

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

James H. Vander Weide

1. a. At page 6 of his Rebuttal Testimony, Dr. James H. Vander Weide states that “the Florida Public Service Commission relies entirely on *Value Line* natural gas companies to estimate the cost of equity for Florida water utilities.” State whether the basis for Dr. Vander Weide’s statement is a memorandum, dated May 20, 2004, from the Division of Economic Regulation to the Director, Division of the Commission Clerk & Administrative Services. If this document is not the basis for Dr. Vander Weide’s statement, provide a copy of the document(s) upon which he bases his statement.
- b. State why, in Dr. Vander Weide’s opinion, the Florida Public Service Commission relies on Value Line natural gas companies to estimate the cost of equity for Florida water utilities. Provide all reports, public statements, Commission orders, and related documents upon which Dr. Vander Weide bases his opinion.

Response:

- a. Dr. Vander Weide’s statement is based on: (1) the memorandum dated May 20, 2004; and (2) the Order No. PSC-01-2514-FOF-WS in Docket No. 010006-WS, issued December 24, 2001. A copy of the order is attached. For electronic version, refer to [KAW_R_PSCDR4#1_attachment_110304.pdf](#).
- b. The Commission’s reasons for relying on the Value Line natural gas companies to estimate the cost of equity for Florida water utilities are explained in the discussion beginning at page 16 of the Order, through the end of the order at page 22. Dr. Vander Weide has no reason to believe that the Commission’s reasoning differs from what is stated in the Order.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

James H. Vander Weide

2. Refer to Rebuttal Testimony of Dr. James H. Vander Weide at 11.
 - a. Describe the difference between a Treasury note and a Treasury bond.
 - b. State the term lengths available for long-term Treasury bonds.
 - c. State the term length of long-term bonds that Dr. Vander Weide recommends to use as the risk free rate in the Capital Asset Pricing Model ("CAPM").
 - d. Describe the availability of long-term Treasury bonds to investors.

Response:

- a. A Treasury note is a Treasury debt obligation with an intermediate term maturity, typically in the range 1 to 10 years. A Treasury bond is a Treasury debt obligation with a long-term maturity, typically in the range 15 – 30 years.
- b. It is Dr. Vander Weide's understanding that the Treasury currently does not issue long-term Treasury bonds, but that previously-issued long-term Treasury bonds continue to be traded in the secondary market. The yield to maturity on long-term Treasury bonds traded in the secondary market is a reasonable estimate of the yield the Treasury would have to pay if it were to again issue long-term bonds in the primary market. The Federal Reserve continues to report a yield to maturity on 20-year bonds in its Federal Reserve Statistical Release (see <http://www.federalreserve.gov/Releases/H15/current/h15.pdf>.) In addition, the Federal Reserve states in Footnote 11 to its Statistical Release, "A factor for adjusting the daily nominal 20-year constant maturity in order to estimate a 30-year nominal rate can be found at www.treas.gov/offices/domestic-finance/debt-management/interest-rate/index.html.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

James H. Vander Weide

- c. Dr. Vander Weide recommends use of the yield to maturity on 20-year Treasury bonds as the risk-free rate in the Capital Asset Pricing Model. Dr. Vander Weide's recommended use of the yield to maturity on 20-year Treasury bonds is consistent with the recommendation of Ibbotson Associates in applying the CAPM to estimate the cost of equity for long-lived investments.
- d. See response to 2 (b).

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

3. State whether Kentucky-American is presenting in the current proceeding the Emergency Pricing Tariff, which is attached as Exhibit 2 to the Rebuttal Testimony of Coleman D. Bush, for Commission review and approval.

Response:

Yes.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

4. a. Describe the circumstances under which and the type of customers to whom Kentucky-American proposes to assess the proposed activation fee.
- b. Describe the circumstances under which a customer requesting water service would not be assessed the proposed activation fee.

Response:

- a. If approved, an activation fee would be charged for all customer classes for the initiation of new service or for reconnection of existing service previously turned off at the request of the customer.
- b. If a tap fee is paid for a new service and the meter is set along with the tap, for any class of customer, an activation fee would not be charged.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Edward L. Spitznagel, Jr.

5. a. At page 1 of his Rebuttal Testimony, Dr. Edward L. Spitznagel, Jr. states that “the estimated decline in residential consumption is due to the ‘thirty-year normal’ not changing from the Dec2002-Nov2001 estimate to the Dec2004-Nov2005 estimate. Rather, the changes in thirty-year normals from the Oct1997-Sep1998 estimate to the Dec2000-Nov2001 held the consumption estimates high, despite the statistically significant time trend downward in every model.” Explain how the “thirty-year normals” changing from October 1997 – September 1998 to December 2000 – November 2001 held the consumption estimate high.
- b. Explain how, if the “thirty-year normal” did not change from December 2000 – November 2001 to December 2004 – November 2005, this event has caused the consumption levels to decrease over this period.

Response:

- a. Each of the three models for the time period October 1997 – September 1998 to December 2000 – November 2001 contains coefficients that relate consumption for the months of May through December to moisture. The measurement of moisture is based on the Palmer Drought Severity Index. For a future estimate of consumption, the average of this measurement over the last thirty years is employed to estimate what consumption would be under “normal” weather conditions. The models have negative slope coefficients for the relationship of water consumption to moisture. This is as expected for months in which outside water is used; the less the rainfall, the more water is used for lawns and gardens. The negative slope coefficients mean that if the average moisture measurement over the previous thirty years becomes smaller, the projected consumption increases, because the “normal” weather defined as the average over the last thirty years (prior to the time of each projection) is

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Edward L. Spitznagel, Jr.

becoming drier. This indeed happened, due to recent dry years replacing more moist years from 30 years ago.

- b. This lack of change did not “cause” consumption levels to decrease. Rather, the relative constancy of the thirty-year normal weather from December 2000 – November 2001 onward allowed us to see that with unchanging normal weather, a decrease of water consumption over time can be expected. My response to Information Request 49a, referenced in my Rebuttal Testimony, provides an additional argument for decreasing consumption over time by examining the decreasing consumption in the months of January through April, where no weather normalization is used.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

James Salser

6. a. Provide for each customer classification the average daily water usage based the 12-month period ending September 30, 2004,
- b. In Exhibit 37M (Original) of its Application, Kentucky-American indicated that the number of customers in the end of the base period would exceed the number of customers in the end of the forecasted test period. In Exhibit 37M (Updated), Kentucky-American indicates that the number of customers in the end of the forecasted test period will exceed the number of customers at the end of the base test period. Explain the discrepancy.
- c. Explain why the stated number of customer bills for the 12-month period ending November 30, 2005 differs in Kentucky-American's Business Plan, its forecasted period, and Exhibit 37M (Updated).

