

Commonwealth of Kentucky  
Before the Public Service Commission

In the Matter of:

NOTICE OF INTENT OF KENTUCKY-AMERICAN )  
WATER TO FILE A FULLY FORECASTED RATE ) Case No. 2007-00143  
APPLICATION NO EARLIER THAN FOUR WEEKS )  
FROM THE DATE OF THIS LETTER )

ATTORNEY GENERAL'S REQUEST FOR INFORMATION  
TO KENTUCKY-AMERICAN WATER COMPANY

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, submits his first Request for Information to the Kentucky-American Water Company.

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the company witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,

GREGORY D. STUMBO  
ATTORNEY GENERAL

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*Notice of Electronic Filing, Filing, and Certificate of Service*

Counsel certifies that, pursuant to Paragraphs 2, 4, and 6 of the Commission's 2 May 2007 Order of procedure, the submission of a true and accurate copy of this document in electronic format by uploading the document to the Commission's Web Application Portal on this 4<sup>th</sup> day of June 2007. Counsel, pursuant to Paragraph 2 of the Commission's May 2<sup>nd</sup> Order, provides notice of the filing of the original and one photocopy this Notice by hand-delivery to Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601 on 5 June 2007.

Pursuant to 807 KAR 5:001, Section 3(7) and Paragraphs 2 and 6(d) of the Commission's May 2<sup>nd</sup> Order and Paragraph 4 of the Commission's 11 May 2007 Order granting intervention, the document was served by mailing a true and correct photocopy of the same, first class postage prepaid, to the following:

Leslye M. Bowman  
David Jeffrey Barberie  
Lexington-Fayette Urban County Government, Department Of Law  
200 East Main Street  
Lexington, Kentucky 40507  
(counsel for LFUCG);

David F Boehm  
Boehm, Kurtz & Lowry  
36 East Seventh Street  
2110 CBLD Building  
Cincinnati, OH 45202  
(counsel for KIUC);

Lindsey W. Ingram, Jr.  
Lindsey W. Ingram, III  
Stoll Keenon Ogden PLLC  
300 West Vine Street Suite 2100  
Lexington, KY 40507-1801  
(counsel for Kentucky-American Water); and

Joe F. Childers  
Getty & Childers, PLLC  
1900 Lexington Financial Center  
250 West Main Street  
Lexington, Kentucky 40507  
(counsel for Community Action Council for Lexington-Fayette, Bourbon,  
Harrison and Nicholas Counties, Inc.).

Per Paragraph 6 of the Commission's May 2<sup>nd</sup> Order, Counsel certifies that the electronic version of this document is a true and accurate copy of the document filed in paper medium, the electronic version of the filing has been transmitted to the Commission, and the parties have been notified of the filing of the electronic transmission to the Commission. A copy of the request for information in electronic format has been transmitted to Kentucky-American Water by e-mail. Service was on this 4<sup>th</sup> day of June 2007.

  
Assistant Attorney General

ATTORNEY GENERAL'S REQUEST FOR INFORMATION  
TO KENTUCKY-AMERICAN WATER  
KY PSC CASE NO. 2007-00143

- 1) RE: Vander Weide Direct Testimony. With respect to page 2, lines 12-14, please provide a list of the articles and books authored by Dr. James H. Vander Weide.
- 2) RE: Vander Weide Direct Testimony. With respect to page 5, lines 9-10, please indicate how equity investors define and measure "comparable risk."
- 3) RE: Vander Weide Direct Testimony. With respect to page 16, lines 1-17, and Appendix 1, please provide copies of all theoretical and empirical studies known to Dr. Vander Weide that compare and contrast the quarterly and annual DCF models.
- 4) RE: Vander Weide Direct Testimony. With respect to page 18, lines 10-16, please indicate:
  - (a) Why Dr. Vander Weide has chosen to use the earnings forecasts reported by I/B/E/S and not another service like Zack's or First Call?,
  - (b) How does the analysts coverage of I/B/E/S compare to the analysts coverage of the other major earnings reporting services?, and
  - (c) Are the I/B/E/S earnings forecasts available free of charge on the Internet and, if so, where?
- 5) RE: Vander Weide Direct Testimony. With respect to page 19, lines 3-8, please provide of all studies known to Dr. Vander Weide which indicate that "I/B/E/S growth rates are widely used by institutional and other investors."
- 6) RE: Vander Weide Direct Testimony. With respect to page 19, lines 15-20, please provide a copy of the article written by Dr. Vander Weide from the *Journal of Portfolio Management*.
- 7) RE: Vander Weide Direct Testimony. With respect to page 20, lines 20-22 please provide a copy of the updated study by State Street Financial Advisers.

- 8) RE: Vander Weide Direct Testimony. With respect to page 21, lines 15-23, please provide:
  - (a) Estimates of the floatation costs (direct expenses as well as market pressure costs) of the equity issued by KAWC and/or its parent over the past five years, and
  - (b) The prospectuses for all equity issues by KAWC and/or its parent over the past five years.
- 9) RE: Vander Weide Direct Testimony. With respect to page 24, lines 7-17, please indicate what water companies were eliminated by each of the screens applied to the companies listed in the Value Line Investment Survey.
- 10) RE: Vander Weide Direct Testimony. With respect to page 26, lines 1-2 (Table), please provide copies of the I/B/E/S analyst research reports for the water companies in the proxy group.
- 11) RE: Vander Weide Direct Testimony. With respect to page 28, lines 1-10, please provide copies of all studies performed by Dr. Vander Weide which indicates that the LDCs are similar in business and financial risk to:
  - (a) KAWC, and
  - (b) The proxy group of water companies.
- 12) RE: Vander Weide Direct Testimony. With respect to page 28, lines 11-21, please indicate what gas companies were eliminated by each of the screens applied to the companies listed in the Value Line Investment Survey.
- 13) RE: Vander Weide Direct Testimony. With respect to page 29, lines 14-18. please provide:
  - (a) The exact methodology employed by Value Line in developing its 'Safety Rank,'
  - (b) How Value Line's 'Safety Rank' compares to other measures of risk employed by Dr. Vander Weide,
  - (c) the number and percentage of companies followed by Value Line that have a safety rank of 1, 2, and 3, and

- (d) Copies of all studies known to Dr. Vander Weide that evaluate Value Line's 'Safety Rank.'
- 14) RE: Vander Weide Direct Testimony. With respect to page 29, lines 21-23, please provide copies of the I/B/E/S analyst research reports for the gas companies in the proxy group.
- 15) RE: Vander Weide Direct Testimony. With respect to page 32, lines 8-18, and Schedule 3 of Exhibit \_\_ (JVW-1), please provide:
- (a) Copies of all work papers used in Dr. Vander Weide's ex ante risk premium study,
  - (b) An electronic version (Microsoft Excel) of the data used in the analysis, with all data and equations left intact, and
  - (c) Copies of the regressions run on the data.
- 16) RE: Vander Weide Direct Testimony. With respect to page 33, line 1 to page 39, line 11, and Schedule 4 of Exhibit \_\_ (JVW-1), please provide:
- (a) Copies of all work papers used in Dr. Vander Weide's ex post risk premium study using the S&P 500,
  - (b) The sources of the data items employed,
  - (c) An electronic version (Microsoft Excel) of the data used in the analysis, with all data and equations left intact, and
  - (d) Copies of the regressions run on the data.
- 17) RE: Vander Weide Direct Testimony. With respect to page 41, line 1 to page 42, line 8, and Schedule 5 of Exhibit \_\_ (JVW-1), please provide
- (a) All work papers used in Dr. Vander Weide's ex post risk premium study using the S&P Utilities Stock Index,
  - (b) The sources of the data items employed, and
  - (c) An electronic version (Microsoft Excel) of the data used in the analysis, with all data and equations left intact.

- 18) RE: Vander Weide Direct Testimony. With respect to page 42, line 9 to page 43, line 10, and Schedule 8 of Exhibit \_\_ (JVW-1), for each company listed in the S&P 500, please provide:
- (a) The number of analysts providing an EPS growth rate forecast as well as the market capitalization weight used for each company,
  - (b) The company names and growth rates for those companies with negative expected growth rates,
  - (c) The company names, dividend, price, expected growth, cost of equity, and market cap for all companies, including the 25% highest and lowest DCF results, and
  - (d) An electronic version (Microsoft Excel) of the data used in the analysis, with all data and equations left intact.
- 19) RE: Vander Weide Direct Testimony. With respect to page 45, lines 11-23, please provide:
- (a) All regulatory cases in which Dr. Vander Weide has provided a rate of return or cost of equity recommendation since January 1, 2000,
  - (b) All regulatory cases in which Dr. Vander Weide has provided a rate of return or cost of equity recommendation since January 1, 2000 using a market-value capital structure for ratemaking purposes, and
  - (c) copies of the rate of return section of all rate orders in which regulatory commissions have adopted Dr. Vander Weide's market-value capital structure for ratemaking purposes.
- 20) RE: Vander Weide Direct Testimony. Please provide an electronic version (Microsoft Excel) of the following Schedules, with all data and equations left intact: Schedules 1, 2, 3, 4, 5, 6, 7, 8, and 9.
- 21) RE: Mike Miller Direct Testimony. With respect to Exhibit MAM-3, please provide:
- (a) All data, work papers, and copies of source documents used in the development of the capitalization amounts (13 Month Average Amounts, and adjustments as reflected in the Add (1) column, and



