

KENTUCKY-AMERICAN WATER COMPANY

CASE NO. 2001-00117

Response To Commission Staff's First Set
Of Interrogatories And Requests For
Production Of Documents

Question No. 1

Q-1. Provide all correspondence between Kentucky-American and the Kentucky River Authority since June 15, 2001 in which improvements to locks and dams along the Kentucky River or any other issues related to Kentucky-American's withdrawal of water from the Kentucky River are discussed.

A-1. Kentucky-American has no such correspondence. For the most current listing of Kentucky-American's interaction with the KRA, please see the response to Item 16 of the AG's Request for Information herein dated 2/04/02.

Witness: Linda C. Bridwell

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Question No. 2

Q-2. Provide all correspondence between Kentucky-American and the Lexington-Fayette Urban County Government ("LFUCG") since June 15, 2001 in which improvements to locks and dams along the Kentucky River or any other issues related to Kentucky-American's withdrawal of water from the Kentucky River are discussed.

A-2. The correspondence is attached in non-electronic format.

Witness: Linda C. Bridwell

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Question No. 3

Q-3. Provide all correspondence between Kentucky-American and the Division of Water ("DOW") since June 15, 2001 concerning Kentucky-American's withdrawal permit and any other issues related to Kentucky-American's withdrawal of water from the Kentucky River.

A-3. Please refer to the attached documents in non-electronic format.

Witness: Linda C. Bridwell

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Question No. 4

- Q-4. a. List the date of each meeting since May 31, 2001 held between Kentucky-American and DOW concerning Kentucky-American's withdrawal permit.
- b. For each meeting listed, provide the minutes of the meeting and the notes of Kentucky-American's representatives of such meeting.
- A-4. a. There have not been any meetings held between Kentucky-American and DOW since May 31, 2001 concerning Kentucky-American's withdrawal permit
- b. N/A

Witness: Linda C. Bridwell

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Question No. 5

- Q-5. a. What is Kentucky-American's current plan for meeting its expected customer demand in 2020 in the event of a drought of record?
- b. Provide all documents, including internal memoranda, electronic mail messages, and correspondence in which Kentucky-American discusses its current plan for meeting expected customer demand in 2020.
- A-5. a. Kentucky-American's current plan for meeting its expected customer demand in 2020 in the event of a drought of record is generally outlined in the report filed with the Commission on March 21, 2001. Grave concerns have been confirmed about the feasibility and timeliness of a Kentucky River solution as preferred by the LFUCG as stated in Resolution 617-99 passed in December 1999.
- In the absence of Kentucky River improvements or a supply from another water source, meeting demands during a severe drought would be achieved only by severe customer curtailments as required by the Demand Management Plan filed with the PSC August 2, 2001. Kentucky-American expects the ongoing procedure of the Commission and the Consortium study to help shape a concrete plan of action within the next few months.
- b. Please refer to the attached documents in non-electronic format.

Witness: Linda C. Bridwell/Gary A. Naumick

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Question No. 6

- Q-6. a. State whether Kentucky-American currently has a written plan to meet its expected customer demands in 2020 in the event of a drought of record using solely improvements to the Kentucky River.
- b. (1) If yes, provide this plan.
- (2) If no, state why such plan has not be reduced to writing.
- A-6. a. No.
- b. (1) N/A
- (2) Details required to develop a written plan to meet expected customer demands in 2020 in the event of a drought of record using solely improvements to the Kentucky River depend on the resolution of certain issues that has not occurred as described in the response to Item 7 of this request. These issues were discussed in the report filed with the Commission on March 21, 2001. Without resolution of the issues, there are too many variables for a meaningful written plan to be developed.

Witness: Linda C. Bridwell/Gary A. Naumick

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Question No. 7

Q-7. List and describe the improvements to the Kentucky River that in Kentucky-American's opinion are necessary for the Kentucky River to serve as Kentucky-American's sole source of supply and meet Kentucky-American's expected customer demand in 2020 in the event of a drought of record.

