

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF:** )  
 )  
**NOTICE OF ADJUSTMENT OF THE RATES OF** ) **CASE NO. 2004-00103**  
**KENTUCKY-AMERICAN WATER COMPANY** )  
**EFFECTIVE ON AND AFTER MAY 30, 2004** )

**KENTUCKY-AMERICAN WATER  
COMPANY'S PETITION FOR REHEARING**

Kentucky-American Water Company ("Kentucky American Water") hereby petitions the Public Service Commission pursuant to KRS § 278.400 for a rehearing on the Commission's February 28, 2005 Order in this case. In that Order, the Commission made rulings on the issues of Deferred Debits for Security Costs and Deferred Debits for Shared Services Center and Customer Call Center. For the reasons set forth below, Kentucky American Water respectfully petitions the Commission for a rehearing on those issues.

**A. DEFERRED DEBITS FOR SECURITY COSTS**

As a result of the terrorist attacks of September 11, 2001, Kentucky American Water incurred necessary and reasonable costs for increased security measures and deferred those costs (totaling \$2,805,661.79) for inclusion in this rate proceeding. The Attorney General and LFUCG objected to Kentucky American Water's proposal to defer those costs on the basis that the proposal was contrary to "Condition No. 2" in an Order in Case No. 2002-00018, commonly referred to as the Change of Control of Kentucky American Water. That condition is:

"KAW will, within 10 days of the date of this Order, withdraw its proposed Asset Protection Charge Tariff that is currently the subject of review in Case No. 2001-00440 [footnote omitted] and

will not for 5 years from the date of this Order apply to the Commission for recovery of costs associated with the protection of water utility assets **except through adjustments in its general rates for water service.**” (Emphasis added.)

Kentucky American Water emphasizes that Condition No. 2 specifically *allows* for the recovery of costs associated with the protection of water utility assets through adjustments in its general rates for water service, which is exactly what Kentucky American Water proposed in this case. It bears repeating that, had the Commission intended to prohibit Kentucky American Water from recovering its security costs for five years after May 30, 2002 (the date of the Order containing Condition No. 2), the highlighted phrase would not have been added to Condition No. 2.

In the Commission’s February 28, 2005 Order, it found that permitting the requested deferred debit “would disrupt the status quo that the conditions were intended to preserve.” (February 28, 2005 Order, p. 30). With all due respect, the clear language of Condition No. 2 permits the requested deferred debit because Condition No. 2 specifically recognizes that security costs may be recovered through “adjustment in its general rates for water service.” There is no evidence that the Commission or Kentucky American Water ever intended that Kentucky American Water would be permanently prohibited from recovering the significant, reasonable and necessary costs incurred as a result of the events of September 11, 2001. Indeed, the evidence is to the contrary: Condition No. 2 specifically permits the recovery of those expenses in general rates. Therefore, Kentucky American Water respectfully requests the Commission to reconsider this issue while keeping in mind that there is no evidence to support the theory that Kentucky American Water would be forever barred from recovering its substantial security costs incurred in the post September 11, 2001 era.

**B. DEFERRED DEBITS FOR SHARED SERVICES CENTER AND CUSTOMER CALL CENTER**

Kentucky American Water requested the deferral of \$529,630 for the Shared Services Center in Marlton, New Jersey and \$542,835 for the Customer Call Center in Alton, Illinois as the average balance for the forecasted test period to be amortized over a 10-year period. The Attorney General's objection to those requested deferrals was that the Commission has not granted deferral accounting treatment and therefore the inclusion in rates would constitute retroactive ratemaking.

In addressing this issue, the Commission did not even mention the Attorney General's objection. Instead, the Commission stated Kentucky American Water "failed to provide adequate information" for the accounting entries made to the deferred debit accounts for the Shared Services Center and the Customer Call Center. (February 28, 2005 Order, p. 33). The Commission stated that, although Kentucky American Water "identified the vendor for most entries, [it] provided no description of the service . . . ." The Commission reasoned that, without that information, it could not determine the reasonableness or need for the deferred costs, and, therefore, denied them.

The record for this case shows that, in fact, Kentucky American Water submitted voluminous and highly detailed information relating to these costs, including descriptions of the services for which these costs were incurred. First, Kentucky American Water proved, through the direct testimony of Michael A. Miller, that the net savings during the forecasted test year resulting from Shared Services and the Call Center to Kentucky American Water is \$119,377.<sup>1</sup> Since the customers of Kentucky American Water have received this substantial benefit, the

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<sup>1</sup> Direct Testimony, Mr. Michael A. Miller, Exhibit No. MAM-5, p. 1.

