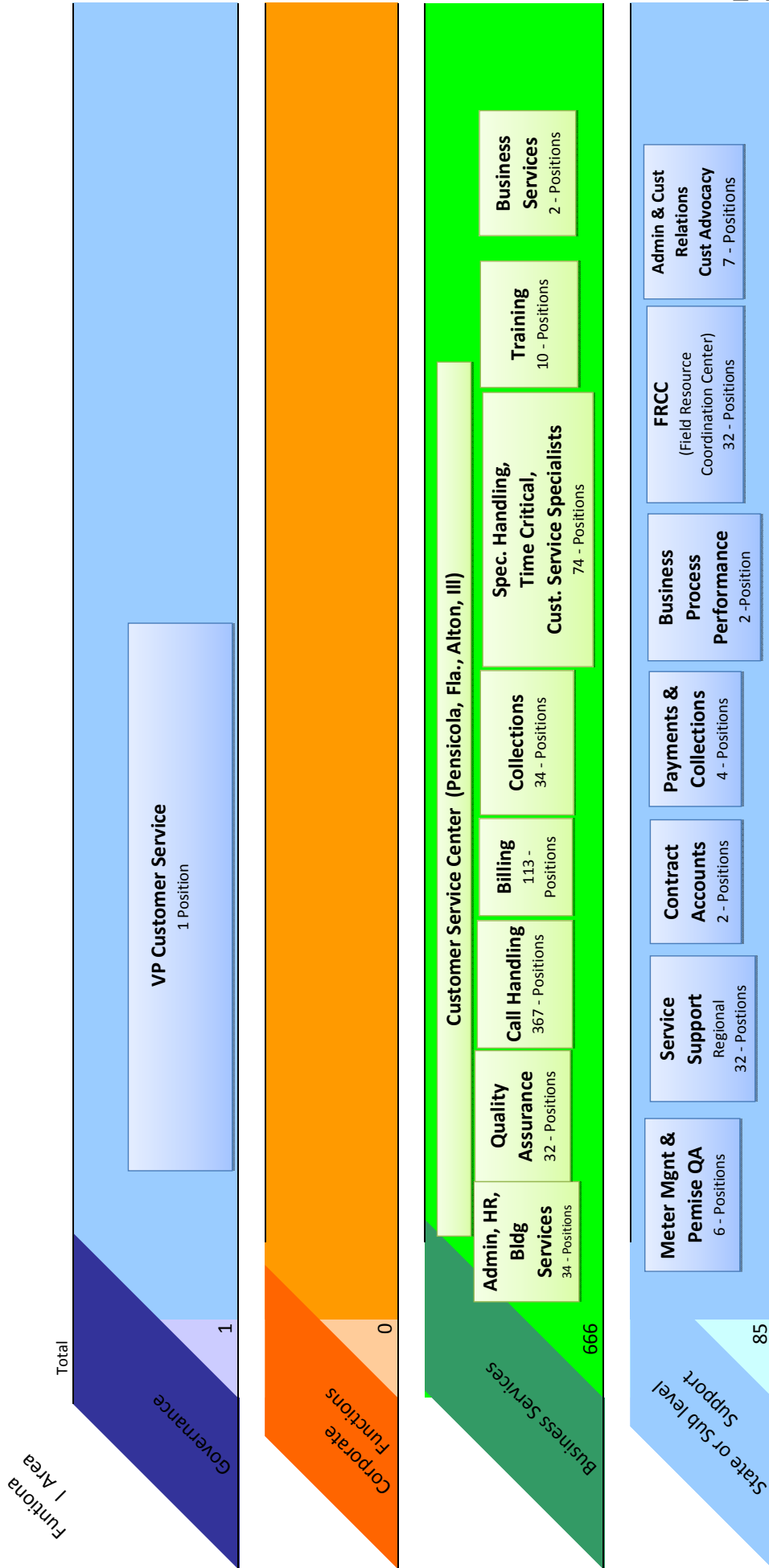
American Water Works Service Co.

Business Transformation Employees by Functional Area



American Water Works Service Co.

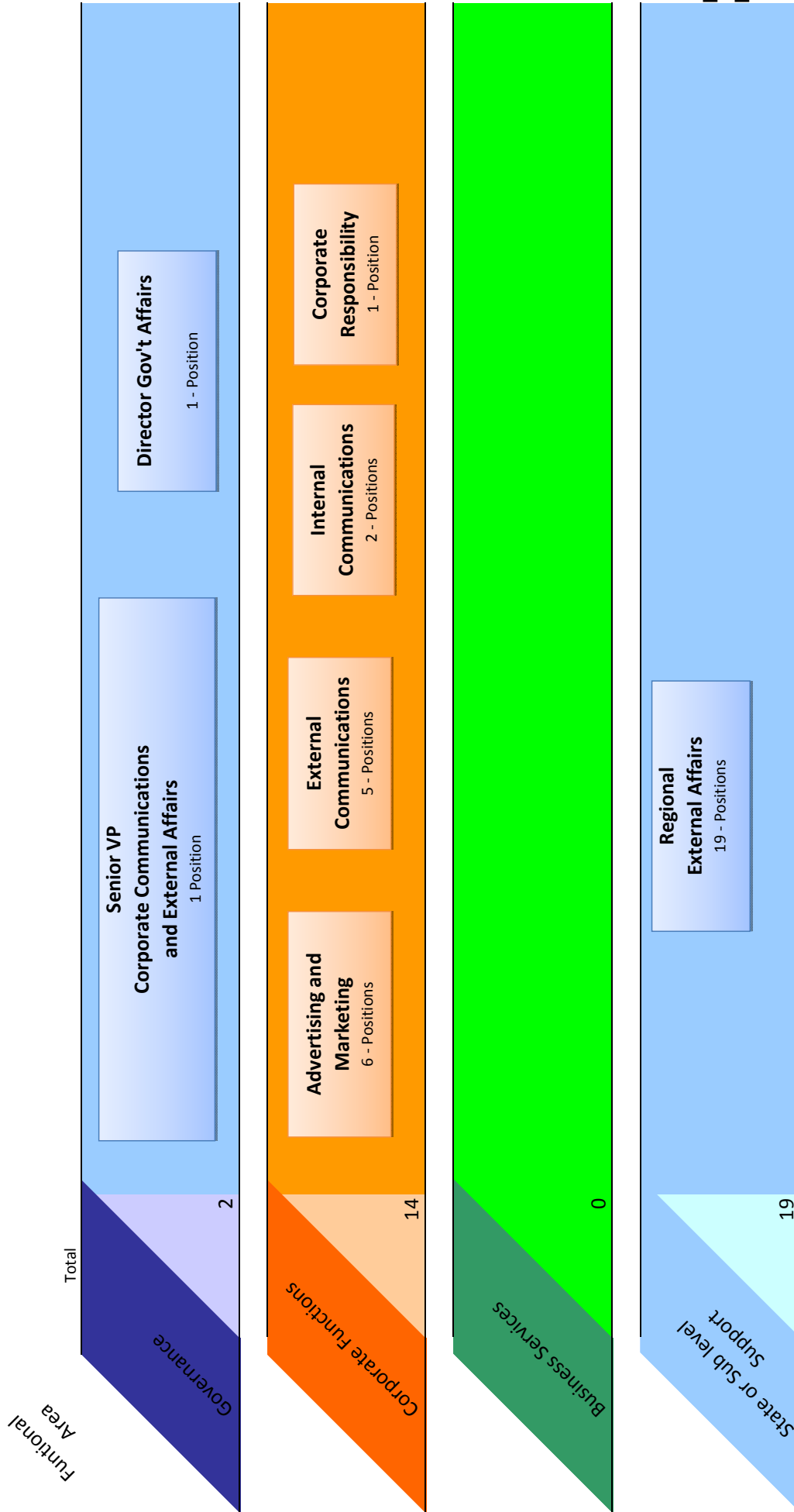
Customer Service Employees by Functional Area



Total 752

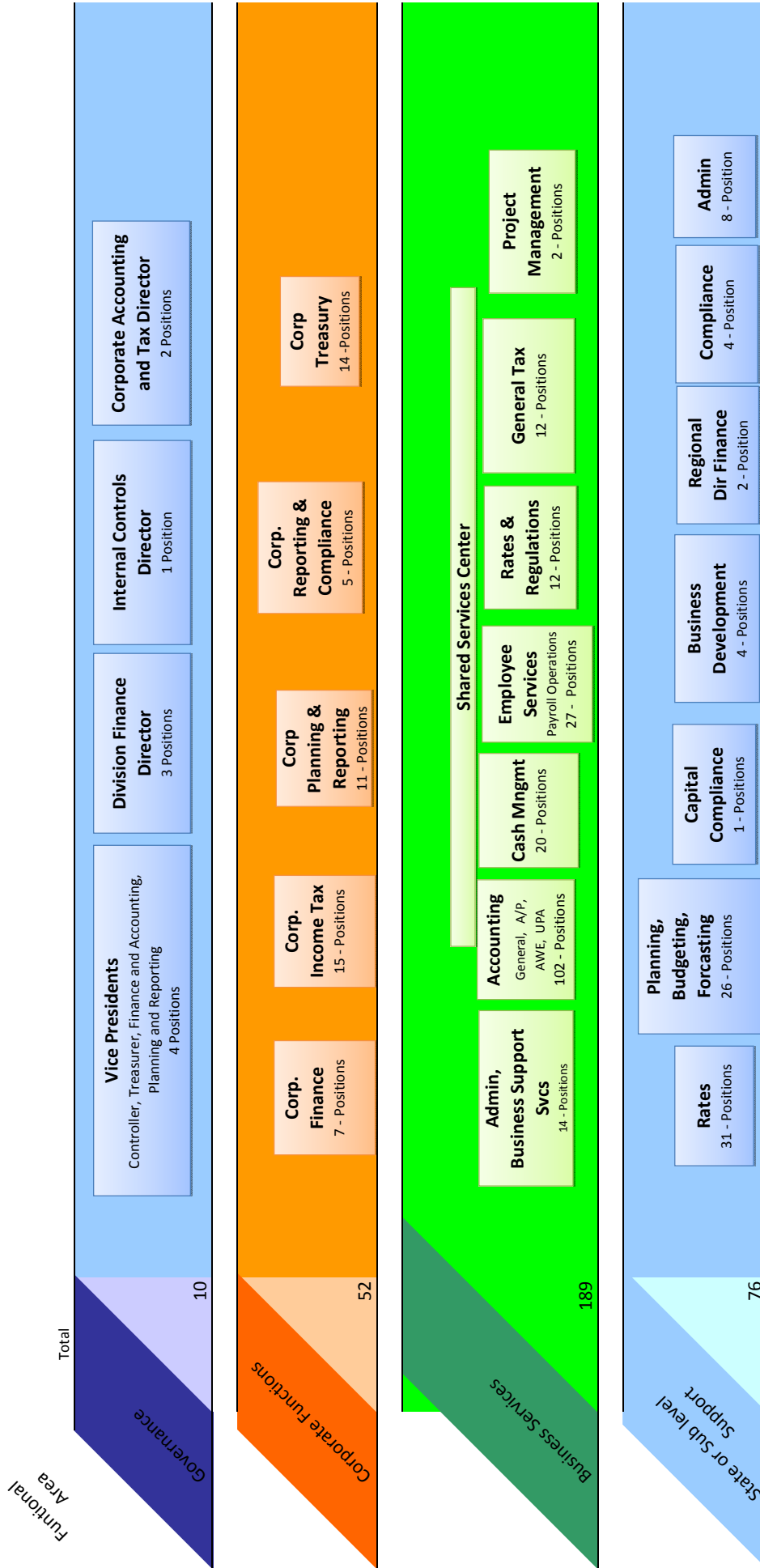
American Water Works Service Co.

External Affairs and Communication Employees by Functional Area



American Water Works Service Co.

Finance Employees by Functional Area

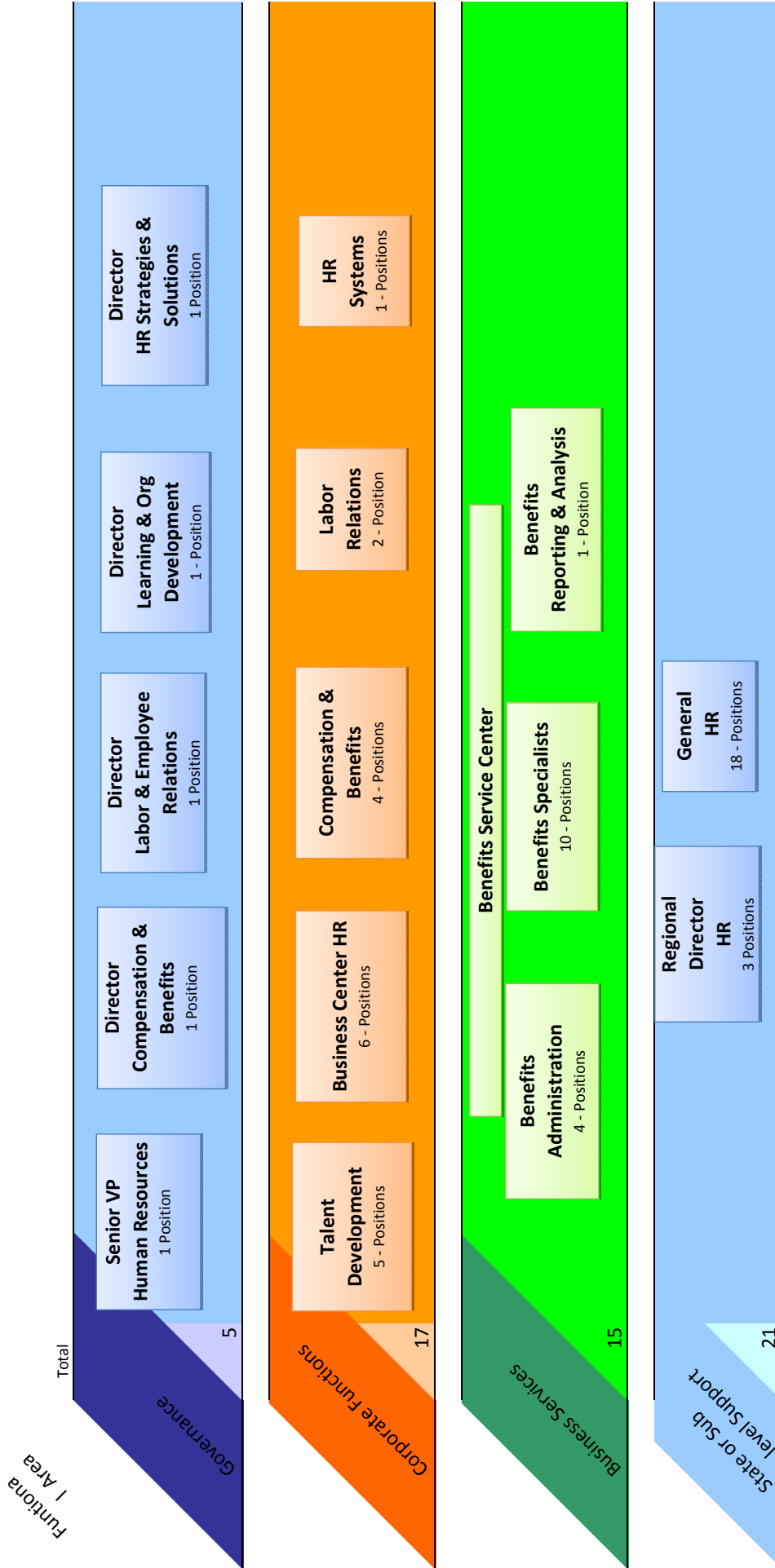


327

Total

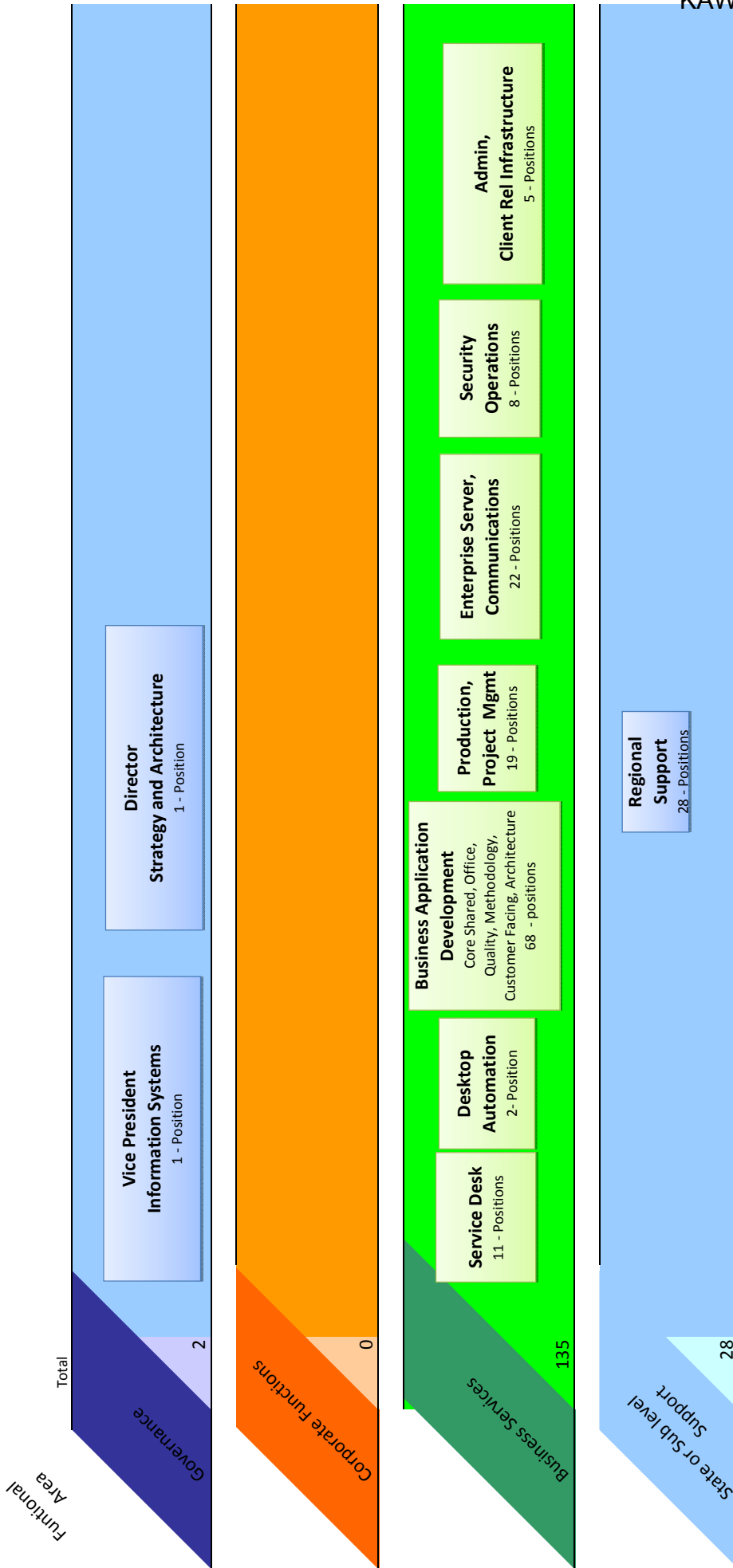
American Water Works Service Co.

Human Resources Employees by Functional Area



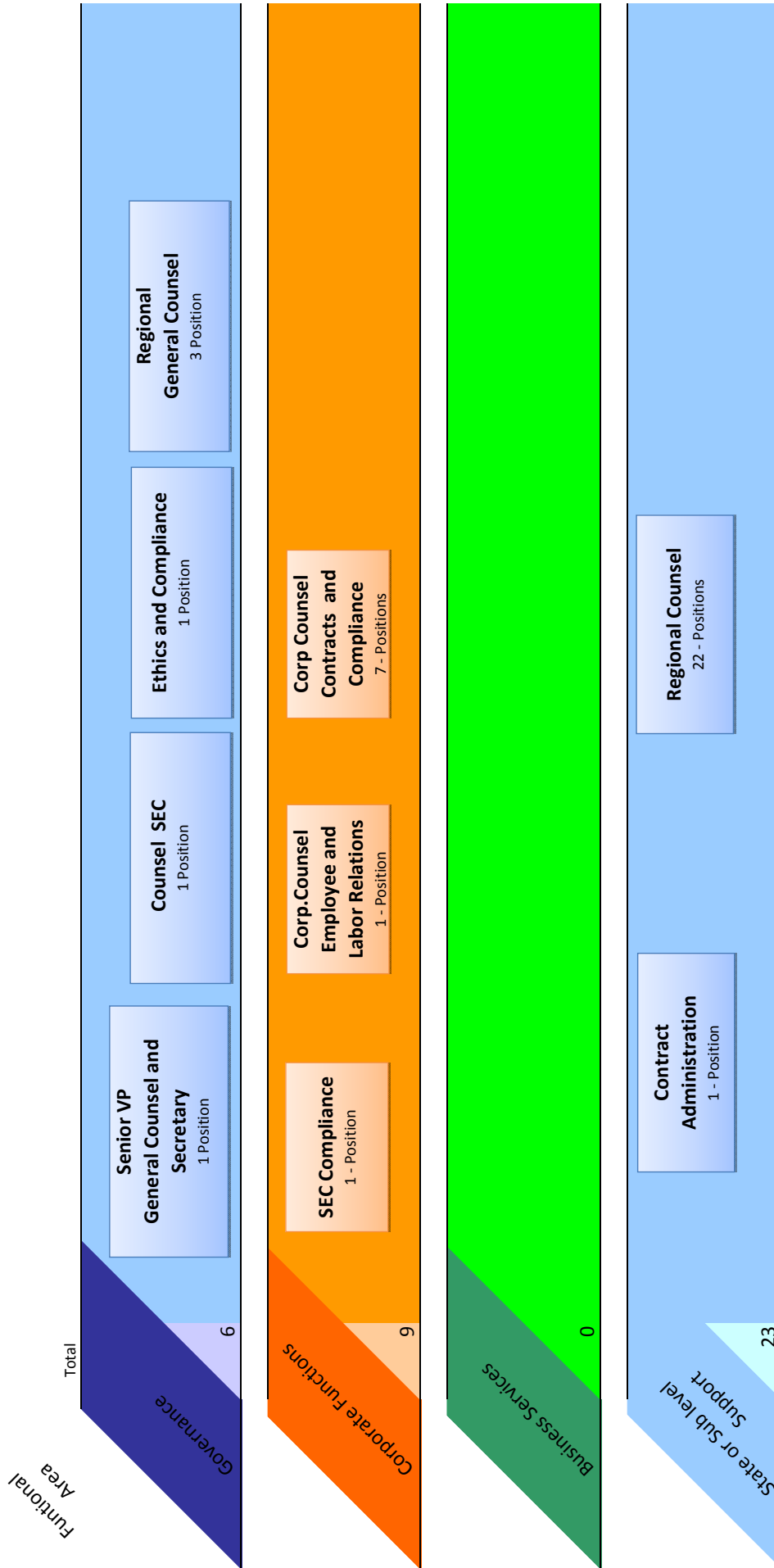
American Water Works Service Co.

Information Systems Employees by Functional Area



American Water Works Service Co.

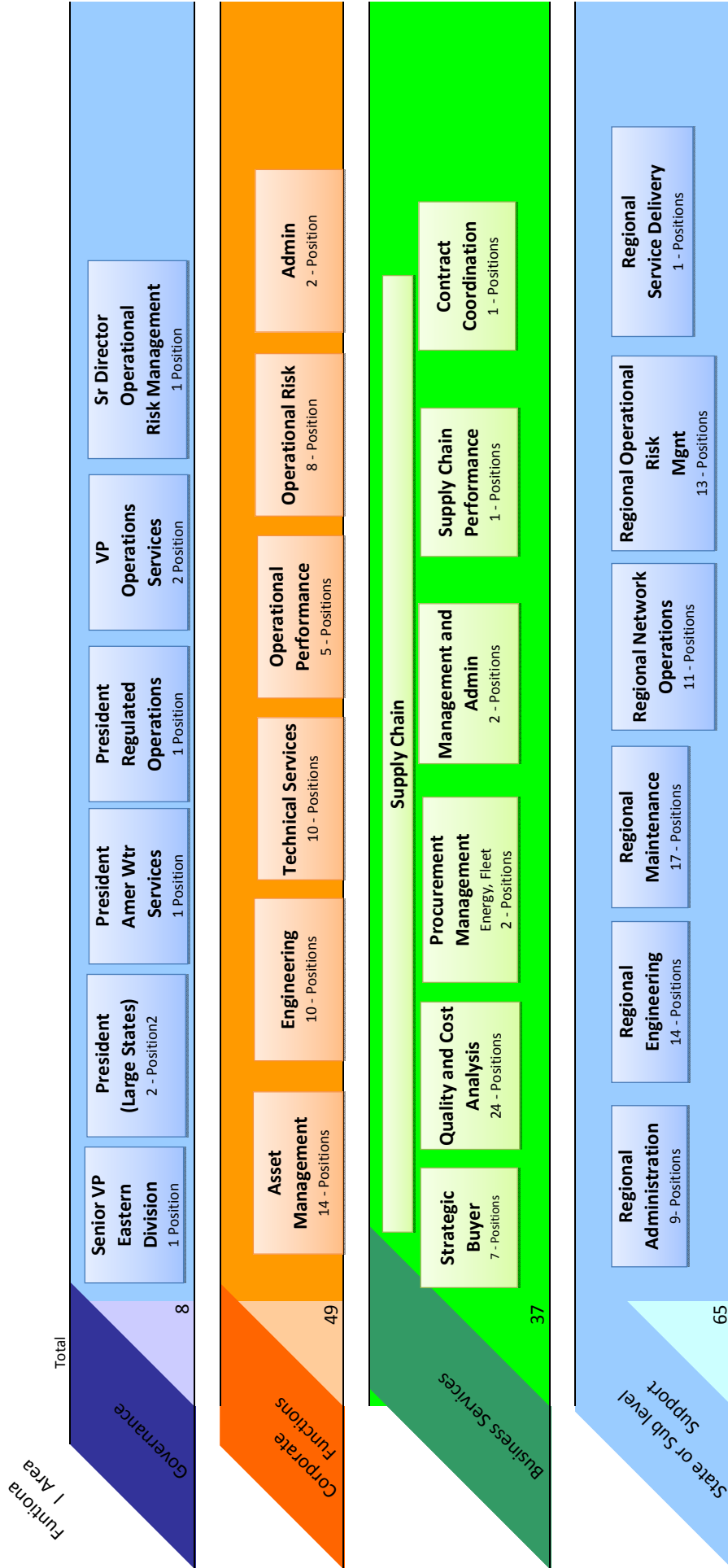
Legal Employees by Functional Area



Total 38

American Water Works Service Co.

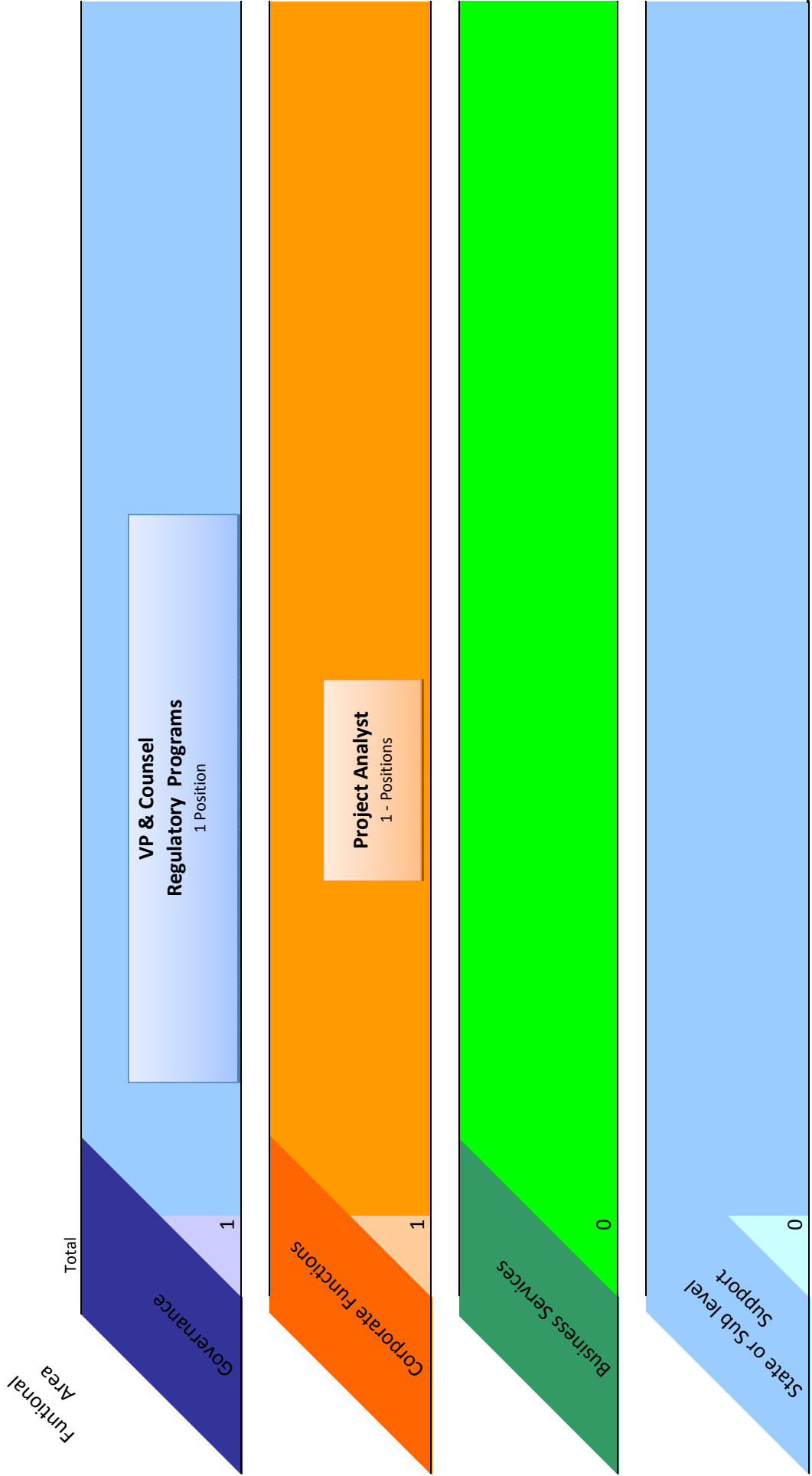
Operation Services Employees by Functional Area



Total 159

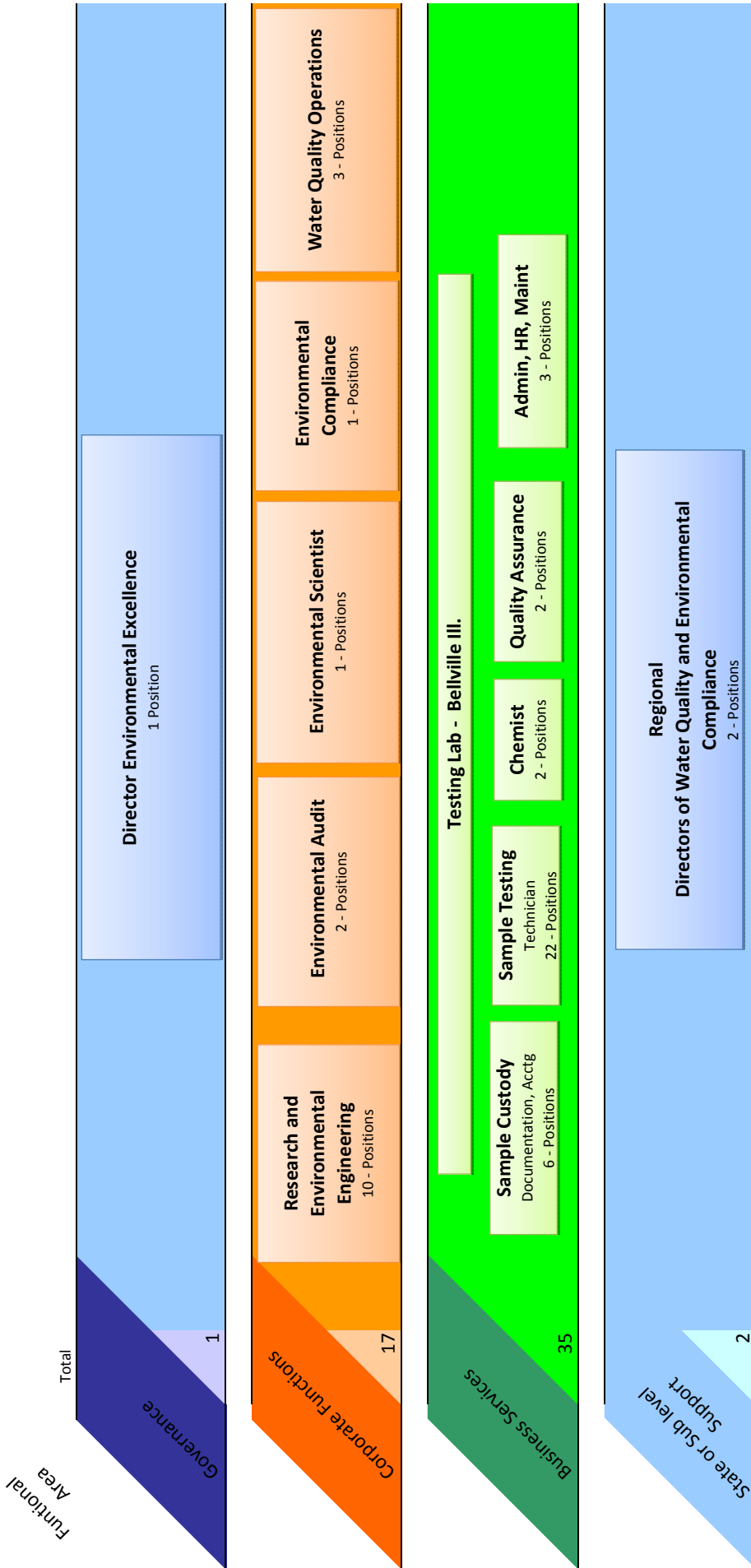
American Water Works Service Co.

Regulatory Services Employees by Functional Area

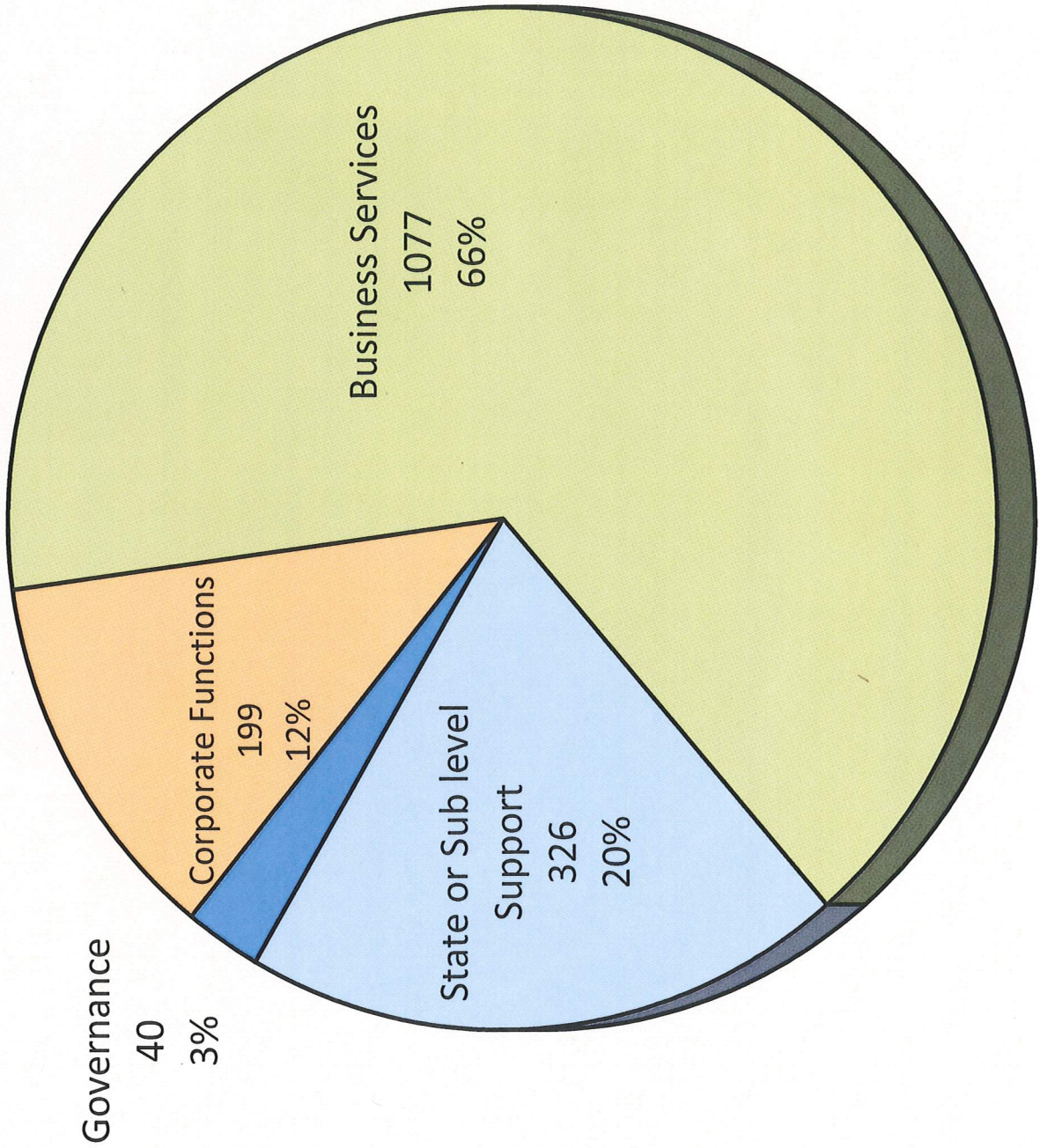


American Water Works Service Co.

Water Quality Employees by Functional Area



American Water Works Service Co.



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

Witness: Sheila Miller

66. Refer to the response to PSC DR1-1, WP3-6.
- a. Referring to page 2 of 6, how many KAW employees “opted out” of medical coverage in each year, 2008, 2009, and 2010?
 - b. Why is there a line item for employees “opting out”?
 - c. How was the 82.66% “percentage to operations” derived?
 - d. Show in detail how the each of the “Reimbursements” amounts was derived.
 - e. Explain the “voluntary” component of each “Life – Voluntary” line item.
 - f. Provide the invoices and support for each item in the “Rates Effective 1/1/2010” column.
 - g. Provide the invoices and support for each item in the “Billing Determinant Coverage” column.
 - h. Why is the Employee and Family coverage for non-union (\$1,433) so much more expensive than for Employee and Family coverage for union (\$1,198)?

Response:

- a. 2008 – 3 employees, 2009 – 2 employees, 2010 – 2 employees.
- b. The Company pays an employee \$100 per month if they opt out of group insurance coverage. The Company inadvertently omitted this expense when preparing the forecasted test year group insurance adjustment. An additional \$2,400 should be added to the group insurance expense adjustment net of the capitalized portion.
- c. The 82.66% is the percentage of O&M labor to the total labor. This calculation can be seen on the Rate Case Labor and AIP 12-29-09 excel file provided in response to KAW_R_AGDR1#1_042610 under the Link Out tab. The O&M percentage is used to determine the amount of labor overheads to be expensed.

- d. See attached.
- e. The voluntary component is the additional life insurance an employee can purchase in addition to the company paid basic life insurance. The amounts included on the Life-Voluntary lines are reimbursed by the employee. As a result, this component was not included in the Company's group insurance expense adjustment.
- f. The invoice for the "rates effective 1/1/2010" was provided in response to KAW_R_PSCDR1#1a_WP3-6_031610 page 6 of 6.
- g. The excel file containing the calculation for the billing determinants was included in response to KAW_R_AGDR1#1_042610, file name Ins Group 10.xls, tab 392.
- h. There are several factors involved in explanation of the difference. First, union plan design and employee contributions are negotiated once every five years in collective bargaining. Therefore the Company does not have as much flexibility to adjust the plan design between rounds of collective bargaining. The union plan design ("Single" & "Family options) and employee contributions were set in place in 2006.

Second, during the interim, the Company has changed the non-union plan design to include not only the two union options ("Single" & "Family"), but also an "Employee & Spouse" (no children) and an "Employee & Child(ren)" (no spouse) option. This change enabled a more precise plan option price for the three options which were beyond the "Single Employee" option. The "Family" option which would include employee, spouse and child(ren) is the highest cost option, and is priced accordingly.

Due to collective bargaining limitations, the Company has not yet been able to implement such a change in the union plan. Therefore the union "Family" option is an average of the three options beyond "Single Employee" coverage in the union plan.

For the electronic version of this response, refer to KAW_R_AGDR2#66_052410.pdf.

Kentucky American Water Company
AGDR2#66d
Calculation of reimbursements for Group Insurance

	union employee count	non-union employee count	union average cost	non-union average cost	Total Cost
Employees without dependent coverage (union & non-union)	8	26	69	65	(2,209.46)
Employees with family coverage (union)	62		143		(8,866.00)
Employee and spouse coverage (non-union)		15		150	(2,242.50)
Employee and children (non-union)		6		138	(828.00)
Employee and family (non-union)		34		163	<u>(5,542.00)</u>
					(19,687.96)

union w/o dependent coverage:

PPO-standard plan	60
PPO-premium plan	<u>77</u>
	137
average	69

n-u w/o dependent coverage

PPO-standard plan	60
PPO-premium plan	<u>69</u>
	129
average	65

union with dependent coverage:

PPO-standard plan	126
PPO-premium plan	<u>160</u>
	286
average	143

n-u w spouse coverage

PPO-standard plan	140
PPO-premium plan	<u>159</u>
	299
average	150

n-u with child coverage

PPO-standard plan	129
PPO-premium plan	<u>147</u>
	276
average	138

n-u with family coverage

PPO-standard plan	148
PPO-premium plan	<u>178</u>
	326
average	163

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

Witness: Michael A. Miller

67. FAS 106. Refer to WP3-6, page 3 of 6.
- a. Identify the number of covered employees and retirees for each line item for each year.
 - b. Show in detail how the allocation percentages were derived. Include supporting calculations in Excel.
 - c. Why is the Northern Illinois plan separate?
 - d. How many employees and retirees are covered by the Northern Illinois plan?
 - e. Please reconcile the \$1,122,000 and \$1,094,500 FAS 106 costs on WP3-6, page 3 of 6 for KAW with the \$910,407 for 505100.16 OPEBs AWW Acct 926100 on WP3-6, page 5 of 6. Identify, quantify and explain each reconciling item.
 - f. Please reconcile the \$145,326 total premium and \$144,907 actives' subtotal for Group Ins costs on WP3-6, page 3 of 6 for KAW with the \$116,928 per month for 504100.16 OPEBs AWW Acct 926110 on WP3-6, page 5 of 6. Identify, quantify and explain each reconciling item.
 - g. Is each item in the "Continuation of Coverage" subtotal on page 6 of 6 paid for (i.e., reimbursed) by the employee or retiree? If not, explain fully why not.
 - h. Provide the actuarial report and all communications to and from the actuary for each amount on WP3-6, page 3.
 - i. Reconcile the total amounts listed on WP3-6, page 3, to an actuarial report, and provide a copy of the actuarial report. Identify, quantify and explain each reconciling item.

Response:

- a. Please refer to the attached schedule outlining the participants for 2009 actual. Northern Illinois participants are not shown on this schedule.

- b. The calculation for 2009 is a percent to total allocation based upon plan participants. For 2009 the calculation produces 2.754145013% (275 KY participants divided by 10,034 AW participants – See part a. attachment for the number of participants). The years 2010-2014 on WP3-6 are calculated by multiplying the AWW plan total line by the rounded KY 2009 participant level percent of 2.75%. For example, 2010 is calculated by taking \$40,800,000 AW total times 2.75% KY participant allocation to arrive at \$1,122,000 for KY.
- c. The Northern Illinois plan is separate because they receive different plan benefits. They were originally part of Citizens acquisition and have remained on a separate OPEB plan since that acquisition closed in 2007.
- d. Northern Illinois has 66 active participants. They are not part of the AW allocations as shown on the attachment in part a.
- e. The excel calculation below was provided in response to KAW_R_AGDR1#1_042610, file labeled as Ins Group 10.XLS, tab OPEB's, and also previously supplied on WP 3- 6, page 4 of 6.

The Company multiplied the yearly amounts by the O&M percentage to determine the expense amounts for each year. The Company utilized 3/12's of the 2010 balance and 9/12's of the 2011 balance. The difference in the \$910,398 and \$910,407 is due to rounding.

	2010	2011	
	1,122,000	1,094,500	
O&M percentage	82.66%	82.66%	
	<hr/>	<hr/>	
	927,445	904,714	
	77,287	75,393	
	<hr/>	<hr/>	
	231,861	678,537	910,398

Please note the Company recently received revised actuarial pension and OPEB expense for 2010 actual and 2011 forecast. This information was provided in the response to PSC-2-23 and lowers the Company requested OPEB expense in the forecasted test-year by \$52,206 (response to PSC-2-23, page 15 of 21).

- f. The \$145,326 total premium (of which \$144,907 is for active employees) on page 6 of 6 is the actual payment made for January 2010 group insurance. The Company used the January 2010 premium statement on which to base its forecasted test-year active group insurance costs. While the premium rates are the same, the forecasted test-year active group

insurance costs cover a different employee count and wage level. Please see WP-3-6, page 2 for the forecasted test-year calculation. The AG has the information on these two documents needed to reconcile the differences due to employee and dependent levels. In addition, the January 2010 active group insurance did not show the employee contributions which are shown on the test-year calculation on page 2 of 6. This method of calculation has been consistently accepted by the commission in prior rate filings.

- g. Yes.
- h. Please see the response to PSC-2-23.
- i. Please see the response to PSC-2-23, page 14 or 21 (WP3-REVISED_043010, column 2010 total \$38,678,936; and compare that to the Actuarial Report issued by TW in April 2010 supplied in response to AG-1-50, page 83, which indicates 2010 FAS 106 cost of \$38,678,936

For the electronic version of this response, refer to KAW_R_AGDR2#67_052410.pdf.

**American Water
Allocation of 2009 Retiree Welfare Plan Cost
Allocation Schedule**

<u>COMPANY</u>	<u>Company Code</u>	<u>Locality Code</u>	<u>Total Participants</u>	<u>Expense Allocation</u>	<u>FAS 106 Cost Allocation %**</u>	<u>Retiree Contribution Allocation</u>
AMERICAN WATER WORKS COMPANY	2	N/A	19	79,108	0.19%	4,210
AMERICAN WATER SERVICES (AAET, L.P.)	99001	N/A	24	99,926	0.24%	5,318
AMERICAN WATER SERVICES (Corp)	99002	N/A	2	8,327	0.02%	443
AMERICAN WATER RESOURCES	21	N/A	-	-	0.00%	-
AWW SERVICE COMPANY						
AWWS Corp	3	Other	266	1,103,352	2.65%	58,715
Belleville, IL Lab (R)	3	2	23	95,763	0.23%	5,096
Hershey, PA Data Center (W) ***	3	7	10	41,636	0.10%	2,216
Richmond, IN Data Center (H) ***	3	3	9	37,472	0.09%	1,994
Western (L)	3	6	16	70,781	0.17%	3,767
Haddon Heights IS ***	3	9	4	16,654	0.04%	886
Northeast Region	3	10	14	72,302	0.17%	3,767
Southeast Region	3	11	86	317,107	0.76%	16,839
Indiana Region ***	3	12	8	33,309	0.08%	1,773
Central Region	3	13	97	404,378	0.97%	21,492
Alton, IL Call Center	3	14	62	258,143	0.62%	13,737
Shared Services	3	15	96	397,212	0.95%	21,049
Pensacola Call Center	3	16	130	541,267	1.30%	28,804
Its	3	17	96	413,610	0.99%	21,935
Procurement/Supply Chain	3	19	9	49,963	0.12%	2,659
Total AWWs			926	3,852,949	9.24%	204,729
NORTHEAST REGION						
LONG ISLAND	38	N/A	195	807,737	1.94%	42,984
NEW JERSEY - AM	18	N/A	1,727	7,149,155	17.17%	380,431
Total Northeast Region			1,922	7,956,892	19.11%	423,415
SOUTHEAST REGION						
KENTUCKY - AM	12	N/A	275	1,146,714	2.75%	60,931
MARYLAND - AM	13	N/A	30	124,908	0.30%	6,647
PENNSYLVANIA - AM	24	N/A	2,115	8,798,728	21.15%	468,615
TENNESSEE - AM	26	N/A	300	1,244,914	2.99%	66,249
VIRGINIA - AM - EASTERN DISTRICT	42	N/A	12	49,963	0.12%	2,659
VIRGINIA - AM	27	N/A	156	645,357	1.55%	34,343
WEST VIRGINIA - AM	28	N/A	732	3,035,260	7.29%	161,523
Total Southeast Region			3,620	15,045,845	36.15%	800,967
CENTRAL REGION						
ILLINOIS - AM	9	N/A	688	2,852,061	6.85%	151,774
INDIANA - AM	10	N/A	698	2,901,484	6.97%	154,432
IOWA - AM	11	N/A	162	670,339	1.61%	35,672
MICHIGAN - AM	16	N/A	15	62,454	0.15%	3,324
MISSOURI - AM	17	N/A	1,370	5,675,009	13.63%	301,996
OHIO - AM	22	N/A	176	728,629	1.75%	38,774
Total Central Region			3,109	12,889,977	30.96%	685,972
WEST REGION						
CALIFORNIA - AM	5	N/A	325	1,344,841	3.23%	71,566
NEW MEXICO - AM	19	N/A	41	170,707	0.41%	9,084
HAWAII - AM	30	N/A	22	91,599	0.22%	4,874
ARIZONA - AM	23	N/A	24	95,763	0.23%	5,096
Total West Region			412	1,702,910	4.09%	90,620
TOTAL SYSTEM			10,034	41,635,934	100.00%	2,215,674

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

Witness: Michael A. Miller

68. Pension. Refer to the response to PSC DR1-1, WP3-7.
- a. Explain why the total system pension cost and the KAW amount peaked in 2009 and are projected to decline in each year subsequent to 2009.
 - b. Provide the actuarial report and all communications to and from the actuary for each amount on WP3-7, page 3.
 - c. Reconcile the total amounts listed on WP3-7, page 3, to an actuarial report, and provide a copy of the actuarial report. Identify, quantify and explain each reconciling item.
 - d. Refer to WP3-7, page 4. Why are no pension costs capitalized?
 - e. Show pension capitalized credits (506-100.16 AWW Acct 926800) for each period: 2008, 2009, 2010, base period, and future test year.
 - f. Show Pension Current Expense amounts (506-100.16 AWW Acct 926400) for each period: 2008, 2009, 2010, base period, and future test year.

