

Kentucky-American Water Company

Case No. 2010-00036

Exhibit RCS-1

Accompanying the Direct Testimony of Ralph Smith

| Number | Description | No. of Pages | Exhibit Page No. |
|---------------|--|---------------------|-------------------------|
| | Revenue Requirement Summary Schedules | | |
| A | Calculation of Revenue Deficiency (Sufficiency) | 2 | 2-3 |
| A-1 | Gross Revenue Conversion Factor | 1 | 4 |
| B | Adjusted Rate Base | 1 | 5 |
| B.1 | Summary of Rate Base Adjustments | 1 | 6 |
| C | Adjusted Net Operating Income | 1 | 7 |
| C.1 | Summary of Net Operating Income Adjustments | 2 | 8-9 |
| D | Capital Structure and Cost Rates | 1 | 10 |
| | | | |
| | Rate Base Adjustments | | |
| B-1 | Construction Work in Progress | 1 | 11 |
| B-2 | Acquisition Adjustment Double Count | 1 | 12 |
| B-3 | Cash Working Capital | 3 | 13-15 |
| B-4 | Labor Costs in Deferred Maintenance | 1 | 16 |
| B-5 | Accumulated Depreciation | 1 | 17 |
| B-6 | Accumulated Deferred Income Taxes - Deferred Maintenance | 1 | 18 |
| B-7 | Accumulated Deferred Income Taxes - Major Tax Accounting Change | 1 | 19 |
| | | | |
| | Net Operating Income Adjustments | | |
| C-1 | Income Tax Expense - Interest Synchronization | 1 | 20 |
| C-2 | Income Tax Expense - Consolidated Tax Savings | 1 | 21 |
| C-3 | Allowance for Funds Used During Construction | 1 | 22 |
| C-4 | Incentive Compensation Expense | 1 | 23 |
| C-5 | Stock-Based Compensation Expense | 1 | 24 |
| C-6 | Affiliate Management Fees - Excess Over Current Budget | 1 | 25 |
| C-7 | Affiliate Management Fees - Business Development Expense | 1 | 26 |
| C-8 | Affiliate Management Fees - Donations and Miscellaneous Expenses | 1 | 27 |
| C-9 | Pension and OPEB Expense Correction | 1 | 28 |
| C-10 | Rate Case Expense - Prior Rate Cases | 1 | 29 |
| C-11 | Rate Case Expense - Current Rate Case | 2 | 30-31 |
| C-12 | Depreciation Expense | 2 | 32-33 |
| C-13 | Capitalization Rate | 1 | 34 |
| C-14 | Employee Party, Outing and Gift Expenses | 1 | 35 |
| C-15 | Vacancies and Over-projection of Pay Increases | 2 | 36-37 |
| C-16 | KRS Lagoon Cleaning Expense Normalization | 1 | 38 |
| C-17 | Uncollectibles Expense | 1 | 39 |
| C-18 | Payroll Tax Expense | 1 | 40 |
| | | | |
| | Total Pages (Including Contents Page) | 40 | |

Kentucky-American Water Company
Calculation of Revenue Deficiency (Sufficiency)

Exhibit RCS-1
Schedule A
Case No. 2010-00036
Page 1 of 2

Test Year Ended September 30, 2011

| Line No. | Description | Reference | Per Company (A) | Per AG (B) | Difference (C) |
|----------|----------------------------------|-----------|-----------------|----------------|-----------------|
| 1 | Adjusted rate base | Sch B | \$ 362,672,028 | \$ 352,362,756 | \$ (10,309,272) |
| 2 | Rate of return | Sch D | 8.580% | 7.500% | |
| 3 | Net operating income required | | \$ 31,117,260 | \$ 26,427,207 | \$ (4,690,053) |
| 4 | Rounding | | - | | |
| 5 | Net operating income required | | \$ 31,117,260 | \$ 26,427,207 | \$ (4,690,053) |
| 6 | Adjusted net operating income | Sch C | \$ 15,473,267 | \$ 18,215,355 | \$ 2,742,088 |
| 7 | Net operating income deficiency | | \$ 15,643,993 | \$ 8,211,852 | \$ (7,432,141) |
| 8 | Gross revenue conversion factor | Sch A-1 | 1.6522819 | 1.6515716 | |
| 9 | Revenue deficiency (Sufficiency) | | \$ 25,848,286 | \$ 13,562,461 | \$ (12,285,825) |
| 10 | Difference | | \$ - | \$ - | \$ - |
| 11 | Revenue increase | | \$ 25,848,286 | \$ 13,562,461 | \$ (12,285,825) |
| 12 | Adjusted operating revenues | Sch C | \$ 68,523,626 | \$ 67,877,446 | \$ (646,180) |
| 13 | Revenue requirement | Sch C | \$ 94,371,912 | \$ 81,439,907 | \$ (12,932,005) |
| 14 | Revenue increase, percent | | 37.7% | 20.0% | |

Notes and Source

Col.A: Company's filing, Exhibit No. 37, Schedule A

Col.B: See referenced schedules

Col.C: Col B - Col. A

Kentucky-American Water Company
Revenue Requirement Reconciliation

Exhibit RCS-1
Schedule A
Case No. 2010-00036
Page 2 of 2

Test Year Ended September 30, 2011

| Line No. | Description | Exhibit RCS-1 Schedule Reference | Component | AG | AG | AG |
|----------|---|----------------------------------|---------------------------------|---------------------------|------------------|------------------------|
| | | | | Adjustments (A) | Multiplier (B) | Requirement Amount (C) |
| 1 | | D | ROR Difference | | -1.0800% | |
| 2 | Rate Base | A-1 | GRCF | | x 1.651572 | |
| 3 | Rate Base per KAWC's Filing | B | | \$ 362,672,028 | -1.784% | \$ (6,468,971) |
| 4 | | D | Rate of Return | | 7.500% | |
| 5 | Effect of AG Adjustments to Rate Base | A-1 | GRCF | | x 1.651572 | |
| 6 | Construction Work in Progress | B-1 | | Sch B.1 \$ (9,463,931) | 12.39% | \$ (1,172,277) |
| 7 | Acquisition Adjustment Double Count | B-2 | | \$ (2,342) | 12.39% | \$ (290) |
| 8 | Cash Working Capital | B-3 | | \$ (980,000) | 12.39% | \$ (121,391) |
| 9 | Labor Costs in Deferred Maintenance | B-4 | | \$ (45,500) | 12.39% | \$ (5,636) |
| 10 | Accumulated Depreciation | B-5 | | \$ 164,801 | 12.39% | \$ 20,414 |
| 11 | ADIT - Deferred Maintenance | B-6 | | \$ 17,700 | 12.39% | \$ 2,192 |
| 12 | ADIT - Major Tax Accounting Change | B-7 | Not Yet Quantified | \$ - | 12.39% | \$ - |
| 13 | Total AG Rate Base Adjustments | | | <u>\$ (10,309,272)</u> | | |
| 14 | AG Adjusted Original Cost Rate Base | B | | <u>\$ 352,362,756</u> | | |
| 15 | Net Operating Income | | | | | |
| | | | Pre-Tax Operating Income Amount | NOI Amount Sch C.1 | AG GRCF Sch. A-1 | |
| 16 | Income Tax Expense - Interest Synchronization | C-1 | \$ - | \$ (252,459) | 1.651572 | \$ 416,954 |
| 17 | Income Tax Expense - Consolidated Tax Savings | C-2 | \$ - | \$ 1,361,624 | 1.651572 | \$ (2,248,819) |
| 18 | Allowance for Funds Used During Construction | C-3 | \$ (646,180) | \$ (394,816) | 1.651572 | \$ 652,067 |
| 19 | Incentive Compensation Expense | C-4 | \$ 786,516 | \$ 480,561 | 1.651572 | \$ (793,681) |
| 20 | Stock-Based Compensation Expense | C-5 | \$ 206,436 | \$ 126,132 | 1.651572 | \$ (208,316) |
| 21 | Affiliate Management Fees - Excess Over Current Budget | C-6 | \$ 133,057 | \$ 81,298 | 1.651572 | \$ (134,269) |
| 22 | Affiliate Management Fees - Business Development Expense | C-7 | \$ 198,342 | \$ 121,187 | 1.651572 | \$ (200,149) |
| 23 | Affiliate Management Fees - Donations and Miscellaneous E | C-8 | \$ 65,793 | \$ 40,199 | 1.651572 | \$ (66,392) |
| 24 | Pension and OPEB Expense Correction | C-9 | \$ 305,468 | \$ 186,641 | 1.651572 | \$ (308,251) |
| 25 | Rate Case Expense - Prior Rate Cases | C-10 | \$ 148,128 | \$ 90,506 | 1.651572 | \$ (149,477) |
| 26 | Rate Case Expense - Current Rate Case | C-11 | \$ 66,288 | \$ 40,502 | 1.651572 | \$ (66,893) |
| 27 | Depreciation Expense | C-12 | \$ 654,031 | \$ 399,613 | 1.651572 | \$ (659,989) |
| 28 | Capitalization Rate | C-13 | \$ 358,551 | \$ 219,075 | 1.651572 | \$ (361,818) |
| 29 | Employee Party, Outing and Gift Expenses | C-14 | \$ 25,070 | \$ 15,318 | 1.651572 | \$ (25,299) |
| 30 | Vacancies and Over-projection of Pay Increases | C-15 | \$ 246,923 | \$ 150,870 | 1.651572 | \$ (249,173) |
| 31 | KRS Lagoon Cleaning Expense Normalization | C-16 | \$ 12,376 | \$ 7,561 | 1.651572 | \$ (12,488) |
| 32 | Uncollectibles Expense | C-17 | \$ 27,589 | \$ 16,857 | 1.651572 | \$ (27,841) |
| 33 | Payroll Tax Expense | C-18 | \$ 84,155 | \$ 51,419 | 1.651572 | \$ (84,922) |
| 33 | Total AG Adjustments to Operating Income | C.1 | <u>\$ 2,672,543</u> | <u>\$ 2,742,088</u> | | |
| 34 | Net Operating Income per Company Filing | C | | <u>\$ 15,473,267</u> | | |
| 35 | AG Adjusted Net Operating Income | C | | <u>\$ 18,215,355</u> | | |
| | Gross Revenue Conversion Factor Difference: | | | | | |
| 36 | Per AG | A-1 | | | 1.651572 | |
| 37 | Per Company | A-1 | | | 1.652282 | |
| 38 | Difference | | | | <u>-0.000710</u> | |
| 39 | Company Adjusted NOI Deficiency | A | | | \$ 15,643,993 | |
| 40 | GRCF Difference | | | | | \$ (11,109) |
| 41 | AG REVENUE REQUIREMENT ADJUSTMENTS ABOVE | | | | | \$ (12,285,824) |
| 42 | Company Requested Base Rate Revenue Increase | A | | | | \$ 25,848,286 |
| 43 | Reconciled Revenue Requirement | | | | | \$ 13,562,462 |
| 44 | Revenue Requirement Calculated on Schedule A | A | | | | \$ 13,562,461 |
| 45 | Difference Not Accounted for Above | A | | | | \$ 1 |
| 46 | Schedule A, line 10 difference | | | | | \$ - |
| 47 | Unreconciled Difference | | | | | \$ 1 |