- (b) An electronic version (Microsoft Excel) of Exhibit MAM-3, and all supporting Schedules and work papers used to determine the 13-month capitalization amounts, with all data and equations left intact.
- 22) RE: Mike Miller Direct Testimony. With respect to Exhibit MAM-3, please provide:
  - (a) All data, work papers, assumptions on costs and interest rates in all pro forma financings, and other data used to determine the cost rates for short-term debt, long-term debt, and preferred stock, and
  - (b) An electronic version of all supporting Schedules and work papers used to determine the senior capital costs, with all data and equations left intact.
- 23) RE: Mike Miller Direct Testimony. With respect to Exhibit MAM-4, please provide:
  - (a) All data and work papers used in the analysis of the financings, and
  - (b) An electronic version of all supporting Schedules and work papers used in the analysis, with all data and equations left intact.
- 24) RE: Mike Miller Direct Testimony. With respect to Exhibit MAM-5, please provide:
  - (a) All data and work papers used in the analysis of interest rates, as well as an detailed explanation of the analysis which is performed in Exhibit MAM-5, and
  - (b) An electronic version of Exhibit MAM-5 (pages 1 and 2) along with all supporting Schedules and work papers used in the analysis, with all data and equations left intact.
- 25) RE: Pension Assets. Please provide the following:
  - (a) The overall expected rate of return used for pension assets;

- (b) The expected rates of return for alternative assets classes (long-term bonds, common stock) used in determining the overall expected rate of return used for pension assets; and
  - (c) Copies of all documentation used in determining the expected rates of return for alternative assets classes (long-term bonds, common stock).
- 26) Please provide a complete bill frequency analysis (also known as a consolidation analysis), separately for each customer class, meter size, and rate division and subdivision. Please provide this analysis in one or more electronic files in one of the following formats that most closely matches the original, in an unprotected (no password) format: Microsoft Excel, Lotus 1-2-3, Microsoft Access, dBASE, SPSS, SAS, comma delimited text, ASCII text, Adobe Acrobat (not a scanned or image file).
- 27) Please provide the original electronic spreadsheet file used to create Exhibit 37M, with all formulas and links intact, including all files linked thereto that are necessary for the proper functioning of the file. If any of the links are to a mainframe database or application, please provide the version of the output from such database or application that was used to produce Exhibit 37M.
- 28) Please provide the original electronic spreadsheet file used to create Exhibit MAM-9, with all formulas and links intact, including all files linked thereto that are necessary for the proper functioning of the file. If any of the links are to a mainframe database or application, please provide the version of the output from such database or application that was used to produce Exhibit MAM-9.
- 29) RE: Testimony of Linda Bridwell, p. 22, lines 1-3. The witness states that all new meter installations have AMR capabilities. Please describe the current methods by which KAWC reads meters (for example, manual, touch pad, AMR, etc.). For each such method, please state the number of meters by customer class and the approximate amount of time it takes to read each such meter.
- 30) RE: Testimony of Paul Herbert, p. 3, lines 13-14. The witness states: "The allocated cost of service is one of several criteria appropriate for consideration in designing customer rates to produce the required revenues." What are the other criteria that the witness considers "appropriate for consideration" in designing rates in this case? Please list

each such factor and describe how the witness considered or applied it in this case.

- 31) RE: Testimony of Paul Herbert, p. 6, lines 19-21. What is the basis for the witness's statement that purchased water, power, and chemicals "require little administrative and general expense"?
- 32) RE: Testimony of Paul Herbert, p. 8, lines 8-9 and Exhibit 36, Schedule C (Factor G). Did the witness consider any other method to allocate meter reading costs (such as a method based on the cost or efficiency of reading meters for each class of customers)? If so, please provide copies of all analyses and workpapers evaluating such other methods. If not, please explain why not.
- 33) RE: Testimony of Paul Herbert, p. 8, lines 12-18. Please provide copies of the witness's analyses, notes, and workpapers regarding the "field studies of customer class demands conducted for the Company, field observations of the service areas of the Company, ... and generally-accepted customer class maximum day and maximum hour demand ratios."
- 34) RE: Testimony of Paul Herbert, p. 9, lines 20-21. Did the witness perform any analysis to evaluate the "value of service"? If so, please provide copies of each such analysis. If not, please explain why not.
- 35) RE: Testimony of Paul Herbert, p. 9, line 25, through p. 10, line 7.
  - (a) Please identify the person or persons in "management" who provided the witness with the rate design guidelines.
  - (b) Please provide all correspondence between the witness (including notes of conversations) and the person or persons identified in response to (a).
  - (c) Did the instruction to the witness to "consolidate all rate divisions into the Central Division rate structure" indicate that such consolidation should occur immediately, or was the witness permitted to evaluate such consolidation over a longer period of time? If the latter, please provide all analyses performed by the witness that evaluated consolidation over a longer period of time.
  - (d) How did the witness evaluate and/or define whether a rate change would result in "excessive increases to any one class"?

- 36) RE: Testimony of Paul Herbert, p. 10, lines 18-19. The witness states that "the unrecovered cost of public fire service is included as a customer cost." Concerning this:
- (a) Please explain what the witness means by this statement and why such costs do not appear on Schedule H of Exhibit 36.
  - (b) Why are there unrecovered costs of public fire service when one of his rate design instructions was to "increase private and public fire service classes as indicated by the cost of service" (p. 10, lines 4-5)?
- 37) RE: Testimony of Paul Herbert, p. 10, lines 4-5, and Exhibit 36, Schedule A. According to Schedule A, KAWC is not proposing to increase Private Fire Service and Public Fire Service rates to recover the full cost of serving those classes. Please explain why this is the case and reconcile this proposal with the statement in Mr. Herbert's testimony that rates for these classes should "increase ... as indicated by the cost of service."
- 38) RE: Exhibit 36, Schedules D and E. Why did Mr. Herbert allocate Laboratory Equipment (account 395) using Allocation Factor 2, but Outside Services related to Water Quality (account 923) using Allocation Factor 1?
- 39) RE: Exhibit 36, Schedule D (p. 25 of 45), Exhibit 37M (p. 21 of 91), Testimony of Michael Miller, p. 42, lines 13-20, and Exhibit MAM-9. It appears that "Customer Related" other revenues on Exhibit 36 are comprised of NSF Checks, Reconnection Fee, and Activation Fee (shown on Exhibit 37M). Concerning this:
- (a) Please verify that this is correct.
  - (b) Please reconcile the difference between the amount shown on Exhibit 37M and the amount shown in Mr. Miller's testimony and Exhibit 36.
  - (c) Does KAWC have the ability to determine the amount of these fees collected from each customer class? If so, please provide the information. If not, please explain why not and describe the process that would be necessary to develop the information.
  - (d) Please provide all workpapers and/or source documents used to prepare Exhibit MAM-9.

- 40) RE: Exhibit 36, Schedule E. Please provide the workpapers supporting the calculation of the horsepower of pumps associated with each category. If the workpaper consists of an electronic spreadsheet, please provide the original electronic file with all links and formulas intact, including copies of all linked files necessary to the proper functioning of the file.
- 41) RE: Exhibit 36, Schedule E. Please explain why Allocation Factor 15 is used to allocate each of the following rate base elements:
- (a) Construction Work in Progress
  - (b) Working Capital Allowance
  - (c) Other Working Capital Allowance
- 42) RE: Exhibit 36, Schedule E. Please describe in detail the difference between "Working Capital Allowance" and "Other Working Capital Allowance."
- 43) RE: Exhibit 37M, Schedule M-3.1C (pp. 12-19). The calculations of Current Annualized Total Revenue on the schedule appear to be incorrect. For example, for the first entry on the schedule (Residential 5/8-inch) customer charge revenue is shown as \$10,407,768, but multiplying the Most Current Rate of \$7.95 by the number of Customer Bills (1,250,293) yields revenue of \$ 9,939,829. Concerning this:
- (a) Please provide a corrected version of this Schedule (including the spreadsheet file requested above), as well as any other schedules that are affected by the correction.
  - (b) Please verify that the other schedules in Exhibit 37M are accurate and, if not, please provide corrected versions of them (including the spreadsheet file requested above).
  - (c) If KAWC believes the schedule is correct, please explain how Current Annual Total Revenue is calculated.
- 44) Please provide all formal and informal responses to data requests of all other parties to this proceeding.
- 45) The schedules and workpapers filed as Exhibit No. 37 and the workpapers provided in response to Staff DR 1-1 are not readable due to the extremely small type size. Please provide readable copies of these documents.

- 46) Please provide in Microsoft Excel or Excel compatible format, copies of all schedules and workpapers created in the process of filing the current rate increase request. This specifically includes all accounting schedules and related workpapers filed as Exhibit No. 37 and the workpapers provided in response to Staff DR 1-1. Please provide files with all formulae intact, and provide any linked files. Please provide all schedules as amended to include net negative salvage in accumulated depreciation as discussed in the Company's response to Staff DR 1-5.
- 47) Re. Company response to Staff DR 1-5. Please list any exhibits and schedules that are amended to reflect the inclusion of net negative salvage in accumulated depreciation (a ratebase reduction). For forecasting purposes, indicate whether Mr. Spanos's cost of removal proposals were used to estimate these amounts, and how they were used.
- 48) Re. Baryenbruch Direct Testimony. Please provide all workpapers and analyses supporting Exhibit PLB-1.
- 49) Re. Bridwell Direct Testimony, p. 21. Please provide all workpapers supporting the calculation of the proposed tap fees.
- 50) Re. Bridwell Direct Testimony, p. 22. Ms. Bridwell states, "KAW now exclusively installs AMR, and has included the full cost of an AMR meter in the tap fee.
- a. How are these meters handled for ratebase purposes? In other words, are they included in ratebase?
  - b. Please provide the number of meters paid for in tap fees, as well as the total dollar amount collected.
  - c. By the term "full cost," does Ms. Bridwell mean the actual meter cost, or the meter cost plus an estimate for net salvage?
  - d. Provide the amounts included in tap fees for each type of meter. In other words, the "full cost" for each meter.
- 51) Re. Bridwell Direct Testimony, pp. 22-23.
- a. Please explain how KAWC tracks revenues and expenses related to the provision of leak detection services for other utilities.
  - b. Are any of these revenues or expenses included in the base or test year periods? If yes, explain where they are located in the filing and the rationale for including them.
- 52) Re. Bridwell Direct Testimony, p. 23. How has the discovery of the high service meter at the KRS, which was reading incorrectly, been reflected in the filing? For instance, has there been a reduction in unaccounted-for

water?