Response:

- a. The reason the 2009 pension expense, as determined under FAS 87, was higher than the current numbers for 2010 and 2011 resulted from the impact of market returns (or losses) and interest rates on the pension fund assets during the financial crisis of 2008/2009. The dismal market conditions impacted both the actual returns as well as the actuarial assumptions used in determining the 2009 FAS 87 pension expense. Please note the Company recently received revised actuarial pension and OPEB expense for 2010 actual and 2011 forecast. This information was provided in the response to PSC-2-23 and lowers the Company requested pension expense in the forecasted test-year by \$253,262.
- b. Please see the response to PSC-2-23.
- c. Please see the response to PSC-2-23, page 19 or 21 (WP3-7 REVISED_043010, column 2010 total \$67,249,870; and compare that to

the Actuarial Report issued by TW in April 2010 supplied in response to AG-1-49, page 95, which indicates 2010 FAS 87 cost of \$67,249,870.

- d. The amounts detailed on WP 3-7, page 4 are only the expense portion which is the amount that is carried forward to the income statement in the Company's rate filing. The capitalized portion is segregated on WP 3-7 page 2 of 4. The Company begins with the total expense and applies the O&M percentage to determine the pension expense. The Company utilized 3/12's of 2010 and 9/12's of 2011 for the total pension expense for the forecasted test year. Please note that the Company's requested O&M portion of pension expense for the forecasted test-year was revised to \$1,014,470 as shown in the response to PSC-2-23, page 18 of 21.
- e. See table below:

	Total Pension	Capital	Net Exp
2008	804,408	(181,758)	622,650
2009	1,673,395	(287,071)	1,386,324
Thru April 2010	437,124	(52,959)	384,165
Base Period	1,587,357	(334,927)	1,252,430
Forecasted Period *	1,277,281	(263,111)	1,014,170

* As revised in PSC-2-23.

- f. See part e above.

For the electronic version of this response, refer to KAW_R_AGDR2#68_052410.pdf.

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

Witness: Michael A. Miller

69. Rate Case Expense. Refer to the response to PSC DR1-1, WP3-8.
- a. Provide a detailed amortization schedule for all prior rate case amounts.
 - b. Provide a detailed itemization of all AWWS charges. Indicate each AWWS department that has charges for KAW rate case cost, provide the billing rate and invoices.
 - c. To the extent not already provided elsewhere, please provide the contracts and invoices for each component of cost for the current rate case 2010-00036.
 - d. To the extent not already provided elsewhere, please provide the contracts and invoices for each component of cost for each prior case for which KAW seeks to charge rate case expense in the current rate case. This includes but is not limited to 2008-00427 and 2007-00143.
 - e. Show in detail how the amortization periods for each component of KAW's requested rate case cost were derived.
 - f. When does KAW anticipate filing its next rate case?
 - g. Does KAW or AWWC maintain budgets or forecasts that indicate when the utility's next rate case is anticipated? If not, explain fully why not. If so, please provide such forecasts.

Response:

- a. See attached schedule. The Company inadvertently omitted two months of the amortization expense for Case No. 2007-00143 in the forecasted test year. This case will be fully amortized November 2010.
- b. See attached schedule.
- c. See the response to KAW_R_AGDR1#64_042610.
- d. See the response to c. above.

- e. Please see the response to AG-1-64, subpart d.
- f. The Company objects to this question on the grounds that the information requested is not relevant to this case. Notwithstanding the objection, the business plan prepared in the fall of 2009 anticipated a rate case to be filed in 2012, which is beyond the forecasted test-year in this case. The Company will again be reviewing the timing of its next rate case as part of the 2010 planning process. The ultimate timing of the Company's next rate case will depend on any number of factors, including but not limited to: i) the result of the current case, ii) the financial market conditions over the next couple of years and its impact on interest rates, pension costs and OPEB costs, iii) the union negotiations for wage increases at KAW and AWWSC, iv) the national union negotiations regarding the employee benefit plans, v) the rate of inflation, vi) the negotiations about national purchasing contracts for materials and chemicals, vii) the final capital spending programs for 2012/2013, and viii) a host of other variables that can not be finalized until we get closer to 2012.
- g. The Company objects to this question on the grounds that the information requested is not relevant to this case. Please see the response to part f. above.

For the electronic version of this response, refer to KAW_R_AGDR2#69_052410.pdf.

Kentucky American Water Company
Rate Case Amortization
AGDR2#69a

	Case No. <u>2007-00143</u>	Case No. <u>2008-00427</u>
Total Deferred Expense	447,955.56	416,396.76
Dec-07	(12,163.44)	
Jan-08	(12,163.44)	
Feb-08	(12,373.34)	
Mar-08	(12,414.88)	
Apr-08	(12,565.90)	
May-08	(12,694.00)	
Jun-08	(12,694.00)	
Jul-08	(12,694.00)	
Aug-08	(12,306.56)	
Sep-08	(12,362.55)	
Oct-08	(12,443.21)	
Nov-08	(12,443.21)	
Dec-08	(12,443.21)	
Jan-09	(12,443.21)	
Feb-09	(12,443.21)	
Mar-09	(12,443.21)	
Apr-09	(12,443.21)	
May-09	(12,443.21)	
Jun-09	(12,443.21)	(11,161.45)
Jul-09	(12,443.21)	(11,360.09)
Aug-09	(12,443.21)	(12,178.20)
Sep-09	(12,443.21)	(11,566.57)
Oct-09	(12,443.21)	(11,566.58)
Nov-09	(12,443.21)	(11,566.58)
Dec-09	(12,443.21)	(11,702.67)
Jan-10	(12,443.21)	(11,586.02)
Feb-10	(12,443.21)	(11,586.02)
Mar-10	(12,443.21)	(11,586.02)
Apr-10	(12,443.21)	(11,586.02)
Unamortized balance	87,102.46	288,950.54
months remaining	7	25

Kentucky American Water Company

AGDR2#69b

Charges to rate case formula:

Case Number	Subledger	Employee Name	Year 7 Values			Year 8 Values			Year 9 Values			Year 10 Values			Total Hrs	Total Amt	Avg rate per Hour		
			Hrs	Amt	Hrs	Amt	Hrs	Amt	Hrs	Amt	Hrs	Amt							
2007 - 00143	100934	Bastian, John F.	86.50	3,405.96											86.50	3,405.96			
		Bozman, James G.	148.50	5,440.58												148.50	5,440.58		
		Bridwell, Linda C.	20.00	902.40												20.00	902.40		
		D'Antonio, Basil J.	89.00	4,043.80												89.00	4,043.80		
		Engle, Robert A.	143.00	6,017.63												143.00	6,017.63		
		Jordan, Ralph A.	98.25	2,152.60												98.25	2,152.60		
		Magee, Louise G.	22.00	386.05												22.00	386.05		
		McKittick, Thomas G.	63.00	4,646.05												63.00	4,646.05		
		Miller, Sheila A.	28.00	1,211.54												28.00	1,211.54		
		O'Malley, Lori N.	15.00	494.72												15.00	494.72		
		Turner Jr., Aubrey W.	119.50	6,319.97												119.50	6,319.97		
		Weber, David L.	27.00	1,150.54												27.00	1,150.54		
				859.75	36,171.84											859.75	36,171.84	42.0725	
		2008 - 00427	100934 Total																
			101019	Akmentins, Gary L.	25.00	1,100.95	16.00	712.40									41.00	1,813.35	
		Bastian, John F.	50.50	2,058.83											50.50	2,058.83			
		Bozman, James G.	12.50	487.38											12.50	487.38			
		Conroy, George M.	140.00	4,967.36	64.00	2,270.79									204.00	7,238.15			
		D'Antonio, Basil J.	14.00	663.32	28.00	1,326.64									42.00	1,989.96			
		Engle, Robert A.	162.00	7,079.73	3.75	169.29									165.75	7,249.02			
		Jordan, Ralph A.	20.00	462.51											20.00	462.51			
		McKittick, Thomas G.	38.00	2,816.18	82.00	6,077.03									120.00	8,893.21			
		O'Malley, Lori N.	45.00	1,538.21	3.50	119.64									48.50	1,657.85			
		Pruno, Valentina I.	44.00	1,358.06											44.00	1,358.06			
		Weber, David L.	24.00	1,134.24	88.00	4,196.18									112.00	5,330.42			
		White, Joan A.	88.00	3,856.60	3.00	131.48									91.00	3,988.08			
			663.00	27,523.37	288.25	15,003.45									951.25	42,526.82	44.7062		
2010 Rate Case	45774600	Akmentins, Gary L.			34.00	1,541.47	17.00	778.88							51.00	2,320.35			
		Bastian, John F.			2.00	83.84	14.50	616.94							16.50	700.78			
		Bozman, James G.			49.00	1,964.70	28.00	1,140.21							77.00	3,104.91			
		Conroy, George M.			22.00	810.18	45.00	1,721.68							67.00	2,531.86			
		D'Antonio, Basil J.			4.00	194.33	24.00	1,178.09							28.00	1,372.42			
		Engle, Robert A.					16.50	752.84							16.50	752.84			
		Jordan, Ralph A.			44.25	1,070.09									44.25	1,070.09			
		O'Malley, Lori N.			8.00	284.24	117.00	4,252.50							125.00	4,536.74			
		Pruno, Valentina I.			32.00	1,018.48	28.00	900.55							60.00	1,919.03			
		Szynglarz, Agata					5.50	220.72							5.50	220.72			
		White, Joan A.			36.00	1,629.76	75.00	3,470.06							111.00	5,099.82			
					231.25	8,597.09	370.50	15,032.47							601.75	23,629.56	39.2681		
		859.75	36,171.84	663.00	27,523.37	519.50	23,600.54	370.50	15,032.47	2,412.75	102,328.22								
		45774600 Total																	
		Grand Total																	

Direct charges to Kentucky from SSC rates employees in 2010:

SSC-Rates & Regulation

Bozman, James G.	46.00	1,873.16												46.00	1,873.16	
Conroy, George M.	34.00	1,317.50												34.00	1,317.50	
D'Antonio, Basil J.	24.00	1,178.09												24.00	1,178.09	
Engle, Robert A.	16.00	730.03												16.00	730.03	
McKittick, Thomas G.	53.00	3,927.86												53.00	3,927.86	
O'Malley, Lori N.	6.50	236.25												6.50	236.25	
Pruno, Valentina I.	28.00	900.55												28.00	900.55	
Weber, David L.	14.00	794.24												14.00	794.24	
Total	221.50	10,957.68												221.50	10,957.68	49.47

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

Witness: Sheila Miller/Michael A. Miller

70. Insurance other than group. Refer to the response to PSC DR1-1, WP3-9.
- a. For each cost on WP3-9, please provide comparable amounts for each period: 2008, 2009, 2010, base period, and future test year. Include Excel files electronically.
 - b. Refer to page 2 of 14. Please confirm that the "Summary of Percentage Changes" are multipliers, i.e., the 1.15 is an increase of 15% not an increase of 1.15%; the 1.05% is a 5% increase, not a 1.05% increase, etc.
 - c. Refer to page 3 of 14. Provide the most current actual invoices for each type of insurance.
 - d. Provide complete documentation for each amount on the "Contingency" line.
 - e. For each policy having a date in the "Date" column that has past, indicate whether the insurance has been renewed, and provide the most current annual and monthly cost for the renewed policy.
 - f. Why is there no date for the Executive Risk premium?
 - g. Why is there no amount for Executive Risk in 2009?
 - h. Refer to page 4 of 14. Indicate to what actual month each item F1 through F12 relates.
 - i. Refer to page 5. For each affiliate listed on that page with no allocation, explain why there is no allocation?
 - j. Provide the invoice for the amounts of premium, taxes and "consultation fee" listed on page 5 of 14.
 - k. Please identify the dates for each column.

1. Explain the information shown in each column:
 - 1) WC;
 - 2) WC Taxes;
 - 3) Total WC and WC taxes;
 - 4) GL/PR;
 - 5) AL; and
 - 6) Consultation Fee.

- m. Refer to page 5 of 14. Show in detail how the “Loss Assumptions” and “Exposure Assumptions” shown as percentages on the top of the page impacted the dollar amounts of “Coverage”.

- n. Refer to page 6 of 14. Show in detail how the “Loss Assumptions” and “Exposure Assumptions” shown as percentages on the top of the page impacted the dollar amounts of “Coverage”.

- o. Refer to page 12 of 14. Provide the invoices for the \$218,000 Network Security Cyber Risk Beazley/Axis amount.

- p. Explain why some of the affiliates are not allocated a portion of the \$218,000 Network Security Cyber Risk Beazley/Axis amount on page 12 of 14.

- q. Refer to pages 13 and 14 of 14. For each entity listed on those pages that has cost for “Employed Lawyers” identify the number of lawyers and provide the policy invoices.

- r. Provide complete support for the \$2 million “Retro” on pages 13 and 14 of 14.

- s. Identify, quantify and explain the comparable amount of “Retro” for each of the past 11 years through calendar 2009.

- t. For each entity on pages 13 and 14 that does not have an allocation of a particular type of premium, explain fully and in detail whether the utility has business or operations which relate to the premium and if so, why there is no allocation of any premium amount.

Response:

- a. Please see the response previously supplied in response to KAW_R_AGDR1#74_042610.
- b. Yes.
- c. See the information provided in response to KAW_R_PSCDR2#25_043010 as well as KAW_R_AGDR2#36_052410.
- d. See the response to KAW_R_AGDR2#36c_052410 for a discussion on development of the forecasted test year retrospective accruals. See the attached information that supports the 2009 retrospective accruals.
- e. The insurance premiums with a date in the past have been renewed. The executive risk appears to be a duplicate of Fiduciary, Excess Fiduciary, Crime, Kidnap & Ransom, Network Security & Privacy, D&O, Business Travel, Employed Lawyers, and Employment Practices Liability. This item will be eliminated when the Company files a revision for the Insurance Other than Group expense.
- f. See the response to part e above.
- g. See the response to part e above.
- h. Item F1 begins with October 2010, the beginning of the Company's forecasted test year, and ends with F12 which is September 2011, the end of the Company's forecasted test year.
- i. Affiliates who were not allocated premiums were divested, discontinued, or consolidated with other Business Units. Affiliates are listed because this template is also used for retrospective rating adjustments.
- j. The amounts listed on page 5 of 14 are the annual amounts for the insurance categories. Page 6 of 14 details the quarterly installments. The quarterly invoices for payments effective April, July, and October 2010 were provided in response to KAW_R_AGDR2#36. The first quarter invoices were provided in response to KAW_R_PSCDR2#25_043010, pages 64 and 65 of 70.
- k. The dates are for the annual premium coverage period January through December 2010.
- l. The abbreviations in the columns on page 5 of 14 reference the following:

WC – Worker’s Compensation; WC Taxes – Worker’s Compensation taxes; Total WC and WC taxes – total of Worker’s Compensation premium; GL/PR – General Liability premium; AL – Auto Liability; Consultation Fee – cost to administer the policies for AWW.

- m. Please refer to the excel file labeled as KAW_R_AGDR2#70(m)_052410.

The Premium Prop-Cas file lists AW Business Units premium by line of coverage. Each premium cell is linked to the Premium Input, Exposure Summary and WC, GL AL Losses worksheets and includes the formula for calculating premium based upon BU’s 50% exposure and 50% Losses relative to the rest of the Company.

- n. See response to part m above.
- o. Please refer to the information provided in response to KAW_R_PSCDR2#25_043010, page 26 of 70.
- p. See the response to part i above.
- q. 2010 Estimated Premium (page 13) and 2011 Estimated Premium (page 14) models were based upon the following attorney staff in 2009:

			6/18/09-6/18/10	
COMPANY NAME	Employed Lawyers E&O	No of Attorneys		
AMERICAN WATER WORKS SERVICE CO., INC.	\$ 22,568.64	14		
MISSOURI AMERICAN WATER	\$ 6,448.18	4		
NEW JERSEY AMERICAN WATER	\$ 6,448.18	4		
PENNSYLVANIA AMERICAN WATER	\$ 4,836.14	3		
WEST VIRGINIA AMERICAN WATER	\$ 1,612.05	1		
KENTUCKY AMERICAN WATER	\$ 1,612.05	1		
ARIZONA AMERICAN WATER	\$ 1,612.05	1		
CALIFORNIA AMERICAN WATER	\$ 4,836.14	3		
AMERICAN WATER Enterprises	\$ 12,896.37	8		
TOTAL	\$ 62,869.78	39		

- r. Please see the response to AG-2-36.
- s. Retro accrual was initiated in 2001. The following adjustments were made:

2001	48,081.64
2002	150,096.80
2003	119,243.83
2004	67,654.25
2005	28,696.40
2006	27,442.22
2007	(47,081.75)
2008	(83,922.00)
2009	(46,420.75)

t. See the response to part i above.

For the electronic version of this response, refer to
KAW_R_AGDR2#70_052410.pdf.

Insurance Retro Accrual Entries (Allocation Computation) 12/31/2009

Source	Beg Balances			Total Deferred Liabilities	Ending Deferred Liability <i>D</i> <i>Calculated ref 1.3</i>	Summary JE		
	<i>A</i> JDE	<i>B</i> AWE Acct	<i>C</i> =(A+B)			<i>E</i> =(D-C)	<i>F</i> Non-Reg Deferred Liability Accounts =(D-C)	<i>G</i> =(E-F)
	JDE	Non-Reg Deferred Liability Accounts	Total Deferred Liabilities			JDE	Non-Reg Deferred Liability Accounts	XX.557000 Insurance Expense
02-AWIK	15,628.57	-	15,628.57	(7,638.05)		xx.241261/146105 Def. Liability/Asset	-	23,266.62
03-SC	406,988.36	-	406,988.36	297,216.18			-	109,772.18
05-CA	209,387.68	-	209,387.68	231,982.02			-	(22,594.34)
09-IL	561,430.91	-	561,430.91	598,986.81			-	(37,555.90)
10-IN	196,827.75	-	196,827.75	207,517.78			-	(10,690.02)
11-IA	60,542.85	-	60,542.85	63,081.39			-	(2,538.54)
12-KY	74,267.83	-	74,267.83	73,652.86			-	614.98
13-MD	6,961.06	-	6,961.06	6,607.53			-	353.53
16-MI	2,832.52	-	2,832.52	2,918.95			-	(86.42)
17-MO	584,669.14	-	584,669.14	668,713.28			-	(74,044.15)
18-NJ	383,419.57	-	383,419.57	420,067.67			-	(36,648.10)
19-NM	10,355.17	-	10,355.17	11,285.29			-	(930.13)
22-OH	44,742.22	-	44,742.22	45,964.87			-	(1,222.65)
23-AZ	127,481.47	-	127,481.47	152,024.73			-	(24,543.27)
24-PA	1,066,042.55	-	1,066,042.55	1,132,032.72			-	(65,990.17)
26-TN	58,220.20	-	58,220.20	52,550.73			-	(5,669.47)
27-VA	49,376.90	-	49,376.90	47,900.57			-	1,476.33
28-WV	(52,401.91)	-	(52,401.91)	(67,974.09)			-	15,572.18
30-HI	27,497.11	-	27,497.11	29,157.30			-	(1,660.19)
38-LI	99,971.80	-	99,971.80	108,865.00			-	(8,893.19)
50-TX	(139.66)	-	(139.66)	2,399.84			-	(2,539.50)
	3,934,102.10	-	3,934,102.10	4,067,313.37			-	(133,211.27)
AWR	-	11,563.72	11,563.72	13,105.51			1,541.79	(1,541.79)
AWM	-	18,407.57	18,407.57	29,796.40			11,388.82	(11,388.82)
AWE	-	734,850.14	734,850.14	965,344.49			230,494.34	(230,494.34)
MISC	-	764,821.44	764,821.44	1,008,246.40			243,424.96	(243,424.96)
	3,934,102.10	764,821.44	4,698,923.54	5,075,569.76			243,424.96	(376,636.22)

Reviewed by: James P. Li

Approved by: Okechukwu Azie Date

Prepared by: Mahaveer Jain Date

Preparer _____ Date
Mahaveer Jain

Reviewer _____ Date
Jim Li

Approver _____ Date
James Kalinovich

Account #s	Debit		Credit
	Cash 231200.AW46	Insurance Expense 557000.16	Retro Receivable 146105
02-AWK	(4,163.16)	35.70	(4,127.46)
03-SC	56,344.96	16,432.46	72,777.42
05-CA	91,444.21	10,105.39	101,549.60
09-IL	113,255.47	21,767.97	135,023.44
10-IN	59,481.29	9,499.96	68,981.25
11-IA	13,972.10	2,848.85	16,820.95
12-KY	15,654.73	3,702.02	19,356.75
13-MD	1,114.86	298.04	1,412.90
16-MI	678.56	102.28	780.84
17-MO	192,391.33	31,553.32	223,944.65
18-NJ	220,531.54	41,624.23	262,155.77
19-NM	2,081.83	598.22	2,680.05
22-OH	13,780.97	2,366.36	16,147.33
23-AZ	27,829.07	5,805.93	33,635.00
24-PA	361,311.47	55,263.35	416,574.82
26-TN	20,852.12	3,561.02	24,413.14
27-VA	18,793.33	2,501.31	21,294.64
28-WV	68,532.91	9,625.90	78,158.81
30-HI	7,208.44	811.03	8,019.47
38-LI	45,589.70	6,386.97	51,976.67
50-TX	3,776.54	356.54	4,133.08
AWR	1,381.86	574.88	1,956.74
AWM	7,936.90	3,326.02	11,262.92
AWE	216,817.97	9,348.25	226,166.22
Total	1,556,599.00	238,496.00	1,795,095.00

1,795,095.00

Insurance Retro Accrual Entries (Allocation Computation) 03/31/2009

Source	Beg Balances		Total Deferred Liabilities	Ending Deferred Liability	Summary JE	
	A JDE	B AWE Acct			F =(D-C)	G =(E-F)
02-AWK	JDE				JDE	XX.557.000 Insurance Expense
03-SC	xx.241261/146105 Def. Liability/Asset	Non-Reg Liability Accounts			xx.241261/146105 Def. Liability/Asset	
05-CA	106,408.13		106,408.13	106,408.13	34,160.66	(34,160.66)
09-JL	191,206.10		191,206.10	191,206.10	1,416.07	(1,416.07)
10-IN	74,842.88		74,842.88	74,842.88	74,842.88	(74,842.88)
11-JA	32,311.47		32,311.47	32,311.47	32,311.47	(32,311.47)
12-KY	9,998.52		9,998.52	9,998.52	9,998.52	(9,998.52)
13-MD	11,466.66		11,466.66	11,466.66	11,466.66	(11,466.66)
16-MI	2,760.48		2,760.48	2,760.48	2,760.48	(2,760.48)
17-MO	925.53		925.53	925.53	925.53	(925.53)
18-NJ	68,581.91		68,581.91	68,581.91	68,581.91	(68,581.91)
19-NM	48,242.39		48,242.39	48,242.39	48,242.39	(48,242.39)
22-OH	2,846.97		2,846.97	2,846.97	2,846.97	(2,846.97)
23-AZ	13,855.46		13,855.46	13,855.46	13,855.46	(13,855.46)
24-PA	263.90		263.90	263.90	263.90	(263.90)
26-TN	47,619.80		47,619.80	47,619.80	47,619.80	(47,619.80)
27-VA	16,763.60		16,763.60	16,763.60	16,763.60	(16,763.60)
28-WV	9,643.79		9,643.79	9,643.79	9,643.79	(9,643.79)
30-HI	18,625.46		18,625.46	18,625.46	18,625.46	(18,625.46)
38-LI	1,719.96		1,719.96	1,719.96	1,719.96	(1,719.96)
50-TX	12,888.20		12,888.20	12,888.20	12,888.20	(12,888.20)
	(2,165.17)		(2,165.17)	(2,165.17)	(2,165.17)	2,165.17
AWR	2,610,602.21		2,610,602.21	2,610,602.21	475,916.78	(475,916.78)
AWM		(2,466.26)	(2,466.26)	1,204.27	3,670.53	(3,670.53)
AWE		3,490.29	3,490.29	5,984.59	2,504.30	(2,504.30)
MISC		770,451.33	770,451.33	657,294.79	(120,355.40)	120,355.40
		771,475.36	771,475.36	657,294.79	(114,180.57)	114,180.57
	2,610,602.21	771,475.36	3,382,077.57	3,749,813.78	475,916.78	(361,736.21)

Reviewed by: Jim Li
 Approved by: *[Signature]* Date: 3/17/09
 Prepared by: *[Signature]* Date: 3/16/09

Insurance Retro Accrual Entries (Allocation Computation) 09/30/2009

Source	Beg Balances		Total Deferred Liabilities	Summary JE		XX-557000 Insurance Expense
	A JDE	B AWE Acct		E (D-C)	F (D-C)	
02-AWK	JDE	Non-Reg Deferred Liability Accounts	Total Deferred Liability	JDE Def. Liability/Asset	Non-Reg Deferred Liability Accounts	XX-557000 Insurance Expense
03-SC	16,641.56	-	16,641.56	(5,140.44)	-	5,140.44
05-CA	330,009.16	-	330,009.16	149,756.62	-	(149,756.62)
09-IL	167,928.30	-	167,928.30	143,008.98	-	(143,008.98)
10-IN	401,558.09	-	401,558.09	294,896.26	-	(294,896.26)
11-IA	144,389.16	-	144,389.16	121,419.85	-	(121,419.85)
12-KY	43,074.56	-	43,074.56	34,289.24	-	(34,289.24)
13-MD	49,109.92	-	49,109.92	44,514.66	-	(44,514.66)
16-MI	4,899.12	-	4,899.12	3,474.85	-	(3,474.85)
17-MO	2,358.03	-	2,358.03	1,255.33	-	(1,255.33)
18-NJ	384,597.38	-	384,597.38	424,016.41	-	(424,016.41)
19-NM	186,944.49	-	186,944.49	458,630.85	-	(458,630.85)
22-OH	5,919.05	-	5,919.05	7,116.16	-	(7,116.16)
23-AZ	33,840.05	-	33,840.05	27,049.50	-	(27,049.50)
24-PA	85,406.46	-	85,406.46	75,710.01	-	(75,710.01)
26-TN	757,815.40	-	757,815.40	724,801.97	-	(724,801.97)
27-VA	41,472.57	-	41,472.57	41,160.76	-	(41,160.76)
28-WV	40,665.13	-	40,665.13	29,986.41	-	(29,986.41)
30-HI	80,435.48	-	80,435.48	108,192.38	-	(108,192.38)
38-LI	23,859.43	-	23,859.43	11,657.15	-	(11,657.15)
50-TX	10,659,537.4	-	10,659,537.4	85,994.74	-	(85,994.74)
	10 (433.77)	-	(433.77)	4,427.19	-	(4,427.19)
	2,705,592.35	-	2,705,592.35	2,784,218.87	-	(2,784,218.87)
AWR						
AWM					5,672.51	(5,672.51)
AWE					37,028.61	(37,028.61)
					263,409.50	(263,409.50)
MISC						
					306,110.62	(306,110.62)
	2,705,592.35	698,096.70	3,403,689.05	2,784,218.87	306,110.62	(3,090,329.49)

Ending Deferred Liability
Calculated ref L3
Total Deferred Liability
5,489,811.22

Approved by: *[Signature]* Date: 9/17/09
Checked by: *[Signature]* Date: 9/17/09

Prepared by: *[Signature]* Date: 09/10/09

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

Witness: Sheila Miller

71. Uncollectibles. Refer to the response to PSC DR1-1, WP3-10.
- a. Please provide the amount of Billed Revenues (similar to page 6 of 9) for each prior year: 2001 through 2006.
 - b. Page 6 shows Forecast Billed Revenues for the future test period of \$64,753,488. Please provide KAW's requested amount of adjusted future test year billed revenue at present rates.
 - c. Please provide monthly uncollectibles for each month of 2010, similar to pages 3 through 5 of 9.
 - d. Please provide actual billed revenues for each month of 2010.

Response:

- a.

2001	\$40,103,043
2002	\$41,676,865
2003	\$39,363,578
2004	\$39,772,371
2005	\$47,982,801
2006	\$48,668,813
- b. The revenues shown on WP 3-10, page 6 represent the forecasted billed revenues at present rates.
- c. See attached.
- d.

January	\$5,132,086
February	\$4,673,263
March	\$4,457,993
April	\$5,298,167

2010 COMPANY	MONTH	BEGINNING BALANCE	PROVISION	MISC JE ADJUSTMENT	CHARGE OFFS	RECOVERIES	ENDING BALANCE	ACCT
KY-AM	JANUARY	\$277,010.92	\$41,538.11	\$0.00	\$52,826.05	\$6,012.26	\$271,735.24	570100.15
	FEBRUARY	\$271,735.24	(\$1,545.60)	\$0.00	\$34,920.52	\$10,752.05	\$246,021.17	\$41,144.60
	MARCH	\$246,021.17	(\$3,416.81)	\$0.00	\$31,049.15	\$12,686.09	\$224,241.30	(\$1,556.56)
	APRIL	\$224,241.30	\$51,479.44	\$0.00	\$51,795.25	\$7,092.53	\$231,018.02	(\$3,251.32)
	MAY	\$231,018.02		\$0.00			\$231,018.02	\$51,408.69
	JUNE	\$231,018.02		\$0.00			\$231,018.02	\$0.00
	JULY	\$231,018.02		\$0.00			\$231,018.02	\$0.00
	AUGUST	\$231,018.02		\$0.00			\$231,018.02	\$0.00
	SEPTEMBER	\$231,018.02		\$0.00			\$231,018.02	\$0.00
	OCTOBER	\$231,018.02		\$0.00			\$231,018.02	\$0.00
	NOVEMBER	\$231,018.02		\$0.00			\$231,018.02	\$0.00
	DECEMBER	\$231,018.02		\$0.00			\$231,018.02	\$0.00
					<u>\$170,590.97</u>	<u>\$36,542.93</u>		
							<u>\$87,745.41</u>	

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

Witness: Sheila Miller/Michael A. Miller

72. Rent Expense. Refer to the response to PSC DR1-1, WP3-11.
- a. Did KAW remove all rents for equipment for which the lease has expired? If not, explain fully why not.
 - b. Refer to page 4 of 82. What is the FRCC expense?
 - c. Refer to pages 45 through 82 of 82. Why is KAW paying for copiers and other office equipment that is leased by and billed to affiliates located in Mount Laurel, NJ, Cherry Hill, NJ, and Chicago IL, etc.? For each copier and other item of office equipment for which KAW has included rental expense, please identify the lessee (if not KAW directly) and the location of the equipment (if not at a KAW office in Kentucky).
 - d. For each copier and other item of office equipment for which KAW has included rental expense that is at an affiliate location, please explain why the cost has not been included in the allocation to KAW of the affiliate Management Fee charges.

Response:

- a. Yes
- b. The FRCC is the Eastern Division of AWWSC's Field Resource Coordination Center which provides operations support for all of the back office and field dispatch functions to support the nine regulated utilities in the Eastern Division. The Eastern Division FRCC is now located in Lexington, Ky. and became fully operational in the third quarter of 2009. The equipment rent expense for the FRCC was not included in the Company's rate filing.
- c. The equipment included in the rent expense for the Company's filing is all located in Lexington, KY and used by Kentucky American Water Company. The references to Mount Laurel, NJ, Cherry Hill, NJ, and Chicago, IL are billing addresses and the address of Canon Business Solutions where the invoices were originally generated.
- d. None. See the response to part c above.

For the electronic version, refer to KAW_R_AGDR2#72_052410.pdf.

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

Witness: Sheila Miller/Michael A. Miller

73. General Office. Refer to the response to PSC DR1-1, WP3-12.
- a. Where is the location of the General Office that is charging cost to KAW as shown in WP3-12?
 - b. Is the General Office cost in addition to the affiliated Management Fee charges? If so, explain why KAW needs a General Office as well as the affiliated services that are charged to KAW via the affiliated Management Fee.
 - c. Refer to page 2 of 5. Explain what the OS, RS and BGS are.
 - d. Show in detail how the allocations to OS, RS and BGS are determined.
 - e. Provide the invoices for the Credit Line fees of \$82,000 on page 2.
 - f. For each item of General Office cost, please provide comparable information for each period: 2008, 2009, 2010, base period, and future test year. To the extent that such comparable information is available in Excel, please include the related Excel files electronically.

Response:

- a. General office is a business unit designation wherein general office costs, as defined in the NARUC system of accounts, for the Lexington office are budgeted and charged.
- b. See the response to part a above.
- c. The reference to OS, RS, and BGS are the allocations to Owenton Sewer, Rockwell Sewer, and Blue Grass Station. These costs are the allocated costs to the wastewater and non-regulated operation of KAW which are not appropriate for rate recovery by the water customers of KAW
- d. The allocation spreadsheet was included as Exhibit MAM-8 with Michael Miller's direct testimony. The excel file was also included in response to KAW_R_AGDR1#1_042610.

- e. The \$82,000 is the annual estimate for credit line fees. Since the filing is based on a forecast, there is no invoice for this estimate.
- f. Please refer to the excel file labeled as KAW_R_AGDR2#73_052410.xls.

For the electronic version refer of this response, to KAW_R_AGDR2#73_052410.pdf.

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

Witness: Sheila Miller/Keith Cartier

74. Miscellaneous Expense. Refer to the response to PSC DR1-1, WP3-13.
- a. For each item of Miscellaneous Expense, please provide comparable information for each period: 2008, 2009, 2010, base period, and future test year. To the extent that such comparable information is available in Excel, please include the related Excel files electronically.
 - b. What is the "Going out to K_cos10" on page 1?
 - c. Are the 401(k) and DCP Expense and Retiree Medical expense on page 2, 5 and 6 of 7, duplicative of any of the costs for Labor in WP3-1 and/or the costs for Group Insurance in WP3-6 and/or the cost for Pension in WP 3-7? If so, please identify, quantify and explain any such duplication.
 - d. Are the fuel costs on page 4 of 7 duplicative of any of the costs for Fuel and Purchase Power in WP3-2? If so, please identify, quantify and explain any such duplication.
 - e. Provide the invoices, contracts and supporting documentation for the Water Res Conservation of \$186,684 on page 6 of 7.
 - f. Provide a detailed itemization of the costs included in the Misc Oper AG 930210 for BU 120205.
 - g. For each BU on pages 5 through 7 of 7, explain what the business unit is and where it is located.
 - h. Refer to pages 5-7 of 7. Show in detail how the allocations to OS, RS and BGS are determined.

Response:

- a. Please refer to the excel file labeled as KAW_R_AGDR2#74_052410.xls.
- b. This refers to a link wherein the amounts on page 1 are linking to the cost of service file.

- c. No. The 401K, DCP expense and Retiree Medical expense are not duplicated anywhere in the Company's rate filing.
- d. No. The fuel costs on page 4 are for gasoline purchases.
- e. The \$186,684 is an estimate for water resource conservation for the Company's forecasted test period, October 2010 through September 2011. Therefore, currently there are no invoices. As indicated in response to KAW_R_PSCDR2#29_043010 these are expenses related to informing the public on the importance of water conservation and techniques. They include outdoor billboards, signage at Rupp Arena, weather tips, AND community ads. In the Company's 2000 rate case, case number 2000-00120, the Commission ordered the Company to provide annually information to the customers on the benefits of water conservation.
- f. \$4000 – expenses for Water for People campaign and the customer open house events.

The remaining balance is related to expenses accumulated for the new operations center since there is currently no business unit:

\$25,000 - Property insurance/tax

\$10,000 - Janitorial

\$600 - Trash removal

\$8,000 - Heating/electricity

\$2,000 - Telecommunications

\$1,500 - Office maintenance

\$3,529 - Office supplies

\$500 - Cleaning/first aid supplies

- g. See attached.
- h. See the response to KAW_R_AGDR2#73_052410 (part d).

For the electronic version of this response, refer to KAW_R_AGDR2#74_052410.pdf.

Kentucky American Water Company
Business Units
AGDR2#74_g

<u>Business Units</u>	<u>Description</u>
120105	Corp - Human Resources
120113	Corp - Info Systems
120114	Corp - Engineering
120118	Corp - Human Resources
120119	Corp - Loss Control
120121	Corp - Communications
120201	Lex - Production
120205	Lex - Admin and Gen
120206	Lex - Field Services
120217	Lex - Water Quality
120250	Lex - Kentucky River St.
120251	Lex - Richmond Road St.
120252	Lex - Pool III WTP
123017	Tri Village - Water Quality
123201	Owenton - Production
123205	Owenton - Admin and Gen
123206	Owenton - Field Services

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

Witness: Sheila Miller

75. Maintenance Expense. Refer to the response to PSC DR1-1, WP3-14.
- a. For each item of Maintenance Expense, please provide comparable information for each period: 2008, 2009, 2010, base period, and future test year. To the extent that such comparable information is available in Excel, please include the related Excel files electronically.
 - b. For each item of Deferred O&M please provide a citation to the Commission order or other authority upon which KAW is relying for the deferral.
 - c. How was the 180 months on pages 4-7 of 7 determined?

Response:

- a. Please refer to the excel file labeled as KAW_R_AGDR2#75_052410.xls.
- b. The Company has included deferrals and amortization for tank paintings, hydrant paintings, clearwell and hydrotreator paintings in prior rate cases and they have been consistently recognized by the commission. Please see the Commission Order in Case No. 2004-00103 for the Commission ruling on the subject of this question.
- c. The 180 months is the amortization period (15 years). This period has consistently been recognized by the Commission in past rate filings.

For the electronic version of this response, refer to KAW_R_AGDR2#75_052410.pdf.

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

Witness: Sheila Miller

76. Purchased Water. Refer to the response to PSC DR1-1, WP3-15. How was the amount of purchased water cost requested by KAW synchronized between (1) the budgeted amounts shown in the workpapers and (2) the weather normalized adjusted water sales levels reflected in KAW's filing? Show in detail.

Response:

The Company utilized the historical purchased water amounts for the twelve months ending November 2009, which is detailed in the working paper WP3-15, page 2 of 3. The Company did not adjust the purchased water expense to the forecasted test-year weather normalized sales levels because it impacts an insignificant amount of customers spread through the Central and Northern Divisions. The residential sales in the forecasted test-year are higher than 2009 which would likely increase the purchased water expense if the Company had made this adjustment.

For the electronic version, refer to KAW_R_AGDR2#76_052410.pdf.

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

Witness: Sheila Miller/Michael A. Miller/John Spanos

77. Depreciation Expense. Refer to the response to PSC DR1-1, WP4-1.
- a. Are any of the depreciation rates different than the most recent Commission authorized depreciation rates? If so, please identify and explain all differences.
 - b. Are any of the depreciation rates different than the depreciation rates recommended by KAW witness Mr. Spanos in his Depreciation Rate Study? If so, please identify and explain all differences.
 - c. Has KAW requested an average future test year rate base for Plant in Service and CIAC? If not, explain fully why not.
 - d. Has KAW requested a 9-30-2011 balance in rate base for Plant and CIAC? If not, explain fully why on WP4-1, page 2, Depreciation Expense on 9/30/2011 is shown.
 - e. Please refer to WP4-1, page 2, and clarify what amount of Depreciation Expense KAW is requesting.
 - f. Refer to page 3 of 13. Are the amortization amounts shown in parentheses () a credit to expense? If not, explain fully why not.
 - g. Refer to pages 4-8 of 13. Are these the current Commission approved depreciation rates for each plant account? If not, explain in detail what the information on pages 4-8 of 13 represents, and provide the current Commission approved depreciation rates and similar details.
 - h. Refer to pages 7 and of 13. For each item of "Unrecovered Reserve to Be Amortized" show in detail how the "unrecovered" amount was calculated. Include supporting calculations in Excel.

Response:

- a. The Company utilized the most recent Commission authorized depreciation rates for the base period and utilized the depreciation rates recommended by Mr. John Spanos for the forecasted test year.

- b. No. See the response to part a above.
- c. Yes
- d. The rate base exhibit details the rate base as of the base period, the end of the forecasted period, as well as the thirteen month average. The revenue requirement is based on the thirteen month average rate base.
- e. The Company is requesting depreciation expense based on the thirteen month average utility plant.
- f. Yes.
- g. No. These pages represent the depreciation rates as recommended by Mr. Spanos. See attached for the schedule of the currently authorized depreciation rates.
- h. The attached schedule sets forth the breakdown of the account by account amounts of reserve to be segregated into the "Unrecovered Reserve to be Amortized" section. The first step was to determine the theoretical reserve amount for each account based on the surviving vintages. Therefore, vintages older than the amortization period were assigned a reserve amount equal to the original cost. The other vintages were assigned the appropriate amount based on age. The remaining amount of reserve from the Company book reserve by account is put into the "Unrecovered Reserve to be Amortized" category and recovered over the next 5 years. This assumes full recovery of all assets in general plant and stabilizes the accrual rate going forward for all assets still to be recovered. Please refer to the file labeled as KAW_R_AGDR2#77_052410.xlsx for the excel version.

For the electronic version of this response, refer to KAW_R_AGDR2#77_052410.pdf.

KENTUCKY AMERICAN WATER COMPANY

Depreciation Rates Per KAWC's Updated Depreciation Study

DEPRECIABLE GROUP	SURVIVOR CURVE (2)	NET SALVAGE (3)	ORIGINAL COST AT DECEMBER 31, 2006 (4)	BOOK DEPRECIATION RESERVE (6)	FUTURE ACCRUALS (7)	CALCULATED ANNUAL ACCRUAL AMOUNT (8)	ANNUAL ACCRUAL RATE (9)	COMPOSITE REMAINING LIFE (10)
STRUCTURES & IMPROVEMENTS								
304.10	35-S2	(5)	2,568,387.51	177,030	2,519,776	77,867	3.03	32.4
304.20	65-R3	(20)	4,800,062.05	1,275,928	4,484,145	92,954	1.94	48.2
304.30	65-R3	(20)	8,962,557.44	1,836,637	8,918,433	171,150	1.91	52.1
304.40	25-S2	0	825,967.62	292,975	532,992	35,881	4.34	14.9
304.60	55-R2.5	(5)	3,991,281.60	1,042,342	3,148,505	80,281	2.01	39.2
304.70	45-R3	0	1,018,770.93	244,474	774,296	23,745	2.33	32.6
304.80	25-R1.5	0	1,563,838.35	173,941	1,389,898	65,570	4.19	21.2
	TOTAL ACCOUNT 304		23,730,865.50	5,043,327	21,768,045	647,448	2.31	39.8
COLLECTING AND IMPOUNDING RESERVOIRS								
305.00	75-R4	0	1,016,553.24	299,803	716,750	15,210	1.50	47.1
306.00	50-R2.5	0	561,429.96	206,712	354,718	12,833	2.29	27.6
309.00	65-S2.5	(10)	5,084,342.14	1,623,161	3,969,616	92,782	1.82	42.8
310.10	35-S2.5	0	572,453.97	219,573	352,881	18,076	3.16	19.5
PUMPING EQUIPMENT								
311.20	50-R3	(15)	9,600,980.00	2,953,024	8,088,108	235,375	2.45	34.4
311.30	50-R3	(15)	724,441.60	237,479	595,630	17,919	2.47	33.2
311.40	50-R3	(15)	61,581.87	1,444	69,375	1,420	2.31	48.9
	TOTAL ACCOUNT 311		10,387,003.47	3,191,947	8,753,113	254,714	2.45	34.4
PURIFICATION SYSTEM - EQUIPMENT								
320.10	55-S2	(15)	26,461,236.62	8,249,278	22,181,147	585,195	2.21	37.9
330.10	60-R4	(30)	11,813,469.44	2,351,172	13,006,337	265,707	2.25	48.9
331.00	75-S2	(20)	151,503,649.02	32,823,433	148,980,948	2,509,245	1.66	59.4
333.00	70-R3	(120)	35,325,950.03	12,252,053	65,465,036	1,143,972	3.24	57.2
METERS								
334.10	40-R1.5	(10)	90,962.25	8,504	91,554	2,532	2.78	36.2
334.11	40-R1.5	(10)	45,063.51	7,789	41,781	1,288	2.86	32.4
334.12	40-R1.5	(10)	1,444,409.44	374,208	1,214,643	41,412	2.87	29.3
334.13	40-R1.5	(10)	6,870,500.64	941,563	6,615,988	192,725	2.81	34.3
	TOTAL ACCOUNT 334.1		8,450,935.84	1,332,064	7,963,966	237,957	2.82	33.5
METER INSTALLATIONS								
334.20	40-R1.5	(10)	15,249,739.68	4,155,235	12,619,482	445,783	2.92	28.3
335.00	75-R3	(25)	10,147,784.89	2,204,094	10,480,640	174,654	1.72	60.0
339.10	5-SQ	0	3,838.00	3,072	766	766	19.96	1.0
OTHER SOURCE OF SUPPLY PLANT								
OFFICE FURNITURE & EQUIPMENT								
340.10	20-SQ	0	701,103.19	450,764	250,340	52,430	7.48	4.8
340.21	5-SQ	0	50,239.84	32,073	18,167	4,037	8.04	4.5
340.22	5-SQ	0	1,509,960.66	1,213,034	296,928	143,742	9.52	2.1
340.23	5-SQ	0	497,999.21	395,188	102,810	87,110	17.49	1.2
340.30	5-SQ	0	4,551,309.57	3,772,326	778,984	312,661	6.87	2.5
340.32	5-SQ	0	638,669.14	638,669	0	0	-	-
340.33	5-SQ	0	528,219.88	433,163	95,057	95,057	18.00	1.0
340.50	15-SQ	0	178,703.11	113,507	65,196	12,805	7.17	5.1
	TOTAL ACCOUNT 340		8,656,204.60	7,048,724	1,607,482	707,842	8.18	2.3

KENTUCKY AMERICAN WATER COMPANY

Depreciation Rates Per KAWC's Updated Depreciation Study

DEPRECIABLE GROUP	SURVIVOR CURVE (2)	NET SALVAGE (3)	ORIGINAL COST AT DECEMBER 31, 2006 (4)	BOOK DEPRECIATION RESERVE (6)	FUTURE ACCRUALS (7)	CALCULATED ANNUAL ACCRUAL AMOUNT (8)	ANNUAL ACCRUAL RATE (9)	COMPOSITE REMAINING LIFE (10)
TRANSPORTATION EQUIPMENT								
341.10	13-S2.5	20	1,718,376.55	499,347	875,354	124,007	7.22	7.1
341.20	15-S2.5	15	783,375.60	256,123	409,746	50,756	6.48	8.1
341.30	10-R4	15	180,201.94	91,039	62,133	19,637	10.90	3.2
341.40	16-L2.5	0	135,681.17	16,851	118,831	8,670	6.39	13.7
			<u>2,817,635.26</u>	<u>863,360</u>	<u>1,466,064</u>	<u>203,070</u>	<u>7.21</u>	<u>7.2</u>
STORES EQUIPMENT								
342.00	25-SQ	0	35,546.95	25,237	10,310	1,843	5.18	5.6
343.00	20-SQ	0	1,421,289.04	437,667	983,620	80,654	5.67	12.2
344.00	15-SQ	0	843,098.99	397,789	445,310	59,871	7.10	7.4
345.00	18-L2.5	25	1,589,810.84	305,626	886,734	70,747	4.45	12.5
346.10	15-SQ	0	1,931,144.48	1,016,711	914,433	118,241	6.12	7.7
347.00	20-SQ	0	1,262,276.87	289,116	973,160	65,955	5.23	14.8
348.00	20-SQ	0	138,484.58	55,826	82,659	7,682	5.55	10.8
			<u>319,004,743.41</u>	<u>84,394,980</u>	<u>323,983,217</u>	<u>7,620,247</u>	<u>2.39</u>	
Composite Depreciation Rate								
NONDEPRECIABLE PLANT								
301.00	ORGANIZATION		31,640.33					
302.00	FRANCHISES AND CONSENTS		70,260.82					
303.20	LAND - SOURCE OF SUPPLY		355,966.67					
303.30	LAND - PUMPING		91,826.50					
303.40	LAND - WATER TREATMENT		68,163.99					
303.50	LAND - TRANSMISSION & DISTRIBUTION		4,019,854.04					
			<u>4,637,712.35</u>					
TOTAL NONDEPRECIABLE PLANT								
			<u>323,642,455.76</u>	<u>84,394,980</u>	<u>323,983,217</u>	<u>7,620,247</u>		

* The accrual rate for new additions in Account 340.32 will be 20%

KENTUCKY AMERICAN WATER COMPANY

RECONCILIATION OF BOOK RESERVE TO BE AMORTIZED

<u>ACCOUNT</u>	<u>COMPANY BOOK RESERVE</u>	<u>THEORETICAL RESERVE FOR AMORTIZATION</u>	<u>UNRECOVERED RESERVE TO BE AMORTIZED</u>
	(1)	(2)	(3) = (1) - (2)
340.10	548,704	492,104	56,600
340.21	33,309	59,719	(26,410)
340.22	1,573,682	679,482	894,200
340.23	72,064	159,736	(87,672)
340.30	5,051,293	4,432,143	619,150
340.32	586,194	46,894	539,300
340.33	662,362	530,037	132,325
340.50	82,499	61,369	21,130
341.10	1,698,556	1,698,556	0
341.20	692,930	692,930	0
341.30	297,923	297,923	0
341.40	116,005	116,005	0
342.00	32,771	29,431	3,340
343.00	871,845	715,645	156,200
344.00	722,489	547,639	174,850
345.00	862,366	862,366	0
346.10	859,023	1,366,323	(507,300)
346.19	1,752	2,107	(355)
346.20	16,081	22,781	(6,700)
347.00	444,299	476,799	(32,500)
348.00	324,508	78,208	246,300
Total	15,550,655	13,368,197	2,182,458

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

Witness: Sheila Miller

78. Property Taxes. Refer to the response to PSC DR1-1, WP5-1.
- a. Refer to each item of "Property Taxes Paid" on page 2 of 120. Please provide comparable information for each item, based on the most recent payment. Show the amount and date of each such payment. For example, the Bourbon County amount is listed as paid on /28/2009 and the Fayette County/ LFUCG amount paid on 12/8/2008. Please provide the more current payment amounts (presumably in March or April of 2010 for Bourbon County, and in December 2009 for Fayette County/ LFUCG), etc.
 - b. Also, include the total for the most recent round of actual payments that would be comparable to the \$2,728,119, and provide such payment and total information in Excel.