Notes and Source

Pre-tax return computed using Gross Revenue Conversion Factor

Test Year Ended September 30, 2011

| Line No. | Description | Reference | Tax Rates | Per Company (A) | Per AG (B) |
|----------|------------------------------------|-----------|-----------|-----------------|------------|
| 1 | Operating Revenues | | | 100.0000% | 100.0000% |
| 2 | Uncollectible Accounts Expense | Notes A&B | | 0.7836% | 0.7410% |
| 3 | PSC Fees | Note A | | 0.1618% | 0.1618% |
| 4 | Income Before State Taxes | | | 99.0546% | 99.0972% |
| 5 | Less: State Income Taxes | Note A | 6.00% | 5.9433% | 5.9458% |
| 6 | Income Before Federal Income Taxes | | | 93.1113% | 93.1514% |
| 7 | Less: Federal Income Taxes | Note A | 35.00% | 32.5890% | 32.6030% |
| 8 | Operating Income Percentage | | | 60.5224% | 60.5484% |
| 9 | Gross Revenue Conversion Factor | | | 1.6522817 | 1.6515716 |
| 10 | Rounding | | | 0.0000002 | |
| 11 | Gross Revenue Conversion Factor | Note A | | 1.6522819 | 1.6515716 |

Notes and Source

[A] KAWC Exhibit 37, Schedule H

[B] AG recommended Uncollectible Factor is based on a three-year average for 2007-2009 as shown on Schedule C-17

Col. B: Derived from Column A

| | | | | |
|----|--|----------------|----------|----------|
| 10 | Combined state and federal income tax rate | (L5 + L7) / L4 | 38.9000% | 38.9000% |
|----|--|----------------|----------|----------|

Components of Base Rate Revenue Change

| | Percent | Per AG |
|--|--------------------------------|---------------|
| 11 | Revenue Change | \$ 13,562,461 |
| Change in Expenses and Net Operating Income: | | |
| 12 | Uncollectible Accounts Expense | \$ 100,498 |
| 13 | PSC Fees | \$ 21,944 |
| 14 | State Income Taxes | \$ 806,401 |
| 15 | Federal Income Taxes | \$ 4,421,766 |
| 16 | Net Operating Income | \$ 8,211,852 |
| 17 | Total Revenue Change | \$ 13,562,461 |

Kentucky-American Water Company
Adjusted Rate Base

Exhibit RCS-1
Schedule B
Case No. 2010-00036
Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Company Proposed (A) | AG Adjustments (B) | AG Proposed (C) |
|----------|--|-------------------------|------------------------|-----------------------|
| | Plant in Service | | | |
| 1 | Utility Plant in Service | \$ 566,014,484 | \$ - | \$ 566,014,484 |
| 2 | Property Held for Future Use | \$ - | \$ - | \$ - |
| 3 | Utility Plant Acquisition Adjustments | \$ 2,342 | \$ - | \$ 2,342 |
| 4 | Accumulated Depreciation | \$ (110,085,251) | \$ 269,724 | \$ (109,815,527) |
| 5 | Net Utility Plant in Service | <u>\$ 455,931,575</u> | <u>\$ 269,724</u> | <u>\$ 456,201,299</u> |
| 6 | Construction Work in Progress | \$ 9,463,931 | \$ (9,463,931) | \$ - |
| 7 | Cash Working Capital | \$ 2,634,000 | \$ (980,000) | \$ 1,654,000 |
| 8 | Other Working Capital Allowance | \$ 642,421 | \$ - | \$ 642,421 |
| 9 | Contributions in Aid of Construction | \$ (48,865,890) | \$ - | \$ (48,865,890) |
| 10 | Customer Advances | \$ (19,089,182) | \$ - | \$ (19,089,182) |
| 11 | Accumulated Deferred Income Taxes | \$ (40,026,731) | \$ (87,223) | \$ (40,113,954) |
| 12 | Accumulated Deferred Investment Tax Credit | \$ (76,952) | \$ - | \$ (76,952) |
| 13 | Deferred Maintenance | \$ 2,708,236 | \$ (45,500) | \$ 2,662,736 |
| 14 | Deferred Debits | \$ 1,700,474 | \$ (2,342) | \$ 1,698,132 |
| 15 | Other Non-Investor Supplied Capital | \$ (2,349,854) | \$ - | \$ (2,349,854) |
| 16 | | | \$ - | \$ - |
| 17 | | | \$ - | \$ - |
| 18 | | | \$ - | \$ - |
| 19 | Rate Base | <u>\$ 362,672,028</u> | <u>\$ (10,309,272)</u> | <u>\$ 352,362,756</u> |

Notes and Source

Col.A: KAWC Exhibit 37, Schedule B-1

Col.B: Schedule B.1

Kentucky-American Water Company
 Summary of Adjustments to Rate Base

Exhibit RCS-1
 Schedule B.1
 Case No. 2010-00036
 Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | AG Adjustments | Construction Work in Progress | Acquisition Adjustment Double Count | Cash Working Capital | Labor Costs in Deferred Maintenance | Accumulated Depreciation | Accumulated Deferred Income Taxes - Deferred Maintenance | Accumulated Deferred Income Taxes - Major Tax Accounting Change |
|-------------------------|--|-----------------|-------------------------------|-------------------------------------|----------------------|-------------------------------------|--------------------------|--|---|
| | | | | | | | | | |
| Plant in Service | | | | | | | | | |
| 1 | Utility Plant in Service | \$ - | | | | | | | |
| 2 | Property Held for Future Use | \$ - | | | | | | | |
| 3 | Utility Plant Acquisition Adjustments | \$ - | | | | | | | |
| 4 | Accumulated Depreciation | \$ 269,724 | | | | \$ 269,724 | | | |
| 5 | Net Utility Plant in Service | \$ 269,724 | | | | \$ 269,724 | | | |
| 6 | Construction Work in Progress | \$ (9,463,931) | \$ (9,463,931) | | | | | | |
| 7 | Cash Working Capital | \$ (980,000) | | | \$ (980,000) | | | | |
| 8 | Other Working Capital Allowance | \$ - | | | | | | | |
| 9 | Contributions in Aid of Construction | \$ - | | | | | | | |
| 10 | Customer Advances | \$ - | | | | | | | |
| 11 | Accumulated Deferred Income Taxes | \$ (87,223) | | | | | | | 17,700 |
| 12 | Accumulated Deferred Investment Tax Credit | \$ - | | | | | | | |
| 13 | Deferred Maintenance | \$ (45,500) | | | | | | | |
| 14 | Deferred Debits | \$ (2,342) | | \$ (2,342) | | | | | |
| 15 | Other Non-Investor Supplied Capital | \$ - | | | | | | | |
| 16 | | \$ - | | | | | | | |
| 17 | | \$ - | | | | | | | |
| 18 | | \$ - | | | | | | | |
| 19 | Jurisdictional Rate Base | \$ (10,309,272) | \$ (9,463,931) | \$ (2,342) | \$ (980,000) | \$ (45,500) | \$ (104,923) | \$ 17,700 | \$ - |

Notes and Source
 See referenced schedule for each adjustment

Kentucky-American Water Company
Adjusted Net Operating Income

Exhibit RCS-1
Schedule C
Case No. 2010-00036
Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Per AG | | | Per AG | |
|---------------------------|---|-----------------------|------------------------|-----------------------|----------------------------------|--------------------------------|
| | | Per Company (A) | AG Adjustments (B) | Per AG (C) | Components of Revenue Change (D) | Revenue Requirement Impact (E) |
| Operating Revenue | | | | | | |
| 1 | Water Sales | \$ 64,753,488 | \$ - | \$ 64,753,488 | \$ 13,562,461 | \$ 78,315,949 |
| 2 | Other Operating Revenues | \$ 3,770,138 | \$ (646,180) | \$ 3,123,958 | | \$ 3,123,958 |
| 3 | Total Operating Revenues | \$ 68,523,626 | \$ (646,180) | \$ 67,877,446 | \$ 13,562,461 | \$ 81,439,907 |
| Operating Expenses | | | | | | |
| 4 | Labor | \$ 8,039,623 | \$ (762,821) | \$ 7,276,802 | | \$ 7,276,802 |
| 5 | Purchased Water | \$ 120,655 | \$ - | \$ 120,655 | | \$ 120,655 |
| 6 | Fuel and Power | \$ 4,375,584 | \$ - | \$ 4,375,584 | | \$ 4,375,584 |
| 7 | Chemicals | \$ 1,772,730 | \$ - | \$ 1,772,730 | | \$ 1,772,730 |
| 8 | Waste Disposal | \$ 340,226 | \$ (12,376) | \$ 327,850 | | \$ 327,850 |
| 9 | Management Fees | \$ 9,028,121 | \$ (1,013,387) | \$ 8,014,734 | | \$ 8,014,734 |
| 10 | Group Insurance | \$ 2,313,543 | \$ (185,341) | \$ 2,128,202 | | \$ 2,128,202 |
| 11 | Pensions | \$ 1,267,732 | \$ (315,882) | \$ 951,850 | | \$ 951,850 |
| 12 | Regulatory Expense | \$ 366,462 | \$ (214,416) | \$ 152,046 | | \$ 152,046 |
| 13 | Insurance Other than Group | \$ 742,262 | \$ (3,757) | \$ 738,505 | | \$ 738,505 |
| 14 | Customer Accounting | \$ 1,712,517 | \$ (27,589) | \$ 1,684,928 | \$ 100,498 | \$ 1,785,426 |
| 15 | Rents | \$ 27,654 | \$ - | \$ 27,654 | | \$ 27,654 |
| 16 | General Office Expense | \$ 639,778 | \$ - | \$ 639,778 | | \$ 639,778 |
| 17 | Miscellaneous | \$ 3,440,139 | \$ (25,070) | \$ 3,415,069 | \$ 21,944 | \$ 3,437,013 |
| 18 | Maintenance Other | \$ 1,272,341 | \$ - | \$ 1,272,341 | | \$ 1,272,341 |
| 19 | Total O&M Expenses | \$ 35,459,367 | \$ (2,560,639) | \$ 32,898,728 | \$ 122,442 | \$ 33,021,170 |
| 20 | Depreciation | \$ 11,086,076 | \$ (654,031) | \$ 10,432,045 | | \$ 10,432,045 |
| 21 | Amortization | \$ 233,721 | \$ - | \$ 233,721 | | \$ 233,721 |
| 22 | General Taxes: | | | \$ - | | \$ - |
| 23 | Property and Capital Stock | \$ 4,429,174 | \$ - | \$ 4,429,174 | | \$ 4,429,174 |
| 24 | Gross Receipts and Sales | \$ 109,826 | \$ - | \$ 109,826 | | \$ 109,826 |
| 25 | Payroll | \$ 621,307 | \$ (104,053) | \$ 517,254 | | \$ 517,254 |
| 26 | Miscellaneous | \$ - | \$ - | \$ - | | \$ - |
| 27 | Operating Expenses Before Taxes | \$ 51,939,471 | \$ (3,318,723) | \$ 48,620,748 | \$ 122,442 | \$ 48,743,190 |
| 28 | Operating Income Before Income Taxes | \$ 16,584,155 | \$ 2,672,543 | \$ 19,256,698 | \$ 13,440,019 | \$ 32,696,717 |
| 29 | State and Federal Income Taxes | | | | | |
| 30 | State Income Tax | | | | | |
| 31 | Current | \$ (164,573) | \$ 199,292 | \$ 34,719 | \$ 806,401 | \$ 841,120 |
| 32 | Deferred | \$ 318,502 | \$ - | \$ 318,502 | | \$ 318,502 |
| 33 | Federal Income Tax | | | \$ - | | \$ - |
| 34 | Current | \$ (902,408) | \$ (268,837) | \$ (1,171,245) | \$ 4,421,766 | \$ 3,250,521 |
| 35 | Deferred | \$ 1,944,164 | \$ - | \$ 1,944,164 | | \$ 1,944,164 |
| 36 | Deferred Investment Tax Credit | \$ (84,797) | \$ - | \$ (84,797) | | \$ (84,797) |
| 37 | Total State and Federal Income Taxes | \$ 1,110,888 | \$ (69,545) | \$ 1,041,343 | \$ 5,228,167 | \$ 6,269,510 |
| 38 | | | | | | |
| 39 | Total Operating Expenses | \$ 53,050,359 | \$ (3,388,268) | \$ 49,662,091 | \$ 5,350,609 | \$ 55,012,700 |
| 40 | Net Operating Income | \$ 15,473,267 | \$ 2,742,088 | \$ 18,215,355 | \$ 8,211,852 | \$ 26,427,207 |
| 41 | Rate Base | \$ 362,672,028 | \$ (10,309,272) | \$ 352,362,756 | | \$ 352,362,756 |
| 42 | Earned Rate of Return | 4.27% | | 5.17% | | 7.500% |

