COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY FOR A GENERAL ADJUSTMENT OF RATES SUPPORTED BY A FULLY FORECASTED TEST YEAR	) CASE NO. 2008-00427

COMMISSION STAFF'S SECOND SET OF INFORMATION REQUESTS TO KENTUCKY-AMERICAN WATER COMPANY

Kentucky-American Water Company ("Kentucky-American"), pursuant to 807 KAR 5:001, is to file with the Commission the original, one paper copy and one electronic copy. The information requested herein is due on or before January 8, 2009. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Kentucky-American shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Kentucky-American fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to the Direct Testimony of Dr. Vander Weide at 12-13.

a. Explain whether or not Kentucky-American's expanded supply options through its new water treatment plant, for which a certificate of public convenience and necessity ("CPCN") was granted in PSC Case No. 2007-00134,[1] will mitigate the sensitivity of net income to sales fluctuations.

b. In the company's last rate case[2] and in this case, the company is placing more of its fixed-cost recovery in the customer charge and less on the volumetric charge. Explain why this does not help mitigate Kentucky-American's operating leverage risk.

c. Provide an explanation of how each of the three factors contributing to Demand Uncertainty specifically impact Kentucky-American.

---

[1] Case No. 2007-00134, The Application of Kentucky-American Water Company for A Certificate of Convenience and Necessity Authorizing the Construction of Kentucky River Station II, Associated Facilities and Transmission Main (Ky. PSC April 25, 2008).

[2] Case No. 2007-00143, Adjustment of Rates of Kentucky-American Water Company (Ky. PSC Nov. 29, 2007).

2. Refer to the Direct Testimony of Dr. Vander Weide at 13.

a. Provide an explanation of how Kentucky-American is specifically affected by Supply Uncertainty risk.

b. Explain whether the water treatment facility at Pool 3 of the Kentucky River neutralizes or minimizes the Supply Uncertainty risk for Kentucky-American.

c. By stating that the company faces supply uncertainty from the increased costs in complying with more stringent EPA water guidelines, is it Mr. Vander Weide's position that the company faces greater risk because the Commission would not allow the company to recover those federally mandated costs in a timely manner? If not, provide an explanation of how the company faces higher risks.

3. Refer to the Direct Testimony of Dr. Vander Weide at 19-26 and Exhibit_JVW-1 Schedule 1-1.

a. Provide the Excel spreadsheets in electronic format supporting Schedule 1 with the underlying data and formulas intact.

b. Provide the data from which the three-month average stock prices were calculated.

c. In the case where there is more than one analyst providing estimates, does the I/B/E/S growth data in the Exhibit represent an average growth figure?

d. Provide the separate underlying growth data used to make the water company Discounted Cash Flow ("DCF") calculations.

e. Provide the DCF calculations without the flotation cost adjustment in a format similar to Schedule 1-1 with an Excel spreadsheet with the formulas intact.

f. Provide the Value Line company profile sheets from which the data was taken to conduct the analysis.

4. Refer to the Direct Testimony of Dr. Vander Weide at 28-29 and Exhibit_JVW-1 Schedules 2-1 and 7-2.

a. Provide further evidence and further explanation of why gas companies are comparable in risk to water distribution companies and are appropriate for use as a proxy group for a water company. Provide the Value Line company profile sheets for the Local Distribution Company ("LDC") gas proxy group.

b. Provide a side-by-side comparison of the 2007 number of customers and the various sources of revenues, including but not limited to, state regulated revenues, federally regulated revenues, and all other sources of revenues in absolute terms and as a percent of total revenues for Kentucky-American and for the natural gas companies.

c. For each of the companies listed in the gas proxy group, provide an explanation of how each is appropriate for use as a proxy for Kentucky-American, which is a water distribution company.

d. Provide the Excel spreadsheets in electronic format supporting Schedule 2 with the data and formulas intact.

5. Refer to the Direct Testimony of Dr. Vander Weide at 34.

a. Provide evidence supporting the statement that Kentucky-American is "currently more risky than an investment in the average utility in the S&P Utilities Index over the entire period 1936 to the present."

b. Provide a side-by-side comparison of the company with the average utility in the index.

6. Refer to the Direct Testimony of Dr. Vander Weide at Exhibit_JVW-1 Schedule 7-1.

a. Provide an explanation as to why using the yield on 30-year treasury bonds would not be more appropriate than that of 20-year bonds for the risk-free rate.

b. Provide an explanation as to why a Capital Asset Pricing Model calculation using electric companies is relevant in this case.

c. Provide the pages from the SBBI 2007 Yearbook from which the use of the risk premium and from which both the historical and long horizon risk premium may be found.

