

APPENDIX B

EXHIBITS - SUPPORTING SCHEDULES

KENTUCKY AMERICAN WATER COMPANY**TEST PERIOD ENDING AUGUST 31, 2017****REVENUE REQUIREMENT SUMMARY**

	Company Claim	Recommended Adjustment	Recommended Position	
	(A)			
1. Pro Forma Rate Base	\$403,866,142	(\$5,698,867)	\$398,167,275	(B)
2. Required Cost of Capital	8.22%	-1.09%	7.13%	(C)
3. Required Return	\$33,197,797	(\$4,793,663)	\$28,404,134	
4. Operating Income @ Present Rates	25,057,472	3,064,464	28,121,936	(D)
5. Operating Income Deficiency	\$8,140,325	(\$7,858,127)	\$282,198	
6. Revenue Multiplier	1.6527	1.6527	1.6527	(E)
7. Revenue Requirement Increase	<u>\$13,453,661</u>	<u>(\$12,987,268)</u>	<u>\$466,394</u>	

Sources:

(A) Company Filing, Exhibit 37, Schedule A, page 2.

(B) Schedule ACC-3.

(C) Schedule ACC-2.

(D) Schedule ACC-8.

(E) Schedule ACC-25.

KENTUCKY AMERICAN WATER COMPANY**TEST PERIOD ENDING AUGUST 31, 2017****REQUIRED COST OF CAPITAL**

	Capital Structure	Cost Rate	Weighted Cost
	(A)	(A)	
1. Short-Term Debt	1.49%	1.00%	0.01%
2. Long-Term Debt	50.59%	6.02%	3.05%
3. Preferred Stock	0.56%	8.52%	0.05%
4. Common Equity	47.36%	8.50%	4.03%
5. Total Cost of Capital	100.00%		<u>7.13%</u>

Sources:

(A) Testimony of Dr. Woolridge, Exhibit JRW-1.

KENTUCKY AMERICAN WATER COMPANY**TEST PERIOD ENDING AUGUST 31, 2017****RATE BASE SUMMARY**

	Company Claim (A)	Recommended Adjustment		Recommended Position
1. Utility Plant In Service	\$679,624,591	\$0		\$679,624,591
2. Reserve for Depreciation	(152,076,279)	0		(152,076,279)
3. Net Utility Plant	\$527,548,312	\$0		\$527,548,312
4. Construction Work in Progress	\$9,193,558	\$0		\$9,193,558
5. Working Capital Allowance	5,208,000	(655,597)	(B)	4,552,403
6. Other Working Capital	813,037	0		813,037
7. Contribution in Aid of Construction	(58,556,435)	0		(58,556,435)
8. Advances for Construction	(14,060,794)	0		(14,060,794)
9. Acc. Deferred Income Taxes	(78,268,967)	(1,139,250)	(C)	(79,408,217)
10. Deferred Investment Tax Credits	(31,363)	0		(31,363)
11. Deferred Maintenance	9,539,974	(2,775,761)	(D)	6,764,213
12. Deferred Debits	1,360,408	0		1,360,408
13. Other Rate Base Elements	1,120,412	(1,128,259)	(E)	(7,847)
14. Total Jurisdictional Rate Base	<u>\$403,866,142</u>	<u>(\$5,698,867)</u>		<u>\$398,167,275</u>

Sources:

(A) Company Filing, Exhibit 37, Schedule B-1, page 2.

(B) Schedule ACC-4.

(C) Schedule ACC-5 and ACC-6.

(D) Schedule ACC-6.

(E) Schedule ACC-7.

