

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR APPROVAL OF) Case No. 2003-00478
ACCOUNTING ACCRUALS)

APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR AN ADJUSTMENT) Case No. 2004-00103
OF ITS RATES)

**LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT'S REQUESTS FOR INFORMATION**

Comes now the Lexington-Fayette Urban County Government (the "LFUCG"), by counsel and pursuant to the Public Service Commission's Scheduling Order of May 28, 2004 and submits its Initial Requests for Information to Kentucky-American Water Company ("KAWC") to be answered in accord with the following:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the company witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from counsel for the LFUCG.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout that would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify counsel for the LFUCG as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT'S
REQUESTS FOR INFORMATION**

1. Can ratepayers expect any enhancement over the current existing level of service as a result of the proposed rate increase?
 - (a) If so, please provide a detailed response that includes the specific benefit or benefits to be provided to each particular customer rate class.
 - (b) Will the LFUCG (as a customer) obtain any additional benefit or benefits (level of maintenance or otherwise) as a result of the proposed increase? If so, please provide a detailed response that includes the specific benefit or benefits to be provided to each particular customer rate class.

2. Please provide a detailed geographic description of each of KAWC's "divisions" (i.e., Central, etc.) as this term is used in the application and/or supporting testimony, the number and type of current customers in each such division, and an explanation as to the criteria that was used to create these divisions.

3. How many additional customers (and of which particular customer rate class) does KAWC anticipate adding system-wide, within each respective division, and within Fayette County over the next 5 years?
 - (a) What is the anticipated level of additional revenue to KAWC as result of the addition of these customers?
 - (b) Assuming KAWC's proposed application is approved, in the event that the actual number of new customers differs significantly from the number estimated, to what extent, if any, will this affect the rates being charged each respective customer classification?

4. Please provide the total number of water service meters assigned to the LFUCG as a customer in the base period and in the forecasted test period, and the total revenue requirement assigned to the LFUCG as a customer in the base period and the forecasted test period.

5. Under how many different types of customer rate classes does the LFUCG currently make payments to KAWC? For each type of class, please provide the following information:

- (a) The type of customer rate class;
- (b) The number of LFUCG accounts in each such class;
- (c) Whether such accounts are metered;
- (d) The account numbers for each separate account;
- (e) The physical location, by street address, GPS marker (or other easily understood designation) of each separate account;
- (f) The basis and explanation for treating the account as a separate account, whether it is because it is separately metered or otherwise;
- (g) The total amount paid by the LFUCG to KAWC for the provision of water for each of its separate accounts for each year, going back the inception of KAWC's last approved rate increase (not including any payments made by the LFUCG for the provision of sanitary sewers or solid waste services); and
- (h) The total net projected impact for each such class under the proposed rate increase.

6. For each separate LFUCG account please provide a detailed analysis showing the impact of the proposed rate versus the existing rate using the most recent 12 month actual useage and billing data. Please also provide a detailed explanation of the formula that was used to obtain this information.

7. Please state what witness(es) will be made available by KAWC to respond to questions concerning the cost of service study filed as Exhibit 36 to the application.

8. Please explain why KAWC failed to file a new or updated fully allocated cost of service study in support of the application.

9. In the event that KAWC had any preliminary or draft cost of service study performed (whether for the entire company or only for selected classes of customers) in preparation for this proceeding, please provide a complete copy of any such study and all documents, including work papers, used in preparing it.

10. Please state whether KAWC believes that the cost of service study filed with this application accurately reflects the current cost of serving KAWC's various classes of customers. If the study does not accurately reflect the returns being earned from each class of customer, please explain in detail whether each class will provide a return greater or lesser than the system return under KAWC's proposed rates.

11. Please state the cost basis, if any, for increasing all customer rates in the "Central Division" by the same percentage.

12. Does KAWC believe that the proposed rate increases and/or the filing will in any way change the amount of franchise fees paid to the LFUCG under its existing franchise agreement with the LFUCG? If so, in what way?

- (a) Does the filing in any way change the types of services for which the franchise fee applies?
- (b) Will the LFUCG's franchise fee apply to all new or different tariffs being proposed by KAWC in its filing (activation fee, etc.) that are provided in Fayette County? If not, please explain in detail.
- (c) Will the LFUCG's franchise fee apply to all tariffs in the application? If not, please explain in detail.
- (d) Please provide the information requested above for all other franchise agreements that KAWC has with any other governmental entity.

