

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2004-00103**  
**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENTS**  
**SECOND REQUEST FOR INFORMATION**  
**ITEMS 1-56**

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Witness Responsible:

Chris Jarrett/Mike Miller/Linda Bridwell

1. Does KAWC currently provide any services for public fire hydrants for which it is not the owner of the hydrant? If so, please describe the terms of any such arrangement in detail, and provide all supporting documentation, including but not limited to copies of any agreements. Would KAWC be willing to discuss with the LFUCG the feasibility of the LFUCG acquiring and owning some or all of the additional public fire hydrants that would be needed to service Fayette County in the future; or, in the alternative, the LFUCG acquiring and owning existing and future public fire hydrants in Fayette County?

Response:

Yes. Kentucky American Water classifies a “private” hydrant as one that an individual or private organization is responsible for the monthly billing, but is located on a main owned by Kentucky American Water. The hydrant is owned by that entity, but Kentucky American Water performs annual inspections, flushing, flow testing, and maintenance. Kentucky American Water also performs necessary repairs to those hydrants at the owner’s expense. Kentucky American Water classifies a “privately owned” hydrant as a hydrant owned by an individual or private organization located on a main installed by the owner on its property. The hydrants are billed under the tariff for private hydrants, but are not operated or maintained by Kentucky American Water. Because of abuse by some owners of this arrangement, Kentucky American Water has minimized the allowance of privately owned hydrants. Kentucky American Water also provides fire service through a fire service connection or large flow meters. Hydrants located behind fire services or meters are not billed or maintained by Kentucky American Water. Both private and privately owned hydrants are provided under an agreement for special connection attached as KAW\_R\_LFCDR2#1\_attachment\_080604.pdf.

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Witness Responsible:

The cost of service of providing fire service goes well beyond the operation and maintenance of the hydrants. There are a number of methods of handling the cost of public fire service in the various state regulatory practices. Some states do not have a public fire service fee but permit the utility to recoup the full cost of service, including the cost of public fire service, from the other customer classes. Other States have capped the level of public fire service revenues at some level below full cost of service. Still other states have frozen public fire service revenue at points in time and permitted the municipalities to pay for the installation of new hydrants as contributed property, and permitted the unrecovered portion of public fire service revenue to be recovered from the other customer classes. The Company wishes to continue ownership of the fire hydrants, but is willing to discuss the various cost of service methods used in other jurisdictions with the LFUCG.

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Witness Responsible:

Paul R. Herbert

2. Reference Exhibit 36 to the Application, at page 6 of 40. The cost of service study filed by KAWC in Case No. 2000-00120 concludes that public fire protection should contribute 4.0% of total sales revenues.
  - a. Does KAWC agree that 4.0% of the projected sales revenue of \$49,647,830 from Exhibit 37M-3 to the Application, page 1 of 54, would produce a revenue requirement for public fire protection of \$1,985,913? If not, please explain in detail why not, and provide any supporting documentation for this response.
  - b. Does KAWC agree that the public fire protection revenues at proposed rates of \$2,078,218 (Exhibit 37M-3 to the Application, page 1 of 54) represents 4.2% of the total company sales revenues at proposed rates of \$49,647,830? If not, please explain in detail why not, and provide any supporting documentation for this response.
  - c. Please explain in detail why, without an updated cost of service study, public fire protection should be required to provide a higher percentage of the sales revenue requirement than was found to be reasonable in the study presented in Case No. 2000-00120.

Response:

- a. Yes.
- b. Yes.
- c. A 0.2% variance between the cost of service and revenue is not unreasonable. See other classes' variances on Schedule A of Exhibit No. 36. An across-the-board increase is a reasonable approach considering the results of the cost of service study in the last case.

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Witness Responsible:

Paul R. Herbert

3. KAWC's proposed revenue requirement of 15.3% includes an upward adjustment for weather normalization. Please state whether KAWC believes that it is appropriate to increase public fire rates due to weather normalization, and if so, explain in detail why such an increase is appropriate and provide any supporting documentation for this response.

Response

A weather normalization adjustment would not affect the cost of service allocated to public fire in this case or in the prior case.

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Witness Responsible:

Michael A. Miller

4. Please state what percentage of the 15.3% proposed overall revenue increase is attributable to the weather adjustment, and reference and/or provide the supporting documentation for this response.

Response:

As KAWC has done in all past general rate filings, it has based its going-level revenues on a weather normalized amount. None of the requested rate increase is attributable to the weather normalization adjustment, because the level of rate increase requested is for the level of the cost of service above the going level revenues.

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Witness Responsible:

Linda Bridwell

5. Please state whether KAWC is aware of any fire incident(s)(or any other occasion) in its history upon which 8000 gallons of water per minute for four (or more) hours was needed. If so, please provide a detailed explanation of all such incident(s), including but not limited to the date(s), the approximate location of the incident and the amount of water used.
- a. If there are no such incidents, please provide the same information requested above for the incident(s) incident that most closely approaches this level of intensive water demand.
  - b. Please provide the information requested above for all incident(s) in which 5000 gallons of water per minute for four (or more) hours was needed.
  - c. Please state the fire incident of the greatest magnitude in KAWC's history, including the duration of flow, the magnitude of flow, and the date of such incident.

Response:

Please refer to the response to Item 41 of the Lexington-Fayette Urban County Government's First Request for information. Kentucky American Water has no way of identifying water usage for individual fire incidents, and thus does not know if there have or have not been any such incidents.

- a. Please refer to the above response.
- b. Please refer to the above response.
- c. Please refer to the above response.

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Witness Responsible:

Linda Bridwell

6. Reference Exhibit 37B to the Application, page 61 of 90, line 29, Project Number 12020204 – Source of Supply Project. This is included in CWIP as of July 30, 2004, at a level of \$429,185, and is stated to be 100% complete. Please provide a detailed narrative description of this project, and what expenditures are included.

Response:

Please refer to W/P 1-5, Page 134 of 182 for a detailed narrative description of this project. The total costs for this project were incorrectly listed on page 61 of 90 in Exhibit 37 B, line 29 so that the formula kicked out that the project is 100% complete.

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Witness Responsible:

Linda Bridwell

7. Reference Exhibit 37B to the Application, page 63 of 90, Line 11, Project Number 12020204 – LEX – Source of Supply Proj. This is included in CWIP as of November 30, 2005, at a level of \$1,889,067, including \$87,053 of AFUDC capitalized, and is stated to be 26.65% complete. Please provide a detailed narrative description of this project, and what expenditures are included.

Response:

For a detailed narrative of this project please refer to the response to Item 6 of this same request. The current authorization is for \$600,000 for continued efforts with the Bluegrass Water Supply Consortium and Case No. 2001-117 in front of the Public Service Commission. The expenses have been less than originally anticipated as Case No. 2001-117 was put on hold while the Bluegrass Water Supply Consortium completed its study. The project is not currently accruing AFUDC, and the estimate identified in Exhibit 37B would accrue only with the actual construction of facilities.

The Bluegrass Water Supply Consortium has identified a potential phase I project that would be approximately \$8 million. It has requested funding from the State and Federal governments, but it is anticipated that some capital would be supplied by the Consortium. The potential phase I project would supply water from Frankfort to Lexington. Currently there is not a funding plan developed for the Consortium and the Consortium is in the process of organizing as a Water Commission under Kentucky statutes. Kentucky American Water has included these additional expenditures in its 2005 capital plan in anticipation that some matching funds or capital construction will be necessary as part of the phase I project.

Kentucky American Water would anticipate bringing a Certificate of Convenience and

Linda Bridwell



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Witness Responsible:

Necessity application before the Public Service Commission prior to the expenditure of any capital funds or provision of matching funds for capital construction.

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Witness Responsible:

Linda Bridwell

8. Are the projects referred to in Question numbers 6 and 7, above in any way related to each other? If so, please explain the relationship between the two projects.

Response:

Yes, the projects are the same.

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Witness Responsible:

Mike Miller

9. Is KAWC seeking to earn a return on the CWIP amount referred to in either Question Numbers 6 or 7, above in this proceeding? If so, what is the revenue impact of this rate base item(s)?

Response:

Yes and the revenue impact is \$108,313.

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Witness Responsible:

Linda Bridwell

10. Are the source of supply costs referred to for 2003 and 2004 by Ms. Bridwell in her testimony included in either or both of the CWIP amounts referred to in Question Nos. 6,7, or 9, above?

Response:

Yes, the source of supply costs for 2003 and 2004 identified on page 12 of Ms. Bridwell's testimony are included in the CWIP amounts referred to in Items 6 and 7.

