LARGE FILING SEPERATOR SHEET

CASE NUMBER: 07-1112-WS-AIR

FILE DATE: 11-13-07

SECTION: 2 of 2

NUMBER OF PAGES: 79

DESCRIPTION OF DOCUMENT: Application for increase in rates

Recommendations that differ from the Application may be made by the Staff of the Public Utilities Commission of Ohio or by intervening parties and may be adopted by the Commission.

Copies of Ohio-American Water Company's Application, Exhibits, and Standard Filing Requirements Schedules filed in this case and from Case No. 06-433-WS-AIR, which are incorporated by reference in this case, may be inspected by any interested party at the offices of the Public Utilities Commission of Ohio ("PUCO"), 180 East Broad Street, Docketing Section, Columbus, Ohio 43266-0573, or at the PUCO web site www.puc.state.oh.us (use the case number to access the filings in the case) or at the Company's office, located at 365 East Center Street, Marion, Ohio 43301-0506.

Ohio American Water Company

Rate Case No. 07-1112-WS-AIR

Schedule S-4.1
Executive Summary of
Ohio American Water Company's
Corporate Process Utilized by
The Board of Directors and
Corporate Officers

Witnesses Responsible:
David Little and Gary VerDouw

Ohio American Water Company
Rate Case No. 07-1112-WS-AIR

Schedule S-4.1
Executive Summary of
Ohio American Water Company's
Corporate Process Utilized by
The Board of Directors and
Corporate Officers

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History of Ohio American Water Company

Ohio American Water Company ("Ohio American" or the "Company") is an Ohio corporation and a public utility operating water and wastewater systems in Ohio. Ohio American, formerly the Marion Water Company, was first incorporated in November 1923. Ohio American was formed by the merger of four companies that had long been a part of the American Water System: Ashtabula Water Works Company, Lawrence County Water Company, Marion Water Company and the Ohio Cities Water Company in Tiffin. In 2002, Ohio American acquired the assets of Citizens Utilities Company of Ohio, which increased the number of customers in Franklin County and Portage County.

Ohio American is a subsidiary of American Water Works Company, Inc. ("AWW"). AWW is a corporation organized under the laws of the State of Delaware, with its principal office in Voorhees, New Jersey. AWW is the parent of operating water company subsidiaries, including Ohio American, serving almost 17 million people in 29 states. AWW owns a subsidiary American Water Works Service Company, Inc. ("AWWSC"). AWWSC is also a Delaware corporation with its principal office in Voorhees, New Jersey and was formed to provide support for AWW and its subsidiaries in the areas of accounting, administration, communications, community relations, corporate secretarial and legal, engineering and operations, regulatory practices, finance, human resources, water quality and water quality analysis, information systems and data processing, personnel information and training, purchasing, insurance, safety, and other general services necessary in the proper conduct of business.

Ohio American's service territory consists of five districts: Ashtabula, Lawrence County, Franklin, Marion and Tiffin. The designation and location of each district is depicted on the map attached hereto as Exhibit 1, Schedule S-4.1. Ohio American owns and operates seventeen water systems and three wastewater systems across its districts. Ohio American operates its own water treatment facilities, except in Lawrence County and a portion of Marion County. The Lawrence County district purchases all of its water from the Huntington Water Company, a West Virginia subsidiary of AWW. The Preble

County portion of the Marion district purchases all of its water from the Richmond District of Indiana-American Water Company, a subsidiary of AWW.

Integration of Ohio American Water into Corporate Structure

In January, 2003, American Water Works Company, Inc. ("American Water") was acquired by RWE, an international, multi-utility service provider headquartered in Essen, Germany. Prior to the acquisition, Ohio American Water was a solely owned subsidiary of American Water. Subsequent to the acquisition, Ohio American Water still remains a solely owned subsidiary of American Water.

The corporate structure of American Water since the acquisition by RWE has remained basically the same. American Water still owns the Common Stock of the regulated subsidiaries which includes Ohio American Water. American Water Works Service Company, Inc. (a subsidiary of American Water) still provides to Ohio American Water management services including Administrative, Finance, Engineering, Customer Service, Accounting, Human Resources, Loss Control and other related water and wastewater services. American Water Capital Corp (a subsidiary of American Water) still provides cash management, short-term line of credit and long-term financing services.

From an organizational structure perspective, American Water has made changes since the acquisition by RWE. These latest changes are simply a continuation of the evolutionary process within American Water dating back to the 1960's to re-organize in order to become as efficient as possible.

In an organizational change that was completed at year-end 2004, American Water formed four regions (Northwest, Southeast, Central, and Western). Each region is responsible for the day-to-day corporate governance and management of the regulated business in the Region. Ohio American is included in the Central Region. The Central Region office of American Water Works Service Company is located in St. Louis, Missouri. In mid-2007, American Water announced plans to incorporate the four

regions into two Divisions; namely, combining the Northwest and Southeast regions into the Eastern Division, and combining the Central and Western regions into the Western Division. This shift in organizational alignment will result in certain strategic personnel reporting adjustments that will be made in an effort to better serve the needs of the customers of American Water. This process is expected to take place over a period of several months. No personnel reporting adjustments have been made for Ohio American as of October, 2007.

Service Company personnel provide management service to all or some of the regional regulated companies, including Ohio American Water. These services include Administrative, Operations, Legal, Human Resources, Environmental, Business Development, Finance, Budgeting, Rates, Maintenance, Risk Management, Customer Service, External Affairs, and Engineering.

Attached hereto as Exhibit 2, Schedule S-4.1 are organizational charts for the Central Region which identifies functional responsibilities for the Central Region Service Company Staff and for the Ohio American Water Staff.

The President of the Central Region reports directly to the CEO and President of American Water. This line of reporting ensures that time critical issues of Ohio American Water are addressed quickly.

In November, 2005, RWE announced its decision to focus on the energy business in Europe and relinquish the water business. RWE announced plans to separately sell Thames Water and American Water. In December, 2006, Thames Water was sold to a private equity group. In March, 2006, RWE announced that it would divest American Water through an Initial Public Offering ("IPO"). Petitions have been filed in thirteen states seeking approval of the divestiture. Approval has been granted in all thirteen states. American Water was a publicly traded company for nearly sixty years prior to being purchased by RWE.

Policy and Goal Setting

Ohio American's management operates its systems in Ohio with a vision of being the trusted water resource company, dedicated to delivering innovative solutions for its service territory. Ohio American is dedicated to providing excellent service, focused on personalized solutions and committed to its customers' health and welfare. In order to obtain that vision, Ohio American's districts establish goals as they relate to the operation of their system. The corporate officers and heads of each department set wider and long-term goals for the Company.

Strategic and Long-Range Planning

Ohio American establishes a five year operating plan and a capital improvement plan which outlines the projected needs of the Company to meet it goals of maintaining equipment, upgrades to facilities, water quality issues, existing and future customer needs and growth. Each year the officers and heads of department review the plan for the upcoming year. After the needs and goals have been reviewed and prioritized, the plan is modified and revised in order to reach those needs. This becomes the budget for the following year, which is submitted to the board of directors for approval.

Organization Structure, Decision Making, And Controlling Process

Within the management of Ohio American, communication between the management, heads of departments and officers is accomplished using a variety of methods. This includes regular meetings within departments and management, telephone conferences, electronic mail and written correspondence. There are regular top management meetings, financial meetings and operational and network meetings. In addition, engineering and business development projects are reviewed in established

management review meetings. This level of communication allows an exchange of information and ideas among all of the managers and officers of Ohio American.

Ohio American's five districts provide water and wastewater services to its customers. The designation and location of each district is depicted on the map attached hereto as Exhibit 1, Schedule S-4.1. The number of customers served by each district is shown on Exhibit 3, Schedule S-4.1.

As of June, 2007, Ohio American's customer base is comprised of 92.20% residential, 6.23% commercial, .24% industrial, and 1.33% other. During 2006, Ohio American provided more than 5.221 billion gallons of water to consumers in Ohio and collected and treated 490 million gallons of wastewater.

Currently Ohio American's Board of Directors consists of three inside directors. The directors are elected by the shareholder at the annual meeting in May. The directors are elected to serve for a term of one year or until successors are chosen. If a vacancy occurs during the year and the Company's Board wants to fill that vacancy, the remaining directors have the authority to fill the vacancy for the interim. The members of Ohio American's board of directors are shown on Exhibit 4, Schedule S-4.1. The Board of Directors has quarterly meetings. A special meeting can be held at anytime giving proper notice by the proper notice by the President and the Company. The responsibilities of the Board of Directors includes reviewing and approving annual budgets, approving sales and acquisitions of real estate, declaring dividends, major acquisitions, approving long-term financing and elections of Company officers.

The officers of Ohio American are: Terry L. Gloriod, President and Chairman of the Board; Douglas R. Mitchem, Vice President and Chief Operations Officer; James M. Jenkins, Vice President and Chief Financial Officer; and Martin D. Kerckhoff, Vice President, General Counsel and Secretary.

The President of Ohio American, who is also the Chairman of the Board, presides at all meetings of the Board of Directors. The President has the general executive supervision, direction and control of the business and the affairs of the Company. He may execute all proxies, authorized deeds, mortgages, bonds, contracts and other obligations in the name of Ohio American. The President has the general powers and duties of management usually vested in the office of a President of a corporation and has such other powers and duties as may be prescribed by the Board of Directors. The President is the liaison between Ohio American and its parent corporation, AWW.

The Vice Presidents perform the duties of the President in case of his absence, incapacity or inability to act, along with all duties the Board may prescribe. Vice Presidents have the power to execute all proxies, authorized deeds, mortgages, bonds, contracts and other obligations in the name of Ohio American. Vice Presidents report to the President. The Vice President and Chief Financial Officer is responsible for the financial planning, organizing, directing, controlling and staffing to insure the Company of a continuously sound financial structure.

Ohio American has a General Manager Network and General Manager Production. Each District operates with an Operations Superintendent. The Operations Superintendents report to the General Managers who report to the President and Vice Presidents. Ohio American receives accounting, administration, communications, community relations, corporate secretarial and legal, engineering and operations, regulatory practices, finance, human resources, water quality and water quality analysis, information systems and data processing, personnel information and training, purchasing, insurance, safety, and other general services necessary in the proper conduct of business from AWWSC.

Ohio American, as well as all other subsidiaries of AWW, utilizes the balance score card approach to align its goals and objectives from the field services personnel through the President of Ohio American and through its parent corporation AWW. Business and development goals are set by each employee and the employee's supervisors goals are

established based upon those who report to him. This ensures that there is complete alignment of the business objective to provide reliable, affordable and water service that meets all water quality parameters.

Internal Communications

Internal communications within Ohio American and between its parent corporation and sister subsidiary, AWWSC, are maintained using a variety of methods, including telephone conferences, overnight mail, electronic mail, monthly newsletters, weekly departmental meetings, regular visits between officers, directors and managers at all levels and periodic meetings to address training and business initiative communications.

External Communications

External communications are maintained by the External Affairs department. However, the water industry is a local industry and therefore, the local management is authorized and expected to respond to inquiries and to represent the Company in all external communications. The External Affairs department assists local management in responding to inquiries.

Employment of Qualified Personnel

In order to achieve its vision of being a trusted water resource, Ohio American seeks to hire and retain the best qualified person for each position. This means that Ohio American seeks to be inclusive in its hiring process and actively solicits applications from a diverse group of potential candidates. To attract and retain qualified employees, Ohio American reviews its compensation package to ensure that it is consistent with the market. Ohio American seeks to develop and cross-train its employees to assist them in their position, as well to train for future positions and promotions.

By employing the most qualified personnel, Ohio American is able to maintain it water quality, maintain its facilities and distribution system and adequately respond to customer inquiries. The corporate process is designed to allow for efficient management of the system and to reduce the costs to the consumer.

Exhibit 3
Schedule S-4.1

OHIO AMERICAN WATER COMPANY
NUMBER OF CUSTOMERS
AS OF JUNE 30, 2007

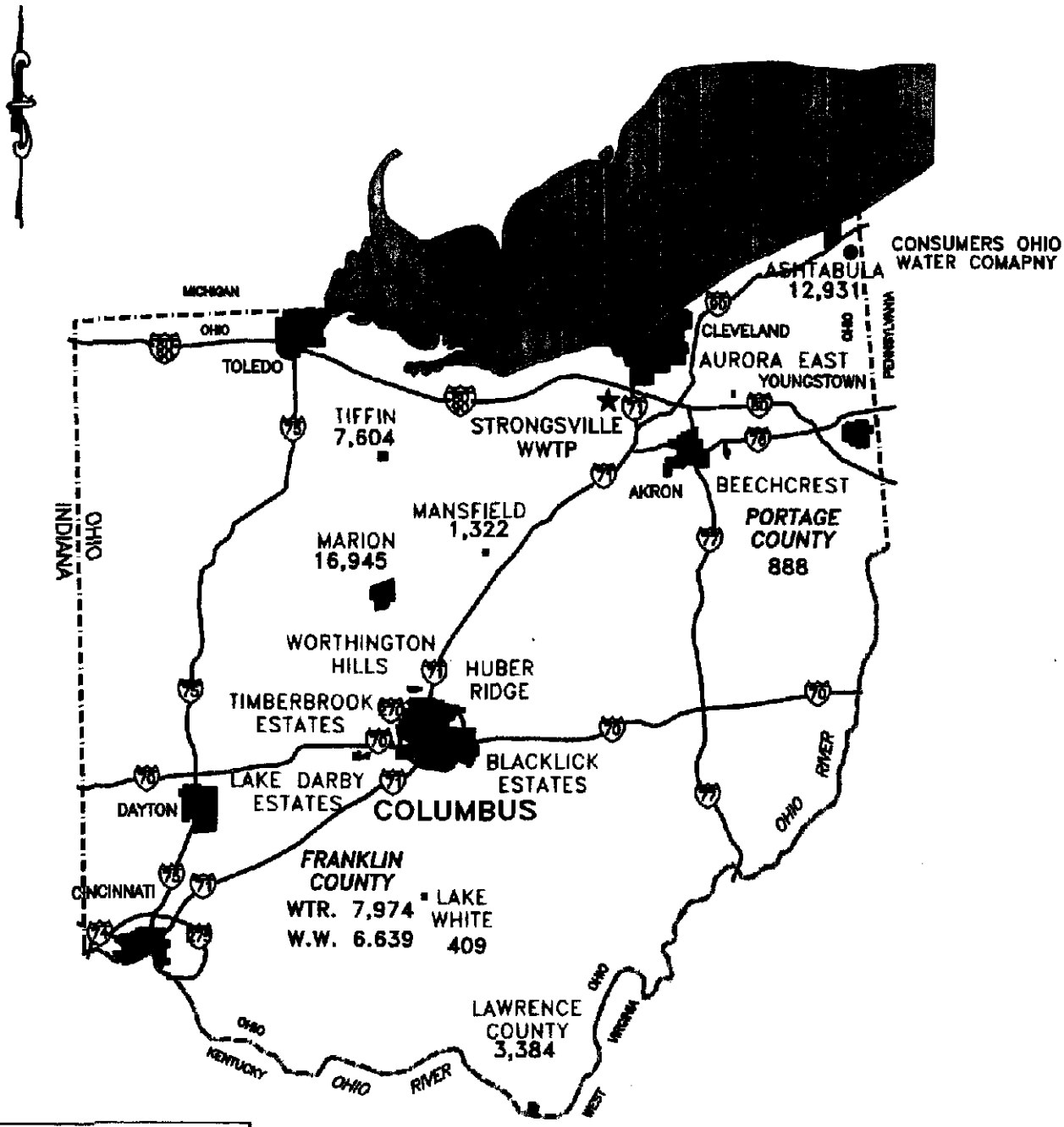
ASHTABULA		12,852
LAWRENCE COUNTY		3,391
FRANKLIN COUNTY (WATER)		7,947
FRANKLIN COUNTY (SEWER)		6,614
MARION		17,004
TIFFIN		7,582
LAKE WHITE		408
MANSFIELD		1,329
PORTAGE COUNTY		901
	TOTAL	58,028

Exhibit 4
Schedule S-4.1

OHIO AMERICAN WATER COMPANY
BOARD OF DIRECTORS

Terry L. Gloriod	President and Chairman of the Board
Douglas R. Mitchem	Vice President and Chief Operations Officer
James M. Jenkins	Vice President and Chief Financial Officer

Ohio American Water®



Ohio American At A Glance

September, 2006

- 51,457 water customer accounts
- 6,639 waste water customer accounts
- 180,100 population
- 36 municipalities
- 10 counties

★ O&M PROJECTS
METRO AREAS
SERVICE AREAS
BULK SALES

RWE GROUP

American Water

2007

CENTRAL REGION

ORGANIZATIONAL CHARTS

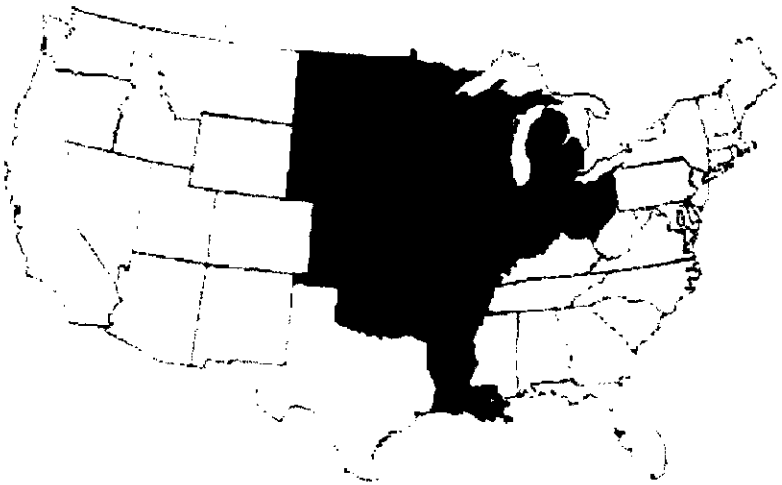


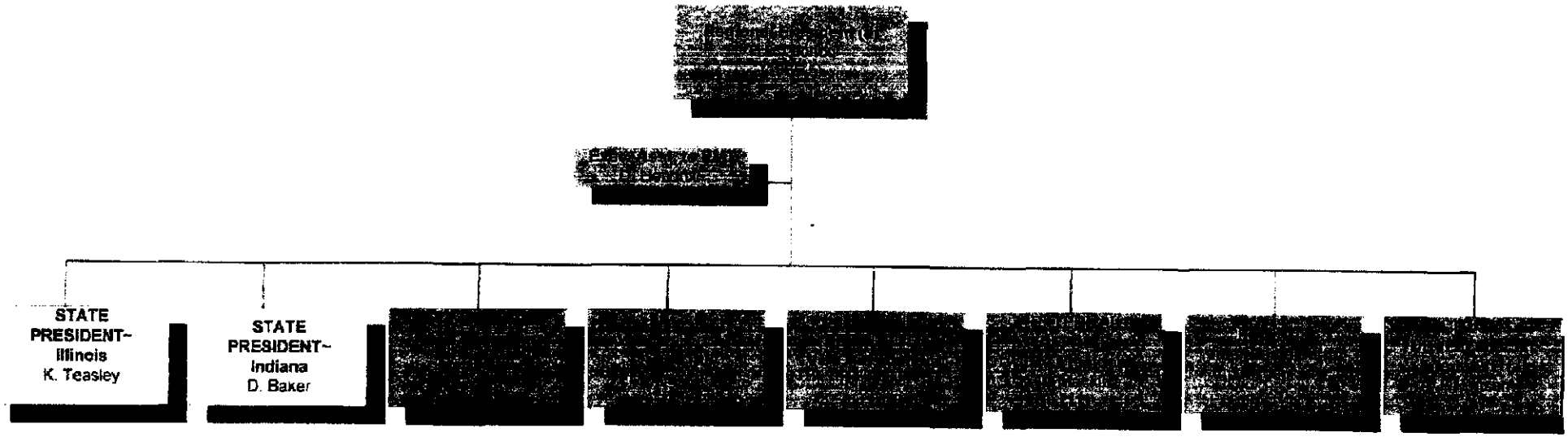
Exhibit 2
Schedule S-4.1

Central Region

Regional Directors

American Water

2007 on 10/29/2007 (pg. 2 of 19)



