

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION DATA REQUEST NO. 1
ITEMS 1 – 34

Witness Responsible:

M. Miller

18. List separately the budgeted and actual number of full- and part-time employees by employee group, by month and by year, for the five years immediately preceding the base period, the base period, and the forecasted period.

Response:

Please see attached.

For electronic version, see [KAW_R_PSCDR1#18_052004.pdf](#)

Kentucky American Water Company Case No. 2004-00103
PSCDR1#18
(Pineville Employee not included)

	Jul 00		Jun 00		May 01		Apr 00		Mar 00		Feb 00		Jan 00		Dec 99		Nov 99		Oct 99		Sep 99		Aug 99		
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	
Adm & Gen.	31	34	29	34	29	34	30	34	30	34	30	34	30	34	30.5	39	30.5	39	34.5	39	34.5	39	34.5	39	
Total	143	150	145	150	144	150	144	150	144	150	145	150	144	150	143.5	158	142.5	158	146.5	155	146.5	155	147	156	
2000																									
Production	31	34	30	34	30	34	30	34	30	34	29	33	29	33	29	33	31	33	30	33	31	33	31	33	
Distribution	82.5	86	82.5	86	83	86	85	86	85	86	87	86	88	86	86	85	86	85	86	85	85	85	85	84	85
Adm & Gen.	34.5	39	34.5	39	34	39	38	39	38	39	38	39	39	39	38	38	38	38	37	38	36	38	36	38	38
Total	148	158	147	156	147	156	148	156	154	156	154	154	156	154	153	156	153	156	153	156	152	156	151	156	156
1999																									
Production	30	33	30	33	30	33	30	33	30	33	30	33	31	33	30	34	30	34	30	34	30	34	30	34	34
Distribution	84	85	84	85	85	85	85	85	85	85	82	85	82	85	83	85	83	85	83	85	83	85	83	85	85
Adm & Gen.	36	38	38	38	37	38	37	38	37	38	37	38	38	38	38	38	38	38	38	38	38	38	38	38	38
Total	150	156	152	156	152	156	152	156	152	156	149	156	151	156	151	157	151	157	151	157	151	157	151	157	157

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ITEMS 1-123

Witness Responsible:

Dr. Edward L. Spitznagel

49. Refer to Direct Testimony of Dr. Edward L. Spitznagel at 4.
- a. Describe how Dr. Spitznagel's projections of residential and commercial customer daily utilization in this proceeding compare to those in previous proceedings before this Commission.
 - b. Describe the developing trends in average daily utilization, if any, that Dr. Spitznagel finds from his modeling.
 - c. State the implications of these developing trends, if any, on Kentucky-American's costs of production and revenues from water sales.

Response:

- a. For residential utilization, the four estimates were:
 - Oct1997-Sep1998: 184.82 Gal / Cust Day
 - Jan2000-Dec2000: 184.66 Gal / Cust Day
 - Dec2000-Nov2001: 183.94 Gal / Cust Day
 - Dec2004-Nov2005: 165.42 Gal / Cust Day

In all four predictive models, there was a statistically significant negative time trend, meaning that if all other variables were to remain the same, utilization would decrease year after year. Among the first three estimates, there is indeed a slight decrease, but not as large as would be expected by the size of the regression slope coefficients. The explanation for the decrease being smaller than expected is that the thirty-year average weather used as the reference fluctuates from year to year. For the first estimate, the thirty-year average of the May-through-December PDSI's was 0.64 (for 1967-1996), which is the highest (wettest) value in eighty years. For the

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remaining three estimates it declined, becoming 0.59 for 1969-1998, 0.51 for 1970-1999, and 0.40 for 1974-2003. As a consequence, the decreasing use projected over time was offset by the precipitous change from 0.64 to 0.51 over just three years. That is, the increasing dryness of the "average weather" tended to make the projected utilization increase, while the negative slope of the year variable tended to make the projection decrease, and these two almost canceled each other to yield net projections that were nearly constant.

In the four years between the third and fourth projections, the change in average PDSI was only -0.0275 per year, which, while still negative, has a lesser effect in canceling out the time trend. In addition, the negative slope of the year variable was estimated to be much larger over the last seven years, approximately -3.29 GCD averaged over 12 months, than the -0.76 GCD averaged over 36 months from the three previous weather normalizations combined. Two factors could have contributed to this change. The first is that the Lexington region experienced a severe drought in the summer of 1999, which led to water conservation and continuing conservation promotion by Kentucky-American subsequent to that event. The second is that the number of customer bills increased from 78,217 in December of 1996 to 97,718 in December of 2003, a 25% increase in customer base. The majority of these were not due to acquisition of other water companies but to additional houses and apartments being built in the area. All new construction in this period would have been required to have the newer water-conserving fixtures, such as toilets that use 1.5 gallons per flush, less than half that used by older toilets.

In fact, an examination of utilization during the four non-weather sensitive months of

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January through April reveals that utilization during those months decreased at a rate of -2.77 GCD from 1997 to 2003. Therefore, it appears that the introduction of water conserving fixtures was the larger contributor to the decrease in utilization.

For commercial utilization, the four estimates were:

Oct1997-Sep1998: 1549.69 Gal / Cust Day (average from monthly and quarterly bills).
Jan2000-Dec2000: 1553.14 Gal / Cust Day
Dec2000-Nov2001: 1553.43 Gal / Cust Day
Dec2004-Nov2005: 1385.52 Gal / Cust Day

In the first three predictive models, a statistically significant time trend did not exist, meaning that if all other variables were to remain the same, utilization would remain the same year after year. Indeed, the first three estimates are virtually identical. In the fourth model, there was a statistically significant time trend of -22.05 GCD.

An examination of utilization during the four non-weather sensitive months of January through April reveals that utilization during those months decreased at a rate of -17.34 GCD from 1997 to 2003. Therefore, as with the residential time trend, it appears that the introduction of water conserving fixtures was the larger contributor to the decrease in utilization.

- b. For residential customers, the trend appears to be -3.29 GCD per year, assuming the 30-year average weather remains relatively constant. Of this, the greater part, -2.77 GCD per year (84%), appears to be due to the introduction of water-conserving appliances. Therefore, as long as home and apartment construction in the Lexington

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Witness Responsible:

Dr. Edward L. Spitznagel

region continue at the current rate, the downward trend in utilization should continue at approximately -3 GCD per year.

For commercial customers, the trend appears to be -22.05 GCD per year, assuming the 30-year average weather remains relatively constant. Of this, the greater part, -17.34 GCD per year (79%), appears to be due to the introduction of water-conserving appliances. Therefore, as long as commercial construction in the Lexington region continues at the current rate, the downward trend in utilization should continue at approximately -20 GCD per year.

- c. All other things being equal, a decrease in total demand would translate to a lower total cost of production and lower revenues and since many of Kentucky American Water's costs are fixed, higher rates to cover the variable and fixed costs of service.

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Witness Responsible:

James E. Salser/Coleman D. Bush

50. Refer to the Direct Testimony of James E. Salser at 8-10. For each customer class in which Mr. Salser has made changes to reflect an increase in customers due to normal growth, provide the assumptions used to calculate the number of additional customers, show the calculations used to derive the change, and explain the reasoning for the change.

Response:

Kentucky American Water's customer base has grown consistently for the past several years at approximately 2,500 customers per year. For the residential class, we used a 3-year average of historical growth to project growth for the forecasted period. For the commercial class, we used a six-year average of historical growth to project growth for the forecasted period. Any growth in fire protection customers was based on recent growth history in these classifications.

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Witness Responsible:

Coleman Bush

52. Provide a schedule that lists, by name and title, each of the 133 Kentucky-American employees included in the forecasted test period. Provide on the schedule, separately, the amounts forecasted to be paid to or on behalf of each individual for regular time and overtime, incentive pay plan, 401 K plan and any other labor expense included in forecasted labor costs. Then, show the forecasted allocation or direct assignment of payroll costs to each business unit of Kentucky-American for the forecasted test period. Then, detail on this schedule, the accounts to which each of those amounts are forecasted to be recorded (e.g., capital plant accounts, labor expense accounts, deferred asset accounts for security costs, condemnation case, other system acquisitions). This schedule shall include totals for all amounts listed. The schedule should include but not be limited to total forecasted labor of \$5,140,435, \$158,820, and \$44,408 for Central Division, Tri Village, and Elk Lake, respectively, in full detail.

Response:

See attached schedule. The 401K detail was included in the original filing. See workpapers 3-1 pages 31 through 34. For the electronic file see KAW_R_PSCDR1#1a_WP3_O&MEXPENSES_052004.pdf.

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Emp Name	Last Name	Title	Obj#	Sub	Cap/O&M	Total Hrs	Total Hrs	Incentive	Distri
Central									
T	ADAMS	CAD DRAFTER	184100	0	Capital	1671	31,804		Central
C	ALEXANDER	CREW LEADER	184100	0	Capital	209	3,724		Central
T	ANDERSON	OPR SPECIALIST	184100	0	Capital	2088	39,228	2,898	Central
D	ARY	MAINT SERV SUPV	184100	0	Capital	417	15,932		Central
J	ASHBY	FIELD SERVICE	184100	0	Capital	209	3,904		Central
P	BALLARD	EXEC SEC	184100	0	Capital	313	7,878		Central
D	BRAXTON	DIR HUMAN RESOURCES	184100	0	Capital	313	10,832		Central
L	BRIDWELL	DIR ENGINEERING	184100	0	Capital	2088	88,586	6,544	Central
B	BROWN	DIR COMMUNICATIONS	184100	0	Capital	313	11,333	5,585	Central
R	BRUMFIELD	OPR SPECIALIST	184100	0	Capital	2088	56,789	4,184	Central
R	BUCHANAN	OPR SUPV	184100	0	Capital	417	14,397		Central
W	BUCKNER	OPR SUPV	184100	0	Capital	417	13,594		Central
K	BUEHLER	CREW LEADER	184100	0	Capital	209	3,724		Central
P	BUEHLER	SECRETARY SR	184100	0	Capital	313	5,502		Central
L	BURNS	OPERATIONS SUPERV	184100	0	Capital	418	12,005		Central
T	BYRD	CREW LEADER	184100	0	Capital	209	3,724		Central
S	CARR	LAB ANALYST	184100	0	Capital	417	9,330		Central
C	CLAYBORNE	A&G SERV PERSON	184100	0	Capital	313	5,938		Central
C	COBB	METER READER	184100	0	Capital	11	297		Central
R	COLE	FIN ANALYST - INTER	184100	0	Capital	313	9,526		Central
B	COLLINS	CREW LEADER	184100	0	Capital	209	3,724		Central
J	COUCH	METER READER	184100	0	Capital	731	12,322		Central
R	CRUSE	FIELD SERVICE - SCOTT C	184100	0	Capital	209	3,904		Central
J	DICKSON	EXEC SEC LEGAL	184100	0	Capital	313	6,465		Central
D	FARMER	STOCK CLERK	184100	0	Capital	417	9,121		Central
C	FIELDS	UTILITY	184100	0	Capital	209	3,724		Central
W	FINN	FIELD SERVICE	184100	0	Capital	209	3,904		Central
E	FLOYD	OPR SPECIALIST	184100	0	Capital	2088	42,651	3,151	Central
H	GARRISON	OPR SUPV	184100	0	Capital	417	13,066		Central
D	GRIFFIN	OPR SUPT	184100	0	Capital	417	15,932		Central
D	HALL	CREW LEADER	184100	0	Capital	209	3,724		Central
J	HALL II	FIELD SERVICE	184100	0	Capital	209	3,904		Central
L	HELTON	SECRETARY SR	184100	0	Capital	313	5,567		Central
J	JACKSON	OPR SPECIALIST	184100	0	Capital	417	10,446		Central
D	JOHNSON	WQ SPECIALIST	184100	0	Capital	417	10,383		Central
W	MATTINGLY	OPERATIONS SUPVER	184100	0	Capital	417	12,062		Central
J	MCCLANAHAN	OPERATIONS CLERK	184100	0	Capital	2088	30,765		Central
D	MIREAULT	SECRETARY SR	184100	0	Capital	1671	31,348		Central
M	MOBERLY	EQUIPMENT OPERATOR	184100	0	Capital	376	7,027		Central
C	MOODY	OPERATIONS CLERK	184100	0	Capital	417	7,970		Central
DE	MOORE	FIELD SERVICE	184100	0	Capital	209	3,904		Central
W	MORTON	CREW LEADER	184100	0	Capital	209	3,724		Central
M	MULLINS	MTN SERV SPEC	184100	0	Capital	417	11,828		Central
T	MUNDY	CREW LEADER	184100	0	Capital	209	3,724		Central
R	MUNDY II	PRESIDENT	184100	0	Capital	1044	86,634		Central
D	OWENS	OPR SUPV	184100	0	Capital	417	13,947		Central
D	POINDEXTER	CREW LEADER	184100	0	Capital	209	3,724		Central
J	RHORER	OPERATIONS CLERK	184100	0	Capital	1671	26,269		Central
T	RICHARDSON	FIELD SERVICE	184100	0	Capital	209	3,904		Central
P	ROOKARD	OPR SPECIALIST	184100	0	Capital	2088	42,845	3,165	Central
F	ROSS	DIR LOSS CONTROL	184100	0	Capital	313	9,307		Central

