Commonwealth of Kentucky
Before the Public Service Commission

In the Matter of:
ADJUSTMENT OF RATES OF)
KENTUCKY-AMERICAN WATER COMPANY) Case No. 2008-00427

ATTORNEY GENERAL'S SUPPLEMENTAL
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 Supplemental 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.

WHEREFORE, the Attorney General submits this Request for Information.

Respectfully submitted,

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ATTORNEY GENERAL

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

Pursuant to Ordering Paragraphs 2, 3, and 12 of the Commission's 30 October 2008 Order of procedure, the Attorney General will submit the original and one photocopy in paper medium on 26 January 2009, and he has submitted one copy in electronic format by uploading the electronic file to the Commission's Web Application Portal on this 23rd day of January 2008.

Pursuant to Ordering Paragraph 5 of the Commission's 30 October 2008 Order of procedure, the counsel certifies that the electronic filing is a true and accurate copy of the document filed in paper medium. Further, the electronic version of the filing has been transmitted to the Commission, and the Commission and other parties have been notified by electronic means that the electronic version has been transmitted to the Commission. There are no parties that have been excused from participation by electronic means. All done on this 23rd day of January, 2009.

Assistant Attorney General

Kentucky-American Water Company
Kentucky Public Service Commission Case No. 2008-00427
Attorney General's Supplemental Request for Information

1. In his response to AG-1-2, Mr. Miller states that he believes that the requested ratemaking treatment (include in rate base with no offsetting AFUDC income) for the KRS II project has been adopted by the KY PSC for other utilities in Kentucky. In this regard, please provide the following information:

    a. Provide the names of the other utilities in Kentucky; the case numbers and dates of the rate cases for these other utilities; and descriptions of the issues and requested rate treatments in these other utilities' rate cases that, presumably, were similar to the KRS II issue and requested ratemaking treatment in the instant proceeding.
    b. For each of the issues in the other utilities' rate cases to be provided in response to part (a) above, provide the specific ruling made by the KY PSC.
    c. For each of the KY PSC ratemaking rulings to be provided in response to part (b) above, provide the relevant pages of the PSC Orders containing these PSC decisions, as well as the corresponding date for each Order.

2. Page 2 of the Application states that the proposed ratemaking treatment of KRS II in the current case is needed in order "to avoid the rate shock that would result if the recovery of construction expenses associated with the Kentucky River Station II project is delayed until after that project is completed." In this regard, please provide the following information:

    a. What is the Company's definition of "rate shock" to the ratepayers?
    b. What percentage rate increase would qualify as causing "rate shock" to the ratepayers?
    c. Assuming no phase-in of the KRS II project in the current case, what would be the percentage rate increase in the Company's next rate case assuming everything else being equal?

3. With regard to the response to AG-1-45(b) [AFUDC Equity Gross Up amortization], please provide (1) the calculations and assumptions in support of the monthly amortization amounts of $5,946; and (2) the amortization period used and the basis for this amortization period.

4. With regard to the response to AG-1-22, please provide the following information:

    a. Confirm that the cash working capital impact of the Preferred Dividends has already been separately accounted for in the lead-lag study on B-5.2, page 5 in the line item above the Net Income line item. If you do not agree, explain your disagreement.

b. Confirm that the appropriate Net Income amount in the lead-lag study, based on the Company's proposed rate base of $305.544 million and weighted cost of common equity of 4.87% amounts to $14,880,016 rather than the Net Income amount of $15,338,332 reflected by the Company. If you do not agree, explain your disagreement.
c. Confirm that the use of the appropriate Net Income amount of $14,880,016 reduces the as-filed cash working capital requirement by about $54,180. If you do not agree, provide the correct amount as calculated by the Company.

5. In the calculations in the response to AG-1-24, page 2 to determine the AFUDC Gross-Up amount of $1,231,178 claimed in this case, the Company has assumed an effective composite tax rate of 40.36% which includes the old state income tax rate of 8.25% [((1-8.25%) x 35%) + 8.25% = 40.36%]. In this regard, please provide the following information:

   a. Confirm that the current state income tax rate is 6% and that this income tax rate has consistently been used by the Company for all aspects of the rate filing involving the application of the state income tax factor.
   b. Confirm that the effective composite income tax rate based on the 6% state income tax rate is 38.90% rather than 40.36%.
   c. Confirm that the Equity Gross Up amount based on the correct composite income tax rate of 38.90% would be $1,158,166 rather than the Company's claimed amount of $1,231,178.
   d. How would the correction for this Equity Gross Up amount from $1,231,178 to $1,158,166 impact the 13-month average forecasted test period ADIT balance in rate base and the forecasted test period Equity Gross Up amortization of $71,346 shown on W/P4-1, page 5 of 9?