- 53) Re. Bridwell Direct Testimony, p. 28. Please provide all support and workpapers relating to any forecasted increase in fuel and power costs. Include any correspondence and/or other material received from KU relating to these estimates.
- 54) Re. Bridwell Direct Testimony, p. 29. Please provide all support and workpapers related to the forecasted increase in chemical prices. Include any correspondence with suppliers.
- 55) Re. Bridwell Direct Testimony, p. 30. How are residuals "beneficially used on-site"?
- 56) Re. Bridwell Direct Testimony, p. 30. Please provide a copy of "The American Systems Operations Manual."
- 57) Re. M. Miller Direct Testimony. Please provide all workpapers and calculations supporting Exhibits MAM-2, 6, 7, 8 and 9. Provide any calculations in Microsoft Excel or Excel compatible format, with all formulae intact.
- 58) Re. M. Miller Direct Testimony, Exhibit MAM-7.
  - a. Please explain why employee costs for Owenton were added to develop a 2001 base cost.
  - b. Please recalculate the exhibit adding the Owenton costs in 2005.
- 59) Re. M. Miller Direct Testimony, p. 4. Please provide a list of the \$96.0 million in capital improvements made since the last case. Also, please provide a list of the items included in the \$55.31 million increase to ratebase since the last case. In both cases, show the applicable accounts and amounts.
- 60) Please reconcile the ratebase in this case with the ratebase in the most recent prior case, by element.
- 61) Re. M. Miller Direct Testimony, p. 4. Are any costs related to the Divestiture and/or Sarbanes-Oxley Act (SOX) included in the filing as costs allocated to the Company by the Service Company? If so, please list all amounts and provide supporting documents. Also, indicate where in the filing the costs are included.
- 62) Re. M. Miller Direct Testimony, p. 19. Please provide the "Business Plan"

as discussed on this page.

- 63) Re. M. Miller Direct Testimony, pp. 20-21.
- a. What is the amount of labor and overhead costs related to David Whitehouse and Susan Lancho that was removed from the management fee budget?
  - b. What percentage of the time of these individuals was charged to KAWC for the past three years?
  - c. What is the amount of labor and overhead costs related to these individuals that was added to the Company's payroll and labor expense?
  - d. If there is any difference between the amount in part a and the amount in part b, please explain the difference.
- 64) Re. M. Miller Direct Testimony, p. 22.
- a. Please provide all costs and expenses associated with the ORCOM E-CIS software since inception. Include both capital costs associated with this software and as well as any O&M expenses. Include a description of each cost or expense.
  - b. For the costs and expenses shown in part a., please indicate how much of each cost and expense was charged to KAWC.
  - c. Were any prudence reviews conducted prior to purchasing the ORCOM E-CIS software? If yes, please provide those reviews. If not, explain why not.
  - d. Please provide any cost-benefit studies conducted prior to purchasing the ORCOM software.
  - e. Has any other jurisdiction in which American Water operates disallowed a cost allocation for the Customer Call Center and/or the ORCOM software? If yes, please provide the orders relating to that disallowance.
- 65) Re. Spitznagel Direct Testimony. Please provide all workpapers and calculation underlying his testimony and exhibits. Provide any calculations in Microsoft Excel or Excel compatible format, with all formulae intact.
- 66) Please provide copies of December year-to-date financial, operating and/or statistical reports for 2004, 2005, 2006 and 2007 year to date.
- 67) Please provide a copy of the Board of Directors minutes for 2004, 2005, 2006 and 2007 to date.
- 68) Please explain in detail any major changes in accounting treatment for



O&M expenses, retirements, replacements and removal costs instituted by the Company since 2002.

- 69) Please provide a copy of each out-of-period accounting adjustment (i.e., journal entry) recorded during the test year, and past the test year to the present, along with an explanation of each adjustment.
- 70) Please provide an analysis (description, dates and amounts) of any gains or losses on utility property sold in 2004, 2005, 2006 or anticipated in 2007 and 2008.
- 71) Please provide a complete breakdown of other income, net, for 2004, 2005 and 2006 and projected for 2007 and 2008. Identify the jurisdictional portion of each element.
- 72) Provide the Company's 2004, 2005 and 2006 Annual Reports to the KY PSC.
- 73) Provide the monthly financial and operating reports for every month from December 2004 to the present.
- 74) Provide the twelve months-ending return on common equity for each month from January 2004 to the present.
- 75) Provide each and every statement or memorandum by management discussing the Company's level of earnings and/or return from January 2004 to the present.
- 76) Please provide the latest 3-year operating forecasts.
- 77) Please supply a copy of the latest Ten Year Demand Forecast.
- 78) Please provide a complete side-by-side presentation of the filing showing actual 2006, base period ending July 31, 2007 and forward-looking test period ending November 30, 2008.
- 79) Please list all year end closing accounting entries, both internal and those made by your external auditors, for 2004, 2005 and 2006.
- 80) List each change in accounting principles made by the Company during 2003, 2004, 2005, 2006, 2007 and as forecasted for 2008.
  - a. For each such change, state the revenue and/or expense or capital impact in this filing.

- 81) Please list all procedures the Company follows to ensure that there was a proper assignment of costs to the test year and that the test year only includes charges incurred during the test period.
- 82) Provide an accounts payable register for the entire base year. This may also sometimes be referred to as a voucher/register, distribution journal and/or a subsidiary ledger.
- 83) Provide a copy of each adjusting entry proposed by the Company's independent Auditors in the two most recent audits of the Company. Include supporting documentation.
- 84) Provide a copy of the Company's two most recent management letters and recommendations received from the Company's independent auditors.
- 85) List each internal audit completed, scheduled, or in progress at the Company for 2004, 2005, 2006 and 2007. For each, list subject of audit, date of audit, date of report and title of report.
- 86) Provide a copy of the Company's most recent management and operations audit.
- 87) If applicable, list the expense associated with the most recent management audit. If the Company is amortizing the expense, list the amount of base and test period expense, the unamortized amount at December 31, 2004, 2005, 2006, and 2007 and state when the amortization will end.
- 88) List each proposed pro forma entry which was considered in this filing but not made and state the reason(s) why the entry was not made.
- 89) Please provide, in Microsoft Excel or Excel compatible format, the year-end balances from December 31, 2004 through December 31, 2006, July 31, 2007 and the 13-month November 30, 2008 average total jurisdictional balances for the following:
  - a. Plant in Service (by category, both total and depreciable)
  - b. CWIP
  - c. Construction completed not classified
  - d. Accumulated Depreciation (by categories provided in part a, above)
  - e. Plant Held for Future Use
  - f. Customer Contributions in Aid of Construction
  - g. Customer Advances

- h. Prepayments (by type)
  - i. Materials and Supplies - Operating by category
  - j. Materials and Supplies - Undistributed Stores Expense
  - k. Other Current Assets (by type)
  - l. Other Deferred Charges (by type)
  - m. Accumulated Deferred Income Taxes - Depreciation
  - n. Accumulated Deferred Income Taxes - Other (by type)
  - o. Miscellaneous Reserves (by type)
  - p. Retirement Work in Progress (by plant category)
- 90) Please provide an explanation of all items included in the following accounts (by subaccount if any) and provide the appropriate jurisdictional amounts for the year ended December 31, 2004, December 31, 2005, December 31, 2006 and July 31, 2007:
- a. Other Accounts Receivable
  - b. Accrued Utility Revenues
  - c. Miscellaneous Deferred Debits
  - d. Miscellaneous current and accrued liabilities
  - e. Other Deferred Credits
- 91) Please provide a comparison by month, or if not available, by quarter, of budgeted versus actual retirements for each month of 2004, 2005, 2006 and 2007. Please explain any significant variations.
- 92) Indicate the treatment of customer discounts for prompt payment of bills and budget billing accounts interest payments or income in the revenue portion of the cash working capital calculation.
- 93) Indicate whether and how check-clearing time was included in the revenue or expense lag calculations in the lead-lag study. If included in the study, indicate the number of days it added to the lead or lag by category.
- 94) If check-clearing time was not included in the revenue or expense lag calculations in the lead-lag study, indicate the number of days between the receipt of a customer's payment and the time the Company has use of the funds. Also, provide an estimate of the number of days after a check mailed to a vendor is reduced from the Company's bank account. If the number of days varies by type of expense or vendor, indicate those differences if known. Indicate any payments made by wire (in total by expense category).
- 95) Indicate whether tax payment lead days are calculated on actual or

- statutory percentages and payment dates in the cash working capital calculation.
- 96) Indicate whether in the cash working capital calculation, the payroll expense lead day result is based upon a composite of the separate net wage lag and withholding deposit period lag, or whether it is based on the single lag associated with gross wages (i.e., middle of pay period to payroll date).
- 97) Indicate the average period of time between rendering of service to customers to meter reading date (by type of customer if different), meter reading to billing date, and billing date to receipt of payment for Kentucky jurisdictional customers, if known; otherwise for total company if known.
- 98) Provide for each month from December 2005 to the present, the following by customer class on a jurisdictional basis (if not available by class, provide on a total jurisdictional basis):
- a. monthly revenues
  - b. accounts receivable (aging and amounts) net of uncollectibles
- 99) Provide for each year 2005, 2006 and 2007 the total dollar write-offs to uncollectibles reserve with and without subsequent recoveries.
- 100) Indicate any contractor retentions being held by the Company or for the Company during 2005, 2006 and 2007 in relation to a major construction project or acquisition.
- 101) Customer Advances.
- a. What is the ratemaking treatment for customer advances proposed by the Company in its filing? Where is such proposal found in the filing?
  - b. Provide the monthly level of customer advances for the period December 2005 thru July 2007.
  - c. Provide the monthly interest expense paid by the Company on customer advances for the same period.
- 102) Customer Deposits.
- a. What is the ratemaking treatment for customer deposits proposed by the Company? Where is such proposal found in the filing?
  - b. Provide the monthly level of customer deposits for the period December 2005 thru July 2007.