A-7. Any utilization of the Kentucky River as Kentucky-American's sole source of supply that includes withdrawals from Pool 4 or above will absolutely require enhancement of storage capacity. Enhanced storage capacity must be at least equal to the projected deficit for the entire Kentucky River basin. The volume would need to be greater depending on the allocation of storage by the Kentucky Division of Water. Without resolution of the allocation of that storage, it is difficult to list specific improvements. Further, there are a number of combinations of storage capacity enhancements that will achieve the required volume of enhancements. The enhancements must be made on the mainstem to minimize environmental concerns.

Kentucky-American also believes that stabilization of Dams 9, 10, 11, 12, 13, and 14 are absolutely critical in any case, but is especially if the Kentucky River is to serve as Kentucky-American's sole source. The timing of the stabilization of Dams 9 and 10 is most urgent.

Finally, at least 20 million gallons of additional treatment capacity is necessary for the Kentucky River to serve as Kentucky-American's sole source of supply and meet Kentucky-American's expected customer demand in 2020 in the event of a drought of record.

Witness: Linda C. Bridwell/Gary A. Naumick

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Question No. 8

- Q- 8. For each improvement listed in Kentucky-American's Response to Interrogatory 7,
- a. Identify the private entity or governmental agency with the primary responsibility for constructing the improvement.
 - b. Identify the private entity or governmental agency with the primary responsibility for the immediate financing of the improvement's construction.
 - c. Identify the local, state or federal governments or governmental agencies that must review or approve the construction of the improvement.
 - d. State the time period necessary to obtain the necessary regulatory approvals to construct the improvement.
 - e. State the time period necessary to construct the improvement.
 - f. Describe Kentucky-American's responsibility for obtaining the financing, regulatory approval and construction of the improvement.
- A-8. a. In order to enhance storage capacity as described in the response to Interrogatory 7, the main components of the improvements that would enable the Kentucky River to serve as Kentucky-American's sole source of supply and meet Kentucky-American's expected customer demand in 2020 in the event of a drought of record fall into four main categories:
- Stabilize Dams
 - Raise Dams
 - Mine Pools
 - Construct 20 mgd capacity of treatment capacity (including intake, pumping, raw water transmission and treatment facilities)

The private entity or governmental agency with the primary responsibility for construction the improvement is shown below. In some cases, it is appropriate to list more than one entity or agency; however, the lead entity is listed first.

Stabilize Dams – Commonwealth of Kentucky; Kentucky River Authority (KRA); US Army Corps of Engineers (ACOE)

Raise Dams – State of Kentucky; KRA; ACOE

Mine Pools – Ky. Division of Water; KRA

Construct Treatment Facilities – Kentucky-American; either alone or in partnership with the Consortium

- b. The private entity or governmental agency with the primary responsibility for immediate financing of construction the improvement:

Stabilize Dams – KRA; Commonwealth of Kentucky; ACOE

Raise Dams -- KRA; Commonwealth of Kentucky; ACOE

Mine Pools – N/A

Construct Treatment Facilities – Kentucky-American; Consortium

- c. The list of local, state or federal governments or governmental agencies that must review or approve the construction of the improvement will likely include agencies in addition to those listed below; however, the likely lead agencies are listed:

Stabilize Dams – ACOE; KRA

Raise Dams – ACOE; KRA; Fish & Wildlife; USEPA; numerous other agencies

Mine Pools – Ky. DOW; KRA

Construct Treatment facilities – Ky. DOW

- d. Stabilize Dams – Unknown; will depend of availability of financing
Raise Dams -- Unknown; likely to be 6+ years for the first dam
Mine Pools – Unknown
Construct Treatment facilities – Twelve months from the time of completed design
- e. Stabilize Dams – Unknown; will depend of availability of financing and regulatory approvals
Raise Dams -- Unknown; estimated by ACOE at 2 years
Mine Pools – N/A
Construct Treatment facilities – 2 to 3 years

- f. Stabilize Dams – not within Kentucky-American's authority to obtain the financing, regulatory approval or construction of the improvement. Kentucky-American would help finance construction of the improvement through its KRA User Fees.

Raise Dams -- not within Kentucky-American's authority to obtain the financing, regulatory approval or construction of the improvement. Kentucky-American would help finance construction of the improvement through its KRA User Fees.