~ Shared with Human Resources (counted here, not there)
~ State Presidents – counted here.
(a) Position has automobile allowance

E:10 NE:00 U: 00

Central Region (Regional Directors)

Exhibit 2
Schedule S-4.1

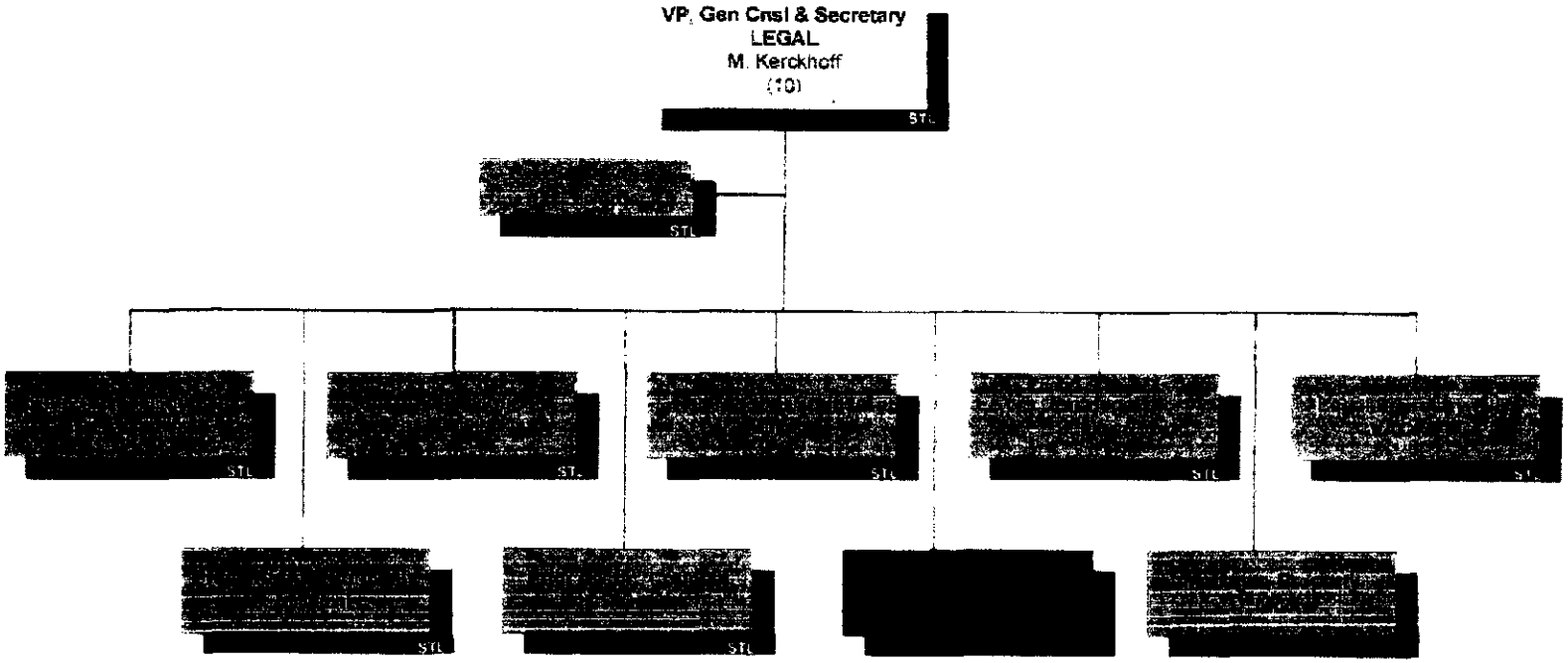
Central Region

Legal

American Water

2007 on 10/29/2007 (pg. 3 of 19)

Legal



*Filled with temp agency consultant

E:09 NE:01 U:00

Central Region (Legal)

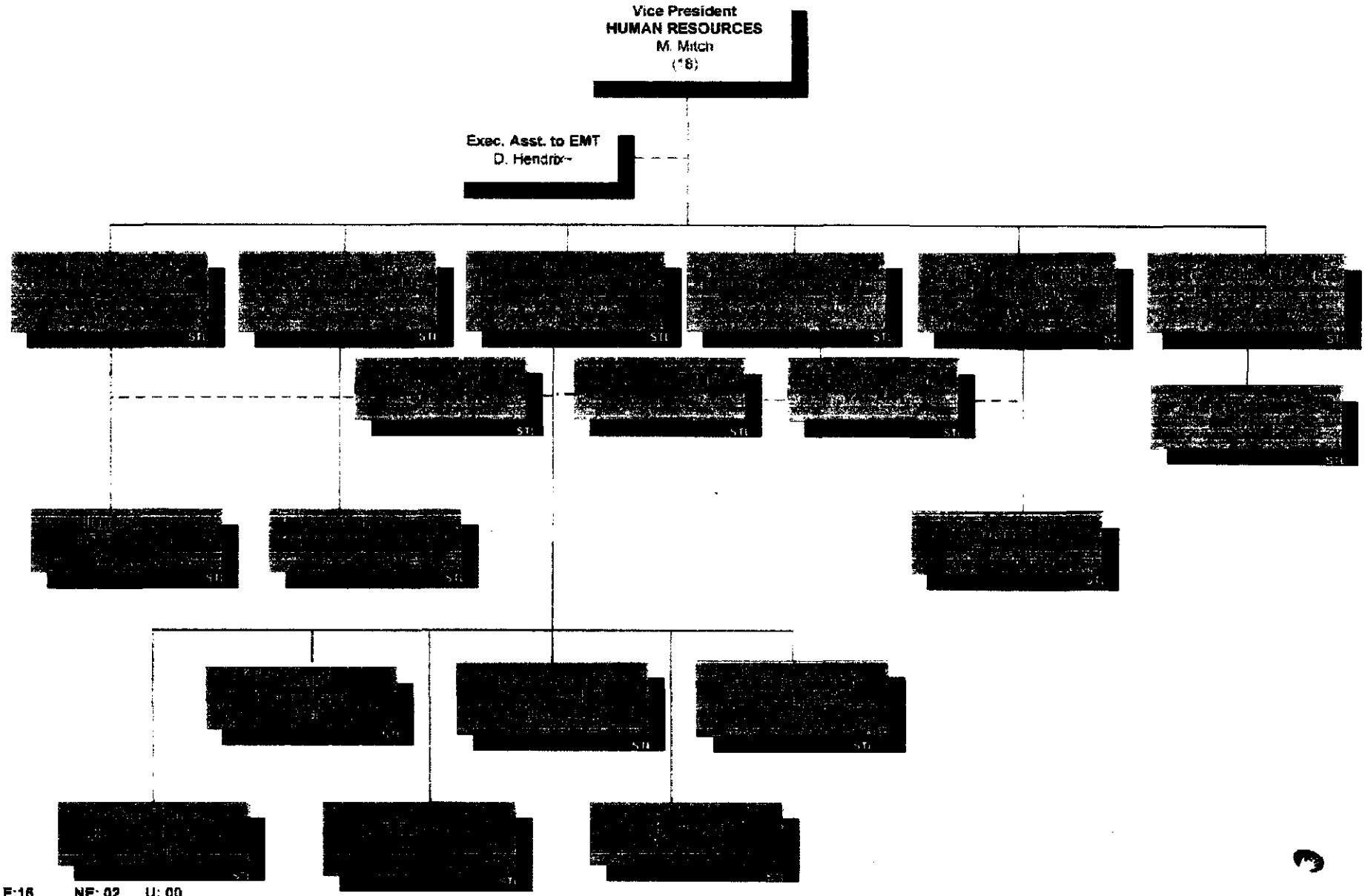
Exhibit 2
Schedule S-4.1

Central Region
Human Resources

American Water

2007 on 10/29/2007 (pg. 4 of 19)

Human Resources



E:16 NE: 02 U: 00

~ Shared with President (counted there, not here)
* R. Brown – resigned 10/30/07

Central Region (Human Resources)

Exhibit 2
Schedule S-4.1

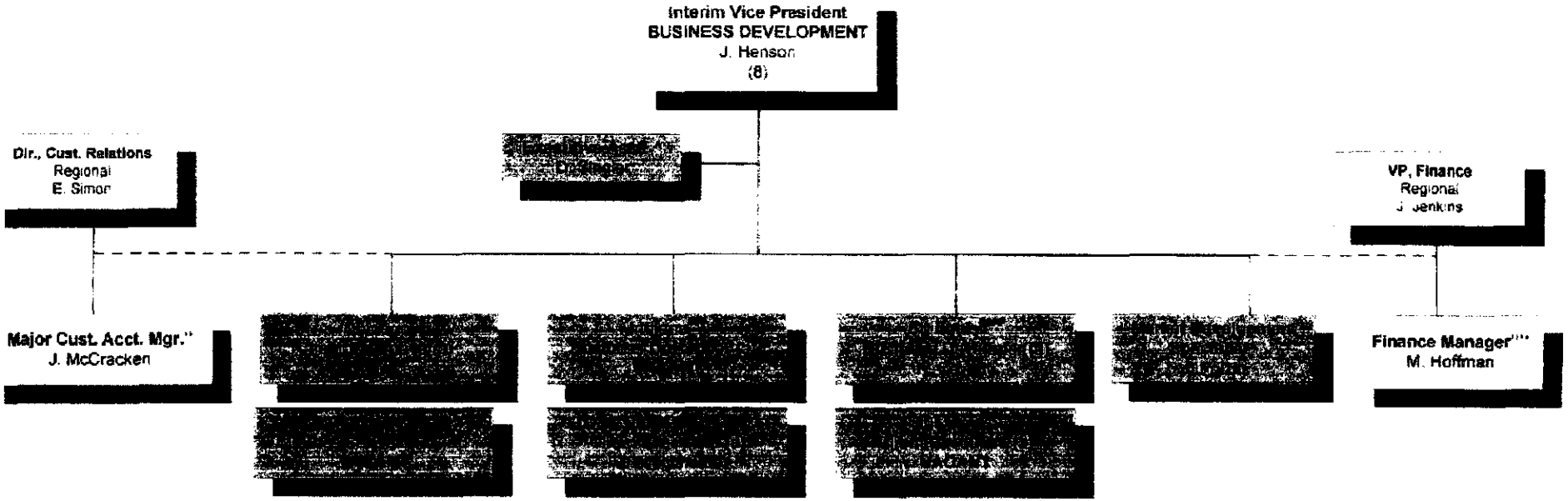
Central Region

Business Development

American Water

2007 on 10/29/2007 (pg. 5 of 19)

Business Development



^ Position is on Non-Regulated Benefits

'' Count 1 FTE in Cust. Relationship Srvcs. Page 49 (not here)
''''Count 1 FTE in Finance Page 7 (not here)

*Territory includes: WI, MN, Chicago, Gary IN, MI, IA, Ethanol
**Territory includes: IN (Except Gary), Ethanol
***Territory includes: OH
****Territory includes: MO, Southern IL, LA

(a) Position has assigned automobile (drives > 14K miles annually)

E:08 NE:00 U:00

Central Region (Business Development)

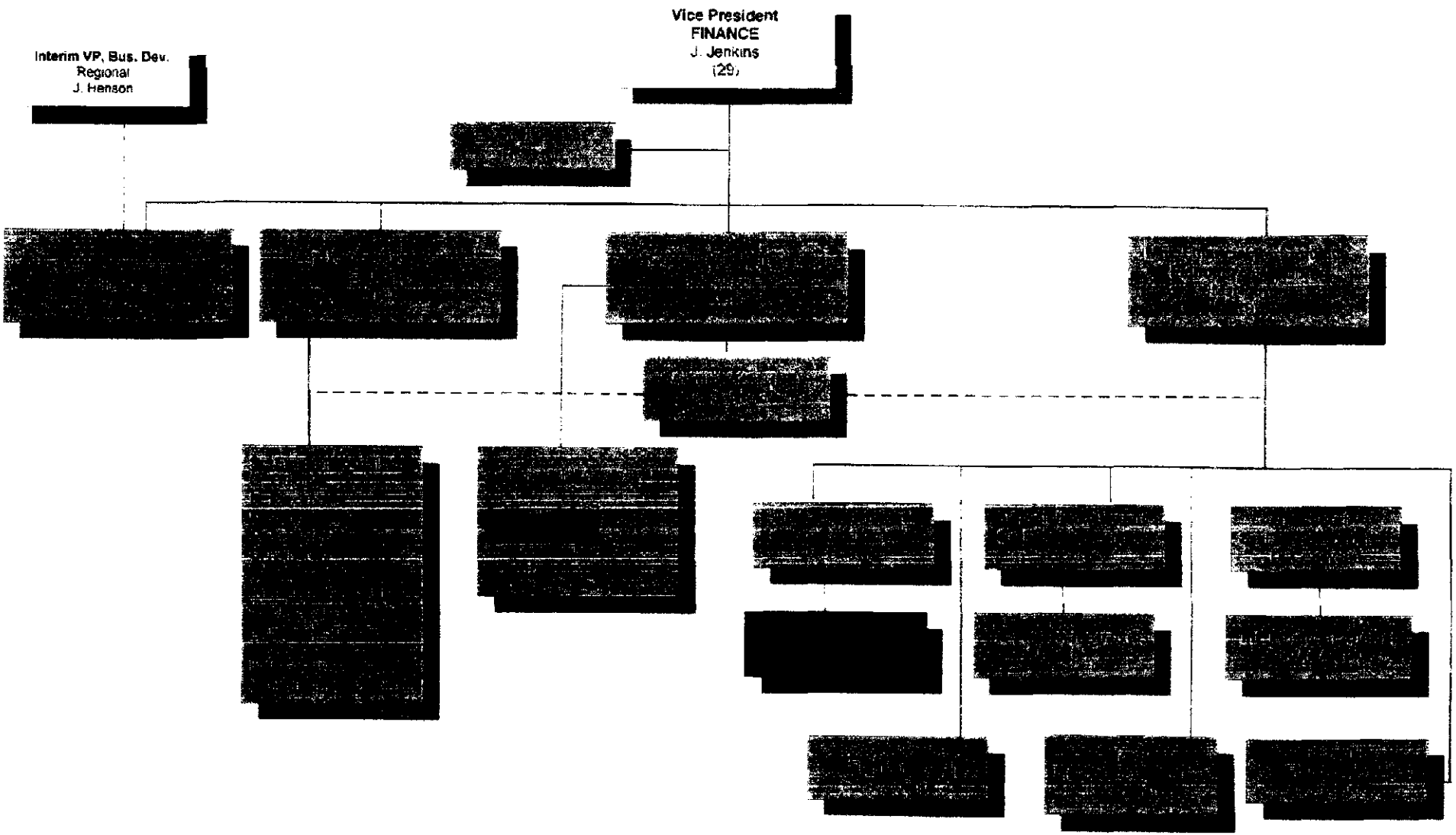
Exhibit 2
Schedule S-4.1

Central Region

Finance

American Water

2007 on 10/29/2007 (pg. 6 of 19)



*Filled with temp agency consultant.

