COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

COMMISSION STAFF'S FOURTH 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 November 3, 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. Each 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. At page 6 of his Rebuttal Testimony, Dr. James H. Vander Weide states that "the Florida Public Service Commission relies entirely on *Value Line* natural gas companies to estimate the cost of equity for Florida water utilities." State whether the basis for Dr. Vander Weide's statement is a memorandum, dated May 20, 2004, from the Division of Economic Regulation to the Director, Division of the Commission Clerk & Administrative Services. If this document is not the basis for Dr. Vander Weide's statement, provide a copy of the document(s) upon which he bases his statement.

b. State why, in Dr. Vander Weide's opinion, the Florida Public Service Commission relies on *Value Line* natural gas companies to estimate the cost of equity for Florida water utilities. Provide all reports, public statements, Commission orders and related documents upon which Dr. Vander Weide bases his opinion.

2. Refer to Rebuttal Testimony of Dr. James H. Vander Weide at 11.

a. Describe the difference between a Treasury note and a Treasury bond.

b. State the term lengths available for long-term Treasury bonds.

c. State the term length of long-term bonds that Dr. Vander Weide recommends to use as the risk free rate in the Capital Asset Pricing Model ("CAPM")?

d. Describe the availability of long-term Treasury bonds to investors.

3. State whether Kentucky-American is presenting in the current proceeding the Emergency Pricing Tariff, which is attached as Exhibit 2 to the Rebuttal Testimony of Coleman D. Bush, for Commission review and approval.

4. a. Describe the circumstances under which and the type of customers to whom Kentucky-American proposes to assess the proposed activation fee.

b. Describe the circumstances under which a customer requesting water service would not be assessed the proposed activation fee.

5. a. At page 1 of his Rebuttal Testimony, Dr. Edward L. Spitznagel, Jr. states that "the estimated decline in residential consumption is due to the 'thirty-year normal' not changing from the Dec2002-Nov2001 estimate to the Dec2004-Nov2005 estimate. Rather, the changes in thirty-year normals from the Oct1997-Sep1998 estimate to the Dec2000-Nov2001 held the consumption estimates high, despite the statistically significant time trend downward in every model." Explain how the "thirty-year normals" changing from October 1997 – September 1998 to December 2000 – November 2001 held the consumption estimate high.

b. Explain how, if the "thirty-year normal" did not change from December 2000 – November 2001 to December 2004 – November 2005, this event has caused the consumption levels to decrease over this period

6. a. Provide for each customer classification the average daily water usage based the 12-month period ending September 30, 2004,

b. In Exhibit 37M (Original) of its Application, Kentucky-American indicated that the number of customers in the end of the base period would exceed the number of customers in the end of the forecasted test period. In Exhibit 37M (Updated), Kentucky-American indicates that the number of customers in the end of the forecasted test period will exceed the number of customers at the end of the base test period. Explain the discrepancy.

c. Explain why the stated number of customer bills for the 12-month period ending November 30, 2005 differs in Kentucky-American's Business Plan, its forecasted period, and Exhibit 37M (Updated).

7. Refer to Rebuttal Testimony of Linda C. Bridwell at 2.

a. State the cost of the sedimentation removals performed in August 2002 and July 2004. Provide the vendor or contractor invoices for each removal.

b. State the extent to which the failure to "remove all of the solids" during the August 2002 effort contributed to the need to perform sedimentation removal in July 2004.

c. State whether the contractor removed all solids during the sedimentation removal in July 2004. If no, explain why all of the solids were not removed.

d. Regarding the sedimentation removal performed in August 2002, Ms. Bridwell states: "Due to scheduling conflicts with the contractor and significant unanticipated expense, Kentucky American Water was able to clear the area around the discharge point but not remove all of the solids."

(1) State what Ms. Bridwell means by "unanticipated expense."