Mine Pools – N/A

Construct Treatment facilities – Kentucky-American is prepared to accept primary responsibility to obtain the financing, regulatory approval and construction of the improvement. Kentucky-American would facilitate construction of this improvement through its normal capital improvement program and budget process. Alternately, if the Consortium proceeds with plans to construct necessary regional facilities, Kentucky-American would actively participate in the financing, regulatory approval and construction of the improvement

Witness: Gary A. Naumick/Linda C. Bridwell

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Question No. 9

Q- 9. For each improvement listed in Kentucky-American's Response to Interrogatory 7, list and describe Kentucky-American's efforts to obtain construction of the improvement.

A-9. Kentucky-American has worked closely with the Bluegrass Water Supply Consortium and the LFUCG regarding Kentucky River initiatives. Together, we have supported legislation to secure funding for improvements on the river. In addition, we have worked with our congressional delegation to obtain \$24 million federal funding authorization for Dam 10 improvements on the river. Kentucky-American has been an active supporter of the Kentucky River Authority, attending meetings and providing information as requested. Funding must be obtained before construction can be initiated.

Witness: Linda C. Bridwell

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Question No. 10

- Q- 10. a. State whether the improvements listed in Kentucky-American's Response to Interrogatory 7 will be sufficient to meet Kentucky-American's customer demand if the needs of other water suppliers and users that withdraw water from the Kentucky River basin are also considered.
- b. If the improvements listed in Kentucky-American's Response to Interrogatory 7 are not sufficient to meet Kentucky-American's customer demand if the needs of other water suppliers and users that withdraw water from the Kentucky River basin are also considered, explain why not.
- A-10. a. Yes. In order to meet Kentucky-American's customer demand, due to DOW allocation issues, the needs of other water suppliers and users that withdraw water from the Kentucky River basin must be included in plans to increase capacity.
- b. N/A.

Witness: Linda C. Bridwell

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Question No. 11

- Q- 11. Provide all correspondence, internal memoranda, electronic messages and any other documents created since 1996 in which Kentucky-American or its employees or representatives discuss water conservation plans or proposals.
- A-11. Documentation regarding water conservation that was prepared as part of the public education initiative with the water supply project was filed in Case No. 2000-120 and have not been included here. Please refer to the attached documents, exclusive of those for which attorney-client privilege has been claimed, in non-electronic format.

Witness: Linda C. Bridwell

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Question No. 12

- Q- 12. a. Provide the model that Kentucky-American used to prepare its demand forecasts in Case No. 93-434. If possible, this model should be in an electronic format that will permit a reviewer to model various assumptions that may differ from those used by Kentucky-American.
- b. Identify the computer software used to develop and run the demand forecast model.
- c. Identify and describe each change that has been made to the design of the demand-forecast model since 1996.
- d. Identify each change in assumptions and modeling inputs that Kentucky-American has made in its demand forecast projections since 1996.
- A-12. a. There were essentially two versions of the same model that were used to provide demand forecasts in Case No. 93-434. During the first phase of the case, a number of minor adjustments to the model were made. Attached are three files that reflect the demand projections as filed with Linda Bridwell's direct testimony dated 2/18/94 in Case No. 93-434. They are:
- KAW_R_PSCDR2#12a_SCH1_021402.xls,
KAW_R_PSCDR2#12a_SCH2_021402.xls, and
KAW_R_PSCDR2#12a_SCH3_021402.xls.
- A copy of the model filed in response to Item 2 of the AG's Data request dated 1/21/97 in Case No. 93-434 was the second version and is attached as KAW_R_PSCDR2#12a_SCH4_021402.xls.
- b. The model was developed and run on an older version of Lotus 1-2-3.

- c. Since 1996, there have been no material changes in the design of the model.
- d. Since 1996, the assumptions and inputs made in the model have included the addition of new wholesale water customers Georgetown Municipal Water and Sewer Service in 1997 and Harrison County Water Association in 2001. Also, actual usage data each year and other annual data including inflation data, rate increases, actual non-revenue and unaccounted-for amounts, and the number of actual customers were added to the model. Other changes are the updated population projection from the LFUCG in 1996, the updated population projection from the 1999 *How Many Kentuckians* published by the Kentucky State Data Center, the inclusion of Boonesboro Water Association in 1998 with additional treatment plant demands beginning in 2001, the reduction of the projected average day demand from Versailles based on the expansion of its treatment plant, and revisions due to conservation measures that have not proven successful enough to pursue. The regression analyses of the peak day factor and drought average day factor were revised in 1997 and 2000. The drought average day factor was revised from a 99% exceedance factor to a 95% exceedance factor. In 2001, the University of Kentucky resident demand disaggregation in the model was removed since 1996.

