

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
HEARING DATA REQUESTS
ITEMS 1-28

Witness Responsible:

Michael A. Miller

1. (Staff)

Provide, in addition to Illinois-American Water Company, the identification of all American Water Works subsidiary companies who utilized competitive bidding for security guards.

Response:

Long Island Water Company

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Witness Responsible:

Sheila Valentine

2. (Staff)

Provide a copy of the service company bills to Kentucky-American Water Company from January through December, 2003.

Response:

See attached copies. For the electronic version, please refer to the following files:

KAW_R_HDR1#2_attachment1_112204.pdf

KAW_R_HDR1#2_attachment2_112204.pdf

KAW_R_HDR1#2_attachment3_112204.pdf

KAW_R_HDR1#2_attachment4_112204.pdf

KAW_R_HDR1#2_attachment5_112204.pdf

KAW_R_HDR1#2_attachment6_112204.pdf

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Witness Responsible:

Sheila Valentine

3. (Staff)

Provide a copy of the Excel spreadsheet of service company charges given to Pat Baryenbruch along with an explanation of the codes in the spreadsheet.

Response:

See electronic file KAW_R_HDR1#3_attachment_112204.xls which is the Excel spreadsheet requested and which includes a description of the various codes in the spreadsheet.

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Witness Responsible:

Mike Miller

4. (LFUCG)

Provide the name of the entity that paid for the direct mailing to Kentucky-American Water customers with the headline "Life under a microscope," LFUCG Hearing Exhibit No. 1.

Response:

Moriah Group with reimbursement by American Water Works Co., Inc.

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Witness Responsible:

Sheila Valentine

5. (Staff)

The forecasted test year advertising expense has been corrected to be \$134,704. Was the original number supplied by the company a calculation error? If not, please explain.

Response:

The original filing included \$134,704 for advertising expense in work paper 3-13, page 1 of 7, and this is the amount included in the requested revenue requirement. Schedule F had an incorrect amount listed for forecasted advertising. PSC data request number 4, item 22, details the forecasted amount.

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Witness Responsible:

Linda Bridwell

6. (Staff)

Please provide the number of rental property accounts master metered in the name of the landlord.

Response:

This is not information that the Company normally tracks, but to the best of our ability we have been able to identify 955 accounts comprising a total of 28,892 units.

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Witness Responsible:

Linda Bridwell

7. (Staff)

Provide the level of preventive maintenance costs and any other costs that were reduced as a result of diversion of monies to security expenditures.

Response:

Maintenance expenditures were less than the budgeted amounts in 2002 and 2003. The response to the Commission Staff's Fourth Data Request, Item 8, shows the difference between 2001, 2002 and 2003 budgeted and actual maintenance to be \$83,007 more spent than budgeted in 2001, \$10,728 less in 2002 and \$192,231 less in 2003. Actual maintenance costs in 2002 were \$200,574 less than actual 2001 costs, and were budgeted to be \$205,839 less. Since the actual expenditures in 2002 were within 99% of the budgeted amount, the difference is unremarkable. The difference in 2003, \$192,231, is reflective of the reality that Kentucky American simply did not have the necessary people on staff to provide the needed security protection measures that were required in-house and the budgeted maintenance at the same time. Money was not diverted from maintenance expense; rather people were reassigned duties which necessarily meant that some budgeted work would have to be performed later.

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Witness Responsible:

Linda Bridwell

8. (FLOW)

Identify the owner of postage permit Nos. 269, 850 and 1461.

Response:

Permit No. 1461 is the only one of the three owned by Kentucky American Water.

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Witness Responsible:

Michael A. Miller

9. (Staff)

Provide Kentucky-American's per customer residential and commercial usage for the 12 months ending September 30, 2004.

Response:

See attached spreadsheet. For the electronic version, please refer to KAW_R_HDR1#9_attachment_112204.pdf.

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Witness Responsible:

Michael A. Miller

10. (Staff)

Provide a list of jurisdictions that have discussed in an order the allowance or disallowance of the recovery of depreciation expense in a lead-lag study along with a copy of the orders.