Schedule ACC-4

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

WORKING CAPITAL ALLOWANCE

1. Service Company Charges Per Company	\$8,603,681	(A)
2. Salary and Wage Expense Lag Per Company	<u>12.00</u>	(A)
3. Pro Forma Dollar Days - Service Company	\$103,244,172	(B)
4. Company Claim	<u>(65,227,089)</u>	(A)
5. Recommended Adjustment	\$168,471,261	(C)
6. Total Dollar Days Per Company	<u>2,456,504,360</u>	(A)
7. Total Recommended Dollar Days	\$2,624,975,621	(D)
8. Net Operating Funds Per Company (Annual)	<u>97,600,226</u>	(A)
9. Average Expense Lag (Days)	26.90	(E)
10. Base Period Revenue Lag (Days)	<u>43.92</u>	(F)
11. Total Net Lag (Days)	17.02	(G)
12. Daily Requirement Per Company	<u>\$267,398</u>	(H)
13. Pro Forma CWC Requirement	\$4,552,403	(I)
14. Company Claim	<u>5,208,000</u>	(H)
15. Recommended Adjustment	<u>(\$655,597)</u>	(J)

Sources:

- (A) Company Filing, Exhibit 37, Schedule B-5.2, page 5.
- (B) Line 1 X Line 2.
- (C) Line 3 - Line 4.
- (D) Line 5 + Line 6.
- (E) Line 7 / Line 8.
- (F) Company Filing, Exhibit 37, Schedule B-5.2, page 3.
- (G) Line 10 - Line 9.
- (H) Company Filing, Exhibit 37, Schedule B-5.2, page 4.
- (I) Line 11 X Line 12.
- (J) Line 13 - Line 14.

Schedule ACC-5

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

ACCUMULATED DEFERRED INCOME TAXES

1. FIN 48 Liability Re: Repairs	\$2,219,021	(A)
2. Recommended Adjustment	<u>(\$2,219,021)</u>	

Sources:

(A) Response to AG-1-126.

Schedule ACC-6

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

DEFERRED MAINTENANCE COSTS

1. Def. Balance - Actual Costs	\$6,764,213	(A)
2. Company Claim	<u>9,539,974</u>	(B)
3. Recommended Adjustment	(\$2,775,761)	
4. Deferred Taxes @ 38.90%	<u>1,079,771</u>	(C)
5. Net Rate Base Adjustments	<u>(\$1,695,990)</u>	

Sources:

- (A) Derived from Company Workpapers - Deferred Maintenance, W/P 1-10.
- (B) Company Filing, Exhibit 37, Schedule B-1, page 2.
- (C) Based on composite tax rate of 38.9%.

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

OTHER RATE BASE ELEMENTS

1. Recommended Adjustment - Accrued Pensions	\$1,128,259	(A)
2. Net Rate Base Adjustments	<u>(\$1,128,259)</u>	

Sources:
(A) Response to PSC-1-29, page 2.

KENTUCKY AMERICAN WATER COMPANY**TEST PERIOD ENDING AUGUST 31, 2017****OPERATING INCOME SUMMARY**

		Schedule No.
1. Company Claim	\$25,057,472	1
2. Water Sales Revenues	1,548,239	9
3. Other Revenues	67,186	10
4. Salary and Wage Expense	317,379	11
5. Overtime Expense	(183,078)	12
6. Incentive Compensation Expense - KAWC	194,545	13
7. Incentive Compensation Expense - Ser. Co.	477,220	14
8. Payroll Tax Expense	22,502	15
9. Customer Accounting Expense	194,298	16
10. Insurance Other Than Group Expense	168,955	17
11. Maintenance Supplies and Services Expense	122,539	18
12. Rate Case Expense	37,310	19
13. Service Company Expense	128,276	20
14. Meals and Entertainment Expense	10,979	21
15. Miscellaneous Expense	66,598	22
16. Interest Synchronization	<u>(108,485)</u>	23
17. Net Operating Income	<u>\$28,121,936</u>	

KENTUCKY AMERICAN WATER COMPANY**TEST PERIOD ENDING AUGUST 31, 2017****WATER SALES REVENUES**

	<u>Residential</u>	<u>Commercial</u>	
1 Base Period Sales (Vol)	5,757,461	3,787,544	(A)
2 Average Base Period Customers	116,106	8,951	(A)
3 Average Usage Per Customer	49.59	423.14	(B)
4 Average Test Period Customers	117,160	9,029	(A)
5 Pro Forma Test Period Sales	5,809,727	3,820,549	(C)
6 Company Claim	5,575,259	3,487,266	(A)
7 Recommended Adjustment	234,468	333,283	
8 Volumetric Rate	\$5.30	\$4.83	(D)
9 Revenue Adjustment - Res and Com	\$1,242,679	\$1,609,757	
10 Total Revenue Adjustment		\$2,852,436	
11. Incremental Costs @	\$0.51	290,779	(E)
12. Uncollectibles @	0.78%	22,292	(F)
13. Revenue Taxes @	0.19%	5,422	
14. Net Revenue Adjustment		\$2,533,943	
15. Income Taxes @	38.90%	985,704	
16. Operating Income Impact		<u>\$1,548,239</u>	