Witness: Linda C. Bridwell

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Question No. 13

Q- 13. State all assumptions that Kentucky-American used to reach the demand projections that were submitted in Case No. 93-434 for the following years:

- a. 2001;
- b. 2005;
- c. 2010; and,
- d. 2020.

A-13. a. Please see the attached document in non-electronic format.

b. Please refer to the response to Part a.

c. Please refer to the response to Part a.

d. Please refer to the response to Part a.

Witness: Linda C. Bridwell

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Question No. 14

Q- 14. Refer to Report to Public Service Commission: Source of Supply and Treatment Status at 12, Table 2.

- a. Provide the model that Kentucky-American used to prepare its demand forecasts for each of the years set forth in Table 2. If possible, this model should be in an electronic format that will permit a reviewer to model various assumptions that may differ from those used by Kentucky-American.
- b. State all assumptions used to develop the demand projections for each of the years set forth in Table 2. Explain why each assumption is reasonable.

A-14. a. Please refer to the attached file KAW_R_PSCDR2#14a_SCH1_021402.xls. Please note that this file is different than the similar file submitted in Response to Item 1(d) of the Attorney General's Request for Information dated February 4, 2002 herein because the file submitted to the Attorney General includes a worksheet containing a 1999 population forecast that was not updated and was not used to prepare demand forecasts.

- b. The model is developed in a spreadsheet format for ease of manipulation and updating. The foundation of the model is that demand is dependent largely on population size, and thus growth in population is the largest single determinant of growth in demands.

The model also assumes that there is some price elasticity to water, mainly for residential, outdoor use. The model assumes that commercial demand and public use will grow at the same rate as population, and has some price elasticity. Based on historical data, the model assumes that industrial demand does not have price elasticity.

Apartment dwelling customers are assumed to have less price elasticity in their demand, as it is primarily indoor use. There are

demand reductions in the model based on conservation impacts from a program recommended in 1992. Although a full retrofit program was not implemented due to less response from pilot programs that had been anticipated, Kentucky-American has seen a trend of reduced usage due to its public education efforts. Therefore, the reductions due to conservation impacts have remained in the model even though the specific programs have not been fully implemented.

The actual usage data is collected by customer class. This data is input into the model, and projections are made for average day demand by customer class, using historical averages, and some price elasticity. Once the average day projections are made, the unaccounted for water is estimated based on a reasonably sustainable projection of 13% unaccounted-for and 1.8% non-revenue usage. The 1992 conservation report also included a reduction in unaccounted for water loss due to expanded leak detection efforts, which has been nearly realized. Because this reduction is included in the conservation measures, a further reduction of the unaccounted-for use has not been made in the model.

The average day demand is then increased by a hot, dry factor of 6%. This is to allow for extraordinary weather conditions. The peak day demand is then projected using a multiplier on the average day demand. The multiplier is calculated from a regression analysis of historical peak/average day ratios, using a 95% exceedance factor. The interior conservation impacts and the unaccounted-for water are not multiplied by the peak day factor, although exterior conservation impacts are multiplied by the peak day factor. The demand for the City of Versailles is increased in the peak day demand based on the standby status of their connection. In-plant usage is then added to the peak day demand to determine the overall treatment capacity needed.

Witness: Linda C. Bridwell

KENTUCKY-AMERICAN WATER COMPANY

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Question No. 15

Q-15. Refer to Report to Public Service Commission: Source of Supply and Treatment Status at 10, Table 1.

- a. Provide the model that Kentucky-American used to prepare its "Drought Average Day Demand" forecasts for each of the years set forth in Table 1. If possible, this model should be in an electronic format that will permit a reviewer to model various assumptions that may differ from those used by Kentucky-American.
- b. Describe the methodology and state all assumptions used to develop the demand projections for each of the years set forth in Table 1. Explain why each assumption is reasonable.
- c. Describe the conservation measures that the model assumes will be in place for the projected periods.

