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 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.

WHEREFORE, the Attorney General submits this Request for Information.

Respectfully submitted,

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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 15 December 2008, he has submitted one copy in electronic format by uploading the electronic file to the Commission's Web Application Portal on this 12th day of December 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 on this 12th day of November, 2008.

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Assistant Attorney General

1. Please identify and describe any ratemaking adjustments and/or rate making methodologies used in the instant rate proceeding that have not previously been addressed and/or adopted by the KY PSC.

2. Please identify and describe any ratemaking adjustments and/or ratemaking methodologies that are different from the ratemaking adjustments and/or ratemaking methodologies authorized by the KY PSC in the prior litigated rate cases, Case Nos. 2000-120 and 2004-00103.

3. Please provide a workpaper showing all calculations in support of the revenue rate increase components shown at the top of Exhibit MAM-2.

4. Please provide the Financing Projections data on Exhibit 23 for the Forecasted Period ended May 31, 2010.

5. To the extent that the rate increase in this case includes revenue requirements associated with the Company's sewer operations, please provide these sewer operations revenue requirements. If not, explain how the Company removed all of the sewer operations related revenue requirements from this case.

6. Please reconcile the October 2008 total construction number of $9,451,841 on Exhibit 13, page 3 to the corresponding October 2008 total construction number of $5,858,605 on Exhibit 13, page 5.

7. Please reconcile the construction expenditures for the years 2008 through 2010 stated on page 8, lines 10 – 14 of Ms. Bridwell's testimony to the construction expenditure totals for these same years shown on Exhibit 11.

8. At the bottom of page 15 of her testimony, Ms. Bridwell states that the total KRS II costs at completion is currently estimated to amount to $162.3 million. Apparently, this total cost amount of $162.3 million includes $2 million for Source of Supply Project Development costs for Project 12020204. Exhibit 11, page 2 shows Project 12020204 2007 carry over costs of $1,658,766 and projected costs of approximately $341,000. In this regard, please provide the following information:

    a. Provide the actual Project 12020607 KRS II expenditures that have been incurred from inception (show year of inception) through November 2008 and the associated percentage of project completion. In addition, compare these actual project expenditures and percentage of project completion number to the *project-equivalent* budgeted construction expenditures and percentage of project completion number that were prepared at the time that the Certificate for the project was issued. Explain any variances between the actual and equivalent originally budgeted project costs.

b. Provide the actual Project 12020404 Source of Supply Project Development expenditures that have been incurred from inception (show year of inception) through November 2008 and the associated percentage of project completion. In addition, compare these actual expenditures and percentage of project completion number to the *project-equivalent* budgeted expenditures and percentage of project completion number that were prepared at the time that the Certificate for the project was issued. Explain any variances between the actual and equivalent originally budgeted project costs.
c. Explain how the Project 12020204 Source of Supply Project Development expenditures were treated for book and ratemaking purposes in the Company's prior rate case, Case No. 2007-00143 and in the rate case before the last case, Case No. 2004-00103.
d. Explain how these Source of Supply Project Development costs are different from the source of supply costs of approximately $2 million which the Company was allowed to defer and amortize over 40 years in Case No. 2000-120.
e. Reconcile the total KRS II investment cost of $162.3 million to the total KRS II investment cost of $162.741 million referenced on page 33, line 7 of Mr. Miller's testimony.

9. Is the Company in this case requesting the depreciation expenses associated with plant funded by Contributions in Aid of Construction and Customer Advances? If so, explain why. If not, explain how that has been accomplished in this case (also refer to filing schedules).

10. Based on actual information available to date and the Company's most recent estimate, in which month of 2010 does the Company currently expect KRS II to come on line?

11. The Company is proposing to include the current return associated with approximately $67 million of the KRS II project in rates in this case. When (year and month) does the Company plan to file for its next base rate case to reflect the current return as well as the depreciation expenses associated with the entire KRS II project of approximately $163 million?

12. With regard to the NPV analysis on MAM-7, page 2, please provide the following information:

a. Confirm that the NPV of the revenue requirement stream listed in years 1 through 56 (i.e., the stream of annual revenue requirements without the CWIP revenue requirement amount of $7.263 million in year 0) discounted at the rate of 8.03% amounts to $230.525 million. If you do not agree, explain your disagreement.

b. Confirm that if one were to add to the NPV amount of $230.525 million referenced in (a) above the $7.263 NPV of the CWIP revenue requirement in year 0, the total NPV amount is $237.788 million.

c. Confirm that Mr. Millers NPV model in his Exhibit MAM-7 has a logic error in it in that it calculates a total NPV amount of $220.113 million for the $7.263 CWIP revenue requirement in year 0 and the annual revenue requirement stream in the years 1 through 56.

13. With regard to the NPV analysis on MAM-7, pages 1 and 2, please provide the following additional information:

a. Confirm that the tax-grossed-up Return on Rate Base numbers for each year were calculated by Mr. Miller by multiplying the year-end rate base numbers for each year times the overall rate of return of 8.03% times the gross-up factor of 1.654077 (e.g., on MAM-7, page 1 the return on rate base number of $21.980 million for year 1 was calculated as follows: $165.484 million x 8.03% x 1.654077 = $21.980 million). If you do not agree, explain your disagreement.

b. Confirm that the Company's proposed calculation method referenced in part (a) above contains an error in that it double counts the tax gross up for the cost of debt and does not take into account the benefit of interest tax deductability. The correct method to use is as follows:

- LT debt	3.29% x 60% (after-tax factor) = 1.974%
- ST debt	0.20% x 60% (after-tax factor) = 0.120%
- Pref Stock	0.22% x 100% (after-tax factor) = 0.220%
- Common Stock	4.32% x 100% (after-tax factor) = <u>4.320%</u>
- Overall After-Tax Rate of Return:	<u>6.634%</u>

Thus, the grossed-up return on rate base number should be calculated by multiplying the year-end rate base numbers for each year times the overall *after-tax* rate of return of 6.634% times the gross-up factor of 1.654077. If you do not agree, explain your disagreement.

c. Confirm that if you were to re-do the NPV analysis on MAM-7, page 1 using the grossed-up return on rate base numbers calculated as per the method described in part (b) above, the total NPV amount for the entire 56 years would be $207.9 million rather than the $240.841 million calculated by Mr. Miller. If you do not agree, explain your disagreement.

d. Confirm that if you were to re-do the NPV analysis on MAM-7, page 2 using the grossed-up return on rate base numbers calculated as per the method described in part (b) above and using the correct NPV method referenced in the previous date request no. 12, the total NPV amount for the entire 56 years and the CWIP revenue requirement in year 0 would be $206.251 million rather than the $220.113 million calculated by Mr. Miller. If you do not agree, explain your disagreement.

14. On page 34 of his testimony, Mr. Miller states that "The Company consistently indicated in the testimony in that case its intent to seek a phase-in of the rate impact of the KRS II Project over two general rate cases." Please provide copies of all relevant testimony pages where these indications were made.

15. The Company has proposed purchased water expenses of $114,586 in this case. Under the hypothetical assumption that KRS II would have been up and running in the forecasted period, would this have impacted the forecasted purchased water expenses? If not, explain why not. If so, explain why and provide your best estimate of how the currently reflected purchased water expenses of $114,586 would change if KRS II would be 100% in service.

16. What is the current status of *Penny Greathouse, et al. v. Kentucky-American Water Company*, Franklin Circuit Court, Civil Action No. 08-CI-1574?

17. On page 12 of her testimony, witness Sheila Miller states that the cash working capital requirement claimed in the current case is based on the lead/lag study prepared in Case No. 2004-00103. Has the Company prepared an updated lead/lag study since the one presented in Case No. 2004-00103? If so, provide the results of this updated lead/lag study in the same format and detail as per Schedule B-5.2 in the current case.

18. As shown on Schedule B-5.2, page 6 of 6, the Company has used a composite revenue collection lag of 34.54 for Other Revenues. In this regard, please provide the following information:

    a. Provide the basis for this composite revenue collection lag of 34.54.
    b. In its response to AG-1-99A in Case No. 2000-120, the Company stated that the composite revenue collection lag of 34.54 days for Other Revenues was originally established in Case No. 97-034. Please confirm this. If you do not agree, explain your disagreement.
    c. In its response to AG-1-100 in Case No. 2000-120, the Company agreed that it had erroneously assumed that the Other Revenue composite collection lag of 34.54 only represents the service period lag rather than representing the overall total collection lag for the service period, billing period, and collection period. Please confirm this. If you don't agree, explain your disagreement.
    d. Confirm that in the determination of the overall revenue collection lag of 43.50 days on Schedule B-5.2, the Company has erroneously assumed that its Other Revenues not only have a service period collection lag of 34.54 days, but also a billing period collection lag of 4.17 days and a collection period collection lag of 24.27 days. If you don't agree, explain your disagreement.
    e. Based on the information referenced in parts (c) and (d) above, the corrected overall revenue collection lag should be 41.04 days rather than the Company's claimed collection lag days of 43.50, as calculated below:

	Amount	Lag Days	Weighted Amount
Arrears Full	53,140,593	15.210	808,268,420
Fire Service	3,720,119	(15.260)	(56,769,016)
Total	56,860,712	13.216	751,499.404
Plus: Billing Lag		4.170	
Plus: Collect. Lag		24.270	
Total	56,860,712	41.656	2,368,589,819
Other Revenues	5,384,560	34.540	185,982,702
Overall Total	62,245,272	41.040	2,554,600,951

Please confirm this. If you don't agree, explain your disagreement.

f. Confirm that, in its response to AG-1-101 in Case No. 2000-120, KAWC agreed with the appropriateness of the same type of calculation to determine the correct overall revenue collection lag number in that case.

19. Provide the revenue collection lag numbers included in the Case No. 2004-00103 lead/lag study in the same format and detail as per Schedule B-5.2, page 6 of 6 in the current case and explain the increase in the overall composite revenue collection lag number of 43.50 in the current case over the corresponding overall composite revenue collection lag number in Case No. 2004-00103.

20. Please confirm that the Commission in Case No. 2004-00103 rejected the Company's proposed chemical expense payment lag of 6.65 days and, instead, ordered the use of a chemical expense payment lag of 30.49 days (see PSC Order 28 February 2005, pages 14-15 in Case No. 2004-00103). If you do not agree, explain your disagreement.