Notes and Source

Col.A: KAWC Exhibit 37, Schedule C-2

Col.B: Schedule C.1

Col.C: Col.A + Col.B

Col.D: Schedule A-1

Col.E: Col. C + Col. D

| Line No. | Description | C-1 | C-2 | C-3 | C-4 | C-5 | C-6 | C-7 | C-8 | C-9 |
|----------|---|----------------|-----|--------------|--------------|--------------|--------------|--------------|-------------|--------------|
| | | | | | | | | | | |
| | AG Adjustments | | | | | | | | | |
| 1 | Operating Revenue | | | | | | | | | |
| 2 | Water Sales | \$ - | | \$ (646,180) | | | | | | |
| 3 | Other Operating Revenues | \$ (646,180) | | \$ (646,180) | | | | | | |
| | Total Operating Revenues | \$ - | | \$ - | | | | | | |
| | Operating Expenses | | | | | | | | | |
| 4 | Labor | \$ (762,821) | | | \$ (349,529) | \$ (27,228) | | | | |
| 5 | Purchased Water | | | | | | | | | |
| 6 | Fuel and Power | | | | | | | | | |
| 7 | Chemicals | | | | | | | | | |
| 8 | Waste Disposal | \$ (12,376) | | | | | | | | |
| 9 | Management Fees | \$ (1,013,387) | | | | | | | | |
| 10 | Group Insurance | \$ (185,341) | | | \$ (436,987) | \$ (179,208) | \$ (133,057) | \$ (198,342) | \$ (65,793) | \$ (52,206) |
| 11 | Pensions | \$ (315,882) | | | | | | | | \$ (253,262) |
| 12 | Regulatory Expense | \$ (214,416) | | | | | | | | |
| 13 | Insurance Other than Group | \$ (3,757) | | | | | | | | |
| 14 | Customer Accounting | \$ (27,589) | | | | | | | | |
| 15 | Rents | | | | | | | | | |
| 16 | General Office Expense | | | | | | | | | |
| 17 | Miscellaneous | \$ (25,070) | | | | | | | | |
| 18 | Maintenance Other | | | | | | | | | |
| 19 | Total O&M Expenses | \$ (2,560,639) | | | \$ (786,516) | \$ (206,436) | \$ (133,057) | \$ (198,342) | \$ (65,793) | \$ (305,468) |
| 20 | Depreciation | \$ (654,031) | | | | | | | | |
| 21 | Amortization | | | | | | | | | |
| 22 | General Taxes: | | | | | | | | | |
| 23 | Property and Capital Stock | | | | | | | | | |
| 24 | Gross Receipts and Sales | | | | | | | | | |
| 25 | Payroll | \$ (104,053) | | | | | | | | |
| 26 | Miscellaneous | | | | | | | | | |
| 27 | Operating Expenses Before Taxes | \$ (3,318,723) | | | \$ (786,516) | \$ (206,436) | \$ (133,057) | \$ (198,342) | \$ (65,793) | \$ (305,468) |
| 28 | Operating Income Before Income Taxes | \$ 2,672,543 | | | \$ (646,180) | \$ 206,436 | \$ 133,057 | \$ 198,342 | \$ 65,793 | \$ 305,468 |
| 29 | State and Federal Income Taxes | | | | | | | | | |
| 30 | State Income Tax | | | | | | | | | |
| 31 | Current | \$ 199,292 | | | \$ 47,191 | \$ 12,386 | \$ 7,983 | \$ 11,901 | \$ 3,948 | \$ 18,328 |
| 32 | Deferred | | | | | | | | | |
| 33 | Federal Income Tax | | | | | | | | | |
| 34 | Current | \$ (268,837) | | | \$ 258,764 | \$ 67,918 | \$ 43,776 | \$ 65,254 | \$ 21,646 | \$ 100,499 |
| 35 | Deferred | | | | | | | | | |
| 36 | Deferred Investment Tax Credit | | | | | | | | | |
| 37 | Total State and Federal Income Taxes | \$ (69,545) | | | \$ 305,955 | \$ 80,304 | \$ 51,759 | \$ 77,155 | \$ 25,594 | \$ 118,827 |
| 38 | | | | | | | | | | |
| 39 | Total Operating Expenses | \$ (3,388,268) | | | \$ (480,561) | \$ (126,132) | \$ (81,298) | \$ (121,187) | \$ (40,199) | \$ (186,641) |
| 40 | Net Operating Income | \$ 2,742,088 | | | \$ 1,361,624 | \$ 126,132 | \$ 81,298 | \$ 121,187 | \$ 40,199 | \$ 186,641 |

Notes and Source
 Line 31 State Income Tax 6.00%
 Line 34 Federal Income Tax 35.00%

| Line No. | Description | Rate Case | | Depreciation Expense | Capitalization Rate | Employee Party, Outing and Gift Expenses | | Vacancies and Over-projection of Pay Increases | | KRS Lagoon Cleaning Expense Normalization | | Uncollectibles Expense | Payroll Tax Expense |
|---------------------------|---|--------------|----------------|----------------------|---------------------|--|--------------|--|-------------|---|-------------|------------------------|---------------------|
| | | Current Rate | Expense - Case | | | C-14 | C-15 | C-16 | C-17 | C-18 | | | |
| | | C-10 | C-11 | C-12 | C-13 | C-14 | C-15 | C-16 | C-17 | C-18 | | | |
| Operating Revenue | | | | | | | | | | | | | |
| 1 | Water Sales | | | | | | | | | | | | |
| 2 | Other Operating Revenues | | | | | | | | | | | | |
| 3 | Total Operating Revenues | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Operating Expenses | | | | | | | | | | | | | |
| 4 | Labor | | | | | | | | | | | | |
| 5 | Purchased Water | | | | | | | | | | | | |
| 6 | Fuel and Power | | | | | | | | | | | | |
| 7 | Chemicals | | | | | | | | | | | | |
| 8 | Waste Disposal | | | | | | | | | | | | |
| 9 | Management Fees | | | | | | | | | | | | |
| 10 | Group Insurance | | | | | | | | | | | | |
| 11 | Pensions | | | | | | | | | | | | |
| 12 | Regulatory Expense | | | | | | | | | | | | |
| 13 | Insurance Other than Group | | | | | | | | | | | | |
| 14 | Customer Accounting | | | | | | | | | | | | |
| 15 | Rents | | | | | | | | | | | | |
| 16 | General Office Expense | | | | | | | | | | | | |
| 17 | Miscellaneous | | | | | | | | | | | | |
| 18 | Maintenance Other | | | | | | | | | | | | |
| 19 | Total O&M Expenses | | | | | | | | | | | | |
| 20 | Depreciation | | | | | | | | | | | | |
| 21 | Amortization | | | | | | | | | | | | |
| 22 | General Taxes: | | | | | | | | | | | | |
| 23 | Property and Capital Stock | | | | | | | | | | | | |
| 24 | Gross Receipts and Sales | | | | | | | | | | | | |
| 25 | Payroll | | | | | | | | | | | | |
| 26 | Miscellaneous | | | | | | | | | | | | |
| 27 | Operating Expenses Before Taxes | \$ (148,128) | \$ (66,288) | \$ - | \$ (338,653) | \$ (25,070) | \$ (246,923) | \$ (12,376) | \$ (27,589) | \$ - | \$ (84,155) | | |
| 28 | Operating Income Before Income Taxes | \$ 148,128 | \$ 66,288 | \$ 654,031 | \$ 358,551 | \$ 25,070 | \$ 246,923 | \$ 12,376 | \$ 27,589 | \$ 84,155 | | | |
| 29 | State and Federal Income Taxes | | | | | | | | | | | | |
| 30 | State Income Tax | | | | | | | | | | | | |
| 31 | Current | \$ 8,888 | \$ 3,977 | \$ 39,242 | \$ 21,513 | \$ 1,504 | \$ 14,815 | \$ 743 | \$ 1,655 | \$ 5,049 | | | |
| 32 | Deferred | | | | | | | | | | | | |
| 33 | Federal Income Tax | | | | | | | | | | | | |
| 34 | Current | \$ 48,734 | \$ 21,809 | \$ 215,176 | \$ 117,963 | \$ 8,248 | \$ 81,238 | \$ 4,072 | \$ 9,077 | \$ 27,687 | | | |
| 35 | Deferred | | | | | | | | | | | | |
| 36 | Deferred Investment Tax Credit | | | | | | | | | | | | |
| 37 | Total State and Federal Income Taxes | \$ 57,622 | \$ 25,786 | \$ 254,418 | \$ 139,476 | \$ 9,752 | \$ 96,053 | \$ 4,815 | \$ 10,732 | \$ 32,736 | | | |
| 38 | | | | | | | | | | | | | |
| 39 | Total Operating Expenses | \$ (90,506) | \$ (40,502) | \$ (399,613) | \$ (219,075) | \$ (15,318) | \$ (150,870) | \$ (7,561) | \$ (16,857) | \$ (51,419) | | | |
| 40 | Net Operating Income | \$ 90,506 | \$ 40,502 | \$ 399,613 | \$ 219,075 | \$ 15,318 | \$ 150,870 | \$ 7,561 | \$ 16,857 | \$ 51,419 | | | |