A-15. a. Please refer to the file attached in response to Item 14a of these Interrogatories. The projections were taken from tab 99UPDTUC. The Drought Average Day Forecast calculation is found in rows 121 through 125.

- b. The drought average day demand is calculated from a multiplier to the average day demand in the demand model. The multiplier is based on a 95% exceedance factor from a regression analysis of historical data. The ratio of actual 6-month summer average withdrawals compared to the average day demand for the last 20 years is used. The drought average day is calculated including the impacts of the conservation. For comparison purposes, the drought average day demand is also calculated based on a 99% exceedance factor, and without the conservation impacts. For planning purposes, Kentucky-American uses the 95% exceedance factor with conservation impacts.

Because this calculation is based on a 95% exceedance factor and historical demands have included significant demand restrictions, it

is conservatively low for planning purposes and no further reduction for demand management during a drought has been included in the calculation for drought average day demand. This number is then used to calculate the source of supply required during a drought.

- c. The model assumes that there will be a continued reduction in demands due to the long-term replacement of older, higher flow plumbing fixtures with newer, low-flow fixtures. The additional conservation measures that are in the model include residential retrofits, residential, commercial and industrial audits, a landscape program, and an increased leak detection program. The largest savings in the conservation impacts are from the plumbing code changes, and the increased leak detection program. These savings have been realized. After initial trial with pilot programs, however, Kentucky-American saw a dismal response to other programs including the residential retrofit program. The only truly successful program was consumer education of efficient outdoor water use. As such, Kentucky-American has focused most of its efforts and expenditures in that area. Kentucky-American has not attempted to quantify the sustained savings from the consumer education program, and has offset this amount by leaving the previous conservation program impacts in the demand model.

Witness: Linda C. Bridwell

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Question No. 16

Q- 16. Provide a comparison of Kentucky-American's demand projections for each year from 1996 to 2001, as submitted to the Commission in Case No. 93-434, with Kentucky-American's actual demand.

A-16. Please refer to the attached file KAW_R_PSCDR2#16_SCH1_021402.xls.

Witness: Linda C. Bridwell

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Question No. 17

Q- 17. Provide all studies that Kentucky-American has relied upon to prepare the demand projections set forth in its Report to Public Service Commission: Source of Supply and Treatment Status. For each study that does not contain the assumptions upon which a demand projection is based, provide those assumptions.

A-17. In 1991, Kentucky-American hired Brown and Caldwell Engineers to review the model and recommend updates necessary. A copy of that report was filed in response to Chetan Talwalkar's Request for Information dated March 4, 1993 in Case No. 92-452. An additional copy is attached in non-electronic format.

Since that time, Kentucky-American has not prepared or commissioned any additional studies regarding future demands. The assumptions that have changed since 1996 are described in response to Item 12d of this same request.

Witness: Linda C. Bridwell

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Question No. 18

- Q- 18. a. State whether the demand projections set forth in its Report to Public Service Commission: Source of Supply and Treatment Status reflect the results of the 2000 U.S. Census.
- b. If no, state whether Kentucky-American has subsequently revised its demand projections to reflect the results of the 2000 U.S. Census. If a subsequent revision has occurred, provide the revised projections and state how the 2000 U.S. Census results affected the previous projections.
- A-18. a. No, they do not. When the demand projections were prepared in early 2001, the 2000 Census data was not available.
- b. No, the revised results do not reflect the 2000 Census results either. Kentucky-American has revised the demand projections as reflected in the attached model KAW_R_PSCDR2#18b_SCH1_021402.xls. This revision includes 2001 actual data, but does not reflect the 2000 Census. The demand model was updated in 2001 using only the LFUCG demand projections, as reflected in the attachment to Item 14a of this request. Considering the results of the 2000 Census compared to population projections, Kentucky-American elected to provide a range of projections. The current model uses two population projections from the Kentucky State Data Center (KSDC) and one projection from the Lexington-Fayette Urban County Government. The population projections for Fayette County in the model are:

| Projections | 2000 | 2020 |
|---|---------|---------|
| 1995 KSDC High Growth Series | 260,861 | 317,032 |
| LFUCG 1996 Comprehensive Planning Study/Planning Department | 254,490 | 282,000 |
| 1999 KSDC Projections | 242,564 | 250,282 |
| Actual 2000 Census | 260,512 | |

