

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)

COMMISSION STAFF'S THIRD SET
OF INFORMATION REQUESTS TO
KENTUCKY-AMERICAN WATER COMPANY

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Kentucky-American Water Company ("Kentucky-American") file the original, one copy in paper medium, and one copy in electronic medium of the following information with the Commission no later than August 6, 2004, with a copy to all parties of record. The electronic copy shall conform to the provisions of the Commission's Order of May 27, 2004. Each paper copy of the information requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention shall be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be provided for total company operations and jurisdictional operations, separately.

1. a. Identify all studies of which Dr. Vander Weide is aware that estimate the price elasticity of demand for water or natural gas in either Kentucky or the United States.

b. For each study listed in Item 1(a), provide a paper and electronic copy and state the study's estimate of the price elasticity of demand for water or natural gas.

2. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 52. Provide the requested labor costs in the format set forth in Schedule 1 in paper medium and as an Microsoft® Excel 97 spreadsheet.

3. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), Workpapers 3-1 at 2 and Exhibit 37, Schedule C-2 at 1. According to this workpaper, the forecasted levels of EIP and 401k expenses are \$36,503 and \$76,355, respectively. Identify the forecasted expense account contained on Schedule C-2 where the "EIP" and 401k expenses are recorded.

4. In its response to Commission Staff's Second Set of Information Requests, Item 52, Kentucky-American states that, "[t]he Company utilizes the approved budget for each position adjusted for any known and measurable change in the amount of time that may have occurred since the preparation of the budget."

a. Identify and describe each instance in which Kentucky-American adjusted the originally budgeted amount of time for known and measurable changes.

b. Describe the process that Kentucky-American uses to identify the adjustments listed in Item 4(a).

c. Describe the approval process that Kentucky-American and American Water Works Company (“AWWC”) use for the changes in the approved budgets.

5. a. List all costs related to Roy Mundy’s employment that are included in the forecasted test-period operations.

b. Describe how those projected costs will change as a result of Mr. Mundy’s retirement and the appointment of an acting President. Provide all workpapers, show all calculations, and state assumptions used to develop the estimate of any changes in projected costs.

6. Refer to Kentucky-American’s Response to Commission Staff’s Second Set of Information Requests, Item 56(a). State whether the forecasted consulting fees have been adjusted to reflect the filling of the operations engineer position. If adjustments have been made, identify all adjustments to the consulting fees that have been included in the forecasted test period.

7. Refer to Kentucky-American’s Application, Exhibit 37, Schedule C-2 at 1.

a. Provide a detailed description of the forecasted gross receipts and sales tax expense totaling \$78,504.

b. Explain why forecasted gross receipts and sales tax expense totaling \$78,504 is included in forecasted operations.

8. State the amount of sales taxes that Kentucky-American estimates to pay on its projected purchases in the forecasted test period.

9. Refer to the attachment to Kentucky-American’s Response to Commission Staff’s Second Set of Information Requests, Item 57.

a. Provide a comparison for each of the calendar years 2001, 2002, and 2003 by employee of the amounts budgeted for the Annual Incentive Plan (“AIP”) and those actually paid.

b. Explain the level of increase in amounts of AIP included in the forecasted period as compared to the amounts paid in the 3 most recent calendar years.

9. 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.

10. Refer to Kentucky-American’s Response to LFUCG’s First Set of Information Requests, Item 21(d).

a. Estimate the effect of the identified employee retirements, resignations, and hirings upon Kentucky-American’s forecasted operations and revenue

requirement. Show all calculations, provide all workpapers, and state all assumptions used in this response.

b. Provide the positions that Barnett and Smithers filled.

11. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 59. Explain why, if Barbara Brown, David Whitehouse, and Roy Mundy are devoting a portion of their working time to condemnation proceeding-related activities, the portion of their salaries related to such time should be considered in calculating Kentucky-American's rates.