7. Refer to the Direct Testimony of Dr. Vander Weide at 40-42 and Exhibit_JVW-1 Schedules 7-8.

a. Explain the differences between the Ibbotson SBBI risk premium and the DCF S&P 500 derived risk premium.

b. Explain why using the DCF S&P 500 derived risk premium is appropriate in this case.

8. List all Kentucky-American facilities and contract operations that are not subject to the Commission's regulation.

9. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-1, at 20-27.

a. Identify the Kentucky-American employees, by name, who are expected to provide services to American Water Works Company ("AWWC") or any AWWC-affiliated entity other than Kentucky-American during the forecasted test period and state the amount of the time that he or she is expected to spend providing such services to entities other than Kentucky-American.

b. Identify each employee, by name, who holds a position title with AWWC or an AWWC affiliate other than Kentucky-American. For each employee identified, state his or her position title with AWWC or an AWWC affiliate other than Kentucky-American.

c. Describe the duties of each salaried Kentucky-American employee.

10. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-1, at 19-26. For each vacant personnel position listed in forecasted labor costs, state:

a. The reason(s) why the position must be filled.

b. The reason(s) why the position is currently vacant.

c. The current status of Kentucky-American's efforts to fill the position and the anticipated hire date.

d. The total cost of the position included in the forecasted test period (i.e., payroll expenses, payroll capitalized, retirement, taxes, insurance benefits), stated separately, and the accounts to which each amount was charged.

11. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-1, at 23. State the name of "New-Production Technician," the date the new employee was hired, the total cost of the position included in the forecasted test period (i.e., payroll expenses, payroll capitalized, retirement, taxes, insurance benefits), stated separately, and the accounts to which each amount was charged.

12. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, W/P3-1, at 2. Incentive pay included in forecasted labor is $373,711.

a. Describe the incentive pay plan and explain why such a plan is necessary and reasonable.

(1) State whether the forecasted incentive pay is being awarded under the same long-term incentive compensation and annual incentive plan compensation pay plans whose costs the Commission disallowed in Case No. 2004-00103.[3]

(2) If the incentive plan is the same, explain why Kentucky-American proposes to include its costs in the determination of rates in this proceeding.

(3) If the incentive plan differs from the plan reviewed in Case No. 2004-00103, describe how one plan differs from the other.

b. List all Kentucky-American employees who are eligible to participate in the program.

---

[3] Case No. 2004-00103, Adjustment of the Rates of Kentucky-American Water Company (Ky. PSC Feb. 28, 2005) at 47 – 49.

c. State the level of incentive pay available to each participant in the forecasted period.

d. State the level of incentive pay awarded to all individuals participating in the program for each of the previous 5 years compared to the level of incentive pay available to each participant in the forecasted period.

e. For the previous 5 calendar years, provide a comparison of the incentive pay that was budgeted to actual amount paid in each year. Include detailed explanations for any variance between the budgeted and actual payments.

f. Explain how incentive payment awards in previous years were determined.

g. State the amounts of incentive payment awards included in the forecasted test period and explain how the amounts were determined.

13. Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, at 2.

a. Identify the account in which FICA Excess of $309,400 is reported in Kentucky-American's forecasted operating expenses.

b. Define the term "FICA Excess."

14. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, W/P3-1, at 2, and the Direct Testimony of Sheila Miller at 6. Kentucky-American uses a 21.06 percent capitalization rate in its forecasted operations. Provide a schedule comparing the budgeted and actual labor capitalization rates for the 5 most recent calendar years. Include an explanation for any variance between the budget and the actual capitalization rates.

15. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 3, and the Direct Testimony of Sheila Miller at 6.

a. Ms. Miller states that "Each employee's wages were adjusted to the wage level that would be paid during the forecasted test period." Explain in detail how Kentucky-American adjusted each employee's wages to reflect the expected test period wage level. Include a schedule listing each employee, the pre-adjusted wage level, the adjusted wage level, and the percentage increase.

b. Provide the percentage annual wage increase that Kentucky-American applied in the forecasted test period for union and non-union employees.

c. Provide a schedule comparing the budgeted and historical percentage wage increases for Kentucky-American's union and non-union employees for each of the previous 5 calendar years.