E:27 NE:02 U:00

Central Region (Finance)

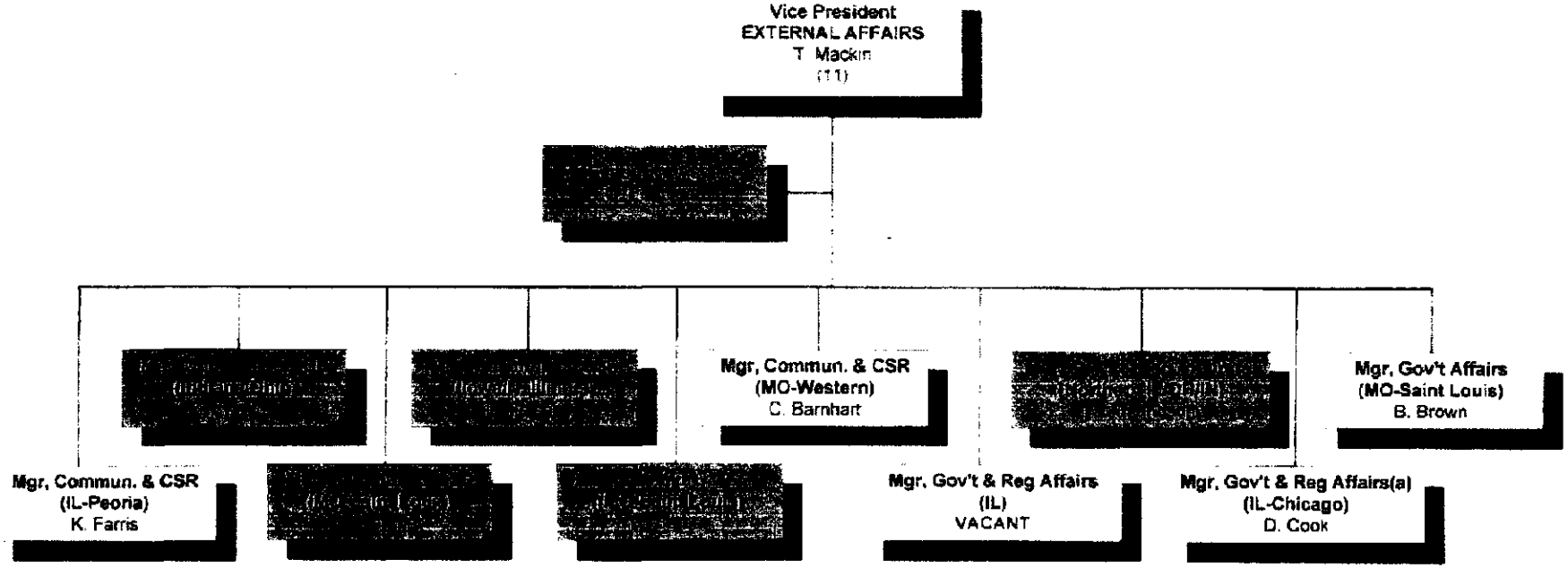
Exhibit 2
Schedule S-4.1

Central Region
External Affairs

American Water

External Affairs

2007 on 10/29/2007 (pg. 7 of 19)



E:11 NE:00 U:00

Central Region (External Affairs)

Exhibit 2
Schedule S-4.1

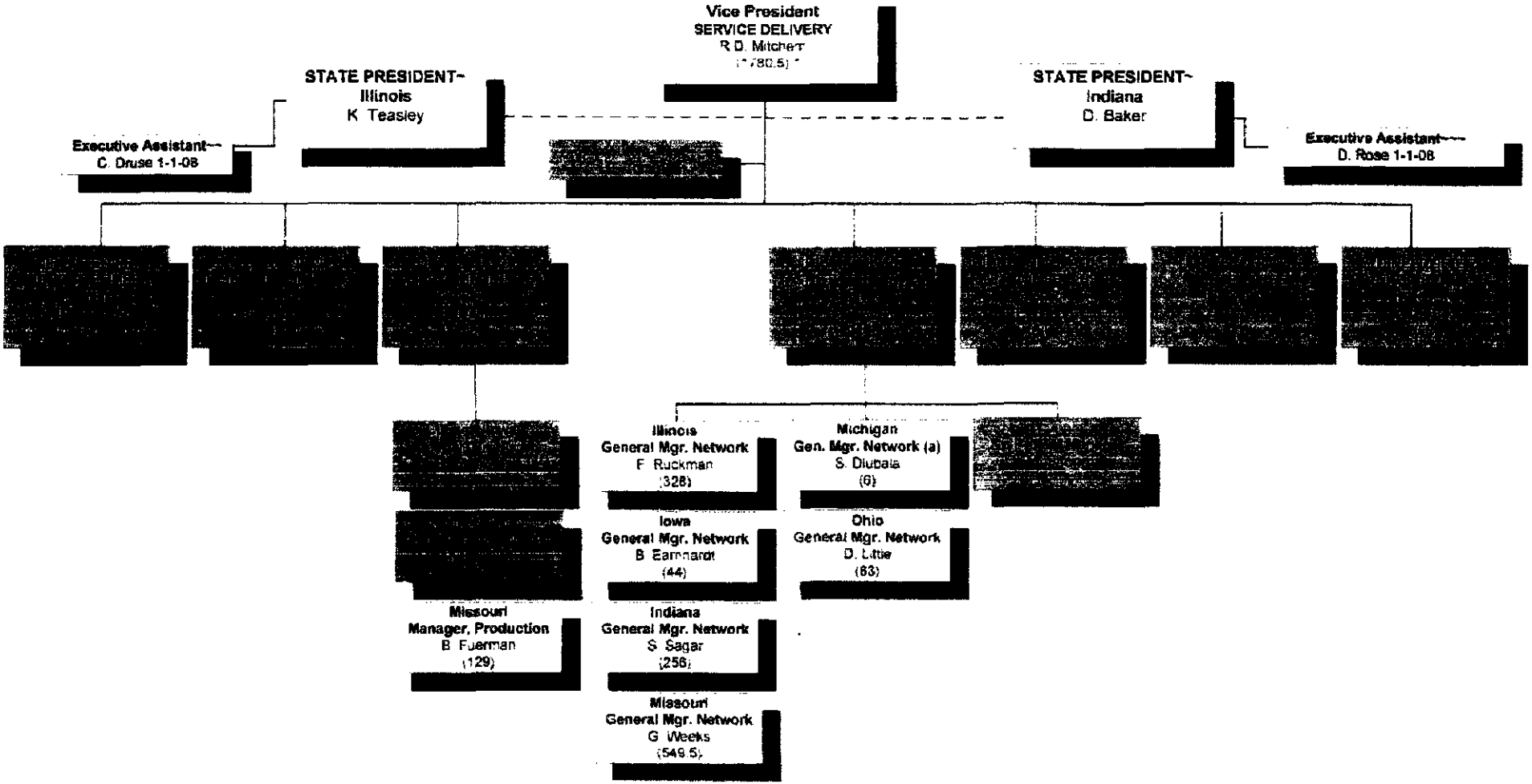
Central Region

Service Delivery

American Water

2007 on 10/29/2007 (pg. 8 of 19)

Service Delivery



~Presidents - Not counted here
~~Executive Assistant shared with GM, Network, IL
~~~Executive Assistant shared with GM, Network, IN

(a) Position has assigned pool car (24/7 pool car)

E:18 NE:00 U:00

Central Region (Service Delivery)

Exhibit 2
Schedule S-4.1
~~~

Central Region

Network - Ohio

American Water

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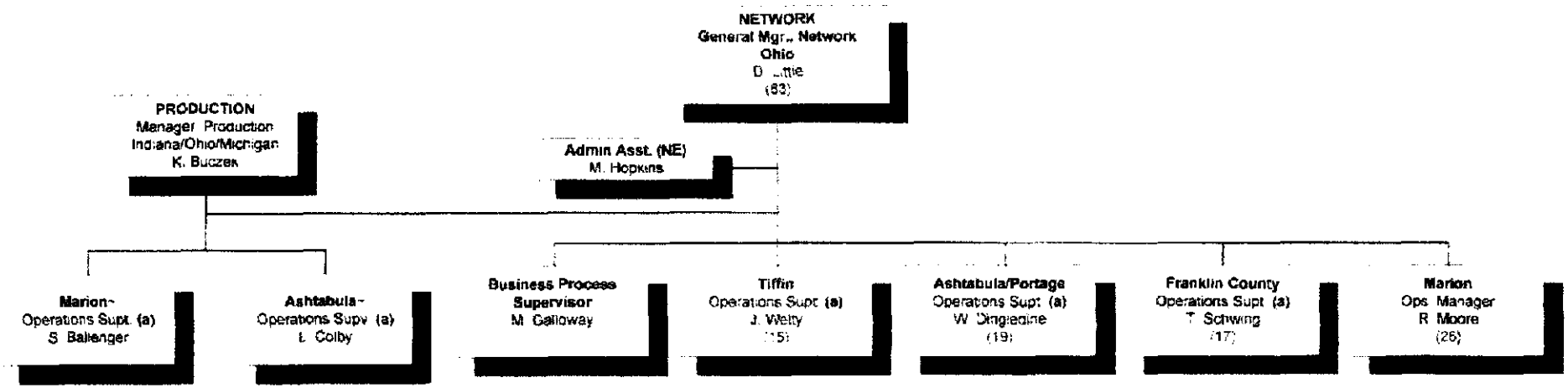
Network



~Not counted here

(a) Position has assigned pool car (24/7 pool car)

E:05 NE:01 U:00

Exhibit 2
Schedule S-4.1

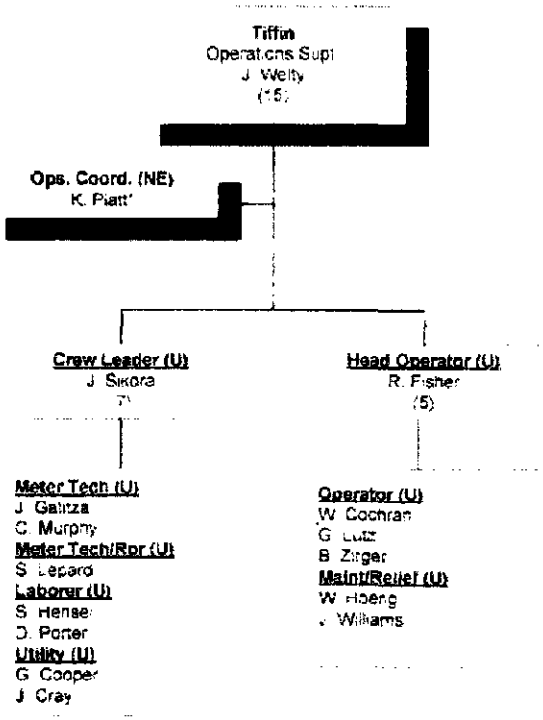
Central Region

Network - Tiffin

American Water

2007 on 10/29/2007 (pg. 10 of 19)

Network



*K. Platt – retiring 09/01/08

E:00 NE:01 U:14

Central Region (OH-Tiffin.Network)

Exhibit 2
Schedule S-4.1

Central Region

Network - Ashtabula

American Water

2007 on 10/29/2007 (pg. 11 of 19)

Network

Ashtabula/Portage
Operations Supt
W. Dingledine
(19)

Ops. Coord. (NE)
L. Campbell

Portage
Ops. Supervisor
S. Chelline

Ops. Coord. (NE)
D. Turner

Working Foreman (U)
R. Luce
(15)

Meter Reader (U)
L. Pakkala
M. Risley

On/Off (U)
T. Adams (R-7/1/05)
D. Foglio
J. Kelly
K. Niemi
D. Sears
E. Taylor

Utility (U)
C. Butler
M. Dennis
P. Kampp (R-7/1/05)
M. Lail
D. Reed (R-1/1/06)
P. Savel
J. Watson

E:01 NE:02 U:15

Central Region (OH-Ashtabula.Network)

Exhibit 2
Schedule S-4.1

Central Region

Network - Franklin County

American Water

2007 on 10/29/2007 (pg. 12 of 19)

Network

Franklin County
Operations Supt Network
T Schwing
(17)

Ops. Coord. (NE)
R. Brainard

Ops. Supervisor (a)
S. Frazzin.

Operations Supv. (a)
E Diaz 1-1-06

Utility (U)
(1 LD2-1/1/06)
(1 LD1-1/1/06)
2 OVER
E. Andersen
E Diserio
P Fields
A Green
R Klein
D Matunas
G. Pool
VACANT
VACANT
VACANT (R-1/1/06)

Operator (U)
C Boggs
J Cann
M Deshong
T Metcalf
J Rhoades
J Ward
J White

E:01 NE:01 U:15

(a) Position has assigned pool car (24/7 pool car)

Central Region (OH-Franklin County.Network)

Exhibit 2
Schedule S-4.1

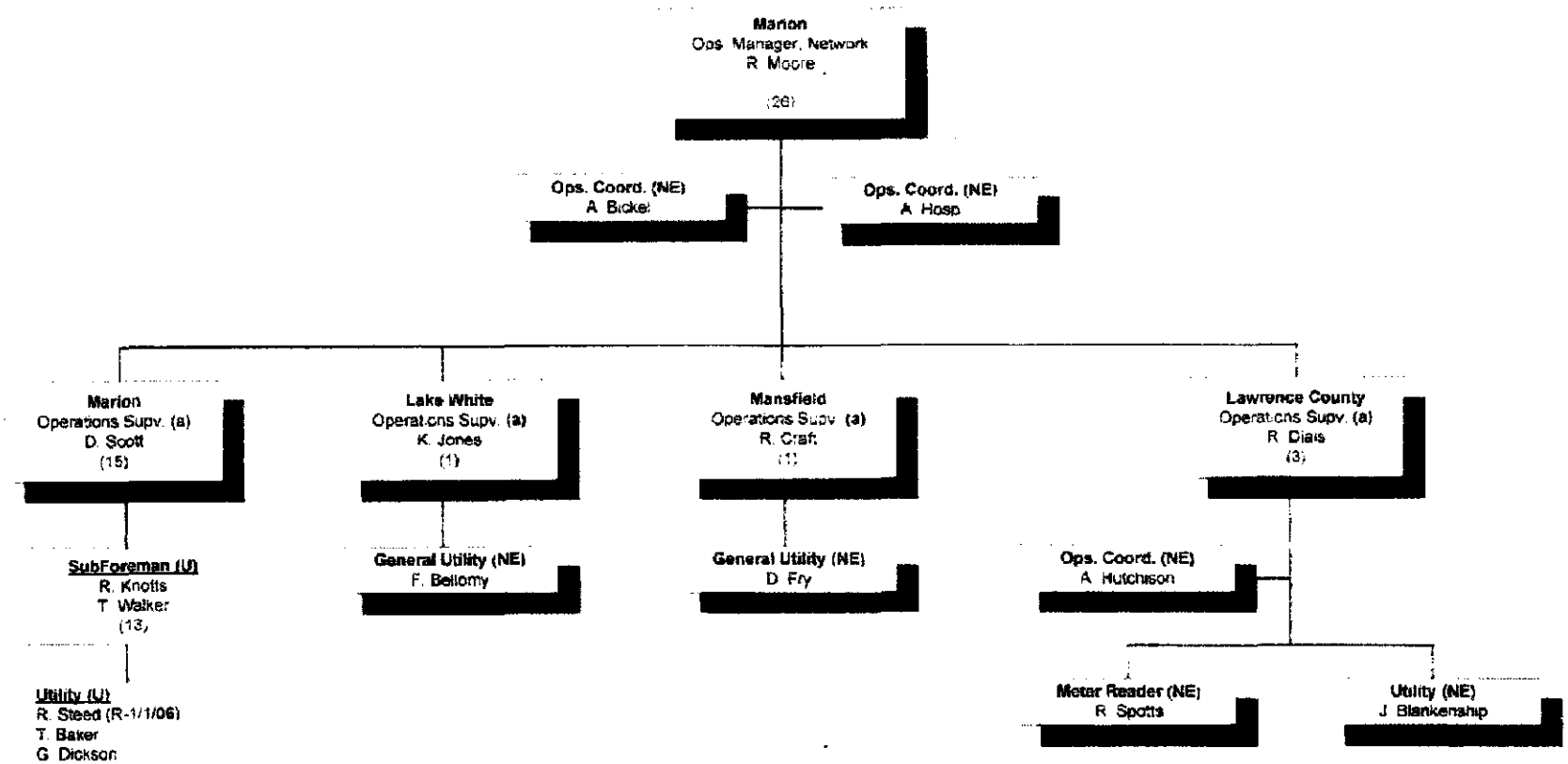
Central Region

Network - Marion

American Water

2007 on 10/29/2007 (pg. 13 of 19)

Network



Utility (U)
R. Steed (R-1/1/06)
T. Baker
G Dickson
R Reeder
S Runkle
V. Spurgeon
G Thacker

On/Off (U)
(1 LD1-1/1/06)
1 OVER
K. Coleman
A Grimes
B Malone
M. Turner
R Walker

Meter Reader (U)
S Gast
N Hindman

(a) Position has assigned pool car (24/7 pool car)

E:04 NE:07 U:15

Central Region (OH-Marion.Network)

Exhibit 2
Schedule S-4.1

Central Region

Production - Indiana, Ohio, Michigan

American Water

Production

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PRODUCTION
Manager, Production
Indiana/Ohio/Michigan
K. Buczek
(81)

NETWORK
General Mgr., Network
Ohio
D. Little

[redacted]

Southern Indiana Jeff/New Albany
Operations Supv. (a)
A. Newman
(5)

New Albany
Operator (U)
G. Deeringer
T. Siler
R. Steele
Relief Operator (U)
R. Lunsford 1-1-07

Terre Haute
Operations Supt. (a)
C. Adamson
(6)

Technician Svc. Delivery (NE)
C. Carroll 1-1-07

Production Tech (U)
P. Easton
J. Gaskin
M. Hamilton
J. Minger
T. Mullen

Sullivan
Production Tech (U)
H. Pitts

NW Operations
Operations Supt. (a)
R. Anderson
(23)

Dist Srv Clrk (Clrk III) (NE)
C. McDowell

Op/Maint WT5 (U)
C. Duvall
G. Eaton
K. Heinz
P. Holley
P. Kowal
M. Lloyd
J. Reynolds
J. Scarborough

NW Operations
Maint. Serv. Supv.
J. White
(13)

Plant Mechanic (U)
C. Boint
R. Grecco
J. Herdis
T. Hohenberger
R. Jackson
B. Konopasek
M. Meadows
K. Shelhart 1-1-07
Utility Worker (U)
D. Flowers
Plant Tech WT5 (U)
B. Drosset
T. Hernandez
H. Moranu
W. Smith

Indiana
Mntc. Svc. Supr
T. Edington 1-1-07

Muncie
Operations Supt. (a)
M. James
(25)

Richmond
Operations Supv. (a)
C. Volk
(8)

Operator (NE)
Y. Baker

Operator (NE)
D. Paul

Operator (NE)
P. Kunke

Operator (NE)
S. Murphy

Maint. Person (NE)
S. Hay

Maint. Person (NE)
T. Mathews

Maint. Person (NE)
D. VanWinkle

Maint. Person (NE)
D. Myers 1-1-07

Kokomo
Operations Supv. (a)
R. Smith
(7)

Production Tech (U)
J. Fager
K. Goodnight
N. Goyer
D. Jones
P. Neuzening
S. Thatcher
M. Vary 1-1-07

Operator (U)
M. Abernathy
K. Haffner
D. Hodson
B. Johnson
Head Mntc Spec & Rlf (U)
J. Henderson
Sr. Mntc Spec & Rlf (U)
J. Davis
D. Kelly
J. Moore 1-1-07

Marion
Operations Supt. (a)
S. Ballenger
(8)

Operator (U)
K. Abbott
J. Augenstein
B. Hensel
B. McCurray
Head Maint. Prson (U)
R. Tubbs (R-1/1/06)
Maint. Person (U)
L. West
R. Boes
Lab Analyst (U)
M. Wise

Ashtabula
Operations Supv. (a)
L. Colby
(6)

Head Maint. Prson (U)
J. Carbon (R-1/1/06)**
Operator (U)
R. Mundie
M. Roberts
R. Satterfield
R. Wooc
Relief Operator (U)
G. Ferguson

** J. Carbon- Employee hired as LD1 Utility Person
(a) Position has assigned pool car (24/7 pool car)

E:11 NE:10 U:61

Central Region (IN/OH/MI.Production)

