

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S SECOND SET OF INFORMATION REQUESTS
ITEMS 1-123

Witness Responsible:

Michael A. Miller

82. a. Provide a detailed analysis of the amounts recorded as acquisition adjustments for Tri-Village Water District and Elk Lake.
- c. For each acquisition, demonstrate that:
- (1) The purchase price was established through arms-length negotiations.
 - (2) The Initial investment plus the cost of restoring the facilities to required standards will not adversely impact the overall costs and rates of Kentucky-American's existing and new customers.
 - (3) Operational economies were achieved through the acquisition.
 - (4) The purchase price of utility and non-utility property can be clearly identified.
 - (5) The purchase will result in overall benefits in the financial and service aspects of Kentucky-American's operations.

Response:

- a. Please see the journal entries recording the two transactions on the attachment file `KAW_PSCDR2#82_attachment_062804.pdf` accompanying this response.
- c. (1) The transactions were developed through negotiations with the Tri-Village Water District Board and the Elk Lake Homeowners Association. The negotiations consisted of numerous meetings where proposals and comments were exchanged leading to the Purchase Agreements signed by all parties.
- (2) The Company has maintained separate tariffs for the Tri-Village and Elk Lake operations. The Company has utilized its Central Division employees to address service issues in the Northern Division, charging their time directly to the Northern Division and reflected those charges to the Northern Division in the rate filing. In addition, the Company has allocated a portion of its corporate expenses to the Northern Division operations in its rate request.

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Current rates include the full allocation of the Central Division employees of which a portion is being requested to be covered by Northern Division customers in this filing. The acquisition permitted KAWC to spread certain fixed costs over a larger customer base benefiting its existing customers. The Central Division customers benefit from those labor charges that were previously fully embedded in the rates of the Central Division and are now borne by the customers of the Northern Division. The Central Division rates approved in this case will be lower than they would have been had the acquisitions not occurred.

- (3) Please see response to part 2 above. The Northern Division also received the benefits of KAWC expertise in water quality, distribution system operations, engineering, and management that permitted correction of water quality and service issues in a cost effective manner. The Northern Division did not possess that expertise before the acquisition by KAWC and did not attempt to attract that expertise or could not obtain that expertise in a cost effective manner.
- (4) Please see response and attachment to section a of this response.
- (5) See responses to sections 2 and 3 above. The Company has clearly demonstrated that its customers in both Divisions have benefited from the acquisitions. The Central Division customers benefit from the spreading the fixed costs embedded in current rates to the larger customer base and the economies of scale afforded by the larger customer base. The Northern Division customers have benefited from the expertise and capital of KAWC to address the water quality and service issues at the Northern Division that was not being addressed or planned to be addressed without the involvement of KAWC.