

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2004-00103**  
**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENTS**  
**FIRST REQUEST FOR INFORMATION**  
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Witness Responsible:

Michael Miller

1. Can ratepayers expect any enhancement over the current existing level of service as a result of the proposed rate increase?
  - (a) If so, please provide a detailed response that includes the specific benefit or benefits to be provided to each particular customer rate class.
  - (b) Will the LFUCG (as a customer) obtain any additional benefit or benefits (level of maintenance or otherwise) as a result of the proposed increase? If so, please provide a detailed response that includes the specific benefit or benefits to be provided to each particular customer rate class.

Response:

The Company continually explores options to enhance service and provide service in a more cost effective manner. This rate increase is driven by the need to request increased rates that meet the cost of service. As evidenced by the Company's filing, current rates do not cover the cost of service. The Company has historically constructed facilities to replace aged facilities that have reached the end of their useful life, constructed new facilities to meet customer demand and to meet new or enhanced water quality regulations, and invested in current technological advancements in order to maintain and enhance service levels when it is cost effective to do so. The Company has adequately maintained its facilities to obtain the maximum useful life, and provided capable, educated and qualified employees to carry out its service obligations. All of these activities enhance the service provided by the Company and this rate increase will cover the cost of providing that service and enable the Company to continue the excellent service it provides.

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Witness Responsible:

Michael Miller

- (a) The rate making process allocates costs to each revenue class based on a cost of service study. In only rare instances are facilities constructed that provide service to only one class of customers. The treatment plants, mains, hydrants, meters, (i.e. utility plant) and related costs, as well as, operation and maintenance expenses comprise the cost of providing service to all classes. The cost of service study determines the level of the cost of service that should come from each class of customers based on a great many allocations that apply to each element of the cost of service. The enhancements mentioned in the first section of this response benefit the overall service of the Company and those costs are allocated to each revenue class per the Commission approved cost of service study.
- (b) Certainly, as indicated in the response to 1(b) the LFUCG as a customer of the Company will benefit from service enhancements the same as all other classes of customers will.

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Witness Responsible:

Coleman Bush

2. Please provide a detailed geographic description of each of KAWC's "divisions" (i.e., Central, etc.) as this term is used in the application and/or supporting testimony, the number and type of current customers in each such division, and an explanation as to the criteria that was used to create these divisions.

Response:

The Central Division includes Lexington-Fayette County and contiguous territory. The Northern Division includes Owen, Grant and Gallatin counties. The number of accounts by classification by division as of June 21, 2004 is included in the table below.

Classification	Central	Northern
Residential	96,387	2,158
Commercial	8,139	43
Industrial	18	0
Other Public Authority	479	6
Other Water Utility	10	0
Private Fire	1,523	0
Miscellaneous	4	0
Public Fire	36	0
Total	106,596	2,207

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Witness Responsible:

Coleman D. Bush/James E. Salser

3. How many additional customers (and of which particular customer rate class) does KAWC anticipate adding system-wide, within each respective division, and within Fayette County over the next 5 years?
- (a) What is the anticipated level of additional revenue to KAWC as result of the addition of these customers?
  - (b) Assuming KAWC's proposed application is approved, in the event that the actual number of new customers differs significantly from the number estimated, to what extent, if any, will this affect the rates being charged each respective customer classification?

Response:

In the response to (a) below, the company indicates the number of additional customers it expects to add in a year. Based on its growth history, this is a reasonable expectation and could be included for each of the next 5 years.

- (a) The Company has projected 2,356 additional customers which increased the present rate revenues by \$169,392 for the residential class. Additional customers for the commercial class were 121 and the associated increased revenues were \$66,710. For the number of additional fire hydrants, refer to the attachment to the response to LFCDR1#42.
- (b) The Company has included in its forecasted test-year a number of new customers based on its historical growth patterns and believes this to be a reasonable basis for that estimate as approved by the Commission in prior rate cases. The Company accepts the risk of its estimates if approved in this case. If the customer growth does not meet expectations the Company must absorb that shortfall, and if the customer

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growth exceeds forecasts that benefit can be retained by the Company to offset other expense increases or delay a rate increase for some period of time. Either way the savings or detriment is passed to the customers in the next rate case filing.

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Witness Responsible:

Coleman Bush/James E. Salser

4. Please provide the total number of water service meters assigned to the LFUCG as a customer in the base period and in the forecasted test period, and the total revenue requirement assigned to the LFUCG as a customer in the base period and the forecasted test period.

Response:

As of June 23, 2004, we show the LFUCG with 358 meters on water service accounts. Fire services and hydrants are excluded from this count. The forecast does not include this level of detail.

Revenue requirement is assigned to total customer class using billing determinants and usage as a class, not on an individual customer basis.

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Witness Responsible:

Coleman Bush

5. Under how many different types of customer rate classes does the LFUCG currently make payments to KAWC? For each type of class, please provide the following information:
- (a) The type of customer rate class;
  - (b) The number of LFUCG accounts in each such class;
  - (c) Whether such accounts are metered;
  - (d) The account numbers for each separate account;
  - (e) The physical location, by street address, GPS marker (or other easily understood designation) of each separate account;
  - (f) The basis and explanation for treating the account as a separate account, whether it is because it is separately metered or otherwise;
  - (g) The total amount paid by the LFUCG to KAWC for the provision of water for each of its separate accounts for each year, going back the inception of KAWC's last approved rate increase (not including any payments made by the LFUCG for the provision of sanitary sewers or solid waste services); and
  - (h) The total net projected impact for each such class under the proposed rate increase.

Response:

Please refer to the following files by number:

- 1. KAW\_R\_LFCDR1#5\_Fixed Rate Accts\_attachment1\_062504.pdf
- 2. KAW\_R\_LFCDR1#5\_Metered Accts\_attachment2\_062504.pdf
- 3. KAW\_R\_LFCDR1#5g\_12MEMay-03\_Fixed Rate Accts\_attachment3\_062504.pdf
- 4. KAW\_R\_LFCDR1#5g\_12MEMay-03\_Metered Accts\_attachment4\_062504.pdf
- 5. KAW\_R\_LFCDR1#6\_12MEMay-04\_Fixed Rate Accts\_attachment1\_062504.pdf
- 6. KAW\_R\_LFCDR1#6\_12MEMay-04\_Metered Accts\_attachment2\_062504.pdf

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Witness Responsible:

- (a) See files 1 and 2.
- (b) See files 1 and 2.
- (c) See files 1 and 2.
- (d) See files 1 and 2.
- (e) See files 1 and 2.
- (f) Each premise receives an individual bill. Public fire hydrants are billed as a group.
- (g) See files 3, 4, and the attachments to Data Request 6 for all amounts billed from June 2002 to May 2004. When we converted to a new customer information system, this is all of the history that was converted.
- (h) Since the rate increase is filed as an across the board increase, simply apply that increase to any account or combination of accounts.



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Witness Responsible:

Coleman D. Bush/James E. Salser

6. For each separate LFUCG account please provide a detailed analysis showing the impact of the proposed rate versus the existing rate using the most recent 12 month actual useage and billing data. Please also provide a detailed explanation of the formula that was used to obtain this information.

Response:

The most recent 12 months of billing data is contained in files KAW\_R\_LFCDR1#6\_12MEMay-04\_Fixed Rate Accts\_attachment1\_062504.pdf and KAW\_R\_LFCDR1#6\_12MEMay-04\_Metered Accts\_attachment2\_062504.pdf. The impact of the proposed rate versus the existing rate on any account or combination of accounts would be an increase equivalent to the across the board increase included in this rate filing.

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Witness Responsible:

Michael Miller/Paul Herbert

7. Please state what witness(es) will be made available by KAWC to respond to questions concerning the cost of service study filed as Exhibit 36 to the application.

Response:

Paul R. Herbert, Senior Vice President of the Valuation and Rate Division of Gannett Fleming, Inc., is the witness for the cost of service study.

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Witness Responsible:

Michael Miller

8. Please explain why KAWC failed to file a new or updated fully allocated cost of service study in support of the application.

Response:

The Company did not fail to file a cost of service study. The Company has not historically filed a cost of service study in each rate case nor is it required to in the rules of the Commission. The Company files cost of service studies on a five-seven year basis or if elements of its cost of service have significantly changed. The Company filed a cost of service study in case 2000-120 and determined there were no compelling changes that would significantly change the cost of service allocations in this case. Therefore the Company requested that the increased cost of service in this case be spread equally among all customer revenue classes.

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Witness Responsible:

Michael Miller

9. In the event that KAWC had any preliminary or draft cost of service study performed (whether for the entire company or only for selected classes of customers) in preparation for this proceeding, please provide a complete copy of any such study and all documents, including work papers, used in preparing it.

Response:

The Company does not currently have a cost of service study update.

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Witness Responsible:

Michael Miller

10. Please state whether KAWC believes that the cost of service study filed with this application accurately reflects the current cost of serving KAWC's various classes of customers. If the study does not accurately reflect the returns being earned from each class of customer, please explain in detail whether each class will provide a return greater or lesser than the system return under KAWC's proposed rates.

Response:

Please refer to response to question LFUCG DR #8.

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Witness Responsible:

Michael Miller

11. Please state the cost basis, if any, for increasing all customer rates in the "Central Division" by the same percentage.

Response:

Please refer to response to question LFUCG DR #8.

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Witness Responsible:

Coleman Bush

12. Does KAWC believe that the proposed rate increases and/or the filing will in any way change the amount of franchise fees paid to the LFUCG under its existing franchise agreement with the LFUCG? If so, in what way?
- (a) Does the filing in any way change the types of services for which the franchise fee applies?
  - (b) Will the LFUCG's franchise fee apply to all new or different tariffs being proposed by KAWC in its filing (activation fee, etc.) that are provided in Fayette County? If not, please explain in detail.
  - (c) Will the LFUCG's franchise fee apply to all tariffs in the application? If not, please explain in detail.
  - (d) Please provide the information requested above for all other franchise agreements that KAWC has with any other governmental entity.