Sources:

(A) Company Filing, Exhibit 37, Schedule I-4.

(B) Line 1 / Line 2.

(C) Line 3 X Line 4.

(D) Company Filing, Exhibit 37, Schedule M-3.

(E) Based on incremental fuel and purchased power, and chemical costs of \$0.51.

(F) Rates per Schedule ACC-25.

Schedule ACC-10

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

OTHER REVENUES

1. Base Period Projection		\$2,285,688	(A)
2. Company Claim		<u>2,174,648</u>	(A)
3. Recommended Adjustment		\$111,040	
4. Uncollectibles @	0.78%	868	(B)
5. Revenue Taxes @	0.19%	<u>211</u>	(B)
6. Net Revenue Adjustment		\$109,961	
7. Income Taxes @	38.90%	<u>42,775</u>	
8. Operating Income Impact		<u>\$67,186</u>	

Sources:

(A) Company Filing, Exhibit 37, Schedule C-1.

(B) Rates per Schedule ACC-25.

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

SALARY AND WAGE EXPENSE

1. Employee Costs for Vacant Positions		\$519,442	(A)
2. Income Taxes @	38.90%	<u>202,063</u>	
3. Operating Income Impact		<u>\$317,379</u>	

Sources:

(A) Per the response to PSC-2-47.

Schedule ACC-12

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

OVERTIME EXPENSE

1. Three Year Average (Hrs.)	25,593	(A)
2. Forecast Year Overtime Hours	<u>16,947</u>	(A)
3. Recommended Adjustment (Hrs.)	(8,645)	
4. Average Overtime Hourly Rate	<u>\$40.09</u>	(B)
5. Recommended Adjustment (\$)	(\$346,605)	
6. Expense Ratio	<u>86.45%</u>	(B)
7. Recommended Expense Adjustment	(\$299,636)	
8. Income Taxes @ 38.90%	<u>(116,558)</u>	
9. Operating Income	<u>(\$183,078)</u>	

Sources:

(A) Response to AG-1-56.

(A) Company Workpapers - Labor and Labor-related, W/P 3-1.

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

INCENTIVE COMPENSATION PLAN EXPENSE-KAWC

1. Annual Performance Plan Expense	\$303,870	(A)
2. Long Term Incentive Plan Expense	<u>14,535</u>	(A)
3. Total Incentive Plan Expense	\$318,405	
4. Income Taxes @	38.90% <u>123,860</u>	
5. Operating Income Impact	<u>\$194,545</u>	

Sources:

(A) Company Workpapers - Labor and Labor-related, W/P 3-1.

Schedule ACC-14

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

INCENTIVE COMPENSATION PLAN EXPENSE-SERVICE COMPANY

1. Annual Performance Plan Expense		\$537,596	(A)
2. Long Term Incentive Plan Expense		<u>243,452</u>	(A)
3. Total Incentive Plan Expense		\$781,048	
4. Income Taxes @	38.90%	<u>303,828</u>	
5. Operating Income Impact		<u>\$477,220</u>	

Sources:

(A) Response to PSC-2-32.

Schedule ACC-15

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

PAYROLL TAX EXPENSE

1. Overtime and Incentive Cost Adjustments	\$481,412	(A)
2. Payroll Taxes @ 7.65%	36,828	(B)
3. Income Taxes @	38.90% <u>14,326</u>	
4. Operating Income Impact	<u>\$22,502</u>	

Sources:

(A) Schedules ACC-12, ACC-13 and ACC-14.

(B) Based on statutory rates.

