KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143

ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION

Item 1 of 41

Witness: Linda C. Bridwell

1. RE: OAG 1 - 29. There appear to be errors on the Commercial line of the table and in the Total line of the table. Specifically: (1) the sum of the figures in the Commercial line for the AMR, Manual, and Touch Pad columns does not equal the amount shown in the Total column; (2) the total for the Touch Pad column does not equal the total of the figures shown above in that column; and (3) the sum of the figures in the Total line for the AMR, Manual, and Touch Pad columns does not equal the amount shown in the Total column. Please provide the correct figures.

Response:

Corrected number is in bold.

REVENUE CLASS	RADIO READS	MANUAL	TOUCH PAD	TOTAL
Residential	25,663	77,672	2,006	105,341
Commercial	2,968	5,342	**426**	8,736
Industrial	36	1	7	44
Other Public Authority	452	187	79	718
Other Water Utility	6	0	17	23
Private Fire	107	708	377	1,192
TOTAL	29,232	83,910	1,112	116,054

For electronic version, refer to KAW_R_AGDR2#1_071607

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION

Item 2 of 41

Witness: Michael A. Miller

2. Re: OAG 1 - 39(c). The response refers to an "attached schedule which details the billed amounts for these miscellaneous fees for the six months actual August 2006 through January 2007." It appears that the attached schedule contains information for the number of customers and not for the miscellaneous fees billed to each customer class. Please provide the proper schedule.

Response:

See attached.

For electronic version, refer to KAW_R_AGDR2#2_071607.pdf

Kentucky American Water
Miscellaneous Fees
August, 2006 - January, 2007
AG DR2 Question 2

Rate Class	Rate Schedule	Count	Utility Charge
Activation Fees		Count	
1	12ACT	13,741	$ 318,673.96
2	12ACT	662	$ 15,168.00
5	12ACT	1	$ 24.00
6	12ACT	26	$ 576.00
7	12ACT	14	$ 336.00
		14,444	$ 334,777.96
NSF Check Fees			
1	12NSN	798	$ 9,360.00
2	12NSN	21	$ 252.00
4	12NSN	1	$ 12.00
		820	$ 9,624.00
Reconnect Fees			
1	12RCE	2	$ 80.00
1	12RCF	4,037	$ 97,536.00
1	12RCN	131	$ 2,736.00
1	12RCT	47	$ 1,551.00
		4,217	$ 101,903.00
2	12RCF	96	$ 2,304.00
2	12RCN	1	$ (24.00)
		97	$ 2,280.00
		4,314	$ 104,183.00

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Item 3 of 41

Witness: Paul Herbert

3. Re: LFUCG 1 - 35. The response states that applying the formulas shown in the response would result in a total fire demand of 15,000 gallons per minute (GPM) and that the Insurance Service Office requires a 10-hour duration for demands at this level. Given this, please explain why the cost of service study uses a total fire demand of only 10,000 GPM and a duration of 6 hours.

<u>Response</u>:

The formulas used to estimate total fire demand represent the maximum fire flows and are used only as a guide for cost allocation purposes.

Due to the lack of heavy industry within the service area, fire demands were estimated for cost allocation purposes at approximately 2/3 of the maximum demands. This represents an increase in the fire demands used in previous studies.

For electronic version, refer to KAW_R_AGDR2#3_071607.pdf

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION

Item 4 of 41

Witness: Michael Miller/Linda Bridwell

4. Follow-up to OAG 1 - 51, RE: revenues and expenses related to provision of leak detection services for other utilities.

   a. Please provide all revenues and expenses related to the provision of leak detection services for other utilities, for both the base and forecasted test year periods.
   b. Provide a demonstration that these items are not included in the base or forecasted test year periods.
   c. Please demonstrate that there is sufficient slack time in the workload of the employees involved in providing leak detection services such that they do not incur overtime in the provision of their regular duties.
   d. How are management and other overhead costs allocated to the leak detection services?

Response:

a. The leak detection revenues and expenses are charged below the line and are not part of the filing in this case.
b. Kentucky American Water no longer has a contract with the Kentucky River Authority regarding the provision of these services, but from time to time we may get such a request from individual utilities - such services are not specifically budgeted. The revenue and expenses are charged to accounts 715111 and 716121. Those accounts are not included in the filing.
c. No overtime has been needed or included in the rate filing for leak detection activity.
d. There has been no allocation of management time to leak detection activity.

For electronic version, refer to KAW_R_AGDR2#4_071607.pdf

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION

Item 5 of 41

Witness: Nick Rowe/Linda Bridwell

5. Follow-up to OAG 1 - 52. Please provide a schedule of the actual unaccounted-for water for the 12 months ending July 31, 2005, 2006, and 2007. Also, provide a comparison of these amounts with the target amounts included in the base and forecasted test year periods. Explain any differences in excess of 10%.

Response:

12 months ending July 1, 2005 – 14.94%

12 months ending July 1, 2006 – 12.89%

12 months ending July 1, 2007 – will be provided when available

Base year – 14.39%

Forecasted test year – 11.89%

Controlling unaccounted for water is a constant challenge and the myriad of factors that impact it will result in changes from year to year. Kentucky American has always taken seriously its duty to control unaccounted for water, but cannot point to any single factor or series of factors that would explain a difference in excess of 10%. A ratio of 15% unaccounted for water has been acceptable to the Commission in the past and our goal is to always be below that ratio by as wide a margin as economically practical.

For electronic version, refer to KAW_R_AGDR2#5_071607.pdf

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ATTORNEY GENERAL'S
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Item 6 of 41

Witness: Michael A. Miller

6. Follow-up to OAG 1 - 57. Please provide an Excel version (with all formulae and linkages intact) of the Rate Case Progress Report provided as an attachment to the response. Also, provide any linked files.