Notes and Source
 Line 31 State Income Tax 6.00%
 Line 34 Federal Income Tax 35.00%

Kentucky-American Water Company
 Capital Structure and Cost Rates

Exhibit RCS-1
 Schedule D
 Case No. 2010-00036
 Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Amount (A) | Capital Structure Ratio (B) | Cost Rate (C) | Weighted Cost (D) |
|------------------------------|-------------------------------|-----------------------|-----------------------------|---------------|-------------------|
| <u>I. Per Company</u> | | | | | |
| 1 | Short Term Debt | \$ 8,843,758 | 2.39% | 2.085% | 0.05% |
| 2 | Long Term Debt | \$ 191,353,809 | 51.71% | 6.41% | 3.32% |
| 3 | Preferred Stock | \$ 5,949,504 | 1.61% | 7.75% | 0.13% |
| 4 | Common Equity | \$ 163,873,149 | 44.29% | 11.50% | 5.09% |
| 5 | Total | <u>\$ 370,020,220</u> | <u>100.00%</u> | | <u>8.5800%</u> |
| <u>II. Per AG</u> | | | | | |
| 6 | Short Term Debt | | 2.32% | 0.63% | 0.015% |
| 7 | Long Term Debt | | 52.06% | 6.32% | 3.290% |
| 8 | Preferred Stock | | 1.65% | 7.75% | 0.128% |
| 9 | Common Equity | | 43.97% | 9.25% | 4.067% |
| 10 | Total | | <u>100.00%</u> | | <u>7.500%</u> |
| 11 | Difference | | L.10 - L.5 | | <u>-1.08%</u> |
| 12 | Weighted Cost of Debt per AG | | Sum of Lines 6 & 7 | | <u>3.305%</u> |
| 13 | Weighted Cost of Debt per KAW | | Sum of Lines 1 & 2 | | <u>3.365%</u> |

Notes

Lines 1-5: KAWC Exhibit 37, Schedule J-1

Lines 6-10: AG witness Woolridge, Exhibit JRW-1

Kentucky-American Water Company
Construction Work in Progress

Exhibit RCS-1
Schedule B-1
Case No. 2010-00036
Page 1 of 1

Test Year Ended September 30, 2011

| <u>Line No.</u> | <u>Description</u> | <u>Amount</u> | <u>Reference</u> |
|-----------------|-------------------------------|-----------------------|------------------|
| 1 | Construction Work in Progress | <u>\$ (9,463,931)</u> | A |

Notes and Source

A KAWC Exhibit 37, Schedule B-1

Kentucky-American Water Company
Acquisition Adjustment Double Count

Exhibit RCS-1
Schedule B-2
Case No. 2010-00036
Page 1 of 1

Test Year Ended September 30, 2011

| <u>Line</u> <u>No.</u> | <u>Description</u> | <u>Amount</u> | <u>Reference</u> |
|---------------------------|---|--------------------------|------------------|
| 1 | Remove double count of Acquisition Adjustment | \$ <u><u>(2,342)</u></u> | A |

Notes and Source

A KAWC response to data request PSC 2-41

Kentucky-American Water Company
Cash Working Capital

Exhibit RCS-1
Schedule B-3
Case No. 2010-00036
Page 1 of 3

Test Year Ended September 30, 2011

| Line No. | Description | Amount | Reference |
|----------|----------------------|---------------------|-----------|
| | Cash Working Capital | | |
| 1 | Requested by KAWC | \$ 2,634,000 | Note A |
| 2 | Adjusted by AG | \$ 1,654,000 | Note B |
| 3 | AG Adjustment | <u>\$ (980,000)</u> | L2 - L1 |

Notes and Source

- [A] KAWC Exhibit 37, Schedule B-1
Also see page 2 of this Schedule, line 40
- [B] See page 2 of this Schedule

| Line No. | Description | Amount Per KAWC (A) | Payment Lag Days Per KAWC (B) | Net Payment Lag Days (C) | AG Adjustments (D) | AG Adjusted (E) = A + D | Cash Working Capital (F) = E/365 x C |
|---|--|---------------------|-------------------------------|--------------------------|--------------------|-------------------------|--------------------------------------|
| I. Details of Operating Expenses | | | | | | | |
| 1 | Payrolls Charged to Expense - Union/ATS Group | \$ 4,158,486 | | | | \$ 7,276,802 | \$ 475,140 |
| 2 | Payrolls Charged to Expense - Salaried | \$ 3,881,137 | | (23.83) | \$ (762,821) a | \$ 4,375,584 | \$ 64,648 |
| 3 | Total Payroll | \$ 8,039,623 | 12.00 | (5.39) | | \$ 1,772,730 | \$ 41,053 |
| 4 | Fuel and Power | \$ 4,375,584 | 30.44 | (8.45) | | \$ 8,014,734 | \$ 1,024,189 |
| 5 | Chemicals | \$ 1,772,730 | 27.38 | (46.64) | \$ (1,013,387) a | \$ 1,329,493 | \$ 179,947 |
| 6 | Service Company Charges | \$ 9,028,121 | (10.81) | (49.40) | \$ (73,643) b | \$ 951,850 | \$ 97,070 |
| 7 | Group Insurance | \$ 1,403,136 | (13.57) | (37.22) | \$ (111,698) b | \$ 738,505 | \$ 142,061 |
| 8 | OPEB | \$ 910,407 | (1.39) | (19.20) | \$ (3,757) a | \$ 152,046 | \$ 7,999 |
| 9 | Pensions | \$ 1,267,732 | (1.39) | (65.20) | \$ (214,416) a | \$ 27,654 | \$ 4,940 |
| 10 | Insurance Other than Group | \$ 742,262 | (34.38) | (5.32) | \$ 905,779 | \$ 905,779 | \$ 13,209 |
| 11 | Regulatory Exp | \$ 366,462 | 16.63 | (35.83) | \$ 72,909 | \$ 366,562 | \$ 35,986 |
| 12 | Rents | \$ 27,654 | (29.37) | (15.10) | \$ (12,376) a | \$ 595,460 | \$ 58,457 |
| 13 | Maintenance Expense, excluding Amortizations | \$ 905,779 | 30.51 | 10.51 | \$ (3,126) | \$ 120,655 | \$ (3,473) |
| 14 | Amortization | \$ 366,562 | - | 6.46 | \$ (2,438,197) | \$ 33,021,169 | \$ (93,175) |
| 15 | Uncollectibles | \$ 522,551 | - | (35.83) | \$ (654,031) | \$ 10,665,766 | \$ 1,047,078 |
| 16 | Waste Disposal | \$ 340,226 | 20.73 | (35.83) | | \$ 8,939 | \$ (342) |
| 17 | Purchased Water | \$ 120,655 | 46.34 | 11.34 | | \$ 7,423 | \$ (231) |
| 18 | Other Operating Expenses | \$ 5,269,882 | 42.29 | (24.29) | \$ (104,053) a | \$ 500,892 | \$ 33,337 |
| 19 | Total O & M Expenses | \$ 35,459,366 | | 130.02 | | \$ 4,429,174 | \$ (1,577,724) |
| 20 | Depreciation and Amortization | \$ 11,319,797 | - | (217.83) | | \$ 109,826 | \$ 65,544 |
| 21 | Taxes, Other than Income | | | (6.19) | | \$ 841,120 a | \$ 14,271 |
| 22 | Payroll - FUTA | \$ 8,939 | 49.80 | (6.19) | | \$ 3,250,521 a | \$ 55,150 |
| 23 | Payroll - SUTA | \$ 7,423 | 47.17 | (35.83) | | \$ 2,177,869 a | \$ 213,805 |
| 24 | Payroll - FICA | \$ 604,945 | 11.54 | 54.72 | | \$ 11,592,735 b | \$ (1,737,871) |
| 25 | Property Tax | \$ 4,429,174 | 165.85 | (21.52) | | \$ 52,854 b | \$ 3,117 |
| 26 | Utility Tax | \$ 109,826 | (182.00) | 10.05 | | \$ (20,450) | \$ (12,415) |
| 27 | Income Taxes - Current - SIT | \$ 1,371,662 | 29.64 | (35.83) | | \$ (4,270,760) | \$ 1,406,861 |
| 28 | Income Taxes - Current - FIT | \$ 7,521,281 | 29.64 | (35.83) | | \$ 81,439,905 | \$ 1,653,649 |
| 29 | Deferred Income Taxes | \$ 2,177,869 | - | | | \$ (12,687,638) | \$ 1,654,000 |
| 30 | Interest Expense - Long - Term Debt | \$ 12,113,246 | 90.55 | | | | |
| 31 | Interest Expense - Short - Term Debt | \$ 181,336 | 14.31 | | | | |
| 32 | Preferred Dividends | \$ 471,474 | 45.88 | | | | |
| 33 | Net Income | \$ 18,351,205 | - | (35.83) | | | |
| 34 | Net Operating Funds | \$ 94,127,543 | | | | | |
| 35 | Adjusted Cash Working Capital (rounded to \$1,000) | | | | | | |

| Line No. | Description | Amount | Comments and Reference |
|---|--|--------------|--|
| II. Summary of KAWC Cash Working Capital | | | |
| 36 | Average Daily Operating Funds | \$ 257,884 | L34, / 365 days KAWC Exhibit 37, Schedule B-5.2, page 4 of 6 |
| 37 | Net Total Lag Days per KAWC | 10.21 | KAWC Exhibit 37, Schedule B-5.2, page 4 of 6 |
| 38 | KAWC Cash Working Capital Claim - Calculated | \$ 2,633,000 | |
| 39 | Difference | \$ 1,000 | |
| 40 | KAWC Cash Working Capital Claim - in KAWC's Filing | \$ 2,634,000 | KAWC Exhibit 37, Schedule B-5.2, page 4 of 6 |