12. Refer to the Direct Testimony of Michael A. Miller and Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 61.

a. Explain why, as no Cost-of-Service Study has been performed since Kentucky-American's acquisition of the Elk Lake Homeowners Association and Tri-Village Water District systems, it would not be reasonable to determine the total percentage increase of the revenue requirement of the entire system and increase all customers' current rates by that percentage amount.

b. State the rates for each Division if the method set forth in Item 12(a) were used. Provide all workpapers, state all assumptions, and show all calculations used to calculate the rates in paper medium and as an Microsoft® Excel 97 spreadsheet.

13. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 61(b). The response is not responsive. Explain why the referenced testimony does not state why it is fair to the customers of the Central

Division that they should be asked to subsidize the rates of the Northern Division. Provide the information as originally requested.

14. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 61(c). Provide all memoranda, correspondence, electronic mail messages, and other documents in which employees of Kentucky-American, Service Company or AWWC or persons retained by those companies discuss the development of a uniform tariff for Kentucky-American or the submission of such tariff to the Commission.

15. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 61(d). State the rates that Kentucky-American would have proposed if a uniform schedule of rates were proposed instead of differing rates for each division. Provide all workpapers, state all assumptions, and show all calculations used to calculate the effects of a uniform tariff in paper medium and as an Microsoft® Excel 97 spreadsheet.

16. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 62(b). This response did not contain the methodology used to allocate Kentucky-American employee time to unregulated activities. Provide the methodology Kentucky-American used to develop "an appropriate number of hours" that it allocates to its unregulated activities. If each employee is responsible for recording on his time sheet the amount of time spent on unregulated activities, describe the internal controls used to ensure accurate reporting.

17. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 63.

a. State whether Kentucky-American has ever realized a profit in a 12-month period for its unregulated activities.

b. State whether Kentucky-American has considered discontinuing its unregulated activities.

c. Describe the accounting procedures that Kentucky-American uses to ensure that the each expense category listed below is properly recorded as unregulated:

- (1) Labor
- (2) Group Insurance
- (3) Pensions
- (4) Insurance other than Group
- (5) General Office Expense
- (6) Miscellaneous
- (7) General Taxes
- (8) M&J Expenses

d. In Exhibit 1 of his testimony, Mr. Bush allocates direct and common costs to the unregulated activities for the rate case.

(1) State whether Kentucky-American allocates these costs on an annual basis to the unregulated operations.

(2) If Kentucky-American allocates these costs on an annual basis, explain the allocation process used.

(3) If Kentucky-American does not allocate these costs on an annual basis, explain why the costs are not allocated.

18. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 65.

a. In this response Kentucky-American states that, "[t]here appears to be good deal of discovery on the part of the interveners, at least in the company's view, that is related to issues not relevant to the setting of rates by the Commission in this case." List each issue to which Kentucky-American is referring.

b. Explain how, as Kentucky-American has not provided information to requests that it deems irrelevant, responding to such information requests increases projected rate case cost.

19. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), Workpapers 3-8 at 1. For each component listed below, provide the name of the person providing the service; the hourly rate charged by the person; the initial budgeted time of each individual to complete the application process; the actual time and amounts billed by each individual to date (include copies of invoices); and an estimate of the amount of time that will be required to finish the application process.

a.	Legal Fees	\$ 280,000
b.	Rate of Return Consultant	\$ 26,350
c.	Lead Lag Study	\$ 20,000
d.	Consultant – Rate Filing	\$ 50,000
e.	Service Company Consultant – Baryenbruch	\$ 20,000
f.	Security Consultants	\$ 15,000
g.	Weather Normalization	\$ 17,119

h. Other \$ 37,000

20. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 69, and Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), Workpapers 3-8 at 1.

a. Explain why, if the contract price for Dr. James Vander Weide is \$25,000, \$26,350 is included in the calculation of rate case expense.

b. Explain why, if the contract price for Kenneth Rubin is \$16,000, \$15,000 is included in the calculation of rate case expense.

21. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 71(c). For each component of the Overhead ratio listed below, describe how the component was calculated, show all calculations, and state all assumptions used to make the Overhead ratio calculation.

a. Pensions	19.75%
b. Workers' Compensation	1.19%
c. Group Insurance	16.99%
d. OPEB's	12.69%
e. Transportation	5.79%

22. Refer to Kentucky-American's Response to the Attorney General's First Request for Information, Item 81, and Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), Workpapers 3-5 at 1. Provide a revised organizational chart that includes the following subsidiaries:

a. Belleville Lab
b. National Call Center

- c. Corporate
- d. ITS
- e. Shared Service Center
- f. Southeast Region

23. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 58, and Kentucky-American's Response to LFUCG's First Request for Information, Item 19 at 53.

a. Explain how Roy Mundy was responsible for Kentucky-American's day-to-day operations if the "business in Kentucky will be managed in line with the general Business Model Principles and will report on a functional basis into the Regional Directors based in Hershey."

b. Explain how management of Kentucky-American at the regional level in "Hershey" is local control.

c. At page 2 of his direct testimony, Chris Jarrett states that, "I am ultimately responsible for the development, management and operations of Kentucky American Water's system, in Kentucky." Describe the management changes and/or restructuring that has occurred since the issuance of the AWWC Communication that gives control and responsibility for the daily management of Kentucky-American to Mr. Jarrett. Provide all documents that evidence or direct this management change or restructuring.

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.

25. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 76(a). Provide itemized descriptions for each entry recorded on this schedule.

26. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 76(b) and the Direct Testimony of Michael A. Miller, Exhibit MAM-5 at 2-3.

a. Explain where the detailed items shown on Exhibit MAM-5 at 2-3 are included in the schedule provided in Kentucky-American's Response to Item 76(b).

b. Explain why the call center cost shown in Kentucky-American's Response to Item 76(b) is \$706,244, but the amount included on Workpaper 3-5 at 1 as call center expenses for the forecasted period is \$831,065.

27. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 76 (c). Provide itemized descriptions for each entry recorded on this schedule.

28. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 76(d) and the Direct Testimony of Michael A. Miller, Exhibit MAM-5 at 4-5.

a. Explain where the detailed items shown on MAM-5 at 4-5 are included in the schedule provided in response to Item 76(d).

b. Explain why the shared service center shown in the response to Item 76(b) is \$434,108, but the amount included on Workpaper 3-5 at 1 as shared service center expenses for the forecasted period is \$448,017.

29. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 77.

a. Provide copies of the orders as originally requested.

b. Provide all written communications, including internal memoranda, correspondence, and electronic mail messages, between Mr. Miller and the other VP/Treasurers and Directors of Rates in AWWC referenced in this response.

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.

31. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1, Workpaper 1-12 at 2.

a. Provide a detailed analysis of the cost of the Elk Lake acquisition in the amount of \$107,432.

b. State whether the \$107,432 represents the cost to acquire the Elk Lake system.

c. If the \$107,432 does not represent the cost to acquire the Elk Lake system, state whether it represents the utility plant acquisition adjustment originally recorded and marked through in the journal entry provided in Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 83(a).

d. Refer to Kentucky-American's Response to the AG's First Request for Information, Item 108, and Application, Exhibit 37-B of at 2. State whether Kentucky-American has overstated Elk Lake's rate base by \$100,941. Explain.

e. Provide a detailed analysis of the cost of the Tri-Village acquisition of \$227,262.

32. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 82(a) at 2. Provide the journal entry for the acquisition of Tri-Village in the same format as the Elk Lake journal entry.

33. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 85(e). The response is not responsive. For each of the three locations identified, provide the amount of security costs projected for the forecasted period and included in forecasted operating expenses, the expense accounts charged, and the name of the vendor providing the security services.

34. Refer to the Direct Testimony of Kenneth Rubin, Schedule 3, and Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 86(a). In the period from August 12, 2001 to September 19, 2003, Kentucky-American spent \$2,180,259, or approximately \$1 million annually, on security

guards at three locations. It currently projects that only \$134,412 will be spent of security guards during the forecasted test period.

a. State the reason for the reduction in the level of security guard costs between the deferral and the forecast periods. Provide a comparison between the daily costs incurred during the deferral period and the projected costs in the forecasted period.

b. State the reasons for Kentucky-American's delay in implementing the changes in its security guards that resulted in the reduced costs.

35. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 92, and Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1, Workpaper 1-12 at 1. In its Order of May 9, 2001 in Case No. 2000-00120,¹ the Commission allowed Kentucky-American an annual amount for community education costs of \$96,316 for the purpose of "developing more extensive conservation efforts." Explain why, as Kentucky-American has included \$146,000 in its forecasted expenses for conservation efforts, it is reasonable or necessary to continue the amortization of community education costs.

36. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 93. The response was not responsive. Identify the utilities whose incentive plans are in line with that of Kentucky-American and provide a copy or summary of each utility's incentive plan.

¹ Case No. 2000-00120, Adjustment of Rates of Kentucky-American Water Company (Ky. PSC May 9, 2001).

37. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 96.

a. Explain why the referenced testimony included the statement that "Monthly system delivery is projected by considering a five-year monthly history of pumpage. This may be adjusted based on judgement concerning future events."

b. Calculate a forecasted fuel and power expense using the 5-year monthly history of pumpage and compare it to the amount included in the application. Provide all workpapers, state all assumptions, and show all calculations used to prepare this response.

c. Calculate a forecasted chemical expense using the 5-year monthly history of pumpage and compare it to the amount included in the application. Provide all workpapers, state all assumptions, and show all calculations used to prepare this response.

38. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 98(c). For each chemical listed, provide the percentage price increase for each year in the period 1999 through 2003.

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.

40. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 99(d). Provide a schedule listing each cost included in the annual numbers for each treatment plant.

41. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Items 52 and 96. Explain why, if the labor capitalization rate for the forecasted test-period is 20.9 percent,² 19.53 percent should be used to capitalize group insurance.

42. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 104.

a. Provide the 2004 Towers and Perrin report when completed.

b. When the 2004 report is completed, estimate the effect the 2004 Report will have on the forecasted pension expense. Provide all workpapers, state all assumptions, and show all calculations used to derive the estimate.

43. Provide Kentucky-American's depreciation plant schedule including original costs of the assets, estimated salvage values, estimated cost of removals, depreciation lives, accumulated depreciation and depreciation expense for the forecasted test period.

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,

²\$1,297,018 Capitalized Labor + \$4,911,289 Total O&M Labor = \$6,208,307
\$1,297,018 Capitalized Labor ÷ \$6,208,307 = 20.9%.

assumptions, and calculations showing the effect of the slippage factors on each forecasted element of rate base and the cost-of-service study.

45. State when Kentucky-American plans to undertake a new depreciation study.

46. In its response to Community Action Council's First Request for Information, Item 4, Kentucky-American states that it does not track the information requested in the second part of the interrogatory.

a. List the categories that Kentucky-American does track.

b. (1) Explain why re-connects, new accounts, new customer accounts, and old customer new address accounts are not tracked.

(2) Explain why tracking such actions would not be beneficial to Kentucky-American.

47. In its response to the Community Action Council's First Request for Information, Item 6, Kentucky-American states that, "[t]he Company made the decision to propose a 25% discount on the service charged based on review of programs in other states as well as tariffs in place or being proposed in other jurisdictions for its sister companies."

a. Identify each program that Kentucky-American reviewed and state the name of the utility conducting the program.

b. Describe how Kentucky-American determined that 25 percent discount on the service charged was the best method to assist low-income families.

c. Identify and describe each option that Kentucky-American considered in its effort to assist low-income families.

d. For each option listed in Item 47(c), state why Kentucky-American chose not to implement that option.

e. State whether Kentucky-American considered giving low-income families a percentage decrease in their usage rates.

f. State the dollar amount of discount that a qualifying customer (low income) can expect to receive based on the current rates and the proposed rates.

48. In its response to the Community Action Council's ("CAC") First Request for Information, Item 7, Kentucky-American states that it has no objection to the Administrator of the Water for Life program using those funds for the purpose of paying the Activation Fee (if approved), if he determines a customer needs assistance with this fee.

a. State whether Kentucky-American intends to contribute additional funds of its own to assist in offsetting this possible need.

b. State whether the \$30,000 generated by this program is enough to handle all types of requests to the Administrator of the fund by those qualifying for assistance.

c. Describe the assistance that Kentucky-American would provide these individuals if the level of funding to the program is insufficient.