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Witness Responsible:

Linda Bridwell

11. Refer to Exhibit 37B, Page 69 of 90, Line 26, Project Number 12020204, of the application. This project is listed as having been begun in July 1992, with an expected completion date of May, 2001, but is also stated to be only 31.48% complete. Its total project expenditures as of November 30, 2003, is stated to be \$1,889,067, the same amount as in CWIP as of November 30, 2005, referred to in Question No. 7, above. Please state whether this project began as the proposed pipeline to the Louisville Water Company, or is any other way related to that project.
- a. Please state all current activity being assigned to this project number, and the reason for the increase in CWIP for this project between July 30, 2004 and November 30, 2005.
  - b. Please state when CWIP began accruing to this project number.
  - c. Please provide the detail for the current budget estimate of \$6,000,000 for this project, and when this project is now expected to be completed.
  - d. Please state whether this CWIP as of November 30, 2005, includes any expenditures related to planning for a pipeline as a source of supply alternative. If so, please provide a detailed explanation of such planning.
  - e. Please reconcile the planned expenditures on this project with the Response to Question No. 47, LFUCG's Requests for Information, which states that "no additional work on the long-term treatment capacity deficit has been pursued other than through the Bluegrass Water Supply Consortium."

Response:

Project 12029212 began as the proposed pipeline to the Louisville Water Company. For a detailed explanation of Project 12020204, please refer to the response to Item 6 and 7 of this same request.

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Witness Responsible:

- a. Please refer to the response to Item 7 of this same request.
- b. The original intention was for project 12020204 to pick up all charges on the source of supply efforts after the May 2001 Commission Order and closing project 12029212. Since all expenditures on project 12029212 regarding the Bluegrass Water Project had been transferred from the capital project, Kentucky American Water has continued to use the existing task order under 12029212 to charge expenditures on source of supply instead of creating a new task order under 12020204. The two projects from May 2001 forward are essentially the same, so charges for this phase of source of supply essentially began accruing since May 2001.
- c. Since the original project for 12020204 was project 12029212, which had a budget estimate of \$6,000,000, this number was utilized on page 69 of 90. Since there is not a funding plan yet developed by the Bluegrass Water Supply Consortium, there is not any additional budget detail available beyond the information included in response to Item 7 of this same request.
- d. Yes, it is anticipated that the potential phase I project of the Bluegrass Water Supply Consortium will include a pipeline to supply additional water, and Kentucky American Water's proposed expenditures include support and planning for that effort.
- e. Please refer to the above responses. There are no additional plans for work on the long-term water supply deficit other than through the Bluegrass Water Supply Consortium.

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Witness Responsible:

Linda Bridwell

12. Please explain in detail the relationship, if any, between Project Number 12029212 on WP1-5, page 3 of 182 (provided in Response to Commission Staff's First Set of Information Requests), and Project Number 12020204.

Response:

Please refer to the response to Item 11 of this same request.

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Witness Responsible:

Chris Jarrett/Michael A. Miller

13. It has recently been reported that Roy Mundy has resigned as the President of KAWC. Please verify that this information is accurate and provide the following information pertaining to this event, along with copies of any documents that support the response.
- a. What is the effective date of Mr. Mundy's resignation?
  - b. What person(s) are replacing Mr. Mundy, and when?
  - c. Please describe in detail all of the job functions of Mr. Mundy's replacement(s), and provide a breakdown of the amount of time that such individual(s) will spend on condemnation-related matters.
  - d. Does the resignation of Mr. Mundy serve as a basis to modify any of the expenses projected by KAWC in its forecasted test year? If so, please provide all such modifications.
  - e. Does Mr. Mundy's resignation completely sever his relationship with KAWC and/or its affiliates? Is Mr. Mundy being retained by any of these companies going forward in time? If so, please provide a detailed explanation of the arrangement and provide copies of any supporting documents, including but not limited to any contract(s).
  - f. Was Mr. Mundy provided any severance pay as a result of his resignation? If so, please provide the amount of payment and a copy of any supporting documents.

Response:

13. Mr. Mundy has resigned as President of Kentucky-American.
- a. The resignation was effective on July 15, 2004. Mr. Mundy also resigned as a member of the Board of Directors and the resignation was accepted by the Board on July 21, 2004. See KAW R LFCDR2#13 attachment 080604.
  - b. Mr. Mundy is being replaced by Mr. Nick Rowe, who was elected as President of the Company at the July 21, 2004 Board Meeting.



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Chris Jarrett/Michael A. Miller

- c. Mr. Rowe's duties and job description will be the same as Mr. Mundy's. Mr. Rowe will continue to run the day-to-day operations of the Company and defend it in the condemnation proceeding initiated by the LFUCG. The Company does not know the amount of hours it will take Mr. Rowe to accomplish his significant responsibilities in any given week, including duties to attend to condemnation related matters. The Company does not expect that work load or weekly hours to be any different than those put forth by Mr. Mundy. Please see the response to LFUCG1-questions 52, 53, 55, 57 and 59 for a description of Mr. Mundy's duties and the allocation of his salary and overheads requested in this case.
- d. Please see response to AG2-question 24.
- e. Mr. Mundy's resignation completely severs his relationship and duties with the Company.
- f. Mr. Mundy is still discussing his severance with the Company and no final documents regarding potential severance payment or terms of such severance are available.

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Witness Responsible:

Michael A. Miller

14. Please refer to the KAWC's annual reports for 2002 and 2003. Please explain in detail the basis for the decrease in the company's revenues and net profits.

Response:

The Company is not clear exactly what is meant by this question. Revenues were \$92.034 million for 2001, \$95.839 million for 2002, and \$94.664 for 2003. The change in revenue from year to year was driven by the impact of weather from year to year and the level of growth experienced each year. The revenues have been normalized for the impact of weather in this case as outlined in the testimony of Dr. Spitznagel. Net Income was \$10.252 million for 2001 and \$10.127 million for 2002. The slight decrease was primarily driven by lower AFUDC as several capital projects were completed to utility plant. In addition, the Company experienced increases in group insurance and pension expense partially driven by lower market returns on the assets and insurance expenses in the post 9-11-01 period. The growth in revenue from 2001 to 2002 offset most of these increased expenses. Net income for 2003 was \$8.563 million. The reduction from 2002 to 2003 was driven by lower revenues, increased production costs, increased group insurance and pension costs, increase maintenance costs, and condemnation expenses recorded on the books of the Company for which the Company is not seeking recovery in rates in this case.

The Company has not had an adjustment to its rates since May 2001 (add'l revenue from the Petition for Reconsideration in case 2000-120), or in nearly four years. As a condition of the change of control of the common stock of American Water, the Company was precluded from seeking a change in rates before March 17, 2004 even though its costs and investment had increased. In the current case the Company is seeking an increase in rate base of nearly \$22 million for additional investment in utility plant to provide the high level

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Witness Responsible:

Michael A. Miller

of service that our customers have been accustomed to, including a significant investment in enhanced security measures installed since the events of September 11, 2001. That increase in rate base and increases in group insurance, liability insurance, security, maintenance, and general taxes are the primary drivers to increase rates in this case.

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Witness Responsible:

Michael A. Miller

15. Reference Miller Testimony, page 52. Is it correct that in the base period, only Mr. Mundy was eligible for a Long-term Incentive Plan (“LIP”) payment?
- a. Will Mr. Mundy's successor(s) be eligible for LIP payments (or benefits)?
  - b. Will any other KAWC employee be eligible for this program? If so, please state which employees.
  - c. Please state whether the forecasted expense for LIP will change in any way as a result of Mr. Mundy’s departure from KAWC.

Response:

Yes.

- a. Yes.
- b. No.
- c. See response to AG2-#24.

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Witness Responsible:

Paul R. Herbert

16. Reference Response to Question No. 8, LFUCG's Requests for Information. Please state how KAWC was able to determine that there were "no compelling changes that would significantly change the cost of service allocations on this case" if it did not update its prior cost of service study, or conduct a draft cost of service study for this proceeding. Provide copies of any documents or workpapers that support this position.

Response

In order for a significant change to the cost of service study to occur, the Company would have had to significantly change its operations. Since there were no significant operational changes, it is not likely the results of the cost of service study will be materially different.

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Witness Responsible:

Coleman Bush

17. Reference Response to Question No. 12(b), LFUCG's Requests for Information. Please list all new fees or other charges, or any portion of modified fees or charges, that KAWC believes are not subject to the LFUCG franchise fee, with an explanation as to why such fee or charge is not covered by the definitions contained in the franchise agreement.

Response:

According to the provisions of our current franchise agreement with the LFUCG, the franchise fee is to be imposed in an amount not to exceed three percent (3%) of the "Gross Revenues" as defined in the agreement.

Section 9 of the agreement says, "'Gross Revenues', for purposes of this resolution (No. 146-95), shall include all revenues from the sale of water, service charges based upon the size of facilities, municipal fire connections and hydrants, private fire connections and hydrants, temporary service connections for construction purposes, reconnections charges, returned check charges, service line inspection fees, and bulk sales to customers in Fayette County. All other sources of revenue are excluded from 'Gross Revenues'".