Response:

To the extent that Kentucky American has increased revenues subject to the franchise fee, the amount of franchise fees paid to the LFUCG will increase.

- (a) No.
- (b) No. The current Franchise Agreement (Resolution No. 146-95) states in Section 9, "Gross Revenues", for purposes of this resolution, shall include all revenues from the sale of water, service charges based upon the size of the facilities, municipal fire connections and hydrants, private fire connections and hydrants, temporary service connections for construction purposes, reconnection charges, returned check charges, service line inspection fees, and bulk sales to customers in Fayette County. All other sources of revenues are excluded from "Gross Revenues". The Franchise Agreement mirrored the tariff of Kentucky American Water at the time the agreement was written. There is no provision in the agreement for adding new fees, etc. into the definition of "Gross Revenues".

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- (c) No. See response to item (b). Also, the franchise does not apply outside of Lexington-Fayette County.
- (d) N/A.



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Witness Responsible:

Michael Miller

13. Please state whether KAWC believes that it should provide water to its customers in its service territory at rates which are competitive with rates charged by other water suppliers in Kentucky. Please provide a detailed explanation.

Response:

While the Company is sensitive to the level of its rates, it does not believe that the Kentucky statutes or the regulation by the Commission of the Company's rates turn on the level of rates charged by others. The Company believes it should operate as efficiently as possible, meet its public service obligations in the most cost effective manner possible, and utilize rates and charges approved by the Commission based on the cost of service for KAWC. The Company believes it has and will continue to maintain and operate its system in this manner.

If a utility operates efficiently and cost effectively, and invests its capital prudently, and fulfills its statutory obligation as a public utility, the utility is entitled to recover its cost of service which includes a fair and reasonable return for its investors. This undertaking by the Company as a public utility to provide the capital and service levels required to meet its public service obligations and the Commission to set fair and reasonable rates based on the Company's cost of service is called the "regulatory compact" and has served the Company's customers well for many years. The Company's service commitment and service record have been excellent as indicated in all customer satisfaction surveys, and the Company fully intends to continue that record of service. The Company's, current and past, rates and charges have been determined to be fair, reasonable and cost based by the Commission.

The Company also believes that any comparison of rates between different utilities is not reasonable or meaningful unless an in-depth study is performed to determine a wide range of information that may impact the cost of service in one utility versus another utility. Each

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Witness Responsible:

water utility is different and each has an array of circumstances and service issues that are specific to its service area, and any comparison without an analysis of those circumstances or determinates is meaningless. It is difficult to determine what those determinants are in each water system and even more difficult to determine the cost impact of those determinants. Some of the factors that must be considered in such an analysis are the type and quality of source water (good river, bad river, lake, well, etc.), cost based rates to the various customer classes and tariff design, cross customer subsidies in tariff design, base rates vs. auxiliary fees (cost causer tariffs, tap fees, system development fees, capacity fees, etc.), economies of scale and size of system, customer density, household size, socioeconomic factors, average usage per customer, geography and terrain, age of system, timing of capital investments (old plant, timing of replacement, level of maintenance vs. replacement, etc.), productivity and efficiency of workforce, and level of service and customer satisfaction just to name a few.

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Witness Responsible:

Michael Miller

14. Please provide a copy of any study, analysis or memorandum prepared by or for KAWC or its affiliates that includes or discusses the rates charged by any other water suppliers in Kentucky (regardless of whether said supplier is regulated by the Public Service Commission); or that compares, or discusses a comparison of, KAWC's rates for water service to the rates charged by other water suppliers in Kentucky (regardless of whether said supplier is regulated by the Public Service Commission).
- (a) If no such study or analysis has been performed by or for KAWC or its affiliates, please provide any other study or analysis performed for some other purpose that contains any of the information described above that is in KAWC's or its affiliates' possession.
- (b) If KAWC has no such information, explain in detail how KAWC's management compares the value for the service that it provides to those services provided by other water suppliers. Please provide any and all supporting documentation, including but not limited to, internal memoranda and e-mails that compare, or discuss any comparison of, KAWC's rates to those of other water suppliers in Kentucky.

Response:

The Company is aware of the rates of other water providers in Kentucky, but as indicated in the response to 13 has not performed a study or analysis, nor does it know of any other study or analysis of rates of other utilities in Kentucky taking into consideration all of the circumstances or determinants of the various cost of service elements that would be required to have a meaningful study.

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- (a) The Company objects to this question. The question is vague and irrelevant to the issues of setting fair and reasonable rates for the Company in this case.
  
- (b) The Company objects to this question. The question is vague and irrelevant to the issues of setting fair and reasonable rates for the Company in this case.

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Witness Responsible:

Michael Miller

15. Please state the return on investment that each American Water Works Company affiliated company (West Virginia American Water Company, etc.) was awarded on both common equity and overall in its last rate proceeding.

Response:

See the attached schedule KAW\_R\_LFCDR1#15\_attachment\_062504.pdf.

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Witness Responsible:

Michael Miller

16. Please provide a detailed explanation of the current internal organizational structure for KAWC along with a copy of the current organizational chart for KAWC.

Response:

Please see response to AG1#165 for copy of organization chart. The organization chart is self explanatory.

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Witness Responsible:

Michael Miller

17. Please provide the same information requested in Question Number 16, above, above for the Southeast Region of American Water Works Company headquartered in Hershey, Pennsylvania.

Response:

The Southeastern Region Office of the American Water Works Service Company (AWWSCo) is headquartered in Hershey, Pennsylvania with another office in Charleston, West Virginia. There is a regional Managing Director who is responsible for all the functions of the region. Both of these offices are involved in providing services to Kentucky-American as well as six other states. A current organization chart of the Southeastern Region office is attached as file KAW\_R\_LFCDR1#17\_attachment\_062504. The organization chart depicts the types of services which will be provided from the regional offices. This region results from a reorganization of the AWWSCo which began in November, 2003. In this arrangement, AWWSCo is being reorganized in a more functional arrangement to manage the current operations of a modern water utility and to align management responsibilities closer to the customer. As can be seen from the structure charts, a number of functions have been rearranged to make a more focused management organization to oversee the highly specialized areas of responsibility a water utility must address.

Several functions will operate with a structure similar to the historical arrangements. Finance, Human Resources, Legal (General Counsel) and External Affairs are not much changed from the previous organization. These functional heads all report to the regional Managing Director. The most significant difference for these functions is they are consolidated into a larger regional organization. One function which is new is "Service

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Delivery”, with divisions for “Network”, “Production”, “Environmental Management“, “Operational Risk Management”, Engineering, “Maintenance”, “Operational Excellence“ and “Contract Operations”.

There will now be a regional Director of “Service Delivery” with responsibility for the new departments named above. The Service Delivery function is intended to be more directly focused on providing high quality service to customers throughout the region. All of the divisions described in the previous paragraph are a part of this function.

There will now be a regional Director of Environmental Management coordinating the many operational and reporting activities that have developed as a result of the implementation of the Safe Drinking Water Act, the Clean Water Act, several reauthorizations of these two acts, waste disposal regulations, and other environmental issues. This function, which was previously more centralized, will now be overseen at the region level.

Another regional function will be “Network” management. This highly important function will coordinate activities involved with construction, operation, ownership, maintenance and replacement of utility transmission and distribution infrastructure, which represents a significant proportion of the total investment of a typical water utility. The in-state utility network organizations will now be coordinated by the regional Director of Network.

Another regional function will be “Production” management. This highly important function will coordinate activities involved with construction, operation, ownership, maintenance and replacement of utility production infrastructure, which represents a significant proportion of the total investment of a typical water utility. The in-state utility production organizations



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Michael Miller

will now be coordinated by the regional Director of Production.

Another water utility function which has increased significance due to recent events and terrorist threats is Operational Risk Management. In addition to the historical risk management function intended to deal with insurance risks and costs, this regional director will coordinate security activities with in-state personnel.

The Contract Operations role will coordinate non-regulated operations contracts with municipal utilities in the region. The costs of this role and associated expenses and overheads will not be charged to utility subsidiaries, but will be charged to the revenues from the contracts. Creating this type of structure allows the Company to address the universal service needs of water and wastewater systems regardless of ownership while utilizing its skilled professionals to operate both regulated and non-regulated operations.

Another regional function will be "Customer Relations". This function will focus on timely response to complex customer problems as they are conveyed from the call center. Customer Relations will interface with regional functions and local utility operations to accomplish its mission.

A new "Business Development" function is being carried out in the regions which will focus on acquiring new utility business as well as contract operations. Costs, overheads and expenses of this function will be charged to regulated and non-regulated operations as appropriate and will provide benefits to customers of existing regulated companies as discussed above.

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The other functions identified above, which have been in place prior to this time, will be more customer focused to ensure quality service delivery and the development and maintenance of a highly skilled, highly motivated workforce that will assure continuance of high quality water service to all customers in the region.

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Witness Responsible:

Michael Miller

18. Please provide a detailed explanation of the current organizational structure for KAWC as it relates to the Southeast Region, the American Water Works Company as a whole, and the RWE AG corporate hierarchy, and provide any supporting documents, including any organizational charts. If this information differs from the situation that existed at the beginning of the base period please explain in detail any and all differences.

Response:

Please see the answers to LFUCG DR Numbers 16 and 17 for an explanation of the organizational structure of Kentucky-American Water Company (KAWC) and the relationship between KAWC and the Southeastern Region of the American Water Works Service Company. The relationship between KAWC and the American Water Works Company, Inc. (AW) is unchanged. All of the common equity of KAWC is owned by AW as has been the case for many years. The other relationships in the chain of ownership of AW also remain unchanged from the relationships disclosed in the acquisition approval proceedings (Case No. 2002-00317, and 2002-00018). Also, please see response and attachment to AG1, question 81.

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Witness Responsible:

Michael Miller

19. Please provide all memos, reports, e-mails, board actions or other documents prepared by or for KAWC or its affiliates which discuss (either directly or indirectly) the reorganization of American Water Works Company that resulted in the addition of Pennsylvania American Water to the Southeastern Region and/or the transfer of KAWC to the new regional office in Hershey, Pennsylvania, as indicated in the testimony filed with the application.