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First Name	Last Name	Title	Object	Sub	Capital/O&M	Total Hrs	Total Hrs	Incentive	District
J	ROUTT	DIR WATER QUALITY	184100	0	Capital	417	17,618		Central
R	SAMUELS	CREW LEADER	184100	0	Capital	209	3,724		Central
D	SHEHEE	WQ SPECIALIST	184100	0	Capital	417	12,483		Central
B	SILER	FIN ANALYST - INTER	184100	0	Capital	313	8,183		Central
P	SLONE	EXEC SEC	184100	0	Capital	313	6,404		Central
JR	SMITH	EQUIPMENT OPERATOR	184100	0	Capital	377	7,046		Central
J	SMITHER	UTILITY	184100	0	Capital	209	3,521		Central
S	STOCKTON	OPR SUPT	184100	0	Capital	627	27,543		Central
R	SVINDLAND	SR OPR ENGINEER	184100	0	Capital	2088	72,457	5,353	Central
P	TACKETT	OPR SUPV	184100	0	Capital	417	11,580		Central
G	TOMKO	ENGINEER	184100	0	Capital	2088	58,284	4,306	Central
V	VACANT 91-crew lead	CREW LEADER	184100	0	Capital	209	3,724		Central
80	VACANT-80-oper eng	OPR ENGINEER	184100	0	Capital	2088	60,000	4,432	Central
S	WALKER	ENGINEER	184100	0	Capital	2088	46,205	3,413	Central
S	WATTS	FIELD SERVICE	184100	0	Capital	209	3,904		Central
F	WHITE	OPR SUPT	184100	0	Capital	2088	70,143	5,182	Central
J	WHITE	OPR SUPV RRS	184100	0	Capital	489	15,476		Central
D	WHITEHOUSE	DIR GOVT AFFAIRS	184100	0	Capital	313	13,541		Central
K	WHITTLE	FIELD SERVICE	184100	0	Capital	209	3,904		Central
G	WILSON	FIELD SERVICE	184100	0	Capital	209	3,904		Central
R	WITHERITE	DISPATCHER	184100	0	Capital	417	7,529		Central
J	YOST	CAD DRAFTER	184100	0	Capital	1671	26,475		Central
J	YOUNG	CREW LEADER	184100	0	Capital	209	3,724		Central
T	ADAMS	CAD DRAFTER	184100	0	Overtime Cap	210	5,982		Central
J	BRADY	METER READER	184100	0	Overtime Cap	8	216		Central
KE	BROWN	METER READER	184100	0	Overtime Cap	7	189		Central
R	HAWTHORNE	METER READER	184100	0	Overtime Cap	11	286		Central
E	MCCULLOUGH	METER READER	184100	0	Overtime Cap	10	270		Central
T	MCFARLAND	METER READER	184100	0	Overtime cap	11	308		Central
E	MOSBY	METER READER	184100	0	Overtime Cap	7	182		Central
J	RHORER	OPERATIONS CLERK	184100	0	Overtime Cap	204	4,797		Central
B	ROSER	METER READER	184100	0	Overtime cap	10	260		Central
94	VACANT-94-meter reader	METER READER	184100	0	Overtime Cap	9	234		Central
J	VIRES	METER TECHNICIAN	184100	0	Overtime Cap	9	272		Central
M	WALTERS	METER READER	184100	0	Overtime Cap	10	280		Central
D	WINER	METER READER	184100	0	Overtime Cap	8	216		Central
G	YOUNG	METER READER	184100	0	Overtime cap	8	208		Central
T	ADAMS	CAD DRAFTER	501200	16	Overtime O&M	114	3,244		Central
R	ASHBY	CSR	501200	16	Overtime O&M	77	1,644		Central
J	BEMISS	TREAT PLANT OPR	501200	16	Overtime O&M	267	7,939		Central
G	BOOKER	TREAT PLANT OPR	501200	16	Overtime O&M	265	7,836		Central
J	BRADY	METER READER	501200	16	Overtime O&M	655	17,537		Central
KE	BROWN	METER READER	501200	16	Overtime O&M	656	17,564		Central
C	BROWN	TREAT PLANT UTILITY	501200	16	Overtime O&M	265	7,088		Central
P	BUEHLER	SECRETARY SR	501200	16	Overtime O&M	70	1,852		Central
D	BULLOCK	TREAT PLANT UTILITY	501200	16	Overtime O&M	267	7,504		Central
M	CHANDLER	TREAT PLANT OPR	501200	16	Overtime O&M	265	7,851		Central
C	CLAYBORNE	A&G SERV PERSON	501200	16	Overtime O&M	66	1,884		Central
C	COBB	METER READER	501200	16	Overtime O&M	660	17,668		Central
M	COMBS	LAB TECHNICIAN	501200	16	Overtime O&M	192	6,024		Central
T	COY	TREAT PLANT OPR	501200	16	Overtime O&M	270	8,161		Central
D	DEAN	TREAT PLANT OPR	501200	16	Overtime O&M	269	8,131		Central

1,297,016 Total Capital

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First Name	Last Name	Title	Object	Sub	Cap	O&M	Total Hrs	Incentive	District
J	DENNISON	TREAT PLANT OPR	501200	16	Overtime	O&M	270	8,111	Central
T	FARROW	BILLING CLERK III	501200	16	Overtime	O&M	77	1,644	Central
R	HAWTHORNE	METER READER	501200	16	Overtime	O&M	658	16,661	Central
L	HAZLETT	TREAT PLANT OPR	501200	16	Overtime	O&M	273	8,201	Central
L	HELTON	SECRETARY SR	501200	16	Overtime	O&M	72	1,962	Central
R	HISEL	TREAT PLANT OPR	501200	16	Overtime	O&M	267	8,070	Central
B	HORROCKS	TREAT PLANT OPR REL	501200	16	Overtime	O&M	272	7,375	Central
B	HORTON	CSR	501200	16	Overtime	O&M	77	1,644	Central
P	JAMES	CSR	501200	16	Overtime	O&M	77	1,644	Central
A	KEES	TREAT PLANT UTILITY	501200	16	Overtime	O&M	270	7,441	Central
E	MCCULLOUGH	METER READER	501200	16	Overtime	O&M	657	17,580	Central
T	MCFARLAND	METER READER	501200	16	Overtime	O&M	660	18,523	Central
E	MOSEY	METER READER	501200	16	Overtime	O&M	664	16,804	Central
J	RHORER	OPERATIONS CLERK	501200	16	Overtime	O&M	107	2,516	Central
B	ROSER	METER READER	501200	16	Overtime	O&M	658	16,912	Central
P	SIPE	CSR	501200	16	Overtime	O&M	77	1,644	Central
JL	SMITH	TREAT PLANT OPR	501200	16	Overtime	O&M	265	7,851	Central
JD	SMITH	TREAT PLANT OPR	501200	16	Overtime	O&M	269	7,972	Central
E	STURGIS	TREAT PLANT UTILITY	501200	16	Overtime	O&M	267	7,392	Central
94	VACANT-94	METER READER	501200	16	Overtime	O&M	671	16,986	Central
E	VAUGHT-JONES	TREAT PLANT OPR REL	501200	16	Overtime	O&M	259	7,535	Central
J	VIRES	METER TECHNICIAN	501200	16	Overtime	O&M	665	20,126	Central
M	WALTERS	METER READER	501200	16	Overtime	O&M	670	18,802	Central
D	WINER	METER READER	501200	16	Overtime	O&M	665	17,803	Central
G	YOUNG	METER READER	501200	16	Overtime	O&M	674	17,062	Central
T	ADAMS	CAD DRAFTER	501200	16	Regular		417	7,972	Central
C	ALEXANDER	CREW LEADER	501200	16	Regular		1879	33,481	Central
D	ALEXANDER	UTILITY	501200	16	Regular		2088	35,200	Central
A	ALLNUT	METER READER	501200	16	Regular		2088	35,200	Central
D	ARY	MAINT SERV SUPV	501200	16	Regular		1671	63,835	5,893 Central
R	ASHBY	CSR	501200	16	Regular		2088	28,731	Central
J	ASHBY	FIELD SERVICE	501200	16	Regular		1879	35,113	Central
P	BALLARD	EXEC SEC	501200	16	Regular		1775	44,677	3,882 Central
J	BARNETT	FIELD SERVICE	501200	16	Regular		2088	35,200	Central
R	BARRETT	METER READER	501200	16	Regular		2088	35,200	Central
J	BEMISS	TREAT PLANT OPR	501200	16	Regular		2088	41,385	Central
J	BOOKER	TREAT PLANT OPR	501200	16	Regular		2088	41,176	Central
J	BRADY	METER READER	501200	16	Regular		2088	37,205	Central
D	BRAXTON	DIR HUMAN RESOURCES	501200	16	Regular		1775	61,419	5,337 Central
C	BROWN	TREAT PLANT UTILITY	501200	16	Regular		2088	37,205	Central
KE	BROWN	METER READER	501200	16	Regular		2088	37,205	Central
B	BROWN	DIR COMMUNICATIONS	501200	16	Regular		1775	64,271	Central
R	BUCHANAN	OPR SUPV	501200	16	Regular		1671	57,696	5,326 Central
W	BUCKNER	OPR SUPV	501200	16	Regular		1671	54,466	5,028 Central
K	BUEHLER	CREW LEADER	501200	16	Regular		1879	33,481	Central
P	BUEHLER	SECRETARY SR	501200	16	Regular		1775	31,200	Central
D	BULLOCK	TREAT PLANT UTILITY	501200	16	Regular		2088	39,100	Central
L	BURNS	OPERATIONS SUPERV	501200	16	Regular		1670	47,996	4,433 Central
T	BYRD	CREW LEADER	501200	16	Regular		1879	33,481	Central
S	CARR	LAB ANALYST	501200	16	Regular		1671	37,394	3,452 Central
T	CECIL	TELLER I	501200	16	Regular		2088	25,876	Central
M	CHANDLER	TREAT PLANT OPR	501200	16	Regular		2088	41,228	Central

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First Name	Last Name	Title	Obed	Sub	Capital/O&M	Total Hrs	Total Hrs	Incentive	District
C	CLAYBORNE	A&G SERV PERSON	501200	16	Regular	1775	33,664		Central
C	COBB	METER READER	501200	16	Regular	2088	37,205		Central
R	COLE	FIN ANALYST - INTER	501200	16	Regular	1775	54,017	4,694	Central
B	COLLINS	CREW LEADER	501200	16	Regular	1879	33,481		Central
M	COMBS	LAB TECHNICIAN	501200	16	Regular	2088	43,690		Central
J	COUCH	METER READER	501200	16	Regular	1357	22,877		Central
T	COY	TREAT PLANT OPR	501200	16	Regular	2088	42,070		Central
R	CRUSE	FIELD SERVICE - SCOTT C	501200	16	Regular	1879	35,113		Central
R	CURRY	MAINT TECHNICIAN II	501200	16	Regular	2088	42,070		Central
D	DEAN	TREAT PLANT OPR	501200	16	Regular	2088	42,070		Central
J	DENNINGSON	TREAT PLANT OPR	501200	16	Regular	2088	41,815		Central
J	DICKSON	EXEC SEC LEGAL	501200	16	Regular	1775	36,648	3,185	Central
K	DIXON	UTILITY	501200	16	Regular	2088	35,409		Central
D	FARMER	STOCK CLERK	501200	16	Regular	1671	36,555		Central
T	FARROW	BILLING CLERK III	501200	16	Regular	2088	29,731		Central
W	FELTS	UTILITY	501200	16	Regular	2088	35,409		Central
C	FIELDS	UTILITY	501200	16	Regular	1879	33,481		Central
W	FINN	FIELD SERVICE	501200	16	Regular	1879	35,113		Central
T	FLANNERY	CREW LEADER	501200	16	Regular	2088	35,200		Central
H	GARRISON	OPR SUPV	501200	16	Regular	1671	52,361	4,833	Central
D	GRIFFIN	OPR SUPT	501200	16	Regular	1671	63,835	5,893	Central
D	HALL	CREW LEADER	501200	16	Regular	1879	33,481		Central
J	HALL II	FIELD SERVICE	501200	16	Regular	1879	35,113		Central
R	HAWTHORNE	METER READER	501200	16	Regular	2088	35,200		Central
L	HAZLETT	TREAT PLANT OPR	501200	16	Regular	2088	41,815		Central
L	HELTON	SECRETARY SR	501200	16	Regular	1775	32,131		Central
R	HISEL	TREAT PLANT OPR	501200	16	Regular	2088	42,070		Central
B	HORROCKS	TREAT PLANT OPR REL	501200	16	Regular	2088	37,723		Central
B	HORTON	CSR	501200	16	Regular	2088	29,731		Central
J	JACKSON	OPR SPECIALIST	501200	16	Regular	1671	41,852	3,853	Central
P	JAMES	CSR	501200	16	Regular	2088	29,731		Central
D	JOHNSON	WQ SPECIALIST	501200	16	Regular	1671	41,607	3,841	Central
A	KEES	TREAT PLANT UTILITY	501200	16	Regular	2088	36,350		Central
M	LEONARD	UTILITY	501200	16	Regular	2088	35,200		Central
W	MATTINGLY	OPERATIONS SUPERV	501200	16	Regular	1671	48,328	4,461	Central
R	MATTINGLY	CREW LEADER - JR BACK	501200	16	Regular	2088	38,171		Central
J	MAXEY	MAINT TECHNICIAN I	501200	16	Regular	2088	42,070		Central
G	MCCALLEY	MAINT TECHNICIAN I	501200	16	Regular	2088	42,070		Central
E	MCCULLOUGH	METER READER	501200	16	Regular	2088	37,205		Central
T	MC FARLAND	METER READER	501200	16	Regular	2088	39,017		Central
D	MIREAULT	SECRETARY SR	501200	16	Regular	417	7,520		Central
M	MOBERLY	EQUIPMENT OPERATOR	501200	16	Regular	1712	31,987		Central
C	MOODY	OPERATIONS CLERK	501200	16	Regular	1671	31,932		Central
DE	MOORE	FIELD SERVICE	501200	16	Regular	1879	35,113		Central
DA	MOORE	UTILITY	501200	16	Regular	2088	35,200		Central
W	MORTON	CREW LEADER	501200	16	Regular	1879	33,481		Central
E	MOSBY	METER READER	501200	16	Regular	2088	35,200		Central
M	MULLINS	MTN SERV SPEC	501200	16	Regular	1671	47,386	4,375	Central
T	MUNDY	CREW LEADER	501200	16	Regular	1879	33,481		Central
R	MUNDY II	PRESIDENT	501200	16	Regular	1044	86,634	51,785	Central
D	OWENS	OPR SUPV	501200	16	Regular	1671	55,888	5,159	Central
S	OWENS	FIELD SERVICES SUPER	501200	16	Regular	2088	43,835	3,238	Central