Response:

a. ClassificationAverage Usage

| | |
|-------------|-----------|
| Residential | 15,826.94 |
| Commercial | 11,205.05 |
| Industrial | 2,134.05 |
| OPA | 3,895.60 |
| SFR | 1,031.31 |
| Misc | 6.69 |

- b. This discrepancy is explained in the rebuttal testimony of James Salser page 3 beginning at line 23 through page 4 line 7. This is also addressed in the rebuttal testimony of Michael Miller beginning on page 28 line 16 through page 29 line 2.
- c. The undated Exhibit 37M included only customer bills for the base period. A forecasted Exhibit 37M was not filed with the update. Attached is a revised Schedule

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

James Salser

I detailing the customer count for the base period and forecasted period. The Business Plan includes customer growth from business development initiatives which were eliminated from the Company's rate case filing in the base period, as well as the forecast period, as it relates to revenues, expenses, and rate base items.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Linda Bridwell

7. Refer to Rebuttal Testimony of Linda C. Bridwell at 2.
 - a. State the cost of the sedimentation removals performed in August 2002 and July 2004. Provide the vendor or contractor invoices for each removal.
 - b. State the extent to which the failure to “remove all of the solids” during the August 2002 effort contributed to the need to perform sedimentation removal in July 2004.
 - c. State whether the contractor removed all solids during the sedimentation removal in July 2004. If no, explain why all of the solids were not removed.
 - d. Regarding the sedimentation removal performed in August 2002, Ms. Bridwell states: “Due to scheduling conflicts with the contractor and significant unanticipated expense, Kentucky American Water was able to clear the area around the discharge point but not remove all of the solids.”
 - (1) State what Ms. Bridwell means by “unanticipated expense.”
 - (2) Explain why this unanticipated expense prevented Kentucky-American from removing all solids.
 - e. State the number of gallons of waste that Kentucky-American anticipates to be removed in the forecasted test period.
 - f. State the number of gallons of waste that Kentucky-American anticipates to be removed annually in each year following the end of the forecasted test period.
 - g. Ms. Bridwell states that “Kentucky-American has experienced increased demands, greater requirements for turbidity removal and thus increased chemical additions for that removal, and increased use of Kentucky River raw water at the Richmond Road Station” and asserts that these factors caused Kentucky-American’s historical waste removal costs. Provide documentary and statistical evidence that the factors that Ms. Bridwell lists have reached the level that render biennial sedimentation removal inadequate and require annual sedimentation removal.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Linda Bridwell

Response:

- a. The cost of sedimentation removal for August 2002 was \$87,572.11. The cost of sedimentation removal for July 2004 was \$75,769.30. For contractor and invoice information see the two attached files KAW_R_PSCDR4#7a_attachment1_110304.pdf and KAW_R_PSCDR4#7a_attachment2_110304.pdf.
- b. Previous responses and rebuttal testimony may not have completely clarified the purpose of the solids removal in 2002 and 2004. In August 2002, the mobile dewatering press was brought into the Richmond Road Station (RRS) to remove solids from the sedimentations basins, washwater holding tanks and sludge thickeners. The purpose for this was so that each of the sedimentation basins would be free of solids so that in the event that RRS plant was needed to run at 30 MGD there would be no solids carryover from the sedimentation basins to the filters. Scheduled on this same trip was an effort to remove solids from the reservoir that had accumulated over time around the discharge point and were visible when the reservoir level dropped slightly. The amount of solids in the reservoir was not easily discerned at the time, how much could be removed over any certain time period was unknown, and the best method for removal was not clear. The contractor had a limited window of schedule to address Kentucky American Water's needs, and clearly the priority was for the basins, tanks and thickeners. The contractor determined that the best method for reservoir solids removal was utilizing a trash pump and pontoon boat to remove solids from a 100' by 200' area to below the low water elevation. Because of the limited schedule not all the solids were removed at this time. Further removal would require a second mobilization at a later time which was a significant portion of the expense. Additionally, the cost to remove all the solids from the plant was not budgeted and thus was considered in total an unanticipated expense. It was not prudent to continue removal in 2002, and how much room

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

had been cleared in the reservoir would be based on the volume of solids produced.

In July 2004, the mobile dewatering press was brought back to RRS to continue the process of removing accumulated solids from the reservoir. On this trip, however, a small dredge was used to remove solids to a depth of approximately 18-inches below the water line. Again, because of a limited window of schedule by the contractor, not all the solids were removed on this visit. However, because the volume removed was significantly greater, Kentucky American Water does not envision having to remove the same amount of solids from the reservoir next year.

Kentucky American Water has included in the budget cost to bring the mobile dewatering press to RRS each year in order to remove all the solids on the plant in anticipation of summer demands. In the event that the plant will need to be operated at 30 MGD it is imperative that the sedimentation basins be solids free prior to entering the summer. Additionally, solids will be removed from the reservoir as needed.

- c. No. Please refer to the response to Item b above.
- d. Please refer to the response to Item b above.
- e. Based on the forecasted budget amount, approximately 900,000 gallons of solids containing water will be removed from either the sedimentation basins, washwater holding tanks, sludge thickeners, or reservoir in 2005. It is anticipated that this will be sufficient to remove the solids accumulated in the plant, and reduce the solids accumulated in the reservoir.
- f. Based on the budget amount, approximately 900,000 gallons of solids containing water will be removed from either the sedimentation basins, washwater holding tanks, sludge thickeners, or reservoir in 2006 and 2007 until such time that improvements are made to the solids handling capabilities of RRS. It is anticipated that this will be sufficient to remove the solids accumulated in the plant, and reduce the solids accumulated in the reservoir. Clearly the resolution of the water supply deficits makes the potential need to operate the Richmond

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Linda Bridwell

Road Station at 30 mgd less critical. However, in the short term it is imperative that solids removal be performed on annual basis.

- g. As described in the response to Item h above, annual solids removal at the Richmond Road Station is imperative in order to potentially operate the Richmond Road Station at 30 mgd. Additional removal from the reservoir is cost effective while annual solids removal from the plant is occurring. Please see the attached historical solids processing data for additional information regarding the recent increase in solids production. KAW_R_PSCDR4#7g_attachment_110304.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Linda Bridwell

8. Provide for each calendar year from 2000 to 2003 a comparison of budgeted and actual Other Maintenance expenses. Show separately the total amount of deferred maintenance amortization from the on-going routine maintenance. Explain any variances.

Response:

Because of the difficulty in predicting maintenance necessary for the next year, each budget amount is based an estimate utilizing historical needs. Kentucky American Water maintains a goal to work within the total budget of Other Maintenance each year, not specifically within each account number. The overall Other Maintenance has averaged 3.8% below budget for the 2000-2003 time period. See the attached schedule. For the electronic version see [KAW_R_PSCDR4#8_attachment_110304.pdf](#)

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

9. a. Provide the quantitative analysis that Kentucky-American performed to determine that the initial investment plus the cost of restoring the Tri-Village Water District and Elk Lake Water Company facilities to required standards did not adversely affect the rates of those two water systems.

b. If Kentucky-American did not perform such analysis,

(1) Explain why.

(2) Explain how the criteria set forth in Case No. 90591 can be applied to

Kentucky-American's acquisitions of Tri-Village and Elk Lake.

Response:

a. Such an analysis was not performed. As far as we could find in discussions with the parties or in the records of the systems, neither system had prepared a comprehensive analysis of what it would cost, under continued operation, to remedy the deficiencies that existed or would exist when new regulations came into effect and accordingly, the Company had no frame of reference for a comparative analysis. Kentucky American Water was aware that the reasonable and necessary costs of bringing both systems into compliance and in the case of Tri-Village, the cost of expanding service in Owen County, would have a considerable rate impact, but not one that would increase rates to the point that water would become unaffordable to the average household.

b. (1) See response to 9.a. above.

(2) One approach would be to consider any rate increase an adverse action. But, that is not reasonable when the drivers of that rate increase are the necessary and reasonable

¹ Case No. 9059, An Adjustment of Rates of Delta Natural Gas Company, Inc. (Ky.PSC Sept. 11, 1985).

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

costs to provide safe and reliable water service, without which, safe and reliable water service would not be possible. The EPA uses an affordability benchmark for water of 2.5% of median household income. The median household income in Owen County, Kentucky, according to the 2000 census, was \$33,310. If the rates were approved in full, the annual water bill for the average residential customer (using 5,075 gallons per month) in Tri-Village would be \$648 and in Elk Lake, \$468. Both amounts are within the EPA affordability limits. Currently, the annual water bill for the average residential customer in Tri-Village is \$462 and in Elk Lake, \$330.