21. In the current case, the Company has included pension expenses with a negative payment lag of (5.50) days, as shown on Schedule B-5.2, page 5 of 6. In this regard, please provide the following information:

a. What is the basis for the negative 5.50 payment lag?
b. Confirm that in Case No. 2000-120, the Company did not include pension expenses in its lead/lag study (see page 10 of Mr. Grubb's testimony in Case No. 2000-120). If you do not agree, explain your disagreement.
c. Confirm that in Case No. 2004-00103, the Company did not include pension expenses in the lead/lag study as a separate item with a negative payment lag of 5.50 days. If pension expenses were included in the Case No. 2004-00103 lead/lag study, identify in which lead/lag study expense component they were included and what the payment lag was of this lead/lag study expense component.
d. Confirm that in Case No. 2007-00143, the Company did not include pension expenses in the lead/lag study as a separate item with a negative payment lag of 5.50 days. If pension expenses were included in the Case

No. 2007-00143 lead/lag study, identify in which lead/lag study expense component they were included and what the payment lag was of this lead/lag study expense component.

22. With regard to the lead/lag study data shown on Schedule B-5.2, page 5 of 6, please provide the following information:

    a. Provide the calculations supporting the Net Income lead/lag study component of $15,338,332.
    b. Confirm that the lead/lag study results shown on Schedule B-5.2, page 5 of 6 include the federal and state income taxes and the net income associated with the requested rate increase of approximately $18.5 million. If you do not agree, state your disagreement.

23. Please indicate where in this case the Company has included prepaid PSC assessments. If they are included as part of the cash working capital lead/lag study, indicate (a) on which line item on Schedule B-5.2, page 5 they are included and the dollar amount of the prepayments; and (2) the payment lag/lead days assigned to this dollar amount.

24. With regard to AFUDC, please provide the following information:

    a. Which of the Company's witnesses is testifying to the subject of AFUDC in this case and where is this included in his/her testimony?
    b. Please provide a detailed description of the following: (a) current AFUDC accrual policies; (b) changes made in the AFUDC accrual policy and rate determination in the last 10 years; (b) current AFUDC accrual rate and the method used to calculate this rate; if applicable, explain whether the Company is using a tax-grossed up AFUDC rate.
    c. W/P 1-5, page 18 shows that the proposed AFUDC amount of $3,094,804 consists of the equity portion of AFUDC of $1,819,124 and the equity gross-up amount of $1,231,179. Please explain what exactly these two AFUDC components represent, and how they were derived.
    d. Workpaper and description of how the pro forma AFUDC amount of $3,094,804 was calculated. Show the total forecasted period average AFUDC-bearing CWIP balance and describe and quantify what projects make up this total AFUDC-bearing CWIP balance. Show the total forecasted period average non-AFUDC bearing CWIP balance and describe and quantify what projects make up this total non-AFUDC bearing CWIP balance. Show that the AFUDC rate, when multiplied by the total forecasted period average AFUDC-bearing CWIP balance produces the proposed AFUDC amount of $3,094,804.
    e. What is the impact of the AFUDC amount of $3,094,804 on the Company's net after-tax operating income? Please show calculations.

25. In the prior 2007 case, the Company had projected the following rate base balances for the end of the forecasted period, November 30, 2008, in that case:

- Plant in Service	$380,912,059
- Depreciation Reserve	98,709,036
- CWIP	41,540,291
- CIAC	51,139,621
- Customer Advances	23,521,358
- Deferred Income Tax	30,802,899

In this regard, please provide the following information:

a. Provide the actual 11/30/08 balances for these same rate base components. In addition, provide the reasons for any major variances between the budgeted and actual balances.
b. In the current case, the Company has projected a total combined CIAC/Customer Advances balance of $58,817,693 for the end of the base period, 1/31/09, (Schedule B-1, p.1) whereas in the prior case the Company projected a total combined CIAC/Customer Advances balance of $74,660,977 as of 11/30/08 (see above). Please provide the reasons for this very large variance.

26. With regard to Plant in Service, CWIP, CIAC, Customer Advances and Deferred Income Taxes – Plant, please provide the following information:

a. Actual balances as compared to budgeted balances for each month in 2007 and 2008 through November 2008.
b. Explanations for any major variances in these monthly balances.

27. Please reconcile the total forecasted period payroll taxes (including capitalized portion) of $701,040 and the O&M portion of forecasted period payroll taxes of $541,285 shown on W/P 5-3, page 1 to the total forecasted period payroll taxes (including capitalized portion) of $897,277 and the O&M portion of forecasted period payroll taxes of $710,284 shown on Exhibit 37G, page 3 of 11.

28. With regard to federal income taxes, please provide the following reconciliations:

a. Reconcile the forecasted period FIT amount of $8,951,289 shown on C-1, page 1 to the corresponding forecasted period FIT amount of $8,866,492 on I-1, page 1.
b. Reconcile the base period FIT amount of $4,764,988 shown on C-2, page 1 to the corresponding base period FIT amount of $4,680,193 on I-1, page 1.

29. In the same format and detail as per data response PSC-3-52 in the prior case, Case No.2007-00143, provide consolidated income tax data for each of the last 5 years, 2003 through 2007.

30. Please provide a copy of KAWC's current Strategic Business Plan. At a minimum, the copy of this Plan should include Operating Income Details (The "Kelleher" Schedule) in the same format and detail as per pages 27 and 28 of 69 in the Case No. 2004-00103 data response to AG-1-176.

31. With regard to Schedule I-4, please provide the following information:

    a. While the Sales by Customer Class numbers shown on I-4, page 1 are represented to be in CCFs (see Note at bottom of I-4), the numbers would appear to be in thousand gallons (Tg). Please provide a revised Schedule I-4 showing the Sales by Customer Class numbers in CCFs rather than Tgs.
    b. The average number of customer data on Schedule I-4 are based on 12-month averages. Please provide a revised Schedule I-4 showing average number of customers and average sales per customer data for each year from 2003 through 2010 based on 13-month average customer data for each year.

32. Has KAWC revised or modified its employee handbook since the date of the final Order in Case No. 2004-00103? If yes, please provide a copy of each revision or modification to the handbook and identify the corresponding effective date for the revision or modification.

33. Please provide the following information with regard to the Company's Residential and Commercial sales:

    a. Actual residential sales (thousand of gallons), 13-month average number of residential customers, and annual and daily actual sales per residential customer (gallons) for each of the years 2004 through 2007 and for the 12-month period ending 11/30/08.
    b. Residential sales (thousand of gallons), 13-month average number of residential customers, and annual and daily actual sales per residential customer (gallons) as approved in the Company's most recent Board-approved Operating Budgets for 2004 through 2007; as budgeted for the 12-month period ended 11/30/08; and as projected for 2009 and 2010 in the Company's annual budget plans for those years.
    c. Actual commercial sales (thousand of gallons), 13-month average number of commercial customers, and annual and daily actual sales per commercial customer (gallons) for each of the years 2004 through 2007 and for the 12-month period ending 11/30/08.
    d. Commercial sales (thousand of gallons), 13-month average number of commercial customers, and annual and daily actual sales per commercial customer (gallons) as approved in the Company's most recent Board-approved Operating Budgets for 2004 through 2007; as budgeted for the 12-month period ended 11/30/08; and as projected for 2009 and 2010 in the Company's annual budget plans for those years.

34. For each of the customer classes of Industrial, OPA and Sales for Resale, provide the actual annual sales, 13-month average number of customers and average annual sales per customer for the 12-month period ended 11/30/08.

35. With regard to the last two columns (projected calendar years 2009 and 2010) on Schedule I-4, please provide the following information:

    a. Do the numbers shown in these two columns come from KAWC's 2009 and 2010 Operating Budgets and/or KAWC's Strategic Business Plan for 2009 and 2010? If not, where do these numbers come from and how were they determined?
    b. If the numbers in these two columns do not come from KAWC's 2009 and 2010 Operating Budgets and/or KAWC's Strategic Business Plan for 2009 and 2010, provide the equivalent numbers based on the Company's 2009 and 2010 Operating Budgets and/or KAWC's Strategic Business Plan for 2009 and 2010. Provide this information in the same format and detail as shown on Schedule I-4.

36. With regard to the Forecasted Period numbers shown on Schedule I-4, please confirm the following information:

    a. The Forecasted Period average number of customers and annual Tg sales for Industrial, OPA and Sales for Resale[1] are equal to the average number of customers and annual Tg sales projected for 2009 and 2010.
    b. The average number of forecasted period residential customers of 109,529 are exactly equal to the prorated average residential customers for 2009 and 2010. Proof: ($7/12^{th}$ x 108,724) + ($5/12^{th}$ x 110,655) = 109,529.
    c. The average number of forecasted period commercial customers of 8,896 are exactly equal to the prorated average residential customers for 2009 and 2010. Proof: ($7/12^{th}$ x 8,855) + ($5/12^{th}$ x 8,954) = 8,896.
    d. The prorated annual sales numbers for 2009 and 2010 for residentials amount to 6,453,354 Tgs [calculation: ($7/12^{th}$ x 6,405,973) + ($5/12^{th}$ x 6,519,687) = 6,453,354] as compared to the Company's proposed forecasted period residential sales number of 6,304,904 Tgs.
    e. The prorated annual sales numbers for 2009 and 2010 for commercials amount to 4,563,249 Tgs [calculation: ($7/12^{th}$ x 4,381,832) + ($5/12^{th}$ x 4,817,234) = 4,563,249] as compared to the Company's proposed forecasted period residential sales number of 4,378,072 Tgs.

