

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143
ATTORNEY GENERAL'S REQUEST FOR INFORMATION
Item 285 of 312

Witness: Michael A. Miller

285. List and describe in detail any cost-saving programs implemented 2004 through the present.
- a. For each program listed in response to this request, show the anticipated and achieved savings. Include calculations of savings amounts and explain any assumptions used in such calculations.
 - b. Provide the cost-benefit analyses for each such program.
 - c. Show the impact of any such cost-saving programs on the test year.

Response:

The Company does not have the information available at this time to respond to this question, but will provide a response as soon as possible.

For electronic version, refer to KAW_R_AGDR1#285_061807.pdf

Supplemental Response:

See attached schedules. These savings have been incorporated into the Business Plans but no tracking of the actual to budget was maintained. Please note the attached schedules were provided to the Commission annually as a Condition to the 2003 Change of Control proceeding.

For electronic version, refer to KAW_R_AGDR1#285_Supplemental_062507.pdf

TABLE 1 OF 2006 REPORT
KENTUCKY-AMERICAN WATER COMPANY
RWE MERGER COSTS/SAVINGS INFORMATION

OP EX COSTS/SAVINGS FROM PROCUREMENT INITIATIVE

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>TOTAL</u>
Operating Expense Savings as shown on Table 1.1	\$10,400	\$279,000	\$302,000	\$279,173	\$870,573
Revenue Requirement Reduction	\$10,400	\$279,000	\$302,000	\$279,173	\$870,573

CAP EX COSTS/SAVINGS FROM PROCUREMENT INITIATIVE

Capital Expense Savings as shown on Table 1.2	\$17,500	\$106,000	\$70,000	\$296,329	
Less: allocated Portion of Implementation costs	\$0	\$0	\$0	\$0	
Net Capital Expense (Rate Base) Savings	\$17,500	\$106,000	\$70,000	\$296,329	
Rate of Return	8.25%	8.25%	8.25%	8.25%	
Reduction in Utility Operating Income	\$1,444	\$0,745	\$5,775	\$24,447	
Revenue Requirement Reduction (At 1.4 times)	\$2,021	\$14,254	\$22,349	\$54,554	\$93,189

COSTS/SAVING FROM DESIGN AND BUILD CONSTRUCTION INITIATIVE
Capital projects Over \$1,500,000 With Design/Build Expenditures in 2004, 2005 or 2006

	Total Expenditures	2003	2004	2005	2006	
IP 03-01 Elevated storage Tank - 2.0 MG	\$3,199,701	0	\$480,216	\$2,719,485	\$0	
IP 05-06 Sludge Handling RRS	\$2,000,000	0	\$0	\$25,000	\$472,400	
IP 05-02	<u>\$1,800,000</u>	<u>0</u>	<u>\$0</u>	<u>\$471,363</u>	<u>\$845,493</u>	
Total Capital Expenditures From Qualifying Projects	\$6,999,701	\$0	\$480,216	\$3,215,848	\$1,317,901	
Forecasted Percent of Saving From Changes in Design/Build Practices			3.00%	3.00%	3.00%	
Forecasted Rate Base Savings			\$14,406	\$96,475	\$39,537	
Rate of Return			8.25%	8.25%	8.25%	
Reduction in Utility Operating Income			\$1,189	\$7,959	\$3,262	
Revenue Requirement Reduction (At 1.4 times)			\$1,664	\$11,143	\$4,567	\$17,373

COSTS/SAVINGS FROM IMPROVED DEBT RATING

Interest and Issuance Cost Savings (Table 1.3)	\$83,400	\$121,900	\$121,900	\$121,900	
Total Kentucky-American Interest Savings	<u>\$83,400</u>	<u>\$121,900</u>	<u>\$121,900</u>	<u>\$121,900</u>	<u>\$449,100</u>
NET COST/SAVINGS					
Total Savings - Best Practices Implementation	\$95,821	\$416,828	\$457,382	\$460,194	\$1,430,235

**TABLE 1A OF 2006 REPORT KENTUCKY-AMERICAN WATER COMPANY
OPERATING EXPENSE SAVINGS FROM RWE PROCUREMENT INITIATIVE**

	2003	2004	2005	2006	TOTAL
Accounts Payable Audit Advertising		1,000			1,000
Bill inserts & CCR Chemicals		9,000		25,960	9,000
Field Op's Equipment Facility		30,000		38,338	30,000
Plumbing Supplies/ Plumbing Supplies		72,000	121,000	151,220	193,000
Courier Services		2,000	2,000		4,000
Fleet		1,000		984	1,000
Freight/Transportation Fuel					0
Instrumentation 7 process Control					0
Information Technology (IT)		7,000	2,000	319	9,000
Laboratory supplies		12,000	20,000	9,859	32,000
Maintenance, Repair & Operations (MRO)	200	13,000	17,000	8,031	38,231
Equipment		3,000		874	3,000
Office Supplies	2,400	7,000	6,000	7,688	23,088
P-Card Rebate	7,000	3,000			10,000
Professional Services		7,000	6,000	272	13,000
Professional Services - Lock box		40,000	29,000		69,000
Tank Rehabilitation					0
Telecommunications		20,000	36,000	3,674	56,000
Temporary Labor		31,000	40,000	14,894	71,000
Tires	800	9,000	8,000	15,742	33,542
Travel		7,000	12,000		19,000
Uniforms		5,000	3,000	1,318	8,000
Chemicals				91,003	
TOTAL	\$10,400	\$279,000	\$302,000	\$279,173	\$591,400

**TABLE 1.2 OF 2006 REPORT KENTUCKY-AMERICAN WATER COMPANY
CAPITAL EXPENSE SAVINGS FROM RWE PROCUREMENT INITIATIVE**

	2003	2004	2005	2006	TOTAL
Construction Equipment		34,000	7,000		41,000
Copper Tubing		28,000	1,000	2,001	31,001
Fleet		4,000	57,000	3,351	64,351
Instrumentation & Process Control	200	11,000		1,320	12,520
Information Technology (IT)	17,300	24,000	4,000	3,969	49,269
Lab Supplies		3,000		1,611	4,611
Meters			1,000	50,616	51,616
Package Pump Stations & Well Rehab		2,000			2,000
Hydrants				60,029	60,029
Distribution System Materials				60,728	60,728
Contract Services				112,704	112,704
TOTAL	\$17,500	\$106,000	\$70,000	\$296,329	\$489,829

TABLE 1.3 OF 2006 REPORT
KENTUCKY-AMERICAN WATER COMPANY
RWE MERGER CONSTS/SAVINGS INFORMATION
SAVINGS ON THE COST OF LONG-TERM DEBT

Debt Security	Date Issued	Amount Issued	Term of the Loan	Basis Point Savings	Annual Interest Savings	Avoided Issuance Costs	Avoided Annual Issuance Costs	Net Annual Savings
2002	06/12/2002	\$24,000,000	5 Years	20	\$48,000	\$177,000	\$35,400	\$83,400
Total Savings - 2002								
					\$48,000	\$35,400	\$83,400	
Total Savings - 2003								
					\$48,000	\$35,400	\$83,400	
2004	3/1/2004	14000000	10 Years	20	\$28,000	\$105,000	\$10,500	\$38,500
Total Savings - 2004								
					\$76,000	\$45,900	\$121,900	
Total Savings - 2005								
					\$76,000	\$45,900	\$121,900	
Total Savings - 2006								
					\$76,000	\$45,900	\$121,900	

Note: No New Permanent Financings in 2006