Exhibit 2
Schedule S-4.1

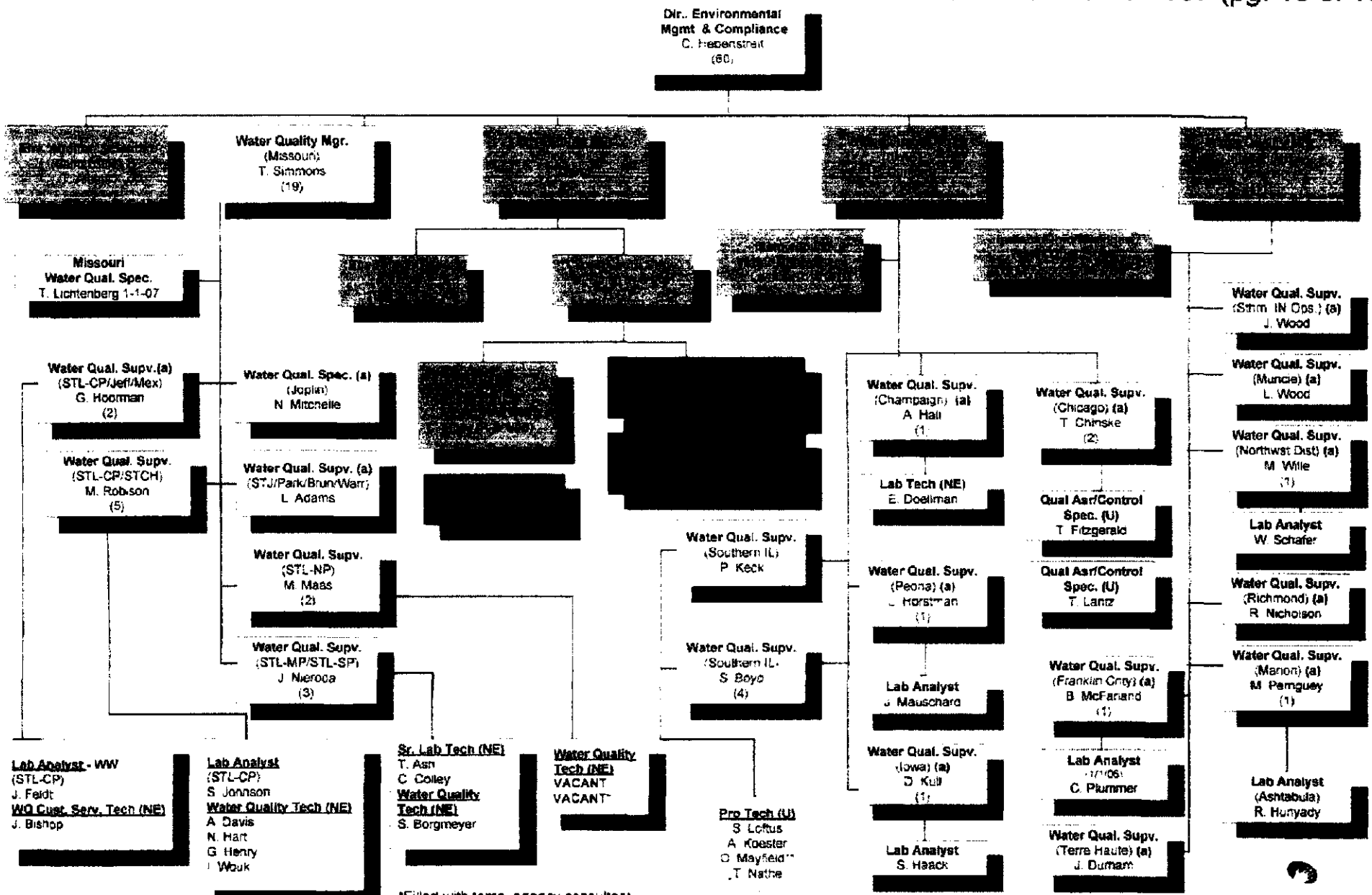
Central Region

Env. Mgmt. & Compliance - Regional

American Water

Environmental Management & Compliance

2007 on 10/29/2007 (pg. 15 of 19)



(a) Position has assigned pool car (24/7 pool car)
E:40 NE:14 U:06

*Filled with temp. agency consultant.
** O. Mayfield – retiring 02/01/08

Central Region (Environ. Mgmt. & Compliance)

Exhibit 2
Schedule S-4.1

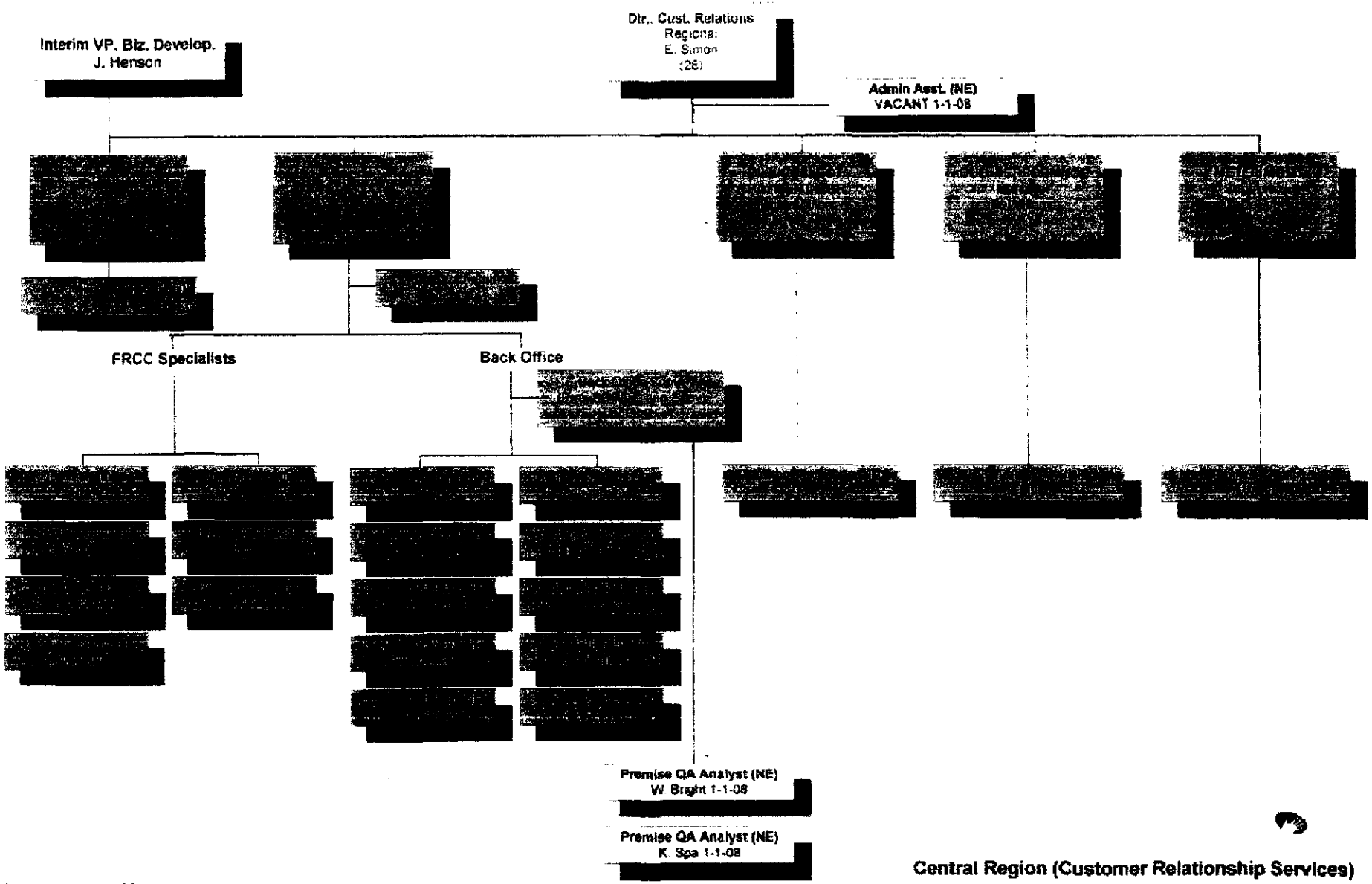
Central Region

Customer Relationship Services - Regional

American Water

2007 on 10/29/2007 (pg. 16 of 19)

Customer Relationship Services



E:14 NE:14 U:00

Central Region (Customer Relationship Services)

Exhibit 2
Schedule S-4.1

Central Region

Operations Risk Mgmt. - Regional

American Water

2007 on 10/29/2007 (pg. 17 of 19)

Operations Risk Management

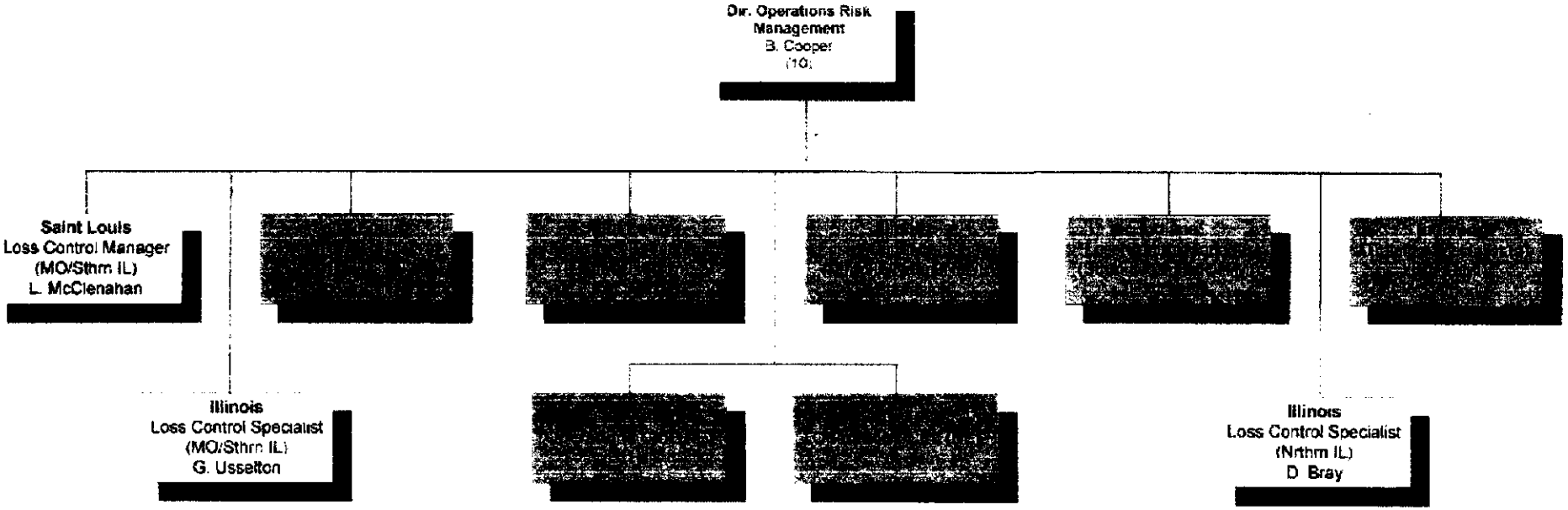


Exhibit 2
Schedule S-4.1

E:08 NE:02 U:00

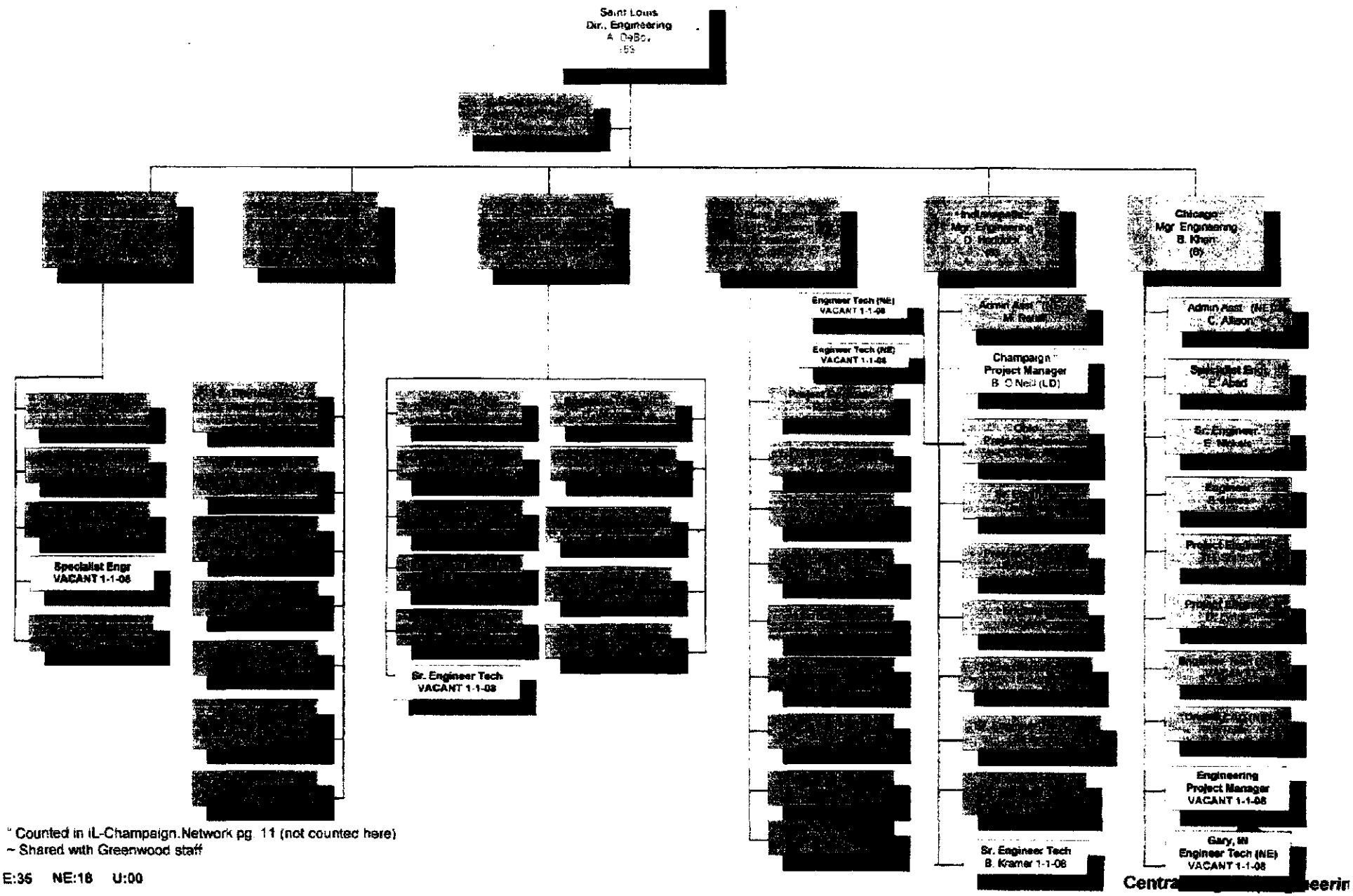
Central Region

Engineering - Regional

American Water

2007 on 10/29/2007 (pg. 18 of 19)

Engineering



* Counted in IL-Champaign.Network pg. 11 (not counted here)
~ Shared with Greenwood staff

E:35 NE:18 U:00

Exhibit 2
Schedule S-4.1

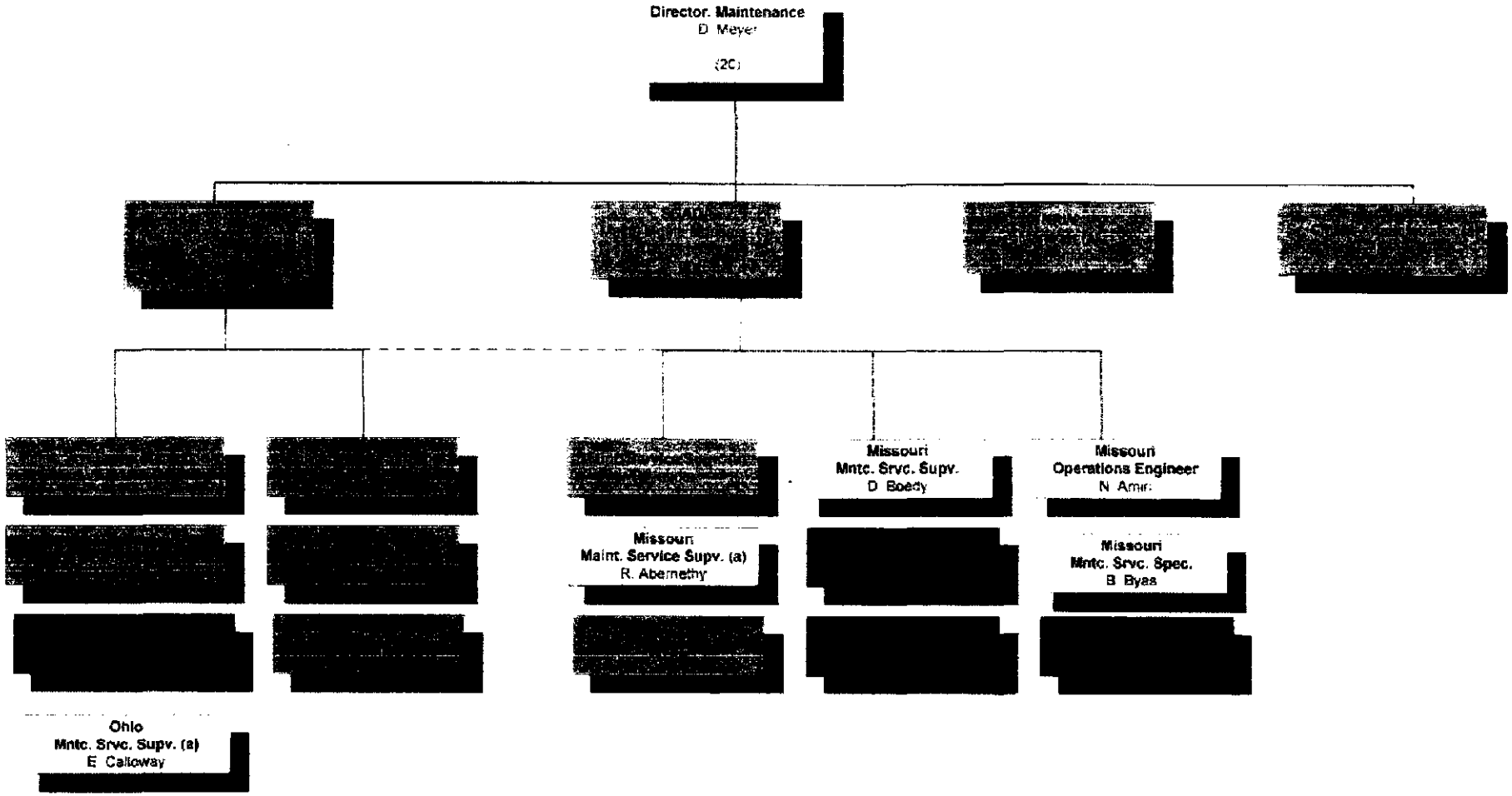
Central Region

Maintenance - Regional

American Water

2007 on 10/29/2007 (pg. 19 of 19)

Maintenance



(a) Position has assigned automobile (drives > 14K miles annually)

E:20 NE:00 U:00

Central Region (Maintenance)

Exhibit 2
Schedule S-4.1

Exhibit 3
Schedule S-4.1

OHIO AMERICAN WATER COMPANY
NUMBER OF CUSTOMERS
AS OF JUNE 30, 2007

ASHTABULA		12,852
LAWRENCE COUNTY		3,391
FRANKLIN COUNTY (WATER)		7,947
FRANKLIN COUNTY (SEWER)		6,614
MARION		17,004
TIFFIN		7,582
LAKE WHITE		408
MANSFIELD		1,329
PORTAGE COUNTY		901
	TOTAL	58,028

Exhibit 4
Schedule S-4.1

OHIO AMERICAN WATER COMPANY
BOARD OF DIRECTORS

Terry L. Gloriod	President and Chairman of the Board
Douglas R. Mitchem	Vice President and Chief Operations Officer
James M. Jenkins	Vice President and Chief Financial Officer

Ohio American Water Company

Rate Case No. 07-1112-WS-AIR

Schedule S-4.2
Executive Summary of
Ohio American Water Company's
Management Policies, Practices
And Organization

Witnesses Responsible:
David Little and Gary VerDouw

Ohio American Water Company
Rate Case No. 07-1112-WS-AIR

Schedule S-4.2
Executive Summary of Management Policies

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- Construction project management and control 13.
- Research and development 14.
- Environmental management 15.
- American Water environmental policy 18.