Kentucky American Water
PSC DR 2 Item 52
Case No. 2004-00103

Dist Name	Last Name	Title	Objcd	Sub	Cap/Ob/Int	Total Hrs	Total Hrs	Incentive	District
	D	POINDEXTER	CREW LEADER	501200	16	Regular	1879	33,481	Central
	D	POLLICK	UTILITY	501200	16	Regular	2088	35,200	Central
	M	PUSH	SECRETARY	501200	16	Regular	2088	34,668	Central
	J	RHORER	OPERATIONS CLERK	501200	16	Regular	417	6,553	Central
	T	RICHARDSON	FIELD SERVICE	501200	16	Regular	1879	35,113	Central
	K	RONEY	MAINT TECHNICIAN II	501200	16	Regular	2088	42,070	Central
	B	ROSER	METER READER	501200	16	Regular	2088	35,200	Central
	F	ROSS	DIR LOSS CONTROL	501200	16	Regular	1775	52,771	4,566 Central
	J	ROUTT	DIR WATER QUALITY	501200	16	Regular	1671	70,594	6,517 Central
	R	SAMUELS	CREW LEADER	501200	16	Regular	1879	33,481	Central
	D	SHEHEE	WQ SPECIALIST	501200	16	Regular	1671	50,010	4,617 Central
	D	SHY	TELLER II	501200	16	Regular	2088	27,784	Central
	B	SILER	FIN ANALYST - INTER	501200	16	Regular	1775	46,416	4,033 Central
	P	SIFES	CSR	501200	16	Regular	2088	29,731	Central
	P	SLONE	EXEC SEC	501200	16	Regular	1775	36,329	3,157 Central
	JL	SMITH	TREAT PLANT OPR	501200	16	Regular	2088	41,228	Central
	JR	SMITH	EQUIPMENT OPERATOR	501200	16	Regular	1711	32,025	Central
	JD	SMITH	TREAT PLANT OPR	501200	16	Regular	2088	41,228	Central
	J	SMITHER	UTILITY	501200	16	Regular	1879	31,678	Central
	S	STOCKTON	OPR SUPV	501200	16	Regular	1461	62,970	6,667 Central
	E	STURGIS	TREAT PLANT UTILITY	501200	16	Regular	2088	38,519	Central
	P	TACKETT	OPR SUPV	501200	16	Regular	1431	39,726	4,263 Central
	K	TOWNSEND	CHARGE OFF CLERK II	501200	16	Regular	2088	27,784	Central
	V	VACANT 91	CREW LEADER	501200	16	Regular	1879	33,481	Central
	94	VACANT-94	METER READER	501200	16	Regular	2088	35,200	Central
	E	VAUGHT-JONES	TREAT PLANT OPR REL	501200	16	Regular	2088	38,974	Central
	J	VRES	METER TECHNICIAN	501200	16	Regular	2088	42,070	Central
	M	WALTERS	METER READER	501200	16	Regular	2088	39,022	Central
	S	WATTS	FIELD SERVICE	501200	16	Regular	1879	35,113	Central
	J	WHITE	OPR SUPV RRS	501200	16	Regular	1589	50,601	4,891 Central
	D	WHITEHOUSE	DIR GOVT AFFAIRS	501200	16	Regular	1775	76,777	6,672 Central
	K	WHITTLE	FIELD SERVICE	501200	16	Regular	1879	35,113	Central
	G	WILSON	FIELD SERVICE	501200	16	Regular	1879	35,113	Central
	D	WINER	METER READER	501200	16	Regular	2088	37,205	Central
	R	WITHERITE	DISPATCHER	501200	16	Regular	1671	30,182	Central
	J	YOST	CAD DRAFTER	501200	16	Regular	417	6,606	Central
	J	YOUNG	CREW LEADER	501200	16	Regular	1879	33,481	Central
	G	YOUNG	METER READER	501200	16	Regular	2088	35,200	Central
			allocated to EL and TV	501200	16	Regular		(15,627)	Central
								4,911,289 Total O & M labor	
								5,140,435 Total O&M labor plus incentive	
Elk Lake									
	P	TACKETT	OPR SUPV	501200	16	Regular	36	1,000	Elk Lake
	R	TEEGARDEN	OPR SUPV / ELK LAKE	501200	16	Regular	2088	42,743	3,158 Elk Lake
			Allocated from Central	501200	16	Regular		665	Elk Lake
								44,408	
Tri Village									
	P	TACKETT	OPR SUPV	501200	16	Regular	204	5,666	Tri Village
	C	TUDOR	OPR SUPV / TRI-VILLAGE	501200	16	Regular	2088	49,461	3,654 Tri Village
	A	TRUE	OPR CLERK / TRI-VILLAGE	501200	16	Regular	2088	26,353	Tri Village
	A	TRUE	OPR CLERK / TRI-VILLAGE	501200	16	Overtime O&M	117	2,218	Tri Village
	P	TUDOR	OPR GEN SR / TRI-VILLAG	501200	16	Regular	2088	35,767	Tri Village
	P	TUDOR	OPR GEN SR / TRI-VILLAG	501200	16	Overtime O&M	168	3,850	Tri Village

Kentucky American Water
 PSC DR 2 Item 52
 Case No. 2004-00103

First Name	Last Name	Title	Objcd	Sub	Capital/O&M	Total Hrs	Total Hrs	Incentive	District
L	CASTLEMAN	OPR GEN / TRI-VILLAGE	501200	16	Regular	2088	28,768		Tri Village
L	CASTLEMAN	OPR GEN / TRI-VILLAGE	501200	16	Overtime O&M	162	3,009		Tri Village
		Allocated from Central	501200	16	Regular		3,728		Tri Village
I	INC PLAN	INC PLAN	501711	16		1		229,146	

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

Witness Responsible:

Michael A. Miller

57. For Kentucky-American's forecasted incentive pay program:
- a. List all Kentucky-American employees who are eligible to participate in the program.
 - b. State the level of incentive pay available to each participant in the forecasted period.
 - c. State the level of incentive pay awarded to all individuals participating in the program for the previous 5 years compared to level of incentive pay available to each participant in the forecasted period.
 - d. Explain how incentive payment awards in previous years were determined.
 - e. State the amounts of incentive payment awards included in the forecasted test period.
 - f. Explain how the amounts of incentive payment awards included in the forecasted test period were determined.

Response:

- a. Mr. Mundy as President of the Company is eligible for the LIP. As stated in the response and attachment to AG1 question #123, all full-time management, professional, and technical employees (exempt from overtime) in American Water are eligible to participate in the 2004 AIP. See the response to section PSC2 question 52 above for the employees eligible for the AIP as so indicated by the next to last column on that schedule having an incentive pay amount.
- b. Each eligible employee has a target incentive plan pay-out that assumes achieving 100% of the financial, customer service, and individual goals and objectives. The target is based on a percentage of the mid-point of the salary range for each employee and the percentage varies depending on the level and type of position. Based on the AIP guidelines, performance criteria, the financial projections for KAWC and the historical excellent customer service record of KAWC the Company developed the AIP costs included in the forecasted test-year. A detailed description of the AIP and

KENTUCKY-AMERICAN WATER COMPANY
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PUBLIC SERVICE COMMISSION'S SECOND SET OF INFORMATION REQUESTS
ITEMS 1-123

Witness Responsible:

Michael A. Miller

its administration is included as an attachment to the response to AG1 question #70. The LIP included in the forecasted test-year assumes Mr. Mundy meets the target at 22.5% of the mid-point of his salary.

- c. Please see attached schedule KAW_R_PSCDR1#57_attachment_062804.pdf.
- d. If the overall threshold was met, each individual participant's performance was reviewed regarding their accomplishments in meeting the financial, customer service and individual goals and objectives. From that review, the level of accomplishments in each category were determined and weighted by the plan performance matrix to determine the individual's award from the AIP.
- e. Please see item 57 c above. Also see AG1 response to question 70.
- f. See response to 57 b above.

Kentucky - American Water Company
Recap of incentive plan payments

Response to PSC2- Question 57 (b)

<u>Employee</u>	<u>Position</u>	<u>Forecasted Test-year</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Anderson	Oper. Spec.	2898	650	750	750		
Bridwell	Dir. Engineering	6544	7650	750	7188		
Brown	Dir. Communications	5585	4350	750	7188		
Brumfield	Oper. Spec.	4194	1100	750	750		
Floyd	Oper. Spec.	3151	850	750	750		
Rookard	Oper. Spec.	3165	850	750	750		
Svinland	Sr. Oper. Eng.	5353	1400	750	750		
Tomko	Eng.	4306	1150	750	750		
Vacant	Oper. Eng.	4432		750	750		
Walker	Eng.	3413	900	750	750		
White	Oper. Supt.	5182	1300	750	750		
Ary	Maint. Ser. Supv.	5893	1550	750	750		
Ballard	Exec. Sec.	3882	1050	750	750		
Braxton	Dir. HR	5337	1400	750	750		
Buchanan	Oper. Supv.	5326	1400	750	750		
Buckner	Oper. Supv.	5028	1300	750	750		
Burns	Oper. Supv.	4433	5000	750	6269		
Carr	Lab Analyst	3452	850	750	750		
Cole	Fin. Analyst - Int.	4694	1250	750	750		
Dickson	Exec. Sec. - Legal	3185	850	750	750		
Garrison	Oper. Supv.	4833	1250	750	750		
Griffin	Oper. Supt.	5893	1750	750	750		
Jackson	Oper. Spec.	3863	1000	750	750		
Johnson	WQ Spec.	3841	1000	750	750		
Mattingly	Oper. Supv.	4461	1200	750	750		
Mullins	Maint. Ser. Spec.	4375	1150	750	750		
Mundy	President-LIP	38985	61701	0	0	3067	0
Mundy	President-AIP	12800	14850	5750	16262	28804	33644
Owens	Oper. Supv.	5159					
Owens	Field Service Supv.	3238	850	750	750		
Ross	Dir. Loss Control	4586	1200	750	750		
Routt	Dir. WQ	6517	5050	750	6882		
Shehee	WQ Spec.	4617	1200	750	750		
Siler	Fin. Analyst - Int.	4033	1050	750	750		
Slone	Exec. Sec.	3157	850	750	750		
Stockton	Oper. Supt.	6687	1750	750	750		
Tacket	Oper. Supv.	4283	1150	750	750		
White	Oper. Supv.	4881	1350	750	750		
Whitehouse	Dir. Govt. Affairs	6672	5200	750	5825		
Teegarden	Oper. Supv.-Elk Lake	3158	850	0	0		
Tudor	Oper. Supv.-Tri-Village	3654	950	0	0		
Union Members				78750	80250		
Rowe	VP Operations (currently vacant)			20750	15664	19409	19838
Miller	Corp. Counsel (Now Ser. Co.)					19409	19838
Bush	Bus. Dev. (moved to Ser. Co.)			7450	20915	19409	
Grubb	Dir. Rates (Move to Missouri)				11611	15459	
Baker	Bus. Dev. (moved to Illinois)				11312		
McConathy	Dir HR (retired)				6882		
Totals		229146	140201	139700	219498	105557	73320

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

Witness Responsible:

Sheila Valentine

64. List, for each of Kentucky-American's 5 most recent applications for rate adjustments, the amount of rate case expense incurred and state whether Kentucky-American used a historical test period or future test period in its application.

Response:

The 5 most recent rate filings have been based on a future test period.

Case No. 2000-120	\$459,817
Case No. 97-034	\$326,414
Case No. 95-554	\$389,982
Case No. 94-197	\$250,434
Case No. 92-452	\$437,125

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

Witness Responsible:

Sheila Valentine

99. Refer to the Direct Testimony of Sheila A. Valentine at 7 and Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), Workpapers 3-4.
- a. Provide all bids for the forecasted cleaning of KRS and RRS.
 - b. State whether the forecasted cleaning of RRS is an annual expense. If it is not an annual expense, explain why Kentucky-American did not propose to amortize the forecasted amount.
 - c. State when cleaning of each station included in the forecasted amount will be completed.
 - d. Provide detailed workpapers supporting the monthly recurring expense of \$3,500 for each station.

Response:

- a. See attached bids or the electronic file KAW_R_PSCDR2#99_attachment_062804.pdf.
- b. The forecasted cleaning for Richmond Road Station is not an annual cleaning. The Company did not propose an amortization because the cleaning was performed to eliminate the residuals that had accumulated from the winter months. Extreme flooding in the winter, with long periods of high turbidities, result in larger amounts of solids being removed from the water that is greater than the existing equipment can routinely process.
- c. The cleaning of the Kentucky River Station will be completed by October 2004 and the process at the Richmond Road Station will be completed by the end of July 2004.
- d. The expenses of \$3,500 per month is based on historical operating costs. In preparation of the budget, one looks at historical operating costs, projected system delivery, and the average current cost per month. The last five years of annual costs are as follows:

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

Witness Responsible:

Sheila Valentine

	<u>KRS</u>	<u>RRS</u>
1999	28,650	22,896
2000	27,651	22,609
2001	30,412	32,603
2002	48,694	118,986 incl one time cleaning cost
2003	41,489	29,971

The expense for the Richmond Road Station should be in the amount of \$2,500 per month when comparing to the historical operating costs. Thus, this amount has been overstated in the forecast by \$12,000.

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

Witness Responsible:

Michael A. Miller

115. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 10. The 10-year average ratio of actual to budgeted capital construction ("slippage factors") for the Investment P 074 projects B-H is 105.43 percent and 86.12 percent for the Investment Projects. Recalculate Kentucky-American's forecasted revenue requirement, rate base, and cost-of-service study as follows:
- a. Adjust all monthly Investment Projects B-H expenditures beginning February 2004 through the end of the forecasted test period, using the 105.43 slippage factor.
 - b. Reduce all monthly Investment Projects expenditures beginning February 2004 through the end of the forecasted test period, using the 86.12 slippage factor.
 - c. Provide all workpapers, assumptions, and calculations showing the effect of the slippage factors to each forecasted element of rate base, and cost-of-service study.

Response:

- a-c. In order to respond to this data request, KAWC revised the spreadsheet files shown below. KAWC used the slippage factors requested above and also corrected the Contribution in Aid of Construction (CIAC) beginning balance (January 31, 2004) for each of the water systems as reflected in AG DR 111. Cash flow was reduced by the amount of the slippage. The Short-term debt was reduced by \$770,000.
- Shown below is a comparative summary of the rate of return, rate base, revenue requirement and cost of service elements between the Company's original filing and recalculation for slippage and CIAC correction.

