

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION
ITEMS 1-180

Witness Responsible:

Michael A. Miller

1. Re: Exhibit 2 (Proposed Tariff). On the pages of the proposed tariff that refer to service in the former Elk Lake and Tri-Village areas, the tariff uses the term "formally served." Should this be changed to "formerly served"? If not, please explain the intention of this phrase.

Response:

Yes.

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Witness Responsible:

Linda Bridwell

2. Re: Exhibit 2 (Proposed Tariff), pages 3 and 12.
 - a. Why is the Company proposing to retain pre-existing miscellaneous charges (e.g., service run, penalty, etc.) for the former Elk Lake and Tri-Village customers, rather than having those customers subject to the same miscellaneous charges as other KAWC customers?
 - b. Why is the Company proposing to retain pre-existing tapping fees for the former Elk Lake and Tri-Village 518-inch customers, rather than having those customers subject to the same tapping fees as other KAWC customers?

Response:

- a. Kentucky American Water has not undertaken an extensive cost of service study on either the former Elk Lake system or the former Tri Village system because the intention is to pursue uniform rates in the near future. Where possible, Kentucky American Water is proposing to leave the previously approved rates and charges for those customers in place at this time. The miscellaneous charges previously established by the former management are familiar to the customers and Kentucky American Water is proposing to leave them in place at this time.
- b. The tapping fees for the Central Division are based on historical prices over three years using a single contract for all new services. Currently, the Northern Division cost of taps has been skewed because of the New Columbus project, but the current \$530 for the former Tri Village area appears to be consistent with contract pricing. Because of the New Columbus project, Kentucky American Water feels that the cost of taps in the last three years on average may not be representative of ongoing normal costs, and therefore leaving the existing tap fee in place is more appropriate than attempting to develop a new one based on potentially skewed data. Kentucky American Water is proposing to continue with the previous tap fees established until a representative cost history is established or uniform rates are adopted. The former Tri-Village area has seen a few requests for 1" and 2" services, so for ease of collection, Kentucky American Water proposes to adopt the Central Division tap fees in that area. The Elk Lake system has had no requests for new 1" or 2" services, and so those fees will be based on actual cost, if needed.

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Witness Responsible:

Linda Bridwell

3. Re: Exhibit 2 (Proposed Tariff), page 12:
- a. The tariff for former Tri-Village customers contains a mandatory \$40 deposit for new service. Does KAWC believe such a deposit requirement to be consistent with the statutes and regulations that govern its provision of service? If so, please state specifically why KAWC believes a mandatory deposit is lawful. If not, does KAWC propose to eliminate this provision from its tariff!
 - b. This page of the tariff does not contain any definitions or descriptions of the miscellaneous charges. Does the Company intend to include such definitions and/or descriptions in its tariff! If so, please provide the text of those tariff changes. If not, why not?

Response:

- a. Kentucky American Water believes any tariff established by the Public Service Commission of Kentucky to be lawful.
- b. Page 12 of 12 of Exhibit 2 has a footnote defining a Service Run. Since these charges are flat fees, the same as previously adopted by the former Tri Village system and appear to Kentucky American Water to be self explanatory, Kentucky American Water did not intend to file further definitions.

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Michael Miller

4. Re: Exhibit 2 (Proposed Tariff), page 8 (Low Income Water Discount). The tariff requires a customer's income to be "annually certified by the state or federal government or an independent organization acceptable to" KAWC. Concerning this provision:
 - a. Please provide all documents discussing how the Company will implement this provision, including but not limited to, correspondence with any independent organizations that may be used to perform such certification.
 - b. Please state specifically which state and federal government agencies certify that a household's income is at or below the federal poverty level. For each such agency, please state the program for which such certification is granted.
 - c. What procedure would an independent organization follow in order to be found "acceptable" to KAWC for purposes of certifying the income of KAWC customers?
 - d. Does KAWC have walk-in locations where a customer could bring documentation to certify their income eligibility for this program? If so, please identify the location of each walk-in location.
 - e. Would a customer be able to certify his or her income eligibility for the program by telephone? If not, why not?
 - f. Would a customer be able to certify his or her income eligibility by mail? If not, why not?

Response:

- a. The Company has contacted the Community Action Council of Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties (CAC), an intervener in this case, and believes the CAC will be the agency contracted by the Company to certify customers as being eligible for the low income tariff proposed by the Company in this case.

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Michael Miller

- b. The CAC would certify that a customer of the Company meets the criteria for income established by the federal government as the poverty level, and once that information has been certified by CAC the customer's name and service address will be supplied to the Company and the proposed low income tariff will be applied to that customer. The Company envisions that each customer so certified would have to be re-certified annually. Based on discussion with the CAC, the Company believes CAC would an acceptable agency to perform this certification since their primary function is to assist low income individuals, families, or households and they have an extensive data base which can be used to perform the certification.
- c. The agency would utilize tax returns or other available information on income levels and size of household to certify that customer meets the poverty level established by the federal government. If the CAC becomes the agency their address and office hours will be provided to the customer base.
- d. The Company does has customer walk-in locations at its Corporate Office at 2300 Richmond Road, Lexington, KY, and its Northern Division office at 3700 Highway 127 North, Owenton, KY. The Company does not plan to perform the certification at these locations but will have proper notification of this service and the employees will be well versed in the procedures and be able to refer them to the third party certification locations.
- e. These details have not been fully worked out at this time, but it would appear reasonable that if the CAC has the necessary information for that customer in their data base, they could obtain certification by phone. If CAC does not have the necessary information, the customer would likely have to provide that information for review by the CAC before certification could be verified.

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- f. These details have not been fully worked out but if CAC is agreeable to obtaining all necessary information by mail, it would appear reasonable that certification could be obtained in this manner barring some problem or question about the information required direct contact.

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Witness Responsible:

Coleman Bush

5. Re: Exhibit 2 (Proposed Tariff), page 9 (New Account Set Up). The proposed tariff states that the proposed activation fee would apply to customers who "request a new account or a change in ownership of an existing account" and that the fee "covers the cost of meter reading and record change." Concerning this provision:
- a. If a property is being served for the first time by KAWC, would the customer pay both a tapping fee and an activation fee? If so, explain why there would be a separate visit to the property for meter reading when a new meter would have been installed by Company personnel as part of the tapping fee.
 - b. If a customer account is transferred (for example, the property is sold) on the same date as a scheduled meter reading, would the activation fee still apply? If so, why?

Response:

- a. The activation fee was developed based on the average cost of working a service order from customer contact to service order closing. While there are many factors that could make the cost of a particular service order greater or smaller than other service orders, applying the average cost is a reasonable method to recover the cost of service activation. If the first-time customer is a builder, developer, contractor, owner/builder, etc. who meets all criteria for initiation of service, the meter would be set at the time the tap is made and the cost to set the meter would be included in the tap fee. We propose to not charge an activation fee when a meter is set as part of a new tap. However, in many cases, the builder, developer, contractor, etc. will sell the property shortly after completion. The new owner/occupant would receive the full range of services covered by the activation fee and would be expected to pay the fee.

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Coleman Bush

- b. Yes. Although this chance event will happen on some occasions, meter readings for billing are not currently coordinated with meter readings for initiation of service to the extent that we can automatically revise a request for service based on an upcoming meter reading date. Also, field costs are only part of the cost used to develop the activation fee. The fee also includes, among other costs, office costs to set up the account.

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Linda Bridwell

6. Re: Exhibit 3 (Rate Comparison), page 3. The exhibit shows no change in the existing tapping fee schedule for the former Elk Lake service area, but the proposed tariff (Exhibit 2, page 10) states that KAWC's main system tapping fees apply in the entire service area except the former Tri-Village area. Further, Ms. Bridwell's testimony (pages 30-31) discusses changes in the Elk Lake tapping fees for larger than 5/8-inch taps, but those changes do not appear in either Exhibit 2 or Exhibit 3. Please clarify the Company's proposal regarding tapping fees for the former Elk Lake area and, if necessary, provide corrected pages for the proposed tariff.

Response:

Kentucky American Water is proposing that the former Elk Lake system continue its previously adopted tap fee of \$360 for a 5/8-inch service and actual costs for 1" or 2" services. Ms. Bridwell's testimony at pages 30-31 is incorrect and should read "Since the acquisition of Elk Lake, Kentucky American Water has only installed three taps. Since there is not a significant number installed to have an accurate basis to determine an increase in that cost, Kentucky American proposes that the 3/4" x 5/8" meter tap fee remain at \$360. Kentucky American Water proposes that *the 1" and 2" tap fees for Elk Lake remain the same at actual costs.*"

Exhibit 2, page 10 actually indicates that the tap fee is applicable to the entire system excluding the Northern Division formally served by the Tri-Village Water District. The intention was that the tap fee on Exhibit 2, page 10 would exclude all of the Northern Division.

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Witness Responsible:

Michael Miller

7. Re: Testimony of Michael Miller, page 63. Mr. Miller states: "the Company plans to propose in its next rate case a move to a uniform tariff for all customers." Concerning this statement:
- a. Why hasn't the Company made such a proposal in this case?
 - b. Recognizing the Company's right to oppose specific aspects of any such proposal, would the Company oppose, in principle, beginning the movement toward a uniform tariff in this case? If so, please explain why.

Response:

- a. The Company is not proposing a single-tariff in this case because it has not performed the cost of service studies that would be required to address this issue in this case, but will do so before filing its next rate case.
- b. The Company is open to discuss this issue with any party to this case, but would prefer that any proposal be discussed with all parties.

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Coleman Bush

8. Re: Testimony of Michael Miller, page 64, concerning the proposed activation fee.
- a. Please describe the specific activities that the Company performs in order to initiate service for a new residential customer in an existing building.
 - b. Please describe the specific activities that the Company performs in order to initiate service for a new non-residential customer in an existing building.
 - c. Would the proposed activation fee apply to both residential and non-residential customers? If so, would there be any difference in the amount of the fee, depending on the customer class, meter size, or other factors?

Response:

- a.
 1. Customer service representative accepts order for new service from customer.
 2. Customer service representative enters turn-on order into customer information system with requested date for service included.
 3. Supervisor prints order on date of service request.
 4. Supervisor sorts orders into routes and distributes order to field service personnel.
 5. Field service person routes order into sequence for working in field.
 6. After driving to premise, field service person removes meter box cover and initiates service by opening a valve. In some instances, initiation of service may only result in a meter reading. This would occur when water service is being discontinued for the old customer and initiated for the new customer on the same day. In cases where a premise has been inactive for some time, the field service person may install a meter. If meter is in a vault, field service person will monitor ambient air to ensure it is safe to enter before entering vault to read meter. In setting larger meters, more than one person may be required to set meter.
 7. Field service person writes date, time, meter reading (and new meter number if applicable) action taken (in this case, turn-on) and any other pertinent information on service order. If there are any unusual conditions, such as a meter top that needs repair, etc., field service person will note that on the order for follow up.
 8. Field service person returns order to supervisor at end of shift.

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Coleman Bush

- 9. Supervisor delivers order to service order closing group.
 - 10. Service order closer enters all pertinent information from service order into customer information system and closes service order.
- b. The same general process for residential customers is followed for non-residential customers.
 - c. Yes. No, the fee is based on the average cost of completing a service order regardless of customer class, meter size or other factors.

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Witness Responsible:

Michael A. Miller

9. Re: Testimony of Michael Miller, page 65. Mr. Miller states that "there are many instances where such [activation] fees have been approved for water and sewer utilities." Concerning this statement:
- a. Please identify the specific utilities to which Mr. Miller is referring.
 - b. To the best of Mr. Miller's knowledge, do any water or sewer utilities regulated by the Kentucky PSC charge an activation fee? If so, please identify each such utility and state the amount of the fee that each utility is authorized to charge.

Response:

- a. Refer to the Company's response to PSCDR2#33 for American Water System companies which have activation fees. For a sample of water and sewer utilities outside the American Water System that charge an activation fee, refer to attached file KAW_R_AGKYDR1#9_attachment_062504.pdf shows the activation fees for the city of Denver along with a host of other special charges.
- b. Mr. Miller is unaware if any water or sewer utilities regulated by the Kentucky PSC charge an activation fee.

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Coleman Bush

10. Does the Company presently charge a customer for a temporary disconnection and reconnection (for example, if a customer will be away for three months and asks to disconnect service)?
- a. If so, please indicate the tariff provision that authorizes such a payment. If not, is the Company proposing such a charge in this case?
 - b. Approximately how many such requests did the Company receive during each of the last three calendar years?

Response:

No.

- a. If approved, an activation fee would be charged for the initiation of new service or for the reconnection of existing service previously turned off or disconnected at the request of the customer including the situation in the example above.
- b. The Company does not track such requests.

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Michael Miller

11. Re: Testimony of Michael Miller, page 65, concerning the low-income discount.
- a. The testimony states that the discount would apply to "those customers at or below the federal poverty levels." Is there more than one federal poverty level that would be used to determine customer eligibility for the discount? If so, please identify the different federal poverty levels that would apply to each type of customer.
 - b. Is the reference to "federal poverty levels" meant to refer to 100% of the federal poverty level, or to some other percentage of the poverty level?
 - c. Mr. Miller states that the annual cost of the low-income discount would be approximately \$30,000, which would imply that approximately 1,180 customers would qualify for the discount. Please provide the source for the estimated number of customers who would be eligible for the discount.
 - d. How would the Company determine eligibility for the discount in a household that consists of two or more unrelated adults (for example, two unrelated people sharing an apartment)?
 - e. Would a full-time college student be eligible for the low-income discount if the student has an annual income below the federal poverty level for a single person? Please explain your answer.

Response:

- a. The poverty level is dependent on income and family size. The income used to determine the poverty level is dependent on family size. Please refer to attached file [KAW_R_AGKYDR1#11attachment_062504.pdf](#) are the federal government poverty guidelines as published in the United States Department of Health & Human Services web site at www.dhhs.gov.

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Michael Miller

- b. The poverty level for each customer would be set at the level in the federal guidelines specific to that customer's income and family size as certified by the independent third party.
- c. The Company utilized the percentage of other American Water subsidiaries history for the cost of the low income tariff to arrive at its estimate of \$30,000 (2.5 cents per total customer per month). The number of customers and annual cost of the program would only be fully determined for KAW once the tariff is approved and historical data is available.
- d. The independent third party would certify the income and family size necessary to determine if the customer meets the federal guidelines.
- e. The low income tariff would only apply to a college student if their family unit was certified to meet the federal poverty guidelines and the student was a dependent of the family for tax purposes.

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Michael Miller

12. Re: Testimony of Michael Miller, page 66. Mr. Miller states that the Water for Life Fund had available \$6,263 during 2003.
- a. Of this amount, how much was distributed to low-income customers having difficulty paying their water bills?
 - b. During 2003, did the Company have an unmet need for assistance (that is, did the Company receive requests for assistance after the money ran out)? If so, what did the Company do with customers whose need could not be met?
 - c. How does the Company inform customers about the existence of assistance through the Water for Life Fund? Please provide copies of all documents distributed or otherwise used during 2003 and 2004 that provide such information to customers.
 - d. Approximately how much assistance does the average recipient receive?
 - e. Does the assistance take the form of a credit to the water bill? If not, in what other form(s) is assistance provided?
 - f. Do customers who receive assistance from the Fund receive any other aid from the Company (for example, leak repairs, water conservation assistance, education, referral to community-based organizations, etc.)? If so, please describe the other types of aid that are provided by the Company.
 - g. Who administers the Water for Life Fund? That is, if a customer wants to apply for assistance, who does the customer contact?
 - h. Is there an income limitation on customers who are eligible for assistance from the Fund? If so, what is the limitation and how does the Company verify the customer's eligibility? If not, why not?