Response:

There have been no additional assessments or payments since the Company filed the original WP5-1. As indicated in response to KAW_R_AGDR1#237_042610 an audit was performed by the Kentucky Department of Revenue. The audit is in the final stage and all documents have been submitted and the Company is awaiting the final acceptance and certification from the auditor.

For the electronic version of this response, refer to KAW_R_AGDR2#78_052410.pdf.

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

Witness: Michael A. Miller

79. Deferred Taxes Related to UPIS Investment. Refer to the response to PSC DR1-1, WP6-1.
- a. Explain the \$161,828,374 change in Book Basis and \$161,522,693 change in Tax Basis on page 2 of 7 for September 2010.
 - b. Explain the \$4,833,342 change in Book Basis and \$3,707,274 change in Tax Basis on page 2 of 7 for December 2010.
 - c. Provide comparable information to that shown on page 2 of 7 for each period: 2008, 2009, 2010, and base period.
 - d. Please show the income tax rate used to compute the amounts in the "Deferred SIT Expense" and "Deferred FIT Expense" columns.
 - e. Are each of the amounts in the "Deferred SIT" and "Deferred FIT" and "Total Deferred Taxes" columns balance sheet amounts? If not, explain fully why not.
 - f. Has KAW included in its requested rate base the \$46,291,510 "Total Deferred Taxes" amount listed on page 2 of 7? If not, explain fully why not and identify the amount of Accumulated Deferred Income Taxes included in rate base by KAW related to plant.
 - g. Is the \$46,291,510 "Total Deferred Taxes" amount listed on page 2 of 7 an addition (increase) to rate base?
 - h. Does KAW use accelerated income tax depreciation? If not, explain fully why not. If so, explain why KAW has a large addition to rate base for ADIT related to Plant.
 - i. Was KAW's Accumulated Deferred Income Tax balance related to Plant extinguished at any point as a result of ownership changes? If so, please identify, quantify and explain in detail when that occurred and the related circumstances.
 - j. Is the (\$7,979,767) amount in the "Regulatory Asset/Liab" column on page 2 of 7 a subtraction from rate base? If not, explain fully why not.

- k. Show in detail how each amount in the “Regulatory Asset/Liab” column on page 2 of 7 was derived.
- l. Refer to the “book basis” information shown on pages 3 and 4 of 7. Provide comparable information to that shown on page 3 and 4 of 7 for each period: 2008, 2009, 2010, base period, and future test year. Include related Excel files.
- m. Refer to the “tax basis” information shown on pages 5 and 6 of 7. Provide comparable information to that shown on page 3 and 4 of 7 for each period: 2008, 2009, 2010, and base period.
- n. Refer to page 7 of 7. Show in detail how the monthly amortization of \$6,687 was derived.
- o. Explain the decrease from August 2010 to September 2010 in the “Grossup” amount.
- p. Show in detail how the “Equity Gross-up” amount for each month is derived.
- q. Provide comparable information for the “Equity Gross-up” amounts and monthly amortization of same for each period: 2008, 2009, 2010, and base period.
- r. Refer to page 7 of 7. Why does the “Grossup” amount bottom out in December 2010 and then increase for each month in 2011?

Response:

- a. The change in book Basis and Tax Basis for September 2010 is the result of closing out the KRS II project in the amount of \$159,276,955 in September 2010.
- b. The change in book Basis and Tax Basis for December 2010 is the result of closing out the US 25 Relocation project in the amount of \$3,200,000 and the Lexington Operations Center in the amount of \$2,000,000.
- c. The Company objects to this question on the grounds that it would be extremely burdensome and costly to provide the information monthly for information that is not necessary to review the tax/book plant balances utilized in the Company’s forecasted test-year. Notwithstanding the objection, changes in the balance are related to capital projects closed to utility plant and summaries of the tax/book basis changes for 2008, 2009 and YTD 2010 are provided on the attached schedule.

- d. The income tax rate used for the Deferred SIT Expense is 6% and the Deferred FIT Expense is 35%.
- e. Yes.
- f. Yes and this amount is offset by the amount of the regulatory assets/liability (FAS 109) of (\$7,979,767). The net result is \$38,311,743 plus deferred tax on the deferred maintenance and deferred debits. Please refer to the workpapers provided in response to KAW_R_PSCDR1#1a_WP6-1_031610, page 2 or 7, KAW_R_PSCDR1#1a_WP6-2_031610, page 1 of 8, KAW_R_PSCDR1#1a_WP6-4_031610, page 3 of 3, KAW_R_PSCDR1#1a_WP6-5_031610, page 1 of 1 and KAW_APP_EX37B_022610, page 3 and 49 of 54.
- g. No.
- h. Yes the Company utilizes accelerated depreciation for income tax purposes as permitted by the IRS and KY state tax department. The Company objects to the second part of this question on the grounds that it is vague and provides no reference. The Company reduced rate base in the FTY by \$38,238,685 as provided in response to subpart f. above
- i. No.
- j. No, the (7,979,767) is not a subtraction from rate base. See AG2 Question 80 e. first paragraph for explanation.
- k. See the response to AG-2-15(b).
- l. The Company objects to this question on the grounds that it would be extremely burdensome and costly to provide the information monthly.

Notwithstanding the objection, please see the attached schedule. Also, please refer to the excel file labeled as KAW_R_AGDR2#79_052410.xls.
- m. The Company objects to this question on the grounds that it would be extremely burdensome and costly to provide the information monthly.

Notwithstanding the objection the Company responds, please see attached schedule.
- n. See attached.

o. The KSRII Treatment Project will be placed into service September 2010 resulting in the decrease of the “Grossup” amount from August 2010 to September 2010.

p. The Company objects to this question on the grounds that it would be extremely burdensome and costly to provide the information monthly.

Notwithstanding the objection the Company responds, please see attached schedule.

q. See AG2 Question 80 attachment.

r. The “Grossup” amount bottoms out in December 2010 because assets residing in CWIP were completed and placed into service. The increase for each month in 2011 is due to an increase in construction work in progress expenditures.

For the electronic version of this response, refer to KAW_R_AGDR2#79_052410.pdf.

Kentucky American Water Company
AGZ Question 79k
For The Forecasted Test Period Ending 9/30/2011

Kentucky American Water Company
Amortization of Regulatory Assets and Liabilities
CASE NO. 2010-00036

Month	Equity Gross-up Acct. 186035		Plant Flow Through Acct. 186040		Other Acct. 186045		Excess/Deficit/Deferred Federal Taxes Acct. 256220		Regulatory Liability Unamortized ITC Acct. 256311		Regulatory Liability Unamortized ITC Acct. 256312		Equity Gross-up Acct. 186030/186035		Total	Balance
	Amortization	Balance	Amortization	Balance	Amortization	Balance	Amortization	Balance	Amortization	Balance	Amortization	Balance	Amortization	Balance		
Balance @ 11/30/2009		(563,610)		3,241,391		(431,057)		(1,155,724)		(33,234)		(506,334)		4,968,788		5,687,198
Dec-09	(6,887)	(570,287)	(38,487)	3,202,904	2,008	(429,049)	(2,297)	(1,143,991)	356	(32,879)	3,252	(503,062)	255,734	5,224,522	226,045	5,913,244
Jan-10	(6,887)	(576,984)	(40,775)	3,162,129	2,008	(427,041)	(2,297)	(1,132,257)	356	(32,523)	3,252	(499,830)	269,676	5,494,198	237,689	6,150,943
Feb-10	(6,887)	(583,671)	(40,775)	3,121,354	2,008	(425,033)	(2,297)	(1,120,524)	356	(32,167)	3,252	(496,577)	281,536	5,775,734	249,559	6,400,502
Mar-10	(6,887)	(590,358)	(40,775)	3,080,579	2,008	(423,025)	(2,297)	(1,108,790)	356	(31,811)	3,252	(493,325)	289,477	6,065,323	257,612	6,656,114
Apr-10	(6,887)	(597,045)	(40,775)	3,039,804	2,008	(421,017)	(2,297)	(1,097,057)	356	(31,455)	3,252	(490,073)	299,477	6,364,800	267,500	6,926,615
May-10	(6,887)	(603,732)	(40,775)	2,999,029	2,008	(419,009)	(2,297)	(1,085,323)	356	(31,099)	3,252	(486,820)	308,976	6,673,776	276,989	7,202,614
Jun-10	(6,887)	(610,419)	(40,775)	2,958,254	2,008	(417,001)	(2,297)	(1,073,589)	356	(30,744)	3,252	(483,568)	316,883	6,990,659	284,906	7,487,520
Jul-10	(6,887)	(617,106)	(40,775)	2,917,479	2,008	(414,993)	(2,297)	(1,061,856)	356	(30,388)	3,252	(480,316)	325,063	7,315,722	293,086	7,780,606
Aug-10	(6,887)	(623,793)	(40,775)	2,876,704	2,008	(412,985)	(2,297)	(1,050,122)	356	(30,032)	3,252	(477,063)	331,378	7,647,100	299,401	8,060,007
Sep-10	(6,887)	(630,480)	(40,775)	2,835,929	2,008	(410,977)	(2,297)	(1,038,389)	356	(29,676)	3,252	(473,811)	341,694	7,508,964	306,988	8,346,995
Oct-10	(6,887)	(637,167)	(40,775)	2,795,154	2,008	(408,969)	(2,297)	(1,026,656)	356	(29,320)	3,252	(470,559)	351,016	7,379,706	314,203	8,633,983
Nov-10	(6,887)	(643,854)	(40,775)	2,754,379	2,008	(406,961)	(2,297)	(1,014,922)	356	(28,964)	3,252	(467,306)	360,338	7,250,448	321,512	8,920,971
Dec-10	(6,887)	(650,541)	(40,775)	2,713,604	2,008	(404,953)	(2,297)	(1,003,188)	356	(28,608)	3,252	(464,054)	369,660	7,121,190	328,821	9,207,960
Jan-11	(6,887)	(657,228)	(42,691)	2,672,829	2,008	(402,945)	(2,297)	(991,454)	356	(28,253)	3,252	(460,802)	378,982	7,001,932	336,130	9,494,949
Feb-11	(6,887)	(663,915)	(42,691)	2,632,054	2,008	(400,937)	(2,297)	(979,721)	356	(27,897)	3,252	(457,550)	388,304	6,882,682	343,439	9,781,938
Mar-11	(6,887)	(670,602)	(42,691)	2,591,279	2,008	(398,929)	(2,297)	(967,987)	356	(27,541)	3,252	(454,297)	397,626	6,763,425	350,748	10,068,927
Apr-11	(6,887)	(677,289)	(42,691)	2,550,504	2,008	(396,921)	(2,297)	(956,254)	356	(27,185)	3,252	(451,045)	406,948	6,644,162	358,057	10,355,916
May-11	(6,887)	(683,976)	(42,691)	2,509,729	2,008	(394,913)	(2,297)	(944,520)	356	(26,829)	3,252	(447,792)	416,199	6,524,899	365,366	10,642,905
Jun-11	(6,887)	(690,663)	(42,691)	2,468,954	2,008	(392,905)	(2,297)	(932,786)	356	(26,474)	3,252	(444,540)	425,450	6,405,639	372,675	10,930,894
Jul-11	(6,887)	(697,350)	(42,691)	2,428,179	2,008	(390,897)	(2,297)	(921,053)	356	(26,118)	3,252	(441,288)	434,701	6,286,380	380,000	11,218,883
Aug-11	(6,887)	(704,037)	(42,691)	2,387,404	2,008	(388,889)	(2,297)	(909,319)	356	(25,762)	3,252	(438,035)	443,952	6,167,121	387,319	11,506,872
Sep-11	(6,887)	(710,724)	(42,691)	2,346,629	2,008	(386,881)	(2,297)	(897,586)	356	(25,406)	3,252	(434,783)	453,203	6,047,862	394,628	11,795,861

Kentucky American Water Company
AG2 Question 79I
For The Forecasted Test Period Ending 9/30/2011

Kentucky-American Water Company
Book Basis Property
CASE NO: 2010-00036

Book Basis:

Account	Utility Plant in Service	Accumulated Reserve	Regulatory Assets				Regulatory Liabilities				Total	
			Equity Grossup	Plant Flow Through	Other	Customer Advances	CIAC	ITC	Deferred Taxes	Gross-up ITC		
Balance 12/31/07	101000 341,446,192	108xxx (87,617,584)	186030/035/055 2,771,931	186040 4,090,748	186045 (477,237)	252xxx (14,653,091)	271xxx/272000 (42,778,485)	255xxx (1,217,811)	256212/256220 (1,146,749)	256310/311/312 (691,541)		
Net Change	24,022,794	(4,665,418)	492,334	(426,000)	24,100	(2,262,936)	(3,248,008)	84,797	113,245	48,482		
Dec-08	365,468,985	(92,283,002)	3,264,264	3,664,748	(453,137)	(16,916,027)	(46,026,493)	(1,133,014)	(1,033,504)	(643,059)		
Net Change	15,370,011	(7,985,264)	1,211,984	(461,844)	24,100	1,074,279	(810,918)	84,797	113,245	48,482		
Dec-09	380,838,996	(100,268,266)	4,476,249	3,202,904	(429,037)	(15,841,748)	(46,837,411)	(1,048,217)	(920,259)	(594,577)		
Net Change	3,090,612	(2,612,520)	358,484	(163,100)	8,020	1,074,279	(810,918)	28,265	37,748	16,160		
Apr-10	383,929,608	(102,880,786)	4,834,733	3,039,804	(421,017)	(14,767,469)	(47,648,329)	(1,019,952)	(882,511)	(578,417)		

Kentucky American Water Company
AG2 Question 79n
For The Forecasted Test Period Ending 9/30/2011

Balance of 186035 @ 01/31/2010	3,362,404.32
Annual Composite Rate	<u>2.3866%</u>
Annual Amortization	80,247.07
Monthly Amortization	6,687.26

AFUDC Calculation Report											
American Water Works Company, Inc.											
12-Kentucky American Water Co											
Selected Month: Dec 2008											
No Subtotal Work Order Number	Beginning AFUDC Base	Base Adjustments	1/2 Current Month Chgs	Compound Eligible AFUDC	Base Factor	Total AFUDC Base	AFUDC Debt	AFUDC Equity	Total AFUDC	Input Debt Adj	Input Equity Adj
00012		Debt Rate: .00290800		Equity Rate: .0037830		Total Rate: 0.00669100					
NO SUBTOTAL											
419100	\$3,339,393.	\$0.	\$19,453.	\$22,300.	1.0	\$3,381,146.	\$9,832.	\$12,791.	\$22,623.	\$0.	\$0.
420199	\$44,284.	\$0.	\$2,870.	\$296.	1.0	\$47,450.	\$138.	\$180.	\$317.	\$0.	\$0.
422517	\$42,059.	\$0.	\$810.	\$281.	1.0	\$43,150.	\$125.	\$163.	\$289.	\$0.	\$0.
423877	\$113,268.	\$0.	\$0.	\$758.	1.0	\$114,026.	\$332.	\$431.	\$763.	\$0.	\$0.
424856	\$23,889.	\$0.	\$0.	\$160.	1.0	\$24,049.	\$70.	\$91.	\$161.	\$0.	\$0.
427002	\$2,560.	\$0.	\$15,309.	\$17.	1.0	\$17,886.	\$52.	\$68.	\$120.	\$0.	\$0.
427516	\$35,986.	\$0.	\$612.	\$227.	1.0	\$36,825.	\$107.	\$139.	\$246.	\$0.	\$0.
427564	\$28,396.	\$0.	\$1,288.	\$190.	1.0	\$29,873.	\$87.	\$113.	\$200.	\$0.	\$0.
428666	\$3,234.	\$0.	\$109.	\$17.	1.0	\$3,361.	\$10.	\$13.	\$22.	\$0.	\$0.
430914	\$178,547.	\$0.	\$3,479.	\$1,101.	1.0	\$183,127.	\$533.	\$693.	\$1,225.	\$0.	\$0.
430916	\$80,215.	\$0.	\$28.	\$525.	1.0	\$80,768.	\$235.	\$306.	\$540.	\$0.	\$0.
431401	\$12,889.	\$0.	\$293.	\$86.	1.0	\$13,268.	\$39.	\$50.	\$89.	\$0.	\$0.
431407	\$45,873.	\$0.	\$1,371.	\$307.	1.0	\$47,551.	\$69.	\$90.	\$159.	\$0.	\$0.
433799	\$50,178.	\$0.	\$3,569.	\$332.	1.0	\$54,079.	\$157.	\$205.	\$362.	\$0.	\$0.
433801	\$32,153.	\$0.	\$1,343.	\$213.	1.0	\$33,708.	\$98.	\$128.	\$226.	\$0.	\$0.
434138	\$13,635.	\$0.	\$19,882.	\$84.	1.0	\$33,601.	\$49.	\$64.	\$112.	\$0.	\$0.
434227	\$15,584,251.	\$0.	\$706,204.	\$88,650.	1.0	\$16,379,105.	\$47,630.	\$61,962.	\$109,593.	\$0.	\$0.
434231	\$2,394,848.	\$0.	\$169,284.	\$13,927.	1.0	\$2,578,060.	\$7,497.	\$9,753.	\$17,250.	\$0.	\$0.
434232	\$10,933,773.	\$0.	\$2,267,291.	\$64,361.	1.0	\$13,265,426.	\$38,576.	\$50,183.	\$88,759.	\$0.	\$0.
435652	\$28,959.	\$0.	\$853.	\$190.	1.0	\$30,001.	\$87.	\$114.	\$201.	\$0.	\$0.
436617	\$8,564.	\$0.	\$2,983.	\$53.	1.0	\$11,600.	\$34.	\$44.	\$78.	\$0.	\$0.
436848	\$1,675.	\$0.	\$1,887.	\$10.	1.0	\$3,573.	\$5.	\$7.	\$12.	\$0.	\$0.
437098	\$7,849.	\$0.	\$0.	\$53.	1.0	\$7,902.	\$23.	\$30.	\$53.	\$0.	\$0.
437100	\$7,746.	\$0.	\$0.	\$52.	1.0	\$7,798.	\$23.	\$30.	\$52.	\$0.	\$0.
438035	\$2,364.	\$0.	\$378.	\$10.	1.0	\$2,752.	\$8.	\$10.	\$18.	\$0.	\$0.
438159	\$548,893.	\$0.	\$73,412.	\$2,967.	1.0	\$625,273.	\$909.	\$1,183.	\$2,092.	\$0.	\$0.
438327	\$1,407.	\$0.	\$0.	\$9.	1.0	\$1,416.	\$4.	\$5.	\$9.	\$0.	\$0.
438908	\$157,442.	\$0.	\$151,235.	\$1,040.	1.0	\$309,718.	\$450.	\$586.	\$1,036.	\$0.	\$0.
439046	\$1,863.	\$0.	\$1,194.	\$12.	1.0	\$3,070.	\$9.	\$12.	\$21.	\$0.	\$0.
439521	\$670.	\$0.	\$349.	\$4.	1.0	\$1,023.	\$1.	\$2.	\$3.	\$0.	\$0.
439541	\$57.	\$0.	\$0.	\$0.	1.0	\$57.	\$0.	\$0.	\$0.	\$0.	\$0.

AFUDC Calculation Report

American Water Works Company, Inc.
 12-Kentucky American Water Co

Selected Month: Dec 2008

No Subtotal Work Order Number	Beginning AFUDC Base	Base Adjustments	1/2 Current Month Chgs	Compound Eligible Base AFUDC	Eligible Base Factor	Total AFUDC Base	AFUDC Debt	AFUDC Equity	Total AFUDC	Input Debt Adj	Input Equity Adj
00012			Debt Rate: .00290800	Equity Rate: .0037830	Total Rate: 0.00669100						
NO SUBTOTAL											
440024	\$17,826.	\$0.	\$0.	\$108.	1.0	\$17,934.	\$26.	\$34.	\$60.	\$0.	\$0.
440381	\$40,618.	\$0.	\$4,020.	\$140.	1.0	\$44,778.	\$130.	\$169.	\$300.	\$0.	\$0.
440535	\$20,265.	\$0.	\$1,070.	\$74.	1.0	\$21,410.	\$62.	\$81.	\$143.	\$0.	\$0.
440691	\$6,459.	\$0.	\$298.	\$35.	1.0	\$6,791.	\$20.	\$26.	\$45.	\$0.	\$0.
441554	\$8,570.	\$0.	\$23.	\$29.	1.0	\$8,621.	\$13.	\$16.	\$29.	\$0.	\$0.
441557	\$177.	\$0.	\$16,758.	\$1.	1.0	\$16,936.	\$25.	\$32.	\$57.	\$0.	\$0.
442490	\$0.	\$0.	\$1,581.	\$0.	1.0	\$1,581.	\$2.	\$3.	\$5.	\$0.	\$0.
442491	\$2,757.	\$0.	\$269.	\$9.	1.0	\$3,036.	\$4.	\$6.	\$10.	\$0.	\$0.
442492	\$247.	\$0.	\$570.	\$1.	1.0	\$817.	\$1.	\$2.	\$3.	\$0.	\$0.
442802	\$0.	\$0.	\$2,592.	\$0.	1.0	\$2,592.	\$4.	\$5.	\$9.	\$0.	\$0.
443045	\$0.	\$0.	\$1,269.	\$0.	1.0	\$1,269.	\$2.	\$2.	\$4.	\$0.	\$0.
443047	\$0.	\$0.	\$1,185.	\$0.	1.0	\$1,185.	\$2.	\$2.	\$4.	\$0.	\$0.
443642	\$0.	\$0.	\$3,164.	\$0.	1.0	\$3,164.	\$5.	\$6.	\$11.	\$0.	\$0.
443646	\$0.	\$0.	\$1,550.	\$0.	1.0	\$1,550.	\$2.	\$3.	\$5.	\$0.	\$0.
443860	\$0.	\$0.	\$2,565.	\$0.	1.0	\$2,565.	\$4.	\$5.	\$9.	\$0.	\$0.
443863	\$0.	\$0.	\$1,655.	\$0.	1.0	\$1,655.	\$2.	\$3.	\$6.	\$0.	\$0.
443864	\$0.	\$0.	\$4,899.	\$0.	1.0	\$4,899.	\$7.	\$9.	\$16.	\$0.	\$0.
443865	\$0.	\$0.	\$14,521.	\$0.	1.0	\$14,521.	\$21.	\$27.	\$49.	\$0.	\$0.
443867	\$0.	\$0.	\$1,093.	\$0.	1.0	\$1,093.	\$2.	\$2.	\$4.	\$0.	\$0.
443869	\$0.	\$0.	\$6,657.	\$0.	1.0	\$6,657.	\$10.	\$13.	\$22.	\$0.	\$0.
443871	\$0.	\$0.	\$2,148.	\$0.	1.0	\$2,148.	\$3.	\$4.	\$7.	\$0.	\$0.
443872	\$0.	\$0.	\$1,468.	\$0.	1.0	\$1,468.	\$2.	\$3.	\$5.	\$0.	\$0.
443873	\$0.	\$0.	\$469.	\$0.	1.0	\$469.	\$1.	\$1.	\$2.	\$0.	\$0.
443874	\$0.	\$0.	\$3,845.	\$0.	1.0	\$3,845.	\$6.	\$7.	\$13.	\$0.	\$0.

AFUDC Calculation Report											
American Water Works Company, Inc.											
12-Kentucky American Water Co											
Selected Month: Dec 2008											
No Subtotal Work Order Number	Beginning AFUDC Base	Base Adjustments	1/2 Current Month Chgs	Compound Eligible AFUDC	Base Factor	Total AFUDC Base	AFUDC Debt	AFUDC Equity	Total AFUDC	Input Debt Adj	Input Equity Adj
00012	Debt Rate: .00290800		Equity Rate: .0037830		Total Rate: 0.00669100						
NO SUBTOTAL											
443915	\$0.	\$0.	\$1,530.	\$0.	1.0	\$1,530.	\$2.	\$3.	\$5.	\$0.	\$0.
NO SUBTOTAL											
Total:	\$33,823,838.	\$0.	\$3,520,689.	\$198,631.		\$37,543,158.	\$107,547.	\$139,907.	\$247,453.	\$0.	\$0.
12-Kentucky American Water Co											
Total:	\$33,823,838.	\$0.	\$3,520,689.	\$198,631.		\$37,543,158.	\$107,547.	\$139,907.	\$247,453.	\$0.	\$0.
Grand Total:											
	\$33,823,838.	\$0.	\$3,520,689.	\$198,631.		\$37,543,158.	\$107,547.	\$139,907.	\$247,453.	\$0.	\$0.

Overhead Report (Loadings)

American Water Works Company, Inc.

12-Kentucky American Water Co

Accounting Month: Dec 2008

Overhead Type : 00012 AFUDC Gross Up
 Input Rate : 63.6700%
 Clearing Rate : 0.0000%
 Cleared Amount : (\$89,079.)

Credit Account : 705100-AFUDC Equity
 Expenditure Type : Deferred

Remaining Balance :

GI Account	Work Order Number	Overhead Charge
186030-Reg Asset-AFUDC-Eq-CWIP		
	419100	\$8,144.
	420199	\$114.
	422517	\$104.
	423877	\$275.
	424856	\$58.
	427002	\$43.
	427516	\$89.
	427564	\$72.
	428666	\$8.
	430914	\$441.
	430916	\$195.
	431401	\$32.
	431407	\$57.
	433799	\$130.
	433801	\$81.
	434138	\$40.
	434227	\$39,451.
	434231	\$6,210.
	434232	\$31,952.
	435652	\$72.
	436617	\$28.
	436848	\$4.
	437098	\$19.
	437100	\$19.
	438035	\$7.
	438159	\$753.
	438327	\$3.
	438908	\$373.
	439046	\$7.
	439521	\$1.
	439541	\$0.
	440024	\$22.
	440381	\$108.
	440535	\$52.
	440691	\$16.
	441554	\$10.
	441557	\$20.
	442490	\$2.
	442491	\$4.
	442492	\$1.
	442802	\$3.
	443045	\$2.
	443047	\$1.
	443642	\$4.
	443646	\$2.
	443860	\$3.
	443863	\$2.
	443864	\$6.
	443865	\$17.
	443867	\$1.
	443869	\$8.
	443871	\$3.
	443872	\$2.
	443873	\$1.
	443874	\$5.

Overhead Report (Loadings)

American Water Works Company, Inc.

12-Kentucky American Water Co

Accounting Month: Dec 2008

<u>Gl Account</u>	<u>Work Order Number</u>	<u>Overhead Charge</u>
186030-Reg Asset-AFUDC-Eq-CWIP	443915	\$2.
186030-Reg Asset-AFUDC-Eq-CWIP	Total	\$89,079.
	Total	\$89,079.

Kentucky American Water Company
AG2 Question 79p
For The Forecasted Test Period Ending 09/30/2011

AFUDC Calculation Report												
American Water Works Company, Inc. 12-Kentucky American Water Co												
											Selected Month: Dec 2009	
No Subtotal Work Order Number	Beginning AFUDC Base	Base Adjustments	1/2 Current Month Chgs	Compound Eligible AFUDC	Base Factor	Total AFUDC Base	AFUDC Debt	AFUDC Equity	Total AFUDC	Input Debt Adj	Input Equity Adj	
00012	Debt Rate: .00299100		Equity Rate: .0036580		Total Rate: 0.00664900							
NO SUBTOTAL												
422517	\$63,658.	\$0.	\$0.	\$410.	1.0	\$64,068.	\$192.	\$234.	\$426.	\$0.	\$0.	
423877	\$90,667.	\$0.	\$0.	\$688.	1.0	\$91,355.	\$273.	\$334.	\$607.	\$0.	\$0.	
424856	\$331,367.	\$0.	\$22,239.	\$1,741.	1.0	\$355,347.	\$1,063.	\$1,300.	\$2,363.	\$0.	\$0.	
430914	\$1,158,420.	\$0.	\$81,442.	\$7,179.	1.0	\$1,247,041.	\$3,730.	\$4,562.	\$8,292.	\$0.	\$0.	
434227	\$51,664,161.	(\$32,489,616.)	\$982,988.	\$131,314.	1.0	\$20,288,847.	\$60,684.	\$74,217.	\$134,901.	\$0.	\$0.	
434231	\$9,505,791.	(\$6,434,403.)	\$82,398.	\$20,172.	1.0	\$3,174,558.	\$9,495.	\$11,613.	\$21,108.	\$0.	\$0.	
434232	\$55,283,285.	(\$48,757,794.)	\$972,453.	\$38,224.	1.0	\$7,536,167.	\$22,541.	\$27,567.	\$50,108.	\$0.	\$0.	
439541	\$149,549.	\$0.	\$33,862.	\$822.	1.0	\$184,233.	\$551.	\$674.	\$1,225.	\$0.	\$0.	
449736	\$1,871.	\$0.	\$0.	\$12.	1.0	\$1,883.	\$6.	\$7.	\$13.	\$0.	\$0.	
452402	\$30,311.	\$0.	(\$2.)	\$188.	1.0	\$30,497.	\$46.	\$56.	\$101.	\$0.	\$0.	
452403	\$28,476.	\$0.	(\$2.)	\$183.	1.0	\$28,657.	\$43.	\$52.	\$95.	\$0.	\$0.	
452404	\$34,982.	\$0.	(\$2.)	\$210.	1.0	\$35,190.	\$53.	\$64.	\$117.	\$0.	\$0.	
452405	\$32,494.	\$0.	(\$2.)	\$197.	1.0	\$32,690.	\$49.	\$60.	\$109.	\$0.	\$0.	
452406	\$33,396.	\$0.	(\$2.)	\$205.	1.0	\$33,599.	\$50.	\$61.	\$112.	\$0.	\$0.	
452407	\$28,571.	\$0.	(\$2.)	\$181.	1.0	\$28,750.	\$43.	\$53.	\$96.	\$0.	\$0.	
454371	\$10,070.	\$0.	\$1,473.	\$59.	1.0	\$11,602.	\$17.	\$21.	\$39.	\$0.	\$0.	
454631	\$22,719.	\$0.	\$0.	\$151.	1.0	\$22,870.	\$68.	\$84.	\$152.	\$0.	\$0.	
455465	\$4,012.	\$0.	\$568.	\$13.	1.0	\$4,592.	\$7.	\$8.	\$15.	\$0.	\$0.	
455671	\$58,464.	\$0.	\$37,554.	\$339.	1.0	\$96,356.	\$288.	\$352.	\$641.	\$0.	\$0.	
455877	\$3,701.	\$0.	\$2,536.	\$25.	1.0	\$6,261.	\$19.	\$23.	\$42.	\$0.	\$0.	
456401	\$3,409.	\$0.	\$0.	\$23.	1.0	\$3,432.	\$5.	\$6.	\$11.	\$0.	\$0.	
456781	\$47,763.	\$0.	\$3,241.	\$310.	1.0	\$51,315.	\$153.	\$188.	\$341.	\$0.	\$0.	
458338	\$159.	\$0.	\$9,493.	\$1.	1.0	\$9,653.	\$14.	\$18.	\$32.	\$0.	\$0.	
458397	\$0.	\$0.	\$208.	\$0.	1.0	\$208.	\$1.	\$1.	\$1.	\$0.	\$0.	
458868	\$0.	\$0.	\$335.	\$0.	1.0	\$335.	\$1.	\$2.	\$3.	\$0.	\$0.	
459228	\$0.	\$0.	\$4,177.	\$0.	1.0	\$4,177.	\$6.	\$8.	\$14.	\$0.	\$0.	
459512	\$0.	\$0.	\$428.	\$0.	1.0	\$428.	\$1.	\$1.	\$1.	\$0.	\$0.	
459787	\$0.	\$0.	\$902.	\$0.	1.0	\$902.	\$1.	\$2.	\$3.	\$0.	\$0.	

Kentucky American Water Company
 AG2 Question 79p
 For The Forecasted Test Period Ending 09/30/2011

AFUDC Calculation Report												
American Water Works Company, Inc.												
12-Kentucky American Water Co												
										Selected Month: Dec 2009		
No Subtotal Work Order Number	Beginning AFUDC Base	Base Adjustments	1/2 Current Month Chge	Compound AFUDC	Eligible Base Factor	Total AFUDC Base	AFUDC Debt	AFUDC Equity	Total AFUDC	Input Debt Adj	Input Equity Adj	
00012	Debt Rate: .00299100		Equity Rate: .0036580		Total Rate: 0.00664900							
NO SUBTOTAL												
460133	\$0.	\$0.	\$480.	\$0.	1.0	\$480.	\$1.	\$2.	\$3.	\$0.	\$0.	
NO SUBTOTAL												
Total:	\$118,587,295.	(\$87,681,813.)	\$2,237,965.	\$202,646.		\$33,346,093.	\$39,402.	\$121,568.	\$220,970.	\$0.	\$0.	
12-Kentucky American Water Co												
Total:	\$118,587,295.	(\$87,681,813.)	\$2,237,965.	\$202,646.		\$33,346,093.	\$39,402.	\$121,568.	\$220,970.	\$0.	\$0.	
Grand Total:												
Total:	\$118,587,295.	(\$87,681,813.)	\$2,237,965.	\$202,646.		\$33,346,093.	\$39,402.	\$121,568.	\$220,970.	\$0.	\$0.	

Kentucky American Water Company
 AG2 Question 79p
 For The Forecasted Test Period Ending 09/30/2011

Overhead Report (Loadings)

American Water Works Company, Inc.

12-Kentucky American Water Co Accounting Month: Dec 2009

Overhead Type : 00012 AFUDC Gross Up Credit Account : 705100-AFUDC Equity
 Input Rate : 63.6700% Expenditure Type : Deferred
 Clearing Rate : 0.0000%
 Cleared Amount : (\$77,403.) Remaining Balance :

GI Account	Work Order Number	Overhead Charge
186030-Reg Asset-AFUDC-Eq-CWIP		
	422517	\$149.
	423877	\$213.
	424856	\$828.
	430914	\$2,904.
	434227	\$47,254.
	434231	\$7,394.
	434232	\$17,552.
	439541	\$429.
	449736	\$4.
	452402	\$36.
	452403	\$33.
	452404	\$41.
	452405	\$38.
	452406	\$39.
	452407	\$33.
	454371	\$14.
	454631	\$53.
	455465	\$5.
	455671	\$224.
	455877	\$15.
	456401	\$4.
	456781	\$120.
	458338	\$11.
	458357	\$0.
	458668	\$1.
	459228	\$5.
	459512	\$1.
	459787	\$1.
	460133	\$1.
	Total	\$77,403.
186030-Reg Asset-AFUDC-Eq-CWIP	Total	\$77,403.

AFUDC Calculation Report											
American Water Works Company, Inc.											
12-Kentucky American Water Co											
Selected Month: Apr 2010											
No Subtotal	Beginning	Base	1/2 Current	Compound Eligible	Base	Total	AFUDC	AFUDC	Total	Input	Input
Work Order Number	AFUDC Base	Adjustments	Month Chgs	AFUDC	Factor	AFUDC Base	Debt	Equity	AFUDC	Debt Adj	Equity Adj
00012			Debt Rate: .00299100	Equity Rate: .0036580		Total Rate: 0.00664900					
NO SUBTOTAL											
422517	\$90,667.	\$0.	\$4,553.	\$583.	1.0	\$95,802.	\$287.	\$350.	\$637.	\$0.	\$0.
423877	\$32,886.	\$0.	(\$1,815.)	\$0.	1.0	\$91,072.	\$136.	\$167.	\$303.	\$0.	\$0.
430914	\$1,614,456.	\$0.	\$3,246.	\$10,732.	1.0	\$1,628,434.	\$4,871.	\$5,957.	\$10,827.	\$0.	\$0.
434227	\$58,713,864.	(\$34,525,259.)	\$7,156.	\$159,084.	1.0	\$24,354,844.	\$72,845.	\$89,090.	\$161,935.	\$0.	\$0.
434231	\$10,105,995.	(\$6,707,379.)	\$63,066.	\$22,456.	1.0	\$3,484,138.	\$10,421.	\$12,745.	\$23,166.	\$0.	\$0.
434232	\$64,743,891.	(\$48,895,561.)	\$1,038,739.	\$91,305.	1.0	\$15,978,374.	\$47,791.	\$58,449.	\$106,240.	\$0.	\$0.
439541	\$316,455.	\$0.	\$104,610.	\$2,062.	1.0	\$423,127.	\$1,266.	\$1,548.	\$2,813.	\$0.	\$0.
449736	\$1,921.	\$0.	\$0.	\$13.	1.0	\$1,934.	\$3.	\$4.	\$6.	\$0.	\$0.
452402	\$35,248.	\$0.	\$0.	\$232.	1.0	\$35,479.	\$53.	\$65.	\$118.	\$0.	\$0.
452403	\$31,832.	\$0.	\$0.	\$210.	1.0	\$32,042.	\$48.	\$59.	\$107.	\$0.	\$0.
452404	\$39,336.	\$0.	\$0.	\$262.	1.0	\$39,598.	\$59.	\$72.	\$132.	\$0.	\$0.
452405	\$36,730.	\$0.	\$0.	\$242.	1.0	\$36,972.	\$55.	\$68.	\$123.	\$0.	\$0.
452406	\$37,844.	\$0.	\$0.	\$250.	1.0	\$38,093.	\$57.	\$70.	\$127.	\$0.	\$0.
452407	\$32,078.	\$0.	\$0.	\$211.	1.0	\$32,290.	\$48.	\$59.	\$107.	\$0.	\$0.
453421	\$89,328.	\$0.	\$8,451.	\$441.	1.0	\$98,220.	\$294.	\$359.	\$653.	\$0.	\$0.
454631	\$32,931.	\$0.	\$2,256.	\$189.	1.0	\$35,376.	\$106.	\$129.	\$235.	\$0.	\$0.
455671	\$0.	\$0.	\$0.	\$0.	1.0	\$0.	(\$1,065.)	(\$1,302.)	(\$2,367.)	\$0.	\$0.
455851	\$8,706.	\$0.	\$0.	\$29.	1.0	\$8,735.	\$26.	\$32.	\$58.	\$0.	\$0.
455877	\$23,876.	\$0.	\$3,029.	\$159.	1.0	\$27,064.	\$40.	\$50.	\$90.	\$0.	\$0.
458560	\$174.	\$0.	\$0.	\$1.	1.0	\$176.	\$1.	\$1.	\$1.	\$0.	\$0.
461598	\$3,185.	\$0.	\$1,664.	\$12.	1.0	\$4,861.	\$7.	\$9.	\$16.	\$0.	\$0.
462074	\$712.	\$0.	\$0.	\$5.	1.0	\$717.	\$1.	\$1.	\$2.	\$0.	\$0.
462757	\$10,581.	\$0.	\$0.	\$35.	1.0	\$10,616.	\$32.	\$39.	\$71.	\$0.	\$0.
463112	\$7,438.	\$0.	\$0.	\$23.	1.0	\$7,461.	\$22.	\$27.	\$50.	\$0.	\$0.
463113	\$9,360.	\$0.	\$0.	\$38.	1.0	\$9,397.	\$28.	\$34.	\$62.	\$0.	\$0.
463114	\$224.	\$0.	\$0.	\$0.	1.0	\$225.	\$1.	\$1.	\$1.	\$0.	\$0.
463115	\$374.	\$0.	\$0.	\$1.	1.0	\$375.	\$1.	\$1.	\$2.	\$0.	\$0.
463116	\$352.	\$0.	\$0.	\$1.	1.0	\$353.	\$1.	\$1.	\$2.	\$0.	\$0.
463120	\$2,172.	\$0.	\$0.	\$11.	1.0	\$2,183.	\$3.	\$4.	\$7.	\$0.	\$0.
463121	\$2,371.	\$0.	\$0.	\$11.	1.0	\$2,382.	\$4.	\$4.	\$8.	\$0.	\$0.
463122	\$2,574.	\$0.	\$0.	\$13.	1.0	\$2,587.	\$4.	\$5.	\$9.	\$0.	\$0.

Kentucky American Water Company
AG2 Question 79p
For the Forecasted Test Period Ending 9/30/2011

AFUDC Calculation Report											
American Water Works Company, Inc.										Selected Month: Apr 2010	
12-Kentucky American Water Co											
No Subtotal Work Order Number	Beginning AFUDC Base	Base Adjustments	1/2 Current Month Chgs	Compound Eligible AFUDC	Base Factor	Total AFUDC Base	AFUDC Debt	AFUDC Equity	Total AFUDC	Input Debt Adj	Input Equity Adj
00012	Debt Rate: .00299100		Equity Rate: .0036580		Total Rate: 0.00664900						
NO SUBTOTAL											
463127	\$6,000.	\$0.	\$0.	\$20.	1.0	\$6,021.	\$18.	\$22.	\$40.	\$0.	\$0.
463139	\$255.	\$0.	\$0.	\$0.	1.0	\$256.	\$1.	\$1.	\$2.	\$0.	\$0.
463141	\$2,311.	\$0.	\$0.	\$11.	1.0	\$2,322.	\$3.	\$4.	\$8.	\$0.	\$0.
463142	\$4,453.	\$0.	\$0.	\$20.	1.0	\$4,473.	\$7.	\$8.	\$15.	\$0.	\$0.
463143	\$6,135.	\$0.	\$0.	\$20.	1.0	\$6,156.	\$18.	\$23.	\$41.	\$0.	\$0.
463144	\$10,796.	\$0.	\$0.	\$32.	1.0	\$10,828.	\$32.	\$40.	\$72.	\$0.	\$0.
463145	\$625.	\$0.	\$0.	\$1.	1.0	\$627.	\$2.	\$2.	\$4.	\$0.	\$0.
463738	\$1,677.	\$0.	\$6,108.	\$6.	1.0	\$7,791.	\$12.	\$14.	\$26.	\$0.	\$0.
463780	\$697.	\$0.	\$0.	\$2.	1.0	\$699.	\$2.	\$3.	\$5.	\$0.	\$0.
463915	\$0.	\$0.	\$6,287.	\$0.	1.0	\$6,287.	\$9.	\$12.	\$21.	\$0.	\$0.
464507	\$0.	\$0.	\$0.	\$0.	1.0	\$0.	(\$23.)	(\$28.)	(\$51.)	\$0.	\$0.
464721	\$0.	\$0.	\$6,302.	\$0.	1.0	\$6,302.	\$19.	\$23.	\$42.	\$0.	\$0.
464991	\$0.	\$0.	\$726.	\$0.	1.0	\$726.	\$2.	\$3.	\$5.	\$0.	\$0.
464992	\$0.	\$0.	\$7,734.	\$0.	1.0	\$7,734.	\$12.	\$14.	\$26.	\$0.	\$0.
465259	\$0.	\$0.	\$2,883.	\$0.	1.0	\$2,883.	\$9.	\$11.	\$19.	\$0.	\$0.
465296	\$0.	\$0.	\$5,532.	\$0.	1.0	\$5,532.	\$8.	\$10.	\$18.	\$0.	\$0.
NO SUBTOTAL											
Total:	\$136,120,510.	(\$91,128,199.)	\$1,270,528.	\$288,723.		\$46,551,563.	\$137,578.	\$168,258.	\$305,835.	\$0.	\$0.
12-Kentucky American Water Co											
Total:	\$136,120,510.	(\$91,128,199.)	\$1,270,528.	\$288,723.		\$46,551,563.	\$137,578.	\$168,258.	\$305,835.	\$0.	\$0.
Grand Total:											
Total:	\$136,120,510.	(\$91,128,199.)	\$1,270,528.	\$288,723.		\$46,551,563.	\$137,578.	\$168,258.	\$305,835.	\$0.	\$0.

Overhead Report (Loadings)

American Water Works Company, Inc.

12-Kentucky American Water Co

Accounting Month: Apr 2010

Overhead Type : 00012 AFUDC Gross Up Credit Account : 705100-AFUDC Equity
 Input Rate : 63.6700% Expenditure Type : Deferred
 Clearing Rate : 0.0000%
 Cleared Amount : (\$107,108.) Remaining Balance :

Gl Account	Work Order Number	Overhead Charge
186030-Reg Asset-AFUDC-Eq-CWIP		
	422517	\$223.
	423877	\$106.
	430514	\$3,793.
	434227	\$56,724.
	434231	\$8,115.
	434232	\$37,214.
	439541	\$985.
	449736	\$2.
	452402	\$41.
	452403	\$37.
	452404	\$46.
	452405	\$43.
	452406	\$44.
	452407	\$38.
	453421	\$229.
	454631	\$82.
	455671	(\$829.)
	455851	\$20.
	455877	\$32.
	456401	(\$22.)
	458560	\$0.
	461598	\$6.
	462074	\$1.
	462757	\$25.
	463112	\$17.
	463113	\$22.
	463114	\$1.
	463115	\$1.
	463116	\$1.
	463120	\$3.
	463121	\$3.
	463122	\$3.
	463127	\$14.
	463139	\$1.
	463141	\$3.
	463142	\$5.
	463143	\$14.
	463144	\$25.
	463145	\$1.
	463738	\$9.
	463780	\$2.
	463915	\$7.
	464507	(\$18.)
	464721	\$15.
	464991	\$2.
	464992	\$9.
	465259	\$7.
	465296	\$6.
186030-Reg Asset-AFUDC-Eq-CWIP	Total	\$107,108.
	Total	\$107,108.

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

Witness: Michael A. Miller

80. Refer to the response to PSC DR1-1a, WP6-2.
- a. Refer to page 1 of 8. Provide comparable information for each period: 2008, 2009, 2010, and base period. Include related Excel files in your response electronically.
 - b. Are the items in the "Balance" column a regulatory asset? If not, explain fully why not.
 - c. Do the negative items in the "Amortization of Regulatory Assets and Liabilities" columns decrease the Regulatory Asset and increase Deferred Income Tax Expense? If not, explain fully why not.
 - d. Do the positive items in the "Amortization of Regulatory Assets and Liabilities" columns increase the Regulatory Asset and decrease Deferred Income Tax Expense? If not, explain fully why not.
 - e. Has KAW reflected all items listed on page 1 of 8 in its rate base and net operating income? If not, explain fully why not, and identify, quantify and explain all items that KAW has not reflected.
 - f. What is the "Other" item on page 1 of 8 and how was it calculated? Show in detail.

The "Other" item on page 1 of 8
 - g. What are the "Excess Deferred Taxes" on page 1 of 8? How were those amounts calculated? Show in detail.
 - h. Why is there a "gross up" on Investment Tax Credit (ITC)? Explain fully and show in detail how it was calculated.

Response

- a. Please see attached.

- b. The “Balance” column represents a Net Regulatory Asset. It is net of Regulatory Liabilities.
- c. Yes.
- d. Yes. Positive items decrease a Regulatory Liability and decrease Deferred Income Tax Expense.
- e. KAW has not included the balance of the items listed on page 1 of 8 in its rate base. These items do not represent an amount of capital invested in plant, equipment, and other assets considered “used and useful” in producing the utility’s service and these items do not represent prudently purchased or constructed utility plant property. The used and useful test and the prudent investment test both fail. These items were recorded in compliance with FAS109.

KAW does include the amortization of items listed on page 1 of 8 in net operating income. The amortizations represent the reversal of items previously flowed through to ratepayers, the return to ratepayers of excess reserves created by the Tax Reform Act of 1986, and reduction of the future revenue reduction (Regulatory Liability Unamortized ITC) created to the extent the accumulated deferred ITC is used to reduce future revenue requirements.

- f. The “Other” item on page 1 of 8 represents temporary differences other than plant flowed through to ratepayers in prior years recorded in compliance with FAS109. See attached for detail.
- g. The “Excess Deferred Taxes” on page 1 of 8 represent the recording of tax rate changes in compliance with FAS109. See attached for detail.
- h. There is no gross up on Investment Tax Credit. See attached for change in column heading.

For the electronic version, refer to KAW_R_AGDR2#80_052410.pdf.

Kentucky-American Water Company
Amortization of Regulatory Assets and Liabilities
CASE NO: 2010-00036
Data Request AG2 Question 80 f.