When compared with the average annual bill of \$258 (based on the full revenue increase requested in this case) for the Company's Central Division, it is readily apparent why combining and consolidating smaller systems into larger systems makes sense. Economies of scale work where there is scale. In small systems like Elk Lake and Tri-Village and others across Kentucky, improvements needed to bring these systems into compliance with regulations, to replace failing infrastructure, to expand service to unserved areas, are often accomplished only with a significant rate increase because of a very small customer base from which to recover these costs or they are not done at all. As Mr. Miller pointed out in his direct testimony, the Company plans to propose in its next case a move to a uniform tariff for all customers. The Company believes that the services it provides across both its divisions are uniform and that a move to a uniform tariff will promote fairness to all customers, promote the Company's ability to address water service issues in all areas of Kentucky that need the expertise and economies of scale that are available through Kentucky American Water.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

10. List all options that Tri-Village explored to resolve the operating deficiencies of its water distribution system.

Response:

Tri-Village representatives stayed in constant contact with the city of Owenton regarding the water quality problems and even suggested that treatment changes be made. Prior to the Company's involvement, however, there appeared to be no clear understanding of the causes of the problems nor did it appear that there were any workable plans in place to correct the problems. In 2000, Tri-Village contracted to have their distribution storage tanks cleaned. Tri-Village was doing some system flushing as a measure to try to minimize water age in order to reduce the incidence of THMs. Since Kentucky American Water became involved, Tri-Village has revised distribution operations to include frequent manual tank turnover and additional flushing operations to better minimize water age.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

11. At page 3 of his Rebuttal Testimony, Coleman Bush states that "Tri-Village was routinely required by state regulators to provide public notice to its customers that its water exceeded health limits for disinfection by-products. Because of the water quality expertise of the Company and its application to the Tri-Village system, there have been no occurrences of public notification due to exceeding health limits for disinfection by-products since and even before Kentucky American purchased the system." Explain the phrase "even before Kentucky American purchased the system."

Response:

As part of its due diligence before the purchase, the Company needed to be sure that resolution of the water quality problems experienced by Tri-Village would not cause a cost-prohibitive expenditure of funds. Our water quality staff worked with Tri-Village and the city of Owenton to achieve a resolution before the purchase was complete.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

12. Describe the measures that Tri-Village and Kentucky-American (on behalf of Tri-Village) took to reduce or eliminate its disinfection by-products problem.

Response:

The Company worked with Tri-Village and also the city of Owenton, as the supplier of treated water to Tri-Village, to profile both systems and determine sources of elevated disinfection by-products ("DBPs"). Once the potential sources of the elevated DBPs were identified, the Company worked with both utilities and the State to implement phased treatment changes in the Owenton plant. These changes were: 1) implemented enhanced coagulation; 2) converted to intermediate chlorination and optimized pre-potassium permanganate; and 3) added post-filtration pH adjustment for continued system corrosion control. The combined distribution systems were optimized through inspection and cleaning of distribution storage tanks and revised operations schemes to minimize water age.

Throughout this entire process, the Company provided key monitoring and technical support from water testing to operator training.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

13. At page 3 of his Rebuttal Testimony, Coleman Bush states that “[i]n the case of the Elk Lake system, the Elk Lake system water treatment plant was inadequate to meet the filtered turbidity limits that will go into effect January 1, 2005.” Describe the inadequacies of Elk Lake’s water treatment plant and explain why these could not be remedied to meet the new filtered turbidity limits.

Response:

According to the Company’s Engineer and Director of Water Quality, at minimum, to bring the plant into compliance with water quality regulations, additional clarification needed to be added or existing clarification rehabilitated; filter media, which had not been changed since 1962, needed to be replaced and improvements needed to be made to the chemical feed process. It is not that the deficiencies could not be remedied; it is that the expected costs of these improvements were not warranted in view of the relatively minor cost of connecting the system to the existing Tri-Village system and the Commonwealth’s goal of combining small water systems.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

14. List all options that Elk Lake explored to resolve the operating deficiencies of its water distribution system.

Response:

The water distribution system of Elk Lake did not appear to have significant operating deficiencies based on our review of the system. In fact, on February 2, 2001, the Commission presented the Elk Lake Water Company with a Certificate of Commendation for passing its annual inspection with no deficiencies. The primary deficiencies in the Elk Lake system related to the water treatment plant as discussed in the response to PSCDR4#13.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

15. Explain why, given each water system's operational problems and seeming inability to comply with regulatory requirements, Kentucky-American was unable to negotiate a purchase price at or below book value for Tri-Village or Elk Lake.

Response:

The premium paid over book value on the purchase of the Tri-Village system was \$99,765 and the acquisition costs were \$122,431. The Tri-Village Board would not move below the final purchase price due to a need to pay off existing debt and in order to keep their commitment to expand their service territory.

The purchase price premium for the Elk Lake system was \$101,589 and the acquisition costs were \$10,907.98. Due to a need to satisfy all liabilities at the time of close and a desire to make needed improvements in their remaining infrastructure, the Elk Lake Board was not desirous of selling at a price below the final purchase price.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

16. Identify all persons or firms who, within the last 5 years, made an offer to acquire either Tri-Village or Elk Lake or made an inquiry regarding those water system's availability for purchase. State the date when the offer or inquiry was made.

Response:

Other than the discussion presented below from the minutes of the Tri-Village Water District Commissioner's Meeting held on June 9, 1999 and those offers that the Company made as discussed in its response to PSCDR4#17, the Company is unaware of any offers or inquiries made by persons or firms regarding the availability for purchase of the Tri-Village and Elk Lake systems.

June 9, 1999: "Chuck Gill from Owen RECC met with the water board and he told them at this time RECC is not prepared to submit a bid for the purchase of Tri-Village Water District. Gill said he had talked with a number of people and at this time there were too many areas of concern for RECC to continue negotiations."

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

17. Describe Kentucky-American's negotiations for Tri-Village and Elk Lake. List each offer that Kentucky-American made and any counter-proposals that the sellers made.

Response:

Elk Lake

As best as we can determine, the Company began discussions with Elk Lake representatives in 1999 as part of the discussions with the Tri-Village Water District. At various times, the Company was represented by Roy Mundy, David Baker and Herb Miller.

Discussions and negotiations were conducted over a period from 1999 to the date of signing of the asset purchase agreement. Kentucky American Water did not maintain a specific chronology of meetings and other forms of contact. Much of the contact would have been through phone calls and informal discussion for which there is no specific documentation.

After initial contact and an expression of interest by the Seller, the Company gathered the financial and operational data necessary to make a proposal to the Elk Lake Property Owners' Association ("ELPOA").

Notes from the ELPOA meeting on April 17, 1999 read, "Kentucky-American Water Company is building a 20" water line through our area and wants to service people along that route. They have agreed to purchase Tri-Village, are talking to Owenton Water Company and want to talk to Elk Lake about our water company. Carl [Stich] is waiting on a call from them and we will listen to what they propose."

Notes from the ELPOA meeting on May 15, 1999: "Carl had a meeting with Kentucky-American

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

Water Company and they do not want to talk to us until after they acquire Tri-Village.”

Notes from the ELPOA meeting on July 19, 1999: “Ky-American is staying in touch with Carl but is not ready to do anything with ELPOA yet.”

Notes from the ELPOA meeting on September 18, 1999: “The office received a call from Kentucky-American Water Company. They thought they would complete their contract with Tri-Village soon and then would talk to us.”

Notes from the ELPOA meeting on October 9, 1999: “Kentucky-American Water Company is in negotiations with Tri-Village to purchase them. They are interested in purchasing our water company.”

Notes from the ELPOA meeting on November 20, 1999: “Bob proposed to reconvene the old water company board and they would consider the purchase of our water company by Kentucky-American. Carl, Bob, Jack Dempwolf, Ron Volkerman and Gil Ruehl were the old water company board members.”