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Michael Miller

Response:

- a. Community Action Council, the organization that administers this fund, distributed \$5,286.71 in 2003.
- b. According to Community Action Council representatives, depending on the timing of receipts into the fund, there were times when there were no funds available during 2003. On these occasions, these customers may be referred to other programs based on availability and eligibility.
- c. Kentucky-American Water Company displays a sign in the lobby of its office at 2300 Richmond Road advising customers of this program. We mailed the bill insert included as KAW_R_AGKYDR1#12c_attachment_062504.pdf to all customers in 2004.
- d. \$61.47
- e. No. The Company deposits its donation and any donations made by its customers into an account administered by the Community Action Council who writes a check payable to Kentucky American Water on behalf of any customer they approve for assistance through the Water for Life fund.
- f. Customers who receive assistance from the Fund remain eligible for any other aid to which all other customers are entitled, including leak adjustments, education and referral to community-based organizations.
- g. Community Action Council.
- h. Refer to AG 1 #11.

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Michael Miller

13. Has the Company considered the impact of its proposed activation fee on low-income customers? If so, please provide all documents discussing that impact. If not, why not?

Response:

The Company has not attempted to determine the impact of the activation fee on low income customers. The purpose of the fee is to recover the cost for this customer specific function from the customer generating the cost and not from those customers who do not require this service.

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Michael Miller

14. Re: Testimony of Michael Miller, pages 67-68.

- a. Is the Company asking for PSC approval of an economic development tariff, or any elements of such a tariff, in this case?
- b. Is the Company specifically seeking PSC approval of the draft tariff, or any portions thereof, contained in MAM-10?
- c. Does the Company envision having an economic development tariff in place before the completion of any projects that are necessary to ensure a reliable, long-term supply of water? If so, why does the Company believe it is reasonable and prudent to encourage expanded consumption prior to having the facilities that could reliably serve such consumption?
- d. Does the Company expect the foregone revenue from an economic development tariff to be borne by all other customers, certain customer classes, by the Company's stockholders, or by some combination thereof?
- e. Please provide a workpaper or electronic spreadsheet file showing if a 30% discount in the Company's lowest consumption charge would recover more than the base cost of water.
- f. Please provide a workpaper or electronic spreadsheet file showing if a 30% discount in the Company's lowest consumption charge would recover more than incremental cost of producing and distributing the water to an economic development customer.

Response:

- a. No. The Company is simply notifying the Commission that it supports economic development and would like to support economic development efforts in the form of an incentive tariff once the source of supply solution is implemented. Both growth in

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Michael Miller

water usage and accompanying jobs creation benefit the local economy, the Company and its customers.

- b. Not in this case.
- c. The supply shortage applies in times of extreme drought, not on a daily basis. The Company envisions seeking approval for this tariff once the source of supply solution is determined and the project identified and funded. If a drought period was experienced in the interim period from construction to completion (assuming such tariff was approved and a new customer applied and met the requirements of the tariff) all customers, including those subject to the economic development tariff would be subject to any water use restrictions that were appropriate and put into place.
- d. The contemplated tariff would phase into the full cost tariff over a five year period. The Company believes the incentive tariff would more than cover any incremental cost to serve the customer. If a rate case was required during this phase-in period the Company would request the difference between the full tariff and incentive tariff be spread appropriately among all customers, who are receiving the benefit of the net benefit above the additional incremental cost.
- e. This would have to be calculated on a case by case basis taking into consideration the level of investment and incremental operation costs to service each customer.
- f. See answer to section e. above.

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Linda Bridwell

15. Several portions of W/P-9-1 (Tapping Fee) appear to have been cut-off in the electronic filing, such that it is not possible to see the detail for each year. (See for example, Accounts 303.1, 404.1, 103.1, and 108.1.) Please provide a complete electronic version of the file in both Adobe Acrobat and Microsoft Excel formats (the Excel file should have all formulas intact).

Response:

Please see attached files KAW_R_AGKYDR1#15attachment_062504.xls and KAW_R_AGKYDR1#15attachment_062504.pdf.

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Linda Bridwell

16. Please describe all changes between the method approved by the PSC in KAWC's last rate case and the method used in this filing in the calculation of tapping fees. For each such change (other than the change in the years), explain why KAWC proposes to make the change.

Response:

There are no changes in the method used in this filing and the method approved by the PSC in Kentucky American Water's last rate case. Kentucky American Water has used the cost of an "encoder" meter for 5/8" meter tapping fees rather than the cost of a traditional meter as the PSC approved in the last case because Kentucky American Water now only installs "encoder" meters or AMR on all new 5/8" services. A few traditional meters are still bought each year and utilized for required change outs where other area meters are still traditional types in the urban areas.

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Coleman Bush

17. Re: Testimony of Coleman Bush, page 10. Mr. Bush states that the proposed account activation fee would apply in both the Central and Northern Divisions of the Company.
- a. Please explain the inter-relationship between the proposed account activation fee and the existing reconnection charges in both Northern Division utilities (Exhibit 2, pages 3 and 12). That is, when would a customer pay an activation fee and when would a customer pay a reconnection charge?
 - b. Would a customer in the former Tri-Village service area be required to pay both the activation fee and the new account deposit of \$40 (Exhibit 2, page 12)? If not, please provide proposed tariff language to reflect this fact.

Response:

- a. An activation fee would be paid for the initiation of new service or for the reconnection of existing service previously turned off or disconnected at the request of the customer. A reconnection charge would be paid to reconnect service after disconnection of service for non-payment of a bill.
- b. No. We propose that the deposit requirement be eliminated.

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Coleman Bush

18. Re: Testimony of Coleman Bush, page 10. Mr. Bush states that other American Water subsidiaries have account activation fees. Please provide a listing of each American Water subsidiary that shows whether it has such a fee and, if so, the amount of the fee.

Response:

Please refer to the Company's response to PSCDR2#33.

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Coleman Bush

19. Re: W/P-2-4 (Activation Fee), page 2 of 13.
- a. Why was the IRS mileage rate used instead of the Company's actual transportation-related costs per mile?
 - b. What were the Company's actual transportation-related costs per mile during the base period?
 - c. What are the Company's estimated transportation-related costs per mile during the forecasted test year?
 - d. The Company estimates that the number of service orders will increase from 73,728 in 2003 to 77,409 in the forecasted test year. Please explain the reasons for this increase and provide all documents that show how the estimate for the forecasted test year was derived.

Response:

- a. In the development of the activation fee, the Company sought an example from another American Water System company. In the development of its activation fee, Virginia-American Water Company used the IRS per mile allowance. The Company believed that this was a fair representation of the average cost to operate the light trucks used by our field service personnel, the operating cost of which is included in the activation fee. The Company uses many large vehicles which cost more per mile to operate.
- b. The approximate cost per mile in the base period for all vehicles is \$.70 and includes all maintenance and operation costs, insurance and depreciation. We did not forecast miles in the six months of forecast of the base period, therefore to develop the base period miles for this calculation, we used the actual miles for the first six months of the base period times 2. Also, we do not budget depreciation by unit property so to develop this base period cost per mile we used the actual depreciation expense for 2003 as an estimate for the base period.
- c. The approximate cost per mile in the forecast period for all vehicles is \$.64 and includes all maintenance and operation costs, insurance and depreciation. We did not forecast miles in the development of the forecasted transportation expense, therefore

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Coleman Bush

to develop forecasted miles for this calculation, we used the actual miles for the first six months of the base period times 2. Also, we do not budget depreciation by unit of property so to develop this forecasted cost per mile we used the actual depreciation expense for 2003 as an estimate for the forecast period.

- d. This increase is due to an increase in the customer base of the Company. Please see KAW_R_AGKYDR1#20_062504.xls to see how this estimate was derived.

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Coleman Bush

20. Several entries on W/P-2-4 (Activation Fee) contain the notation "formula" without any explanation as to the contents of the formula, while other entries are not readable. Please provide the original electronic version of this workpaper (e.g., the original Microsoft Excel or Lotus 1-2-3 file) with all formulas intact.

Response:

Please refer to KAW_R_AGKYDR1#20_062504.xls

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Witness Responsible:

Michael A. Miller/Coleman D. Bush

21. Re: Testimony of Coleman Bush, page 11. Please provide a breakdown of the \$672,000 estimated revenue from the account activation fee by Division.

Response:

Central Division - \$665,280

Northern Division - \$6,720

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Witness Responsible:

Coleman Bush

22. Re: Testimony of Coleman Bush, page 12. Please provide all hand-outs, presentations, notes, memoranda, and other documents in the Company's possession from each of the drought-pricing tariff meetings referred to in Q/A 18.

Response:

Please see [KAW_R_AGKYDR1#22_attachment_062504.pdf](#)

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Witness Responsible:

Coleman Bush

23. Re: Testimony of Coleman Bush, page 15. Why would implementation of a drought emergency plan result in additional costs to read meters?

Response:

The Company currently reads meters for billing and issues a bill for service one time per month per customer. If the Company should ever enter the Rationing Phase of its Demand Management Plan, it intends to implement a punitive pricing structure according to an approved Emergency Pricing Tariff. Considering the serious nature of the situation, it is imperative that an immediate price signal be sent to ensure that demand reduction goals are met. A baseline meter reading will need to be established for all customers upon initiating the Rationing Phase. While all details for the programming of this tariff have not been completed, once the Company enters the Rationing Phase of its Demand Management Plan, it envisions more frequent meter readings with the mailing of an interim notice that would alert customers that a change in demand may be necessary to avoid paying the approved Emergency Pricing Tariff rates for part of their monthly water consumption.

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Witness Responsible:

Coleman Bush

24. Re: Testimony of Coleman Bush, pages 15-16, concerning the proposed deferral mechanism:
- a. How does the Company propose to determine if there is an excess or shortfall? For example, would it propose to compare all revenues to all expenses; only drought emergency surcharge revenues to drought emergency expenses; or something else?
 - b. Would there be a baseline level of revenues and expenses to which the actual revenues and expenses would be compared and, if so, how would that baseline level be determined?
 - c. Under the Company's proposal, would there be any element of the deferral and true-up that includes return on rate base? For example, if revenues exactly equaled expenses during a drought emergency period, would the Company claim its revenues were deficient because it achieved a zero rate of return during that time?

Response:

The intent of the testimony was to request approval for deferral of costs, which approval is required by the Commission, in the event that we enter the Water Shortage Emergency Phase of the Demand Management Plan. Details for handling revenues and costs as a result of implementing the final phases of the Demand Management Plan could only be finalized in a formal proceeding before the Commission involving all appropriate parties.

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Witness Responsible:

Coleman Bush

25. Re: Testimony of Coleman Bush, pages 16-19:

- a. In determining the base usage for residential customers, would the Company include any provisions that allow customers to show that the November-April period is not representative of their base consumption during the summer?
 - i. For example, if a customer has children away at college during the school year, but who are at home during the summer, would the customer be able to seek an adjustment in his/her base consumption?
 - ii. Similarly, if a customer has a significant change in circumstances after the base period (such as an increase in family size), would the customer be able to seek an adjustment in his/her base consumption?
- b. Are apartment buildings considered residential or commercial customers for purposes of the drought emergency tariff? Does the answer depend on the number of units in the building (for example, are four-unit buildings treated the same as 40-unit buildings)?
- c. Why are the commercial, other public authority, and sales for resale baselines based on a 12-month average while the residential baseline is based on a six-month, non-summer average?
- d. Why is the industrial baseline based on a six-month, summer average, while the residential baseline is based on a six-month, non-summer average?
- e. To the best of the Company's knowledge, approximately what percentage of water sold to its sales for resale customers is ultimately used to serve residential customers?
- f. Please list each of the Company's sales for resale customers.

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Witness Responsible:

Coleman Bush

- g. Please provide copies of the provisions in each of the Company's sales for resale contracts that discuss the curtailment of sales due to droughts or other emergency conditions.
- h. Please provide copies of each of the studies referred to on pages 17-19.

Response:

- a. It is not the intent of the Emergency Pricing Tariff to do so. Ordinance No. 221-2000, passed by the Lexington-Fayette Urban County Council on July 13, 2000, created the Water Conservation Appeals Board for this purpose
- b. Apartment buildings are considered commercial customers. A 4-unit building served by one meter would be considered a commercial customer.
- c. The intent of the fall/winter baseline for residential customers is to limit residential customers to necessary and normal household use indoors while eliminating all outdoor uses of water. The use of the fall/winter average in the summer to approximate necessary and normal household use indoors has a precedent in the Lexington-Fayette Urban County Government's method for billing for sewer service. The commercial class contains a much wider variety of customers than does the residential class, ranging from single-proprietor/employee offices to businesses with several hundred employees. The use of an annual average for this class gives consideration to the fact that air conditioning make-up water and other commercial uses may be necessary to sustain business operations. An overarching goal of all who participated in the discussions held in 1999 and 2000 regarding the implementation of this tariff was, once essential needs have been met, to protect business to ensure the economic health of the community.

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Witness Responsible:

Coleman Bush

- d. Some of the region's largest employers are the Company's industrial customers. As a class, these customers account for only 7% of the Company's total demand. By using a summer average to set the baseline, we are mitigating peak use, but are giving consideration to the fact that the additional demand brought on by air conditioning make-up water and other industrial uses is necessary to sustain business operations. Again, once essential uses are met, the goal of the program is to sustain the economic health of the region.
- e. The Company does not track that information.
- f. See item g. below
- g. The contracts for the sale of water to the City of North Middletown, City of Nicholasville, Harrison County Water Association, East Clark County Water District, Georgetown Municipal Water and Sewer Service, and Peaks Mill Water District all contain the following clause: "In the event of any type of water curtailment practice, procedure, regulation or law is utilized by Company or is imposed upon Company, Customer agrees to abide by all recommendations of Company and to institute such regulations, requirements, policies or laws as will restrict its customers in a fashion similar to all customers of the Company." The contracts for the sale of water to City of Versailles, the City of Midway, and Lexington South Elkhorn Water District (now Jessamine South Elkhorn Water District) all pre-date the Demand Management Plan and do not have a specific clause regarding curtailment. However, all agree to purchase water as supplied by the Company pursuant to its regulations, rules and rates as the same may exist from time to time and as may be changed, modified or adjusted by the Public Service Commission. Kentucky American Water considers the implementation of its Demand Management Plan as submitted to the PSC and the curtailment

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Witness Responsible:

Coleman Bush

practices outlined within to be a part of its operational policies. All three of these customers have participated as needed in curtailment when requested.

- h. See attached file KAW_R_AGKYDR1#25h_attachment_062504.pdf.

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Witness Responsible:

James H. Vander Weide

26. RE: Testimony of Dr. James H. Vander Weide. With respect to page 2, lines 14-17, please provide a list of the articles and books authored by Dr. James H. Vander Weide.

Response:

A list of Dr. Vander Weide's articles and books is shown below.

"The Lock-Box Location Problem: a Practical Reformulation," *Journal of Bank Research*, Summer, 1974, pp. 92C96 (with S. Maier). Reprinted in *Management Science in Banking*, edited by K. J. Cohen and S. E. Gibson, Warren, Gorham and Lamont, 1978.

"A Finite Horizon Dynamic Programming Approach to the Telephone Cable Layout Problem," *Conference Record, 1976 International Conference on Communications* (with S. Maier and C. Lam).

"A Note on the Optimal Investment Policy of the Regulated Firm," *Atlantic Economic Journal*, Fall, 1976 (with D. Peterson).

"A Unified Location Model for Cash Disbursements and Lock-Box Collections," *Journal of Bank Research*, Summer, 1976 (with S. Maier). Reprinted in *Management Science in Banking*, edited by K. J. Cohen and S. E. Gibson, Warren Gorham and Lamont, 1978. Also reprinted in *Readings on the Management of Working Capital*, edited by K. V. Smith, West Publishing Company, 1979.

"Capital Budgeting in the Decentralized Firm," *Management Science*, Vol 23, No. 4, December 1976, pp. 433-443 (with S. Maier).

"A Monte Carlo Investigation of Characteristics of Optimal Geometric Mean Portfolios," *Journal of Financial and Quantitative Analysis*, June, 1977, pp. 215-233 (with S. Maier and D. Peterson).