6. The AG is not able to determine the answer to the AFUDC/CWIP question posed in AG-1-24(d) from the Company's response to AG-1-24(d). The answers to the following questions will hopefully clarify the AFUDC/CWIP information sought by the AG:

   a. The total forecasted AFUDC amount of $3,094,804 is based on the application of a weighted average rate of return of 8.54%. This would suggest that the average forecasted test period AFUDC-bearing CWIP balance amounts to approximately $36.240 million [$3,094,804 / 8.54% = $36.240 million]. Please confirm that this is correct. If not correct, provide the correct average forecasted test period AFUDC-bearing CWIP equivalent to the $36.240 million balance derived above.
   b. The total 13-month average forecasted period CWIP balance is $102,817,344. If one were to remove from this balance the May 30, 2009 KRS II balance of $66,569,975 (for which the Company is requesting a current rate of return), the remaining average forecasted period AFUDC-bearing CWIP balance would be $36,247,369. Please reconcile this

derived CWIP balance to the CWIP balance of $36,240,000 derived in part (a) above.

7. Please provide the actual calendar 2008 revenue information sought in AG-1-38 which the Company agreed to provide once the actual data was available.

8. With regard to the response to AG-1-37, provide the actual miscellaneous sales revenues for the full 12 months of calendar 2008.

9. With regard to the response to AG-1-52(c), please replace the miscellaneous revenues for the 12-month period ended 11/30/08 with the equivalent miscellaneous revenues for calendar year 2008.

10. With regard to the response to AG-1-59 (Private Fire), please provide the following information:

    a. Update the data on page 4 of 7 for 12 months of actual data for 2008.
    b. The private fire hydrants have had a compounded annual growth rate of 8.6% from 2004 through 11/30/08 and are already at a level of 969 as of 11/30/08. Given that the Company's projections are based on historical increases, does the Company believe that its projected private fire hydrants as of May 31, 2010 of 816 are understated? If not, why not? If so, how would the Company revise its forecasted period private fire hydrant projection?

11. The forecasted test period CCF consumption of 656,898, in total and by OWU account, shown on W/P 2-1, page 23 of 29 reflects the actual CCF consumption for the 12-month period ended 7/31/08. In this regard, please provide the following information:

    a. Confirm the above-stated facts. If these facts are not correct, provide the correct information.
    b. In the same format as shown in the top part of this page 23 workpaper (showing the total CCF consumption and the consumption by OWU account), provide the corrected information that would include the annualized going-level consumption for the City of Nicholasville (see response to AG-1-56(c)).
    c. In the same format as shown in the top part of this page 23 workpaper (showing the total CCF consumption and the consumption by OWU account), provide the actual CCF consumption for calendar year 2008. This actual 2008 consumption should also include the annualized going-level consumption for the City of Nicholasville.
    d. Provide the total annual consumption revenues resulting from the actual annual CCF consumption to be provided in the response to part (c) above.
    e. Update the monthly OWU total consumption numbers shown in the response to AG-1-57(d) for actual consumption for each month of

calendar year 2008 and convert this total 2008 OWU consumption to CCF consumption numbers. If the total 2008 CCF consumption number is different from the total 2008 CCF consumption number to be provided in the response to part (c) above, provide a reconciliation of these total consumption numbers.

12. Please update the response to AG-1-57(a) by adding the actual number of meters for December 2008.

13. WP 2-1, page 23 shows total annual 1000 gallons OWU consumption numbers of 388,914 (518,552 CCFs) and 612,154 (816,205 CCFs). In this regard, please provide the following information:

    a. Provide a breakout of these annual consumption numbers (in CCFs) by OWU account just as was done at the top of WP 2-1, page 23.
    b. If these 2006 and 2007 actual consumption numbers do not include the annual going-level consumption associated with the City of Nicholasville, what would be the actual 2006 and 2007 OWU consumption levels (CCFs) with the inclusion of the annualized going-level City of Nicholasville consumption?

14. With regard to OPA sales, please provide the following information:

    a. Schedule I-4 shows actual 1000 gallons OPA consumption for the years 2005, 2006 and 2007 of 1,533,083, 1,439,868 and 1,576,786, respectively. Please reconcile these numbers to the corresponding 1000 gallons OPA consumption numbers for 2005, 2006 and 2007 of 1,530,265, 1,436,818 and 1,571,213, respectively, on WP 2-1, page 22 of 29.
    b. Update the 2008 OPA billed meters shown in the response to AG-1-54(b) by including the actual December 2008 billed meters.
    c. Update the response to AG-1-54(e) by providing the December 2008 OPA consumption number and the resulting total 2008 OPA consumption.

