

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
ITEMS 1-30

Witness Responsible:

Mike Miller/Sheila Valentine

1. Reference: KAWC response to PSC 1 – 4. Please provide actual financial results, in the same format, for 1999 and 2000.

Response:

Please see attached for 1999 and 2000.

For electronic version, refer to KAW_R_AGKYDR2#1_attachment_080604.pdf

			1999	1999	2000	2000
			Actual	Budget	Actual	Budget
(1)	Fuel & Power Expense		\$1,700,665	\$1,526,911	\$1,593,234	\$1,645,627
(2)	Chemical Expense		\$992,243	\$953,365	\$1,239,224	\$1,045,053
(3)	Management Fee Expense		\$556,093	\$540,089	\$793,158	\$436,892
(4)	Customer Accounting Expense		\$1,182,962	\$1,098,125	\$1,103,326	\$1,080,460
(5)	General Office Expense		\$430,476	\$492,841	\$392,264	\$452,013
(6)	Miscellaneous Expense		\$2,323,155	\$1,952,194	\$1,994,543	\$2,170,836
(7)	Maintenance Expense		\$1,107,826	\$1,191,897	\$1,070,607	\$1,144,709

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Witness Responsible:

Michael A. Miller

2. Reference: KAWC response to PSC 1 – 31. Please provide a copy of the “1971 Agreement” between American Water Works Service Company, Inc., and Kentucky-American Water Company. Also, provide copies of any other service agreements between KAWC and any of its affiliates, including the Call Center, Corporate Offices, and other affiliates, from which KAWC receives services, not previously provided in response to PSC 1 – 31.

Response:

Please see attached. For electronic version refer to
KAW_R_AGKYDR2#2_attachment_080604.pdf.

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Witness Responsible:

Michael A. Miller

3. Reference: KAWC response to PSC 2 – 75. Please provide a narrative describing all restructuring efforts that are currently in process or which are planned for 2004-2005.

Response:

The Company has provided extensive responses to this question in the LFUCG 1 – questions and responses to #16, 17, 18, 19, and 20. The response to LFUCG 1 – question #16 provides an extensive narrative about the restructuring of the organization to make it more aligned with the various functions of the Company and to be more responsive to the customer. The Response to LFUCG 1 – question 19 provides extensive coverage of all the correspondence covering the reorganization effort underway. The Company does not foresee any significant change in the level of employees at KAWC and expects to improve on service at all levels of its operations. There will likely be some savings in management fees, as alignments and positions change in the new regional offices. There will also be transition costs for items such as severance, moving, and other transition costs, like the transition costs to the shared services and call centers will be amortized equal to the savings until such time as those adjustments are recognized in rates. The Company is not able to fully identify and quantify those savings or transition costs as they relate to KAWC at this time, but will provide that information once it is available.

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Witness Responsible:

James H. Vander Weide, Ph.D.

4. Reference: KAWC Response AG 1 - 39. With respect to page 29, line 8 to page 33, line 2, and Schedule C of Exhibit_(JVW-1), please provide a complete electronic version, in Microsoft Excel format, of the monthly data used in the analysis. The Excel file should have all formulas intact.

Response:

Please see electronic file KAW_R_AGKYDR2#4_Schedule C_080604.xls.

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Witness Responsible:

James H. Vander Weide, Ph.D.

5. Reference: KAWC Response AG 1 – 40. With respect to page 33, line 14 to page 35, line 13, and Schedule D of Exhibit_(JVW-1), please provide a complete electronic version, in Microsoft Excel format, of the annual data used in the analysis. The Excel file should have all formulas intact.

Response:

Please see electronic file KAW_R_AGKYDR2#5_Schedules A,B,D,E,F_080604.xls.

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Witness Responsible:

James H. Vander Weide, Ph.D.

6. Reference: KAWC Response AG 1 – 41. With respect to page 33, line 14 to page 35, line 12, and Schedule E of Exhibit_(JVW-1), please provide a complete electronic version, in Microsoft Excel format, of the annual data used in the analysis. The Excel file should have all formulas intact.

Response:

Please see electronic file KAW_R_AGKYDR2#5_Schedules A,B,D,E,F_080604.xls.

KENTUCKY-AMERICAN WATER COMPANY
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ATTORNEY GENERAL'S
SECOND REQUEST FOR INFORMATION
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Witness Responsible:

James H. Vander Weide, Ph.D.