Acct # 186045
Regulatory Asset Other

	amortization	balance
@ 12/31/97		(718,237.00)
1998	24,100.00	(694,137.00)
1999	24,100.00	(670,037.00)
2000	24,100.00	(645,937.00)
2001	24,100.00	(621,837.00)
2002	24,100.00	(597,737.00)
2003	24,100.00	(573,637.00)
2004	24,100.00	(549,537.00)
2005	24,100.00	(525,437.00)
2006	24,100.00	(501,337.00)
2007	24,100.00	(477,237.00)
2008	24,100.00	(453,137.00)
2009	24,100.00	(429,037.00)
2010	24,100.00	(404,937.00)
2011	24,100.00	(380,837.00)
2012	24,100.00	(356,737.00)
2013	24,100.00	(332,637.00)
2014	24,100.00	(308,537.00)
2015	24,100.00	(284,437.00)
2016	24,100.00	(260,337.00)
2017	24,100.00	(236,237.00)
2018	24,100.00	(212,137.00)
2019	24,100.00	(188,037.00)
2020	24,100.00	(163,937.00)
2021	24,100.00	(139,837.00)
2022	24,100.00	(115,737.00)
2023	24,100.00	(91,637.00)
2024	24,100.00	(67,537.00)
2025	24,100.00	(43,437.00)
2026	24,100.00	(19,337.00)
2027	19,337.00	-

Kentucky-American Water Company
Amortization of Regulatory Assets and Liabilities
CASE NO: 2010-00036
Data Request AG2 Question 80 g.

	Acct # 256212 Excess Deferred Federal Taxes		Acct # 256220 Deficit Deferred Federal Tax	
	amortization	balance	amortization	balance
@ 12/31/97		(2,833,628.00)		554,427.00
1998	140,803.00	(2,692,825.00)	(27,558.00)	526,869.00
1999	140,803.00	(2,552,022.00)	(27,558.00)	499,311.00
2000	140,803.00	(2,411,219.00)	(27,558.00)	471,753.00
2001	140,803.00	(2,270,416.00)	(27,558.00)	444,195.00
2002	140,803.00	(2,129,613.00)	(27,558.00)	416,637.00
2003	140,803.00	(1,988,810.00)	(27,558.00)	389,079.00
2004	140,803.00	(1,848,007.00)	(27,558.00)	361,521.00
2005	140,803.00	(1,707,204.00)	(27,558.00)	333,963.00
2006	140,803.00	(1,566,401.00)	(27,558.00)	306,405.00
2007	140,803.00	(1,425,598.00)	(27,558.00)	278,847.00
2008	140,803.00	(1,284,795.00)	(27,558.00)	251,289.00
2009	140,803.00	(1,143,992.00)	(27,558.00)	223,731.00
2010	140,803.00	(1,003,189.00)	(27,558.00)	196,173.00
2011	140,803.00	(862,386.00)	(27,558.00)	168,615.00
2012	140,803.00	(721,583.00)	(27,558.00)	141,057.00
2013	140,803.00	(580,780.00)	(27,558.00)	113,499.00
2014	140,803.00	(439,977.00)	(27,558.00)	85,941.00
2015	140,803.00	(299,174.00)	(27,558.00)	58,383.00
2016	140,803.00	(158,371.00)	(27,558.00)	30,825.00
2017	140,803.00	(17,568.00)	(27,558.00)	3,267.00
2018	17,568.00	-	(3,267.00)	-

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

Witness: Michael A. Miller

81. Has FAS 109 accounting had any net impact on the rate base KAW is requesting the current rate case? If not, explain fully why not. If so, please identify the net impact and show how it was derived.

Response:

Consistent with the Commission's regulation of the Company in prior rate cases, the Company's deferred tax expense and accumulated deferred income taxes (rate base reduction) have been calculated using FAS 109.

For the electronic version, refer to KAW_R_AGDR2#81_052410.pdf.

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

Witness: Michael A. Miller

82. Has FAS 109 accounting had any net impact on the amount of deferred income tax expense KAW is requesting the current rate case? If not, explain fully why not. If so, please identify the net impact and show how it was derived.

Response:

Please see the response to AG-2-81. The Company's deferred tax expense and accumulated deferred income tax calculations have been provided in response to PSC-1-1a and AG-1-1. See WP 6-1 to 6-5.

For the electronic version of this response, refer to KAW_R_AGDR2#82_052410.pdf.

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

Witness: Michael A. Miller

83. Refer to the response to PSC DR1-1a, WP6-3.
- a. Refer to pages 1 through 8 of 8. Provide comparable actual monthly information for each period: 2008, 2009, 2010 to date, and base period. Include related Excel files in your response electronically.

Response:

- a. The Company objects to this question on the grounds that the monthly data for 2008 and 2009 would be extremely burdensome and costly to provide, and would add no relevant information above the level of tax depreciation on an annual basis.

Notwithstanding the objection the Company responds, please refer to the file labeled as KAW_R_AGDR2#83_052410.xls that provides the annual numbers for 2008, 2009 and YTD 2010.

For the electronic version, refer to KAW_R_AGDR2#83_052410.pdf.

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

Witness: Sheila Miller/Michael A. Miller

84. Refer to the response to PSC DR1-1a, WP6-4.
- a. Refer to pages 1 through 3 of 3. Provide comparable actual information for each period: 2008, 2009, 2010 to date, and base period. Include related Excel files in your response electronically.

Response:

The Company objects to this question on the grounds the Company does not possess the information in the format requested and it would be unduly burdensome and costly to produce the information. Notwithstanding the objections, the Company generates the WP referenced in this question specifically for each rate case. The WP included in this filing includes the actual costs for all deferred maintenance projects through November 2009, and includes forecasted costs for all deferred maintenance projects scheduled for completion through the end of the forecasted test-year, September 2011. The referenced workpaper includes the actual information for all projects completed prior to December 2009 as referenced in the starting date for each project.

For the electronic version, refer to KAW_R_AGDR2#84_052410.pdf.

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

Witness: Michael A. Miller

85. Refer to the response to PSC DR1-1a, WP7-1 through 7-6, Workpapers for Capitalization.
- a. Please provide similar monthly capitalization information for the parent company, American Water Works Company, Inc. Include related Excel files in your response electronically.
 - b. Please provide comparable actual information for KAW for each period: 2008, 2009, 2010 to date, and base period. Include related Excel files in your response electronically.

Response:

The Company objects to this question on the grounds the capital structure of AWW is not relevant to this proceeding, and the requested information for neither AWW nor KAW is readily available in the format requested. For each KAW rate case, the Company has to generate the information for Schedule J for the base period and forecasted test-year, but does not maintain the information in that format for general accounting purposes, and no such information is maintained for AWW in the monthly format of Schedule J. Notwithstanding the objection, see the responses below.

- a. AWW capital structure information for 2008, 2009 and Q12010 can be located in the Annual Reports and SEC filings which can be accessed at the AWW website, www.amwater.com.
- b. KAW capital structure information for 2008 can be found on the Audited Financial Statements previously supplied in Exhibit 28, and the 2009 report is attached to this response. The AG can also review KAW 2008-2009 information on the PSC Annual Reports previously supplied in response to AG-1-169. The AG can also find 2008 information as part of the Company's Schedule J filing in Case No. 2008-00427 on the Commission's website.

For the electronic version of this response, refer to KAW_R_AGDR2#85_052410.pdf.

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

As of and for the years ended December 31, 2009 and 2008



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

Report of Independent Auditors

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

In our opinion, the accompanying balance sheets and statements of capitalization and the related statements of income, of changes in common stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Kentucky-American Water Company (a wholly-owned subsidiary of American Water Works Company, Inc.) at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

March 25, 2010

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2009 and 2008
(Dollars in thousands)

Assets		<u>2009</u>	<u>2008</u>
Property, plant and equipment			
Utility plant - at original cost, net of accumulated depreciation		\$ 432,713	\$ 339,774
Utility plant acquisition adjustments		284	305
Non-utility property		270	270
Total property, plant and equipment		<u>433,267</u>	<u>340,349</u>
Current assets			
Cash and cash equivalents		176	234
Customer accounts receivable		2,612	2,342
Allowance for uncollectible accounts		(277)	(273)
Unbilled revenues		3,231	2,900
State income tax receivable		997	-
Federal income tax refund due from affiliated company		-	889
Accounts receivable - affiliated companies		3,443	-
Other accounts receivable		763	412
Materials and supplies		645	577
Other		313	418
Total current assets		<u>11,903</u>	<u>7,499</u>
Regulatory and other long-term assets			
Regulatory assets		10,411	9,076
Other		53	126
Total regulatory and other long-term assets		<u>10,464</u>	<u>9,202</u>
Total assets		<u>\$ 455,634</u>	<u>\$ 357,050</u>

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

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2009 and 2008
(Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Capitalization and Liabilities		
Capitalization		
Common stockholder's equity	\$ 128,443	\$ 93,482
Preferred stock without mandatory redemption requirements	1,456	1,456
Long-term debt, excluding current portion		
Preferred stock with mandatory redemption requirements	4,500	4,500
Long-term debt	144,990	76,700
Total capitalization	<u>279,389</u>	<u>176,138</u>
Current liabilities		
Short-term borrowings - affiliated companies	27,313	53,026
Current portion of long-term debt	3,100	3,100
Accounts payable	11,650	8,368
Accounts payable - affiliated companies	85	157
Accrued taxes, including income taxes of \$792 in 2009 and \$75 in 2008	3,645	291
Other	7,319	5,621
Total current liabilities	<u>53,112</u>	<u>70,563</u>
Regulatory and other long-term liabilities		
Deferred income taxes	45,643	38,187
Advances for construction	13,442	11,916
Deferred investment tax credits	1,048	1,133
Regulatory liability - cost of removal	11,085	9,755
Regulatory liability - debt extinguishment	544	674
Accrued pension expense	1,353	1,389
Accrued postretirement benefit expense	467	418
Other tax liabilities	1,882	-
Other	63	62
Total regulatory and other long-term liabilities	<u>75,527</u>	<u>63,534</u>
Contributions in aid of construction	47,606	46,815
Commitments and contingencies (see Note 17)	-	-
Total capitalization and liabilities	<u>\$ 455,634</u>	<u>\$ 357,050</u>

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

KENTUCKY-AMERICAN WATER COMPANY
Statements of Income
For the Years Ended December 31, 2009 and 2008
(Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 62,011	\$ 60,086
Operating expenses		
Operation and maintenance	33,106	30,684
Depreciation	5,898	5,871
Amortization	515	512
General taxes	3,506	3,177
Total operating expenses	<u>43,025</u>	<u>40,244</u>
Operating income	<u>18,986</u>	<u>19,842</u>
Other income (deductions)		
Interest on long-term debt	(5,481)	(5,693)
Interest on short-term debt to affiliate	(355)	(762)
Allowance for other funds used during construction	3,306	1,330
Allowance for borrowed funds used during construction	1,591	589
Amortization of debt issuance costs	(105)	(90)
Other, net	(498)	(215)
Total other deductions	<u>(1,542)</u>	<u>(4,841)</u>
Income before income taxes	17,444	15,001
Provision for income taxes	<u>6,832</u>	<u>5,993</u>
Net income	<u>10,612</u>	<u>9,008</u>
Dividends on preferred stock	78	78
Net income available to common stockholder	<u>\$ 10,534</u>	<u>\$ 8,930</u>

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

KENTUCKY-AMERICAN WATER COMPANY
Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008
(Dollars in thousands)

	2009	2008
Cash flows from operating activities		
Net income	\$ 10,612	\$ 9,008
Adjustments		
Depreciation and amortization	6,413	6,383
Amortization of removal costs, net of salvage	1,521	1,420
Amortization of debt issuance costs	105	90
Provision for deferred income taxes	7,679	2,617
Amortization of deferred investment tax credits	(85)	(85)
Provision for losses on accounts receivable	526	384
Allowance for other funds used during construction	(3,306)	(1,330)
Pension and non-pension post retirement benefits	2,821	1,504
Other, net	(1,175)	(299)
Changes in assets and liabilities		
Accounts receivable and unbilled revenues	(1,123)	(1,086)
Federal income tax refund due from affiliated company	889	(889)
Other current assets	(316)	(494)
Pension and non-pension post retirement benefits contribution	(2,857)	(2,289)
Accounts payable	1,901	(77)
Accrued taxes, including federal income	4,243	(2,019)
Other current liabilities	2,935	(194)
Net cash provided by operating activities	<u>30,783</u>	<u>12,644</u>
Cash flows from investing activities		
Capital expenditures	(95,605)	(56,234)
Removal costs from property, plant and equipment retirements, net of salvage	<u>(42)</u>	<u>(62)</u>
Net cash used in investing activities	<u>(95,647)</u>	<u>(56,296)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt to affiliate	67,949	-
Repayment of long-term debt to affiliate	(3,100)	(3,100)
Debt issuance costs to affiliate	(1,000)	(9)
Net borrowings (repayments) of short-term borrowings-affiliated companies	(25,713)	33,767
Advances and contributions for construction net of refunds of \$946 in 2009 and \$2,123 in 2008	2,350	2,918
Capital contributions	32,500	16,000
Redemption of preferred stock	-	(7)
Dividends paid	<u>(8,180)</u>	<u>(6,081)</u>
Net cash provided by financing activities	<u>64,806</u>	<u>43,488</u>
Net decrease in cash and cash equivalents	(58)	(164)
Cash and cash equivalents at beginning of year	<u>234</u>	<u>398</u>
Cash and cash equivalents at end of year	<u>\$ 176</u>	<u>\$ 234</u>
Cash paid during the year for:		
Interest, net of capitalized amount	\$ 7,351	\$ 6,658
Income taxes	\$ 5,637	\$ 4,653
Non-cash investing activity		
Capital expenditures acquired on account but unpaid as of year end	\$ 6,366	\$ 4,946
Non-cash financing activity		
Long term debt	\$ 3,441	\$ -
Capital contribution (See Note 13)	\$ 29	\$ 68

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

KENTUCKY-AMERICAN WATER COMPANY
Statements of Capitalization
December 31, 2009 and 2008
(Dollars in thousands, except per share amounts)

	Call Price Per Share	2009	2008
Stockholder's equity			
Common stock - no par value, authorized 2,000,000 shares 1,567,391 shares issued and outstanding in 2009 and 2008	\$	36,569	\$ 36,569
Paid-in capital		56,656	24,127
Retained earnings		35,218	32,786
Total common stockholder's equity		<u>128,443</u>	<u>93,482</u>
Preferred stocks - \$100 par value			
Cumulative preferred stocks without mandatory redemption requirements:			
5.75% series, 3,888 shares outstanding in 2009 and 2008	\$ 101.00	389	389
5.50% series, 4,860 shares outstanding in 2009 and 2008	\$ 100.50	486	486
5.00% series, 5,808 shares outstanding in 2009 and 2008	\$ 100.00	581	581
		<u>1,456</u>	<u>1,456</u>
Long-term debt			
Preferred stocks - \$100 par value			
Cumulative preferred stocks with mandatory redemption requirements:			
8.47% series, 45,000 shares outstanding in 2009 and 2008 due for redemption 2036	\$ 100.00	4,500	4,500
		<u>4,500</u>	<u>4,500</u>
General mortgage bonds			
6.96% series due 2023		7,000	7,000
7.15% series due 2027		7,500	7,500
6.99% series due 2028		9,000	9,000
Notes payable to affiliate			
6.87% series due 2011		6,200	9,300
6.59% series due 2037		47,000	47,000
6.25% series A due 2039		45,390	-
5.625% Series B due 2039		26,000	-
		<u>152,590</u>	<u>84,300</u>
Less: Current portion of long-term debt and preferred stock		<u>(3,100)</u>	<u>(3,100)</u>
Long-term debt, net of current portion		<u>149,490</u>	<u>81,200</u>
Total capitalization	\$	<u>279,389</u>	<u>\$ 176,138</u>

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

KENTUCKY-AMERICAN WATER COMPANY
Statements of Changes in Common Stockholder's Equity
For the Years Ended December 31, 2009 and 2008
(Dollars in thousands, except per share amounts)

	Common Stock		Paid-in Capital	Retained Earnings	Total
	Shares	Par Value			
Balance at December 31, 2007	1,567,391	\$ 36,569	\$ 8,056	\$ 29,859	\$ 74,484
Net income	-	-	-	9,008	9,008
Capital contributions	-	-	16,068	-	16,068
Redemption of preferred stock	-	-	3	-	3
Dividends paid					
Preferred stock	-	-	-	(78)	(78)
Common stock	-	-	-	(6,003)	(6,003)
Balance at December 31, 2008	1,567,391	\$ 36,569	\$ 24,127	\$ 32,786	\$ 93,482
Net income	-	-	-	10,612	10,612
Capital contributions	-	-	32,529	-	32,529
Dividends paid					
Preferred stock	-	-	-	(78)	(78)
Common stock	-	-	-	(8,102)	(8,102)
Balance at December 31, 2009	1,567,391	\$ 36,569	\$ 56,656	\$ 35,218	\$ 128,443

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

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands, except per share amounts)

Note 1: Organization and Operation

Kentucky-American Water Company (the "Company") provides water service to approximately 118,800 (unaudited) customers and wastewater service to approximately 700 (unaudited) customers. These services are provided in 12 (unaudited) communities located in 10 (unaudited) counties in the state of Kentucky. As a public utility operating in Kentucky, the Company functions under rules and regulations prescribed by the Kentucky Public Service Commission (the "Commission"). The Company is a wholly-owned subsidiary of American Water Works Company, Inc. ("AWW").

Note 2: Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The Company considers benefit plans assumptions, the carrying value of long-lived assets, including regulatory assets and liabilities, revenue recognition and accounting for income taxes to be its critical accounting estimates. The Company's significant estimates that are particularly sensitive to change in the near term are amounts reported for pension and other postemployment benefits and contingency-related obligations.

Regulation

The Company is subject to regulation by the Commission and the local governments of the state of Kentucky (collectively the "Regulators"). These Regulators have allowed recovery of costs and credits which the Company has recorded as regulatory assets and liabilities. Accounting for future recovery of costs and credits as regulatory assets and liabilities is in accordance with authoritative guidance provided by U.S. GAAP. Regulated utilities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in operations by a non-regulated company. These deferred regulatory assets and liabilities are then reflected in the statement of income in the period in which the costs and credits are reflected in the rates charged for service.

Property, Plant and Equipment

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

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands, except per share amounts)

Note 2 (continued)

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

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

Computer software is either purchased or internally developed and their costs are capitalized as a unit of property. The assets were fully amortized at December 31, 2009 and 2008.

Utility plant acquisition adjustments represent the difference between the fair value of plant at the date of purchase and its original cost when first devoted to public service (less accumulated depreciation) and are amortized to expense over the remaining useful lives of the corresponding purchased plant assets. Amortization of utility plant acquisition adjustments was \$21 and \$22 for 2009 and 2008, respectively. The remaining lives range from 2 to 36 years.

Cash and Cash Equivalents

Substantially all of the Company's cash is invested in interest-bearing accounts. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. There were no cash equivalents held at December 31, 2009 or 2008.

Accounts Receivable

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

Allowance for Uncollectible Accounts

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

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands, except per share amounts)

Note 2 (continued)

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

	<u>2009</u>	<u>2008</u>
Balance as of January 1	\$ 273	\$ 223
Provision charged to expense	526	384
Accounts written-off	(598)	(429)
Recoveries of accounts previously written-off	76	95
Balance as of December 31	<u>\$ 277</u>	<u>\$ 273</u>

Materials and Supplies

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

Advances and Contributions in Aid of Construction

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

The Company depreciates utility plant funded by contributions and amortizes these amounts as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. Amortization of contributions in aid of construction was \$1,397 and \$1,019 for the years ended December 31, 2009 and 2008, respectively. For the years ended December 31, 2009 and 2008, non-cash advances and contributions received were \$58 and \$296, respectively.

Recognition of Revenues

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

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

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands, except per share amounts)

Note 2 (continued)

Income Taxes

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

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates anticipated to be in effect when such temporary differences are projected to reverse. Anticipated tax rates are the currently enacted tax rates, as the Company is not aware of any tax rate changes. In addition, regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

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

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

Allowance for Funds Used During Construction ("AFUDC")

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

Environmental Costs

The Company's water and wastewater operations are subject to federal, state, and local requirements relating to environmental protection, and as such the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. There were no remediation costs accrued at December 31, 2009 and 2008.

Long-Lived Assets

Long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the future cash flows

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2009 and 2008
(Dollars in thousands, except per share amounts)

Note 2 (continued)

expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss would be based on the fair value of the assets. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

New Accounting Standards

Fair Value Measurements

In January 2010, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance that requires new disclosures of (i) the amounts of significant transfers into and out of Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers and (ii) information in the reconciliation of recurring Level 3 measurements (those using significant unobservable inputs) about purchases, sales, issuances, and settlements on a gross basis. This update also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance is effective for interim and annual periods beginning after December 15, 2009, except for the requirement to disclose information about purchases, sales, issuances and settlements in the reconciliation of Level 3 measurements, which does not become effective until interim and annual periods beginning after December 15, 2010. As this guidance clarifies and provides for additional disclosure requirements only, the adoption of this guidance is not expected to have an impact on the Company’s results of operations, financial position or cash flows.

In August 2009, the FASB issued authoritative guidance clarifying the measurement of the fair value of liabilities. The amendments reduce potential ambiguity in financial reporting when measuring the fair value of liabilities and help to improve consistency in the application of authoritative guidance. This update is effective for the first reporting period, including interim periods, beginning after issuance, which for the Company was October 1, 2009. The adoption of this guidance did not have an impact on the Company’s results of operations, financial position or cash flows.

In April 2009, the FASB provided additional guidance on fair value measurements in inactive markets when the volume and level of activity for the asset and liability have significantly decreased. This amendment also includes guidance on identifying circumstances that indicate a transaction is not orderly. This guidance is effective for interim reporting periods ending after June 15, 2009. The adoption of this guidance did not have an impact on the Company’s results of operations, financial position or cash flows.

In February 2008, the FASB issued guidance that allowed a one-year deferral of adoption of the guidance for nonfinancial assets and nonfinancial liabilities (such as intangible assets, property, plant and equipment and goodwill) that are required to be measured at fair value on a periodic basis (such as at acquisition or impairment). The Company elected to use this deferral

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2009 and 2008
(Dollars in thousands, except per share amounts)

Note 2 (continued)

option and accordingly, adopted this guidance for the Company's nonfinancial assets and liabilities valued on a non-recurring basis on January 1, 2009. The adoption of this guidance did not have a significant impact on the Company's results of operations, financial position or cash flows.

Accounting Standards Codification

In June 2009, the FASB issued authoritative guidance that establishes the FASB Accounting Standards Codification ("Codification") as the source of authoritative U.S. GAAP recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. This guidance is effective for interim and annual periods ending after September 15, 2009. The adoption of this guidance did not have an impact on the Company's results of operations, financial position or cash flows.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued authoritative guidance that replaces the quantitative-based risk and rewards calculation for determining which reporting entity has a controlling financial interest in a variable interest entity with a qualitative approach. This revised guidance also requires additional disclosures about a reporting entity's involvement in variable interest entities. This guidance is effective for the Company beginning January 1, 2010. The Company does not believe the adoption of this update to have a significant impact on the Company's results of operations, financial position or cash flows.

Subsequent Events

In May 2009 and clarified in February 2010, the FASB issued authoritative guidance that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This standard sets forth: (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions, (ii) the circumstances under which an entity should recognize events or transactions and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance is effective for interim and annual periods ending after June 15, 2009. The adoption of this guidance did not have an impact on the Company's results of operations, financial position or cash flows. The Company performed an evaluation of subsequent events for the accompanying financial statements through March 25, 2010, the date this Report was issued, to determine whether the circumstances warranted recognition and disclosure of those events or transactions in the financial statements as of December 31, 2009.

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands, except per share amounts)

Note 2 (continued)

Recognition and Presentation of Other-Than-Temporary Impairments

In April, 2009, the FASB amended authoritative guidance related to the impairment of certain debt securities and will require an entity to assess whether it (i) has the intent to sell the debt security or (ii) more likely than not will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, the entity must recognize an other-than-temporary impairment. If an entity is able to meet the criteria to assert that it will not have to sell the security before recovery, impairment charges related to credit losses would be recognized in earnings, while impairment charges related to non-credit losses (for example, liquidity risk) would be reflected in other comprehensive income. The amended guidance is effective for interim reporting periods ending after June 15, 2009. The adoption of this guidance did not have an impact on the Company's results of operations, financial position or cash flows.

Contingencies Acquired in a Business Combination

In April 2009, the FASB amended and clarified the authoritative guidance related to accounting for the initial recognition and measurement, subsequent measurement and accounting, and related disclosures arising from contingencies in a business combination. Assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value can not be determined, companies should account for the acquired contingencies using existing guidance. This guidance is effective for the Company for business combinations finalized after January 1, 2009.

Reclassifications

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

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2009 and 2008
(Dollars in thousands, except per share amounts)

Note 3: Utility Plant

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

	Range of Remaining Useful Lives	2009	2008
Land and other non-depreciable assets	-	4,630	4,739
Sources of supply	35 to 67 Years	17,792	13,698
Treatment and pumping	32 to 63 Years	56,414	56,386
Transmission and distribution	23 to 72 Years	187,589	183,244
Services, meters and fire hydrants	38 to 72 Years	85,741	80,676
General structures and equipment	5 to 52 Years	29,063	27,119
Wastewater assets	5 to 50 Years	3,637	3,624
Construction work in progress	-	138,797	54,501
		523,663	423,987
Less: Accumulated depreciation		(90,950)	(84,213)
		<u>\$ 432,713</u>	<u>\$ 339,774</u>

The provision for depreciation expressed as a percentage of the aggregate average depreciable asset balances was 2.07% in 2009 and 2.17% in 2008.

Note 4: Regulatory Assets

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

The components of regulatory assets are as follows:

	2009	2008
Income taxes recoverable through rates	\$ 4,215	\$ 3,230
Bluegrass water project	2,124	2,537
Programmed maintenance expense	1,609	1,737
Rate proceedings expense	492	554
Debt and preferred stock expense	1,690	795
Other	281	223
	<u>\$ 10,411</u>	<u>\$ 9,076</u>

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

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands, except per share amounts)

Note 4 (continued)

between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

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

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

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

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

Note 5: Preferred Stock Without Mandatory Redemption

In the event of voluntary liquidation, the 5.75% series, the 5.50% series, and the 5.00% series are redeemable at \$101 per share, \$100.50 per share, \$100 per share respectively. In the event of involuntary liquidation or governmental acquisition, the 5.75% series, the 5.50% series, and the 5.00% series are all paid at \$100 per share, together with accrued dividends. All call prices are on 30 days' notice plus accrued dividends.

Note 6: Long-Term Debt

The general mortgage bonds are issuable in series. No bonds senior to the general mortgage bonds may be issued so long as the general mortgage bonds are outstanding. Based on the calculation methodology specified by debt agreements, the amount of bonds authorized is limited only to the extent that long-term debt cannot exceed 65% of total capitalization and net income of the Company must be equal to or greater than 1.5 times the aggregate annual interest charges on all long-term debt of the Company. At December 31, 2009 long-term debt was 54%

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands, except per share amounts)

Note 6 (continued)

of total capitalization and net income was 4.3 times the aggregate annual interest charges on all long-term debt. General mortgage bonds are collateralized by utility plant.

The general mortgage bond indentures contain clauses restricting the declaration of common stock dividends and other distributions on capital stock if common stockholder's equity falls below a specified amount. There were no restrictions at December 31, 2009 or 2008.

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

In 2009, the Company issued a long-term note payable to affiliate in the amount of \$45,390 at a rate of 6.25% due in 2039 and a long-term note payable to affiliate in the amount of \$26,000 at a rate of 5.625% due in 2039. Funds in the amount of \$3,441 were not yet received at December 31, 2009 and are included in notes receivable-associated companies in the accompanying Balance Sheet. The proceeds were used to fund capital projects.

Maturities of long-term debt, including sinking funds, will amount to \$3,100 in 2010 and 2011, \$0 in 2012 through 2014, and \$146,390 thereafter.

Preferred stock agreements contain provisions for redemption at various prices on thirty days notice at the Company's discretion. In the event of voluntary liquidation, the 8.47% series is paid at \$100 per share, together with accrued dividends.

Note 7: Short-Term Borrowings

The Company maintains a line of credit through AWCC of \$25,000 and \$60,000 at December 31, 2009 and 2008, respectively. The Company may borrow from, or invest in, the line of credit. No compensating balances are required under the agreements.

The Company had short-term borrowings outstanding of \$27,313 and \$53,026 at December 31, 2009 and 2008 respectively. As of December 31, 2009, AWCC temporarily extended additional credit of \$2,313 to the Company. The weighted average annual interest rates on the borrowings at December 31, 2009 and 2008 were .76% and 3.49%, respectively.

During 2009, the Company received a cash capital contribution of \$32,500 from AWW, primarily used to pay down short-term debt.

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

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2009 and 2008
(Dollars in thousands, except per share amounts)

Note 8: General Taxes

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

	<u>2009</u>	<u>2008</u>
Gross receipts and franchise	\$ 117	\$ -
Property	2,790	2,577
Payroll	510	516
Other	89	84
	<u>\$ 3,506</u>	<u>\$ 3,177</u>

Note 9: Income Taxes

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

	<u>2009</u>	<u>2008</u>
State income taxes:		
Current	\$ 292	\$ 463
Deferred		
Current	(94)	(5)
Non-current	914	419
	<u>1,112</u>	<u>877</u>
Federal income taxes:		
Current	(1,054)	2,998
Deferred		
Current	(114)	(29)
Non-current	6,973	2,232
Amortization of deferred investment tax credits	(85)	(85)
	<u>5,720</u>	<u>5,116</u>
Total income taxes	<u>\$ 6,832</u>	<u>\$ 5,993</u>

In December 2008, the Company as a member of the consolidated group filed a request with the Internal Revenue Service ("IRS") to change its tax accounting method for repair and maintenance costs on its utility assets. The IRS partially approved the request in October 2009, with the Company receiving final approval in February 2010, allowing the Company to take a tax deduction for costs that were previously capitalized for tax purposes. As a result, the Company recorded a deferred income tax liability for this temporary difference. In addition, the change in tax accounting method generated a net operating loss which the Company has substantially monetized.

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands, except per share amounts)

Note 9 (continued)

The primary components of the net deferred tax liability at December 31, 2009 include basis differences in utility plant, partially offset by advances and contributions. No valuation allowances were required on deferred tax assets at December 31, 2009 and 2008, as management believes it is more likely than not that deferred tax assets will be realized.

As of December 31, 2009, the Company recorded state net operating loss carryforwards (“NOLs”), which will reduce future taxable income. These NOLs will begin to expire in 2028 if not utilized.

As of December 31, 2009 and 2008, the Company’s reserve for uncertain tax positions is \$1,875 and \$0 respectively, excluding accrued interest and penalties. The Company does not expect a material change in this estimate in the next twelve months. The reserve for uncertain tax positions could increase or decrease for such things as expiration of statutes of limitations, audit settlement, tax examination activities.

The Company recognizes interest and penalties related to income tax matters in income tax expense. Accrued interest and penalties related to uncertain tax positions of \$7 and \$0 as of December 31, 2009 and 2008, respectively..

The federal tax returns from 2006 to 2008 remain open. The 2006 statute will expire in 2010. The Company is subject to state taxes. State tax returns from 2003 to 2008 are currently open. The statutes of limitations will begin to expire in 2009.

Note 10: Rate Matters

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

The Company filed a general rate case on October 31, 2008 with the Commission for \$18,495 or 31.27%. On April 1, 2009, a settlement agreement was executed by the Company and the other parties recommending an increase in rates of \$10,300 or 17.33%. On June 1, 2009, the Commission issued an Order approving the settlement agreement with new rates effective June 1, 2009.

The Company filed a general rate increase on February 26, 2010 for \$25,848. The Company can provide no assurances that any rate request will be granted by the Commission.

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands, except per share amounts)

Note 11: Employee Benefit Plans

Savings Plan for Employees

The Company maintains a 401(k) savings plan, sponsored by AWW that allows employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitations. Due to the Company's discontinuing new entrants into the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. The Company expensed contributions to the plans totaling \$207 for 2009, \$180 for 2008. All of the Company's contributions are invested in one or more funds at the direction of the employee.

Note 12: Postretirement Benefits

Pension Benefits

The Company participates in a Company funded defined benefit pension plan sponsored by AWW covering employees hired before January 1, 2006. Benefits under the plan are based on the employee's years of service and average annual compensation for those 60 consecutive months of employment which yield the highest average. The pension plan has been closed for any employee hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 are provided with a 5.25% of base pay defined contribution plan. Pension cost of the Company is based on an allocation from AWW of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated costs of \$1,674 and \$804 for 2009 and 2008, respectively.

AWW's funding policy is to contribute at least the minimum amount required under the Employee Retirement Income Security Act of 1974. The Company made contributions to the AWW plan of \$1,710 in 2009 and \$1,589 in 2008. The Company expects to contribute \$1,635 to the AWW plan in 2010.

Postretirement Benefits Other Than Pensions

The Company participates in a Company funded plan sponsored by AWW that provides certain life insurance benefits for retired employees and certain health care benefits for retired employees and their dependents. The retiree welfare plans are closed for union employees hired on or after January 1, 2006, and non-union employees hired on or after January 1, 2002. Retirees and their dependents under age 65 are covered by a point-of-service managed care plan that requires co-payments or an HMO.

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands, except per share amounts)

Note 12 (continued)

Employees who elect to retire prior to attaining age 65 are generally required to make contributions towards their medical coverage until attaining age 65. Retirees and their dependents age 65 and over are covered by a Medicare supplement plan. Costs of the Company are based on an allocation from AWW of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated costs of \$1,147 and \$700 for 2009 and 2008, respectively.

The Company made contributions to trust funds established for these postretirement benefits of \$1,147 in 2009 and \$700 in 2008. The Company's policy is to fund postretirement benefits costs accrued. The Company expects to contribute \$1,052 to the AWW plan in 2010.

Note 13: Stock Based Compensation

Stock Options and Restricted Stock Units

On February 20, 2009, AWW granted restricted stock units and stock options to certain employees of the Company under the AWW 2007 Omnibus Equity Compensation Plan ("Omnibus Plan"). The restricted stock units vest ratably over the three year performance period beginning January 1, 2009 (the "Performance Period"); however distribution of the shares is contingent upon the achievement of certain market thresholds over the performance period. The stock options vest ratably over a three year service period from January 1, 2009.

On April 22, 2008, AWW granted restricted stock awards, restricted stock units and stock options to certain employees of the Company under the Omnibus Plan. The restricted stock units and the stock options were awarded in two grants with "Grant 1" vesting on January 1, 2010 and "Grant 2" vesting January 1, 2011.

The value of restricted stock units at the date of the grant is amortized through expense over the requisite service period using the straight-line method for restricted stock units with service and/or performance vesting. The grant date fair value of restricted stock awards that have market and service conditions and vest ratably is amortized through expense over the requisite service period using the graded-vesting method. The value of stock options at the date of the grant is amortized through expense over the requisite service period using the straight-line method.

Costs of the Company are based on an allocation from AWW of the total cost for employees of the Company in the plan. The Company recorded compensation expense of \$23 and \$64, included in operation and maintenance expense, during the year ended December 31, 2009 and 2008 respectively. As the Company does not reimburse the cost of the awards to AWW, the offsetting entry to paid-in-capital is a capital contribution from AWW.

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands, except per share amounts)

Note 13 (continued)

Employee Stock Purchase Plan

AWW's Nonqualified Employee Stock Purchase Plan ("ESPP") was effective as of July 1, 2008. Under the ESPP, the Company's employees can use payroll deductions to acquire AWW common stock at the lesser of 90% of the fair market value as of a) the beginning or b) the end of each three-month purchase period. AWW's ESPP is considered compensatory. Costs of the Company are based on an allocation from AWW of the total cost for employees of the Company in the plan. Compensation costs of \$6 and \$4 were included in operation and maintenance expense for the years ended December 31, 2009 and 2008 respectively. As the Company does not reimburse the cost of the awards to AWW, the offsetting entry to paid-in-capital is a capital contribution from AWW.

Note 14: Related Party Transactions

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

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

	<u>2009</u>	<u>2008</u>
Included in operation and maintenance expense as a charge against income	\$ 8,149	\$ 7,942
Capitalized primarily in utility plant	899	592
	<u>\$ 9,048</u>	<u>\$ 8,534</u>

The Company provided workspace for certain associates of AWWS. Charges for direct costs and indirect overhead costs associated with these associates are billed to AWWS on an at-cost, not for profit basis, which amounted to \$100 in 2009 and \$14 in 2008.

The Company has operating arrangements with American Anglian Environmental Technologies, L.P. ("AAET"), a subsidiary of AWW, for the lease of granular activated carbon at one of the Company's water treatment plants. Under the arrangements, AAET will provide carbon for a period of 36 months. The Company paid \$101 in 2009 and \$127 in 2008 to AAET under these arrangements.

The Company purchased granular activated carbon from AAET, a subsidiary of AWW, at the Richmond Rd Station during 2009. The Company paid \$136 in 2009 to AAET under these agreements.

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands, except per share amounts)

Note 14 (continued)

The Company maintains a line of credit through AWCC (See Note 7). The Company also participates in AWCC's centralized treasury function whereby the Company transfers its cash to AWCC and the Company's checks are issued out of AWCC. Under the arrangement, available cash is used to pay-down the line of credit and outstanding credits increase the Company's line of credit balance. The Company paid AWCC fees, including debt issuance cost, of \$874 in 2009 and \$79 in 2008 and interest expense on borrowings of \$355 in 2009 and \$762 in 2008. Interest expense on long-term debt due to AWCC was \$3,577 in 2009 and \$3,790 in 2008. Accrued interest included interest due to AWCC of \$1,429 and \$807 as of December 31, 2009 and 2008, respectively.

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

Note 15: Fair Values of Financial Instruments

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

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

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

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

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred stock with mandatory redemption requirements, including current maturities	\$ 4,500	\$ 4,695	\$ 4,500	\$ 4,344
Long-term debt, including current maturities	\$ 148,090	\$ 158,343	\$ 79,800	\$ 76,489

KENTUCKY-AMERICAN WATER COMPANY

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands, except per share amounts)

Note 15 (continued)

Recurring Fair Value Measurements

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

Note 16: Operating Lease

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were \$54 in 2009 and \$59 in 2008. The operating leases for equipment expire in 2013 through 2014.

At December 31, 2009, the minimum annual future rental commitments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are \$24 in 2010 through 2012, \$8 in 2013, \$3 in 2014, and \$26 thereafter.

Note 17: Commitments and Contingencies

Commitments have been made in connection with certain construction programs. The estimated capital expenditures required under legally binding contractual obligations amounted to \$ 22,720 at December 31, 2009. On April 25, 2008, the Kentucky Public Service Commission approved the Company's application for a certificate of convenience and necessity to construct a 20.0 million gallon per day treatment plant on the Kentucky River and a 30.6 mile pipeline to meet Central Kentucky's water supply deficit. The Kentucky project is expected to be completed in 2010 with an estimated cost of \$162,000 of which \$21,030 is included in the commitment above.

The Company has entered into service agreements. As of December 31, 2009, the annual future commitment under the agreement in excess of one year is \$101 in 2010 and \$8 in 2011.

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

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

Witness: Dr. Edward L. Spitznagel

86. Weather normalization. Refer to the response to PSC DR1-1, WP9-1.
- a. Refer to pages 50-54. Has the methodology or data been updated since April 2007? If not, explain fully why not. If so, please explain each change to the methodology and each change to the data.
 - b. Refer to pages 53-54. Please explain how the "State Code Table" was utilized.
 - c. Did any state information for any state other than Kentucky have any impact on the results for KAW in the current KAW rate case? If not, explain fully why not. If so, please identify the impact on the KAW results from all states other than Kentucky.
 - d. Refer to pages 22-35 and 56-69 of 80. Please confirm that only 10 observations were read and used for each month. If this cannot be confirmed explain fully why not and identify the number of observations read and used for each month and explain why that is different from the information on the referenced pages.
 - e. Please confirm that pages 5-6 of 80 show data for the period January 1998 through December 2009, a period of 12 years. If this cannot be confirmed explain fully why not.
 - f. Please confirm that pages 2-3 of 80 show data for the period January 1998 through December 2009, a period of 12 years. If this cannot be confirmed explain fully why not.
 - g. Refer to pages 2-3 and 5-6 (and elsewhere) of 80. Please identify all of the data and periods listed on pages 2-3, 5-6 (and elsewhere) of 80 that was NOT used in the model runs which appear to specify at pages 22-35 and 56-69 of 80 that only 10 observations for each month were used in the modeling for KAW.
 - h. To the extent that data (or "observations") were available (such as that specified on pages 2-3, 5-6, and elsewhere of 80) that could have been included in the model runs but for whatever reasons were not included, please provide model runs using the full amount of available data (and "observations") and provide the results in similar format to the WP9-1 workpapers. To the extent that related calculations are done in Excel, please also provide the related Excel files electronically.

Response:

- a. Two changes from the 2007 methodology were made, in 2008. First, the Palmer Drought Severity Index (PDSI) was replaced with the Modified Palmer Drought Severity Index (PMDI). The reason was that in testing goodness of fit of the models, which I always perform in each new rate case, the PMDI was found to give slightly better fits than the PDSI. The difference between the two indices is described on pages 51 and 52 of the document KAW_R_PSCDR#1a_WP9-1_031610. As is stated on page 52, the two indices differ only “during transition periods” (between wet and dry spells) and so are very similar to each other. Second, cooling degree days were found to improve the fit of the models even when moisture and month of the year were accounted for. Therefore, cooling degree days were added to the model. These two changes necessitated using two new data files from the NOAA website. The new files used were drd964x.pmdi.txt (for the Modified Palmer Drought Severity Index) and drd964x.cdd.txt. No additional changes were made between 2008 and 2009.
- b. The state code table assigns the code value 15 to Kentucky. This value was used to select the Kentucky weather records from the NOAA data files by testing for the numbers “15” in positions 1 and 2 of each record. (The codes 01 through 48 are assigned to the 48 contiguous states in alphabetical order. Alaska and Hawaii are assigned higher codes, 50 and 51, respectively.)
- c. Only information from Kentucky was used in the weather normalization. Since different regions of the country may have different lifestyles, it would not be appropriate to estimate model coefficients from other cities and then apply them to Lexington.
- d. For each month, 10 observations were read. With the exception of the October 2003 commercial consumption, which was an outlier due to conversion to the ECIS system, all 10 observations were used. The October 2003 commercial utilization was commented out so that it would be read as a missing value and not used in the regression computations. Please see page 77 (for the data) and pages 33 and 67 (for the regressions) of the document KAW_R_PSCDR#1a_WP9-1_031610.
- e. Pages 5-6 of the document KAW_R_PSCDR#1a_WP9-1_031610 show data for the period January 1998 through December 2009.
- f. Pages 2-3 of the document KAW_R_PSCDR#1a_WP9-1_031610 show data for the period January 1998 through December 2009.
- g. Data from the years 1998 and 1999 were not used in the present calculations because it is customary to use only the most recent ten years to estimate current usage patterns. The reason that the data files contain the years 1998 and 1999 is that data was originally provided for the 2007 weather normalization, and the file was simply extended twice, first for the 2008 normalization and, second, for the current normalization calculations.

Commercial utilization for October 2003, was not used because it is inaccurate. This was mentioned above in my response to item (d).

- h. I am happy to comply with the request that I rerun my calculations with all 12 complete years, as a demonstration that my results are stable over such variations in the amount of data used. My estimate of normalized consumption for the residential class using ten years of data was 155.67 GCD. My estimate using twelve years of data is 155.18. The difference between these two estimates is 0.49 gallons, or 0.3% of my estimate based on ten years of data. My estimate of normalized consumption for the commercial class using ten years of data was 1184.00 GCD. My estimate using twelve years of data, including October 2003, is 1192.92. The difference between these two estimates is 8.92 gallons, or 0.8% of my estimate based on ten years of data. These differences are the size that would be expected, given random statistical fluctuation. Furthermore, since the residential estimate has decreased and the commercial estimate has increased (and total residential consumption is larger than total commercial consumption), they very nearly balance each other. I have provided the model runs and the Excel worksheets in a pdf file attached, plus an electronic copy of the Excel workbook, as requested. Please refer to excel file titled KAW_R_AGDR2#86_52410.xls

For the electronic version of this response, refer to KAW_R_AGDR2#86_052410.pdf.