13. Please state whether KAWC believes that it should provide water to its customers in its service territory at rates which are competitive with rates charged by other water suppliers in Kentucky. Please provide a detailed explanation.

14. Please provide a copy of any study, analysis or memorandum prepared by or for KAWC or its affiliates that includes or discusses the rates charged by any other water suppliers in Kentucky (regardless of whether said supplier is regulated by the Public Service Commission); or that compares, or discusses a comparison of, KAWC's rates for water service to the rates charged by other water suppliers in Kentucky (regardless of whether said supplier is regulated by the Public Service Commission).

- (a) If no such study or analysis has been performed by or for KAWC or its affiliates, please provide any other study or analysis performed for some other purpose that contains any of the information described above that is in KAWC's or its affiliates' possession.
- (b) If KAWC has no such information, explain in detail how KAWC's management compares the value for the service that it provides to those services provided by other water suppliers. Please provide any and all supporting documentation, including but not limited to, internal memoranda and e-mails that compare, or discuss any comparison of, KAWC's rates to those of other water suppliers in Kentucky.

15. Please state the return on investment that each American Water Works Company affiliated company (West Virginia American Water Company, etc.) was awarded on both common equity and overall in its last rate proceeding.

16. Please provide a detailed explanation of the current internal organizational structure for KAWC along with a copy of the current organizational chart for KAWC.

- (a) Please provide the names, addresses, and occupations of the current KAWC board members, and state whether they are also affiliated with any other RWE company, and if so, which company or companies.
- (b) Please provide a copy of KAWC's organizational chart as of the beginning of the base period.

17. Please provide the same information requested in Question Number 16, above, above for the Southeast Region of American Water Works Company headquartered in Hershey, Pennsylvania.

18. Please provide a detailed explanation of the current organizational structure for KAWC as it relates to the Southeast Region, the American Water Works Company as a whole, and the RWE AG corporate hierarchy, and provide any supporting documents, including any organizational charts. If this information differs from the situation that existed at the beginning of the base period please explain in detail any and all differences.

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.

20. Please provide all draft reorganization plans that have been prepared by or for KAWC or its affiliates since the beginning of the base period.

- (a) If a plan was rejected or amended by KAWC or its affiliates, please state when and why such a plan was rejected or amended.
- (b) Please detail all employment actions that were proposed for KAWC employees as a result of the reorganization process, and whether those proposals were accepted or rejected.

21. With respect to KAWC's current employees, please provide a detailed description of the job function of each type of employee and the number of each type of employee in each particular job type.

- (a) For each of the above, please indicate how many of said employees are part time, how many are contract employees, and how many are allocated to KAWC.
- (b) How many and of which type of employee are located in Lexington, Kentucky?
- (c) If any changes are anticipated with respect to any of the information provided above in the next 5 years, please provide the specific details.
- (d) Please explain in detail any changes with respect to any of the information provided above that have occurred since the beginning of the base period, or which are planned during the forecast period.

22. Please list provide a list of all employees that have been reassigned or whose functions have changed significantly since the beginning of the base period. For each such employee, please provide a description and comparison of their previous job functions and current job functions, the date on which the change took place, and whether said employee is now a full time employee, a part-time employee, a contract employee, or in any other way retained by KAWC. Please provide a copy of all contracts for each contract employee currently retained by KAWC and for any other person or entity with whom KAWC contracts with to provide services to KAWC.

23. Please provide the following information with respect to public fire hydrant charges:

- (a) The total number of hydrants charged to the LFUCG during the base period;
- (b) The total number of hydrants charged to the LFUCG during the forecasted test period;
- (c) The basis for the projection of the number of hydrants charged to the LFUCG during the forecasted test period;
- (d) Any adjustment to hydrant charges to reflect system uses of hydrants, including but not limited to flushing the KAWC system; and
- (e) A detailed explanation of the rationale for increasing hydrant charges at the same rate as the overall "Central Division" increase.

24. The cost of service study provided by KAWC indicates that public fire hydrant fees should not be increased. Please explain in detail the basis for now increasing the tariff for public fire hydrants, and more specifically, the basis for increasing the tariff in the amount proposed.