37. Schedule I-2 shows that in each year from 2003 through the base period, the Company incurred "Miscellaneous" sales revenues. In this regard, please provide the following information:

[1] While the forecasted period average number of Sales for Resale customers are 10 vs. the 11 projected for 2009 and 2010, the forecasted period Sales for Resale sales is the same as projected for 2009 and 2010.

a. What do these miscellaneous sales revenues represent and why has the Company assumed 0 miscellaneous sales revenues for the forecasted period?
b. How are these miscellaneous sales priced out, i.e., is there a specific tariff or dollar rate per Tg of miscellaneous sales or can the revenue per Tg miscellaneous sale unit vary depending on the particular transaction? Please explain.
c. Provide the actual annual Tgs of miscellaneous sales and annual miscellaneous sales revenues booked by the Company for each year from 1995 though 2007 and for the 12-month period ended 11/30/08.
d. In Case No. 2000 – 120, the Company included the revenues associated with miscellaneous sales for ratemaking purposes (see page 5 of testimony of Mr. Ware in Case No. 2000 – 120). Explain why the Company has not proposed to reflect a representative miscellaneous sales revenue level in the current case.

38. For each of the revenue categories shown on Schedule M-3, page 1 of 2, provide the actual revenues booked for the 12-month period ended 11/30/08. If the revenues in this period do not include 12 months of the rates established in Case No. 2007- 00143, please restate these revenues to reflect the full 12 months of the rates from Case No. 2007 – 00143.

39. Please provide a schedule identifying all of the water supply contracts that KAW has entered into or renewed (either as a supplier or a purchaser) since Case No. 2004-00103. For each, provide the corresponding effective dates.

40. For each of the past 5 years as well as for the base period and forecasted period, provide the following information:

a. Total MG quantity of water treated by KAWC.
b. Total MG system delivery numbers.
c. Total MG consumption numbers.
d. Total MG non-revenue water, in total and broken down by components, such as flushing, unaccounted for water, etc.

41. As shown on W/P 1-11, the 13-month average forecasted test period deferred debit balance of $1,958,946 includes $18,849 for the unamortized Boonesboro acquisition adjustment. This represents a rate base double-count since the balance of $18,849 was also included in rate base as part of the Utility Plant Acquisition Adjustment. Please confirm this. If you do not agree, state your disagreement.

42. Does the Company agree that studies to develop water conservation, leak mitigation and demand management and to develop programs to cost effectively reduce non-revenue water benefit both the ratepayers and stockholders of KAWC? If not, explain in detail why not.

43. With regard to the proposed deferred debit amount of $184,700 for the NRW and Water Conservation Studies which KAWC proposes to include in rate base and amortize over 5 years, please provide the following information:

a. Identify the time period (months and years) that the Company expects these costs to be incurred.
b. Absent the Company's request for cost deferral treatment, would the Company be required to expense the $184,700 cost amount? If not, what accounting treatment would be required and why?

44. Please provide the Outside Consulting fees allowed for ratemaking purposes in the Company prior (2007) rate case. Provide this dollar amount in total and broken out by Outside Consulting activity.

45. With regard to the forecasted test period Amortization expenses shown on W/P 4-1, please provide the following information:

a. Where is the proposed 5-year amortization of $36,940 for the NRW and Water Conservation studies reflected in the total amortization amount of $496,589?
b. Explain in detail why the Company is including the $71,346 amortization for the AFUDC Equity Gross up. In addition, explain whether this item was included and PSC-authorized as an amortization expense in the Company's prior three rate cases (2007, 2004 and 2000) and if so, what were the annual amortization amounts in those cases.

46. On page 13, lines 31-32, Ms. Miller states that, "In this rate case, the Company has incorporated SFAS 109 – Accounting for Income Taxes. Both the rate base deduction for income taxes and the calculation of forecasted federal and state income tax expenses is based on SFAS 109." In this regard, please provide the following information:

a. Using the UPIS deferred tax data shown on W/P 1-8, page 2, show what the average forecasted test period and end of forecasted test period accumulated deferred income taxes would be without the incorporated SFAS 109 – Accounting for Income Taxes.
b. Provide the income tax calculations for the forecasted test period on Schedule E-1.3 and E-1.4 without the incorporated SFAS 109 – Accounting for Income Taxes.
c. Explain whether KAWC's accumulated deferred income tax rate base deductions and federal and state income tax expenses in its last two (2007 and 2004) rate cases similarly incorporated SFAS 109 – Accounting for Income Taxes. If not, explain why the Company chose the instant proceeding to start doing so.

d. Provide the forecasted test period accumulated deferred income tax rate base deduction balances in KAWC's last two rate cases (2007 and 2004) in the same format and detail as per W/P 1-8, page 2 in the current filing.

47. With regard to the 13-month average deferred maintenance expenses of $2,951,785, please provide the following information:

a. Provide a description of the type of costs making up the average deferred cost balance of $2,951,785 (e.g., outside contractors; outside consultants; materials and supplies; company labor and labor overhead, etc.).
b. What portion of the average $2,951,785 deferred maintenance cost consists of deferred company labor and labor overhead expenses? In addition, if such internal labor and labor overhead costs are included, explain why it is appropriate to include these for deferral and amortization treatment?

48. W/P 1-10, page 12 shows that the projected deferred maintenance expense amortization expenses for the forecasted test period are $365,759 whereas for the total year 2010 they are projected to drop to an annual amortization level of $160,943, or less than half than in the test period. Please explain the reasons for this.

49. Please confirm that the Federal Income Tax impact of $180,849 for adjustment D-20 (taxes o/t income taxes) should be $160,375. If you do not agree, show how the $180,849 was calculated. In addition, indicate as to whether the correction for this income tax impact has any effect on the requested revenue requirement and rate increase in this case.

50. Please confirm that the Deferred Investment Tax Credit rate base deduction for the 13-month average forecasted test period should be $87,154 rather than $83,326.

51. With regard to all sources of rental income, please provide the following information:

a. Current lease or rental agreement.
b. Actual rental income booked in 2005, 2006, 2007 and the 12-month period ended 11/30/08.
c. Equivalent rental income included in the forecasted test period. In addition, provide the basis for this rental income estimate.

52. With regard to the forecasted test period Other Operating Revenues (other than AFUDC) shown on Schedule M-3, page 2, lines 19 – 23, please provide the following information:

a. Explanation of the basis for each of the projected Other Operating Revenue categories.
b. Other Operating Revenues, in total and broken out by revenue category, included in the Company's 2009 and 2010 Operating Budgets. Show this information by month and for the annual totals.
c. Actual Other Operating Revenues booked by KAWC during each of the years 2005, 2006, 2007 and the 12-month period ended 11/30/08. Provide this information in total and by Other Operating Revenue category and account.

53. With regard to the OPA sales and revenue numbers for the base period shown on M-3.1, page 4, please explain the following information:

a. Reconcile the total current annualized revenues of $4,583,032 to the base period revenues of $4,734,077 shown on D-1, page 1.
b. Explain the credit adjustments of $33,831 and why similar credit adjustments should not be assumed for the forecasted test period.

54. With regard to the 2009 Budget Plan for OPA sales and revenues shown on W/P 2-1, page 22, provide the following information:

a. The 2009 Budget Plan shows 8,772 total annual billed meters (including 12 meters for 3") and total associated service charge revenues of $479,772. Why shouldn't these numbers be reflected on M-3.2, page 4 rather than the 8,760 meters and associated service charge revenues of $478,336?
b. Provide the actual number of billed meters, in total and by meter size, for each month in 2007 and 2008.
c. Provide the actual/projected monthly base period number of billed meters and the basis for the projected monthly billed meters.
d. Provide the projected monthly billed meters from February 2009 through May 2010 and the basis for these projected monthly billed meters.
e. Provide the actual monthly and total annual thousand gallon OPA sales for the 12-month period ended 11/30/08.
f. Explain the methodology and calculations used by the Company to arrive at the projected 2009 and 2010 thousand gallon consumption of 1,514,700 from the most recent 3-year average thousand gallon consumption of 1,512,765.

55. Please provide copies of KAWC's complete 2009 and 2010 Operating Budgets.

56. With regard to OWU sales and revenues, please provide the following reconciliations:

a. Reconcile the projected OWU revenues for 2009 and 2010 of $1,223,890 as shown on I-2, page 1, to the corresponding OWU revenues for 2009 and 2010 of $1,364,825 shown on M-3.2, page 5.
b. Reconcile the base period OWU revenues of $1,376,944 shown on I-2 and M-3.1, page 5 to the base period OWU revenues of $1,349,598 shown on D-1, page 1 and D-2.1, page 1.
c. Compare and reconcile the 11 customers shown for 2009 and 2010 to the 10 customers shown for the forecasted test period on I-4.

57. With regard to the 2009 Budget Plan for OWU sales and revenues shown on W/P 2-1, pages 23 and 24, provide the following information:

a. Provide the actual number of billed meters, in total and by meter size, for each month in 2007 and 2008.
b. Provide the actual/projected monthly base period number of billed meters and the basis for the projected monthly billed meters.
c. Provide the projected monthly billed meters from February 2009 through May 2010 and the basis for these projected monthly billed meters.
d. Provide the actual monthly and total annual thousand gallon OWU sales for the 12-month period ended 11/30/08.
e. Explain the methodology and calculations used by the Company to arrive at the projected 2009 and 2010 thousand gallon consumption of 492,676 from the most recent 3-year average thousand gallon consumption of 485,561.

58. Please reconcile the base period private fire revenues of $1,235,816 on M-3.1, page 7 and the base period public fire revenues of $2,291,484 on M-3.1, page 8 to the corresponding base period private fire and public fire revenues of $1,300,207 and $2,331,769, respectively, on D-1, page 1 and D-2.1, page 1.

59. With regard to Private Fire, please provide the following information:

a. Actual monthly and average annual Private Fire connections (by connection size) and hydrants for each year from 2003 through 2007 and for the 12-month period ended 11/30/08.
b. Actual/projected monthly base period connections and hydrants and the basis for the projected monthly connections and hydrants.
c. Projected monthly connections and hydrants from February 2009 through May 2010 and the basis for these projected monthly connections and hydrants (the 13-month average projected monthly connections and hydrants for the months May 2009 through May 2010 should reconcile to the numbers shown for the forecasted period on M-3.2, page 7).

60. With regard to Public Fire, please provide the following information:

a. Actual monthly and average annual Public Fire hydrants for each year from 2003 through 2007 and for the 12-month period ended 11/30/08.
b. Actual/projected monthly base period hydrants and the basis for the projected monthly hydrants.
c. Projected monthly hydrants from February 2009 through May 2010 and the basis for these projected hydrants (the 13-month average projected monthly hydrants for the months May 2009 through May 2010 should reconcile to the numbers shown for the forecasted period on M-3.2, page 8).