7. Reference: KAWC Response AG 1 – 43. With respect to Schedule A of Exhibit_(JVW-1), please provide a complete electronic version, in Microsoft Excel format, of the exhibit that shows each of the cost of equity calculations. The Excel file should have all formulas intact.

Response:

Please see electronic file KAW_R_AGKYDR2#5_Schedules A,B,D,E,F_080604.xls.

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Witness Responsible:

James H. Vander Weide, Ph.D.

8. Reference: KAWC Response AG 1 – 44. With respect to Schedule B of the Exhibit_(JWV-1), please provide a complete electronic version, in Microsoft Excel format, of the exhibit that shows each of the cost of equity calculations. The Excel file should have all formulas intact.

Response:

Please see electronic file KAW_R_AGKYDR2#5_Schedules A,B,D,E,F_080604.xls.

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Witness Responsible:

Sheila Valentine

9. Reference: KAWC response to AG 1 – 48. The response references a document “W/P-2-10.” Is this a typographical error? If yes, please identify the correct document. If no, please identify the location of the document.

Response:

Yes, this was a typographical error. The correct document reference should be W/P 3-10.

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Witness Responsible:

Linda Bridwell

10. Reference: KAWC response to AG 1 – 56. How does KAWC determine whether an advance or contribution is required and if required, how much of an advance or contribution to obtain?

Response:

All new main extensions are required to be funded by the requesting party unless the purpose of the new main is solely to improve service for existing customers such as eliminating a dead end main. Kentucky American Water follows its current rules and regulations in determining the amount required to be deposited that would be eligible for refunds and any additional amount that would be required as a contribution. Deposited amounts for on-site and off-site extensions are based on the previous year's average cost per foot, with no true-up for actual costs. Kentucky American Water is required to refund the equivalent of 50 feet of main extension per new residential service for on-site agreements, but no more than the amount deposited. Deposited amounts based on three times the annual revenue (3-T agreements) are determined by actual costs, trued-up at the end of the project. Kentucky American Water further determines if there is an improvement to its existing service for upsizing the main beyond the needs of that individual main extension. An agreement is executed with the party requesting the main extension, and work is initiated once the deposit and any contribution amount are received.

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Witness Responsible:

Michael A. Miller/Linda Bridwell

11. Reference: KAWC response to AG 1 – 57. Please provide a description of the “Business Change Project.”

Response:

The Business Change Project is an effort within American Water to explore the possibility to apply greater technology to the business for the purpose of improving customer service and employee productivity. The first focus of the project has been identifying areas where mobile computers are available for field service representatives similar to what other utilities have implemented. This provides customer service information in the field, and reduces the redundancy and errors caused by paper service orders. The first steps will include developing work processes and identifying software and equipment to be utilized, and determining the optimum process in the field for incorporating this technology.

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Witness Responsible:

Michael A. Miller

12. Reference: KAWC response to AG 1 – 70. Please provide a full description for the “Other” incentive plan payments.

Response:

The other incentive plan payments for 2001 and 2002 were made to the employees of KAWC in recognition of their attaining “world class” rating of 85% in overall satisfaction in the customer surveys. American Water, as part of its emphasis on customer service and customer satisfaction, authorized this payment to each operating subsidiary that attained the 85% or above in the overall satisfaction category. The other incentive plan payment for 2003 (cash recorded in 2004) was for a partial payment to the KAWC employees for meeting the customer service and operation goals established under the AIP.

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Witness Responsible:

Michael A. Miller

13. Reference: KAWC response to AG 1 – 94. Please provide copies of all proposals received in response to the RFP and provide all reports and analysis evaluating the proposals.

Response:

Please see response to PSC3-#65.

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Witness Responsible:

Linda Bridwell

14. Reference: KAWC response to AG 1 – 100. Please identify, for each of the past five years, the Company's sources of supply and identify how much of its supply needs were met with each source (excluding purchases from third parties).

Response:

Year	Kentucky River	Jacobson Reservoir	Lake Ellerslie
2003	15,344.10	0	
2002	16,313.12	0	
2001	15,235.38	135.75	
2000	14,618.77	311.04	11.05
1999	13,784.45	1,580.71	67.28

All Usage is in 1000 gallons. Jacobson Reservoir Usage is positive net usage for the year as total withdrawals minus transfers from the Kentucky River.