25. Does the proposed public fire hydrant rate for the LFUCG in any way differ from the rate to be charged to any other entity within the Central Division and/or the KAWC system? If so, please provide any such differences and a detailed explanation as to the justification for such differences.

26. Please detail the administrative cost component attributable to public fire protection as provided in KAWC Exhibit 36, and provide any applicable work papers showing how the cost component is calculated.

27. Please state whether KAWC agrees that all KAWC customers in Fayette County receive the benefit of having public fire protection available. If KAWC disagrees, please provide a detailed explanation.

28. Has KAWC compared or analyzed the proposed monthly rate for each public fire hydrant to those charged by other water utilities in Kentucky? If so, please identify each jurisdiction to which the rates were compared or analyzed and provide the monthly rate per public fire hydrant in those jurisdictions.

29. Please provide the number (quantity), type, and location (by street address or other easy to identify locator) of each fire hydrant for which the LFUCG currently pays a monthly tariff.

30. What is the cost to KAWC (per unit) to acquire each type of fire hydrant?

31. How many additional new fire hydrants does KAWC anticipate being installed in Fayette County over the next 5 years for which the LFUCG would pay a monthly tariff? Please also provide the quantity of each type of fire hydrant.

32. How many existing fire hydrants are scheduled (or anticipated) to be replaced by KAWC in Fayette County over the next 5 years for which the LFUCG currently and/or in the future will pay a monthly tariff? Please provide the quantity of each type of fire hydrant being removed and the quantity and type of fire hydrant that will replace it. Please also provide the number of scheduled installments or additions for each of the next 5 years.

33. Please explain in detail KAWC's current policies, procedures, practices, and/or guidelines for maintaining and/or replacing fire hydrants in Fayette County and provide copies of the same. Does KAWC regularly inspect individual fire hydrants or the collective fire hydrants system in Fayette County?

34. Please describe in detail all maintenance that must be performed by KAWC on each type of fire hydrant to ensure that it operates properly and provide a list of each element of the required maintenance and its monthly cost, as well as how frequently such maintenance must be performed. Describe in detail all maintenance that must be performed by KAWC on the public fire system to ensure that it operates properly.

35. How was KAWC's proposed monthly rate for each type of public fire hydrant determined?

- (a) Please describe in detail each element of the proposed monthly rate for each type of fire hydrant (maintenance and operations, etc.), including the percentage of the rate attributable to each element.
- (b) Does this differ from the existing rate elements? If so, in what regard?
- (c) What percentage of KAWC's proposed monthly rate for each type of fire hydrant is comprised of maintenance?
- (d) What percentage of KAWC's proposed monthly rate for each type of fire hydrant is comprised of costs associated with acquiring or installing the fire hydrant? Please provide this information for each type of fire hydrant for which the LFUCG currently pays a monthly tariff.
- (e) What percentage of the revenue (if any) that is attributable to the public fire hydrant rate is dedicated to maintenance of the hydrants?

36. What depreciable life basis (if any) for each type of fire hydrant does KAWC utilize? Is this the standard industry basis?

37. What is the individual fire flow requirement to which KAWC's water system in Fayette County has been built? Does this differ in any way from the historical or current actual performance level of the system?

38. Does the LFUCG continue to pay for KAWC's cost of installing or acquiring the fire hydrant beyond its depreciable life basis?

39. With respect to the weather normalization proposed by KAWC, please state the dollar impact of such proposal, if any, on the assignment of the proposed revenue increase to public fire hydrant rates.

40. Please provide the annual use of water for fire service for calendar years 2000-2003, inclusive, and for each month as it is or becomes available during the base period. If water use for fire service has been projected for the forecasted test period, please provide that projection as well.

41. Please provide a listing of all events in which fire protection demands have reached 8000 gallons per minute for 4 hours, or 1.92 MGD, for each of the last ten calendar years. Please list date, address of fire or fires, and water used for each such event.

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, 2002; 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.

43. Reference Forecasted Test Period Filing Requirements, Exhibit 31 (Second set) page 24 of 48. Please provide copies of the “comprehensive report on unaccounted for water” referenced in the second paragraph of that page, as well as any follow-up reports on this topic.