16. Refer to Kentucky-American's response to Commission Staff's First Set of Information Requests Item 1(a), W/P3-2, at 1-15. Identify all amounts included in the purchased water expense forecast for water purchased for Kentucky-American's sewer and non-regulated operations.

17. Refer to Kentucky-American's response to Commission Staff's First Set of Information Requests Item 1(a), W/P3-2, at 1-15.

a. Identify all amounts included in the fuel and power expense forecast for Kentucky-American's sewer and non-regulated operations.

b. Provide the annual percentage increase for Kentucky-American's total electricity purchases for each of the previous 5 calendar years.

18. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-2, at 1-15.

a. Provide the calculations and documents used to derive the "kwh/mg" per month.

b. Provide the calculations and documents used to derive "energy cost/kwh" per month.

19. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 3-3 at 1-10.

a. Provide the annual percentage increases in Kentucky-American's total chemical and chlorine costs for each of the previous 5 calendar years.

b. There is a schedule on page 10 that lists each chemical, the contract price for 2009 and the estimated price for 2010. Provide a schedule showing the percentage increase between the 2009 contract prices and the 2010 estimated prices for each chemical. Include a detailed explanation for each projected price increase.

c. Provide all correspondence between Kentucky-American and its chemical suppliers since January 1, 2008, in which the cost of chemicals is discussed.

20. Refer to the Direct Testimony of Keith Cartier at 12. Mr. Cartier states that "Chemical expenses are projected based on the most recent three-year average consumption for each chemical (in pounds-per-million gallon treated), adjusted if warranted based on operating experience."

a. Provide the calculations and state all assumptions used to derive the chemical usages.

b. Cite each instance where projected chemical usage was adjusted to reflect operating experience. Provide a detailed explanation for each adjustment in usage due to operating experience.

21. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-4, at 1-2.

a. For each Kentucky-American water treatment facility, list the dates in the previous 10 years that the facility was cleaned, the cost of each cleaning, and the amortization period that Kentucky-American used for each cleaning.

b. Kentucky-American states that in 2006 the cleaning of the Kentucky River Station cost $202,500, which would result in a monthly amortization of $8,438.[4] However, the monthly amortization for June 2009 through May 2010 is $9,167. Provide the estimated cost to clean the Kentucky River Station, the date the cleaning will occur, and the proposed amortization period. Include all workpapers, assumptions, and calculations used to develop Kentucky-American's response.

c. Provide all documents that contain a description of the services that comprise the actual waste disposal cost of $77,556 for the Kentucky River Station.

d. Provide all documents that contain a description of the services that comprise the actual waste disposal cost of Richmond Road Station of $109,675.

22. Refer to the Direct Testimony of Patrick Baryenbruch.

a. At page 4 of Exhibit PLB-1 of his testimony, Mr. Baryenbruch refers to monthly bills that the Service Company issues to the operating companies. Provide

[4] $202,500 ÷ 24 Months (Amort. Period 01/2007 – 12/2008) = $8,438.

all of the monthly invoices that the Service Company issued to Kentucky-American for the 12-month period ending July 31, 2008.

b. Provide the monthly invoices that the Service Company issued to Kentucky-American for the remainder of calendar year 2008.

c. Refer to Exhibit PLB-1, page 7.

(1) List and describe each of the $794,558 of Service Company charges that was considered "non-recurring" and state the reason why Kentucky-American considers that charge as nonrecurring.

(2) Explain if any of the nonrecurring items are included in the forecasted management fees.

(3) Mr. Baryenbruch states the "net testable" amount of Service Company charges for the 12-month period ending July 31, 2008 was $7,064,978. The forecasted income statement set forth in Kentucky-American's Application, Exhibit 37, Schedule C, page 3, lists Management Fees of $7,612,592. Reconcile these two amounts and explain each difference in the charges comprising these amounts. This response should separately itemize the charges of each service company.

d. Refer to Exhibit PLB-1, Schedule 3. For each service company directly assigning or allocating hours to Kentucky-American, provide the job titles and/or classifications of employees that had hours assigned or allocated to Kentucky-American.

e. Refer to Exhibit PLB-1, page 4. List the services that AWWC's Corporate Office provides to American Water subsidiaries.

f. Refer to Exhibit PLB-1, Schedule 1.

(1) Provide all workpapers, show all calculations, and state all assumptions used to develop this Schedule. Provide clear and complete source document references.