- c. Provide the monthly interest expense paid by the Company on customer deposits for the same period.
- 103) Customer Deposits.
- a. What is the contractual interest rate on customer deposits?
  - b. Identify the tariff or statute that establishes the interest rate.
  - c. Does the Company accrue interest on inactive customer deposits?
  - d. How often is interest on customer deposits paid?
  - e. Is interest on customer deposits paid by check, in the form of a bill credit, or credited as an addition to the customer deposit balance?
  - f. What is the Company's policy on customer deposits for collection, refund, and use as an offset against an uncollectible balance?
  - g. Provide a copy of the Company's policy(s) relating to customer deposits.
- 104) For the base year and the preceding two years, has the Company sold any property which had formerly been included in Plant Held for Future Use or devoted to utility service? If so, for each sale, describe the property sold; state whether, when and in what manner it had been included in rate base; show the details of how the gain or loss was calculated; indicate when the sale occurred; explain how and whether the Company is amortizing such gain or loss; and show how such amortization was computed.
- 105) The following questions are related to the Company's policies regarding accounting for CWIP, plant in service and depreciation:
- a. For each item of CWIP which the Company has transferred into utility plant in service for purposes of this filing, has a full 12 months of depreciation expense been included in the cost of service?
  - b. For each item of CWIP which the company has transferred into utility plant in service for the purposes of this filing, has an amount representing a full 12 months of depreciation expense been added to the total accumulated depreciation by which rate base is reduced?
  - c. Provide the same information as requested in subsection b. above for the deferred taxes related to the depreciation timing differences.
- 106) For major plant construction projects representing plant additions costing more than \$5 million added during 2005, 2006 and 2007 to date please state the following:
- a. Description of project.

- b. Any economic feasibility studies done in a relationship to the project.
  - c. Any related cost savings achieved as a result of adding the addition.
  - d. Whether the project was for replacement, for new growth, environmental, or other.
  - e. Description of why the project was necessary.
- 107) Explain in detail the Company's procedure for accruing AFUDC and provide examples of AFUDC accrued during 2005, 2006 and 2007. Discuss specifically how the Company computes the AFUDC rate, computes AFUDC monthly, adjusts AFUDC for the impact of the Alternative Minimum Tax and for interest that is capitalized for federal income tax purposes. Show examples of each calculation. Also provide references to PSC Orders which authorize or approve the calculation methods used by the Company.
- 108) List all revenue, expense and rate base amounts by account included in the test year relating to any Company owned or leased airport, airplane and helicopter facilities, if applicable.
- 109) Identify how much of the Company's materials and supplies balance at December 31, 2005, December 31, 2006 and 2007 to date is related to construction activities.
- 110) Please provide a copy of the corporate federal tax returns and supporting "M" schedules for 2004, 2005 and 2006.
- 111) Please provide detailed calculations of federal income taxes and state income taxes (budgeted and/or actual) for the following accounting periods:
- a. the year ended December 31, 2005 (actual);
  - b. the year ended 2006 (actual).
- 112) Please provide workpapers detailing the calculation of each statutory addition and deduction used in arriving at taxable income in the above calculation, as well as the calculations provided in Schedule E to the filing. Also provide a narrative explanation of the effect of each statutory addition and deduction on tax and/or book income, and the Internal Revenue Code Section or Treasury Regulation calling for the adjustment.
- 113) For 2005 and 2006, please provide a copy of the U.S. Corporation Income Tax Return, and the Kentucky Corporate Income Tax Return and all other

Kentucky Tax Returns. If separate returns were not prepared, please provide the detailed worksheets that were used to prepare the consolidated return.

- 114) Please provide the following information regarding deferred income taxes:
- a. Calculation of all timing differences reflected in DFIT; show book amount and tax amount; indicate when amounts were included in book and in tax returns;
  - b. Tax rate applied to each timing difference;
  - c. Calculation of actual DFIT;
  - d. If different, reconcile book amount per cost of service and book amount in DFIT calculation. Identify and quantify all reconciling items.
  - e. For each year 2001 through 2007 the gross and net additions to deferred taxes. Please breakdown such additions within each year by sub-account, providing the number and name for each account and sub-account. For each item by year, please reconcile the gross to net additions and explain how that reconciliation was derived.
  - f. For 2006 and 2007 (to date) please provide information requested in (e) above for each month.
- 115) Please provide a Consolidated Tax Savings calculation by year for each year 2004 through 2008.
- 116) Provide the following effective (reflecting all consolidated tax savings) tax rates for 2004, 2005, 2006, 2007 and 2008 and a derivation thereof:
- a. Federal Income
  - b. Kentucky Income
- 117) Please state whether the Company has or will file a consolidated federal or state tax return for 2005, 2006, 2007 and 2008 and if so, list those companies which will be included in the consolidated return.
- 118) Please list the name and business function of all Company subsidiaries and separately list those which are included in this case for ratemaking purposes.
- 119) Please provide worksheets which reconcile book and tax income and tax liability on the books and on the tax return for 2004, 2005 and 2006.
- 120) Please list and explain in detail the allocation methods used to allocate state and federal tax liability and tax credits between the Company and its

- subsidiaries and between the Company and other American Water companies. Please provide worksheets which show a detailed derivation of the allocations for 2004, 2005, 2006 and 2007. The derivation should include separate listing of contributions, indebtedness cost, NOL (current, carryforwards and carrybacks), each credit by type (such as the investment tax credit, jobs credit), intercompany transactions.
- 121) Please list all typical intercompany transactions which are taxed by the federal government in the year of the transaction or the following year if a separate return is filed, but on which the tax is deferred if a consolidated return is filed. For each transaction please identify it by company, and type of transaction, and gain (loss) (deferred or not). Please provide the book treatment of each account.
  - 122) Separately for 2004, 2005, 2006 and 2007 list all intercompany transactions which would be taxed by the federal government in that year if a separate return was filed, but will not be taxed that year because a consolidated return was filed. For each transaction please identify it by company, type of transaction, and gain (loss) (deferred or note). Please provide the book treatment of each amount.
  - 123) Please list all typical intercompany transactions which are taxed by Commonwealth government in the year of the transaction or the following year if a separate return is filed, but on which the tax is deferred if a consolidated return is filed. For each transaction please identify it by company, and type of transaction, and gain (loss) (deferred or not). Please provide the book treatment of each amount.
  - 124) Separately for 2004, 2005, 2006 and 2007 please list all intercompany transactions which would be taxed by Commonwealth government in that year if a separate return was filed, but will not be taxed that year because a consolidated return was filed. For each transaction please identify it by company, type of transaction, and gain (loss) (deferred or not). Please provide the book treatment of each amount.
  - 125) Please provide worksheets which derive the gross revenue and pre-tax accounting income and federal taxable income (loss), on a consolidated basis and on a separate return basis for each year for 2004, 2005, 2006 and 2007.
  - 126) Please provide worksheets which derive the gross revenue and pre-tax accounting income and Commonwealth taxable income (loss), on a consolidated basis and on a separate return basis for 2004, 2005, 2006 and



2007. Include in the worksheets a detailed reconciliation of book and tax income.
- 127) Please provide for each year from 2000 through 2007 the gross and net additions to deferred taxes. Please breakdown such additions within each year by sub-account, providing the number and name for each account and sub-account.
- a. For each item by year please reconcile the gross to net additions and explain how that reconciliation was derived.
- 128) Please provide detailed worksheets showing the derivation of "excess tax over book depreciation" for 2005, 2006 and 2007.
- 129) Please provide the beginning and ending balances for 2005, 2006 and 2007 for Accumulated Deferred Income Taxes and Provisions for Deferred Income Taxes broken down by sub-account with the name and number of each sub-account.
- 130) Please provide the following amounts for 2005, 2006 and 2007:
- a. Income tax expense, current, deferred, deferred-credit, investment tax credit deferred and investment tax credit amortized from prior years. Identify by Uniform System Account number.
  - b. Identify the benefit giving rise to each charge, as shown in the example below.
  - c. Divide federal and state amounts.
  - d. Cite the order or ruling on which the Company bases rate treatment of these benefits (normalized or flow-through). Note rate treatment (normalized or flow-through).
  - e. State the accumulated total for each as it appears on the test year balance sheets. Identify by Uniform System Account Number.
  - f. State the rate base treatment of each item (e.g. deducted from rate base, cost-free capital, treated as equity, etc.).
  - g. Cite the order or ruling on which the Company bases treatment identified in f.
- 131) Please provide a detailed derivation of 2005, 2006 and 2007 research and development credits, including:
- a. a list of all research, development and experimentation expenditures, and for each item provide:
  - b. separately the amounts payable to inside and outside contractors:
  - c. the amount payable in the test year;
  - d. the total expenditures to be expensed in determining federal taxable income;

- e. the total expenditures qualifying for the R & E credit under I.R.C. paragraph 44f.
- 132) Identify all net operating loss carrybacks and carryforwards for American Water and each American Water subsidiary for 2004, 2005, 2006 and 2007.
- 133) What amount of American Water interest expense for tax purposes and separately for book purposes was allocated to Kentucky on a combined and intrastate basis during the test year? Please explain and provide a reconciliation of the difference.
- 134) Regarding the investment tax credit, please provide the amount of 3%, 4%, 7%, 10%, and 11% credits the company generated, booked for ratemaking purposes, and/or used as a credit against federal tax liability for each year from 2004 through 2007 and the derivation of each of those amounts.
- 135) For each distinct tax-timing difference for which the Company has provided deferred taxes, please identify the amount of excess deferred income taxes (i.e. deferred taxes accrued by the Company at federal tax rates higher than the current corporate tax rate; the excess is the difference over the current rate) existing on the Company's books at December 31, 2006 which can be flowed back to ratepayers on an accelerated basis (i.e. such amortization is not prohibited by the normalization requirements of the Internal Revenue Code). Show how these amounts are calculated.
- 136) Will the amount of investment tax credits utilized be increased if the Company is granted its requested rate increase in these proceedings? If not, why not? If so, provide calculations showing the Company's best estimate as to how much ITC will be utilized.
- 137) Provide detailed descriptions of any IRS audit, settlements with the Internal Revenue Service, or audit adjustments made during the three years ending December 31, 2006.
- 138) Provide a copy of any and all revenue ruling requests, IRS responses, and correspondence between the Company and the IRS during the ten years ending December 31, 2006.
- 139) List total property taxes and property tax refunds or abatements each year, for the test year and the most recent three years for which actual information is available. Describe and show the accounting treatment accorded to each item, showing journal entries, dates, accounts, amounts and descriptions.