KENTUCKY AMERICAN WATER COMPANY
TEST PERIOD ENDING AUGUST 31, 2017
CUSTOMER ACCOUNTING EXPENSE

1. Recommended Adjustment-Credit Card Costs	\$318,000	(A)
2. Income Taxes @	38.90% <u>123,702</u>	
3. Operating Income Impact	<u>\$194,298</u>	

Sources:
(A) Response to AG-2-13.

Schedule ACC-17

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

INSURANCE OTHER THAN GROUP EXPENSE

1. Company Claim	\$805,579	(A)
2. Actual 2015 Expense	<u>529,057</u>	(B)
3. Recommended Adjustment	\$276,522	
4. Income Taxes @ 38.90%	<u>107,567</u>	
5. Operating Income Impact	<u>\$168,955</u>	

Sources:

(A) Company Filing, Exhibit 37, Schedule C-1.

(B) Response to AG-1-102.

Schedule ACC-18

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

MAINTENANCE SUPPLIES AND SERVICES EXPENSE

1. Company Claim	\$800,236	(A)
2. Pro Forma Cost at Present Rates	<u>599,681</u>	(B)
3. Recommended Adjustment	\$200,555	
4. Income Taxes @ 38.90%	<u>78,016</u>	
5. Operating Income Impact	<u>\$122,539</u>	

Sources:

(A) Derived from Company Workpapers - Deferred Maintenance, W/P 1-10.

(B) Reflects only projects completed to date.

Schedule ACC-19

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

RATE CASE EXPENSE

1. Company Claim		\$884,370	(A)
2. Actual Costs for 2012 Rate Case		<u>\$701,178</u>	(B)
3. Recommended Adjustment		\$183,192	
4. Proposed Amortization Period		<u>3</u>	(C)
5. Annual Adjustment		\$61,064	
6. Income Taxes @	38.90%	<u>23,754</u>	
		<u>\$37,310</u>	

Sources:

(A) Company Filing, Schedule F-6.

(B) Response to AG-1-98.

(C) Testimony of Ms. Bridwell, page 19.

Schedule ACC-20

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

SERVICE COMPANY EXPENSE

1. Business Development	\$195,842	(A)
2. Government Affairs	21,475	(A)
3. Regulatory Policy	<u>40,033</u>	(A)
4. Total Adjustments	\$257,350	
5. Incentive Compensation Included in Above	<u>47,405</u>	(B)
6. Recommended Net Adjustment	\$209,945	
7. Income Taxes @ 38.90%	<u>81,669</u>	
8. Operating Income Impact	<u>\$128,276</u>	

Sources:

(A) Response to PSC-2-52.

(B) Reflects elimination of Incentive Plan costs per the response to PSC-2-52.

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

MEALS AND ENTERTAINMENT EXPENSE

1. Total Meals Expense		\$35,937	(A)
2. Recommended Adjustment (%)		<u>50.00%</u>	(A)
3. Recommended Adjustment (\$)		\$17,969	
4. Income Taxes @	38.90%	<u>6,990</u>	
5. Operating Income Impact		<u>\$10,979</u>	

Sources:

(A) Response to AG-2-15.

Schedule ACC-22

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

MISCELLANEOUS EXPENSES

1. Community Partnerships		\$78,206	(A)
2. Community Relations		<u>30,792</u>	(A)
3. Recommended Adjustment		\$108,998	
4. Income Taxes @	38.90%	<u>42,400</u>	
5. Operating Income Impact		<u>\$66,598</u>	

Sources:

(A) Company Workpapers- Miscellaneous Expenses, W/P 3-20.

Schedule ACC-23

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

INTEREST SYNCHRONIZATION

1. Pro Forma Rate Base	\$398,167,275	(A)
2. Weighted Cost of Debt	<u>3.06%</u>	(B)
3. Pro Forma Interest Expense	\$12,184,511	
4. Company Claim	<u>12,463,394</u>	(C)
5. Increase in Taxable Income	(\$278,883)	
6. Income Taxes @ 38.90%	<u>(\$108,485)</u>	

Sources:

(A) Schedule ACC-3.