"A Strategy which Maximizes the Geometric Mean Return on Portfolio Investments," *Management Science*, June, 1977, Vol 23, No. 10, pp. 1117-1123 (with S. Maier and D. Peterson).

"A Decision Analysis Approach to the Computer Lease-Purchase Decision," *Computers and Operations Research*, Vol. 4, No. 3, September, 1977, pp. 167-172 (with S. Maier).

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Witness Responsible:

Dr. James H. Vander Weide

"A Practical Approach to Short-run Financial Planning," *Financial Management*, Winter, 1978 (with S. Maier). Reprinted in *Readings on the Management of Working Capital*, edited by K. V. Smith, West Publishing Company, 1979.

"Effectiveness of Regulation in the Electric Utility Industry," *Journal of Economics and Business*, May, 1979 (with F. Tapon).

"On the Decentralized Capital Budgeting Problem Under Uncertainty," *Management Science*, September 1979 (with B. Obel).

"Expectations Data and the Predictive Value of Interim Reporting: A Comment," *Journal of Accounting Research*, Spring 1980 (with L. D. Brown, J. S. Hughes, and M. S. Rozeff).

"Deregulation and Oligopolistic Price-Quality Rivalry," *American Economic Review*, March 1981 (with J. Zalkind).

"Incentive Considerations in the Reporting of Leveraged Leases," *Journal of Bank Research*, April 1982 (with J. S. Hughes).

"Forecasting Disbursement Float," *Financial Management*, Spring 1981 (with S. Maier and D. Robinson).

"Recent Developments in Management Science in Banking," *Management Science*, October 1981 (with K. Cohen and S. Maier).

"General Telephone's Experience with a Short-run Financial Planning Model," *Cash Management Forum*, June 1980, Vol. 6, No. 1 (with J. Austin and S. Maier).

"An Empirical Bayes Estimate of Market Risk," *Management Science*, July 1982 (with S. Maier and D. Peterson).

"The Bond Scheduling Problem of the Multi-subsidiary Holding Company," *Management Science*, July 1982 (with K. Baker).

"A Decision-Support System for Managing a Short-term Financial Instrument Portfolio," *Journal of Cash Management*, March 1982 (with S. Maier).

"Deregulation and Locational Rents in Banking: a Comment," *Journal of Bank Research*, Summer 1983.

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Witness Responsible:

Dr. James H. Vander Weide

"What Lockbox and Disbursement Models Really Do," *Journal of Finance*, May 1983 (with S. Maier).

"Financial Management in the Short Run," *Handbook of Modern Finance*, edited by Dennis Logue, published by Warren, Gorham, & Lamont, Inc., New York, 1984.

"Measuring Investors' Growth Expectations: the Analysts versus Historical Growth Extrapolation," *The Journal of Portfolio Management*, Spring 1988 (with W. Carleton).

"Entry Auctions and Strategic Behavior under Cross-Market Price Constraints," *International Journal of Industrial Organization*, 20 (2002) 611-629 (with J. Anton and N. Vettas).

Managing Corporate Liquidity: an Introduction to Working Capital Management, John Wiley and Sons, 1984 (with S. Maier).

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Witness Responsible:

James H. Vander Weide

27. RE: Testimony of Dr. James H. Vander Weide. With respect to page 6, lines 11-12, please indicate how equity investors define and measure "comparable risk."

Response:

Each equity investor has his own definition of comparable risk. Whatever the definition and measurement, however, an investor will demand the same expected return on investments of comparable risk. For the purposes of my testimony, I have defined investments of comparable risk as being investments in publicly-traded water companies and publicly-traded natural gas distribution companies.

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Witness Responsible:

James H. Vander Weide

28. RE: Testimony of Dr. James H. Vander Weide. With respect to page 17, lines 5-15, please indicate (1) why Dr. Vander Weide has chosen to use the earnings forecasts reported by I/B/E/S and not another service like Zack's or First Call?, (2) how does the analysts coverage of I/B/E/S compare to the analysts coverage of the other major earnings reporting services?, and (3) are the I/B/E/S earnings forecasts available free of charge on the Internet and, if so, where?

Response:

- (1) Dr. Vander Weide uses the I/B/E/S forecasts because these forecasts are widely available in the investment community and widely studied in the academic community. In addition, Dr. Vander Weide's research indicates that investors use the I/B/E/S growth forecasts in making stock buy and sell decisions. No other service has an extensive historical data base, and the forecast data of other services have not been as widely studied as the I/B/E/S data.
- (2) From Dr. Vander Weide's experience, the analyst coverage of I/B/E/S is superior to that of Zack's. At the present time, to the best of Dr. Vander Weide's knowledge, the I/B/E/S and First Call earnings estimates are identical because both of these services are now owned and provided by Thomson Financial. The differences between I/B/E/S and First Call are that First Call does not have any historical earnings forecast data, and the earnings forecasts of the two services are distributed on a different schedule.
- (3) A limited amount of I/B/E/S data is available free of charge at the Yahoo Finance website. Dr. Vander Weide purchases a subscription to I/B/E/S which provides a monthly update of current I/B/E/S earnings forecasts for a large group of publicly-traded companies.

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Witness Responsible:

James H. Vander Weide

29. RE: Testimony of Dr. James H. Vander Weide. With respect to page 18, lines 1-3, please provide of all studies known to Dr. Vander Weide which indicate that "investors use analysts' forecasts to estimate future earnings growth."

Response:

Dr. Vander Weide's study with Professor Carleton, cited on page 18, lines 9 through 12, is the most extensive study on this topic. As described further on page 18, Dr. Vander Weide's results are consistent with those found by Cragg and Malkiel in the book cited on that page.

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Witness Responsible:

James H. Vander Weide

30. RE: Testimony of Dr. James H. Vander Weide. With respect to page 18, lines 4-12, please provide a copy of the article written by Dr. Vander Weide from the *Journal of Portfolio Management*.

Response:

A copy of the requested article is attached. Please see
KAW_AGKYDR1#30-attachment-062504.pdf.

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Witness Responsible:

James H. Vander Weide

31. RE: Testimony of Dr. James H. Vander Weide. With respect to page 21, line 1-5, please provide the estimates of the floatation costs (direct expenses as well as market pressure costs) of the equity issued by KAWC over the past five years.

Response:

Since KAWC was formerly a wholly-owned subsidiary of American Water Works, and is now a wholly-owned subsidiary of RWE, it does not issue equity in the capital markets. Instead, KAWC historically has obtained equity from its parent; and, as a subsidiary, it is responsible for the flotation costs its parent has incurred over the years to finance KAWC.

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Witness Responsible:

James H. Vander Weide

32. RE: Testimony of Dr. James H. Vander Weide. With respect to page 21, line 1-5, please provide the estimates of the floatation costs (direct expenses as well as market pressure costs) of the equity issued by RWE over the past five years.

Response:

RWE currently has no flotation costs. RWE has made no public offerings of common equity in the past five years.

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Witness Responsible:

James H. Vander Weide

33. RE: Testimony of Dr. James H. Vander Weide. With respect to page 21, line 1-5, please provide details (size, planned date, and pro forma issuance expenses) of all planned equity offerings by RWE over the next year.

Response:

RWE has not announced any public offerings of common equity for the next year.

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Witness Responsible:

James H. Vander Weide

34. RE: Testimony of Dr. James H. Vander Weide. With respect to page 22, lines 10-18, please indicate what water companies were eliminated by each of the four screens applied to the companies listed in the Value Line Investment Survey.

Response:

Connecticut Water Services and SJW Corp. were eliminated because they did not have at least one analyst's long-term growth forecast. No other Value Line companies were eliminated.

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Witness Responsible:

James H. Vander Weide

35. RE: Testimony of Dr. James H. Vander Weide. With respect to page 23, lines 5-9, please provide copies of all studies performed by Dr. Vander Weide which indicate that "'analysts' growth rate forecasts best approximate the growth rate forecasts used by investors in making buy and sell decisions."

Response:

Dr. Vander Weide's only published study on this topic was supplied in response to AG Data Request No. 30.

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Witness Responsible:

James H. Vanderweide

36. RE: Testimony of Dr. James H. Vander Weide. With respect to page 24, lines 1-3 (Table), please provide copies of the I/B/E/S analyst research reports for the six water companies in the proxy group.

Response:

I/B/E/S surveys analysts in the investment community and publishes the average analysts' growth forecasts for individual companies. I/B/E/S itself does not prepare research reports on individual companies. The average analysts' growth forecast for the companies in Dr. Vander Weide's proxy groups are shown in Exhibit JW-1, Schedules A and B.

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Witness Responsible:

James H. Vander Weide

37. RE: Testimony of Dr. James H. Vander Weide. With respect to page 26, lines 9-10, please provide copies of all studies performed by Dr. Vander Weide which indicate that the LDCs are similar in business and financial risk to (1) KAWC and (2) the proxy group of water companies.

Response:

As Dr. Vander Weide has testified, there are very few publicly-traded water companies that are followed by the investment community. Given the relatively small sample of water companies that are suitable as reasonable proxies for the purposes of estimating KAWC's cost of equity, Dr. Vander Weide believes that the public service commission should consider cost of equity results for additional companies in other regulated industries. From Dr. Vander Weide's experience over the last 30 years as an expert on regulated industries, he believes that the LDCs are the most reasonable companies to include as an additional proxy group to the water company proxy group. The reasons for Dr. Vander Weide's belief that LDCs are similar to KAWC are stated in response to Question 53, page 27, of his direct testimony. Dr. Vander Weide has not conducted quantitative studies that compare the risks of LDCs to water companies. He notes, however, that his DCF results for the LDCs are similar to the DCF results for the water companies.

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Witness Responsible:

James H. Vander Weide

38. RE: Testimony of Dr. James H. Vander Weide. With respect to page 27, line 1. please provide (1) the exact methodology employed by Value Line in developing its 'Safety Rank,' (2) how Value Line's 'Safety Rank' compares to other measures of risk employed by Dr. Vander Weide; (3) the number and percentage of companies followed by Value Line that have a safety rank of 1, 2, and 3; and (4) copies of all studies known to Dr. Vander Weide that evaluate Value Line's 'Safety Rank.'

Response:

- (1) In a publication titled, "How to Invest in Common Stocks: A Guide to Using the Value Line Investment Survey," Value Line provides the following definitions:

Safety Rank. A measure of potential risk associated with individual common stocks. The Safety Rank is computed by averaging two other Value Line indexes—the Price Stability Index and the Financial Strength rating. Safety Ranks range from 1 (Highest) to 5 (Lowest). Conservative investors should try to limit purchases to equities ranked 1 (Highest) or 2 (Above Average) for Safety.

Financial Strength. A relative measure of financial strength of the companies reviewed by Value Line. The relative ratings range from A++ (strongest) down to C (weakest), in nine steps.

Price Stability. A measure of the stability of a stock's price. It includes sensitivity to the market (see Beta) as well as the stock's inherent volatility. Value Line stability ratings range from 100 (highest) to 5 (lowest).

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Witness Responsible:

James H. Vander Weide

Beta. A relative measure of the historical sensitivity of the stock's price to overall fluctuations in the New York Stock Exchange Composite Index.

- (2) With the exception of the capital structure data shown on Schedule F, Dr. Vander Weide did not use other measures of risk.
- (3) The distribution of Safety Rank ratings in the current Value Line data base are shown in the table below.

Safety Rank	No. of Companies
1	80
2	228
3	1,072
4	232
5	79

- (4) The Value Line publication cited in response to (1) above states at page 3:

Value Line's Safety™ Rank Record

One other main investment criterion is the Safety rank assigned by Value Line to each of the 1700 stocks. It becomes particularly important in periods of stock market downswings. Here again the record over the years is equally impressive. The following table shows how the Safety ranks worked out in market declines between 1966 and the present.

The lesson is clear. If you think the market is headed lower, but prefer to maintain a fully invested position in stocks, concentrate on equities ranked 1 or 2 for Safety. Also, at the same time try to keep your list ranked as high as possible for Timeliness. You may not be able to find stocks ranked high on

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Witness Responsible:

James H. Vander Weide

both counts. You then must trade off, according to your priorities.

	2/11/1966	12/13/1968	4/14/1972	6/17/1981	8/26/1987	7/13/1990
Safety Rank	10/7/1966	7/2/1970	9/11/1974	8/11/1982	12/4/1987	11/2/1990
Group 1	-15.6%	-28.6%	-40.5%	-10.5%	-24.7%	-19.0%
Group 2	-18.2%	-29.6%	-39.9%	-16.2%	-28.7%	-15.5%
Group 3	-24.0%	-41.1%	-47.2%	-25.2%	-36.0%	-24.9%
Group 4	-26.5%	-57.0%	-53.3%	-33.6%	-40.7%	-33.2%
Group 5	-29.2%	-64.8%	-70.0%	-31.4%	-46.9%	-33.1%

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Witness Responsible:

James H. Vander Weide

39. RE: Testimony of Dr. James H. Vander Weide. With respect to page 29, line 8 to page 33, line 2, and Schedule C of Exhibit —(JVW-1), please provide (1) copies of all work papers used in Dr. Vander Weide's ex ante risk premium study, (2) an electronic version of the monthly data used in the analysis, and (3) copies of the regressions run on the data.

Response:

Please see attached. For electronic version, refer to
KAW_R_AGKYDR1#39_attachment_062504.pdf.

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Witness Responsible:

James Vander Weide

40. RE: Testimony of Dr. James H. Vander Weide. With respect to page 33, line 14 to page 35, line 13, and Schedule D of Exhibit ___(JVW-1), please provide (1) copies of all work papers used in Dr. Vander Weide's ex post risk premium study using the S&P 500, (2) the sources of the data items employed; and (3) an electronic version of the annual data used in the analysis.

Response:

Please refer to AG1#39. For electronic version, refer to KAW_R_AGKYDR1#39_attachment_062504.pdf.

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Witness Responsible:

James H. Vander Weide

41. RE: Testimony of Dr. James H. Vander Weide. With respect to page 33, line 14 to page 35, line 13, and Schedule E of Exhibit __ (JVW-1), please provide (1) all work papers used in Dr. Vander Weide's ex post risk premium study using the S&P Utilities Stock Index, (2) the sources of the data items employed, and (3) an electronic version of the annual data used in the analysis.

Response:

Please refer to AG1#39. For electronic version, refer to KAW_R_AGKYDR1#39_attachment_062504.pdf.

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Witness Responsible:

James H. Vander Weide

42. RE: Testimony of Dr. James H. Vander Weide. With respect to page 42, line 5, please provide copies of all studies performed that compare the business risk of KAWC and the proxy group of water companies.

Response:

As Dr. Vander Weide testifies, there are only several publicly-traded water companies whose cost of equity can be reasonably estimated. Dr. Vander Weide believes that all water companies are subject to the risks of high operating leverage, demand uncertainty, and supply uncertainty noted on pages 9 – 11 of his direct testimony. He does not know of any way to reliably quantify these risks for individual companies. Given the small sample of available proxy water companies and the difficulty in obtaining quantitative measures of business risk, Dr. Vander Weide believes that the Commission should treat the proxy group of water companies as having the same business risk as KAWC.

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Witness Responsible:

James H. Vander Weide

43. RE: Testimony of Dr. James H. Vander Weide. With respect to Schedule A of Exhibit ___(JWV-1), please provide an electronic version of the exhibit that shows each of the cost of equity calculations.

Response:

Please refer to AG1#39. For electronic version, refer to KAW_R_AGKYDR1#39_attachment_062504.pdf.

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Witness Responsible:

James H. Vander Weide

44. RE: Testimony of Dr. James H. Vander Weide. With respect to Schedule B of Exhibit ___(JWW-1), please provide an electronic version of the exhibit that shows each of the cost of equity calculations.

Response:

Please refer to AG1#39. For electronic version, refer to KAW_R_AGKYDR1#39_attachment_062504.pdf.