Notes from the ELPOA meeting on December 18, 1999: “Carl reported. He and Vernon met with David Baker of Kentucky-American Water Company, and Charlie Noel of Tri-Village Water Company. Carl asked David Baker if we could purchase water from them. Answer: Yes. Sell them the system at a later date – possible. The Division of Water and the Public Service Commission would not have a problem with either or both. They will get back to us in a couple of weeks. We will reactivate the Water Committee to make recommendations to the board.”

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

Notes from the ELPOA meeting on February 19, 2000: "The Water Company Board will meet with Kentucky-American Water Company before the next board meeting and have a report for the board."

Notes from the ELPOA meeting on March 18, 2000: "Bob reported that the Water Company met with Kentucky-American Water Company representatives to talk about their interest in the water company. Bob said the Water Company Board was positively impressed with the discussion. Kentucky-American representatives will go back and finalize their proposal and present it to the ELPOA Board for their consideration. The board will keep the ELPOA informed as it progresses."

Notes from the ELPOA meeting on April 15, 2000: "Kentucky American is rewriting proposal."

Notes from the ELPOA meeting on May 20, 2000: "Kentucky American has sent a proposal. Bill made a motion to sell Water Co. Mike seconded."

Notes from the ELPOA meeting on June 17, 2000: "We are awaiting the next proposal from Kentucky-American Water Company, which should be presented sometime in July."

Notes from the ELPOA meeting in July 15, 2000: "Minutes of July 13, 2000, meeting between Elk Lake and KY-American Water Company passed out (see attachment KAW_R_PSCDR4#17_attachment1_110304.pdf) to board members. Also had Asset Purchase Agreement for board members. Discussion of meeting on July 13 was made by Bob and Tom. Mark Cobb had faxed changes from water company and agreed on changes that were made on July 13 and advised Carl. David Baker, KY-American Water Company, invited all board members to their plant in Lexington."

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

The asset purchase agreement was signed on July 15, 2000 and included a purchase price of \$89,084 for the assets. The Asset Purchase Agreement was amended in 2002 to include the sale of the water treatment plant to Kentucky American Water at no additional consideration.

Formal presentations and proposals presented to the ELPOA in February and May 2000 are included in attachment KAW_R_PSCDDR4#17_attachment2_110304.pdf.

Tri-Village

As with Elk Lake, discussions and negotiations were conducted over a period from 1999 to the date of the joint application of transfer. Kentucky American Water did not maintain a specific chronology of meetings and other forms of contact. Much of the contact would have been through phone calls and informal discussion for which there is no specific documentation. The Company was represented, at various times, by David Baker, Coleman Bush, Roy Mundy and Herb Miller.

Notes from the Tri-Village Water District (TVWD) Commissioner's Meeting on January 13, 1999: "David Baker from Kentucky American Water Company had contacted Judge O'Banion informing him that Kentucky American would be interested in having a meeting with the Tri-Village representatives. Mr. Baker had stated that he thought they could do business with Tri-Village and that we could benefit each other. The Judge had told him that he would contact the Board, but that the main concern would be protection for the existing Tri-Village employees and cutting the water rates as well as providing water to more of Owen County. The Board told him that they would be very interested in this discussion."

Notes from the TVWD Commissioner's Meeting on February 9, 1999: "David Baker from Ky.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

American here to update the Commissioners on the progress with Owenton Water.”

Notes from the TVWD Commissioner’s Meeting on 2-10-1999 [probably 3-10-1999]: “David Baker from Kentucky American met with the Board to meet them and to introduce himself to them.”

Notes from the TVWD Commissioner’s Meeting on April, 13, 1999: “After a presentation of a proposal by Kentucky-American Water to purchase Tri-Village Water District; the motion was made by Gilbert England seconded by Sidney Gullion for Tri-Village Water District to enter into negotiations with Kentucky American Water co. from Lexington, Ky. for the purpose of selling all assets of the Tri-Village Water District to Kentucky American Water Co. Chairman Noel immediately asked for a call vote with the following response: Charles Noel – Yes; Joe Peters – Yes; Sidney Gullion – Yes; Gilbert England – Yes; Olene Dunaway – Yes.”

Notes from the TVWD Commissioner’s Meeting on June 9, 1999: “Charlie asked if there was any more discussion of the Ky. Am. Proposal and the non-proposal from RECC, having none Chairman Charles Noel made the following motion: based upon the non-proposal of Owen RECC I would like to make a motion that we enter into contract negotiations with Kentucky American Company for the purpose of selling all assets, debts, and facilities to the Kentucky American Water Company; Sidney Gullion seconded after Chairman Noel asked if there were any comments, Gilbert England said he was still not sure if we could legally sell Tri-Village; Charlie Noel said if not we would soon find out because this would set the wheels in motion to get things started: Joe said he had no problem with the motion. Chairman Noel then asked for a call vote. Charles Noel – Yes; Sidney Gullion – Yes; Joe Peters – Yes; Gilbert England – Yes.”

Notes from the TVWD Commissioner’s Meeting on August 11, 1999: “In order to sell the system to

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

Kentucky-American, an appraisal must be done. Carol presented the board with two names, but the only one that had any knowledge of water systems was John Cavendish. The motion was made by Sidney to select Mr. Cavendish seconded by Olene and approved by all. Carol is to contact him and set up a meeting.”

Notes from the TVWD Commissioner’s Meeting on September 8, 1999: “Denny French, Billy Hill, and Jim Smith met with the Commissioners to discuss the effect on the adjoining systems if Tri-Village is purchased by Kentucky American. Jim Smith of Carroll County and Denny French of Gallatin County also discussed the prospect of these two counties having extra water that could be purchased by Tri-Village. The Board told them that they had talked to other people where Kentucky American had come in and they had been told they were all pleased with the way everyone got along.”

Notes from the TVWD Commissioner’s Meeting on October 13, 1999: “Kentucky American, Charles Carter, and Judge O’Banion met with the Tri-Village Board to discuss and sign the asset purchase agreement contract. The motion was made by Gilbert England to sign the contract with amended changes on page 2 and 10, seconded by a Joe Peters after which Chairman Noel asked for a call vote. Charlie Noel – Yes; Gilbert England – Yes; Sidney Gullion – Yes; Olen [sic] Dunaway – Yes; Joe Peters – Yes.”

The Asset Purchase Agreement was signed on October 13, 1999 and included a purchase price of \$1,659,233. On the date of close, the purchase price was increased to \$1,685,567.92 after instant negotiations regarding a misunderstanding on the amount of debt and other commitments that the district had at the time of close.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43**

Witness Responsible:

Coleman D. Bush

Formal presentations and proposals presented to the TVWD in February and April 1999 are included in attachment KAW_R_PSCDDR4#17_attachment3_110304.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush/Michael A. Miller

18. Refer to Kentucky-American's Response to Commission Staff's Third Set of Information Requests, Item 31a.
- a. Restate KAW_R_PSCDR3#31e_attachment_080604 to provide a description of the charges that each entry represents.
 - b. Kentucky-American has included legal fees totaling \$8,500.42 in the Elk Lake acquisition adjustment. Describe the legal services provided for these fees. For each item, explain why Kentucky-American's in-house legal staff could not perform these services.
 - c. Kentucky-American has included labor costs totaling \$2,407.56 in the Elk Lake acquisition adjustment. Describe the labor represented in each entry.
 - d. Kentucky-American has included legal fees totaling \$43,955.65 in the Tri-Village acquisition adjustment. For each item listed as a legal fee and described in Kentucky-American's Response to Item 18(a), explain why Kentucky-American's in-house legal staff could not perform the service(s).
 - e. Kentucky-American has included consulting fees of \$17,447.36 in the Tri-Village acquisition adjustment. For each item listed as a consulting fee and described in Kentucky-American's Response to Item 18(a), explain why a Kentucky-American employee could not perform the service(s).
 - f. Explain why it is appropriate to include annual recurring company labor in a deferred debit when forecasted labor expense also includes a provision for annual recurring labor. The response should consider Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 55(b), and explain how the deferred payroll for an acquisition adjustment differs from rate case expense.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush/Michael A. Miller