Response:

See attached memorandums and schedules.

For electronic version, refer to KAW\_R\_LFCDR1#19\_attachment1\_062504,  
KAW\_R\_LFCDR1#19\_attachment2\_062504, KAW\_R\_LFCDR1#19\_attachment3\_062504,  
and KAW\_R\_LFCDR1#19\_attachment4\_062504.

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Witness Responsible:

Michael Miller

20. Please provide all draft reorganization plans that have been prepared by or for KAWC or its affiliates since the beginning of the base period.
- (a) If a plan was rejected or amended by KAWC or its affiliates, please state when and why such a plan was rejected or amended.
  - (b) Please detail all employment actions that were proposed for KAWC employees as a result of the reorganization process, and whether those proposals were accepted or rejected.

Response:

See response to LFUCG #19

- (a) KAWC has not rejected or amended any plan.
- (b) The employment actions are covered in the response to LFUCG#19. All employee comments were taken into consideration.

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Witness Responsible:

Mike Miller/Coleman Bush

21. With respect to KAWC's current employees, please provide a detailed description of the job function of each type of employee and the number of each type of employee in each particular job type.
- (a) For each of the above, please indicate how many of said employees are part time, how many are contract employees, and how many are allocated to KAWC.
  - (b) How many and of which type of employee are located in Lexington, Kentucky?
  - (c) If any changes are anticipated with respect to any of the information provided above in the next 5 years, please provide the specific details.
  - (d) Please explain in detail any changes with respect to any of the information provided above that have occurred since the beginning of the base period, or which are planned during the forecast period.

Response:

See attached file KAW\_R\_LFCDR1#21\_062504.pdf.

- (a) All employees are full time.
- (b) C. Tudor, P. Tudor, A. True, L. Castleman, R. Teegarden are assigned to the Northern Division.
- (c) A well run corporate organization constantly reviews its operations if it is to operate as efficiently as possible and take advantage of current technology and advancements in the water industry. As employees retire and skill requirements change there is constant and on-going review of the corporate structure in order to provide the opportunity for the Company to operate efficiently and in the most cost effective

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Witness Responsible:

Michael Miller/Coleman Bush

manner possible. The Company considers itself and American Water to be a well ran organization and abides by the principles just described. Therefore, change is expected but the nature of that change is unknown at this time.

- d) H. Garrison, D. Owens, D. Ary, W. Finn, L. Burns retired; J. Yost and A. Allnut resigned; R. Barnett and W. Smithers hired.

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Witness Responsible:

Michael Miller

22. Please list provide a list of all employees that have been reassigned or whose functions have changed significantly since the beginning of the base period. For each such employee, please provide a description and comparison of their previous job functions and current job functions, the date on which the change took place, and whether said employee is now a full time employee, a part-time employee, a contract employee, or in any other way retained by KAWC. Please provide a copy of all contracts for each contract employee currently retained by KAWC and for any other person or entity with whom KAWC contracts with to provide services to KAWC.

Response:

The have been no significant reassignment of employees at KAWC. There have been several retirements and new employees during the base period. All of these changes have been covered in the testimony and workpapers supplied with the Company's filing in this case. The only change of significance has been the promotion of Nick Rowe, former V.P. Operations KAWC, to a position of higher responsibility at American Water Works Service Company. See response to AG1 question 79 regarding services currently being contracted for to prepare and process this rate case.

The Company has and continues to contract for many services such as, janitorial services, maintenance services, tank painting, construction of utility plant additions, PC maintenance when needed, regulatory water and sludge testing, sludge removal and many other services. All of these types of expenses are covered in the Exhibits and workpapers made a part of the Company's filing in this case.

See response to LFUCG question #66 for discussion on contract employees.



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Witness Responsible:

Michael Miller

23. Please provide the following information with respect to public fire hydrant charges:
- (a) The total number of hydrants charged to the LFUCG during the base period;
  - (b) The total number of hydrants charged to the LFUCG during the forecasted test period;
  - (c) The basis for the projection of the number of hydrants charged to the LFUCG during the forecasted test period;
  - (d) Any adjustment to hydrant charges to reflect system uses of hydrants, including but not limited to flushing the KAWC system; and
  - (e) A detailed explanation of the rationale for increasing hydrant charges at the same rate as the overall "Central Division" increase.

Response:

- (a) See attachment in the answer to LFUCG DR # 42
- (b) See attachment in the answer to LFUCG DR # 42
- (c) The projected number of hydrants in based on past history.
- (d) No adjustment was made.
- (e) See the response to LFUCG question # 8.

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Witness Responsible:

Michael Miller

24. The cost of service study provided by KAWC indicates that public fire hydrant fees should not be increased. Please explain in detail the basis for now increasing the tariff for public fire hydrants, and more specifically, the basis for increasing the tariff in the amount proposed.

Response:

Please see the response to LFUCG question #8.

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Witness Responsible:

Michael Miller/Paul Herbert

25. Does the proposed public fire hydrant rate for the LFUCG in any way differ from the rate to be charged to any other entity within the Central Division and/or the KAWC system? If so, please provide any such differences and a detailed explanation as to the justification for such differences.

Response:

The proposed public fire hydrant rate is applicable for the entire service area served by KAWC.

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Witness Responsible:

Michael Miller/Paul Herbert

26. Please detail the administrative cost component attributable to public fire protection as provided in KAWC Exhibit 36, and provide any applicable work papers showing how the cost component is calculated.

Response:

The total administrative cost component attributable to public fire protection is \$228,370, as shown on pages 18 and 19 of Schedule D of Exhibit No. 37.

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Witness Responsible:

Michael Miller

27. Please state whether KAWC agrees that all KAWC customers in Fayette County receive the benefit of having public fire protection available. If KAWC disagrees, please provide a detailed explanation.

Response:

The Company does not fully understand this question, but to the extent fire service is available in an area each customer could benefit from that fire protection if a fire occurred. Insurance rates are impacted by the ISO fire rating for the area and the availability of hydrants and fire flows have a bearing on the ISO ratings along with the fire departments equipment, availability and response time, and many other factors.

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Witness Responsible:

Linda Bridwell

28. Has KAWC compared or analyzed the proposed monthly rate for each public fire hydrant to those charged by other water utilities in Kentucky? If so, please identify each jurisdiction to which the rates were compared or analyzed and provide the monthly rate per public fire hydrant in those jurisdictions.

Response:

No, Kentucky American Water has not. Kentucky American Water was a participant in Administrative Case No. 385 before the Public service Commission to investigate fire protection services that water utilities provide and the fees charged for such services.

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Witness Responsible:

Linda Bridwell

29. Please provide the number (quantity), type, and location (by street address or other easy to identify locator) of each fire hydrant for which the LFUCG currently pays a monthly tariff.

Response:

Please refer to the attachment KAW\_R\_LFCDR1#29\_attachment\_062504.pdf. The listing includes the hydrant number, street of location, and cross street for reference. This listing is updated as of June 18, 2004.

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Witness Responsible:

Linda Bridwell

30. What is the cost to KAWC (per unit) to acquire each type of fire hydrant?

Response:

All hydrants for 2004 are purchased from Clow Company.

Type A hydrants are purchased with either a pentagon or square operating nut, and have 2 – 2 ½” openings and 1 – 4 1/2” opening. These are purchased for \$374.50 plus sales tax.

Type B hydrants are purchased all with a square nut and 2 – 4 1/2” openings. They are \$359.50 plus tax.



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Witness Responsible:

Linda Bridwell

31. How many additional new fire hydrants does KAWC anticipate being installed in Fayette County over the next 5 years for which the LFUCG would pay a monthly tariff? Please also provide the quantity of each type of fire hydrant.

Response:

Kentucky American Water does not project the number of hydrants to be installed by county or type over the five year period.

2004 – 52 public hydrants (Fayette County only)

2005 – 83 public hydrants (Central Division)

2006 – 83 public hydrants (Central Division)

2007 – 83 public hydrants (Central Division)

2008 – 83 public hydrants (Central Division)

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Witness Responsible:

Linda Bridwell

32. How many existing fire hydrants are scheduled (or anticipated) to be replaced by KAWC in Fayette County over the next 5 years for which the LFUCG currently and/or in the future will pay a monthly tariff? Please provide the quantity of each type of fire hydrant being removed and the quantity and type of fire hydrant that will replace it. Please also provide the number of scheduled installments or additions for each of the next 5 years.

Response:

Kentucky American Water does not project a number of hydrants to be replaced, or project replacements by County. The projection for total hydrant replacement or relocations costs are:

Year	Central Division	Northern Division	Total
2004	\$25,000	\$0	\$25,000
2005	\$20,500	\$5,000	\$25,500
2006			\$26,000
2007			\$26,500
2008			\$27,000

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Witness Responsible:

Linda Bridwell

33. Please explain in detail KAWC's current policies, procedures, practices, and/or guidelines for maintaining and/or replacing fire hydrants in Fayette County and provide copies of the same. Does KAWC regularly inspect individual fire hydrants or the collective fire hydrants system in Fayette County?

Response:

Kentucky American Water has an annual program to operate every hydrant in the system. Each hydrant is opened and flowed at full flow for at least two minutes. The static pressure, flow rate, and residual pressures are noted. The hydrant is then inspected and all outlets are inspected.

If further maintenance is required based on this inspection, the hydrant is removed from service and repaired. Some minor repairs can be done by field service personnel at the time of the inspection with the hydrant in place. Other repairs require physical removal of the hydrant which are scheduled and performed in the field. Generally, maintenance that requires more extensive repairs than can be done in the field are not cost effective and the hydrant is replaced.

Additionally, hydrants are used to flush the system annually. Any maintenance detected during the annually system flushing or at any other time is reported to the network department and a service order is worked on the hydrant.

Hydrants are inspected and maintained after any reports of collision or based on calls from the fire departments.