(2) Provide a schedule similar to PLB-1, Schedule 1, comparing the total charges billed by location and function during the 12-month period ending July 31, 2008 to the estimated hours billed in the forecasted period. Provide all workpapers, show all calculations, and state all assumptions used to develop this Schedule.

g. Refer to Exhibit PLB-1, Schedule 2.

(1) Provide all workpapers, show all calculations, and state all assumptions used to develop this Schedule. Provide clear and complete source document references.

(2) Provide a schedule similar to PLB-1, Schedule 2, comparing the total hours billed by location and function during the 12-month period ending July 31, 2008 to the estimated hours billed in the forecasted period. Provide all workpapers, show all calculations, and state all assumptions used to develop this Schedule.

h. Refer to Exhibit PLB-1, Schedule 3. Provide all workpapers, show all calculations, and state all assumptions used to develop this Schedule. Provide clear and complete source document references.

i. Refer to Exhibit PLB-1, Schedule 4.

(1) Provide all pages of the Michigan Lawyers Weekly that Kentucky-American used to develop the Billing Rate Range.

(2) Explain in detail why Kentucky-American used the "Michigan Attorney Billing Rates" in this schedule.

(3) Explain why averaging the hourly rate of an associate and a partner is a reasonable method to calculate the billing rate of a Kentucky attorney.

j. Refer to Exhibit PLB-1, Schedule 5.

(1) Provide all relevant pages from "Operating Ratios For Management Consulting Firms, 2007 Edition."

(2) Explain how each of the percentages for "Typical Percent of Time Spent on a Consulting Project" was determined.

k. Refer to Exhibit PLB-1, Schedule 7.

(1) Provide all relevant pages from the American Institute of Certified Public Accountants' 2006 National PCPS/TSCPA Management of an Accounting Practice Survey.

(2) Is the Certified Public Accountants' 2006 National PCPS/TSCPA Management of an Accounting Practice Survey the most recent survey that has been conducted?

(3) Explain how each of the percentages for "Typical Percent of Time Spent on an Accounting Assignment" was determined

l. Refer to Exhibit PLB-1, Schedule 7.

(1) Provide all documents and state all assumptions that were used to develop the average billing rates for each firm listed in the calculation of the average billing rates.

(2) Explain how each of the percentages for "Typical Percent of Time on an Engineering Assignment" was determined

m. Refer to Exhibit PLB-1, page 20. Describe how Mr. Baryenbruch determined the "New Positions' Salary" level as $100,000 and 49.4 percent of this level as the cost of benefits associated with the new position. Also, explain how the 15.2 percent relationship between the new position's salary and office expenses was developed. Provide all documents, show all calculations, and state all assumptions upon which Mr. Baryenbruch relied to reach his determination.

n. Refer to Exhibit PLB-1, page 21. Provide Belleville Lab survey results for 2000 through 2006.

(1) For each year listed on the schedule, compare the number of major tests that were included in the survey to the total number of major tests performed by the Bellville Lab for Kentucky-American.

(2) According to the schedule, in 61 percent of the tests surveyed in 2006, the Bellville Lab costs were higher than the outside labs. Explain why this would support the statement that "These studies provide additional evidence that the Service Company arrangement is the lowest cost alternative for KAWC."

o. Refer to Exhibit PLB-1, Schedule 8, at 1.

(1) For each listed item in "Labor," state whether the Call Center performs each task for Kentucky-American.

(2) For each listed item in "Materials and Expense," state whether the Call Center performs each task on behalf of Kentucky-American.

p. Refer to Exhibit PLB-1, page 26.

(1) State the source of "[e]lectric utility industry's avg calls/customer" of 2.5. Provide all documents used to derive this ratio.

(2) Provide all documents, show all calculations, and state all assumptions upon which Mr. Baryenbruch relied to reach his determination that American Water averages 1.33 calls per customer.

(3) Provide all documents, show all calculations, and state all assumptions upon which Mr. Baryenbruch relied to reach his determination of "Bank charge per item" of $0.1186.

q. Refer to Exhibit PLB-1, page 26. The least cost is $13.71 while the highest cost is $39.81, which is a difference of $26.10 or 190.4 percent.

(1) Describe the procedures used to verify that the costs included in the FERC Accounts 903 and 905 by each company listed in the comparison were appropriately classified and reported.

(2) Explain how the comparison can be relied upon if Mr. Baryenbruch did not analyze the information to verify the nature of the amounts charged to these FERC Accounts.