- 140) List all amounts of property taxes under dispute at December 31, 2006, and indicate the tax year and the taxing district to which each relates.
- 141) List all property tax refunds, by geographical area and taxing authority, by year, received in the most recent three years through 2006.
- 142) Please explain and provide all workpapers and source documents supporting the derivation of the taxable bases for Kentucky income and property taxes for 2005, 2006, and forecasted for the year ended December 31, 2007.
- 143) Provide full supporting documentation, workpapers and correspondence associated with refunds of any and all taxes other than income taxes received in 2004, 2005 and 2006. Indicate which accounts were affected and the associated dollar amounts. Also describe how the Company intends to treat this item for rate case purposes
- 144) Please state whether any settlements, penalties or interest resulting from audits by taxing authorities are included in expense per books in 2005, 2006 and 2007 either as incurred by the Company or as charged by American Water. If so, provide full details including the periods and issues resolved, the dollar amounts of settlement by issue, the taxing authority penalty or interest by issue, the taxing authority involved, the date of settlement, the current status of the payment, and the final resolution of the matter or status of the protest if unresolved.
- 145) Provide hard copies of all workpapers underlying the Depreciation Study prepared by Mr. John Spanos of Gannett Fleming.
- 146) Provide all information obtained by Mr. Spanos and Gannett Fleming, Inc. from Company operating personnel, and separately, financial management personnel relative to current operations and future expectations in the preparation of the study (see Study, pages II-23 and II-24).
- 147) Please provide all notes taken during any meetings with Company personnel regarding the study. Identify by name and title, all Kentucky-American Water Company ("KAWC" or "the Company") personnel who provided the information, and explain the extent of their participation and the information they provided.

- 148) Identify all plant tours taken during the preparation of the Depreciation Study.
- a. Identify those in attendance and their titles and job descriptions.
  - b. Provide all conversation notes taken during the tour.
  - c. Provide all photographs and images taken during the tour.
- 149) On page 6, of Mr. Spanos's testimony, he indicates that he calculated whole-life depreciation rates. However, on page I-3 of his study he indicates the rates are remaining life rates. The table on pages III-4 through 5 of the Study appears to show remaining life rates.
- a. Did Mr. Spanos or the Company originally intend to submit whole-life rates? If yes, please explain the switch to remaining life rates.
  - b. How are the depreciation rates currently in use calculated?
  - c. If Mr. Spanos has calculated whole-life rates, please provide them in electronic format (Excel), with all formulae intact.
- 150) On page 6 of his testimony, Mr. Spanos states, "I calculated the amount required to amortize the variance between the book depreciation reserve and the calculated accrued depreciation."
- a. Please provide that calculation in electronic (Excel) format with all formulae intact.
  - b. Based on Mr. Spanos's calculations, does KAWC have a reserve excess or deficiency?
  - c. Is Mr. Spanos proposing an amortization of the reserve imbalance? If yes, explain where that is shown in his study and also in the Company's revenue requirement filing.
- 151) Provide all internal and external audit reports, management letters, consultants' reports etc. which address in any way, the Company's property accounting and/or depreciation practices.
- 152) Please provide copies of all Board of Director's minutes and internal management meeting minutes in which the subject of the Company's depreciation rates or retirement unit costs were discussed.
- 153) Provide copies of all internal correspondence which deals in any way with the Company's retirement unit costs, depreciation rates, and/or the Depreciation Study.
- 154) Provide copies of all external correspondence, including correspondence with Mr. Spanos and Gannett Fleming, Inc., which deals in any way with the Company's retirement unit costs, depreciation rates, and/or the Depreciation Study.

- 155) Provide copies of all industry statistics available to Mr. Spanos and/or the Company relating to water company depreciation rates.
- 156) Identify all industry statistics upon which Mr. Spanos relied in formulating the depreciation proposals.
- 157) Which accounting method is reflected in the life studies; "location-life" or "cradle-to-grave"?
- 158) What is impact of the accounting method used, i.e., "location-life or "cradle-to-grave" on the lives calculated in the Depreciation Study?
- 159) Provide explanatory examples of the debits and credits relating to customer advances and contributions-in-aid of construction.
- 160) Provide explanatory examples of the debits and credits relating to the accounts for which depreciation is charged to clearing accounts.
- 161) Provide a copy of the Company's current capitalization policy. If the policy has changed at all since 2000, provide a copy of all prior policies in effect during any portion of that period.
- 162) Identify and explain all changes since the last depreciation study which might affect depreciation rates.
- 163) Please provide the most recent Asset Management Plan for KAWC.
- 164) Please provide on diskette or CD all tabulations included in the Depreciation Study and all data necessary to recreate in their entirety, all analyses and calculations performed for the preparation of the study. Please provide this and all electronic data in Excel (or .txt format if appropriate), with all formulae intact. Please provide any record layouts necessary to interpret the data. Please include in the response electronic spreadsheet copies of all of the schedules and/or tables included in the Depreciation Study, with all formulae intact.
- 165) If not provided elsewhere, please provide Mr. Spanos's amortization calculations and workpapers for general plant accounts in electronic format (Excel) with all formulae intact.
- 166) Please explain why only plant transaction data from 1995 forward was analyzed. Does KAWC maintain this data prior to 1995?

- 167) For each plant account, and for each year since the inception of the account up to and including 2006, please provide the following standard depreciation study data as identified at pages 30-33 of the August 1996 NARUC Public Utility Depreciation Practices Manual ("NARUC Manual"). Provide the data in electronic format (Excel or .txt). Include data prior to 1995 if available. Also, provide aged vintage data if available. Use the codes identified for each type of data, unless the Company regularly uses other codes. In those circumstances, identify and explain the Company's coding system.

<u>Code</u>	<u>Data Type</u>
9	Addition
0	Ordinary Retirement
1	Reimbursement
2	Sale
3	Transfer – In
4	Transfer – Out
5	Acquisition
6	Adjustment
7	Final retirement of life span property (see NARUC Manual, Chapter X)
8	Balance at Study Date
	Initial Balance of Installation

- 168) If the depreciation study data provided in response to the preceding question is not the exact set of data used for the depreciation study submitted in this case, explain all differences and reconcile the amounts provided to those used in the case.
- 169) If not provided elsewhere, provide the cost of removal and gross salvage data used in the Depreciation Study net salvage calculation. If this data differs from that reflected on the Company's books, please explain the differences and provide a reconciliation. Please provide this data in electronic (Excel or .txt) format.
- 170) Provide the following annual accumulated depreciation amounts for all plant accounts for the last 15 years (up to, and including, 2006). If the requested data is not available for the last 15 years, provide the data for as many years as are available. Please provide data in both hard copy and electronic format (Excel or .txt).
- a. Beginning and ending reserve balances,

- b. Annual depreciation expense,
- c. Annual retirements,
- d. Annual cost of removal and gross salvage,
- e. Annual third party reimbursements.

- 171) Please provide a comparison of the annual cost of removal and gross salvage amounts shown on KAWC's federal tax returns with the corresponding book amounts, for the last 5 years. Provide the annual deferred tax expense associated with each of the differences. Also, provide the beginning and ending accumulated deferred tax balances and state whether they are rate base additions or rate base deductions.
- 172) Provide a summary of annual maintenance expense by USOA account (for all accounts) for the last 10 years. If the requested data is not available for the last 10 years, provide the data for as many years as are available. Please provide data in both hard copy and electronic format.
- 173) Explain what consideration, if any, was given to annual maintenance expense data in Mr. Spanos's estimation of service lives, dispersion patterns and net salvage.
- 174) If not provided elsewhere, provide the calculation of the rates proposed in the Depreciation Study in electronic format (Excel) with all formulae intact.
- 175) Please provide the proposed depreciation rates, split into three separate components: capital recovery, gross salvage and cost of removal.
- 176) Please provide a calculation of the theoretical reserves reflecting both Mr. Spanos's proposed procedures and the existing procedures. Provide these calculations in electronic format (Excel) with all formulae intact and include all supporting calculations and workpapers.
- 177) Does the Company maintain its book reserve by plant account? If not, explain why not.
- 178) If the Company does not maintain its book reserve by plant account, provide the calculation of the book reserve shown in the depreciation study.
- 179) Was reciprocal, harmonic, or ELG weighting used in any of the depreciation rate calculations? If yes, please provide all calculations using

direct weighting. Also, provide this in hardcopy and electronic format (Excel).

