

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY) CASE NO. 2012-00096
AUTHORIZING CONSTRUCTION THE)
NORTHERN DIVISION CONNECTION)

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION
TO KENTUCKY-AMERICAN WATER COMPANY

Pursuant to 807 KAR 5:001, Kentucky-American Water Company ("Kentucky-American") shall file with the Commission no later than August 20, 2012, an original, one paper copy, and one electronic copy of the following information, with a copy to all parties of record. 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.

1. Refer to Kentucky-American's Response to Commission Staff's First Request for Information, Item 45.

a. Projected payroll expense remains at \$307,790 for the years 2016 to 2020, but Kentucky-American estimates that its retirement and payroll taxes will increase by three percent each year. Given that retirement and payroll taxes are dependent on the projected payroll, explain why these expenses are projected to increase.

b. Provide a table that lists Kentucky-American's annual employee health insurance premiums for the five-year period of 2008 to 2012. State for each two-year period the percentage increase in the premium.

2. Refer to Kentucky-American's Response to Commission Staff's First Request for Information, Item 46(a).

a. Kentucky-American provided a unit cost comparison for the years 2011 and 2012 of the chemicals used at the Owenton Treatment Plant. Provide similar unit cost comparisons for the years 2008 through 2011.

b. Explain why it is appropriate to use a one-year cost comparison as the basis to project the chemical cost for a seven-year period.

3. Refer to Kentucky-American's Response to Commission Staff's First Request for Information, Item 46(b). Provide a comparison of the fuel and power cost for the Owenton Treatment Plant for the five-year period of 2008 to 2012. State for each two-year period the percentage increase in the expense.

4. Refer to Kentucky-American's Response to Commission Staff's First Request for Information, Item 46(c).

a. Provide the average annual inflation rate for each year from 2008 to 2012

b. Explain why the annual inflation rate is an appropriate factor to use in projecting labor and labor-related costs.

5. Refer to Kentucky-American's Response to Commission Staff's First Request for Information, Item 46(d). Provide a comparison of the sludge disposal cost for the Owenton Treatment Plant for the five-year period from 2008 to 2012. State for each two-year period the percentage increase in the expense.

6. Refer to Kentucky-American's Response to Commission Staff's First Request for Information, Item 50.

a. Kentucky-American estimates that, if the proposed facilities are constructed, its rate base will be increased by \$14,104,868. Calculate the effect that the construction of the proposed facilities will have on accumulated depreciation and deferred income taxes and show their impact on Kentucky-American's revenue requirement.

b. Kentucky-American estimates that, if the capital improvements necessary to maintain the Owenton Treatment Plant are constructed, its rate base will be increased by \$11,400,000. Calculate the effect that the construction of the capital improvements will have on accumulated depreciation and deferred income taxes and show their impact on Kentucky-American's revenue requirement.

7. In determining that the construction of the proposed facilities is cost effective when compared to the capital improvements necessary to maintain the

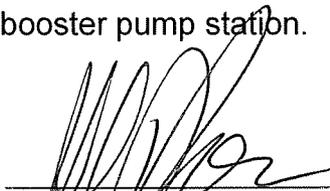
Owenton Treatment Plant, Kentucky-American provided comparisons of the overall construction costs and the operations costs. Explain why Kentucky-American's analysis is more appropriate than comparing the revenue requirement impact of the two projects.

8. In the Kentucky Pollutant Discharge Elimination System General Permit that the Kentucky Division of Water ("DOW") issued in December 2009, DOW required Kentucky-American to develop and implement a Best Management Practices Plan.

- a. Provide a copy of this plan.
- b. State whether this plan has been submitted to and approved by

DOW.

9. Describe the current status of Kentucky-American's efforts to purchase the sites for the proposed water storage tanks and booster pump station.



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DATED **AUG 06 2012**

cc: Parties of Record

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