Notes and Source
 Cols.A-B: KAWC Exhibit 37, Schedule B-5.2, page 5 of 6
 Revenue Lag Days
 Cols.C: Expense Lag - Revenue Lag
 Cols.D and E, note a: See Schedule C
 Cols.D and E, note b: See page 3 of this Schedule

Per KAWC Exhibit 37, Schedule B-5.2, page 6 of 6
 and Related KAWC Excel file

Kentucky-American Water Company
Cash Working Capital

Exhibit RCS-1
Schedule B-3
Case No. 2010-00036
Page 3 of 3

Test Year Ended September 30, 2011

| Line No. | Description | Amount | Reference |
|--|--|-----------------------------|------------------------------|
| I. Detail of Return Elements on Page 2, Column E, Lines 30-33 | | | |
| 1 | AG Adjusted Rate Base | \$ 352,362,756 | Schedules B and A |
| | Components of Return: | | |
| | | <u>Percent (Sch D)</u> | |
| 2 | Long Term Debt | 3.290% \$ 11,592,735 | To Sch B-3, Col.E, L30 |
| 3 | Short Term Debt | 0.015% \$ 52,854 | To Sch B-3, Col.E, L31 |
| 4 | Preferred Stock | 0.128% \$ 451,024 | To Sch B-3, Col.E, L32 |
| 5 | Common Equity | 4.067% \$ 14,330,593 | To Sch B-3, Col.E, L33 |
| 6 | Total | <u>7.500%</u> \$ 26,427,206 | |
| 7 | Difference | \$ 1 | |
| 8 | Required Return | <u>\$ 26,427,207</u> | Schedule A |
| II. Line 19, Total O&M Expenses | | | |
| 9 | Per Schedule C, Col.B, Line 19 | \$ (2,560,639) | Schedule C, Col.B, Line 19 |
| 10 | Uncollectibles | \$ 100,498 | Schedule A-1 |
| 11 | PSC Assessment | \$ 21,944 | Schedule A-1 |
| 12 | Total O&M Expenses | \$ (2,438,197) | |
| 13 | Difference | \$ - | |
| 14 | Total O & M Expenses | <u>\$ (2,438,197)</u> | Sch B-3, p.2, Col.D, Line 19 |
| III. Line 7, Group Insurance | | | |
| 15 | Group Insurance, 401k and DCP | \$ (34,989) | Schedule C-13 |
| 16 | Group Insurance, 401k and DCP | \$ (38,654) | Schedule C-15 |
| 17 | Total | <u>\$ (73,643)</u> | |
| Lines 8 and 9, OPEB and Pension | | | |
| | | <u>L9, Pension</u> | <u>L8, OPEB</u> |
| 18 | Pension and OPEB Expense Correction | \$ (253,262) | \$ (52,206) |
| 19 | Capitalization Rate | \$ (36,840) | \$ (40,788) |
| 20 | Vacancies and Over-projection of Pay Increases | \$ (25,780) | \$ (18,704) |
| 21 | Totals | <u>\$ (315,882)</u> | <u>\$ (111,698)</u> |
| 22 | Group Insurance from above (includes OPEB) | \$ (185,341) | Lines 17 and 21 |
| 23 | Group Insurance from Income Statement | \$ (185,341) | Schedule C, line 10 |
| 24 | Unreconciled difference for Group Insurance | <u>\$ -</u> | |

Kentucky-American Water Company
 Labor Costs in Deferred Maintenance

Exhibit RCS-1
 Schedule B-4
 Case No. 2010-00036
 Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Prior Case Amount (A) | Current Case Amount (B) |
|----------|---|--------------------------|----------------------------|
| 1 | KAWC rate base claim for Deferred Maintenance | \$ 2,951,785 | \$ 2,708,236 |
| | AG Adjustment to remove internal labor costs: | | |
| 2 | Estimated percentage | 1.68% | 1.68% |
| 3 | Dollar Adjustment | \$ (49,590) | \$ (45,500) |
| 4 | Adjustment to Deferred Maintenance in Rate Base | | \$ (45,500) |

Notes and Source

Col.A: Case No. 2008-00427, Direct Testimony of AG witness Henkes, page 17

Col.B:

Line 1: Schedule B, column A, line 13

Line 2: Same percentage used

| Line No. | Description | Amount (A) | Reference |
|---|--|---------------------|--|
| I. Difference in Accumulated Depreciation | | | |
| 1 | Per KAWC Filing | \$ 110,085,251 | KAWC Exhibit 37, Schedule B-1 |
| 2 | Recalculated per PSC-3-6 | \$ 109,967,003 | Response to PSC-3-6, page 10 of 95, line 8 |
| 3 | Decrease in Accumulated Depreciation | <u>\$ (118,248)</u> | |
| 4 | Depreciation Adjustment for Negative Net Salvage on Account 333, Services: | | |
| 5 | Depreciation Expense Adjustment | \$ (302,951) | Schedule C-12 |
| 6 | Estimated Impact on Accumulated Depreciation | <u>\$ (151,476)</u> | 1/2 Year |
| 7 | Total Decrease to Accumulated Depreciation | <u>\$ (269,724)</u> | Increases Rate Base |
| II. Estimated Impact on ADIT Balance | | | |
| 8 | Total Decrease to Accumulated Depreciation | \$ (269,724) | |
| 9 | Combined State and Federal Income Tax Rate | 38.90% | Schedule A-1 |
| 10 | Estimated Impact on ADIT | <u>\$ 104,923</u> | Decreases Rate Base |
| III. Net Decrease to Forecasted Period Rate Base | | | |
| 11 | Increase Rate Base for Decreased Accumulated Depreciation | \$ 269,724 | Line 7 |
| 12 | Decrease Rate Base for Related Increase in ADIT | \$ (104,923) | Line 10 |
| 13 | Net Increase to Forecasted Period Rate Base | <u>\$ 164,801</u> | |

Kentucky-American Water Company
 Accumulated Deferred Income Taxes - Deferred Maintenance

Exhibit RCS-1
 Schedule B-6
 Case No. 2010-00036
 Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Amount (A) | Reference |
|-------------|--|---------------|--------------|
| 1 | Adjustment to Deferred Maintenance in Rate Base | \$ (45,500) | Schedule B-4 |
| 2 | Combined state and federal income tax rate | 38.90% | Schedule A-1 |
| 3 | Adjustment to ADIT related to Deferred Maintenance | \$ 17,700 | |

Kentucky-American Water Company
Accumulated Deferred Income Taxes - Major Tax Accounting Change

Exhibit RCS-1
Schedule B-7
Case No. 2010-00036
Page 1 of 1

Test Year Ended September 30, 2011

| <u>Line No.</u> | <u>Description</u> | <u>Amount</u> | <u>Reference</u> |
|-----------------|--------------------|---------------|------------------|
|-----------------|--------------------|---------------|------------------|

(A)
To date, KAWC has not provided sufficient information to quantify the adjustment. Awaiting responsive answers to AG discovery from KAWC in order to quantify increase to ADIT resulting from a major tax accounting change that has been implemented by AWWC and its subsidiaries

Kentucky-American Water Company
Interest Synchronization

Exhibit RCS-1
Schedule C-1
Case No. 2010-00036
Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Tax Rate | Per Company Amount (A) | Per AG Amount (B) | Reference |
|----------|---|----------|------------------------|-------------------|--------------|
| 1 | Adjusted Rate Base | | \$ 362,672,028 | \$ 352,362,756 | Schedule B |
| 2 | Weighted Cost of Debt | | 3.365% | 3.305% | Schedule D |
| 3 | Going-Level Interest Deduction for Tax Purposes | | \$ 12,203,914 | \$ 11,645,589 | L1 x L2 |
| 4 | Difference in Interest Deduction in KAW calculation | | \$ 90,668 | | |
| 5 | Going-Level Interest Deduction per Company | | \$ 12,294,582 | \$ 12,294,582 | Note A |
| 6 | Decrease in Deductible Interest | | | \$ (648,993) | L3 - L4 |
| 7 | State Income Taxes | 6.00% | | \$ 38,940 | Schedule A-1 |
| 8 | Federal Taxable Income | | | \$ (610,053) | L5 - L6 |
| 9 | Federal Income Taxes | 35.00% | | \$ 213,519 | Schedule A-1 |
| 10 | Increase (Decrease) to Income Tax Expense | | | <u>252,459</u> | L6 + L8 |

Notes and Source

Note A: KAW's filing at Exhibit 37, Schedule E-1.3, page 1, line 15 and Schedule E-1.4, page 1, line 15

Test Year Ended September 30, 2011

| Line No. | Description | 2003 (A) | 2004 (B) | 2005 (C) | 2006 (D) | 2007 (E) | 2008 (F) |
|--|---|----------------|----------------|----------------|-----------------------------|--|---------------------|
| I. Consolidated Tax Losses Allocated to KAWC | | | | | | | |
| 1 | Positive Taxable Income | \$ 134,138,588 | \$ 157,986,815 | \$ 247,465,686 | \$252,732,333 | \$ 236,998,010 | \$129,675,571 |
| 2 | KAWC Taxable Income | 2,123,369 | - | 3,896,807 | 7,944,883 | 5,443,743 | - |
| 3 | KAWC Percent [L2 / L1] | 1.5830% | 0.0000% | 1.5747% | 3.1436% | 2.2970% | 0.0000% |
| 4 | Tax Losses | 275,913,511 | 200,843,042 | 210,636,379 | 258,070,467 | 154,916,592 | 40,933,585 |
| 5 | Tax Losses Allocated to KAWC [L3 x L4] | \$ 4,367,619 | \$ - | \$ 3,316,861 | \$ 8,112,692 | \$ 3,558,368 | \$ - |
| II. Evaluation of Average Tax Losses to Determine Normalized Adjustment | | | | | | | |
| 6 | Four-Year Average | | | | Federal Income Tax Rate (G) | Compare: Last KAWC Case 2008-00427 (H) | Current Case (I) |
| 7 | Federal Income Tax Savings | | | | 35% | 3,746,980 | 3,746,980 |
| 8 | Five-Year Average | | | | | \$ 1,311,443 | \$ 1,311,443 |
| 9 | Federal Income Tax Savings | | | | 35% | \$ 3,871,108 | \$ 2,997,584 |
| 10 | Six-Year Average | | | | | \$ 1,354,888 | \$ 1,049,154 |
| 11 | Federal Income Tax Savings | | | | 35% | N/A | \$ 3,225,923 |
| 12 | Three-Year Average | | | | | \$ 4,995,974 | \$ 3,890,353 |
| 13 | Federal Income Tax Savings | | | | 35% | \$ 1,748,591 | \$ 1,361,624 |
| 14 | Recommended Adjustment to Federal Income Taxes for Consolidated Tax Savings | | | | | \$ (1,354,888) | \$ (1,361,624) |