44. The KAWC management reports provided as part of Exhibit 31 raise issues regarding the sales to delivery ratios. For instance, as of November 2002, it was reported that KAWC had a 12 month sales to delivery ratio of 86.0% ((First Set) page 12 of 22)). This report also states that KAWC was directing more effort towards its Central Kentucky operation to elevate this percentage. In its January 2003, management report, KAWC stated that sales to delivery had dropped to 84.7%, despite efforts to target the Central Kentucky operation for leak control (Exhibit 31 (Second Set) page 2 of 48). In its March, 2003, report, KAWC stated that its sales to delivery ratio had fallen again, to 84.37%, "a continued decline from 86.7% last year." (Exhibit 31 (Second Set) page 10 of 48). KAWC's June, 2003 report, reported that sales to delivery continued at 84.6%, down from 87.0% a year previously, despite the attention focused on the problem. (Exhibit 31, (Second set) page 24 of 48). Subsequent reports do not address this issue.

- (a) Please provide the sales to delivery ratio for each month since the beginning of the base period.
- (b) As additional months become available, please provide the sales to delivery ratio for such months.
- (c) How much did KAWC spend over and above normal O&M levels in the base period on additional leak detection for its system to address this issue? How much did KAWC project spending on additional leak detection efforts for the projected portion of the base period to address this problem?
- (d) How much has KAWC projected to spend in the forecasted period to address this issue? How much of this amount is over normal O&M?
- (e) Are any leak detection services that KAWC provides as a service to other entities in any way included in any of the responses above? If so, please break down the extent of such services and the associated costs.

45. How much money has KAWC spent on advertising or promotional activities since the beginning of the base period? If possible, please provide such information separately for the Central Division and/or Fayette County and describe in detail the nature (i.e., television, radio, billboard, etc.) and type (i.e. conservation of water, opposition to the LFUCG's condemnation action, etc.) of such advertisement or promotion. Please indicate whether public relations costs or expenses are included in the above, please provide.

- (a) What amount (and percentage), if any, of this advertisement was of material benefit to ratepayers in accordance with Commission regulation 807 KAR 5:016?
- (b) Provide copies of all advertisements paid for in whole or in part by KAWC for this time period.

46. How frequently (on an annual basis) does KAWC disconnect or reconnect service? Are the costs or expenses associated with disconnecting or reconnecting service otherwise reflected in KAWC's overall costs or expenses such as maintenance and operations?

47. Other than its participation in the Bluegrass Water Supply Consortium, has KAWC in any other way continued to pursue a solution to the long term water supply deficit? If so, please provide a detailed explanation of all such efforts, including the parties with whom any meetings were held, the dates of said meetings and the substantive content of such meetings. If any minutes or transcripts of such meetings are available, please provide.

48. Please state whether KAWC intends to charge the \$24 new account setup fee to households which meet the eligibility criteria for KAWC's proposed low income rate reduction.

- (a) Please provide any study or analysis of the impact of the new or transferred service fee on low income households.
- (b) Please provide the cost basis for the proposed \$24 activation fee, including all studies and work-papers used to calculate this proposed charge.

49. Does KAWC engage in non-regulated activities or in any way provide non-regulated service? If so, generally describe all such activities or services in detail and indicate the extent to which KAWC engages in or provides such activities or services.

50. Do any KAWC employees spend any of their time engaged in providing non-regulated service(s)? If so please provide a detailed explanation that includes the names and job descriptions of all such employees and how such costs have been allocated between regulated and non-regulated activities.

51. Please define the term "political activities" as it is used in Exhibit 37, Schedule F, page 11, and provide a detailed breakdown of such activities.

52. Please provide all memos, reports, e-mails, letters, board actions or other documents prepared by or for KAWC and/or its affiliates which discuss (either directly or indirectly) the reassignment of Mr. Roy Mundy's functions whereby he now coordinates and directs KAWC's efforts with respect to the LFUCG condemnation effort on a full time basis, as purported in the filed testimony.

- (a) Please state the date on which Mr. Mundy began working full time on this function, and provide any instructions given to Mr. Mundy as to his role in this function.
- (b) Please provide a copy of any job description for Mr. Mundy that incorporates this full time function.
- (c) Please provide all documentation in support of how Mr. Mundy has actually spent his time since said reassignment, including but not limited to copies of his calendar, scheduling book, and time reports.

53. Reference the Jarret pre-filed testimony at page 5. Please provide all board directives concerning Mr. Mundy's current functions, including any memoranda, motions, board minutes discussing such functions, or any other documents discussing such functions. Please also provide all KAWC board minutes from November, 2002 to present.