Response:

- a. Please refer to attachments KAW_R_PSCDR4#18_attachmentTV_110304.pdf and KAW_R_PSCDR4#18_attachmentEL_110304.pdf.
- b. This information is included in the "description" column of attachment KAW_R_PSCDR4#18_attachmentEL_10304.pdf.
- c. This information is included in the "description" column of attachment KAW_R_PSCDR4#18_attachmentEL_10304.pdf.
- d. This information is included in the "description" column of attachment KAW_R_PSCDR4#18_attachmentTV_10304.pdf.
- e. This information is included in the "description" column of attachment KAW_R_PSCDR4#18_attachmentTV_10304.pdf.
- f. The Company believes it appropriate to capitalize a portion of the Company labor required to provide due diligence on an acquisition. In its forecasted test-year filing the Company capitalizes a portion of those employees that historically capitalize a portion of their payroll. The Company is not seeking a double recovery of its labor expenses in the forecasted test-year because only O&M labor is captured and a portion of salaries is capitalized to current capital projects based on historical percentages.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Sheila Valentine

19. List by account title and number all amounts for legal fees included in the forecasted test year. For each entry to these accounts, provide a description of the legal services to be rendered.

Response:

Legal fees, in the amount of \$65,185, are included in account 533000.16 for the forecasted test year. Kentucky American Water has in the recent past and will require legal services in the forecasted test year for primarily employment, regulatory and governmental investigatory matters.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

20. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 18.
- a. Kentucky-American's budgeted number of employees does not equal the actual number of employees in any month for the 5-year historical period shown. State whether Kentucky-American assumes in its routine budgeting of payroll costs that a full complement of employees will be hired and retained. If such assumption is not made, state whether Kentucky-American assumes that the vacancies will go unfilled and budgets overtime for actual employees.
 - b. Provide the budgeted and actual overtime hours for the number of employees stated for each period listed.
 - c. Explain any differences in Kentucky-American's routine budgeting procedures regarding payroll and the payroll budgeting procedures used when developing a forecasted test period utilized in this and previous rate applications. Specific mention should be made to overtime hours to compensate for vacant positions if applicable.
 - d. Identify where the elimination of Kentucky-American employee positions is reflected on this schedule as a result of the development of the Customer Call Center and Shared Services Center.

Response:

- a. The Company in all recent budget preparations budgets a full compliment of employees will be on hand and adjusts historical overtime hours to compensate for any overtime related to vacancies. As can be seen on the schedule attached to subpart b below, the Company's actual overtime has consistently exceeded budget to compensate for vacancies. The Company has been consistent in both the budgeting and forecasted test-year in using a full compliment of employees and eliminating overtime and temporary labor resulting from less than a full compliment of

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

employees. This is covered in the rebuttal testimony of both Mr. Miller and Mr. Bush.

- b. See the attached schedule.

For the electronic version, refer to [KAW_R_PSCDR4#20_attachment_110304.pdf](#).

- c. The Company has been consistent in preparation of budgets and forecasted test-year filings in using a full compliment of employees and elimination of overtime and temporary labor used to fill in for vacant positions. See response to part a above.
- d. The employees in customer service positions were reflected in distribution prior to transfer to the call center. The financial positions were reflected in A&G prior to transfer to the shared services center.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

21. Refer to Kentucky-American's Application, Exhibit 37, Schedule F. Describe the services that Kentucky-American receives for the expenses listed below:

| | | |
|----|-------------------|-------|
| a. | U.K. Faculty Club | \$180 |
| b. | Rotary | 830 |
| c. | Lexington Kiwanis | 110 |
| d. | Lafayette Club | 2,580 |
| e. | Audubon Society | 90 |

Response:

- a. It is important to note that the Faculty Club located on the U.K. campus closed for remodeling August 31 of this year and is expected to reopen next summer. In the meantime, the benefits of membership are available at Spindletop on Iron Works Pike. Faculty Club members include U.K. faculty and staff and this provides the Company an opportunity to interact with some of the people who represent its largest customer. The U.K Faculty club offers meeting rooms, dining room service and banquet service. Breakfast, lunch and dinner are available. Members receive a newsletter, which includes notice of special events such as an event held last year for the McKenna Foundation, an organization specializing in the treatment of kidney disease. The newsletter also announces various social events for members. The Company's use of the facility has been limited to business meetings and meals. Some Company department heads have used this facility for group meetings and this facility has also been used for executive planning sessions. The Spindletop facility is fine for a replacement while renovation is underway, but this proximity of this facility to our office makes it an ideal meeting place at a very reasonable price.
- b. Rotary International is a worldwide organization of business and professional leaders that provides humanitarian service and encourages high ethical standards in all vocations. There are approximately 1.2 million Rotarians in more than 31,000 Rotary clubs located in 166 countries.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

The Object of Rotary is to encourage and foster the ideal of service as a basis of a worthy enterprise and Rotary recognizes the development of acquaintance through membership as an opportunity for service. Two of the Company's employees attend Rotary meetings on a regular basis and use this opportunity to develop relationships that further the goals of Rotary and the Company. One of our employees has in the past been heavily involved in the Worldview Program of Rotary, which among other things introduces community students to important world issues. Membership in Rotary provides the Company with an opportunity to keep in touch with other community leaders regarding important community issues that could impact the service that the Company provides.

- c. Kiwanis International is a service organization that supports children and young adults. Membership provides similar opportunities for service and the same opportunities for interaction with other community leaders. The Company has not been as active in recent years in this organization, but has retained its membership.
- d. The Company has used the Lafayette Club facilities for business meals and business meetings including both Company employees and community leaders. We have used this facility for meals and meetings related to a number of topics including board meetings, operational issues, strategy sessions, etc. The private dining rooms provide good areas to conduct longer meetings with the convenience of taking meals on site. Our membership provides a good opportunity to interact with other community leaders in both formal and informal settings.
- e. The mission of the Audubon Society is "to conserve and restore natural ecosystems, focusing on birds, other wildlife, and their habitats for the benefit of humanity and the earth's biological diversity." Kentucky American Water is dedicated to conducting its business in an environmentally sound manner and believes strongly in the mission of the Audubon Society. Our membership in the Audubon Society allows us to interact with like-minded people, which provides the benefit of further strengthening our commitment to the environment.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Coleman D. Bush

22. Provide a detailed summary of forecasted advertising expenses charged to the following accounts as shown at Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1, W/P 3-13, Page 1 of 7. The summary shall detail the nature (e.g., television, radio, billboard), the message, and the anticipated cost of each advertisement or promotion.

| | | |
|----|--------------------------------|---------|
| a. | Advertising AG | \$3,076 |
| b. | Advertising AG | 134,704 |
| c. | Advertising AG-allo to TV & EL | (900) |

Response:

- a. This amount is projected for help wanted advertising. The messages will be developed on a case by case basis.
- b. See attached file KAW_R_PSCDR4#22_attachment_110304.pdf. In some cases, the particular message has not been prepared. Samples of prior messages for certain of the items are included in the attachment and identified using the reference number to the left on the spreadsheet.
- c. This amount is the portion of the amount in time b. that has been allocated to the Company's Northern Division.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

23. List the characteristics of AFUDC bearing CWIP as compared to Non-AFUDC bearing CWIP as recorded by Kentucky-American.

Response:

Non-AFUDC bearing CWIP refers to items that are purchased or projects that are completed in less than 30 days. AFUDC bearing CWIP include projects that take more than 30 days to complete.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

24. Provide a listing of all CWIP projects individually as included in the forecasted test year 13-month average balance. Show AFUDC bearing CWIP separately from the Non-AFUDC bearing CWIP.