49. In its response to the Attorney General's ("AG") First Request for Information, Item 4(f), Kentucky-American states that, "[t]he details [of administering and accepting applications by mail] have not been fully worked out but if CAC is agreeable, it would appear reasonable that certification could be obtained in this manner barring some problem or question about the information required direct contact."

a. State whether Kentucky-American intends to develop in conjunction with CAC an application form to disperse to their customers inquiring about the availability of the Low Income Program (Water for Life Fund).

b. State whether Kentucky-American already has available these forms pre-addressed (to CAC) concerning the availability of the Low Income Program (Water for Life Fund).

c. State whether Kentucky-American plans to have pre-addressed (to CAC) application forms available to mail, distribute or otherwise make available to customers inquiring about the availability of the Low Income Program (Water for Life Fund).

d. State the cost to the applicant to participate in this program.

50. In its response to the AG's First Request for Information, Item 23, Kentucky-American states that, "field costs are only part of the cost used to develop the activation fee. The fee also includes, among other costs, office costs to set up the account."

a. Explain why cellular phone service is allocated to this fee.

b. Explain why, if the supervisor has sorted these "requests" by route, a cell phone expense is necessary.

c. Explain why the employee responsible for providing this service would not be able to find the location without the use or necessity of a cell phone.

d. Explain why the cost allocated should be \$2,294 and not \$0.00. (The \$2,294 is the calculation using the "factors" devised by the Company applied to a total of \$18,363.)

e. Explain why Miscellaneous Operator Service expenses are allocated to this fee.

f. What would this be for and why should there be \$12,783 after using the “factors” devised by the Company applied to the total of \$119,381?

g. Explain how Kentucky-American devised all “factors” used in the allocation of costs, mileage, customer calls, etc. in relation to this activation fee.

51. In its response to the AG’s First Request for Information, Item 23, Kentucky-American states that, “[a]ccording to CAC representatives, depending on the timing of receipts into the fund, there were times when there were no funds available during 2003.”

a. Describe how contributions from the stockholders are deposited into this fund.

b. State whether Kentucky-American has developed any method to prevent the Water for Life Fund from being depleted before the next deposit is made.

c. State whether Kentucky-American has considered increasing its assistance to this fund.

d. State whether Kentucky-American has devised a public education campaign to bring awareness to the need for assistance for low-income families.

52. In its response to the AG’s First Request for Information, Item 14, Kentucky-American states that, “[t]he Company is not seeking approval of this tariff but simply notifying the PSC that it supports economic development and would like to support efforts in an incentive tariff once the source of supply solution is implemented.”

a. State whether Kentucky-American intends to withdraw the tariff contained in its application.

b. Describe Kentucky-American's efforts to support economic development prior to the filing of its application in this proceeding.

53. In response to Commission Staff's Second Set of Information Requests, Item 5, Kentucky-American states that, "KAWC has informed Dr. Vander Weide that it is not proposing the Emergency Pricing Tariff in this proceeding." State whether Kentucky-American intends to withdraw the Emergency Pricing Tariff from its application in this proceeding.

54. In its response to the AG's First Request for Information, Item 23, Kentucky-American states that, "once the Company enters the rationing phase of its DMP it envisions more frequent meter readings with the mailing of an interim notice that would alert customers that a change in demand may be necessary to avoid paying the approved emergency pricing tariffed rates."

a. Explain why Kentucky-American failed to describe a "dramatic increase in costs" statement.

b. Explain why an increase in meter readings and costs would be necessary.

c. State whether Kentucky-American is of the opinion that customers would fail to curtail their water usage if the meters were only read once per month. Explain.

55. In response to Commission Staff's Second Set of Information Requests, Item 31, Kentucky-American states that, "[t]he proposed tariff is intended to supplement

the assistance to those customers in the most need of assistance in addition to the assistance already provided by the stockholders of Kentucky American.” State whether Kentucky-American stockholders considered increasing their contribution to the fund.

56. In response to Commission Staff’s Second Set of Information Requests, Item 26(a), Kentucky-American states that, “[t]he purpose of the low income tariff is to provide assistance to those customers who have the most difficulty in paying monthly utility bills and along with other monthly requirements.”

a. Explain why Kentucky-American has proposed to reduce the service charge and not the water usage portion of the bill.

b. Explain why the proposed discount is not applied to the water usage portion of the low income customer’s bill.