15. Please update the responses to AG-1-62 (b) and (e) for actual December 2008 data.

16. Please provide the following information for the residential and commercial customer classes:

    a. In the same format and detail as shown on Schedule I-4, please provide the actual residential and commercial 1000 gallons consumption numbers, 13-month average number of customers, and resulting average gallons per day per residential and commercial customer for calendar year 2008.
    b. In the same format and detail as shown on Schedule I-4, please provide the residential and commercial 1000 gallons consumption numbers, 13-month average number of customers, and resulting average gallons per day per

residential and commercial customer as originally included in the Company's 2008 budget.

c. In the same format and detail as shown on Schedule I-4, please provide the actual residential and commercial 1000 gallons consumption numbers, 13-month average number of customers, and resulting average gallons per day per residential and commercial customer for calendar years 2000 through 2003.
d. In the same format and detail as shown on Schedule I-4, please provide the residential and commercial 1000 gallons consumption numbers, 13-month average number of customers, and resulting average gallons per day per residential and commercial customer as originally included in the Company's budgets for calendar years 2000 through 2003.

17. With regard to the response to AG-1-70, please provide the following information:

    a. Update the 11/30/08 maintenance expense amount of $936,339 in the response to AG-1-70(b) for 12 months of actual results in 2008.
    b. Confirm that the table in the response to AG-1-70(c) represents budgeted expenses and not actual expenses (as indicated in the response).

18. Please provide the actual Account 575500.13 and 575500.14 janitorial expenses for the full calendar year 2008.

19. With regard to the response to AG-1-120, please provide the following information:

    a. Provide workpapers showing all calculations in support of the revenue requirement adjustment shown on each line item. In addition, identify the AG data response in which these adjustments were identified.
    b. Explain why the revenue requirement impact of the Boonesboro UPAA elimination from rate base is $1,338 and not approximately $2,200.
    c. Explain why the public fire revenue requirement increase of $43,374 discussed in the response to AG-1-60, is split between a private fire adjustment of $7,966 and public fire adjustment of $37,167 on AG-1-20.

20. Please provide a detailed description of the nature and purpose of each of the Community Relations line items shown in the response to AG-1-81.

21. Re: Schedule F-2.3: In which line item on WP 3-13, page 3 are the employee recognition banquet expenses of $15,000 and the company picnic expenses of $7,000 reflected? If not reflected on WP 3-13, page 3, explain on which workpaper these expenses are reflected.

22. Re: Response to AG-1-94(a): please provide the actual current gasoline unit rates for diesel (equivalent to the $3.97), gasohol (equivalent to the $3.40), unleaded

plus (equivalent to the \$3.47), unleaded regular (equivalent to the \$3.37) and unleaded super (equivalent to the \$3.61).

23. Please provide a detailed description as well as copies of ads for each advertising item making up the total "Conservation Advertising" amount of \$160,463 on Schedule F-4.

24. With regard to Directors & Officers (D&O) insurance, please provide the following information:

    a. D&O insurance expense included in the forecasted period. Also, indicate the NARUC account number and the filing workpaper where this insurance expense can be found.
    b. Description of the nature and purpose of D&O insurance.
    c. In the past, has the Company's D&O insurance been activated as a result of shareholder suits against Company management and/or directors? If so, describe these instances, as well as the D&O insurance amounts paid out as a result of these instances.

25. With regard to the response to PSC-2-31, please provide the following information:

    a. Reconcile each item listed in the response to the items listed for the forecasted period on Schedule F-1.
    b. Provide a description of the nature and purpose of each item listed in the response to PSC-2-31.

26. The forecasted period claimed revenue requirement in this case includes \$1,249,992 for Group Insurance expense, \$560,278 for OPEB expenses, and \$581,701 for Pension expenses. However, in the response to AG-1-99, the Company shows that these above-referenced expense amounts still include expenses allocable to the Company's sewer operations. Please explain this and indicate whether these sewer-allocated expense portions should be removed from the claimed revenue requirement in this case.

    In addition, please review whether there are any other expenses claimed in the revenue requirement in this case (e.g., payroll, incentive compensation, 401(k), DCP, other employee benefits, payroll taxes, etc) that should have certain portions allocated to sewer. If so, please identify and quantify these sewer-allocable expense portions.