Run regressions by month: Lexington, JAN1998-DEC2009
Residential Model, JANUARY

The REG Procedure
Model: MODEL1
Dependent Variable: residential

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	508.63157	508.63157	10.46	0.0090
Error	10	486.22879	48.62288		
Corrected Total	11	994.86036			

Root MSE 6.97301 R-Square 0.5113
Dependent Mean 151.44667 Adj R-Sq 0.4624
Coeff Var 4.60427

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	158.04754	2.86656	55.13	<.0001
since_2000	1	-1.88597	0.58311	-3.23	0.0090

Run regressions by month: Lexington, JAN1998-DEC2009
Residential Model, FEBRUARY

The REG Procedure
Model: MODEL1
Dependent Variable: residential

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	728.86435	728.86435	27.01	0.0004
Error	10	269.80617	26.98062		
Corrected Total	11	998.67052			

Root MSE 5.19429 R-Square 0.7298
Dependent Mean 153.21400 Adj R-Sq 0.7028
Coeff Var 3.39022

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	161.11575	2.13534	75.45	<.0001
since_2000	1	-2.25764	0.43437	-5.20	0.0004

Run regressions by month: Lexington, JAN1998-DEC2009
Residential Model, MARCH

The REG Procedure
Model: MODEL1
Dependent Variable: residential

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	367.64647	367.64647	44.71	<.0001
Error	10	82.22750	8.22275		
Corrected Total	11	449.87397			

Root MSE 2.86753 R-Square 0.8172
Dependent Mean 148.83250 Adj R-Sq 0.7989
Coeff Var 1.92669

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	154.44447	1.17882	131.02	<.0001
since_2000	1	-1.60342	0.23980	-6.69	<.0001

Run regressions by month: Lexington, JAN1998-DEC2009
Residential Model, APRIL

The REG Procedure
Model: MODEL1
Dependent Variable: residential

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	666.97778	666.97778	117.13	<.0001
Error	10	56.94301	5.69430		
Corrected Total	11	723.92078			

Root MSE 2.38627 R-Square 0.9213
Dependent Mean 148.47100 Adj R-Sq 0.9135
Coeff Var 1.60723

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	156.02985	0.98098	159.05	<.0001
since_2000	1	-2.15967	0.19955	-10.82	<.0001

Run regressions by month: Lexington, JAN1998-DEC2009
Residential Model, MAY

The REG Procedure
Model: MODEL1
Dependent Variable: residential

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	1557.43070	519.14357	5.38	0.0254
Error	8	771.71861	96.46483		
Corrected Total	11	2329.14931			

Root MSE 9.82165 R-Square 0.6687
Dependent Mean 164.10883 Adj R-Sq 0.5444
Coeff Var 5.98484

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	168.49353	10.26689	16.41	<.0001
pmdi	1	-1.65906	1.34267	-1.24	0.2516
cdd	1	0.04544	0.08560	0.53	0.6100
since_2000	1	-2.64640	0.92982	-2.85	0.0216

Run regressions by month: Lexington, JAN1998-DEC2009
Residential Model, JUNE

The REG Procedure
Model: MODEL1
Dependent Variable: residential

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	4374.90369	1458.30123	18.11	0.0006
Error	8	644.21533	80.52692		
Corrected Total	11	5019.11902			

Root MSE 8.97368 R-Square 0.8716
Dependent Mean 185.87850 Adj R-Sq 0.8235
Coeff Var 4.82771

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	129.00359	14.69865	8.78	<.0001
pmdi	1	-4.76268	1.26699	-3.76	0.0056
cdd	1	0.28426	0.06236	4.56	0.0019
since_2000	1	-2.32388	0.75413	-3.08	0.0151

Run regressions by month: Lexington, JAN1998-DEC2009
Residential Model, JULY

The REG Procedure
Model: MODEL1
Dependent Variable: residential

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	4500.67082	1500.22361	11.03	0.0032
Error	8	1088.09224	136.01153		
Corrected Total	11	5588.76305			

Root MSE 11.66240 R-Square 0.8053
Dependent Mean 205.17708 Adj R-Sq 0.7323
Coeff Var 5.68406

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	178.49394	24.70818	7.22	<.0001
pmdi	1	-5.10111	1.94222	-2.63	0.0303
cdd	1	0.10211	0.06999	1.46	0.1827
since_2000	1	-1.69114	1.13886	-1.48	0.1759

Run regressions by month: Lexington, JAN1998-DEC2009
Residential Model, AUGUST

The REG Procedure
Model: MODEL1
Dependent Variable: residential

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	4534.39502	1511.46501	6.31	0.0167
Error	8	1915.23021	239.40378		
Corrected Total	11	6449.62523			

Root MSE 15.47268 R-Square 0.7030
Dependent Mean 206.57742 Adj R-Sq 0.5917
Coeff Var 7.49001

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	199.77678	23.48249	8.51	<.0001
pmdi	1	-6.54843	2.73514	-2.39	0.0436
cdd	1	0.04207	0.07270	0.58	0.5788
since_2000	1	-2.57049	1.32077	-1.95	0.0875

Run regressions by month: Lexington, JAN1998-DEC2009
Residential Model, SEPTEMBER

The REG Procedure
Model: MODEL1
Dependent Variable: residential

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	5546.64725	1848.88242	14.73	0.0013
Error	8	1003.89179	125.48647		
Corrected Total	11	6550.53904			

Root MSE 11.20207 R-Square 0.8467
Dependent Mean 201.53650 Adj R-Sq 0.7893
Coeff Var 5.55834

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	167.09944	11.42743	14.62	<.0001
pmdi	1	-1.91848	1.69145	-1.13	0.2895
cdd	1	0.27400	0.07146	3.83	0.0050
since_2000	1	-2.74812	0.99229	-2.77	0.0243

Run regressions by month: Lexington, JAN1998-DEC2009
Residential Model, OCTOBER

The REG Procedure
Model: MODEL1
Dependent Variable: residential

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	3285.43021	1095.14340	3.23	0.0819
Error	8	2709.74949	338.71869		
Corrected Total	11	5995.17970			

Root MSE 18.40431 R-Square 0.5480
Dependent Mean 186.49450 Adj R-Sq 0.3785
Coeff Var 9.86855

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	194.72814	11.80891	16.49	<.0001
pmdi	1	-3.80459	2.15347	-1.77	0.1153
cdd	1	0.09636	0.43345	0.22	0.8296
since_2000	1	-2.48412	1.65973	-1.50	0.1728

Run regressions by month: Lexington, JAN1998-DEC2009
Residential Model, NOVEMBER

The REG Procedure
Model: MODEL1
Dependent Variable: residential

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	2	1453.63503	726.81752	24.84	0.0002
Error	9	263.35624	29.26180		
Corrected Total	11	1716.99127			

Root MSE 5.40942 R-Square 0.8466
Dependent Mean 160.95708 Adj R-Sq 0.8125
Coeff Var 3.36078

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	168.68398	2.26262	74.55	<.0001
pmdi	1	-2.05189	0.53172	-3.86	0.0039
since_2000	1	-2.11633	0.47441	-4.46	0.0016

Run regressions by month: Lexington, JAN1998-DEC2009
Residential Model, DECEMBER

The REG Procedure
Model: MODEL1
Dependent Variable: residential

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	2	816.56337	408.28169	38.63	<.0001
Error	9	95.11187	10.56799		
Corrected Total	11	911.67525			

Root MSE 3.25084 R-Square 0.8957
Dependent Mean 151.46458 Adj R-Sq 0.8725
Coeff Var 2.14627

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	159.64023	1.36929	116.59	<.0001
pmdi	1	-0.19510	0.34170	-0.57	0.5820
since_2000	1	-2.32182	0.29322	-7.92	<.0001

Run regressions by month: Lexington, JAN1998-DEC2009
Commercial Model, JANUARY

The REG Procedure
Model: MODEL1
Dependent Variable: commercial

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	64632	64632	25.90	0.0005
Error	10	24956	2495.59889		
Corrected Total	11	89588			

Root MSE 49.95597 R-Square 0.7214
Dependent Mean 1173.72792 Adj R-Sq 0.6936
Coeff Var 4.25618

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1248.13683	20.53656	60.78	<.0001
since_2000	1	-21.25969	4.17753	-5.09	0.0005

Run regressions by month: Lexington, JAN1998-DEC2009
Commercial Model, FEBRUARY

The REG Procedure
Model: MODEL1
Dependent Variable: commercial

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	56915	56915	24.04	0.0006
Error	10	23673	2367.27357		
Corrected Total	11	80588			

Root MSE 48.65464 R-Square 0.7063
Dependent Mean 1232.68267 Adj R-Sq 0.6769
Coeff Var 3.94705

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1302.50833	20.00159	65.12	<.0001
since_2000	1	-19.95019	4.06871	-4.90	0.0006

Run regressions by month: Lexington, JAN1998-DEC2009
Commercial Model, MARCH

The REG Procedure
Model: MODEL1
Dependent Variable: commercial

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	43251	43251	44.95	<.0001
Error	10	9622.09101	962.20910		
Corrected Total	11	52873			

Root MSE 31.01950 R-Square 0.8180
Dependent Mean 1232.25967 Adj R-Sq 0.7998
Coeff Var 2.51729

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1293.12863	12.75191	101.41	<.0001
since_2000	1	-17.39113	2.59398	-6.70	<.0001

Run regressions by month: Lexington, JAN1998-DEC2009
Commercial Model, APRIL

The REG Procedure
Model: MODEL1
Dependent Variable: commercial

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	70172	70172	34.25	0.0002
Error	10	20488	2048.77034		
Corrected Total	11	90660			

Root MSE 45.26334 R-Square 0.7740
Dependent Mean 1238.56908 Adj R-Sq 0.7514
Coeff Var 3.65449

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1316.10136	18.60746	70.73	<.0001
since_2000	1	-22.15208	3.78511	-5.85	0.0002

Run regressions by month: Lexington, JAN1998-DEC2009
Commercial Model, MAY

The REG Procedure
Model: MODEL1
Dependent Variable: commercial

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	135677	45226	15.61	0.0010
Error	8	23184	2898.00498		
Corrected Total	11	158861			

Root MSE 53.83312 R-Square 0.8541
Dependent Mean 1343.87167 Adj R-Sq 0.7993
Coeff Var 4.00582

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1383.01897	56.27352	24.58	<.0001
pmdi	1	-0.41498	7.35925	-0.06	0.9564
cdd	1	0.59231	0.46919	1.26	0.2424
since_2000	1	-27.14979	5.09640	-5.33	0.0007

Run regressions by month: Lexington, JAN1998-DEC2009
Commercial Model, JUNE

The REG Procedure
Model: MODEL1
Dependent Variable: commercial

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	181446	60482	30.70	<.0001
Error	8	15762	1970.29575		
Corrected Total	11	197209			

Root MSE 44.38801 R-Square 0.9201
Dependent Mean 1455.72450 Adj R-Sq 0.8901
Coeff Var 3.04920

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1408.03905	72.70639	19.37	<.0001
pmdi	1	-23.51966	6.26713	-3.75	0.0056
cdd	1	0.65416	0.30846	2.12	0.0667
since_2000	1	-29.51647	3.73026	-7.91	<.0001

Run regressions by month: Lexington, JAN1998-DEC2009
Commercial Model, JULY

The REG Procedure
Model: MODEL1
Dependent Variable: commercial

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	227042	75681	18.41	0.0006
Error	8	32895	4111.93541		
Corrected Total	11	259938			

Root MSE 64.12437 R-Square 0.8734
Dependent Mean 1587.07500 Adj R-Sq 0.8260
Coeff Var 4.04041

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1621.26935	135.85512	11.93	<.0001
pmdi	1	-25.05024	10.67908	-2.35	0.0470
cdd	1	0.22818	0.38482	0.59	0.5696
since_2000	1	-30.68653	6.26188	-4.90	0.0012

Run regressions by month: Lexington, JAN1998-DEC2009
Commercial Model, AUGUST

The REG Procedure
Model: MODEL1
Dependent Variable: commercial

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	299524	99841	13.66	0.0016
Error	8	58483	7310.40642		
Corrected Total	11	358007			

Root MSE 85.50091 R-Square 0.8366
Dependent Mean 1670.45942 Adj R-Sq 0.7754
Coeff Var 5.11841

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1795.07082	129.76256	13.83	<.0001
pmdi	1	-46.88545	15.11421	-3.10	0.0146
cdd	1	-0.08553	0.40174	-0.21	0.8367
since_2000	1	-32.07385	7.29849	-4.39	0.0023

Run regressions by month: Lexington, JAN1998-DEC2009
Commercial Model, SEPTEMBER

The REG Procedure
Model: MODEL1
Dependent Variable: commercial

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	252400	84133	12.00	0.0025
Error	8	56074	7009.23365		
Corrected Total	11	308474			

Root MSE 83.72117 R-Square 0.8182
Dependent Mean 1600.63383 Adj R-Sq 0.7501
Coeff Var 5.23050

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1395.73096	85.40540	16.34	<.0001
pmdi	1	7.22732	12.64141	0.57	0.5832
cdd	1	1.98607	0.53408	3.72	0.0059
since_2000	1	-30.86662	7.41608	-4.16	0.0032

Run regressions by month: Lexington, JAN1998-DEC2009
Commercial Model, OCTOBER

The REG Procedure
Model: MODEL1
Dependent Variable: commercial

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	3	274697	91566	3.03	0.0936
Error	8	242100	30263		
Corrected Total	11	516797			

Root MSE 173.96122 R-Square 0.5315
Dependent Mean 1529.35983 Adj R-Sq 0.3559
Coeff Var 11.37477

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1594.46039	111.62020	14.28	<.0001
pmdi	1	-27.59554	20.35501	-1.36	0.2122
cdd	1	1.95064	4.09706	0.48	0.6467
since_2000	1	-27.12483	15.68808	-1.73	0.1221

Run regressions by month: Lexington, JAN1998-DEC2009
Commercial Model, NOVEMBER

The REG Procedure
Model: MODEL1
Dependent Variable: commercial

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	2	131387	65693	15.91	0.0011
Error	9	37162	4129.14708		
Corrected Total	11	168549			

Root MSE 64.25844 R-Square 0.7795
Dependent Mean 1364.47025 Adj R-Sq 0.7305
Coeff Var 4.70941

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1460.16336	26.87767	54.33	<.0001
pmdi	1	-8.92991	6.31632	-1.41	0.1911
since_2000	1	-26.94330	5.63549	-4.78	0.0010

Run regressions by month: Lexington, JAN1998-DEC2009
Commercial Model, DECEMBER

The REG Procedure
Model: MODEL1
Dependent Variable: commercial

Number of Observations Read 12
Number of Observations Used 12

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	2	121493	60746	31.90	<.0001
Error	9	17140	1904.49980		
Corrected Total	11	138633			

Root MSE 43.64058 R-Square 0.8764
Dependent Mean 1207.14925 Adj R-Sq 0.8489
Coeff Var 3.61518

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	1309.72797	18.38185	71.25	<.0001
pmdi	1	0.66170	4.58705	0.14	0.8885
since_2000	1	-29.35594	3.93625	-7.46	<.0001

Projections of Residential Water Utilization, Gallons per Day, Kentucky-American											
Using Twelve Years of Consumption Data, January 1998--December 2009											
Month	Slope of PMDI	Slope of CDD	Slope of SINCE_2000	Intercept	30-yr Avg PMDI	30-yr Avg CDD	Days	2009 Gal/Day	2010 Gal/Day	2011 Gal/Day	2012 Gal/Day
Jan	0	0	-1.88597	158.0475	0.06433	1.333	31	141.07	139.19	137.30	135.42
Feb	0	0	-2.25764	161.1158	-0.00200	0.000	31	140.80	138.54	136.28	134.02
Mar	0	0	-1.60342	154.4445	-0.25600	5.133	28	140.01	138.41	136.81	135.20
Apr	0	0	-2.15967	156.0299	-0.26700	6.867	31	136.59	134.43	132.27	130.11
May	-1.65906	0.04544	-2.64640	168.4935	0.14867	87.567	30	148.41	145.76	143.12	140.47
Jun	-4.76268	0.28426	-2.32388	129.0036	0.20100	219.467	31	169.52	167.19	164.87	162.55
Jul	-5.10111	0.10211	-1.69114	178.4939	-0.05133	336.367	30	197.88	196.19	194.50	192.81
Aug	-6.54843	0.04207	-2.57049	199.7768	-0.26500	309.233	31	191.39	188.82	186.25	183.68
Sep	-1.91848	0.27400	-2.74812	167.0994	-0.33600	138.567	31	180.98	178.23	175.48	172.73
Oct	-3.80459	0.09636	-2.48412	194.7281	0.21933	19.900	30	173.45	170.97	168.49	166.00
Nov	-2.05189	0	-2.11633	168.6840	0.29800	0.200	31	149.03	146.91	144.79	142.68
Dec	-0.19510	0	-2.32182	159.6402	0.31933	0.400	30	138.68	136.36	134.04	131.72
Annual projections:								159.08	156.84	154.60	152.32
Projection: Oct 2010 to Sep 2011									155.18		

KAWC-1998-2009.XLS

Projections of Commercial Water Utilization, Gallons per Day, Kentucky-American											
Using Twelve Years of Consumption Data, January 1998--December 2009											
Month	Slope of PMDI	Slope of CDD	Slope of SINCE_2000	Intercept	30-yr Avg PMDI	30-yr Avg CDD	Days	2009 Gal/Day	2010 Gal/Day	2011 Gal/Day	2012 Gal/Day
Jan	0	0	-21.25969	1248.137	0.06433	1.333	31	1,056.80	1,035.54	1,014.28	993.02
Feb	0	0	-19.95019	1302.508	-0.00200	0.000	31	1,122.96	1,103.01	1,083.06	1,063.11
Mar	0	0	-17.39113	1293.129	-0.25600	5.133	28	1,136.61	1,119.22	1,101.83	1,084.44
Apr	0	0	-22.15208	1316.101	-0.26700	6.867	31	1,116.73	1,094.58	1,072.43	1,050.28
May	-0.41498	0.59231	-27.14979	1383.019	0.14867	87.567	30	1,190.48	1,163.33	1,136.18	1,109.03
Jun	-23.51966	0.65416	-29.51647	1408.039	0.20100	219.467	31	1,281.23	1,251.71	1,222.20	1,192.68
Jul	-25.05024	0.22818	-30.68653	1621.269	-0.05133	336.367	30	1,423.13	1,392.44	1,361.76	1,331.07
Aug	-46.88545	-0.08553	-32.07385	1795.071	-0.26500	309.233	31	1,492.38	1,460.31	1,428.23	1,396.16
Sep	7.22732	1.98607	-30.86662	1395.731	-0.33600	138.567	31	1,390.71	1,359.84	1,328.97	1,298.11
Oct	-27.59554	1.95064	-27.12483	1594.460	0.21933	19.900	30	1,383.10	1,355.98	1,328.85	1,301.73
Nov	-8.92991	0	-26.94330	1460.163	0.29800	0.200	31	1,215.01	1,188.07	1,161.13	1,134.18
Dec	0.66170	0	-29.35594	1309.728	0.31933	0.400	30	1,045.74	1,016.38	987.02	957.67
Annual projections:								1,238.49	1,212.24	1,185.99	1,159.53
Projection: Oct 2010 to Sep 2011										1,192.92	

KAWC-1998-2009.XLS

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

Witness: Michael A. Miller/Keith Cartier

87. Cash working capital. Refer to the response to PSC DR1-1, WP1-12.
- a. Explain in detail each step involved from the meter read date to the billing date.
 - b. Has KAW or American Water Works ever benchmarked its "Billing Lag" against any other utilities? If not, explain fully why not. If so, please provide the analysis and results.
 - c. Please identify the systems used for meter reading, including identification and discussion of automated meter reading used by KAW for each area.
 - d. Please identify and explain the time related to each non-automated process that occurs between metering reading and billing.
 - e. Are all meters on all routes read each month? If not, please identify the approximate number of and proportion of estimated billings for each month in the test year ending 11/30/09 that was used by KAW to develop its "Billing Lag."
 - f. Are all KAW customers billed monthly? If not, explain fully why not and identify each customer group that is billed on some frequency other than monthly.
 - g. What is the "Billing Lag" that KAW used for estimated billings, i.e., for billings for which meters were not read for the billing period? Identify, quantify and explain in detail.

Response:

- a. On the meter reading date the route(s) that are due are downloaded to the handheld meter reading device or automated meter reading ("AMR") system if applicable. The meter reader then reads the meters that have been scheduled. The readings are obtained in one of three ways: 1) manual read by lifting the meter box lid and reading the meter, 2) touchpad which does not require the lid to be open or 3) by AMR. When the read is gathered by method 1 or 2 there are controls in place that cause an audible alarm if the reading is outside high or low parameters. If the alarm sounds

the meter reader gets another reading to verify the first reading is correct or enter the corrected read. Once the route has been read the meter reader brings the hand held device back to the office and uploads the readings. The readings are sent to the Billing System which runs Exceptions/Meter Edit reports. These reports are manually reviewed and researched for potential billing issues. If a field visit is required a service order is generated. These orders are worked within two business days from the day the meter reading was uploaded. On the third working day the customer bill is calculated and sent to the printing vendor for printing and mailing on the fourth working day.

- b. Kentucky American has not benchmarked its “Billing Lag” against any other utilities. The process of reading and editing the next day with field follow-up is believed to be the most efficient and accurate method available, leading to more accurate billing and increased customer satisfaction.
- c. There is a combination of meter reading systems used for meter reading as automated meter reading (AMR) is in varying stages of deployment. The conversion to automated meter reading has been completed in rural areas, including Owen County, Scott County, Clark County and others. In the more urban Fayette County, automated meter reading has been deployed for large meters and in new developments. The AMR system in Fayette, Owen and Clark counties is a Neptune R900 Mobile System. The AMR deployed in Scott County is primarily an Itron MV-RS System, although a small number of Neptune meters have been installed there as well. These systems allow for a meter read signal to be transmitted from the meter to a mobile data collector so that a meter reader can drive by and pick up meter reads rather than open lids and manually read the meters.
- d. There are four non-automated steps in the process.
 - I. The meter reading route is uploaded to the handheld device so the meter reader knows which meters to work. Time required – 5/10 minutes per meter route.
 - II. The reading is gathered in the field by the meter reader. Time required – various depending on density of meters and method used to gather the readings. Meter readers work an 8 hour shift M-F.
 - III. After the route has been read the meter readings are uploaded to the Billing System. Time required – 10/15 minutes per route.
 - IV. The Exceptions/Meter Edit reports take approximately 2 hours to generate and review daily.

- e. The intent is to read all meters on all routes each month. Weather, daily resources and access to meters occasionally impact the ability to do so. Estimated bills may also be issued if the reading obtained suggests an anomaly. The number and percentage of estimated bills for the test period is:

	Estimated Bills	Actual Bills	Total Bills	% Estimated
Nov-08	5,201	116,395	121,596	4.28%
Dec-08	11,237	110,392	121,629	9.24%
Jan-09	7,349	114,115	121,464	6.05%
Feb-09	30,333	92,082	122,415	24.78%
Mar-09	1,113	122,074	123,187	0.90%
Apr-09	799	122,641	123,440	0.65%
May-09	846	123,358	124,204	0.68%
Jun-09	1,139	124,359	125,498	0.91%
Jul-09	988	123,399	124,387	0.79%
Aug-09	1,065	124,385	125,450	0.85%
Sep-09	999	124,433	125,432	0.80%
Oct-09	1,332	122,963	124,295	1.07%
Nov-09	1,357	122,579	123,936	1.09%

- f. Yes.
- g. The billing lag for entire routes that are estimated may be shorter than actual reads, however, edits are still performed on estimated routes to detect changes in residents that could impact estimation accuracy. The billing lag used by KAW reflects the average for all types of reads.

For the electronic version, refer to [KAW_R_AGDR2#87_052410.pdf](#).

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

Witness: Michael A. Miller

88. Cash working capital. Refer to the response to PSC DR1-1, WP1-12.
- a. Refer to pages 137-143. Are the Accounts Receivable Balances listed there net of the Reserve for Uncollectibles? If not, explain fully why not, and provide the related Reserve for Uncollectibles for each date.
 - b. Provide this information on daily Reserve for Uncollectibles requested in part a electronically in Excel.
 - c. What due date or payment date is printed on customer bills? If different for different classes of customers, provide for each class.
 - d. What payment due period is printed on customer bills? If different for different classes of customers, provide for each class.
 - e. Does KAW charge late fees? If not, explain fully why not. If so, please identify the tariff provisions relating to late fees.
 - f. Does KAW have any policies or procedures regarding the application of late fees? If not, explain fully why not. If so, please provide those policies and procedures.

Response:

- a. The accounts receivable balance is not net of uncollectibles. The uncollectible expense is handled in the O&M area of the lead/lag study.
- b. Please refer to the excel file labeled as KAW_R_AGDR2#88_052410.xls.
- c. The due date is 20 days after the billing date.
- d. See the response to subpart c above.
- e. No.
- f.. No. The Company does not have a tariff provision that permits late payment fees.

For the electronic version of this response, refer to KAW_R_AGDR2#88_052410.pdf.

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

Witness: Michael A. Miller

89. Cash working capital. Refer to the response to PSC DR1-1, WP1-12.
- a. Provide each Management Fee invoice used for page 149.
 - b. Please identify when the affiliated service company AWWSC pays each type of cash expense to its employees and vendors.
 - c. Has a lead-lag study ever been conducted of AWWSC payments to its employees and vendors? If not, explain fully why not. If so, please identify and provide a copy of each such study.

Response:

- a. Please refer to the attached invoices.
- b. Please refer to the response to part c. AWWSC payroll is paid bi-weekly, benefit costs are paid consistently across the AWW system and consistent with those items covered in the detailed KAW lead/lag information, and other expense items are paid according to the terms of the invoices.
- c. The Service Company has not conducted a lead-lag study. The costs of financing the daily operations of the Service Company are included in each monthly Service Company bill sent to the operating companies. Any interest expense incurred by the Service Company as a result of Service Company borrowing requirements is billed to KAWC and the other AW operating companies. Also, any investment income earned by the Service Company is returned to the KAWC and the other AW operating companies as a credit within their monthly bill.

Therefore, any difference in cash working capital calculated due to the timing of the payment from KAWC to the Service Company for service and the outlay of cash by the Service Company for its expenses incurred is accounted for in Management Fee expense on KAWC's books. To conduct a lead-lag study of Service Company revenue and expenses would be duplicative and an unnecessary ratepayer expense.

For the electronic version, refer to KAW_R_AGDR2#89_052410.pdf.

7
3/09/09
13:29:33

American Water Works Company
Summary Bill Report - History

Intercompany Settlement Co. 12

Business Partner: 12

Region: D Southeastern Region

Data Selection Values
Year: 08 Period: 12

Description Of Service	Hours	Payroll	Expenses	Total
Accounting	1,203.49	25,460.44	19,824.30	45,284.74
Administration	134.00	4,557.57	62,150.34	66,707.91
Audit	62.48	2,557.70	1,873.56	4,431.26
Communications	359.76	13,738.33	18,751.50	32,489.83
Legal	531.41	16,522.06	10,235.91	26,757.97
Engineering	5.30	37.61	426.71	389.10
Finance	1,305.58	46,695.65	65,304.92	112,000.57
Human Resources	541.85	16,817.03	35,060.23	51,877.26
Information Systems	1,237.34	40,309.30	136,470.98	176,780.28
Operations	1,168.23	39,327.80	32,638.66	72,556.46
Rates & Revenue	265.85	9,909.92	2,557.77	12,467.69
Risk Management	151.81	5,247.27	4,580.43	9,827.70
Water Quality	423.96	8,455.36	14,666.26	23,121.62
Customer Service	6,482.21	81,054.23	67,312.60	148,366.83
TOTAL:	13,873.27	311,325.05	455,027.14	766,352.19

TOTAL CURRENT MONTH CHARGES 766,352.19 *

LESS: PAYMENT- PRIOR EST. BILLING 673,830.27-

NET AMOUNT PAYABLE (RECEIVABLE) 92,521.92

PLUS: EST. CURRENT MONTH BILLING 766,352.19

958,874.11

O & M Expense 672988.44 Lead/LAG
 CAPITAL Expense 93363.75
 766352.19 *

7
3/09/09
13:30:58

American Water Works Company
Summary Bill Report - History

Intercompany Settlement Co. 12

Business Partners 12

Region: D Southeastern Region

Data Selection Values
Year: 09 Period: 01

Description Of Service	Hours	Payroll	Expenses	Total
Accounting	819.47	26,040.01	20,626.74	46,666.75
Administration	91.70	5,547.24	99,415.97	104,963.21
Audit	44.79	2,546.13	1,434.53	3,980.66
Communications	249.78	11,848.43	13,094.44	24,942.87
Legal	332.06	14,713.59	11,176.90	25,890.49
Engineering	88	112.98	855.37	968.35
Finance	985.14	48,520.17	71,930.20	120,450.37
Human Resources	213.80	9,335.16	19,662.05	27,997.21
Information Systems	830.89	36,112.70	85,569.75	121,682.45
Operations	754.87	45,561.45	39,788.46	85,349.91
Rates & Revenue	228.72	11,375.24	4,205.89	15,581.13
Risk Management	86.24	3,596.92	3,810.65	7,407.57
Water Quality	279.64	8,116.63	16,960.22	25,076.85
Customer Service	4,342.39	78,517.78	104,809.01	183,326.79
TOTAL:	9,260.57	302,644.43	492,340.16	794,984.61

✱

TOTAL CURRENT MONTH CHARGES

LESS: PAYMENT-PRIOR EST. BILLING 766,352.19-

28,632.42

NET AMOUNT PAYABLE (RECEIVABLE)

794,984.61

PLUS: EST. CURRENT MONTH BILLING

823,617.03

OpM Expense
CAPITAL Expense
727,845.47 Lead/LAG
67139.14
794,984.61 ✱

7
3/09/09
13:35:03

American Water Works Company
Summary Bill Report - History

Intercompany Settlement Co. 12

Business Partner: 12

Region: D Southeastern Region

Region: D

Data Selection Values
Year, 09 Period: 02

Description Of Service	Hours	Payroll	Expenses	Total
Accounting	820.14	23,381.07	17,166.38	40,547.45
Administration	97.13	5,281.21	48,059.14	53,340.35
Audit	35.57	1,269.15	907.23	2,176.38
Communications	254.78	11,162.47	11,992.65	23,155.12
Legal	322.37	12,941.66	13,950.69	26,892.35
Engineering		24.39	900.81	925.20
Finance	984.04	45,474.76	54,810.13	100,284.89
Human Resources	201.90	7,488.32	15,423.30	22,911.62
Information Systems	751.46	29,994.99	37,396.24	67,391.23
Operations	820.79	46,020.94	53,104.34	99,125.28
Rates & Revenue	98.13	5,731.05	3,599.23	9,330.28
Risk Management	102.18	4,461.65	3,297.06	7,758.71
Water Quality	271.54	7,336.91	21,348.21	28,685.12
Customer Service	4,437.28	72,458.26	94,323.45	166,781.71
TOTAL:	9,197.31	273,026.83	376,278.86	649,305.69

*

649,305.69

TOTAL CURRENT MONTH CHARGES

794,984.61

LESS: PAYMENT- PRIOR EST. BILLING

145,678.32

NET AMOUNT PAYABLE (RECEIVABLE)

649,305.69

PLUS: EST. CURRENT MONTH BILLING

503,626.77

O+M Expense 571233.27 LEAD/CAG
 CAPITAL Expense 78072.42
 649305.69 *

7
4/06/09
8:47:57

American Water Works Company
Summary Bill Report - History

Intercompany Settlement Co 12

Data Selection Values
Year: 09 Period: 03 Region: D Southeastern Region Business Partner: 12

Description Of Service	Hours	Payroll	Expenses	Total
Accounting	846.18	26,715.02	18,395.70	45,110.72
Administration	94.76	5,527.91	14,411.39	8,883.48
Audit	40.67	1,997.07	2,043.66	4,040.73
Communications	237.35	11,303.77	14,611.59	25,915.36
Legal	321.19	14,346.70	14,741.80	29,088.50
Engineering	22	95.74	1,105.37	1,201.11
Finance	1,118.09	54,105.57	71,791.23	125,896.80
Human Resources	200.74	8,727.10	18,355.28	27,082.38
Information Systems	739.20	32,813.75	45,817.72	78,631.47
Operations	751.99	47,843.06	41,766.05	89,609.11
Rates & Revenue	34.88	2,033.67	4,915.65	6,949.32
Risk Management	120.43	4,914.89	1,189.87	3,725.02
Water Quality	283.58	8,452.80	30,154.09	38,606.89
Customer Service	3,980.68	73,442.73	64,552.69	137,995.42
TOTAL	8,529.10	282,489.97	295,029.31	577,519.28

*

TOTAL CURRENT MONTH CHARGES 577,519.28 *
 LESS: PAYMENT- PRIOR EST. BILLING 649,305.69-
 NET AMOUNT PAYABLE (RECEIVABLE) 71,786.41-
 PLUS: EST. CURRENT MONTH BILLING 577,519.28
 505,732.87

O&M Expense 522,965.07 Lead/LAG
 Capital Expense 54,654.21
577,519.28 *

582050
American Water Works Company
Summary Bill Report - History
7
5/11/09
10:21:21

Data Selection Values
Year: 09 Period: 04 Region: D Southeastern Region
Business Partner: 12
Intercompany Settlement Co 12

Description Of Service	Hours	Payroll	Expenses	Total
Accounting	839.86	27,301.24	12,422.21	39,723.45
Administration	96.98	5,985.38	120,622.19	126,607.57
Audit	43.29	2,351.21	2,375.35	4,726.56
Communications	235.44	11,650.84	13,782.32	25,433.16
Legal	334.97	15,384.92	11,878.35	27,263.17
Engineering	5.40	355.23	824.84	1,189.87
Finance	904.87	47,085.52	57,966.19	105,051.71
Human Resources	218.21	10,409.80	15,257.43	25,667.23
Information Systems	711.48	32,099.30	70,815.24	102,914.54
Operations	390.73	53,801.24	40,721.16	94,522.40
Rates & Revenue	43.47	2,475.41	2,408.61	4,884.02
Risk Management	25.91	1,512.59	1,222.87	2,735.46
Water Quality	273.48	8,489.53	15,447.72	24,937.25
Customer Service	3,904.43	72,918.87	73,868.88	146,787.75
TOTAL:	8,528.52	291,821.08	440,623.06	732,444.14

TOTAL CURRENT MONTH CHARGES 732,444.14 *

LESS: PAYMENT-PRIOR EST. BILLING 577,519.28-

NET AMOUNT PAYABLE (RECEIVABLE) 154,924.86

PLUS: EST. CURRENT MONTH BILLING 732,444.14

887,369.00

O+M Expense 649473.26 Lead/LAG
 Cap. m Expense 82970.88
732444.14 *

7
6/05/09
14:22:37

American Water Works Company
Summary Bill Report - History

Intercompany Settlement Co.12

Business Partner: 12

Region: D Southeastern Region

Data Selection Values
Year: 09 Period: 05

Description Of Service	Hours	Payroll	Expenses	Total
Accounting	805.09	24,893.31	17,182.28	42,075.59
Administration	99.83	5,342.01	65,159.60	70,501.61
Audit	47.24	2,516.30	1,570.03	4,086.33
Communications	249.71	11,827.17	12,193.92	24,021.09
Legal	307.88	13,253.01	12,428.98	25,681.99
Engineering	1.33	106.35	956.98	1,063.33
Finance	854.52	42,309.81	76,491.47	118,801.28
Human Resources	329.16	12,067.34	32,727.40	34,794.74
Information Systems	707.34	30,902.07	88,487.49	119,389.56
Operations	850.33	50,744.77	44,031.84	94,776.61
Rates & Revenue	67.32	3,347.33	3,443.27	6,790.60
Risk Management	31.75	1,512.50	2,037.76	3,550.26
Water Quality	274.10	7,964.61	17,077.50	25,042.11
Customer Service	3,821.61	67,623.91	91,475.19	159,099.10
TOTAL:	8,447.21	274,410.49	445,263.71	719,674.20

TOTAL CURRENT MONTH CHARGES 719,674.20 *

LESS: PAYMENT- PRIOR EST. BILLING 732,444.14

NET AMOUNT PAYABLE (RECEIVABLE) 12,769.94

PLUS: EST. CURRENT MONTH BILLING 719,674.20

706,304.26

OIM Expense
CAPITAL Expense
74503.10
719674.20 *

7
7/03/09
9:51:25

American Water Works Company
Summary Bill Report - History

582050

Region: D Southeastern Region
Business Partner: 12
Intercompany Settlement Co 12

Data Selection Values
Year: 09 Period: 06

Description Of Service	Hours	Payroll	Expenses	Total
Accounting	1,315.94	27,927.97	22,943.60	50,771.57
Administration	160.06	5,154.07	54,472.96	59,627.03
Audit	63.28	2,486.60	1,768.45	4,255.05
Communications	394.42	15,967.25	17,556.34	32,523.59
Legal	435.50	17,695.35	14,569.87	32,265.22
Engineering	2.09	450.94	1,320.47	869.53
Finance	1,353.50	49,410.88	75,773.20	125,184.08
Human Resources	482.87	24,822.39	17,718.02	42,540.41
Information Systems	1,087.87	32,607.66	90,526.84	123,134.50
Operations	1,470.51	75,613.18	59,456.82	134,770.00
Rates & Revenue	93.21	2,734.59	3,531.86	6,266.45
Risk Management	56.24	1,862.02	2,790.15	4,652.17
Water Quality	416.15	8,954.91	19,409.76	27,364.67
Customer Service	5,601.12	53,717.40	97,479.57	151,196.97
TOTAL	13,901.58	327,004.13	490,017.68	817,021.81

TOTAL CURRENT MONTH CHARGES 817,021.81 *

LESS: PAYMENT- PRIOR EST. BILLING 719,674.20

NET AMOUNT PAYABLE (RECEIVABLE) 97,347.61

PLUS: EST. CURRENT MONTH BILLING 817,021.81

914,369.42

O:M Expense 719,674.46 LEAD/LAG
 CAPITAL Expense 97,777.35
 817,021.81 *

7
8/06/09
14:13:01

American Water Works Company
Summary Bill Report - History

Intercompany Settlement Co 12

Business Partner: 12

Region: D Southeastern Region

Data Selection Values
Year: 09 Period: 07

Description Of Service	Hours	Payroll	Expenses	Total
Accounting	860.75	29,132.86	23,868.38	53,001.24
Administration	113.00	6,968.64	61,348.67	68,317.31
Audit	45.92	2,738.21	1,518.99	4,257.20
Communications	358.52	16,735.55	16,482.80	33,218.35
Legal	337.11	15,935.88	11,516.18	27,452.06
Engineering	4.86	361.57	1,324.16	1,685.73
Finance	894.61	47,610.50	60,149.11	107,759.61
Human Resources	320.60	13,309.93	16,769.67	30,079.60
Information Systems	813.49	27,931.31	34,763.09	62,694.40
Operations	1,107.64	63,964.11	54,197.67	118,161.78
Rates & Revenue	56.67	3,132.37	3,481.39	6,613.66
Risk Management	37.44	1,830.61	2,157.72	3,988.33
Water Quality	281.60	9,451.81	17,214.06	26,665.87
Customer Service	3,766.88	73,643.78	107,421.72	181,071.50
TOTAL:	9,019.09	322,753.03	472,153.61	794,906.64

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TOTAL CURRENT MONTH CHARGES

794,906.64

817,021.81

LESS: PAYMENT- PRIOR EST. BILLING

22,115.17

NET AMOUNT PAYABLE (RECEIVABLE)

794,906.64

PLUS: EST. CURRENT MONTH BILLING

772,791.47

O&M Expense 723086.39 Lead/LAG
CAPITAL Expense 71820.25
*794906.64 **

7
9/08/09
8:28:33

American Water Works Company
Summary Bill Report - History

Intercompany Settlement Co 12

562050
Data Selection Values
Year: 09 Period: 08 Region: D Southeastern Region Business Partner: 12

Region: D Southeastern Region Business Partner: 12

Description Of Service	Hours	Payroll	Expenses	Total
Accounting	875.25	26,302.96	13,193.93	39,496.91
Administration	108.91	5,733.68	62,834.56	68,574.24
Audit	47.24	2,697.51	2,619.04	5,316.55
Communications	282.09	13,154.42	12,856.88	26,011.30
Legal	343.64	15,034.57	12,556.68	27,591.25
Engineering	2.21	148.89	2,091.12	2,240.01
Finance	875.01	43,350.44	75,895.16	119,255.60
Human Resources	309.82	13,558.63	23,513.66	37,072.29
Information Systems	725.87	31,572.55	82,071.79	113,644.34
Operations	1,522.57	65,781.63	50,798.69	116,580.32
Rates & Revenue	55.86	2,873.88	3,335.64	6,209.52
Risk Management	46.38	1,723.42	2,292.49	3,915.91
Water Quality	272.69	8,199.92	16,814.59	25,014.51
Customer Service	3,682.66	65,926.41	98,286.29	164,212.70
TOTAL	9,150.40	296,074.93	459,030.52	755,105.45

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TOTAL CURRENT MONTH CHARGES 755,105.45
 LESS: PAYMENT- PRIOR EST. BILLING 794,906.64
 NET AMOUNT PAYABLE (RECEIVABLE) 39,801.19
 PLUS: EST. CURRENT MONTH BILLING 755,105.45
 715,304.26

0.5 M Expense 691063.32 LEAD/LAG
CAPITAL Expense 64042.13
*755105.45 **

7
10/09/09
9:23:06

American Water Works Company
Summary Bill Report - History

Intercompany Settlement CO 12

Business Partner: 12

Region: D Southeastern Region

Data Selection Values
Year: 09 Period: 09

Description Of Service	Hours	Payroll	Expenses	Total
Accounting	854.34	27,148.39	16,554.75	43,703.14
Administration	108.12	6,176.09	62,692.43	68,870.50
Audit	47.24	2,751.92	2,943.23	5,694.21
Communications	255.57	12,457.15	14,672.70	27,129.86
Legal	315.50	13,838.70	12,167.20	26,005.90
Engineering	3.10	233.97	1,030.43	1,264.40
Finance	924.57	47,687.03	67,528.40	115,215.43
Human Resources	267.32	12,749.58	20,502.15	33,251.73
Information Systems	737.52	33,886.44	100,583.30	134,469.74
Operations	1,814.00	71,859.63	58,187.65	129,247.48
Rates & Revenue	41.12	2,533.57	3,324.27	5,867.94
Risk Management	54.49	2,246.44	2,217.60	4,464.04
Water Quality	271.40	8,549.96	17,188.34	25,738.30
Customer Service	3,515.88	66,661.96	103,156.10	169,818.06
TOTAL	9,013.57	367,883.04	482,757.69	790,740.73
TOTAL CURRENT MONTH CHARGES				790,740.73
LESS: PAYMENT- PRIOR EST. BILLING				755,105.45
NET AMOUNT PAYABLE (RECEIVABLE)				35,635.28
PLUS: EST. CURRENT MONTH BILLING				790,740.73
				826,376.01

O&M Expense 710,093.57 Lead/CAG
CAPITAL Expense 80,647.16
790,740.73 *

582050
7
11/05/09
9:14:13

American Water Works Company
Summary Bill Report - History

Region: B Eastern Division Business Partner: 12 Intercompany Settlement Co 12

Data Selection Values
Year: 09 Period: 10

Description Of Service	Hours	Payroll	Expenses	Total
Accounting	841.30	26,895.18	20,444.83	47,340.01
Administration	108.72	6,201.11	62,581.35	68,782.46
Audit	47.24	2,678.36	4,125.88	6,804.24
Communications	253.76	12,208.01	16,087.10	28,295.11
Legal	334.06	15,117.09	12,134.27	27,251.36
Engineering	1.77	170.16	789.31	959.47
Finance	845.70	43,400.71	51,156.29	94,557.00
Human Resources	254.16	12,052.26	20,333.47	32,385.73
Information Systems	779.53	35,860.89	92,804.04	128,664.93
Operations	1,547.69	69,794.91	56,262.00	125,956.91
Rates & Revenue	43.96	2,524.08	3,139.86	5,663.94
Risk Management	63.58	2,624.71	2,291.57	4,916.28
Water Quality	268.26	8,637.52	17,142.73	25,780.25
Customer Service	3,098.58	56,164.48	90,045.47	146,209.95
TOTAL:	8,488.33	294,330.49	449,208.57	743,539.06

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TOTAL CURRENT MONTH CHARGES 743,539.06
 LESS: PAYMENT- PRIOR EST. BILLING 790,740.73
 NET AMOUNT PAYABLE (RECEIVABLE) 47,201.67
 PLUS: EST. CURRENT MONTH BILLING 743,539.06
 896,337.39

OIM Expense 673983.99 Lead/LAG
 CAPITAL Expense 69555.07
 743539.06 *

7
12/10/09
8:24:55

582350 American Water Works Company
Summary Bill Report - History
Region: B Eastern Division Business Partner: 12 Intercampany Settlement Co 12
Data Selection Values
Year: 09 Period: 11

Description Of Service	Hours	Payroll	Expenses	Total
Accounting	1,262.46	25,073.93	19,765.89	44,839.82
Administration	162.88	4,906.60	64,644.16	69,550.78
Audit	70.79	2,359.10	4,623.44	6,982.54
Communications	388.05	14,281.13	13,876.82	28,158.05
Legal	449.11	14,559.23	14,853.81	29,413.04
Engineering	17.70	1,233.82	1,406.77	2,640.59
Finance	1,211.72	38,828.31	59,028.77	97,857.08
Human Resources	506.02	13,139.84	16,955.99	30,095.83
Information Systems	1,159.36	33,729.56	104,792.39	138,522.95
Operations	2,322.51	78,794.69	59,423.29	138,217.98
Rates & Revenue	132.68	4,027.27	3,504.62	7,531.85
Risk Management	414.52	12,493.91	4,619.68	17,112.59
Water Quality	400.71	7,315.66	19,595.81	26,911.51
Customer Service	4,321.97	53,825.77	92,422.33	152,847.10
TOTAL:	13,474.38	301,501.38	486,512.93	788,014.31

TOTAL CURRENT MONTH CHARGES 788,014.31 *
LESS: PAYMENT-PRIOR EST. BILLING 743,539.06
NET AMOUNT PAYABLE (RECEIVABLE) 44,475.25
PLUS: EST. CURRENT MONTH BILLING 788,014.31
832,489.56

O&M Expense
CAPITAL Expense
701 732.71 LEAD/CAG
86281.60
788014.31 *

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

Witness: Michael A. Miller

90. Cash working capital. Refer to the response to PSC DR1-1, WP1-12.
- a. Has KAW included any Prepayment balances in rate base? If not, explain fully why not. If so, please show in detail each type of prepayment KAW has included in rate base.
 - b. Has KAW included any Prepayment balances for insurance in rate base?

Response:

- a. No.
- b. No.

For the electronic version, refer to KAW_R_AGDR2#90_052410.pdf.

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

Witness: Michael A. Miller

91. Cash working capital. Refer to the response to PSC DR1-1, WP1-12. Refer to pages 151 and 152.
- a. Please identify each actual cash payment and the related "service period" for any and all payments by KAW for OPEBs in 2007, 2008 and 2009.
 - b. Please identify each actual cash payment and the related "service period" for any and all payments by the parent company AWWC for OPEBs in 2007, 2008 and 2009.
 - c. Please identify each actual cash payment and the related "service period" for any and all payments by KAW for pensions in 2007, 2008 and 2009. Provide this for each type of pension offered by KAW.
 - d. Please identify each actual cash payment and the related "service period" for any and all payments by the parent company AWWC for pensions in 2007, 2008 and 2009. Provide this for each type of pension offered by AWWC.
 - e. As of each month end in 2007, 2008, 2009 and 2010 to date, provide the Accrued OPEB liability on KAW's books by account.
 - f. As of each month end in 2007, 2008, 2009 and 2010 to date, provide the Accrued pension liability on KAW's books by account. Provide this for each type of pension offered by KAW.
 - g. Please identify, quantify and explain the base period and FTY amounts for (1) OPEB funding payments and (2) OPEB costs recorded pursuant to accrual accounting on KAW's books, and separately on the parent company and AWWSC's books.
 - h. Please identify, quantify and explain the base period and FTY amounts for (1) pension funding payments and (2) pension costs recorded pursuant to accrual accounting on KAW's books, and separately on the parent company and AWWSC's books.

Response:

- a. Please refer to the attachment. Payments for OPEBs are made to the trustee Wachovia Bank.
- b. AWWC does not make payments for OPEBs on behalf of its subsidiaries. All payments for KAW are originated and paid by KAW through American Water Capital Corporation (AWCC) to the appropriate trustee listed in the attachment to part a. The payments made by KAW for OPEBs in 2007, 2008 and 2009 are in the attachment to part a.
- c. Please refer to the attachment in part a. Payments for pensions are made to the trustee Wachovia Bank. This is the only pension plan offered by KAW.
- d. AWWC does not make payments for Pensions on the behalf of its subsidiaries. All payments for KAW are originated and paid by KAW through American Water Capital Corporation (AWCC) to the appropriate trustee listed in the attachment to part a. The payments made by KAW for Pensions in 2007, 2008 and 2009 are in the attachment to part a. The service period is the calendar year 2009 with four quarterly payments made throughout the year. Since four quarterly payments are made, the company calculated the Lead/Lag days based upon four quarterly service periods.
- e. Please refer to the attachment.
- f. Please refer to the attachment in part e.
- g. Please see the response to PSC-2-23 for updated FTY OPEB expense calculated using FAS 106 accrual accounting. Also see the response to AG-2-27. The Company's policy is to fund OPEBs at the FAS 106 level through a contribution to the OPEB VEBA. See table below for account numbers used to record the OPEB expense and payments to the VEBA for 2009.

The parent company does not charge anything to KAW concerning OPEB.

- h. Please see the response to PSC-2-23 for updated FTY Pension expense calculated using FAS 87 accrual accounting. Also see the response to AG-2-25. The Company's policy is to fund pensions at the minimum required contribution required under ERISA regulation and additional contributions after the plan year if needed to avoid "at risk" status requiring notification under ERISA regulations. Additional management discretionary contributions can be made if appropriate to maintain plan integrity or smooth the impact of future costs. See table below for account numbers used to record the pension expense and payments to the pension trust fund for 2009.

The parent company does not charge anything to KAW concerning pension expense.

g. & h. 2009 Pensions		KAW
	Debit	Credit
AC506100	\$1,673,719	
AC262120		\$1,673,719
ACCRUE PENSION EXPENSE		
AC262120	\$1,710,285	
AC-Cash		\$1,710,285
RECORD PENSION PAYMENT		

Service Company accrues pension expense of \$18,912,298 for 2009 and bills out to the companies as outlined in the response to AG-2-25.

2009 OPEB KAW		
	Debit	Credit
AC505100	\$1,146,714	
AC262210		\$1,146,714
ACCRUE OPEB EXPENSE		
AC262210	\$1,146,714	
AC-Cash		\$1,146,714
RECORD OPEB PAYMENT		

Service Company accrues OPEB expense of \$3,852,949 for 2009 and bills out to the companies as outlined in the response to AG-2-27.

For the electronic version of this response, refer to KAW_R_AGDR2#91_052410.pdf.

Kentucky American
Case 2010-00036
Attorney General AG 2-91 parts a & c

OPEBs	State Street Bank	KAW payments	Service Period	Pensions	Wachovia Bank, N.A.	KAW payments	Service Period
03/20/07	State Street Bank	\$179,024	1st quarter	03/23/07	Wachovia Bank, N.A.	\$359,441	1st quarter
05/16/07	State Street Bank	\$179,024	2nd quarter	08/09/07	Wachovia Bank, N.A.	\$284,557	3rd quarter
08/09/07	State Street Bank	\$179,024	3rd quarter	11/05/07	Wachovia Bank, N.A.	\$284,558	4th quarter
11/05/07	State Street Bank	\$179,025	4th quarter				
02/18/08	State Street Bank	\$186,593	1st quarter	02/18/08	Wachovia Bank, N.A.	\$480,882	1st quarter
05/13/08	State Street Bank	\$186,593	2nd quarter	05/13/08	Wachovia Bank, N.A.	\$480,882	2nd quarter
08/12/08	State Street Bank	\$186,593	3rd quarter	08/12/08	Wachovia Bank, N.A.	\$313,618	3rd quarter
11/07/08	State Street Bank	\$186,594	4th quarter	11/07/08	Wachovia Bank, N.A.	\$313,618	4th quarter
2/14/2009	State Street Bank	\$298,190	1st quarter	2/14/2009	Wachovia Bank, N.A.	\$343,868	1st quarter
5/14/2009	State Street Bank	\$298,191	2nd quarter	5/14/2009	Wachovia Bank, N.A.	\$343,868	2nd quarter
8/14/2009	State Street Bank	\$298,191	3rd quarter	8/14/2009	Wachovia Bank, N.A.	\$502,732	3rd quarter
11/14/2009	State Street Bank	\$303,152	4th quarter	11/14/2009	Wachovia Bank, N.A.	\$509,097	4th quarter

Kentucky American
Case 2010-00036
Attorney General AG 2-91 parts e & f

AC 262120 Accrued Pension Deferred Benefit

Dec 2006	\$2,381,721.20
Jan 2007	\$2,427,774.53
Feb 2007	\$2,501,874.70
Mar 2007	\$2,202,510.45
Apr 2007	\$2,262,587.20
May 2007	\$2,322,663.95
Jun 2007	\$2,382,740.70
Jul 2007	\$2,442,817.45
Aug 2007	\$2,218,337.20
Sep 2007	\$2,278,413.95
Oct 2007	\$2,338,490.70
Nov 2007	\$2,114,009.45
Dec 2007	\$2,174,086.20
Jan 2008	\$2,241,120.20
Feb 2008	\$1,827,272.20
Mar 2008	\$1,894,306.20
Apr 2008	\$1,961,340.20
May 2008	\$1,547,492.20
Jun 2008	\$1,614,526.20
Jul 2008	\$1,681,560.20
Aug 2008	\$1,434,976.20
Sep 2008	\$1,502,010.20
Oct 2008	\$1,569,044.20
Nov 2008	\$1,322,460.20
Dec 2008	\$1,389,494.20
Jan 2009	\$1,524,688.37
Feb 2009	\$1,316,014.54
Mar 2009	\$1,464,055.97
Apr 2009	\$1,603,532.56
May 2009	\$1,399,141.15
Jun 2009	\$1,538,617.74
Jul 2009	\$1,678,094.33
Aug 2009	\$1,314,838.92
Sep 2009	\$1,443,595.51
Oct 2009	\$1,583,072.10
Nov 2009	\$1,213,451.69
Dec 2009	\$1,352,928.28

AC 262210 OPEB Deferred Benefit

Dec 2006	\$299,736.96
Jan 2007	\$250,986.96
Feb 2007	\$180,387.42
Mar 2007	\$299,736.67
Apr 2007	\$240,061.92
May 2007	\$359,411.17
Jun 2007	\$299,736.42
Jul 2007	\$240,061.67
Aug 2007	\$359,410.92
Sep 2007	\$299,736.17
Oct 2007	\$240,061.42
Nov 2007	\$359,411.67
Dec 2007	\$299,736.92
Jan 2008	\$237,539.17
Feb 2008	\$361,934.42
Mar 2008	\$299,736.67
Apr 2008	\$237,538.92
May 2008	\$361,934.17
Jun 2008	\$299,736.42
Jul 2008	\$237,538.67
Aug 2008	\$361,933.92
Sep 2008	\$299,736.17
Oct 2008	\$237,538.42
Nov 2008	\$361,934.67
Dec 2008	\$299,736.92
Jan 2009	\$200,339.92
Feb 2009	\$399,132.92
Mar 2009	\$298,495.92
Apr 2009	\$195,378.58
May 2009	\$392,932.58
Jun 2009	\$292,295.58
Jul 2009	\$191,658.58
Aug 2009	\$389,212.58
Sep 2009	\$298,497.58
Oct 2009	\$197,860.58
Nov 2009	\$400,375.58
Dec 2009	\$299,738.58

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

Witness: Michael A. Miller

92. Cash working capital. Refer to the response to PSC DR1-1, WP1-12. Refer to page 153.
- a. Provide each "document" or invoice used for the amounts and service periods listed on that page.
 - b. Please identify all amounts on page 153 for payments to AWWSC or other affiliates.
 - c. Has KAW included any prepaid regulatory expense in rate base? If not, explain fully why not. If so, please identify the amount by account and sub-account.
 - d. Has KAW included any costs that it recorded in Account 182 in rate base? If not, explain fully why not. If so, please identify the amounts.
 - e. Please identify the payee for each payment listed on page 153.