Response:

California American Water – See the attachment identified as KAW_R_HDR1#10_attachment1_112204.pdf. The California Commission has issued a Standard Practice U-16-W that is used in determining the working cash allowance. The California practice indicates the use of a lead lag study including depreciation at a 0 lag day.

New Jersey American Water – Case Number BPU No. WR03070511 – NJAWC and the Staff both include depreciation in the lead/lag study at 0 days for purposes of determining the working cash allowance. The Order in this case includes a black box settlement that does not address the specifics of the working cash allowance. However, in all past cases, both the Company and Staff have included depreciation in the lead/lag study in arriving at the stipulated revenue requirement.

Kentucky American Water – Order dated November 19, 1993 in Case No. 92-452, portions of which are attached as KAW_R_HDR1#10_attachment2_112204.pdf.

Long Island Water Co. – New York Commission uses a formula approach to working cash, no lead lag study performed.

Illinois American Water – In past cases the Illinois Commission has used a formula

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Michael A. Miller

approach to working cash, no lead lag study performed. In the most recent rate case the Commission ordered the Company to provide a lead/lag study in its next general rate case but the Order does not address any specific method or items to be included in the study.

Virginia American Water – Both the Company and the Commission Staff include depreciation in the lead/lag study used to determine working cash. This has been a long established practice in Virginia and the Company could not locate an Order specifically addressing the subject of depreciation. Please see the attachment titled KAW_R_HDR1#10_attachment3_112204.pdf which is the Staff lead/lag study exhibit in Case Number PUE-2003-00539.

Tennessee American Water - The Company includes depreciation in the lead/lag study used to determine working cash. The Staff or AG made no adjustments to the Company's working cash request in the latest rate case. This has been a long established practice in Tennessee and the Company could not locate an Order specifically addressing the subject of depreciation. Please see the attachment titled KAW_R_HDR1#10_attachment4_112204.pdf which is the Company's lead/lag study exhibit in Case Number 03-00118.

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Witness Responsible:

Michael A. Miller

11. (Staff)

Provide a calculation, along with appropriate work papers, of the effective tax rate of American Water Works Company for 2001, 2002 and 2003.

Response:

Please see attached schedule KAW_R_HDR1#11_attachment_112204.pdf. The federal income tax rate for American Water Works/TWUS is 35% of the taxable income of the consolidated group. The attached schedule provides the taxable income by subsidiary for 2001-2003. The term "effective tax rate" in the context of the testimony of Ms. Crane is not present in any document available to the Company. As indicated in the testimony of Mr. Warren and Mr. Miller, the term "effective tax rate", as used by Ms. Crane, is a calculated number that, in the opinion of the Company, is inappropriately generated by a handful of regulatory jurisdictions (4 based on the Company's testimony) to take the tax benefit generated in another regulatory jurisdiction or by an unregulated entity where a taxable loss may occur (which loss has no impact on the cost of service of a regulated company) and to inappropriately reflect it in the cost of service of a regulated company. This type of regulation inappropriately understates the cost of service of a company in which an effective federal income tax adjustment is applied for ratemaking purposes and provides an illegal cross subsidization between regulated jurisdictions and between regulated and non-regulated operations. The benefit mentioned by KAWC and American Water in the "Change of Control" case (2002-00317) refers to the administrative and accounting costs associated with maintaining one tax department and the preparation of one consolidated federal income tax return versus preparing individual tax returns for each subsidiary.

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It is further noted that even within the regulatory jurisdictions where American Water has inappropriately had consolidated tax adjustments applied, there is no clear cut method on which to calculate such an inappropriate adjustment. New Jersey uses a method, so Kentucky American understands, that applies the adjustment as a rate base adjustment subject to reversal over time, Pennsylvania uses a five year average, and West Virginia uses a three-year average but has included only the Parent Company and Greenwich Holding Company (not currently in existence) tax losses in determining the effective federal income tax rate explicitly excluding the tax losses of non-regulated subsidiaries.

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Witness Responsible:

Sheila Valentine

12. (Wuetcher)

Please identify the account number to which security guard services that were used prior to 9/11/01 are currently charged.