Response:

The Excel version of the Rate Case Progress Report is included. The RRD (rate case progress report) and related linked files are based on the updated filing and named as listed below on the enclosed CD:

KAW_R_AGDR2#6_RRD_071607.xls
KAW_R_AGDR2#6_COS07_071607.xls
KAW_R_AGDR2#6_RB07_071607.xls
KAW_R_AGDR2#6_COC07_071607.xls

For electronic version of this document, refer to KAW_R_AGDR2#6_071607.pdf

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION

Item 7 of 41

Witness: Michael Miller

7. Follow-up to OAG 1 - 64 RE: ORCOM E-CIS software costs and expenses.

   a. Please explain why the Company does not have this information readily available.
   b. Please provide the requested information as soon as it is available.

Response:

This information was provided with the supplemental filing of the Attorney General's first data request supplied June 25, 2007. Please refer to the electronic document KAW_R_AGDR1#64_Supplemental_062507.doc.

For electronic version, refer to KAW_R_AGDR2#7_071607.pdf

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ATTORNEY GENERAL'S
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Item 8 of 41

Witness: Michael Miller

8. Follow-up to OAG 1 - 67.

   a. Refer to page 30 of 45. Please provide a complete explanation, including amounts, of the "one-time 2005 charge-offs" discussed on that page.
   b. Have there been any board meetings held in 2007? If so, please provide the minutes for those meetings.

Response:

a. The information referenced above is the write-off of the deferred Call Center transition costs ($518,017.28), the deferred Shared Services transition costs ($477,003.97), and the deferred Security costs ($2,852,813.91). The Order in case number 2004-00103 indicated that the Commission would not recognize the cost to implement the Call Center and Shared Service Centers to match the cost savings passed to the rate payers from those initiatives and would not recognize the significant security costs expended during 2001-2004 for rate recovery. Based on the Commission Order the Company could no longer satisfy the FAS 71 requirement that those assets were probable for rate recovery and therefore had no other option other than to charge them to the income statement. Those three deferred expenses and the Commissions decision regarding rate recovery are a part of the appeal of case number 2004-00103 pending before the Franklin County Circuit Court.
b. The Board held a meeting in April of 2007, the minutes of which are scheduled to be proposed for Board approval at its next meeting. Once minutes of the April meeting are officially approved, we will provide them in response to this data request.

For electronic version, refer to KAW_R_AGDR2#8_071607.pdf

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Item 9 of 41

Witness: Michael A. Miller

9. Follow-up to OAG 1 - 68. Please describe the financial impacts of these changes.

Response:

The only accounting change since 2002 relates to the adoption of FAS 143. The change relates to the reclassification of net negative salvage approved by the Commission for rate recovery as depreciation expense to maintenance expense for U.S. GAAP reporting. FAS 143 also involves the reclassification of the net negative salvage recovered in rates to a regulatory liability (or regulatory asset) for U.S. GAAP financial statements. There is no financial impact on the Company from this accounting change.

For electronic version, refer to KAW_R_AGDR2#9_071607.pdf

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ATTORNEY GENERAL'S
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Item 10 of 41

Witness: Michael A. Miller

10. Follow-up to OAG 1 - 69. Please provide additional information about the following out-of-period adjustments, including a full explanation of the adjustment, an explanation of how the adjustment is or is not incorporated into the rate case, and the amount included in the rate case if applicable.

    a. Adj. 3 - PricewaterhouseCoopers Summary (PwC) adj – Reduce capitalized payroll overhead;
    b. Adj. 6 - Dec SOX accrual adj; and
    c. Adj. 7 - Service co – phone pmts of NJAW allocated to AW companies (also explain why any phone payments of NJAW would be allocated to other AW companies)

<u>Response</u>:

a. The 2006 capitalized overhead rates were adjusted to reflect the actual charges to the accounts for the year. This resulted in PwC reflecting the reclassification of $38,465 to utility plant-CWIP (debit). As indicated on the original response referenced above the correcting entry was recorded in February 2007, one month after the historical period. The rate base included in the filing did not incorporate this adjustment and the December charge to miscellaneous expense was not included in the forecasted test-year.
b. The accrual for December 2006 was corrected by PwC based on the actual charges for the SOX implementation costs. SOX implementation costs were eliminated from the forecasted test-year expenses and are not a part of the Company’s filing. Please see response to PSCDR2#21c.
c. The PwC audit determined that phone charges for AWWSC were incorrectly paid by the NJAW. Phone payments for NJAW should not be allocated to other AW companies, and neither should NJAW pay phone bills of AWWSC that should be allocated to other AWW subsidiaries. This is the reason a correcting entry was necessary and included in the final audited financial statements.

For electronic version, refer to KAW_R_AGDR2#10_071607.pdf

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Item 11 of 41

Witness: Michael Miller

11. Follow-up to OAG 1 - 71. Please provide an explanation of the increase to AFUDC – Equity in 2007 and 2008.

Response:

The increase is primarily related to the CWIP for the Source of Supply Project. The CWIP balance for the Source of Supply Project at November 30, 2008 is $39,970,140.

For electronic version, refer to KAW_R_AGDR2#11_071607.pdf

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Item 12 of 41

Witness: Michael A. Miller

12. Follow-up to OAG 1 - 74. Please provide the referenced Excel file.

Response:

Please refer to KAW_R_AGDR2#12_071607.xls

For electronic version of this document, refer to KAW_R_AGDR2#12_071607.pdf

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Item 13 of 41

Witness: Michael A. Miller

13. Follow-up to OAG 1 - 72. Please refer to page 28 of 80 of KAW_R_AGDR1#72_2006_061807. Provide an explanation for each audit adjustment shown on that page.

Response:

Please see attachment.