Response:

- a. Please refer to the six (6) invoices attached.
- b. There are no payments to AWWSC or other affiliates on KAW_R_PSCDR1#1A_WP1-12_031610 page 153 of 168, lead lag study.
- c. No.
- d. No.
- e. The payee for each invoice is the vendor submitting the bill. Please refer to the invoices attached for part a.

For the electronic version, refer to KAW_R_AGDR2#92_052410.pdf.

James H. Vander Weide, Ph.D.

Financial Strategy Associates
3606 Stonybrook Dr.
Durham, NC 27705
(919) 383-6659 or (919) 383-1057
Fax: (919) 383-6659
email: jim.vanderweide@duke.edu

SERVICE INVOICE

RECEIVED

DEC 10 2008

50125237

AB2UP20

SERVICE FOR:
Kentucky-American Water Company
Rate Case, Cost of Equity Studies, Direct Testimony

SSC-MAILROOM

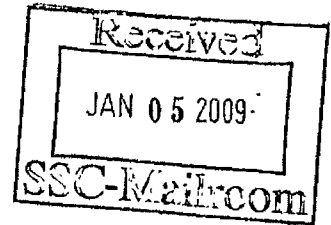
INVOICE NO. 34058
ORDER NO.
TAX NO. 349368966
JOB DESCRIPTION Professional Services
DATE December 4, 2008

AMT
17000.00

BILL TO:
Michael A Miller, Sheila Miller
American Water Works Service Company
P.O. Box 1906
Charleston, WV 25327-1906
mmiller@wvawater.com

DATE	SERVICE DESCRIPTION	HOURS	RATE (\$US)	AMOUNT
9/4/08	Prepare cost of equity studies	8.00	425	3,400.00
9/5/08	Prepare cost of equity studies	8.00	425	3,400.00
9/6/08	Prepare cost of equity studies, prepare direct testimony	8.00	425	3,400.00
9/8/08	Prepare direct testimony	8.00	425	3,400.00
10/21/08	Prepare direct testimony	4.00	425	1,700.00
12/3/08	Prepare responses to data requests	4.00	425	1,700.00
<p>120205. 182000. YR 2008 S TJ25 Miller 12-4-08</p>				
			TOTAL DUE	\$17,000.00

MAKE CHECKS PAYABLE TO:
James H. Vander Weide
Tax ID: 349368966



STOLL · KEENON · OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id.# 61-0421389
January 2, 2009

Kentucky-American Water Company
c/o American Water Company
Shared Service Center
P.O. Box 5610
Cherry Hill, NJ 08034

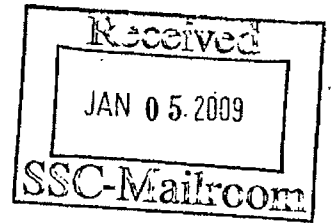
12000924
A12SECO9
FMT
27405.17

INVOICE NO.: 606713
SKO File No.: 103117131634

Please Remit This Page With Payment To:
STOLL · KEENON · OGDEN
PLLC
P.O. Box 11969
Lexington, Kentucky 40579-1969

Re: 2008 Rates
Our Reference: 010311/131634/LWI/1008

Fees rendered this bill	\$ 14,416.00
Disbursements	\$ 905.66
Total Current Charges This Matter	\$ 15,321.66
Balance as of 11/21/08	\$53,752.05
Less credits (payments, adjustments)	\$-46,668.54
Balance due on prior billings	\$7,083.51
Total Amount Due This Matter	\$22,405.17



STOLL · KEENON · OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id # 61-0421389
January 2, 2009

Kentucky-American Water Company
c/o American Water Company
Shared Service Center
P.O. Box 5610
Cherry Hill, NJ 08034

INVOICE NO.: 606713
SKO File No.: 10311/131634

Workbasket number: A12SEC09

MATTER NAME: 2008 Rates

TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED 14,416.00

TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES PER ATTACHED 905.66

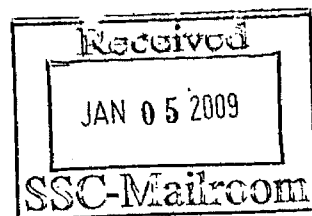
INVOICE TOTAL \$ 15,321.66

BALANCE DUE from previous statements:

Bill Date	Invoice	Outstanding Amount
09/26/08	597710	7,083.51

Total Balance Due on Previous Statements: \$ 7,083.51

TOTAL BALANCE DUE \$22,405.17



BILL DATE: January 2, 2009

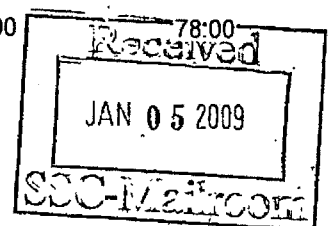
Kentucky-American Water Company
c/o American Water Company
Shared Service Center
Cherry Hill, NJ 08034

LEGAL FEES

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
11/17/08	CLH	Review and prepare hard copies of KAW responses to Commission Staff's First Set of Information Requests for filing with PSC	4.00	115.00	\$ 460.00
11/17/08	RMW	Tel Ingram, III re main replacement surcharge mechanism	0.30	350.00	105.00
11/17/08	LWI	E-mails regarding distribution charge and media coverage; review gas DSIC statute and related procedure; prepare for call with client; manage hard paper filing of discovery responses.	3.00	280.00	840.00
11/18/08	LWI	Work on response to intervention; research Commission Orders for same.	3.50	280.00	980.00
11/18/08	CLH	Attention to final matters re: filing of responses to Commission Staffs First Set of Information Requests	1.00	115.00	115.00
11/19/08	LWI	Work on and file corrected filing; telephone conference with SAM regarding same; telephone conference with D. Spenard regarding same.	3.00	280.00	840.00
11/20/08	LWI	Finalize and file intervention responses.	1.00	280.00	280.00
11/25/08	LWI	Consider suspension period issue; review authority regarding same; telephone conference with AWT regarding same.	1.00	280.00	280.00
11/26/08	LWI	Receive/review scheduling order; finalize and file Rowe verification.	1.50	280.00	420.00
12/01/08	LWI	Work on procedural DR scheduling and related issues; telephone calls regarding same.	1.50	280.00	420.00
12/02/08	CLH	Attention to e-mails re: responses to Attorney General's information request; review requests of Attorney General;	0.50	115.00	57.50

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
		review scheduling order			
12/02/08	LWI	Continue work on procedural schedule issues; receive and circulate initial AG discovery.	3.00	280.00	840.00
12/03/08	CLH	Begin working on response documents to information requests from AG's office	2.30	115.00	264.50
12/03/08	LWI	Work on AG discovery.	2.00	280.00	560.00
12/04/08	LWI	Attention to AG discovery.	1.00	280.00	280.00
12/05/08	LWI	Work on AG discovery and related objections; review CA-AM similar issue.	2.00	280.00	560.00
12/08/08	LWI	Work on objection to discovery and work on answers to same; attention to expert discovery; receive/review Majoroos questions and telephone conference with MAM regarding same.	3.50	280.00	980.00
12/09/08	CLH	Review additional requests for information from AG; begin organization of discovery responses	0.30	115.00	34.50
12/09/08	LWI	Attention to discovery issues; work on depreciation issue.	3.00	280.00	840.00
12/10/08	CLH	Attention to status of responses to AG requests	0.20	115.00	23.00
12/10/08	LWI	Work on discovery response; telephone conference with SAM and JMH regarding same.	1.00	280.00	280.00
12/11/08	LWI	Attention to discovery and Baryenbruch issues; Vander Weide issues.	2.50	280.00	700.00
12/12/08	CLH	Review status of responses to AG information requests	0.20	115.00	23.00
12/12/08	LWI	Work on DR issues.	1.50	280.00	420.00
12/15/08	CLH	Attention to responses to initial information requests from AG; meeting with attorney Ingram re: responses and organization; attention to revisions	3.30	115.00	379.50
12/15/08	LWI	Work on discovery.	3.50	280.00	980.00
12/15/08	HAI	Attention to Jacobson Park lease	0.30	260.00	

*PLEASE INDICATE INVOICE NUMBER 606713 ON PAYMENT



DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
12/16/08	CLH	Attention to downloading and organization of responses	2.40	115.00	276.00
12/16/08	LWI	Work on discovery; numerous telephone calls regarding same.	7.50	280.00	2,100.00
SUBTOTAL			59.80		\$14,416.00

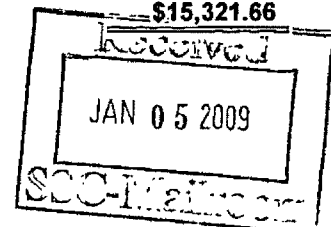
EXPENSES AND OTHER SERVICES

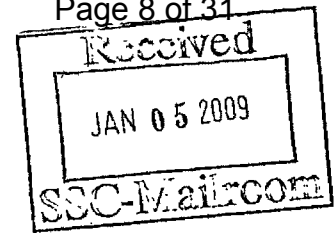
DATE	DESCRIPTION	AMOUNT
10/10/08	Local Transportation; Mileage	17.55
11/17/08	Miscellaneous Expenses	350.00
11/19/08	Telephone Expense	2.28
11/19/08	Telephone Expense	2.66
11/19/08	Telephone Expense	0.76
11/19/08	Telephone Expense	11.78
11/19/08	Telephone Expense	0.76
11/19/08	Federal Express Charges	29.26
11/19/08	Federal Express Charges	56.67
11/20/08	Local Transportation; Mileage	4.68
11/21/08	Travel Expense	11.70
11/21/08	Travel Expense	11.70
11/26/08	Telephone Expense	1.14
12/01/08	Telephone Expense	0.76
12/01/08	Telephone Expense	3.04
12/02/08	Telephone Expense	4.18
12/02/08	Telephone Expense	6.08
12/02/08	Telephone Expense	8.36
12/02/08	Telephone Expense	2.28
12/02/08	Telephone Expense	0.38
12/02/08	Telephone Expense	0.38
12/02/08	Telephone Expense	2.66
12/02/08	Telephone Expense	1.52
12/02/08	Telephone Expense	0.38
12/03/08	Telephone Expense	3.80
12/08/08	Telephone Expense	2.28
12/09/08	Telephone Expense	2.28
12/10/08	Telephone Expense	4.94
12/15/08	On-Line Computer Research	350.00
12/15/08	Telephone Expense	3.80
12/16/08	Telephone Expense	0.38
12/16/08	Telephone Expense	0.38
12/16/08	Telephone Expense	3.42
12/16/08	Telephone Expense	3.42
SUBTOTAL		905.66

GRAND TOTAL:

\$15,321.66

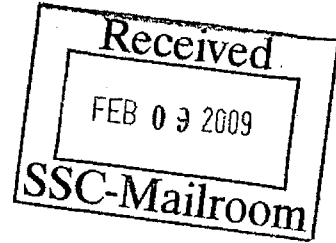
*PLEASE INDICATE INVOICE NUMBER 808713 ON PAYMENT



**ATTORNEY/PARALEGAL SUMMARY**

TIMEKEEPER	RANK	HOURS	RATE	AMOUNT
H. A Ingram	Partner	0.30	260.00	\$78.00
L. W Ingram, III	Partner	45.00	280.00	\$12,600.00
R. M Watt	Partner	0.30	350.00	\$105.00
C. L Hager	Paralegal	14.20	115.00	\$1,633.00

STOLL · KEENON · OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id.# 61-0421389
February 4, 2009



Kentucky-American Water Company
c/o American Water Company
Shared Service Center
P.O. Box 5610
Cherry Hill, NJ 08034

12 000 934
NSX DMC
40,258.19

INVOICE NO.: 608843
SKO File No.: 10311/131634

A125E009

Please Remit This Page With Payment To:
STOLL · KEENON · OGDEN
PLLC
P.O. Box 11969
Lexington, Kentucky 40579-1969

Re: 2008 Rates
Our Reference: 010311/131634/LWI/1008

Fees rendered this bill	\$ 30,067.50
Disbursements	\$ 10,190.69
Total Current Charges This Matter	\$ 40,258.19
Balance as of 01/02/09	\$22,405.17
Less credits (payments, adjustments)	\$0.00
Balance due on prior billings	\$22,405.17
Total Amount Due This Matter	\$62,663.36

STOLL · KEENON · OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id # 61-0421389
February 4, 2009

Kentucky-American Water Company
c/o American Water Company
Shared Service Center
P.O. Box 5610
Cherry Hill, NJ 08034

INVOICE NO.: 608843
SKO File No.: 10311/131634

Workbasket number: A12SEC09

MATTER NAME: 2008 Rates

TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED 30,067.50

TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES
PER ATTACHED 10,190.69

INVOICE TOTAL \$ 40,258.19

BALANCE DUE from previous statements:

Bill Date	Invoice	Outstanding Amount
09/26/08	597710	7,083.51
01/02/09	606713	15,321.66

Total Balance Due on Previous Statements: \$ 22,405.17

TOTAL BALANCE DUE \$62,663.36

BILL DATE: February 4, 2009

Kentucky-American Water Company
c/o American Water Company
Shared Service Center
Cherry Hill, NJ 08034

LEGAL FEES

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
12/17/08	CLH	Attention to downloading and organization of response to AG request for information	6.40	115.00	\$ 736.00
12/17/08	LWI	Work on discovery.	8.00	280.00	2,240.00
12/18/08	CLH	Attention to responses to AG discovery requests	3.20	115.00	368.00
12/18/08	LWI	Work on discovery.	8.50	280.00	2,380.00
12/19/08	CLH	Attention to AG 1 discovery responses	9.50	115.00	1,092.50
12/19/08	LWI	Work on discovery.	11.50	280.00	3,220.00
12/20/08	CLH	Complete responses to AG1 discovery requests	3.40	115.00	391.00
12/20/08	LWI	Work on discovery.	4.50	280.00	1,260.00
12/22/08	CLH	Attention to winding up responses to information requests from attorney general	2.10	115.00	241.50
12/22/08	LWI	Continue work on discovery and related electronic filing and confidentiality issues; multiple telephone calls regarding same.	8.50	280.00	2,380.00
12/23/08	CLH	Attention to finalization of response to Attorney General's information requests; preparation of disks with confidential information and Excel attachment; final review of copies to PSC	3.50	115.00	402.50
12/23/08	LWI	Finalize and file Attorney General discovery responses, supplemental responses and confidentiality papers.	4.50	280.00	1,260.00
12/26/08	CLH	Preparation of CD of AG1 responses; attention to organization of AG1 responses	0.50	115.00	57.50

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
12/29/08	LWI	Attend discovery status call; telephone conference with expert regarding responses; telephone conference with MAM regarding same; general discovery work.	5.00	280.00	1,400.00
12/29/08	CLH	Attention to downloading and organization of responses to requests for information	2.60	115.00	299.00
12/30/08	LWI	Work on discovery; net salvage research.	3.00	280.00	840.00
12/30/08	CLH	Attention to downloading responses	2.30	115.00	264.50
12/31/08	LWI	Continue work on discovery; telephone calls regarding same.	4.50	280.00	1,260.00
12/31/08	CLH	Attention to downloading and organization of discovery responses	2.20	115.00	253.00
01/02/09	CLH	Attention to discovery responses; preparation of CAC and LFUCG responses to go to printer	3.00	130.00	390.00
01/02/09	LWI	Work on discovery and related issues.	4.00	280.00	1,120.00
01/05/09	LWI	Continue discovery efforts.	3.00	280.00	840.00
01/05/09	CLH	Working on downloading and printing PSC 2 discovery responses; attention to organization of discovery responses; telephone call with Chase Legal re: binders and deadlines.	3.30	130.00	429.00
01/06/09	LWI	Continue work on discovery.	4.50	280.00	1,260.00
01/06/09	CLH	Final preparation and organization of PSC 2 responses; meeting with Chase Legal re: binders and copies.	2.70	130.00	351.00
01/07/09	LWI	Continue work on discovery, including supplements to AG1; file same.	3.00	280.00	840.00
01/08/09	LWI	Finalize and file discovery responses; work on net salvage issue.	3.50	280.00	980.00
01/08/09	CLH	Finalize and attention to filing of binders for CAC 1, PSC 2 and LFUCG 1 discovery responses	2.40	130.00	312.00
01/09/09	LWI	Discovery efforts.	0.50	280.00	140.00

*PLEASE INDICATE INVOICE NUMBER 608843 ON PAYMENT

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
01/09/09	CLH	Finalize binders of CAC1, LFUCG1 and PSC 2 discovery responses for filing with PSC	0.50	130.00	65.00
01/12/09	LWI	Attention to Attorney General discovery issue.	1.00	280.00	280.00
01/13/09	LWI	Attention to Attorney General discovery.	1.00	280.00	280.00
01/14/09	LWI	Work on discovery; review CWIP research; conference with R. Watt regarding hearing procedures.	3.00	280.00	840.00
01/15/09	LWI	Work on CWIP issue and review AG data request	3.50	290.00	1,015.00
01/16/09	LWI	Work on discovery	2.00	290.00	580.00
SUBTOTAL			134.60		\$30,067.50

EXPENSES AND OTHER SERVICES

DATE	DESCRIPTION	AMOUNT
12/17/08	Telephone Expense	0.76
12/17/08	Telephone Expense	2.28
12/18/08	Telephone Expense	1.14
12/18/08	Telephone Expense	0.76
12/18/08	Telephone Expense	8.74
12/18/08	Telephone Expense	2.28
12/19/08	Travel Expense	35.10
12/19/08	Telephone Expense	1.52
12/19/08	Telephone Expense	0.38
12/19/08	Telephone Expense	1.52
12/19/08	Telephone Expense	6.84
12/19/08	Telephone Expense	2.66
12/19/08	Telephone Expense	0.38
12/19/08	Telephone Expense	1.90
12/19/08	Telephone Expense	1.52
12/20/08	Telephone Expense	1.14
12/22/08	Telephone Expense	0.76
12/22/08	Telephone Expense	1.52
12/22/08	Telephone Expense	2.28
12/22/08	Telephone Expense	1.90
12/22/08	Telephone Expense	0.38
12/22/08	Telephone Expense	1.52
12/22/08	Telephone Expense	0.38
12/22/08	Telephone Expense	3.42
12/22/08	Telephone Expense	0.38
12/22/08	Telephone Expense	0.38
12/22/08	Telephone Expense	6.08
12/22/08	Telephone Expense	0.76

*PLEASE INDICATE INVOICE NUMBER 608843 ON PAYMENT

DATE	DESCRIPTION	AMOUNT
12/22/08	Telephone Expense	0.38
12/23/08	Westlaw Charges	0.89
12/23/08	Telephone Expense	0.38
12/23/08	Telephone Expense	1.14
12/26/08	Travel Expense	11.70
12/29/08	Telephone Expense	1.90
12/29/08	Telephone Expense	0.76
12/29/08	Telephone Expense	1.14
12/29/08	Telephone Expense	4.18
12/31/08	Telephone Expense	6.84
12/31/08	Telephone Expense	5.32
12/31/08	Telephone Expense	2.66
01/02/09	Telephone Expense	0.38
01/05/09	Telephone Expense	1.90
01/05/09	Telephone Expense	3.42
01/05/09	Telephone Expense	0.76
01/05/09	Telephone Expense	0.38
01/05/09	Telephone Expense	7.98
01/06/09	Telephone Expense	9.50
01/06/09	Telephone Expense	0.76
01/06/09	Telephone Expense	1.14
01/07/09	Telephone Expense	0.38
01/07/09	Telephone Expense	1.90
01/07/09	Telephone Expense	0.76
01/07/09	Telephone Expense	1.52
01/07/09	Telephone Expense	1.14
01/07/09	Lexis Charges	6.34
01/08/09	Federal Express Charges	88.33
01/09/09	Travel Expense	35.10
01/09/09	Travel Expense	11.70
01/12/09	Telephone Expense	1.14
01/12/09	Telephone Expense	0.38
01/12/09	Misc. Client Supplies	350.00
01/13/09	Outside Duplicating Charges	3098.69
01/13/09	Outside Duplicating Charges	6439.98
01/13/09	Telephone Expense	1.14
SUBTOTAL		10,190.69
GRAND TOTAL:		\$40,258.19

ATTORNEY/PARALEGAL SUMMARY

TIMEKEEPER	RANK	HOURS	RATE	AMOUNT
L. W Ingram, III	Partner	87.00	280.63	\$24,415.00
C. L Hager	Paralegal	47.60	118.75	\$5,652.50

STOLL · KEENON · OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id # 61-0421388
February 19, 2009

12000934
NSX AMC
23,763.80

Kentucky-American Water Company
c/o American Water Company
Shared Service Center
P.O. Box 5610
Cherry Hill, NJ 08034

A128009

INVOICE NO: 610837
SKO File No.: 10311/131634

Please Remit This Page With Payment To:
STOLL · KEENON · OGDEN
PLLC
P.O. Box 11969
Lexington, Kentucky 40579-1969

Re: 2008 Rates
Our Reference: 010311/131634/LWI/1008

Fees rendered this bill	\$ 22,173.00
Disbursements	\$ 1,590.80
Total Current Charges This Matter	\$ 23,763.80

Balance as of 02/04/09	\$62,663.36
Less credits (payments, adjustments)	\$-15,321.66
Balance due on prior billings	\$47,341.70
Total Amount Due This Matter	\$71,105.50

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STOLL - KEENON - OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id # 61-0421389
February 19, 2009

Kentucky-American Water Company
c/o American Water Company
Shared Service Center
P.O. Box 5610
Cherry Hill, NJ 08034

INVOICE NO.: 610837
SKO File No.: 10311/131634

Workbasket number: A12SEC09

MATTER NAME: 2008 Rates

TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED 22,173.00

TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES
PER ATTACHED 1,590.80

INVOICE TOTAL \$ 23,763.80

BALANCE DUE from previous statements:

Bill Date	Invoice	Outstanding Amount
09/26/08	597710 <i>not found</i>	7,083.51
02/04/09	608843 v # 42148499	40,258.19 <i>no pt # yet.</i>

Total Balance Due on Previous Statements: \$ 47,341.70

TOTAL BALANCE DUE \$71,105.50

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BILL DATE: February 19, 2009

Kentucky-American Water Company
c/o American Water Company
Shared Service Center
Cherry Hill, NJ 08034

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<u>LEGAL FEES</u>						
DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT	
01/19/09	LWI	Continue analysis of CWIP issue and related authority	4.00	290.00	\$ 1,160.00	
01/20/09	CLH	Monitor Mindport re: AG2 uploads; e-mails with Lisa Brooks re: confidential documents	0.50	130.00	65.00	
01/20/09	LWI	Work on discovery and work on CWIP issue; work on confidentiality issue.	4.50	290.00	1,305.00	
01/21/09	CLH	Attention to Mindport re: AG 2 files	0.30	130.00	39.00	
01/21/09	KRR	Analysis of regulatory issues re KAWC rate case	0.90	370.00	333.00	
01/21/09	LWI	Review CWIP authorities; telephone conference with Riggs regarding same; work on discovery responses.	4.50	290.00	1,305.00	
01/22/09	CLH	Begin organization of file for AG 2 responses; review Mindport status; e-mail to attorney Ingram re: status	0.50	130.00	65.00	
01/22/09	LWI	Work on discovery.	2.50	290.00	725.00	
01/23/09	CLH	Review Mindport uploads for AG 2; review e-mail from AG re: corrections and new requests	0.30	130.00	39.00	
01/23/09	LWI	Telephone conference with client regarding status; telephone conference with NOR regarding same; telephone conference D. Spenard regarding settlement; review discovery.	4.00	290.00	1,160.00	
01/25/09	LWI	Prepare for meeting with NOR regarding status.	2.00	290.00	580.00	
01/26/09	CLH	Download AG 2 responses; prepare for responses; telephone call with Chase Legal	0.90	130.00	117.00	

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
01/26/09	LWI	Meet with NOR regarding rate case status; prepare for same; telephone conference with MAM and AWT regarding status and discovery; review discovery.	3.00	290.00	870.00
01/27/09	LWI	Work on discovery.	2.00	290.00	580.00
01/28/09	LWI	Continue work on discovery issues.	2.00	290.00	580.00
01/29/09	LWI	Work on discovery.	2.00	290.00	580.00
01/30/09	CLH	Preparation of documents responsive to Attorney General's Second Set of Information Requests 1 thru 52; meeting with Chase re: binders	1.60	130.00	208.00
01/30/09	LWI	Work on electronic discovery; compile and serve same; work on discovery dispute.	3.50	290.00	1,015.00
02/02/09	CLH	Review Responses to Attorney General's Second Set of Information Requests, Items 1 thru 52	0.60	130.00	78.00
02/02/09	LWI	Work on discovery; finalize and file discovery responses.	5.00	290.00	1,450.00
02/03/09	CLH	Attention to service of AG2 responses; instruction from attorney Ingram re: AG2 53 - 69; meeting with Chase Legal re: additional AG2 documents; review Mindport; e-mail with Lisa Brooks re: CDs	0.80	130.00	104.00
02/03/09	LWI	Work on discovery and CWIP/incentive plan issues.	3.00	290.00	870.00
02/04/09	LWI	Work on discovery and settlement issues.	2.00	290.00	580.00
02/05/09	LWI	Work on discovery.	1.50	290.00	435.00
02/06/09	LWI	Work on discovery.	1.00	290.00	290.00
02/07/09	LWI	Work on discovery.	1.50	290.00	435.00
02/08/09	LWI	Work on discovery.	2.00	290.00	580.00
02/09/09	CLH	Organize and prepare AG2 and PSC3 discovery responses for printer; meeting with Chase Legal	2.20	130.00	286.00

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*PLEASE INDICATE INVOICE NUMBER 610837 ON PAYMENT

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
02/09/09	WDC	Research re rate recovery of incentive/bonus pay.	0.40	240.00	96.00
02/09/09	LWI	Work on, finalize and file discovery responses; work on incentive pay plan issues.	4.00	290.00	1,160.00
02/10/09	WDC	Research re rate recoverability of bonus/incentive compensation.	2.90	240.00	696.00
02/10/09	CLH	Review and preparation of AG2 and PSC3 discovery responses.	1.40	130.00	182.00
02/10/09	LWI	Finalize and circulate filing; telephone conference with MAM regarding case update; work on incentive pay issue.	1.00	290.00	290.00
02/11/09	LWI	Attention to discovery issue, AFUDC and incentive pay authority.	2.50	290.00	725.00
02/12/09	LWI	Review case adjustments; telephone conference with MAM and AWT regarding same; review PSC orders for same.	4.50	290.00	1,305.00
02/13/09	LWI	Prepare for and attend meeting with AG; travel to Frankfort for same; finalize and file supplemental discovery response; continue analysis of case revisions.	6.50	290.00	1,885.00
SUBTOTAL			81.80		\$22,173.00

EXPENSES AND OTHER SERVICES

DATE	DESCRIPTION	AMOUNT
01/23/09	Telephone Expense	9.88
01/23/09	Telephone Expense	1.14
01/23/09	Telephone Expense	8.36
02/06/09	Travel Expense	17.55
02/10/09	Outside Duplicating Charges	490.55
02/10/09	Outside Duplicating Charges	650.82
02/11/09	Miscellaneous Expenses	350.00
02/11/09	Telephone Expense	3.42
02/12/09	Telephone Expense	6.84
02/12/09	Telephone Expense	6.84
02/12/09	Telephone Expense	6.84
02/13/09	Travel Expense	17.55
02/13/09	Travel Expense	17.55
02/16/09	Duplicating Charges	2.70
02/16/09	Telephone Expense	0.76

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DATE	DESCRIPTION	AMOUNT
	SUBTOTAL	<u>1,590.80</u>
	GRAND TOTAL:	<u>\$23,763.80</u>

ATTORNEY/PARALEGAL SUMMARY

TIMEKEEPER	RANK	HOURS	RATE	AMOUNT
L. W Ingram, III	Partner	68.50	290.00	\$19,865.00
K. R Riggs	Partner	0.90	370.00	\$333.00
W. Crosby, III	Associate	3.30	240.00	\$792.00
C. L Hager	Paralegal	9.10	130.00	\$1,183.00

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A125EC09

STOLL · KEENON · OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id # 61-0421389
March 30, 2009

12000934
NSX Amc
17,461.92

Kentucky-American Water Company
c/o American Water Company
Shared Service Center
P.O. Box 5610
Cherry Hill, NJ 08034

INVOICE NO.: 613814
SKO File No.: 10311/131634

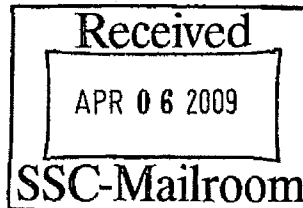
Please Remit This Page With Payment To:
STOLL · KEENON · OGDEN
PLLC
P.O. Box 11969
Lexington, Kentucky 40579-1969

Re: 2008 Rates
Our Reference: 010311/131634/LWI/1008

Fees rendered this bill \$ 17,244.00

Disbursements \$ 217.92

Total Current Charges This Matter \$ 17,461.92



Balance as of 02/19/09 \$71,105.50

Less credits (payments, adjustments) \$-64,021.99

Balance due on prior billings \$7,083.51

Total Amount Due This Matter \$24,545.43

STOLL · KEENON · OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id # 61-0421389
March 30, 2009

Kentucky-American Water Company
c/o American Water Company
Shared Service Center
P.O. Box 5610
Cherry Hill, NJ 08034

INVOICE NO.: 613814
SKO File No.: 10311/131634

Workbasket number: A12SEC09

MATTER NAME: 2008 Rates

TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED 17,244.00

TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES PER ATTACHED 217.92

INVOICE TOTAL \$ 17,461.92

BALANCE DUE from previous statements:

Bill Date	Invoice	Outstanding Amount
09/26/08	597710 <i>not found</i>	7,083.51

April will call

Total Balance Due on Previous Statements: \$ 7,083.51

TOTAL BALANCE DUE \$24,545.43

BILL DATE: March 30, 2009

Kentucky-American Water Company
c/o American Water Company
Shared Service Center
Cherry Hill, NJ 08034

LEGAL FEES						
DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT	
02/06/09	CLH	Attention to responses to discovery requests; meet with printer	1.90	130.00	\$ 247.00	
02/16/09	LWI	Review incentive pay and CTA research.	3.50	290.00	1,015.00	
02/18/09	LWI	Work on case revisions issue.	1.00	290.00	290.00	
02/19/09	CLH	Attention to MindPort housekeeping matters	2.30	130.00	299.00	
02/20/09	LWI	Review CAC testimony; review prior case testimony and 2004 rate case order for low-income issue.	1.50	290.00	435.00	
02/23/09	LWI	Analyze AG testimony; telephone conference with MAM, AWT and NOR regarding same.	2.80	290.00	812.00	
02/24/09	LWI	Work on AG testimony; telephone conference with MAM and NOR regarding same; settlement analysis.	2.00	290.00	580.00	
02/27/09	LWI	Analyze discovery issue.	1.50	290.00	435.00	
03/03/09	WDC	Research re issues presented in AG's testimony.	0.30	240.00	72.00	
03/03/09	LWI	Work on possible discovery; correspond with experts regarding same; telephone conference with Crosby regarding research issues; telephone conference with MAM regarding same.	3.50	290.00	1,015.00	
03/04/09	WDC	Research re issues in AG's testimony to prepare rebuttal testimony.	2.70	240.00	648.00	
03/04/09	LWI	Prepare for status call with client and attend same; deferral efforts; review pension funding issue.	3.00	290.00	870.00	
03/05/09	WDC	Research re issues in AG's testimony for rebuttal testimony.	0.70	240.00	168.00	

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
03/05/09	LWI	Work on rate case update issues; telephone conference with client regarding same.	3.00	290.00	870.00
03/05/09	CLH	Attention to downloading and printing responses	1.90	130.00	247.00
03/06/09	WDC	Research re issues in AG testimony for rebuttal testimony.	3.80	240.00	912.00
03/06/09	LWI	Telephone conference with J. Warren regarding data requests; prepare data requests; work on update filing issues.	2.00	290.00	580.00
03/08/09	LWI	Work on update filing.	2.00	290.00	580.00
03/09/09	CLH	Meeting with attorney Ingram re: suppliments to application and revisions to AG and PSC discovery	0.20	130.00	26.00
03/09/09	CLH	Attention to preparation for filing and service of suppliment to application and revisions to discovery of AG and PSC	4.20	130.00	546.00
03/09/09	LWI	Work on update filing; work on settlement preparation.	4.50	290.00	1,305.00
03/10/09	CLH	Complete filing and service preparations for PSC and AG supplemental responses and Base Period Update	3.10	130.00	403.00
03/10/09	LWI	Continue efforts regarding update filing and discovery; review MAM settlement schedules and telephone conference with MAM regarding same; settlement preparation efforts.	3.00	290.00	870.00
03/11/09	LWI	Prepare for and attend settlement strategy meeting.	3.00	290.00	870.00
03/12/09	LWI	Travel to and meet with Attorney General regarding settlement; communicate with experts; begin work on settlement procedures.	8.00	290.00	2,320.00
03/12/09	CLH	Confirm hearing room; draft Notice of hearing for legal publication; calculate dates Notice to run	0.80	130.00	104.00
03/16/09	LWI	Work on settlement agreement and related issues; telephone conference with W. Wilson.	2.50	290.00	725.00

*PLEASE INDICATE INVOICE NUMBER 613814 ON PAYMENT

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
SUBTOTAL			68.70		\$17,244.00

EXPENSES AND OTHER SERVICES

DATE	DESCRIPTION	AMOUNT
02/01/09	Lexis Charges	13.82
02/10/09	Federal Express Charges	35.36
02/20/09	Travel Expense	33.00
02/23/09	Telephone Expense	0.38
02/24/09	Telephone Expense	1.14
02/25/09	Telephone Expense	1.14
02/26/09	Telephone Expense	1.14
03/02/09	Telephone Expense	1.52
03/03/09	Telephone Expense	1.14
03/03/09	Telephone Expense	3.04
03/03/09	Telephone Expense	1.14
03/03/09	Telephone Expense	0.76
03/03/09	Telephone Expense	0.76
03/04/09	Telephone Expense	1.14
03/04/09	Telephone Expense	18.24
03/05/09	Telephone Expense	1.14
03/06/09	Telephone Expense	8.74
03/06/09	Telephone Expense	3.80
03/09/09	Telephone Expense	2.28
03/10/09	Telephone Expense	18.24
03/11/09	Telephone Expense	0.76
03/12/09	Federal Express Charges	19.74
03/13/09	Travel Expense	16.50
03/13/09	Travel Expense	33.00
SUBTOTAL		217.92
GRAND TOTAL:		\$17,461.92

ATTORNEY/PARALEGAL SUMMARY

TIMEKEEPER	RANK	HOURS	RATE	AMOUNT
L. W Ingram, III	Partner	46.80	290.00	\$13,572.00
W. Crosby, III	Associate	7.50	240.00	\$1,800.00
C. L Hager	Paralegal	14.40	130.00	\$1,872.00

STOLL · KEENON · OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id # 61-0421389
May 1, 2009

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Kentucky-American Water Company
c/o American Water Company
Shared Service Center
P.O. Box 5610
Cherry Hill, NJ 08034

NY
17000934
A125E09

INVOICE NO.: 617333
SKO File No.: 10311/131634

Please Remit This Page With Payment To:
STOLL · KEENON · OGDEN
PLLC
P.O. Box 11969
Lexington, Kentucky 40579-1969

Re: 2008 Rates
Our Reference: 010311/131634/LWI/1008

Fees rendered this bill \$ 20,135.00

Disbursements \$ 495.42

Total Current Charges This Matter \$ 20,630.42

Balance as of 03/30/09 \$24,545.43

Less credits (payments, adjustments) \$0.00

Balance due on prior billings *INV NOT IN SYSTEM* \$24,545.43

Total Amount Due This Matter \$45,175.85

STOLL · KEENON · OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id # 61-0421389
May 1, 2009

Kentucky-American Water Company
c/o American Water Company
Shared Service Center
P.O. Box 5610
Cherry Hill, NJ 08034

INVOICE NO.: 617333
SKO File No.: 10311/131634

Workbasket number: A12SEC09

MATTER NAME: 2008 Rates

TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED 20,135.00

TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES
PER ATTACHED 495.42

INVOICE TOTAL \$ 20,630.42

BALANCE DUE from previous statements:

Bill Date	Invoice	Outstanding Amount
09/26/08	597710	7,083.51
03/30/09	613814	17,461.92

Total Balance Due on Previous Statements: \$ 24,545.43

TOTAL BALANCE DUE \$45,175.85

BILL DATE: May 1, 2009

Kentucky-American Water Company
c/o American Water Company
Shared Service Center
Cherry Hill, NJ 08034**LEGAL FEES**

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
03/17/09	LWI	Continue work on settlement agreement and related issues; telephone conference with Attorney General regarding same; telephone conference with PSC regarding same.	3.50	290.00	\$ 1,015.00
03/18/09	LWI	Work on settlement issues; telephone conference with J. Childers regarding same; review tariff and proof of revenue sheets.	3.00	290.00	870.00
03/19/09	LWI	Work on settlement issues.	1.50	290.00	435.00
03/20/09	LWI	Continue work on settlement issues.	4.00	290.00	1,160.00
03/23/09	CLH	Complete drafts of affidavits to newspapers; telephone calls and e-mails to remaining newspapers re: Notice for hearing	1.90	130.00	247.00
03/23/09	LWI	Continue work on settlement.	2.50	290.00	725.00
03/24/09	LWI	Efforts regarding CAC and settlement; work on settlement testimony.	3.00	290.00	870.00
03/25/09	LWI	Efforts regarding settlement issues and settlement agreement exhibits.	3.00	290.00	870.00
03/25/09	CLH	Contact newspapers to confirm running of Notice and follow-up re: affidavits	0.50	130.00	65.00
03/26/09	CLH	Attention to Notices of Hearing	1.40	130.00	182.00
03/26/09	LWI	Continue settlement efforts.	1.00	290.00	290.00
03/27/09	CLH	Attention to Notices of Hearing and Affidavits	1.80	130.00	234.00
03/27/09	LWI	Efforts regarding settlement; multiple telephone calls regarding LFUCG and settlement press release.	4.00	290.00	1,160.00

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
03/30/09	CLH	Attention to Affidavits from publications re: Notice of Hearing	0.50	130.00	65.00
03/30/09	LWI	Continue work on settlement issues and multiple telephone calls regarding same.	3.00	290.00	870.00
03/31/09	CLH	Attention to Notices of hearing from newspapers	0.50	130.00	65.00
03/31/09	LWI	Continue work on settlement issues.	1.00	290.00	290.00
04/01/09	CLH	Visit to Jessamine Journal to obtain corrected Affidavit; attention to Affidavits	0.60	130.00	78.00
04/01/09	LWI	Continue work on settlement issues; meet with K. Cartier regarding same.	3.50	290.00	1,015.00
04/02/09	CLH	Telephone call with Winchester Sun re: tear sheet; review Affidavit and tear sheets and organize notebook; draft Affidavit of Nick O. Rowe; draft Index	1.30	130.00	169.00
04/02/09	LWI	Efforts to prepare for IC and settlement; telephone conference with Bridwell and MAM.	1.50	290.00	435.00
04/03/09	LWI	Work on motion to approve settlement and related documentation; finalize and file same; prepare for IC.	3.50	290.00	1,015.00
04/06/09	LWI	Prepare for telephone call; meet with client regarding same; attend IC.	4.50	290.00	1,305.00
04/07/09	CLH	Attention to locating information in discovery responses relative to Kentucky River Authority; meeting with attorney Ingram re: same	2.50	130.00	325.00
04/07/09	LWI	Attend public meeting; prepare for evidentiary hearing; review intervention issue.	4.00	290.00	1,160.00
04/08/09	LWI	Attention to KRA fee issue; work on detailed e-mail to LFUCG regarding KRS II need; review case file for same.	4.00	290.00	1,160.00
04/09/09	CLH	Attention to preparation of Affidavits and newspaper hearing Notices for filing and service to the PSC	1.50	130.00	195.00
04/10/09	LWI	Prepare for hearing; file legal advertisement notices; work on low-income issue; telephone conference	3.00	290.00	870.00

*PLEASE INDICATE INVOICE NUMBER 817333 ON PAYMENT

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
		with D. Howard regarding same.			
04/10/09	CLH	Attention to preparation of newspaper Affidavits and tear sheets for upcoming hearing.	1.10	130.00	143.00
04/13/09	CLH	Review hearing and affidavit binder; confer with attorney Ingram re: PSC hearing	0.30	130.00	39.00
04/13/09	LWI	Prepare for hearing; witness prep efforts; meet with client; telephone conference with Attorney General regarding hearing.	5.50	290.00	1,595.00
04/14/09	LWI	Prepare for, travel to and attend hearing.	4.20	290.00	1,218.00
SUBTOTAL			77.10		\$20,135.00

EXPENSES AND OTHER SERVICES

DATE	DESCRIPTION	AMOUNT
03/17/09	On-Line Computer Research	350.00
03/17/09	Telephone Expense	0.38
03/17/09	Telephone Expense	4.56
03/17/09	Telephone Expense	0.76
03/17/09	Telephone Expense	7.60
03/17/09	Telephone Expense	11.40
03/20/09	Telephone Expense	1.14
03/20/09	Telephone Expense	0.76
03/20/09	Telephone Expense	0.76
03/23/09	Telephone Expense	0.76
03/25/09	Outside Telephone Expense	0.71
03/25/09	Outside Telephone Expense	11.53
03/25/09	Telephone Expense	0.38
03/25/09	Telephone Expense	0.38
03/27/09	Telephone Expense	1.90
03/27/09	Telephone Expense	4.94
03/27/09	Telephone Expense	0.76
03/27/09	Telephone Expense	4.18
03/27/09	Telephone Expense	0.38
03/27/09	Telephone Expense	1.52
03/27/09	Telephone Expense	0.38
03/31/09	Telephone Expense	4.18
03/31/09	Telephone Expense	0.76
03/31/09	Telephone Expense	0.38
04/01/09	Telephone Expense	0.38
04/01/09	Telephone Expense	1.90
04/02/09	Telephone Expense	0.38
04/03/09	Travel Expense	16.50

*PLEASE INDICATE INVOICE NUMBER 817333 ON PAYMENT

DATE	DESCRIPTION	AMOUNT
04/10/09	Local Transportation; Mileage	33.00
04/10/09	Local Transportation; Mileage	2.20
04/10/09	Local Transportation; Mileage	16.50
04/13/09	Telephone Expense	4.94
04/15/09	Telephone Expense	2.28
04/15/09	Telephone Expense	0.76
04/15/09	Telephone Expense	0.76
04/16/09	Telephone Expense	4.18
04/16/09	Telephone Expense	1.14
SUBTOTAL		495.42
GRAND TOTAL:		\$20,630.42

ATTORNEY/PARALEGAL SUMMARY

TIMEKEEPER	RANK	HOURS	RATE	AMOUNT
L. W Ingram, III	Partner	63.20	290.00	\$18,328.00
C. L Hager	Paralegal	13.90	130.00	\$1,807.00

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

Witness: Michael A. Miller

93. Cash working capital. Refer to the response to PSC DR1-1, WP1-12. Refer to page 154.
- a. Please identify the payee for each payment listed on page 154.
 - b. Please identify all amounts on page 154 for payments to AWWSC or other affiliates.
 - c. Has KAW included any costs that it recorded in Account 165200 in rate base? If not, explain fully why not. If so, please identify the amounts.

Response:

- a. The payee for each payment listed on page 154 was remitted to: Marsh USA Inc. New York Office P.O. Box 19601 Newark, NJ 07195-0601.
- b. There are no payments to AWWSC or other affiliates on KAW_R_PSCDR1#1A_WP1-12_031610 page 154 of 168, lead lag study.
- c. No, the Company used the lead/lag data for insurance and did not duplicate that information by including prepaid insurance in rate base separately.

For the electronic version, refer to KAW_R_AGDR2#93_052410.pdf.

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

Witness: Michael A. Miller

94. Cash working capital. Refer to the response to PSC DR1-1, WP1-12. Refer to page 155.
- a. Please identify the payee for each payment listed on page 155.
 - b. Please identify all amounts on page 155 for payments to AWWSC or other affiliates.
 - c. Please provide the invoice and voucher and explain the Rent item on line 14 with a 1 day service period.
 - d. For each Rent item with a 45 day service period, explain when the rental period ceased, and why no renewal payment is reflected.
 - e. For each Rent item with a 13.5 day service period, explain when the rental period ceased, and why no renewal payment is reflected.
 - f. Does the \$7,820 amount constitute the complete amount of Rent in the base period? If not, explain fully why not, and identify what other Rent amounts in the base period were not analyzed for CWC purposes.

Response:

- a. Please see the payee list below.

42092144	Voucher	CIT Technology Financial Servi
42109545	Voucher	Norfolk Southern Corporation
42120983	Voucher	CIT Technology Financial Servi
42129500	Voucher	OCE IMAGISTICS INC
42129501	Voucher	OCE IMAGISTICS INC
42129502	Voucher	OCE IMAGISTICS INC
42202573	Voucher	OCE IMAGISTICS INC
42223918	Voucher	CSX Transportation Inc-REMIT
42311840	Voucher	Marsh USA Inc

- b. There are no payments to AWWSC or other affiliates on KAW_R_PSCDR1#1A_WP1-12_031610 page 155 of 168, lead lag study.
- c. Please see attached.
- d. The Lead/Lag study does not analyze all vouchers as noted in part f. The study has chosen a sample of vendors and dollars. The rental has not ceased and more rental activity is shown in part f.
- e. The Lead/Lag study does not analyze all vouchers as noted in part f. The study has chosen a sample of vendors and dollars. The rental has not ceased and more rental activity is shown in part f.
- f. Please refer to the table below for the other voucher invoices in the category that were not analyzed.

Below represents all the other vouchers not analyzed in the Lead/Lag study. The study has chosen vendors and dollars within the accounts that represent over 62% of the activity for this expense.

Doc #	Type	Vendor	Account	Total
<u>42104967</u>	Voucher	Norfolk Southern Corporation	541000	\$100.00
<u>42104984</u>	Voucher	Norfolk Southern Corporation	541000	\$150.00
<u>42109629</u>	Voucher	Norfolk Southern Corporation	541000	\$150.00
<u>42115175</u>	Voucher	Neopost Leasing	541400	\$213.57
<u>42122375</u>	Voucher	Norfolk Southern Corporation	541000	\$150.00
<u>42122485</u>	Voucher	R J Corman Railroad Co-REMIT	541000	\$50.00
<u>42124205</u>	Voucher	Norfolk Southern Corporation	541000	\$150.00
<u>42124208</u>	Voucher	Norfolk Southern Corporation	541000	\$150.00
<u>42134093</u>	Voucher	Neopost Leasing	541400	\$220.00
<u>42149108</u>	Voucher	CSX Transportation Inc-REMIT	541000	\$100.00
<u>42153628</u>	Voucher	Neopost Leasing	541400	\$213.57
<u>42161848</u>	Voucher	Saf ti co Inc - PO/REMIT	541000	\$236.91
<u>42167127</u>	Voucher	Norfolk Southern Corporation	541000	\$150.00
<u>42182747</u>	Voucher	Neopost Leasing	541400	\$220.00
<u>42199758</u>	Voucher	CSX Transportation Inc-REMIT	541000	\$100.00
<u>42200550</u>	Voucher	CSX Transportation Inc-REMIT	541000	\$100.00
<u>42202323</u>	Voucher	OCE IMAGISTICS INC	541400	\$46.84
<u>42202327</u>	Voucher	OCE IMAGISTICS INC	541400	\$46.84
<u>42203121</u>	Voucher	Neopost Leasing	541400	\$213.57

<u>4223882</u>	Voucher	R J Corman Railroad Co-REMIT	541400	\$200.00
<u>4223274</u>	Voucher	Neopost Leasing	541400	\$213.57
<u>42254050</u>	Voucher	Norfolk Southern Corporation	541000	\$150.00
<u>42254912</u>	Voucher	Neopost Leasing	541400	\$220.00
<u>42298100</u>	Voucher	Neopost Leasing	541400	\$213.57
<u>42303575</u>	Voucher	CSX Transportation Inc-REMIT	541000	\$100.00
<u>42303729</u>	Voucher	Neopost Leasing	541400	\$213.57
<u>42317359</u>	Voucher	CSX Transportation Inc-REMIT	541000	\$100.00
<u>42325345</u>	Voucher	CSX Transportation Inc-REMIT	541000	\$100.00
<u>42338767</u>	Voucher	Neopost Leasing	541400	\$213.57
<u>42352285</u>	Voucher	R J Corman Railroad Co-REMIT	541000	\$200.00
<u>42360856</u>	Voucher	Neopost Leasing	541400	\$213.33
Grand Total				\$4,898.91

For the electronic version, refer to KAW_R_AGDR2#94_052410.pdf.