61. Please reconcile the base period industrial revenues of $1,621,045 on M-3.1, page 3 to the base period industrial revenues of $1,706,360 on D-1, page 1 and D-2.1, page 1.

62. With regard to the 2008 Annual Budget Plan for industrial sales and revenues shown on W/P 2-1, pages 20 and 21, provide the following information:

a. Provide the equivalent monthly and annual information shown on pages 20 and 21 but based on the 2009 Annual Budget Plan.
b. Provide the actual number of billed meters, in total and by meter size, for each month in 2007 and 2008.
c. Provide the actual/projected monthly base period number of billed meters and the basis for the projected monthly billed meters.
d. Provide the projected monthly billed meters from February 2009 through May 2010 and the basis for these projected monthly billed meters.
e. Provide the actual monthly and total annual thousand gallon industrial sales for the 12-month period ended 11/30/08.
f. Explain the methodology and calculations used by the Company to arrive at the projected 2009 and 2010 thousand gallon consumption of 683,004 thousand gallons.
g. Page 20 shows that the actual industrial sales for 2007 is 768,170 thousand gallons and the actual 3-year average (2005 through 2007) industrial sales is 777,659 thousand gallons. Given these recent historic sales numbers, explain why it is reasonable to use projected annual sales numbers of 683,004 thousand gallons in this case.

63. With regard to the residential sales and revenue numbers for the base period shown on M-3.1, page 1, please explain the following information:

a. Reconcile the total current annualized revenues of $30,429,190 to the base period revenues of $30,526,232 shown on D-1, page 1.
b. Explain the credit adjustments of $64,840 and why similar credit adjustments should not be assumed for the forecasted test period.

64. W/P 2-1, page 2 shows total forecasted test period number of residential customer bills of 1,314,343 and M-3.2, page 1 shows a total number of annual residential customer bills of 1,334,479. Please reconcile these two numbers.

65. With regard to W/P 2-1, page 10, please update the monthly 2008 number of residential customer counts for actual counts through 11/30/08.

66. W/P 2-1, page 2 shows total forecasted test period number of commercial customer bills of 106,751 and M-3.2, page 2 shows a total number of annual commercial customer bills of 108,125. Please reconcile these two numbers.

67. With regard to W/P 2-1, page 10, please update the monthly 2008 number of commercial customer counts for actual counts through 11/30/08.

68. As shown on W/P 2-1, page 10, the projected annual residential customer growth of 1,931 was based by the Company on the average residential customer growth for the most recent three years 2005 through 2007. As shown on W/P 2-1, page 15, the projected annual commercial customer growth of 99 was based by the Company on the average residential customer growth for the most recent six years 2002 through 2007. In this regard, please provide the following information:

    a. Explain why the Company based the projected residential customer growth on the average growth for the most recent years 2005 – 2007 but based the projected commercial customer growth on the average growth for the 6-year period 2002 – 2007.
    b. Confirm that the average commercial customer growth for the most recent 3-year period 2005 – 2007 amounts to 142 as compared to the Company's proposed annual growth of 99.
    c. Please provide the average number of commercial customers for the forecasted test period, 2009 and 2010 (as compared to the 8,896, 8,855 and 8,954 currently shown in the last 3 columns of I-4) based on using the same growth methodology from the end of the base period to the end of the forecasted period but with an assumed annual growth number of 142 as opposed to 99.
    d. Please provide the total annual Tgs sales for the years 2009 and 2010 (as compared to the 4,381,832 and 4,817,234 numbers currently shown in the last 2 columns of I-4) based on using the same customer growth methodology from the end of the base period to the end of the forecasted period but with an assumed annual growth number of 142 as opposed to 99.

69. With regard to W/P 3-14, page 2 (Maintenance – Other expenses), please provide the following information:

    a. Explain why the Company removed account 675110 – Maintenance Expense ARP/Net Negative Salvage expenses from the overall maintenance expenses for the forecasted test period while leaving these expenses in the overall maintenance expenses for the years 2005 through 2007 and the base period.

b. In order to get a valid comparison of the proposed forecasted test period maintenance expenses and the actual maintenance expenses for 2005 through the base period, would the Company agree that one would have to disregard the ARO/Net Negative Salvage expense bookings in the years prior to the forecasted period? If not, explain why not.

70. The maintenance expenses on W/P 3-14, page 2 excluding the amortizations of deferred maintenance and the ARO/Net Negative Salvage expenses are $897,560 for 2005, $745,848 for 2006, $693,429 for 2007 and $1,029,359 for the forecasted period. In this regard, please provide the following information:

a. Confirm the above dollar amounts. If you do not agree, state your disagreement.
b. Provide the actual equivalent maintenance expenses (w/o the amortizations and ARO/Net Negative Salvage expenses) for 2003, 2004 and the 12-month period ended 11/30/08.
c. Provide the equivalent maintenance expenses that were included in the Company's Operating Budgets for 2003 through 2008 and in the annual budget plans for 2009 and 2010.

71. Regarding page 5, lines 4 – 7 of Mr. Miller's testimony, identify and quantify the referenced one-time non-recurring expenses that have been eliminated from the forecasted test period. In addition, indicate in which expense account and filing schedule these expense eliminations have been made.

72. RE. Schedule F-2.3: Please verify that the expense items on lines 4, 5 and 7 are included in the above-the-line forecasted period expenses while the expense items on lines 6, 8, 10 and 11 are included in the below-the-line forecasted period expenses.

73. Referencing page 8, lines 26-28 of Ms. Miller's testimony, please indicate in which account(s) and line item(s) on W/P 3-13, pages 3-4 the $36,940 NRW study and Water Conservation study amortization expenses are included. If not included on this workpaper, indicate in which workpaper they are included.

74. Please provide a detailed breakout and quantification of the forecasted test period employee award expenses of $16,354 shown on W/P 3-13, page 3. In addition, explain how these expenses are different from the forecasted test period service award expenses of $8,500 shown on Schedule F-2.3.

75. Please provide the percentage of NAWC activities dedicated to regulatory and legislative advocacy and other types of lobbying activities.

76. Please provide the total amount of NAWC dues included in the forecasted test period.

77. With regard to the account 535000 – Contract Services Other Operations shown on W/P 3-13, page 3, please provide the following information:

   a. Provide the actual expense booked for this account in 2003, 2004 and the 12-month period ended 11/30/08.
   b. Provide a detailed breakout of all of the expense components making up the actual expenses in this account booked in 2005 through 2007, the 12-month period ended 11/30/08 and the forecasted test period.
   c. Explain why the forecasted test year amount of $308,900 is so much higher than the recent actual historic expense levels from 2005 through 11/30/08.
   d. Provide the equivalent 535000 – Contract Services Other Operations expenses that were included in the Company's Operating Budgets for 2003 through 2008 and in the annual budget plans for 2009 and 2010.

78. With regard to the account 575500 – Janitorial expenses shown on W/P 3-13, page 4, please provide the following information:

   a. Provide the actual expense booked for this account in 2003, 2004 and the 12-month period ended 11/30/08.
   b. The janitorial expenses for 2005, 2006 and 2007 were $23,943, $21,999, and $29,297. Explain why the forecasted test year janitorial expenses of $81,930 are so much higher than the recent actual historic expense levels from 2005 through 11/30/08.
   c. Provide the equivalent 575500 – Janitorial (WT and TD) expenses that were included in the Company's Operating Budgets for 2003 through 2008 and in the annual budget plans for 2009 and 2010.

79. With regard to account 550000 – Trans Oper AG shown on W/P 3-13, page 3, please provide the following information:

   a. Describe the nature of the expenses booked in this account.
   b. Provide the actual expenses booked in this account for the 12-month period ended 11/30/08.
   c. Explain why these expenses were small, negative expenses in 2005 through 2007 but are included in the forecasted test period for an amount of $680,641. In addition, provide a detailed description and breakout of the expense amount of $680,641.
   d. Provide all actual source documentation (contracts; agreements; invoices; etc.) available in support of the claimed expense of $680,641.
   e. What are the account 550000 – Trans Oper AG amounts included in the annual Operating Budgets (budget plans) for 2009 and 2010?

80. With regard to the account 575030 – Advertising expenses of $22,468 shown on W/P 3-13, page 3, please provide the following information:

   a. Breakout of this advertising amount by (1) sales/promotional advertising; (2) institutional/goodwill advertising; (3) conservation advertising; and (4) other advertising.
   b. Explain as to whether these advertising expenses are included in Schedule F-4 and, if so, in which column on F-4.

81. Please provide a detailed dollar amount breakout and description of all items making up the forecasted test period Community Relations expenses of $47,586 shown in account 575220 on W/P 3-13, page 3.

82. Please provide a detailed dollar amount breakout and description of all items making up the forecasted test period Company Dues and Membership expenses of $22,037 shown in account 575240 on W/P 3-13, page 3.

83. With regard to the forecasted test period institutional advertising expenses of $131,403 shown on Schedule F-4, please provide the following information:

   a. Administrative Regulation 807 KAR 5:016 prohibits the recovery of institutional advertising in rates. Given this regulation, why should the $131,403 expense be allowed for ratemaking purposes in this case?
   b. Provide a detailed dollar amount breakout and description of the type of institutional advertising making up the total expense of $131,403.

84. With regard to Schedule F-1, please provide the following information:

   a. Nature and purpose of the KY Historical Society and the payment amounts of $260.
   b. Nature and purpose of the Blue Grass Trust and the payment amount of $1,040.
   c. Nature and purpose of Blue Grass Tomorrow and the payment amount of $1,061.
   d. Nature and purpose of Commerce Lexington and the payment amount of $5,202.
   e. Nature and purpose of the payments made to Georgetown – Scott County; the Home Builders Society of Lexington; the Home Builders Association; and the Lexington-Bluegrass Association of Realtors. In addition, explain why these expenses should be included for ratemaking purposes in this case.