Finance and Accounting 19.

- Cash management 19.
- Accounting systems and financial reporting 21.
- Budgeting and forecasting 23.
- Financial planning process and objectives 24.
- Materials and inventory management and control 25.
- Internal auditing 26.

Rates and Tariffs 27.

- System or program for managing rate related operations and rate reform projects 27.
  - Objectives of the rate program 27.
  - Process and procedures 27.
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  - Cost analysis 28.
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Risk assessment 29.
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Improving Service Quality

"To be your trusted water resource company, dedicated to delivering innovative solutions."

This is Ohio American Water Company (the "Company") and the American Water Company's vision that can be found throughout the Company newsletters, posters, memos and other forms of media. It is referred to at employee meetings. It is the driving force behind the activity in the operations of Ohio American Water.

In order to maintain the trust of customers, government and regulatory entities, Ohio American Water continues to focus on the basic operations and maintenance practices and procedures as defined by the Company and listed later herein.

Some highlights of our Service Quality plan are as follows:

Operations and maintenance practices and procedures

These are listed in the section entitled "Operations and Maintenance Practices and Procedures" below.

Customer focus

Representatives of the Company attended the rate case public hearings held in December 2004 and January 2005. They took note of the issues raised during these meetings and are including strategic processes directed toward alleviating or minimizing these concerns.

In Lake Darby, customers expressed dissatisfaction with the finished water softness levels. While the Company is softening the water to a required level, Ohio American Water personnel have given this issue a high degree of attention and have made process changes in order to improve the finished water hardness levels. These changes – including staff training and changed operating procedures – have had an immediate and positive impact on water quality. Company representatives have met with customers who raised issues concerning aggressive water. Findings from these meetings show that many of these customers have home softening units that are creating internal issues. Company personnel have attempted to address those issues with these individuals. The strategic plan that has been commenced, for continuing to seek operational excellence in this area is:

- Include information on softening practices in the quarterly public meetings.
- Evaluate the existing softening equipment for potential improvements in order to further improve the process.

Customers in the Marion District conveyed their desire for more timely lawn repairs. In order to immediately respond to this problem and address reporting requirements, the Marion District added two temporary employees. These employees completed repairs to those lawns that were excavated for water line construction or repair. In order to improve customer relations in this area, the Company is evaluating several options, including:

- Developing a handout to leave with customers, detailing the need to allow an excavation to settle prior to leveling/reseeding and give the customer a contact phone number for questions.
- Evaluating the current process being used to track lawn repairs for possible improvement.
- Continuing to utilize temporary effect lawn restoration; evaluating contractor costs versus additions to the Company workforce to permanently address the issue of lawn restoration.

Government Relations

Mayors in Marion, Tiffin and Ashtabula stressed the need for fire hydrants to be painted regularly, as their appearance has an impact on the city's image. In accordance with the stipulation requirements, the Company has hired temporary laborers in Marion and Ashtabula. These employees will allow the Districts to meet this requirement. In order to achieve efficiencies in this process, the Company plans to:

- Evaluate the best economic means of accomplishing this task over the long term, whether it is hiring permanent employees, utilizing contractors, or continuing to utilize temporary help.
- Continue to evaluate various coating systems to find the most prudent coating.

One of the comments heard from public officials in several of the Districts was that they no longer know who to talk to at the water company. In order to improve communications for operations purposes, Company management teams have begun contacting local government representatives to make introductions, supply contact information, and inform them of current Company activity. In order to further the communications process, the Company plans to:

- Develop a newsletter providing contacts within the Company and updates on local activity.
- Continue to meet face-to-face with local officials on a regular basis as agreed upon with the local official and the Company representative.
- Continue to invite local leaders to quarterly meetings in Marion and Lake Darby.

Aging Infrastructure

One issue drawing an ever-increasing amount of attention is aging infrastructure. The Company will continue to track maintenance activity on mains, services and treatment plants and prepare for replacements as needed.

Plant Operation and Construction

Plant/Facilities Planning Process

Introduction

The Comprehensive Planning Study (CPS) provides capital improvement recommendations which enable Ohio American Water to continue to provide safe, adequate and reliable service to its customers in order to meet their domestic, commercial, industrial, and fire protection needs. The criteria used for evaluating the various system components are summarized in the following subsections. In addition, water resource management, national, state and local trends, and their role in the planning process are discussed.

Planning Approach

This CPS provides an engineering analysis which management can utilize, among other tools, to assist in the long-term planning process. The Comprehensive Planning Process encompasses the following: developing and evaluating alternative planning scenarios, considering the goals of the regional water supply and waste water services plan developed by various local and state agencies, evaluating water demand and supply side and waste water load management options where such measures could potentially eliminate or defer capital projects and reduce operating costs, assessing the costs and benefits of energy management based projects, and considering various externalities. These planning aspects were considered as appropriate when developing the proposed solutions to the water and waste water system's long-term needs. For major projects recommended in this study, alternative planning scenarios are presented where applicable, which will allow for the flexibility to reevaluate project selection if regional and local input requires redirection of efforts.

The priorities and recommendations are based on conditions that are known as of the date of the report. They should not be construed as indicative of the appropriate management decision with regard to implementation of such recommendations or priorities at any particular time. Any such management decision must also consider a wide range of additional and then current factors, which are beyond the scope of this document, including, but not limited to, general economic conditions, changing regulatory and environmental requirements, and customer impacts.

It is beyond the scope of a CPS to attempt to identify the end of the useful life of each piece of Company equipment – for example, the many miles of pipeline within a distribution or collection system. It should be assumed that capital expenditures will occur over time due to normal aging and operational wear on existing equipment. For this and various other reasons, it is anticipated that the Company may encounter additional capital expenditures beyond those identified in the CPS.

Engineering Criteria

In planning the needed water facilities, accepted engineering standards and practice have been utilized to provide adequate capacity and an appropriate level of reliability to satisfy domestic,

commercial, industrial and fire protection needs. In addition, all facilities were analyzed for the ability to comply with relevant regulatory requirements.

Customer and Demand and Load Projections

Demand and load projections provide the basis for evaluating future system needs. Projections of the total number of customers and their associated demands and loads are developed for the water system over a fifteen-year planning horizon.

Since each system is unique, the specific techniques used to project both customers and demand varies, as appropriate. In general, the projections are developed based on a review of population trends, historic customer and demand and load data, and local planning commission forecasts. The effects of water conservation are considered in the projection, along with the analysis of historic water consumption trends.

Sources of Supply

Company sources of supply should have the necessary quantity of water to meet the projected system demand. The quality of the water from source of supply is regularly monitored and should provide finished water after treatment that complies with all Federal and State regulations. Sources of supply should also have sufficient allocation rights to permit average and maximum demands to be met.

The Company conducts water resource management activities and programs that are designed to protect, maintain and monitor the efficient use of supply sources and the finished product. These measures include managing water resources from both the supply and demand side. Continuation of these practices will assist in providing high quality service to the customer.

Water and Waste Water Treatment Facilities

The goal of the Company is to continue to produce high quality water that meets or surpasses federal and state water quality standards. Treatment facilities are designed to meet projected maximum day demands and loading events, and to comply with water quality regulations at all times. Individual components are sized with appropriate standby capacity that allows the facilities to meet maximum day demands and loading under varying operating conditions.

Recommendations for capital improvements are developed after evaluating the Company's ability to provide a reliable and high quality water supply as well as the ability to meet discharge limits. This ensures continued compliance with existing and anticipated federal and state water quality and environmental regulations, and the ability to meet projected customer demands and loads.

The ability to provide continuous service during a power outage is critical to a system's reliability and depends on several factors including: the nature of the electrical service (i.e., service from

one vs. two substations), the presence of any floating storage within a pressure zone, standby electrical generating capacity, and the availability of pumps which can be driven by diesel fuel or natural gas.

Pumping, Water Distribution, Waste Water Collection and Storage

The analysis of Company facilities includes an evaluation of pipelines, storage tanks, booster stations and emergency power provisions. These distribution system components are analyzed to determine their ability to provide safe, adequate and reliable service to customers under forecasted conditions.

Pumping facilities are designed to meet projected maximum day demands and loading events with the largest single unit assumed out of service. This design standard provides an appropriate measure of reliability in the event of a mechanical failure, or if maintenance is required for a pump. Pumping facilities may also be an important component of the fire protection system.

Water distribution storage facilities are designed to provide the recommended volume to equalize the plant's pumping rate on the projected maximum day, and to provide the effective volume necessary for fire fighting needs. The fire fighting volume criteria is to provide up to the maximum flow and duration addressed in the ISO Municipal Grading Schedule of 3,500 gpm for three hours. Additionally, on a site specific basis, storage facilities may need to provide a reserve volume for reliability purposes in the event of a power failure, main break, or other emergency.

Water pipelines are designed to meet two conditions of service. They are expected to deliver projected peak hour customer demands while maintaining system pressure at 30 psi or greater, and also to provide the needed fire flow identified by the International Organization for Standardization ("ISO") while maintaining distribution system pressure at 20 psi or greater. In this case and in the few commercial and industrial cases, the fire flow delivery needs impose the heaviest demand on the pipeline, and thus determine the sizing of pipelines.

Waste water collection systems are designed with consideration for acceptable levels of inflow and infiltration.

Consideration of National, State, and Local Trends

In developing a CPS, it is beneficial to review national, state and local trends that can affect future planning. Nationally, there has been a strong trend toward increased and tougher regulations affecting water purveyors. Examples include: increased protection of sources of supply; more stringent water quality regulations of finished water and discharge limits; additional regulation of treatment plant residuals; increased frequency of required water quality monitoring; and more extensive environmental laws affecting new construction and source development.

Typically, these new regulations are passed down to the state level to supplement the federal laws. The Ohio Environmental Protection Agency (OEPA) has primary enforcement

responsibility of the State's drinking water and waste water regulations. OEPA and US EPA recognize that the primary role of OEPA is in administering federal environmental programs delegated to the state under federal law and in carrying out state programs prescribed under state law. The role played by US EPA is in assisting the state, including: addressing multi-state or national issues directly; implementing programs not delegated to OEPA; and working on targeted sectors, watersheds, airsheds, or regions in conjunction with OEPA.

Water Resource Management

Water resource management has become an important part of the planning process. Water resource management refers to those activities and programs designed to protect, maintain, and monitor efficient use of water resources. These measures include managing water resources from both the supply and demand side. Such activities include meter maintenance and replacement programs, leak detection and repair, scheduled water main replacement, drought management, and customer education.

Metering provides accurate accounting of water flowing through the system, thereby helping to determine where losses and excess usage are occurring. Only a small number of customers are not metered. In some cases, commercial meters on apartment buildings or other multi-tenant facilities have been changed over to individual meters. New fire services are being equipped with flow indicators. Ohio American Water practices a meter replacement program whereby residential service meters are replaced after 10 years of service. Larger meters are tested and replaced more frequently. On the supply side, all source of supply meters are tested and calibrated at least once per year.

Replacement of aged facilities can conserve water through controlling system losses. For instance, old, unlined pipelines can be a source of leakage. Mains which have known leakage problems or which require frequent maintenance are given priority for replacement under this program. That program concentrates on mains 6 inches in diameter and smaller, usually unlined cast iron or steel.

All of these measures practiced by the Ohio American Water provide a water resource management program aimed at controlling water losses, protecting the Company's source of supply, and maintaining efficient and economical delivery and usage of its water resources. To continue to provide high quality service to its customers, Ohio American Water will need to continue these practices.

Operations and Maintenance Practices and Procedures

Ohio American Water continues to focus on basic operations and maintenance practices and procedures as defined by the Company. Documented practices and procedures of the Ohio American Water currently exist as follows:

Ohio American Water Distribution System:

- Disinfection of Tanks – New & Existing
- Distribution System Flushing
- Fire Hydrant - Installation, Operation, Inspection, & Maintenance
- Hydrant Flow Testing
- Hydrostatic Testing & leakage Testing of New Pipelines
- Polyethylene Encasement for Ductile Iron Pipe
- Water Loss Control & Leak Detection
- Facilities to Serve Multiple Occupancy of Individual Properties, Apartments, Condominiums, Shopping Centers, etc.
- Relocation or Repair of Company-Owned Facilities at Customers' Expense
- Corrosion Control
- Disinfection of Mains – New & Existing
- Inspection of Pipe and Fittings
- Relocation of Water Company Facilities in Connection with Highway Construction
- Steel Tank Maintenance
- Pipeline Bidding Procedures Contracts- Approval and Invoice Payment
- Developer Installed Water Main Extension Procedures
- Valves – Installation, Operation, Inspection, & Maintenance
- Distribution System Records
- Asbestos Cement Pipe – Work procedures
- Safety Program Administration
- Hazard Identification & Evaluation
- Hazard Control
- Medical Program

Ohio American Waste Water Collection and Treatment System:

- NPDES Permit Compliance & Requirements
- Asset Inventory Management
- Management of Industrial Waste Discharges
- Industrial Waste Pretreatment Program
- Collection Systems Design Standards
- New Construction Inspection
- New Construction Testing & Acceptance
- Response to Wastewater Overflow Events
- Manholes Inspection
- Sewer Line Testing & Inspection Program
- Sewer Line Cleaning Program
- Lift Station Design Standards
- Lift Station New Construction Inspection
- Lift Station New Construction Testing & Acceptance
- Lift Station Routine Operations/Maintenance
- Lift Station Emergency Operations
- Wastewater Treatment Plant Design Standards
- Unit Process Standard Operating Procedures
- Unit Process & Plant Performance Evaluations

- Process Control & Process Performance Monitoring Program
- Wet Weather Operating Practices
- Residual Management
- Protection of Potable Water Supply & Facility Contamination
- Calibration of Instrumentation Systems

Ohio American Water Production Facilities:

- Filter Operation, Inspection and Maintenance
- Calibration of Chemical Feeders
- Disposal of Treatment Plant Wastes
- Pumps and Motors – Inspection, Maintenance and Efficiency Testing
- Telemetering Systems – Operation and Maintenance
- Inspection and Maintenance of Electrical Facilities
- Plant and Station Water Metering

Ohio American Water Quality:

- Turbidity
- Fluoridation
- Testing of Treatment Chemicals
- Uninterrupted Chlorination and Chlorine Residual Maintenance
- Water Quality Goals
- Water Quality Monitoring Program
- Bacteria Monitoring
- Customer Complaint Log
- Uniform Reporting of Chemical Usage and Inventory
- Monthly Water Quality Summary Reports
- Assurance of Laboratory Results
- Storage and Disposal of Water Treatment Chemicals
- Corrosion Control
- Chloramine Treatment

Plant Productivity and Performance Evaluation

The CPS is the primary tool used by Ohio American Water to evaluate plant productivity and performance. The capital improvements necessary to enable the Company to continue to provide safe, adequate and reliable service to customers in its service territories, and to meet their domestic, commercial, industrial and fire protection needs are derived from this evaluation.

Production facilities are defined as those used in raw water acquisition and transmission, water and waste water treatment and pumping. Recommendations for capital improvements are developed after evaluating the Company's ability to provide a reliable and high quality water supply, to ensure continued compliance with existing and anticipated federal and state water quality and environmental regulations, meet current and anticipated federal and state waste

water effluent standards and meet projected customer demands throughout a period of at least fifteen years.

The Company produces high quality water, which meets or surpasses USEPA and Ohio EPA water quality standards. The wide variation in the characteristics of the Company's various sources of supply requires a diversity of treatment techniques including disinfection, corrosion control, sequestration, pH adjustment and complete clarification/filtration. The Company also produces a high quality waste water effluent, meeting or surpassing USEPA and Ohio EPA standards. Due to discharging effluent to varying bodies of water, the Company must employ various waste water treatment techniques, including primary, secondary and tertiary processes, consisting of screening, aeration, clarification, filtration, disinfection and sludge dewatering.

The adequacy of water production facilities is evaluated based on the ability to provide an adequate, reliable finished water supply that will satisfy present and future demands while meeting all federal and state regulations. Waste water production facilities are, likewise, evaluated on their ability to provide an adequate and reliable treatment of effluent that will not degrade the body of water to which they discharge, plus, satisfy present and future demands, meeting all current and pending federal and state regulations. Treatment plants are evaluated to assure that loading rates for all components are sustainable under maximum demand conditions without compromising water quality. Plant hydraulics are evaluated to assure that adequate volumes of water and waste water can flow through the various components. Waste water treatment capacities are also evaluated to handle any infiltration or inflow that cannot be cost-effectively removed from the waste water collection system.

Each treatment process and chemical feed system at the plant is analyzed both as a separate entity and in conjunction with the facility's overall operations. Monitoring and control equipment must meet regulatory requirements and the Company's standards. Chemical feed and storage systems must be adequate in size to meet the full range of production rates while conforming to the Company's standards for safety, reliability and construction.

Consideration is also given to providing adequate redundancy of treatment plant components to ensure reliability of service during scheduled or unscheduled maintenance and during emergencies. Adequate auxiliary power and dual, independent electrical feeds should be provided to enable the plant to produce one hundred per cent of the average daily demand.

Customer and Usage Growth Forecasting

The CPS is the primary tool used by Ohio American Water to evaluate customer and usage growth patterns. Capital improvements are then evaluated to enable the Company to continue to provide safe, adequate and reliable service to customers in its service territories, and to meet their domestic, commercial, industrial and fire protection needs.

Population Projections using a time period of fifteen years are performed for the total number of customers. Then the associated demands are developed for each District. Each water and waste water system is unique, and the specific techniques used to project both customers and demand varies from system to system. In general, the projections are developed based on a review of population trends, local planning commission forecasts, historic customer and demand data, large customer data, and discussions with system personnel, either in conjunction with a

field visit to the system or via telephone. The specific methods used to develop both customer and usage growth projections are discussed below.

Residential customer growth and water and waste water usage is projected based upon historic growth trends as well as population and housing forecasts developed for each service area by local planning agencies. The projections are developed to include potential growth, both in terms of new home construction, as well as connection of existing homes, on private water supplies and waste water systems, to the Company's water and waste water systems.

