

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN )  
WATER COMPANY FOR A GENERAL ) CASE NO. 2008-00427  
ADJUSTMENT OF RATES SUPPORTED BY A )  
FULLY FORECASTED TEST YEAR )

COMMISSION STAFF'S THIRD SET OF INFORMATION  
REQUESTS TO KENTUCKY-AMERICAN WATER COMPANY

Kentucky-American Water Company ("Kentucky-American"), pursuant to 807 KAR 5:001, shall file with the Commission the original, one paper copy, and an electronic copy of the information requested herein on or before February 7, 2009. Responses to requests for information shall be appropriately bound, tabbed, and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Kentucky-American shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to

which Kentucky-American fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. a. In its responses to information requests, Kentucky-American appears to have revised portions of the Cost of Service Study that it provided in its application. State whether Kentucky-American has made revisions to portions of the original cost-of-service study.

b. If revisions have been made to sections of the original cost-of-service study, state whether Kentucky-American has revised the original cost-of-service study in its entirety to reflect these revisions.

c. (1) If the original cost-of-service study has been revised in its entirety, provide a copy of this revised edition and highlight the revised areas.

(2) If the original cost-of-service study has not been revised in its entirety to reflect revisions to portions of the original study, explain why not and provide a revised edition that highlights the changed portions resulting from revisions made since the filing of Kentucky-American's application.

2. Refer to Kentucky-American's Response to the Attorney General's ("AG") Second Request for Information, Item 109(a).

a. In Case No. 2004-00103,<sup>1</sup> the Commission eliminated the costs associated with the long-term incentive compensation and annual incentive plan compensation programs (respectively, “LIP” and “AIP”) because Kentucky-American failed to provide any studies or analyses that would quantify those programs’ benefits. Explain why Kentucky-American has not performed the studies and analyses to which the Commission referred in its decision in Case No. 2004-00103.

b. Kentucky-American states that the “portion of total compensation represented by the AIP is an at-risk portion intended to improve performance based on the parameters measured in the plan.” Provide documentation to support this statement.

c. If Kentucky-American is unable to document the benefits of its incentive compensation programs, explain why the costs of these plans should be deemed reasonable and recovered through rates.

3. Refer to Kentucky-American’s Response to the AG’s Second Request for Information, item 109(b) and (c).

a. In Case No. 2004-00103, the Commission found that the use of incentive pay plans by other utilities is insufficient evidence to demonstrate that the incentive pay plans benefit ratepayers and that their costs should be recovered through rates. Explain how the use of incentive pay plans by other utilities and businesses in general demonstrates that Kentucky-American’s plans benefit its ratepayers.

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<sup>1</sup> Case No. 2004-00103, Adjustment of the Rates of Kentucky-American Water Company (Kentucky. PSC Feb. 28, 2005) at 49.

b. Provide documentation showing the effect of Kentucky-American's incentive compensation programs on employee retention.

4. Refer to Kentucky-American's Response to the AG's Second Request for Information, Item 113(a).

a. Identify by position the American Water Works Service Company ("Service Company") employees who are eligible to participate in the LIP. For each position listed, provide the total amount of LIP budgeted for the forecasted period and the amount allocated to Kentucky-American.

b. Identify by position the Service Company employees who are eligible to participate in the AIP. For each position listed, provide the total amount of LIP budgeted for the forecasted period and the amount allocated to Kentucky-American.

c. State whether the incentive pay plans offered to the Service Company employees is identical to the plan offered to the Kentucky-American employees. If not, explain how the plans differ.

d. Provide an analysis or study showing how the incentive compensation programs paid at the Service Company level benefit Kentucky-American's ratepayers and state why the cost of such programs should be recovered through rates.

5. Refer to Kentucky-American's Response to the AG's Second Request for Information, Item 114.

a. Provide a detailed separation of the forecasted management fees for business development services of \$224,043 between those that are directly assignable to Kentucky-American and those that are allocated.

b. Provide a detailed description of the business development services that are directly assignable to Kentucky-American in the forecasted period.

c. Provide a listing of the directly assignable business management services provided to Kentucky-American for the calendar years 2005, 2006, and 2007.

6. Refer to Kentucky-American's Response to the AG's Second Request for Information, Item 115.

a. Provide a detailed separation of the forecasted management fees for government affairs of \$22,693 between those that are directly assignable to Kentucky-American and those that are allocated.

b. Provide a detailed separation of the forecasted management fees for external affairs of \$219,832 between those that are directly assignable to Kentucky-American and those that are allocated.

7. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 10.

a. State the date the production technician position was posted and the projected date the position will be filled.

b. Kentucky-American states that Justin Sensabaugh was promoted to one of the vacant treatment plant operator positions.

(1) Provide the position title that Mr. Sensabaugh held prior to his promotion and state the total cost of the position included in the forecasted test period (i.e., payroll expenses, payroll capitalized, retirement, taxes, insurance benefits).