27. With regard to the response to AG-1-102, please provide the actual number of filled positions (water) as compared to the budgeted positions (water) as of 12/31/08 and the most recent date available for January 2009.

28. With regard to the response to AG-1-103, please update the actual 2008 vacancy positions for the full calendar year.

29. The responses to AG-1-106(c) and (d) provide a listing of the Company's "direct" incentive compensation expenses actually booked and originally budgeted from 2003 through 11/30/08. In this regard, please provide the following information:

   a. Questions AG-1-106(c) and (d) asked for total incentive compensation amounts broken out between AIP and LTIP payments. The response only provides the AIP incentive compensation payments. If the responses to AG-1-106(c) and (d) do not include actual and budgeted LTIP incentive compensation, please provide the corrected responses with the information that was originally requested.
   b. Updated the actual information provided through 11/30/08 for actual calendar year 2008 information.

30. Please reconcile the 136 FTEs as of 11/30/08 shown in the response to AG-1-117 to the 140 (139 water) employees as of 11/30/08 shown in the response to AG-1-102.

31. Re. response to AG-1-116: While approximately 13% of the Director of GA's time is estimated to be spent on lobbying, what percentage of his time is estimated to be spent on legislative advocacy, regulatory advocacy, public relations, community relations, and promotional activities?

32. The response to AG-1-114 states that the AWWSC-allocated business development expenses included in the management fees allocated to KAWC in the forecasted period amounts to $224,043. In this regard, please provide the following information:

   a. Provide the mechanism used by AWWSC to determine the allocated business development expenses of $224,043.
   b. Identify the AWWSC employees who dedicate all or a portion of their time to activities specifically involving KAWC business development. In addition, provide a worksheet showing how the $224,043 expense was calculated based on the annual salaries and salary overheads of these AWWSC employees and indicate what portion of the $224,043 is based on directly assignable expenses and what portion is based on allocated expenses.

33. The response to AG-1-115 states that the AWWSC-allocated External and Government Affairs expenses included in the management fees allocated to KAWC in the forecasted period amounts to $242,525. In this regard, please provide the following information:

a. Provide the mechanism used by AWWSC to determine the allocated expenses of $242,525.
b. Identify the AWWSC employees who dedicate all or a portion of their time to activities specifically involving KAWC's external and government affairs. In addition, provide a worksheet showing how the $242,525 expense was calculated based on the annual salaries and salary overheads of these AWWSC employees and indicate what portion of the $242,525 is based on directly assignable expenses and what portion is based on allocated expenses.

34. With regard to the claimed Management Fees of $7,612,592, please provide the following information:

    a. Portion of expense that is related to advertising and promotional expenses. In addition, provide a breakout of the expense items making up this expense portion, as well as descriptions of the nature and purpose of each of these advertising and promotional expense items.
    b. Portion of expense relating to Community Relations activities. In addition, provide a breakout of the expense items making up this expense portion, as well as descriptions of the nature and purpose of each of these Community Relations expense items.
    c. Portion of expense relating to Dues and Memberships. In addition, provide a breakout of each membership item making up this expense portion, as well as descriptions of the nature and purpose of each of these dues and membership items.

35. With regard to the response to AG-1-173(l), please provide a detailed breakout of the expense items making up the "miscellaneous expenses" of $947,665. In addition, provide descriptions of the nature and purpose of each of these miscellaneous expense items.

36. The response to AG-1-183, page 2 of 2 shows one page of the 2009 Management Fees allocated to KAWC, on a line item-by-line item basis. In this regard, please provide the following information:

    a. AWWSC's 2009 budget shows that total management fees of $7,598,202 are allocated to KAWC (see response to AG-1-112, page 3). In the same format and detail as per the budget page shown in the response to AG-1-183, page 2, provide the total budgeted AWWSC management fees allocated to KAWC of $7,598,202 on a line item-by-line item basis.
    b. AWWSC's 2010 budget shows that total management fees of $7,794,037 are allocated to KAWC (see response to AG-1-112, page 3). In the same format and detail as per the budget page shown in the response to AG-1-183, page 2, provide the total budgeted AWWSC management fees allocated to KAWC of $7,794,037 on a line item-by-line item basis.

c. AWWSC's forecasted period expenses allocated to KAWC amount to $7,612,592. In the same format and detail as per the budget page shown in the response to AG-1-183, page 2, provide the total budgeted AWWSC management fees allocated to KAWC of $7,612,592 on a line item-by-line item basis.
d. In the same format and detail as per the budget page shown in the response to AG-1-183, page 2, provide the total budgeted AWWSC management fees allocated to KAWC for the year 2010 on a line item-by-line item basis.
e. In the same format and detail as per the budget page shown in the response to AG-1-183, page 2, provide the total actual AWWSC management fees allocated to KAWC for the year 2010 on a line item-by-line item basis.