(3) Explain the large variance in the results of the comparison.

(4) Explain why, given the large variance in the results, the Commission should rely upon the study.

23. In Case No. 2004-00103, Kentucky-American's forecasted management fees were stated at $3,800,677, detailed as follows:

Belleville Lab	$ 190,529
Call Center/National Customer Care Center	831,065
Corporate	707,381
ITS Shared Service	819,399
Shared Service	448,017
Southeast Region	+ 804,286
Total	$ 3,800,677

Of this total, the Commission allocated $367 to other operations, removed business development costs of $117,525, and permitted the recovery of $3,682,785. The forecasted management fees in this case are $7,612,592, a 106.7 percent increase.

a. List the amounts shown in Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-5, at 1, using the Service Company names used in Case No. 2004-00103 as shown above.

b. State the reason(s) for the change in the level of each forecasted Service Company charge in this case as compared to that of Case No. 2004-00103.

c. List each business development cost included in the forecasted Management Fees of this case, state whether each is directly assignable or allocated, and describe the services associated with the cost.

24. At page 7 of her direct testimony, Shelia Miller states that the forecasted group insurance reflects the current insurance premium rates in effect as of July 31, 2008. Provide the current group insurance statements to show the "current group insurance premium rates" that are referenced.

25. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-6, at 2 and Direct Testimony of Sheila Miller at 7. Provide the Towers Perrin projections that support the 2009 and 2010 estimated other post retirement employee benefit costs ("OPEB") expenses.

26. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-7, at 1-3.

a. Provide the Towers Perrin report supporting the pension projections for the years 2009 and 2010.

b. State the number of active participants for each company listed.

c. Explain why the ratio to allocate pensions to Kentucky-American is 2.03 percent while the ratio to allocate OPEB's is 2.56 percent.

27. In Case No. 2004-00103, Kentucky-American's total forecasted rate case cost was $622,409. In that case, the Commission found that, "in its next rate application, Kentucky-American should demonstrate fully its efforts to contain these expenses." In the current case, Kentucky-American's forecasted rate case costs are $592,000,[5] a $77,501, or 12.46 percent, increase. Describe Kentucky-American's efforts to contain rate case expenses.

28. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-9, at 1-5 and the Direct Testimony of Shelia Miller at 7.

a. Provide all documentation Kentucky-American relies on to project the projected premium increases in 2009 and 2010 for each insurance other than group coverage listed on the schedule. Include the percentage increases for each coverage listed.

b. Provide the actual 2007 premium amounts for each insurance other than group coverage listed on the schedule.

c. State the workers' compensation capitalization rate.

---

[5] This amount includes the $25,000 estimated cost of the Cost-of-Service study.

d. The annual insurance other than group insurance listed at 3 is $736,447 while the amount listed in Ms. Miller's direct testimony is $694,598. Provide a detailed explanation for the discrepancy.

29. Refer to Application, Exhibit 37, Schedule H. Kentucky-American lists uncollectibles as .76330 percent. In Cases No. 2000-00120[6] and No. 2004-00103, the Commission employed a percentage of .45620 and .50683, respectively.

a. State the reasons for the increase in uncollectibles.

b. Explain why it is appropriate and reasonable for the Commission to use an uncollectibles rate in this case that is significantly higher than those used to review prior Kentucky-American rate applications.

30. For each AWWC subsidiary that provides water service, provide the amount of its uncollectibles and its total water sales, and its uncollectibles stated as a percentage of total water sales for the calendar year ended December 31, 2007.

31. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-12, at 4. Kentucky-American includes in its general office forecast, dues and membership costs of $25,416. For each dues or membership included in the forecast, identify the organization or group to which Kentucky-American will pay the dues or membership fee and the employee(s) for whom the fee is being paid.

32. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-113, at 4. Provide a detailed explanation of the forecasted expense of $28,175 in account "Wtr & Waste Wtr Exp SS."

---

[6] Case No. 2000-00120, Application of Kentucky-American Water Company to Increase Its Rates (Ky. PSC Nov. 27, 2000).

33. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-13 at 1-4.

a. Explain "Other Welfare Operations."

b. Describe the expenses that are included in the account entitled "Employee Awards."

c. Describe the expenses that are included in the account entitled "Safety Incentive."

d. Describe each of the services forecasted for "Contract Services – Accounting" in the amount of $72,000 and "Contract Services – Legal" in the amount of $78,600.

e. Account No. 575130.16 – Brochures & Handouts totals $34,429. At Exhibit 37, Schedule F, page 10 of its Application, however, Kentucky-American lists the amount for brochures & handouts as $37,532. Reconcile this difference.