85. With regard to the General Office expenses on W/P 3-12, page 4, please provide the following information:

a. Detailed breakout and description of all of the items making up the account 575280 Dues/Membership expenses for the forecasted test period of $25,416.
b. Detailed breakout and description of all of the items making up the account 575340 Employee expenses for the forecasted test period of $74,240.
c. Actual expenses for the 12-month period ended 11/30/08.

86. With regard to Schedule F-5 (Professional Service expenses), please provide the following information:

a. In which line items are the forecasted test period legal expenses of $287,807, accounting expenses of $107,215 and other professional service expenses of $217,000 reflected in the "miscellaneous" expense category on W/P 3-13, pages 3 and 4? If these professional fees are also included in other workpapers, please provide a worksheet summarizing in which workpapers these professional service expenses reside.
b. Provide a breakout of the expense items making up the Other expenses of $217,000.
c. In the same format as shown on Schedule F-5, provide the actual Professional Service expenses booked in each year from 2003 through 2007 and the 12-month period ended 11/30/08.
d. In the same format as shown on Schedule F-5, provide the Professional Service expenses included in the Operating Budgets for 2003 through 2008 and in the annual budget plans for 2009 and 2010.

87. With regard to Insurance Other Than Group expenses, the Company has proposed total forecasted test period expenses of $694,598, consisting of $155,642 for property insurance, $152,830 for workers comp, and $386,126 for general liability insurance. The workpapers for these expenses are in W/P 3-9. In this regard, please provide the following information:

a. Reconcile the total property insurance expenses shown on W/P 3-9, page 2 to the total property insurance expenses of $198,683 on W/P 3-9, page 1 and to the claimed forecasted test period total property insurance expenses of $155,642.
b. Reconcile the total workers comp expenses shown on W/P 3-9, page 2 to the total workers comp expenses of $152,830 on W/P 3-9, page 1.
c. Reconcile the total general liability insurance expenses shown on W/P 3-9, page 2 to the total general liability insurance expenses of $388,457 on W/P 3-9, page 1 and to the claimed forecasted test period total general liability insurance expenses of $386,126.
d. W/P 3-9, page 1 shows $0 assumed for the forecasted test period property insurance retro adjustments. Please provide the equivalent actual property insurance retro adjustments for each of the last 10 years through 11/30/08.

Indicate whether the retro adjustments consisted of an expense credit or charge.

e. W/P 3-9, page 1 shows \$0 assumed for the forecasted test period workers comp retro adjustments. Please provide the equivalent actual workers comp retro adjustments for each of the last 10 years through 11/30/08. Indicate whether the retro adjustments consisted of an expense credit or charge.
f. W/P 3-9, page 1 shows \$29,240 assumed for the forecasted test period general liability insurance retro adjustments. Please provide the equivalent actual general liability insurance retro adjustments for each of the last 10 years through 11/30/08. Indicate whether the retro adjustments consisted of an expense credit or charge.
g. Explain the basis for the assumed forecasted test year general liability retro adjustment charge of \$29,240.
h. Please provide the actual property insurance, workers comp, and general liability insurance expenses for 2005, 2006, 2007 and the 12-month period ended 11/30/08.
i. Explain why the projected general liability insurance expense of \$386,126 is so much higher than recent actual general liability insurance expense levels.

88. What is the expected rate effective date of this case assuming a fully-litigated case scenario?

89. In the prior 2007 rate case, KAWC requested annual rate case amortization expenses of \$292,195 (Schedule C-2, page 1 of prior case). Please provide the workpaper supporting this claimed rate case expense amount in the same format and detail as W/P 3-8, page 1 of 2 in the instant rate proceeding.

90. With regard to W/P 3-8, page 1, please provide the following information:

a. Worksheet showing how the Company arrived at the Case No. 2007-00143 unamortized rate case expense balance of \$348,410. Show the unamortized starting balance and the basis for this starting balance; the date the amortizations started; and all monthly amortization from start until the unamortized balance of \$348,410. In addition, explain why there would still be 28 months of amortizations remaining.
b. Worksheet showing how the Company arrived at the Case No. 2007-00143 unamortized depreciation study cost balance of \$26,005. Show the unamortized starting balance and the basis for this starting balance; the date the amortizations started; and all monthly amortization from start until the unamortized balance of \$26,005. In addition, explain why there would still be 52 months of amortizations remaining.
c. Worksheet showing how the Company arrived at the Case No. 2007-00143 COS study cost balance of \$14,612. Show the unamortized starting balance and the basis for this starting balance; the date the amortizations

started; and all monthly amortization from start until the unamortized balance of $14,612. In addition, explain why there would still be 28 months of amortizations remaining.

91. KAWC has proposed forecasted test period "current" waste disposal expenses of $187,231. In this regard, please provide the following information:

a. Equivalent actual current waste disposal expenses for each of the years 2003 through 2007 and for the 12-month period ended 11/30/08.
b. Current waste disposal expenses included in the Operating Budgets for 2003 through 2008 and in the annual budgets for 2009 and 2010.

92. KAWC has proposed forecasted test period waste disposal cost amortization expenses of $110,000 for which the support is shown on W/P 3-4, page 1. In this regard, please provide the following information:

a. What is the basis for the monthly amortization expense of $9,167?
b. It appears that the proposed forecasted test period amortization expense is associated with the 2006 lagoon cleaning of KRS with an actual cost of $202,500 and a 2-year amortization period of 1/1/07 – 12/31/08. Please explain why this expense should continue to be amortized in the forecasted period.
c. Provide the actual lagoon cleaning waste disposal expenses incurred by KAWC in each of the years 2005, 2006, 2007 and 2008 to date, as well as the associated 2-year amortization expenses.
d. Provide the lagoon cleaning waste disposal expenses included in the Company's Operating Budgets for 2005 through 2008 and in the 2009 and 2010 annual business plans, as well as the proposed amortization expenses associated with these cleanings.

93. KAWC has proposed forecasted test period Fuel and Power expenses of $3,598,619. In this regard, please provide the following information:

a. Total MG system delivery number underlying the expense estimate of $3,598,619.
b. Equivalent actual fuel and power expenses booked in each of the last 10 years from 1998 through 2007 and for the 12-month period ended 11/30/08. In addition, provide the total actual MG system delivery numbers for these same annual periods.
c. Equivalent fuel and power expenses included in KAWC's annual Operating Budgets for each of the years 1998 through 2008 and in KAWC's annual budget plans for 2009 and 2010. In addition, provide the total budgeted MG system delivery numbers for these same annual periods.
d. Are the proposed forecasted test period fuel and power expenses based on firm contracts with the electric providers for 2009 and 2010 or are they

based on current actual contracts increased for estimated escalators in 2009 and 2010? If the latter, provide the estimated escalators used for 2009 and 2010 and explain the basis for these estimates.

e. With regard to the difference between the proposed forecasted test period fuel and power expense of $3,598,619 and the most recent actual fuel and power expense for the 12-month period ended 11/30/08, provide detailed explanations for the various reasons for this cost difference and provide source documentation to support these reasons.

94. With regard to the cost of gasoline for the service vehicle fleet referenced on page 5, lines 15 – 17 of Mr. Miller's testimony, please provide the following information:

a. Provide the total gasoline cost included in the forecasted test period. In addition, provide the assumed forecasted test period volume of gasoline gallons and the average gasoline per gallon unit cost which, when applied to the total volume of gallons, would produce the total proposed forecasted test period gasoline cost.
b. Provide the basis for the average per gallon gasoline unit cost utilized to derive the forecasted test period gasoline costs.
c. For each month of 2008 through November, provide the equivalent actual average per gallon gasoline unit costs.
d. Please indicate on which filing schedule and supporting workpaper the forecasted test period gasoline costs are reflected.

95. KAWC has proposed forecasted test period chemical expenses of $2,745,061. In this regard, please provide the following information:

a. Total MG system delivery number underlying the expense estimate of $2,745,061.
b. Actual chemical expenses booked in each of the last 10 years from 1998 through 2007 and for the 12-month period ended 11/30/08. In addition, provide the total actual MG system delivery numbers for these same annual periods.
c. Chemical expenses included in KAWC's annual Operating Budgets for each of the years 1998 through 2008 and in KAWC's annual budget plans for 2009 and 2010. In addition, provide the total budgeted MG system delivery numbers for these same annual periods.
d. With regard to the difference between the proposed forecasted test period chemical expense of $2,745,061 and the most recent actual chemical expense for the 12-month period ended 11/30/08, provide detailed explanations for the various reasons for this cost difference and provide source documentation to support these reasons.

96. With regard to the chemical price W/P 3-3, page 10, please provide the following information:

a. Are the chemical unit prices listed under the columns "Contracted 1/1/09" firm and known and measurable at this time or do they still represent estimated contract prices?
b. What is the basis for the unit prices listed under the columns "Estimated 1/1/10?"
c. Are the forecasted test period chemical expenses based on the contracted 1/1/09 unit prices for 7 months and the estimated 1/1/10 unit prices for 5 months or are they based on the annualization of the estimated 1/1/10 unit prices?
d. What would the forecasted test period chemical expenses of $2,745,061 amount to if the contracted 1/1/09 unit prices had been used for the entire 12-month period?

97. With regard to the Defined Contribution Plan expenses shown in account 508101 on W/P 3-13, page 3, provide the actual expense booked for the 12-month period ended 11/30/08 and explain the large forecasted test period expense increase to $126,886 from the base period level of $58,412 and from the actual expense for the 12-month period ended 11/30/08.

98. Please provide the average employee labor overhead ratio that could be applied to KAWC's average employee labor payroll costs to approximate the associated employee benefits (group insurance, OPEB, pension, 401(k), DCP, other employee welfare expenses, payroll taxes, etc.).

99. Provide the number of employees underlying the Company's proposed forecasted test year group insurance expenses of $1,249,992, OPEB expenses of $560,278, and pension expenses of $581,701. In addition, provide each of these total forecasted test period expense amounts on an average per employee basis.

100. If the Commission in this case were to authorize an employee level lower than the number of employees proposed by KAWC, would this employee differential also lower the Company's proposed forecasted test period group insurance, OPEB, pension and payroll tax expenses?