The application of the franchise fee to new fees or other charges is not contemplated in the agreement.

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Witness Responsible:

Michael A. Miller

18. Reference Responses to Question No. 14, LFUCG's Requests for Information. Attached hereto as LFUCG Exhibit No. 1, is a press release and a statement issued by the Public Service Commission on June 30, 2004 (available on the PSC website at [http://psc.ky.gov/agencies/psc/press/062004/0630\\_r01.pdf](http://psc.ky.gov/agencies/psc/press/062004/0630_r01.pdf)), in which the Commission favorably refers to rate comparisons between Kentucky's electric and gas utilities and other utilities without reference to any of the additional factors cited by KAWC in its response to the LFUCG's question.
- a. Please provide the information previously requested by the LFUCG concerning rates charged by other water providers in Kentucky, regardless of whether such information is contained in a particular analysis meeting all of KAWC's other parameters for evaluation.
  - b. Please state whether to KAWC's knowledge its "average customer" (as defined in KAWC's application) will pay more than, less than, or approximately the same, for service under KAWC's proposed rates as would a customer in the following service areas: (i) Louisville – Jefferson County; (ii) Owensboro; (iii) Bowling Green; (iv) Frankfort; and (v) any other utility service territory that KAWC desires to provide.

Response:

- a. The Company objects to this question. The information being requested is irrelevant and immaterial to the establishment of fair and reasonable, cost based rates for the Company in this proceeding. The Company has no study or analysis of the rates of other water utilities in Kentucky, and knows of no such study that takes into consideration any of the criteria mentioned in the response to LFUCG1-#13.

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Michael A. Miller

- b. The Company objects to this question. The information being requested is irrelevant and immaterial to the establishment of fair and reasonable, cost based rates for the Company in this proceeding. The Company does not know the average usage for each of the entities listed above nor what it charges its customers.



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Witness Responsible:

Michael A. Miller

19. In a press release dated April 30, 2004 (a copy is attached hereto as LFUCG Exhibit No. 2), Mr. Mundy is quoted as saying that “our customers will continue to believe that they are getting good value for what they pay for water.” The release further compares KAWC rates to those paid for other utility service. The release further states that KAWC’s customers “believe their water is reasonably priced”.
- a. Please provide all information reviewed by Mr. Mundy and KAWC in making these statements.
  - b. Please state how customers can make a judgment as to the “good value” they are getting “for what they pay for water” and believe that their water is “reasonably priced” without having any information to compare what they are paying to what customers of other water utilities in Kentucky are paying for comparable service.
  - c. Please state whether KAWC believes that it is irrelevant as part of the rate making process for customers to have a rational basis to understand the value of the service that they pay for, or the reasonableness of the price that they pay for water.
  - d. Please provide all information in KAWC’s possession concerning the comparability of rates between KAWC and other water utilities in Kentucky that will assist KAWC’s customers to rationally understand the “good value” that they are getting “for what they pay for water” and the reasonableness of the price they pay versus what they would pay if they were customers of other water utilities in Kentucky.
  - e. Please state the reason why KAWC believes that while it is appropriate to compare the water bills to bills for other utilities without considering any of the factors stated in KAWC’s Response to LFUCG No. 14, a comparison with other water utility rates for comparable service is irrelevant and arbitrary.

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Witness Responsible:

Michael A. Miller

- f. Please provide a copy of the questions asked in the “recent survey” done by KAWC.
- g. Please state whether KAWC asked its customers (as part of this survey) if they believe that it is reasonable for them to pay a higher rate for their water service than customers with comparable usage in Louisville, Owensboro or Bowling Green.
- h. Please state whether KAWC is aware that customers of other Kentucky water providers with the same usage as KAWC’s “average” customer in this application pay a substantially lower amount for the same amount of usage than that proposed as reasonable by KAWC in this proceeding.

Response:

- a. The Company reviewed the results of its most recent customer survey and the past customer surveys conducted for the Company which compare customer satisfaction in several categories, as well as, overall satisfaction. KAWC has consistently been rated in the top ten in both “Overall Satisfaction” and “Overall Utility Value” among the American Water subsidiaries. In 2001, KAWC was the fourth highest rated subsidiary in “overall satisfaction” with a satisfaction percentage of 76%, and the second rated subsidiary in “overall utility value” with a satisfaction percentage of 78.89%. KAWC was also rated fourth and second in the same two categories in 2000. It was these survey results on which Mr. Mundy based his statements in the April 30, 2004 press release. See KAW\_R\_LFCDR2#19\_attachment1\_080604.pdf.
- b. The Company believes the customers are fully capable of assessing the amount they pay for water service and the level of service they receive from the Company as being satisfactory to them and of value to them when compared to prices and services they receive from other utilities and companies. The customers have consistently

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Witness Responsible:

Michael A. Miller

indicated to the Company that they are satisfied with the service they receive and the value they pay for that service.

- c. The Company certainly believes that customers are capable of determining their satisfaction with the level of service and the price they pay for that service, and based on the Company's past surveys the Company believes its customers have a high regard for the Company's service and the value it provides to them. The Company does not believe a comparison of rates of vastly different water providers with a myriad of different service issues and service lives, and a host of other differences that would need to be considered is a relevant matter for the Commission to consider in establishing fair and reasonable, cost based rates in this case.
- d. The Company objects to this question. The information being requested is irrelevant and immaterial to the establishment of fair and reasonable, cost based rates for the Company in this proceeding. The Company has no study or analysis of the rates of other water utilities in Kentucky, and knows of no such study that takes into consideration any of the criteria mentioned in the response to LFUCG1-#13 that would be required to have a meaningful comparison of water rates among a wide variety of water providers in Kentucky.
- e. The Company objects to this question. The information being requested is irrelevant and immaterial to the establishment of fair and reasonable, cost based rates for the Company in this proceeding. The Company believes that providing reliable water to each residential customer that is safe for human consumption at the price of less than one-half cent per gallon, and that has been determined to be fair and reasonable by the Commission, is a value when compared to other services, and we also believe our customers agree based on the recent survey results.

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Michael A. Miller

- f. See KAW\_R\_LFCDR2#19\_attachment2\_080604.pdf.
- g. The Company objects to this question. The information being requested is irrelevant and immaterial to the establishment of fair and reasonable, cost based rates for the Company in this proceeding. However, the answer is no. The Company does not believe a comparison of rates without comparison of service levels and the other myriad of circumstances that may differ among water providers as outlined in the response to LFUCG1 – question 13 would provide any relevant basis on which a customer could make a fair judgment.
- h. The Company objects to this question. The information being requested is irrelevant and immaterial to the establishment of fair and reasonable, cost based rates for the Company in this proceeding. The company is generally aware that some water providers have lower rates than the Company and that other water providers have higher rates. It appears that the LFUCG wishes to concentrate only on those water providers that have lower rates. The Company is not aware of the level of service provided by the listed entities, how satisfied or dissatisfied the customers may be in those listed locations, the stage at which the assets of those entities may be in the remaining useful life, if they have major construction requirements they may significantly impact future rates, or many other circumstances to numerous to mention that would require review and analysis before a meaningful comparison of rates or the value of service could be determined.

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Witness Responsible:

Michael A. Miller

20. On May 3, 2004, the *Lexington Herald-Leader* published an op-ed piece attributed to Mr. Mundy that discusses this rate case (a copy is attached hereto as LFUCG Exhibit No. 3). Please state whether this opinion piece was prepared by Mr. Mundy or under his direction.
- a. Please state and quantify the benefit to KAWC's ratepayers of Mr. Mundy's op-ed piece.
  - b. Please state the cost in labor and related expense of preparing the op-ed piece.
  - c. Please reconcile Mr. Mundy's statement that KAWC is "not a political body. Our only priority is to provide water", with the Company's intention in this rate case to recover labor costs incurred in educating the public as to KAWC's position on the politics and the reasonableness of the condemnation action.
  - d. Please reconcile the statement that "revenue from customers is used to run the water company and pay for its operation, maintenance and capital investment needs" with KAWC's intention in this rate case to recover from ratepayers for the labor and related costs of employees, and Service Company charges, that are incurred on behalf of shareholders to oppose condemnation.
  - e. Please provide the factual basis for the claim that "water will still be the lowest utility bill customers pay each month."
  - f. Please state the relevance of a comparison of a customer's water bill to a completely different utility service.
  - g. Please provide the factual basis for the statement that water "will continue to be a great value."
    - i. In particular, provide all information in the Company's possession that compares the cost for a KAWC customer to the cost for customers of other water utilities in Kentucky for the same amount of service.
    - ii. Please state how KAWC's customers can rationally determine the "great value" they receive from KAWC's service absent such a comparison.