Response:

Prior to 9/11/01 security guard services were charged to account 535000.16 Contract Other Services, AWW account 923500.

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Michael A. Miller

13. (AG)

Provide the number of customers for the operating companies in Texas, Pennsylvania, West Virginia and New Jersey.

Response:

Texas – 5,190

Pennsylvania – 622,623

West Virginia – 165,229

New Jersey – 383,222

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Witness Responsible:

Linda Bridwell

14. (LFUCG)

Provide the percentage of public hydrants owned by Kentucky-American Water Company charged to the LFUCG.

Response:

94.5%

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Witness Responsible:

Michael A. Miller

15. (Staff)

Provide the names of the employees of the Southeast Region who provide services to Kentucky-American Water Company.

Response:

See response and attachment to KAW_R_HDR1#16_112204.

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Witness Responsible:

Michael A. Miller

16. (Staff)

Provide a schedule of and the charges for services to be provided by the Southeast Region during the forecasted test year to Kentucky-American Water Company including the payroll costs of each individual providing service and a description of the service.

Response:

Please see attachment KAW_R_HDR1#16_attachment_112204.pdf. This schedule provides the American Water Works Service Company– SE Region (“AWWSC-SER”) employees that will charge time to KAWC on a regular basis. There are other employees located in PA, WV, TN, VA, and MA who have been transferred to AWWSC-SER but whose time will be predominantly charged to the operating subsidiary where they are located. Those employees would only charge KAWC if there were special technical skills required or an emergency situation dictated the need for their services. The major reason for the increase in local employees being moved to AWWSC-SER is to simplify the accounting system and to facilitate time and expense charges to the expanded regional subsidiaries and to facilitate charging non-regulated subsidiaries without time consuming and cumbersome inter-subsiary invoicing.

Mr. Miller explained in his testimony that the forecasted test-year management fees were determined by using the 2003 actual management fees charged to KAWC as a base, annualizing the customer care center charges that began in October, 2003, and using an inflation factor of 2.5% for both 2004 and 2005. The Company believes, as its testimony in this case indicates, that the level of management fees requested in this case is reasonable, if not conservative. The attached schedule reflects the AWWSC-SER employees who were

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Michael A. Miller

active in the base period, provides any change in title for those employees that may have occurred due to the reorganization, and indicates any of those employees who have left or retired from the AWWSC-SER. The schedule also indicates those employees who have been added to the AWWSC-SER as part of the expanded region and who are likely to make charges to KAWC on a regular basis.

As Mr. Miller testified, the Company does not budget management fees to each subsidiary by employee. The Company determines the budget by AWWSC office and then allocates those costs to each subsidiary based on historical ratios determined from allocations based on customer count and direct charges.

KAWC believes as indicated in the testimony that the savings from movement of former KAWC employees (Bridwell & Svindland) to AWWSC-SER, the lower number of employees at AWWSC (Charleston, WV Office), the additional AWWSC-SER charges that will be made to non-regulated subsidiaries who are now under management of the AWWSC-SER, and the impact of including over 600,000 Pennsylvania American customers in the AWWSC-SER formulas will provide a break-even on the management fees (net of KAWC labor) charged to KAWC. KAWC's customer percentage of AWWSC-SER charges prior to inclusion of PAWC in the region was 26.8% and after inclusion of PAWC the percentage will be 10.5%.

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Witness Responsible:

Michael A. Miller

17. (Staff)

Same as the preceding data request except provide the information for corporate division.

Response:

Please see attached schedule titled KAW_R_HDR1#17_attachment_112204.pdf. The Company does not budget the time and expenses charged to KAWC for each Corporate Service Company employee. The Company determines the budgeted cost for the entire center and allocates those costs to each subsidiary based on historical ratios using customer count and levels of direct charges. The Company does not expect any significant change in allocation of the Corporate Service Company charges for 2005. The organization is now structured to manage the Company through its functional departments by determining best practices across the subsidiaries and placing those best practices and best technological advancements uniformly through the regulated subsidiaries to continue the Company's record of excellent customer service in the most efficient and cost effective manner. The responses to LFUCG1#17, #18, and #19 provide a comprehensive discussion of the current organization of American Water, American Water Works Service Company, and the SE Region. Those responses also provide a detailed discussion of the organization and its efforts to promote excellent service through use of best practices and technology to operate in the most efficient and cost effective manner possible.