OCE IMAGISTICS INC.
100 OAKVIEW DRIVE
TRUMBULL, CT 06611-4724

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8577
AMERICAN WATER WORKS SERVICE CO INC
KENTUCKY AMERICAN WATER CO
AMERICAN WATER SHARED SERVICES CTR
ACCOUNTS PAYABLE DEPT
PO BOX 5610
CHERRY HILL NJ 08034-0510

A12DRFT01
CUSTOMER NUMBER: 246913
INVOICE NUMBER: 412130462
INVOICE DATE: 04/11/2009
P.O. NUMBER: SEE DETAILS
TOTAL AMOUNT DUE: \$504.35
TERMS: PAYABLE UPON RECEIPT

MAIL PAYMENT TO:
OCE IMAGISTICS INC.
P.O. BOX 856193
LOUISVILLE, KY 40285-6193

AMOUNT ENCLOSED
PLEASE MAKE CHECK PAYABLE TO OCE IMAGISTICS INC.
PLEASE INCLUDE YOUR ACCOUNT NUMBER ON YOUR REMITTANCE CHECK

DUNS: 03-363-1461
TAX ID: 06-1611068

TERMS: PAYABLE UPON RECEIPT

CUSTOMER NUMBER	BRANCH	INVOICE DATE	INVOICE NUMBER
246913	1701	04/11/2009	412130462

INSTALLED AT	LINE	ITEM SERIAL	DESCRIPTION	QTY	UNIT CHARGE	AMOUNT
AMERICAN WATER WORKS SERVICE CO INC KENTUCKY AMERICAN WATER CO OFFICE 2300 RICHMOND RD LEXINGTON KY 40502-1308 SITE ID: 2676730	5	CM4530 5060335 PO: 120114 A12DRFT01	RENTAL WITH SUPPLIES	2 Days		21.89
	FOR PERIOD 04/01/2009 - 04/02/2009					
	1	9285 5060192	RENTAL COPIER PERIPHERAL	2 Days		4.09
	2	9283 5060438	RENTAL COPIER PERIPHERAL	2 Days		1.65
	3	CM4530130	RENTAL COPIER PERIPHERAL	2 Days		0.79
	4	CM4530110	RENTAL COPIER PERIPHERAL	2 Days		1.38
FOR PERIOD 01/01/2009 - 03/31/2009						
6	CM4530 5060335 PO: 120114 A12DRFT01	RENTAL USAGE WITH SUPPLIES	0 Copies	0.0099		0.00
		Black & White Copies 10188 Copies - 15000 Allowed = 0 Billable Copies				
		READINGS USED TO CALCULATE USAGE - BW 152059 (03/31/2009) - 141871 (01/01/2009) = 10188 Copies				
7	CM4530 5060335	RENTAL USAGE WITH SUPPLIES	5247 Copies	0.085		446.00

Enter copier readings online at <https://extranet.imagistics.com/readings>

We certify that the goods or services covered by this invoice were produced and - or performed in compliance with the Fair Labor Standards Act of 1938, as amended.



1AAA630739



OCÉ IMAGISTICS INC.
100 OAKVIEW DRIVE
TRUMBULL, CT 06611-4724

PLEASE PRINT ANY BILLING ADDRESS CHANGES BELOW

MAIL PAYMENT TO
OCÉ IMAGISTICS INC.
P.O. BOX 856193
LOUISVILLE, KY 40285-6193

CUSTOMER NUMBER	BRANCH	INVOICE DATE	INVOICE NUMBER
246913	1701	04/11/2009	412130482

INSTALLED AT	LINE	ITEM SERIAL	DESCRIPTION	QTY	UNIT CHARGE	AMOUNT
AMERICAN WATER WORKS SERVICE CO INC KENTUCKY AMERICAN WATER CO OFFICE 2300 RICHMOND RD LEXINGTON KY 40502-1308 SITE ID: 2676730		PO: 120114 A12DRFT01	Color Copies 5247 Copies - 0 Allowed = 5247 Billable Copies READINGS USED TO CALCULATE USAGE - COLOR 42745 (03/31/2009) - 37498 (01/01/2009) = 5247 Copies			

TAXES:	STATE: \$28.55	COUNTY: \$0.00	CITY: \$0.00	TOTAL TAX:	\$475.80 \$28.55
TOTAL LOCATION AMT:					\$504.35

CHARGES	\$475.80
OTHER FEES	\$0.00
STATE TAX	\$28.55
COUNTY TAX	\$0.00
CITY TAX	\$0.00
GRAND TOTAL	\$504.35
TOTAL DUE	\$504.35

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

Witness: Michael A. Miller

95. Cash working capital. Refer to the response to PSC DR1-1, WP1-12. Refer to page 156-160.
- a. Please identify all amounts on these pages for payments to AWWSC or other affiliates.
 - b. Please identify all amounts on these pages for payments to KAW's rate case consultants and attorneys.
 - c. Do the expenses listed represent the total amounts recorded in each account? If not, explain fully why not and identify other amounts in each account that were not included in KAW's analysis.

Response:

- a. There are no payments to AWWSC or other affiliates on KAW_R_PSCDR1#1A_WP1-12_031610 page 156-160 of 168, lead lag study.
- b. None. Any costs related to the rate case are deferred and amortized upon completion of the rate case and charged to rate case expense.
- c. Please refer to the attachment which provides all vouchers in the accounts including the vouchers in the study. The study has chosen vendors and dollars within the accounts that represent activity for these expenses.

For the electronic version, refer to KAW_R_AGDR2#95_052410.pdf.

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42084334	535000	Voucher	Charles W Buford & Sons Inc -	\$256.00
42084758	535000	Voucher	ADS Environmental Services Inc	\$2,094.07
42084771	535000	Voucher	ADS Environmental Services Inc	\$932.00
42084788	535000	Voucher	Murray Guard Inc-PO/REMIT	\$715.20
42084791	535000	Voucher	Murray Guard Inc-PO/REMIT	\$715.20
42084842	535000	Voucher	Murray Guard Inc-PO/REMIT	\$715.20
42085153	575000	Voucher	US Pipe & Foundry Co - REMIT	\$3.38
42085645	575000	Voucher	US Pipe & Foundry Co - REMIT	(\$1.70)
42085977	535000	Voucher	Service Specialties	\$2,324.57
42085984	535000	Voucher	Volt Services Group	\$1,020.99
42086038	575500	Voucher	Cobb, Rodney	\$266.00
42086041	535000	Voucher	Cobb, Rodney	\$594.54
42087499	575000	Voucher	Backtrack Employment Screening	\$104.00
42087698	575200	Voucher	NCO Financial Systems Inc	\$32.88
42088362	535000	Voucher	Accenture, LLP-REMIT	\$5,176.22
42089370	575000	Voucher	US Pipe & Foundry Co - REMIT	\$279.61
42090648	535000	Voucher	Service Specialties	\$969.20
42090649	575000	Voucher	Hands On Originals Inc	\$349.16
42090650	535000	Voucher	Cobb, Rodney	\$611.58
42090968	575000	Voucher	USA BLUE BOOK	\$164.93
42092037	575000	Voucher	Grainger - ALL USE REMIT	\$2,338.47
42092044	575000	Voucher	JCM Industries Inc - REMIT	\$61.24
42092055	535000	Voucher	Volt Services Group	\$529.59
42092058	535000	Voucher	Volt Services Group	\$520.00
42092059	535000	Voucher	Volt Services Group	\$416.00
42092161	535000	Voucher	Happy's General Contracting- R	\$90.00
42092192	535000	Voucher	Overhead Door Co of Lexington	\$1,319.00
42092346	535000	Voucher	Charles W Buford & Sons Inc -	\$231.00
42092863	535000	Voucher	Accenture, LLP-REMIT	\$4,235.09
42093033	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$30,668.12
42094815	535000	Voucher	Electronic Environmental Solut	\$495.88
42094824	535000	Voucher	Lestar Recycling Inc	\$271.01
42094837	535000	Voucher	Volt Services Group	\$312.00
42094865	535000	Voucher	Grasshopper Lawn Care-REMIT	\$1,505.00
42094884	575000	Voucher	Central Equipment - PO/REMIT	\$30.00
42094917	535000	Voucher	Volt Services Group	\$1,054.46
42095030	535000	Voucher	Murray Guard Inc-PO/REMIT	\$715.20
42097392	575000	Voucher	Commerce Lexington-PO/REMIT	\$25.00
42100588	535000	Voucher	Volt Services Group	\$548.78
42100591	535000	Voucher	Volt Services Group	\$558.37
42100595	535000	Voucher	Volt Services Group	\$567.96
42100598	535000	Voucher	VeBridge	\$9.20

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42100608	535000	Voucher	Garda CL Central Inc	\$55.61
42100613	535000	Voucher	Volt Services Group	\$334.75
42100657	535000	Voucher	Perfection Services-PO/REMIT	\$168.00
42101249	575200	Voucher	NCO Financial Systems Inc	\$52.15
42101258	535000	Voucher	Oracle USA Inc	\$6,385.70
42101347	535000	Voucher	Kentucky Underground Storage I	\$165.00
42104971	535000	Voucher	Kings Helper Inc-REMIT	\$239.38
42104974	535000	Voucher	Kings Helper Inc-REMIT	\$126.47
42105721	575000	Voucher	USA BLUE BOOK	\$1,288.11
42108978	535000	Voucher	Siemens Water Technologies Cor	\$483.92
42108981	535000	Voucher	Siemens Water Technologies Cor	\$830.00
42108983	533000	Voucher	Greenbaum Rowe Smith & Davis L	\$0.00
42108988	535000	Voucher	Computershare Investor Service	\$498.22
42109005	575500	Voucher	Hales Cleaning Service - ACH	\$1,136.00
42109008	535000	Voucher	Hales Cleaning Service - ACH	\$90.00
42109008	575500	Voucher	Hales Cleaning Service - ACH	\$440.00
42109127	575000	Voucher	UPS Freight	\$65.00
42109147	535000	Voucher	Christopher Excavating	\$6,330.00
42109147	575500	Voucher	Christopher Excavating	\$400.00
42109178	575500	Voucher	Cobb, Rodney	\$399.00
42109478	535000	Voucher	Volt Services Group	\$1,037.73
42109486	535000	Voucher	Volt Services Group	\$1,104.68
42109493	535000	Voucher	Lexington Tree Service Inc-PO/	\$3,785.25
42109494	535000	Voucher	Stanley R Eades PhD	\$110.00
42109496	535000	Voucher	Murray Guard Inc-PO/REMIT	\$715.20
42109498	535000	Voucher	Contemporary Graphics	\$61.31
42109502	535000	Voucher	Commonwealth Communications of	\$50.00
42109505	535000	Voucher	Stanley R Eades PhD	\$110.00
42109515	535000	Voucher	Murray Guard Inc-PO/REMIT	\$715.20
42109540	535000	Voucher	Commonwealth Communications of	\$567.00
42109657	535000	Voucher	Garda CL Central Inc	\$464.93
42109673	535000	Voucher	VeBridge	\$625.19
42109679	535000	Voucher	Volt Services Group	\$520.00
42109683	535000	Voucher	Volt Services Group	\$587.15
42109694	535000	Voucher	Volt Services Group	\$558.37
42109699	535000	Voucher	Volt Services Group	\$520.00
42109757	535000	Voucher	Volt Services Group	\$1,213.93
42109763	535000	Voucher	Volt Services Group	\$590.75
42109768	535000	Voucher	Volt Services Group	\$937.30
42111918	535000	Voucher	Volt Services Group	\$357.50
42112385	535000	Voucher	Grott Locksmith Center Inc	\$281.47
42112390	535000	Voucher	Happy's General Contracting- R	\$155.00

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42112417	535000	Voucher	Roto Rooter - KY	\$520.00
42112864	535000	Voucher	Siemens Water Technologies Cor	\$416.00
42112866	535000	Voucher	Volt Services Group	\$1,336.24
42112867	535000	Voucher	Volt Services Group	\$361.40
42112960	535000	Voucher	Opinion Research Corporation	\$4,457.81
42115567	535000	Voucher	Happy's General Contracting- R	\$165.00
42115672	575000	Voucher	Cobb, Rodney	\$137.99
42115672	575500	Voucher	Cobb, Rodney	\$133.00
42115679	575000	Voucher	Insight Direct (Peripherals) -	\$278.67
42115893	535000	Voucher	Kentucky Underground Storage I	\$156.00
42116025	575000	Voucher	A & H Safety Supply Co - PO/RE	\$2,118.50
42116105	535000	Voucher	Volt Services Group	\$572.76
42118533	533000	Voucher	Greenebaum Doll & McDonald PLL	\$1,363.76
42119990	535000	Voucher	Perfection Services-PO/REMIT	\$168.00
42119994	535000	Voucher	Volt Services Group	\$1,037.73
42120005	535000	Voucher	Cobb, Rodney	\$1,432.76
42120007	575000	Voucher	Ashbrook Simon Hartley	\$2,886.60
42120013	535000	Voucher	Murray Guard Inc-PO/REMIT	\$750.96
42120876	535000	Voucher	Dixon Electric Inc-PO/REMIT	\$565.08
42122941	535000	Voucher	Accenture, LLP-REMIT	\$4,235.09
42122943	575000	Voucher	Wilson Brothers Rentals & Sale	\$1,330.30
42125031	575000	Voucher	Brock McVey Co - PO/REMIT	\$26.95
42125055	535000	Voucher	Christopher Excavating	\$7,047.00
42125055	575500	Voucher	Christopher Excavating	\$1,775.50
42125090	535000	Voucher	Volt Services Group	\$340.10
42125092	535000	Voucher	Volt Services Group	\$351.07
42125479	535000	Voucher	Randy Walker Electric-PO/REMIT	\$104.40
42125525	575000	Voucher	Grainger - ALL USE REMIT	\$148.15
42125529	575000	Voucher	Grainger - ALL USE REMIT	\$1,269.82
42125534	535000	Voucher	VeBridge	\$900.00
42125537	535000	Voucher	Garda CL Central Inc	\$497.55
42125541	535000	Voucher	VeBridge	\$1,035.00
42125547	535000	Voucher	Garda CL Central Inc	\$0.54
42125550	535000	Voucher	Volt Services Group	\$416.00
42125586	535000	Voucher	Volt Services Group	\$368.35
42125591	535000	Voucher	Volt Services Group	\$1,288.05
42125595	535000	Voucher	Volt Services Group	\$931.30
42125599	535000	Voucher	Volt Services Group	\$528.20
42126811	535000	Voucher	Grott Locksmith Center Inc	\$74.50
42126815	535000	Voucher	Frantz Inc-PO/REMIT	\$1,051.86
42127696	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$19,950.51
42128981	535000	Voucher	Computershare Investor Service	\$636.64

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42128986	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$6,604.76
42129477	575500	Voucher	Cobb, Rodney	\$133.00
42129479	535000	Voucher	Duplicator Sales & Service Inc	\$67.50
42130480	575200	Voucher	NCO Financial Systems Inc	\$32.95
42130490	535000	Voucher	Volt Services Group	\$520.00
42132282	575200	Voucher	Penn Credit Corp	\$848.62
42132285	575200	Voucher	Penn Credit Corp	\$1,459.70
42132340	575200	Voucher	NCO Financial Systems Inc	\$15.86
42133653	535000	Voucher	Computershare Investor Service	\$1,443.58
42133660	533000	Voucher	Greenebaum Doll & McDonald PLL	\$3,797.51
42133833	535000	Voucher	Vertex Business Services - Wir	\$317.63
42133986	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$1,927.95
42135772	575000	Voucher	Ferguson SAC - ALL USE REMIT	\$2.56
42135788	535000	Voucher	Volt Services Group	\$1,020.99
42135881	535000	Voucher	Siemens Water Technologies Cor	\$825.19
42135895	535000	Voucher	Volt Services Group	\$820.14
42135902	535000	Voucher	Siemens Water Technologies Cor	\$363.78
42135904	535000	Voucher	Siemens Water Technologies Cor	\$445.96
42136393	535000	Voucher	Kentucky Underground Protectio	\$7,832.44
42136508	535000	Voucher	Lexington Tree Service Inc-PO/	\$360.50
42136513	535000	Voucher	SimplexGrinnell - CH 10320 RE	\$659.10
42136516	535000	Voucher	SimplexGrinnell - CH 10320 RE	\$1,420.57
42136517	535000	Voucher	SimplexGrinnell - CH 10320 RE	\$817.08
42139779	535000	Voucher	Accenture, LLP-REMIT	\$4,235.09
42141095	535000	Voucher	Volt Services Group	\$1,152.77
42141097	535000	Voucher	Volt Services Group	\$566.19
42141099	535000	Voucher	Volt Services Group	\$719.08
42141104	535000	Voucher	Volt Services Group	\$1,112.00
42141109	535000	Voucher	Volt Services Group	\$576.39
42141112	535000	Voucher	Volt Services Group	\$1,228.74
42141126	535000	Voucher	Volt Services Group	\$442.00
42141129	535000	Voucher	Volt Services Group	\$321.75
42141133	535000	Voucher	Volt Services Group	\$344.50
42141138	535000	Voucher	Volt Services Group	\$582.35
42141144	535000	Voucher	Perfection Services-PO/REMIT	\$168.00
42141250	535000	Voucher	GE Analytical Instruments Inc	\$3,450.00
42141274	535000	Voucher	Volt Services Group	\$1,037.73
42141288	575500	Voucher	Cobb, Rodney	\$266.00
42142052	535000	Voucher	SimplexGrinnell - CH 10320 RE	\$535.38
42142060	535000	Voucher	SimplexGrinnell - CH 10320 RE	\$827.89
42143610	535000	Voucher	Opinion Research Corporation	\$4,277.20
42144267	535000	Voucher	Volt Services Group	\$442.00

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42144269	535000	Voucher	Volt Services Group	\$442.00
42147097	535000	Voucher	Vertex Business Services - Wir	\$90.95
42147471	535000	Voucher	Kentucky Underground Storage I	\$150.00
42147497	535000	Voucher	Christopher Excavating	\$7,275.00
42147497	575500	Voucher	Christopher Excavating	\$1,312.50
42148466	575000	Voucher	Ford Meter Box Co Inc - ALL US	\$101.94
42148503	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$2,071.00
42149003	575000	Voucher	Ford Meter Box Co Inc - ALL US	(\$0.02)
42149119	535000	Voucher	Neptune Technology - ALL USE R	\$1,022.95
42149514	535000	Voucher	Garda CL Central Inc	\$483.86
42149518	535000	Voucher	Garda CL Central Inc	\$57.87
42149522	535000	Voucher	Volt Services Group	\$611.13
42149529	535000	Voucher	VeBridge	\$9.74
42149535	535000	Voucher	Volt Services Group	\$539.19
42149579	535000	Voucher	Volt Services Group	\$1,154.89
42149621	535000	Voucher	Whitehead Hancock Plumbing & H	\$1,500.00
42151438	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$6,565.80
42151445	533000	Voucher	Greenebaum Doll & McDonald PLL	\$3,886.80
42151449	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$4,071.80
42152596	535000	Voucher	Fouser Environmental Services	\$45.00
42152607	535000	Voucher	Siemens Water Technologies Cor	\$411.00
42152823	575000	Voucher	Ferguson SAC - ALL USE REMIT	(\$6.06)
42153376	535000	Voucher	Commonwealth Communications of	\$940.00
42153380	535000	Voucher	Commonwealth Communications of	\$66.00
42154667	535000	Voucher	Pearce Blackburn Roofing Inc	\$305.00
42154703	535000	Voucher	Computershare Investor Service	\$708.72
42155428	535000	Voucher	Stanley R Eades PhD	\$895.00
42155666	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$1,330.22
42155917	575000	Voucher	Ashbrook Simon Hartley	\$334.17
42155918	535000	Voucher	Volt Services Group	\$1,004.25
42155966	535000	Voucher	Lestar Recycling Inc	\$156.05
42156783	535000	Voucher	Volt Services Group	\$468.00
42157388	550003	Voucher	120203.550003.16ls Inc ACH/ALL	\$20,161.98
42159752	575000	Voucher	US Pipe & Foundry Co - REMIT	\$0.00
42159812	535000	Voucher	Dixon Electric Inc-PO/REMIT	\$168.00
42159878	535000	Voucher	Cobb, Rodney	\$357.00
42159880	575500	Voucher	Cobb, Rodney	\$532.00
42159906	575500	Voucher	Cobb, Rodney	\$266.00
42159914	535000	Voucher	Cobb, Rodney	\$1,782.86
42159928	535000	Voucher	Living Waters Co - PO/REMIT	\$359.90
42159932	535000	Voucher	Volt Services Group	\$954.04
42159953	533000	Voucher	Bass Berry & Sims PLC	\$845.50

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42160870	535000	Voucher	Happy's General Contracting- R	\$730.00
42160872	535000	Voucher	Happy's General Contracting- R	\$120.00
42161422	535000	Voucher	Perfection Services-PO/REMIT	\$168.00
42161808	535000	Voucher	Christopher Excavating	\$2,130.00
42161808	575500	Voucher	Christopher Excavating	\$337.50
42161810	535000	Voucher	Christopher Excavating	\$7,710.00
42161810	575500	Voucher	Christopher Excavating	\$2,000.00
42161816	535000	Voucher	Wahl Builders LLC	\$980.00
42161837	575200	Voucher	Penn Credit Corp	\$67.35
42161843	535000	Voucher	Kentucky Underground Protectio	\$2,724.92
42162489	535000	Voucher	Opinion Research Corporation	\$7,553.00
42162514	535000	Voucher	Opinion Research Corporation	\$4,457.81
42163414	535000	Voucher	Volt Services Group	\$1,104.68
42163419	535000	Voucher	Volt Services Group	\$903.83
42163426	535000	Voucher	Volt Services Group	\$1,071.20
42164235	550003	Voucher	120201.550001.16ls Inc ACH/ALL	\$21,392.78
42164370	535000	Voucher	Volt Services Group	\$1,577.19
42164374	535000	Voucher	Volt Services Group	\$556.00
42164411	535000	Voucher	Volt Services Group	\$556.00
42164413	535000	Voucher	Volt Services Group	\$1,152.77
42164472	535000	Voucher	Volt Services Group	\$1,142.58
42164474	535000	Voucher	Volt Services Group	\$486.50
42165067	533000	Voucher	Greenebaum Doll & McDonald PLL	\$16,000.00
42165185	575000	Voucher	Sullivan Environmental Technol	\$1,312.98
42165286	575200	Voucher	Penn Credit Corp	\$425.61
42165327	535000	Voucher	Dixon Electric Inc-PO/REMIT	\$168.00
42166604	535000	Voucher	Accenture, LLP-REMIT	\$4,235.09
42166615	575000	Voucher	Backtrack Employment Screening	\$139.00
42166620	575000	Voucher	US Pipe & Foundry Co - REMIT	\$109.49
42166654	535000	Voucher	Garda CL Central Inc	\$479.29
42166663	535000	Voucher	Volt Services Group	\$558.37
42166667	535000	Voucher	Volt Services Group	\$596.74
42166669	535000	Voucher	Volt Services Group	\$823.93
42166671	535000	Voucher	Volt Services Group	\$670.04
42166674	535000	Voucher	Garda CL Central Inc	\$57.33
42168171	575000	Voucher	Sullivan Environmental Technol	\$979.04
42171236	535000	Voucher	Cobb, Rodney	\$183.61
42171239	575500	Voucher	Cobb, Rodney	\$266.00
42171242	535000	Voucher	Volt Services Group	\$1,071.20
42173566	575500	Voucher	Hales Cleaning Service - ACH	\$613.00
42173567	575500	Voucher	Hales Cleaning Service - ACH	\$892.50
42173568	535000	Voucher	Happy's General Contracting- R	\$102.00

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42173573	575500	Voucher	Hales Cleaning Service - ACH	\$1,196.00
42173575	575000	Voucher	Grainger - ALL USE REMIT	\$57.64
42173577	575000	Voucher	Grainger - ALL USE REMIT	\$812.37
42174253	575500	Voucher	Hales Cleaning Service - ACH	\$1,960.00
42174340	535000	Voucher	Kentucky Underground Storage I	\$174.00
42174734	535000	Voucher	Siemens Water Technologies Cor	\$694.00
42174745	535000	Voucher	Volt Services Group	\$1,004.25
42174762	535000	Voucher	Cobb, Rodney	\$827.30
42174763	575500	Voucher	Cobb, Rodney	\$266.00
42174767	535000	Voucher	Leak Eliminators LLC	\$1,655.00
42175035	535000	Voucher	Pearce Blackburn Roofing Inc	\$302.00
42175171	535000	Voucher	Siemens Water Technologies Cor	\$375.96
42176106	575000	Voucher	US Pipe & Foundry Co - REMIT	(\$5.17)
42176254	535000	Voucher	Commonwealth Communications of	\$330.00
42181837	535000	Voucher	Computershare Investor Service	\$499.89
42181847	533000	Voucher	Greenebaum Doll & McDonald PLL	\$2,071.01
42181917	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$6,900.00
42182378	535000	Voucher	Overhead Door Co of Lexington	\$197.00
42182380	575000	Voucher	Grainger - ALL USE REMIT	\$208.83
42182395	575000	Voucher	Grainger - ALL USE REMIT	\$193.86
42182398	575500	Voucher	Happy's General Contracting- R	\$4,220.00
42183204	535000	Voucher	Kentucky Underground Protectio	\$2,547.84
42183811	535000	Voucher	Volt Services Group	\$652.76
42186222	535000	Voucher	Volt Services Group	\$416.00
42186225	535000	Voucher	Volt Services Group	\$422.50
42186233	535000	Voucher	Itron-PO/REMIT	\$1,809.65
42186256	575000	Voucher	E H Wachs Co	\$333.57
42186258	535000	Voucher	Volt Services Group	\$558.37
42186261	535000	Voucher	Volt Services Group	\$681.56
42186267	535000	Voucher	VeBridge	\$1,576.15
42186269	535000	Voucher	Volt Services Group	\$265.20
42186271	535000	Voucher	VeBridge	\$12.36
42186272	535000	Voucher	Volt Services Group	\$333.60
42186273	535000	Voucher	Volt Services Group	\$896.55
42186274	535000	Voucher	Volt Services Group	\$719.08
42186285	535000	Voucher	Volt Services Group	\$1,112.00
42186287	535000	Voucher	Volt Services Group	\$596.77
42188568	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$7,086.48
42189054	575500	Voucher	Cobb, Rodney	\$266.00
42189059	535000	Voucher	Cobb, Rodney	\$823.81
42189060	535000	Voucher	Cobb, Rodney	\$737.77
42189062	535000	Voucher	Cobb, Rodney	\$648.81

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42189902	535000	Voucher	Volt Services Group	\$1,071.20
42189905	535000	Voucher	Lexington Tree Service Inc-PO/	\$7,300.13
42190492	575000	Voucher	US Pipe & Foundry Co - REMIT	(\$205.94)
42192903	535000	Voucher	SimplexGrinnell - CH 10320 RE	\$527.58
42192907	535000	Voucher	Dixon Electric Inc-PO/REMIT	\$147.39
42193101	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$14,520.90
42194174	575000	Voucher	Backtrack Employment Screening	\$116.00
42194207	535000	Voucher	Kentucky Underground Protectio	\$2,886.95
42194844	535000	Voucher	Randy Walker Electric-PO/REMIT	\$196.70
42194848	535000	Voucher	Randy Walker Electric-PO/REMIT	\$340.00
42196103	535000	Voucher	Volt Services Group	\$301.28
42196104	535000	Voucher	Christopher Excavating	\$7,530.00
42196104	575500	Voucher	Christopher Excavating	\$2,312.50
42196762	535000	Voucher	Accenture, LLP-REMIT	\$4,188.60
42196990	535000	Voucher	Commonwealth Communications of	\$250.00
42197350	575200	Voucher	Penn Credit Corp	\$917.84
42198379	535000	Voucher	Volt Services Group	\$832.00
42198385	535000	Voucher	Volt Services Group	\$321.75
42198386	575200	Voucher	Penn Credit Corp	\$471.58
42198391	535000	Voucher	Volt Services Group	\$399.50
42198393	535000	Voucher	Volt Services Group	\$657.93
42198396	535000	Voucher	Volt Services Group	\$1,112.00
42198401	575000	Voucher	Bluegrass Fire Equipment - PO/	\$243.80
42198403	535000	Voucher	Volt Services Group	\$514.30
42198404	535000	Voucher	Volt Services Group	\$1,000.80
42198407	535000	Voucher	Volt Services Group	\$704.58
42198416	535000	Voucher	Garda CL Central Inc	\$474.73
42198418	535000	Voucher	Volt Services Group	\$624.00
42198421	535000	Voucher	Volt Services Group	\$670.04
42198427	535000	Voucher	elink Design Inc	\$312.50
42198431	535000	Voucher	Siemens Water Technologies Cor	\$200.96
42198433	535000	Voucher	Siemens Water Technologies Cor	\$547.78
42198709	535000	Voucher	Charles W Buford & Sons Inc -	\$119.00
42199582	575000	Voucher	Grainger - ALL USE REMIT	\$176.73
42199599	575000	Voucher	Grainger - ALL USE REMIT	\$47.13
42199601	575000	Voucher	Grainger - ALL USE REMIT	\$779.60
42199604	575000	Voucher	Grainger - ALL USE REMIT	\$84.63
42199611	575000	Voucher	Grainger - ALL USE REMIT	\$66.59
42199615	575000	Voucher	Grainger - ALL USE REMIT	\$2,045.13
42199623	535000	Voucher	Perfection Services-PO/REMIT	\$168.00
42200561	575200	Voucher	Penn Credit Corp	\$549.33
42201041	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$5,221.52

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42201065	535000	Voucher	Volt Services Group	\$556.00
42201069	535000	Voucher	Volt Services Group	\$1,295.47
42201073	535000	Voucher	Volt Services Group	\$566.19
42201121	575200	Voucher	Penn Credit Corp	\$1,733.59
42202209	535000	Voucher	Cobb, Rodney	\$589.00
42202216	535000	Voucher	Cobb, Rodney	\$952.50
42202219	575500	Voucher	Cobb, Rodney	\$266.00
42205218	575000	Voucher	Grainger - ALL USE REMIT	\$577.96
42205220	575000	Voucher	Grainger - ALL USE REMIT	\$117.00
42205222	575000	Voucher	Grainger - ALL USE REMIT	\$80.38
42205547	535000	Voucher	Grasshopper Lawn Care	\$885.00
42209367	535000	Voucher	Kings Helper Inc-REMIT	\$333.92
42209381	535000	Voucher	Kings Helper Inc-REMIT	\$275.64
42209776	575000	Voucher	Ferguson SAC - ALL USE REMIT	\$5.62
42210130	535000	Voucher	Volt Services Group	\$1,171.63
42210137	535000	Voucher	Siemens Water Technologies Cor	\$255.00
42210252	535000	Voucher	Kentucky Underground Storage I	\$186.00
42211307	575000	Voucher	Backtrack Employment Screening	\$161.00
42212453	535000	Voucher	Eades, Stanley R	\$2,383.00
42212455	533000	Voucher	Greenebaum Doll & McDonald PLL	\$3,064.24
42212456	533000	Voucher	Greenebaum Doll & McDonald PLL	\$1,883.50
42213604	535000	Voucher	Lexington Tree Service Inc-PO/	\$357.00
42213610	535000	Voucher	Volt Services Group	\$1,054.46
42213845	535000	Voucher	Wilson Equipment Co	\$2,367.12
42213850	535000	Voucher	Glenns Repair	\$160.00
42214297	533000	Voucher	Volt Services Group	\$427.87
42216228	575000	Voucher	Siemens Water Technologies PO/	\$10.55
42218724	550003	Voucher	120201.550002.16ls Inc ACH/ALL	\$12,920.43
42219006	535000	Voucher	Cobb, Rodney	\$624.10
42219009	575500	Voucher	Cobb, Rodney	\$266.00
42219037	535000	Voucher	Grasshopper Lawn Care	\$2,880.00
42219049	535000	Voucher	Leak Eliminators LLC	\$2,530.00
42219073	535000	Voucher	Siemens Water Technologies Cor	\$412.00
42219597	535000	Voucher	ADS Environmental Services Inc	\$2,003.00
42219606	535000	Voucher	ADS Environmental Services Inc	\$2,441.30
42219617	535000	Voucher	Cobb, Rodney	\$589.00
42219632	535000	Voucher	Cobb, Rodney	\$589.00
42220592	535000	Voucher	Commonwealth Communications of	\$66.00
42220599	535000	Voucher	Commonwealth Communications of	\$225.00
42221070	535000	Voucher	Accenture, LLP-REMIT	\$4,188.60
42221741	575000	Voucher	US Pipe & Foundry Co - REMIT	(\$4.89)
42222131	575000	Voucher	Grainger - ALL USE REMIT	\$1,023.14

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42223644	535000	Voucher	Volt Services Group	\$1,924.81
42223715	535000	Voucher	Volt Services Group	\$716.09
42223743	535000	Voucher	Volt Services Group	\$530.40
42223827	535000	Voucher	Volt Services Group	\$1,614.71
42223830	535000	Voucher	Volt Services Group	\$670.04
42223831	535000	Voucher	Volt Services Group	\$704.58
42223832	535000	Voucher	Garda CL Central Inc	\$479.29
42223835	535000	Voucher	Volt Services Group	\$624.00
42223837	535000	Voucher	Ken Tyson Plumbing	\$212.00
42223839	535000	Voucher	Volt Services Group	\$624.00
42223903	535000	Voucher	Kings Helper Inc-REMIT	\$147.50
42223920	535000	Voucher	Kings Helper Inc-REMIT	\$193.83
42223927	535000	Voucher	Saf ti co Inc - PO/REMIT	\$12.72
42224172	535000	Voucher	Volt Services Group	\$1,112.00
42224174	535000	Voucher	Volt Services Group	\$1,098.10
42224177	535000	Voucher	CJ Hughes Construction Co Inc	\$8,500.00
42224625	535000	Voucher	Happy's General Contracting- R	\$270.00
42224773	575000	Voucher	Hales Cleaning Service - ACH	\$1,127.50
42224873	535000	Voucher	Perfection Services-PO/REMIT	\$168.00
42224880	575000	Voucher	Grainger - ALL USE REMIT	\$98.83
42224881	575000	Voucher	Grainger - ALL USE REMIT	\$86.20
42224896	575000	Voucher	Grainger - ALL USE REMIT	\$190.81
42224898	575500	Voucher	Hales Cleaning Service - ACH	\$593.00
42224907	535000	Voucher	Christopher Excavating	\$19,165.00
42224907	575500	Voucher	Christopher Excavating	\$3,782.00
42224921	575000	Voucher	USA BLUE BOOK	\$88.19
42224928	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$4,015.60
42225603	575000	Voucher	US Pipe & Foundry Co - REMIT	\$180.20
42226739	535000	Voucher	Volt Services Group	\$1,112.00
42226740	535000	Voucher	Volt Services Group	\$556.00
42229437	535000	Voucher	Stephen Hillenmeyer Landscape	\$1,001.83
42230102	535000	Voucher	Volt Services Group	\$1,238.58
42231719	535000	Voucher	Commonwealth Communications of	\$168.00
42231794	535000	Voucher	Microbac Laboratories Inc	\$1,396.80
42231830	535000	Voucher	Vulcan Fire Systems Inc-PO/REM	\$160.00
42231933	535000	Voucher	Computershare Investor Service	\$502.40
42231963	575000	Voucher	USA BLUE BOOK	\$80.97
42231972	535000	Voucher	Computershare Investor Service	\$682.18
42231974	535000	Voucher	Service Specialties	\$997.00
42231976	535000	Voucher	Volt Services Group	\$1,054.46
42231977	535000	Voucher	Siemens Water Technologies Cor	\$500.00
42233560	535000	Voucher	Kentucky Underground Storage I	\$193.50

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42233568	535000	Voucher	Laser Images Inc - PO/REMIT	\$109.00
42233900	535000	Voucher	Frantz Inc-PO/REMIT	\$393.65
42234055	535000	Voucher	Towers Perrin - REMIT	\$574.00
42234415	535000	Voucher	Volt Services Group	\$670.04
42234418	535000	Voucher	Volt Services Group	\$716.09
42237185	575200	Voucher	Penn Credit Corp	\$2,709.13
42237188	535000	Voucher	Grott Locksmith Center Inc	\$74.50
42237234	575200	Voucher	Penn Credit Corp	\$224.62
42237303	575200	Voucher	Rossman & Co-PO/REMIT	\$56.18
42237308	575200	Voucher	GC Services Limited Partnership	\$4,789.81
42241302	535000	Voucher	Kentucky Underground Protectio	\$2,981.12
42241424	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$3,735.09
42241434	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$23,263.17
42241484	535000	Voucher	Leak Eliminators LLC	\$2,700.00
42241508	535000	Voucher	Stephen Hillenmeyer Landscape	\$2,576.00
42241514	535000	Voucher	Volt Services Group	\$1,054.46
42242057	575500	Voucher	Cobb, Rodney	\$399.00
42242149	535000	Voucher	Cobb, Rodney	\$336.00
42242151	535000	Voucher	Cobb, Rodney	\$689.00
42242167	535000	Voucher	Lexington Tree Service Inc-PO/	\$1,452.00
42242173	575000	Voucher	US Pipe & Foundry Co - REMIT	\$6.42
42242826	535000	Voucher	Volt Services Group	\$670.04
42242829	535000	Voucher	Volt Services Group	\$624.00
42242832	535000	Voucher	Volt Services Group	\$624.00
42242881	535000	Voucher	Volt Services Group	\$624.00
42243025	535000	Voucher	Volt Services Group	\$624.00
42243042	535000	Voucher	Volt Services Group	\$566.19
42243068	535000	Voucher	Volt Services Group	\$1,132.38
42243127	575000	Voucher	Tebco Inc-REMIT	\$59.47
42243141	535000	Voucher	Tebco Inc-REMIT	\$300.00
42243141	575000	Voucher	Tebco Inc-REMIT	\$670.30
42243627	575000	Voucher	Backtrack Employment Screening	\$333.00
42244945	575000	Voucher	Backtrack Employment Screening	\$167.00
42244947	535000	Voucher	Barnstead International	\$169.03
42245484	535000	Voucher	Happy's General Contracting- R	\$110.00
42245485	535000	Voucher	Happy's General Contracting- R	\$90.00
42245486	575000	Voucher	Grainger - ALL USE REMIT	\$576.37
42245487	575000	Voucher	Grainger - ALL USE REMIT	\$54.91
42246607	535000	Voucher	Christopher Excavating	\$14,460.00
42246607	575500	Voucher	Christopher Excavating	\$2,150.00
42248851	535000	Voucher	Siemens Water Technologies Cor	\$369.78
42248856	535000	Voucher	Siemens Water Technologies Cor	\$189.96

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42249060	575000	Voucher	United Rentals (GA) - REMIT	\$305.60
42249064	535000	Voucher	Volt Services Group	\$528.20
42249068	535000	Voucher	Volt Services Group	\$1,387.20
42249070	535000	Voucher	Volt Services Group	\$596.77
42249078	535000	Voucher	Volt Services Group	\$1,203.73
42249081	535000	Voucher	Volt Services Group	\$841.39
42249085	535000	Voucher	Volt Services Group	\$1,112.00
42249088	535000	Voucher	Volt Services Group	\$800.62
42249276	535000	Voucher	Tebco Inc-REMIT	\$600.00
42249276	575000	Voucher	Tebco Inc-REMIT	\$1,325.00
42249278	535000	Voucher	Tebco Inc-REMIT	\$588.00
42249278	575000	Voucher	Tebco Inc-REMIT	\$561.17
42249281	535000	Voucher	Volt Services Group	\$444.80
42249284	535000	Voucher	Volt Services Group	\$624.00
42249290	535000	Voucher	Volt Services Group	\$670.04
42249314	535000	Voucher	Garda CL Central Inc	\$488.42
42249317	535000	Voucher	Volt Services Group	\$658.53
42249318	575000	Voucher	Backtrack Employment Screening	\$177.00
42249321	535000	Voucher	Volt Services Group	\$1,104.68
42249324	535000	Voucher	Siemens Water Technologies Cor	\$372.96
42249747	535000	Voucher	Accenture, LLP-REMIT	\$4,188.60
42250841	535000	Voucher	Commonwealth Communications of	\$100.00
42250843	535000	Voucher	Grasshopper Lawn Care	\$4,115.00
42250844	535000	Voucher	Volt Services Group	\$1,339.00
42250972	575000	Voucher	Hydraflo Inc -PO/REMIT	\$54.24
42252000	535000	Voucher	TruGreen Chemlawn-PO/REMIT	\$131.35
42252044	535000	Voucher	Perfection Services-PO/REMIT	\$168.00
42252046	575500	Voucher	Hales Cleaning Service - ACH	\$972.50
42252048	575500	Voucher	Hales Cleaning Service - ACH	\$1,031.00
42252052	575000	Voucher	Grainger - ALL USE REMIT	\$107.23
42252054	575000	Voucher	Grainger - ALL USE REMIT	\$199.36
42252067	575000	Voucher	Grainger - ALL USE REMIT	\$709.08
42252070	575000	Voucher	Grainger - ALL USE REMIT	\$62.30
42252072	575000	Voucher	Grainger - ALL USE REMIT	\$455.21
42252073	575000	Voucher	Grainger - ALL USE REMIT	\$67.95
42252075	575000	Voucher	Grainger - ALL USE REMIT	\$56.85
42252076	575000	Voucher	Grainger - ALL USE REMIT	\$173.84
42254044	575000	Voucher	Backtrack Employment Screening	\$321.50
42254813	575200	Voucher	Penn Credit Corp	\$1,282.26
42254817	575200	Voucher	Penn Credit Corp	\$438.13
42255124	575000	Voucher	US Pipe & Foundry Co - REMIT	\$5.20
42256989	535000	Voucher	Computershare Investor Service	\$529.12

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42256993	535000	Voucher	Computershare Investor Service	\$635.38
42256994	535000	Voucher	Computershare Investor Service	\$497.66
42258702	535000	Voucher	Kentucky Underground Storage I	\$186.00
42258774	535000	Voucher	Kentucky Underground Protectio	\$2,917.40
42260693	575200	Voucher	Penn Credit Corp	(\$22.92)
42261274	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$2,255.66
42261696	535000	Voucher	Volt Services Group	\$1,205.10
42262395	575000	Voucher	CSX Transportation Inc-REMIT	\$100.00
42262397	535000	Voucher	Cobb, Rodney	\$689.00
42262400	575500	Voucher	Cobb, Rodney	\$266.00
42262401	535000	Voucher	Cobb, Rodney	\$1,254.96
42262409	575000	Voucher	Grainger - ALL USE REMIT	\$448.44
42262410	575000	Voucher	Grainger - ALL USE REMIT	\$52.71
42262959	535000	Voucher	Siemens Water Technologies Cor	\$408.00
42262960	575500	Voucher	Cobb, Rodney	\$266.00
42262961	535000	Voucher	Cobb, Rodney	\$429.87
42262962	535000	Voucher	Cobb, Rodney	\$789.00
42263252	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$5,421.73
42263456	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$7,589.65
42263719	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$5,680.23
42266704	535000	Voucher	Volt Services Group	\$624.00
42266707	535000	Voucher	Volt Services Group	\$624.00
42266710	535000	Voucher	Itron-PO/REMIT	\$1,650.61
42266877	535000	Voucher	Volt Services Group	\$312.00
42266878	535000	Voucher	Volt Services Group	\$670.04
42267338	575000	Voucher	Grainger - ALL USE REMIT	\$780.92
42267342	575000	Voucher	Grainger - ALL USE REMIT	\$200.18
42267371	535000	Voucher	Perfection Services-PO/REMIT	\$168.00
42267374	575000	Voucher	Grainger - ALL USE REMIT	\$80.01
42267381	575000	Voucher	Grainger - ALL USE REMIT	\$668.90
42267409	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$2,214.00
42267444	535000	Voucher	Happy's General Contracting- R	\$232.50
42267451	575500	Voucher	Grainger - ALL USE REMIT	\$75.10
42267455	575500	Voucher	Hales Cleaning Service - ACH	\$972.50
42267457	575500	Voucher	Hales Cleaning Service - ACH	\$773.00
42271301	575000	Voucher	Grainger - ALL USE REMIT	\$671.54
42271319	575000	Voucher	Grainger - ALL USE REMIT	\$447.66
42271547	575000	Voucher	BaptistWorx Business Office	\$155.00
42271648	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$10,044.72
42275904	535000	Voucher	Cobb, Rodney	\$589.00
42275907	575500	Voucher	Cobb, Rodney	\$133.00
42275929	535000	Voucher	Cobb, Rodney	\$867.08

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42275957	575000	Voucher	Hach Co - PO/Remit	\$1,674.75
42276449	575000	Voucher	Grainger - ALL USE REMIT	\$106.21
42276612	575000	Voucher	Grainger - ALL USE REMIT	\$318.32
42276644	575000	Voucher	Commerce Lexington-PO/REMIT	\$0.00
42277792	575000	Voucher	Ferguson SAC - ALL USE REMIT	(\$0.23)
42278319	535000	Voucher	Grasshopper Lawn Care	\$3,690.00
42278330	535000	Voucher	Computershare	\$1,137.58
42278340	575000	Voucher	Grainger - ALL USE REMIT	\$162.98
42279235	535000	Voucher	Accenture, LLP-REMIT	\$4,188.60
42279402	535000	Voucher	Kentucky Underground Storage I	\$0.00
42279420	535000	Voucher	Laser Images Inc - PO/REMIT	\$85.00
42279449	575000	Voucher	USA BLUE BOOK	\$137.21
42279537	575000	Voucher	Ford Meter Box Co Inc - ALL US	\$1,833.77
42280300	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$9,000.16
42281020	575000	Voucher	Allied Waste Services #993	\$401.02
42281050	535000	Voucher	Kentucky Underground Protectio	\$2,523.75
42281087	575000	Voucher	HD Supply Waterworks Ltd	\$297.34
42281090	575000	Voucher	HD Supply Waterworks Ltd	\$305.67
42281193	575000	Voucher	HD Supply Waterworks Ltd	\$56.18
42281341	535000	Voucher	Volt Services Group	\$444.80
42282305	535000	Voucher	Garda CL Central Inc	\$497.55
42282525	535000	Voucher	Christopher Excavating	\$19,455.00
42282525	575500	Voucher	Christopher Excavating	\$2,875.00
42282542	575000	Voucher	USA BLUE BOOK	\$201.39
42282545	575000	Voucher	Grainger - ALL USE REMIT	\$967.32
42282546	575000	Voucher	Grainger - ALL USE REMIT	\$453.21
42282549	575000	Voucher	USA BLUE BOOK	\$187.80
42282550	575500	Voucher	Grainger - ALL USE REMIT	\$98.00
42282559	575000	Voucher	CI Thornburg Co Inc	\$51.94
42282562	575000	Voucher	CI Thornburg Co Inc	\$52.09
42282563	575000	Voucher	Grainger - ALL USE REMIT	\$84.52
42284597	535000	Voucher	Ken Tyson Plumbing	\$2,058.67
42284663	575000	Voucher	USA BLUE BOOK	\$133.12
42284735	575200	Voucher	GC Services Limited Parnership	\$2,924.60
42284995	575200	Voucher	Penn Credit Corp	\$991.86
42285001	575200	Voucher	Penn Credit Corp	\$1,523.34
42286841	575000	Voucher	CI Thornburg Co Inc	\$92.14
42286845	575000	Voucher	A & H Safety Supply Co - PO/RE	\$1,632.34
42286848	575000	Voucher	USA BLUE BOOK	\$17.11
42288141	535000	Voucher	Commonwealth Communications of	\$66.00
42291835	575500	Voucher	Cobb, Rodney	\$266.00
42291841	535000	Voucher	Cobb, Rodney	\$689.00

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42291855	535000	Voucher	Cobb, Rodney	\$455.00
42291930	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$4,660.06
42293271	535000	Voucher	TruGreen Chemlawn-PO/REMIT	\$131.35
42293349	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$12,672.98
42294199	535000	Voucher	Siemens Water Technologies Cor	\$434.96
42294203	535000	Voucher	Siemens Water Technologies Cor	\$369.78
42294223	575000	Voucher	USA BLUE BOOK	\$47.92
42294224	575000	Voucher	USA BLUE BOOK	\$380.73
42294226	575000	Voucher	USA BLUE BOOK	\$153.12
42294228	575000	Voucher	Grainger - ALL USE REMIT	\$370.99
42294230	575000	Voucher	Grainger - ALL USE REMIT	\$118.99
42294234	575000	Voucher	Grainger - ALL USE REMIT	\$793.81
42294236	575000	Voucher	Grainger - ALL USE REMIT	\$136.32
42294238	575000	Voucher	Grainger - ALL USE REMIT	\$578.73
42294259	575000	Voucher	Backtrack Employment Screening	\$203.00
42294582	535000	Voucher	Garda CL Central Inc	\$497.55
42294606	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$2,060.00
42294634	535000	Voucher	Christopher Excavating	\$13,740.00
42294634	575500	Voucher	Christopher Excavating	\$2,737.50
42294646	575500	Voucher	Cobb, Rodney	\$266.00
42294655	575500	Voucher	Cobb, Rodney	\$706.54
42294718	535000	Voucher	Cobb, Rodney	\$689.00
42296901	535000	Voucher	Accenture, LLP-REMIT	\$4,188.60
42298159	535000	Voucher	Leak Eliminators LLC	\$1,320.00
42299616	575200	Voucher	GC Services Limited Parnership	\$4,611.89
42300365	575000	Voucher	Grainger - ALL USE REMIT	\$31.36
42300527	535000	Voucher	Commonwealth Communications of	\$3,457.00
42300529	535000	Voucher	Commonwealth Communications of	\$407.00
42301905	535000	Voucher	Opinion Research Corporation	\$4,277.20
42303488	535000	Voucher	Robert Half Management Resourc	\$20,500.00
42303491	535000	Voucher	Kentucky Underground Storage I	\$169.50
42303548	575000	Voucher	United Rentals (GA) - REMIT	\$51.45
42303596	575000	Voucher	CI Thornburg Co Inc	\$915.13
42303632	575000	Voucher	CI Thornburg Co Inc	\$1,879.19
42303634	575000	Voucher	Neptune Technology - ALL USE R	\$5,007.76
42303681	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$12,634.86
42303706	535000	Voucher	Volt Services Group	\$1,054.46
42303732	535000	Voucher	Grott Locksmith Center Inc	\$135.00
42310808	535000	Voucher	Computershare	\$696.52
42310809	533000	Voucher	Greenebaum Doll & McDonald PLL	\$64.58
42310811	575000	Voucher	Grainger - ALL USE REMIT	\$1,244.78
42310813	575000	Voucher	UPS Freight	\$15.00