101. Please provide the following information:

a. Total actual (pre-capitalized) payroll costs and (show separately) total actual contract labor costs booked by KAWC in each of the years 2003 through 2007 and in the 12-month period ended 11/30/08.
b. Total pre-capitalized payroll costs and (show separately) total contract labor costs included in KAWC's Operating Budgets for each year from 2003 through 2008 and included in KAWC's annual budget plans for 2009 and 2010.
c. Projected (pre-capitalized) payroll costs and (show separately) total projected contract labor costs included in the forecasted test period. In

addition, show in which account, filing schedule and workpaper the contract labor costs are included.

102. With regard to PSC-1-18, please provide the following information:

a. The date response indicates that the average employees for the forecasted test period amount to 145. Please reconcile this with the statement on page 16 of Mr. Cartier's testimony that the Company anticipates 144 employees by the end of the forecast period.
b. On page 16 of his testimony, Mr. Cartier also states that the Company currently has 141 employees. Please reconcile this with the actual 2008 employee data in the response to PSC-1-18.
c. Please update this response by providing the actual vs. budgeted employee numbers for November 2008.
d. Explain why for the budgeted months of December 2008 and January 2009 the actual and budgeted employee numbers are different.

103. Please provide the average annual employee vacancy levels experienced by KAWC in each of the years 2003 through 2007 and provide the monthly vacancy levels for each month in 2008 to date.

104. Please reconcile the payroll analysis data shown for the forecasted period on G-2, page 1 to the payroll date shown on W/P 3-1, page 2 of 55 and in the forecasted period column on C-2, page 1. If Schedule G-2, page 1 needs to be changed, please provide a copy of the revised schedule.

105. Please provide a copy of each incentive plan currently in effect for KAWC. In addition, explain for which of these incentive plans the Company is claiming incentive compensation expenses in this case.

106. With regard to the incentive compensation expenses of $373,711 in the current case, please provide the following information:

a. Are these incentive compensation solely related to employees who are on KAWC payroll ("direct" incentive compensation) or do the expenses also include incentive compensation allocated to KAWC from AWWSC through the Management Fees ("AWWSC-allocated" incentive compensation)?
b. Indicate to which specific incentive compensation plan(s) these expenses relate and provide a breakout of the $373,711 expense between the different incentive compensation plans.
c. Provide the equivalent actual "direct" incentive compensation expenses booked by KAWC in each of the years 2003 through 2007 and in the 12-month period ended 11/30/08. Provide these annual expenses in total and

broken out by incentive compensation plan. In addition, for each year indicate the number of employees who received incentive compensation.

d. Provide the equivalent "direct" incentive compensation expenses that were included in KAWC's Operating Budgets for each year from 2003 through 2008 and are included in KAWC's annual budget plans for 2009 and 2010.

107. With regard to any AWWSC-allocated incentive compensation expenses, please provide the following information:

a. Forecasted test period incentive compensation expenses allocated from AWWSC to KAWC and included in the Management Fees of $7,612,592. Provide this information in total and broken out by specific incentive compensation program.
b. Provide the equivalent actual "AWWSC-allocated" incentive compensation expenses included in KAWC's management fees in each of the years 2003 through 2007 and in the 12-month period ended 11/30/08. Provide these annual expenses in total and broken out by incentive compensation plan.
c. Provide the equivalent "AWWSC-allocated" incentive compensation expenses that were included in KAWC's management fees as per the Company's Operating Budgets for each year from 2003 through 2008 and are included in KAWC's annual budget plans for 2009 and 2010.

108. With regard to the incentive compensation data shown on W/P 3-1, page 55, please provide the following information:

a. For each of the 45 individuals listed on this workpaper, provide the actual annual salary increases received in each of the years 2003 through 2008 and the projected salary increases for the forecasted test period and the years 2009 and 2010.
b. For each of the 45 individuals listed on this workpaper, provide the actual annual incentive compensation received in 2005, 2006, 2007 and the 12-month period ended 11/30/08.

109. Please provide the following information:

a. Provide all studies and analyses that KAWC has performed or commissioned since the prior 2007 rate case that quantify the benefits that the Company's incentive compensation programs provide to its ratepayers.
b. Provide all studies and analyses that KAWC has performed or commissioned that address how the cost of KAWC's incentive compensation programs should be allocated between KAWC's shareholders and ratepayers.
c. Provide all studies and analyses that KAWC has performed or commissioned that address how other utilities allocate the cost of their

incentive compensation programs between utility shareholders and ratepayers.

110. Exhibit 35 shows the actual dollar amounts charged to KAWC from American Carbon Services ("ACS")for each of the years 2004 through 2007 and as projected for the forecasted test period. In this regard, please provide the following information:

a. In which expense accounts, filing schedule and workpaper are the KAWC-allocated forecasted test period charges of $152,144 reflected?
b. What is the basis for the projected cost amount of $152,144.
c. Provide the actual KAWC-allocated ACS expenses for the 12-month period ended 11/30/08.
d. Provide the KAWC-allocated ACS expenses included in the Company's Operating Budgets for 2004 through 2008 and in the annual business plans for 2009 and 2010.

111. Please provide the Miscellaneous expenses shown on W/P 3-13, page 3 by the same account numbers as are shown on Exhibit 37D, pages 12 – 18 (NARUC Uniform System of Accounts).

112. KAWC is proposing total Management Fees of $7,612,592 allocated to KAWC from AWWSC. In this regard, please provide the following information:

a. Basis for the projected expense level of $7,612,592.
b. Actual AWWSC management fees allocated to KAWC in each of the years 2003 through 2007 and for the 12-month period ended 11/30/08.
c. AWWSC management fees allocated to KAWC as included in the Company's Operating Budgets for 2003 through 2008 and as included in the annual business plans for 2009 and 2010.

113. Please identify what dollar amounts are included in the allocated Management Fees expenses of $7,612,592 that are associated with the following type of expenses:

a. Incentive compensation. In addition, explain what type of incentive compensation program(s) these expenses relate to.
b. Charitable contributions.
c. Lobbying.

114. Please identify the expense portion of the Management Fees of $7,612,592 that is related to business development. If business development expenses are not included in the Management Fees, explain why since such expenses were identified as being included in the Company's prior two rate cases. Please provide the following additional information for the business development expenses included in the Management Fees:

a. Provide a detailed breakout of these business development expenses and a detailed description of the nature and purpose of such business development expenses.
b. Provide job descriptions of the service company's business development employees.

115. Please identify the expense portion of the Management Fees of $7,612,592 that is related to (a) external affairs and/or (b) government affairs. Also, please provide the following additional information for the allocated external affairs and/or government affairs expenses included in the Management Fees:

a. Provide a detailed breakout of these external affairs expenses and/or government affairs expenses and detailed description of the nature and purpose of such expenses.
b. Provide job descriptions of the service company's external affairs and/or government affairs employees.
c. Explain whether any of the external affairs and/or government affairs employees spend part of their time on legislative and regulatory advocacy and any other lobbying related activities. If so, quantify the percentage of time devoted to these activities.

116. Exhibit MAM-6, page 1, footnote 6 indicates that KAWC has a Director of Government Affairs. In this regard, please provide the following information:

a. Describe the employees working in KAWC's Government Affairs department and provide job descriptions for these Government Affairs employees and a description of the nature and purpose of their activities.
b. Explain whether any of the KAWC government affairs employees spend part of their time on legislative and regulatory advocacy and any other lobbying related activities. If so, quantify the percentage of time devoted to these activities.
c. Provide the portion of KAWC's requested O&M payroll amount of $7,062,548 associated with KAWC's government affairs employees, including base and incentive pay.

117. Please provide KAWC's average number of Full-Time-Equivalent (FTE) employees for each of the years 2001 through 2008 and as budgeted for 2009 and 2010.

118. The AG has calculated that the average number of KAWC employees shown in the response to PSC-1-18 are 135 for 2003, 119 for 2004, 118 for 2005, 125 for 2006, 134 for 2007 and 135 for the 12-month period ended 10/31/08. If the average number of FTEs for 2003 through 2008 to be provided in response to the prior AG data request do not reconcile with the above-referenced average

number of employees for these same years in the response to PSC-1-18, provide a reconciliation of these numbers.

119. With regard to Exhibit MAM-6, please provide the following information:

a. Provide the total number of average employees (FTES) underlying the KAWC labor cost amounts in columns (1) through (14). In addition, explain whether the employees that were added in columns (2), (4), (7), (9) and (11) are supposed to represent all of the FTE employees added from the 11/30/01 base case through 2008 or only certain selected employees. If the latter, provide the reasons why the added employees were selected.
b. Explain why Mr. Miller's addition of one sewer employee in 2004 to his cost analysis on this exhibit should be considered appropriate in this water rate case.
c. Please confirm that the $294,192 savings from the 2003 National Procurement function establishment is already incorporated in the forecasted test period AWWSC cost of $7,612,592, i.e., without this $294,192 savings the forecasted test period AWWSC cost would be $7,906,784. If you do not agree, explain your disagreement in detail.
d. Please confirm that the 2001 base case-escalated AWWSC cost of $1,888,419 for the forecasted test period in column (13) does not include the $294,192 savings from the 2003 National Procurement function establishment and if this savings were to be reflected, this would make the $1,888,419 cost number $294,192 lower, or $1,594,227. If you do not agree, explain your disagreement in detail.
e. Is the $670,541 referenced in adjustment no. 3 included in the forecasted test period AWWSC expense of $7,612,592, but should be added to the 2001 base case-escalated AWWSC cost of $1,888,419 for the forecasted test period in column (13) ? If so, explain why this latter addition would be appropriate.

120. To the extent that any changes or revisions should be made to the filing data based on errors/omissions/revisions found after the Company filed its case, please provide a listing and description of these required changes/revisions, as well as the impact on the Company's filed revenue requirement.

121. For each of the years 1999 through 11/30/08, please provide the actual number of investment Budget Projects completed, and how many of these completed Budget Projects were completed ahead of schedule, on schedule and behind schedule (provide this information in the same format and detail as per the Company's response to AG-1-85 in Case No. 2000-120).