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Witness Responsible:

James H. Vander Weide

45. RE: Testimony of Dr. James H. Vander Weide. With respect to Schedule B of Exhibit (JVW-1), please provide copies of the I/B/E/S analyst research reports for the proxy group of LDCs.

Response:

See response to AG Data Request No. 1, Item 36.

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Witness Responsible:

James H. Vander Weide

46. RE: Testimony of Dr. James H. Vander Weide. With respect to Schedule F of Exhibit —(JVW-1), please provide (1) a copy of the Value Line used for each of the companies in the Water and LDC proxy groups and (2) show the calculations of short-term debt, long-term debt, preferred equity, and common equity.

Response:

For all proxy companies with the exception of the three water companies that are listed only in Value Line's extended edition, Dr. Vander Weide calculated the capital structure data shown in Schedule F using data downloaded from Value Line for Windows, rather than Value Line paper copies, at the time he performed his studies. These data are shown in Schedule F, and the calculations have also been provided in electronic work papers. Copies of the Value Line pages for Middlesex Water, Southwest Water, and York Water are attached in file KAW_R_AGKYDR1#46_attachment_062504.pdf.

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Witness Responsible:

Michael Miller

47. Please provide a copy of the 2004 and, if available, 2005 operating budget for KAWC.

Response:

See attached schedule KAW_AGKYDR1#47_attachment_062504.pdf.

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Witness Responsible:

Michael Miller/Sheila Valentine

48. Please provide, by operating expense account, the actual expenses incurred by the Company in each of the past three calendar years, as well as for the base year and the forecasted test period.

Response:

The requested information is contained in W/P-2-10, W/P-3.11, WP-3-12, W/P 3-13, and W/P-3-14 for the expense categories of customer accounting, rents, general office, miscellaneous and maintenance which covers most expense categories where multiple detailed account information is utilized. In addition the information for chemicals, waste disposal, and group insurance is provided in responses to questions 126, 98, and 134 of the AG's 1 data requests, respectively. The Company's filing and work papers for other expense categories contain detailed information on each category of expense included in the filing that may not be broken out by account number. The Company will comply with any other specific expense category for which the Attorney General needs further information upon request.

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Witness Responsible:

Linda Bridwell

49. Please identify all sales for resale customers, and provide the quantity of water sold to each such customer for each of the past five years.

Response:

	2003	2002	2001	2000	1999
East Clark County Water District	0	0	0	0	0
Georgetown Municipal Water and Sewer Service	1,887	11,374	23,310	79,378	92,500
Harrison County Water Association	29,359	27,181	5,738	0	0
Jessamine South Elkhorn Water District	204,794	232,551	198,317	189,407	187,715
Midway	72,440	64,690	68,412	56,477	50,306
City of Nicholasville/Spears Water Company	30,810	70,237	82,107	93,576	78,408
North Middletown	77,005	69,269	73,783	52,086	46,441
Peaks Mill Water District	0	0	0	0	0
Versailles	15,768	24,385	34,404	36,350	83,925

All usage is in 1,000 Gallons

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Witness Responsible:

James E. Salser/Coleman D. Bush

50. Please describe all sources of rental income and provide a current lease or rental agreement for each source of such income.

Response:

Our rental income is derived from lease agreements under which we lease a portion of our land to others, a license agreement and antenna lease agreements. Copies of these agreements are attached as KAW_R_AGKYDR1#50_attachment_062504.pdf.

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Witness Responsible:

James Salser

51. Please describe how the Company forecast the "Other Revenues" shown on W/P 2-3, page 2.

Response:

Please see the response to AG 1 Item 118.

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Witness Responsible:

Sheila Valentine

52. For each of the past five years, please provide a) the amount of bad debts written-off, b) the amount of bad debts written-off that were subsequently recovered, c) the amount of any addition to a bad debt reserve, and d) the total revenues from water sales.

Response:

	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Additions to Bad Debt</u>	<u>Total Revenues</u>
1999	221,959	67,132		37,311,127
2000	227,841	32,161		37,572,701
2001	283,406	85,494		40,382,744
2002	315,848	67,119		42,436,741
2003	233,320	52,670		40,107,317

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Witness Responsible:

Linda Bridwell

53. Please provide the capital budgets, including all supporting detail, approved by the KAWC Board of Directors in each of the past five years.

Response:

The original approved capital budgets and supporting detail as still available is included in the attached files:

KAW_R_AGKYDR1#53_attachment1_062504.pdf
KAW_R_AGKYDR1#53_attachment2_062504.pdf
KAW_R_AGKYDR1#53_attachment3_062504.pdf
KAW_R_AGKYDR1#53_attachment4_062504.pdf
KAW_R_AGKYDR1#53_attachment5_062504.pdf

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Witness Responsible:

Linda Bridwell

54. Regarding the Investment Projects discussed on pages 10-14 of Ms. Bridwell's testimony, please identify which of these projects, if any, were included in the Company's claim in its last base rate case.

Response:

None of the projects discussed on pages 10-14 were included in rate base through the end of the forecasted test year in the previous case. Investment projects 01-02, 01-03, and 01-05 had initial dollars in CWIP in the previous case and are included in rate base in this case.

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Witness Responsible:

Linda Bridwell

55. Regarding IP 01-11 (12300111) discussed on page 11 of Ms. Bridwell's testimony, please provide any financial analysis comparing the costs of this project with the expected revenues to be received from new customers.

Response:

Please refer to WP 1-5, pages 98-113. For electronic version of workpapers, refer to KAW_R_PSCDR1#1a_WP1-5_052004.

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Witness Responsible:

Linda Bridwell

56. Does the Company utilize a financial model to determine if a main extension project should be funded by the Company or funded with contributions in aid of construction or advances? If so, please provide a copy of the model and state what assumptions are used by the Company in the model.

Response:

No, Kentucky American Water does not use a financial model.

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Witness Responsible:

Michael Miller

57. Does the Company's rate base include any amounts allocated from the Corporate Offices, Regional Offices, Service Company, Call Center, or Information Technology Service Centers? If so, please identify all such amounts and state the basis for the allocation.

Response:

Yes. The transition cost for the call center and shared service centers, and some development cost for the ORCOM Software are included in the rate base requested by the Company.

Call Center	\$542,835	Allocated based on customers serviced by the Center
Shared Service Center	\$529,630	Allocated based on customers serviced by the Center
ORCOM Software	\$3,124,332	Allocated based on customers serviced by the Software
Business Change Project	\$611,053	Allocated based on customers serviced by the Project.
JD Edwards Software	\$512,356	Allocated based on customers serviced by the Project.

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Witness Responsible:

Linda Bridwell

- 58.** Please identify any costs claimed in rate base for the Bluegrass Water Project, discussed on page 19 of Ms. Bridwell's testimony.

Response:

There are none.

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Witness Responsible:

Linda Bridwell

59. Please identify all capital projects that have been undertaken since the Company's last base rate case and that are expected to be completed by the end of the future test year. For each such project, please identify, by year, the amount of plant additions associated with the project. Please provide this information separately for routine projects and investment projects.

Response:

Please refer to the attached files:

KAW_R_AGKYDR1#59_attachment1_062504.pdf (Please note projects that have a status "99" on this report have been transferred to utility plant).

KAW_R_AGKYDR1#59_attachment2_062504.pdf

KAW_R_AGKYDR1#59_attachment3_062504.pdf

KAW_R_AGKYDR1#59_attachment4_062504.pdf

KAW_R_AGKYDR1#59_attachment5_062504.pdf.

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Witness Responsible:

Linda Bridwell

60. For each of the past ten years, please provide a) the total capital expenditures approved by the Board of Directors, b) the actual plant-in- service additions, c) the amount of contributions received, d) the amount of advances received and e) the amount of advances refunded. Please provide this information separately by routine projects and investment projects.

Response:

- a. Please refer to the response to PSC Order dated April 29,2004, Item 10.
None of the information for b or c is retained separately for routine projects and investment projects. All of items d and e are from routine projects.
- b. Please see table below net retirements.
- c. Please see table below.
- d. Please see table below.
- e. Please see table below.

Year	Actual Plant in-service additions	Contributions	Advances	Refunds
2003	16,181,170	7,575,198	3,710,154	2,039,531
2002	12,900,617	6,215,563	2,762,374	1,420,530
2001	13,741,640	7,259,728	3,244,462	2,562,460
2000	11,321,103	4,878,276	3,113,060	2,001,740
1999	14,365,526	4,682,130	4,745,799	1,625,857
1998	9,655,909	4,639,240	3,031,295	1,680,347
1997	12,842,076	8,648,484	2,428,929	1,583,875
1996	14,559,758	3,145,527	2,491,168	1,883,848
1995	6,131,441	2,079,303	2,203,299	1,714,023
1994	9,100,410	1,214,174	2,884,475	1,283,565

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Witness Responsible:

Michael Miller

61. Please identify the AFUDC rate used for each month since January 1, 2002 and provide the derivation of the rate.

Response:

Refer to attached file KAW_R_AGKYDR1#61attachment_062504.pdf.

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Witness Responsible:

Michael Miller

62. Please state when KAWC begins to accrue AFUDC on its plant construction projects.

Response:

AFUDC begins to accrue the first month where actual charges (Engineering or Actual construction) are recorded to the work order.

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Witness Responsible:

Michael Miller

- 63.** Has the Company made any changes in its AFUDC accrual policy during the past five years?
If so, please explain all such changes made.

Response:

No.

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Witness Responsible:

Linda Bridwell

64. Please provide a brief narrative description for each category of deferred maintenance shown on W/P 1-11.

Response:

There are three categories of deferred maintenance shown on W/P 1-11.

- 1) Painting and inspection of water tanks in the distribution system and treatment plants.
- 2) Maintenance of tanks in the distribution system and treatment plants.
- 3) Maintenance to treatment plant equipment and facilities.

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Witness Responsible:

Linda Bridwell

65. For each category of deferred maintenance shown on W/P 1-11, please state if Commission approval for the Company's proposed ratemaking treatment has been granted and provide a cite to the applicable Commission order.

Response:

The approval of the proposed rate-making treatment of all of the three deferred maintenance categories identified in response to Item 64 of this same request have been approved in prior Commission Orders. These Orders include:

Case 92-452 Order dated 11/19/93, page 14

Case 95-554 Order dated 9/11/96, page 12

Case 97-034 Order dated 2/18/97, page 13

Case 2000-120 Order dated 11/27/2000, page 33

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Witness Responsible:

Michael Miller

66. For each category of deferred debit shown on W/P 1-12, please state if Commission approval for the Company's proposed ratemaking treatment has been granted and provide a cite to the applicable Commission order.

Response:

Cost of Service Study – Approved 5 year amortization with rate base for unamortized balance in December 12, order in case 2000-120.

Cost of Demand Study - Approved 5 year amortization with rate base for unamortized balance in December 12, order in case 2000-120.

Y2K Compliance– Approved a 5 year amortization with no rate base for unamortized balance in May 9,2001 order in case 2000-120.

GIS Graphical Interface Study – Approved a 3 year amortization with no rate base for unamortized balance in May 9,2001 order in case 2000-120. This amortization ended in February 2004 and is included in the base year information but not the forecasted test year.

Disinfection By Product Study - Approved 5 year amortization with rate base for unamortized balance in December 12, order in case 2000-120.

Deferred Legal Settlement Costs – Approved a 5 year amortization with no rate base for unamortized balance in May 9, 2001 order in case 2000-120. The Company mistakenly included the unamortized balance in rate base for this item. The average rate base balance for the forecasted test-year was \$38,716 as indicated on W/P-1-12 page 3 of 13.

KRS II – Approved a 5 year amortization with no rate base for unamortized balance in December 12 order in case 2000-120.

Bluegrass Water Project – Approved a 10 year amortization with no rate base for unamortized balance in December 12 order in case 2000-120.

KRS Residuals– Approved a 5 year amortization with no rate base for unamortized balance

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Witness Responsible:

Michael Miller

in December 12 order in case 2000-120.

Community Education Costs – Approved a 5 year amortization with no rate base for unamortized balance in May 9,2001 order in case 2000-120.

Source of Supply Study – Approved a 40 year amortization with rate base for unamortized balance in May 9,2001 order in case 2000-120.

Acquisition Cost (Boonesboro) – Approved a 10 year amortization with rate base for unamortized balance in May 9,2001 order in case 2000-120.

Cost of Rate Case – The Company is seeking a 3 year amortization with the unamortized balance in rate base in this case.

Cost of Tri-Village Acquisition – The Company is seeking a 40 year amortization with the unamortized balance in rate base in this case as discussed in the testimony of Mr. Miller.

Security Costs – The Company is seeking a 10 year amortization with the unamortized balance in rate base in this case as discussed in the testimony of Mr. Miller.

Shared Services Center – The Company is seeking a 10 year amortization with the unamortized balance in rate base in this case as discussed in the testimony of Mr. Miller.

Customer Call Center – – The Company is seeking a 10 year amortization with the unamortized balance in rate base in this case as discussed in the testimony of Mr. Miller.

Cost of Elk Lake Acquisition - The Company is seeking a 40 year amortization with the unamortized balance in rate base in this case as discussed in the testimony of Mr. Miller.

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Witness Responsible:

James E. Salser

67. Please provide the lead/lag days filed by the Company in its last base rate case.

Response:

See attached file KAW_R_AGKYDR1#67_attachment_062504.pdf.

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Witness Responsible:

Linda Bridwell

- 68.** How long do materials and supplies stay in inventory before they are used, for either a capital project or for a project that is expensed?

Response:

The duration of materials in inventory depends on a number of factors and varies greatly from item to item. Some items are held in inventory for critical emergency repairs and may not be removed from inventory for years. Other items purchased for specific construction projects pass through inventory on paper in a single day. Kentucky American Water turned over its inventory approximately five times in 2003.

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Witness Responsible:

Michael Miller

69. For each of the past five years, please provide the percentage of salaries and wages capitalized vs. expensed.

Response:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
O&M Expense	88.2%	87.3%	87.2%	87.0%	81.9%
Capitalized	11.8%	12.7%	12.8%	13.0%	18.1%

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Witness Responsible:

Michael Miller

70. Please describe all incentive compensation programs available to employees and provide the amount of incentive compensation awarded in each of the past five years or each such program.

Response:

Both the Long-term Incentive Plan (LIP) and Annual Incentive Plan (AIP) are described in the testimony of Mr. Miller beginning with question 71 on page 47 through the answer to question 81 on page 54.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
LIP	\$0	\$3,067	\$0	\$0	\$61,701
AIP	\$73,220	\$102,490	\$109,998	\$0	\$0
Other	\$0	\$0	\$109,500	\$139,700	\$78,500*

* Payment for 2003 was made on April 1, 2004

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Witness Responsible:

Michael Miller

71. When do employees receive salary increases, i.e. do all employees receive increases on a specific date or are increases granted on the employee's anniversary date?

Response:

Non-union employees receive salary increases each April 1. Union employees receive salary increases according to the union contracts as filed in response to item 20 of the Commission's first data request. For an electronic version of these contracts, refer to KAW_PSCDR1#20_052004.

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Witness Responsible:

Coleman Bush

72. Regarding page 1 of the schedule attached to Mr. Bush's testimony, please describe how the "office cost" for each employee was determined.

Response:

See attached file KAW_R_AGKYDR1#72_attachment_062504.pdf.

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Witness Responsible:

Coleman Bush

73. Regarding page 1 of the schedule attached to Mr. Bush's testimony, what does "PIT" stand for?

Response:

The Company frequently uses this acronym when it refers to its payroll overhead. "PIT" stands for pension, insurance and taxes.

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Witness Responsible:

Sheila Valentine

74. Please provide the current medical insurance rates and provide a copy of the most recent medical insurance invoice(s).

Response:

See response to Item 134.

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Witness Responsible:

Mike Miller

75. Please provide the most recent actuarial reports for the Company's a) pension plan and b) post-retirement benefits other than pension plan.