37. The Company has proposed to remove the AFUDC associated with $66.570 million worth of KRS II CWIP which, in accordance to the Company's calculations, increases the revenue requirement in this case by $7,885,893. In this regard, please provide the following information:

a. By how much would the currently claimed forecasted period AFUDC level of $3,094,804 increase assuming the AFUDC is calculated and reflected on the $66.750 million KRS II CWIP investment? In addition, show all calculations for the AFUDC increase.
b. Provide a worksheet showing how the AFUDC increase to be provided in response to part (a) increases the claimed revenue requirement in this case by $7,885,893.

38. With regard to the response to AG-1-13, page 4 of 4, please provide the following information:

a. The ratepayers will start paying the revenue requirement of $7.263 million associated with the proposed KRS II phase-in starting with the rate effective date of the current case (lets call this Year 0). Please confirm this. If you don't agree, explain your disagreement.
b. In deriving the NPV of $190.922 million, the Company's NPV analysis started with the revenue requirement of $7.263 million in year 0, i.e., the NPV analysis was started effective with the rate effective date of this case. Please confirm this. If you don't agree, explain your disagreement.

39. With regard to the response to AG-1-13, page 3 of 4, representing the scenario of no KRS II CWIP phase-in, please provide the following information:

a. In year 0, the rate effective date of this case, the ratepayers will not have any revenue requirement associated with KRS II. That revenue requirement will not start until the rate effective date of the Company's next rate case (assumed to be Year 1 in the Company's NPV analysis). Please confirm this. If you don't agree, explain your disagreement.

b. In deriving the NPV of $207,895 million, the Company's NPV analysis ignored the fact that there will be a $0 revenue requirement associated with KRS II with the rate effective date of this case and, instead, incorrectly assumed that the full revenue requirement associated with KRS II will become effective with the rate effective date of this case. Please confirm this. If you don't agree, explain your disagreement.
c. The correct NPV analysis (that would be consistent with the NPV analysis in the response to AG-1-13, page 4 of 4) would show $0 revenue requirements in Year 0 and would then start the NPV analysis in Year 0. When this correct approach is used, the total NPV amount would be $192.442 million rather than the $207.895 million calculated by the Company in the response to AG-1-13, page 3. Please confirm this. If you don't agree, explain your disagreement.

40. With regard to the response to AG-1-77(c) and (d), please provide the following information:

a. Explain whether the $72,000 expense correction should be made as a reduction to the $308,900 expense in account 535000 or as an expense reduction in the current maintenance expense account 675000.14.
b. Which line item on WP3-14, page 2 of 3 should be reduced by $72,000 to reflect the indicated correction?
c. Confirm that this $72,000 maintenance expense reduction correction is separate and apart from the required maintenance expense reduction for paving/backfill described in the response to PSC-2-37.

41. With regard to the response to PSC-2-53, page 2, please provide the following information:

a. In the prior 2007, 2004 and 2000 rate cases, which pro forma income tax calculation was used for ratemaking purposes, the method currently proposed by the Company (including deferrals) or the method detailed in PSC-2-53.
b. Is the import of the response to PSC-2-53 that under the method suggested by the PSC Staff, the state income taxes for the forecasted period under proposed rates would be $57,760 lower than the as-filed state income taxes and the federal income taxes for the forecasted period under proposed rates would be $429,706 lower than the as-filed federal income taxes? If this is not the case, what are the differences in state and federal income taxes between the PSC-2-53 suggested calculation method and the as-filed calculation method?
c. Confirm that if one were to consider the $84,797 investment tax credit in the PSC Staff suggested federal income tax calculation, the difference between the federal income taxes calculated under the PSC Staff suggested calculation method and the as-filed federal income taxes for the

forecasted period under proposed rates would be $344,909 [$429,706 - $84,797].

d. Reconcile the deferred state and federal income tax numbers of $56,107 and $436,646 shown in the answer to C. to the income tax variance numbers of $57,760 and $429,706 shown in the top part of the response to PSC-2-53, page 2.
e. Why is the $4,031 deferred state income tax under B. subtracted from the deferred state income tax of $60,138 under A. whereas the $22,092 deferred federal income tax under B. is added to the deferred federal income tax of $329,757 under A.?

