COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY FOR AN ADJUSTMENT OF RATES SUPPORTED BY A FULLY FORECASTED TEST YEAR	))))	CASE NO. 2010-00036

<u>COMMISSION STAFF'S THIRD SET OF INFORMATION REQUESTS TO KENTUCKY-AMERICAN WATER COMPANY</u>

Pursuant to 807 KAR 5:001, Kentucky-American Water Company ("Kentucky-American") shall file with the Commission no later than May 28, 2010 the original, a paper copy and an electronic copy of the information requested below. 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. Refer to Kentucky-American's responses to the Commission Staff's Second Information Request, Item 4(a).

a. Kentucky-American states that "The at-risk incentive pay is not just an add-on to base pay, but is in place to drive performance to the benefit of the customers through better service and more efficient costs." Quantify the benefits that Kentucky-American's customers receive from the at-risk incentive pay.

b. Kentucky-American states that "if the Company were to limit base pay to the mid-point of the market with no incentive plan at all, the Company would not be competitive in the markets where it must attract highly qualified employees, and certainly would have difficulty in retaining those strong performing employees when other surrounding businesses offer more competitive compensations." Provide documentation to support Kentucky-American's claim.

c. Identify instances where the compensation level was the reason given by an employee for leaving Kentucky-American or the American Water Works Service Company.

d. According to Kentucky-American, "customer satisfaction, safety and operational performance indicators are very positive and the Company believes these results are directly impacted by the establishment of individual employee performance goals directly tied to the Company's performance in these areas." Identify specific instances to support Kentucky-American's belief.

e. Identify instances where the incentive pay plans have resulted in "more efficient operations" or "stronger financial performance."

f. Kentucky-American states that, because of the efficiencies in its operations and the strengthening of its financial performance that result from the incentive pay plan, its rate payers directly benefit through lower costs and/or longer periods between general rate filings. Quantify these benefits that have been received by Kentucky-American's rate payers.

2. Refer to Kentucky-American's responses to the Commission Staff's Second Information Request, Item 5. Kentucky-American states that it is unable to perform a study that quantifies the benefits its customers derive from the incentive compensation programs; but Kentucky-American "believes that such plans do in fact generate more efficient, safe and reliable utility infrastructure and service." Given that Kentucky-American is unable to quantify the benefits of its incentive compensation programs and that it can only give general statements regarding the programs, explain why the costs of the plans should be borne by the ratepayers.

3. Refer to Kentucky-American's responses to the Commission Staff's Second Information Request, Item 6. Provide documentation of the following statement: "To be competitive in the job markets where KAW and AWWSC operate, markets where

at-risk incentive compensation is common, the Company must provide competitive compensation programs."

4. Refer to Kentucky-American's responses to the Commission Staff's Second Information Request, Item 13(a).

a. The average actual capitalization rate for the five-year period is 19.472 percent, which is approximately 2.118 percent greater than the five-year average budgeted capitalization rate of 17.624 percent. Given that, for the five-year period from 2005 through 2009, Kentucky-American under-budgeted its capitalization rate by 2.118 percent, explain why the forecasted capitalization should not be adjusted by this factor.

b. Provide the impact that revising the forecasted capitalization rate from 17.624 percent to 18.742 percent would have upon Kentucky-American's revenue requirement. Include copies of all workpapers, assumptions, and calculations used to calculate the revenue requirement impact.

5. Refer to Kentucky-American's responses to the Commission Staff's Second Information Request, Item 20.

a. The American Water Works Service Company ("Service Company") pension costs increased from $1.4 million in 2004 to $20.8 million in 2009, which is an increase of $19.4 million or 1,385.71 percent. Provide a detailed analysis to explain why the Service Company pension cost increased by 1,385.71 percent during this period.

b. The Service Company group insurance/OPEB costs increased from $11 million in 2004 to $19 million in 2009, which is an increase of $8 million or 72.73

percent. Provide a detailed analysis to explain why the Service Company group insurance/OPEB costs increased by 72.73 percent during this period.