KENTUCKY-AMERICAN WATER COMPANY
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PUBLIC SERVICE COMMISSION'S SECOND SET OF INFORMATION REQUESTS
ITEMS 1-123

Witness Responsible:

Michael A. Miller

	<u>Original Filing</u>	<u>PSC Slippage and CIAC corrected</u>
Revenue increase	\$ 7,297,443	\$ 7,418,795
Rate Base	158,958,817	159,776,728
Overall return	8.25%	8.25%
AFUDC	470,940	417,280
Property taxes	2,223,673	2,221,768
Depreciation	7,065,762	7,067,531
CIAC correction	34,547,915	33,064,060

KAW_R_PSCDR2#115_SCHEDULEA_062804.pdf
KAW_R_PSCDR2#115_SCHEDULEB_062804.pdf
KAW_R_PSCDR2#115_SCHEDULEC_062804.pdf
KAW_R_PSCDR2#115_SCHEDULEJ_062804.pdf
KAW_R_PSCDR2#115_SCHEDULEJ1_062804.pdf
KAW_R_PSCDR2#115_PROPTAX_062804.pdf
KAW_R_PSCDR2#115_DEFTAX_062804.pdf
KAW_R_PSCDR2#115_SCHEDULEE_062804.pdf
KAW_R_PSCDR2#115_PLANT_062804.pdf

KENTUCKY-AMERICAN WATER COMPANY
CASE NO: 2004-00103
RATE BASE SUMMARY
AS OF NOVEMBER 30, 2005

DATA: ___ BASE PERIOD ___ FORECASTED PERIOD
N P OF FILING: ___ ORIGINAL ___ UPDATED ___ REVISED
WORKPAPER REFERENCE NO(S): WIP-1

SCHEDULE B-1
PAGE 2 OF 2
Witness Responsible: M.A. Miller / L. Bridwell

Line No.	Rate Base Component	Supporting Schedule Reference	End of Period/Amount			13 Month Average Forecast/Period Amount				
			Central Division	Tri-Village	EK Lake	Total Water	Central Division	Tri-Village	EK Lake	Total Water
1	Utility Plant In Service	B-2	\$290,557,236	5,658,210	325,850	296,541,296	\$282,241,975	\$5,265,630	\$325,850	287,853,455
2	Property Held for Future Use	B-2.6	0	0	0	0	0	0	0	0
3	Utility Plant Acquisition/Adjustments	WIP-1.2	70,692	205,532	104,711	380,935	77,217	208,310	106,123	391,650
4	Accumulated Depreciation	B-3	(71,199,791)	(1,138,201)	(272,751)	(72,610,743)	(67,589,421)	(1,085,165)	(288,449)	(69,943,035)
5	Accumulated Amortization	WIP-1.4	(7,674)	0	0	(7,674)	(7,674)	0	0	(7,674)
6	Net Utility Plant In Service		219,420,463	4,725,541	157,810	224,303,814	214,722,097	4,408,775	163,524	219,294,396
7	Construction Work in Progress	B-4 / WIP-1.5	4,256,409	151,060	0	4,407,469	5,354,670	174,986	0	5,529,656
8	Working Capital Allowance	B-5	945,000	5,000	800	950,800	2,421,000	55,000	6,000	2,482,000
9	Other Working Capital Allowance	B-5	462,149	0	0	462,149	462,149	0	0	462,149
10	Contributions In Aid of Construction	B-6	(32,301,135)	(1,856,519)	(84,382)	(34,242,036)	(31,107,903)	(1,871,310)	(84,847)	(33,064,060)
11	Customer Advances	B-6	(16,145,112)	0	0	(16,145,112)	(15,359,373)	0	0	(15,359,373)
12	Deferred Income Taxes	B-6	(26,549,990)	(11,318)	0	(26,561,308)	(26,479,114)	(8,449)	0	(26,487,563)
13	Deferred Investment Tax Credits	B-6	(121,765)	0	0	(121,765)	(117,518)	0	0	(117,518)
14	Deferred Maintenance	WIP-1.11	2,385,504	130,667	0	2,516,171	2,318,384	135,333	0	2,453,717
15	Deferred Debits	WIP-1.12	6,047,577	210,691	99,598	6,357,866	6,423,194	213,532	100,941	6,737,667
16	Other Rate Base Elements	WIP-1.12	(2,373,260)	0	0	(2,373,260)	(2,184,343)	0	0	(2,184,343)
17	Justifical Rate Base		\$156,025,841	\$3,355,122	\$173,826	\$159,554,789	\$156,483,244	\$3,107,867	\$185,618	\$159,776,728

KENTUCKY-AMERICANWATER COMPANY

CASE NO: 2004-00103

OVERALL FINANCIAL SUMMARY

FOR THE TWELVE MONTHS ENDED: NOVEMBER 30, 2005

DATA: BASE PERIOD: X, FORECASTED PERIOD: X
 TYPE OF FILING: X, ORIGINAL: X, UPDATED: X, REVISED: X
 WORKPAPER REFERENCE NO(S): SCH C-2 (TOTAL COMPANY)

SCHEDULE C-1, PAGE 1 OF 4
 Witness Responsible: M.A. Miller, S. A. Valentine

Line No.	Description	Forecasted Return at Current Rates	Proposed Increase	Forecasted Return at Proposed Rates
1				
2	Operating Revenues	843,336,002	\$7,418,793	17.12% \$50,754,795
3	Operating Expenses			
4	Operation and Maintenance	21,910,724	37,600	21,948,324
5	Depreciation and Amortization	7,762,685	0	7,762,685
6	Taxes Other Than Income	2,710,557	13,865	2,724,422
7	State Income Taxes	473,214	607,805	1,081,018
8	Federal Income Taxes	1,650,832	2,365,633	4,056,765
9	Total Operating Expenses	34,548,112	3,025,103	37,573,214
10	Utility Operating Income	\$4,787,890	\$4,393,687	\$13,181,581
11	Rate Base	\$159,776,728		\$159,776,728
12	Rate of Return	5.50%		8.25%
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KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S SECOND SET OF INFORMATION REQUESTS
ITEMS 1-123

Witness Responsible:

Linda Bridwell

116. For each investment project started and/or completed during the period 1994 through 2003,

provide:

- a. The number of investment projects that were completed ahead of schedule.
- b. The number of investment projects that were completed on schedule.
- c. The number of investment projects that were completed behind schedule.

Response:

<u>Year</u>	<u>Total No. of IPs Completed</u>	<u>IPs Completed Ahead of Schedule</u>	<u>IPs Completed On Schedule</u>	<u>IPs Completed Behind Schedule</u>
1994	6	1	2	3
1995	6	1	2	3
1996	14	4	4	6
1997	9	0	3	6
1998	7	3	1	3
1999	9	0	0	9
2000	7	3	1	3
2001	7	0	1	6
2002	7	0	2	5
2003	4	1	0	3

The same criteria were used for Investment Project completion that was used in previous cases.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S THIRD SET OF INFORMATION REQUESTS
ITEMS 1-66

Witness Responsible:

Michael A. Miller

- 9-2. a. For each Kentucky-American employee who performed work activities related to Kentucky-American's defense against Lexington-Fayette Urban County Government's ("LFUCG") condemnation action, provide the employee's name, position, and the hours worked in the base period on condemnation proceeding-related activities.
- b. For each employee who Kentucky-American projects to work on condemnation proceeding-related activities in the forecasted period, provide the information requested in Item 9(a).
- c. Identify each American Water Works Service Company ("Service Company") employee who will work on condemnation proceeding-related activities during the base period or the forecasted period. Provide the allocation of their salaries for the time involved in condemnation proceeding-related activities that is included in the base period or forecasted period.

Response:

- a. Kentucky American Water has considered the efforts on the condemnation to be within normal expected activities of KAW employees to participate in the effort fight the unwanted and forced acquisition of the Company and has not tracked individual employee hours worked in the base period on the condemnation action. Any number of management and support employees have assisted in the extra duties placed on the Company by the condemnation proceeding initiated by the LFUCG. Also please refer to the responses to LGUCG2 – questions 19, 20, 28, 29, 31, 32, 33, 35, and 37.
- b. Kentucky American Water considers the efforts on the condemnation action to be within normal expected activities of KAW employees to participate in the effort to fight the unwanted and forced acquisition of the Company and has not budgeted individual employee hours specifically for this effort.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S THIRD SET OF INFORMATION REQUESTS
ITEMS 1-66

Witness Responsible:

Michael A. Miller

- c. American Water has considered the efforts on the condemnation to be within normal expected activities of service company employees to participate in the effort fight the unwanted and forced acquisition of the Company and has not tracked individual employee time on the proceeding for base or forecasted periods. Also, please refer to response to LFUCG2-question 31 and 37.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S THIRD SET OF INFORMATION REQUESTS
ITEMS 1-66

Witness Responsible:

Chris Jarrett/Michael A. Miller

24. a. Describe the reorganization that AWWC is currently undertaking. This description should include the original intent and goal of the reorganization and revisions that have occurred during the reorganization process. Do not refer to the memorandums included in Kentucky-American's Response to LFUCG's First Request for Information, Item 19.
- b. State the date the reorganization process began and its expected date of completion.
- c. Explain in detail how the AWWC reorganization will affect the management of Kentucky-American and its workforce.
- d. If Kentucky-American has projected the effect of the reorganization and included it in its forecasted operations, identify in this proceeding where the effect(s) of the AWWC reorganization have been incorporated into Kentucky-American's forecasted operations.
- e. If Kentucky-American has not projected the effect of the reorganization and incorporated it into its forecasted operations, provide an estimate of how the reorganization will impact Kentucky-American's forecasted operations. State all assumptions, provide all workpapers, and show all calculations used to make this estimate.
- f. Provide readable organizational charts comparing the AWWC organization pre- and post-reorganization. Do not reference Kentucky-American's Response to LFUCG's First Request for Information, Item 19 at 53.

Response:

24. a. The Company provided a great deal of information regarding the reorganization currently underway at American Water in response to LFUCG1-question 19. Some of the organization structure documents were unreadable in the electronic filing PDF format and the Company apologizes for that. We have provided readable organization structures in response to question 22 above and are hopeful this has clarified any difficulty in understanding the new organizational structure. The response to the LFUCG's First Request for Information, Item 19, set forth the intent and goal of the reorganization and is appropriately from AWWC. It would be unfair to require KAWC to describe the reorganization without regard to the source documents that provide that information. It is impossible to describe the current reorganization without referring to the memos and other correspondence included in the response to LFUCG1-#19. The reorganization effort was initiated shortly after Jeremy Pelczer's election as President of American Water. The information supplied in the response to LFUCG1-#19 are the direct communications by Mr. Pelczer to the employees of American Water and although substantial in volume describe his vision for the Company, the strategic goals the organization will strive to meet and the reasons for the need for change in the

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S THIRD SET OF INFORMATION REQUESTS
ITEMS 1-66

Witness Responsible:

organization. There are at least two areas of the response to LFUCG1-#19 which provide a summary of the intent and goals of the reorganization. The first recap area is contained on KAW_R_LFCDR1#19_attachment1_062504 at page 35 of 74. The responses to the first two questions provide a summary of the intent and goals of the reorganization. Those questions and answers read as follows:

1.Q. Why are we making these changes?

A. All of our people are committed and take pride in our business, however, there are a number of compelling reasons for change: the desire to better service the needs of our customers; the need for better quality leadership; the need to more efficient in order to minimize increases in rates; the desire to ensure that we work smarter and together in teams; to ensure that we provide better feedback and professional development for our employees; and to facilitate better communication between managers and employees. There are also a number of external factors that are creating pressure on the business: the current economic downturn; weather impacts over the last two years; increased operating cost (through increases in insurance, healthcare, security, etc.); and condemnations. The combination of these challenges is significant for the business, but it is within our capabilities to achieve our goals and overcome these challenges.

2.Q. What impact will these changes have to our customers and the communities we serve?

A. We remain absolutely committed to the communities and customers that we currently serve and by being highly efficient and effective, we feel confident that we will meet the needs of our customers going forward and attract new customers. The organizational changes are intended to ensure that we have the best operating practices consistently applied across the Company to enable us to deliver the highest quality service. Changes in personnel at the top of the business will be carefully managed with our external stakeholders to reassure them that there is continuity of service and that the integrity of our operations is enhanced by these changes. We are confident that the new organization and the culture that we are creating will enhance our reputation with our customers and in the community.

In addition, please refer to KAW_R_LFCDR1#19_attachment1_062504 at page 18 that provides in bullet format the aims of the new American Water organization.

The reorganization has developed in phases beginning with executive team reporting to

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S THIRD SET OF INFORMATION REQUESTS
ITEMS 1-66

Witness Responsible:

Mr. Pelczer and the realignment of the organization into four regional offices from the 7 regional offices previously. The reorganization continued in phases that proceeded next to the positions reporting to phase one positions, next to those reporting at the next level and finally to those front line management employees at the regional office and local operating subsidiaries. Each phase was initiated, thoroughly studied and analyzed, and rolled out to the employees in the communications to in the attachments to LFUCG1-question #19 while the wrap of the prior phase of the reorganization was being completed.

24. b. The reorganization began on Mr. Pelczer's election of President. As stated in the his letter of November 19, 2003 (KAW_R_LFCDR#19_attachment1_062504, page 1 the initial roll out of the reorganization plan was the culmination of a six month project to develop a sinning Strategy that had been thoroughly tested and reviewed by leaders across American Water. The reorganization was originally scheduled for completion by July, 2004, but due to the sheer magnitude of the undertaking the final organization will not be complete until mid-August, 2004.
24. c. The reorganization is not expected to impact the level of employees other than the changes included in the forecasted test-year. Mr. Rowe has now been elected President to replace Mr. Mundy, Mr. Jarrett will continue in his role as Chairman of the Board of Directors as described in his testimony. Mr. Rowe and Mr. Jarrett will be reporting to the new regional office in Hershey, PA.
24. d. KAWC has not projected the results of the reorganization in its forecasted test-year for the final result of that effort is not known at this time. The Company has included the level of employees that it expects to have to carry out the operations of KAWC during the forecasted test-year.
24. e. KAWC does not have the breakdown of cost savings from the reorganization or the transitions costs for severance, moving expenses, and employee evaluations, etc. at this time. After the reorganization is in place, the Company will supply the final estimates of any savings as well as the transition cost required to generate those savings.
24. f. Please refer to current organization charts attached as the exhibits to question 22 above. Please see KAW_PSCDR3#24f_attachment_080604.pdf for pre-reorganization organization charts.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S THIRD SET OF INFORMATION REQUESTS
ITEMS 1-66

Witness Responsible:

Coleman D. Bush

30. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 82(c).
- a. Explain how, given that Kentucky-American limits the allocation of costs to Tri-Village Water District ("Tri-Village") and Elk Lake Homeowners Association ("Elk Lake") to one-third of the identifiable costs, its Central Division customers will benefit from the spreading of costs over a larger customer base.
 - b. Provide all correspondence between Kentucky-American and Tri-Village regarding the purchase of Tri-Village's assets.
 - c. Provide all internal correspondence, memoranda, notes, and electronic mail messages in which the purchase of Tri-Village's assets is discussed.
 - d. Provide all correspondence between Kentucky-American and Elk Lake regarding the purchase of Elk Lake's water distribution system.
 - e. Provide all internal correspondence, memoranda, notes, and electronic mail messages in which the purchase of Elk Lake's water distribution system is discussed.