Per customer residential usage in gallons per customer per day (gpcd) is projected based upon historic use patterns, consideration of the impacts of both existing and future water conservation efforts, and any potential changes in the number of persons per household. Long term per customer water and waste water use is anticipated to be impacted by the passage of the federal Energy Policy Act in 1992, which established uniform standards for water efficiency for all toilets, showerheads, and faucets manufactured after January 1994. The end result will be uniformly lower inside residential water usage for all new homes and remodeled older homes. Values of usage per residential customer are based upon existing consumption values, expected changes resulting from the passage of the federal Energy Policy Act, and changes in the number of persons per household.

Commercial customer growth and water and waste water demand projection is based primarily on historic trends. Growth in commercial water and waste water demand generally follows the trend of residential growth, as commercial and residential development typically go hand in hand. One parameter that is considered in projecting commercial usage is the historic relationship between residential usage and commercial usage. Confirmed major changes in commercial activity, for example a large office complex or shopping center, is also identified and incorporated in the projections.

Industrial customer growth and water and waste water demand projections, as in the commercial category, are also dependent on historic usage trends. However, since there are typically far fewer industrial customers than commercial customers, it is easier to identify changes in water and waste water demands for the major industries, and thus forecast industrial demand. The projected water and waste water usage for key industrial customers is provided through interviews conducted by the Company's system personnel familiar with the service area.

Demand and Capacity Load Forecasting

The CPS is the primary tool used by Ohio American Water to predict current and future demands and capacity loads. From the CPS evaluation capital improvements are determined that are necessary to enable the Company to continue to provide safe, adequate and reliable service to customers in its service territories, and to meet their domestic, commercial, industrial and fire protection needs.

Demand Projections provide the basis for evaluating future system needs. Population projection data and an analysis of historic customer and usage trends are utilized to develop a projection of future water and waste water demands and capacity needs. Maximum day projections are based on a statistical analysis of the maximum day to average day ratios

experienced in a specific District. The effects of water conservation are considered in the Demand Projections along with the analysis of historic water consumption trends.

Non-Revenue usage and **Unaccounted-for** (UAF) water usage is projected based on historic data and discussions with water system personnel regarding future activities in these areas and is added to projected residential, commercial and industrial usage, which is discussed under "Customer and Usage Growth Forecasting." Non-revenue usage includes water used in fire fighting, water main and waste water main flushing (for both existing water and waste water mains and disinfection of new water mains), and identifiable leakage where quantifiable. UAF water represents the difference between production of and the sum of all metered sales plus non-revenue usage. This category includes water lost due to meter inaccuracy, undetected leakage, illegally opened fire hydrants and theft. To control UAF, the Company maintains a leak detection program, a policy for routine calibration of plant meters, and a fifteen-year customer meter replacement program.

The average day demand projections are determined from the summation of the individual demand categories. The maximum day demand is projected based on the historic maximum day to average day ratio and the projected average day demand.

Future maximum day to average day demand ratios are estimated using a statistical analysis of historic data for the previous fifteen-year period. Both a point estimate and an interval estimate of this ratio are determined. The point estimate is the median value of the ratio for the past ten years and represents a value for which the past ratios were above this value 50% of the time, and at or below this value 50% of the time. While this level may be adequate to estimate annual operational parameters, the level is not adequate on which to base long-term capital planning decisions. Rather, the Company's long-range forecasting utilizes the criteria that facilities should be planned to meet projected maximum day customer demands with a 95% confidence level. Planning facilities for a higher confidence level will result in higher capital costs for small incremental gains in reliability.

To define the maximum day to average day demand ratio that will not be exceeded in a given number of years, an interval estimate around the mean value of this ratio is determined. The interval estimate defines the interval of values that the maximum to average day ratio will fall within for a certain degree of confidence. Several confidence intervals, namely the 99%, 95%, 50% and 5% intervals, are evaluated to illustrate the probable variation in maximum day demands that will likely be experienced during the next fifteen-years. Each confidence interval is calculated based on the mean value plus or minus the standard deviation multiplied by a reliability coefficient.

The confidence level value of 95% is applied to the maximum to average demand ratio to develop the upper boundary for the maximum day projection. In this way, the maximum day projection represents a level that is not expected to be exceeded more than once in twenty years.

Construction Project Management and Control

Once a project is designed, the installation is competitively bid to prequalified contractors. Contractors are placed on a prequalified list upon completion of a prequalification questionnaire

and a review by engineering personnel. Upon completion of the bid evaluation and the contract award, the following action items take place under the direction of the Project Manager (PM).

1. A Pre-Construction meeting is held. Attendees include the Contractor, PM, local representative(s) from Operations (Asset Owner), Construction Inspector, consultant, major subcontractors and suppliers, as appropriate, and any Governmental or Permitting Agencies.
2. Contractor physically starts the project after PM issues a Notice to Proceed. A Notice to Proceed will be issued after all permits are acquired, all contractor personnel receive background checks as required by contract requirements, and the contractor completes Safety Checklist as appropriate.
3. Throughout construction, regular meetings are held with the contractor and major subcontractors/ suppliers, as appropriate, to discuss any changes, problems, and bill of quantities performed.
4. Contractor payments are monitored and verified by Construction Inspector, Consultant and PM.
5. Any changes are managed in accordance with the contract documents.
6. The Construction Inspector observes all work and progress schedules to ensure compliance.
7. The PM is informed on a regular basis of progress and any issues that may arise, especially any financial or change issues that may effect the overall outcome of the project.
8. Any unsatisfactory performance during the course of the project is identified and managed. The Construction Inspector works with the PM to determine the best way to correct the unsatisfactory performance.
9. A review of contract performance is conducted as part of the Post Project review process.
10. As-builts and closeouts are checked to ensure compliance and accuracy in accordance with the standard.

Research and Development

American Water, the parent company of Ohio American Water, has a strong commitment to leadership in water research. This commitment to the science of water technology is evident by its involvement in many scientific and professional organizations. American Water researchers serve on numerous national committees, provide training and technical support for American Water utility subsidiaries, and are involved in the development of a number of drinking water regulations. Research efforts serve to advance the science of drinking water treatment, protect public health, and support regulatory initiatives. Research results are communicated to our subsidiary operations, the work is published in a variety of scientific venues, and researchers deliver numerous presentations at local, regional, national, and international conferences and seminars.

American Water's Innovation & Technology group is charged with research and development related to its water and wastewater operations. Innovation & Technology supports the Company's strategic plan with a coordinated Regional and Divisional research plan, with research projects chosen to support Company operations to add cost-effective value across multiple business units.

American Water's research program advances the science of drinking water. For example, American Water has conducted research to understand and control the risk of cryptosporidium, endocrine disrupters, and other potential source water contaminants. Maintaining and improving water quality amidst the challenges from newly discovered microbes and chemicals in water might require implementation of new technologies or the improved performance of existing technologies. The role of the research program is to evaluate these technologies and recommend appropriate applications.

Research projects are also underway that involve improving water utility operations. American Water is currently investigating leakage control, and is a pro-active technology stakeholder driving companies to create new technology that we can implement with pilot projects and supplemental research. Regarding buried infrastructure, American Water is monitoring technological developments in condition assessments and driving experts to development of useful tools. Security is critical to water systems, and American Water is an active researcher and an early adaptor of technology.

The research program also supports efforts to increase customer satisfaction with water quality. American Water constantly strives to improve the quality of service provided to its customers. Customers also rely on American Water professionals to be at the forefront of issues and technologies to keep their water supply safe and secure. Protection of public health is a central goal, and the research program is continually advancing in its study of effective monitoring techniques and water treatment processes.

Improvements in wastewater operations are also being investigated to increase efficiencies. Planned and on-going studies will evaluate existing biosolid disposal procedures, potential environmental risks, and determine best practices and options for cost reductions.

The reputation of American Water's research for high quality and integrity helps to allow us to work cooperatively with the USEPA in the development of new drinking water regulations. Ensuring regulations are based on sound science enable us to deliver the highest water quality possible to its customers. Innovation & Technology also partners with the American Water Works Association Research Foundation (AwwaRF) and collaborates with other organizations to conduct research and investigations to continually pursue advancements in water quality and treatment.

Environmental Management

Introduction

In its operations, American Water and Ohio American Water contribute to, and rely on, the quality of the physical environment, making environmental management a fundamental part of the operation of our business. American Water's environmental policy is the foundation of the Company's environmental management program, and states a firm commitment to continual improvement and carrying out day to day operations in a sustainable manner.

Each operating unit within Ohio American Water is expected to follow the principles of the American Water's environmental policy. The mission of the Environmental Management program, as stated in the environmental policy, is to sustain the environment through responsible business practices which promote environmental stewardship with a holistic approach to pollution prevention. This is accomplished by ensuring compliance with all relevant environmental laws, regulations, and standards, promoting the effective and efficient use of natural resources, and promoting stewardship of biodiversity in all areas that the Company may have an impact.

Organizational Structure

The Environmental Management and Compliance Department of American Water is responsible for implementation, maintenance, and oversight of the environmental program, and staff possess extensive technical and regulatory knowledge. The Director of the Environmental Management and Compliance Department is responsible for the management and performance of American Water's Central Region environmental management and water quality programs. The Water Quality Manager has responsibility for water quality functions at Ohio American operations, and directs the management of operations of process facilities to continually meet all Safe Drinking Water, Clean Water Act, and other applicable regulatory requirements. Water Quality Supervisors oversee the day-to-day environmental responsibilities at treatment facilities, including the performance of water quality monitoring, recordkeeping, and reporting, and serving as a technical resource. Laboratory technicians monitor water continuously through comprehensive testing procedures. Additional Central Region Environmental Management staff is responsible for oversight of other environmental programs such as cross connection control, permitting, due diligence, underground storage tanks, and air pollution control. A copy of the Environmental Management and Compliance Department organization chart is included as Page 16 of Exhibit 1, Schedule S-4.1.

Environmental Compliance

Compliance with all relevant environmental laws, regulations, and standards is integral to Ohio American Water's operations. The environmental management program has procedures in place to identify, track, implement and maintain regulatory requirements, including treatment, monitoring, reporting, and permitting activities. The Company's operations require compliance with the Safe Drinking Water, Clean Water Act, and other federal, state and local rules designed to protect both public health and the environment. Environmental Management Plans (EMPs) have been developed and implemented for all treatment facilities. The EMPs systematically identify regulatory and stewardship responsibilities related to managing our environmental activities. As regulations are promulgated, the EMP is revised to reflect new requirements, and the EMPs are reviewed and updated on a quarterly basis. Proposed regulations are evaluated to determine impact on operations and development of different approaches for ensuring compliance with the new requirements as well as planning for any necessary capital improvements in a timely manner. A comprehensive training program will be provided to operations staff in 2007-2008 to review all Environmental Management Plan requirements.

A key American Water initiative is the reduction in the number of Notices of Violation (NOVs) by 20% to improve environmental performance. As of November, 2005, American Water's

distribution companies in the Central Region, including Ohio American Water, were performing better than their allocated target.

Environmental Stewardship

In addition to ensuring compliance with regulatory requirements, the environmental management program also focuses on environmental stewardship. These activities are not directly related to achieving compliance, but result in increased public health protection and/or improved environmental conditions. This includes corporate responsibility programs, beneficial use of residuals, watershed protection, biodiversity, conservation of natural resources, waste minimization, and local community involvement.

Environmental Audits

To support efforts to continually improve the Company's environmental performance, and to ensure that Environmental Management Plans that are in place are adequate and being implemented properly, American Water implemented an internal audit process. The environmental audits provide a formal and systematic review of our environmental management program, with a focus on compliance with regulatory requirements.

American Water Environmental Policy

American Water is part of RWE Thames Water that provides water utility services to customers worldwide. The company contributes to, and relies on, the quality of the physical environment, making environmental management a fundamental part of the operation of our business. Each operating unit within American Water is expected to follow the principles of this statement in carrying out its operations in a sustainable manner.

Managing Environmental Performance

American Water accepts that its activities can impact the environment, and American Water is committed to:

- Sustaining the environment through responsible business practices which promote environmental stewardship with a holistic approach to prevention of pollution;
- Compliance with all relevant environmental laws, regulations, and standards;
- Effective and efficient use of natural resources, including energy; and
- Stewardship of biodiversity, both on our land holdings and where our operations may have an impact.

Commitment

American Water established an Environmental Review Committee. It is charged with identifying policy needs and monitoring environmental performance across our global business. Each business unit is required to identify and manage its environmental impacts in a systematic way through the implementation of an environmental management system.

Reporting

The committee will monitor and publish its performance regularly to ensure achievement of continual improvement. The Environmental Review Committee will receive reports of environmental performance from all operating units within American Water.

Stakeholder Involvement

- American Water encourages all its staff to help in implementing this policy. It will promote the development of appropriate skills and awareness through staff training.
- It will expect and encourage similar standards to its own from its partners, suppliers, agents and contractors.
- It will discuss our environmental performance and the implementation of this policy with its stakeholders.

American Water Works Service Company, Inc.
The Board of Directors
Adopted: September 9, 2003

Finance and Accounting

Cash Management

Overview

This Policy will ensure consistency in the area of banking (i.e. banking relationships, opening bank accounts and closing bank accounts). American Water Treasury personnel will conduct general banking with financial institutions that meet the specific guidelines outlined below. This policy will ensure all bank relationships are maintained, sufficient controls are in place to protect American Water assets, and appropriate management approval is obtained.

Banking Policy & Relationships

Ohio American Water Treasury personnel shall be responsible for controlling the opening, closing and maintenance of all company bank accounts. All bank accounts should be opened, closed, and maintained in accordance with corporate policy. American Water Treasury personnel must consult with the American Water Corporate Tax Department prior to requesting non-resident accounts.

American Water Corporate Treasury shall establish and maintain written policies and central control procedures related to opening, closing and maintaining bank accounts. Corporate Treasury will also ensure all water operating company related banking policies are upheld. Compliance with the following procedures will help eliminate undue risk and will lower bank-related expenses.

Ohio American Water Treasury management shall be responsible for obtaining board authorization and assigning authorized signatories. American Water Treasury management must use reasonable judgment to identify the appropriate signatories based on operational needs and the ability to maintain an adequate level of internal control.

The American Water Corporate Treasurer will be the company's primary representative in dealing with financial institutions. The Corporate Treasurer will be responsible for meeting with personnel of the company's primary banks on a regular basis to provide consistent financial information reporting and updates on the company's operations to bank officials. The Corporate Treasurer will be responsible for promoting a positive working relationship between the company and the banks. The Corporate Treasurer will also provide bank officials of the company's anticipated capital needs or financial service requirements to provide bank officials adequate time to understand, approve and prepare for the company's needs.

The American Water Corporate Treasurer will also perform an ongoing evaluation of the banks abilities to satisfy the needs of the company and will make appropriate changes whenever necessary. Criteria to be used in the evaluating banks can include:

- Bank size (appropriate size to meet company needs while being small enough to be responsive
- Financial safety and capital structure

- Reputation
- Location
- Flexibility and lending philosophy/attitudes
- Operating efficiency and accuracy (computerization, employee training, etc.)

Ohio American Water Treasury personnel will meet with banks which provide local services to ensure adequate levels of service and support. In addition, Treasury personnel will meet with banks (identified by Corporate Treasurer) to explore future business relationships in detail. Treasury management will be the key decision maker in choosing the right bank for cash management services whereas the Corporate Treasurer will be the key decision maker in financing arrangements.

Ohio American Water Treasury personnel will maintain bank account files to include correspondence and official documents relating to the opening, closing and maintenance of all company and subsidiary bank accounts.

The Banking Policy will be reviewed on an annual basis to ensure that it remains consistent with the overall objectives of American Water and the Ohio-American Water Company.

Bank Account Reconciliations

Each location maintaining bank accounts should reconcile each bank account on a monthly basis within 30 days of the receipt of the bank statement. To facilitate this process, banks should be requested to provide cut-off statements that coincide with the end of the American Water's accounting periods whenever possible.

Cash Receipts

Because cash is the most liquid of all of Ohio American Water's assets, it is particularly susceptible to misappropriation and loss. Therefore control must be established beginning at the point when cash is first received.

The purpose of this policy is to set forth the requirement for all locations to establish and maintain appropriate procedures for controlling cash receipts in accordance with the guidelines contained in this Policy Statement and other applicable American Water and Company instructions. Each operating unit with responsibility for receiving cash, checks, and other negotiable instruments (e.g., travelers checks, bank drafts, wire transfers, etc.) should establish and maintain appropriate procedures to provide for the adequate control and efficient processing of all cash receipts. These procedures should be documented in writing, and all employees involved in the cash receipts process should understand and fully comply with the applicable procedures.

Cash or checks that are not received through a lockbox should be received by a designated individual in American Water Shared Services Center ("SSC") General Accounting who has no responsibility for recording cash transactions or other activities that would constitute a violation of the American Water policy regarding segregation of duties.

A detailed listing of cash receipts should be prepared in duplicate by the individual designated to receive such remittances. The cash receipts listing should include date of cash receipt and the daily receipt total. Copies of this detailed listing should be forwarded to the Ohio American Water management and to the individual with responsibility for recording cash transactions into the accounts receivable module or other appropriate subsidiary ledgers (e.g., customer accounts receivable subsidiary ledger).

Cash receipts should be deposited in an approved Company bank account within one day of receipt. When it is not practical to deposit cash receipts on the day of receipt, the individual responsible for depositing cash receipts should deposit funds when the total balance exceeds $5,000.00.

All checks received that have not been deposited must be stored in a locked receptacle until deposited in the bank.

Accounting Systems and Financial Reporting

The goal of the Ohio American Water and American Water Accounting Systems and Financial Reporting is to provide management with the necessary information and tools in which to make timely and sound business decisions.

American Water and the Ohio-American Water Company use the J. D. Edwards enterprise system for financial, accounting, and operational reporting. American Water and the Company also make use of other systems outside of J. D. Edwards, such as Power Plant, Excel and databases, to manage data and information in the reporting process.

The accounting system used by American Water is supported and controlled by a system of internal controls, accounting policies and regulatory commission rules and oversight.

Ohio American Water and American Water maintain a system of internal controls in order to monitor compliance with policies and procedures established by management. Internal Controls are divided into two areas: Accounting controls and administrative controls. Accounting controls are to be designed to achieve four basic objectives: validation, accuracy, completeness, and physical security. The administrative controls include forms of organization (charts and span of control), policies, systems, procedures, instructions, plans, reports, records, internal auditing, and other considerations of the Company's business.