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Witness Responsible:

Mike Miller

15. Reference: KAWC response to AG 1 – 146. Please indicate whether the reports required per item 36 of Appendix A of the Commission's 20 December 2002 Order in Case No. 2002-00317 have been and are being submitted to the Kentucky Public Service Commission. If yes, please indicate the date of submission for each report and whether the filing was made to the record in PSC Case No. 2002-00277. If no, please explain why the reason for the lack of reporting.

Response:

Although the information sought in this data request is totally irrelevant to this rate case, and without waving any objection, the answer is yes, on 2/11/03; 8/5/03 and 2/16/04.

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Witness Responsible:

Coleman D. Bush/Michael A. Miller

16. Reference: KAWC response to AG 1 – 147. Does the Company have a cost allocation manual? If so, please provide a copy. If not, please indicate why no cost allocation manual has been prepared.

Response:

The Company believes that the method of cost allocation proposed in this case meets the content requirement of KRS 278.2205 and that it fairly allocates common costs among its various businesses.

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Witness Responsible:

Mike Miller

17. Reference: KAWC response to AG 1 – 150. Please identify, for the base period and future test year, the amount included in Southeast Region's management fees for each of the requested expense categories.

Response:

	<u>Base Period</u>	<u>Forecasted Period</u>
Business Development	\$111,865	\$117,525
Legal	35,425	44,464
Information Systems	770,507	819,399
Rates & Revenues	90,141	94,702

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Witness Responsible:

Michael A. Miller

18. Reference: KAWC Response AG 1 – 157. With respect to page 10, lines 1 – 8, please provide a complete electronic version, in Microsoft Excel format, of the amounts and costs of the individual debt issues and the methodology that was employed to compute the cost of long-term debt and preferred stock. The Excel file should have all formulas intact.

Response:

Please refer to electronic version KAW_R_AGKYDR2#18_attachment_080604.xls
and/or KAW_R_AGKYDR2#18_attachment_080604.pdf.

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Witness Responsible:

Linda Bridwell

19. Reference: KAWC response to AG 1 – 168. Please answer the following:
- a. How many hours were spent by KAWC personnel on leak detection activities for each of these clients in the test year?
 - b. The response to AG 1 – 168 (c) indicates that “Kentucky American Water believes these services to be part of its regulated services since the expense and revenues are booked above the line.” Did the Company seek formal Commission approval for the provision of this activity? If yes, when. Please provide the docket number for the proceeding.
 - c. Does the Company have a tariff provision describing the terms and conditions for the provision of this service?
 - d. Is the provision of this service done under Special Contract?
 - e. 168 (d) states: “Please indicate the revenue for this activity and whether it is being booked above-the-live or below-the-line for ratemaking purposes.” The response states: “These revenues are booked above the line.” The response does not disclose, as per the request, the revenue for the activity. Provide a summary consistent with the presentation of expenses for the response to AG 1 – 168 (a) that shows, by city or municipal utility, the revenue amount, to date, for the activity.

Response:

- a. Since August 1, 2003, 80.5 hours have been worked on the City of Hazard and 31.5 hours have been worked on the City of Jackson.
- b. No. The Company filed a copy of the most recent contract with the Public Service Commission on May 12, 2004.
- c. No.
- d. Yes.

Linda Bridwell

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Witness Responsible:

- e. The amounts reflected in the response to the Attorney General's First Data Request, Item 168 d were the costs of mileage and labor that were billed directly to the cities. Revenues were received in those same amounts.

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Witness Responsible:

Michael A. Miller

20. Reference: KAWC response to LFUCG 1 – 52. Who is currently performing the “day-to-day operations of KAWC” and the functions relating to the “condemnation effort” now that Mr. Mundy has resigned?

Response:

Mr. Nick Rowe has been elected President of KAWC and has assumed the duties previously performed by Mr. Mundy of being responsible for the day-to-day operations of the company and assisting in the defense of the condemnation effort when time allows.

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Witness Responsible:

Michael Miller

21. Reference: KAWC response to LFUCG 1 – 78. The response identifies Counsel for Kentucky-American Water Company as the participant in the discussions with Commission Staff. Please provide a copy of the legal billing invoices for this activity.

Response:

See KAW_R_AGKYDR2#21_attachment_080604.pdf.

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Witness Responsible:

Linda Bridwell

22. Reference: KAWC response to LFUCG 1 – 87. Did the Public Service Commission issue any Orders relating to either contract? If yes, please provide the docket number(s) and the date(s) of the Orders. Please supply any cover letter or other correspondence (including any material by a third-party that was copied to KAWC) in the Company's possession regarding the submission of these contracts to the Commission.