Response:

Please see attached file KAW_R_AGKYDR1#75_attachment_062504.pdf for 2003. The full actuarial reports for 2004 will not be finalized until later in the year. To arrive at the forecasted test year expenses for FAS 87 pensions and FAS 106 OPEB's the Company relied on updated estimates provided by Towers Perrin. The estimate and work schedule for pensions are shown on W\P-3-7. Attached is the estimate for OPEB's and the worksheet. Also attached are the assumptions used to arrive at the 2004 OPEB expense and to adjust for expected medical cost increases for 2005.

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Witness Responsible:

Michael Miller

76. Please provide, for each of the past five years as well as for the base year and forecast test period, the Company's FAS 87 expense and the actual contributions made to the pension fund.

Response:

	FAS 87 Pension Costs	ERISA Pension Contributions
1999	180,198	\$ 0
2000	-404,939	\$ 0
2001	356,713	\$ 0
2002	424,938	\$216,016
2003	800,534	\$409,712

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Witness Responsible:

Michael Miller

77. Please provide, for each of the past five years as well as for the base year and forecast test period, a) the Company's FAS 106 expense and b) the actual out-of-pocket costs (pay-as-you-go) incurred by the Company.

Response:

	<u>FAS 106 Costs</u>
1999	\$512,664
2000	\$437,463
2001	\$498,823
2002	\$493,066
2003	\$670,966

The Company has been advised that the requested information for PAYGO (Pay As You Go) for retiree OPEB claims are not, and cannot be tracked by state. Payments for medical claims are handled by the external fund trustees (currently Horizon Blue Cross Blue Shield and previous to that, AETNA), and due to the confidentiality requirements, company personnel do not have access to disaggregated claim payment data by employee status and/or by state. Due to the fact the claim payments are not coded as to whether the payment is being made to an active employee or a retiree, it is not possible to sort the claim payments to provide the requested information.

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Witness Responsible:

Michael Miller

78. Does the Company actually fund its FAS 106 liability? If so, please identify the amount of contributions in each of the past five years.

Response:

The Company does fund its FAS 106 liability.

FAS 106 Contributions

1999	\$577,989
2000	743,953
2001	561,060
2002	560,650
2003	595,650

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Witness Responsible:

Michael Miller

79. Please provide all available contracts for rate case services supporting the Company's rate case cost claim.

Response:

See attached contracts for James Salser, Coleman Bush, Patrick Baryenbruch, and Ken Rubin. The Company has a verbal understanding regarding the services of James Vanderweide and Edward Spitznagel.

See KAW_R_AGKYDR# 179_attachment_062504.pdf

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Witness Responsible:

Michael Miller

80. Please provide a copy of the Management Audit referenced on page 50, line 21, of Mr. Miller's testimony.

Response:

The Management Audit was performed in June, 1991, by Schumaker & Company for the Kentucky Public Service Commission and is titled: COMPREHENSIVEMANAGEMENT and OPERATIONS AUDIT of KENTUCKY-AMERICAN WATER COMPANY. The report contains 464 pages, is available at the Public Service Commission of the Commonwealth of Kentucky and will be made available by Kentucky-American Water Company for inspection by the Attorney General. A copy of pages 312 and 313, discussing incentive compensation, are attached in file KAW_R_AGKYDR1#80_attachment_062504.pdf.

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Witness Responsible:

Michael Miller

81. Please provide an organizational chart showing American Water Works Company and subsidiaries and affiliates, and provide a brief description of the services provided by each entity.

Response:

Please refer to attached file KAW_AGKYDR1#81_attachment_062504.pdf. See below for descriptions of services.

American Water Services Inc. – Provides services in the non-regulated areas such as, contract management, residuals management, industrial and environmental services, underground infrastructure, and engineering services.

American Water Resources Inc. – Provides services primarily in the areas of carbon regeneration and service line protection.

American Water Works Service Company – Provides management, engineering, accounting, finance, risk, human resources, legal, etc. for the benefit of the subsidiary companies. These services to the regulated subsidiaries are provided in accordance with the Service Company contract as approved by the various regulatory authorities where American Water has regulated subsidiaries and affiliated interest contracts are required.

American Water Capital Corp. - Provides cash management and capital to the subsidiaries of American Water Works. These services to the regulated subsidiaries are provided in accordance with the AWCC contract as approved by the various regulatory authorities where American Water has regulated subsidiaries and affiliated interest contracts are required.

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Witness Responsible:

Michael Miller

21 Regulated Utility Operations – The regulated subsidiaries provide water and wastewater service in accordance with various regulatory rules and practices, state regulations, and franchises that may be applicable in each jurisdiction.

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Witness Responsible:

Michael Miller

82. Please identify the officers and board members for each corporate entity identified in response to the previous question.

Response:

Refer to KAW_R_AGKYDR1#82_attachment_062504.pdf.

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Witness Responsible:

Coleman Bush

83. Please provide each amount allocated or directly charged by KAWC to an affiliated entity, including the parent company, for each of the last five years as well as for the base year and forecast test period.

Response:

See attached schedule KAW_R_AGKYDR1#83_attachment_062504.pdf for actual charges through May 2004.

While there are charges to Tennessee American Water for Donna Braxton and Frank Ross in the base period, these charges will not continue into the forecasted period as Tennessee American is in the process of filling vacant positions.

Jan Dickson, who spends some time working with Tennessee American Water, has 313 hours in the forecasted test year excluded from O&M labor. It appears, based on the time spent to date in 2004, that this should be adequate for the forecasted period.

Peggy Slone, who allocates part of her time to the VP of Business Change with American Water, also has 313 hours in the forecasted test year excluded from O&M labor. Based on the amount of time that she has been spending on activities for the VP of Business Change, it appears that this may not be adequate in the forecasted test year. She is spending approximately half her time on those duties now, but we are unsure as to how much will be required in the future.

Intercompany billings for office space, etc. are offset against current expenses. As budgets for these expenses are generally budgeted using history, these allocations are appropriately excluded from the forecasted test year.

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Witness Responsible:

Coleman Bush

84. For each amount identified in response to the previous question, please provide a) a description of the services provided and b) the method used for the allocation or direct charge.

Response:

See response to AGKYDR1#83.

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Witness Responsible:

Michael Miller

- 85.** Please provide each amount allocated or directly charged by an affiliated entity to KAWC for each of the past five years as well as for the base year and forecast test period.

Response:

Please refer to Exhibit 35 of the Company's filing for information about the manner in which Service Company charges are made to KAWC per the Service Company contracts approved by the various state regulatory agencies in which American Water operates and approval is required. Exhibit 35 also provides the total charges for the years 2001, 2002, 2003, the base period and the forecasted period. The total charges for the period 1999-2003 are provided in response to AG-127. The information requested in this question is voluminous and extremely time consuming to reproduce. The Company has detailed monthly Service Company bills that it can make available to the Attorney General at its Lexington Office at a mutually agreed on time and can provide answers to any specific question the Attorney General may have after reviewing this data.

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Witness Responsible:

Michael Miller

86. For each amount identified in response to the previous question, please provide a) a description of the services received and b) the method used for the allocation or direct charge.

Response:

Please refer to the response to question AG-85 and Exhibit 35 of the Company's filing in this case. In order to comply with this request the Company would have to review time sheets, and invoices backing the charges that are detailed on the Service Company bill for 60 months. This information is located in the various offices of the Company and would not be easily produced and is voluminous. The Company can answer any specific question the Attorney General may have about the type of service rendered, or method of allocation or direct charge upon their review of the detailed Service Company billings.

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Witness Responsible:

Michael A. Miller

87. Please identify by title, all employees that perform work for KAWC as well as for other subsidiaries or divisions of AWWC.

Response:

Each of the employees of American Water Works Service Company could charge time either directly or by formula to KAW in any particular year if they were working on a project that related to KAW. The information requested in this question is voluminous, and extremely time consuming to reproduce. The Company is providing organization charts for each area of American Water in response to question 81 above which provides information concerning the functional area of individuals. Also refer to response to questions AG-85 and AG-86 above.

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Witness Responsible:

Michael Miller

88. During the past five years, was any work performed by an employee or a director of KAWC Company for an affiliated entity for which no charges were made?

Response:

All work performed by KAW employees for an affiliate were billed to that entity. Certain directors of KAW are Service Company employees and routinely charge their time to the many other subsidiaries of American Water, and only charge KAW through formula or direct charges when they are performing tasks related to KAW.

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Witness Responsible:

Michael Miller/Coleman Bush

89. Please provide a description of all unregulated services provided by KAWC.

Response:

Please refer to Direct Testimony of Coleman D. Bush, pages 4-5. In addition to the activities listed therein, the Company, from time to time, records merchandising and jobbing revenues and expenses below the line, usually associated with billing others for damages to company facilities.

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Witness Responsible:

90. Regarding the Assessment of Service Company Services furnished with Mr. Baryenbruch's testimony, please provide the number of employees at the Corporate Office, the National Call Center, Regional Office, Shared Services Center and Information Technology Service Centers.

Response:

See attached schedule KAW_R_AGKYDR1#90_attachment_062504.pdf.

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Witness Responsible:

Patrick Baryenbruch

91. Regarding the Assessment of Service Company Services furnished with Mr. Baryenbruch's testimony, please provide a copy of each annual survey used to determine market rates for a) management consultants, b) attorneys, and c) certified public accountants, referenced on page 17 of the Assessment.

Response:

See the following attached surveys in file KAW_R_AGKYDR1#91_attachment_062504.pdf.

- a. 2003 Survey of U.S. Key Management Information," Association of Management Consulting Firms
- b. Virginia Lawyers Weekly, April 28, 2003
- c. 2003 National PCPS/TSCPA Management of an Accounting Practice Survey (Kentucky version)

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Witness Responsible:

Patrick Baryenbruch

92. Regarding Schedules 5, 7, and 8 of the Assessment of Service Company Services, provided as an exhibit to Mr. Baryenbruch's testimony, how did Mr. Baryenbruch determine the appropriate "Typical Percent of Time Spent" for each category?

Response:

"Typical percent of time spent" is based on the following:

Management Consultants (schedule 5) – Mr. Baryenbruch provided this typical percent of time spent by category based on his 25 years experience as a management consultant. During that time, Mr. Baryenbruch has managed many client assignments and understands the correct staffing mix necessary to maintain proper level of quality.

Certified Public Accountants (schedule 7) – Mr. Baryenbruch provided this typical percent of time spent by category based on his experience as a certified public accountant. He worked on the audit staff of Arthur Andersen and has carried out client assignments working with teams of accountants from large accounting firms. For instance, Mr. Baryenbruch is currently providing project management support for Duke Energy's Sarbanes-Oxley 404 implementation project. Duke is utilizing staff from two large accounting firms to help complete the work. Mr. Baryenbruch is responsible for overseeing the progress of these teams to ensure the project is completed on schedule.

Professional Engineers (schedule 8) – This typical percent of time spent by category is based on input from American Water engineers. While he is not an engineer, Mr. Baryenbruch has managed a group of engineers in connection with a rate case/litigation support assignment for Texas Utilities. Mr. Baryenbruch was responsible for performing studies to quantify the cost

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Witness Responsible:

Patrick Baryenbruch

impact on the Comanche Peak Nuclear Plant of various events that occurred during the plant's design and construction.

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Witness Responsible:

Patrick Baryenbruch

93. Regarding page 24 of the Assessment of Service Company Services, provided with Mr. Baryenbruch's testimony, please provide the Belleville Lab study comparing its costs to costs of outside testing laboratories.

Response:

Refer to attached file KAW_AGKYDR1#93_attachment_062504.pdf.

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Witness Responsible:

Michael Miller

94. Did the Company issue a Request for Proposal for call center services prior to transferring these services to the National Call Center? If not, please state why no RFP was issued.

Response:

Please see attached file KAW_R_AGKYDR1#94_attachment_062504.pdf.

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Witness Responsible:

Michael Miller

95. Is the Company allocated any costs from RWE Thames Water? If so, please identify all such costs included in the base year and forecast test period.

Response:

No.

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Witness Responsible:

Sheila Valentine

96. With regard to chemical expenses, please provide the base year and forecast test period pro forma expenses for chemical expense by type of chemical and identify the volume assumed for each chemical.

Response:

	Usage	Cost
SODIUM THIOSULFATE	110,387	\$10,346
POLYALUMINUM CHLORIDE	8,031,831	\$832,206
ALUM	0	\$0
LIME, HYDRATED	0	\$0
CHLORINE	835,716	\$146,159
FLUORIDE	622,975	\$40,858
POWDERED CARBON	900	\$423
COPPER SULFATE	13,324	\$17,858
POLYMERS-1	304,818	\$46,287
LIME, PEBBLE	0	\$0
SODIUM CHLORIDE	26,900	\$2,838
AMMONIA	159,777	\$27,128
CAUSTIC SODA	565,691	\$40,794
POT. PERMANGANATE	90	\$122
POLYMERS - 2	23,380	\$17,467
FERRIC CHLORIDE	52,159	\$2,900
SLUDGE POLYMER	1,125	\$2,475
CORROSION INHIBITOR	426,642	\$73,338
GAC		\$94,070
TOTAL	11,175,715	\$1,355,269
General Ledger		1,358,500
Tri Village		580
Elk Lake		110
Variance due to timing/accounting differences		(\$3,921)

Please refer to the corrected chemical forecast workpaper attached to Item 126 for the forecast test period proforma data.

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Witness Responsible:

Sheila Valentine

97. For each type of chemical for which costs are included in the filing, please provide a) the quantity utilized and b) the total cost, for each of the past five years.

Response:

See attached electronic file KAW_R_DR1#97_attachment_062504.pdf. Variances to the general ledger balance are due to miscellaneous adjustments and invoices charged directly to expense. The manual method of maintaining the Stock C chemicals was converted to the JDEdwards financial system in April 1999 and the historical usage data was not converted properly resulting in the large variance.

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Witness Responsible:

Sheila Valentine

98. Regarding page 7, lines 19-22 of Ms. Valentine's testimony, please provide, for each of the past five years, a) the total waste disposal costs incurred (including cleanings) and b) the amount of waste disposal costs incurred for cleanings.

Response:

A. Total Waste Disposal Expense

Routine costs for the daily operation of the waste disposal systems are included in the waste disposal expense column. The amounts include the electric for the operation of the pump motors and collection systems, as well as any required chemicals.

	<u>Waste Disposal Expense</u>	<u>Amort Waste Disposal Exp</u>	<u>Total</u>
1999	51,547	37,870	89,417
2000	50,260	72,000	122,260
2001	63,017	79,919	142,936
2002	167,680	* 83,516	251,196
2003	71,460	69,780	141,240

*The higher than average cost in 2002 was due to a cleaning of the residual tanks and discharge area at the Richmond Road Station.

B. Waste Disposal Expense - cleanings

The cleanings are segregated under the amortization of waste disposal expense column above. The cleanings occurred in 1999 and 2001 and are amortized over two years.

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Witness Responsible:

Linda Bridwell

99. Please provide, for each of the past five years as well as for the base year and forecast test period, the total quantity of water treated by KAWC.

Response:

Year	Volume of water treated (MG)
2003	15,344.10
2002	16,313.12
2001	15,371.13
2000	14,940.86
1999	15,432.44
Base year	15,395.37
Forecasted year	14,940.27

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Witness Responsible:

Linda Bridwell

100. Please provide, for each of the past five years as well as for the base year and forecast test period, a) the total quantity of water pumped from wells, b) the total quantity of water purchased from third party suppliers (by supplier), and c) the total quantity of water sold.

Response:

a. None.

b.

Year	Winchester Municipal Utilities	Owenton	Gallatin County Water District	Total
2003	16,855	130,858	7,822	155,535
2002	14,921	134,760	5,512	155,193
2001	90,814	49,985	0	140,799
2000	142,320	0	0	142,320
1999	170,731	0	0	170,731

In 1,000 gallons.

c.

Year	Total Water Sold (1000 gallons)
2003	12,514,487
2002	13,457,926
2001	12,875,553
2000	12,853,579
1999	13,359,875

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Witness Responsible:

Linda Bridwell

101. Please provide copies of all current contracts for purchased water.

Response:

Please refer to attached file KAW_R_AGKYDR1#101_attachment_062504.pdf.