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Linda Bridwell

Hydrants are painted as needed, with all system hydrants painted on a periodic basis as needed.

Please refer to the attached files [KAW\\_R\\_LFCDR1#33\\_attachment1\\_062504.pdf](#) and [KAW\\_R\\_LFCDR1#33\\_attachment2\\_062504.pdf](#).

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Witness Responsible:

Linda Bridwell

34. Please describe in detail all maintenance that must be performed by KAWC on each type of fire hydrant to ensure that it operates properly and provide a list of each element of the required maintenance and its monthly cost, as well as how frequently such maintenance must be performed. Describe in detail all maintenance that must be performed by KAWC on the public fire system to ensure that it operates properly.

Response:

Pease refer to the response to item 33 of this same data request. Maintenance expenses for hydrants are not tracked by element, and are budgeted only as part of the total maintenance of the distribution system. Maintenance costs for hydrants for 2002 and 2003 are:

	2002	2003
January	8,724	3,431
February	7,634	8,648
March	8,822	6,374
April	18,040	6,106
May	17,843	4,104
June	14,813	13,873
July	11,866	11,268
August	9,038	13,678
September	6,366	11,025
October	6,373	11,435
November	10,297	4,877
December	5,156	1,542

Since the public fire system is an integral part of the water distribution system, there is no separate maintenance for the public fire system other than the hydrant maintenance.

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Witness Responsible:

Michael Miller/Paul Herbert

35. How was KAWC's proposed monthly rate for each type of public fire hydrant determined?
- (a) Please describe in detail each element of the proposed monthly rate for each type of fire hydrant (maintenance and operations, etc.), including the percentage of the rate attributable to each element.
  - (b) Does this differ from the existing rate elements? If so, in what regard?
  - (c) What percentage of KAWC's proposed monthly rate for each type of fire hydrant is comprised of maintenance?
  - (d) What percentage of KAWC's proposed monthly rate for each type of fire hydrant is comprised of costs associated with acquiring or installing the fire hydrant? Please provide this information for each type of fire hydrant for which the LFUCG currently pays a monthly tariff.
  - (e) What percentage of the revenue if any) that is attributable to the public fire hydrant rate is dedicated to maintenance of the hydrants?

Response:

The proposed monthly rate for public fire hydrants was determined by increasing the existing rate by a uniform 15.3%.

- (a) Refer to the attached schedule which details the cost elements attributable to public fire service. KAW\_LFCDR1#35\_attachment\_062504.pdf
- (b) No.
- (c) See response to part (a).
- (d) The capital costs associated with the fire hydrants would include depreciation and return and taxes on the investment in fire hydrants. These cost represent approximately 43% of the total costs. (See attached schedule.)
- (e) See response to part (a).

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Witness Responsible:

Michael Miller/Paul Herbert

36. What depreciable life basis (if any) for each type of fire hydrant does KAWC utilize? Is this the standard industry basis?

Response:

The Commission has approved an average hydrant service life of 48 years. No, the 48 year life is not the standard for the industry. This service life was approved by the Commission in Case No. 95-554, as part of the Company's requested changes in depreciation rates. Subsequent to that time, the Company has requested and the Commission has approved two changes involving "Other Plant and Equipment", account numbers 303.1 and 303.6. Both of these changes were approved by the Commission in Case No. 200-120.

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Witness Responsible:

Linda Bridwell

37. What is the individual fire flow requirement to which KAWC's water system in Fayette County has been built? Does this differ in any way from the historical or current actual performance level of the system?

Response:

There is not an individual fire flow requirement to which Kentucky American Water's system has been built. Hydrants are generally not installed unless they can flow at least 500 gallons per minute with a residual pressure of at least 20 pounds per square inch. The local fire department requests the hydrant installations, and if 500 gallons per minute at 20 psi is not available, they are specifically asked if a hydrant should still be installed despite lower flow conditions.

The 500 gallons per minute with 20 pounds per square inch residual is a minimum, and a much greater flow is available at locations throughout the system.



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Witness Responsible:

Michael Miller

38. Does the LFUCG continue to pay for KAWC's cost of installing or acquiring the fire hydrant beyond its depreciable life basis?

Response:

At the end of the useful life there would be no rate base therefore there would be no recovery in rates of the return on that asset.

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Witness Responsible:

Michael Miller

39. With respect to the weather normalization proposed by KAWC, please state the dollar impact of such proposal, if any, on the assignment of the proposed revenue increase to public fire hydrant rates.

Response:

Please see response to LFUCG question #8.

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Witness Responsible:

Linda Bridwell

40. Please provide the annual use of water for fire service for calendar years 2000-2003, inclusive, and for each month as it is or becomes available during the base period. If water use for fire service has been projected for the forecasted test period, please provide that projection as well.

Response:

Year	Gallons of Water
2000	2,794,131
2001	2,626,655
2002	1,576,939
2003	1,295,743
August 2003	50,000
September, 2003	25,000
October, 2003	15,580
November, 2003	64,519
December, 2003	55,000
January, 2004	62,096
February, 2004	92,915
March, 2004	116,830
April, 2004	560,611
May, 2004	107,840

Water use for fire service has not been projected for the forecasted test period.

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Witness Responsible:

Linda Bridwell

41. Please provide a listing of all events in which fire protection demands have reached 8000 gallons per minute for 4 hours, or 1.92 MGD, for each of the last ten calendar years. Please list date, address of fire or fires, and water used for each such event.

Response:

Kentucky American Water receives a monthly notice of fire usage and does not have access to individual fire protection demands.

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Witness Responsible:

James Salser

42. Reference the Salser pre-filed testimony at page 10. Please state why fire service billing determinants at January 31, 2004 were not adjusted for use in the forecasted test period.
- (a) Please provide fire service billing determinants at December 31, 2002; December 31, 2001; December 31, 2002; December 31, 2003; and May 31, 2004.
  - (b) Please explain the discrepancy on Schedule M-3-1c between 8268 public fire hydrants listed on line 5 and 6268 public fire hydrants listed on line 7;
  - (c) Please state how many of the correct number of hydrants provide service in the LFUCG jurisdiction;
  - (d) Please state whether KAWC will be providing any public fire protection in the Owenton service territory, and if so, how many hydrants and what charges for hydrants will be involved.

Response:

The public fire and private fire connection revenues should have reflected an increase in the number of public fire hydrants and private fire connections install through the forecast period. See attached schedule KAW\_R\_LFCDR1#42\_attachment\_062504.pdf.

- a. 

December 31, 2000	6,062
December 31, 2001	6,220
December 31, 2002	6,320
December 31, 2003	6,448
May 31, 2004	6,547
  
- b. Schedule M-3-1c number 8268 should be 6268.

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Witness Responsible:

James Salser

- c. Actual as of May 31, 2004 is 6,014.
- d. Owenton is not currently a part of this case.

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Witness Responsible:

Linda Bridwell

43. Reference Forecasted Test Period Filing Requirements, Exhibit 31 (Second set) page 24 of 48. Please provide copies of the “comprehensive report on unaccounted for water” referenced in the second paragraph of that page, as well as any follow-up reports on this topic.

Response:

Please see attached files KAW\_R\_LFCDR1#43\_attachment1\_062504.pdf and KAW\_R\_LFCDR1#43\_attachment2\_062504.pdf.

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Witness Responsible:

Linda Bridwell

44. The KAWC management reports provided as part of Exhibit 31 raise issues regarding the sales to delivery ratios. For instance, as of November 2002, it was reported that KAWC had a 12 month sales to delivery ratio of 86.0% ((First Set) page 12 of 22)). This report also states that KAWC was directing more effort towards its Central Kentucky operation to elevate this percentage. In its January 2003, management report, KAWC stated that sales to delivery had dropped to 84.7%, despite efforts to target the Central Kentucky operation for leak control (Exhibit 31 (Second Set) page 2 of 48). In its March, 2003, report, KAWC stated that its sales to delivery ratio had fallen again, to 84.37%, "a continued decline from 86.7% last year." (Exhibit 31 (Second Set) page 10 of 48). KAWC's June, 2003 report, reported that sales to delivery continued at 84.6%, down from 87.0% a year previously, despite the attention focused on the problem. (Exhibit 31, (Second set) page 24 of 48). Subsequent reports do not address this issue.
- (a) Please provide the sales to delivery ratio for each month since the beginning of the base period.
  - (b) As additional months become available, please provide the sales to delivery ratio for such months.
  - (c) How much did KAWC spend over and above normal O&M levels in the base period on additional leak detection for its system to address this issue? How much did KAWC project spending on additional leak detection efforts for the projected portion of the base period to address this problem?
  - (d) How much has KAWC projected to spend in the forecasted period to address this issue? How much of this amount is over normal O&M?
  - (e) Are any leak detection services that KAWC provides as a service to other entities in any way included in any of the responses above? If so, please break down the extent of such services and the associated costs.



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Witness Responsible:

Linda Bridwell

Response:

(a)

August, 2003	85.8%
September, 2003	85.6%
October, 2003	85.6%
November, 2003	87.3%
December, 2003	87.5%
January, 2003	86.22%
February, 2003	86.31%
March, 2003	88.05%
April, 2003	87.57%
May, 2003	86.68%

- (b) Information will be updated as available.
- (c) Leak detection success is a direct result of maintaining skill level, focused and consistent efforts on leak detection, and good equipment. Total O & M costs for the base period were not increased. Through the use of our existing workforce more effort was directed toward leak detection. The leak detection was offset by deferring other O & M activities. During this time leak detection efforts were increased from one employee to 1 ½ employees per day.
- (d) During the forecasted period, Kentucky American Water has projected one employee's time for leak detection. If additional leak detection is warranted the additional leak detection will be offset by deferring other O & M activities.

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Witness Responsible:

Linda Bridwell

- (e) No, leak detection services that Kentucky American Water provides to other entities are not included in the responses above. Kentucky American has a contract with the Kentucky River Authority to provide leak detection services to other utilities which utilize the Kentucky River. Kentucky American Water has utilized the calculation of leak detection service for the Kentucky River Authority to offer services to individual customers as well.