For electronic version, refer to KAW_R_AGDR2#13_071607.pdf

Audit Adjustments - Kentucky American
AGDR2 #13
Year End 2005

No.	Accounts	Description	Acct 204	Acct 221	Acct 108	Acct 253	Acct 237	Acct 242	Acct 236	Acct 283	Acct 215
1	204 & 221	Reclass of Preferred Stock with Mandatory Redemption from Bonds to Preferred Stock	$ (4,500,000)	$ 4,500,000							
2	108 & 253	Reclass cost of removal and related depreciation from Deferred Credits to Accumulated Depreciation			$ (6,560,981)	$ 6,560,981					
3	253 & 215	Adjust Accrued Annual Incentive Plan Expense				$ 5,000					$ (5,000)
4	237 & 242	Reclass of Preferred Stock with Mandatory Redemption from Bonds Interest to Preferred Stock Dividends $4,5000,000 @ 8.47% / 12 = $31,762.50					$ 31,762	$ (31,762)			
5	242 & 215	Adjust Accrued Annual Incentive Plan Expense						$ (81,000)			$ 81,000
6	236 & 283	Reclass Current Year FIT liability to Deferred FIT - Norm Property							$ 49,000	$ (49,000)	
7	236 & 215	Adjust Accrued Taxes							$ (12,000) $ 1,102,000 $ 170,000		$ (1,260,000)
			$ (4,500,000)	$ 4,500,000	$ (6,560,981)	$ 6,565,981	$ 31,762	$ (112,762)	$ 1,309,000	$ (49,000)	$ (1,184,000)

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ATTORNEY GENERAL'S
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Item 14 of 41

Witness: Michael Miller

14. Follow-up to OAG 1 - 115 and OAG 1 - 120.

    a. Does the consolidated group have a document or agreement as to the allocation of affiliate losses among the members of the group? If yes, provide the document. If no, explain why not.
    b. Provide a recalculation of KAWC's 2004 to 2008 federal and state income taxes using the effective federal and state income tax rates for the consolidated group.

Response:

a. No, AWW does not allocate (tax) losses among the individual entities that comprise the consolidated AWW federal tax return.

b. There is no effective FIT or SIT tax rate for the consolidated AWW tax group. KAWC records and pays FIT and SIT at the statutory tax rates.

   For electronic version, refer to KAW_R_AGDR2#14_071607.pdf

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SUPPLEMENTAL REQUEST FOR INFORMATION

Item 15 of 41

Witness: Michael Miller

15. Follow up to OAG 1 - 130. Provide the information for 2005 and 2006 separately from 2007 if already available.

Response:

This information was provided with the supplemental filing of the Attorney General's first data request supplied on June 25, 2007. Please refer to the electronic document KAW_R_AGDR1#130_Supplemental_062507.doc.

For electronic version, refer to KAW_R_AGDR2#15_071607.pdf

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ATTORNEY GENERAL'S
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Item 16 of 41

Witness: Michael Miller

16. Follow up to OAG 1 - 132. Provide the information for 2004 through 2006 separately from 2007 if already available.

<u>Response</u>:

This information was provided with the supplemental filing of the Attorney General's first data request supplied on June 25, 2007. Please refer to electronic document KAW_R_AGDR1#132_Supplemental_062507.doc.

For electronic version, refer to KAW_R_AGDR2#16_071607.pdf

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SUPPLEMENTAL REQUEST FOR INFORMATION

Item 17 of 41

Witness: Michael Miller

17. Follow up to OAG 1 - 138. Provide the requested information as soon as possible.

Response:

This information was provided with the supplemental filing of the Attorney General's first data request supplied on June 25, 2007. Please refer to the electronic document KAW_R_AGDR1#138_Supplemental_062507.doc.

For electronic version, refer to KAW_R_AGDR2#17_071607.pdf

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Item 18 of 41

Witness: Michael A. Miller

18. Follow up to OAG 1 - 144. Provide a full explanation of each item shown on the attachment and indicate where the 2007 amounts are found in the filing.

Response:

See attached schedule. These were not the result of audits but rather paid at the time the tax was submitted. The set up was done to accrue for penalties as a result of late filings.

There are no penalties included in the forecasted test year.

For electronic version, please refer to KAW_R_AGDR2#18_071607.pdf.

Kentucky American Water
Penalties
AGDR2#18

7/14/2004	LFUCG	25.00	Payroll tax withholding late fee-2003
8/12/2005	LFUCG	25.00	Payroll tax withholding late fee-2004
8/25/2005	LFUCG	25.00	Payroll Tax withholding late fee
3/3/2006	LFUCG	373.53	Payroll Tax withholding late fee
4/4/2006	LFUCG	170.86	Payroll Tax withholding late fee
6/1/2006	LFUCG	25.00	Payroll Tax withholding late fee
10/20/2006	Kentucky Dept of Revenue	6,939.41	Late fees on Utility Gross Receipts Tax 6/06
10/20/2006	Kentucky Dept of Revenue	2,764.18	Late fees on Utility Gross Receipts Tax 5/06
10/23/2006	Kentucky Dept of Revenue	6,522.49	Late fees on Utility Gross Receipts License Tax
12/13/2006	Kentucky Dept of Revenue	7,514.13	Late fees on Utility Gross Receipts License Tax 7/06
1/31/2007	JE	192,700.00	See below
2/19/2007	JE	220,405.00	Accrue sales & use tax
5/21/2007	JE	(238,591.00)	Reverse sales & use tax