Response:

- a. Even at one-third, a portion of the costs that were borne completely by Central Division ratepayers will be allocated to the Northern Division rates and will not be included in the rates of the Central Division.
- b. See attachment KAW_R_PSCDR3#30b_attachment_080604.pdf.
- c. See attachment KAW_R_PSCDR3#30c_attachment_080604.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S THIRD SET OF INFORMATION REQUESTS
ITEMS 1-66

Witness Responsible:

Coleman D. Bush

- d. See attachment KAW_R_PSCDR3#30d_attachment_080604.pdf.
- e. See attachment KAW_R_PSCDR3#30e_attachment_080604.pdf.



Kentucky-American Water Company

2300 Richmond Road - Lexington, Kentucky 40502 - (606) 269-2386 - Fax (606) 268-6327

David Baker
Director - Business Development

February 10, 1999

Board of Commissioners
Tri-Village Water District
3700 Highway 127 North
Owenton, Kentucky 40359

Dear Board Member:

Thank you for allowing me to speak to you and introduce Kentucky-American Water Company to you. I certainly appreciate the opportunity to get to know my fellow water professionals in Kentucky.

Please find enclosed some basic facts about KAWC and the American Water Works Company. Included also is information relating to the potential KAWC business partnerships that are available to the Tri-Village Water District. When you determine it is appropriate, a detailed outline of these partnerships can be prepared and presented to you at no cost or obligation. All information and communications are held in the strictest of confidence.

Again, thanks for the opportunity to meet you.

Sincerely,

David Baker

DKB/jad
Enclosures

David K. Baker
Director Business Development



**Kentucky-American
Water Company**

2300 Richmond Road
Lexington, KY 40502
(606) 268-6318
Fax (606) 268-6327
E-mail dbaker@kawc.com
Toll Free: 1-800-678-6301 Ext. 318



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502 • (606) 269-2386 • Fax (606) 268-6327

Kentucky American Water Company helps communities meet their Water and Wastewater System needs:

- Public/Private Partnerships that can be customized to meet your system's needs
- Water and Wastewater System Contract Operations
- System sale/acquisition
- Water and wastewater system management contract
- System Lease, Manage and Operate Contract

Advantages to a Business Partnership with KAWC:

- Security for employees, excellent wages and benefits
- KAWC has in-house engineering, operations, finance, service staff expertise
- Ready capital for system improvements and expansions
- Customers may enjoy lower rates
- Excellent customer service
- Regulation by PSC or continued Board Control
- Long-term contracts can guarantee costs
- Assurance of Award-winning Water Quality
- Assurance of Source of Supply
- Potential infusion of cash to City
- Employees who live and work in the communities they serve
- Over 100 years of experience in Kentucky

H:\FIN\Acquisition\wbakercorrespondence\TriVillagepresentation0299.doc



Kentucky-American Water Company

2300 Richmond Road •• Lexington, Kentucky 40502 •• (606) 269-2386 •• Fax (606) 268-6327

How can Leaders learn specifics about the possibilities of a Business Partnership with Kentucky-American Water Company?

- KAWC can provide a no-cost, no-obligation review of systems
- Specific, current needs and objectives can be addressed and reviewed
- "Best-Options" will be prepared for recommendation to the Board, including:
 - a) Operations concepts
 - b) Customer rate/service impact
 - c) Financial package for the System

All discussions, plans and information exchanged are handled with strict confidence.

PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

Summary of Proposal Contents:

1. Background Information about Kentucky-American Water Company
2. Acquisition outline – structure
3. Purchase price calculations
4. Employee Issues
5. Customer Rates
6. Customer Service
7. Future System Expansion
8. Purchased Water
9. Board Involvement
10. Corporate Citizenship
11. Water Quality
12. Purchase Contingencies

PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

1. Background Information – Kentucky American Water Company

Incorporated in Kentucky in 1882 under the name of Lexington Hydraulic and Manufacturing Corporation, the company's name was changed to Lexington Water Company in 1922 and to Kentucky-American Water Company in 1973. KAWC is a regional water supplier which withdraws, treats and distributes water in Fayette, Scott, Clark, Bourbon, Harrison, Jessamine and Woodford Counties. In addition, KAWC is a bulk supplier to the Cities of Sadieville, North Middletown, Midway, Jessamine South Elkhorn Water District and Spears Water Company. KAWC is Kentucky's largest investor-owned water utility. Traded on the NYSE, AWW is the nations leading investor owned water utility.

Revenues:	KAWC – 1998 annual revenues: \$36.9 million
	American Water Works, Inc.: \$1 Billion
Taxes Paid:	Federal, State, General Taxes: \$6,141,811
	Property Taxes: \$1,089,228
Number of Employees:	KAWC: 155
	AWW: 4000 +
Statistics:	93,391 Customers served
	1364 miles of main
	over 157,000 water quality tests run annually
	over 16 million gallons of storage

PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

KAWC

Management:

Roy W. Mundy, II, President
Coleman Bush, Vice-President and Treasurer
Nick Rowe, Vice-President – Operations
Herb Miller, Secretary – Corporate Counsel
Edward J. Grubb – Comptroller
David Baker – Director – Business Developments
Barbara Brown – Director – Communications
Donna Braxton – Director - Loss Control
Linda Bridwell – Director – Engineering
Larry Burns – Director – Customer Service
Phil McConathy – Director – Employee Relations
Jan Routt – Director – Water Quality
David Whitehouse – Director – Government Relations

PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

2. Proposed Acquisition Structure

This proposal is subject to the approval of the Tri-Village board and all legal requirements therein, the approval of the Public Service Commission, the approval of the KAWC Board of Directors and all appropriate due diligence, and all other contingencies listed in this proposal. This proposal is structured as an acquisition of the Assets of the Tri-Village Water district by KAWC. The district will be dissolved according to law. KAWC will pay a purchase price to Tri-Village to purchase all long term assets of the District; the District will use that purchase price, along with a portion of its disposable current assets to pay off the debt and settle the accounts of the of the district.

3. Purchase price Calculation/Cash distribution to Close out Tri-Village Accounts (to be adjusted to date of closing):

Cash Purchase Price: \$1,659,233

Cash Distribution to Close out Tri-Village Accounts: (to be adjusted to date of closing)

Debt Obligations:	Long Term Debt	\$1,510,500
	Wheatly Project	\$ 225,500
	Current Liabilities	\$ 38,275
	Current Asset	\$(115,042)
	Disposal:	<u>\$1,659,233</u>

Purchase Price:

PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

4. Employment Issues:

Current Employees of Tri-Village Water District will be offered employment with KAWC at Tri-Village's rates of pay currently in effect. Employees will be offered the KAWC employment benefit package as outlined in appendix A including health insurance, term life insurance, paid vacations, 401k, company funded pension plan, 11 paid holidays, educational assistance. KAWC will keep the office and maintenance facilities at Tri-Village for the foreseeable future with the structure of the work changed to reflect the KAWC structure.

5. Customer Rates:

This proposal assumes that Tri-Village will have implemented the 30% proposed rate increase for all customers as of the time of closing of the acquisition. Upon closing, the customers of Tri-Village will receive an immediate 10% rate decrease from the TV rate tariff. In addition, KAWC will make application to the public service commission for application of the KAWC rate tariff under the concept of Single Tariff Pricing. These rate cuts are demonstrated as follows:

(Examples based upon avg. customer monthly consumption of 4700 gallons)

Tri-Village Monthly Bill following 30% increase:	\$	34.09/mo.
Less: 10% immediate KAWC Rate Cut:	\$	(3.41/mo.)
Avg. monthly bill after rate cut:	\$	30.68/month

If Single Tariff Pricing approved by PSC, at KAWC rates: \$ 16.57/month

PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

6. Customer Service

Tri-Village customers will continue to receive the same high level of service. Customers will receive high quality phone and field service during normal business hours, plus the option of using the Interactive Voice Response system, via a toll free number, that allows them access to billing and usage information on their accounts, 24 hours per day, 7 days per week. The office at Tri-Village will remain open for the foreseeable future to deal with in-person inquiries. Customer bills will be produced and mailed once per month, following monthly meter readings, and include a return envelope. Customers also have the option to pay by automated bank draft.

7. Future System Expansion:

This proposal includes the financial data provided for the Wheatly project and assumes that project will be underway or completed at the time of closing, and depending on the time factor, can be adjusted to include the New Columbus Project. KAWC will provide water service to new customers based upon the existing KAWC tariff. This tariff allows for KAWC to extend mains into areas in which the total of revenues to be received from the new customers for the first 3 years equals or exceeds the amount of expense for the main extension.

8. Purchased Water:

KAWC will assume the Purchase water contract that is currently in effect between Tri-Village Water District and the City of Owenton. This proposal is contingent upon verification and approval of said contract and upon Tri-Village's implementation of any rate increases called for by Owenton and approved by PSC.



PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

9. Board Involvement:

The Board of Commissioners will be invited to assist KAWC during the transition period, up to 6 months after closing. Any board member who commits to assisting in this period will be compensated at their present annual rate (prorated to a monthly amount) by KAWC. Following the transition period, the Board may select one representative to serve as the Owen County representative to the KAWC Consumer Advisory Council. The Tri-Village Water District will legally dissolve itself following the satisfaction of all appropriate legal requirements.

10. Corporate Citizenship:

KAWC is a responsible corporate citizen committed to strong community involvement. KAWC uses local vendors and services whenever products and services can be purchased at comparable prices. KAWC employees reside and are actively involved in the communities they serve.


11. Water Quality:

KAWC is a recognized leader in the water utility industry and is a member of the EPA's partnership for Safe Drinking Water, receiving 2 director's Awards in 1998 for completion of the Phase II self assessment requirements. We utilize state of the art laboratory equipment, employing our own Chemists and Biologists to monitor water quality at every stage, insuring compliance with state and federal standards.

PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

12. KAWC Contingencies relating to Purchase of Tri-Village Water District:

- Verification of Financial and water sales information
- Updating this proposal to time of closing to reflect changes in TV financial position
- Public Service Commission Approval
- Approval by KAWC's Board of Directors
- This proposal assumes that KAWC will not be responsible for repayment of any grant monies or other contributed capital and liabilities and transfer of assets and rights to future revenue streams must be unencumbered
- All other appropriate due diligence regarding the quality of assets to be purchased, business and legal risks, accuracy and approval of financial condition, purchase water agreement, etc.
- No material changes in the financial condition and in the assets to be purchased or obligations to be incurred without KAWC approval
- Recommendation and support for the KAWC asset purchase agreement, and all legal, regulatory and other requirements necessary to effect this transaction.

 Nick Rowe
D6/01/99 08:06 AM

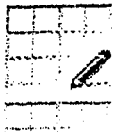
To: Dillard Griffin/KAWC/AWWSC@AWW
cc: Jan Routt/KAWC/AWWSC@AWW, David Baker/KAWC/AWWSC@AWW, Roy Mundy/KAWC/AWWSC@AWW

Subject: Re: TRI-VILLAGE TOUR - RELATED INFORMATION-SCHEDULE

CONFIDENTIAL xm

I agree!! Violations of any type will not be tolerated within American!!! We should get to the DOW files and review their past performance!! Jan-please investigate.

Dillard Griffin



Dillard Griffin
86128/99 04:37 PM

To: David Baker/KAWC/AWWSC@AWW
cc: Jan Routt/KAWC/AWWSC@AWW, Nick Rowe/KAWC/AWWSC@AWW

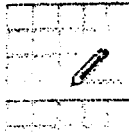
Subject: Re: TRI-VILLAGE TOUR - RELATED INFORMATION-SCHEDULE

CONFIDENTIAL

David, I am sure that you have seen the article in the Lex Herald on Friday 5/28. In this article the Tri-Village system is listed as one of the persistent violators of water quality standards. When we were in Owenton, the Owentown folks talked a lot about how Tri-Village was consistently out of compliance because of Trihalomethanes. This could possibly be a high cost item to correct, because of the purchased water. We need to be sure that the cost of correction to this area is anticipated. Perhaps, our water quality folks have already looked at this and I simply am not aware. But, if they haven't looked at it we may want to get involved in that and really look at the historical WO data for both Owenton and Tri-Village. From my very base knowledge of the issue I think the problem could be more easily corrected if we were operating the treatment works, ie owning Owenton water.

On the specific issue of the Tour I have talked with Gurney and he will also be available for the tour. We will show them a good time. Do you want some refreshments at the plant? Soft drinks, coffee, cookies etc for after the tour. Or are you going to return directly to the office and then on to Owen Co.?

9^f/Aⁱ - fⁱ & 'Ti' "



David Baker
06/01 /99 10:19 AM

d717L

To: Jan Routt/KAWC/AWWSC
cc: Nick Rowe

Subject: Re: TRI-VILLAGE TOUR - RELATED INFORMATION-SCHEDULE

CONFIDENTIAL

Jan - Thanks for your e-mail. As soon as a contractual agreement is reached with TV we will conduct the due diligece relating to water quality, so it will not be appropriate to discuss this with them tomorrow at the tour. We were already aware that there were wq issues. I am faxing to you in *a few* minutes the SDWIS listing of NOV's for both Tri Village and Owenton.

THanks for your assistance.