At this time, neither of the 2 entities has updated its population projections to reflect the results of the 2000 Census. The 1999 projections for Fayette County are the most inaccurate, and can be disregarded. The 1999 KSDC projections for the other counties Kentucky-American serves were generally more accurate than the 1995 projections and were used in conjunction with the LFUCG projections. Please refer to the attached file KAW_R_PSCDR2#18b_SCH2_021402.xls. The LFUCG Technical Advisory Committee in 1999 agreed that the more appropriate numbers for Fayette County between the 1999 KSDC revised numbers and the LFUCG were the LFUCG 1996 projection as presented by Mr. James Rebmann of the LFUCG Planning Department (refer to page 12 of 38 of the response to Item 8 in the PSC Order dated 5/15/2001 in this case). It would be inappropriate to simply insert the revised census data in the LFUCG projection without having an accurate revision of the population forecasts. Therefore, Kentucky-American believes that the continued use of the 1995 KSDC and 1996 LFUCG population projections for Fayette County provide an adequate basis for a range for future demands.

Witness: Linda C. Bridwell

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Question No. 19

Q-19. Provide all studies regarding future demand that Kentucky-American has prepared, commissioned, participated in or received.

A-19. In 1983, Camp Dresser and McKee, Inc. developed a demand model in spreadsheet format, using disaggregated Kentucky-American customer data. This model was the forerunner to the current model. Kentucky-American no longer has a copy of this study. Correspondence related to the study is attached hereto in non-electronic format.

In 1986, Kentucky-American initiated a process to further disaggregate customer demand, and hired Economic and Engineering Services, Inc. to develop improvements to the model as part of a multi-task project. A copy of its report was included as part of the technical appendix to the 1986 Least Cost/Comprehensive Planning Study previously filed with the Public Service Commission, and is attached hereto in non-electronic format.

In 1991, Kentucky-American hired Brown and Caldwell Engineers to review the model and recommend updates necessary. A copy of that report was filed in response to Chetan Talwalkar's request Dated March 4, 1993 in Case No. 92-452. An additional copy is attached in non-electronic format in response to Item 17 of this same request.

Since that time, Kentucky-American has not prepared or commissioned any additional studies regarding future demands. Kentucky-American actively participated in the preparation of the 1996 KWRRI report for the Kentucky River Authority that included demand projections in Task III. The final Task III report was filed in response to Item 18 of the Commission's Order dated 5/15/01 in this Case. A copy of the Water Use Estimation report that was part of the Task III effort is attached hereto in non-electronic format.

Kentucky-American also participated in the development of the Fayette County Water Supply Plan in 1998 which included a projection of water demand. A copy of that report was filed in this Case by LFUCG.

Finally, Kentucky-American participated in the LFUCG Technical Advisory group in 1999 which developed a consensus of demand projections, as presented to the LFUCG Council. Refer to the responses to Items 8, 9 and 10 of the Commission's Order dated 5/15/01 in this Case.

Witness: Linda C. Bridwell

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Question No. 20

Q- 20. Provide all studies regarding the economic effects of water restrictions that Kentucky-American has prepared, commissioned, participated in or received.

A-20. None.

Witness: Linda C. Bridwell

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Question No. 21

Q- 21. List Kentucky-American's 10 largest purchasers of water. For each purchaser, state its monthly usage for each month for the period from January 1, 1988 to December 31, 2001.

A-21. Please refer to the attached file KAW_R_PSCDR2#21_SCH1_021402.xls.