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Witness Responsible:

Linda Bridwell

102. How does the Company forecast the contractual amounts of purchase water that it will require.

Response:

By looking at historical usage and determining if there have been significant changes either in the number of customers or customer usage pattern.

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Witness Responsible:

Michael Miller

103. Please identify any costs incurred by, or allocated to, KAWC associated with its acquisition by RWE Thames Water.

Response:

None.

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Witness Responsible:

Linda Bridwell

104. Regarding W/P 1.1, how many new services is the Company projecting to add between August 2003 and November 2005?

Response:

5912.

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Witness Responsible:

Linda Bridwell

105. Regarding W/P 1-1, please itemize the significant additions to office furniture and equipment in the Central Division projected to be added during the period August 2003 to July 2004, and state why these additions are necessary.

Response:

The addition of \$3,832,523 in utility plant 304100 labeled office furniture and equipment includes \$3,124,332 in Mainframe Software (account 340300) which includes Kentucky American Water's portion of the ORCOM customer service software. This project was critical to improving Kentucky American Water's customer records and data. American Water Works made the decision to pursue the ORCOM software company wide before any decision was made about a centralized call center.

An additional \$148,112 was in account 340330 for Computer Software. This represented a portion of the SCADA project placed in service in September 2003.

The balance of the \$3,832,523 listed on page 1 in Office Furniture and Equipment includes the balance of the SCADA project, replacing PCs and equipment.

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Witness Responsible:

Mike Miller

106. Regarding W/P 1-1, pages 1-3, please provide, by account, the actual additions and retirements from August 2003 through the latest month available.

Response:

See attached schedule KAW_R-AGKYDR1#106_attachment_062504.pdf of plant additions and retirements for the period August 2003 through May 2004 by the Central Division, Tri-Village and Elk Lake.

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Witness Responsible:

Mike Miller

107. Regarding W/P 1-2, please explain how the acquisition adjustment was allocated among the Central Division, Tri-Village, and Elk Lake.

Response:

There was no allocation between the systems. The acquisition adjustment for the Tri-Village and Elk Lake is based on the actual purchased price of each system. The Central Division adjustment is related to the purchase price of the Boonesboro system.

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Witness Responsible:

Michael Miller

108. Regarding W/P 1-2, does this adjustment include the Tri-Village and Elk Lake acquisitions?
If so, please explain why these acquisitions are also included in deferred debits.

Response:

Yes. The deferred debits in the Central Division are overstated by the \$87,005 for the base period, \$ 69,604 for the forecast period and \$76,130 for the thirteen month average for the forecast period. Tri-Village is also overstated by \$ 218,267, \$ 210,691 and \$ 213,532 for the respectively periods.

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Witness Responsible:

Mike Miller

109. We are having difficulty reconciling the workpapers to the Company's CWIP claim of \$6,124,953. Please identify which specific workpapers comprise the CWIP claim included in the Company's rate base claim.

Response:

Please see attached file [KAW_R_AGKYDR1#109_attachment_062504.pdf](#).

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Witness Responsible:

Mike Miller

110. Does the Company's CWIP claim include a 13-month average of all estimated CWIP or only CWIP associated with certain projects? Please explain.

Response:

CWIP includes a thirteen month average balance of all projects with a balance at the end of each month. See schedules attached to KAW_R_AGKYDR1#109_062504attachment.pdf.

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Witness Responsible:

Mike Miller

111. We are having difficulty reconciling the workpapers of the Company's claim for contributions in aid of construction with the rate base amount of \$34,547,915. Please identify which specific workpapers comprise the CIAC claim included in the Company's rate base claim.

Response:

The Central Division beginning balance of CIAC as of January 2004 included 5 errors: (1) inclusion of \$1,776,968 for Tri-Village, (2) a doubling of services for Tri-Village of \$183,790, (3) a doubling of services for Elk Lake of \$165,835, (4) incorrect Tri-Village beginning balance of \$49,650 and (5) an understatement of Elk Lake of \$80,988. The effect of these errors was an overstatement of \$2,095,255, shown below.

See attached Schedule KAW_AGKYDR1#111_attachment1_062504.pdf for the beginning balance reconciliation. Schedule KAW_AGKYDR#111_attachment2.pdf and Schedule KAW_AGDYDR#111_attachment3.pdf reflect the results of the beginning balance changes through the forecast and thirteen month average for the Central and Tri-Village/Elk Lake respectively. The remaining difference is depreciation on Contributed Property based on the corrected beginning balances of Contribution in Aid of Construction for each system.

Original Filing total company	\$ 34,547,915
Corrected	<u>32,485,862</u>
Variance	<u>2,062,053</u>
Central Division variance	\$ 2,126,593
Tri-Village variance	49,650
Elk Lake variance	<u>(80,988)</u>
	2,095,255
Remaining variance	<u>\$ 33,202</u>

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Witness Responsible:

Mike Miller

112. Please describe how depreciation expense on contributed property is treated for ratemaking purposes.

Response:

The depreciation expense on contributed property is reflected in account 272000 titled Depreciation Contributed Property which is a reduction to the total CIAC amount. See KAW_R_AGKYDR1# 111_attachment2_062504.pdf.

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Witness Responsible:

Michael Miller

113. Regarding Deferred Investment Tax Credits, why didn't the Company use an average future test year balance per W/P 1-10, page 2 of 2, rather than the balance at November 2005?

Response:

On Schedule B-1 Page 2 of 2 the Deferred Investment Tax Credit average balance and end of the Forecast period were reversed.

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Witness Responsible:

Michael Miller

114. Regarding Deferred Investment Tax Credits, W/P 1-10, page 2 of 2, please explain how the "Deferred ITC (JDITC - 4% and 10%)" is reflected in the Company's claim.

Response:

The 4% and 10% ITC is amortized over the life of related property placed in service. The Federal Income Tax expense is reduced by the annual amortized amount for the 4% and 10% ITC.

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Witness Responsible:

Mike Miller

115. Regarding W/P 1-12, page 11, please provide all supporting workpapers for the accrued pension amounts shown on this workpaper.

Response:

The Monthly accruals were the same amount as filed in the Company's last rate case filing. Attached are three Schedules. Attachment 1 reflects the net activity and balance for each account month beginning January 2002 through June 2004. For electronic version, refer to KAW_R_AGKYDR1#115_attachment1_062504.pdf. The period July 2004 through November 2005 is based on Company's actuarial study for the year 2004 as shown on attachment 2. For electronic version, refer to KAW_R_AGKYDR1#115_attachment2_062504.pdf. For accounts 262110 and 262120 respectively, refer to KAW_R_AGKYDR1#115_attachment3_062504.pdf.

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Witness Responsible:

James Salser

116. Regarding Exhibit 37D, page 1, what is the rationale for eliminating all unbilled revenue?

Response:

Unbilled revenue is an accounting concept used to adjust revenues for a time period not included in actual billing. Unbilled revenue should be excluded on the referenced schedule because all customers at the beginning of the forecasted period have revenue included for the entire period and customers added during the forecasted period have revenue included for them for all of their presumed consumption in the forecasted period.

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Witness Responsible:

James E. Salser

- 117.** Regarding the forecasted "Other Revenue - Collection for Others" per W/P 2-3, page 2, please describe all billing and collection services provided by KAWC on behalf of other entities and provide a copy of each such contract for billing and collection services.

Response:

All billing and collecting services are described in the agreements included in attached file KAW_R_AGKYDR1#117_attachment_062504.pdf.

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Witness Responsible:

James E. Salser

118. Regarding W/P 2-3, page 2, please explain how each forecasted amount was determined.

Response:

Other Revenue – Rents Water Property – This category is forecasted based on current cell tower rental agreements.

Other Revenue – Collection for Others – This category is forecasted using the rates from the billing and collection agreements filed in response to AGDR1#117 and estimated accounts subject to the conditions of the agreements.

Other Revenue – NSF Check Charges – This category is forecasted using the current NSF fee and an estimated number of fees to be collected based on history.

Other Revenue – Miscellaneous Service Revenue – This category includes miscellaneous revenue estimates from various sources including reconnection fees, homestead inspections and a minor amount for compensation from the state sales tax return process. These amounts are estimated primarily based on history using actual rates, etc. where applicable.

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Witness Responsible:

Coleman Bush

119. Please provide the total overtime hours included in salaries and wages separately for the base period and the forecast test year.

Response:

Please refer to Exhibit 37, Schedule G of the Company's application. For electronic version, see KAW_APP_EX37G_043004.pdf.

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Witness Responsible:

Coleman Bush

120. Please identify all contractual union increases from August 2003 through November 2005.

Response:

Please refer to the Company's response to item 15 of Public Service Commission Data Request No. 1. For electronic version, see KAW_R_PSCDR1#15_052004.pdf. The current inside union contract expires December 17, 2004 and the current outside union contract expires October 31, 2004.

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Witness Responsible:

Coleman Bush

121. Please identify, separately for union and non-union employees, the actual salary and wage increases granted from January 1,2001, through the latest date available.

Response:

For 2002 to the latest date available, refer to the Company's response to PSCDR1#15.

2001:

Inside Union – December 17,2001 – 3.0%

Outside Union – November 17,2001 – 3.0%

Non-Union – July 1,2001 – 3.68%

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Witness Responsible:

Sheila Valentine

122. The workpapers do not appear to support the Company's labor expense adjustment shown on Schedule D-1, page 10, in the amount of \$227,312. Please identify the specific workpapers included in W/P 3-1 where this amount can be found.

Response:

See Labor W/P 3-1, page 1 of 34. Schedule D takes the forecast less the base period to arrive at an adjustment. The W/P 3-1 is the forecasted labor total. Labor is reconciled as follows:

Lexington	\$5,140,435
Elk Lake	44,408
Tri Village	<u>158,820</u>
Total Labor per W/P	\$5,343,663

Base Period Labor Sch D-1	\$5,117,330
Adjustment	<u>227,312</u>
Total Labor per Sch D-1	\$5,344,642

Difference in W/P and Sch D-1	\$979
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Account 672100 on Schedule D-1 should be line 25 – Maintenance Expense-base period amount. See Schedule D-1, Page 6 of 19, line 25. This base period amount was inadvertently included as part of the labor base period total.

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Witness Responsible:

Michael Miller

123. Please provide a copy of each incentive plan currently in effect.

Response:

Please see attached file KAW_R_AGKYDR1#123_attachment_062504.pdf.

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Witness Responsible:

Sheila Valentine

124. Regarding W/P 3-2, what are the basis for the energy, demand, and fuel adjustment cost rates used in this exhibit?

Response:

The rates are based on the average rates that we are actually paying on our most recent bills.

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Witness Responsible:

Sheila Valentine

125. Regarding the W/P 3-2, please explain the "Surcharge" and "Merger Surcredit" shown in this schedule including the derivation of these amounts.

Response:

The surcharge and merger credits are amounts that are paid by KAW to Kentucky Utilities. These amounts are applied to all utility invoices by the electrical provider. The amounts have been approved by the PSC for the electrical provider to pass through, based on percentage factors, of the total invoice.

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Witness Responsible:

Sheila Valentine

126. Please provide the total chemical cost incurred in each of the past five years, and as forecast for the base period and the future test year.

Response:

	Chemical Expense	GAC	Total
1999	848,143	74,100	922,243
2000	1,164,206	75,018	1,239,224
2001	1,145,572	82,324	1,227,896
2002	1,242,755	87,120	1,329,875
2003	1,255,541	94,711	1,350,252
Base Period	1,313,140	46,050	1,359,190
Forecast	1,121,474	99,662	1,221,136

Also attached are corrected workpapers 3-3 pages 1 through 6. The difference in the total of \$1,224,736 and the forecast of \$1,221,136 is the result of the elimination of Boonesboro chemical costs of \$3,600.

Please see attached file KAW_R_AGKYDR1#126_attachment_062504.pdf

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Witness Responsible:

Michael Miller

127. Regarding the entities shown in WIP 3-5, page 1, please provide the Management Fees charged to KAWC from each of these entities for each of the past five years.

Response:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Belleville Lab	179,213	182,132	178,461	176,781	181,349
Call Center	0	0	0	54,246	197,755
Shared Services	0	0	0	494,820	426,429
Corporate	988,568	1,247,274	2,122,184	1,706,083	1,715,162
Southeast Region	0	NA	NA	754,374	765,531
Total	1,167,781	1,429,406	2,300,645	3,186,304	3,286,226

This schedule does not reflect the offsetting savings at KAW for the movement of accounting, finance, and customer service functions to the SE Region and National Service Centers. Those topics are covered extensively in the testimony of Michael A. Miller.

Note: Because of a change in the accounting software the Company can not readily break down the SE Region costs for 2000 & 2001. Those costs are included with the Corporate costs for those two years.

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Witness Responsible:

Michael Miller

128. For each entity shown in WP 3-5, please provide the total costs incurred by the entity in each of the past five year and the percentage allocated each year to KAWC.

Response:

Information requested for calendar years 2002 and 2003 is not available at this time. Due to a change in accounting software, the Company is making arrangements to extract this data from the system and will provide this information once it becomes available. Please see attached file KAW_R_AGKYDR1#128_attachment_062504.pdf.

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Witness Responsible:

Michael Miller

129. Please provide any studies showing how the corporate costs allocated to KAWC compare with corporate costs allocated to, or incurred by, other utilities.

Response:

No such study has been performed by American Water. If the term "corporate" refers to American Water Works Company, Inc., no charges are allocated to the subsidiaries. Mr. Baryenbmch covers the reasonableness of Service Company charges in his testimony and exhibits.

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Witness Responsible:

Michael Miller

130. Do the Company's labor costs include costs allocated from affiliates or are all of these costs included in the Management Fee?

Response:

The Company's labor cost does not include an allocation from affiliates. The Service Company costs are charged to Management fees and other expense lines when appropriate to do so.

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Witness Responsible:

Michael Miller

131. Please provide the reason for the increase of over 25% in Management Fees from the base period to the future test year.

Response:

The primary reasons for the increase are (1) the annualization of the call center costs which were only in the base period for beginning in October 2003 and (2) the budget from February 2004 to July 2004 anticipated the move to the Call Center occurring in April 2004. The move to the call center and offsetting savings is addressed extensively by Michael A. Miller in his testimony. The Company included an increase of 2.5% for salary increases and the impact of inflation on other expense items.

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Witness Responsible:

Coleman Bush

132. Please provide a copy of the Company's employee handbook.

Response:

The employee handbook contains approximately 250 pages under 24 tabs. It includes several pamphlets, forms and has numerous pages with small print. It will be made available for inspection at a date, place and time to be agreed upon.

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Witness Responsible:

Sheila Valentine

133. Please reconcile the total costs of \$937,643 per W/P 3-6, page 1 with the forecasted cost of \$1,724,407 per Schedule D-2.3, page 1.

Response:

Forecasted cost per Schedule D-2.3	\$1,724,407
Balance per W/P 3-6 – total Group Insurance	<u>937,643</u>
	786,764
OPEB's-Lexington, Tri Village, Elk Lake	<u>798,734</u>
Capitalized portion of Group Insurance	(11,970)

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Witness Responsible:

Sheila Valentine

134. Regarding W/P 3-6, page 1, for each type of insurance shown, please provide the actual costs in each of the last three years, and for the base period.

Response:

Please see attached file [KAW_R_AGKYDR1#134_attachment_062504.pdf](#) showing invoices for 2001,2002,2003, and thru June 2004 of the base period.

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Witness Responsible:

Michael Miller

135. Regarding W/P 3-7, page 2, please explain why each entity has a different annualized rate of valuation earnings.

Response:

The term "annualized rate of valuation earnings" is the payroll dollars for the employees of each entity and is the basis for the allocation of pension costs.

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Witness Responsible:

Michael Miller

136. Regarding W/P 3.8, page 1, do the "Cost of Service Study" and "Demand Study" relate to prior cases? If so, please provide a cite to a Commission order approving these amortizations.