(2) Provide the current status of Mr. Sensabaugh's former position. State when the position will be posted and provide the projected date the position will be filled.

c. Provide the date the vacant treatment plant operator position will be or was posted and the projected date the position will be filled.

d. Given Kentucky-American's response, explain why the cost of the "administrative assistant – cross connection" should remain in the forecasted operating expenses.

8. There are expenses included in Kentucky-American's forecasted operations for services provided by "temporary employees."

a. State whether any of these temporary employees are performing duties that will eventually be performed by the employees who fill the vacant positions.

b. If yes, state the amount of temporary employment expense included in the forecasted test year for each vacant position.

9. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 10. Kentucky-American references schedules entitled PSCDR2#12 d and PSCDR2#12 e that are attached to its response. However, the two copies provided to the Commission do not have the attached schedules. Provide two copies of the referenced schedules.

10. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 16. Explain how Kentucky-American can operate its sewer treatment plant without purchasing water.

11. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 19(b). Describe the impact that the current prices of oil (diesel fuel) and natural gas will have on Kentucky-American's forecasted chemical expenses.

12. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 23(a) and (b).

a. Provide a detailed explanation of why the Service Company pension costs increased from \$0.691 million in 2004 to \$10.294 million in 2009.

b. Provide a detailed explanation of why the Service Company "Gr. Ins Y PBOB costs" increased from \$9.078 million in 2004 to \$23.294 million in 2009.

c. For each former Kentucky-American employee listed in this response as a current Service Company employee provide the following:

(1) The total amount of salary forecasted for the test period and the amount that was allocated to Kentucky-American.

(2) The comparison of the actual fringe benefits paid to each employee to the Overhead allocation of 1.1328 percent.

13. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 46.

a. Provide a schedule that lists each construction project<sup>2</sup> that is subject to the Allowance for Funds Used During Construction ("AFUDC") accrual, the end-of-test period balance, the 13-month average balance, and the AFUDC accrual for

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<sup>2</sup> Each construction project should be listed by total project cost and not be broken down into each account as Kentucky-American has shown in the workpapers that are referenced in its response.

each project. The total AFUDC accrual on this schedule should equal the AFUDC adjustment on Schedule D-3 of \$3,094,804.

b. Kentucky-American calculates an AFUDC accrual of \$3,016,061 in its Response to Commission Staff's Second Set of Information Requests, Item 40. Provide the same information requested in 18(a) for the AFUDC accrual of \$3,016,061.

14. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 47(b). State whether Kentucky-American will be required to accrue AFUDC for income tax purposes if Kentucky-American does not accrue an AFUDC for ratemaking purposes.

15. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 47(e). If the Commission were to include construction work in progress in rate base without the AFUDC offset, demonstrate how this action would affect the current rate request and future rate requests. Provide copies of all workpapers, show all calculations, and state all assumptions used in this response.

16. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 48(b).

a. Identify all Commission decisions of which Kentucky-American is aware in which the Commission permitted a utility to accrue AFUDC in the manner Kentucky-American is proposing.

b. Provide copies of decisions from other state regulatory commissions that have permitted an American Water Works Company subsidiary to accrue AFUDC in the manner Kentucky-American is proposing.

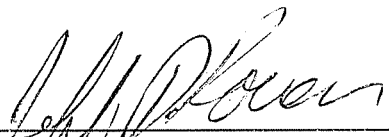


17. Provide a schedule for each of the past five years that shows:
  - a. The companies with whom Kentucky-American filed a consolidated income tax return for the tax year.
  - b. The taxable income or tax losses of each company in the tax year.
  - c. Whether a state utility regulatory commission regulates the listed company.
18. The Kentucky River Authority charges Kentucky-American a fee based on the volume of water withdrawn.
  - a. State whether Kentucky-American considers the fee an expense. Explain.
  - b. State whether Kentucky-American considers the fee a tax. Explain.
19. 807 KAR 5:067 provides the process by which a privately-owned water utility can adjust its rates when a supplier's rate increases. State whether Kentucky-American should use this process to recover the increases in the Kentucky River Authority Fee. Explain.
20. Describe in detail Kentucky-American's current leak detection/elimination plan or program.
21. Identify the Kentucky-American employees who are involved with the leak detection/elimination plan or program.
22. State the forecasted cost of the leak detection/elimination plan or program.
23. a. If the unaccounted-for water loss were to be eliminated, what would the associated savings be to Kentucky-American ratepayers?

b. Estimate the costs Kentucky-American would incur to eliminate the unaccounted-for water loss.

24. a. State the amount of water that Kentucky-American expects to save during the forecasted test period as a result of its current leak detection program.

b. Explain how these savings have been factored into its forecasted operations.



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cc: Parties of Record

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