57. In response to Commission Staff’s Second Set of Information Requests, Item 39, Kentucky-American states that, “[f]or the new services contract, all pre-qualified pipeline contractors are invited to bid. Probationary contractors are not invited to bid on the new services contract. At the end of the year, if performance has been good and prices are reasonable, the contractor may be asked if they wish to extend the contract for an additional year.”

a. State whether, if only the pre-qualified contractors are allowed to bid and if they are awarded the contract, their performance would not have already been evaluated prior to this process.

b. State whether, if only the pre-qualified contractors are allowed to bid and if they are awarded the contract, their prices would not have already been considered reasonable.

c. State whether, if a contract is being granted for a certain cost, is it not reasonable to assume that Kentucky-American knows the “tapping fee” required for that year and should not be required to update its tariff based on this amount yearly.

58. Kentucky-American states in its response to Item 39 of Commission Staff’s Second Set of Information Requests that, “By using a three-year cost average Kentucky American Water can smooth out fluctuations that may occur because of a change in the number of taps on any given year, but still use recent enough history for the pricing to be current.”

a. Would it be reasonable to use a 2-year average or use a 5-year average for your time frame?

b. Do the costs fluctuate that much that Kentucky-American could not consider a different time frame in its average?

59. In response to Commission Staff’s Second Set of Information Requests, Item 43, Kentucky-American states that, “[a] few new services are installed by the Central Division new services contractor outside of the blanket contract when Kentucky American Water personnel are engaged in other activities or when it is a particularly difficult installation.”

a. State whether a separate contract is used for this type of work.

b. Identify the official who determines if an installation is “particularly difficult.”

c. Define “particularly difficult installation.”

60. Refer to Kentucky-American’s Response to the AG’s First Request for Information, Item 75 at 5 and Item 121, and Kentucky-American’s Response to

Commission Staff's First Set of Information Requests, Item 15. Explain why, in light of recent salary increases of a much lower rate, Kentucky-American's use of a salary increase rate of 4.75 percent is appropriate and reasonable.

61. State why it is reasonable to include for rate-making purposes the portion of the incentive pay reward attributable to Kentucky-American's financial performance when the benefits of such reward accrue only to Kentucky-American shareholders.

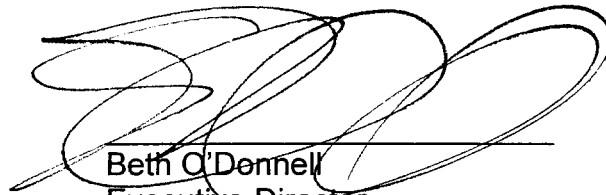
62. Refer to Kentucky-American's Response to the AG's First Request for Information, Item 57. Provide a schedule that details the allocation of the entire cost for each item listed. This schedule shall include the name of each entity receiving an allocation of these costs, the entity's number of customers, total number of customers for all entities, percentage of number of customers for each entity, the amount allocated to each entity, and the total allocated costs.

63. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1, Workpaper 3-7. Provide a detailed summary of the total pension costs of \$35,623,816. The breakdown shall show separately the amounts included for service costs, interest, return on plan assets, amortization and gains and losses.

64. State whether Kentucky-American has adjusted its shareholders equity for a portion of AWWC's minimum pension liability in excess of its accrued pension costs as reflected in American Water Works Pension Plan: Actuarial Valuation Report (Towers Perrin November 2003) at 8. Explain.

65. Refer to Kentucky-American's Response to the AG's First Request for Information, Item 94. Provide all correspondence received from each consultant in response to the RFP.

66. Refer to Kentucky-American's response to Item 105 of the AG's First Request for Information. Identify all office equipment that will be replaced by the items listed. Has the replaced equipment been removed from office furniture and equipment as stated in the forecasted test period? Provide the journal entries used to record the retirements.

A handwritten signature in black ink, appearing to read 'Beth O'Donnell', is written over a horizontal line. The signature is stylized with large loops and flourishes.

Beth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

Dated: July 16, 2004

cc: Parties of Record