Response:

Please see Commission order in case 2000-120 issued November 27, 2000 at page 14.

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Witness Responsible:

Sheila Valentine

137. Please reconcile the base period customer accounting costs of \$852,207 per Schedule D-2.3, page 2 with the base period cost of \$999,541 shown on W/P 3-10, page 1.

Response:

Base Period per W/P 3-10 Lexington	\$ 999,541
Base Period per W/P 3-10 Tri Village	<u>2,203</u>
Total Base Period per W/P 3-10	\$1,001,744
Base Period per Schedule D 2.3 incl. Tri Village	<u>852,207</u>
Variance	\$ 149,537
Legal Services-Acct 923300-should be Misc Exp	7,051
Contract Services-Acct 923100-should be Misc Exp	(149,045)
Transportation-Acct 930600-should be Misc Exp	913
Acquisitions included in budget but not in case:	
Uncollectibles difference-Owenton Water & Sewer	(5,947)
M & S Oper. -Bluegrass Station	(1,256)
M & S Oper.-Georgetown Municipal Water	<u>(1,256)</u>
Variance due to rounding	(3)

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Witness Responsible:

Sheila Valentine

138. Regarding W/P 3-11, page 1, please provide the current lease cost for each lease shown in this workpaper.

Response:

See attached schedule KAW_AGKYDR1#138_attachment_062504.pdf.

The proforma forecast rent expenses have been overestimated due to several items. Lab equipment was included in the forecast in the amount of \$41,415 but will not be leased due to this equipment being purchased. A copier used in Customer Service is no longer being leased in the amount of \$5,532. Tri Village overestimated their lease obligations for the copier and postage machine. Over all, the rent expense forecast can be reduced by a total of \$58,295. In anticipation of contracting GIS with an outside party, \$13,660 has been included in the proforma forecast rent expense.

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Witness Responsible:

Sheila Valentine

139. Regarding W/P 3-11, page 2, please provide a brief narrative describing each lease.

Response:

See schedule attached to Item 138. Please refer to
KAW_AGKYDR1#138_attachment_062504.pdf.

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Witness Responsible:

Sheila Valentine

140. Please reconcile the base period miscellaneous expenses of \$3,080,829 per Schedule D-2.3, page 2 with the base period expenses of \$3,113,699 per W/P 3-13, page 7.

Response:

Please see attached file [KAW_R_AGKYDR1#140_attachment_062504.pdf](#).

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Witness Responsible:

Linda Bridwell

141. Regarding W/P 3-14, page 2, please describe how the Company forecast the future test year amount for each maintenance category (excluding amortizations).

Response:

Each department superintendent provides information on projected maintenance needs for the forecasted period. These expenses are based on historical expenses as well as anticipated increases due to trends or known issues.

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Witness Responsible:

Sheila Valentine

142. What is the basis for the uncollectible percentage used in Schedule H of the Application?

Response:

The uncollectible percentage was based on the original forecasted revenues divided by the forecasted uncollectible expense.

Lexington	\$48,575,209
Tri Village	780,364
Elk Lake	<u>85,109</u>
Total forecasted revenues	\$49,440,682
Forecasted uncollectibles	250,581
Uncollectible percentage	.506832%

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Witness Responsible:

Sheila Valentine

143. Regarding Schedule H of the Application, why is the PSC fee assessment factor higher in the Elk Lake system?

Response:

The PSC fee should be .18690% in all three columns. The net revenue line was calculated using .18690% in all three districts.

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Witness Responsible:

Michael Miller

144. For each of the past five years, a) please provide a list of the companies that have filed a consolidated income tax return with KAWC, b) please provide, by year, the taxable income or tax losses incurred by each company, and c) identify which companies are regulated utilities.

Response:

Kentucky-American Water Company objects to this data request because the information sought is irrelevant and immaterial.

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Witness Responsible:

Michael Miller

145. Please provide all reports submitted by RWE, Thames, TWUS, AWWC, and KAWC regarding the adoption and implementation of best practices, per item 19 of Appendix A of the Commission's Order in Case No. 2002-00317, dated December 20, 2002.

Response:

On March 31, 2004, a notice of best practices implementation was electronically filed in Case No. 2002-00277 and is available on the Commission's website; a copy in paper form was mailed that day to the Attorney General; nevertheless, a copy is attached. Please refer to file KAW_R_AGKYDR1#145_attachment_062504.pdf.

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Witness Responsible:

Michael Miller

146. Please provide all reports submitted by Thames, TWUS, and AWWC regarding the actual cumulative costs of the merger, per item 36 of Appendix A of the Commission's Order in Case No. 2002-00317, dated December 20, 2002.

Response:

Kentucky-American Water Company objects to this data request because the information sought is irrelevant, immaterial and inadmissible in Kentucky-American Water Company's action for a general increase in its rates.

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Witness Responsible:

Coleman D. Bush

147. Please provide a copy of the Company's cost allocation manual.

Response:

Please refer to Direct Testimony of Coleman D. Bush, pages 4-10 including Exhibit KAW_DT_CDB-EX1_043004.

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Witness Responsible:

Coleman Bush

148. Regarding page 5, lines 26-32 of Mr. Bush's testimony, please quantify the costs included in the base period and future test year for each of the following corporate business units: a) administrative and general, b) communications, c) customer service, d) engineering, e) government relations, f) human resources, g) loss control, and h) water quality.

Response:

Please see attached file KAW_R_AGKYDR1#148_attachment_062504.pdf.

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Witness Responsible:

Coleman Bush

149. Regarding the business units identified in the previous question, please identify the number of KAWC employees in each unit.

Response:

Please refer to the organization chart filed in response to item 165 of AGKYDR1. For electronic version, see [KAW_R_AGKYDR1#165_attachment_062504.pdf](#).

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Witness Responsible:

Coleman Bush

150. Regarding page 5, lines 26-32 of Mr. Bush's testimony, please quantify the total costs projected to be allocated to KAWC by the Service Company in the base period and future test year for each of the following corporate business units: a) business development, b) legal, c) information systems, rates and revenues.

Response:

These services are provided through the Southeast Region office and as such are allocated as part of Southeast Region management fees.

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Witness Responsible:

151. Please make available to the Attorney General's consultant someone from the Company who is knowledgeable regarding the cash working capital workpapers provided in W/P 8-1.

Response:

Any question regarding cash working capital should be submitted through normal channels and the Company's legal counsel will forward request to the appropriate witness.

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Witness Responsible:

Michael Miller

152. Please provide KAWC's quarterly capitalization, including short-term debt, in both dollar amounts and ratios for the past three years. Also, please indicate the current contracted interest rate on short-term debt.

Response:

The Company obtains its short-term debt requirements from AWCC but does not have a stated contract price for its short-term debt. The price is determined by market conditions and the prevailing best price available. In the past, AWCC has utilized the commercial paper market to obtain short-term debt at the best available price. Please see the response to LFUCG #81 concerning the current short-term debt arrangements.

Numbers in thousands.

2001	<u>Q1 Cap.</u>	<u>Q1 Ratio</u>	<u>Q2 Cap.</u>	<u>Q2 Ratio</u>	<u>Q3 Cap.</u>	<u>Q3 Ratio</u>	<u>Q4 Cap.</u>	<u>Q4 Ratio</u>
LT Debt	70,500	50.1%	70,500	49.0%	70,500	48.4%	57,500	38.2%
ST Debt	3,646	2.6%	5,511	3.8%	6,308	4.3%	24,667	16.4%
Preferred	6,990	5.0%	6,990	4.9%	6,950	4.8%	6,950	4.6%
Common	59,617	42.3%	60,806	42.3%	61,321	42.1%	61,322	40.8%
Total	140,753	100.0%	143,807	100.0%	145,709	100.0%	150,439	100.0%

2002	<u>Q1 Cap.</u>	<u>Q1 Ratio</u>	<u>Q2 Cap.</u>	<u>Q2 Ratio</u>	<u>Q3 Cap.</u>	<u>Q3 Ratio</u>	<u>Q4 Cap.</u>	<u>Q4 Ratio</u>
LT Debt	57,500	38.9%	81,500	53.3%	81,500	54.1%	68,500	45.1%
ST Debt	22,673	15.4%	3,374	2.2%	0	0	14,649	9.6%
Preferred	6,950	4.7%	6,950	4.5%	6,910	4.6%	6,910	4.6%
Common	60,560	41.0%	61,162	40.0%	62,350	41.3%	61,768	40.7%
Total	147,683	100.0%	152,986	100.0%	150,760	100.0%	151,827	100.0%

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Witness Responsible:

Michael Miller

2003	<u>Q1 Cap.</u>	<u>Q1 Ratio</u>	<u>Q2 Cap.</u>	<u>Q2 Ratio</u>	<u>Q3 Cap.</u>	<u>Q3 Ratio</u>	<u>Q4 Cap.</u>	<u>Q4 Ratio</u>
LT Debt	68,500	45.5%	68,500	44.8%	68,500	44.9%	68,500	44.4%
ST Debt	12,675	8.4%	15,408	10.1%	14,394	9.4%	17,076	11.1%
Preferred	6,910	4.6%	6,910	4.5%	6,854	4.5%	6,052	3.9%
Common	62,375	41.5%	61,954	40.6%	62,864	41.2%	62,689	40.6%
Total	150,460	100.0%	152,772	100.0%	152,612	100.0%	154,317	100.0%

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Witness Responsible:

Michael Miller

153. With respect to page 4, lines 2-11, and Exhibit MAM-2, please provide copies of the projected thirteen monthly capitalization figures used to compute the thirteen month average capital structure.

Response:

The requested information is contained in W/P-7-1, W/P-7-2, W/P-7,3, W/P-7,4, WIP-7-5, W/P-7-6, and W/P-7-7 previously supplied.

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Witness Responsible:

Michael A. Miller

154. With respect to page 9, lines 1-13, and Exhibit MAM-3, please provide copies of any workpapers and/or studies performed that demonstrate the (1) source and (2) the magnitude of the "Basis Point Savings" and the "Avoided Issuance Costs" associated with the three securities issues listed in Exhibit MAM-3.

Response:

The Basis points savings were determined from the interest rate differential derived from the improved S&P bond rating of AWCC from A- to A. The rating agency indicated this upgraded rating was primarily related to the financial strength of RWE. The savings in issuance cost was determined from the issuance costs the Company experienced on issues it placed in the private bond market prior to utilization of AWCC (75 basis points) and the actual issuance cost experienced after utilization of AWCC.

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Witness Responsible:

Michael Miller

155. With respect to page 9, lines 1-13, and Exhibit MAM-4, please provide the workpapers and copies of the data sources used to assess the interest rate spreads between Treasury yields and 'A' rated public utility bonds. In addition, please indicate how the interest savings highlighted in Exhibit MAM-3 are accounted for in the study of the yield differentials.

Response:

The A-rate utility bond rates and 30-year Treasury bond rates used on Exhibit MAM-4 are taken directly from the Value Line Publication as indicated on the Exhibit. The only information used was the Value Line publication for the dates indicated on the Exhibit. The spreads between A-rated utility bonds and 30-year Treasury Bonds are a simple mathematical calculation. The Value Line Investment Survey is copyrighted and subscribers may not reproduce, resell, store or transmit in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication. If the Attorney General or its witnesses in this case do not have access to the Value Line Investment Survey information, the Company can make available the information for review by the Attorney General at the Company's office if the Attorney General wishes to make arrangements for a time to do that.

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Witness Responsible:

Michael Miller

156. With respect to page 9, lines 18-22, please provide a copy of the Value Line fed funds rate forecast and a copy of the study that demonstrates how the 40 basis point premium was determined.

Response:

The Company is precluded by copyright from supplying a copy of the Value Line Investment Survey as indicated in the response to AG1-#155. The Value Line Investment Survey published on May 28, 2004 provides a forecast of interest rates and other financial data. The forecast of fed funds rates in the May 28 publication indicates a forecast for fed funds rates in 2005 of 2.4%, up from the 2.3% fed funds for 2005 included in the February 27, 2004 publication relied on to provide the estimate of short-term interest rates used in the forecasted test-year of the filing. There was no study performed to arrive at the 40 basis points spreads but were developed by Mr. Miller from his experience as VP and Treasurer of the Company. Analysts and financial publications are indicating increasing interest rates over the coming months and the Company continues to believe the short-term interest rate used in the forecasted test-year is reasonable. As this case moves closer to hearing the Company will review updated financial forecasts and will recommend a change to that interest rate based on the latest forecasts if such change is warranted.

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Witness Responsible:

Michael Miller

157. With respect to page 10, lines 1-8, please provide a copy (in paper and electronic form) of the amounts and costs of the individual debt issues and the methodology that was employed to compute the cost of long-term debt and preferred stock.

Response:

The information requested has been previously supplied in both paper and electronic form in the Company's filing. The information requested is contained at WIP-7-1, WIP-7-2, and W/P-7-3.

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Witness Responsible:

Coleman Bush

158. Please identify the entities that have been given presentations by Kentucky-American regarding the outsourcing of management, contract operations, partnerships, transfer of assets, merger, or any other form of consolidation or change in control. Supply a listing of entities and presentations from January 1, 2002, to present. Include copies of all correspondence and meeting materials. (The response does not need to include any materials for the February 2002 proposal to Owenton that were previously supplied in PSC Case No. 2002-00018 in response to AG 1-24 in that case.) Include in the response the name(s) of the presenter(s) or participants for each presentation.

Response:

Kentucky-American Water Company objects to this data request because the information sought is irrelevant, immaterial and inadmissible as there are no investments, revenues or expenses in this rate request relative to the assimilation of such entities into the operations of Kentucky-American Water Company.

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Witness Responsible:

Michael Miller

159. Reference: Application, Exhibit 37, Schedule F.

- a. Is Company seeking above-the-line treatment for any of its social and service club dues for the forecasted period? If yes, please identify the expense amount for which Kentucky-American seeks recovery through rates.
- b. Is Company seeking above-the-line treatment for any of its charitable contributions for the forecasted period? If yes, please identify the expense amount for which Kentucky-American seeks recovery through rates.
- c. Is Company seeking above-the-line treatment for any of its initiation fees/country club expenses for the forecasted period? If yes, please identify the expense amount for which Kentucky-American seeks recovery through rates.
- d. Is the Company seeking above-the-line treatment for any of its employee party, outing and gift expense for the forecasted period? If yes, please identify the expense amount for which Kentucky-American seeks recovery through rates.
- e. Is Company seeking above-the-line treatment for any of its customer service, sales promotion and miscellaneous advertising expense for the forecasted period? If yes, please identify the expense amount for which Kentucky-American seeks recovery through rates.
- f. Is the Company seeking above-the-line treatment for any of its advertising expense for the forecasted period? If yes, please identify the expense amount for which Kentucky-American seeks recovery through rates.
- g. Is Company seeking above-the-line treatment for any of its social and service club dues for the forecasted period? If yes, please identify the expenses for which Kentucky-American seeks recovery through rates.

Response:

- a. Yes – see Schedule F-1 lines 8 through 12.

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Witness Responsible:

Michael Miller

- b. No
- c. No
- d. Yes – Company Picnic \$1,560.60 (acct 504610.16)
- e. Yes – see Schedule F-3 lines 10 and 12.
- f. Yes – see Schedule F-4 \$171,545
- g. Yes – see response to item a. above

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Witness Responsible:

Coleman Bush

160. With regard to advertising expense, the Company's recent advertising campaign includes an advertisement in Fall 2003 Issue of City – The Community Issues Magazine of the Kentucky League of Cities. (page 7 of the issue) Please provide the following:
- a. Indicate the cost of running the advertisement in the magazine.
 - b. Indicate the entity responsible for creating the advertisement.
 - c. Indicate the cost of creating the advertisement.
 - d. How does the Company determine the percentages for allocating the cost of all of its advertising to its regulated water operations, regulated sewer operations, and its non-regulated operations?
 - e. How does the Company identify the amount of spending on its various advertisements that is proper for recovery through its rates?
 - f. For the base period and the forecasted period, what is the dollar amount of advertising that will be allocated to non-regulated operations?
 - g. Please indicate whether the advertisement in the Fall 2003 Issue of City produces a material benefit for the ratepayers. If yes, indicate how.