DBaker

David Baker
12/15/99 07:58 am

To: Pat Ballard/KAWC/AWWSC@AWW, Nick Rowe/KAWC/AWWSC@AWW, Coleman
Bush/KAWC/AWWSC@AWW, Herb Miller/KAWC/AWWSC@AWW, Ed Grubb/KAWC/AWWSC@AWW

cc:

Subject: Elk Lake Water Company

(to Roy via Pat)

FYI - You may recall that I have had ongoing discussions with Elk Lake Water Company about acquisition and that we have waited until we were "sufficiently down the path" with Tri-Village/Owenton to proceed. That time has come, and I am providing you with some "food for thought". I would appreciate a call or email to discuss this issue.

Elk Lake:

- investor owned, private lake/source of water for production
- already connected to Tri-Village w/4" line, (don't typically buy any water), which initially appears to be adequate to serve all the customers
- 330 customers, Owen County

Their main water plant operator is moving away and this is causing them to want to go ahead and make the decision about selling or shutting down the plant. They would like to go ahead and make an agreement with Tri-Village to shut down their plant and buy all the water from Tri-Village. (Kevin and I met with them and TV Chair. last week and he is preparing his thoughts on this possibility). I believe they are very interested in selling and I will be preparing the package for your review.

I ask that you think about our strategy: If we allow TV to enter into this agreement before we have Elk Lake under contract to sell to us, then they may NOT want to sell to us since they have solved their plant problem. In this case, we should enter into a contract now that is conditional upon our closure of TV and not allow TV to sell them water directly in the meantime. HOWEVER, if we allowed them to purchase their water from TV, then can we make profit under that scenario without the investment? (no acquisition)

I will come to you as a group soon with the numbers. Please call me with your thoughts when you get a chance. Thanks.

DBaker

Some interesting scenarios! Let's discuss in upcoming meeting you plan to schedule.
Roy 12/17

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S THIRD SET OF INFORMATION REQUESTS
ITEMS 1-66

Witness Responsible:

Sheila Valentine

39. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information requests, Item 99(b).
- a. State when the Richmond Road Station was last cleaned.
 - b. When a cost is nonrecurring, the Commission has generally either removed the expense from test-period operations or amortized the cost over its estimated useful life. Explain why the cost to clean the Richmond Road Station Plant should be treated in a different manner.

Response:

- a. Richmond Road Station was last cleaned in August 2002.
- b. After further discussions with the production staff at Kentucky American Water and given the current water quality conditions and treatment processes, the Company is forecasting that these cleanings will be an annual expense and should be included in this rate filing.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION'S THIRD SET OF INFORMATION REQUESTS
ITEMS 1-66

Witness Responsible:

Mike Miller

44. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 115. Recalculate the effect of the slippage factors on the forecasted revenue requirement, rate base, and cost-of-service study without correcting the contribution in aid of construction error. Provide all workpapers, assumptions, and calculations showing the effect of the slippage factors on each forecasted element of rate base and the cost-of-service study.

Response:

See attached schedules. For the slippage adjustment workpapers to the utility plant additions, see KAW_R_PSCDR2#115_PLANT_062804.pdf pages 1 through 126.

For the electronic format of all other workpapers refer to KAW_R_PSDCR3#44_attachment_080604.pdf

	<u>Original Filing</u>	<u>PSC Slippage</u>
Revenue increase	\$ 7,297,443	\$ 7,176,819
Rate Base	158,958,817	158,063,617
Overall return	8.25%	8.25%
AFUDC	470,940	417,280
Property taxes	2,223,673	2,221,770
Depreciation	7,065,762	7,045,716

KENTUCKY-AMERICAN WATER COMPANY
CASE NO: 2004-00103
OVERALL FINANCIAL SUMMARY
FOR THE TWELVE MONTHS ENDED: NOVEMBER 30, 2005

DATA: ___ BASE PERIOD ___X___ FORECASTED PERIOD
TYPE OF FILING: ___X___ ORIGINAL ___ ___ UPDATED ___ ___ REVISED
WORKPAPER REFERENCE NO(S): WIP-1 (TOTAL COMPANY)

Witness Responsible: MA Miller, S. A Valentine

SCHEDULE A
Page 1 of 4

Line No.	Description	Supporting Schedule Reference	Forecast Jurisdictional Rev Req	Base Period Jurisdictional Rev Req
2	RATE BASE	B-1	\$156,063,617	\$156,753,304
4	FORECASTED OPERATING INCOME AT CURRENT RATES	C-1	8,789,885	10,788,323
8	EARNED RATE OF RETURN		5.56%	6.88%
10	RATE OF RETURN	J-1	8.25%	8.19%
12	REQUIRED OPERATING INCOME		13,040,248	12,839,096
14	OPERATING INCOME DEFICIENCY		4,250,363	2,051,773
16	GROSS REVENUE CONVERSION FACTOR	H-1	1,688,512	1,688,512
18	REVENUE DEFICIENCY (1)		7,176,819	3,464,442
20	ADJUSTED OPERATING REVENUES	C-1	43,336,002	44,246,522
22	REVENUE REQUIREMENT		220,519,074	247,710,094

(1) THE COMPANY'S PROPOSED RATES PER EXHIBIT 2 ARE DESIGNED TO PRODUCE ADDITIONAL REVENUES OF APPROXIMATELY \$7,176,819

Line No. 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENTS
FIRST REQUEST FOR INFORMATION
ITEMS 1-90

Witness Responsible:

Michael Miller

19. Please provide all memos, reports, e-mails, board actions or other documents prepared by or for KAWC or its affiliates which discuss (either directly or indirectly) the reorganization of American Water Works Company that resulted in the addition of Pennsylvania American Water to the Southeastern Region and/or the transfer of KAWC to the new regional office in Hershey, Pennsylvania, as indicated in the testimony filed with the application.

Response:

See attached memorandums and schedules.

For electronic version, refer to KAW_R_LFCDR1#19_attachment1_062504,
KAW_R_LFCDR1#19_attachment2_062504, KAW_R_LFCDR1#19_attachment3_062504,
and KAW_R_LFCDR1#19_attachment4_062504.

Jeremy Pelczer@AWW
Sent by: Gail
McDevitt@AWW

To: _AWW-Org - Enterprise Notes Users_121202WX@aww
cc:
Subject: Special Announcement From Jeremy Pelczer - President American
Water

11/19/2003 12:51 PM

Dear Colleague,

In the recent 'Shaping our Future' communication, I promised that you would receive the **Vision, Strategy** and Executive Management Team **Structure** this week. After a period of excellent team-work involving people from across the business at a variety of different levels, I am pleased to announce the outcome of these three important initiatives.

The new **Vision** for American Water is: "To be your trusted water resource company, dedicated to delivering innovative solutions." This simple but powerful message will enable us to move forward together in 2004 and beyond. Each word has been carefully chosen after extensive consultation across the business. I believe that this is a Vision for American Water that we can all be proud of and commit ourselves to achieving. I hope you agree that it sums up the relationship we want to have with our key customers and stakeholders.

Following a six-month project to develop a winning **Strategy** that has been thoroughly tested and reviewed by leaders across the business, I can now share the key strategic goals and drivers for the business. We will:

Focus on being a customer responsive company, presenting a single point of contact to our customers, and offer a range of solutions to meet their water and wastewater needs.

Build on our success and core strengths in the drinking water market while expanding our footprint into the wastewater market; capitalizing on the wastewater experience of RWE Thames Water.

Expand both our presence and our range of services in the growing states of the South and West. Continue to serve our customers and grow in our traditionally strong regional markets.

Develop new offers such as desalination; leveraging the expertise and experience of other RWE Thames Water Group companies, notably Pridesa with whom we are building a strong relationship.

Target a long-term "partnership" approach to our most significant customers, the municipalities; it is our relationship with these customers, which will give us our sustainable competitive advantage.

I would welcome your reaction to both the Vision and Strategy and you are invited to let me have your views or questions via email to shapingourfuture@amwater.com.

I am pleased to confirm that we have completed the Organization Review and finalized the **Structure** for American Water.

We have also completed the selection process for the new Executive Management Team in

the new structure. We were supported by an external consulting firm (PDI), which conducted objective assessments using the highest leadership standards and benchmarks for thirty candidates from our existing executive team. From the thirty that went through the assessment centers, ten individuals have been selected for the new roles in the structure. Some of the key features and appointments in the new structure are as follows:

The existing seven regulated Regions, and the five non-regulated regions in AWS have been combined to produce four new streamlined business units. The new Regions have been agreed upon after careful consideration of the following factors: customer numbers; employee numbers; growth potential; "State-culture"; location of offices/assets; spans of control; opportunities for efficiencies; stakeholder management issues; and employee capabilities.

The new Business Units will be led by Regional Managing Directors. The new Regional Managing Directors report to the President of American Water.

The four Regions and their respective Managing Directors are as follows: Western Region, Paul Townsley; Central Region, Terry Gloriod; southeastern, Bob Ross; Northeastern, Andrew Chapman. The current State/Regional Presidents [John Eckart, Eric Thornburg, Chris Jarrett, Ray Jones, Roy Mundy, Dave Schultz] will continue in their existing roles to ensure continuity with their customers, employees, and regulators for the immediate future. Our business in Chile will continue to be led by Eduardo Verdugo.

The Western, Central, and southeastern Regional MD's will be developing their new management structures and will begin the selection process for their direct reports within the next two weeks. The Northeastern Region will continue the organization changes and selection process currently underway as New Jersey-American and Elizabethtown Water are integrated.

A Business Change team that has accountability for shaping and driving through our Business Change initiatives that make up the "building blocks" for change (Culture, Strategy/Organization, Performance, Growing the Business) in a coordinated way has been established and appointments made. This team will be jointly led by Nick Rowe and Opiuyo Oforiokuma.

Strengthened functional roles under the Chief Operating Officer, Jim McGivern, have been created and the following appointments made: Operations and Investment Performance, John Young; Regulatory and Contract Performance, Mick Carmedy; Business Development, Bill Malarkey; and Customer and Shared Business Services, Bob Collington. These functional roles will be responsible for defining common standards and ways of working and ensuring that we are consistently providing the highest levels of service to our customers. Jim McGivern has accountability for business performance and growth across the whole business and for these activities, the Regional MD's will report to him, as well as the President. Our Products & Services business (including AWS) will continue to be led by Walter Lynch, and will report to Jim McGivern. The O&M and military contracts when operational will transition into the new Regions during 2004.

The new Functional Leads will also be undertaking a similar exercise in the next few days to define their structures and select senior managers for their teams.

Dietrich Firnhaber assumes a new RWE/Thames Water Division-wide role leading Legal Services, as well as providing oversight and support to the American's Audit function; and accountability for growing our Property business. Dietrich will also chair our Strategic Review Committee.

Dan Kelleher assumes responsibility for External Affairs, which is the combination of external and internal communication, government relations, representing American Water in industry-wide bodies, community relations, and corporate social responsibility (CSR).

Our Chairman, Bill Alexander, announced on Monday that John Bigelow has been appointed to the new lead Finance role for the Americas, succeeding Ellen Wolf who will leave the Company at the end of November.

Matt Huckin continues in his role as head of the HR function for the Americas.

The structure charts with confirmed appointments and brief bullet point outlines of the roles are included in attachments 1 and 2. Attachment 3 shows a map of the new Regional structure for American Water.

The business model and organization structure has been designed to drive: the creation of the customer service and performance culture; accelerated business growth; the development of common processes and raised standards; continued operational efficiency, integrity and corporate governance. It will also lead to a more integrated business within the new Regions and the achievement of our business targets in the business plan. We will measure our progress in achieving these goals in the coming months.

Although there remains much work to be done as the new Executive Management Team define their structures, the key roles that report to them, and select their teams, I am confident that we are on track to achieve our goals in 2004. I remain committed to ensuring that the process is open, objective, fair, and quickly delivered to reduce any anxiety that such business change typically produces.

If you have any questions surrounding this material, please ensure that you raise them with your Line Manager, your Communication Manager, or your Human Resources representative. Senior managers across the business are being provided with a communication pack that provides further details and information that will enable them to answer any initial questions that you have. This material will be cascaded to you in the coming days and you will have an opportunity to raise your concerns or questions.

Thank you very much for your ongoing commitment and support.

Yours Sincerely,

Jeremy Pelczer
President, American Water



Announcement-Attachments1-2-3-11



Memo

To All American Water Employees From Jeremy Pelczer, President & CEO
Date May 5, 2004 Phone 856.346.8302
subject Organization Restructuring – Fax 856.346.8300
t: Phase 4, Wave 2

Dear Colleague,

Today I want to inform you of the remaining details of Phase 4 of our restructuring. As I indicated in my April 28th communication, we are posting positions in our Customer Service Center, Laboratory Services, and our Information Technology Services department, and certain positions in the Southeast Region.

Accompanying this communication are:

- Structure charts for the Customer and Shared Business Service Areas, Business Center HR, and Southeast Region Environmental Management & Compliance
- Detailed Q&As
- Customer & Shared Business Services Slide Pack

Some of you might wonder why we are proposing changes at the Customer Service Center (CSC) and in our Information Technology Services group when we have completed organizational changes in both areas in the recent past. The answer involves business needs and timing. Those earlier changes occurred before we embarked on our overall organizational redesign. As we have progressed on our journey of preparing American Water for the future, we developed a clear picture of how our support services functions need to be structured to support and enable our operating business units, while achieving an even higher level of customer satisfaction.

To be candid, the CSC at Alton still attracts many questions when we meet with employees. I greatly value the dedication and commitment of all of our employees, and this equally applies to those at the CSC. Only by working closely together toward a common vision and purpose can we best serve our customers. Organization changes are never the entire solution to every issue we face. Rather, they provide an important part of a wider aspiration for operational excellence and passion for customer service.

From my very first restructuring communication on November 19th, when we announced the Executive Management Team, Vision and Strategy, I have committed that we would deliver this process as quickly as possible, without sacrificing the quality of the end result. As I look back at what has been accomplished since November, I believe we have achieved that ambitious goal. Of course, there have been challenges along the way. However, the collective teams that have been committed to delivering the result have done a magnificent job. That includes our Human Resources team, the Regional and AWS leadership teams, the functional leads at the Business Center, and our consultant PDI, and I thank them for their contribution.

