

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY-AMERICAN )  
WATER COMPANY FOR A CERTIFICATE OF )  
PUBLIC CONVENIENCE AND NECESSITY ) CASE NO. 2007-00134  
AUTHORIZING THE CONSTRUCTION OF )  
KENTUCKY RIVER STATION II, ASSOCIATED )  
FACILITIES AND TRANSMISSION MAIN )

COMMISSION STAFF'S SECOND SET OF INTERROGATORIES  
AND REQUESTS FOR PRODUCTION OF DOCUMENTS  
TO KENTUCKY-AMERICAN WATER COMPANY

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Kentucky-American Water Company ("Kentucky-American") file the original and 8 copies of the following information with the Commission no later than June 18, 2007, with a copy to all parties of record. Each copy of the information requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention shall be given to copied material to ensure its legibility.

Each response shall be under oath or, for representatives of a public or private corporation, a partnership, an association or a governmental agency, be accompanied by a signed certification of the preparer or 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 upon the basis of which it knows 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 to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to furnish.

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 provided for total company operations and jurisdictional operations, separately.

1. Refer to Kentucky-American's Response to Commission Staff's First Set of Interrogatories and Request for Production of Documents, Item 20(c).

a. State the basis for Kentucky-American's position that the Drinking Water Branch of the Kentucky Division of Water ("DOW") will require a 1 year pilot study for the installation of an ACTIFLO<sup>®</sup> treatment process on the Kentucky River.

b. Provide all memoranda, correspondence, electronic mail messages, and other documents between Kentucky-American or American Water Works Company ("AWWC") officials, employees, or consultants and DOW concerning the 1 year pilot study for the ACTIFLO<sup>®</sup> treatment process.

2. Refer to Kentucky-American's Response to Commission Staff's First Set of Interrogatories and Request for Production of Documents, Item 29.

a. Explain why Kentucky-American limited its tax-exempt financing to \$5 million in this illustration.

b. The analysis provided did not take into account the internal costs in completing two separate financing transactions. State the effect that internal financing costs would have on the average weighted cost of debt comparison. Provide all documents, show all calculations, and state all assumptions used to derive this response.

3. Provide the purchased water contract between Kentucky-American and the Louisville Water Company.

4. Refer to Kentucky-American's Response to Commission Staff's First Set of Interrogatories and Request for Production of Documents, Item 31.

a. Kentucky-American has a forecasted rate base for the 2008 rate case of approximately \$115.8 million. State whether this amount represents the construction costs of the proposed treatment facility that Kentucky-American reported in 2008 as Construction Work In Progress ("CWIP")?

b. If the response to Item 4(a) is yes, explain why Kentucky-American did not include an Allowance for Funds Used During Construction ("AFUDC") offset in its 2008 rate case forecast.

c. Kentucky-American calculates depreciation expense of approximately \$3.6 million to be included in the 2010 rate case.

(1) State whether Kentucky-American is using its present depreciation rates to calculate this amount.

(2) State whether the depreciation rates that Kentucky-American has proposed in Case No. 2007-00143 were used to calculate the amount of depreciation expense.

(3) State the depreciation method (average remaining life or anticipated whole life) that Kentucky-American used, in making its calculation.

5. Using the most recent studies that examined the cost of Kentucky-American purchasing its additional water requirements from Louisville Water Company in lieu of the construction of a new water treatment facility, state the effect upon areas of Kentucky-American's financial operations that are listed below if Kentucky-American chose that option. Assume that all necessary facilities have been operational for one year and that the level of water purchases from Louisville Water Company would be equal to the level of water produced at the proposed Kentucky River plant.

a. Rate Base

- (1) Utility plant in service by 300 sub-accounts.
- (2) Accumulated depreciation.
- (3) Working capital allowance.
- (4) Contributions in aid of construction.
- (5) Deferred Taxes.

b. Income

(1) Water sales outside Kentucky-American's present service area.

- (2) Labor costs.
- (3) Purchased Water
- (4) Fuel and power.
- (5) Chemicals.
- (6) Waste disposal.

- (7) Management fees.
- (8) Group insurance.
- (9) Pensions.
- (10) Insurance other than group.
- (11) Customer accounting.
- (12) Rents.
- (13) General office expenses.
- (14) Miscellaneous.
- (15) Maintenance – Other.
- (16) Depreciation expense detailed by 300 sub-accounts and

show composite rate.

- (17) Property taxes.
- (18) Payroll taxes.
- (19) State income taxes.
- (20) Federal income taxes.

c. Capital Structure

- (1) Long-term debt and related rate of interest.
- (2) Short-term debt and related rate of interest.
- (3) Preferred Stock and cost.
- (4) Common Equity.

6. Using the same financial areas listed in Item 5, state the effect upon Kentucky-American's financial operations if the proposed project is approved and placed in construction. Assume that all facilities have been operational for one year.

7. Refer to Kentucky-American's Response to Commission Staff's First of Interrogatories and Requests for Production of Documents, Item 10c.

a. State whether Kentucky-American intends to apply for a certificate of public convenience and necessity to construct any of the identified improvements. If yes, identify the improvements for which a certificate will be sought.

b. Describe how each of the 3 improvements are being budgeted and financed.

c. State whether these 3 improvements would be required if Kentucky-American purchased water from Louisville Water Company in lieu of constructing the proposed water treatment plant.

8. Refer to Kentucky-American's Response to Commission Staff's First of Interrogatories and Requests for Production of Documents, Items 15 and 33.

a. State the width of the road that Kentucky-American will use to transport dewatered solids from the proposed water treatment plant to optioned land on the Cartwright property.

b. Describe the easements and other rights-of-ways that Kentucky-American would need to acquire to construct a road that connects the proposed water treatment plant directly to the sludge disposal area and bypasses all public roads. State the cost of constructing such road, including the purchase of any easements or other right-of-ways.

9. Refer to Kentucky-American's Response to Commission Staff's First of Interrogatories and Requests for Production of Documents, Items 9, 13, and 33.

a. Describe the improvements to the Cartwright Trust area are necessary to permit its use as a "solids beneficial reuse area." State the total cost of such improvements.

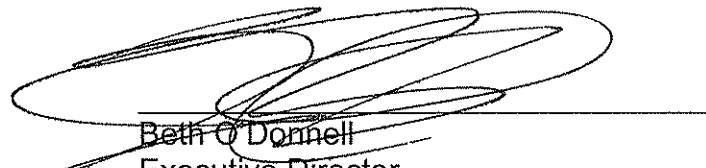
b. Describe all government permits and approvals required to enable Kentucky-American to use the Cartwright Trust area as a "solids beneficial reuse area."

10. Refer to Kentucky-American's Response to Commission Staff's First of Interrogatories and Requests for Production of Documents, Item 12(d).

a. Provide all correspondence that Kentucky-American has received and submitted to the Franklin County Planning Commission.

b. Provide all documents related to the Franklin County Planning Commission's concurrence with Kentucky-American's proposed plans.

c. State whether, assuming the proposed project was not exempt from the Franklin County Planning Commission's jurisdiction, the proposed improvements and facilities that Kentucky-American intends to located in Franklin County would comply with the Planning Commission's regulations and standards. Explain.



Beth O'Donnell  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, Kentucky 40602

DATED: June 4, 2007

cc: Parties of Record