34. Refer to Kentucky-American's Application, Exhibit 37, Schedule F. For each forecasted amount listed in this Schedule, identify the account on page 7 of Exhibit 37, Schedule C, in which Kentucky-American has recorded the amount.

35. Refer to Kentucky-American's Application, Exhibit 37, Schedule F, page 10 of 13.

a. Provide the conservation advertisements whose cost Kentucky-American proposes for the forecasted period.

b. Kentucky-American includes in the forecasted advertising expense institutional advertising of $131,403. Administrative Regulation 807 KAR 5:016 prohibits the recovery of institutional advertising in rates. Explain why the cost of the proposed institutional advertising may lawfully be recovered through rates. Kentucky-American's response should include examples of the proposed advertisements or other forms of advertising.

c. Provide a detailed description for each item included in the forecasted column entitled "Conservation Advertising."

36. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 107 of 118. Provide a detailed explanation for the level of forecasted maintenance expense allocations to the Owenton and Boonesboro Sewer operations.

37. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-14 at 2. Kentucky-American incurred actual paving/backfill expense of $94,616 in 2007, but proposes to increase the level of this expense to $249,285 in the forecasted period. State the reasons why Kentucky-American anticipates such an increase in paving/backfill in the forecasted period.

38. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 4-1 2-9.

a. Identify each asset listed on these schedules that is used to provide service to Kentucky-American's non-regulated or sewer operations.

b. Refer to Kentucky-American's Application, Exhibit 37, Schedule B-1 page 2 of 2, Rate Base Summary as of November 30, 2008. The Contributions In Aid of Construction ("CIAC") balance contained in the workpapers is $68,083,809 while the amount listed on Schedule B-1 is $45,274,826. Reconcile the difference of CIAC balances.

39. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 5-1 at 2.

a. Kentucky-American reports property tax payments of $2,526,672 in calendar year 2006. Provide a schedule that lists each area where Kentucky-American was assessed a property tax, the tax base used to make the assessment, and the amount of taxes paid. Total taxes paid should correspond to $2,526,672.

b. Provide the same information requested in Item 39(a) for property taxes that Kentucky-American actually paid in 2007.

c. Explain why Kentucky-American used property taxes assessed in 2006 but paid in 2007 as the basis for its forecasted property tax adjustment, rather than the property taxes that were assessed in 2007 but paid in 2008.

40. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 9, and Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 9, in Case No. 2007-00143.[7] The 10-year average ratio of actual-to-budgeted capital construction ("slippage factors") for 1998[8] through 2007 is 123.401 percent for the Recurring Capital Expenditure Projects A-S, and 96.962 percent for the Investment Projects. Recalculate Kentucky-American's forecasted revenue requirement, rate base, and cost-of-service study as follows:

---

[7] Case No. 2007-00143, Adjustment of Rates of Kentucky-American Water Company (Ky. PSC Nov. 29, 2007), Response to Commission Staff's First Set of Information Requests, Item 9(a).

[8] Slippage Rate for 1998 was 99.51% for Recurring Capital Expenditures and 66.152% for Investment Projects.

a. Using the slippage factor of 123.401 percent, adjust all monthly Recurring Capital Expenditure Projects A-S expenditures beginning August 2008 through the end of the forecasted period.

b. Using the slippage factor of 96.962 percent, adjust all monthly Investment Project expenditures beginning August 2008 through the end of the forecasted period.

c. Provide all documents, state assumptions, and show all calculations used to determine the effect of the slippage factors to each forecasted element of revenue requirement, rate base, and cost-of-service study.

41. Provide for each investment project that Kentucky-American started or completed during the period from 1998 through 2007:

a. The number of Investment Projects that Kentucky-American completed ahead of schedule.

b. The number of Investment Projects that that Kentucky-American completed on schedule.

c. The number of Investment Projects that that Kentucky-American completed behind schedule.

42. a. List each construction project that Kentucky-American will commence or complete during the forecast period for which Kentucky-American, as of the date of this Request, has not obtained all necessary governmental permits, licenses, or other approvals.

b. For each project:

(1) List all required governmental permits, licenses, and other approvals that have been granted.