Detail for Set up JE

2005 Energy Exemption		9100
2006 Energy Exemption		9100
Bourbon Co	Gross Receipts 8/06	500
Bourbon Co	Licensing 10/06	500
Clark Co	Gross Receipts 2/06	500
Clark Co	Gross Receipts 3/06	500
Clark Co	Gross Receipts 4/06	500
Clark Co	Gross Receipts 5/06	500
Clark Co	Gross Receipts 8/06	500
Fayette Co	Gross Receipts 2/06	500
Fayette Co	Gross Receipts 3/06	500
Fayette Co	Gross Receipts 4/06	500
Fayette Co	Gross Receipts 5/06	500
Fayette Co	Gross Receipts 8/06	500
Gallatin Co	Gross Receipts 2/06	500
Gallatin Co	Gross Receipts 3/06	500
Gallatin Co	Gross Receipts 4/06	500
Gallatin Co	Gross Receipts 5/06	500
Gallatin Co	Gross Receipts 8/06	500
Georgetown	Licensing 10/06	500
Grant Co	Gross Receipts 2/06	500
Grant Co	Gross Receipts 3/06	500
Grant Co	Gross Receipts 4/06	500
Grant Co	Gross Receipts 5/06	500
Grant Co	Gross Receipts 8/06	500
Harrison Co	Gross Receipts 2/06	500
Harrison Co	Gross Receipts 3/06	500
Harrison Co	Gross Receipts 4/06	500
Harrison Co	Gross Receipts 5/06	500
Harrison Co	Gross Receipts 8/06	500
Jessamine Co	Gross Receipts 2/06	500
Jessamine Co	Gross Receipts 3/06	500
Jessamine Co	Gross Receipts 4/06	500
Jessamine Co	Gross Receipts 5/06	500
Jessamine Co	Gross Receipts 8/06	500
LFUCG	Franchise Tax 7/06	500

Owen Co	Gross Receipts 8/06	500
Ky Dept Revenue	Energey Exemption 5/06	12000
Ky Dept Revenue	Sales Tax 1/06	20000
Ky Dept Revenue	Sales Tax 6/06	20000
Ky Dept Revenue	Sales Tax 7/06	20000
Ky Dept Revenue	Sales Tax 8/06	20000
Ky Dept Revenue	Sales Tax 9/06	20000
Ky Dept Revenue	Sales Tax 11/06	20000
Ky Dept Revenue	Sales Tax 12/06	20000
Scott Co	Gross Receipts 2/06	500
Scott Co	Gross Receipts 3/06	500
Scott Co	Gross Receipts 4/06	500
Scott Co	Gross Receipts 5/06	500
Scott Co	Gross Receipts 8/06	500
Woodford Co	Gross Receipts 2/06	500
Woodford Co	Gross Receipts 3/06	500
Woodford Co	Gross Receipts 4/06	500
Woodford Co	Gross Receipts 5/06	500
Woodford Co	Gross Receipts 8/06	500
		192700

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Item 19 of 41

Witness: Michael Miller

19. Follow-up to OAG 1 - 171. Please provide the requested information as soon as possible.

Response:

This information was provided with the supplemental filing of the Attorney General’s first data request supplied on June 25, 2007. Please refer to the electronic document KAW_R_AGDR1#171_Supplemental_062507.doc.

For electronic version, refer to KAW_R_AGDR2#19_071607.pdf

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ATTORNEY GENERAL'S
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Item 20 of 41

Witness: Michael Miller/Sheila Miller

20. Follow-up to OAG 1 - 177. Why does the Company not maintain the book reserve by plant account? At what level is the book reserve maintained?

Response:

The Company does maintain the book reserve by plant account in a sub system, but not the general ledger. Reports can be generated in the fixed asset system to retrieve the book reserve by plant account if needed.

For electronic version, refer to KAW_R_AGDR2#20_071607

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Item 21 of 41

Witness: Linda Bridwell/Michael Miller

21. Follow-up to OAG 1 - 190. What were the specific circumstances that resulted in higher cost of removal relative to plant retired in 2001 to 2004?

Response:

During this period, the company primarily used contract labor to perform this function. We found this not to be cost-effective and have since reverted to using Company labor to perform this function.

For electronic version, refer to KAW_R_AGDR2#21_071607.pdf

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Item 22 of 41

Witness: Michael Miller

22. Follow-up to OAG 1 - 197. Please refer to AW_R_AGDR1#197_061807, page 5 of 7.

a. Provide the "CTR Guidelines or unit costs" that are provided to contractors as discussed on that page.
b. Approximately what percentage of the time is it "not practical to determine CTR" leading to the use of the net salvage percent from the depreciation study as a substitute.
c. For which accounts is the net salvage percent from the depreciation study generally used as a substitute for actual CTR?

Response:

a. The Guidelines and examples are explained at the bottom of page 5 of 7 and on page 6 of 7. Projects awarded to contractors involving CTR identify the units of property (as maintained in CTR records) in the bid documents and require the contractor to provide invoicing for CTR to be segregated by unit of property. The guidelines will differ for each project depending on the type of property to be retired.

b. The Company is not clear to this question. If the Attorney General is referring to actual CTR versus the net negative salvage included in depreciation expense the answer is zero.

c. None.

For electronic version, refer to KAW_R_AGDR2#22_071607.pdf

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**ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 23 of 41**

Witness: John J. Spanos

23. Follow-up to OAG 1 - 221. Please provide the attachment in Excel format with all formulae intact.

<u>Response</u>:

Refer to KAW_R_AGDR2#23_attachment_071607.xls.

For electronic version of this document, refer to KAW_R_AGDR2#23_071607.pdf

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Item 24 of 41

Witness: Michael Miller

24. Follow-up to OAG 1 - 224.

a. Refer to page 2 of 16. Cite to the specific part of SFAS 143, GAAP or SEC guidance that requires net negative salvage to be reclassified from accumulated depreciation to operation and maintenance expense.

b. What is the difference between the net negative salvage to be reclassified into O&M expense and the net negative salvage to be reclassified into a regulatory liability?

c. Provide the calculation of the proposed SFAS 143 debits and credits for Kentucky as shown on page 3 of 16. Provide the calculations in Excel with all formulae intact.

c. Provide "Kentucky NNS by asset class.pdf" as shown on page 4 of 16.

d. Provide a full explanation of the treatment of net negative salvage in Pennsylvania as mentioned on page 4 of 16. Why was PA treated differently?