54. Reference the Jarrett pre-filed testimony at page 5. Please define the term "transparent" as used in that testimony and provide an organizational chart, including the identity of the person responsible for such functions as of March, 2002, January 1, 2003, and December 31, 2003, as well as a current organizational chart.

55. Please state how, and by whom, Mr. Mundy's former role of directing the day-to-day operations of KAWC is currently being handled. State whether each employee involved in these duties is a full, part time, or allocated employee; and if part-time or allocated, the percentage of that person's time that is devoted to KAWC functions.

- (a) Please state whether Mr. Mundy prepares, reviews or approves advertising or press communications from KAWC and/or any other person or entity concerning the LFUCG's condemnation lawsuit against KAWC.
- (b) Please state whether Mr. Mundy coordinates KAWC's activities with respect to the condemnation with the group know as the Coalition Against a Government Takeover.
- (c) Please provide a copy of all advertisements, press releases, letters to customers and other communications other than formal court filings that have been produced, reviewed or approved by Mr. Mundy, including any such communications that are sponsored by organizations or persons other than KAWC.
- (d) Please detail all adjustments made to either the base period or the forecasted period to remove costs for advertising, lobbying or political activities. Provide such information by account number and state in full the reason for each adjustment.

56. Please provide the total amount of Mr. Mundy's salary, fringe benefits, and overhead that are included in either the base period or the forecasted test period.

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.

58. The testimony of Coleman Bush indicates that in addition to Mr. Mundy, two other employees of KAWC are also involved nearly full time in KAWC's anti-condemnation efforts. Please provide the names and job titles of these employees as well as the total costs including salaries, fringe benefits and overhead that are included in either the base period or the forecasted period:

- (a) Please state how the former functions of these two employees have been reallocated to other employees.
- (b) Please provide all documentation in support of how these employees have actually spent their time since said reassignment, including but not limited to copies of their calendars, scheduling books, and time reports.
- (c) Please state whether any other KAWC employees provide support services for these efforts, and if so, please provide the number of such employees, their names and job titles, and all salaries, fringe benefits and overhead costs that are included in either the base period or the forecasted period.

59. Please state whether any adjustment to either the base period or the forecasted period has been made to remove all or any part of the salaries, benefits or overhead provided in response to Questions Numbers 56 through 58, above, for ratemaking purposes.

- (a) If so, please provide the total adjustment, as well as workpapers used in making such an adjustment.
- (b) If not, please explain in detail why KAWC believes that ratepayers should bear in full the costs of such activities.

60. Please state whether any of the time that has been allocated by the service company to KAWC has been incurred by any employee(s) whose function includes working with Mr. Mundy or others to oppose the LFUCG's condemnation action against KAWC. If so, please provide a detailed explanation of all such time.

61. KAWC's year end 2003 annual report states that it has a full time Vice President–Operations. However, the current application lists no such full time position. Please state when this change occurred, and provide all documents, memos, e-mails, etc., that discuss the reorganization of the function of Vice President–Operations.

- (a) In particular, please state how, and by whom, the duties of this former full time position are currently handled. State whether each employee involved in these duties is a full or part time employee, and if part time or allocated to KAWC, the percentage of that person's time that is devoted to KAWC functions.
- (b) Please state whether any of the costs of the former full time position of Vice President-Operations are included in either the base period or the forecasted period. If so, please state the amount of such included cost, and provide detail of any adjustment to either the base period or forecasted period that has been made to reflect the elimination of that position.

62. Please state the percentage of Mr. Jarrett's time that is allocated to his duties as Chairman of the Board of KAWC. If a specific allocation is not made, please state the percentage of his time that Mr. Jarrett has spent on KAWC business:

- (a) Since the beginning of the base period in this proceeding;
- (b) Since January 1, 2004.

63. Please provide all costs related to the LFUCG's condemnation action against KAWC that are included in the base period or the forecasted period, including but not limited to the following: attorneys fees; allocations of service company expenses; consultant fees; public relations costs or fees; expert witness fees or costs; employee time and costs expended on the condemnation proceeding and related activities, including advertising and customer communications. Please provide copies of all supporting documents.

- (a) Please provide any adjustments made to either the base period or the forecasted period to remove any such costs.
- (b) With respect to any forecasted period, please provide in detail the basis for the estimation made of costs, and provide all workpapers used to make such a forecast.