122. With regard to the response to PSC-1-9, please provide the following information:

a. Provide the construction variance analysis for the 12-month period ended 11/30//08.
b. Provide the average annual "slippage factor" separately for the "routine" construction and the Budget (Investment) Projects for the 10-year period 1999 through 2008. In addition, provide a workpaper showing how these 2 averages were computed.
c. Is it the Company's position that the appropriate "slippage factor" for the routine construction should include or exclude the Item 80 Contributions (after 2003) and Item A Deposit Agreements (1999 – 2003). Also, explain why.

RE: Pre-filed Direct Testimony of Keith Cartier. In discussing service line installation work (at page 5), Mr. Cartier indicates that KAW competitively bids the work to local contractors. With regard to this statement:

123. Provide a definition for the phrase "local contractors." (If "local" refers to a defined geographic area, then please identify the geographic area.)

a. Provide a narrative explaining how KAW bids the work. (The narrative should include a discussion regarding how KAW provides notice of the opportunity to bid. For each method of notice, please provide an illustrative sample of that type of notice. For example, if KAW provides notice via a newspaper, then provide a photocopy of a newspaper notice. If KAW utilizes requests for proposals, then please provide a sample RFP.)

b. Does KAW maintain a pre-qualified bidders' list? (If yes, then please answer the following.)
a. Provide a narrative explaining how KAW compiles the list. (If KAW requires a potential bidder to submit a form, then please supply a sample copy of the form.)
b. Identify any criteria, both objective such as insurance, bonding, etc., as well as subjective such reputation, friendliness, etc., used in compiling the list. For any factor that KAW utilizes, please provide the corresponding weight assigned to that factor.
c. Provide a narrative explaining how KAW maintains the list. (The narrative should identify the intervals at which the list is reviewed to determine if each pre-qualified bidder on the list continues to meet the requirements for qualification, and the narrative should also explain the actions that KAW takes when removing a bidder from the list.)

124. Provide a narrative explaining how KAW reviews, scores, and awards service line installation work that it has bid. (The narrative should include a discussion regarding how KAW communicates information concerning the award of the bid to all bidders.)

125. Identify all other aspects of KAW's operations (aside from service line installation work) that are competitively bid. To the extent that the bidding process for these other aspects differ from the bidding process for service line installation work, identify the difference and explain why there is a difference.

126. Please provide the per books capital structure of Kentucky-American Water Company at December 31, 2007, March 31, June 30, and September 30, 2008, as well as December 31, 2008, as soon as available. For the purposes of this data request, please provide the information as follows:

a) Long-term Debt (including that maturing within one year)
b) Short-term Debt
c) Other Debt (specify)
d) Preferred or Preference Stock
e) Common Stock
f) Additional Paid-in Capital
g) Retained Earnings
h) Total Common Equity (total common equity as well as common equity attributable to unregulated operations, if any)

Please also provide balance sheet support for each of the above-requested capital structures.

127. For the same time periods referenced in the preceding interrogatory, please provide the following information for Kentucky-American Water Company:

a) Embedded cost rates for long-term debt, short-term debt other debt and preferred or preference stock
b) Computation of embedded cost rates of long-term debt
c) Computation of embedded cost rates of short-term debt
d) Computation of embedded cost rates of preferred or preference stock

Note: Schedules should include date of issue, maturity date, dollar amount, coupon rate, net proceeds, annual interest paid, and balance of principal, where applicable.

128. Please provide the following:

a) Please list all of American Water Works Company, Inc.'s subsidiaries, providing a short description of the business of each and indicate whether or not the subsidiary is active or inactive.
b) Please list all of Kentucky-American Water Company's subsidiaries, providing a short description of the business of each and indicate whether or not the subsidiary is active or inactive.

c) Please provide a consolidating (not consolidated) balance sheet for American Water Works Company, Inc. at December 31, 2007, or the most recent date available
d) Please provide a consolidating (not consolidated) balance sheet for Kentucky-American Water at December 31, 2007, or the most recent date available, if one is prepared.

129. Please provide all S.E.C. Form 10-Qs issued by American Water Works Company, Inc. since January 1, 2007. In addition, please provide the parent company's S.E.C. Form 10-K and Annual Report to Shareholders (including any and all statistical supplements available to investors) as soon as they are filed.

130. Please provide a copy of the most recent bond rating agency report (Standard & Poor's, Moody's and Fitch) for American Water Works Company, Inc. [Note: Reports provided should be most recent complete multi-page in-depth report, not a one or two-page update.]

131. Please provide the following:

a) Please provide the monthly short-term debt balances for American Water Works Company, Inc. and Kentucky-American Water for each month from January 2006 through the most recent month available. Please explain how the monthly short-term debt balance was determined (e.g., month-ending balance, average daily balance) and provide a sample calculation.
b) Please provide, for each month, the monthly cost-rate of that short-term debt for each corporation (American Water Works and Kentucky-American), as well as a sample calculation showing how that monthly cost rate is derived.
c) Please provide a narrative description of American Water Works' and Kentucky-American's short-term debt financing arrangements. If there is an inter-corporate money-pooling arrangement, please provide a narrative description of that arrangement.

132. Please provide a description of Kentucky-American's ten largest industrial and commercial customers (name of customer can be withheld) and indicate what percentage of the Company's total 2006 and 2007 usage and revenues each represents. Also, if one customer comprises more than 5% of total company usage or revenues in either year, please provide any studies undertaken by Company management regarding operating contingency plans related to the loss of that load.

133. At page 89 of American Water Works Company, Inc.'s S.E.C. Form S-1, the company indicates that the expected long-term return on its pension plan assets was 8.25% in 2006.

a) Please provide the most recent expected long-term rate of return on plan assets (EROA) as well as documentation supporting that expected long-term return assessment, including long-term expectations for each class of asset in the portfolio (i.e., equities, debt, real estate and other).
b) Please provide any internal documents prepared by the Company that support the long-term investment return expectations, as well as any documents or studies related to the expected long term rate of return on plan assets prepared by outside investment advisors employed by the Company to manage its retirement portfolio or for pension fund accounting.

QUESTIONS FOR COMPANY WITNESS VANDER WEIDE

134. Regarding Dr. Vander Weide's discussion of market-value capital structures at pages 8 through 11 of his Direct Testimony, please respond to the following:

a) Is Dr. Vander Weide recommending an upward adjustment to the market-based cost of equity in this proceeding to account for the differences between the leverage apparent in the market-value capital structure of his sample groups and the leverage in Kentucky-American's requested ratemaking capital structure? If so, please quantify that amount of increase, if not, please explain why not.
b) Please list all the cases and regulatory jurisdictions since 2000 in which Dr. Vander Weide, in his cost of capital testimony, has recommended an upward adjustment to the market-based cost of capital to recognize capital structure differences between market-value capital structures and book-value capital structures.
c) In which of the rate cases listed in "b" above, was Dr. Vander Weide's upward adjustment to the market-based cost of equity adopted?
d) Please provide copies of the final orders in each rate proceeding listed in "c" above.

135. Regarding Dr. Vander Weide's testimony at page 19, which discusses his use of earnings growth estimates, please provide copies of the I/B/E/S publication from which the earnings growth rates for each of his sample companies (water and gas) are drawn.

136. Please provide a complete copy of the State Street Financial Advisors study cited at page 21 of Dr. Vander Weide's testimony.

137. At pages 22 and 23 of his testimony in this proceeding, discussing flotation costs, Dr. Vander Weide cites three studies (Lee, et al; Smith, and Pettway). Please provide complete copies of each of those articles.

138. Regarding Dr. Vander Weide's discussion of his gas distributor sample group, at pages 26 through 28 of his testimony, please provide the following:

a) What percentage of revenues for each company is derived from gas distribution operations (as opposed to gas merchant or exploration operations):
b) Which gas companies were eliminated from the sample group, and why?
c) Please explain why Dr. Vander Weide elected to rely on earnings growth projections provided by only two analysts. Which of the gas companies had only two analysts?
d) Please provide support for Dr. Vander Weide's statement that gas distribution companies are "a conservative proxy for the risk of investing in water companies."

139. Regarding Dr. Vander Weide's Ex-Ante Risk Premium study discussed at pages 31 and 32 of his testimony:

a) Are the gas distribution companies constant in eachmonth throughout the 1998-2008 study period? If not, please list the companies used in each month and explain any differences.
b) Has Dr. Vander Weide used this Ex-Ante Risk Premium analysis in every rate of return testimony he has submitted over the past five years? If not, please explain why not.
c) The footnotes in Schedule 3-4 indicate the "g" in the DCF model used is "I/B/E/S forecast of future earnings growth for each month." Does I/B/E/S update long-term growth rates every month? If not, how often are the growth rates updated?

140. Regarding Dr. Vander Weide's Ex-Post Risk Premium analysis, has he consistently examined the historical returns on the S&P 500 as well as that of S&P Utility Index? If not, when did he begin to examine both of those stock indicies in determining his Ex-Post Risk Premium estimate and why?

141. With regard to Dr. Vander Weide's testimony at page 40, line 23 that the current market risk premium is 9.37%, please provide support from the financial literature that investors' current expected return for the stock market in general is 9.37% above long-term Treasury bond yields.

142. Please provide the book value capital structures (including short-term debt) of each of the water and gas utility sample companies shown in Dr. Vander Weide's Exhibit__(JVW-1), Schedule 9.

143. Please provide each of Dr. Vander Weide's Schedule's in spreadsheet format with source data, formulas available, and cells unlocked.

144. Please provide any and all of Dr. Vander Weide's workpapers and source documents not otherwise requested.

145. Please provide a copy of the contract under which Dr. Vander Weide is providing his services for Kentucky-American in this proceeding.

Revenue Requirement

146. Please refer to Application Exhibit 37B, pages 30 through 33.

a. Provide these pages in Excel format with all formulae intact.
b. Provide a source for the "% Net Salvage," "Average Service Life," and "Curve Form" parameters shown on those pages.
c. Explain how those parameters were derived and demonstrate how they relate to the depreciation rates adopted in the settlement in Case No. 2007-00143.

147. Please refer to W/P 4-1 (Depreciation and Amortization workpapers) provided in response to PSC DR No. 1-1a. Provide an Excel version of these workpapers with all formulae intact.

148. Please refer to W/P 3-5 (Service Company Expense workpapers) provided in response to PSC DR No. 1-1a. Provide an Excel version of these workpapers with all formulae intact.

