

Commonwealth of Kentucky
Before the Public Service Commission

In the Matter of:)
AN INVESTIGATION INTO THE FEASIBILITY AND) Case No. 2001-117
ADVISABILITY OF KENTUCKY-AMERICAN WATER)
COMPANY'S PROPOSED SOLUTION TO ITS WATER)
SUPPLY DEFICIT)

MOTION TO ENLARGE INVESTIGATION TO
INCLUDE CONSIDERATION OF KENTUCKY-AMERICAN'S
BUSINESS DEVELOPMENT PLANNING AND ACTIVITIES
AND KENTUCKY-AMERICAN REGIONALIZATION

The Attorney General requests that the Commission enlarge the scope of this investigation. The investigation warrants consideration of the Company's business development planning and activities relating to the expansion of its water supply commitments, expansion of its service territory, and water management activities.

The goal of the American Water Works Company "is to consistently enhance long-term shareholder value."¹ The acquisition of water and wastewater systems is consistent with this goal.² The provision of management service to water and wastewater utilities and the delivery of value added service and products are also strategies to enhance the shareholder value.³

¹ American Water Works Company, Inc., Form 10-K for the fiscal year ended December 31, 2000. (The Strategies of American Water Works Company)

² AWWA, Form 10-K for the fiscal year ended December 31, 2000. (Acquisitions of Utility Systems)

³ AWWA, Form 10-K for the fiscal year ended December 31, 2000. (The Strategies of American Water Works Company)

The strategic mission of the Kentucky-American Water Company is in accord with its parent, the American Water Works Company. The Company seeks to “create and enhance shareholder value by expanding into new areas through acquisition of water and wastewater systems when possible to do so on reasonable terms.”⁴

Any source of supply or water deficit solution resulting in an inter-basin transfer or a source of supply outside Kentucky-American’s current service territory creates a growth opportunity for the Company. This opportunity is consistent with promoting the goal of enhancing shareholder value. Kentucky-American’s planning activities and actions concerning the expansion of its service within Kentucky have a direct bearing in assessing the credibility and sincerity of its efforts of seeking a Kentucky River solution. The Company’s activities since January 1, 1996, are highly relevant on this point.

Kentucky-American has been in discussions with other water suppliers within central Kentucky. Further, it indicates that “project(s) to resolve the source of supply and production deficits must be technically viable, and will involve input from many stakeholders.”⁵ Enlarging the scope of the current investigation will assist in identifying relevant stakeholders. Moreover, this information provides assistance in understanding the potential uses of the project or projects and bears directly on the issues of efficiency and technical viability.

⁴ *In the Matter of: The Verified Joint Application of Boonesboro Water Association, Inc., and Kentucky-American Water Company for Approval of the Transfer of the Ownership of the Assets of Boonesboro Water Association, Inc. to Kentucky-American Water Company*, Case No. 97-320, pre-filed Testimonies – Mundy, page 5; and 22 September 1997 hearing TE, pages 26 and 27.

⁵ KAWC Report to the Kentucky PSC – Source of Supply and Treatment Status, Page 25 of 32.

In 1985, the Commission gave Kentucky-American encouragement to pursue water supply contracts with utilities in areas adjacent to the Company's service territory.⁶ (The utilization of the Company's then-unreasonable, excessive plant capacity – which was the subject of a disallowance - was part of the basis for this encouragement.⁷) Recently, the Commission has made it clear that “regionalization” is a concern that should be considered and given some weight in assessing acquisition adjustments.⁸ The Commission, nevertheless, has yet to articulate specific standards concerning regulatory expectations for KAWC's activities concerning regionalization.

The infrastructure to resolve the Company's source of supply deficit has a direct impact on the Company's “regionalization” efforts. Thus, the infrastructure will have an effect on both shareholders and ratepayers. Clear notice concerning the Commission's policy on “regionalization” is relevant to this investigation.

It is also noteworthy to point out that Kentucky-American's water supply activity has a direct relationship with its acquisition activity. For example, the Company's water supply agreement with the Harrison County Water Association, Inc., grants Kentucky-American a first right of refusal to purchase the assets of the Association.⁹ It does not isolate supply practices from acquisition strategy.

⁶ *In the Matter of: Notice of Adjustment of the Rates of Kentucky-American Water Company*, Case No. 9283, Order, October 1985, page 14.

⁷ For background, see Case No. 9283 and *In the Matter of: Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on and After September 17, 1982*, Case No. 8571.

⁸ *In the Matter of: Adjustment of the Rates of Kentucky-American Water Company*, Case No. 2000-120, Order on rehearing, 9 May 2001, page 7.

⁹ *In the Matter of: The Contract Filing of Harrison County Water Association, Inc. of A Water Purchase Agreement with Kentucky-American Water Company*, Case No. 2001-173, Contract, page 3.

Shareholder expectations for Kentucky-American are clear. The corporate mandate is growth. The solution to Kentucky-American's source of supply deficit has a direct impact on this mandate. Matters pertaining to Kentucky-American's regionalization and corporate growth opportunities are inseparable from matters concerning the best alternative for the Company's source of supply deficit. Therefore, the Commission should enlarge this investigation in order to consider both.

WHEREFORE, the Attorney General requests that the Commission enlarge the scope of this investigation to include consideration of Kentucky-American's business development planning and activities and to define the Commission's expectations concerning Kentucky-American's regionalization.

Respectfully submitted,

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Notice of Filing

Counsel gives notice that (pursuant to Instruction 4(a) of the Commission's 15 May 2001, Order of procedure) the original and three copies in paper medium have been filed by hand delivery to Thomas M. Dorman, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601. Further, one copy in electronic medium has been filed by uploading the filing to the file transfer protocol site designated by the Executive Director all on this /s/ _9th_ day of July, 2001.

/s/ David Edward Spenard
Assistant Attorney General

Instruction 10 Certification

Per Instruction 10 of the Commission's 15 May 2001, Order of procedure, counsel certifies that the electronic version is a true and accurate copy of the document filed in paper medium, the electronic version has been transmitted to the Commission, and the Commission and other parties have been notified by electronic mail that the electronic version has been transmitted to the Commission.

/s/ David Edward Spenard
Assistant Attorney General

Certificate of Service and Filing

Counsel certifies that this motion has been served by mailing a true and correct copy of the same, first class postage prepaid, to the following: Roy W. Mundy II, Kentucky-American Water Company, 2300 Richmond Road, Lexington, Kentucky 40502; Lindsey W. Ingram Jr., Stoll, Keenon & Park, LLP, 201 East Main Street Suite 1000, Lexington, Kentucky 40507 1380; Gerard J. Edelen, PE Project Manager, Department of the Army Corps of Engineers, P.O. Box 59, Louisville, Kentucky 40201 0059; Phillip J. Shepherd, P.O. Box 782, Frankfort, Kentucky 40602; Joe F. Childers, 201 West Short Street Suite 310, Lexington, Kentucky 40507, Libby Jones, P. O. Box 487, Midway, Kentucky 40347; and Edward W. Gardner, David Barberie, Lexington-Fayette Urban County Government, Department of Law, 200 East Main Street, Lexington, Kentucky 40507, all on this /s/_9th_ day of July, 2001.

/s/ David Edward Spenard
Assistant Attorney General