

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN WATER)
COMPANY FOR A CERTIFICATE OF PUBLIC) Case No. 2012-00096
CONVENIENCE AND NECESSITY AUTHORIZING)
THE CONSTRUCTION OF WATER TRANSMISSION)
MAINS, BOOSTER PUMP STATION AND TWO)
ELEVATED STORAGE TANKS FOR THE)
NORTHERN DIVISION CONNECTION)

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

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention and in anticipation of the Commission's issuance of an order of procedure 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 First Request for Information.

Respectfully submitted,

JACK CONWAY
ATTORNEY GENERAL

/x/ David Edward Spenard

David Edward Spenard
Jennifer B. Hans
Assistant Attorneys General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204
T 502-696-5457
F 502-573-8315
david.spenard@ag.ky.gov
jennifer.hans@ag.ky.gov

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

Pursuant to Ordering Paragraphs 3, 13, and 14 of the Commission's 20 March 2012 Order of procedure, the Attorney General will submit the original and one photocopy in paper medium on 9 July 2012, and he has submitted one copy in electronic format by uploading the electronic file to the Commission's Web Application Portal on this 6th day of July 2012.

Pursuant to Ordering Paragraphs 10 and 11 of the Commission's 20 March 2012 Order of procedure, 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 Attorney General has transmitted an electronic copy of the request in a Word document to counsel for Kentucky-American Water Company. (As a courtesy, a copy is being sent to the Lexington-Fayette Urban County Government.) There are no parties that have been excused from participation by electronic means. The date for this action is 6 July 2012.

/x/ David Edward Spenard
Assistant Attorney General

THE ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

1. Reference: Application of Kentucky-American Water Company (Application). Please explain:
 - A. Whether the proposed 16-inch main would allow for expansion of Kentucky-American Water Company (KAW) into markets outside of those already serviced by its Northern Division.
 - B. Whether KAW plans to take advantage of expansion opportunities available as a result of the construction 16-inch main servicing Monterey and Owenton. Please provide any pertinent text from KAW's strategic planning documents.
 - C. Which utilities currently serve those areas and whether KAW has contacted any of those utilities to discuss acquisition, contract services, or other type of administrative, management or operational arrangement?
2. Reference: Application. Please provide the documentation (including work papers, memoranda, reports from third-parties, etc.) through which the construction, permitting, and right-of-way costs were calculated for both proposals as well as any proposal not referenced in the Application.
3. Reference: Application. Please provide the documentation (including work papers, memoranda, reports from third-parties, etc.) through which the operating and maintenance costs were calculated for both proposed courses of action.
4. Reference: Application. Paragraph 7 states that "the transmission main's *primary* purpose will be to supply water to a new 600,000 gallon storage tank outside of Owenton." (emphasis added). Please explain all current and anticipated non-primary purposes for the construction of the transmission main.
5. Reference: Application. Explain why the preexisting Monterey Tank is going to be decommissioned during Phase I and a separate storage tank is going to be built at Monterey during Phase III. Specifically, explain why the original tank cannot be reprovisioned (or otherwise repaired or rehabilitated in a cost-effective manner).
6. Reference: Application. KAW states that 89% of the Northern Division Connection transmission will be installed in existing road rights-of-way. Describe the proposed contingency plan if the remaining 11% cannot be obtained and any elevated or incremental costs associated with that course of action.

7. Reference: Application. KRS II was originally approved for a rate of 20 MGD from June 1 through August 31 and at a rate of 6 MGD for all other periods in order to service the Central District's water needs.
 - A. Explain whether KRS II WTP will need to be expanded to accommodate new output of treated water resulting from KAW's proposal that KRS II now service the Northern District as well.
 - B. Explain whether KAW will need to obtain (or has obtained) an approval from the Kentucky Division of Water with respect to the water withdrawal permit that corresponds to the KRS II facility.