SFAS No. 143, FERC Order No. 631 and FIN 47

149. Please provide any and all internal studies and correspondence concerning the Company's implementation of FASB Statement No. 143 and FIN 47.

150. Please provide complete copies of all correspondence with the following parties regarding the Company's implementation of FASB Statement No. 143 and FIN:

a. External auditors and other public accounting firms.
b. Consultants;
c. External counsel;
d. Federal and State regulatory agencies; and
e. Internal Revenue Service.

151. 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, please 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."

152. For any asset retirement obligations identified above, please 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." Please provide all assumptions and calculations underlying these amounts.

153. Please provide the "credit adjusted risk free rate" used for any and all ARO calculations under FASB Statement No. 143 and FIN 47 to date.

154. Please 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.

155. 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.

156. Please refer to page 2 of KY American Water Company's ("KAWC's") December 31, 2007 and 2006 Financial Statements provided as Application Exhibit 28. Provide the workpapers supporting the calculation of the $8.44 million (2007) and $7.597 million (2006) regulatory liabilities for cost of removal. Please provide all of these workpapers and calculations in electronic format (Excel) with all formulae intact, showing amounts by plant account. Show all parameters used to make the calculation. If the amounts are calculated on a total company basis and allocated to KY, please provide the workpapers showing the allocation.

157. Describe all favorable and unfavorable consequences to KAWC if the Commission were to require reclassification of the Company's asset removal costs from accumulated depreciation to a regulatory liability account for regulatory reporting purposes.

158. What impact, if any, did the application of FIN 47 have upon the proposed depreciation rates and expense in this rate case? Provide all workpapers supporting the answer. If the application of FIN 47 had no impact please explain why not.

159. Provide an analysis of the regulatory liability for accrued asset removal costs since inception identifying and explaining each debit and credit entry and amount. Also, provide the copies of the pages from each of KAWC's SEC Form 10Ks, Form 10Qs and Annual Reports in which SFAS No. 143 was ever mentioned, whether or not the Company had quantified an amount of the regulatory liability

at the time. Specify the exact date each of these reports was issued and released to the public.

160. Provide KAWC's projection of the annual year-end balance in the regulatory liability for cost of removal obligations for KAWC, 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. Provide in electronic format (Excel) with all formulae intact.

    a. For this projection use the same depreciation rates used to calculate the depreciation expense in this rate case.
    b. Explain all other assumptions used to make this projection.

161. For all accounts for which KAWC has collected non-legal AROs, but instead recorded a regulatory liability (regulatory liability for cost of removal), please provide the fair value of the related asset retirement cost as of December 31, 2003; December 31, 2004; December 31, 2005, December 31, 2006 and December 31, 2007. For the purposes of this question, assume that KAWC has legal AROs for these accounts.

162. Provide the calculation of the annual amount of future gross salvage, cost of removal and net salvage incorporated into KAWC's depreciation rates by account. If any of the amounts are reduced by the total amount of non-legal AROs included in year-end accumulated depreciation, show that calculation.

163. Are the amounts of cost of removal and gross salvage incorporated into the depreciation rates the same as they would have been in the absence of SFAS No. 143 and FIN 47? Please explain.

164. With respect to the Regulatory Liability relating to cost of removal obligations which KAWC 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. Please explain when you expect to spend this money for cost of removal.
    e. Please 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 KPSC will never know whether or not KAWC will actually spend all of this money for cost of removal until and if the Company goes out of business? If not, why not?
h. Does KAWC believe that amounts recoded in accumulated depreciation represent capital recovery? If not, why not?
i. Whose capital is reflected in accumulated depreciation – shareholders' or ratepayers'?

165. Does KAWC promise to remove each asset for which it is collecting cost of removal and does it promise to spend all of the money it is collecting for cost of removal, on cost of removal? If the answer is yes, explain why KAWC does not have legal AROs under the principal of promissory estoppel. Please explain.

166. Does KAWC consider that it is bound by SEC regulations to record accruals for future costs of removal as regulatory liabilities?

a. If so, please provide a record of those accruals in as much account detail as is available along with the workpapers used to develop those accruals.
b. If not, please explain why not.
c. State whether the Company proposes to separate retirement cost accounting from depreciation accounting, with separate rates and reserves. If the Company does not propose such separation, please state fully the reasons for not doing so.

167. Please identify and describe the level of detail, e.g. by account, functional category, at which the Company computes the depreciation expense for purposes of financial reporting, Commission reporting, and ratemaking. Explain fully any differences among these three depreciation calculations.

168. State whether the Company has forecast any non-legal removal costs that it does not regard as regulatory liabilities. Please describe these costs in detail, state fully the reason(s) for your belief that such forecast costs are not regulatory liabilities, and identify the forecast amounts of such removal costs in as much detail as is available. Provide the supporting documentation for each forecast amount.

169. Please provide and describe the calculation of the depreciation rates AWW recently implemented in New Jersey and Tennessee. Provide all calculations in Excel format with all formulae intact.

Service Company Fees

170. Re. Baryenbruch Direct Testimony. Please provide all workpapers and analyses supporting Exhibit PLB-1.

171. List each internal audit completed, scheduled, or in progress at the Company for 2005, 2006, 2007, 2008, 2009 and 2010. For each, list subject of audit, date of

audit, date of report and title of report.

172. Provide a copy of the Company's most recent operations audit.

173. Provide as complete a breakdown as possible of the expenses billed by American Water or American Water Works Service Company ("AWWSC") and included in jurisdictional expense for 2005, 2006, 2007, 2008 and forecasted for the years 2009 and 2010. Include separately (even if they are incorporated into one "management fee" expense):
    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 2009 base year and 2010 test year forecasted level of expense.

174. Please provide jurisdictional totals and amounts by payee, and an explanation of the services provided, for all amounts charged to outside services during 2007 and 2008 and as budgeted for the 12 months ended January 31, 2009 and forecasted for the 12 months ended May 31, 2010.

175. 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 AWWSC's wages compared to the wages paid by other utilities, service companies, or any other entity.

176. Provide, by year, all affiliated operating expenses charged to the Kentucky jurisdiction for the 10 years ending 2008 plus as forecasted for 2009 and 2010.

177. For the base and test years, provide detailed support for all Management Fees and/or AWWSC 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.

178. Provide a general ledger listing or similar report of all transactions that comprise the corporate charges, including those from AWWSC, allocated to KAWC.

179. Provide the most recent 2007 and 2008 American Water and AWWSC operating expense budgets and 2009 and 2010 operating expense forecasts. Please identify all assumptions, workpapers, calculations and source documents relied upon and provide the development of all escalation factors.

180. Please identify the total American Water and AWWSC interest costs and the amount billed to the KAWC during 2006, 2007 and 2008 to date and as forecasted for interest expense.

181. Re. M. Miller Direct Testimony, pp. 21-22.

a. Please provide all costs and expenses associated with the ORCOM software and Service First enhancement 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 software and Service First enhancement? 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 and Service First enhancement.
e. Has any other jurisdiction in which American Water operates disallowed a cost allocation for the Customer Call Centers, ORCOM software and/or the Service First enhancement? If yes, please provide the orders relating to that disallowance.

182. Re. M. Miller Direct Testimony. Please provide working Excel versions Exhibits MAM-6 and 7. Also, provide all workpapers and calculations supporting these exhibits, as well as any source documents underlying all figures and assumptions used in the calculation. Provide all calculations in Microsoft Excel or Excel compatible format, with all formulae intact.

183. Re. M. Miller Direct Testimony, p. 28. Please provide all workpapers and calculations supporting the $1,245,476 in "offsetting adjustments" shown on that page. Provide all calculations in Microsoft Excel or Excel compatible format, with all formulae intact. Also, provide an explanation of all assumptions, and any supporting documents.

184. Provide for each year and quarter since January 1, 2003, the complete audited financial statements (including income statement and balance sheet) for AWWSC and any other KAWC parent or affiliate that has been paid any amount by

KAWC. If audited financial statements are not available, provide unaudited financial statements (including income statement and balance sheet) for such periods.

185. Identify all other Operating Companies that have applied for any water rate increase since January 1, 2006, providing for each the (a) date of the request, (b) docket number, and (c) status of the request.

186. Please provide a copy of all management audits completed since January l, 1997, performed by or for KAWC, AWWSC, or any other KAWC parent or affiliate.

187. Please provide the Request for Proposal, the proposal, any and all work papers, interview notes, data requests, data submissions, budget vs. actual and variance reports, FERC Form 60 Reports, and all other documents reviewed in connection with the preparation (whether used or not) of any of the management audits provided above.

188. Please provide all documents constituting, referencing, containing, relating to, responding to, or referring to findings and recommendations to KAWC, AWWSC, or any other KAWC parent or affiliate, or to any other person or entity resulting from or related to the management audits provided above.

189. If not provided elsewhere, please provide all documents constituting, referencing, containing, relating to, responding to, or referring to any bench-marking studies or similar reports, performed by outside consulting or benchmarking firms (for example, but not limited to: Gartner, Ernst & Young, Towers-Perrin, Hackett, Saratoga, and industry or functional associations), whether in draft or final form, with all associated documentation, including, but not limited to definitions, instructions, data inputs, and supplementary reports that have been initiated or completed for KAWC, AWWSC and/or any KAWC parent or affiliate since January I, 1997. The requested documents include, without limitation, all documents constituting, referencing, containing, relating to, responding to, or referring to internal analyses of these reports, including, without limitation, remediation plans, schedules and progress reports associated with follow-up for this work.

190. Please provide a schedule identifying for each of calendar years 2004 through 2008 (a) each operating company, affiliate, and/or parent Company to which AWWSC provided services of any kind during that time; (b) the total amount paid by each such company to AWWSC each year and (c) the average number of end-user customers for each identified company for each calendar year.

191. In Tennessee American Water Company's recent rate case, TRA Docket No. 08-00039, the TRA Director moved to "order the Company to develop a Request for Proposal for a comprehensive management audit by an independent CPA" which was to include an investigation of AWWC's management performance and

decisions relating to internal processes and internal controls. (Director Roberson's Motion, p. 2) Please provide an update on the status of that RFP. If a draft has been completed, please provide a copy.