42. The response to PSC-2-48(a) indicates that of the total forecasted period AFUDC of $3,094,804, an AFUDC amount of $2,538,118 is associated with the 13-month average KRS II CWIP during the forecasted period net of the $66.570 million KRS II CWIP on which the Company has proposed to charge a current cash return rather than an AFUDC return. Given an AFUDC accrual rate of 8.54%, this would indicate a 13-month average forecasted period AFUDC bearing KRS II CWIP balance of $2,538,118 / 8.54%, or $29.720 million. When this derived KRS II balance of $29.720 million is added to the 13-month average forecasted period non-AFUDC bearing KRS II CWIP balance of $66.570 million, this would indicate a total 13-month average forecasted period KRS II CWIP balance of $96.290 million. Please reconcile this derived balance to the $98.203 13-month average forecasted period KRS II CWIP balance mentioned on page 32, line 14 of Mr. Miller's testimony.

43. With regard to the response to PSC-2-33(a) and (c), please provide a listing and description of each item making up the Other Welfare Operations expense of $26,540.

44. The response to AG-1-113(a) states that the forecasted Management Fees charged to KAWC in this case include $568,409 for incentive compensation expenses. In this regard, please provide the following information:

a. Reconcile this incentive compensation expense amount to the response to AG-1-197(a) which indicates that $568,409 represents the "gross" incentive compensation expenses and that $514,749 of incentive compensation expenses is charged in the Management Fees to KAWC.
b. Explain the difference between the "gross" incentive compensation expenses of $568,409 and the incentive compensation expenses of $514,749.

45. PSC-2-9(c) requested that the Company describe the duties of each salaried Kentucky-American employee. In its response, the Company, among other things, provided the job description of its Sr. Manager Business Development and indicated that this Manager of Business Development supports the Company's

Director of Business Development (see response to PSC-2-9 page 77 of 79). In this regard, please provide the following information:

a. Provide the labor (separate base payroll and incentive compensation), benefits and expenses associated with the Sr. Manager of Business Development included in the forecasted period.
b. Provide the labor (separate base payroll and incentive compensation), benefits and expenses associated with the Director of Business Development included in the forecasted period.
c. Reconcile the information stated in the response to PSC-2-9 regarding KAWC's business development employees with the response to AG-1-114(b) which states that "KAWC does not have employees on staff dedicated to business development..."

46. With regard to the response to PSC-2-9(b), please provide the following information:

a. Please provide the expenses associated with Mr. Rowe that are included in the forecasted test period expenses. Provide this information in total and as broken out by expense component such as labor (separate base payroll and incentive compensation), benefits and other expenses. In addition, provide this information on a pre-capitalization and after-capitalization basis.
b. Provide the O&M expense impact and revenue requirement impact of removing the Rowe expenses identified in response to part (a) from the forecasted test period. Please include all calculations.
c. Provide the "appropriate portion" of Mr. Rowe's expenses that the Company is proposing to add to the AWWSC fees charged to KAWC to reflect the changed position of Mr. Rowe. Provide workpapers showing all assumptions and calculations of these additional AWWSC fees. In addition, provide the O&M expense impact and revenue requirement impact of this AWWSC Management fee adjustment for KAWC in this case.

47. With regard to the response to PSC-2-23(b), please provide the following information:

a. Detailed workpapers showing all assumptions and calculations in support of the reduction of $160,000 in the forecasted test period AWWSC charges to KAWC.
b. The response also states that "the amount of interest and depreciation expense included in the Company's forecasted AWWSC costs have changed, both of which are reflected in the attached schedule." Please provide more details regarding these interest and depreciation expense changes (the reasons; comparison of the interest and depreciation expenses

included in the as-filed AWWSC fees charged to KAWC and the changes to these expenses; etc.).

c. Explanation of whether these interest and depreciation expense changes are part of the $160,000 expense reduction or represent additional reductions in the as-filed forecasted test year AWWSC charges to KAWC.
d. Where have these interest and deprecation expense changes been reflected "in the attached schedule" and does this schedule refer to PSC-2-23, page 4?
e. Please provide the revised Exhibit MAM-6 resulting from the AWWSC expense changes referred to in the response to PSC-2-23(b).

48. The response to PSC-2-9, pages 72 through 76 describe the responsibilities and requirements of the Director of Government Affairs included in KAWC's payroll. In this regard, please provide the following information:

    a. Total expenses (on pre-capitalized and post-capitalized basis) of this employee included in the forecasted test year. Provide this information on a total basis and as broken out between payroll (separate base payroll and incentive compensation), benefits and other expenses.
    b. Indicate whether KAWC's current Director of Government Affairs is a registered lobbyist.

