

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF THE RATES OF KENTUCKY-) CASE NO. 2004-00103
AMERICAN WATER COMPANY)

**LEXINGTON-FAYETTE URBAN
COUNTY GOVERNMENT'S SUPPLEMENTAL
REQUESTS FOR INFORMATION REGARDING
KENTUCKY-AMERICAN WATER COMPANY'S REBUTTAL TESTIMONY**

Comes now the Lexington-Fayette Urban County Government (the "LFUCG"), by counsel and submits its Supplemental Requests for Information Regarding Kentucky-American Water Company's Rebuttal Testimony 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 SUPPLEMENTAL REQUESTS
FOR INFORMATION REGARDING REBUTTAL TESTIMONY**

1. Please refer to pages 7 through 11 of the rebuttal testimony of Coleman Bush pertaining to the proposed Emergency Pricing Tariff ("EPT"), as well as the exhibits thereto.

(a) Has KAWC conducted any meetings regarding the EPT with outside participants such as those listed on page 7 since June 2000? If so please list all such meetings, including the participants and dates. If not, please explain in detail why no additional meetings regarding this tariff were held.

(b) Is KAWC recommending either the revocation of, or amendment of, Lexington-Fayette Urban County Government Ordinance No. 221-2000 (now codified as Section 11-9 of the Code of Ordinances, Lexington-Fayette Urban County Government, "Water shortage response") (the "ordinance")? If so please provide in detail all such recommendations and the justification therefore.

(c) Please explain in detail how the customers of KAWC will be made aware of the EPT prior to its actual implementation and the corresponding increase in their rates. To the extent that such notification relies on the process contained in the ordinance, please explain what additional steps, if any, would be taken for notifying customers outside Fayette County.

(d) How will any additional revenues collected under the EPT be utilized by KAWC? Does KAWC propose to retain all such revenues?

(e) Regarding the proposed residential rate, does the November-April "base period" commence on November 1 and end on April 30? If not, please provide the actual proposed time frame.

(f) Please explain in detail the rationale utilized to come up with different base periods for each customer classification.

(g) Is KAWC willing to consider filing the EPT as a separate matter before the Commission and/or having it considered as part of Commission Case No. 2001-117? Please explain your answer in detail.

2. Please refer to page 5 of the rebuttal testimony of Michael Miller, referencing "additional retained earnings" generated through August 2004. In KAWC updated filing Schedule 37B (page 45 of 45), KAWC reports that at the end of 2003 it had retained earnings of \$26,090,081. At the end of the base period KAWC reports retained earnings of \$22,993,100 (an 11.87% decrease over year end 2003 retained earnings).

(a) Please explain the reason for this apparent decline in retained earnings between year end 2003 and the end of the base period.

(b) Is the balance of retained earnings for the forecasted test year on the updated Schedule 37B the balance for the beginning of, or the end of, the forecasted period?

(c) Please list and explain in detail all assumptions used in calculating the forecasted period retained earnings balance of \$26,030,002.

3. Please refer to pages 8 through 10 of the rebuttal testimony of Michael Miller, and Rebuttal Exhibit MAM-3. Are the rate of returns granted in the West Virginia and/or Arizona rate orders in effect, or have they been stayed?

(a) If either the West Virginia or Arizona rate orders have been stayed, please state when the order was stayed, under whose authority it was stayed, and provide a copy of the order or other document(s) that granted the stay on the rate of return findings.

(b) Please provide the return on equity finding established by the respective regulatory body in Arizona and West Virginia in the last rate case in these jurisdictions.

4. Please refer to page 22 of the rebuttal testimony of Michael Miller. Please provide all **facts** relied upon by Mr. Miller in advising KAWC's auditors that "future rate recovery is likely" for the deferred assets for which recovery is sought in this case. Please provide copies of all documents that Mr. Miller or KAWC provided to its auditors to support this statement.

(a) Did Mr. Miller share the contents of the October 15, 2003 letter from Executive Director of the Public Service Commission, Thomas Dorman, to legal counsel for KAWC wherein the director indicated that with respect to KAWC's attempt to establish regulatory assets to accrue post September 11, 2001 enhanced security costs the Commission's Staff "finds that authorization to establish a regulatory asset to accrue such costs would be a violation of that condition [Condition 2 of the Commission's May 30, 2002 Order in Case No. 2002-00018] and should not be allowed" with KAWC's auditors?