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Witness Responsible:

Michael A. Miller

18. (Staff)

Referring to PSC Data Request No. 4, Item 28, the attachment thereto, what was the level of security costs prior to the beginning of amortization for Arizona-American, California-American, E-town, Illinois-American, Michigan-American, Hawaii-American and New Mexico-American?

Response:

California American – Did not defer security expenses. Due to the predominance of purchased water in California, the Company did not have significant O&M security expense and focused its security efforts on capital items which have been included in rate base.

Hawaii American – this subsidiary provides waste water service and had no significant O&M security expenses.

Michigan American – This subsidiary's rates are not regulated by the Michigan Commission therefore no deferral under FAS 71 would be allowed or appropriate.

Illinois American – The Company deferred \$12.282 million. The Illinois Commission has denied rate recovery, however the Company has appealed this Order and that appeal is currently under consideration.

New Mexico American – This system is supplied by wells. The Company did not have significant O&M security expense and focused its security efforts on capital items which have been included in rate base.

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Michael A. Miller

Elizabethtown/Mt. Holley Water Co. – Due to the nature of these operations which purchase a significant portion of there raw water and utilize well systems the magnitude of O&M security expend was not significant and no deferral occurred. The Company focused its security efforts on capital items which have been included in rate base.

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Witness Responsible:

Michael A. Miller

19. (Staff)

Refile the attachment to the PSC's Fourth Data Request, Item 28, and show the allowance for or denial of rate base treatment for unamortized security costs by appropriate regulatory commission in the ratemaking process.

Response:

See attachment titled KAW_R_HDR1#19_attachment_112204.pdf.

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Witness Responsible:

Michael A. Miller

20. (Staff)

Explain the variances as shown in PSC's Fourth Data Request, Item 37, of the OPEB's for the years 1999-2003.

Response:

The variances referenced in the request are driven by a number of factors. The Company in response to KAW_R_PSC4#38 described the method for budgeting and determining the forecasted test-year level of OPEB expense. The variances are related to a number of financial market factors such as discount rate and plan earnings. The actuarial report for each year utilizes the market driven discount rate which will vary from the estimate. The Plan earnings also reflect actual results and contribute to the variance as do changes in the trends for medical cost increases. Because of the multiple factors involved it is difficult if not impossible to determine the impact of each of these factors. The timing of forecasted acquisitions included in the budget also account for variances as do the timing of filling vacancies. The attached schedule KAW_R_HDR1#20_attachment_112204.pdf indicates the percentage of KAWC participants each year to the total American Water participants. A portion of the variance in 2002 is attributable to the timing difference of the acquisitions of Tri-Village and Elk-Lake versus the budget. The attached schedule also indicates the O&M versus capital amounts of OPEB expense. In 1999 the Company did not capitalize any OPEB expense as a payroll overhead. After discussion across American Water the decision was made in 2000 that it was appropriate to capitalize a portion of OPEB expense as a payroll overhead. A portion of the variance in 2000 is attributable to the change in accounting procedure since the capitalization of OPEB expense was not budgeted. As indicated in the last column of the attached schedule the capitalization rate has fluctuated

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slightly depending on the level of construction and this too has contributed to the variances.

The Company maintains its position as given in testimony that the level of OPEB expense included in the forecast test-year is proper based on the expected actuarial update, the 2005 expected increase, and the proper capitalization rate.

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Witness Responsible:

Michael A. Miller

21. (Staff)

Provide an explanation of the process used by Kentucky-American Water Company to budget OPEB's during its routine budget process and for the forecasted test year. Identify any differences in these processes. Explain why the processes differ.

Response:

The process used to budget OPEB's is exactly the same process used to forecast OPEB's for the forecasted test year in this case. The Company's actuarial estimate is updated by the basic economic assumptions (discount rate, expected annual return on assets, annual compensation increase and health care cost trend), as they may have changed, and the product is thereafter used for all company purposes (budgeting and forecasting for rate cases.)