American Water and the Company have policies to guide employees to assure that the directives of management are followed and that the goals of the Company are met. Some of these policies include areas of the business such as the following:

- Utility Plant in Service
- Allowance for Funds Used During Construction
- Capitalization of Engineering Costs
- Cash and Bank Reconciliations
- Miscellaneous Receivables
- Inventory
- Accounts Payable

- Recognition of Revenue
- Unbilled Revenues
- Income and Other Tax Provisions
- Depreciation
- Regulatory Assets
- Deferred Taxes
- Advances and Contributions
- Internal Controls and Chart of Accounts
- Procurement
- Use of Estimates
- Payroll
- Purchase Cards

The Company is regulated by the Public Utilities Commission of Ohio. The Company is required to follow the Commission's rules and regulations outlined in the Ohio Revised Code, Title 49; Ohio Administrative Code, Chapter 4901:1-15; and the various orders and entries under the Public Utilities Commission of Ohio. The Company also has its own rules and regulations that it must follow which have been approved by the Commission.

The Central Region of American Water that is comprised of six operating companies, of which Ohio American Water is one, also follows a review process which is used to oversee the financial and operational performance of the Company.

There are two key activities associated with the review process:

- Regular Management Review
- Monthly Reporting

The management review includes the following areas:

- Service Delivery – The Regional Director of Service Delivery and his team are responsible for achieving the operational service levels of their respective functional area. The Service Delivery team includes a wide range of functions such as Capital Program, Network, Production, Environmental, Health & Safety, and Customer Service Center. The Service Delivery team works in conjunction with the other functional departments such as Finance to confirm business requirements are adhered to.
- Business Development – The Regional Director of Business Development and team are responsible for the growth expansion of the regulated and non-regulated (O&M) business. The team includes business developers, finance, proposal, and bid managers working together to initiate growth acquisition potentials.
- Finance - The Regional Director of Finance and team are responsible for monitoring the financial performance of the region. The finance team includes a Rates manager, a Planning/Reporting manager, a Compliance Manager, a Finance Manager, Senior Financial Analysts, and Financial Analysts. Teams are assigned to specific state(s) to completely understand the business needs and financial position.
- External Affairs – The Regional Director of External Affairs and team are responsible for the internal and external communication, government affairs, and corporate social responsibility on behalf of the Company.

- Human Resources – The Regional Director of Human Resources and team are responsible for the HR policies, labor relations, compensation/benefit management, leadership development and training, and diversity.
- Legal – The Regional General Counsel and his team are responsible for contract negotiations, management of regional litigation and regulatory proceedings.

Monthly reporting includes a review of financial and operating reports.

Budgeting and Forecasting

Ohio American prepares annual operating and capital business plans. These plans are prepared in concert with a view of customer, operational, and financial issues. The purpose and advantage of a business plan is to provide management with a tool to manage the business with its limited resources—financial, information, and human.

The plans are prepared annually and will look forward to the next five years. The first year will be prepared in a high level of detail by month. Succeeding years are prepared using less detail and done on an annual basis. The plans are prepared for the following key areas:

A. Operating Plan

a. Water and Sewer Revenue – Projected using current tariff rates and a normalized level of sales. Other revenues are based on historical information.
b. Labor and Benefits – Manpower requirements are evaluated based on operational and regulatory requirements. Based on operational needs and capital expenditure requirements, a level of labor expense is projected using current and projected wage rates. Benefits are calculated using actuarial reports, projected group insurance rates, payroll tax rates, and anticipated 401K expense.
c. Cost of Sales – Power, chemical, purchased water, and waste disposal expenses are projected using anticipated system delivery and costs per million gallons to pump, treat, or purchase water.
d. Other operating expenses – Projected based on recent history and incorporating known operational needs of the Company. This includes regulatory expense, contract services, transportation, rents, maintenance, uncollectible expense, liability insurance, and management fees.
e. Depreciation Expense – This expense is calculated based on projected Utility Plant in Service during year and applying current depreciation rates.
f. Taxes – Property taxes are based on the most current valuation, tax rates, and capital projections. PUCO and OCC fees are based on revenues and rates. Income taxes are based on the current effective tax rate.
g. Interest Expense – Interest on long-term debt based on existing debt plus any new debt issues. Short-term debt is calculated using existing outstanding line of credit used and the anticipated debt rate.
h. All Other Income Statement Items – The remaining income statement revenues and expenses are calculated using historical information and other pertinent information.

B. Capital Plans (Capex)

a. Recurring Capex – From each district of the Company, recurring capital needs are identified and evaluated.

b. Investment Projects (IPs) – Represents projects over $100,000. (for further information see section on Plant Operations and Construction)

C. Statement of Cash Flows (SCF)

a. Using the operating and capital plans, a statement of cash flows is prepared.

D. Balance Sheet

a. Assets – Based on operating, capital, and SCF movements, all asset balances are adjusted from historical actual levels. For example, the Utility Plant in Service (UPIS) balance is changed based on the movement created by the Capex plan and the projected level of retirements. Cash and short-term debt is changed based on the movement created in the SCF. Other asset balances are similarly created by evaluating the movements of an asset category through the operating, capital, and SCF.
b. Liability and Capital – Current liabilities, deferred taxes, customer advances, CIACs, and other regulatory liabilities are adjusted in the balance sheet based on movements created in the operating, capital, and SCF plans. Permanent capital (i.e. common equity, preferred stock, and long term debt (LTD)) is adjusted in order to meet present capital structure ratios that are reviewed by management during the planning process.

E. Budget/Planning Assumptions

Below is a list of the assumptions that are considered when plans are prepared:

a. Customer counts, system delivery (water and non-revenue water) and growth.
b. Wage and benefit inflationary factor.
c. Consumer Price Index (CPI) and/or Commodity inflation factors.
d. Existing or renewal contract agreements.
e. Long term and short term debt balance and interest rates.
f. Debt/Equity ratios.
g. Working capital (Days Sales Outstanding (DSO), Days Payable Outstanding (DPO), Days Inventory Outstanding (DIO)).
h. Liability insurance inflation factors.

Numerous reviews are held with the State representatives, Regional and Corporate Senior Management team before they are submitted to the Ohio American Water Board of Directors for final approval.

Financial Planning Process and Objectives

Objective

To accurately and timely report financial results to assist Ohio American Water management in making knowledgeable business decisions based on finance trends and analysis

Shared Services Center (SSC)

American Water Central Region Finance personnel also interact with the American Water Shared Services Center ("SSC"), which provides financial services to the Company. The SSC was formed in 2001 when American Water consolidated a majority of its financial services. One benefit of the SSC is to support the financial planning process. These services include general accounting, payroll, cash management, fixed assets, procurement, and accounts payable.

Account Analysis

American Water Central Region Finance personnel are required to follow an internal checklist to review all financial statement accounts to verify accuracy of tranactions and activities. During such time, Finance personnel interact with other operating units within the Central Region, including network general managers, business process supervisors, production team managers, and others to verify information and understand details of the accounts. Finance personnel also work with American Water SSC and Corporate to verify data entering the Ohio American financials. Financial statements are analyzed, and any necessary adjustments are made before the books are finalized.

Materials and Inventory Management and Control

Ohio American Water maintains physical inventory as a current asset on the balance sheet. There are three major categories of physical inventory:

- Pipe, valves, and fittings
- Chemicals
- Fuel

Physical inventory is tracked through an integrated inventory module of the JD Edwards enterprise system for financial, accounting, and operational reporting. All inventory purchases and subsequent issuance of inventory are controlled and monitored by the inventory module of JD Edwards, and interfaces with the financial reporting module.

All inventory purchases are originated and supported by purchase orders requiring management approval at least one level above originator. Receipts of physical inventory are witnessed and documented by an independent receiver, with appropriate receipts documentation recorded in JD Edwards. The receiver's documentation supports and facilitates the payment process to the appropriate vendor.

Ohio American Water follows generally accepted accounting principles for annual counts of physical inventory. The annual physical inventory process includes a thorough review and search to identify all sites with inventory. A numbered tag system or itemized count sheet is used to document the count process. A review of physical inventory adjustments requires the approval of one manager and one reviewer, both of whom are independent of the counting process.

Other inventory management tools include monthly analysis of inventory turns ratios, which is a method commonly used to gauge and monitor inventory levels. Management's goal is to maintain inventory levels at reasonable levels without incurring risk of shortages. Periodic review of inventory includes a method of identifying slow moving inventory and repositioning that inventory to facilities where it will be better utilized. Also included in the periodic review of inventory is a search for obsolete and deteriorated inventory. This inventory is disposed of by sale or scrap, and written off the books and records.

Internal Auditing

General

American Water is committed to ensuring the highest standards of auditing exist throughout all business units. This is accomplished between external audits provided by outside auditors and our internal audits provided by American Water's Internal Audit department. This section addresses only the Internal Audit department.

Overview

The American Water Internal Audit department is responsible for monitoring and reporting on the internal controls in place to protect corporate assets and to ensure the validity of the financial statements.

The American Water Internal Audit department reports directly to the American Water Company Audit Committee.

Audit Objectives/Scope

The American Water Internal Audit Team shall collect background information on the entity/unit to be audited to provide a basis for determining key areas to be audited. The organization structure and operations of such entity shall be analyzed to provide preliminary data for the purpose of determining the audit objectives.

The specific objectives of the audit are to be clearly defined and presented to the organization key contacts to promote an effective and efficient process. The scope of the audit is to be defined including the areas of concentration, the key areas to be audited and the organization/unit to be audited.

Reporting

Following a review by Internal Audit, a preliminary report will be prepared including comments and recommendations. American Water Central Region and Company management will be expected to consider the report, confirm the factual accuracy and agree upon appropriate actions, details of which will be incorporated into the final report. An exit interview will be set-up

to discuss the preliminary report and make any changes as mutually agreed upon by all parties prior to the report being issued in its final form.

Management is responsible for the agreed actions being implemented within an appropriate timescale. Progress on implementation of detailed recommendations will be monitored and reported to the management group on a regular basis.

Rates and Tariffs

System or Program for Managing Rate Related Operations

Objectives of Rate Program

Ohio American Water's goal is to have a rate structure that meets the needs of the customers, Company, and the communities that they serve. The rate structure and pricing must support a community's social, economic, political, and environmental concerns, while providing the Company the opportunity to recover an appropriate revenue stream to pay for the costs of providing service to the customers.

Process and Procedures

The process and procedure for achieving the objective of the rate program is to continually review and monitor the rates and charges of the Company. This is achieved through the timely filing of rate cases before the Public Utilities Commission of Ohio and performing the required cost of service studies. These studies are normally prepared by outside consultants who specialize in these types of studies. Prior to starting a study, the Company will consider a number of factors including prior Commission findings and a community's social, economic, political, and environmental concerns.

Organizational Structure and Available Resources

Please refer to the organizational structure shown as Exhibit 1 of S-4.1. Page 6 of this exhibit lists the American Water Central Region Finance Team, and specifically lists the individuals who report to the Manager Rates and Regulations, who is responsible for the rates and tariffs of the Company. Additional resources are available to the Company via the Company's Shared Service Center's rate team who provide additional regulatory support.

Rate Program Analytical Process

A description of performance of the following activities and describe how they contribute to the adequacy of the rate program and specific projects follows.

Planning

The Company discusses and reviews internally the current rate structure and fees of the Company. The Company reviews the following factors in determining whether a change to the current rate structure and fees are warranted:

- In the area of miscellaneous fees (i.e. discount, NSF, etc.), costs to provide the service may be reviewed and compared to other utilities.
- Rate structure history and current Commission direction.
- Customer classes and competitive pressures.
- Source of water availability.
- Customer concerns and prior response to rate structure concerns.
- Current and future costs of the Company.
- Legal issues.

The Company also evaluates what objectives the rate structure should achieve. Some of these are:

- Ease and understandability.
- Stable revenue stream.
- Rate stability.
- Promotion of fairness of revenue recovery between customer classes.
- Avoidance of discrimination.
- Compliance with PUCO laws and statutes.

Operating Impact Evaluation

In conjunction with the above review, the Company prepares five year operating and investment plans. Within the context of this planning process, the Company reviews and analyzes its operations and capital needs in order to efficiently and effectively align resources. The result is to minimize the need for rate cases. If rate cases or System Improvement Charges ("SIC") are needed, resources are reallocated to align operations and capital expenditure with rate cases and a SIC. Within the rate case process, rates and tariffs are reset to achieve the Company's stated goals.

Cost Analysis

Detailed cost of service studies are prepared to analyze costs to determine the amount of revenues required from each customer class in order to meet the Company's stated goals as discussed earlier under this section.

The Company currently uses the Base Extra Capacity Method to allocate costs. This method separates costs into four primary components: (1) base, (2) extra capacity, (3) customer, and (4) fire protection. The AWWA MI manual provides a detailed discussion of this method.

Benefit Analysis

The benefits derived from properly allocating costs via a cost of service study and rate design should be continually monitored between rate cases. As stated earlier, a goal of setting rates is to have rates that not only meet the needs of the customer and the communities that they serve, but they must also provide the Company with the opportunity to recover an appropriate revenue stream to pay for the costs of providing service to the customers. Between rate cases, the Company reviews the revenue stream generated by each revenue class to determine if the rates continue to meet the intended goal set forth in the previous rate case. If the revenue stream is altered, a cost of service study in the next rate case will be used to alter the rate design to bring the rates back in line with the Company's goals for its rate program.

Data Collection

American Water Company and Ohio American Water's customer information system maintains billing information necessary to evaluate impacts on customer bills should a change in the rate structure be considered. Some of its data is as follows:

- Revenue and sales by customer class.
- Revenue and sales for special contract customers.
- Meter billings by size and class of customer.
- Consolidated factor information allowing for change in rate blocks.

While this data is not collected on a regular basis, it is available in Orcom (the customer information system) and can be used to develop varying rate structure analyses in a rate case.

Other data elements collected in the process of setting rates within the rate case model are financial data (revenues, expenses, taxes, depreciation, capital structure, and rate base) and operational data (sales, customers, meter billings, system delivery, customer demand, etc.)

These records are maintained in the financial and operations system of American Water and the Company and are relied upon by the American Water Central Region's Finance and Operations personnel to prepare rate cases and SIC filings before the PUCO.

Risk Assessment

At the time the Company prepares a rate case, a cost of service study and rate design analysis, risk assessment evaluations are discussed by reviewing the impact of the proposed rates on specific customer classes and when necessary on specific customers. This assessment is usually performed when the proposed increase exceeds 25% on a Company-wide basis.

This risk assessment, when performed, takes into consideration the local communities' economic, demographic, social, and political environments. While some adjustments can be made in the rate design, the rate structure should be based on sound cost of service principles.

Revenue and Earnings Stability

Rates should be designed to create revenue and earnings stability especially in companies with multiple districts that are not integrated or connected together in the distribution system network. Uniform rates (or single tariff pricing) can provide a degree of revenue stability in light of substantial capital expenditures for one of the districts in a multi-district Company such as Ohio American Water.

The Company is reviewing the impact of moving all of Ohio American to uniform rates (single tariff pricing) in this rate case. However, a "flashcut" move may not be appropriate given the impact on specific customer classes or districts.

Implementation Management

Once a decision is reached on the rate structure the Company wants to implement, it will be fully or partially incorporated into the rate case filing. Should the rate structure deviate materially from the existing structure, the Company will request a meeting with the PUCO Staff and the Ohio Consumers' Counsel to discuss the issues and seek input into the process.

Implementation management process for rate reform projects.

Once a rate reform project is identified, the process will consist of the following steps: Research, analysis, and review. Over the years, the Company's basic water and sewer rate structure has not changed significantly. There has been some initiative to move certain customers to special contracts or special tariffs to either retain them or entice them to take water from the Company. Examples of these are Whirlpool and Pillsbury.

The research phase will involve reading industry literature and, if appropriate, discussion with other utilities. The analysis phase includes quantifying the impact of a change on both the existing customers and future customers of the Company. This phase also considers the local communities' economic, demographic, and political environment. The final phase is a review by senior management of the Company to make sure the change is aligned with the Company's overall strategic plan.

Description of the significant project in the program and the corresponding implementation time.

The Company acquired the assets of Citizens in 2002. The rates of water customers of Citizens were currently lower than the existing water customers of the Company. In Case Number 03-2390-WS-AIR, the Company agreed to evaluate and present a plan to move all water customers to a set of uniform rates (or single tariff pricing). The proposed across the board increase by group (Water A, Water C, and Wastewater) that is part of Rate Case Number 07-1112-WS-AIR will bring the rate differential that currently exists between the former Citizens customers and the other water customers of the Company closer to uniform rates.

At this time, it is anticipated that it may take two or three rate cases to completely move to uniform water rates.

The above project will result (if completed) in uniform rates for all the water customers of the Company. Uniform rates are simple, easy to understand, equitable, and create revenue stability. These facets thus provide the means to meet the goal of the Company's rate structure program.

Description of how the projects are intended to meet the stated program objectives.

See above discussion.

Customer Involvement

The issue of customer involvement is critical because it will be the customer who will be impacted by a change in rate structure. However, the issue of rate design is complicated and involves numerous technical issues.

Once a firm decision is made to change a rate structure, detailed impacts on individual customer and customer classes should be tabulated and calculated. The Company's large customers (i.e. industrial, sales for resale and larger commercial and other public authority customers) should be contacted to discuss the impacts, if the changes are deemed to be material.

The residential and commercial class of customers should be informed of the changes through the normal rate case process, Company sponsored meetings and Q&A communications. The OCC and PUCO will also play a role in this communication and, while OCC and PUCO will not have agreed to the rate structure change, they can communicate their involvement in the rate case process and discuss the process that will be followed in the rate case.

Commission and Staff Reporting

Description of the process for reporting operations and rate reform programs to the Staff and Commission.

The Company uses the following vehicles to report rate reform projects to the Commission and to the Staff:

- Meetings with Staff
- Telephone conferences with, and e-mails of information to, Staff
- Rate cases and cost of service studies
- Annual reports

Communication and Public Affairs

Customer Service and Information

Ohio American Water's goal is to achieve continuous improvement in customer service and satisfaction based upon three key objectives:

- Enhancing customer service responsiveness
- Improving customer information
- Providing additional payment and payment assistance options.

Responsive Customer Service

Ohio American Water's toll-free customer service line is available 24 hours a day, seven days a week. Customers who contact the American Water Customer Service Center with billing or service issues will benefit will benefit from several new programs begun in 2005.

- **More customer service options.** Beginning in late 2005, customers could complete simple transactions using a new interactive voice response system (IVR) which uses natural speech recognition for simpler and faster service. Customers will be able to leave the IVR at any point in the process to speak to a Customer Service Representative.

- **Escalated problem resolution.** While first-call problem resolution is a priority, American Water, on behalf of Ohio American Water, has implemented a process to provide an additional level of review for customers who would like to have their requests considered at a higher level. The Customer Escalated Complaint Resolution Team contacts the customer within 24 hours of receipt of the customer issue, conducts an investigation and reaches a final resolution within three days.

- **Measured customer service quality.** Beginning in July 2005, Ohio American Water began to supplement the annual customer satisfaction surveys with quarterly service quality surveys directed to a representative sample of customers who have had contact with Ohio American Water customer or field service representatives. The survey results will guide training and process improvements.