- 180) If applicable, calculate all depreciation rates using the same weighting procedure used in the current depreciation rates, i.e., the same procedure used the last time depreciation rates were calculated.
- 181) If not provided elsewhere, please provide all remaining life calculations resulting from the depreciation study in electronic format (Excel) with all formulae intact.
- 182) If not provided elsewhere, provide electronic (Excel) versions of the net salvage studies included in the depreciation study, with all formulae intact.
- 183) Please provide the "net salvage estimates from previous studies of this company and other water companies" discussed on page II-24 of the Depreciation Study.
- 184) If not provided elsewhere, please provide all workpapers supporting terminal net salvage (decommissioning) estimates for each account for which terminal net salvage is a factor. Include any decommissioning studies relied upon, and explain how the results of those studies were incorporated into the net salvage estimate proposed by Mr. Spanos. Please include all calculations in electronic format (Excel), with all formulae intact.
- 185) Do Mr. Spanos's net salvage recommendations, including any terminal net salvage estimates, incorporate inflation expected to be incurred in the future? If yes, please explain fully how this inflation is factored into each recommendation, and provide supporting calculations in electronic format (Excel). If not, please provide support showing no future inflation was included.
- 186) If Mr. Spanos's net salvage recommendations include inflation expected to be incurred in the future, please provide the net present value of Mr. Spanos's net salvage recommendations.
- 187) Does Mr. Spanos agree that including inflation expected to be incurred in the future in net salvage estimates results in charging today's ratepayers for tomorrow's inflation? Please explain why or why not.



- 188) Does Mr. Spanos believe that including future inflation in net salvage estimates falls under the "known and measurable" standard usually followed in rate cases? Please explain why or why not.
- 189) On an account-by-account basis, for each of the five years ending 2006, explain whether the gross salvage and cost of removal incurred was normal or abnormal and why.
- 190) Refer to the discussion on Services cost of removal on page II-26 of the Study and the analysis on page III-88.
- a. Why is recorded cost of removal so high for 2001 through 2004?
  - b. How is cost of removal determined for this account, specifically?
  - c. If any research was conducted to determine the validity of the 2001-2004 amounts (see page II-26), please provide that research.
  - d. Do the amounts on page III-88 reflect the recorded amount or the discounted amount as discussed on page II-26?
  - e. If the amounts on page III-88 are already discounted, please provide the originally recorded amounts.
  - f. Provide a complete explanation of how the amounts were discounted (as discussed on page II-26), and how these discounted amounts are reflected in the net salvage analysis. Also, provide all supporting workpapers and calculations. Please provide workpapers in electronic format (Excel) with all formulae intact.
- 191) It appears from the net salvage analyses included in the depreciation study that retirements, gross salvage and cost of removal were not recorded during the years 1995 through 1998. Please explain why this is the case. Were the amounts recorded at a later date? If so, please provide all supporting workpapers.
- 192) Explain, and provide examples of, the Company's retirement unit cost procedures for each account. Identify all changes to retirement unit costs which have occurred over the years.
- 193) Were any retirements, classified as sales or reimbursements, excluded to the extent to which the salvage receipt represents recovery of original cost? If yes:
- a. Provide, by account, the annual retirements and the related salvage that has been excluded for the 10 years ending 2006.
  - b. Provide the Commission Orders and Decisions approving the exclusion of these retirements.
  - c. Demonstrate how the retirements were excluded from the life studies.

- 194) Explain the Company's procedures for gross salvage and cost of removal.
- 195) Explain how cost of removal relating to replacements is allocated between cost of removal and new additions. Provide copies of actual source documents showing this allocation.
- 196) Does KAWC agree that, in the case of a replacement, KAWC has control over how much of the cost of the replacement is assigned to the retirement as cost of removal, and how much is capitalized to plant-in-service? Please explain the answer fully.
- 197) Please provide all manuals, guidelines, memoranda or other documentation that deals with the Company's policies on the assignment of capital costs and net salvage with regard to the replacement of retired plant. Also, please provide a sample workorder for a replacement project, showing these cost assignments.
- 198) Identify and explain the Company's expectations with respect to future removal requirements and markets for retired equipment and materials. Please provide the basis for these expectations.
- 199) Please provide the Company's construction and capital budgets for the years 2007-2011 inclusive. Please identify all retirements, replacements, new additions and cost of removal reflected in these budgets. Please provide by account where available and explain how the cost estimates are derived for these items.
- 200) Provide narrative explanations of the Company's aging and pricing procedures.
- 201) Explain how the Company accounts for third party reimbursements and how they are reflected in the depreciation study.
- 202) If third-party reimbursements were excluded from the net salvage studies, was the related retirement also excluded from the life studies?
- 203) If not provided in the workpapers, please provide the retirement rate analysis ranking of best-fit life/curve combinations for each account. If the service life indications resulting from the analyses are not the best-fit life/curves, please explain how they were selected.

- 204) For any accounts where Mr. Spanos did not base his service life/curve selection on the results of his retirement rate analysis, explain why he did not. Also, explain in detail how those service life/curve combinations were selected.
- 205) Please explain, on an account-by-account basis, the rationale behind the selection of the experience band that was used for each retirement rate analysis.
- 206) Provide copies of any and all actuarial and semi-actuarial studies prepared by the Company since the last depreciation study.
- 207) Identify and explain all Company programs which might affect plant lives.
- 208) Provide all internal life extension studies prepared by the Company. Life extension refers to any program, maintenance or capital, designed to extend lives and/or increase capacity of its existing plant-in-service. Identify the functions to which these studies relate.
- 209) Provide the following information for all final retirements for the last 15 years. If requested data is not available for the last 15 years, provide the data for as many years as are available.
- a. Date of retirement
  - b. Amount of retirement
  - c. Account
  - d. Reason for retirement
  - e. Whether or not retirement was excluded from historical interim retirement rate studies.
- 210) Refer to page II-23 of the Depreciation Study, where it states "For most of the mass plant accounts and subaccounts, the statistical analyses resulted in good to excellent indications of significant survivor patterns." Please provide a full explanation of how Mr. Spanos determined this. In other words, what are the criteria Mr. Spanos uses to determine that a statistical analyses "results in good to excellent indications of significant survivor patterns."
- 211) Was the life span methodology utilized in the prior studies? If so, please provide a comparison, by account and location, of the probable retirement year forecasted in the prior studies, with the probable retirement year forecasted in the Depreciation Study.

- 212) Please provide the specific calculation of each probable retirement year in the Depreciation Study. Also, please provide the installation date for each location.
- 213) Do the life span analyses include interim additions? If so, please provide a detailed explanation of how and why interim additions are included.
- 214) Identify all circumstances unique to Kentucky which influence or have an impact on the life span estimates.
- 215) For all accounts and locations for which Mr. Spanos is proposing the life span method, provide the following information to support Mr. Spanos's final retirement dates. Please respond to each item.
- a. Economic studies. (NARUC, p. 146)
  - b. Retirement plans. (NARUC, p. 146)
  - c. Forecasts. (NARUC, p. 146)
  - d. Studies of technological obsolescence. (NARUC, p. 146)
  - e. Studies of adequacy of capacity. (NARUC, p. 146)
  - f. Studies of competitive pressure. (NARUC, p. 146)
  - g. Relationships of type of construction to remaining life span.
  - h. Relationship of attained age to remaining life span.
  - i. Relationship of observed features and conditions at the time of field visits to remaining life span.
  - j. Relationship of specific plans of management to remaining life span.
- 216) If not provided in the response to the immediately preceding question, please provide the source for the life spans selected by Mr. Spanos.
- 217) Provide a copy of the Company's most recent prior depreciation study and the Order(s) establishing the present depreciation rates.
- 218) Please provide a calculation of the current depreciation rates in electronic format (Excel) with all formulae intact. Show all parameters used, and provide a source for those rates and underlying parameters. If the rates and parameters are not the same as approved in the most recent prior case, please explain why not. Also, if there are any differences in the account numbers used, please provide a reconciliation.
- 219) Identify and explain all changes between the current study and the most recent prior study.

- 220) Please explain any changes in procedures, methods or techniques used to calculate the existing depreciation rates and those used to calculate the rates proposed in Mr. Spanos's Depreciation Study.
- 221) Provide a table summarizing separately by account the depreciation expense changes caused by life changes, net salvage changes, and other changes. Provide additional explanations of the "other changes."
- 222) Please provide the current depreciation rates, split into three separate components: capital recovery, gross salvage and cost of removal.
- 223) Provide any and all internal studies and correspondence concerning the Company's implementation of FASB Statement No. 143 and FIN 47.
- 224) Provide complete copies of all correspondence with the following parties regarding the Company's implementation of FASB Statement No. 143 and FIN 47:
- a. External auditors and other public accounting firms.
  - b. Consultants
  - c. External counsel
  - d. Federal and State regulatory agencies
  - e. Internal Revenue Service
- 225) Regarding FASB Statement No. 143 and FIN 47, on a plant account-by-plant account basis, please identify any and all "legal obligations" associated with the retirement of the assets contained in the account that result from the acquisition, construction, development and (or) the normal operation of the assets in the account. For the purposes of this question, use the definition of a "legal obligation" provided in FASB Statement No. 143: "an obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract under the doctrine of promissory estoppel."
- 226) For any asset retirement obligations identified above, provide the "fair value" of the obligation. For the purposes of the question, fair value means "the amount at which that liability could be settled in a current [not future] transaction between willing parties, that is, other than in a forced or liquidation transaction." Provide all assumptions and calculations underlying these amounts.
- 227) Provide complete copies of all Board of Director's minutes and internal management meeting minutes during the past five years in which any or

all of the following subjects were discussed: the Company's depreciation rates; retirement unit costs; SFAS No. 143; and FIN 47.