8. Reference: Feasibility Study Report (Feasibility Study). Under Section II, and Direct Testimony of Williams at page 6. Statement of the Problem, Please explain KAW's references to "more stringent water quality standards."
 - A. To which future standards does this refer?
 - B. What are the anticipated implementation dates for each new standard?
 - C. Describe why the Owenton WTP will not be able to meet these standards and provide any supporting documentation to include any site inspections performed by Kentucky Division of Water.
 - D. Provide copies of any and all correspondence between the Kentucky Energy and Environment Cabinet and its Division of Water (hereinafter referenced collectively as Division of Water or DOW) related to the present application.
 - C. Describe whether or not KRS II will be affected by the new standards and what the associated increased O&M costs will be as a result.

9. Reference: Feasibility Report and Testimony at p. 6. Provide copies of any and all correspondence or other documentation relating to DOW identifying the location of the raw water intake on Severn Creek as an issue for KAW to correct.

10. Reference: Feasibility Report, Section II: Statement of the Problem. KAW states that they recognized shortcomings of the Owenton WTP prior to purchasing it in 2005.
 - A. Explain and provide documentation as to which issues were identified prior to the acquisition.
 - B. Explain whether the cost to correct these issues was taken into account during the acquisition (including the determination of the purchase price).

11. Reference: Feasibility Study, Section II: Statement of the Problem. KAW states that in the "portions of the system can be served from Purchase Agreements that KAW maintains with adjacent water districts."

- A. Please provide a photocopy of each water purchase agreement or contract that KAW maintains with a supplier of the Northern Division.
 - B. Has KAW explored the feasibility of entering into a purchase agreement or agreements that would allow it to continue to serve Owenton without having to construct the main from KRS II?
 - C. Has KAW explored the feasibility of entering into a purchase agreement or agreements that would allow it to (i) reduce the size and/or scope of a KRS II interconnection project and/or (ii) reduce the size and/or scope of a rehabilitation of the Owenton WTP?
 - D. If yes, describe the providers contacted, the dates contact was made, and the content of the negotiations.
 - E. If no, explain why this option was not discussed in the Application.
 - F. Provide any necessary documentation used to determine operating under a purchase agreement is not a viable option. This includes, but is not limited to, an explanation as to why the current system cannot be modified in conjunction with a purchase agreement to meet the needs of Owenton.
12. Reference: Feasibility Study. Describe the projected implementation timeline noting the start date and anticipated end date of each individual Phase in KAW's proposed KRS II WTP Supply plan.
13. Reference: Application. Did the Kentucky-American Water Company submit its proposal either formally or informally (including in response to a request by the Kentucky River Authority for information) to the Kentucky River Authority? If yes, then please provide all pertinent details and supporting documentation. If no, then please explain why not.
14. Reference: Application. Did the Kentucky-American Water Company submit its proposal either formally or informally (including in response to a request by the LFUCG for information) to the Lexington-Fayette Urban County Government? If yes, then please provide all pertinent details and supporting documentation. If no, then please explain why not.
15. Reference: Feasibility Study. Explain the current servicing method for the residents of Monterey and how that method is projected to change as a result of the new infrastructure.
16. Reference: Feasibility Study, Appendix D and Appendix E. Please explain the difference between the labor costs estimated for the Owenton WTP O&M Costs and the \$0.00 of labor costs associated with Additional KRS II WTP Supply O&M Costs.