Response:

a. The reclassifications occur between accumulated depreciation and Regulatory Liability-ARO/NNS on the balance sheet, and between depreciation expense and maintenance expense on the income statement. Please see FAS 143, paragraph 11, which states "An entity shall subsequently allocate the asset retirement cost to expense using a systematic and rational method over its useful life." Please see paragraph 14, which states "The amount shall be recognized as an increase in the carrying amount of the liability and as an expense classified as an operating item in the statement of income." Please see paragraph 20 which states "Many rate-regulated entities currently provide for the costs related to the retirement of certain long-lived assets in their financial statements and recover those amounts in rates charged to their customers. Some of those costs result from asset retirement obligations within the scope of this Statement; others result from costs that are not within the scope of this Statement. The amounts charged to customers for the costs related to the retirement of long-lived assets may differ from the period costs recognized in accordance with this Statement and, therefore, may result in a difference in the timing of recognition of period costs for financial reporting and rate-making purposes. An additional recognition timing difference may exist when the costs related to the retirement of long-lived assets are included in amounts charged to customers but liabilities are not recognized in the financial statements. If the requirements of Statement 71 are met, a regulated entity also shall recognize a regulatory asset or liability for differences in the timing of recognition of the period costs associated with asset retirement obligations for financial reporting pursuant to this Statement and rate-making purposes." FAS 143 does not specifically state that the reclassification should be to maintenance expense, just expense. The Company believes depreciation is a return of assets and has elected to utilize a segregated maintenance expense because that area of operating expense most closely approximates the type of work. Please see the attachments to the response to AGDR2#25 (4-16-04 memo) which indicate agreement by the Company's external auditors to this presentation on the audited financial statements.

b. None.

c. This information was provided in the response to AGDR1#228. For the electronic version see KAW_R_AGDR1#228_061807.xls.

d. Please see the attached schedule.

e. The memo referenced above referred to the reclassification of regulatory liabilities for 2004 audited financial statements. Pennsylvania American fully recorded both the FAS 143 reclassification of depreciation expense to maintenance, and recognition of the FAS 143 reclassification of accumulated depreciation to the regulatory asset on their 2003 audited financial statements. As indicated in the attachment to AGDR2#25, KAWC, WVAWC, and TAWC only performed the reclassification of the depreciation expense to maintenance expense in the 2003 audited financial statements and by agreement with PwC would reclassify the regulatory liability in 2004. Therefore, it was not necessary to make the same adjustments for PAWC in the 2004 audited financial statements.

For electronic version, refer to KAW_R_AGDR2#24_071607.pdf

KENTUCKY AMERICAN
CALCULATION OF NEGATIVE SALVAGE

Account Number	Description	Plant Investment	Accumulated Reserve	Gross Inv.	Percent Net Salvage	Negative Salvage
3031	Other P/E Intangibles	$26,219	$2,616	$28,835		
3036	Other P/E Comprehensive Studies	349,997	59,424	409,421		
311	SS Structures and Improvements	195,204	27,114	222,318	0%	
312	Cull and Impounding Reservoir	1,013,271	198,082	1,211,353	0%	
313	Lake, River, and Other Intakes	338,159	150,794	488,953	0%	
314	Wells and Springs	0	0	0	0%	
316	Supply Mains	5,044,610	619,525	5,664,135	-5%	(283,207)
321	Pumping Structures and Improvements	4,478,431	990,152	5,468,583	-10%	(546,858)
322	Boiler Plant Equipment	0	0	0	0%	0
323.2	Other Power Production Equipment	559,844	180,195	740,039	0%	0
325	Electric Pumping Equipment	9,122,411	2,760,530	11,882,941	-8%	(950,635)
326	Diesel Pumping Equipment	594,512	204,747	799,259	-8%	(63,941)
328.2	Gasoline Pumping Equipment	0	0	0	0%	0
328.3	Other Pumping Equipment	0	0	0	0%	0
3541	Collecting System Structures - Sewer	40,127	35,046	75,173	0%	0
3711	Electric Pumping Equipment - Sewer	10,708	9,358	20,066	0%	0
331	WT Structures and Improvements	7,006,487	977,200	7,983,687	-10%	(798,369)
332	Water Treatment Equipment	23,034,953	7,963,615	30,998,568	-20%	(6,199,714)
334	Water Treatment -- GAC	0	0	0	0%	0
341	T&D Structures and Improvements	766,565	120,804	887,369	0%	0
342	Distribution Reservoirs and Standpipes	5,016,463	1,365,454	6,381,917	-10%	(638,192)
343	T&D Mains	97,063,338	13,913,403	110,976,741	-4%	(4,439,070)
345	Services	13,257,626	7,971,002	21,228,628	-159%	(33,753,519)
346	Meters	0	0	0	0%	0
346.1	Meters- Bronze Case	34,932	8,152	43,084	16%	6,893
346.2	Meters-Plastic Case	1,866,232	435,500	2,301,732	0%	0
346.3	Meters-Other	1,295,820	302,390	1,598,210	16%	255,714
347	Meter Installations	11,859,907	2,795,935	14,655,842	-53%	(7,767,596)
348	Hydrants	6,177,087	1,497,768	7,674,855	-36%	(2,762,948)
390.1	Office Structures	3,891,288	562,588	4,453,876	0%	0
390.2	Stores, Shop & Garage Strum.	902,690	130,508	1,033,198	0%	0
390.3	Misc.. Structures	256,725	37,116	293,841	0%	0
391.1	Office Furniture	659,925	383,850	1,043,775	3%	31,313
391.2	Mainframe Computer & Perish Equip.	72,295	42,051	114,346	17%	19,439
391.21	Personal Computer & Perish Equip.	1,432,139	833,014	2,265,153	17%	385,076
391.22	Other Office Machines and Equip.	15,000	8,725	23,725	0%	0
391.23	Office Machines and Equipment Software	361,579	210,315	571,894	17%	97,222
391.25	Mainframe Software	876,835	510,017	1,386,852	0%	0
391.26	Personal Computer Software	678,047	394,391	1,072,438	0%	0
391.28	Other Software	221,222	128,675	349,897	0%	0
391.3	Other Office Equipment	139,656	81,232	220,888	3%	6,627
392.11	Transportation -- Light Trucks	1,275,652	660,000	1,935,652	30%	580,696
392.12	Transportation -- Heavy Trucks	564,715	292,174	856,889	25%	214,222
392.2	Transportation -- Cars	161,535	83,575	245,110	23%	56,375
392.3	Other Transportation Equip.	2,846	1,472	4,318	0%	0
393	Stores Equipment	35,547	22,605	58,152	0%	0
394	Tools, Shop, and Garage Equip.	712,988	315,678	1,028,666	-3%	(30,860)
395	Laboratory Equipment	675,252	10,011	685,263	24%	164,463
396	Power Operated Equipment	498,962	237,584	736,546	0%	0
397	Communications Equipment	1,601,524	94,817	1,696,341	0%	0
397.1	Communications Equipment	117,000	6,927	123,927	0%	0
397.2	Communications Equipment	0	0	0	0%	0
398	Misc. Equipment	20,723	(87,005)	(66,282)	0%	0
399	Other Tangible Property	117,960	141,625	259,585	0%	0
	BWA Acquisition	0	447,969	447,969		0
		204,445,008	48,138,720	252,583,728		($56,416,867)
	Percent Attributable to Negative Salvage					-22.34%