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Witness Responsible:

Michael A. Miller

Response:

The Op-Ed was prepared under Mr. Mundy's direction.

- a. The Company has continually been bombarded with news stories from the Herald-Leader espousing the positions of certain members of the LFUCG and Bluegrass Flow. In many instances the Company simply believes these stories and articles do not represent the facts. The Company has provided excellent service to its customers in Lexington, Fayette County, and other surrounding areas for over 100 years and certainly wishes to continue that service for the next hundred years and beyond. The Company believes it is its responsibility and obligation to keep its customers informed about the service it provides, the price it charges, its investments, other improvements in service it undertakes, the quality of its water, and many other areas of its operations. The Company also believes it has an obligation to inform its customers about the condemnation and the Company's information and facts about that situation. The Company's customers certainly should have the facts about its current water provider to form an opinion based on facts and not emotion regarding who will be its future water provider.
- b. The Company has not maintained its records to track every task associated with day to day operations or the condemnation effort undertaken by the LFUCG. The work could have been done after hours and not cost the Company any additional expense. To the extent Mr. Mundy was assisted by outside consultants in preparation of the Op-Ed piece, those expenses were not borne by KAWC, and thus are irrelevant and immaterial to the setting of fair and reasonable rates in this case.
- c. The Company is a privately held corporation and not a public or "political" entity is what is meant by the statement. Please see the response to 20 (a) and (b) regarding support for its actions to keep its customers informed about many aspects of its

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Witness Responsible:

Michael A. Miller

operations, including mis-information concerning the condemnation effort by the LFUCG.

- d. The Company's management employees have been required to work many extra hours in addition to their normal day to day activities in order to defend the Company against the condemnation effort by the LFUCG that is not and will be shown not to be in the best interest of its customers. It is inconceivable that the LFUCG would now suggest that the Company should not recover its in-house labor because of the extra hours and extraordinary effort those employees must continue to put forth to provide top notch service, run day to day operations, and defend the Company from what it believes to be a misguided condemnation effort by the LFUCG. The Company believes its efforts to continue ownership of its facilities and to continue providing the excellent service is in the best interest of its customers and there is no basis for excluding that labor cost from rate recovery. The Company has requested no external costs associated with the condemnation effort in this rate case.
- e. The Company believes the annual price paid for water by an average residential water customer, even if the entire requested rate increase in this case were approved, will be lower than that paid by the same customer for electric service, or phone service, or natural gas service, and TV cable/internet services.
- f. The Company does not believe a comparison of water rates to other utility services has any relevance to the setting of fair and reasonable, cost based rates for the Company in this case. The Company does believe providing reliable water service, water safe for human consumption, to the average residential customer's home each day for less than 0.5 cents per gallon is a good value when compared to other utility services.
- g. The Company believes that safe, reliable and affordable water service will continue to be a value in the future when compared to other utility services.

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Witness Responsible:

Michael A. Miller

- i. The Company objects to this question. The information being requested is irrelevant and immaterial to the establishment of fair and reasonable, cost based rates for the Company in this proceeding. The Company has no study or analysis of the rates of other water utilities in Kentucky, and knows of no such study that takes into consideration any of the criteria mentioned in the response to LFUCG1-#13 that would be required to have a meaningful comparison of water rates among a wide variety of water providers in Kentucky. See response to LFUCG2-question 19, (d), (e), (g), and (h).
- ii. Please see response to LFUCG2-19 (b) and (c).



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Witness Responsible:

Paul R. Herbert

21. Reference Response to Question No. 33, LFUCG's Requests for Information. Please explain in detail why KAWC has not assigned any hydrant costs to other customer classes, given the annual system use of hydrants to flush the KAWC system. Please provide copies of any documents that support this response.

Response

The base-extra capacity method of cost allocation does not recognize the flushing of mains as a specific hydrant use to be allocated to other classes. Such an allocation would assign a very small portion of hydrant costs to other classes. The total costs assigned to public fire protection are recovered from "other classes" through taxes assessed to such customers.

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Witness Responsible:

Paul R. Herbert

22. Reference Response to Question No. 36, LFUCG's Requests for Information. Please provide the industry standard service life for fire hydrants.

Response

The standard service life used for fire hydrants range from 55 – 65 years.

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Witness Responsible:

Linda Bridwell

23. If the monthly usage report does not segregate public and private fire usage, please provide the total monthly fire usage for each month for the past ten years.

Response:

	1995*	1996*	1997*	1998*	1999*	2000	2001	2002	2003	2004
January	102	237	31	74	22	53,127	326,137	47,695	50,538	62,096
February	37	68	41	21	36	246,096	55,015	0	238,440	92,915
March	46	81	29	41	175	199,623	207,246	115,800	0	116,830
April	87	101	57	53	27	113,056	248,337	0	680,060	560,611
May	44	58	85	14	74	37,085	515,860	0	65,150	107,840
June	68	521	53	404	1579	39,795	927,357	0	0	
July	119	23	28	33	153	73,619	87,340	1,269,752	51,456	
August	104	50	48	47	112	1,625,180	38,529	102,763	50,000	
September	46	91	797	321	259	254,507	127,394	23,834	25,000	
October	38	11	47	57	113	73,045	30,950	16,845	15,580	
November	283	44	38	2123	54	41,678	0	0	64,519	
December	0	92	58	57	2648	37,320	62,490	250	55,000	
	974	1377	1312	3245	5252	2,794,131	2,626,655	1,576,939	1,295,743	940,292

\*numbers rounded to 1000 gallons

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Witness Responsible:

James Salser

24. Reference Response to Question No. 42, LFUCG's Requests for Information. Please provide a corrected version of Exhibit 37, Schedule M-3C, that incorporates the adjustments to base period public and private fire revenues provided by KAWC in the attachment to this response.

Response:

See attached revised Exhibit 37, Schedule M-3C. For the electronic version, see KAW\_R\_LFCDR2#24\_attachment\_080604.pdf

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Witness Responsible:

Sheila Valentine

25. Reference Response to Question No. 51, LFUCG's Requests for Information. Please state whether any of the expenditures defined as "political activities" in Exhibit 37, Schedule F, page 11, have been included in the base period or the forecasted period for ratemaking purposes. If any have been removed, please state where an adjustment(s) has been made.
- a. Do the "political activities" expenditures include any time of any KAWC employees, or any employees allocated to KAWC by the Service Company or any other affiliated entity? If so, please detail the amount of such expenditures, the employee or allocated employee involved, and the nature of such activity.
  - b. Were any of the "political activities" expenditures incurred by KAWC contractors or other external consultants? If so, please state the amount of such expenditures, the contractor or consultant involved, and the nature of the activity.
  - c. Please provide a detailed breakdown of such activities as previously requested.

Response:

None of the referenced expenditures have been included in this case and therefore Kentucky-American Water objects to the rest of this data request because the information sought is irrelevant, immaterial and inadmissible.

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Witness Responsible:

Chris Jarrett/Michael A. Miller

26. Reference Response to Question No. 52, LFUCG's Requests for Information. In Mr. Jarrett's testimony at page 5, Mr. Jarrett specifically stated as follows with respect to Mr. Mundy's responsibilities: "The **Board** has **directed** Mr. Mundy to devote his **full time and energy** to defending the Company. ... It is **essential** that Mr. Mundy be available to coordinate and direct these efforts on a **full time basis**." [emphasis added]. Please provide the date of the referenced board directive, as well as copies of any supporting documents, including but not limited to the directive itself and copies of the Board's minutes from the meeting at which this decision was made.

Response:

The Company has previously clarified what was meant by the testimony of Mr. Jarrett in the response to LFUCG1 – question 52. It was decided based on the extremely busy schedule of Mr. Mundy in dealing with the day to day operations and the additional time required to oversee the Company's efforts in defending itself in the condemnation effort, that Mr. Mundy would not have the time available to participate as a witness in this rate case. This action was taken upon an informal discussion of the Executive Committee of the Board and as indicated in the response to LFUCG1-question 52 there are no minutes recorded that reflect that discussion or decision. This discussion occurred in the first week of March, 2004, but the Company does not have a record of the exact time and date.

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Witness Responsible:

Chris Jarrett/Michael A. Miller

27. Reference Response to Question No. 52, LFUCG's Requests for Information. The response indicates that Mr. Mundy was not testifying in part due to "the level of his workload in relation to day-to-day activities...". Please provide the specific language in Mr. Jarrett's testimony that supports this assertion.
- a. Please explain why Mr. Miller responded to this question, rather than Mr. Jarrett.
  - b. Please state whether Mr. Miller or Mr. Jarrett has the authority to override board directives and/or instructions pertaining to Mr. Mundy's duties. If KAWC believes that such authority exists, please explain the basis for such authority.