Commission's decision to deny these costs is manifestly unfair and in violation of both general ratemaking and accounting principles.

Second, the record is replete with the kind of information the Commission found was not provided. Specifically, it contains: (1) Kentucky American Water's response to 1 AG 94, which shows that Kentucky American Water did issue a Request for Proposal for call center services prior to transferring those services to the Customer Call Center; (2) Kentucky American Water's response to 2 PSC 71, which, along with Mr. Miller's direct testimony at pages 19-22, provided a detailed description of Shared Services; (3) Kentucky American Water's response to 2 PSC 76(a) and (c), which provides a breakdown of the amounts accrued for the Call Center and Shared Services, respectively; (4) Kentucky American Water's response to 2 PSC 77, which identifies the numerous jurisdictions (and corresponding Case Nos.) that have allowed these costs for American Water regulated subsidiaries; (5) Kentucky American Water's response to 2 PSC 78, which provides the account numbers for the listed expense accounts that led to a savings for Kentucky American Water customers; (6) Kentucky American Water's response to 3 PSC 25, which provides more detailed information about the amounts accrued for the Call Center; (7) Kentucky American Water's response to 3 PSC 27, which provides more detailed information about the amounts accrued for Shared Services and which included descriptions of those amounts such as "Towers Perrin," "Accountemps" and "I/S Computer Services, Inc.;" (8) Kentucky American Water's response to Hearing Data Request No. 16, which provides a breakdown of the employees of American Water Works Service Company that are expected to charge time to Kentucky American Water on a regular basis; and (9) Kentucky American Water's response to Hearing Data Request No. 3, which provided a copy of the enormous Excel

spreadsheet of American Water Works Company Service Company charges that was provided to Kentucky American Water witness Pat Baryenbruch.

All of the data request responses referenced above support Kentucky American Water's proposed request generally, and the Excel spreadsheet (which was not submitted in paper form because of its tremendous volume) that was provided in Response to Hearing Data Request No. 3 provides the detailed "description of services" information the Commission found to be lacking. In that spreadsheet under the "Master Download" tab, charges are described as being for "car allowance," "transportation operating lease cost," "dues/membership," "employee expense," "office and admin supplies," "overnight shipping," "telephone," "computer equipment," etc. Indeed, the "Master Download" tab of that spreadsheet contains 22,316 lines of such descriptions.

Also included in the "Master Download" tab is the host business unit or department charged, the account distribution, invoice amount (including any associated overheads), and vendor name or employee name if it relates to a labor charge (in column "S"). Moreover, the "Account Mapping" tab of the spreadsheet provides further description of the accounts (including account numbers) to which these costs were charged. Those accounts are described with as much detail as "janitorial," "heat – oil/gas," "postage," etc. A description of the business units is included on the "Service Co Business Units" tab. The total costs are accumulated on the "Cost By Business Unit Format" tab, which details charges by department. The "Service Bill Format" tab accumulates the charges in the same manner as it appears on the monthly Service Company Bill Summary. Granted, the individual charges are so numerous that reviewing them is quite a task. But, for purposes of the issue of whether Kentucky American has provided detailed information relating to those charges, the record is clear that it has. Since it is clear that

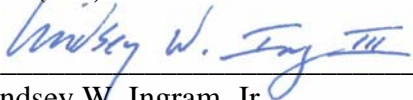
Kentucky American Water has provided the information thought to be lacking, a careful reconsideration of this issue by the Commission is necessary and appropriate.

**WHEREFORE,** Kentucky American Water prays that this be accepted as its Petition for Rehearing and that the Commission's Order of February 28, 2005 be modified as requested above.

Respectfully submitted,

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BY: \_\_\_\_\_

  
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## CERTIFICATION

This is to certify that a true and accurate copy of the foregoing has been electronically transmitted to the Public Service Commission on March 18, 2005; that the Public Service Commission and other parties participating by electronic means have been notified of such electronic transmission; that, on March 21, 2005, the original and one (1) copy in paper medium will be hand-delivered to the Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; and that on March 21, 2005 one (1) copy in paper medium will be served upon the following via U.S. Mail:

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