Jeremy Pelczer
President & CEO
American Water
1025 Laurel Oak Rd,
Voorhees, NJ 08043
USA
T + 856 346 8302
F + 856 346 8300
I www.amwater.com





Memo

Page 2

I also want to recognize each of you, our employees, who have been so patient during this unsettled period. For many of you the process will have seemed too long and drawn out. I regret any added anxiety that has caused. The approach we have taken to designing the new structure has not been perfect. No restructuring ever is. However, at each phase, I have become increasingly satisfied that the time, effort, thought and consideration that has gone into the organization design will ensure operational reliability and integrity for our customers. That is one of my highest priorities. Today's announcement focuses on several key areas that reinforce operational integrity: laboratories, environment/water quality and ITS. Please use letsachieveit.com if you feel our changes impact such integrity. This is a vital area to get right, and I am determined to do just that.

I am also aware the speed with which we have progressed this process has had an unintended result. That is, the postings of positions have progressed more rapidly than our ability to interview and appoint individuals to roles. We accepted that trade-off in order to inform you of the organization structures and position responsibilities at the earliest time possible. The speed has meant several levels of supervisory employees have not been able to answer questions from their subordinates. That is not a shortcoming of those supervisors. Rather, it is a symptom of the change process we are going through. To the supervisors in the business, I thank you for your support in this circumstance. To those looking to our supervisors, please recognize their best endeavors.

We are making progress with the selection process for Phase 3 positions, and anticipate making a series of appointments over the next days and weeks. As those appointments are made, we will communicate structure charts so that you can see which positions have been filled and by whom. At the same time, we will ask those newly appointed managers and supervisors to communicate with their direct reports and the employees they supervise to keep you as well informed of our ongoing process as possible.

I am receiving some great correspondence from employees, such as one yesterday, which said "we are absolutely committed to pursuing a vision of success... we are a leader in our field... with many opportunities... we are excited and determined". We face hard decisions, but these are necessary to deliver a sustainable, improving future.

Thank you for your continued patience and cooperation.

Yours sincerely,

Jeremy Pelczer

May 5, 2004
American Water
Restructuring Communication – Q & A



Procurement

1) Q: What is the purpose of the Procurement Department?

A: The Procurement Department was established to provide tangible business benefits and improve the way American Water conducts business and serves its customers. The Procurement Department will achieve these goals by negotiating contracts with high quality, low cost product and service providers, and will ultimately aid us in our endeavor to provide water to our customers at the lowest possible cost.

Prior to the establishing the Procurement Department, the Business Units and Regions had varying approaches to procurement. The Procurement Department allows American Water to take advantage of the best practices within the organization and to create synergies across the company. Specifically, the Procurement Department is establishing new purchasing practices and enhancing capabilities. American Water will benefit greatly from having highly skilled and experienced procurement staff, as well as IT systems and tools that are tailored to the needs of the procurement function. All of AW will experience better service from our suppliers, as our supplier relationships will be based on compliance with American Water's performance measures.

2) Q: What are the Regional Procurement Managers responsible for?

A: The Regional Procurement Manager is responsible for delivering financial savings and procurement process improvements for a specific set of regional categories and states. This includes directing and performing the activities for sourcing, vendor and agreement management, and management of the communication of internal customers' business requirements for assigned categories.

3) Q: Why is American Water creating a new Procurement department when the Regions are shrinking headcount?

A: Centralized procurement presents a cost-saving opportunity for American Water. In order to take advantage of the efficiencies associated with centralized purchasing, we must transfer these functions from regional locations and create a new department with a staff capable of executing this new business model. The cost savings to be obtained are anticipated to more than offset the cost of creating the department.

4) Q: What is the role of Operations in Procurement?

A: The Procurement Department has an "Operations" function that will be responsible for building and improving procurement capability through processes, systems, training, and business analyses – including invoice auditing and budget planning – needed to realize and sustain benefits over time. This group will be responsible for Procurement's performance management and knowledge management. "Operations" also includes the Procurement to Pay group who control all purchasing master data within JDEdwards, process JDEdwards purchase orders, and manage the Purchasing Card Program.

5) What is intended with respect to inventory and inventory management systems?

A: The process of identifying opportunities for improvement in inventory and inventory management is ongoing.

May 5, 2004
American Water
Restructuring Communication – Q & A



Information Technology Services

- 6) Q: Where will the positions Database Administrator (Oracle) and Network Server Specialist (AIX) be located?

A: These positions will reside in the Data Center in Hershey, Pennsylvania.

- 7) Is the relocation assistance available for the ITS positions that are posted?

A: Yes. Successful candidates will be offered relocation assistance in line with our existing policy.

- 8) Q: Is this the final structure of the ITS department? If not, when will it end?

A: The latest posting addresses the immediate ITS department needs to support the current business requirements. Further refinements and postings will take place after the outcome of the 8-week Standardized Technology Enabled Process (STEP) engagement. At that time, we will reevaluate our needs based on what the business requires over the next 3 years.

- 9) Q: Why is ITS posting these positions now?

A: Some of the positions are a direct result of feedback that ITS received from the business. Additionally, several of the positions are open positions that have not been previously filled.

- 10) Q: Can I post for one of the open positions if I'm already interviewing as part of the E'Town integration process?

A) Yes.

- 11) Q: What is the distinction between the project manager position posted in the Business Change STEP and those posted within ITS?

A: The position descriptions are nearly identical. However, the ITS project Management positions will be responsible for the management of all IT-related projects, to which they may be assigned, being a STEP project or otherwise. The STEP project management positions will be assigned exclusively to projects that are a part of the STEP project portfolio. In addition, the ITS project managers will tend to have more of an IT background and skill set, whereas, the STEP project managers will have more of a business background.

- 12) Q: Why are the STEP Design Authority positions that were posted on April 28 being listed on the ITS structure charts today? Is it necessary to reapply?

A: The reporting line for those positions have been revised to reflect direct line reporting into ITS, rather than to Business Change. If you applied to the April 28 posting of those positions, it is not necessary to reapply. Your application will be included as part of the new posting.

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American Water
Restructuring Communication – Q & A



13) Q There is currently a Quality Assurance team reporting to the Customer Care group. Are we creating a Quality Assurance team for the Financial Support group as well?

A: We outlined during the last ITS restructuring process, one Quality Assurance team Reporting to the Applications Development area. Staying with the concept of having one Quality Assurance team, we are now posting QA positions for additional QA support. These positions will help focus on the Financial Projects, but will be utilized to help with all QA processes.

14) Q How many Quality Assurance positions will be posted and to whom will they report?

A: There will be three (3) QA Analyst/Testers. The positions will report to the ITS Quality Assurance Manager.

15) Q Where will the posted Quality Assurance positions be located?

A: The posted QA positions will be located with the ITS Team at the AW Corporate Center in Voorhees, NJ.

16) Q Where will the Client Relations positions be physically located?

A: Each region will be assessed by Client Relations Management Team to determine where the support resources need to be allocated.

17) Q Why were some job titles changed?

A: Job titles were changed to more accurately reflect the responsibilities of those positions.

18) Q Why were all the ITS Client Relations Regional Manager and Business Partner (now Team Leads) positions reposted? If I applied to the earlier posting do I need to reapply?

A: There were changes made to the rolés, responsibilities and titles of those positions and as such they required reposting. Because there were changes made to the roles, it is necessary that you reapply.

19) Q Why is there a need for new positions?

A: The last restructuring of the ITS department was completed before the organization design for American Water began. The newly established positions (e.g. Business Report Analysts, etc.) have been created to ensure the department is able to fully support the new American Water organization address those needs and provide more value to the business.

20) How can we provide better value to the business in the Regions when we have reduced the amount of Support Specialists and Team Leads in some of those Regions?

A: The re-alignment and re-allocation of positions is designed to provide the correct amount of resources for the business' varying support needs. While some locations may

May 5, 2004
American Water
Restructuring Communication - Q & A



lose all or some of their on-site ITS staff, those resources will be re-allocated so that the overall business benefits.. Action will be taken to remotely support previously staffed ITS sites.

21) Why were some of the positions posted in the specific Regions? Are these open to other applicants elsewhere in the organization?

A: We are in the process of developing core competencies in Client Relations. For example, the Central Region's core competency is Desktop Services. For that reason we have made the decision to have both Desktop Administrator positions located in the Central Region. As always, if you feel you are qualified you can apply for the position.

22) Q: The total number of applications developers positions (i.e. Developer, Sr. Developer and Lead Developer positions) was reduced. Why?

A: While most areas of the business are streamlining to reflect the new regional structure and eliminating redundant positions to drive costs out of the Business, the ITS Department will be adding positions with this restructuring to reflect the increased size of the Company as well as the growing business demands and workload. Most notable of these increased demands are the increased size of the Americas Region, enhanced requirements for IT support and the advent of the STEP program. That point notwithstanding, the ITS Department - like the rest of the Business - was asked to review each area to ensure that it is structured correctly, and has the right complement of roles and capabilities to meet business needs. As a result of this review, it was determined that the number of Development staff could be reduced modestly, while other roles are increased. Some factors that were taken into account include; (1) the ability to effectively and quickly ramp up development staff (via contractors and/or consultants) to meet fluctuating staff requirements necessary to satisfy project needs, and (2) the efficiencies of scale and synergism that will be realized creating a common Applications Development and Support resource pool.

23) Q: What is the role of the QA Applications Control Specialist?

A: As the Company's applications systems portfolio (both production systems and those Under development) becomes more complex, so, too, does the application change control process. For example, a company-wide change (or enhancement) in ECIS may require migration in a specific order to over 100 test, training, and production system environments. In addition, there is the ongoing need to "refresh" or repopulate the test and training environments with new copies or production data to ensure the soundness of our testing and training process. While our legacy ECIS application is an example of the complexity of these processes, the need to tightly control and execute the application change control processes is by no means limited to that application. The JDE and SAP application, Web Development as well as the applications architecture that will be delivered with the STEP program will all carry varied and involved application change control requirements. As a result, we determined the need to create a role within ITS that will have the primary responsibility for executing and managing this process.

24) Q: Will the two current Applications/Development & Support teams be merged and why?

A: Yes. We are merging the two groups into one and the title of the new team will be Core Business Systems. Some of the ideas and reasons behind merging include: gaining team synergies, to help support the STEP projects, to concentrate on better

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American Water
Restructuring Communication – Q & A



standards and procedures for the development life cycle, added focus on team work, Quality Assurance and testing, and better customer service.

25) Q: Why are there two Manager of Application Architecture positions?

A: The first reason is due to the current workload and future workload of the group to support our legacy and new technologies. The second reason is to have a major focus and a pooling of resources to help support all of our anticipated acquisitions and O&M's. This will help grow our Business Partner relationships with the Business Development teams.

26) Q: I belong to the Elizabethtown IT department. What do these postings mean to me?

A) If you do not post for or are not selected for an open AW ITS position your line manager will meet with you to determine a separation date.

27) Q: Why are the ITS Project Managers reporting to the Project Management Office?

A: We are centralizing all ITS Project Managers into one group with one pool of project management professionals. This will provide more efficient resource allocation to the entire portfolio of projects. Also, it ensures that a single project management methodology will govern all ITS projects.

28) Q: Where will the Project Manager positions be located?

A: The positions could be located in either Voorhees or Hershey. Travel between buildings and to regional offices will be required.

Laboratory Services

29) Q: Why was Belleville Laboratory chosen as the Center of Excellence?

A) The Belleville Laboratory maintains certification in all states that American Water currently operates in and is certified through the National Laboratory Accreditation Program (NELAP). The facility is equipped and certified to analyze for all primary and most secondary drinking water contaminants. Adequate sample capacity can be created with minimal changes to the existing laboratory operation.

30) Q: Due to the consolidation of laboratories, samples will have to be sent to a different laboratory than they are now. When will this change take place?

A: Every effort will be made to ensure that the transition occurs as smoothly as possible. We anticipate that the transition will begin by May 31 and will be completed by July 31, 2004.

31) Q: Changing the processes and protocols for water quality testing can be risky and could jeopardize compliance with EPA requirements. How can we be sure that all of our testing needs will be addressed at the desired quality and in the necessary timeframe?

A: Bob Collington and his management team will be working with the Regions to establish service level agreements for Laboratory Services. This process will define the

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American Water
Restructuring Communication – Q & A



requirements for each Region and ensure that people, processes and technology are in place to address each requirement.

32) Q: By having only one laboratory facility, we will essentially be putting all of our water quality testing "eggs in one basket". What if something happens to the Belleville Lab?

A: Each Region will have an agreement with a local or nationally accredited laboratory that will be ready to accept samples in the event that the Belleville Lab could not analyze samples. This will ensure that under extreme conditions, no lapse in water quality testing will occur.

33) Q: How will Belleville Lab ensure that none of the samples processed there will have to be resampled?

A: Due to the specific QC requirements to generate compliant data, laboratories cannot guarantee that resamples will never be required, especially for short holding time samples. The Belleville Lab has increased redundancy with respect to instrumentation and personnel and will continue to process samples as quickly as possible to provide adequate time to reanalyze samples if necessary.

34) As American Water continues to focus growth efforts in the wastewater industry, the need for wastewater testing will increase. Has a decision been made regarding the creation of a wastewater-testing laboratory?

A: We continue to gather information to determine the feasibility of creating a wastewater laboratory to provide testing for current and future operations. This process will include determining the most appropriate location for this facility, as well as the necessary laboratory design and capabilities. Preliminary information suggests that the current Elizabethtown laboratory may provide the best fit for a future center of excellence for wastewater testing across the company.

Customer Service Center (CSC)

35) Q: Why is the CSC restructuring now?

A: Two important priorities are driving this restructuring process – the requirement for a second customer service center and our desire to create a structure that is typical of top quartile customer centers. A second customer service center helps us achieve several important goals.

- Accommodating the growth of the business since the Alton Center was opened.
- Strengthening our disaster recovery capabilities for emergency situations.
- Providing more flexible scheduling and call handling processes to accommodate training and other operational needs.
- Creating a more comfortable and manageable work environment.

The structural changes are designed to improve our customer service function and adapt our organization to a two-center strategy. The Alton CSC team will lead the second center development; and we do not anticipate any layoffs as a result of the second center. We believe that normal attrition and a small number of employee relocations to the second site will bring us closer to our center's design capacity – about 450 employees.