(2) Explain why this unanticipated expense prevented Kentucky-American from removing all solids.

e. State the number of gallons of waste that Kentucky-American anticipates to be removed in the forecasted test period.

f. State the number of gallons of waste that Kentucky-American anticipates to be removed annually in each year following the end of the forecasted test period.

g. Ms. Bridwell states that "Kentucky-American has experienced increased demands, greater requirements for turbidity removal and thus increased chemical additions for that removal, and increased use of Kentucky River raw water at the Richmond Road Station" and asserts that these factors caused Kentucky-American's historical waste removal costs. Provide documentary and statistical evidence that the factors that Ms. Bridwell lists have reached the level that render biennial sedimentation removal inadequate and require annual sedimentation removal.

8. Provide for each calendar year from 2000 to 2003 a comparison of budgeted and actual Other Maintenance expenses. Show separately the total amount of deferred maintenance amortization from the on-going routine maintenance. Explain any variances.

9. a. Provide the quantitative analysis that Kentucky-American performed to determine that the initial investment plus the cost of restoring the Tri-Village Water District and Elk Lake Water Company facilities to required standards did not adversely affect the rates of those two water systems.

b. If Kentucky-American did not perform such analysis,

(1) Explain why.

(2) Explain how the criteria set forth in Case No. 9059[1]can be applied to Kentucky-American's acquisitions of Tri-Village and Elk Lake.

10. List all options that Tri-Village explored to resolve the operating deficiencies of its water distribution system.

11. At page 3 of his Rebuttal Testimony, Coleman Bush states that "Tri-Village was routinely required by state regulators to provide public notice to its customers that its water exceeded health limits for disinfection by-products. Because of the water quality expertise of the Company and its application to the Tri-Village system, there have been no occurrences of public notification due to exceeding health limits for disinfection by-products since and even before Kentucky American purchased the system." Explain the phrase "even before Kentucky American purchased the system."

12. Describe the measures that Tri-Village and Kentucky-American (on behalf of Tri-Village) took to reduce or eliminate its disinfection by-products problem.

13. At page 3 of his Rebuttal Testimony, Coleman Bush states that "[i]n the case of the Elk Lake system, the Elk Lake system water treatment plant was inadequate to meet the filtered turbidity limits that will go into effect January 1, 2005." Describe the inadequacies of Elk Lake's water treatment plant and explain why these could not be remedied to meet the new filtered turbidity limits.

14. List all options that Elk Lake explored to resolve the operating deficiencies of its water distribution system.

[1] Case No. 9059, An Adjustment of Rates of Delta Natural Gas Company, Inc. (Ky.PSC Sept. 11, 1985).

15. Explain why, given each water system's operational problems and seeming inability to comply with regulatory requirements, Kentucky-American was unable to negotiate a purchase price at or below book value for Tri-Village or Elk Lake.

16. Identify all persons or firms who, within the last 5 years, made an offer to acquire either Tri-Village or Elk Lake or made an inquiry regarding those water system's availability for purchase. State the date when the offer or inquiry was made.

17. Describe Kentucky-American's negotiations for Tri-Village and Elk Lake. List each offer that Kentucky-American made and any counter-proposals that the sellers made.

18. Refer to Kentucky-American's Response to Commission Staff's Third Set of Information Requests, Item 31a.

a. Restate KAW_R_PSCDR3#31e_attachment_080604 to provide a description of the charges that each entry represents.

b. Kentucky-American has included legal fees totaling $8,500.42 in the Elk Lake acquisition adjustment. Describe the legal services provided for these fees. For each item, explain why Kentucky-American's in-house legal staff could not perform these services.

c. Kentucky-American has included labor costs totaling $2,407.56 in the Elk Lake acquisition adjustment. Describe the labor represented in each entry.

d. Kentucky-American has included legal fees totaling $43,955.65 in the Tri-Village acquisition adjustment. For each item listed as a legal fee and described in Kentucky-American's Response to Item 18(a), explain why Kentucky-American's in-house legal staff could not perform the service(s).

e. Kentucky-American has included consulting fees of $17,447.36 in the Tri-Village acquisition adjustment. For each item listed as a consulting fee and described in Kentucky-American's Response to Item 18(a), explain why a Kentucky-American employee could not perform the service(s).

f. Explain why it is appropriate to include annual recurring company labor in a deferred debit when forecasted labor expense also includes a provision for annual recurring labor. The response should consider Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 55(b), and explain how the deferred payroll for an acquisition adjustment differs from rate case expense,

19. List by account title and number all amounts for legal fees included in the forecasted test year. For each entry to these accounts, provide a description of the legal services to be rendered.