Response:

See attached schedule.

For the electronic version see KAW_R_PSCDR4#24_attachment_110304.pdf

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

25. a. State whether, as a result of Lexington-Fayette Urban County Government's efforts to acquire Kentucky-American's assets through condemnation proceedings, Kentucky-American has relied more heavily on the American Water Works Service Company ("Service Company") to conduct its day-to-day operations and long-term operations.
- b. If Kentucky-American relied more heavily on the Service Company, state whether the forecasted Service Company charges of \$3,800,309 reflect this greater involvement. If yes, identify the additional services that the Service Company is providing, the cost of these services, and the provider of the services.
- c. Kentucky-American has previously stated that employee time committed toward the condemnation effort is not being tracked. Provide for each employee position listed in W/P 3-1 an estimate of time that will be spent working on matters related to the condemnation proceeding during the forecasted period.
- d. List each Kentucky-American employee that has devoted a portion of his or her work hours to company matters related to the condemnation proceeding since LFUGC brought its condemnation action in Fayette Circuit Court. Provide an estimate of the time spent on the condemnation effort by these employees. These estimates shall be stated separately on an annual basis.
- e. Provide an itemized listing of all costs that Kentucky-American has incurred as a result of the condemnation case since LFUGC brought its condemnation action in Fayette Circuit Court. For each entry, provide the name of the vendor, a description of the service, the date on which the service was provided and the amount charged.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

Response:

25. a. The Company has not relied more heavily on the Service Company to conduct day-to-day operations and long-term operations because of the condemnation effort by the LFUCG. The increase in management fees over the 2003 levels has been driven primarily by annualization of the call center costs in the forecasted period. The increase over the previous case is primarily driven by the transitions to the call center and shared services, which are addressed in the direct testimony of Michael A. Miller, Exhibit MAM-5, significant increases in group insurance and pension costs, and normal annual salary increases.
- b. See response to subpart (a) above. The \$3.800 million reflects Kentucky-American's share of the Service Company O&M costs based on its customer allocation. There are no extraordinary costs or additional direct charges included in this amount related to the condemnation effort.
- c. The timesheets of the Company's management employees only allocates 8 hours per day, although it is normal that management work significantly more than 40 hours per week. As stated in the responses to several LFUCG2 data request and summarized in LFUCG1#36 the Company's level of management employees is based on the number needed to efficiently operate the Company under normal operating conditions and any additional time requirements related to the condemnation are absorbed through unpaid overtime. Any additional legal or other costs related to the condemnation are not being requested by the Company in this case. The Company's level of payroll requested in this case does not reflect any additional cost related to the condemnation. Given the current status of the condemnation proceeding it is expected that the vast majority of effort will involve legal and valuation work not performed by Company employees. The Company has no sound basis on which to

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

provide an estimate of the time of its management employees that will be required to put forth on the condemnation proceeding or how many hours of unpaid overtime will be required to handle that increased workload in addition to their normal operational activities.

- d. See response to subpart (c) above. Since the initiation of the condemnation effort by the LFUCG, efforts regarding the condemnation have required work primarily by the President, Director of Communications and Director of Governmental Affairs and their support staffs in addition to their normal job duties. These positions will be required regardless of the condemnation status, are salaried positions, and the condemnation has not created any additional cost to the Company or is any additional costs related to these positions being requested in this case. The Company has not tracked the number of unpaid overtime hours for these positions and is not position to estimate the percentage of their work hours directed to the condemnation proceeding.
- e. See attached schedules. For the electronic version please refer to KAW_R_PSCDR4#25_attachment_110304.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

26. Explain and quantify the increase in forecasted management fees of \$3,800,309 from those of \$3,023,966 charged for the calendar year end December 31, 2003, as included at PLB, Schedule 3.

Response:

| | Forecasted | 2003 | | |
|------------------|------------------|----------------|-----------------|--------------|
| | <u>Test Year</u> | <u>Actual</u> | <u>Variance</u> | <u>%</u> |
| Belleville Lab | 190,529 | 181,349 | 9,180 | 5.06% |
| Call Center | 831,065 | 197,755 | 633,310 | 320.25% |
| Corporate | 707,013 | 672,986 | 34,027 | 4.81% |
| ITS | 819,399 | 779,916 | 39,483 | 5.01% |
| Shared Services | 448,017 | 426,429 | 21,588 | 5.06% |
| Southeast Region | <u>804,286</u> | <u>765,531</u> | <u>38,755</u> | <u>5.06%</u> |
| Total | 3,800,309 | 3,023,966 | 776,343 | 26.95% |

First the Company included annualization of the Call Center costs and then included an inflationary factor of 2.5% for 2004 and 2005 to arrive at the forecasted test-year costs.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

27. Refer to the Direct Testimony of Patrick Baryenbruch, Exhibit PLB, Schedule 3. Restate this exhibit to reflect the forecasted management fees totaling \$3,800,309. Show separately directly assignable cost from those allocated. Also show separately all costs relating to efforts to opposed condemnation actions by local governments for each operating unit.

Response:

The information in this request is not available. The Company in its planning process does not attempt to determine the amount of service company charges between direct charges and allocated charges.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

28. List all regulated American Water Works subsidiaries. For each subsidiary state:
- a. The amount of deferred security costs.
 - b. Whether the deferred security costs have been included in rates through amortization expense and/or rate base inclusion.
 - c. Any limitations of security costs included in rates that the state or local regulatory authority has imposed.
 - d. The number of customers served.

Response:

See attached schedule.

For the electronic version please refer to [KAW_R_PSCDR4#28_attachment_110304.pdf](#).

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Bruce Larson

29. State the basis or Mr. Larson's statement that "[i]n the aftermath of 9/11, competition for the services of these officers was intense, as numerous entities sought to protect their critical facilities from potential terrorist attack. Competitive bidding in these circumstances was not practicable." Provide all references to personal interviews, media accounts, governmental studies or reports, or other studies or analyses, upon which Mr. Larson relied.

Response:

When Kentucky American Water Company began engaging the guard services referenced in the immediate aftermath of 9/11, there was significant demand for the services of law enforcement officers to work, off-duty, at local businesses and other critical infrastructure service providers. The most desirable laws enforcement officers were those employed by the LFUCG because of their training and arrest power and those officers had to be compensated at their overtime rates. Regarding references to personal interviews, and other reports or studies, there are no records available for review. The off-duty officers' status as active law enforcement officers was considered sufficient qualification, and I know of no relevant government studies, reports or analyses that were used in determining the basis for contracting for these services.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Kenneth Rubin

30. Refer to the Direct Testimony of Dr. Kenneth Rubin at footnote 13. Provide the materials to which Dr. Rubin makes reference.