Notes and Source

KAWC's response to AG-1-211

Case No. 2008-00427, Direct Testimony of AG witness Robert Henkes, Schedule RJH-10, Consolidated Income Tax Adjustment

Kentucky-American Water Company
 Allowance for Funds Used During Construction

Exhibit RCS-1
 Schedule C-3
 Case No. 2010-00036
 Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Per KAWC (A) | Per AG (B) | AG Adjustment (C) |
|--------------------------|--|--------------|------------|-------------------|
| Future Test Year: | | | | |
| 1 | AFUDC Rate requested | 8.58% | | |
| 2 | recommended | | 7.500% | |
| 3 | AFUDC amount requested | \$ 646,180 | | |
| 4 | recalculated | | \$ 564,843 | \$ (81,337) |
| 5 | recommended | | \$ - | \$ (564,843) |
| 6 | Total adjustment to KAWC's requested AFUDC | | | \$ (646,180) |

Notes and Source

Line 1: KAWC's responses to data requests AG-1-101 and AG-1-102

Line 2: Schedule D

Line 3: KAWC's response to data request PSC-3-8

Line 4: AFUDC Adjusted for AG's overall rate of return

Line 5: AFUDC eliminated consistent with recommendation to exclude CWIP from rate base

Kentucky-American Water Company
Incentive Compensation Expense

Exhibit RCS-1
Schedule C-4
Case No. 2010-00036
Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | KAWC Employees (A) | Included In Affiliate Management Fee (B) | Total Requested by KAWC (C) | AG Adjustment (D) |
|----------|--------------------------|---------------------|--|-----------------------------|---------------------|
| 1 | Annual Incentive Plan | \$ 349,529 | \$ 436,987 | \$ 786,516 | \$ (786,516) |
| 2 | Long-Term Incentive Plan | | | \$ - | \$ - |
| 3 | Total | <u>\$ 349,529</u> | <u>\$ 436,987</u> | <u>\$ 786,516</u> | <u>\$ (786,516)</u> |
| 4 | AG Adjustment | <u>\$ (349,529)</u> | <u>\$ (436,987)</u> | <u>\$ (786,516)</u> | |

Notes and Source

Col.A: KAWC response to PSC-1-1, W/P3-1 at 2, and PSC-2-4

KAWC's response to AG-2-2 clarifies that there is no LTIP expense in the forecasted test year for KAWC employees, and the amount for stock-based compensation, or Equity Compensation Stock-based compensation is addressed in AG Adjustment C-5
Also see KAWC's response to AG-1-56

Col.B:

L.1: KAWC response to PSC-2-9, page 15, and KAWC's supplemental response to AG-1-15

L.2: KAWC response to PSC-2-8, page 3

KAWC's response to PSC 2-8 indicates that: "LTIP consists of stock based compensation - Options (account 501716) and Restricted Stock (account 501718)."

Stock-based compensation is addressed in AG Adjustment C-5

Test Year Ended September 30, 2011

| Line No. | Description | Per KAWC (A) | Per AG (B) | AG Adjustment (C) |
|---|---|--------------|------------|-------------------|
| Adjustment to Test Year Expenses | | | | |
| 1 | KAWC Employees | \$ 27,228 | \$ - | \$ (27,228) |
| 2 | For AWWSC Employees in Affiliate Management Fee | \$ 179,208 | \$ - | \$ (179,208) |
| 3 | Totals | \$ 206,436 | \$ - | \$ (206,436) |

Notes and Source

Col.A:

Line 1: KAWC response to AG-1-47

Line 2: KAWC Supplemental Response to AG-1-47

Kentucky-American Water Company
Affiliate Management Fees - Excess Over Current Budget

Exhibit RCS-1
Schedule C-6
Case No. 2010-00036
Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Per KAWC Filing (A) | Per AG (B) | AG Adjustment (C) |
|----------|---|---------------------|---------------------|---------------------|
| | Adjustment to Test Year Expenses | | | |
| | Affiliate Management Fee Expense | | | |
| | Reflected in KAWC's filing | | | |
| 1 | Before allocation to non-regulated | \$ 9,082,929 | \$ 8,949,064 | \$ (133,865) |
| 2 | Allocation to non-regulated operations | \$ (54,808) | \$ (54,000) | \$ 808 |
| 3 | Amount reflected in KAWC's filing | <u>\$ 9,028,121</u> | <u>\$ 8,895,064</u> | <u>\$ (133,057)</u> |

Notes and Source

Col.A: KAWC response to PSC-1-1a, WP3-5, page 3 of 3
Allocation to non-regulated operations

0.6034% L2 / L1

Col.B: Corrected Affiliate Management Fee Budget For Forecast Test Year Ending 9-30-2011
Per responses to AG-1-106, AG-1-107, AG-1-109, AG-1-113, AG-1-117, etc.

Line 2: Same proportionate allocation to non-regulated operations as used by KAWC

Kentucky-American Water Company
Affiliate Management Fees - Business Development Expense

Exhibit RCS-1
Schedule C-7
Case No. 2010-00036
Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Per KAWC (A) | Per AG (B) | AG Adjustment (C) |
|---|--|--------------|------------|-------------------|
| Adjustment to Test Year Expenses | | | | |
| 1 | Affiliate Management Fees for Business Development Expense | \$ 223,380 | | |
| 2 | Less: amounts addressed in other AG adjustments | \$ (23,834) | | |
| 3 | Totals | \$ 199,546 | \$ - | \$ (199,546) |
| 4 | Less: allocation to KAWC non-regulated | | 0.6034% | \$ 1,204 |
| 5 | Net adjustment to regulated expense | | | \$ (198,342) |

Notes and Source

Col.A: KAWC response to data request PSC-2-20 page 9 of 9

6 Service Company Business Development Charges to KAWC
For the 12 Months Ending September 2011 by Object Account (O&M): \$ 223,380

Less: amounts addressed in other AG adjustments

| Account | Description | Addressed in AG Adjustment | Amount |
|---------|---|----------------------------|-----------|
| 501711 | Incentive Plan AIP | C-4 | \$ 20,456 |
| 501716 | Compensation Expense-Options | C-5 | \$ 1,576 |
| 501718 | Compensation Expense-Restricted Stock Units | C-5 | \$ 1,802 |
| 10 | Total | | \$ 23,834 |

11 Amount of Business Development Costs in Affiliated Management Fee After Other AG Adjustments \$ 199,546

Kentucky-American Water Company
 Affiliate Management Fees - Donations and Miscellaneous Expenses

Exhibit RCS-1
 Schedule C-8
 Case No. 2010-00036
 Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | AWWSC Account | AG Adjustment (A) | Reference |
|--|---|-----------------|-------------------|---------------|
| Adjustment to Test Year Expenses | | | | |
| Affiliated Management Fee Charges for | | | | |
| 1 | Charitable Contributions | 575140 & 575141 | \$ (4,728) | Notes A and B |
| 2 | Community Relations Expense | 575220 | \$ (3,499) | Notes A and B |
| 3 | Advertising | 575030 | \$ (11,909) | Note B |
| 4 | Co Dues Membership Deductible & NonDeductible | 575240 & 575241 | \$ (1,427) | Note B |
| 5 | Membership Dues | 575280 | \$ (23,961) | Note B |
| 6 | Penalties Nondeductible | 575640 | \$ (81) | Note B |
| 7 | Meals Nondeductible | 575351 | \$ (20,587) | Note B |
| 8 | | | | |
| 9 | Totals | | \$ (66,192) | |
| 10 | Less: allocation to KAWC non-regulated | | \$ 399 | Schedule C-6 |
| 11 | Net adjustment to regulated expense | 0.6034% | \$ (65,793) | |

Notes and Source

- [A] KAWC's response to data request AG-1-67(c) and (e)
 - [B] KAWC's response to data request AG-1-89
- Amounts used are from KAWC's response to AG-1-89

Kentucky-American Water Company
Pension and OPEB Expense Correction

Exhibit RCS-1
Schedule C-9
Case No. 2010-00036
Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Per KAWC Filing (A) | Corrected (B) | AG Adjustment (C) |
|---|------------------------|---------------------|---------------------|---------------------|
| Adjustment to Test Year Expenses | | | | |
| 1 | FAS 87 Pension Expense | \$ 1,267,732 | \$ 1,014,470 | \$ (253,262) |
| 2 | FAS 106 OPEB Expense | \$ 910,398 | \$ 858,192 | \$ (52,206) |
| 3 | Totals | <u>\$ 2,178,130</u> | <u>\$ 1,872,662</u> | <u>\$ (305,468)</u> |
| 4 | Total AG Adjustment | | | <u>\$ (305,468)</u> |

Notes and Source

Col.A: KAWC response to data request AG-1-56

Col.B: KAWC's response to data request PSC-2-23, page 2 of 21 (also see pages 15 and 18 of 21 for details)

Test Year Ended September 30, 2011

| Line No. | Description | Amount (A) | Reference |
|-------------|--|---------------------|-----------|
| | Adjustment to Forecast Test Year Expenses | | |
| 1 | Case No. 2008-00427 General Balance | \$ 138,804 | Note A |
| 2 | Case No. 2007-00143 Depreciation Study | \$ 6,000 | Note A |
| 3 | Case No. 2008-00427 Cost of Service Study | \$ 3,324 | Note A |
| 4 | Total for Prior Rate Cases | <u>\$ 148,128</u> | |
| 5 | AG Adjustment to Forecast Test Year Expense | <u>\$ (148,128)</u> | |

Notes and Source

[A] KAWC's response to data request AG-1-22, page 2

Test Year Ended September 30, 2011

| | | As Requested by KAWC | | |
|--|---|---------------------------------|---|----------------------------|
| Line No. | Component | Company Requested Amount (A) | Proposed Amortization Period, In Years (B) | Annual Amortization (C) |
| | | | | |
| I. KAWC Requested Rate Case Expense for Current Rate Case | | | | |
| 1 | AWWSC Charges | \$ 75,000 | 3 | \$ 25,000 |
| 2 | Legal Fees and Expenses | \$ 300,000 | 3 | \$ 100,000 |
| 3 | Rate of Return Consultant | \$ 50,000 | 3 | \$ 16,667 |
| 4 | Service Company Study - Baryenbruch | \$ 40,000 | 3 | \$ 13,333 |
| 5 | Weather Normalization | \$ 20,000 | 3 | \$ 6,667 |
| 6 | Customer Notification | \$ 45,000 | 3 | \$ 15,000 |
| 7 | Other | \$ 60,000 | 3 | \$ 20,000 |
| 8 | Cost of Service Study Consultant | \$ 42,500 | 3 | \$ 14,167 |
| 9 | Depreciation Study | \$ 37,500 | 5 | \$ 7,500 |
| 10 | Total Amount | \$ 670,000 | | \$ 218,333 |
| II. Summarized by KAWC Subtotals | | | | |
| 11 | Case No. 2010-00036 | \$ 590,000 | 3 | \$ 196,667 |
| 12 | Case No. 2010-00036 Cost of Service Study | \$ 37,500 | 5 | \$ 7,500 |
| 13 | Case No. 2010-00036 Depreciation Study | \$ 42,500 | 3 | \$ 14,167 |
| 14 | Total Amount | \$ 670,000 | | \$ 218,333 |
| III. KAWC Filed Amount per Schedule F-6 | | | | |
| 15 | KAWC Current Case Estimate amount per Sch F-6 | \$ 632,500 | 3 | \$ 210,833 |

Notes and Source

Cols.A-C:

Lines 1-14: KAWC response to data request AG-1-122 and PSC-1-1a, WP3-8

Line 15: KAWC Exhibit 37, Schedule F-6. KAWC's reported amount of Schedule F-6 does not include cost for the depreciation study.