Response:

The Company clarified its position on this matter in the response to LFUCG1-question 52.

- a. Mr. Miller prepared the response to LFUCG1-question 52, and was present at the informal discussion of the executive meeting where it was decided Mr. Mundy's schedule did not permit him time to be a witness in this case. As indicated above, either Mr. Jarrett or Mr. Miller can respond to this issue.
- b. Both Mr. Jarrett and Mr. Miller have the authority to make management decisions for the Company as required, however, neither would ignore a board directive, and if circumstances dictated a change of direction was warranted from that given by the Board would take that matter through the proper channels, including further Board action if that were required.

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Witness Responsible:

Chris Jarrett/Michael A. Miller

28. Please explain in detail the benefit to ratepayers of Mr. Mundy's activities in opposition to the condemnation proceeding.
- a. Please quantify any benefits to be received by KAWC ratepayers due to private, as opposed to public, ownership.
  - b. Please provide any study conducted by KAWC or its affiliates, or in the possession of KAWC, which supports the position that ratepayers will somehow benefit by KAWC's efforts to oppose condemnation.
  - c. Please provide any authority known to KAWC which would support having ratepayers pay the costs for employee time spent in opposing a condemnation effort.

Response:

Please see response to LFUCG2-questions 19 (c), and 20 (a) and (d).

- a. Please see the responses to LFUCG2-questions 19 and 20, all subparts.
- b. The Company does not have in its possession any such study. The Company bases its believe on customer satisfaction surveys and the movement towards privatization in the U.S. water market.
- c. The Company has no such order or other Commission directive that addresses this issue, and likewise knows of no other Commission order or directive that excludes in-house labor from rate recovery for other American Water Subsidiaries that have been involved with condemnation efforts by a governmental entity.



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Witness Responsible:

Chris Jarrett/Michael A. Miller

29. Please provide a detailed narrative of all actions taken by Mr. Mundy in connection with the condemnation proceeding. In particular, please describe Mr. Mundy's activities with respect to:
- a. Coordinating activities with the group known as the Coalition Against a Government Takeover or members of that group;
  - b. Reviewing advertising on behalf of said Coalition and providing information to said coalition to assist in its advertising or lobbying efforts;
  - c. Meetings with said Coalition or its members to discuss issues relating to the condemnation proceeding, communications to the public concerning condemnation related issues;
  - d. Attendance by Mr. Mundy at LFUCG council meetings or committee or subcommittee meetings where condemnation issues are discussed;
  - e. Conversations by Mr. Mundy with individual council members to represent KAWC's position with respect to condemnation issues;
  - f. Meetings with the public or other communications to the public to educate the public as to KAWC's views on the condemnation and to persuade the public to support KAWC's position; and
  - g. All other activities intended to influence the public, local leaders, customers or others to support KAWC's position on the condemnation proceeding.

Response:

The duties of the President (CEO) and Manager of KAWC includes governmental and community relations activities. Mr. Mundy in his role (as will Mr. Rowe) has the duties of attending meetings and maintaining relations with all governmental and community

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Witness Responsible:

organizations in the service area. Mr. Mundy (and Mr. Rowe) co-ordinate the legal and communications activities related to the condemnation effort as is required on a day to day basis in addition to being responsible for the normal operations and service provided by the Company. This can and does entail coordinating numerous tasks, meetings and other activities that are too numerous to fully describe, and that change on any given day.

- a. While Mr. Mundy has met with the Coalition Against A Government Takeover (CAAGT) members, Warren Rogers, and the executive committee, at their regularly scheduled meetings, and had several phone calls, he does not determine activities and positions that the CAAGT takes on the subject.
- b. While Mr. Mundy has met with the CAAGT and its members at their regularly scheduled meetings, and provided information about the Company, and on rare occasions he may have reviewed advertisements, he was not in a position to approve the communications or position the CAAGT takes on the issue of condemnation or their advertisements.
- c. See response to 29 (a) and (b) above.
- d. See response to 29 above. Mr. Mundy regularly attended LFUCG council meetings, committee meetings or subcommittee meetings before and after the condemnation effort by the LFUCG, which would be a part of his job duties and his right as a citizen of Lexington and Fayette County.
- e. See response to 29 above. Mr. Mundy had numerous conversations with individual council members, which would be a normal part of his job duties and his right as a citizen of Lexington and Fayette County.
- f. Please see response to 29 above and subparts (a), (b), (c), (d), and (e).
- g. Please see response to 29 (f).

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Witness Responsible:

Chris Jarrett/Michael A. Miller

30. Please provide a detailed narrative of all actions taken by any other employee of KAWC in connection with the condemnation proceeding, including but not limited to the two employees identified by Mr. Bush as spending a considerable percentage of their time on condemnation issues (Mr. David Whitehouse and Ms. Barbara Brown). In particular, please describe such activities with respect to:

- a. Coordinating activities with the group known as the Coalition Against a Government Takeover or members of that group;
- b. Reviewing advertising on behalf of said Coalition and providing information to said coalition to assist in its advertising or lobbying efforts;
- c. Meetings with said Coalition or its members to discuss issues relating to the condemnation proceeding, communications to the public concerning condemnation related issues;
- d. Attendance at LFUCG council meetings or committee or subcommittee meetings where condemnation issues are discussed;
- e. Conversations with individual council members to represent KAWC's position with respect to condemnation issues;
- f. Meetings with the public or other communications to the public to educate the public as to KAWC's views on the condemnation and to persuade the public to support KAWC's position; and
- g. All other activities intended to influence the public, local leaders, customers or others to support KAWC's position on the condemnation proceeding.

Response:

30. The duties of the Director of Government Affairs and Director of Communications (in coordination with the President) includes governmental and community relations activities. Those positions have the role and duties of attending meetings and maintaining relations with all governmental and community organizations in the service area. Both positions assist in coordinating meetings and the communications activities related to the condemnation effort as is required on a day to day basis in addition to being responsible for the normal operations and service provided by the Company. This can and does entail coordinating numerous tasks, meetings and other activities that are too numerous to fully describe, and that changes on any given day. The Company has not tracked the specific hours of the Directors of Government Affairs or Communications, or

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any other employee, spent on the condemnation initiated by the LFUCG. Please see response to LFUCG2-#37.

30. (a). While Mr. Whitehouse and Ms. Brown have attended meetings with the Coalition Against A Government Takeover (CAAGT) members, Warren Rogers and the executive committee, and had several phone calls; they have not determined the activities and positions that the CAAGT takes on the subject.
30. (b). While Mr. Whitehouse and Ms. Brown may have attended meetings with the CAAGT and its members at their regularly scheduled meetings, and provided information about the Company, and on rare occasions may have reviewed advertisements, they were not in a position to approve the communications or position the CAAGT takes on the issue of condemnation or their advertisements.
30. (c). See response to 30 (a) and (b) above.
30. (d). See response to 30 above. Mr. Whitehouse and Ms. Brown have attended LFUCG council meetings, committee meetings or subcommittee meetings before and after the condemnation effort by the LFUCG, this would be a part of their job duties and their right as citizens of Lexington and Fayette County.
30. (e). See response to 30 above. Mr. Whitehouse and Ms. Brown had conversations with individual council members, which would be a normal part of their job duties and their right as citizens of Lexington and Fayette County.
30. (f). Please see response to 30 above and subparts (a), (b), (c), (d), and (e).
30. (g). Please see response to 30 (f).

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Witness Responsible:

Michael A. Miller

31. Please provide a detailed analysis of all time or expenses billed by the Service Company to KAWC that is related to the LFUCG condemnation action, including but not limited to discussing, consulting or otherwise assisting KAWC or its allies in its activities opposing the condemnation.
- a. Please specify in detail and quantify the benefit to ratepayers from charges for advice and consultation concerning the condemnation proceeding;
  - b. Please provide any study conducted by KAWC or its affiliates, or in the possession of KAWC, which supports the position that ratepayers will benefit by KAWC's efforts to oppose condemnation.
  - c. Please provide any authority known to KAWC which would support having ratepayers pay the costs for the Service Company charges incurred as a result of opposing a condemnation effort.

Response:

The activities described in this question are normal activities of Service Company employees who are involved with KAWC operations and no breakdown of time related to condemnation efforts have been tracked. The Company has previously offered to provide the service company billings to the LFUCG for review at its Lexington, KY office.

- a. Please see response to LFUCG2-question 28 and 29. The answers also apply to service company employees who may also be directors and officers of KAWC.
- b. Please see response to LFUCG2-question 28 (b). The answer given regarding Mr. Mundy also applies to service company employees whose assistance with matters at KAWC was required.
- c. Please see response to LFUCG2-question 28(c). The answer also applies to charges from the service company.