(2) List all governmental permits, licenses, and other approvals that Kentucky-American has not obtained as of the date of this Request.

(3) State the date on which Kentucky-American applied or expects to apply for each required governmental permit, license, or other approval.

43. Provide a comparison of Kentucky-American's forecasted rate base, capital structure, and income statement from Case No. 2007-00143 with its actual results. Provide a detailed explanation for each variance.

44. Provide a comparison of Kentucky-American's forecasted construction expenditures from Case No. 2007-00143 with its actual results by construction project. Provide a detailed explanation for each variance.

45. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 1-2 at 1 and WP 1-11, at 1-7. State whether Kentucky-American has included the unamortized acquisition adjustment for Boonesboro twice in the forecasted rate base as "Utility Plant Acquisition Adjustment" and "Deferred Debits."

46. Refer to Kentucky-American's Application, Exhibit 37, Schedule D-1, "Summary of Adjustments to Operating Income Accounts." In adjustment D-3, Kentucky-American is increasing Other Income by $3,094,804 to reflect forecasted Allowance for Funds Used During Construction ("AFUDC") above the line. Provide or reference the workpaper that calculates forecasted AFUDC.

47. On page 32 of the direct testimony of Michael Miller, Kentucky-American is proposing to phase in the rate impact of the cost of Kentucky River Station II Project ("KRS II") by not accruing AFUDC.

a. Will Kentucky-American continue to accrue AFUDC on the KRS II capital expenditures for income tax purposes?

b. If the response to 47(a) is yes, identify the impact Kentucky-American's proposal to discontinue accruing AFUDC for rate making purposes will have on income tax expense and deferred income taxes. Provide copies of all workpapers, calculations, and assumptions used in the response.

c. If the response to 47(a) is no, explain why AFUDC will not be accrued for tax purposes.

d. Explain if Kentucky-American has considered requesting that the Commission allow it to use the phase-in approach for all construction projects.

e. If the Commission directs Kentucky-American to discontinue accruing AFUDC for all capital projects, determine the impact this would have on the current rate request and determine the future rate impact. Provide copies of all workpapers, calculations, and assumptions used in the response.

48. Refer to the Direct Testimony of Michael Miller at 32-33. Mr. Miller states that the forecasted AFUDC of $3,094,804 reflects accruing AFUDC on the KRS II capital expenditures forecasted to be incurred from June 1, 2009 through May 31, 2010.

a. Identify the AFUDC for KRS II that is included in the forecasted AFUDC of $3,094,804. Provide copies of all workpapers, calculations, and assumptions used in the response.

b. If Kentucky-American is to phase-in the rate impact of KRS II, explain why it is proposing to accrue AFUDC for the capital expenditures forecasted for the period of June 1, 2009 through May 31, 2010.

49. Refer to Kentucky-American's Application, Exhibit 37, Schedule B 5.2, page 3 of 6, "Working Capital Lead Lag Study." In Case No. 2004-00103, Kentucky-American included "Monthly Arrears Partial/Final Bills" of 7.60 days. Explain why this entry has not been included in the calculations in this proceeding.

50. a. In Case No. 2004-00103, the Commission found that several of Kentucky-American's lead/lag days should be restated.[9] State whether Kentucky-American has adjusted its lead/lag study in this proceeding to reflect the restatements the Commission made in that proceeding.

b. If the response to Item 50(a) is no, explain why those adjusted lead/lag days have not been included in the proposed lead/lag study.

c. Calculate a revised working capital allowance forecast using the Commission lead/lag adjustments in Case No. 2004-00103. Provide all workpapers, calculations, and assumptions used in the restatement.

51. Refer to the Application, Exhibit 37, Schedule B 5.2, page 5 of 6, Working Capital Lead/Lag Study. For the following accounts, reconcile the totals on this schedule to accounts listed on the Adjusted Operating Income Summary shown at Exhibit 37, Schedule C-2 and provide the account titles and numbers to which the following accounts are posted in the workpapers:

a. Transportation Expense.

---

[9] Order of February 28, 2005 at 13.

b. Telephone Expense.

c. Postage Expense.

d. Stock E.

e. Maintenance Expense, excluding Amortizations.

f. Other Operating Expenses.

g. Depreciation and Amortization.

52. For the forecasted period provide a tax basis depreciation schedule that lists separately the balances for each plant account, tax basis accumulated depreciation, and tax basis depreciable lives.