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Witness Responsible:

Coleman Bush

Response:

- a. \$615.
- b. Esrock.
- c. The cost of creating the ad was \$1512.50, but it was originally designed to be a bill insert and an ad for "Market Review of the Bluegrass." We simply had the size adjusted for the City ad.
- d. By direct charge, when and if we advertise.
- e. According to 807 KAR 5:016.
- f. None.
- g. Yes. Educating our customers about the safety and reliability of the water they drink and use is of material benefit.

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Witness Responsible:

Coleman Bush

161. With regard to employee gifts and award banquets, social events and parties, other employee-related social expenses, how are these costs allocated to non-regulated activities?

Response:

These costs are not allocated to non-regulated activities.

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Witness Responsible:

Coleman Bush

162. Reference: Bush Testimony – pages 4 and 5. Please provide a copy of the following.

- a. City of Pineville, Kentucky Operations, Maintenance and Management Services Agreement – non-regulated;
- b. Bluegrass Station Division Operations and Maintenance Contract – non-regulated;
- c. Kentucky River Authority Leak Detection Services annual contract; City of Jackson, Kentucky – Advisory Services Agreement;

Response:

See attached file KAW_AGKYDR1#162_attachment_062504.pdf.

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Witness Responsible:

Coleman Bush

163. Reference: Bush Testimony – page 6, lines 25 through 28. The testimony indicates that, for the preparation of his allocation schedule, Mr. Bush selected Company employees whose efforts benefited more than just the customers of the Central Division of Kentucky American Water. Concerning this testimony, please answer the following.

- a. Are "the customers of the Central Division of Kentucky American Water" the retail and wholesale customers who receive service under tariffs subject to the regulation of the Commission or does this definition include recipients of non-regulated activity?
- b. Does the Company allocate the efforts of Linda Bridwell or Nick Rowe? If yes, how? If not, why not?

Response:

- a. The term Central Division is a geographic term and includes Fayette County and contiguous territory.
- b. Nick Rowe is currently employed elsewhere in American Water. Linda Bridwell allocates here time to various Company projects.

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Witness Responsible:

Chris Jarrett

164. Please provide a list of the officers of the Kentucky-American Water Company. For each officer, identify the entity that employs the officer and the date of that officer's employment for or assignment to the position.

Response:

OFFICERS - Name, Title, Employer and Date

Roy W. Mundy II
President, Kentucky-American Water Co.
01/01/98

Michael A. Miller, VP Finance, Treasurer & Comptroller
American Water Service Co., Charleston, WV
04/12/00

Herbert A. Miller, Jr., VP and Secretary
American Water Service Co., Charleston, WV
01/05/98

David B. Schultz, Vice President
American Water Service Co., Charleston, WV
07/23/02

Nancy M. Strickland, Asst. Treasurer & Asst. Secretary
American Water Service Co., Charleston, WV
12/12/2000

Roy L. Ferrell, Sr., Assistant Treasurer
American Water Service Co.
04/12/00

James R. Hamilton, Assistant Treasurer
American Water Service Co.
04/12/00

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Witness Responsible:

Chris Jarrett

Stephen N. Chambers, Assistant Secretary
American Water Service Co.
04/12/00

Thomas R. Bailey, Assistant Comptroller
American Water Service Co.
07/25/00

Rachel S. Cole, Assistant Comptroller
Kentucky-American Water Co.
01/01/98

Jonathan G. Easlick*, Assistant Comptroller
American Water – Voorhees, NJ
10/23/01

Thomas C. Spitz*, Assistant Comptroller
American Water – Shared Services, Marlton, NJ
07/23/02

Benjamin J. Tartaglia, Jr.*, Assistant Comptroller
American Water – Voorhees, NJ
10/23/01

"Limited Signing Authority

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Witness Responsible:

Chris Jarrett

- 165.** Please provide a chart that shows the organizational structure (e.g. business units, officers, all directors (such as Governmental Affairs), all managers (such as Human Resources), and lines of reporting) of the Kentucky-American Water Company.

Response:

See attached file [KAW_R_AGKYDR1#165_attachment_062504.pdf](#).

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Witness Responsible:

Coleman Bush

166. Reference: Bush Testimony, pages 15 and 16. Identify the statutory basis under the current regulatory framework in Kentucky authorizing the implementation of the surcharge discussed on line 3 of page 16.

Response:

Kentucky-American Water Company objects to this data request because the information sought is a legal conclusion.

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Witness Responsible:

Linda Bridwell

167. Reference: Bridwell Testimony, page 18. Regarding the Louisville Water Company, please provide the following:
- a. Is the 7 November 1998 Water Supply Agreement between the Louisville Water Company and the Kentucky-American Water Company still effective?
 - b. If yes, have there been any amendments to the contract? (Please supply a copy of any amendments.) If no, when and why did the contract terminate? (Please explain.)
 - c. Please provide a list of the dates of any meetings between the LWC and KAWC since January 1, 2000. Include on the list the names of the attendees of each meeting.
 - d. Please provide copies of all correspondence (regular mail, e-mail, or otherwise) between LWC and KAWC since January 1, 2000.
 - e. Please provide copies of any internal memoranda, communications, or correspondence generated since January 1, 2000, by Kentucky-American regarding the Louisville Water Company, the Louisville Pipeline, or the 1998 Water Supply Agreement.
 - f. Please provide copies of any internal memoranda, communications, or correspondence generated by RWE and any of its affiliates or subsidiaries (including Thames GmbH, American Water Works Company, and American Water Services) to Kentucky-American regarding the Louisville Water Company, the Louisville Pipeline, or the 1998 Water Supply Agreement.
 - g. Have representatives of Kentucky-American, American Water Services, or any affiliate of American Water Works or its parent RWE given presentations to the Louisville Water Company or Metro Louisville officials regarding the purchase of LWC assets, transfer of control of LWC, any type of "public/private" partnership, or contract management of LWC by KAWC or an RWE family affiliate? If yes, please supply a listing of the dates, the attendees of each presentation, and any material presented or distributed during the meeting.

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Witness Responsible:

Linda Bridwell

Response:

- a. No.
- b. The contract essentially terminated when Kentucky American Water indicated it would not be pursuing the project with the Louisville Water Company.
- c. There are none.
- d. There are none.
- e. There are none.
- f. There are none.
- g. No.

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Witness Responsible:

Linda Bridwell

168. Reference: Bridwell Testimony, page 31, lines 15 to 18.

- a. Please indicate the cost to Kentucky-American of the provision of services to the City of Hazard, the City of Jackson, Georgetown Municipal Water and Sewer Services, and the City of Versailles.
- b. Please indicate whether the expenses for the activity are being booked above-the-line or below-the-line for ratemaking purposes.
- c. Please indicate whether these services are regulated or non-regulated services of the Kentucky-American Water Company.
- d. Please indicate the revenue for this activity and whether it is being booked above-the-line or below-the-line for ratemaking purposes.

Response:

- a. Because Kentucky American Water as a private company has recognized the need to develop an expertise in leak detection, it has committed to training personnel and providing state-of-the-art equipment. Kentucky American Water found itself frequently asked to provide assistance based on its developed expertise. This additional work helps maintain a level of expertise for trained personnel, and helps develop relationships with other water utility personnel for additional exchanges of ideas and information. Kentucky American Water looked for a way to continue to provide assistance while offsetting the costs to the ratepayers of Kentucky American Water personnel working outside the service area of Kentucky American Water. The costs for leak detection services provided as referenced are:

City of Hazard	\$6,435.01
City of Jackson	\$3,952.39
Georgetown Municipal Water and Sewer	\$1,726.00
City of Versailles	\$760.00

- b. These expenses are booked above the line.
- c. Kentucky American Water believes these services to be part of its regulated services

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Witness Responsible:

Linda Bridwell

since the expenses and revenues are booked above the line.

- d. These revenues are booked above the line.

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Witness Responsible:

Chris Jarrett

169. Reference: Jarrett Testimony. Please identify Mr. Jarrett's current employer. (Is Mr. Jarrett an employee of the American Water Works Service Company, Thames GmbH, etc.?)

Response:

American Water Works Service Company.

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Witness Responsible:

Michael A. Miller

170. Reference: Miller Testimony – page 13, lines 17 through 20. What efforts did Kentucky-American undertake to follow-up on the September 6,2001, letter? (For example, after 30 days without any response, did the Company contact the Executive Director of the Commission?) Please explain the efforts in detail and provide all correspondence (including letters and e-mails) and memoranda concerning and relating to the follow-up activity.

Response:

Kentucky-American Water Company's counsel wrote a letter to the Commission dated September 24,2003, a copy of which is attached to the Application; received a letter from the Commission dated October 15,2003, attached to the Application as Exhibit C; wrote a letter to the Commission dated November 18,2003, attached to the Application as Exhibit D; received a letter from the Commission dated November 21,2003, attached to the Application as Exhibit E, and filed the Application in Case No. 2003-00478, dated December 12,2003. Kentucky-American Water Company complied with the requests contained in the Commission's letter dated November 21, 2003.

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Witness Responsible:

Michael Miller

171. Reference: Miller Testimony – page 17, lines 3 through 23.

- a. Please document the Kentucky-American Water Company's customers' demand for "full" service. (For example, please provide copies of customer complaints to the Kentucky Public Service Commission, letters from customers demanding access to automated call answering, etc.) The Company may limit its response to the time period of January 1, 2000, to the present. If it limits the response, please indicate.
- b. In the time period that corresponds with the time period for the above response, have any of Kentucky-American's customers expressed an interest in the enhancement or maintenance of customer service representatives that provide in person service in Fayette County and the surrounding counties. (For example, have any customers visited the Company's facilities at 2300 Richmond Road and requested to speak with a Company representative in person rather than over the telephone?) Please explain.
- c. Does the Company consider the provision of local, in person, customer service (customer contact by means other than telephone or e-mail) part of "full" service? If yes, please detail how Kentucky-American delivers that component of full service. If no, please indicate why not.
- d. What does Mr. Miller mean when he states (on lines 18 and 19) that "we will still provide customer contact as required"?

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Witness Responsible:

Michael A. Miller

Response:

- a. The Company has not maintained any information of this nature. The Company has consistently maintained high levels of customer satisfaction as indicated in surveys conducted in this area. In the competitive environment in which we operate in the area of customer service, the Company believes its customers demand access to payment options available in today's more advanced technological world, and demand to address their service and billing issues on their timeframe versus the limited 5 day schedule previously provided by the Company. The Company has addressed these customer expectations and demands through the Call Center operation in a more cost effective manner as described in the testimony of Mr. Miller. Customer service and satisfaction are an integral part of a utilities public service obligation and the Company has made cost effective improvements in this areas to meet customer expectations and maintain its high level of customer satisfaction.
- b. The Company currently provides in person service at the 2300 Richmond Road office and the Northern District office to any customer that requests service in that manner. The Company believes nearly all customer service issues can be addressed by the professional representatives at the Call Center on an around the clock basis, and through the technology available those issues requiring local operations are addressed promptly as they have historically been addressed. The vast majority of our customers address their issues by phone and the Company believes that is the most economical method of addressing those issues.
- c. The Company currently provides in person service to those customers that come to both of our business offices to address service and billing issues, and to accept payments. The Company does believe that customer service

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Witness Responsible:

Michael Miller

questions and resolutions can be performed more economically and more conveniently to the customer by phone, but will be able to address issues in person locally when the situation so dictates.

- d. See responses to a, b, and c above.

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Witness Responsible:

Michael Miller

172. Reference: Miller – Testimony, page 36. Since January 1, 1980, has the Kentucky Public Service Commission Ordered Kentucky-American to participate in any corporate realignment or corporate reorganization? If yes, please supply a reference to the corresponding Commission Order(s).

Response:

Yes, Cases 2002-00018 and 2002-000317

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Witness Responsible:

Michael Miller

173. Reference: Miller – Testimony, pages 65 through 67. Please identify the statutory basis under the current regulatory framework in Kentucky authorizing the implementation of the low income tariff discussed in Mr. Miller's testimony.

Response:

Kentucky-American Water Company objects to this data request because the information sought is a legal conclusion.

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Witness Responsible:

Michael Miller

174. Reference: Miller – Testimony, pages 67 through 69. Please identify the statutory basis under the current regulatory framework in Kentucky authorizing the implementation of the New and Expanded Economic Development Tariff discussed in Mr. Miller's testimony.

Response:

Kentucky-American Water Company objects to this data request because the information sought is a legal conclusion.

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Witness Responsible:

Sheila Valentine

175. Reference: Application, Exhibit 28 (Trial Balance). Please provide the invoices or other source documents (e.g. receipts) that correspond to the following entries.
- a. Doc # 163862 – A Basket Buzz, \$50.00 (Page 65 of 200, line 4)
 - b. Doc # 40518379 – 1 medium pizza & drink, \$17.00 (page 126 of 200, line 6 in section for Employee expenses AG)
 - c. Doc # 166335 – Hotel Hershey.Gift/JW, \$29.99 (page 129 of 200)
 - d. Doc # 120649 – Planet Hollywood, \$208.36 (page 194 of 200)
 - e. Doc# 120708,120709,120710, and 120771 – Disney Hilton (page 194 of 200)
 - f. For each of these expenses, please indicate whether the expense receives above-the-line or below-the-line treatment.
 - g. Please explain the Company's policy for reimbursing or otherwise providing employee meals and entertainment.

Response:

For items a., b., d., and e. – see attached invoices file KAW_R_AGKYDR1#175–attachment1_062504.pdf. Item c. was reimbursed to the Company. See attachment1 mentioned above for receipt entry screen.

- f. Items a. and b. received above-the-line treatment and items d. and e. were below-the-line.
- g. See attached Company Policy file KAW_R_AGKYDR1#175_attachment2_062504.pdf

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Witness Responsible:

Michael Miller

176. Reference: Application, Exhibit 25. Please provide a copy of Kentucky-American's current strategic business plan.

Response:

The 2004 and 2005 information in the Plan has been incorporated into this case and all other information in the Plan is irrelevant, immaterial and inadmissible in this request for a general increase in rates using a forecasted test year of the 12 months ending November 30,2005.

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Witness Responsible:

Michael Miller

177. Reference: Application, Exhibit 31, Operating Unit Managing Director Report, 2004 - January, page 12 of 13. Please provide the dates of the discussions between Kentucky-American and (PSC) Staff regarding the deferral of security costs, and the RWE conditions filing of March 31.

Response:

See the responses to the Lexington-Fayette Urban County Government's Initial Request for Information, Items 77 and 78.

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Witness Responsible:

Michael Miller

178. Reference: KAWC Response to PSC 1, Item 2, page 23 of 75. This page of the response for the PDF file is blank (except for the header). If this is in error, please supply a correct page.

Response:

This was a copying error.

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Witness Responsible:

Michael Miller

179. Reference: KAWC Response to PSC 1, Item 2, page 32 of 75. Please supply the executed Regulatory Asset Authorization Form that corresponds to each regulatory asset for which the Company seeks rate recovery in this case.

Response:

Please see attached. For electronic version, refer to
KAW_R_AGKYDR1#179_attachment_062504.pdf.

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Witness Responsible:

Coleman Bush

180. Since January 1,2000, has the Company issued any bill credits to customers or sent checks to customers in connection with or relating to the Company's survey activities? If yes, please provide a summary of the program.

Response:

In 2002, a vendor used by American Water Works to send customer satisfaction questionnaires erred in numerous instances due to a coding error and sent the questionnaires with the wrong name above the address. As a good faith gesture, the vendor compensated the Company for this error and the Company in turn compensated the customers by a like amount. Checks were issued to customers in early August 2002.