Response:

No. See KAW_R_AGKYDR2#22_attachment1_080604.pdf for East Clark County Water District, Inc. and KAW_R_AGKYDR2#22_attachment2_080604.pdf for Peaks Mill Water District.

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Witness Responsible:

Michael A. Miller

23. Please describe the process used by KAWC to approve all annual costs to KAWC from any of its affiliates, including the Service Company, the Call Center, Corporate Offices, and other affiliates from which KAWC receives services.

Response:

In the course of the planning process the Company is provided estimates of the costs to be expected from American Water Works Service Company. The Company reviews that data, requests explanations for cost increases or other items for which it may have questions. Once the Company is satisfied with the plan estimates it incorporates the numbers into its budget which is approved by action of the Board of Directors. The Company receives a detailed monthly service company bill. The Company reviews the detailed bill and compares the overall result to its plan. Based upon this review the Company asks for clarification or adjustment for any charges with which would not be related to KAWC's operations. Once this process is complete and KAWC is satisfied with the bill an appropriate employee approves the invoice for payment.

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Witness Responsible:

Michael A. Miller

24. What impact does the resignation of Mr. Mundy have on the Company's filing?

Response:

At the time of his resignation as a result of retirement, Mr. Mundy was earning a base salary of \$169,500 annually. The salary actually included in the rate case is \$169,942 since the budget was prepared before the actual salary increase for 2004 was known.

Nick Rowe, the former Vice President of Operations for Kentucky American Water, was elected President of Kentucky American Water by the Company's Board of Directors in July 2004. Mr. Rowe's current base salary is \$170,000 annually.

As President, Mr. Rowe is receiving the same benefit package as Mr. Mundy did.

Mr. Mundy was involved in various Company related activities and also has travel and other expenses included in the rate case. While there may be some differences in the specific activities in which Mr. Rowe will become involved, we expect that his level of expenses related to community involvement, travel and other activities will be commensurate with that included in the rate case for Mr. Mundy.

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Witness Responsible:

Linda Bridwell

25. For each component of CWIP included in the Application, please state if the project is revenue-producing.

Response:

Please refer to W/P 1-5. Kentucky American Water assumes that the Attorney General means "revenue-producing" as providing new customers for Kentucky American Water that it would not have otherwise. Investment Item 12020080 represents developer deposits for new mains in both the Central and Tri-Village Divisions and are revenue producing, however, there is an offsetting entry in CIAC and these funds are not included in ratebase. Investment Item 12020104 is Scott County Mains is revenue-producing in that there are new customers, and is listed in W/P 1-5, however, the project was completed in 2003. Investment Item 123000111 is the New Columbus project in Owen County and is extension of new mains allowing for new customers. Investment Item 12300402 is incorrectly listed as 12020402 and is Owen County Main Extensions which will allow for new customers.

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Witness Responsible:

Linda Bridwell

26. For each revenue-producing project for which CWIP was included in the Application, please identify a) the amount of CWIP included and b) the number of customers to be added in each of the next three years as a result of the project.

Response:

For the amount of CWIP for Item 80, please refer to W/P 1-5, pages 11, 15, 16, 19 and 20. Kentucky American Water projects 2,550 new customers per year for each of the next three years. It is expected that most of these customers will be added as a result of Item 80 projects although some may be connected to existing mains and not those in the projected CWIP. The investment in CWIP for Item 80 projects is offset by CIAC for determining rate base since main extension deposits are required of developers.

There are no dollars included in CWIP for the Scott County Mains project except a small credit due to a correction that will be transferred to Utility Plant. It is anticipated that most of the potential new customers from the Scott County Mains project have already requested service, however, there will continue to be new customers as properties subdivide or change hands. We have not estimated an exact number of customers related to this project.

For the amount of CWIP for the New Columbus project, and the Owen County Main Extensions, please refer to W/P 1-5, pages 8 and 31. It is anticipated that as many as 125 additional customers may result from the New Columbus project based on the number of existing houses, however, new customers in the Northern Division have been added in total and not allocated to specific projects. Some will be added to new mains and some will be added to existing mains. Since there is a significant expense to those customers to run their plumbing to the meter and pay the tap fee, new service is often deferred by existing property

Linda Bridwell

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Witness Responsible:

owners for a few years after a main is extended. The Owen County Main Extension project is still being developed and the estimated number of new customers that will result from that project is part of the development effort.