53. a. Other utilities that are subject to Commission jurisdiction calculate income tax expense by subtracting interest synchronization from net operating income and multiplying by the appropriate income tax rate without including deferrals. Explain why Kentucky-American's methodology is more appropriate and should be accepted.

b. Recalculate Kentucky-American's federal income tax expense and state income tax expense using the method described in Item 53(a). Provide all workpapers, show all calculations, and state all assumptions used to recalculate the income taxes.

c. Compare the results of Item 53(b) to Kentucky-American's forecasted federal income tax expense[10] and state income tax expense[11] contained on

---

[10] \$1,793,057 (Current) + \$1,214,788 (Deferred) - \$84,797 (Deferred – ITC) = \$2,923,048.

[11] \$327,001 (Current) + \$185,471 (Deferred) = \$512,472.

Exhibit 37, Schedule C-2, at 3. Provide a reconciliation of any variance between the amounts.

54. Refer to the Direct Testimony of Paul R. Herbert, at 9-10, the response to question 24.

a. Mr. Herbert states that he "discussed rate design guidelines with management." Provide all copies of correspondence in which these guidelines were discussed, including all letters, notes, memoranda, e-mails, and other forms of correspondence.

b. Further, Mr. Herbert states, "The guidelines established were: (1) maintain the existing rate structure applicable to all divisions that includes a service charge by meter size applicable to all classes of customers and a separate one-block volumetric charge for each classification, (2) increase public fire service class as indicated by the cost of service, and (3) adjust revenues among the remaining classes in conformity with or toward the indicated cost of service, without increasing any one class by more than 40%." Explain how the specifics of the guidelines were established and more specifically, how the 40% value was determined.

55. Refer to the Direct Testimony of Paul R. Herbert at 10. Herbert states, "The sum of the monthly costs for a 5/8-inch meter is \$8.55 which was rounded to \$8.60 for the monthly 5/8-inch service charge." Explain why this amount was rounded to \$8.60 instead of maintaining the sum of the costs of \$8.55.

56. Refer to the Direct Testimony of Keith Cartier at 4-5. Mr. Cartier states that there is an increase in the tap fees for the meters 3/4" x 5/8", 1", and 2". Provide all

workpapers, calculations, and assumptions used to derive the proposed increases in tap fees.

57. Refer to the Direct Testimony of Edward L. Spitznagel, Jr. at 6.

a. Provide a comparison of Dr. Spitznagel's estimated residential daily usage to Kentucky-American's actual residential daily usage for each year in each study performed that Dr. Spitznagel has recommended an adjustment for weather normalization for Kentucky-American.

b. Explain in detail how these estimates are reliable and accurate in regard to the accuracy of the estimates.

c. Provide a comparison of Dr. Spitznagel's estimated commercial daily usage to Kentucky-American's actual commercial daily usage for each year in each study performed that Dr. Spitznagel has recommended an adjustment for weather normalization for Kentucky-American.

d. Explain in detail how these estimates are reliable and accurate in regard to the accuracy of the estimates.

58. Provide all letters, notes, memoranda, and related documents that Kentucky-American has received from American Water Works and/or the Service Company regarding the level of common stock dividends or directing Kentucky-American to file for rate increase.

59. Provide all letters, notes, memoranda, and related documents that Tennessee-American Water Company ("Tennessee-American") received from American Water Works and/or the Service Company regarding the level of common stock dividends or directing Tennessee-American to file for rate increase.

60. Provide all letters, notes, memoranda, and related documents that any of the other operating subsidiaries received from American Water Works and/or the Service Company regarding the level of common stock dividends or directing the subsidiary to file for rate increase.

61. Kentucky-American currently has a separate charge for the Kentucky River Authority withdrawal fee. Explain why this fee should not be eliminated and costs be included in Kentucky-American's general rates.

Stephanie Stumbo
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED: DECEMBER 19, 2008

cc: Parties of Record

Joe F Childers
Getty & Childers
1900 Lexington Financial Center
250 West Main Street
Lexington, KY 40507

Willis L Wilson
Attorney Sr.
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KY 40507

Honorable Dennis G Howard II
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

Honorable Lindsey W Ingram, III
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KY 40507-1801

Heather Kash
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

Louise Magee
Kentucky-American Water Company aka Kentucky
2300 Richmond Road
Lexington, KY 40502

Honorable David Edward Spenard
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

A.W. Turner
Kentucky-American Water Company aka Kentucky
2300 Richmond Road
Lexington, KY 40502