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Witness Responsible:

Chris Jarrett/Michael A. Miller

32. Reference Response to Question No. 55, LFUCG's Requests for Information. Please state whether KAWC continues to assert that Mr. Mundy's role has not changed, despite Mr. Jarrett's unequivocal testimony that Mr. Mundy has been directed by the Board to spend full time directing efforts to oppose condemnation.
- a. Please state whether KAWC continues to assert that how the President of KAWC spends his time is irrelevant to the inclusion of his salary, benefits and other expenses in rates to be paid by KAWC ratepayers. If so, please explain the basis for this position.
  - b. Please state whether Mr. Mundy will appear at the public hearing in this matter to respond to questions about his job functions and activities.
  - c. Please state the percentage of his time that Mr. Mundy's successor(s) will spend on condemnation-related activities, and state whether KAWC will track time spent on such activities in the future. If KAWC is not willing to track such time please explain in detail why it is not willing to do so.
  - d. Please state whether Mr. Mundy's successor(s) will appear at the public hearing in this proceeding and respond to questions.

Response:

The Company clarified its position on this subject previously in response to LFUCG1-question 52. Also see response to LFUCG2-questions 26 and 27.

- a. Please see response to LFUCG2-questions 26, 27, 28, and 29.
- b. Since Mr. Mundy has resigned from his positions with KAWC, the Company does not expect him to attend the public meetings to answer any questions on behalf of the Company.
- c. The Company does not know what percentage Mr. Rowe will spend on

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Witness Responsible:

Chris Jarrett/Michael A. Miller

condemnation-related activities. That level will be what is required to meet his duties. The Company also does not know how many hours a week it will take to accomplish the duties as President of KAWC, which would include governmental and community relations, day to day operations, condemnation issues or a myriad of other tasks that may be required on any given day and would be dependent on the most pressing priorities at any given time.

- d. The Company is uncertain as to what activities Mr. Rowe will be involved with at the time of the public hearing or if his duties will permit him to take part in the hearing.

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Witness Responsible:

Chris Jarrett/Michael A. Miller

33. Reference Response to Question No. 57, LFUCG’s Requests for Information. Please reconcile Mr. Jarrett’s response that Mr. Mundy is “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” (emphasis added), with his sworn testimony that the KAWC board had instructed Mr. Mundy to devote “his full time and energies to defending the Company” (testimony of Chris Jarrett, page 5 of 8).

Response:

The Company has previously clarified its position in the response to LFUCG1-questions 52, 53, 55, and 56. Also see responses to LFUCG2-questions 26, 27, 28 and 29.



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Witness Responsible:

Michael A. Miller

34. Reference Response to Question No. 58, LFUCG's Requests for Information. Please state whether the time spent by Barbara Brown and David Whitehouse on the "source of supply" issue is properly charged to ratepayers in this proceeding, given the Commission's findings with respect to cost recovery for source of supply activities in Case No. 2000-00120. If KAWC believes these charges are appropriate, please explain why.

Response:

Although Mr. Bush provided a comprehensive and concise response in LFUCG#58, the Company maintains that that the Director of Communication and Director of Government Relations spend little if any time on behalf of activities at the Northern Division, therefore their time should not be allocated to the Northern Division. Response to LFUCG1#58 also indicates that they spend time on the condemnation effort and source of supply issues in addition to their many other normal day-to-day activities. The Company does believe it is appropriate and justified to recover the salaries and benefits of Mr. Whitehouse and Ms. Brown as proposed by the Company. The ongoing efforts regarding finding a solution to the source of supply deficit have nothing to do with cost recovery of the source of supply costs at issue in case 2000-120. The Company considers the efforts of Ms. Brown and Mr. Whitehouse regarding condemnation efforts and source of supply solutions to be within normal expected activities of our employees to fight the unwanted and forced acquisition of the Company's water system and providing water service to our customers. The Company has responded to similar issues regarding other employees' time and activities in numerous other questions in LFUCG2 data requests. Please see the responses to LFUCG2-questions 9, 2, 19, 20, 28, 29, 31, 32, 35, and 37.

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Witness Responsible:

Michael A. Miller

35. Reference Response to Question No. 60, LFUCG's Requests for Information. Please provide a record of all time charged to KAWC for the condemnation-related conversations described in this response.
- a. If such conversations are merely an "additional duty" for Service Company employees that results in no increase in cost to the Service Company, please explain why KAWC ratepayers should pay for such charges.
  - b. Please explain the distinction (if any) between "external costs" with respect to the condemnation proceeding that have been removed from this application, and service company charges to KAWC for issues related to condemnation.

Response:

Please see response to LFUCG2-questions 28, 29, and 31. The Company has previously offered to provide the LFUCG copies of its service company billings at its Lexington Office.

- a. Since there is no additional cost to the Company than there would otherwise be, there is no additional expense for the Company to pay and no addition to cost-based rates. See response to LFUCG2-31.
- b. The Company can not find reference to "external costs" in the response to LFUCG1-question 60, however, external costs related to condemnation refers to contract services that the Company would not have to absorb except for the condemnation effort of the LFUCG, versus the "internal" ongoing salaries and management fees of the Company.

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Witness Responsible:

Michael Miller

36. Please confirm whether all “external” costs related to the condemnation proceeding are contained in AWW Account 930210 (JDE Object 575250) as shown on W/P–3–13, page 5 of 7 (provided in response to Commission Staff’s First set of Requests for Information). If costs are assigned to other accounts as well, please specify which other accounts are involved.
- a. Please confirm whether all of the costs contained in AWW Account No. 930210 (JDE Object 575250) are related to the condemnation proceeding initiated by the LFUCG, and if not, please provide a breakdown and explanation of all costs that are not.
  - b. Please state whether the base period costs on W/P–3–13, pages 5, 6 and 7, include projected costs, or only actual expenditures for a portion of the base period. If they are only actual expenditures, please state the period of time for which the expenditures are provided.
  - c. Please reconcile the amounts stated in W/P-3-13, page 5 of 7 for AWW Account 930210 (JDE Object 575250) for the base period with the amounts shown on the Trial Balance (provided in Response to Commission Staff’s Second Set of Information Requests, Question No. 28) for account #575250 at pages 122 and 123 of 200.

Response:

AWW Account 921200 (JDE Object 520100.16) includes an amount of \$3,604.40 in the base period, AWW Account 921200 (JDE Object 575002.16) includes an amount of \$92.88 in the base period , and AWW Account 930210 (JDE Object 575000.16) includes \$4,111.39 in the base period. However, there were no amounts included in the forecast for any condemnation expenses in any of these accounts and therefore Kentucky-American Water

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Witness Responsible:

Mike Miller

objects to the remainder of this data request because the information sought is irrelevant, immaterial and inadmissable.

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Witness Responsible:

Michael A. Miller

37. Reference Response to Question No. 63, LFUCG's Requests for Information. Please provide an estimate of KAWC and Service Company time devoted to the condemnation proceeding. Please state whether KAWC is willing to track the time spent by its executives and the Service Company on condemnation issues. If not, please state why not.

Response:

Please see responses to LFUCG2-questions 20(b), and 31. The Company sees no reason to track internal time related to the condemnation effort. The Company has essentially the same level of management employees today as it had before the condemnation proceeding was initiated by the LFUCG and if the condemnation proceeding were to end tomorrow the Company would still need essentially the same level of management employees. In other words the Company has absorbed the extraordinary level of additional work associated with the condemnation effort of the LFUCG by having its management employees work longer hours and week ends at no extra pay. Since the Company would need the same level of management employees as it has today to run its operations and there is no additional internal costs to the Company related to the condemnation effort it is absolutely appropriate and justified that it recover its internal labor and labor related expenses from the rate payers.

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**DATED JULY 8, 2004**

**ITEM NO. 38**

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**Witness Responsible:** Coleman Bush

38. Reference Response to Question No. 68, LFUCG's Requests for Information. Please state whether any regulatory approvals are required prior to KAWC acquiring Owenton.
- a. Please state whether KAWC's opinion as to the lack of necessity for Commission approval for the acquisition of Owenton was based in part on an opinion, formal or otherwise, from the Commission. If so, please provide any documents that discuss this opinion.
  - b. Please explain why no forecast of estimated revenues from Owenton is included in the forecasted test period.
  - c. Please provide a copy of the January 15, 2004, Asset Purchase Agreement between KAWC and Owenton.

**RESPONSE:**

38. It is the opinion of the staff of the Public Service Commission that "A regulated utility is not required to receive Commission approval for the purchase of the assets of a municipal utility." See KAW\_R\_LFCDR2#38\_attachment 080604.pdf.
- a. Kentucky American Water has not expressed such an opinion.
  - b. See the response to LFCDR1#68.
  - c. The Agreement is not relevant to any issue in this proceeding and Kentucky American Water Company declines to produce irrelevant documents.