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Witness Responsible:

Michael A. Miller

22. (Staff)

Provide a copy of the Towers Perrin Report when available and its effect on forecasted costs.

Response:

The 2004 actuarial reports are not available as of this date and are not expected to be completed until late December or early January 2005. The Company will file the requested documents once that are made available to the Company.

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Witness Responsible:

Michael A. Miller

23. (Staff)

Provide a description of the services provided to Kentucky-American Water Company for the business development costs of \$117,525 shown in the PSC's Fourth Data Request, Item 39.

Response:

During the base-year the business development costs were predominantly related to the time and expenses of Coleman Bush and James Hamilton. A significant portion of these charges related to developing the acquisition models and negotiations for the Owenton acquisition, completing integration of Pineville and Bluegrass Station, and preliminary analysis and modeling for other potential regulated acquisition activities in Kentucky. In addition, duties included attending town and water association meetings and water industry meetings to make further contacts. While the entire salaries and expenses are captured in the Business Development Cost Center, the Business Development employees assist in preparation of O&M and capital budgets, rate cases, and other financial and accounting duties as time permits.

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Witness Responsible:

Michael A. Miller

24. (Staff)

Provide a better description for the entries recorded on the Second PSC's Data Requests, Item 76(a), than those provided in the PSC's Third Set of Data Requests, Items 25 and 27.

Response:

The explanations of the entries given in the PSC's Third Set of Data Requests, Items 25 and 27 provide the detail of the types of charges that were applied to the deferred Customer Care Center and the Shared Services Center accounts. Attached is a reconciliation of both accounts. For electronic version, refer to KAW_R_HDR1#24_attachment_112204.pdf. The authorizations referenced on these reconciliations can be traced back to the service company detail provided in Hearing Data Requests item 3. The "master download" tab on that CD has a column titled "subledger" and the authorizations can be found under that column which will detail the individual charges. The Service Company Bill invoices for service company labor time, overheads, consulting services, and miscellaneous items. The only information currently available is that two of the authorizations shown on the attached reconciliation are for the service center and customer care center project and the other two are for the service center and call center regulatory assets. Kentucky American monitors the level of billings for these charges against the budgeted amounts and has found them to be reasonable. Additional detail for the charges is not available within the time frame required for the answers to the hearing data requests.

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Witness Responsible:

Sheila Valentine

25. (Staff)

Provide an explanation and identify how the Boonesboro sewer expenses were eliminated for the forecasted test year.

Response:

Boonesboro sewer expenses are maintained in our accounting system as a separate business unit and segregated from other costs. This includes actual charges as well as budgeted data. When reporting from our JDE financial system, one can eliminate specific business units. This business unit was eliminated from all downloads of information out of our system when initial data and forecasted data was gathered.

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Witness Responsible:

Sheila Valentine

26. (Staff)

Provide an explanation of the variance in the monthly depreciation expenses shown on page 2 of Work Paper 1-3 and page 1 of Work Paper 4-1.25.

Response:

Work paper 4-1 has the correct balance. The monthly depreciation expenses shown on page 2 of work paper 1-3 is missing the detail for account 304300 WT Structures and Improvements.

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Witness Responsible:

Michael A. Miller

27. (Staff)

Provide an up-to-date list of the officers of Kentucky-American Water Company and identify their principal place of employments.

Response:

See attached. For the electronic version, please refer to
KAW_R_HDR1#27_attachment_112204.pdf.

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Witness Responsible:

Michael A. Miller

28. (LFUCG)

Provide a corrected Exhibit No. 6 to the rebuttal testimony of Michael A. Miller.

Response:

See revised Rebuttal Exhibit MAM-6 attached. For the electronic version, please refer to KAW_R_HDR1#28_attachment_112204.pdf.

Please note as included in the testimony of Michael A. Miller, that the projected numbers for 2004 and 2005 were prepared during 2003 and are not reflective of current conditions, nor have they been adjusted for the extensive review of the Company and Dr. Sptiznagel that resulted in the normalized sales utilized in the Company's filing in this case.