49. The response to PSC-2-9, pages 6 through 79 describe the responsibilities and requirements of the Manager External Affairs included in KAWC's payroll. In this regard, please provide the total expenses (on pre-capitalized and post-capitalized basis) of this employee included in the forecasted test year. Provide this information on a total basis and as broken out between payroll (separate base payroll and incentive compensation), benefits and other expenses.

50. In the response to AG-1-116(c), the Company has identified forecasted test period O&M payroll expenses of $48,592 for the Administrative Assistant. Please additionally provide the O&M benefits and other expenses included in the forecasted test period for this employee.

51. Please provide the impact on the forecasted test period O&M payroll expenses of $7,062,548 as a result of reflecting 3.5% wage increases for non-union employees as of April 1, 2009 and April 1, 2010 rather than the 4.0% wage increases reflected by the Company.

52. With regard to the response to LFUCG-1-8(c), please provide the following information. Provide the impact on the Company's forecasted test year O&M expenses and revenue requirements of the transfer of Donna Braxton and Michael Shyrock from AWWSC to KAWC. Provide workpapers showing all assumption and calculations. Show separately the reduction in the forecasted test period AWSSC fees charged to KAWC and the increase in the forecasted test period O&M expenses from addition of these two employees to the KAWC payroll.

53. The following questions relate to the impending accounting move from U.S. GAAP to International Financial Reporting Standards ("IFRS").

a. Please provide a narrative explanation of the anticipated impact of moving from U.S. GAAP to IFRS.
b. When does the Company expect to adopt IFRS?
c. Please provide all analyses, quantifications, reports, studies, etc. that the Company has conducted regarding the adoption of IFRS.
d. Please provide a specific discussion of how the change to IFRS will impact the Company's accounting calculations and entries relating to SFAS No. 143, FIN No. 47 and the existing regulatory liability for cost of removal, SFAS No. 71 and the difference between financial and regulatory accounting.
e. Please provide a specific discussion of how the change to IFRS will impact the Company's accounting calculations and entries relating to depreciation, accumulated depreciation, gross salvage and cost of removal. Include a discussion of any difference between financial and regulatory reporting relating to these items.
f. Please provide a specific discussion of how the change to IFRS will impact the Company's accounting calculations and entries relating to current income taxes, deferred income tax expense and accumulated deferred taxes. Include a discussion of any difference between financial and regulatory reporting relating to these items.
g. Identify all items and accounts currently classified as contra-accounts, deferred debits and credits, liabilities and assets which will or may flow to equity upon the replacement of GAAP with IFRS.

54. Please refer to the response to AG 1-146. According to the response, the life and net salvage parameters shown in Exhibit 37B are from the depreciation study submitted in Case No. 2007-00143. However, the depreciation rates adopted in that case were not those proposed in that study – they were settled rates and differ from the rates proposed by the Company. The Settlement agreement shows only the rates – it does not show any parameters. Please provide the calculation of the Settlement rates showing how the parameters shown in Exhibit 37B factor into the rates. Show the plant and reserve balances, the ASL and curve, net salvage factor and remaining life that were used to calculate the Settlement rates. Please provide this calculation in Excel with all formulae intact.

55. Please refer to the response to AG 1-162. The response and attachment appear to relate to Case No. 2007-00143 instead of the current case. Please provide the amount of net salvage incorporated into KAWC's depreciation expense claim in this case.

56. Please refer to the response to AG 1-169. Please provide KAWC's depreciation rates calculated in the same manner as the depreciation rates recently adopted for Tennessee American Water and New Jersey American Water.

57. Please refer to the response to AG 1-186, Attachment page 1 of 99.

   a. Is this attachment a "management audit performed in compliance with Sarbanes-Oxley requirement" of AWWSC conducted by Booz Allen Hamilton? If not, please explain this document.

58. Please refer to the response to AG 1-188. Please limit the question and response to AWWSC, and explain and provide documentation of any actions initiated by the Company in response to the proposed findings.

59. Refer the response to AG 1-189.

   a. Please explain how to interpret the results shown in the attachments to that response.
   b. Please describe any internal changes made as a result of the findings in the attachments to the response.