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Witness Responsible:

Michael Miller/James Salser

27. Please provide the statutory payment dates for the Company's federal and state income taxes as well as the percentage of taxes due on each of those dates.

Response:

Federal tax deposits are due on the following dates:

<u>Due Date</u>	<u>Percentage Due</u>
April 15	25%
June 15	25%
September 15	25%
December 15	25%

Final payment, if any, is due the following March 15.

For Kentucky state income taxes, if the expected tax liability exceeds \$5,000, then deposits are due as follows:

<u>Due Date</u>	<u>Percentage Due</u>
June 15	50%
September 15	25%
December 15	25%

Final payment, if any, is due the following April 15.

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Witness Responsible:

Sheila Valentine

28. For each "Other" type of tax included in Exhibit 37-B, page 82, please provide the statutory payment dates as well as the percentage of taxes due on each of those dates.

Response:

The total bills are due within 30 days after receipt of the notice.

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Witness Responsible:

James Salser

29. It is the understanding of the Attorney General that certain lead/lag days are being supported in this case based on a lead/lag study conducted for a sister company. In that regard, please provide the workpapers and calculations used to develop the lead/lag days shown in Exhibit 37B, page 82 for Service Company Charges, Group Insurance, OPEB's, Pensions, Insurance Other than Group, Postage Expense, Stock Expense, and Waste Disposal Expense.

Response:

Attached are the Kentucky American lead lag workpapers for the year ending 2003 representing Service Company Charges, Group Insurance, OPEB's, Pensions, Insurance Other than Group, Waste Disposal, Property Taxes, Short-Term Debt, Long-Term Debt, Preferred Stock Dividends, State Income Tax, and Federal Income Tax. Also attached are the workpapers related to postage expense and stock expense based on sister companies information in the original filing.

For the electronic version please refer to KAW_R_AGKYDR2#29_attachment_080604.pdf

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-0013
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
ITEMS 1-30

Witness Responsible:

Mike Miller

30. Per PSC Case No. 2000-00120, the Public Service Commission mandates that Kentucky-American shall formally apply for Commission approval before accruing an expense as a regulatory asset. Please answer and provide the following: (For this question, "Commission" includes any Commissioner, member of Staff, other employee, or agent of the Public Service Commission.)
- a. Please provide any letters, e-mails, or other correspondence that Kentucky-American, a parent, or an affiliate has sent or caused to be sent to the Public Service Commission regarding this mandate.
 - b. Please indicate whether any lobbyist, officer, director, or employee of Kentucky-American, a parent, or an affiliate has engaged in any discussion with the Public Service Commission regarding this mandate. Provide a list of names, dates, Commission participants, and locations of the discussions.
 - c. Please admit or deny whether any lobbyist, officer, director, or employee of Kentucky-American, a parent, or an affiliate engaged in any discussions or communications with the Commission regarding any of the deferred debits (which are presently before the Commission in this case) for the time period of November 27, 2000, until December 12, 2003. If there have been discussions or communications, please provide a list of names, dates, Commission participants, a copy of any written materials or documentary evidence relating to the exchange, and locations of the discussions.
 - d. Please admit or deny whether any lobbyist, officer, director, or employee of Kentucky-American, a parent, or an affiliate engaged in any discussions or communications with the Commission regarding any of the deferred debits (which are presently before the Commission in this case) for the time period of December 12, 2003, to the present. If there have been discussions or communications, please provide a list of names, dates, Commission participants, a copy of any written materials or documentary evidence relating to the exchange, and locations of the discussions.

- e. Please admit or deny whether any lobbyist, officer, director, or employee of Kentucky-American, a parent, or an affiliate engaged in any discussions or communications with the Commission regarding the merits of any aspect of the application presently before the Commission in this case either before the filing of the application or following the filing of the application. If there have been discussions or communications, please provide a list of names, dates, Commission participants, a copy of any written materials or documentary evidence relating to the exchange, and locations of the discussions.

Response:

- 30. a. Other than the documents in Case 2003-00478, to which the Attorney General was made a party on January 13, 2004, see KAW_R_AGDR2#30_attachment_080604.
- b. and c. See KAW_R_LFCDR2#43. The discussion took place in Frankfort, Ky.
- d. and e. None.