64. Please state whether Mr. Jarrett makes all operational decisions at KAWC, or whether any of that responsibility is delegated to another KAWC employee or contract worker. If such other employee(s) exists, please state the name of such employee, their position with KAWC or its affiliates, the type of employee (full or part time or contract), and the percentage of their time that is devoted to KAWC duties. Please also describe in detail the types of decisions that such employees make

65. Reference Exhibit No. 17 of the Forecasted Test Period Filing Requirements, page 1 of 3.

- (a) Please provide a specific breakdown of what is included in "General Taxes".
- (b) Please state whether the item "General Taxes" as projected includes income taxes.
- (c) Please state projected income taxes for KAWC as a separate item for 2004, 2005, and 2006.

66. Reference Exhibit No. 21 of the Forecasted Test Period Filing Requirements. Please state whether the 134 employees listed per year are full time employees, or whether some are part time employees, employees whose time is allocated to KAWC, or contract employees.

- (a) If some employees are part time, have their time allocated to KAWC, or are contract employees please provide a breakdown of their numbers, and the percentage of full time that they work for or are allocated to KAWC.
- (b) Please state the name and position of the "operations contract employee" not included in this application, and state why the costs associated with such employee have been removed from consideration.
- (c) Please provide the process by which all costs associated with this operations contract employee have been removed from this application.

67. With respect to KAWC's acquisition of the City of Owenton water and wastewater facilities:

- (a) Please state whether the City of Owenton's customers will be served by KAWC rate schedules, or will continue to be served under Owenton's current rates;
- (b) Have revenues and expenses, or any acquisition costs, associated with Owenton been incorporated into the base period or the forecasted test period? If so, please provide information with respect to the projected revenues and expenses associated with these new customers.
- (c) Please state the closing date for the Owenton acquisition. Please provide copies of all closing documents.
- (d) Please state when KAWC will seek Commission approval for this acquisition. If KAWC believes such approval is not required, please state why.

68. Reference Forecasted Test Period Filing Requirements, Exhibit 31 (Third set) page 12 of 13. Please provide the acquisition contract, plan and forecast for Owenton that includes the "additional OR in the plan and forecast."

69. Does KAWC have any plans to acquire any additional water or wastewater facilities during the forecast period? If so, please provide a detailed explanation.

70. One of KAWC's management report states that it believes that deferral of security costs will be approved because the PSC "ordered on May 30, 2002, that KAWC address its security costs in the next rate case." (Exhibit 31 (First set), page 14 of 22). Please state whether KAWC and its affiliates agreed to the condition requiring withdrawal of its proposed security cost tariff based on its belief that the Commission would approve recovery of those costs as a regulatory asset:

- (a) Please provide all support for such a position from any PSC order, opinion or other communication;
- (b) Please state whether KAWC or its affiliates sought either a formal or informal opinion from the Commission, individual Commission members, or its staff prior to agreeing to the merger conditions affirming its interpretation of the security cost provision. If so, please provide the date or dates of such communication, and written communication, memorandum or notes concerning such communications, and any other evidence of any intention on the part of the Commission to allow KAWC to treat security costs as a deferred debit.

71. Reference the Miller pre-filed testimony at page 13. With respect to KAWC's letter to the Commission dated September 6, 2001 concerning certain deferred items, please explain why KAWC failed to file an application in accordance with the Commission's instructions in Case No. 2002-00120 until December 12, 2003.

72. In its management report of April 2003 (Exhibit 31 (Second set) page 16 of 48), KAWC reports that it held a meeting on April 22, 2003 for its employees with Mr. Warren Rogers, President of the Coalition Against a Government Takeover. Please provide a copy of all materials presented to employees at these meetings.

- (a) Please state whether similar meetings have occurred since the base period began. If so, please state when such meetings occurred, and provide a copy of all materials presented to employees at these meetings. Please also state whether an adjustment has been made to base period expenses to remove the costs (whether direct or indirect) such as employee salary and benefits, from the application. If so, please provide detail of such adjustments.
- (b) If any other such meetings are planned for the forecasted period, please provide any adjustment that has been made to forecasted expenses to remove the direct or indirect costs of such meetings from proposed rates.
- (c) Was Mr. Rogers in any way compensated by KAWC for these meetings? If so, please provide a detailed explanation as well as a copy of any supporting documents including contracts.
- (d) Is Mr. Rogers in any way employed by KAWC or otherwise compensated or paid by KAWC? If so, please explain in detail and provide a copy of all supporting documents including for the performance of any services including contracts.