(B) Schedule ACC-2.

(C) Company Filing, Exhibit 37, Schedule E-1.3.

Schedule ACC-24

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

INCOME TAX FACTOR

1. Revenue		100.000%	
2. State Income Tax @	6.00%	<u>6.000%</u>	(A)
3. Federal Taxable Income		94.000%	
4. Income Taxes @	35.00%	<u>32.900%</u>	(A)
5. Operating Income		61.100%	
6. Total Tax Rate		<u>38.900%</u>	(B)

Sources:

(A) Reflects rates per Company Filing, Exhibit 37, Schedule H.

(B) Line 2 + Line 4.

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

REVENUE CONVERSION FACTOR

1. Revenue	100.0000%	
2. Uncollectible Factor	0.7815%	(A)
3. PSC/Utility Regulatory Assessment	0.1901%	(A)
4. Net Income After Uncollectibles and Assessment	99.0284%	
5. State Income Tax @	6.00% <u>5.9417%</u>	(A)
6. Federal Taxable Income	93.0867%	
7. Income Taxes @	35.00% <u>32.5803%</u>	(A)
8. Operating Income	60.5064%	
9. Revenue Multiplier	<u>1.6527</u>	(B)

Sources:

(A) Reflects rates per Company Filing, Exhibit 37, Schedule H.

(B) Line 1 / Line 8.

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

REVENUE REQUIREMENT IMPACT OF ADJUSTMENTS

1. Cost of Capital	(\$7,250,675)
2. Cash Working Capital	(77,295)
3. FIN 48	(261,623)
4. Deferred Maintenance	(199,958)
5. Accrued Pensions	(133,022)
6. Water Sales Revenues	(2,558,803)
7. Other Revenues	(111,040)
8. Salary and Wage Expense	(524,538)
9. Overtime Expense	302,576
10. Incentive Compensation Expense - KAW	(321,529)
11. Incentive Compensation Expense - Ser.	(788,711)
12. Payroll Tax Expense	(37,189)
13. Customer Accounting Expense	(321,120)
14. Insurance Other Than Group Expense	(279,235)
15. Maintenance Supplies and Services Exp	(202,523)
16. Rate Case Expense	(61,663)
17. Service Company Expense	(212,005)
18. Meals and Entertainment Expense	(18,145)
19. Miscellaneous Expense	(110,067)
20. Interest Synchronization	<u>179,296</u>
21. Total Recommended Adjustments	(\$12,987,268)
22. Company Claim	<u>13,453,661</u>
23. Recommended Revenue Deficiency	<u>\$466,394</u>

KENTUCKY AMERICAN WATER COMPANY

TEST PERIOD ENDING AUGUST 31, 2017

PRO FORMA INCOME STATEMENT

	Per Company	Recommended Adjustments	Pro Forma Present Rates	Recommended Rate Adjustment	Pro Forma Proposed Rates
1. Operating Revenues	\$88,350,996	\$2,963,476	\$91,314,472	\$466,394	\$91,780,866
2. Operating Expenses	\$34,276,781	(\$2,198,373)	\$32,078,408	\$4,531	\$32,082,939
Depreciation and Amortization	15,175,222	0	15,175,222	0	15,175,222
4. Taxes Other Than Income	6,193,611	(31,194)	6,162,417	0	6,162,417
5. Taxable Income Before Interest Expenses	\$32,705,382	\$5,193,044	\$37,898,426	\$461,862	\$38,360,288
6. Interest Expense	12,463,394	(278,883)	12,184,511		12,184,511
7. Taxable income	20,241,988	5,471,927	25,713,915	461,862	26,175,777
8. Income Taxes @ 38.90%	7,647,910	2,128,579	9,776,489	179,664	9,956,154
9. Operating Income (A)	\$25,057,472	\$3,064,464	\$28,121,936	\$282,198	\$28,404,134
10. Rate Base	\$403,866,142		\$398,167,275		\$398,167,275
11. Rate of Return	6.20%		7.06%		7.13%

Sources:

(A) Taxable Income Before Interest Expense - Income Taxes (Line 5 - Line 8).