	2,002	2003
Annual Depreciation	$5,624,342 *	$6,699,631 *
Percent Negative Salvage	22.34%	22.34%
Negative Salvage Amount	$1,256,478	$1,496,698

*Doesn't Include Amtz. CIAC Tax

	2,002	2003
Composite Depreciation Rate	2.33%	2.53%

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 25 of 41

Witness: Michael Miller

25. Follow-up to OAG 1 - 230.

a. Please provide all correspondence with the Company's external auditors approving the reclassification of removal costs to O&M expense.

b. Please provide a side-by-side comparison of 2006 depreciation expense accruals, accumulated depreciation, retirements, cost of removal and gross salvage for GAAP purposes and for regulatory purposes. Provide a reconciliation of any differences.

Response:

a. See attached correspondence.

b.

	Rates		GAAP	
	DR	CR	DR	CR
Depreciation Exp	7,943,022		6,716,503	
Maintenance Exp			1,226,519	
Accumulation Depr		7,943,022		6,716,503
Reg Liab-ARO/.NNS				1,226,519
Accumulated Depr	190,492			
Reg Liab-ARO/NNS			190,492	
Retirement WIP		190,492		190,492
	8,133,514	8,133,514	8,133,514	8,133,514

There is no reconciliation and no differences to the income statement impact between the regulatory and GAAP accounting.

For electronic version, refer to KAW_R_AGDR2#25_071607.pdf

1.

misty.c.thompson@us.pwc.com

04/17/2004 11:54 PM

To

dhoefle@amwater.com,
mark.niehaus@us.pwc.com,
ekeiffer@amwater.com,
rsievers@amwater.com

thomas.j.meehan@us.pwc.com

Fw: Net Negative Salvage

All--

In order to incorporate Bob's suggested language while trying to somewhat conform to the language included in Pennsylvania's report, I would suggest the following disclosure for the PPE policy note. Please let me know if you agree/disagree.

Thanks--Misty

Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. Repairs and maintenance are charged to current operations.

When a unit of property is retired or replaced, the recorded value of such unit is credited to the asset account and that value, including the cost of removal, is charged to accumulated depreciation. Effective January 1, 2003, the Company adopted the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations." In accordance with SFAS No. 143, removal cost (net of salvage) of $_______ and $_______ has been recorded as operation and maintenance expense for the years ended December 31, 2003 and 2002, respectively, to remove retirement costs from depreciation expense, where they were previously reported.

The cost of property, plant and equipment is depreciated using the straight-line average remaining life method. The composite depreciation rate, which includes recovery of removal cost (net of salvage), amounted to ___% in 2003 and ___% in 2002. In 2003, the Company changed its definition of a unit of property to be capitalized to conform to the accounting policy consistently applied by American's subsidiaries. As a result of this change, an additional $____ of property was capitalized during 2003.

----- Forwarded by Misty C Thompson/US/ABAS/PwC on 04/17/2004 11:40 PM -----

RSievers@amwater.com

04/16/2004 04:25 PM

To

RBloor@amwater com, Dennis Doll@amwater com, RFreeston@pawc com, jjenkins@mawc com, MMiller@wvawater.com, CQuig@amwater.com, SCole@amwater com

cc

jbigelow@amwater com, mcarmedy@amwater.com, EKeiffer@amwater com, Mark Niehaus/US/ABAS/PwC@Americas-US, Misty C Thompson/US/ABAS/PwC@Americas-US, Thomas J Meehan/US/ABAS/PwC@Americas-US

Net Negative Salvage

We have agreed with PwC that we will reclass the portion of depreciation expense related to net negative salvage to "Operation and maintenance expense" for both 2003 and 2002 for the certified financial statements. Attached is a schedule from Ed Keiffer that has these amounts for the individual companies.

Since reclassing negative salvage expense from "Depreciation and amortization" to Operation and maintenance" on the income statement will decrease EBITDA, I suggest that we make the following change to the first paragraph in the PP&E section of note 2:

..........The composite depreciation rate which includes recovery of removal cost (net of salvage) amounted to ___% in 2003 and ____% in 2002. The company recorded depreciation expense of $________ in 2003 and $_______ in In addition, removal cost (net of salvage) of $_______ in 2003 and $_______ in 2002 is included in operation and maintenance expense. In 2003, the company changed its definition of a unit of property to be capitalized to conform to the accounting policy consistently applied by American's subsidiaries. As a result.........

We have also agreed that we will not reclass any amounts out of the reserve for accumulated depreciation to a regulatory asset or liability, but we will take the necessary action this year to pin down those amounts so they can be disclosed in the notes in future years.