60. Please refer to the response to AG 1-191. Please provide a copy of the TRA verbal order mentioned in the response.

61. A reference is made to "Sarbanes-Oxley" at page 42 of American Water Works Company, Inc.'s Form 10-Q for the Period Ending 09/30/08 filed with the U.S. Securities and Exchange Commission. The 10-Q reference enumerates several material weaknesses in the Company's control over financial reporting. Did these weaknesses extend to regulatory reporting? If not, why not.

62. By answering yes or no to the following questions with an explanation if the answer is yes, did these internal control weaknesses include:

   a. inadequate internal staffing and skills;
   b. inadequate internal controls over internal financial reporting processes;
   c. month-end closing processes, including account reconciliations;
   d. maintenance of contracts and agreements;
   e. segregation of duties and restriction of access to key accounting applications;
   f. and tax accounting and accruals?

63. Did these internal control weaknesses extend to all aspects of the corporation including AWWSC? If not, why not?

64. Is the transfer of funds and the provision of services between the operating companies such as KAWC and AWWSC controlled by contracts and agreements?

65. [Ref. Dr. Vander Weide's response to AG-1-135] Does Thomson Reuters also provide other data than simply the mean five-year projected earnings growth for each company (e.g., median 5-year earnings growth, high estimate, low estimate, number of estimates and coefficient of variance or some other dispersion measure)? If other statistics regarding the projected earnings growth rates are available from Thomson Reuters, please provide those data for each company in Dr. Vander Weide's sample groups.

66. Dr. Vander Weide's cost of capital analysis was performed using data through August 2008, i.e., prior to more recent turbulence in the financial markets. Does Dr. Vander Weide intend to update his cost of equity capital recommendation in this proceeding? If so, when, and if not, please explain why not.

67. Please provide a complete copy of any cost of capital testimony submitted by Dr. Vander Weide in any regulatory jurisdiction in November or December 2008, or January 2009. If Dr. Vander Weide has not submitted any such testimony, please so state.

68. On November 21, 2008, American Water Capital Corp. (AWCC) filed with the Securities and Exchange Commission a Form 424-B, a prospectus, for a $75 Million offering of unsecured notes with a coupon rate of 10%, to be underwritten by Edward Jones. Please respond to the following questions regarding that debt issuance.

   a. Please describe in detail the normal procedure for determining the need to issue long-term debt capital at American Water Capital Corporation, from the assessment of the need for additional debt capital, through contacting the underwriters, and finally issuing the debt.
   b. Please indicate the personnel responsible for the decisions regarding the issuance of new debt securities at each point in the process identified in "a" above. Please also indentify the ultimate decision-maker regarding the issuance of this particular debt and provide a complete copy of the final report he or she reviewed regarding the propriety of issuing this debt.
   c. Please indicate if the standard process, outlined in response to "a" above, was followed with regard to the issuance of the $75 Million 10% coupon debt. If not, please explain how that process was different and why.
   d. Please provide the cost benefit analysis prepared to analyze the economics of this debt issuance. If none was prepared, please explain why.
   e. Please provide any and all internal AWCC correspondence or memoranda regarding the issuance of the $75 Million 10% debt, including the determination of the amount, the timing of the issue and the coupon rate.
   f. Please provide all correspondence between AWCC and Edward Jones or any other underwriters or bankers involved in the issuance of this debt issue regarding, especially, the determination of the coupon rate.

g. At page 30 of the prospectus (Form 424-B), the Company notes that the proceeds of the debt issuance will be used "to fund the repayment of short-term debt with overnight maturity and an average interest rate of 3.0%."
    i. Please explain why it is economically reasonable to issue long-term 10% debt to re-finance short-term 3% debt. Please provide support for your response.
    ii. At the time the new debt was issued, what was the size of AWCC's revolving credit facility? Please provide supporting documentation.
    iii. At the time the new debt was issued, what portion of the revolving credit facility had been drawn down and how much of that facility was still available? Please provide supporting documentation.

h. In concurrent rate case proceedings in other jurisdictions, have American Water Works representatives made reference to this debt issue in written or oral testimony? If so, please provide copies of any and all such references.

69. With regard to OAG 1-128(c), please provide a consolidating balance sheet for American Water Works (an accounting balance sheet in which all of the holding company's subsidiaries are displayed with their actual capital structure and consolidated into the parent company). If the information does not exist, please indicate through a comprehensive narrative how the holding company prepares a consolidated balance sheet and include in the narrative the actual consolidation process as applied to the information pertaining to the Kentucky American Water Company for the most recent year available. If Kentucky American Water believes that any of the information sought through OAG 1-128(c) or this supplemental request falls within the definition of confidential information, please affirmatively state this fact.