c. Kentucky-American states that, from 2004 to 2009, its customer growth has outpaced the "growth of American Water System." Provide a study that shows the direct correlation of the cost of the services provided to Kentucky-American by the Service Company to the number of Kentucky-American's customers.

d. Provide a list of the "technological improvements" that were implemented at the call center prior to 2006 and the costs incurred to implement the improvements.

e. In several categories, Kentucky-American references costs that increased due to American Water Works becoming a publicly traded company. Provide a schedule listing the service company expenses that are a result of American Water Works becoming a publicly traded company and includes the amounts that are allocated to Kentucky-American

f. Given that 100 percent of the Service Company costs are allocated to the operating subsidiaries, explain incentives that the Service Company has to maintain the costs.

6. Refer to Kentucky-American's response to the Commission Staff's Second Information Request, Item 43.

a. Kentucky-American recalculated its depreciation rates for all of the plant in service as of December 31, 2010 and the Kentucky River Station 2 costs of $163,891,660. Provide a revised schedule "Estimated Survivor Curve, Original Cost, Book Depreciation Reserve and Calculated Annual Depreciation Accruals Related to

Utility Plant at December 31, 2010," pages 6 through 9, using the 13-month utility plant balances that are included in the forecasted rate base. In the revised schedule, itemize the costs of the Kentucky River Station 2 facilities, the accrual rates and the composite remaining life.

b. Recalculate Kentucky-American's forecasted revenue requirement, rate base, and cost-of-service study to take into account the revised accrual rates.

c. Provide all documents, state assumptions, and show all calculations used to determine the effect revised accrual rates will have on each forecasted element of revenue requirement, rate base, and cost-of-service study.

d. Provide a reconciliation of the Kentucky River Station 2 balances used in the depreciation schedule to the Kentucky River Station 2 costs that Kentucky-American provided in its response to the Commission Staff's Second Information Request, Item 44.

7. Refer to Kentucky-American's response to the Commission Staff's Second Information Request, Item 45. If the revenue lag has improved due to enhanced collection efforts, explain why the forecasted uncollectible rate is 0.783590 percent.

8. Refer to Kentucky-American's response to the Commission Staff's First Information Request, Item 1, Workpaper WP 1-5. Using the format in Table 1, provide the following information for the forecasted Construction Work In Progress ("CWIP") of $160,146,033 and the Allowance for Funds Used during Construction ("AFUDC") of $646,180. The table balances should equal the amounts reported in the forecasted rate base and the forecasted income statement.

Table 1					
Budget Item	Project Description	Book AFUDC (Y/N)	13-Month Avg. Test-Year Expenditure	Book AFUDC	Tax AFUDC
Totals			$ 160,146,033	$646,180	

9. Provide the book and tax AFUDC rates Kentucky-American used in the calculation of the forecasted AFUDC amounts.

10. On page 12 of her Direct Testimony, Linda Bridwell states that "there have been five approved change orders on the water treatment plant." Provide a schedule that separately lists and describes each approved change order. Include the cost of each approved change order and identify whether the change order was requested by Kentucky-American.

11. On page 13 of her Direct Testimony, Linda Bridwell states that "there have been ten change orders on the pipeline, five on Section A and five on Section B." Provide a schedule that separately lists and describes each approved change order. Include the cost of each approved change order and identify whether the change order was requested by Kentucky-American.

12. On page 13 of her Direct Testimony, Linda Bridwell states that "there have been three approved change orders on the booster pumping station contract." Provide a schedule that separately lists and describes each approved change order. Include the cost of each approved change order and identify whether the change order was requested by Kentucky-American.

13. Refer to Kentucky-American's Application, Exhibit 37, Schedule M. Provide Exhibit 37M DETAILED BILLING ANALYSIS FOR ALL CUSTOMER CLASSES REVENUE SUMMARY FOR BASE PERIOD AND FORECASTED PERIOD in Microsoft

Excel Spreadsheet with formulas and calculations intact. If this has been provided in a previous filing, state in which filing this occurred and the exact location of this information.

Jeff Derouen
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Public Service Commission
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DATED: MAY 14 2010

cc: Parties of Record