73. The Management Report of April 2003 (Exhibit 31 at page 17 of 48) also reports that "as a result of volatility in our community, a decision has been made to leave the customer service department in place for the current time, although it appears that the conversion to ORCAM will occur in September."

- (a) Please state the cost of maintaining the customer service department in place after the conversion to ORCAM, and whether any of this cost has been removed from the base period by adjustment or otherwise.
- (b) Please state whether the maintenance of the customer service department after the conversion to ORCAM served any purpose other than public relations. If so, please state the benefit derived by ratepayers from the maintenance of the customer service department after the conversion to ORCAM was complete.

74. The management report for August 2003 reports that KAWC planned to meet with the Commission staff on October 23, 2003 and with the Commissioners on December 5, 2003, respectively (Exhibit 31 (Second set) at page 36 of 48).

- (a) Please state whether such meetings did in fact occur;
- (b) If any such meetings did occur for each such meeting, please provide the following:
 - 1. A list of all attendees at such meetings from KAWC and its affiliates and the Commission;
 - 2. Copies of any agenda(s);
 - 3. Copies of all materials presented or shared at such meetings;
 - 4. A list of all topics discussed at said meetings;
 - 5. Copies of any and all notes taken by representatives of KAWC or its affiliates with respect to such meetings;
 - 6. Copies of any and all memoranda, reports, emails or other documents in the possession of KAWC or its affiliates which discuss these meetings or in any way refer to these meetings; and
 - 7. Copies of any correspondence, in whatever form, from Commission staff or Commissioners to KAWC or its affiliates concerning these meetings;
- (c) Please detail all efforts made by KAWC or its affiliates to notify other interested parties or anyone else that such meetings were to occur.

75. The management report for September 2003, states that with respect to deferred security costs "The Commission has indicated in a response to the company's request for deferral of security and condemnation expense that it will not permit regulatory asset status. The Company will meet with the staff in the next two weeks to discuss before determining how to pursue this issue." ((Exhibit 31 (Second set) pg. 40 of 48). Please state if and when any such meeting(s) occurred. If so, please provide all of the information for all such meetings requested in Question Number 74, above.

76. The November 2003 management report states that “Bill Alexander and Jim McGivern have met with the Public Service Commission staff. Feedback from the visit was very positive. Specific concerns raised during the meeting are being followed up on with staff”. (Exhibit 31 (second set) pg. 44 of 48). Please state whether this meeting was the same meeting scheduled for October 23, 2003 discussed in Question 31 above. If not already provided, please provide all of the information for this meeting or meetings requested in question Number 74, above.

- (a) Please detail the “positive feedback” from this meeting by providing the name of each individual who provided that feedback, the topic of the feedback, and any oral or written communication (including electronic communication, concerning such feedback);
- (b) Please provide a detailed list of the “specific concerns raised during the meeting” that were being followed up on with staff, all communications with staff concerning these concerns, and all communications from the staff or the Commission concerning these issues.

77. The March 2004 management report states that Mr. Mundy and Mr. Whitehouse met with the Commissioners on March 18, 2004. (Exhibit 31 (Third set) page 12 of 13). For all such meetings please provide all of the information requested in Question Number 74, above. Please also state Mr. Whitehouse’s position and duties at the time of this meeting.

78. The March 2004 management report states that “There have been several discussions with Staff regarding the deferral of security costs, and the RWE conditions filing of March 31.” (Exhibit 31 (Third set) page 12 of 13). Please provide the following information with respect to these discussions:

- (a) The date and topic of each discussion;
- (b) The participants in these discussions;
- (c) All of the information requested in Question Number 70, above.

79. Please provide all management reports for 2004 which have not previously been provided, and future reports as they become available.

80. Please provide a copy of KAWC’s audited financial statement for calendar year 2003.

81. Reference the Miller testimony, page 5. Please explain the involvement, if any, of RWE or Thames in obtaining financing in placing KAWC’s long term and short term debt requirements.