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Witness Responsible:

Linda Bridwell

39. Reference Responses to Question No. 72, LFUCG's Requests for Information. Please state whether Warren Rogers and/or his business are employed by, paid by or compensated by any American Water Works affiliate for any purpose. If so please, provide all supporting documentation. In addition, the LFUCG did not receive copies of any of the documents referred to in the response. Please provide copies of the same.

Response:

No. Neither Mr. Rogers nor his company are so employed other than already stated in response to Question No. 72. Please see the attached contract KAW\_R\_LFCDR2#39\_attachment\_080604.pdf.

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Witness Responsible:

Chris Jarrett/Michael Miller

40. Reference Response to Question No. 74, LFUCG's Requests for Information. Does KAWC represent, in light of the relevance objection made in KAWC's response, that none of these meetings involved discussions of any issues related to this proceeding and/or the accrual proceeding (Commission Case No. 2003-00478) that has been consolidated with this action?
- a. If issues relevant to this proceeding were discussed at any of these meetings, please provide the issues discussed, any notes or memoranda or other writings produced with respect to such meetings, a list of those present, and any resolution with respect to issues discussed at these meetings.
  - b. If issues relevant to this proceeding were discussed, but KAWC still objects to the relevance of such discussions, please explain in detail the basis for such objection.

Response:

Neither of these meetings involved a discussion of this rate case or the request that Kentucky American Water had made for approval of the establishment of various regulatory assets.



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Witness Responsible:

Chris Jarrett

41. Reference Response to Question No. 76, LFUCG's Requests for Information. Does KAWC represent, in light of the relevance objection made in KAWC's response, that this meeting did not involve discussions of any issues related to this proceeding and/or the accrual proceeding (Commission Case No. 2003-00478) that has been consolidated with this action?
- a. If issues relevant to this proceeding were discussed at this meeting, please provide the issues discussed, any notes or memoranda or other writings produced with respect to the meeting, a list of those present, and any resolution with respect to the issues discussed.
  - b. If issues relevant to this proceeding were discussed, but KAWC still objects to the relevance of such discussions, please explain in detail the basis for such objection.

Response:

This meeting did not involve a discussion of this rate case or the request that Kentucky American Water had made for approval of the establishment of various regulatory assets.

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Witness Responsible:

Michael A. Miller

42. Reference Response to Question No. 77, LFUCG's Requests for Information. Does KAWC represent, in light of the relevance objection made in KAWC's response, that this meeting did not involve discussions of any issues related to this proceeding and/or the accrual proceeding (Commission Case No. 2003-00478) that has been consolidated with this action?
- a. If issues relevant to this proceeding were discussed at this meeting, please provide the issues discussed, any notes or memoranda or other writings produced with respect to the meeting, a list of those present, and any resolution with respect to the issues discussed.
  - b. If issues relevant to this proceeding were discussed, but KAWC still objects to the relevance of such discussions, please explain in detail the basis for such objection.

Response:

This meeting did not involve a discussion of this rate case or the request that Kentucky American Water had made for approval of the establishment of various regulatory assets.

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Witness Responsible:

Michael A. Miller

43. Reference Question No. 78(b), LFUCG's Requests for Information. Please provide a list of the Commission staff participants in discussions with KAWC counsel as originally requested, and explain why billing records for KAWC counsel would not provide the dates of these discussions.

Response:

See KAW\_R\_LFCDR2#43\_attachment\_080604.pdf

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Witness Responsible:

Michael Miller

44. Reference Response to Question No. 86, LFUCG's Requests for Information. Please provide copies of the documents *submitted by KAWC* to the Kentucky Department of Revenue for property tax purposes for the past three years, as previously requested.

Response:

The requested documents are available from the Kentucky Department of Revenue by a proper request under the Kentucky Open Records Act.

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Witness Responsible:

Michael A. Miller

45. Reference Response to the Question No. 85, Attorney General's First Requests for Information. Please state whether the detailed monthly service company bills that are available at KAWC's offices include a specific designation of the part of such bills that is for advice, consultation or services with respect to the condemnation proceeding.

Response:

The service company bills do not provide breakout of costs associated with the condemnation proceeding. Please see response to LFUCG2-question 31.

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Witness Responsible:

Linda Bridwell

46. Reference Responses to Question Nos. 99 and 100, Attorney General's First Requests for Information. Please explain in detail the disparity in the amount of water treated between years 2001 and 2003. If the explanation differs, please also provide an explanation for the disparity in the amount of water sold for these same years.

Response:

Data Request Number 99 of the Attorney General's First Requests for Information asks for the volume of water treated; Data Request Number 100 of the Attorney General's First Requests for Information asks for the total quantity of water pumped from wells, purchased from third parties and sold.

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Witness Responsible:

Michael A. Miller

47. Reference Response to Question No. 150, Attorney General's First Requests for Information. Please state the total amount of legal fees from the Service Company included in Management fees for the base period and the forecasted period.

Response:

Legal Fees included in the Service Company Management Fees:

For the Base Period	\$35,425
For the Forecasted Period	\$44,464

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Witness Responsible:

Michael Miller

48. Reference Response to Question No. 159(d), Attorney General's First Requests for Information. Please explain why KAWC is seeking only a portion of the forecasted expense for the company picnic.

Response:

The amount referenced in response to Question No. 159(d), Attorney General's First Request for Information included an amount in the base period which had been charged erroneously to JDE Object 504610.16, AWW Account 926200. All amounts forecasted for the company picnic are included in AWW Account 426200, JDE Object 760200 below the line. Therefore, there are no costs included in the forecasted expense for the company picnic for ratemaking purposes.



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Witness Responsible:

Michael A. Miller

49. Reference Responses to Question No. 171, Attorney General's First Requests for Information, and the copy of the article attached hereto as LFUCG Exhibit No. 4, which appeared in the June 28, 2004 edition of the *Lexington Herald Leader*. Please reconcile the complaints made in said article with KAWC's responses to this question.
- a. Was KAWC previously aware of any of the concerns raised in this article?
  - b. What, if anything, does KAWC intend to do to ensure that the service and/or response problems identified in the article do not take place in the future?
  - c. Is KAWC willing to track and maintain the information requested in the Attorney General's question in the future? If not, please explain in detail why not.

Response:

The Company believes its service from the call center is improved over what was previously supplied locally, however, the Company is still able to address specific customer issues locally and accept payments at its local offices as described in the response to AG1-question 171. The Company records indicate that it has only registered 3 PSC complaints that appear to address the performance of the call center since January 1, 2004. As with any transition as large as the transition to the call center there are some problems, but because KAWC was one of the last subsidiaries to move to the call center most of the issues had been resolved before the transfer of KAWC to the call center. The issues that did occur were corrected quickly through the diligent efforts of the employees at KAWC and the call center.

The Company is aware that no matter what effort it makes to provide better service at a reduced cost to the rate payers, some customers will not be satisfied simply because the call center is not local. As described in the testimony of Mr. Miller, the Company is now through the call center able to provide full customer services around the clock, 365 days a year. The

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Witness Responsible:

Michael A. Miller

economies of scale afforded at the call center permit the Company to provide the enhanced service at a reduced cost, something the Company could not cost justify locally.

The Company has researched Mr. Varsallis' account and found that he contacted the Company on April 19 (a Monday, normally the busiest day for customer service calls), his problem was addressed by a service order being issued on 4-19-04 worked in the field on 4-20-04 to determine if he had a problem with his service or had a leak. The field representative found the March bill had been over estimated and the actual reading was less than recorded the previous month based on the estimate. This caused the billing to be extremely high do to the billing software treating this as a rolled over meter. This situation should have been detected locally from the meter reading edit, but was not corrected before local submission for billing. The Company issued a cancel of the billing error and a corrected billing on 4-22-04. On 4-23 Mr. James Varallis', an attorney and brother of Bill Varallis, called and ask for a meeting to be set up with the customer. On 4-27-04 a field representative met with Mr. Bill Varallis and explained the problem with the over estimate in March and that the billing had been corrected. The field representative indicated to me that the customer seemed satisfied that the problem had been corrected when he left the premises on 4-27-04.

The Company monitors the performance of the call center in timely answering calls, time to issue and work the service orders, and completion of the work required by the service order in order to properly address any issues like those posed by Mr. Varallis in his article. There are certainly remote instances where a customer may be on hold waiting for a representative for a longer period than we find acceptable just as there would be for any other utility or

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Witness Responsible:

Michael A. Miller

service related company (all of us have experienced that situation at many companies which we contact).