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Witness Responsible:

Coleman Bush

45. How much money has KAWC spent on advertising or promotional activities since the beginning of the base period? If possible, please provide such information separately for the Central Division and/or Fayette County and describe in detail the nature (i.e., television, radio, billboard, etc.) and type (i.e. conservation of water, opposition to the LFUCG's condemnation action, etc.) of such advertisement or promotion. Please indicate whether public relations costs or expenses are included in the above, please provide.

- (a) What amount (and percentage), if any, of this advertisement was of material benefit to ratepayers in accordance with Commission regulation 807 KAR 5:016?
- (b) Provide copies of all advertisements paid for in whole or in part by KAWC for this time period.

Response:

See attached file KAW\_R\_LFCDR1#45\_attachment1\_062504.pdf

- (a) See attached file KAW\_R\_LFCDR1#45\_attachment1\_062504.pdf
- (b) See attached file KAW\_R\_LFCDR1#45\_attachment2\_062504.pdf.

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Witness Responsible:

Coleman Bush

46. How frequently (on an annual basis) does KAWC disconnect or reconnect service? Are the costs or expenses associated with disconnecting or reconnecting service otherwise reflected in KAWC's overall costs or expenses such as maintenance and operations?

Response:

Kentucky American Water changed to a new Customer Information System in October 2003. Descriptions for order types have changed. See attached file KAW\_R\_LFCDR1#46\_attachment\_062504.pdf for a listing of all service orders queried from both systems for the year ended May 31, 2004.

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Witness Responsible:

Linda Bridwell

47. Other than its participation in the Bluegrass Water Supply Consortium, has KAWC in any other way continued to pursue a solution to the long term water supply deficit? If so, please provide a detailed explanation of all such efforts, including the parties with whom any meetings were held, the dates of said meetings and the substantive content of such meetings. If any minutes or transcripts of such meetings are available, please provide.

Response:

Because of Kentucky American Water's decision to pursue the preferred solution indicated by the Lexington Fayette Urban County Council in its December 1999 Ordinance, Kentucky American Water's ability to continue to pursue a solution to the long term source of supply deficit is otherwise limited. Kentucky American Water has continued to support the Kentucky River Authority, attending the majority of its meetings. Those minutes would be available from the Kentucky River Authority.

Kentucky American Water has indicated repeatedly that it would not be prudent to attempt to address the long-term treatment capacity deficit until a reliable long-term water supply source is confirmed. Therefore, no additional work on the long-term treatment capacity deficit has been pursued other than through the Bluegrass Water Supply Consortium.

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Witness Responsible:

Michael Miller

48. Please state whether KAWC intends to charge the \$24 new account setup fee to households which meet the eligibility criteria for KAWC's proposed low income rate reduction.
- (a) Please provide any study or analysis of the impact of the new or transferred service fee on low income households.
  - (b) Please provide the cost basis for the proposed \$24 activation fee, including all studies and work-papers used to calculate this proposed charge.

Response:

Yes.

- (a) The Company has performed no such study.
- (b) Please refer to the testimony and exhibits of Coleman Bush. Also refer to W/P-2-4 included in the Company's filing documents.

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Witness Responsible:

Coleman Bush

49. Does KAWC engage in non-regulated activities or in any way provide non-regulated service? If so, generally describe all such activities or services in detail and indicate the extent to which KAWC engages in or provides such activities or services.

Response:

Please refer to Direct Testimony of Coleman D. Bush, pages 4-6. For electronic version, see KAW\_DT\_CDB\_043004.pdf.

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Witness Responsible:

Coleman Bush

50. Do any KAWC employees spend any of their time engaged in providing non-regulated service(s)? If so please provide a detailed explanation that includes the names and job descriptions of all such employees and how such costs have been allocated between regulated and non-regulated activities.

Response:

Yes. Wayne Mattingly is the supervisor in charge of our leak detection program. He provides minimal supervision to the Kentucky River Authority Leak Detection program. An appropriate number of hours have been allocated out of O & M labor for Wayne in this case. In total, we have allocated 417 hours for Wayne to capital and other, which includes his time spent on the KRA contract and time spent on construction for the Company.

Joe White provides supervision for the Bluegrass Station Division contract. An appropriate number of hours have been allocated out of O & M labor for Joe in this case. In total, we have allocated 489 hours for Joe to capital and other, which includes his time spent on the BGSD contract.

For our field personnel involved in leak detection, we have allocated 209 hours to capital and other out of O & M labor. Our actual hours spent on the KRA leak detection program in 2003 were 269.5, which includes supervision and field personnel.

Also, a certain amount of labor has been allocated to our Pineville and Bluegrass Station Division operations. Please refer to KAW\_DT\_CDB\_EX1\_043004 as filed with the application.



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Witness Responsible:

Mike Miller

51. Please define the term “political activities” as it is used in Exhibit 37, Schedule F, page 11, and provide a detailed breakdown of such activities.

Response:

See 807 KAR 5:016, Section 4 (a).

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Witness Responsible:

Michael Miller

52. Please provide all memos, reports, e-mails, letters, board actions or other documents prepared by or for KAWC and/or its affiliates which discuss (either directly or indirectly) the reassignment of Mr. Roy Mundy's functions whereby he now coordinates and directs KAWC's efforts with respect to the LFUCG condemnation effort on a full time basis, as purported in the filed testimony.
- (a) Please state the date on which Mr. Mundy began working full time on this function, and provide any instructions given to Mr. Mundy as to his role in this function.
  - (b) Please provide a copy of any job description for Mr. Mundy that incorporates this full time function.

Response:

The Company possesses no such items. As indicated in the testimony of Chris Jarrett, Mr. Mundy is not testifying in this case due to the level of his workload in relation to day-to-day activities and his expanded workload related to the condemnation effort.

- (a) During the final preparation for filing the rate case and testimony it was determined that Mr. Mundy would not testify due to his extremely busy schedule in dealing with the day-to-day operations of KAWC and the obvious increase in workload associated with the condemnation effort and the court case related to the condemnation effort.
- (b) Mr. Mundy's job description has not changed.

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Witness Responsible:

Michael Miller

53. Reference the Jarrett pre-filed testimony at page 5. Please provide all board directives concerning Mr. Mundy's current functions, including any memoranda, motions, board minutes discussing such functions, or any other documents discussing such functions. Please also provide all KAWC board minutes from November, 2002 to present.

Response:

There have been no formal Board of Directors directives in this regard. See response to LFUCG question #52. Attached are the Board of Directors minutes for the prescribed timeframe requested. Refer to file KAW\_R\_LFCDR1#53\_attachment\_062504.

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Witness Responsible:

Chris Jarrett/Michael Miller

54. Reference the Jarrett pre-filed testimony at page 5. Please define the term “transparent” as used in that testimony and provide an organizational chart, including the identity of the person responsible for such functions as of March, 2002, January 1, 2003, and December 31, 2003, as well as a current organizational chart.

Response:

“Transparent” used in this context means that the Public Service Commission authorized change of control had no impact upon the delivery of potable water that means or exceeds all requirements at a reasonable cost to the customers of Kentucky-American Water.

The rest of the request is not understandable.

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Witness Responsible:

Michael Miller

55. Please state how, and by whom, Mr. Mundy's former role of directing the day-to-day operations of KAWC is currently being handled. State whether each employee involved in these duties is a full, part time, or allocated employee; and if part-time or allocated, the percentage of that person's time that is devoted to KAWC functions.
- (a) Please state whether Mr. Mundy prepares, reviews or approves advertising or press communications from KAWC and/or any other person or entity concerning the LFUCG's condemnation lawsuit against KAWC.
  - (b) Please state whether Mr. Mundy coordinates KAWC's activities with respect to the condemnation with the group know as the Coalition Against a Government Takeover.
  - (c) Please provide a copy of all advertisements, press releases, letters to customers and other communications other than formal court filings that have been produced, reviewed or approved by Mr. Mundy, including any such communications that are sponsored by organizations or persons other than KAWC.
  - (d) Please detail all adjustments made to either the base period or the forecasted period to remove costs for advertising, lobbying or political activities. Provide such information by account number and state in full the reason for such adjustment.

Response:

Mr. Mundy's role has not changed, other than his schedule and focus on the condemnation proceeding does not permit him to testify in this case. Also see response to LFUCG question #61.

- (a) The Company objects to this question on the grounds that the information sought is not included or a part of the rate application in this case and not relevant to the Company's request to increase rates in this case.

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Witness Responsible:

Michael Miller

- (b) See 55(a) above.
- (c) See 55(a) above.
- (d) The Company's adjustments to this area of the case are included in the filing documents and workpapers made a part of the Company's filing in this case. The specific information requested in this question can be found in Exhibit 37-F of the Company's filing documents.

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Witness Responsible:

Michael Miller

56. Please provide the total amount of Mr. Mundy's salary, fringe benefits, and overhead that are included in either the base period or the forecasted test period.

Response:

Mr. Mundy's salary for the forecasted test-year is shown in the workpapers previously supplied in this case at W/P-3-1. The payroll overheads in the forecasted test-year are \$49,334 for O&M and \$49,333 that were capitalized. The LIP and AIP amounts included in the forecasted test-year are \$49,785 again split 50% to O&M and 50% to capital.

Mr. Mundy's salary included in the base period is \$166,609 with a similar ratio charged to capital as included in the forecasted test-year. The payroll overheads in the base period are \$99,789 with the amount capitalized in accordance with the payroll capitalized. The LIP and AIP amounts included in the base period are \$3,990, which does not include the incentive payment made on April 1, 2004 for the plan year 2003.

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Witness Responsible:

Chris Jarrett

57. Please state whether other employees, including professional or support personnel, are involved in Mr. Mundy's current functions, and if so, please provide the number of such employees, as well as their names and job titles, salaries, fringe benefits and overhead costs that are included in the base period and the forecasted period.