- 228) Please provide the accounting entries (debits and credits) used to implement SFAS No. 143 and FIN 47, along with all workpapers supporting those entries. Please provide all these workpapers and calculations in electronic format (Excel) with all formulae intact.
- 229) Refer to page 2 of KAWC's December 31, 2006 Annual Report (KAW\_APP\_EX28\_043007, p. 82 of 99). Provide all workpapers supporting the calculation of the \$6.561 million (2005) and \$7.597 million (2006) regulatory liabilities for cost of removal. Please provide all these workpapers and calculations in electronic format (Excel) with all formulae intact.
- 230) Refer to page 8 of KAWC's December 31, 2006 Annual Report (KAW\_APP\_EX28\_043007, p. 88 of 99).
- a. What is meant by the statement, "To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement of costs are incurred, a regulatory asset is recorded."? Please provide a hypothetical example showing how this would happen.
  - b. Why are removal costs of \$1.227 million (2006) and \$1.128 million (2005) recorded in operation and maintenance expense?
  - c. Are the O&M removal costs also included in the regulatory liability?
  - d. Please provide the calculation of the O&M removal costs and all supporting workpapers in electronic (Excel) format with all formulae intact.
- 231) Provide an analysis of the regulatory liability for cost of removal since inception identifying and explaining each debit and credit entry and amount.
- 232) What impact did the application of FIN 47 have upon the proposed depreciation rates and expense in this rate case? Provide all workpapers supporting the answer.
- 233) Provide KAWC's projection of the annual year-end balance in the regulatory liability for cost of removal shown in its Annual Report, for the next 20 years. If not available for the next twenty years provide for as many years into the future that the projection is available. If this projection has not been made, please explain why not.

- a. For this projection assume that all of KAWC's proposed depreciation rates are approved as requested. Provide in hard copy and in electronic format with all formulae intact.
  - b. Explain all assumptions used to make this projection.
- 234) Provide the calculation of the annual amount of future net salvage incorporated into KAWC's existing depreciation rates and in its proposed depreciation rates by account. If the amount is reduced by the total amount of non-legal AROs included in year-end accumulated depreciation, show that calculation.
- 235) With respect to the Regulatory Liability relating to asset cost of removal which you reclassified out of accumulated depreciation:
- a. Do you agree that this constitutes a regulatory liability for regulatory purposes in Kentucky? If not, please explain why not.
  - b. Do you agree that this amount is a refundable obligation to ratepayers until it is spent on its intended purpose (cost of removal)? If not, why not?
  - c. Please explain the repayment provisions associated with this regulatory liability.
  - d. Explain when you expect to spend this money for cost of removal.
  - e. Explain what you have done with this money as you have collected it. If you say that you have spent it on plant additions, please prove it.
  - f. Identify and explain all other similar examples of KAWC's advance collections of estimated future costs for which it does not have a legal obligation.
  - g. Does KAWC agree that the Kentucky Public Service Commission will never know whether or not KAWC will actually spend all of this money for cost of removal until and if KAWC goes out of business? If not, why not?
  - h. Does KAWC believe that amounts recorded in accumulated depreciation represent capital recovery? If not, why not?
  - i. Whose capital is reflected in accumulated depreciation – shareholders' or ratepayers'?
- 236) For all accounts for which KAWC has collected removal costs not related to AROs, but instead recorded a regulatory liability, please provide the fair value of the related asset retirement cost as of December 31, 2003; December 31, 2004, December 31, 2005 and December 31, 2006. For the purposes of this question, assume that KAWC has legal AROs for these accounts, and use the life and dispersion assumptions reflected in Mr. Spanos's depreciation study.

- 237) For the budgets supplied in response to Exhibit No. 13, please provide a description of all variations from actual expense levels which are due to known and certain changes, providing supporting documentation. Indicate all variations from actual levels which result from the application of inflation or escalation factors. In those instances where inflation or escalation factors were utilized, explain the derivation of the factors used in each case. If a single factor was used, a summary description will suffice.
- 238) Please indicate, if known and quantifiable, any anticipated changes in jurisdictional allocation factors and the impacts thereof on the 2008 test year.
- 239) Indicate the number of and expenses related to temporary or seasonal employees included in 2005, 2006, 2007 and projected 2008 jurisdictional expenses.
- 240) Provide as complete a breakdown as possible of the expenses billed by American Water and included in jurisdictional expense for 2004, 2005, 2006, and forecasted for the years 2007 and 2008. Include separately:
- a. labor
  - b. employee benefits (by type)
  - c. employment taxes
  - d. outside services
  - e. promotional, institutional and/or corporate advertising
  - f. contributions (by entity)
  - g. dues to organizations and social clubs (by entity)
  - h. computer time
  - i. regulatory costs (list docket no., jurisdictional entity, dates and description)
  - j. travel costs
  - k. lobbying or politically related activities
  - l. miscellaneous. (describe)

Identify all assumptions and provide all workpapers, calculations and source documents relied upon in projecting the 2007 base year and 2008 test year forecasted level of expense.

- 241) Please provide jurisdictional totals and amounts by payee, and an explanation of the services provided, for all amounts charged to outside services during 2005 and 2006 and as budgeted for the 12 months ended July 31, 2007 and forecasted for the 12 months ended November 30, 2008.



- 242) Please provide copies of any studies or analyses prepared by or for the Company, the Service Corporation or any American Water subsidiary regarding the level of the Company's or the Service Company's wages compared to the wages paid by other utilities, service companies, or any other entity.
- 243) Please provide the FICA wage base dollars included in total wages paid for the year ended December 31, 2005 and 2006.
- 244) Please provide the FICA wage base anticipated for the base and test years and explain its derivation.
- 245) Please provide a copy of the Company's most recent pension plan and post-retirement benefits actuarial studies.
- 246) Please provide a copy of all incentive compensation/bonus plans and provide the level of related bonus payments included in cost of service.
- 247) Please provide the percent of wages, employee benefits, overheads by type, employment taxes and other expenses charged to O&M on the basis of labor dollars (by the various labor categories, if possible) for 2005, 2006 and as forecasted for 2007 and 2008. Please indicate the causes of any differences between the percentages (over 3 percent) from year to year.
- 248) Please provide a copy of the most recent Salary Administration Program.
- 249) State whether the filing includes any provision for corporate performance awards. If so, list the dollar amount for each program. Identify into which accounts and in what amounts it has been accrued.
- 250) List the amount accrued for compensated absences by month from January, 2005 through the present. Show amounts separately for banked sick time, for accrued vacation and for banked vacation. Indicate which accounts were affected and the associated dollar amounts.
- 251) Does overtime include normal pay plus premium or just premium? Identify the level of premium pay for 2005, 2006 and 2007 to date.
- 252) Please provide a copy of any Company labor productivity analyses which have been performed during the past three years.
- 253) With regard to pension expense:

- a. Please provide the most recent actuarial study.
  - b. Please identify the amount of pension expense included in 2005, 2006 and 2007 and 2008 as forecasted. Also please provide workpapers showing the derivation of these amounts.
  - c. Please state whether the pension expense provided in part b, includes interest charges or earnings based on the time of payment. If yes, please identify the amount and provide workpapers or supporting documentation.
  - d. Please state the frequency with which pension contributions are made and the relationship of the payment date(s) to the period for which the contribution is being made. If the pension contributions are paid to the parent or service company, please identify both Company payment date(s) and the date(s) on which the contribution is actually made by the affiliate.
  - e. Please identify where pension expense has been included in the last working capital study and how the pension contribution date was recognized in determining the lag days for that category.
  - f. Please describe and quantify the effects FASB 87 and 88 would have on the pension plans for the Company for 2005, 2006 and 2007 if fully reflected.
- 254) What rate of interest is the Company currently earning on its pension plan fund balance?
- 255) Has the Company considered reducing the amount of post retirement health care, dental and life insurance coverage? If yes, provide details of any proposed reductions. If no, provide an explanation of why not.
- 256) Provide a complete copy of any and all actuarial reports prepared by or for the Company during the past three years concerning the cost of post retirement benefits other than pensions.
- 257) Post Retirement benefits other than pensions (OPEB's).
- a. Please provide complete workpapers showing the derivation of OPEB expense for 2005, 2006, 2007 base year and 2008 test year.
  - b. Please show all assumptions and the basis of all calculations.
- 258) List expense amounts for workers compensation insurance and claims for each year 2004, 2005, 2006 and 2007 to date. Indicate in which expense accounts these items are recorded.
- 259) Please state whether any amounts have been booked during the test year by the Company for the liability created pursuant to any employment

- severance compensation agreements.
- 260) List employee relocation expense for the base and test years and the previous three years. Indicate annually the amounts and accounts in which such expense is recorded.
  - 261) Provide a complete copy of the Company's policy with respect to employee relocation, including full details as to cost reimbursement.
  - 262) List each athletic and employee association to which the Company contributes and the associated amounts for the test year and preceding year. State how the Company has treated these expenses in the test year.
  - 263) List the dollar value of discounts for service and merchandise the Company provides to employees. Provide for the test year. Show in what accounts and amounts such expense was recorded. What employees are eligible to receive such discounts?
  - 264) List all Company owned automobiles, other than service vehicles, and state the Company's policy for charging employees for the personal use of these automobiles and the Company policy of reporting the personal usage of these automobiles for Federal income tax purposes.
  - 265) Does the Company maintain any recreational sites for the use of the public and/or Company employees? If so, please:
    - a. Identify each site and the type of recreational facility.
    - b. State whether each site is for public use or exclusively for employee use.
    - c. For each site identified in (a) above, state the amount of expense incurred during the test year to maintain it.
  - 266) For the base year list all payments made for employee gifts, employee awards, employee luncheons and dinners, employee picnics and all other similar type items. For each, list the dollar amount paid, the payee, the account charged and state the purpose. Provide copies of invoices which exceed \$5,000.
  - 267) Identify all expenses incurred during the base and test years for athletic events, tickets, sky boxes and all sporting activities.
    - a. Specifically identify the activity and dollar amount.
    - b. Provide copies of paid vouchers and invoices supporting these expenditures.