This should clear the way for the sub reports to be completed unless there are any company specific items that need to be addressed.

We will also need to implement this change on the income statements we send out for the quarters so that our treatment is consistent.

(See attached file: Net negative salvage.xls)

Bob Sievers
American Water
Tel: 856 346 8325

Fax: 856 566 4004 Net negative salvage xls

2.

Excerpt from "PWC- Utilities-Account and Reporting Manual"

.433 Implementation Issues

In January 2003, the SEC staff expressed to us their belief that FAS 143 did change past practice for removal costs that are not legal obligations and that continued accrual of such costs would not be acceptable under GAAP except as a regulatory

liability. The SEC staff indicated that they would require restatement after the implementation of FAS 143 for any registrant that continued accrual of non-legal obligations except as regulatory liabilities.

Another implementation issue relates to whether the adoption of FAS 143 would require a utility subject to FAS 71 to reclassify its non-ARO negative salvage reserves out of its accumulated depreciation accounts to a regulatory liability. For GAAP purposes, these amounts are regulatory liabilities, which should only be carried forward if the criteria in FAS 71, par. 11 are met. Further, the SEC has recently required a number of utilities to reclassify these regulatory liability amounts to the liabilities side of the balance sheet.

Non-ARO negative salvage reserves for assets that are not subject to FAS 71 (i.e., that do not meet the requirements of FAS 71, par. 11 to be recorded a regulatory liability) should be eliminated at the adoption of FAS 143 and included in the cumulative effect of the change in accounting principle.

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 26 of 41

Witness: Michael Miller

26. Follow-up to OAG 1 - 233. Please provide the accounting entries showing the reclassification, as well as all supporting calculations workpapers. Provide all calculations in Excel with all formulae intact.

<u>Response</u>:

The original response states the Company's position. Please see response to AGDR1#228, PSCDR3#27 and PSCDR3#34.

For electronic version, refer to KAW_R_AGDR2#26_071607.pdf

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 27 of 41

Witness: John J. Spanos

27. Follow-up to OAG 1 - 234. Please provide the attachment in Excel with all formulae intact.

<u>Response</u>:

Refer to file KAW_R_AGDR2#27_attachment_071607.xls.

For electronic version of this document, refer to KAW_R_AGDR2#27.pdf

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 28 of 41

Witness: Michael Miller

28. Follow-up to OAG 1 - 253. Please describe and quantify any effect FASB 158 had or will have on the Company pension plans for 2006, 2007 and 2008 as forecasted if fully reflected.

Response:

None.

For electronic version, refer to KAW_R_AGDR2#28_071607.pdf

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 29 of 41

Witness: Nick Rowe/Michael Miller

29. Follow-up to OAG 1 - 279. Please refer to KAW_R_AGDR1#275, page 13 of 14. This appears to be a draft response to OAG 1 - 279. Please reconcile the amounts shown on this version of the response with those shown on the actual response provided to OAG 1 - 279 and explain the differences.

Response:

The draft response was revised to include conservation advertising expense. See reconciliation below:

	2003	2004	2005	2006	2007
Draft expense	105,581	46,731	26,629	26,797	24,050
Revision					
Adv – Acct 575030	105,581	46,731	26,629	26,797	15,650
Cons Adv – Acct 568010	0	79,559	141,571	120,300	136,404
Total	105,581	126,290	168,200	147,097	152,054

In the final response, the amount budgeted for advertising expense for Human Resources in 2007 was omitted and should have been included. Therefore the total for 2007 should have been $160,454. $8,779 was included as conservation expense in 2004 and should have been included in 2005. The correct totals are below:

Description	2003	2004	2005	2006	2007 forecast
Advertising	105,581	117,511	176,979	147,097	160,454
Revenues	42,800,150	42,454,683	50,119,620	49,010,146	51,500,000
Adv/Total Revenue	0.25%	0.28%	0.35%	0.30%	0.31%

The 2007 budgeted revenues in the final response were taken from the approved budgeted revenues. The amount on the draft response was incorrect.

For electronic version, refer to KAW_R_AGDR2#29_071607

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 30 of 41

Witness: Michael Miller

30. Follow-up to OAG 1 - 284. The threshold referenced in the original data request was incorrect. Please list by customer and amount and by year for the period 2003 through 2007 any uncollectible accounts which have been written off and which exceeded $10,000.

<u>Response</u>:

No customer accounts were written off that exceeded $10,000 for the period 2003 through 2007.

For electronic version, refer to KAW_R_AGDR2#30_071607.pdf

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 31 of 41

Witness: Michael Miller

31. Follow-up to OAG 1 - 285. Please provide the response as soon as possible.

Response:

This information was provided with the supplemental filing of the Attorney General's first data request supplied on June 25, 2007. Please refer to the electronic document KAW_R_AGDR#285_Supplemental_062507.doc.

For electronic version, refer to KAW_R_AGDR2#31_071607.pdf

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 32 of 41

Witness: Nick Rowe/Michael Miller

32. Follow-up to OAG 1 - 288.

a. What is the American Water Works Association? How much annual dues does KAW pay to this association?
b. Why does KAW belong to the Bluegrass Lodge – Fraternal Order of Police, and what is the annual dues paid to this organization.
c. Where are these dues amounts included in the filing?

Response:

a. The American Water Works Association (AWWA) is an international nonprofit scientific and educational society dedicated to the improvement of drinking water quality and supply. Kentucky American Water's annual dues expense as a member of AWWA is $6,690.
b. The Company has not been a member of the Bluegrass Lodge - Fraternal Order of Police since 2005.
c. Dues for AWWA can be found in this filing on page 98 of 118, WP3 in account 120105.575242.16, which also includes an expense for the AWWA Research Foundation.

For electronic version, refer to KAW_R_AGDR2#32_071607.pdf

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 33 of 41

Witness: Nick Rowe/Michael Miller

33. Follow-up to OAG 1 - 289. Part (a) refers to compensation by KAW. Please respond to part (a) in full, providing amount of Company compensation and purpose for participation.