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American Water
Restructuring Communication – Q & A



This further restructuring will also allow us to respond to feedback from employees at the CSC and in our operating utilities about the need to continue to improve the quality of our service provision to both customers and the operating regions. The structure we are announcing today will allow improved coaching and the quality of management supervision and support teams at the CSC. It will also help us enhance the consistency in application of policies, procedures and performance tools, which are all important to delivering improved service.

36) Q: How can I apply for one of the posted positions?

A: All positions will be posted on System-wide staffing. As each job opening is posted, position requirements and responsibilities will be included. Any employee who meets those requirements and is interested in and capable of fulfilling the responsibilities is encouraged to apply for consideration. These positions are only posted for five days, so candidates must apply promptly.

37) Q: How will I know if I've been successful in my application?

A) The hiring manager will review all resumes and assess qualifications and experience relevant to the posted positions. If they believe that your skills and experience match the position requirements, they will let you know that you have been short-listed for an assessment.

38) Q: What happens once I've been short-listed?

A) Short-listed candidates will be scheduled to attend an assessment process. Typically, the assessments are one-day sessions. After the assessments are complete, a panel composed of an assessment consultant; HR representative and appropriate management team member will review the assessment results and inform the selected candidates.

39) Q: When will the final decisions be made?

A: We plan to complete the restructure and announce all the new positions by the end of July.

40) Q: What happens if I am not successful?

A: If you are unsuccessful in your application, you should discuss your options with your supervisor or an HR team member.

We do not anticipate layoffs as a result of this restructuring; however we are reducing the number of group supervisor positions by one and the number of team supervisor positions will be reduced from 32 to 24.

If you apply for a team supervisor position, your options will depend upon your current role. For example, employees who are currently in positions (such as Customer Service Representative) that are not changing can continue in to those positions if they are not successful in applying for a team supervisor position. If a current team supervisor is not selected for the new team supervisor role, he/she may apply for any other open positions for which he/she is qualified; or choose to leave the company. Severance packages will be offered to employees who no longer have a position with the company. Jeremy Pelczer's March 24th email provides more detailed descriptions of the severance package.

May 5, 2004
American Water
Restructuring Communication – Q & A



41) Q: What are the salaries for the new positions?

A: Our goal is to have the salary information available by the time offers are made to employees. Salaries will be based on comparable positions in the marketplace. We are using an independent consulting firm with solid experience in this area to assist us.

42) Q: Will the changes in the team supervisor positions mean that we will reconfigure the regional pod structure?

A: There will probably be some changes in the pods as we expand the numbers of people reporting to the team supervisors. However, we plan to keep our regional structure intact to support the regions we serve.

43) Q: Will we be outsourcing any functions?

A: There is no outsourcing planned as part of this restructuring. Our collections outsourcing is underway and will continue.

44) Q: Will the number of Call Handling CSR's here in Alton drop from 301 to 270 by the end of the year?

A: We are *estimating* that the number of Call Handling CSRs will decline to *about* 270 by year's end, but this is not an absolute number. We do not intend to lay off any Call Handling CSR's. Based on our current and historic attrition levels, we will likely reach this level, based on attrition; by the time the second center is in place. We also expect that some employees may want to relocate. We encourage qualified employees to apply for jobs at the second center.

45) Q: Why are we planning for a second Customer Service Center? Did we consider just expanding our operation here?

A: When we opened this center in 2001, we planned for 350 employees with a maximum of 430. Today we have more than 500 people working at the CSC. This is not sustainable.

We are also committed to integrating our Elizabethtown customer calls into the Customer Service Center. We believe that we can better maintain the quality of our work environment by limiting the size of a single center.

A second center in a different location also provides backup capability to serve our customers in the event of a major technical problem or a natural disaster. This kind of disaster recovery planning is essential to providing service continuity for our customers.

All of these considerations guided our analysis of alternatives and ultimately led us to the decision that we needed a second center. The relocation of the Elizabethtown customer call volume will form the foundation of a second site, not necessarily located in New Jersey. We're going through a carefully structured process to identify the best location and will inform everyone as soon as the selection is made.

46) Q: How will the second Customer Service Center work? Will it be regionalized?

A: We want to operate as one Customer Service Center, two locations. The second center will mirror our operation in that both centers will handle the same functions. Our regionalized pattern has helped CSC employees build a more detailed understanding of

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our customer needs in a particular region. We will duplicate that successful structure at the second center.

Two centers will allow us to realize some real efficiency by being flexible. For example:

- Two centers will support disaster recovery efforts in an emergency.
- Scheduling and call handling will be simplified. For example, a dramatic increase in calls from one area could be shifted to available CSRs in the second center to improve our customer service.
- Group training opportunities will be enhanced by our ability to shift calls to a second site.

The second center will operate as a satellite to us, and probably will not be a 2417 operation, because our call volume is so much lower during nontraditional hours.

46) Q: What is the timetable for the second center?

A: We're working under a very aggressive schedule, dictated by our commitment to consolidate the Elizabethtown call volume by year's end. We have narrowed our search to five possible locations. Our plan is to:

- Announce the chosen site location as soon as the selection is made.
- Develop a transition plan that allows us to gradually shift work to the new center.
- Transfer Elizabethtown operations into the new site by October.
- Begin integration of the two centers by the end of 2004.

This timetable presumes that we will be able to find an existing building that fits our needs. Although this is a challenging schedule, the team that launched the Alton CSC was able to get it up and running in just three months. We believe we can repeat that success this year, too. One of the key factors in making that happen is keeping everyone informed and involved as we move forward.

47) Q: Will people from the Alton Center have the opportunity to move to the new center?

A: Yes. The success of this transition depends upon the support of the Alton team. The ability to share knowledge, provide mentoring and help us improve and implement new technologies will be vital components of a successful transition. There will be opportunities for people who would like to relocate for short-term as well as permanent assignments. The second center positions will not be posted until later this year.

Shared Financial Service Center

48) Q: The organization chart for Shared Services shows a significant increase in the number of posts. Are all of these going to be based at the SSC in Mount Laurel, and if so, how will they all fit in?

A: It is intended that, eventually, everyone who works for Shared Services will be based at Mount Laurel but in order to accommodate them all, this will require considerable remodeling of the building and additional parking. Our Property Group will be looking at the options and will develop a plan for how we can achieve this. In the meantime, we will make the best use of the space we have available, which means that some of the new posts or teams joining the SSC, as part of this reorganization will be able to move into the Center fairly quickly but others may have to wait. We have not made a final decision yet on whom this will affect.

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49) **Q:** In an earlier set of Q&As, you announced that the Benefits Service Center would be transferring to Shared Services. Is this still the plan and when will this take place?

A: Yes, the Benefits Service Center will be transferring to Shared Services as part of the Employee Services team. The date for this to happen is dependant upon the appointment of the Employee Services Manager, which is being posted as part of the April 28th postings. We are looking at the accommodation needs of the Benefits team and will develop a plan with our Property Group on how we can accommodate the team at Mount Laurel that meets data security requirements. No date has been set yet for this move to happen.

50) **Q:** What has happened to the SAP Transition team in Shared Services that is responsible for managing the E'Town financial services?

A: When the support for E'Town was moved to Shared Services, we set up a separate team with specific SAP experience to manage that transition and provide dedicated services to E'Town. Now that this transition is substantially complete, we have decided to integrate this team with the appropriate functional teams within Shared Services (General Accounting, Cash Management, Fixed Assets and Payroll) and Procurement (Accounts Payable). E'Town will continue to have the dedicated support and this will be the responsibility of the functional team Managers. This move will create more opportunity for SAP knowledge transfer within the teams, in preparation for the STEP project, and will provide a wider pool of expertise to support E'Town.

51) **Q:** Why is Shared Services getting bigger when the rest of the organization has to reduce the number of jobs?

A: Part of the reorganization has included the creation of a new 'slimmed down' Corporate Center that focuses on governance, strategy and policy. This has led to the need to transfer out those activities that are more operational or transactional in nature. Some of those activities are transferring to Shared Services, particularly those from Corporate Finance and HR, and the teams have worked together to identify these activities and the resources needed to perform them. Moving new activities into Shared Services has enabled us to create synergies with our existing responsibilities and we have also examined our current activities to identify further efficiency savings. So, although new jobs are being created in Shared Services, this is due to a substantial increase in workload and these additions are more than offset by the decrease in staff in the corporate HR and Finance areas.

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Witness Responsible:

James Salser

42. Reference the Salser pre-filed testimony at page 10. Please state why fire service billing determinants at January 31, 2004 were not adjusted for use in the forecasted test period.
- (a) Please provide fire service billing determinants at December 31, 2000; December 31, 2001; December 31, 2002; December 31, 2003; and May 31, 2004.
 - (b) Please explain the discrepancy on Schedule M-3-1c between 8268 public fire hydrants listed on line 5 and 6268 public fire hydrants listed on line 7;
 - (c) Please state how many of the correct number of hydrants provide service in the LFUCG jurisdiction;
 - (d) Please state whether KAWC will be providing any public fire protection in the Owenton service territory, and if so, how many hydrants and what charges for hydrants will be involved.

Response:

The public fire and private fire connection revenues should have reflected an increase in the number of public fire hydrants and private fire connections install through the forecast period. See attached schedule KAW_R_LFCDR1#42_attachment_062504.pdf.

a.	December 31, 2000	6,062
	December 31, 2001	6,220
	December 31, 2002	6,320
	December 31, 2003	6,448
	May 31, 2004	6,547

- b. Schedule M-3-1c number 8268 should be 6268.

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- c. Actual as of May 31, 2004 is 6,014.
- d. Owenton is not currently a part of this case.

KENTUCKY AMERICAN WATER

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Present Public Hydrant rate \$ 23.96

Month	No. of Hydrants		Total	Revenues
	LFUCG	Other		
Aug-03 Actual	5,949	460	6,409	\$ 153,560
Sep-03	5,955	460	6,415	153,703
Oct-03	5,955	456	6,411	153,608
Nov-03	5,988	460	6,448	154,494
Dec-03	5,997	451	6,448	154,494
Jan-04	5,997	451	6,448	154,494
Feb-04	5,997	460	6,457	154,710
Mar-04	5,997	460	6,457	154,710
Apr-04	6,000	460	6,460	154,782
May-04	6,014	467	6,481	155,285
Jun-04	6,032	467	6,499	155,716
Jul-04 Projected	6,039	467	6,506	155,884
Base Period				<u>\$ 1,855,440</u>
Dec-04 Projected	6,063	467	6,530	156,459
Jan-05	6,087	467	6,554	157,034
Feb-05	6,090	467	6,557	157,106
Mar-05	6,094	467	6,561	157,202
Apr-05	6,100	467	6,567	157,345
May-05	6,108	467	6,575	157,537
Jun-05	6,115	467	6,582	157,705
Jul-05	6,122	467	6,589	157,872
Aug-05	6,129	467	6,596	158,040
Sep-05	6,136	467	6,603	158,208
Oct-05	6,140	467	6,607	158,304
Nov-05	6,143	467	6,610	158,376
Revised Forecast Period				<u>1,891,188</u>
<u>Per filing - Forecast Period</u>			6,268	<u>1,802,175</u>
Adjustment to increase public fire revenues at present rates				<u>\$ 89,013</u>

KENTUCKY AMERICAN WATER

LFUCG DR # 42
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Private Fire Connections	Present Rate	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04
		Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number
2" Connections	\$ 4.00	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0
4" Connections	16.00	251.0	251.0	251.0	251.0	251.0	251.0	251.0	251.0	251.0	251.0	251.0	251.0
6" Connections	35.96	700.0	706.0	700.0	700.0	701.0	701.0	701.0	701.0	701.0	703.0	705.5	706.0
8" Connections	63.92	252.0	252.0	252.0	252.0	252.0	252.0	252.0	252.0	252.0	252.0	252.0	252.0
10" Connections	99.88	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
12" Connections	143.85	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
14" Connections	195.82	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
16" Connections	255.70	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Private Fire Hydrants	35.96	660.0	689.5	664.5	666.5	670.0	674.0	680.5	684.5	687.0	687.0	687.0	687.5
Revenues		\$ 70,600	70,673	70,762	70,834	70,996	71,140	71,374	71,518	71,608	71,680	71,770	71,806

Private Fire Connections	Present Rate	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05
		Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number
2" Connections	\$ 4.00	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0
4" Connections	16.00	251.0	251.0	251.0	251.0	251.0	251.0	251.0	251.0	251.0	251.0	251.0
6" Connections	35.96	706.0	706.0	706.0	706.5	708.0	708.0	708.0	709.0	709.0	709.0	709.0
8" Connections	63.92	252.0	252.0	252.0	252.0	252.0	252.0	252.0	252.0	252.0	252.0	252.0
10" Connections	99.88	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
12" Connections	143.85	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
14" Connections	195.82	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
16" Connections	255.70	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Private Fire Hydrants	35.96	687.5	689.5	692.0	693.5	696.5	700.75	707.00	710.00	712.50	714.50	717.00
Revenues		71,806	71,877	71,967	72,039	72,201	72,354	72,579	72,723	72,813	72,884	72,974

\$ 868,023

839,000

\$ 29,023

Revised Forecast Period

Per filling - Forecast Period

Adjustment to Increase Private Fire revenues at present rates

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Witness Responsible:

Chris Jarrett

57. Please state whether other employees, including professional or support personnel, are involved in Mr. Mundy's current functions, and if so, please provide the number of such employees, as well as their names and job titles, salaries, fringe benefits and overhead costs that are included in the base period and the forecasted period.

Response:

As President of Kentucky-American Water Company Mr. Mundy is responsible for the company's ultimate purpose—the delivery of potable water that meets or exceeds all requirements at a reasonable cost to its customers. All of the employees of Kentucky-American Water are involved in that effort. Their names, job titles, wages and salaries for the base period and the forecasted test year are shown on W/P 3-1.

Mr. Mundy is assisted in his responsibilities for the delivery of potable water to the customers of Kentucky-American and in his efforts to defend Kentucky-American Water Company from the takeover efforts instituted by the Lexington-Fayette Urban County Government by Patricia L. Ballard, whose compensation is shown in W/P 3-1. Kentucky-American Water Company has not requested the inclusion of any expenses incurred by it in defending the takeover effort for external sources for ratemaking purposes in this case.

Mr. Mundy remains responsible for and involved in the day to day efforts to serve the customers of Kentucky American Water and is devoting his remaining time and effort to the takeover action instituted by the government.