Test Year Ended September 30, 2011

| Line No. | Description | Amount (A) | Reference |
|---|--|--------------|--|
| I. Adjustment | | | |
| 1 | Normalized Annual Allowance for Rate Case Cost | \$ 152,045 | See below |
| 2 | Amount Requested by KAWC | \$ 218,333 | Page 1 of this schedule |
| 3 | Adjustment to Current Case Rate Case Expense | \$ (66,288) | L1 - L2 |
| II. Determination of Normalized Annual Allowance | | | |
| | Prior Case | Forecast (B) | Actual As Percent of KAWC Forecast (F) = C/B |
| 4 | Case No. 2008-00427 | \$ 592,000 | Overstatement Dollars (D) \$ 159,005 Percent of Forecast Amount (E) = D/B 26.9% Actual As Percent of KAWC Forecast (F) = C/B 73.1% |
| 5 | Case No. 2007-143 | \$ 700,000 | \$ 233,258 33.3% 66.7% |
| 6 | Average | \$ 646,000 | \$ 196,132 30.4% 69.6% |
| | | Amount (G) | |
| 7 | Total annual allowance requested by KAWC - amortization | \$ 218,333 | Page 1 of this schedule |
| 8 | Percentage for KAWC overstatements | 69.6% | L6 |
| 9 | Normalized annual allowance for current case rate case expense | \$ 152,045 | |

Kentucky-American Water Company
Depreciation Expense

Exhibit RCS-1
Schedule C-12
Case No. 2010-00036
Page 1 of 2

Test Year Ended September 30, 2011

| Line No. | Description | Amount (A) | Reference |
|----------|--|---------------------|-----------|
| | Reduction to Depreciation Expense To: | | |
| 1 | Reflect Recalculation of Depreciation per PSC-3-6 | \$ (351,080) | Note A |
| 2 | Adjust Negative Net Salvage Rate for Account 333, Services | \$ (302,951) | Note B |
| 3 | Total Adjustment to Depreciation Expense | <u>\$ (654,031)</u> | L1 +L2 |

Notes and Source

[A] KAWC's response to data request PSC-3-6

Also see below:

| Component | Per Filing (B) | Per PSC-3-6 (C) | Difference (D) |
|---|----------------------|--------------------|---------------------|
| 4 Total Depreciation Calculated | \$ 11,522,568 | \$ 11,171,488 | <u>\$ (351,080)</u> |
| 5 KAWC Adjustment | \$ (436,492) | [1] | |
| 6 Net amount included in KAWC Income Statement | \$ 11,086,076 | | |
| 7 Difference | \$ - | | |
| 8 Coimpare: Schedule C, line 20, Depreciation Expense | <u>\$ 11,086,076</u> | | |

[1] See pages 1 and 85 of 95 of the response to PSC-3-6

[B] Difference in Depreciation Expense for Account 333, Services

| Description | Net UPIS (E) | Rate (F) | Depreciation (G) |
|---|-----------------|-------------|---------------------|
| 9 Per KAWC (assumes 100 percent negative net salvage) | \$ 18,754,950 | 3.00% | \$ 562,649 [2] |
| 10 Per AG (uses 20 percent net salvage) | \$ 18,754,950 | 1.38% | \$ 259,698 |
| 11 Difference | | | <u>\$ (302,951)</u> |

[2] See page 85 of 95 of the response to PSC-3-6, Account 345 (i.e., Account 333) Services

Rate derivation is shown on page 3 of 94 of that response

| | | | |
|---------------------------------------|----------------------|---------------------|---------------------|
| 12 Original Cost | \$ 18,754,950 | \$ 18,754,950 | |
| 13 Book Depreciation Reserve | \$ (9,624,903) | \$ (9,624,903) | |
| 14 Net Book Value | <u>\$ 9,130,047</u> | <u>\$ 9,130,047</u> | |
| 15 Original Cost | \$ 18,754,950 | \$ 18,754,950 | |
| 16 Negative Net Salvage Percent | 100% | 20% | |
| 17 Negative Net Salvage Amount | <u>\$ 18,754,950</u> | <u>\$ 3,750,990</u> | |
| 18 Future Accruals | \$ 27,884,997 | \$ 12,881,037 | |
| 19 Composite Remaining Life, in Years | 49.60 | 49.60 | |
| 20 Annual Accrual | \$ 562,198 | \$ 259,698 | |
| 21 Difference | \$ 451 | | |
| 22 Annual Accrual per KAWC | <u>\$ 562,649</u> | <u>\$ 259,698</u> | <u>\$ (302,951)</u> |
| Depreciation Rate Components: | | | |
| 23 Capital Recovery | 0.98% | 0.98% | |
| 24 Cost of Removal | 2.02% | 0.40% | |
| 25 Total - Sum of Components | 3.00% | 1.38% | |
| 26 Difference | 0% | 0% | |
| 27 Total - Calculated | <u>3.00%</u> | <u>1.38%</u> | |

Kentucky-American Water Company
Depreciation Expense

Exhibit RCS-1
Schedule C-12
Case No. 2010-00036
Page 2 of 2

Test Year Ended September 30, 2011

Account 333.00 Services
Estimated Future Net Salvage Ratio

| Line No. | Years | Regular Retirements (A) | Negative Net Salvage | |
|-------------|----------------|-------------------------------|----------------------|----------------|
| | | | Amount (B) | Percent (C) |
| 1 | 2006-2008 | \$ 289,972 | \$ 49,940 | -17.2% |
| 2 | 2007-2009 | \$ 290,863 | \$ 53,932 | -18.5% |
| 3 | Recommendation | | | -20% |

Notes and Source

Depreciation Study Calculated Annual Depreciation Accruals
Related to Utility Plant at November 30, 2009 attached to KAWC witness
John Spanos' Direct Testimony, page III-107

Kentucky-American Water Company
Capitalization Rate

Exhibit RCS-1
Schedule C-13
Case No. 2010-00036
Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Adjustment Amount at 18.742% Capitalization Rate (A) | Adjustment Amount at 19.742% Capitalization Rate (B) | Expense Adjustment Amount (C) |
|--|--|--|--|-------------------------------|
| Estimated Impact of Capitalization Rate on Forecast Test Year Labor and Benefit and Related Expense | | | | |
| 1 | Labor | \$ (130,978) | \$ (224,400) | \$ (222,279) |
| 2 | Pensions | \$ (21,708) | \$ (37,192) | \$ (36,840) |
| 3 | OPEB | \$ (24,034) | \$ (41,177) | \$ (40,788) |
| 4 | Group Insurance | \$ (15,601) | \$ (26,729) | \$ (26,476) |
| 5 | 401(k) | \$ (2,240) | \$ (3,838) | \$ (3,802) |
| 6 | Defined Contribution Plan - Pension | \$ (2,595) | \$ (4,446) | \$ (4,404) |
| 7 | Defined Contribution Plan - OPEBs | \$ (181) | \$ (310) | \$ (307) |
| 8 | Worker's Compensation | \$ (2,214) | \$ (3,793) | \$ (3,757) |
| 9 | Payroll Taxes | \$ (11,718) | \$ (20,076) | \$ (19,886) |
| 10 | Other | \$ (7) | \$ (12) | \$ (12) |
| 11 | Total Adjustment to Revenue Requirement per KAWC | \$ (211,276) | \$ (361,973) | \$ (358,551) |

Notes and Source

Col.A: Per KAWC's response to data request PSC-3-4, page 3 of 71

Adjustments are based on a capitalization rate of 18.742%

The 18.742 percent appears low by recent history; the average capitalization rate for 2007-2009 was 21.44 percent; the average for 2005-2009 was 19.742 percent.

Amounts on KAWC's response were stated in terms of revenue requirement impacts

| | | Difference | |
|----|---|------------|-----------------|
| 12 | Capitalization rate used by KAWC in its forecast test year | 17.34% | |
| 13 | Capitalization rate used by KAWC in response to PSC-3-4 | 18.742% | L13 - L12 |
| 14 | Ratio of capitalization rates | 0.08085352 | (L13 / L12) - 1 |
| 15 | Average capitalization rate for 2005-2009 | 19.742% | L15 - L12 |
| 16 | Ratio of capitalization rates | 0.13852364 | (L15 / L12) - 1 |
| 17 | Increase to adjustment amounts to use 19.742% capitalization rate | 1.713267 | L16 / L14 |
| 18 | Capitalization adjustment conversion factor | 1.713267 | L15 / L13 |

Col.B: Col.A x Factor shown on line 17 (and 18)

Factor to Convert from Revenue Requirement Amounts to Operating Expense Amounts

19 Non-income tax portion of KAWC's Gross Revenue Conversion Factor 0.9905461 Schedule A-1

Col.C: Col.B x Factor shown on line 19

| | | | |
|----|--|---------------|-------------|
| 20 | Subtotal for Group Insurance to Schedule C.1 | L3 through L7 | \$ (75,777) |
| 21 | Subtotal for Group Insurance to Schedule B-3 (excludes OPEB, which is a separate line in LL Study) | | \$ (34,989) |
| 22 | Subtotal for Payroll Tax | Lines 9 & 10 | \$ (19,898) |

Kentucky-American Water Company
 Employee Party, Outing and Gift Expenses

Exhibit RCS-1
 Schedule C-14
 Case No. 2010-00036
 Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Account | AG Adjustment | Reference |
|----------|---------------------------------|---------|--------------------|-----------|
| 1 | Employee Reconciliation Banquet | 9262 | \$ (14,420) | Note A |
| 2 | United Way Rally | 9262 | \$ (5,150) | Note A |
| 3 | Holiday Event | 9262 | \$ (5,500) | Note A |
| 4 | Total AG Adjustment | | <u>\$ (25,070)</u> | |