Response:

The Company's participation in water utility organizations is important to the Company and its customers. Involvement in the listed organizations provides opportunities for the Company to obtain pertinent and useful information on industry trends, share information with other water utilities, and stay abreast of the latest technology. Participation in these organizations is customary for water utility managers and is considered an important part of their management duties. The only compensation is their salary for performing this important part of their job.

For electronic version, refer to KAW_R_AGDR2#33_071607.pdf

KENTUCKY-AMERICAN WATER COMPANY
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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 34 of 41

Witness: Michael Miller

34. Follow-up to OAG 1 - 300. Please explain why the write-offs were taken, and what impact, if any, they have on the current rate case.

Response:

None of the write offs impact the current case. The deferred expenses for additional security and transition to the Call Center/Shared Services were expensed in 2005 because the Commission did not allow rate recovery in Case No. 2004-00103. The Commission's decision for those three items has been appealed to the Franklin County Circuit Court.

The STEB projects were canceled and expenses anticipated to be capitalized upon completion of the project were written off.

Severance costs are non-recurring in the forecasted test-year and have not been included in the filing.

For electronic version, refer to KAW_R_AGDR2#34_071607.pdf

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 35 of 41

Witness: Michael Miller

35. Follow-up to OAG 1 - 301. Please refer to page 16 of 72.

a. Why is NAWC not included in the list of organizations provided in response to OAG 1 - 288?
b. How much dues related to NAWC is included in the rate case, either as a direct KAWC expense or billed to KAWC through the service company?
c. Was any NAWC dues included in the rate case reduced by the 21% related to lobbying, as shown on page 17 of 72? If not, why not?

<u>Response</u>:

a. This was due to an oversight when preparing this schedule. Dues paid to NAWC have their own account number. We overlooked this account number when searching for organizations to include on the list.
b. $22,023
c. Yes.

For electronic version, refer to KAW_R_AGDR2#35_071607

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 36 of 41

Witness: Michael Miller/Nick Rowe

36. Follow-up to OAG 1 - 302. Please provide the attachments in Excel format, with all formulae intact.

Response:

The following excel files have been included in the electronic filing:

KAW_R_AGDR2#36a_attachment_071607.xls
KAW_R_AGDR2#36b_attachment_071607.xls
KAW_R_AGDR2#36c_attachment_071607.xls
KAW_R_AGDR2#36d_attachment_071607.xls
KAW_R_AGDR2#36e_attachment_071607.xls
KAW_R_AGDR2#36f_attachment_071607.xls
KAW_R_AGDR2#36g_attachment_071607.xls
KAW_R_AGDR2#36h_attachment_071607.xls
KAW_R_AGDR2#36i_attachment_071607.xls
KAW_R_AGDR2#36j_attachment_071607.xls
KAW_R_AGDR2#36k_attachment_071607.xls
KAW_R_AGDR2#36l_attachment_071607.xls

For electronic version of this document, refer to KAW_R_AGDR2#36_071607.pdf

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 37 of 41

Witness: Michael A. Miller

37. Follow-up to OAG 1 - 303. Please provide an explanation of the amounts for 2007 and the base period, including an explanation of what a "set up" is.

<u>Response</u>:

The years were incorrect on the original response. The response to OAG1 – 303 should have been listed as below:

2004	$25.00
2005	$50.00
2006	$217,009.60
Base Period	$216,440.21 (includes a set up of $192,700)
Forecast	$0.00

The base period amount consists of penalties paid in the amount of $23,740.21 for the late filing of gross receipts utility license tax payments. A set up is a journal entry to accrue an expenditure pertaining to that time period. See KAW_R_AGDR2#18_071607.pdf for further details.

There are no penalties or fines included in the forecasted test year.

For electronic version, refer to KAW_R_AGDR2#37_071607.pdf

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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 38 of 41

Witness: Michael Miller

38. Follow-up to OAG 1 - 307. What caused the large increase in American Water Works Service Company expenses in 2004?

<u>Response</u>:

There were three significant elements to the increase:

1)	2004 was the first full year of operation of the Alton call center -	$927,000
2)	Non-recurring charges for the Integration Management Office were incurred in 2004	$816,000
3)	Non-recurring charges for a Business Change program were incurred in 2004	<u>$813,000</u>
Total		$2,556,000

For electronic version, refer to KAW_R_AGDR2#38_071607.pdf

KENTUCKY-AMERICAN WATER COMPANY
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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 39 of 41

Witness: Michael A. Miller

39. Follow-up to OAG 1 - 308. Please provide the attachments mentioned in the response.

Response:

Please refer to the electronic file KAW_R_AGDR2#39_071607.xls on the enclosed CD.

For electronic version of this document, refer to KAW_R_AGDR2#39_071607.pdf

KENTUCKY-AMERICAN WATER COMPANY
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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 40 of 41

Witness: Michael Miller

40. Follow-up to OAG 1 - 310. Please provide the operating expense budgets requested in the original request for American Water Works Service Company.

Response:

Please see the attached documents for the budgets. Those documents include the 2007-2011 AWWSC Plan assumptions, Plan Summary, 2006 Plans for AWWSC –Corporate & SE Region, 2007 Plans for AWWSC – Corporate & SE Region, 2008 Plan for the SE Region.

For electronic version, refer to KAW_R_AGDR2#40_071607.pdf

KENTUCKY-AMERICAN WATER COMPANY
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ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION
Item 41 of 41

Witness: Michael Miller

41. Follow-up to OAG 1 - 311. Has or will any other affiliate bill KAWC for interest expense in 2005, 2006 or 2007? If so, identify the amounts.

Response:

Yes. There is a component of interest expense billed by AWWSC for a line of credit they maintain to meet cash flow shortages when required.

2005	$528.98
2006	$227.13
2007	$ 0.00

For electronic version, refer to KAW_R_AGDR2#41_071607.pdf