Response:

These data are presented in the table below.

| Guard Costs in 2004 by American Water Utility | | |
|--|------------------------|-----------------------|
| State | Facility | \$/hr. - Guard |
| Arizona | | |
| | Anthem | \$30.00 |
| | Miller Rd | \$30.00 |
| California | | |
| | CA Central - Begonia | \$30.00 |
| Illinois | | |
| | Alton | \$25.00 |
| | Cairo | \$20.00 |
| | Champaign - East Plant | \$31.00 |
| | Champaign - West Plant | \$31.00 |
| | Peoria - San Koty | \$31.00 |
| | Chouteau Intake | \$31.00 |
| | East St Louis Intake | \$31.00 |
| | East St. Louis WTP | \$31.00 |
| | Granite City WTP | \$31.00 |
| | Lincoln - North | \$31.00 |
| | Lincoln - South | \$31.00 |
| | Pekin | \$31.00 |
| | Peoria - Main Plant | \$31.00 |
| | Pontiac - Main Plant | \$31.00 |
| | Pontiac Reservoir | \$31.00 |
| | Sterling - East Plant | \$31.00 |
| | Sterling - West Plant | \$31.00 |
| | Streator - Main Plant | \$31.00 |

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Kenneth Rubin

| Guard Costs in 2004 by American Water Utility | | |
|--|---------------------------------|-----------------------|
| State | Facility | \$/hr. - Guard |
| | Streator - Reservoir | \$31.00 |
| Indiana | | |
| | Borman Park WTP | \$15.00 |
| | Kokomo WTP | \$30.00 |
| | Richmond | \$30.00 |
| | Southern IN (Jeffersonville) | \$30.00 |
| | Muncie - White River WTP | \$30.00 |
| | Ogden Dunes WTP | \$15.00 |
| | Terre Haute | \$30.00 |
| Iowa | | |
| | Clinton District | \$30.00 |
| | East River Station | \$30.00 |
| Kentucky | | |
| | Kentucky River Station | \$32.50 |
| | Richmond Road Station | \$32.50 |
| | TriVillage | \$32.50 |
| Missouri | | |
| | Jefferson City | \$23.00 |
| | Joplin | \$20.00 |
| | St. Joseph | \$25.00 |
| | St. Louis Co. - Central | \$25.00 |
| | St. Louis Co. - Meramec | \$25.00 |
| | St. Louis Co. - North | \$25.00 |
| | St. Louis Co. - South | \$25.00 |
| | Creve Couer Service Center | \$25.00 |
| New Jersey | | |
| | Canoe Brook - Short Hills | \$37.85 |
| | Delaware River Regional WTP | \$45.00 |
| | Jumping Brook WTP | \$47.00 |
| | Oak Glen - Yellowbrook WTP | \$38.50 |
| | Swimming River WTP | \$43.00 |

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Kenneth Rubin

| Guard Costs in 2004 by American Water Utility | | |
|--|--------------------------------|-----------------------|
| State | Facility | \$/hr. - Guard |
| | Newman Springs | \$43.00 |
| Pennsylvania | | |
| | Ashtabula | \$30.00 |
| | Marion | \$30.00 |
| | Tiffin | \$30.00 |
| | Bangor | \$20.00 |
| | Berwick | \$18.00 |
| | Brownell WTP | \$18.00 |
| | Brownsville WTP | \$25.00 |
| | Butler | \$14.50 |
| | Ceasetown | \$18.00 |
| | Chinchilla | \$18.00 |
| | Clarion | \$35.00 |
| | Crystal Lake | \$18.00 |
| | EH Aldrich - Pittsburgh | \$40.00 |
| | Ellwood Treatment Plant | \$41.66 |
| | Fallbrook | \$18.00 |
| | Forest City | \$18.00 |
| | Frackville | \$41.66 |
| | Hays Mine Station - Pittsburgh | \$40.13 |
| | Hershey - GC Smith WTP | \$45.00 |
| | Huntsville | \$18.00 |
| | Indiana | \$27.50 |
| | Kane | \$25.00 |
| | Kittanning | \$25.00 |
| | Milton Filter | \$20.00 |
| | Montrose | \$18.00 |
| | Nesbitt | \$18.00 |
| | New Castle | \$30.11 |
| | Norristown | \$45.00 |
| | Octoraro | \$41.66 |
| | Penn Argyle/Stoney Garden | \$41.66 |

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Kenneth Rubin

| Guard Costs in 2004 by American Water Utility | | |
|--|-------------------------|---------------------------|
| State | Facility | \$/hr. - Guard |
| | Philipsburg | \$27.00 |
| | Pocono Water Facilities | \$20.00 |
| | Punxsutawney | \$33.50 |
| | Rock Run | \$41.66 |
| | Lake Scranton | \$18.00 |
| | Shady Lane | \$41.66 |
| | Silver Spring WTP | \$45.00 |
| | Susquehanna | \$15.50 |
| | Watres WTP | \$18.00 |
| | White Deer Filter | \$20.00 |
| | Yardley | \$39.00 |
| | Yellow Breeches | \$45.00 |
| | | |
| | | |

Average = \$29.33

Max = \$47.00

Min = \$14.50

Median = \$30.00

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Kenneth Rubin

31. Refer to the Direct Testimony of Dr. Kenneth Rubin. Restate Schedule 7 based solely on information from the 92 American Water systems.

Response:

Schedule 7 includes total security costs and the data for 92 American Water systems includes only hourly costs for guards. Accordingly, it is not possible to restate Schedule 7 based solely on information from the 92 American Water systems.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Richard C. Svindland

32. Refer to Kentucky-American's Response to Commission Staff's Third Set of Information Requests, Item (34)(a) and (b).
- a. State for the period from September 12, 2001 to August 19, 2003, the number of guards and the times of their posting for the following locations:
 - (1) Lock and Dam Number 9.
 - (2) Kentucky River Water Treatment Plant.
 - (3) Richmond Road Water Treatment Plant.
 - b. Explain why Kentucky-American required two years to conduct its own analysis of vulnerability to terrorist threats and take countermeasures necessary to reduce the number of guards needed to secure the guarded locations.
 - c. Explain why Kentucky-American considers the length of time that it took to conduct a vulnerability analysis and employ necessary countermeasures is reasonable and prudent.

Response:

- a. One LFUCG police officer 24 hours per day 7 days a week at Lock and Dam Number 9. One LFUCG police officer 24 hours per day 7 days a week at Kentucky River Water Treatment Plant. One LFUCG police officer 24 hours per day 7 days a week at Richmond Road Water Treatment Plant. Total of 3 LFUCG police officers 24 hours per day 7 days per week from 9-12-01 to 8-19-03.
- b. After September 11, 2001, KAW took immediate action to secure its facilities. This involved the use of armed police officers at three locations considered to be vital and potentially vulnerable. During the months following September 11, water utility

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Richard C. Svindland

professionals started the process to determine what were the appropriate levels of security needed at American's water treatment facilities. On June 12, 2002, the President of the United States signed the Public Health Security and Bioterrorism Preparedness and Response Act (PL. 107-188). Section 1433(a) of this act requires certain water systems to complete a Vulnerability Assessment (VA), certify that it has been completed to the US EPA, and submit a copy of the VA to the US EPA. In January 2003, the US EPA finalized guidelines for preparation of a VA and issued an addendum to those guidelines in October 2003. Under the act, water systems serving more than 100,000 people had to complete and submit their VA's by March 31, 2003. During 2002 and the first part of 2003, KAW employees along with other American Water employees and water professionals all across the United States were attending workshops on methodologies and approaches to the security problem.

Upon the completion of the EPA guidance manual for VA's in January 2003, KAW started and completed its VA as required by law. This VA was submitted to EPA at the end of March 2003. Once the VA was complete, KAW was in a position to start to look at the decisions that were made on 9-12-01 and start a plan to reduce costs while maintaining a level of security, which was consistent with the recently completed VA. On August 19, 2003 after further security items were completed and tested, the LFUCG Police officers were replaced with unarmed security guards.

- c. KAW considers the time to complete the VA and countermeasures reasonable because the EPA guidelines for the VA were completed in January 2003. KAW completed its VA within 2 months, digested the results, started preparation of the EPA required Emergency Response Plans for each of its identified critical assets and by August was able to make the change from LFUCG Police Officers to unarmed security guards.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Richard C. Svindland

33. Refer to Kentucky-American's Response to Commission Staff's Third Set of Information Requests, Item 33. For each location in question, state the forecasted number of hours and the forecasted number of guards that will be posted daily.

Response:

One guard will be posted at the main gate to the Richmond Road Office Complex, Monday through Friday from 7 AM to 7 PM for a total of 60 hours per week. One guard will be located within the main office building at 2300 Richmond Road, 24 hours a day, 7 days a week for a total of 168 hours per week. This guard is responsible for monitoring our facilities via security cameras located throughout our facilities. Total hours per week are 228.