- A. In the Application, the Owenton labor is attributed in footnote 2 to KAW's Budget Plan. Are there no similar increases in the budget for KRS II WTP? If yes, then please identify the increases. If no, then please explain why not.
 - B. Provide documentation to include the relevant portions of the referenced budget plan to support your answer.
17. Reference: Application and Feasibility Study. KAW asserts that one of the arguments against further operation of Owenton WTP is the lack of redundancy. Considering the proposed use of a single 16-inch main, explain the redundancy measures to be taken into account as they pertain to KRS II:
- A. Between KRS II and the water tanks.
 - B. Between the water tanks the remaining transmission and distribution system.
18. Reference: Application and Feasibility Study, specifically references to a lack of redundancy. Since 1 January 2005, what disruptions in service or other disturbances to the Northern Division system have occurred that may be directly related to a lack of redundancy?
- A. For each identified incident, please provide what actions KAW has taken to resolve the matter?
 - B. How has KAW managed the Northern Division to date without built-in redundancies?
19. Reference: Application, Direct Testimony of Williams, pages 8 through 10. With regard to the cost estimates for each option, please answer the following.
- A. If the Commission authorizes the KRS II option, explain what KAW will do with the current intake facility on Severn Creek. (Include in the explanation whether KAW will leave the facility in place "as is," remove all or part of the facility, or modify the facility or grounds. [The Engineering Feasibility Study Report does state that "the intake is a frequent site for vandalism" and that it "appears to be a late night congregating area for young people who are willing to scale the locked gate." Please fully explain the risk management considerations for the facility.] Please identify the corresponding cost estimates for any plan.)
 - B. If the Commission authorizes the KRS II option, explain what KAW will do with (i) the current WTP and property and (ii) the previous water treatment plant and the adjacent property. (Include in the explanation whether KAW will leave each facility in place "as is," removes all or part of the each facility, or modify the facility or grounds. Please identify the corresponding cost estimates for any plan.)
 - C. In the overview of the Northern Division Connection Project (pages 9 and 10), there is no discussion of KAW's plans for the current intake facility on Severn

Creek, the current WTP and property, and the previous water treatment plant and property. Please explain why the discussion does not include the disposition of these KAW assets.

- D. Explain why the KRS II option does not include decommissioning, removal, and/or modification costs corresponding to the existing facilities that will no longer be in service in the Total Project Cost Estimate of \$14,104,868.
- E. If the Commission authorizes the KRS II option, fully explain the rate-making impact consequent to the intake facility on Severn Creek being taken out of service. (For example, will the facility be removed from rate base; will there be a corresponding impact on depreciation or amortization; will KAW seek the cost recovery of any removal or modification of the facility or grounds; etc.?)
- F. If the Commission authorizes the KRS II option, fully explain the rate-making impact consequent to the current WTP being taken out of service. (For example, will the facility be removed from rate base; will there be a corresponding impact on depreciation or amortization, will KAW seek the cost recovery of any removal or modification of the facility or grounds; etc.? With regard to this question, also include in the explanation a discussion of the rate-making impact consequent to the plan for the previous water treatment plant and adjacent property.)
- G. Please supply all documentation, including reports, studies, memoranda, that discuss the future of the (i) intake facility, (ii) current WTP and property, and (iii) previous water treatment plant and adjacent property under a scenario in which KAW obtains approval of the KRS II option.
- H. Supply all correspondence with the KY Division of Water pertaining to the current and future use of the Owenton WTP as well as any other KAW owned or managed infrastructure associated with this application.

20. Reference: Feasibility Study. Explain and provide documentation:

- A. Supporting the use and placement of the proposed booster.
- B. For any projected future operation of the new infrastructure being placed in or near Monterey, KY as a result of the KRS II proposal.

21. Reference: Application. Describe and provide documentation for any projected rate increases that will be sought by KAW as a result of:

- A. The proposed KRS II scenario. (Include projected increases on Monterey customers as well as Owenton customers.)
- B. The continuation of Owenton WTP.
- C. Any other explored option not described in the application.