Response:

As President of Kentucky-American Water Company Mr. Mundy is responsible for the company's ultimate purpose—the delivery of potable water that meets or exceeds all requirements at a reasonable cost to its customers. All of the employees of Kentucky-American Water are involved in that effort. Their names, job titles, wages and salaries for the base period and the forecasted test year are shown on W/P 3-1.

Mr. Mundy is assisted in his responsibilities for the delivery of potable water to the customers of Kentucky-American and in his efforts to defend Kentucky-American Water Company from the takeover efforts instituted by the Lexington-Fayette Urban County Government by Patricia L. Ballard, whose compensation is shown in W/P 3-1. Kentucky-American Water Company has not requested the inclusion of any expenses incurred by it in defending the takeover effort for external sources for ratemaking purposes in this case.

Mr. Mundy remains responsible for and involved in the day to day efforts to serve the customers of Kentucky American Water and is devoting his remaining time and effort to the takeover action instituted by the government.



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Witness Responsible:

Coleman Bush

58. The testimony of Coleman Bush indicates that in addition to Mr. Mundy, two other employees of KAWC are also involved nearly full time in KAWC's anti-condemnation efforts. Please provide the names and job titles of these employees as well as the total costs including salaries, fringe benefits and overhead that are included in either the base period or the forecasted period:
- (a) Please state how the former functions of these two employees have been reallocated to other employees.
  - (b) Please provide all documentation in support of how these employees have actually spent their time since said reassignment, including but not limited to copies of their calendars, scheduling books, and time reports.
  - (c) Please state whether any other KAWC employees provide support services for these efforts, and if so, please provide the number of such employees, their names and job titles, and all salaries, fringe benefits and overhead costs that are included in either the base period or the forecasted period.

Response:

The testimony says that "due to the source of supply and condemnation issues that face the Central Division, I know from experience that Barbara Brown, Director of Communications and David Whitehouse, Director of Governmental Affairs, will have almost no time available to devote to Kentucky American Water's other businesses." Neither the Director of Governmental Affairs nor the Director of Communications has seen his or her other duties decrease as a result of these issues. Their focus is almost predominantly on the Central Division as they attend to their regular duties and the major issue of the source of supply. They have no time to devote to the Northern District and non-regulated businesses which is what I meant when I wrote "other businesses." The salaries and expenses for these two

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Witness Responsible:

Coleman Bush

positions are appropriately included in the forecasted test year. Both a solution to the source of supply issue and a resolution to the condemnation issue with Kentucky American Water remaining a private business under the jurisdiction of the Public Service Commission are important to the customers of Kentucky American Water.

- (a) N/A
- (b) N/A
- (c) N/A

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Witness Responsible:

Michael Miller

59. Please state whether any adjustment to either the base period or the forecasted period has been made to remove all or any part of the salaries, benefits or overhead provided in response to Questions Numbers 56 through 58, above, for ratemaking purposes.
- (a) If so, please provide the total adjustment, as well as workpapers used in making such an adjustment.
  - (b) If not, please explain in detail why KAWC believes that ratepayers should bear in full the costs of such activities.

Response:

No.

- (a) See response to 59 above.
- (b) All of the employees of KAW in their duties and tasks are providing the support in meeting the Company's mission of providing service to the customers at the least cost possible. The LFUCG appears to continue a theme in these questions that certain employees of KAW do nothing but work on condemnation issues. That is an incorrect interpretation of testimony. See response to LFUCG question #52 above regarding Mr. Mundy. Mr. Bush indicates that he only allocated 10% of the time for Barbara Brown and David Whitehouse to the "other businesses," referring to the Northern Division and the contract operations. The employees of KAW still have to perform their normal jobs as well as the increased workload and burden placed on them by the condemnation effort of the LFUCG. The employees mentioned in the testimony are salaried employees and there is no extra pay for the extra hours they spend each week to perform the additional tasks associated with the condemnation effort of the LFUCG. The salaries of these employees are appropriate for recovery in rates for all the reasons covered in this response.

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Witness Responsible:

Michael Miller

60. Please state whether any of the time that has been allocated by the service company to KAW has been incurred by any employee(s) whose function includes working with Mr. Mundy or others to oppose the LFUCG's condemnation action against KAW. If so, please provide a detailed explanation of all such time.

Response:

In Mr. Mundy's position as President of the Company he has discussed the Condemnation with a number of Service Company employees who are in his chain of reportability and/or Directors of Kentucky American Water. As appropriate their time has been charged directly to or allocated to KAW in these instances. The Company has set up no authorization to capture this time. The Service Company employees involved in these discussions like the KAW employees are salaried employees and must absorb the increased workload associated with the LFUCG's condemnation effort in addition to the other normal day to day activities.

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Witness Responsible:

Michael Miller

61. KAWC's year end 2003 annual report states that it has a full time Vice President-Operations. However, the current application lists no such full time position. Please state when this change occurred, and provide all documents, memos, e-mails, etc., that discuss the reorganization of the function of Vice President-Operations.
- (a) In particular, state how, and by whom, the duties of this former full time position are currently handled. State whether each employee involved in these duties is a full or part time employee, and if part time or allocated to KAWC, the percentage of that person's time that is devoted to KAWC functions.
  - (b) Please state whether any of the costs of the former full time position of Vice President-Operations are included in either the base period or the forecasted period. If so, please state the amount of such included cost, and provide detail of any adjustment to either the base period or forecasted period that has been made to reflect the elimination of that position.

Response:

The VP-Operations, Mr. Rowe, was promoted to a position in the Corporate Office of American Water Works Service Company on December 1, 2003. See the response to LFUCG questions #19 and #20 for information on the reorganization.

- (a) Mr. Rowe's previous duties are currently handled by the various department supervisors that previously reported to Mr. Rowe, and by Mr. Mundy. Mr. Mundy continues to be responsible for the day to day operations of Kentucky American Water, and manages operations. Additionally, Mr. Stan Stockton as Operations Superintendent - Distribution, Mr. Dillard Griffin as Operations Superintendent - Production, Ms. Linda Bridwell as Director - Engineering, Ms. Jan Routt as Director - Water Quality, and Ms. Donna Braxton as Human Relations Manager have taken on

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Witness Responsible:

Michael Miller

more responsibilities for overall management and regulatory interaction with regard to their individual departments. Ms. Bridwell has taken on more responsibility for strategic planning, Mr. Griffin has taken on more responsibility for contract operations, Mr. Stockton has taken on more responsibility for customer service issues including the transition to the Alton Call Center, and Ms. Routt has taken on more responsibility for regulatory compliance. All of these employees now report directly to Mr. Mundy and continue to meet with him on a regular basis to coordinate various operational issues.

- (b) There is no salary or payroll overheads in the forecasted test-year for the position of VP-Operations. The base period included salary for this position of \$126,581.

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Witness Responsible:

Michael Miller

62. Please state the percentage of Mr. Jarrett's time that is allocated to his duties as Chairman of the Board of KAWC. If a specific allocation is not made, please state the percentage of his time that Mr. Jarrett has spent on KAWC business:
- (a) Since the beginning of the base period in this proceeding;
  - (b) Since January 1, 2004.

Response:

Mr. Jarrett allocates 75% of his time to the SE Region Companies. KAWC receives 25.69% of the allocated portion.

- (a) See response to question 62 above.
- (b) See response to question 62 above.

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Witness Responsible:

Michael Miller

63. Please provide all costs related to the LFUCG's condemnation action against KAWC that are included in the base period or the forecasted period, including but not limited to the following: attorneys fees; allocations of service company expenses; consultant fees; public relations costs or fees; expert witness fees or costs; employee time and costs expended on the condemnation proceeding and related activities, including advertising and customer communications. Please provide copies of all supporting documents.
- (a) Please provide any adjustments made to either the base period or the forecasted period to remove any such costs.
  - (b) With respect to any forecasted period, please provide in detail the basis for the estimation made of costs, and provide all workpapers used to make such a forecast.

Response:

There are no expenses related to the condemnation effort of the LFUCG included in the forecasted test-year. The condemnation fees related to legal fees recorded in the base period are shown on Exhibit 37-D and W/P-3-13. The Company has not tracked Company or Service Company time devoted to the condemnation efforts of the LFUCG. Please see responses to LFUCG questions #52, #55, #56, #59 and #60 for information concerning Company and Service Company labor charges.

- (a) The Company eliminated the expenses identified in W/P-3-13 and Exhibit 37-D from the forecasted test-year.
- (b) See response to 63(a) above.



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Witness Responsible:

Michael Miller

64. Please state whether Mr. Jarrett makes all operational decisions at KAWC, or whether any of that responsibility is delegated to another KAWC employee or contract worker. If such other employee(s) exists, please state the name of such employee, their position with KAWC or its affiliates, the type of employee (full or part time or contract), and the percentage of their time that is devoted to KAWC duties. Please also describe in detail the types of decisions that such employees make.

Response:

Mr. Mundy continues to handle most of the day-to-day decisions at KAWC along with his capable staff. Mr. Jarrett continues to provide assistance to Mr. Mundy in this regard as he has done during his time as Regional President and Chairman of the Board of Directors for KAWC. Please see responses to LFUCG questions #52, #55, #56, #59, #60, and #61.

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Witness Responsible:

Sheila Valentine/James Salser

65. Reference Exhibit No. 17 of the Forecasted Test Period Filing Requirements, page 1 of 3.
- (a) Please provide a specific breakdown of what is included in "General Taxes".
  - (b) Please state whether the item "General Taxes" as projected includes income taxes.
  - (c) Please state projected income taxes for KAWC as a separate item for 2004, 2005, and 2006.