The costs included in this rate case, however, are not for an additional 228 hours per week of security guard coverage but are for 188 additional hours per week since KAW already had costs for a security guard to work the main office building 40 hours per week in its rates.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Richard C. Svindland

34. Refer to the Direct Testimony of Dr. Kenneth Rubin, Schedule 3. Explain why there are no deferred guard fees from August 19, 2003 to September 12, 2003.

Response:

The dates listed were based on review of the KAW's general ledger (G/L). August 19, 2003 represents the G/L date for the final payment to Alliance Staffing for the off duty Lexington Police Officers. September 12, 2003 represents the first G/L date for the first payment made to Murray Guard for services it provided between 8/15/04 and 8/21/04. There were no days in which a guard or police officer did not work between August 19, 2003 and September 12, 2003. Any seeming break in service is due to a timing issue with payments only.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Richard C. Svindland

35. Describe the process through which Kentucky-American obtained the services of Alliance Staffing and Murray Guard.

Response:

After September 11, 2001, KAW contracted directly with LFUCG to use off duty police officers to guard its facilities. In March 2002, LFUCG indicated that it would no longer be able to contract with KAW directly due to manpower and overtime issues associated with administering the 24 / 7 coverage of three sites.

Upon notification that LFUCG would not contract with us directly, KAW immediately contacted Alliance Staffing, a staffing company it had used in the past, to see if they would take over the responsibility of providing off duty officers to guard our facilities. KAW did not want to solicit for these services directly, fearing that it could compromise security, thus KAW negotiated with Alliance Staffing exclusively.

Murray Guard had previously done work for KAW prior to September 11, 2001, providing e guard services for the lobby during business hours and patrolling some of KAW's properties after hours and on weekends. KAW had a well established relationship with Murray Guard and chose to negotiate with them exclusively. This was also done to avoid compromising security by letting many different firms know what we were doing.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

36. Refer to the Direct Testimony of Dr. Kenneth Rubin, Schedule 3. Provide for each listed item that was capitalized as utility plant in service, a calculation of the average depreciable life weighted on the cost of the asset to total. The calculation shall include a description of each asset, its cost and depreciable life.

Response:

See the attached schedule. For the electronic version please refer to KAW_R_PSCDR4#36_attachment_110304.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

37. Provide a comparison of budgeted to actual OPEB expenses for the years 1999, 2000, 2001, 2002, and 2003.

Response:

| | <u>Actual</u> | <u>Budgeted</u> |
|------|---------------|-----------------|
| 1999 | \$577,989 | \$478,478 |
| 2000 | 437,463 | 517,541 |
| 2001 | 498,823 | 511,438 |
| 2002 | 493,066 | 524,866 |
| 2003 | 670,966 | 560,743 |

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

38. a. Describe the procedures and assumptions that Kentucky-American routinely uses for its annual budgeting of OPEBs.
- b. Describe the procedures and assumptions that Kentucky-American uses to budget OPEBs for a forecasted test period for rate-making purposes.
- c. If Kentucky-American uses different procedures or assumptions, explain why differing procedures or assumptions are used.

Response:

38. a. The Company provided the basis for its 2004 OPEB's in the response to KAW_R_AGKYDR1#75_attachment_062504.pdf on pages 78 and 79. This estimate provided by the Company's actuary, Towers Perrin. The estimate was based on the 2003 actuarial study updated for the assumptions listed on page 79. The Company increased this estimate by the 9% increase listed on page 79 for 2005. The issue of whether the 9% increase used for 2005 was addressed in the rebuttal testimony of Michael A. Miller at pages 38 and 39.
- b. The procedures are the same for budgets and forecasted test-year filings. Please see response to subpart (a) above.
- c. See subpart (b) above.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

39. At page 42 of his Rebuttal Testimony, Michael A. Miller refers to "\$117,525 of management fee costs associated with business development." Describe in detail these costs.

Response:

Salary, salary overheads, and incidental expenses of the business development employees in the SE Region office who performed functions directly related to business development activities in Kentucky on behalf of Kentucky American Water.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

Michael A. Miller

40. At page 42 of his Rebuttal Testimony, Michael A. Miller states that “[t]he Company is required to expend cash at the statutory federal tax rate for the federal tax liability generated from the taxable income of the Company.” Explain.

Response:

The quotation in this question can not be found on page 42 of the Rebuttal Testimony of Michael A. Miller. The referenced statement is located on page 45. The testimony of both Mr. Miller and Mr. Warren cover this topic extensively. The Company does participate in a consolidated federal income tax return with the other American Water subsidiaries and each subsidiary with taxable income records its current tax expense and makes payments for that current expense as if it were a stand alone entity for tax purposes. As explained by the Company in its rebuttal testimony, the only manner in which the Company could benefit in the filing of a consolidated tax return is if it were to have a taxable loss and could then receive an immediate refund of federal income taxes versus waiting to apply that loss against a future tax liability if it were a stand alone tax payer.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

James Salser

41. State whether Kentucky-American agrees with off-setting the daily requirement with the items listed in the Direct Testimony of Andrea C. Crane at Schedule ACC-8 and 8-A. Explain.

Response:

41. No. The Company's rebuttal on working cash is provided in the rebuttal testimony of James E. Salser. On Schedule ACC-8, the Company takes exception with Ms. Crane's recommendation regarding lag days for the Service Company costs, elimination of depreciation expense (line 19) from the calculation as fully described in Mr. Salser's rebuttal testimony, and the amount on line 30 for net income. Mr. Salser was unable to determine the calculation of the net income in the amount of \$7,488,982. Regarding Schedule 8-A the Company disagrees with items on line 1 through 5 because the Company has filed rebuttal testimony which will have an impact on each of these items 1 through 5. The only thing that Mr. Salser will agree to is that the (\$2,368,903) divided by 365 days equals (\$6,490).

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

James H. Vander Weide

42. Refer to Rebuttal Testimony of Dr. James H. Vander Weide at 16. Provide all studies, reports, and analyses upon which Dr. Vander Weide based his statements regarding short-term interest rates in response to Question 37.

Response:

The request for “all studies, reports, and analyses” is overly broad because it would not be possible to provide all studies, reports, and analyses that support Dr. Vander Weide’s statements regarding short-term interest rates. Notwithstanding, Dr. Vander Weide’s statements regarding short-term interest rates in response to Question 37 are based on his observation of market interest rates over the last several years and his professional judgment as an expert in corporate finance over the last 30 years. Specifically, it is Dr. Vander Weide’s judgment that it is less risky for a company to choose a financing mix that matches the average maturity of its debt with the average expected life of its assets.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S FOURTH SET OF INFORMATION REQUESTS
ITEMS 1-43

Witness Responsible:

James I. Warren/Michael A. Miller

43. In Case Number 2001-00092, [2] the Commission allowed the use of an effective state income tax rate that was lower than the statutory rate as a result of allocating losses of non-regulated entities to Kentucky operations. State how the AG's proposed treatment of federal taxes in this case differs from the Commission's ruling in that case.

Response:

Case Number 2001-00092 adopted the use of an effective Kentucky state tax rate. It did not adopt the use of an effective federal tax rate. The two are very different. In a federal tax context, each of the group members has an independent obligation to pay federal tax whether or not a consolidated return is filed. This is most often not so in a Kentucky state tax context. Also, federal tax responsibility is often (but not always) a function of a single variable – taxable income or loss. Hence, the assignment of responsibility is relatively straightforward. In a consolidated Kentucky state tax return, the computed tax due is a function of multiple variables. These include sales, property, payroll and, of course, taxable income. Consequently, assigning tax responsibility is much more problematic.

² Case No. 2001-00092, Adjustment of Gas Rates of The Union Light, Heat and Power Company (Ky.PSC Jan. 31. 2002).