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

a. Kentucky-American's budgeted number of employees does not equal the actual number of employees in any month for the 5-year historical period shown. State whether Kentucky-American assumes in its routine budgeting of payroll costs that a full complement of employees will be hired and retained. If such assumption is not made, state whether Kentucky-American assumes that the vacancies will go unfilled and budgets overtime for actual employees

b. Provide the budgeted and actual overtime hours for the number of employees stated for each period listed.

c. Explain any differences in Kentucky-American's routine budgeting procedures regarding payroll and the payroll budgeting procedures used when developing a forecasted test period utilized in this and previous rate applications. Specific mention should be made to overtime hours to compensate for vacant positions if applicable.

d. Identify where the elimination of Kentucky-American employee positions is reflected on this schedule as a result of the development of the Customer Call Center and Shared Services Center.

21. Refer to Kentucky-American's Application, Exhibit 37, Schedule F. Describe the services that Kentucky-American receives for the expenses listed below:

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| a. | U.K. Faculty Club | $180 |
| b. | Rotary | 830 |
| c. | Lexington Kiwanis | 110 |
| d. | Lafayette Club | 2,580 |
| e. | Audubon Society | 90 |

22. Provide a detailed summary of forecasted advertising expenses charged to the following accounts as shown at Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1, W/P 3-13, Page 1 of 7. The summary shall detail the nature (e.g., television, radio, billboard), the message, and the anticipated cost of each advertisement or promotion.

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| a. | Advertising AG | $3,076 |
| b. | Advertising AG | 134,704 |
| c. | Advertising AG-allo to TV & EL | (900) |

23. List the characteristics of AFUDC bearing CWIP as compared to Non-AFUDC bearing CWIP as recorded by Kentucky-American.

24. Provide a listing of all CWIP projects individually as included in the forecasted test year 13-month average balance. Show AFUDC bearing CWIP separately from the Non-AFUDC bearing CWIP.

25. a. State whether, as a result of Lexington-Fayette Urban County Government's efforts to acquire Kentucky-American's assets through condemnation proceedings, Kentucky-American has relied more heavily on the American Water Works Service Company ("Service Company") to conduct its day-to-day operations and long-term operations.

b. If Kentucky-American relied more heavily on the Service Company, state whether the forecasted Service Company charges of $3,800,309 reflect this greater involvement. If yes, identify the additional services that the Service Company is providing, the cost of these services, and the provider of the services.

c. Kentucky-American has previously stated that employee time committed toward the condemnation effort is not being tracked. Provide for each employee position listed in W/P 3-1 an estimate of time that will be spent working on matters related to the condemnation proceeding during the forecasted period.

d. List each Kentucky-American employee that has devoted a portion of his or her work hours to company matters related to the condemnation proceeding since LFUGC brought its condemnation action in Fayette Circuit Court. Provide an estimate of the time spent on the condemnation effort by these employees. These estimates shall be stated separately on an annual basis.

e. Provide an itemized listing of all costs that Kentucky-American has incurred as a result of the condemnation case since LFUGC brought its condemnation action in Fayette Circuit Court. For each entry, provide the name of the vendor, a description of the service, the date on which the service was provided and the amount charged.

26. Explain and quantify the increase in forecasted management fees of $3,800,309 from those of $3,023,966 charged for the calendar year end December 31, 2003, as included at PLB, Schedule 3.

27. Refer to the Direct Testimony of Patrick Baryenbruch, Exhibit PLB, Schedule 3. Restate this exhibit to reflect the forecasted management fees totaling $3,800,309. Show separately directly assignable cost from those allocated. Also show separately all costs relating to efforts to opposed condemnation actions by local governments for each operating unit.