Notes and Source

[A] KAWC Exhibit 37, Schedule F-2.3, forecasted period, jurisdictional amounts

Kentucky-American Water Company
Vacancies and Over-projection of Pay Increases

Exhibit RCS-1
Schedule C-15
Case No. 2010-00036
Page 1 of 2

Test Year Ended September 30, 2011

| Line No. | Description | Percent (A) | Amount (B) | Reference |
|---|--|---------------|--------------------|-----------------------|
| I. Adjustment to Payroll Expense | | | | |
| 1 | Payroll Expense in Forecast Test Year | | \$ 8,039,623 | See below |
| | Less Other AG Adjustments to Labor Expense: | | | |
| 2 | Incentive Compensation Expense | | \$ (786,516) | Schedule C-4 |
| 3 | Stock-Based Compensation Expense | | \$ (206,436) | Schedule C-5 |
| 4 | Capitalization Rate | | \$ (222,279) | Schedule C-13 |
| 5 | Adjusted Forecast Test Year Payroll Before this Adjustment | | \$ 6,824,392 | |
| 6 | Percentage adjustment for vacancies and over-projection of pay increases | | 2.40% | See below |
| 7 | Adjustment to Payroll Expense | | \$ (163,785) | L5 x L6 |
| II. Adjustment to Benefits Expense | | | | |
| 8 | Group Insurance | 20.21% | \$ (33,101) | L7 x percent in Col.A |
| 9 | OPEBs | 11.42% | \$ (18,704) | " |
| 10 | Pensions | 15.74% | \$ (25,780) | " |
| 11 | 401k | 1.76% | \$ (2,883) | " |
| 12 | DCP - Pension | 1.63% | \$ (2,670) | " |
| 13 | Total Adjustment to Benefits Expense | 50.76% | \$ (83,138) | |
| III. Total Adjustment | | | | |
| 14 | Payroll | | \$ (163,785) | Line 7 |
| 15 | Benefits | | \$ (83,138) | Line 13 |
| 16 | Total Adjustment to O&M Expense | | \$ (246,923) | |

Notes and Source

Line 1: KAWC Exhibit 37, Schedule B-5.2, page 5 of 6
Also see Schedule B-3, page 2, column A, line 3

| | | | |
|----|--|-------|------------|
| 17 | Percentage adjustment for over-projection of pay | 0.40% | See page 2 |
| 18 | Percentage adjustment for vacancies | 2.00% | 3 / 153 |
| 19 | Percentage adjustment for pay and vacancies | 2.40% | |

Comparable Information on Work Force and Vacant Positions

| | | | |
|----|--|-----|---------|
| 20 | Actual work force at March 2010 | 140 | AG-1-32 |
| 21 | Projected forecast test year work force | 153 | AG-1-32 |
| 22 | Budgeted increase, in number of positions | 13 | AG-1-32 |
| 23 | Vacant positions as of 4-26-2010 | 9 | AG-1-32 |
| 24 | Vacant positions as of 4-26-2010, non KRS II related | 3 | AG-1-32 |
| 25 | Vacant positions at end of 2008 | 3 | AG-1-32 |

Payroll Loading Factor - per response to AG-1-347

| 26 | Component | Forecast Test Year | | |
|----|-----------------|--------------------|--------|--------|
| | | 2010 | 2011 | 2010 |
| | Weighting: | 25% | 75% | 100% |
| 27 | Group Insurance | 20.13% | 20.24% | 20.21% |
| 28 | OPEBs | 11.61% | 11.35% | 11.42% |
| 29 | Pensions | 16.92% | 15.35% | 15.74% |
| 30 | 401k | 1.76% | 1.76% | 1.76% |
| 31 | DCP - Pension | 1.58% | 1.64% | 1.63% |
| 32 | Total | 52.00% | 50.34% | 50.76% |

Kentucky-American Water Company
Vacancies and Over-projection of Pay Increases
Actual Versus Budgeted Wage Increases
Test Year Ended September 30, 2011

Exhibit RCS-1
Schedule C-15
Case No. 2010-00036
Page 2 of 2

| Line No. | Date | Description | Actual (A) | Budget (B) | Over/Under (C) |
|-----------------|-------------------|----------------|------------|------------|----------------|
| 2005 | | | | | |
| 1 | November 1, 2005 | Outside Union | 4.0% | 3.0% | 1.0% |
| 2 | December 17, 2005 | Inside Union | 3.0% | 3.0% | 0.0% |
| 3 | April 1, 2005 | Non-Bargaining | 3.5% | 3.0% | 0.5% |
| 2006 | | | | | |
| 4 | November 1, 2006 | Outside Union | 4.0% | 4.0% | 0.0% |
| 5 | December 17, 2006 | Inside Union | 3.0% | 4.0% | -1.0% |
| 6 | April 1, 2006 | Non-Bargaining | 3.5% | 3.5% | 0.0% |
| 2007 | | | | | |
| 7 | November 1, 2007 | Outside Union | 3.0% | 4.0% | -1.0% |
| 8 | April 1, 2007 | Non-Bargaining | 3.5% | 4.0% | -0.5% |
| 2008 | | | | | |
| 9 | November 1, 2008 | Outside Union | 3.0% | 3.5% | -0.5% |
| 10 | April 1, 2008 | Non-Bargaining | 3.6% | 3.5% | 0.1% |
| 2009 | | | | | |
| 11 | November 1, 2009 | Outside Union | 3.0% | 3.0% | 0.0% |
| 12 | April 1, 2009 | Non-Bargaining | 3.25% | 4.0% | -0.75% |
| 2010 | | | | | |
| 13 | January 1, 2010 | Non-Bargaining | 2.25% | 3.0% | -0.75% |
| Averages | | | | | |
| 14 | All Years | Outside Union | 3.4% | 3.5% | -0.1% |
| 15 | | Non-Bargaining | 3.3% | 3.5% | -0.2% |
| 16 | 2007-2009 | Outside Union | 3.0% | 3.5% | -0.5% |
| 17 | | Non-Bargaining | 3.5% | 3.8% | -0.3% |
| 18 | 2007-2010 | Outside Union | N/A | N/A | |
| 19 | | Non-Bargaining | 3.2% | 3.6% | -0.4% |

Notes and Source

Cols. A&B: Percentages from KAWC's response to data request PSC-2-14
Inside union decertified on January 28, 2008 and was given a 3% increase on January 2, 2008.
Averages on lines 14-19 were calculated from the information supplied by KAWC
Col.C: Differences calculated

Kentucky-American Water Company
 KRS Lagoon Cleaning Expense Normalization

Exhibit RCS-1
 Schedule C-16
 Case No. 2010-00036
 Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | KAWC Object Account | Amortized Per KAWC (A) | Normalized Per AG (B) | AG Adjustment (C) |
|---|---------------------|---------------------|------------------------|-----------------------|-------------------|
| Adjustment to Test Year Expenses | | | | | |
| 1 | KRS Lagoon Cleaning | 511200.13 | \$ 102,376 | 90,000 | \$ (12,376) |
| 2 | Totals | | \$ 102,376 | \$ 90,000 | \$ (12,376) |

Notes and Source

Col.A: Response to AG-6-7

Col.B: Kentucky River Station Lagoon Normalized Cleaning Cost
 Based on amounts from KAWC's response to data request PSC-2-18(c)

| | Date/Description | Amount |
|---|--------------------|------------|
| 3 | Fall 2001 | \$ 144,000 |
| 4 | Summer 2004 | \$ 187,529 |
| 5 | Fall 2006 | \$ 202,500 |
| 6 | Summer 2009 | \$ 184,627 |
| 7 | Average | \$ 179,664 |
| 8 | Normalized Total | 180,000 |
| 9 | Normalized Expense | 90,000 |

Kentucky-American Water Company
Uncollectibles Expense

Exhibit RCS-1
Schedule C-17
Case No. 2010-00036
Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Account | Per KAWC (A) | Per AG (B) | AG Adjustment (C) |
|----------|------------------------|---------|---------------|---------------|-------------------|
| 1 | Uncollectibles | 904000 | \$ 507,412 | \$ 479,823 | \$ (27,589) |
| 2 | Billed Revenue | | \$ 64,753,488 | \$ 64,753,488 | |
| 3 | Uncollectible Factor | | 0.78359% | 0.7410% | |
| 4 | Uncollectibles Expense | | \$ 507,403 | \$ 479,823 | |
| 5 | Rounding | | \$ 9 | | |
| 6 | Uncollectibles Expense | | \$ 507,412 | \$ 479,823 | \$ (27,589) |

Notes and Source

Col.A: KAWC response to PSC-1-1a, WP3-10, at page 6 of 9:

Line 3: KAWC used 2009; AG uses three-year average of 2007, 2008 and 2009 as computed by KAWC on KAWC workpaper WP3-10, page 6 of 9
Line 6, KAWC amount: WP3-10, page 2 of 9

Kentucky-American Water Company
Payroll Tax Expense

Exhibit RCS-1
Schedule C-18
Case No. 2010-00036
Page 1 of 1

Test Year Ended September 30, 2011

| Line No. | Description | Tax Rate | Amount (A) | Reference (B) |
|-------------------------|--|----------|---------------------------|---------------|
| Adjustments to Payroll: | | | | |
| 1 | Incentive Compensation Expense | | \$ (786,516) | Schedule C-4 |
| 2 | Stock-Based Compensation Expense | | \$ (206,436) | Schedule C-5 |
| 3 | Capitalization Rate | | \$ (222,279) | Schedule C-13 |
| 4 | Vacancies and Over-projection of Pay Increases | | \$ (163,785) | Schedule C-15 |
| 5 | Total | | <u>\$ (1,379,016)</u> | |
| 6 | Payroll Subject to FICA | | <u>98.3138%</u> | |
| 7 | FICA | 6.20% | \$ (84,057) | L3 x L4 x L5 |
| 8 | Medicare | 1.45% | \$ (19,996) | L3 x L6 |
| 9 | Total Adjustment to Payroll Tax Expense | | <u>\$ (104,053)</u> | |
| 10 | Less Payroll Tax Adjustment on Capitalization Rate | | \$ 19,898 | Schedule C-13 |
| 11 | Net Adjustment for Payroll Tax Expense | | <u><u>\$ (84,155)</u></u> | |

Notes and Source

PSC-DR1-1a, WP5-3, page 1 of 11

Ratio of Payroll Subject to FICA

| | | |
|----|----------------------------------|-----------------------|
| 12 | Payroll subject to FICA | \$ 9,484,718 |
| 13 | Total Payroll | \$ 9,647,388 |
| 14 | Ratio of Payroll Subject to FICA | <u><u>98.314%</u></u> |