(b) Was the advice by Miller discussed with, or provided to, the auditors prior to the acceptance by KAWC of the merger conditions in PSC Case No. 2002-00018? When was this advice given to the auditors? Please produce a copy of all documents provided by Miller or KAWC to the auditors.

(c) If the basis for this statement by Miller is in any way related to information provided by the Commission or its staff, please fully disclose such information and the content of any discussion, conversation, memorandum, letter, or document (along with copies of the same) including but not limited to the content, date, and persons involved.

5. Please refer to pages 14, 15, and 21 of the rebuttal testimony of Michael Miller, regarding KAWC's use of the future test year and his assertions that it has worked well without serving as a windfall to the company.

(a) Please provide copies of any study, analysis, or information in KAWC's possession that supports its contention that the future test year has "worked well" for its customers. More specifically, please provide any information that demonstrates whether KAWC's rates would be higher or lower if it used an historic test period.

(b) Please provide copies of any study, analysis, or information in KAWC's possession that demonstrates that a windfall to KAWC has not occurred as result of using a future test year.

(c) Please find attached hereto as LFUCG Exhibit No. 1 a copy of a comparative analysis recently published by the Bluegrass Area Development District that includes water and sewer rates charged by the respective utilities in this district, including KAWC. Does KAWC believe that the use of a future test year impacts its relative placement among the utilities? If not, please list and describe the factors that KAWC believes would account for the discrepancy in rates among these utilities.

6. Please refer to pages 24 and 25 of the rebuttal testimony of Michael Miller. If KAWC believed that it would be allowed to recover deferred security costs from the Commission why did it wait until apparently September 24, 2003 to seek permission to accrue these assets?

(a) During the pendency of Commission Case No.'s 2002-00018 or 2002-00317, did KAWC indicate to the Commission or any other party that it intended to accrue security costs for recovery? If so, please provide a detailed explanation that include the content of any communication, the dates, and the persons or parties involved, as well as copies of any supporting documentation.

7. Please refer to pages 27 and 28 of the rebuttal testimony of Michael Miller, regarding his claim that the corrected sales levels are “representative of the sales levels that will occur in 2005.”

(a) The “current strategic business plan” provided by KAWC in Supplemental Response to Attorney General Request for Information No. 176, and in response to the Commission’s August 11, 2004 order, contains projected contribution to operating result of \$290,510, and projected value contribution of \$86,460 for 2005 from the acquisition of Owenton Water. Please define “contribution to operating result” and “value contribution” as used in this schedule.

(b) Are these projected contributions included in the revised sales and revenues? If not, please explain in detail why not, and also provide a current forecast of sales and revenues for Owenton for the forecast period.

(c) Please refer to page 61 of 69 of KAWC’s “current strategic business plan”, where it states that a key assumption of the project plan for Owenton is a “rate increase in year 2”. What is the projected amount of this increase?

8. Please refer to page 29 of the rebuttal testimony of Michael Miller, regarding his claim that the “current strategic business plan” (provided by KAWC in Supplemental Response to Attorney General Request for Information No. 176, and in response to the Commission’s August 11, 2004 order) is not reflective of current conditions. In light of this claim, has KAWC prepared a new or updated “strategic business plan”? If so, please provide a copy of the same. If not, please explain in detail.

(a) The “current strategic business plan” indicates that KAWC intends to avoid future rate cases through 2008. Is this still the intent of KAWC, or has this been modified in any way? If it has been modified, please explain in detail how, and provide copies of all supporting documents that detail, discuss, or outline such modifications.

(b) Please explain, how, in the future, the benefits from acquisitions by KAWC will “flow to customers” (as indicated by Michael Miller on page 43 of his rebuttal testimony) if KAWC exceeds the rate of return sought in this case and does not have to file a new rate case.

9. Please refer to pages 40 and 41 of the rebuttal testimony of Michael Miller. Please provide copies of all invoices for rate case expenses to date that have not previously been provided.

Respectfully submitted,
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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 21st day of October 2004:

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