- ***Improved service order process***. *The Company implemented an enhanced service* order process called Service First. Service First provides Field Service Representatives (FSR's) with a laptop computer, and orders are electronically transmitted from a host *system to the software. which allows the FSR to view and update the order accordingly.* This is a large step in improving customer service as the information is transmitted on a real time basis. This process was implemented in Ohio during the week of January 24, 2005.

- **Monitoring and tracking complaint volume**. Ohio American Water operations and the Central Region Customer Relationship Services Teams are monitoring the volume of

complaints received to identify trends and determine what discussions regarding process improvements need to occur.

- **Improved customer service processes and training.** American Water has developed three new programs to strengthen the company's focus on customer service:
  - **New Customer Service "Develop to Deliver"** customer service training programs for all frontline customer service employees are being offered throughout 2007 and 2008.
  - **Additional Service First Training** for customer and field service delivery employees began in June 2005 and is continuing.
  - **New Knowledge Sharing programs** are underway to improve the service delivery processes. The Knowledge Sharing programs link frontline customer and field service delivery employees to map customer service improvements to the processes that they share.

Improved Customer Communications

Ohio American Water has launched several new programs to strengthen connections with local communities and improve customer communications.

- **Ohio American Water's web site** is designed to address customers' needs by providing information and offering bill payment options and information about the new Help to Others (H_2O) Payment Assistance Program.

- **Twice yearly community newsletters to local leaders.** In 2005, Ohio American Water began publishing community newsletters with company news and contact information for local government and community leaders.

- **Bill inserts to help customers manage their water service.** Ohio American Water will provide customer information on water conservation and protecting home water services during cold weather to help customers manage their water usage and reduce the risk of winter service interruptions.

- **Company named point person**, who is located in Marion, Ohio, who responds to customer complaints or inquiries brought informally by Staff of the Commission or Office of Consumers' Counselor.

Payment and Payment Assistance Options

- **New Payment Assistance Program.** Ohio American Water has launched the Help to Others (H_2O) Program -- an emergency assistance program created by Ohio American Water in collaboration with local social service agencies. The program helps provide supplemental funding to Ohio American Water customers who are in danger of losing their water service and meet income guidelines developed for the program. Customers may support the program by adding an extra dollar to their water bill payments. Ohio American Water will match customer contributions up to $5,000 per year. Ohio American Water has already made arrangements with four social service agencies in the state to administer the program.

- **Payment options by phone, web or in person.** Ohio American Water will use the new web site and bill inserts to remind customers aware of their multiple payment options including – payments by return mail and at walk-in locations, plus credit card payment options by phone and online.

Credit and Collections

Improved customer service system. Ohio American Water has provided the Ohio PUCO staff with details of current credit and collections processes in the past – actually in a most recent Customer Service Audit. American Water and the Company are committed to improving our customer service processes, which includes call handling, credit, and collections.

Customer Conservation Programs

Ohio American Water provides water conservation information to its customers in the form of informational handouts, public presentations, web site information, and bill inserts.

Ohio American Water also provides a number of informational items at public meetings and special events. The items includes informational cards depicting wise water use and warning signs, leak detection kits, and rain gauges for measuring rainfall and outdoor watering. A PowerPoint presentation has been developed and shown at schools as well as at public meetings. Information has been placed on the remodeled and improved Ohio American Water web site with handy links to several government and non-government web sites including the Public Utilities Commission of Ohio and the Environmental Protection Agency. Finally, a Wellhead Protection bill insert was developed in partnership with Purdue University Extension Service and sent to all Ohio American Water customers.

Marketing

Ohio American Water does market the use of its water in a conservation friendly way by recommending the latest in water saving appliances for its consumers. This is done through its web site, public meetings, handouts, newsletters, and more.

External Relations

Ohio American Water utilizes a variety of mass media methodologies in a thorough yet cost effective effort to reach out to its customers. Various methodologies used include public meetings, an upgraded and improved web site, informational bill inserts, paid advertising, earned news media, public events, free handouts, a first of its kind community newsletter, and more.

The Ohio American Water web site was greatly enhanced through the addition of current news items, added information on bill payment sites, water quality results, water conservation tips, water rate information, and more.

Quarterly Public Information Meetings have been publicized and held in Marion and Franklin County. At all public meetings, free information was available in the forms of printed materials, leak detection kits, rain gauges, refrigerator magnets and more. The public information was also presented to the Marion, Ohio Utilities Committee at one of their public meetings.

Bill inserts were printed and distributed regarding water quality, local investments (Marion), water rate information, and water conservation as it relates to wellhead protection.

Paid advertising has generally limited itself to important information about the services provided by Ohio American Water, and always includes a prominent provision for the 24-hour toll-free Customer Service Center.

Ohio American Water's Community Newsletter is published quarterly and is complete with articles and stories about services offered, service improvements, useful hints and tips, and contact information.

In 2005, the H_2O Help program was revised with four local program administrators. The program helps those in need of bill paying help access funds donated by the public and matched by Ohio American Water. The program was further improved by enhancing the response mechanism in hopes of improving the public participation in this fund-matching program.

The public was also informed of important news items through earned media news releases which introduced new managers, water main flushing notices, new services, service updates, bill payment information and more.

Administrative and Corporate Support Services

Transportation

American Water and Ohio-American Water Company manage the operation of transportation and fleet expenses through a combination of company and a fleet administration company.

Company personnel control the decisions as to fleet size and type of vehicles needed to perform work duties in each business unit. The majority of company vehicles are light duty trucks with automobiles and heavy duty trucks comprising the rest of the fleet. The company has a small quantity of cars. Company policies tightly control the use of cars and they are used only for company business.

American Water employs a fleet administration company to assist in the management of the fleet. The company is Automotive Resources International of Mt. Laurel, New Jersey. This company provides a variety of services listed below.

- Purchase or lease of vehicles according to company standards
- Maintenance of a data base which lists expenses and other particulars about a vehicle. System also includes performance reports.

- Title, licensing, and registration
- Approval of maintenance to be performed on vehicles
- Management of outfitter's costs on trucks.
- Various consultation services as to appropriate vehicle life and fleet matters.
- Maintenance of a dedicated customer service group to resolve problems related to fleet issues

In summary, Ohio American's transportation expenses are monitored by both Company and outside sources. Company personnel manage the fleet on a day to day basis and receive assistance in this function and in acquiring new vehicles through the assistance of Automotive Resources.

Legal

Ohio American Water receives administrative and corporate support services from the American Water Central Region Legal Department. The Legal Department consists of the General Counsel, who is also an officer of Ohio American, and five corporate counsels. The Legal Department provides advice and counsel on a pro-active basis to executives, senior managers and employees with respect to legal issues affecting the business. The Legal Department directs, prepares and participates in all judicial, administrative and regulatory proceedings. The Legal Department is responsible for all corporate governance activities. The corporate structure of the legal department is illustrated on Page 3 of Exhibit 1, Schedule S-4.1.

Data Processing

The American Water Company employs two large scale data processing systems within the United States. These systems are AS/400 based systems which house a financial management system and our customer management system. These servers are stored at American Water's Data Center in Hershey Pennsylvania, with a complete mirrored system in Haddon Heights, New Jersey for data backup.

JD Edwards is utilized on a large scale and is our current financial management system, while Orcom is used to track our customer information. American Water also utilizes a recently implemented Advantex application for delivery of Service Orders to Field Support representatives.

Management Information Systems - Network Infrastructure

The Ohio American Water network infrastructure consists of AT&T Frame Relay which is now capable of IPFR and MPLS technologies and several Virtual Private Network connections that have been implemented over the course of 2005 and late 2004. These connections vary in available bandwidth from 128 kbps thru 1.5 Mbps. These connections now provide the Company with the ability to do online file transfers, e-mail and access the Internet. All of our Production and Networking facilities in the state of Ohio now have connectivity to each other as well as the business network. The business network provides access to the data processing

systems and allows Company personnel to effectively communicate with employees in the remaining American Water operating companies.

Insurance

The most recent summary of all property, and injuries and damages insurance coverage by American Water for all its operating subsidiaries has been presented in the following table. Included is the amount of coverage for each class of insurance carried, the property the policy covers, and all applicable premiums.

Coverage	Effective Dates	Limit of Liability
Workers Comp-All States	1/1/07 - 1/1/08	Statutory
Employer's Liability	1/1/07 – 1/1/08	$1 Mil.
Automobile	1/1/07 – 1/1/08	$1 Mil.
General Liability	1/1/07 – 1/1/08	$25 Mil. Agg./1 Mil. Each Occurrence
Travel Accident	1/1/07 – 1/1/08	$500,000/$400,000
Excess Liability	1/1/07 – 1/1/08	$15 Mil. + $15 Mil.
Employment Practices	1/1/07 – 1/1/08	$5 Mil.
Crime Bond	1/1/07 – 1/1/08	$5 Mil.
Fiduciary Liability - Primary	1/1/07 – 1/1/08	$10 Mil.
Blanket Crime	8/22/03 until cancelled	$5 Mil.
Property	12/31/06 – 12/31/07	$255 Mil.
Employment Practices	1/1/07 – 1/1/08	$5 Mil.
Fiduciary Liability	1/1/07 – 1/1/08	$10 Mil.
D&O Liability	1/1/07 – 1/1/08	$50 Mil.

Claims management: The following is a brief discussion of claims investigation policies and settlement history for the last five years.

American Water and Company personnel investigate all claims. Department supervisors report all claims to the District Manager, the Operations Risk Management or the Loss Control Manager as soon as practical, but not later than the next business work day. Claims for bodily injury or property damage are immediately reported to the insurance carrier, who assigns a claim representative to investigate the claim. Legal action notifications are reported to Corporate Counsel and the property & casualty insurance broker.

Management of insurance costs. A brief discussion of alternative risk financing techniques that the utility has explored as a means of controlling the cost of insurance coverage is included below.

American Water's insurance broker solicits requests on an annual basis for alternative proposals from various insurers to ensure that it's insurance is competitively priced with the broadest available coverage terms and conditions.

American Water has a prepaid deductible insurance for its general liability, workers compensation and automobile liability coverage. During each policy year it is billed on a quarterly basis for the estimated premiums for this coverage. These premiums are charged to the various companies on the basis of insurable values and loss experience. The loss experience component of the premiums for this coverage are based on an estimate of losses, the charges of the carrier to administer the program, and the cost to insure against individual and total claims above certain limits.

Safety performance. The following table summarizes the safety performance of Ohio American operations. Prior to 2002, there was not a full time person dedicated to improving and managing safety performance in Ohio. In 2002, a staff position was added and specifically charged with overseeing and managing the safety and Process Safety Management programs of operations in Ohio.

Year	Number of First Aid Accidents	Number of Medical Accidents	Number of Lost-time Accidents	Number of Auto Accidents
2002	0	3	1	4
2003	0	7	1	1
2004	1	4	2	4
2005	1	2	3	6
2006	0	8	0	17

Land Management

The American Water Central Region Property Manager is responsible to oversee any transaction concerning the acquisition, disposal, material alteration, or leasing of property by Ohio American Water. The Property Manager is responsible for negotiating the terms of all contracts and leases involving property.

The Company only purchases property for the installation or expansion of its facilities, such as treatment plants, wells, storage tanks, offices, pump stations, etc., it does not speculate on purchasing property to hold it anticipating future gains that the property may accrue. Approval from the Company's Capital Investment Management Committee is required on all property purchases. In addition, before the Company purchases a property, an appraisal is performed, a Phase 1 environmental report is performed and a title commitment is obtained. Terms of the purchase agreement are negotiated by the Property Manager, (certain contingencies may need to be included in the agreement such as zoning approval, permits, etc.) and submitted to the Legal Department to review. If Legal approves the agreement, it is submitted to an officer (typically a Vice-President) of the Company to sign and then is attested by the Secretary or Assistant Secretary of the Company. All Closing Statements are reviewed by the Legal Department before being signed by an officer of the Company. Closings are typically held at a Land Title Company.

The Company only sells property when it is determined that the Company no longer uses the property and has determined it will have no use for it in the future. The Property Manager must obtain approval from the Operations and Security Departments and then determines if any easements must be retained on the property that is to be sold. The Property Manager then hires an appraiser to determine the "market value" of the property and contacts the Legal Department to order a Phase 1 environmental assessment. The Property Manger also contacts the Finance Department to determine what the "book value" of the property is. After the Property Manger has obtained both the appraised value and book value of the property, a "listing agreement" is entered into with a Broker to advertise the property and place it on the market for sale. The Company does not want to sell the property below either the appraised or book value. The Property Manager is responsible for negotiating the terms of the sales contract and then submits it to the Legal Department to review. If Legal approves the agreement, it is submitted to the Board of Directors for their approval. Once the Board has approved the sale, an officer (typically a Vice-President) of the Company is given approval by the Board to sign the sales document, which is then attested by the Secretary or Assistant Secretary of the Company. All Closing Statements are reviewed by the Legal Department before being signed by an officer of the Company.

When a decision is made by the Company to lease property as opposed to purchasing it, the Property Manager contacts a Broker to assist the Company in looking at multiple properties that meet the Company's requirements. After taking into consideration the location of the property, the financial terms and conditions of the lease, a property is selected and a lease is entered into. The Property Manager negotiates the terms of the lease and then it is submitted to the Legal Department to review. All new leases must be reviewed by both Legal and the Regional Commercial Development Process ("CDC"). If Legal and CDC approves the agreement, it is submitted to an officer (typically a Vice-President) of the Company to sign and then is attested by the Secretary or Assistant Secretary of the Company if required by the Landlord. All Closing Statements are reviewed by the Legal Department before being signed by an officer of the Company. On renewals of existing leases, the Property Manager reviews the terms and conditions of the existing lease and will negotiate any revisions that may be required. The lease is then submitted to the Legal Department to review and the process is identical to that of a new lease concerning an Officer's signature.

Records Management

Ohio American Water's strategic focus on Records Management for financial and operational data is in the key areas as outlined below:

- Adherence to the NARUC guidance on record retention.
- Identification of key data and information that must be maintained. This identification allows management to effectively and efficiently run the business, while allowing regulators the ability to properly monitor the business.
- Utilization of a local and reputable business record storage vendor to store records offsite in a manner that allow for easy access and, eventually, efficient destruction of records as needed.
- Utilization, where possible, of electronic versions of financial and other key records.

The focus on records management is an on-going process, with each functional area within Ohio American Water and the Region assuming responsibility for the maintenance of critical and key documents and records.

Human Resources

Salary and Benefit Administration

The objectives of the salary and benefit programs of Ohio American Water are to promote a performance oriented culture. It is designed to support Ohio American's performance-focused culture by strengthening the link between pay and performance. The program is designed to support talent acquisitions, retention and engagement while enabling Ohio American Water to optimize its rewards program expenditures.

Ohio American Water human resources personnel look at comparator groups for both compensation and benefits comparisons based on where the markets of potential employees lie. It is the goal of Ohio American Water to manage escalating benefits costs and get the most from the benefit dollars both the employee and Company spend. Ohio American provides a competitive benefit package for an employee that offers choices and flexibility. The Company's pay systems reward top performers. This creates a high performing culture that drives operational excellence, customer service and growth.

Health care costs have continued to escalate nationwide. Ohio American's philosophy is to design programs which are selected based on vendor's costs and access, plan design for effectiveness, are competitive, and provide tools for resources including wellness and disease management.

Recruiting and Selection

It is the intent of the Company to fill vacancies in employment from competent applicants. To accomplish this, impartial screening, testing, background checks, and selection is necessary.

Ohio American nonunion job openings are first posted internally to give existing employees an opportunity for advancement. Union employee jobs are advertised internally based on the collective bargaining agreement in place for the position opening. If the Company is not successful in filling the position internally, or when a point is reached to recruit from outside the company, various sources of recruitment are used in an attempt to obtain a diverse pool of candidates. Human Resources are the receivers of initial applications for employment. Central Region Human Resources personnel then uses behavioral interviews, as well as a skill based interview, in order to determine who should be brought in for a more intense panel interview. Some of the position openings also require job related tests as a selection tool.

Once a potential employee selection is made, Human Resources personnel do work related reference checks as well as background checks which include validation of past employment, education, credit checks, driving records and criminal checks to ensure the best possible candidate is selected. An offer is then made pending results of a pre-employment physical, which includes drug and alcohol tests.

Training and Career Development

There are many modes of training and career development which are utilized by American Water and the Company. American Water has internal resources dedicated to providing training both on soft skills such as effective listening and how to give constructive feedback, to technical skills and various safety trainings. American Water uses outside vendors for specific training needs such as proper operation of a backhoe or how to effectively communicate. Employees are also sent to outside training based on their development needs.

Ohio American Water has a tuition assistance program to aid employees in achieving higher education or to better themselves in their current roles. As part of the Company's performance appraisal system, a personal development section is included, and the tuition assistance program is another tool that aids employees in achieving their goals.

Upon receiving approval to attend a class under the tuition assistance program, the Company pays for the class up front so that the employee does not have to suffer any financial hardship due to the tuition cost. If the employee drops the class, or fails the class, they are required to pay the Company back for its cost. The tuition reimbursement program also pays for certifications and licensing of employees of Ohio American Water.

Performance Evaluation and Appraisal

Ohio American Water requires an annual performance review for all nonunion employees. There are also interim reviews conducted in order to assess progress during the year.

All new employees, both union and nonunion, go through a documented review process during the early part of their employment. The employee then is assured of receiving feedback on his or her initial performance. This sets the stage for future appraisals, but also allows the supervisor and Human Resources to assess this employee and make sure that the Company did indeed made the right selection.

Work Force Productivity

There are several ways for that Ohio American assesses work force productivity. Various measuring means are used for jobs that require telephone contact and/or computer usage to determine exactly what is being accomplished based on what has been scheduled to be completed for that day or week. In the case of work which is not computerized, there are time frames developed so that workforce planning can occur.

Of course, in the case of main breaks or other unknown emergencies, the Company's focus is always on ensuring that quality water and uninterrupted service are a priority. Ohio American employees are dedicated to this type of service, as our product is vital to our consumers.

Integrated Resource Planning

Ohio American Water is focused on supply-oriented issues and ensuring the efficient use of the source of supply. In addition to the measures outlined under Plant Operation and Construction, Plant/Facilities Planning Process, Water Resource Management, Ohio American Water also manages water resources through leak detection.

Water resource management through leak detection and repair results in reduced unaccounted-for water by reducing water losses. Reducing the volume of unaccounted-for water can improve system hydraulics, reduce costs for water treatment and pumping, and in some cases can delay capacity-oriented construction. In situations where water demand exceeds supply, reducing unaccounted-for water can result in the availability of more water for customer consumption.

Ohio American Water performs ongoing leak detection surveys. In addition, valves are sounded for leaks as part of a valve exercise program. Hydrants are inspected twice a year and tested for leaks. Customer meters are sounded on all service calls, and whenever a curb box is relocated or raised for paving.