28. List all regulated American Water Works subsidiaries. For each subsidiary state:

a. The amount of deferred security costs.

b. Whether the deferred security costs have been included in rates through amortization expense and/or rate base inclusion.

c. Any limitations of security costs included in rates that the state or local regulatory authority has imposed.

d. The number of customers served.

29. Refer to the Direct Testimony of Bruce Lawson at 14 – 15. State the basis for Mr. Lawson's statement that "[i]n the aftermath of 9/11, competition for the services

of these officers was intense, as numerous entities sought to protect their critical facilities from potential terrorist attack. Competitive bidding in these circumstances was not practicable." Provide all references to personal interviews, media accounts, governmental studies or reports, or other studies or analyses, upon which Mr. Lawson relied.

30. Refer to the Direct Testimony of Dr. Kenneth Rubin at footnote 13. Provide the materials to which Dr. Rubin makes reference.

31. Refer to the Direct Testimony of Dr. Kenneth Rubin. Restate Schedule 7 based solely on information from the 92 American Water systems.

32. Refer to Kentucky-American's Response to Commission Staff's Third Set of Information Requests, Item (34)(a) and (b).

a. State for the period from September 12, 2001 to August 19, 2003, the number of guards and the times of their posting for the following locations:

(1) Lock and Dam Number 9.

(2) Kentucky River Water Treatment Plant.

(3) Richmond Road Water Treatment Plant.

b. Explain why Kentucky-American required two years to conduct its own analysis of vulnerability to terrorist threats and take countermeasures necessary to reduce the number of guards needed to secure the guarded locations.

c. Explain why Kentucky-American considers the length of time that it took to conduct a vulnerability analysis and employ necessary countermeasures is reasonable and prudent.

33. Refer to Kentucky-American's Response to Commission Staff's Third Set of Information Requests, Item 33. For each location in question, state the forecasted number of hours and the forecasted number of guards that will be posted daily.

34. Refer to the Direct Testimony of Dr. Kenneth Rubin, Schedule 3. Explain why there are no deferred guard fees from August 19, 2003 to September 12, 2003.

35. Describe the process through which Kentucky-American obtained the services of Alliance Staffing and Murray Guard.

36. Refer to the Direct Testimony of Dr. Kenneth Rubin, Schedule 3. Provide for each listed item that was capitalized as utility plant in service, a calculation of the average depreciable life weighted on the cost of the asset to total. The calculation shall include a description of each asset, its cost and depreciable life.

37. Provide a comparison of budgeted to actual OPEB expenses for the years 1999, 2000, 2001, 2002, and 2003.

38. a. Describe the procedures and assumptions that Kentucky-American routinely uses for its annual budgeting of OPEBs.

b. Describe the procedures and assumptions that Kentucky-American uses to budget OPEBs for a forecasted test period for rate-making purposes.

c. If Kentucky-American uses different procedures or assumptions, explain why differing procedures or assumptions are used.

39. At page 42 of his Rebuttal Testimony, Michael A. Miller refers to "$117,525 of management fee costs associated with business development." Describe in detail these costs.

40. At page 42 of his Rebuttal Testimony, Michael A. Miller states that "[t]he Company is required to expend cash at the statutory federal tax rate for the federal tax liability generated from the taxable income of the Company." Explain.

41. State whether Kentucky-American agrees with off-setting the daily requirement with the items listed in the Direct Testimony of Andrea C. Crane at Schedule ACC-8 and 8-A. Explain.

42. Refer to Rebuttal Testimony of Dr. James H. Vander Weide at 16. Provide all studies, reports and analyses upon which Dr. Vander Weide based his statements regarding short-term interest rates in response to Question 37.

43. In Case Number 2001-00092,[2] the Commission allowed the use of an effective state income tax rate that was lower than the statutory rate as a result of allocating losses of non-regulated entities to Kentucky operations. State how the AG's proposed treatment of federal taxes in this case differs from the Commission's ruling in that case.

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DATED: October 22, 2004

cc: Parties of Record

[2] Case No. 2001-00092, Adjustment of Gas Rates of The Union Light, Heat and Power Company (Ky.PSC Jan. 31. 2002).