The Company believes that the call center performs within the established guidelines for timely answering calls and addressing service issues, but there will always be peak times for service calls due to emergencies, main breaks, power outages, etc. It is not possible or cost effective to provide the number of representatives necessary to answer every call on the first ring. The Company is not sure why Mr. Varallis had to make continuous calls for 45 minutes to “talk to a person”. The call center is equipped with an IVR so that customers can have options on the type of service issue they may have, and there are some customers who simply do not like or have trouble utilizing the technology. Mr. Varallis would have had the option to enter a code for his type of service issue and remain on the line until the next representative was available. The Company does not know of any instance where the hold time was 45 minutes, but the average hold time for April 2004 was 21.81seconds, 84.46% of the calls were answered within 30 seconds, and only 1.8% of the calls were abandoned after 30 seconds.

- a. The Company monitors the performance of the call center and believes the call center is providing enhanced service within the guidelines established for call center and service operations and in fact believes that the call times, hold times, and response times are better than were being provided at the local operation. There are remote instances where customers may have a problem that is not addressed timely and the Company corrects those situations, but those same type of remote instances occurred when the call center functions were handled locally. Please see specific information concerning Mr. Varallis’ situation in response to 49 above.

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Michael A. Miller

- b. Please see responses to 49 and 49(a) above.
- c. The Company currently monitors the call center performance, and its PSC complaints and will continue to do so.

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Witness Responsible:

Sheila Valentine

50. Reference Responses to Question No. 175, Attorney General’s First Requests for Information, as well as Exhibit 37, Schedule F, to the application. With respect to the “employee appreciation basket” from “A Basket Buzz”, please explain why this is not included Schedule F as an employee gift, and provide an explanation of how KAWC determines what expenses are to be included in this schedule.
- a. Is this the only “employee appreciation basket” purchased from “A Basket to Buzz”?  
If not, please provide the total amount included in the base period and the forecasted test year for such purchases.
  - b. Is KAWC aware of similar type employee gifts that were not included or accounted for in Schedule F for which KAWC is seeking above-the-line treatment? (For example, are the multiple entries for “A Blooming Miracle” provided in the Trial Balance exhibit also “employee appreciation baskets”, or similar-type purchases?) If so, please provide a list of such expenses, as well as the total amount sought by KAWC to be recovered from the ratepayers for such expenses.

Response:

- a. The purchase from “A Basket Buzz” was a one time purchase for the Field Service Reps in recognition of their extraordinary efforts during the transition to the Consolidated Call Center. It was not included in Schedule F as an employee gift because it was a one time purchase.
- b. KAWC is not aware of any similar type employee gifts for which they are seeking above-the-line treatment. The purchases from “A Blooming Miracle” include flowers sent to funeral services or employees who are hospitalized.

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Witness Responsible:

Sheila Valentine

51. Reference Response to Public Service Commission Data Requests, Question No. 28 (Trial Balance). Please provide copies of the invoices or receipts that correspond to the following entries, and indicate whether each such expense receives above-the-line or below-the-line treatment (all references to page numbers are to that page out of the total 200 pages provided in the response)
- a. Document #40629613 – VHS COPY OF NEWSCAST, \$1,798.70, Page 62.
  - b. Document #30141466 – Atlanta conference 2004, \$17,746.54, Page 71.
  - c. Document #40646194 – COACHING WITH STACY O, \$750.00, Page 76.
  - d. Document #50188 – BEST BUY, \$1,220.49, Page 99.
  - e. Document #40688666 – Performance by Drum Choir, \$250.00, Page 114.
  - f. Document #40708167 – radio copy of newsca, \$2,067.40, Page 116.
  - g. Document #40560666 – SHOWERPRO MASSAGEW, \$1,448.76, Page 120.
  - h. Document #109984 – A1 LIMOUSINE, \$125.00, Page 127
  - i. Document #37942 – MASHTATERS, \$1,208.00, Page 130.
  - j. Document #34322 – LEXINGTON PROF MASSA, \$105.00, Page 158.

Response:

See attached invoices. All are charged to accounts which receive above-the-line treatment but are amounts included in the base period which were not included in forecasted amounts for ratemaking purposes. Item J was transferred to JDE Object 760200 (below-the-line) August 2003. The journal entry has also been included. For the electronic version see KAW\_R\_LFCDR2#51\_attachment\_pdf.

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Witness Responsible:

Michael Miller/Sheila Valentine

52. Please provide a breakdown of each individual line item provided in the Trial Balance Exhibit explaining whether KAWC seeks above-the-line treatment for that particular item.

Response:

The forecasted amounts included in the filing are those amounts that KAW is seeking above-the-line treatment for ratemaking purposes. The detail provided in the Trial Balance is the base period amounts and not necessarily all inclusive in determining the forecasted amounts. Anything charged to an account above JDE Object 715111 on page 189 would receive above-the-line treatment. However, all condemnation costs have been eliminated from this rate filing.

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Witness Responsible:

Michael A. Miller

53. Reference Response to Commission Staff's Second Set of Information Requests, Question No. 5. Please state whether the Emergency Pricing Tariff has now been withdrawn by KAWC.
- a. If so, please explain why rate case expenses should include costs related to the Emergency Pricing Tariff, and state the total cost of preparing and presenting that tariff, including consultant fees, legal expenses and any other relevant costs.
  - b. If not, please explain in further detail KAWC's intent with respect to this tariff in this case.

Response:

The Company has not withdrawn its proposed Emergency Pricing Tariff.

- a. Not applicable
- b. The Company is requesting the Commission approve its Emergency Pricing Tariff.



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Witness Responsible:

Coleman D. Bush

54. Reference Response to Commission Staff's Second Set of Information Requests, Question No. 58. Please confirm that the full costs of Mr. Brown's and Ms. Whitehouse's labor and other expenses are included in both the base period and forecasted period, and that no adjustment has been made to remove any portion of such costs for ratemaking purposes.
- a. If this is incorrect, please state the portion of their labor and other expenses that has been removed in either period.
  - b. Please provide the total labor and other expenses included for Mr. Brown and Ms. Whitehouse in both the base period and the forecasted period.

Response:

The forecast includes a total of \$127, 166 for O&M labor and payroll overheads for Mr. Whitehouse and \$100,867 for Ms. Brown. No adjustments have been made to these amounts to remove any portion of these costs for ratemaking purposes.

- a. Not applicable.
- b. Comparable numbers for the base period are \$131,976 for Mr. Whitehouse and \$103,156 for Ms. Brown. See above for forecasted amounts.

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Witness Responsible:

Michael A. Miller

55. Reference Response to Commission Staff's Second Set of Information Requests, Question 59. Please reconcile the response with KAWC's inclusion of employee costs and service company charges for condemnation-related activities in both the base and forecasted period.

Response:

Please see the responses to LFUCG2-questions 20, 20(a), 20(b), 20(d), 28, 29, 31, 32(c), 33, 35, and 37.

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Witness Responsible:

Linda Bridwell

56. Reference Responses to Commission Staff's Second Set of Information Requests, Question 120. Please provide a detailed explanation as to exactly what KAWC's proposed level of commitment to Phase I and Phase II of the referenced project includes, and the basis for its understanding of this level of commitment.
- a. Is it KAWC's belief that it is funding a significant portion of the construction of this project? If so, what is the basis for this belief?
  - b. Does KAWC expect to be in any way reimbursed by the Bluegrass Water Supply Consortium for any of the proposed expenditures? Please provide a detailed explanation.
  - c. Has KAWC provided the Bluegrass Water Supply Consortium (or any of its members), with any information pertaining to its proposed level of commitment to this project? If so, please explain in detail, and provide copies of any documents provided to the Bluegrass Water Supply Consortium or its members. If not, explain how KAWC determined the budgeted amounts.
  - d. Has KAWC previously provided any information to the Commission or its staff pertaining to its proposed level of commitment and/or this project? If so, please explain in detail, and provide copies of any supporting documents.

Response:

As the Bluegrass Water Supply Consortium does not currently have a funding plan, Kentucky American Water does not have any level of commitment to Phase I or Phase II other than its non-binding commitment of intended capacity needs.

- a. Yes. Over half of the water needs identified by the Bluegrass Water Supply Consortium is attributed to the projected water needs of Kentucky American

Linda Bridwell

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2004-00103**  
**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENTS**  
**SECOND REQUEST FOR INFORMATION**  
**ITEMS 1-56**

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Witness Responsible:

Water's customers. It is expected that Kentucky American Water will be responsible for funding of the construction related to its portion of the Consortium's project.

- b. Yes. If Kentucky American Water invests capital on behalf of its customers, it would expect to recover that capital in rates. Additionally, if Kentucky American Water purchases water from the Consortium on behalf of its customers at rates that include funding for capital construction, Kentucky American Water would expect to include the purchased water costs in Kentucky American Water's rates to its customers. If Kentucky American Water invests capital in excess of the needs required by its customers alone, it would expect reimbursement from the Consortium for those expenditures.
- c. No. Please refer to the last two sentences of the response to the Commission Staff's Second Request for Data, Item 120 (a).
- d. No. Please see the response to Item c above.