- D. Provide an estimate of the amount of capital investment, if any, KAW is going to assign to shareholders and which will be excluded from rate base for rate-making purposes under each scenario.
22. Reference: Application, Engineering Feasibility Study Report (May 2012). Please answer the following.
- A. With regard to the Northern District, have demand projections been made through the year 2030? If yes, then please provide, if available, (i) the average daily demand projection(s), (ii) the peak day demand projection(s), and (iii) the demand projection(s) for the system under maximum stress (for example, the maximum day demand projection(s) during a severe drought scenario). Also, supply each corresponding study, projection, analysis, or report serving as the basis or otherwise supporting the projections. If no, then please explain why not.
 - B. Under the assumption that KAW diverts water from the KRS II facility to the Northern Division, has KAW projected, calculated, or otherwise forecasted the impact of such a diversion or reassignment upon the water available to the Central Division when that portion of KAW's service territory is (i) under maximum stress and/or (ii) one or both of the other WTPs servicing the Central Division fail (and the impact of the diversion or reassignment upon the redundancy of the facilities service the Central Division). If not, then please explain why not.
 - C. In that KAW identifies the current lack of redundancy for the Northern Division as a significant limitation, please explain whether (and why) a failure of the KRS II facility (under a scenario in which the KRS II diversion is approved) would be less disruptive to the Northern Division than a failure of the current WTP and facilities.
23. Reference: Direct Testimony of Williams, page 2. With regard to the current purchases of treated water, please answer the following.
- A. If the Commission authorizes the KRS II option, will the interconnection and related facilities allow KAW to serve any of the "small areas of the system that cannot hydraulically be served from the [current] treatment plant"? Please fully explain.
 - B. In examining the options, did KAW consider using the purchase of additional treated water for meeting all or part of the requirements of its Northern Division customers? Please fully explain.
24. Reference: Application at p. 3, paragraph 6. On what legal precedent does KAW rely upon for proposing that the new build versus retrofit option is the least-cost option in light of the fact that capital costs of the build option exceed

the capital costs of the retrofit option by, at least, nearly \$3 million? Please cite specific PSC orders.

25. Reference: Application at p. 4, paragraph 11 and Direct Testimony of Williams at p. 11, lines 9-12. Please explain whether the funding for the project as proposed will be previously approved financing or short-term bank loans or both.

A. If previously approved financing, identify the PSC Order approving said financing;

B. If short-term bank loans, identify the banking/financing source and anticipated borrowing interest rate.

C. If unknown at this time, would KAW be willing to commit to the lowest possible financing option benefiting its ratepayers.

26. Reference: Application at p. 5, paragraph 12, wherein KAW states that it “does not believe that this facility will compete with any other water purveyor.” On what does KAW rely to support this belief? Please provide any studies, documentation or other related materials referenced.

27. Reference: Application and Testimony at p. 8. Please identify the names and positions of those individuals at KAW and/or its parent company who made the decision to pursue the build-option connecting the Northern Division to KRS II.

A. Please explain why the individual(s) identified have not filed testimony in this proceeding.

28. Reference: Application and Testimony at p. 8-9. Please explain the other alternative routes considered by KAW and why they did not prove viable according to KAW?

A. Please identify the names and positions of those individuals at KAW who considered and rejected these alternatives.

B. Please provide the specific reasons that these alternatives were not viable.

29. Reference: Direct Testimony of Williams, page 7. With regard to the diversion of water from the KRS II facility to the Northern Division, please answer the following.

A. In Kentucky Public Service Commission Case No. 2007-00134, KAW sought Commission approval of a project for addressing the water supply and treatment needs of its Central Division. Through the Direct Testimony of Linda Bridwell in that proceeding (at pages 29 through 31), KAW represented

- “a raw water supply deficient of 20 mgd in 2010, which grows to 28 mgd in 2030” for its Central Division. Are the foregoing referenced projections still the projections for the raw water supply deficit for KAW’s Central Division in the absence of augmentation by the KRS II facility? If not, then please fully explain the change and supply the corresponding documentation.
- B. In Case No. 2007-00134, Linda Bridwell’s testimony during the evidentiary hearing includes the following (27 November 2007 evidentiary hearing, Vol. II at pages 102 and 103) in response to a request for the description of the personal and economic consequences corresponding to a failure by KAW to meet the demand by 20 million gallons a day: “I do not even want to begin to contemplate that; no.” Please explain how the diversion of capacity of KRS II from the needs of the Central Division does not endanger the Central Division.
- C. With regard to the capacity of KRS II that will be diverted to the Northern Division, does KAW have a plan to offset or otherwise hold harmless the Central Division? For example, will KAW implement a conservation and/or demand management plan for its Central Division that will reduce its drought risk demand by an amount that corresponds to the capacity being diverted to the Northern Division? Please fully explain.
- D. Please explain whether KRS II will need to be expanded to accommodate the incremental requirement of the Northern Division.