Response:

- (a) Please refer to workpapers 5-1 page 1. For electronic version, refer to KAW\_R\_PSCDR1#1a\_WP5\_052004.
- (b) No
- (c) The projected income taxes are as follows:

2004	\$4,516,379
2005	\$5,265,251
2006	\$5,470,784

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Witness Responsible:

Coleman Bush

66. Reference Exhibit No. 21 of the Forecasted Test Period Filing Requirements. Please state whether the 134 employees listed per year are full time employees, or whether some are part time employees, employees whose time is allocated to KAWC, or contract employees.
- (a) If some employees are part time, have their time allocated to KAWC, or are contract employees please provide a breakdown of their numbers, and the percentage of full time that they work for or are allocated to KAWC.
  - (b) Please state the name and position of the "operations contract employee" not included in this application, and state why the costs associated with such employee have been removed from consideration.
  - (c) Please provide the process by which all costs associated with this operations contract employee have been removed from this application.

Response:

These are full time employees.

- (a) N/A
- (b) Bill Bunch is a contract employee working exclusively as a manager in our non-regulated Pineville O&M operation. His expenses are not included in this case.
- (c) Mr. Bunch is serving as interim manager for our Pineville operation in place of Philip Rotte who is no longer with the Company. Mr. Rotte, while a Company employee, was never included in the case.

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Witness Responsible:

Coleman Bush

67. With respect to KAWC's acquisition of the City of Owenton water and wastewater facilities:
- (a) Please state whether the City of Owenton's customers will be served by KAWC rate schedules, or will continue to be served under Owenton's current rates;
  - (b) Have revenues and expenses, or any acquisition costs, associated with Owenton been incorporated into the base period or the forecasted test period? If so, please provide information with respect to the projected revenues and expenses associated with these new customers.
  - (c) Please state the closing date for the Owenton acquisition. Please provide copies of all closing documents.
  - (d) Please state when KAWC will seek Commission approval for this acquisition. If KAWC believes such approval is not required, please state why.

Response:

- (a) They will be served by a set of rates based on Owenton's current rates, increased on or shortly after the closing date.
- (b) No.
- (c) Undetermined.
- (d) The sale of municipal utilities is exempt from Commission jurisdiction.

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Witness Responsible:

Coleman Bush

68. Reference Forecasted Test Period Filing Requirements, Exhibit 31 (Third set) page 12 of 13.  
Please provide the acquisition contract, plan and forecast for Owenton that includes the  
“additional OR in the plan and forecast.”

Response:

Any impact of Owenton, if and when the acquisition occurs, is not included in the rate case.  
If acquired, Owenton will stand alone for rates until the next general rate case filed by  
Kentucky-American Water Company.

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Witness Responsible:

Coleman Bush

69. Does KAWC have any plans to acquire any additional water or wastewater facilities during the forecast period? If so, please provide a detailed explanation.

Response:

No.

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Witness Responsible:

Michael Miller

70. One of KAWC's management report states that it believes that deferral of security costs will be approved because the PSC "ordered on May 30, 2002, that KAWC address its security costs in the next rate case." (Exhibit 31 (First set), page 14 of 22). Please state whether KAWC and its affiliates agreed to the condition requiring withdrawal of its proposed security cost tariff based on its belief that the Commission would approve recovery of those costs as a regulatory asset:
- (a) Please provide all support for such a position from any PSC order, opinion or other communication;
  - (b) Please state whether KAWC or its affiliates sought either a formal or informal opinion from the Commission, individual Commission members, or its staff prior to agreeing to the merger conditions affirming its interpretation of the security cost provision. If so, please provide the date or dates of such communication, and written communication, memorandum or notes concerning such communications, and any other evidence of any intention on the part of the Commission to allow KAWC to treat security costs as a deferred debit.

Response:

The Company believed the Commission Order in case 2002-00018 permitted the Company to pursue the recovery of deferred security in its next general rate case. The Company is requesting that recovery in this general rate filing. The testimony of Mr. Miller at Page 27, Q&A 45 clearly puts forth its position on this issue, and is further explained in Q&A 46.

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Witness Responsible:

Michael Miller

71. Reference the Miller pre-filed testimony at page 13. With respect to KAWC's letter to the Commission dated September 6, 2001 concerning certain deferred items, please explain why KAWC failed to file an application in accordance with the Commission's instructions in Case No. 2002-00120 until December 12, 2003.

Response:

The company believed that the letter sent on its behalf, dated September 6, 2001, complied with the direction in Case No. 2002-00120.



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Witness Responsible:

Linda Bridwell

72. In its management report of April 2003 (Exhibit 31 (Second set) page 16 of 48), KAWC reports that it held a meeting on April 22, 2003 for its employees with Mr. Warren Rogers, President of the Coalition Against a Government Takeover. Please provide a copy of all materials presented to employees at these meetings.
- (a) Please state whether similar meetings have occurred since the base period began. If so, please state when such meetings occurred, and provide a copy of all materials presented to employees at these meetings. Please also state whether an adjustment has been made to base period expenses to remove the costs (whether direct or indirect) such as employee salary and benefits, from the application. If so, please provide detail of such adjustments.
  - (b) If any other such meetings are planned for the forecasted period, please provide any adjustment that has been made to forecasted expenses to remove the direct or indirect costs of such meetings from proposed rates.
- (a) Was Mr. Rogers in any way compensated by KAWC for these meetings? If so, please provide a detailed explanation as well as a copy of any supporting documents including contracts.
  - (b) Is Mr. Rogers in any way employed by KAWC or otherwise compensated or paid by KAWC? If so, please explain in detail and provide a copy of all supporting documents including for the performance of any services including contracts.

Response:

No materials were used in the presentation to employees at the April 22, 2003 meeting.

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Witness Responsible:

Linda Bridwell

- (a) Kentucky American Water held an all-employee meeting on April 22, 2003 at lunch. All-employee meetings are held from time to time to discuss various issues that impact all employees. The April 2003 meeting was prompted by repeated questions from employees regarding the Condemnation action by the Lexington-Fayette Urban County Government and specifically the efforts of the Coalition Against a Government Takeover. Mr. Rogers was invited to provide information about the Coalition for employees. Additional all employee meetings have been held since April 22, 2003 on a multitude of issues which would include an update on any new condemnation issues at the time of the meetings. Only two additional meetings have focused completely on the condemnation action and Mr. Rogers was not present at either meeting. They were June 10, 2003 and April 8, 2004. No attempt to make an adjustment has been made to remove the costs for employee salary and benefits from the base period for an employee meeting to discuss an issue that so dramatically impacts those employees and Kentucky American Water believes that it would be inappropriate to do so.
- (b) No other meetings are planned for the forecasted test period.
- (c) No.
- (d) No, Mr. Rogers is not in any way employed by Kentucky American Water or otherwise compensated or paid directly by Kentucky American Water. Mr. Rogers owns W. Rogers Company, which is currently completing a project for the replacement of traveling screens and housing at the Kentucky River Intake. This contract was awarded after receiving competitive bids, for which W. Rogers was the lowest bid. A copy of the contract is provided in the response to Item 22 of this same request. Although W. Rogers Company has submitted bids on a number of other projects for Kentucky American Water, this is the only one they have been successful on recently.

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Witness Responsible:

Michael Miller

73. The Management Report of April 2003 (Exhibit 31 at page 17 of 48) also reports that “as a result of volatility in our community, a decision has been made to leave the customer service department in place for the current time, although it appears that the conversion to ORCOM will occur in September.”
- (a) Please state the cost of maintaining the customer service department in place after the conversion to ORCOM, and whether any of this cost has been removed from the base period by adjustment or otherwise.
  - (b) Please state whether the maintenance of the customer service department after the conversion to ORCOM served any purpose other than public relations. If so, please state the benefit derived by ratepayers from the maintenance of the customer service department after the conversion to ORCOM was complete.

Response:

- (a) The conversion did not occur before the transition to the National Call Center, they occurred simultaneously. The expenses identified in Exhibit MAM-5, attached to the testimony of Mr. Miller, identify the expenses post call center included in the forecasted test year. The Company removed all of the expenses for the items shown on Exhibit MAM-5, pages 2 thru 5, to the extent they were included in the base period.
- (b) The conversion to ORCOM and the Call Center occurred simultaneously on October 1, 2003. A few local employees were retained for a short time to make certain the transition went smoothly and had minimal impact on the customers.

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Witness Responsible:

Chris Jarrett

74. The management report for August 2003 reports that KAWC planned to meet with the Commission staff on October 23, 2003 and with the Commissioners on December 5, 2003, respectively (Exhibit 31 (Second set) at page 36 of 48).
- (a) Please state whether such meetings did in fact occur;
  - (b) If any such meetings did occur for each such meeting, please provide the following:
    - 1. A list of all attendees at such meetings from KAWC and its affiliates and the Commission;
    - 2. Copies of any agenda(s);
    - 3. Copies of all materials presented or shared at such meetings;
    - 4. A list of all topics discussed at said meetings;
    - 5. Copies of any and all notes taken by representatives of KAWC or its affiliates with respect to such meetings;
    - 6. Copies of any and all memoranda, reports, emails or other documents in the possession of KAWC or its affiliates which discuss these meetings or in any way refer to these meetings; and
    - 7. Copies of any correspondence, in whatever form, from Commission staff or Commissioners to KAWC or its affiliates concerning these meetings;
  - (c) Please detail all efforts made by KAWC or its affiliates to notify other interested parties or anyone else that such meetings were to occur.

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Witness Responsible:

Chris Jarrett

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:

Michael Miller

75. The management report for September 2003, states that with respect to deferred security costs "The Commission has indicated in a response to the company's request for deferral of security and condemnation expense that it will not permit regulatory asset status. The Company will meet with the staff in the next two weeks to discuss before determining how to pursue this issue." ((Exhibit 31 (Second set) pg. 40 of 48). Please state if and when any such meeting(s) occurred. If so, please provide all of the information for all such meetings requested in Question Number 74, above.

Response:

The Letter of September 24, 2003 attached as Exhibit 7 of Mr. Miller's testimony was the Company's response to the Commission.