Witness: Linda C. Bridwell

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Question No. 22

- Q- 22. a. Describe Kentucky-American's current policy regarding the acquisition of other water distribution systems.
- b. Describe the effect of such acquisitions upon Kentucky-American's projected customer demand.
- c. State whether Kentucky-American's acquisition of other water distribution systems has been considered in its demand projections. If yes, describe how such acquisitions have been considered.
- A-22. a. Kentucky-American is currently actively seeking opportunities for growth through acquisition and/or contract operations throughout the Commonwealth of Kentucky, where it would be mutually beneficial to Kentucky-American's existing customers and to the potential new customers. There are significant advantages to potential new customers and existing customers through economies of scale for management and operations. With increasingly stringent water treatment regulations, smaller systems are having difficulty staying in compliance with regulations, while Kentucky-American has the resources to provide professional assistance. Systems that are within Central Kentucky are obviously more cost effective growth opportunities. However, Kentucky-American has not limited its interest to systems within Central Kentucky. With advances in technology, systems within reasonable driving distance of Lexington can benefit from economies of scale through merged administration while maintaining local operating control. Most importantly, Kentucky-American evaluates each potential opportunity to insure that it is cost effective for, and provides adequate benefit to Kentucky-American's existing customers. Without demonstration of those two items, Kentucky-American will not pursue the acquisition opportunity.

The consolidation of systems within the water industry is a natural trend that has been prevalent during the last decade. With increasingly stringent water quality regulations and a capital intensive business, consolidations and acquisitions at a reasonable cost facilitate the continued protection of public health.

- b. Systems not contiguous to Kentucky-American's Central Kentucky distribution system and not utilizing the Kentucky River as a source of supply do not impact the projected customer demand for the purposes of supply and production analysis. A system contiguous to Kentucky-American's Central Kentucky distribution system that utilizes the Kentucky River will not affect the overall source of supply deficit for the Kentucky River Basin. A system contiguous to Central Kentucky would need to be evaluated based on the overall impact on the existing treatment facilities, if any.
- c. Recent acquisitions have been included in the most recent demand projections. The individual acquisitions were not included in the demand projections until the acquisition actually occurred. Of these, Boonesboro had no impact on the overall source of supply deficit, and was not expected to impact the treatment capacity deficit because the system would continue to purchase water from Winchester Municipal Utilities until 2001. Kentucky-American had what it felt to be a solid plan of action for resolution of the treatment capacity deficit by the summer of 2002 when the treatment facilities would first be impacted. The acquisition of the Tri-Village system has no impact on the deficits. The pending acquisition of a portion of Spears Water Company from the City of Nicholasville will have no impact on the demand projections because Kentucky-American already provides water to that area and has included it in the demand projections.

Witness: Roy W. Mundy, II

KENTUCKY-AMERICAN WATER COMPANY

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Question No. 23

Q- 23. Lexington-Fayette Urban County Council Resolution 679-99 established a schedule of improvements to be met by 2002. For each improvement or task listed for this period, describe its present status.

A-23. Please refer to the attached document prepared in March 2001 KAW_R_PSCDR2#23_ATT_021402.doc. A further status update from December 2001 is included in the response to Item 2 of this same request.

Witness: Linda C. Bridwell

KENTUCKY-AMERICAN WATER COMPANY

CASE NO. 2001-00117

Response To Commission Staff's First Set
Of Interrogatories And Requests For
Production Of Documents

Question No. 24

Q- 24. Provide each progress report that Kentucky-American has provided LFUCG in accord with Lexington-Fayette Urban County Council Resolution 679-99.

A-24. Representatives of Kentucky-American have appeared before the LFUCG Council on a number of occasions since December 1999 on various water issues. However, the document included in the response to Item 2 of this same request is the written only progress report provided to LFUCG by Kentucky-American. A copy of the transcript of the presentation to the LFUCG Council in its May 22, 2001 work session is attached in non-electronic format.

Witness: Linda C. Bridwell

KENTUCKY-AMERICAN WATER COMPANY

CASE NO. 2001-00117

Response To Commission Staff's First Set
Of Interrogatories And Requests For
Production Of Documents

Question No. 25

- Q- 25. a. State whether the Kentucky River Authority ("KRA") has updated its model of the Kentucky River to include 1999 data.
- b. (1) If yes, provide the updated model.
- (2) If no, state when KRA is expected to issue an updated model.

- A-25. a. No, it has not.
- b. (1) N/A
- (2) Kentucky-American is not aware of any definitive effort to update the model or any timeframe regarding when the model will be updated.

Witness: Linda C. Bridwell