82. Reference Mr. Miller's testimony at page 28. Please state the basis for Mr. Miller's belief that the "purpose" of Condition 2 of the RWE merger conditions was to "freeze the rates of KAW until March 16, 2004, or one year after the closing."

- (a) Provide all memoranda or other documents which discuss this viewpoint and formed the basis for KAWC and its affiliates agreeing to the Conditions offered by the Commission in Cases Nos. 2002-00018 and 2002-00317;
- (b) Please state whether KAWC or its affiliates made any effort prior to agreeing to the conditions to clarify whether an accrual of security costs would be an acceptable vehicle for recovering deferred security costs in accordance with Merger Condition 2;
- (c) If such efforts were made, please detail all contacts, discussions or meetings in which this issue was discussed with the Commission or its staff, and provide all notes, memoranda, or other documents related to such contacts;
- (d) Please state in detail why KAWC chose not to apply to the Commission for approval to defer security costs during the pendency of Cases Nos. 2002-00018 or 2002-00317, when any potential misunderstanding on KAWC's part as to the scope of Condition 2 could have been clarified prior to the closing of the merger.

83. At page 53 of his pre-filed testimony, Mr. Miller ties ratepayer benefit from executive compensation to customer service, financial performance and customer satisfaction from operations. Please state the benefit to customers from an executive who does not spend any of his time on company operations.

84. At page 62 of his pre-filed testimony, Mr. Miller states that only 1/3 of the costs associated with service to KAWC's new Northern Division have been allocated to that division. Please state why other KAWC customers should subsidize the customers in KAWC's Northern Division.

85. Mr. Miller also states at page 63 of his pre-filed testimony that in its next rate case, KAWC will move to a uniform tariff for all customers. Please state whether KAWC believes that costs to serve the Northern Division will somehow be reduced by that time, or whether other KAWC customers' subsidy to the Northern Division will be increased by such an action.

- (a) Please state whether other KAWC customers will be expected as a matter of course to subsidize customers of newly acquired utilities either temporarily or permanently in a similar fashion to the proposed treatment for the Northern Division.
- (b) Please reconcile the treatment of the Northern Division customers with the statement at page 64 of Mr. Miller's pre-filed testimony that "The Company believes costs generated by, and easily identifiable for, specific customers should be recovered from those customers generating the activity and cost." Please state whether the Company believes this only applies to individual customers, and if so, please provide a detailed explanation for such a limitation.

86. Please provide the three most recent assessments by the Kentucky Department of Revenue of KAWC's value for property tax purposes, including any explanation provided for any increase in such assessment. Please state whether the premium paid by RWE for KAWC has resulted in an increase in KAWC's assessed value, and if so, the amount of the increase that is attributable to that premium. Please provide copies of the documents submitted by KAWC in support of these assessments.

87. Reference the Salser pre-filed testimony, page 9. Please explain in detail the sale for resale service to be provided to East Clark County and Peak Mill in the forecasted period, and provide copies of any agreements or contracts to provide such service.

88. Reference Exhibit 35, page 1 of 2. Please explain the increase in Service company charges from \$3,028,000 in the base period to \$3,800,000 in the forecasted test period and detail all additional services that will be provided as a result of this increase.

89. Reference Forecasted Test Period Filing Requirements Exhibit 26. Please provide the current strategic business plan referenced in that exhibit, as well as the most recent previous annual strategic business plan.

90. Reference Forecasted Test Period Filing Requirements Exhibit 35, page 2 of 2. Please provide the most recent Service Company annual business plan, and the most recent previous Service Company annual business plan. Please also provide the monthly reviews of the business plan versus actual performance as referenced in that response.

Respectfully submitted,

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Leslye M. Bowman
Director of Litigation

CERTIFICATION

In accordance with the Commission's procedural order of May 27, 2004, the undersigned counsel hereby certifies that the original and one copy of the foregoing document have been filed by United States Mail, first class postage prepaid, to Elizabeth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602-0615, and by uploading the document to the file transfer protocol site designated by the Commission. The undersigned counsel hereby certifies that the electronic version is a true and accurate copy of the document(s) filed in paper medium, the electronic version has been transferred to the Commission, and the Commission and other parties have been notified by electronic mail that the electronic version has been transmitted to the Commission. Undersigned counsel also certifies that a copy of the foregoing was served by first class U.S. Mail delivery, postage prepaid, on the following, all on this the 10 day of June 2004:

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