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42310814	575000	Voucher	Grainger - ALL USE REMIT	\$316.22
42310815	575000	Voucher	Grainger - ALL USE REMIT	\$228.84
42310818	575000	Voucher	Ford Meter Box Co Inc - ALL US	\$2,752.18
42310826	575000	Voucher	Grainger - ALL USE REMIT	\$703.90
42310827	575000	Voucher	Grainger - ALL USE REMIT	\$334.32
42310828	575000	Voucher	USA BLUE BOOK	\$250.61
42310853	535000	Voucher	Siemens Water Technologies Cor	\$814.19
42310997	535000	Voucher	Volt Services Group	\$1,138.15
42311046	535000	Voucher	Siemens Water Technologies Cor	\$364.96
42311050	535000	Voucher	Christopher Excavating	\$2,300.00
42311267	535000	Voucher	Laser Images Inc - PO/REMIT	\$109.00
42312457	575500	Voucher	Hales Cleaning Service - ACH	\$2,868.33
42314710	575000	Voucher	Model Apparel	\$205.92
42314719	535000	Voucher	Christopher Excavating	\$11,520.00
42314719	575500	Voucher	Christopher Excavating	\$2,350.00
42315403	575000	Voucher	US Pipe & Foundry Co - REMIT	\$23.32
42316038	575000	Voucher	Grainger - ALL USE REMIT	\$116.82
42316039	575000	Voucher	Grainger - ALL USE REMIT	\$493.92
42316040	575000	Voucher	Grainger - ALL USE REMIT	\$885.58
42316041	575000	Voucher	Grainger - ALL USE REMIT	\$54.24
42316043	575000	Voucher	Grainger - ALL USE REMIT	\$152.30
42316045	535000	Voucher	Kentucky Underground Protectio	\$2,387.70
42317354	535000	Voucher	Commonwealth Communications Sy	\$645.00
42317409	535000	Voucher	Randy Walker Electric-PO/REMIT	\$195.00
42317410	535000	Voucher	Randy Walker Electric-PO/REMIT	\$148.50
42317411	575000	Voucher	Model Apparel	\$83.05
42317415	575500	Voucher	Hales Cleaning Service - ACH	\$2,868.33
42317419	575500	Voucher	Hales Cleaning Service - ACH	\$972.50
42317420	575500	Voucher	Hales Cleaning Service - ACH	\$773.00
42317427	535000	Voucher	Grasshopper Lawn Care	\$4,600.00
42317428	535000	Voucher	Grasshopper Lawn Care	\$4,500.00
42317430	575500	Voucher	Cobb, Rodney	\$216.54
42318129	575500	Voucher	Cobb, Rodney	\$133.00
42318130	535000	Voucher	Cobb, Rodney	\$589.00
42318146	535000	Voucher	Cobb, Rodney	\$789.00
42318152	575500	Voucher	Cobb, Rodney	\$399.00
42318168	535000	Voucher	Big Auger Machine & Tool Co-PO	\$1,192.50
42318170	535000	Voucher	Big Auger Machine & Tool Co-PO	\$201.40
42318256	535000	Voucher	Big Auger Machine & Tool Co-PO	\$201.40
42318260	535000	Voucher	SimplexGrinnell - CH 10320 RE	\$181.26
42318261	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$3,467.20
42320038	575200	Voucher	Penn Credit Corp	\$692.18

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42320039	575200	Voucher	Penn Credit Corp	\$1,415.38
42320042	575000	Voucher	USA BLUE BOOK	\$116.27
42320391	575500	Voucher	Hales Cleaning Service - ACH	\$2,868.33
42320436	575000	Voucher	Grainger - ALL USE REMIT	\$225.14
42320437	575000	Voucher	Grainger - ALL USE REMIT	\$71.31
42320443	575000	Voucher	Grainger - ALL USE REMIT	\$404.91
42320992	535000	Voucher	Accenture, LLP-REMIT	\$4,188.60
42321531	575000	Voucher	Grainger - ALL USE REMIT	\$113.72
42321539	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$1,160.00
42321594	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$1,853.55
42322858	575000	Voucher	E H Wachs Co	\$850.00
42322867	535000	Voucher	Volt Services Group	\$444.80
42322938	575000	Voucher	Equipment Sales & Rental - PO/	\$932.80
42324420	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$11,015.81
42325347	535000	Voucher	Computershare	\$639.16
42325418	575000	Voucher	Grainger - ALL USE REMIT	\$1,105.88
42325448	575000	Voucher	Grainger - ALL USE REMIT	\$909.94
42325451	575000	Voucher	USA BLUE BOOK	\$293.13
42325459	575000	Voucher	Grainger - ALL USE REMIT	\$378.51
42325463	575000	Voucher	USA BLUE BOOK	\$47.09
42325466	535000	Voucher	TruGreen Chemlawn-PO/REMIT	\$131.35
42325994	535000	Voucher	Stephen Hillenmeyer Landscape	\$2,649.05
42325995	535000	Voucher	Stephen Hillenmeyer Landscape	\$1,315.83
42326365	535000	Voucher	Stephen Hillenmeyer Landscape	\$1,479.81
42326397	535000	Voucher	Stephen Hillenmeyer Landscape	\$120.00
42326721	535000	Voucher	Cobb, Rodney	\$1,843.74
42326724	535000	Voucher	Cobb, Rodney	\$689.00
42326726	575500	Voucher	Cobb, Rodney	\$266.00
42326730	535000	Voucher	Cobb, Rodney	\$423.21
42331259	575000	Voucher	Backtrack Employment Screening	\$174.00
42331260	575000	Voucher	Backtrack Employment Screening	\$33.00
42331270	575000	Voucher	VWR International Inc-PO/REMIT	\$232.52
42332649	535000	Voucher	Grott Locksmith Center Inc	\$351.16
42333459	575200	Voucher	GC Services Limited Partnership	\$5,911.28
42333461	575200	Voucher	GC Services Limited Partnership	\$5,077.62
42333538	575200	Voucher	Penn Credit Corp	\$1,592.02
42333543	575200	Voucher	Penn Credit Corp	\$1,410.88
42333672	575000	Voucher	US Pipe & Foundry Co - REMIT	\$0.47
42333998	575500	Voucher	Hales Cleaning Service - ACH	\$0.00
42334055	535000	Voucher	Laser Images Inc - PO/REMIT	\$121.90
42334066	535000	Voucher	Kentucky Underground Storage I	\$169.50
42334539	575000	Voucher	Grainger - ALL USE REMIT	\$458.54

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42334541	575000	Voucher	Grainger - ALL USE REMIT	\$960.35
42337068	575000	Voucher	Ferguson SAC - ALL USE REMIT	\$0.52
42338686	575500	Voucher	Cobb, Rodney	\$266.00
42338687	535000	Voucher	Cobb, Rodney	\$689.00
42338691	575000	Voucher	Wilson Equipment Co	\$1,643.00
42338712	535000	Voucher	Stephen Hillenmeyer Landscape	\$650.00
42338714	535000	Voucher	Pearce Blackburn Roofing Inc	\$291.00
42338715	535000	Voucher	Grott Locksmith Center Inc	\$81.00
42338735	535000	Voucher	Grasshopper Lawn Care	\$4,745.00
42338756	575000	Voucher	Grainger - ALL USE REMIT	\$1,244.78
42338758	575000	Voucher	Grainger - ALL USE REMIT	\$112.56
42338761	575000	Voucher	Grainger - ALL USE REMIT	\$463.83
42338764	575000	Voucher	Grainger - ALL USE REMIT	\$112.56
42338804	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$653.82
42338826	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$422.50
42338828	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$1,160.00
42338829	533000	Voucher	Greenebaum Doll & McDonald PLL	\$226.01
42338830	533000	Voucher	Greenebaum Doll & McDonald PLL	\$161.95
42344125	535000	Voucher	Accenture, LLP-REMIT	\$4,188.60
42345232	535000	Voucher	Siemens Water Technologies Cor	\$400.00
42345246	535000	Voucher	Grainger - ALL USE REMIT	\$141.57
42345250	535000	Voucher	Christopher Excavating	\$19,440.00
42345250	575500	Voucher	Christopher Excavating	\$3,037.00
42345290	535000	Voucher	Garda CL Central Inc	\$497.55
42345293	535000	Voucher	VeBridge	\$660.09
42345297	535000	Voucher	Garda CL Central Inc	\$497.55
42345343	575000	Voucher	Grainger - ALL USE REMIT	\$881.38
42345349	575000	Voucher	Grainger - ALL USE REMIT	\$438.57
42345829	535000	Voucher	Winchester Municipal Utilities	\$5,392.64
42348091	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$15,710.84
42350692	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$11,338.45
42351739	575000	Voucher	Neptune Technology - ALL USE R	\$67.10
42351742	575000	Voucher	Neptune Technology - ALL USE R	\$0.00
42352051	535000	Voucher	Volt Services Group	\$759.80
42352145	535000	Voucher	Perfection Services-PO/REMIT	\$168.00
42352200	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$2,981.80
42352226	535000	Voucher	Stephen Hillenmeyer Landscape	\$2,426.00
42352227	535000	Voucher	Stephen Hillenmeyer Landscape	\$1,706.00
42352261	535000	Voucher	Kentucky Underground Protectio	\$2,407.05
42352270	575000	Voucher	Neptune Technology - ALL USE R	\$4.87
42352290	535000	Voucher	Kings Helper Inc-REMIT	\$158.00
42352299	535000	Voucher	Leak Eliminators LLC	\$3,710.00

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42352302	535000	Voucher	Scott Gross Co Inc	\$999.56
42353668	535000	Voucher	Computershare	\$642.40
42355790	535000	Voucher	Kentucky Underground Protectio	\$2,535.40
42355817	575000	Voucher	Grainger - ALL USE REMIT	\$57.59
42355819	575000	Voucher	USA BLUE BOOK	\$166.25
42355961	535000	Voucher	Hall, Erik	\$305.50
42356035	535000	Voucher	Itron-PO/REMIT	\$1,692.58
42356048	535000	Voucher	Pearce Blackburn Roofing Inc	\$42.00
42356092	575000	Voucher	Grainger - ALL USE REMIT	\$113.72
42356099	575000	Voucher	Grainger - ALL USE REMIT	\$216.30
42356107	575000	Voucher	Grainger - ALL USE REMIT	\$142.02
42356127	575000	Voucher	Sams Club	\$33.13
42356133	535000	Voucher	KY Dept of Housing Bldgs & Con	\$100.00
42356141	535000	Voucher	Yale Kentuckiana Inc	\$108.12
42356793	575000	Voucher	Siemens Water Technologies PO/	\$10.87
42358674	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$6,512.44
42359936	535000	Voucher	Commonwealth Communications of	\$150.00
42360767	575000	Voucher	Insight Direct (Peripherals) -	\$266.75
42360768	535000	Voucher	Laser Images Inc - PO/REMIT	\$143.10
42360778	535000	Voucher	Cobb, Rodney	\$589.00
42360779	535000	Voucher	Cobb, Rodney	\$1,076.00
42360780	575500	Voucher	Cobb, Rodney	\$266.00
42360782	535000	Voucher	Randy Walker Electric-PO/REMIT	\$370.39
42360783	535000	Voucher	Kentucky Underground Storage I	\$186.00
42360785	535000	Voucher	Siemens Water Technologies Cor	\$500.67
42360794	575000	Voucher	Grainger - ALL USE REMIT	\$425.11
42360811	575000	Voucher	Grainger - ALL USE REMIT	\$519.66
42360812	575000	Voucher	Grainger - ALL USE REMIT	\$572.40
42360861	575000	Voucher	Neptune Technology - ALL USE R	\$67.10
42360876	575000	Voucher	USA BLUE BOOK	\$126.86
42360877	575000	Voucher	Grainger - ALL USE REMIT	\$241.54
42360878	575000	Voucher	Grainger - ALL USE REMIT	\$36.03
42364326	575000	Voucher	US Pipe & Foundry Co - REMIT	\$1.65
42364328	575000	Voucher	US Pipe & Foundry Co - REMIT	\$16.93
42364480	575000	Voucher	US Pipe & Foundry Co - REMIT	\$0.00
42364670	575200	Voucher	Penn Credit Corp	(\$8.06)
42365117	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$2,516.08
42365129	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$5,381.50
42365487	575000	Voucher	US Pipe & Foundry Co - REMIT	(\$2.94)
42365495	575000	Voucher	US Pipe & Foundry Co - REMIT	\$0.04
42365979	535000	Voucher	Siemens Water Technologies Cor	\$255.00
42365990	535000	Voucher	Siemens Water Technologies Cor	\$1,179.78

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42365991	575000	Voucher	USA BLUE BOOK	\$88.29
42365992	575000	Voucher	USA BLUE BOOK	\$80.97
42365993	535000	Voucher	Christopher Excavating	\$8,550.00
42365993	575500	Voucher	Christopher Excavating	\$2,575.00
42365997	575000	Voucher	Grainger - ALL USE REMIT	\$549.55
42365998	575000	Voucher	Grainger - ALL USE REMIT	\$85.86
42369315	575000	Voucher	Grainger - ALL USE REMIT	\$114.23
42369318	575000	Voucher	Grainger - ALL USE REMIT	\$201.98
42369322	575000	Voucher	Grainger - ALL USE REMIT	\$834.11
42369324	575000	Voucher	Grainger - ALL USE REMIT	\$214.43
42370526	575500	Voucher	Cobb, Rodney	\$399.00
42370541	535000	Voucher	Cobb, Rodney	\$689.00
42370554	535000	Voucher	Grasshopper Lawn Care	\$4,160.00
42370942	575000	Voucher	Grainger - ALL USE REMIT	\$464.90
42371388	535000	Voucher	Accenture, LLP-REMIT	\$4,188.60
42371485	550003	Voucher	Automotive Rentals Inc ACH/ALL	\$10,209.62
42373719	575200	Voucher	Penn Credit Corp	\$1,509.87
42373722	575200	Voucher	Penn Credit Corp	\$569.12
42373949	535000	Voucher	Computershare	\$489.53
42373951	535000	Voucher	Computershare	\$695.61
42374744	535000	Voucher	Affordable Drywall & Painting	\$175.00
42374767	575000	Voucher	Grainger - ALL USE REMIT	\$580.00
42374772	575000	Voucher	Grainger - ALL USE REMIT	\$38.90
42374999	575000	Voucher	Grainger - ALL USE REMIT	\$211.98
42375000	575000	Voucher	USA BLUE BOOK	\$343.99
42376105	575000	Voucher	Grainger - ALL USE REMIT	\$128.98
42376113	575000	Voucher	Grainger - ALL USE REMIT	\$724.20
42376115	575000	Voucher	Grainger - ALL USE REMIT	\$870.45
42376578	535000	Voucher	Vulcan Fire Systems Inc-PO/REM	\$160.00
42376584	535000	Voucher	Stephen Hillenmeyer Landscape	\$225.00
42376587	575000	Voucher	Ford Meter Box Co Inc - ALL US	\$960.00
42376592	575000	Voucher	USA BLUE BOOK	\$160.92
42376596	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$1,208.30
42378355	575200	Voucher	GC Services Limited Parnership	\$4,702.73
42378501	535000	Voucher	Kentucky Underground Storage I	\$184.50
42378587	575200	Voucher	Penn Credit Corp	\$594.25
42378591	575200	Voucher	Penn Credit Corp	\$2,876.77
42378661	535000	Voucher	Lexington Tree Service Inc-PO/	\$2,474.50
42378669	535000	Voucher	Cobb, Rodney	\$56.00
42378699	535000	Voucher	Siemens Water Technologies Cor	\$403.00
42378791	535000	Voucher	Garda CL Central Inc	\$497.55
42378892	535000	Voucher	Kentucky Underground Protectio	\$3,114.00

Kentucky American
Case 2010-00036
Attorney General set 2 #95 part c

Doc #	Account	Type	Vendor	Total
42378897	535000	Voucher	Leak Eliminators LLC	\$880.00
42378919	535000	Voucher	Leak Eliminators LLC	\$880.00
42380220	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$4,190.08
42380224	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$20,645.28
42380227	533000	Voucher	Stoll Keenon Ogden PLLC-PO/REM	\$5,968.62
Grand Total				\$1,227,451.19

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

Witness: Michael A. Miller

96. Cash working capital. Refer to the response to PSC DR1-1, WP1-12. Refer to page 161.
- a. Please identify all amounts on these pages for payments to AWWSC or other affiliates.
 - b. Provide the invoice, voucher and check copy of the item on line 17 for \$10,740.
 - c. Provide the invoice, voucher and check copy of the item on line 8 for \$11,589.
 - d. Provide the invoice, voucher and check copy of the item on line 13 for \$10,740.
 - e. Provide the invoice, voucher and check copy of the item on line 14 for \$7,061.

Response:

- a. There are no payments to AWWSC or other affiliates on KAW_R_PSCDR1#1A_WP1-12_031610 page 161 of 168, lead lag study.
- b. Please see the attached.
- c. Please refer to part b response.
- d. Please refer to part b response.
- e. Please refer to part b response.

For the electronic version, refer to KAW_R_AGDR2#96_052410.pdf.

CHECK CONTAINS A VOID PANTOGRAPH, MICROPRINT BORDER, CHEMICAL REACTANTS AND A WATERMARK ON BACK - HOLD AT AN ANGLE TO VIEW

American Water

PO Box 5600
Cherry Hill, NJ 08034

PNC BANK, NA
NEW JERSEY

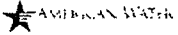
SS-277
312

NO. 62055906

DATE 05/27/09

SEVEN THOUSAND SIXTY ONE AND 04/100 *****

PAY TO THE
ORDER OF : Lebanon Power & Apparatus
451 E Main St
Lebanon KY 40033

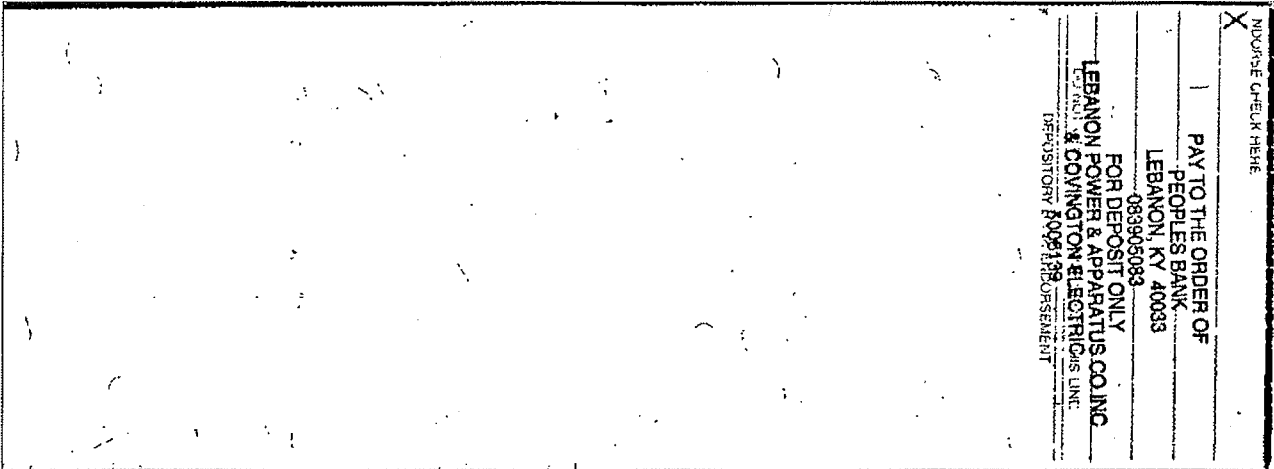


\$*****7,061.04
VOID AFTER 90 DAYS

J. M. Kuhl
AUTHORIZED SIGNATURE

⑈62055906⑈ ⑆031202770⑆ 8013584806⑈

⑆0000706104⑆



SEPARATION

Debits (cont.)

Status: Confirmed Trace ID: 200907307431

Debit Amount	\$300,000.00 USD	Bene Bank Addr	BUFFALO, NY
Wire Type	Repetitive Domestic Wire	Bene Account	048817996
Repeat ID	Vertex	Bene Name	Vertex Business Services
Repeat Name	Vertex Business Serv	OBI	inv#F13800137
Value Date	07/31/2009	Company	911300
Wire TRN	090731023959	Initiated By	Nicole Cataldo
Fed Reference Number	000922	Initiator Phone	07/31/2009 02:45 PM
Bene Bank ID	021001088	Approved By	Jeffery R Colkers
Bene Bank Name	HSBC BANK USA	Approver Phone	07/31/2009 02:47 PM
			856-309-4899

03101GUIH

AR and AP Journal Entries

Page 5 of 18
 Model (Y)
 Void (V)

Action Code I
 Document Type . . . PV
 Document Number/Co 42266461 00003 Explanation Vertex Business Services - Wir
 G/L Date Batch Number 4407326
 Gross Amount
 Remaining
 Skip to Line

Account No.	Prod	Amount	Explanation 2	
120205.675000.26	TJ25	10,740.00	CUST C3800002	P
130205.675000.26	TJ25	450.00	CUST C3800002	P
240005.675000.26	TJ25	58,650.00	CUST C3800002	P
260205.675000.26	TJ25	6,750.00	CUST C3800002	P
270505.675000.26	TJ25	5,160.00	CUST C3800002	P
285105.675000.26	TJ25	15,420.00	CUST C3800002	P
180105.675000.26	TJ25	57,690.00	CUST C3800002	P
380305.675000.26	TJ25	6,690.00	CUST C3800002	P
033003.675000.26	TJ25	360.00	CUST C3800002	P

F5=Make New Model F6=% JE F15=Model JE's F13=Acct Master F24=More Keys

03101GUIH

AR and AP Journal Entries

Model (Y) -
 Void (V) -

Action Code I
 Document Type . . . PV
 Document Number/Co 42266461 00003 Explanation Vertex Business Services - Wir
 G/L Date Batch Number 4407326
 Gross Amount
 Remaining
 Skip to Line

Account No.	Prod	Amount	Explanation 2	P
230105.675000.26	TJ25	14,190.00	CUST C3800002	P
051005.675000.26	TJ25	15,450.00	CUST C3800002	P
300205.675000.26	TJ25	900.00	CUST C3800002	P
190205.675000.26	TJ25	1,530.00	CUST C3800002	P
500105.675000.26	TJ25	480.00	CUST C3800002	P
098505.675000.26	TJ25	27,840.00	CUST C3800002	P
100105.675000.26	TJ25	25,680.00	CUST C3800002	P
110105.675000.26	TJ25	5,490.00	CUST C3800002	P
170105.675000.26	TJ25	41,310.00	CUST C3800002	P
220105.675000.26	TJ25	5,220.00	CUST C3800002	P

F5=Make New Model F6=% JE F15=Model JE's F13=Acct Master F24=More Keys

042003 Vendor Ledger Inquiry

Address Number . . . _____
 Parent Number . . . _____
 Document Number . . . 42266461
 P.O. Number . . . _____
 Invoice Number . . . _____
 Skip To Page . . . _____

Date From . . . _____
 Date Through _____
 Ledger Inq Sequence. 6
 Paid 2
 Company _____

O	P	Ty	Number	Itm	Date	Date	Net Due	Gross	Open	P	P
								Amount	Amount	C	S
	PV		42266461	001	07/02/09	08/03/09		300,000.00		D	P
	PN		4533		07/31/09	08/03/09		300,000.00-		D	
TOTAL								300,000.00			

opt: 1=vouch 2=JE 3=Pmts 5=Detail . . . F10=Pmt Ledger . F21=Print . F24=More

SEPARATION

Debits (cont.)

Status: Confirmed Trace ID: 200905143289			
Debit Amount	\$300,000.00 USD	Bene Bank Addr	BUFFALO, NY
Wire Type	Repetitive Domestic Wire	Bene Account	048817996
Repeat ID	Vertex	Bene Name	Vertex Business Services
Repeat Name	Vertex Business Serv	OBI	Inv# F13800063 cust# C3800002
Value Date	05/21/2009	Company	911300
Wire TRN	090521021022	Initiated By	Nicole Cataldo 05/21/2009 04:12 PM
Fed Reference Number	001108	Initiator Phone	856-310-5878
Bene Bank ID	021001088	Approved By	Jeffery R Colkers 05/21/2009 04:24 PM
Bene Bank Name	HSBC BANK USA	Approver Phone	856-309-4899

03101GUIH

AR and AP Journal Entries

Model (Y)
Void (V)

Action Code I
Document Type PV
Document Number/Co 42212010 00003
G/L Date
Gross Amount
Remaining
Skip to Line

Explanation Vertex Business Services - Wir
Batch Number 4369522

Account No.	Prod	Amount	Explanation 2	P
120205.675000.26 *	TJ26	10,740.00	CUST C3800002	P
130205.675000.26	TJ26	450.00	CUST C3800002	P
240005.675000.26	TJ26	58,650.00	CUST C3800002	P
260205.675000.26	TJ26	6,750.00	CUST C3800002	P
270505.675000.26	TJ26	5,160.00	CUST C3800002	P
285105.675000.26	TJ26	15,420.00	CUST C3800002	P
180105.675000.26	TJ26	57,690.00	CUST C3800002	P
380305.675000.26	TJ26	6,690.00	CUST C3800002	P
033003.675000.26	TJ26	360.00	CUST C3800002	P

F5=Make New Model F6=% JE F15=Model JE's F13=Acct Master F24=More Keys

03101GUIH

AR and AP Journal Entries

Model (Y) -
 Void (V) -

Action Code I
 Document Type . . . PV
 Document Number/Co 42212010 00003
 G/L Date
 Gross Amount
 Remaining
 Skip to Line

Explanation Vertex Business Services - Wir
 Batch Number 4369522

Account No.	Prod	Amount	Explanation 2	P
230105.675000.26	TJ25	14,190.00	CUST C3800002	P
051005.675000.26	TJ25	15,450.00	CUST C3800002	P
300205.675000.26	TJ25	900.00	CUST C3800002	P
190205.675000.26	TJ25	1,530.00	CUST C3800002	P
500105.675000.26	TJ26	480.00	CUST C3800002	P
098505.675000.26	TJ26	27,840.00	CUST C3800002	P
100105.675000.26	TJ26	25,680.00	CUST C3800002	P
110105.675000.26	TJ26	5,490.00	CUST C3800002	P
170105.675000.26	TJ26	41,310.00	CUST C3800002	P
220105.675000.26	TJ26	5,220.00	CUST C3800002	P

F5=Make New Model, F6=% JE, F15=Model JE's, F13=Acct Master, F24=More Keys

042003

Vendor Ledger Inquiry

Address Number . . . _____
 Parent Number . . . _____
 Document Number . . . 42212010
 P.O. Number . . . _____
 Invoice Number . . . _____
 Skip To Page . . . _____

Date From . . . _____
 Date Through _____
 Ledger Inq Sequence. 6
 Paid 2
 Company _____

O	P	Ty	Number	Itm	Date	Date	Net Due	Gross Amount	Open Amount	P	P
	PV		42212010	001	04/22/09	05/24/09		300,000.00			C
	PN		4098		05/21/09	05/24/09		300,000.00-			D
TOTAL								300,000.00			

Opt: 1=Vouch 2=JE 3=Pmts 5=Detail . . . F10=Pmt Ledger F21=Print F24=More

SEPARATION

03101GUIH

AR and AP Journal Entries

Page 14 of 18
 Model (Y)
 Void (V)

Action Code I
 Document Type . . . PV
 Document Number/Co 42116103 00012 Explanation HG Wilson & Sons Contractors I
 G/L Date Batch Number 4308907
 Gross Amount
 Remaining
 Skip to Line

Account No.	Prod	Amount	Explanation 2	P
120206.675650.24	TB23	X 11,588.80	RIGHT OF WAY RE	P
120200.105275.21	TB23	2,524.50	RIGHT OF WAY RE	P
120200.105275.21	TB23	1,592.30	RIGHT OF WAY RE	P
120200.105275.21	TB23	654.50	RIGHT OF WAY RE	P

F5=Make New Model F6=% JE F15=Model JE's F13=Acct Master F24=More Keys

042003 Vendor Ledger Inquiry

Address Number . . . _____
 Parent Number . . . _____
 Document Number . . . 42116103
 P.O. Number . . . _____
 Invoice Number . . . _____
 Skip To Page . . . _____

Date From . . . _____
 Date Through _____
 Ledger Inq Sequence. 6
 Paid 2
 Company _____

O	P	TY	Number	Itm	Date	Date	Net Due	Gross	Open	P	P
								Amount	Amount	C	S
	PV		42116103	001	12/31/08	01/30/09		16,360.10		D	P
	PN		5419		01/30/09	01/30/09		16,360.10-		D	
TOTAL								16,360.10			

Opt: 1=Vouch 2=JE 3=Pmts 5=Detail . . . F10=Pmt Ledger F21=Print F24=More

09801
Batch Type - K
Batch Number - 431187
Batch Date - 01/30/09

American Water Works Company
General Ledger Post - Check Writer

Page 3
Date 01/30/09

Posting Journal

Post Out of Balance
Create Intercompany Settlements: 2

Do Document Ty	G/L Date	Co	Account Description	G/L Account Subldgr-Ty/Asset Number	Debit	Credit	Units
PN	4731 01/30/09	00010	Notes Pay AM46 Tadpole Child Support-ACH	100105.231200.AM46			AA
PN	4732 01/30/09	00010	Notes Pay AM46 Indiana Child Support-ACH	100105.231200.AM46	3,067.66		AA
PN	4733 01/30/09	00010	Notes Pay AM46 Bowen Engineering Corp - ALL U	100105.231200.AM46	1,402,355.10		AA
PN	4734 01/30/09	00010	Notes Pay AM46 Sewer District Transfers	100105.231200.AM46	176,520.55		AA
PN	5419 01/30/09	00012	Notes Pay AM46 RC Wilson & Sons Contractors, I	120105.231200.AM46	16,360.10		AA
PN	5420 01/30/09	00012	Notes Pay AM46 Lexington Fayette Urban County	120105.231200.AM46	114,299.58		AA
PN	7608 01/30/09	00022	Notes Pay AM46 Family Support Payment Center	220105.231200.AM46	196.62		AA
PN	7609 01/30/09	00022	Notes Pay AM46 Ohio Child Support - ACH	220105.231200.AM46	336.98		AA
PN	7610 01/30/09	00022	Notes Pay AM46 Automotive Rentals Inc ACH/ALL	220105.231200.AM46	9,425.55		AA
PN	15719 01/30/09	00009	Notes Pay AM46 Illinois State Disbursement Un	098505.231200.AM46			AA
PN	15720 01/30/09	00009	Notes Pay AM46 Illinois State Disbursement Un	098505.231200.AM46			AA
PN	15721 01/30/09	00009	Notes Pay AM46 Illinois State Disbursement Un	098505.231200.AM46	8,366.95		AA
PN	15722 01/30/09	00009	Notes Pay AM46 Family Support Payment Center	098505.231200.AM46	281.54		AA
PN	15723 01/30/09	00009	Notes Pay AM46 Matsum Corp - ACH	098505.231200.AM46	6,000.00		AA
PN	84195 01/30/09	00027	Notes Pay AM46 City of Hopewell - REMIT	270505.231200.AM46	5,041.65		AA
PN	84196 01/30/09	00027	Notes Pay AM46 City of Hopewell - REMIT	270505.231200.AM46	6,384.41		AA



RptBatchSumViewForm

Prenotes \$0.00 0

Company Name: AMERICANWATERCAP Effective Date: 01/30/2009
 ACH ID: 1223732448 Batch Sequence: 9
 Application Name: Vendor Payments Database Name: Garney Construction
 Batch Status: Submitted

Name	ID Number	Amount	D/C	Bank ID	Account #	Acct Type	Trace #
GARNEY		\$2,308,961.33	C	081000032	003476271800	C	0032296
Addenda: 705NTE*19\00010032296							

	Total Amount in Batch	Total Count in Batch
Debits	\$0.00	0
Credits	\$2,308,961.33	1
Prenotes	\$0.00	0

Company Name: AMERICANWATERCAP Effective Date: 01/30/2009
 ACH ID: 1223732448 Batch Sequence: 10
 Application Name: Vendor Payments Database Name: Hungerford & Terry Inc
 Batch Status: Submitted

Name	ID Number	Amount	D/C	Bank ID	Account #	Acct Type	Trace #
HUNGERFORD & TERRY INC		\$1,366.50	C	031201360	7858544203	C	0032297
Addenda: 705NTE*RS02774IN\00010032297							

	Total Amount in Batch	Total Count in Batch
Debits	\$0.00	0
Credits	\$1,366.50	1
Prenotes	\$0.00	0

Company Name: AMERICANWATERCAP Effective Date: 01/30/2009
 ACH ID: 1223732448 Batch Sequence: 11
 Application Name: Vendor Payments Database Name: HG Wilson & Sons
 Batch Status: Submitted

Name	ID Number	Amount	D/C	Bank ID	Account #	Acct Type	Trace #
HG WILSON & SONS		\$16,360.10	C	042100175	145805944926	C	0032299
Addenda: 705NTE*20081233\00010032299							

RptBatchSumViewForm

	<u>Total Amount in Batch</u>	<u>Total Count in Batch</u>
Debits	\$0.00	0
Credits	\$16,360.10	1
Prenotes	\$0.00	0

Company Name: AMERICANWATERCAP Effective Date: 01/30/2009
 ACH ID: 1223732448 Batch Sequence: 12
 Application Name: Vendor Payments Database Name: Natgun Corp.
 Batch Status: Submitted

<u>Name</u>	<u>ID Number</u>	<u>Amount</u>	<u>D/C</u>	<u>Bank ID</u>	<u>Account #</u>	<u>Acct Type</u>	<u>Trace #</u>
NATGUN	50229724	\$6,000.00	C	011075150	85010017730	C	0032364

Addenda: 705NTE*08C025\00010032364

	<u>Total Amount in Batch</u>	<u>Total Count in Batch</u>
Debits	\$0.00	0
Credits	\$6,000.00	1
Prenotes	\$0.00	0

Company Name: AMERICANWATERCAP Effective Date: 01/30/2009
 ACH ID: 1223732448 Batch Sequence: 13
 Application Name: Vendor Payments Database Name: Northeast Remsco Construction
 Batch Status: Submitted

<u>Name</u>	<u>ID Number</u>	<u>Amount</u>	<u>D/C</u>	<u>Bank ID</u>	<u>Account #</u>	<u>Acct Type</u>	<u>Trace #</u>
NORTHEAST REMSCO		\$1,232,841.70	C	031201467	2100017056945	C	0032398

Addenda: 705NTE*5DEC08 & 2DEC08\00010032398

	<u>Total Amount in Batch</u>	<u>Total Count in Batch</u>
Debits	\$0.00	0
Credits	\$1,232,841.70	1
Prenotes	\$0.00	0

Company Name: AMERICANWATERCAP Effective Date: 01/30/2009
 ACH ID: 1223732448 Batch Sequence: 14
 Application Name: Vendor Payments Database Name: Pennsylvania American Water PAC
 Batch Status: Submitted

<u>Name</u>	<u>ID Number</u>	<u>Amount</u>	<u>D/C</u>	<u>Bank ID</u>	<u>Account #</u>	<u>Acct Type</u>	<u>Trace #</u>
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KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION

Witness: Michael A. Miller

97. Cash working capital. Refer to the response to PSC DR1-1, WP1-12. Refer to page 162.
- a. Please identify the date and amount of all cash payments for Kentucky state income taxes made by KAW (and the tax year to which each such payment relates) for each year 2007, 2008, 2009 and to date for 2010.
 - b. Please identify the date and amount of all cash payments for Kentucky state income taxes made by AWWC and AWWSC (and the tax year to which each such payment relates) for each year 2007, 2008, 2009 and to date for 2010.
 - c. Please identify the date and amount of all cash payments for federal income taxes made by KAW (and the tax year to which each such payment relates) for each year 2007, 2008, 2009 and to date for 2010. Also, indicate the payee.
 - d. Please identify the date and amount of all cash payments for federal income taxes made by AWWC and AWWSC (and the tax year to which each such payment relates) for each year 2007, 2008, 2009 and to date for 2010.
 - e. Which entity in the AWWC group makes cash payments for Kentucky state income taxes?
 - 1) Identify the date and amount of all cash payments for Kentucky income taxes made by that entity (and the tax year to which each such payment relates) for each year 2007, 2008, 2009 and to date for 2010.
 - f. Which entity in the AWWC group makes cash payments for federal income taxes?
 - 1) Identify the date and amount of all cash payments for federal income taxes made by that entity (and the tax year to which each such payment relates) for each year 2007, 2008, 2009 and to date for 2010.

Response:

- a. Please refer to the attachment.
- b. Neither AWWC nor AWWSC pays any Kentucky state taxes.
- c. Please refer to the attachment.
- d. The parent company, AWWC files a consolidated federal tax return and paid no federal tax in 2007, 2008, 2009 or YTD 2010.
- e. The payments are made by KAW. Please refer to part a to see the date and amounts of the payments for 2007, 2008, 2009 and 2010.
- f. The payments are made through American Water Capital Corporation. Please refer to part c to see the date and amounts of the payments for 2007, 2008, 2009 and 2010.

For the electronic version, refer to KAW_R_AGDR2#97_052410.pdf.

Kentucky American
Case 2010-00036
Attorney General AG 2-97 part a
Detail of State Tax payments made

Payee	Date	Amount	Purpose
Kentucky State Treasurer	6/15/2007	\$64,000	2nd qtr 2007 estimate
Kentucky State Treasurer	9/17/2007	\$31,000	3rd qtr 2007 estimate
Total 2007		\$95,000	
Kentucky State Treasurer	9/29/2008	\$35,323	2004 amended return
Kentucky State Treasurer	9/29/2008	\$15,997	2003 amended return
Total 2008		\$51,320	
Kentucky State Treasurer	4/24/2009	\$470,000	2008 extension payment
Kentucky State Treasurer	6/12/2009	\$220,000	2nd qtr 2009 estimate
Kentucky State Treasurer	8/28/2009	\$123,000	3rd qtr 2009 estimate
Kentucky State Treasurer	9/9/2009	\$430,563	2005 amended return
Total 2009		\$1,243,563	
No payments made to date in 2010			
Total 2010		\$0	

Kentucky American
Case 2010-00036
Attorney General AG 2-97 part c
Detail of Federal Tax payments made

Payee	Date	Amount	Purpose
American Water Capital Corp	12/31/2007	\$2,941,415	2006 Federal Tax
	Total 2007	\$2,941,415	
American Water Capital Corp	1231/08	\$2,481,015	2008 Federal Tax-estimated
American Water Capital Corp	1231/08	\$67,866	2003 Federal Tax-adjustment
American Water Capital Corp	1231/08	\$105,267	2004 Federal Tax adjustment
American Water Capital Corp	1231/08	\$1,948,267	2007 Federal Tax
	Total 2008	\$4,602,415	
American Water Capital Corp	6/30/2009	\$60,829	2009 Federal Tax-estimated
American Water Capital Corp	12/31/2009	\$980,316	2009 Federal Tax-estimated
American Water Capital Corp	12/31/2009	\$1,183,535	2005 Federal Tax-adjustment
	Total 2009	\$2,224,680	
No payments made to date in 2010			
	Total 2010	\$0	

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

Witness: Michael A. Miller

98. Cash working capital. Refer to the response to PSC DR1-1, WP1-12.
- a. Refer to page 163. Please explain the annual tax assessment, billing and payment calendar for each different type of property taxes paid by KAW.
 - b. Refer to page 165. Please explain the annual tax assessment, billing and payment calendar for each different type of utility taxes paid by KAW.

Response:

- a. There are property taxes with two different fiscal cycles. Most properties have a service period for a calendar year from January to December, \$1,976,069.87. The rest of the taxes have a service period that runs on a fiscal period from April to March \$33,443.26.
- b. The utility tax shown on page 165 is the annual PSC tax assessment with a service date of 7/1/2009 to 6/30/2010 for \$92,411.66.

For the electronic version, refer to KAW_R_AGDR2#98_052410.pdf.

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

Witness: Michael A. Miller

99. Cash working capital. Refer to the response to PSC DR1-1, WP1-12. Refer to page 164 (payroll tax) and page 144 (labor).
- a. Please identify each type of payroll withholding included in each Payroll amount on page 144, and provide the related amounts of each type of withholding, and indicate in detail the number of additional days beyond the payroll paid date before each type of withholding is remitted.
 - b. Does KAW remit FICA directly to a bank or tax authority? If not, explain fully why not. If so, please identify, quantify and explain in detail how the FICA remittance is coordinated with the payment of the payroll to which it relates.
 - c. Does KAW remit FICA to an affiliate? If so, please explain the arrangement and timing.

Refer to the Company's response to AG-1-229.

- d. How much R&D credit did KAW reflect in the base period? Show in detail how the amount was calculated.
- e. How much R&D credit did KAW reflect in the future test year? Show in detail how the amount was calculated.
- f. Provide the best current estimates of the 2009 R&D credit.

Response:

- a. The following taxes are attached to payroll withholding for the 2009 labor. Please refer to the attachment for the amounts.

FICA-remitted the next business day after the payroll date.

FUTA-following 30 days after quarter end.

SUTA-following 30 days after quarter end.

STATE-3days after the fifteenth and 30 days after last day of the month.

KY Local-LFUGG tax paid before 15th of following month.

KY Local-rest of local taxes paid 30 days after quarter.

- b. FICA is remitted directly to the IRS. FICA is remitted the next business day after the payroll date.
- c. KAW does not remit FICA to an affiliate.
- d. There was no R&D credit reflected in the base period.
- e. There was no R&D credit reflected in the forecasted test year.
- f. See attached.

For the electronic version, refer to KAW_R_AGDR2#99_052410.pdf.

Kentucky American
Case 2010-00036
Attorney General AG 2-99 parts a

Account 236120 FUTA payments - Year 2009

Date	Payee	Amount
01/20/09	Internal Revenue Service	\$343.57
04/10/09	Internal Revenue Service	\$7,889.91
07/13/09	Internal Revenue Service	\$51.23
10/13/09	Internal Revenue Service	\$437.85

Kentucky American
Case 2010-00036
Attorney General AG 2-99 parts a

Account 236130 FICA payments - Year 2009

Date	Payee	Amount
01/02/09	Internal Revenue Service	\$23,807.46
01/07/09	Internal Revenue Service	\$130.14
01/16/09	Internal Revenue Service	\$23,295.01
01/30/09	Internal Revenue Service	\$23,470.84
02/13/09	Internal Revenue Service	\$22,208.85
02/27/09	Internal Revenue Service	\$23,505.35
03/11/09	Internal Revenue Service	\$18,773.34
03/13/09	Internal Revenue Service	\$22,583.25
03/27/09	Internal Revenue Service	\$22,194.45
04/09/09	Internal Revenue Service	\$22,573.96
04/24/09	Internal Revenue Service	\$23,812.99
05/08/09	Internal Revenue Service	\$22,133.35
05/22/09	Internal Revenue Service	\$22,695.45
06/05/09	Internal Revenue Service	\$23,319.19
06/19/09	Internal Revenue Service	\$22,724.79
07/02/09	Internal Revenue Service	\$22,963.29
07/17/09	Internal Revenue Service	\$23,184.24
07/31/09	Internal Revenue Service	\$23,245.27
08/05/09	Internal Revenue Service	\$109.28
08/14/09	Internal Revenue Service	\$22,471.75
08/28/09	Internal Revenue Service	\$22,421.52
09/02/09	Internal Revenue Service	\$131.68
09/11/09	Internal Revenue Service	\$22,153.77
09/25/09	Internal Revenue Service	\$22,111.10
09/30/09	Internal Revenue Service	\$91.34
10/09/09	Internal Revenue Service	\$22,273.89
10/23/09	Internal Revenue Service	\$21,723.84
11/06/09	Internal Revenue Service	\$21,270.33
11/20/09	Internal Revenue Service	\$21,723.92
12/04/09	Internal Revenue Service	\$21,849.85
12/09/09	Internal Revenue Service	\$250.31
12/18/09	Internal Revenue Service	\$21,929.04
12/31/09	Internal Revenue Service	\$22,971.08

Kentucky American
Case 2010-00036
Attorney General AG 2-99 parts a

Account 236140 SUTA payments - Year 2009

Date	Payee	Amount
01/22/09	Treasurer Kentucky	\$448.70
04/21/09	Treasurer Kentucky	\$15,690.22
07/14/09	Treasurer Kentucky	\$99.45
10/06/09	Treasurer Kentucky	\$841.70

Kentucky American
Case 2010-00036
Attorney General AG 2-99 parts a

Account 241220.KY State payments - Year 2009

Date	Payee	Amount
01/02/09	Kentucky State Treasury	\$15,426.17
01/15/09	Kentucky State Treasury	\$15,379.09
02/02/09	Kentucky State Treasury	\$30,183.84
02/13/09	Kentucky State Treasury	\$14,211.11
02/27/09	Kentucky State Treasury	\$15,232.32
03/12/09	Kentucky State Treasury	\$28,033.28
04/01/09	Kentucky State Treasury	\$14,254.54
04/20/09	Kentucky State Treasury	\$14,548.76
05/04/09	Kentucky State Treasury	\$15,447.54
05/18/09	Kentucky State Treasury	\$14,226.16
05/29/09	Kentucky State Treasury	\$14,630.96
06/15/09	Kentucky State Treasury	\$15,065.34
07/01/09	Kentucky State Treasury	\$14,680.25
07/15/09	Kentucky State Treasury	\$14,808.10
07/31/09	Kentucky State Treasury	\$29,943.63
08/14/09	Kentucky State Treasury	\$14,689.13
08/28/09	Kentucky State Treasury	\$14,740.92
09/15/09	Kentucky State Treasury	\$14,565.60
09/30/09	Kentucky State Treasury	\$14,533.41
10/15/09	Kentucky State Treasury	\$14,588.95
11/02/09	Kentucky State Treasury	\$14,481.51
11/16/09	Kentucky State Treasury	\$14,358.02
11/30/09	Kentucky State Treasury	\$14,808.64
12/15/09	Kentucky State Treasury	\$15,117.57

Kentucky American
Case 2010-00036
Attorney General AG 2-99 parts a

Account 241220.012 Local payments - Year 2009

Date	Payee	Amount
01/15/09	LFUGG Div of Reven	\$12,822.48
01/19/09	WOODFORD CO TAX AD	\$5.75
01/19/09	City of Owenton Ci	\$1,379.14
01/19/09	Treasurer Clark Co	\$109.42
01/19/09	Georgetown/Scott C	\$684.51
01/19/09	Fayette County Pub	\$5,297.85
01/19/09	Bourbon County Fis	\$12.15
02/10/09	LFUGG Div of Reven	\$18,640.87
03/05/09	LFUGG Div of Reven	\$12,232.62
04/02/09	LFUGG Div of Reven	\$17,256.94
04/21/09	WOODFORD CO TAX AD	\$11.99
04/21/09	City of Owenton Ci	\$1,890.82
04/21/09	Treasurer Clark Co	\$140.17
04/21/09	Georgetown/Scott C	\$942.49
04/21/09	Harrison County Ta	\$1.28
04/21/09	Fayette County Pub	\$6,758.47
04/21/09	Bourbon County Fis	\$17.61
05/05/09	LFUGG Div of Reven	\$12,256.59
05/08/09	LFUGG Div of Reven	\$100.00
06/05/09	LFUGG Div of Reven	\$12,107.49
07/07/09	LFUGG Div of Reven	\$12,296.57
07/08/09	WOODFORD CO TAX AD	\$3.65
07/08/09	City of Owenton Ci	\$1,499.36
07/08/09	Treasurer Clark Co	\$141.79
07/08/09	Georgetown/Scott C	\$698.66
07/08/09	Harrison County Ta	\$1.20
07/08/09	Fayette County Pub	\$4,933.38
07/08/09	Bourbon County Fis	\$7.10
08/07/09	LFUGG Div of Reven	\$18,565.03
09/03/09	LFUGG Div of Reven	\$12,161.15
10/02/09	LFUGG Div of Reven	\$11,926.81
10/06/09	WOODFORD CO TAX AD	\$8.38
10/06/09	City of Owenton Ci	\$1,732.16
10/06/09	Treasurer Clark Co	\$139.09
10/06/09	Georgetown/Scott C	\$813.80
10/06/09	Harrison County Ta	\$6.95
10/06/09	Fayette County Pub	\$5,779.37
10/06/09	Bourbon County Fis	\$13.88
11/09/09	LFUGG Div of Reven	\$11,765.38
12/02/09	LFUGG Div of Reven	\$11,863.15

Kentucky American Water Company
AG2 Question 99 f.
For The Forecasted Test Period Ending 9/30/2011

Company Number	Company Name	Gross Receipts 2005	Gross Receipts 2006	Gross Receipts 2007	Gross Receipts 2008	4 YR. Average Gross Receipts	Fixed Base %	Base Amount	A Acct 534213 R&D Wages	Acct 575680 AWWA Expenses	B 75% AWWA Expenses	(A+B)/2 Min Base Amount	A+B Qualified Research Expenses	Base Amount	Excess	C C(0,20) Research Credit
12	Kentucky - American	50,437,620	48,230,703	51,653,525	58,870,756	52,298,151	0.10%	52,298	50,122	-	-	25,061	50,122	52,298	(2,176)	(435)

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

Witness: Keith Cartier

100. Refer to the Company's response to AG-1-104. Please provide the attachment electronically in Excel.

Response:

Please refer to the excel file labeled as KAW_R_AGDR2#100_052410.xls.

For the electronic version of this response, refer to KAW_R_AGDR2#100_052410.pdf.