- 268) Does the Company or any affiliates employ chauffeurs? If so, identify the expenses included in the test year.
- 269) Please list all steps the Company has taken to reduce the cost of medical insurance.
- a. Does the Company's insurance coverage require a coordination of benefits and, if so, how does it function?
  - b. Does the Company plan require a co-pay percentage by the employee? If so, what is the percentage and has it increased over the past three years? State the various levels over the past three years.
- 270) With regard to research and development (R&D) expenditures, please provide:
- a. A monthly breakdown of the R&D expenses by project included in 2005, 2006, and as forecasted for the 12 months ended July 31, 2007 and November 30, 2008.
  - b. A comparison of actual vs. budgeted expenditures for 2005, 2006 and 2007 to date.
  - c. A detailed explanation of the causes of any increase from 2005 levels to 2006 levels and from 2006 to the 2007 budgeted level and why such an increase is necessary and reasonable.
  - d. A summary description of each of the R&D projects identified and the benefit to be derived by ratepayers.
  - e. Please provide the costs by project for each year of 2005, 2006 and 2007 to date.
- 271) With regard to R&D projects charged to KAWC, does it realize any royalties, profits from commercialization, or other forms or reimbursement or funding? If yes, please identify the amounts of all such items in 2005, 2006, 2007 and 2008 as forecasted and explain how these amounts are recognized in the billings to KAWC. If they are not recognized, please explain why not.
- 272) With regard to all capital and expense accounts included in the filing, please provide:
- a. A monthly breakdown of the expense by capital project and/or expense account included in 2005, 2006, and as forecasted for the 12 months ended July 31, 2007 and November 30, 2008.
  - b. A comparison of actual vs. budgeted expenditures for 2005, 2006 and 2007 to date.

- c. A detailed explanation of the causes of any increase from 2005 levels to 2006 levels and from 2006 to the 2007 forecasted level and why such an increase is necessary and reasonable.
  - d. A summary description of each of the capital projects identified and the benefit to be derived by ratepayers.
  - e. Please provide the costs by project for each year of 2005, 2006 and 2007 to date.
- 273) Please identify the amount of jurisdictional expense incurred during 2005, 2006 and forecasted for the year ended December 31, 2007 for lobbying, governmental relations, and/or other political activities. Please provide a description of each activity and provide a list of recipients of each payment under each activity. Please explain where and how these amounts are included on the Company's books.
- 274) Please indicate all items included in jurisdictional regulatory expense for 2005 and 2006 by item and docket number and description of case.
- 275) For each advertising expense over \$10,000 recorded by the Company during the base and test years, state the payee, amount, date and purpose. Also provide a copy of the associated invoice and a copy of (or if a non-print ad, the text of) each advertisement. Indicate which column shown on Schedule F-4 includes each amount.
- 276) Are there any advertising costs being incurred by the Company which cannot be identified with a specific advertisement? If so, please itemize and describe each such cost, and list the associated amounts for each year 2004, 2005, 2006 and 2007.
- 277) Break down the Company's advertising expense for the test year and the three years into its components, i.e., labor, overhead, materials and fees to agencies, etc.
- 278) Does the Company have any studies as to the effectiveness of its advertising and marketing programs? If so, describe by name, date and contents each study the Company has. Provide a copy of all such studies in the last three years.
- 279) Please list the trend in advertising expense per dollar of revenue for the five year period ending with 2007. If the Company has not made this calculation, please supply the information necessary to make it.
- 280) Please provide a listing of and a copy of any and all Commission Orders

the Company has reviewed or relied upon in preparation of its filing in this case concerning the ratemaking treatment of costs for each distinct type of advertising expense it incurs, including but not limited to these categories: (1) sales or promotional, (2) institutional, (3) conservation related, (4) rate case, and (5) other.

- 281) List any antitrust expense included in the test year.
- 282) Does the Company's proposed rate increase include any claim for attrition or suppression of sales?
  - a. If so, please reference where this is presented.
  - b. Provide a complete copy of any and all attrition studies or analyses prepared by or for the Company during the period 2003 through 2006.
- 283) Explain the method used by the Company to project uncollectibles for the test year. Include an explanation of all assumptions used and a detailed explanation, including examples, of whether and how historical data was used in making this projection.
- 284) 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 \$10,000,000.
- 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.
- 286) Provide a complete explanation of any and all expense reduction goals (cost savings programs) the Company has concerning the development of the 2004, 2005, 2006 and 2007 budgets.
- 287) List for the test year, the amount of country club initiation fees, stock purchase payments, if applicable, annual dues and expenses which were paid and to what account these fees were charged.
  - a. For each payment list the individual whose name the membership is in or who uses the club, his (her) title, and name of the country club.

- 288) Provide a copy of the Annual Report of every organization of which Company is a dues-paying member during 2005, 2006 and 2007 when available.
- 289) Do any of the Company's personnel actively participate on Committees and/or any other work for any industry organization to which the Company belongs?
- a. If so, state specifically which employees participate, how they are compensated for their time (amount and source of compensation), and the purpose and accomplishments of any such association related work.
  - b. List any and all reimbursements received from industry associations, for work performed for such organizations by Company employees.
- 290) Please provide copies of all expense reports (or similar documents) which exceed \$1,000 submitted by Company officers during 2005, 2006 and 2007 to date for reimbursement of business or personal expenses.
- 291) For each injury and damage claim, where the settlement exceeded \$10,000 for the years 2005, 2006 and as forecasted for 2007 and 2008, list by year each such claim, the basis for the claim, the dollar amount of the claim paid and the associated legal fees.
- 292) State the amount of injuries and damages expense for each of the last three years.
- 293) Itemize each component of insurance expense included in the base and test years, and provide comparative information for 2005 and 2006. Indicate the accounts and amounts in which each item of insurance expense is recorded.
- a. For any component of the Company's insurance expense which has fluctuated by more than 10% or \$10,000 from one year to the next, provide an explanation as to the cause of such fluctuation.
- 294) Itemize the legal services expenses included in 2005, 2006 and 2007 for rate case related work. For each distinct item state: payee; amount; account; purpose; docket, case, or proceeding reference; and describe briefly the nature of the case or legal service received.
- 295) Please itemize the amount of non-rate case legal expense for 2005, 2006 and 2007 to date. For each distinct item over \$5,000 show payee, amount, account and indicate what services were performed and what the subject

matter of the services was.

- a. Provide copies of all invoices which exceed \$10,000. This should be the complete document including a complete description of work performed.
- 296) List all fees during the test year, the previous two years and 2007 to date for maintaining lines of credit. List such fees for each line of credit which the Company maintains. Indicate in which account such fees are recorded.
  - 297) Does the Company employ a fringe-benefit or overhead factor to assign overhead costs to specific projects? If so, state what these factors were in 2005 and 2006 and show in detail how they were calculated.
  - 298) List and describe all maintenance programs and expenses which have been deferred into the test year from prior years, and for each item, explain the Company's reason for such deferral.
  - 299) List all merchandise-related revenue, expense and rate base items included in the test year by account and amount.
  - 300) List each abnormal or non recurring charge or credit which occurred during 2005, 2006 and 2007 to date, and which exceeded \$10,000.00.
    - a. For each such charge or credit, state the basis and dollar magnitude of each.
    - b. Provide copies of invoices, journal entries or other documentation to support each abnormal or non recurring item.
  - 301) Itemize all expenses over \$5,000 recorded by the Company during 2005, 2006 and 2007 to date in General Office Expense and Miscellaneous Expense. For each, state the payee, amount, date, purpose and subaccount. Also provide a copy of the associated invoice for amounts over \$10,000.00.
  - 302) List by account the Company's annual O&M expenses for the ten years ending 2006, plus 2007 and 2008 as forecasted. For each account having a variance over the prior year exceeding 10%, explain the cause of such variance, listing and describing each significant causative item and the associated dollar amount.
  - 303) Penalties and fines. List and describe any and all penalties and fines in the base and test years and the preceding three years. Indicate in which account each such item was recorded.



- 304) List all productivity savings expected to be realized by the Company as a result of increased employee experience.
- 305) List each facility, location and asset which is included as rental expense. For each item include a description, the annual or monthly rental rate, the account and amount included in the base and test year expense.
- 306) Please list storm damage expense for each year for the 10-year period ending with 2006.
- 307) Provide, by year, all affiliated operating expenses charged to the Kentucky jurisdiction for the 10 years ending 2006 plus as forecasted for 2007 and 2008.
- 308) For the base and test years, provide detailed support for all Management Fees included in the filing. Provide this in Microsoft Excel or compatible format. Include total charges incurred by each corporate department and the amount each of these departments allocated to KAWC. Also include the number of employees in each department and the method used to allocate charges for each department.
- 309) Provide a general ledger listing or similar report of all transactions that comprise the corporate charges allocated to KAWC.
- 310) Provide the most recent 2006 American Water operating expense budget and 2007 and 2008 forecasts of American Water operating expense. Please identify all assumptions, workpapers, calculations and source documents relied upon and provide the development of all escalation factors.
- 311) Please identify the total American Water interest costs and the amount billed to the KAWC during 2005, 2006 and 2007 to date and as forecasted for interest expense.
- 312) Provide the details of American Water debt outstanding for 2004, 2005, 2006 and 2007 to date by issue, including principal amount, cost (nominal and to Company), period outstanding, refinancing costs experienced (if any), call provision terms, guarantors and amounts, etc.