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Witness Responsible:

76. The November 2003 management report states that “Bill Alexander and Jim McGivern have met with the Public Service Commission staff. Feedback from the visit was very positive. Specific concerns raised during the meeting are being followed up on with staff”. (Exhibit 31 (second set) pg. 44 of 48). Please state whether this meeting was the same meeting scheduled for October 23, 2003 discussed in Question 31 above. If not already provided, please provide all of the information for this meeting or meetings requested in question Number 74, above.
- (a) Please detail the “positive feedback” from this meeting by providing the name of each individual who provided that feedback, the topic of the feedback, and any oral or written communication (including electronic communication, concerning such feedback);
  - (b) Please provide a detailed list of the “specific concerns raised during the meeting” that were being followed up on with staff, all communications with staff concerning these concerns, and all communications from the staff or the Commission concerning these issues.

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:

77. The March 2004 management report states that Mr. Mundy and Mr. Whitehouse met with the Commissioners on March 18, 2004. (Exhibit 31 (Third set) page 12 of 13). For all such meetings please provide all of the information requested in Question Number 74, above. Please also state Mr. Whitehouse's position and duties at the time of this meeting.

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.

On March 18, 2004, Mr. Whitehouse was Director of External Affairs.



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Witness Responsible:

Michael Miller

78. The March 2004 management report states that "There have been several discussions with Staff regarding the deferral of security costs, and the RWE conditions filing of March 31." (Exhibit 31 (Third set) page 12 of 13). Please provide the following information with respect to these discussions:
- (a) The date and topic of each discussion;
  - (b) The participants in these discussions;
  - (c) All of the information requested in Question Number 70, above.

Response:

- (a) The date of the discussions is unknown. The discussions involved the sufficiency of the letters dated September 6, 2001 and September 24, 2003.
- (b) Counsel for Kentucky-American Water Company.
- (c) The request is not understandable.

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Witness Responsible:

Michael Miller

79. Please provide all management reports for 2004 which have not previously been provided, and future reports as they become available.

Response:

See the attached file KAW\_R\_LFCDR1#79\_attachment\_062504.pdf for reports for April and May 2004.

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Witness Responsible:

Michael Miller

80. Please provide a copy of KAWC's audited financial statement for calendar year 2003.

Response:

See attached report.

For electronic version, refer to KAW\_R\_LFCDR1#80\_attachment\_062504.pdf.

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Witness Responsible:

Michael Miller

81. Reference the Miller testimony, page 5. Please explain the involvement, if any, of RWE or Thames in obtaining financing in placing KAWC's long term and short term debt requirements.

Response:

Please see response to AG1 question #154 which indicates the upgraded bond rating of AWCC after the purchase of American Water by RWE. RWE is not involved with the issuance of the debt of AWCC other than they have purchased all of the LT issues of AWCC at or below market rates since the acquisition. In addition, RWE currently provides the ST line of credit to AWCC at LIBOR rates. It is normal that lines of credit placed in the commercial market are priced at LIBOR or FED FUNDS plus a premium or basis points spread. The Company knows of no other source where it can borrow ST debt at the LIBOR rate.

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Witness Responsible:

Michael Miller

82. Reference Mr. Miller's testimony at page 28. Please state the basis for Mr. Miller's belief that the "purpose" of Condition 2 of the RWE merger conditions was to "freeze the rates of KAW until March 16, 2004, or one year after the closing."
- (a) Provide all memoranda or other documents which discuss this viewpoint and formed the basis for KAWC and its affiliates agreeing to the Conditions offered by the Commission in Cases Nos. 2002-00018 and 2002-00317;
  - (b) Please state whether KAWC or its affiliates made any effort prior to agreeing to the conditions to clarify whether an accrual of security costs would be an acceptable vehicle for recovering deferred security costs in accordance with Merger Condition 2;
  - (c) If such efforts were made, please detail all contacts, discussions or meetings in which this issue was discussed with the Commission or its staff, and provide all notes, memoranda, or other documents related to such contacts;
  - (d) Please state in detail why KAWC chose not to apply to the Commission for approval to defer security costs during the pendency of Cases Nos. 2002-00018 or 2002-00317, when any potential misunderstanding on KAWC's part as to the scope of Condition 2 could have been clarified prior to the closing of the merger.

Response:

The Order of the Commission in case 2002-00018 did preclude the Company from seeking a rate increase before March 16, 2004. The Company understood condition 2 to require the withdrawal of the security surcharge request so that the rate freeze would be effective until the Company filed a general rate increase after March 16, 2004 at which time it seek rate recovery of its deferred security expense.

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Witness Responsible:

Michael Miller

- (a) Please see response to LFUCG questions #70, #71, #75, and #78 above, and the testimony of Mr. Miller.
- (b) The Company believed then as it does now that the language in the Order and Condition 2 clearly permitted the Company to seek recovery of its security expenses in a future general rate filing. Please see response to LFUCG #70, #71, #75, and #78 above.
- (c) See response 82(b) above.
- (d) The surcharge case was pending. See response 82(b) above.

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Witness Responsible:

Michael Miller

83. At page 53 of his pre-filed testimony, Mr. Miller ties ratepayer benefit from executive compensation to customer service, financial performance and customer satisfaction from operations. Please state the benefit to customers from an executive who does not spend any of his time on company operations.

Response:

The Company does not believe it has any executive who is not dedicated to meeting the mission of providing excellent water service to its customers at the most reasonable cost possible. Please refer to responses to LFUCG questions #52, #55, #58, #59, #60, #61, #63, and #64.

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Witness Responsible:

Michael Miller

84. At page 62 of his pre-filed testimony, Mr. Miller states that only 1/3 of the costs associated with service to KAWC's new Northern Division have been allocated to that division. Please state why other KAWC customers should subsidize the customers in KAWC's Northern Division.

Response:

The Company believes full allocation of costs would create rate shock for the Northern Division customers. It is the practice of most regulatory commissions to adhere to the regulatory principle of gradualism when actions such as this cause rate shock. The \$86,341 not allocated in this case has historically been borne by the Central Division customers and to provide this small savings on a per customer basis for the Central Division customers at the rate shock expense of the Northern Division customers does not meet the principle of gradualism. The Company plans to propose in its next rate case a movement towards single tariff pricing which would recognize the uniform, excellent water service provided to all customers of the Company. If approved that concept were approved all customers would share equally in future investments, including any major improvements related to the source of supply for the Central Region.



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Witness Responsible:

Michael Miller

85. Mr. Miller also states at page 63 of his pre-filed testimony that in its next rate case, KAWC will move to a uniform tariff for all customers. Please state whether KAWC believes that costs to serve the Northern Division will somehow be reduced by that time, or whether other KAWC customers' subsidy to the Northern Division will be increased by such an action.
- (a) Please state whether other KAWC customers will be expected as a matter of course to subsidize customers of newly acquired utilities either temporarily or permanently in a similar fashion to the proposed treatment for the Northern Division.
  - (b) Please reconcile the treatment of the Northern Division customers with the statement at page 64 of Mr. Miller's pre-filed testimony that "The Company believes costs generated by, and easily identifiable for, specific customers should be recovered from those customers generating the activity and cost." Please state whether the Company believes this only applies to individual customers, and if so, please provide a detailed explanation for such a limitation.

Response:

Please see response to LFUCG #84 above.

- (a) The Company's intent is to seek a uniform tariff for all its customers in its next rate case that would provide that all customers pay the same amount for their usage levels and reflects the uniform service the Company provides both divisions. If that were approved all customers would share equally in all future system improvements, even those potential major costs of a source of supply solution in the Central Division. The Company believes over the time this approach will prove fair to all customers.
- (b) The Company believes that the overall cost of service is best recovered through uniform base rates from all customer classifications based on cost of service study allocations.

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Witness Responsible:

Michael Miller

The Company believes that costs that are driven and easily identifiable to a limited number of individual customers and their actions should be recovered directly from those customers driving that easily identified costs. The Company does not believe these two concepts are contradictory and are utilized and approved by most if not all regulatory jurisdictions.

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Witness Responsible:

Michael Miller

86. Please provide the three most recent assessments by the Kentucky Department of Revenue of KAWC's value for property tax purposes, including any explanation provided for any increase in such assessment. Please state whether the premium paid by RWE for KAWC has resulted in an increase in KAWC's assessed value, and if so, the amount of the increase that is attributable to that premium. Please provide copies of the documents submitted by KAWC in support of these assessments.

Response:

These requested documents are available from the Kentucky Department of Revenue. RWE purchased the common stock of American Water Works Co., Inc. and not the common stock or assets of KAWC.

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Witness Responsible:

Linda Bridwell

87. Reference the Salser pre-filed testimony, page 9. Please explain in detail the sale for resale service to be provided to East Clark County and Peak Mill in the forecasted period, and provide copies of any agreements or contracts to provide such service.

Response:

Wholesale water service is being provided to East Clark County Water District in the Ford-Hampton area of southern Clark County near the Kentucky River. Wholesale water service is being provided to the Peaks Mill Water District along US 127 in northern Franklin County just south of the Owen County line. Please refer to the attached file KAW\_R\_LFCDR1#87\_attachment\_062504.pdf.

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Witness Responsible:

Michael Miller

88. Reference Exhibit 35, page 1 of 2. Please explain the increase in Service company charges from \$3,028,000 in the base period to \$3,800,000 in the forecasted test period and detail all additional services that will be provided as a result of this increase.

Response:

The increase is primarily driven by the annualization of the call center costs from those included in the base period and an increase of 2.5% for salary and benefit increases that have occurred in 2004 and are forecasted to occur in 2005. Also please see response to AG1 question #31.

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Witness Responsible:

Michael Miller

89. Reference Forecasted Test Period Filing Requirements Exhibit 26. Please provide the current strategic business plan referenced in that exhibit, as well as the most recent previous annual strategic business plan.

Response:

Please see response to AG1 questions # 176.

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Witness Responsible:

Michael Miller

90. Reference Forecasted Test Period Filing Requirements Exhibit 35, page 2 of 2. Please provide the most recent Service Company annual business plan, and the most recent previous Service Company annual business plan. Please also provide the monthly reviews of the business plan versus actual performance as referenced in that response.

Response:

See attached schedules.

For electronic file, refer to KAW\_R\_LFCDR1#90\_attachment\_062504.pdf.