

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
SUPPLEMENTAL 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 conformity with the Commission's order of procedure submits his Supplemental Request for Information to the Kentucky-American Water Company.

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the company witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information

within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

WHEREFORE, the Attorney General submits this Supplemental Request for Information.

Respectfully submitted,

JACK CONWAY
ATTORNEY GENERAL

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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 7 August 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 August 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. (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 August 2012.

_/s/ David Edward Spenard___
Assistant Attorney General

ATTORNEY GENERAL'S SUPPLEMENTAL REQUEST FOR INFORMATION

1. Reference: KAWC response to OAG 1- 1. The question under sub-part A is whether the 16-inch main "would allow for expansion of Kentucky-American Water Company (KAW) into markets outside of those already serviced by its Northern Division." KAWC's statement in response regarding the company's intent for the design of the facility does not address the question. The inquiry is not why KAWC is purportedly building the facility but rather what the facility could potentially allow and its possible utilization. Will the proposed 16-inch main allow for the expansion of KAW into markets outside of those already served by its Northern Division?
2. Reference: KAWC response to OAG 1 - 1; additionally, KAWC response to PSC 1 - 2; pages 5 and 8 (Purchase of the Water and Sewer Assets of Owenton KY - September 9, 2003). The KAWC response to PSC 1 -2 includes in part the following statements. "There is a strong indication of growth in Owen and surrounding counties." And, "This project is valuable strategically in that it sends a 'business as usual' message as KAWC expands its service territory." Does KAWC agree or disagree that completion of the Northern Division Connection as proposed in the Application will place KAWC in a better position to expand into markets outside of its current service territory? Please explain your answer.
3. Reference: KAWC response to OAG 1 - 5. What is the cost estimate for decommissioning the Monterey Tank? Please supply any corresponding workpapers, memoranda, and communications regarding the decommissioning and cost estimate.
4. Reference: KAWC response to OAG 1 - 8. The response, in identifying impending violations, references an 8 September 2011 site inspection report (at part VI). In that the transfer of control of the facilities was approved by an Order of the Commission dated 22 July 2005, please identify and discuss the steps taken since 22 July 2005 to address the backwash basin and "overflowing." Include in the discussion why "impending violations" have been allowed to continue or develop during KAWC's control of the facility.
5. Reference: KAWC response to OAG 1 - 9; page 1 of 27. KAWC indicates, by reference to a 2004 Sanitary Survey by the Division of Water, that "the condition and location of the intake has historically been a point of concern for the Division of Water with the City of Owenton." Was KAWC aware of this fact prior to the filing for Commission approval of a transfer of ownership in PSC Case No. 2005-00206?

6. Reference: KAWC response to OAG 1 - 9; page 3 of 27. The issue of emergency supply for the Owenton system was documented, by no later than 8 October 2004, in a public record. Why did Kentucky-American Water Company fail to include a discussion of the issue of emergency supply for Owenton in its application to construct KRS II and its related facilities?

7. Reference: KAWC response to OAG 1 - 9; page 11 of 27. "The system is in the process of being purchased by Ky-American and little long range planning is being done and the financial future is dependent upon the sale."

A. Did KAWC ever develop a long-range plan for the Owenton system?

B. If yes, then when was the plan developed? If applicable, please supply the copy of each long-range plan that has been developed.

C. If no, then please explain why not.

8. Reference: KAWC response to OAG 1 - 9; page 11 of 27. System does not purchase water from any other system. Is this accurate, as of the date of the survey containing the statement? See also page 14 of 27 ("There are presently no other public water systems with interconnections to the Owenton facility.") If it is not accurate, as of the date of the survey, then please provide the correct information.

9. Reference: KAWC response to OAG 1 - 9; page 13 of 27. "Owenton Water District is currently in the process of obtaining approval from DOW and funding from Rural Development to relocate their water intake to the Kentucky River." Please explain what happened with regard to (A) funding from Rural Development and (B) approval from DOW.

10. Reference: KAWC response to OAG 1 - 9; page 26 of 27. The Sanitation Survey (in 2004) includes questions regarding "Chlorine Safety."

A. Indicate whether the answers for these questions remain the same under current practices for the Northern Division (and if not, then please indicate, with specificity, why not).

B. Identify any current deficient practice(s) in the Northern Division with regard to chlorine safety.

11. Reference: KAWC response to OAG 1 - 10. KAWC anticipated \$1.5 million in capital expenditures over the 5-year period and indicates the completion of a chemical feed improvement project, tank maintenance projects, and SCADA installation at remote tank sites. For the five-year period following the acquisition, please provide the following:

- A. The amount of the \$1.5 million in capital expenditures that was actually spent, by year, for the five-year period.
- B. The amount of capital expenditure, by year, for completion of a chemical feed improvement project.
- C. The amount of capital expenditure, by year, for tank maintenance projects.
- D. The amount of capital expenditure, by year SCADA installation at remote tank sites.
- E. For each project identified in sub-parts B, C, and D, of this request, identify the start date or anticipated start date and completion date or anticipated completion date of each project. If a project was abandoned, deferred, or otherwise not pursued, explain why.

12. Reference: KAWC response to OAG 1 - 10. Please explain whether, prior to purchasing certain assets of the Owenton water system, KAWC anticipated capital expenditures by KAWC for a water intake facility for the Northern Division. If yes, then please identify the anticipated capital expenditures and indicate whether they were actually made by KAWC. If no, then please indicate why not.

13. Reference: KAWC response to OAG 1 - 11; page 3 of 38. The November 2008 letter from Georgetown Municipal Water & Sewer Service notes the existence of "an Agreement to connect facilities in order to supply water to one another in the event of a drought, emergency condition, service interruption or other unexpected condition." Please explain whether the connection of KAWC's Northern Division's facilities with Georgetown Municipal Water & Sewer System corresponds with a present obligation or authority for KAWC to ever supply GMWSS through its Northern Division facilities. If yes, please explain the obligation or authority. If no, please explain why not and confirm that the Agreement only permits sales to KAWC through the GMWSS interconnection with the Northern District.

14. Reference KAWC's Response and Amended Response to AG 1-14. Does KAWC agree or disagree that the construction of the Northern Division Connection will have direct impacts on ratepayers located in Central Kentucky, including but not limited to the ratepayers located in Lexington-Fayette Urban County?

- A. If KAWC agrees that direct impacts do exist, please identify the specific impacts to ratepayers located in Lexington-Fayette Urban County and characterize each impact as positive or negative.
- B. If KAWC disagrees that Central Kentucky ratepayers will face any direct impacts regarding the Northern Division Connection, would it agree to a deferral of future recovery from ratepayers outside of the immediate service territory for

the Northern Division Connection? If KAWC would not agree, please explain why not.

15. Reference KAWC response to OAG 1 - 21. Please provide a copy of the spreadsheet entitled "Ratemaking Impact of Owenton WTP Improvements vs. Proposed KRS II Scenario" in its native format (i.e. Microsoft Excel, Access) with all underlying data, assumptions and calculations.

16. Please provide a projection of the expected rate impact on a residential customer's bill for the following scenarios. (The expected amount of an increase associated with the rate recovery of the project.) For the response, please provide the impact for the first year that the rate in effect would include the entire cost of the project. Show the supporting calculations.

A. A Central Division residential customer of KAWC who utilizes 5,000 gallons of water per month if the KRS II plan is authorized and placed into service.

B. A Northern Division residential customer of KAWC who utilizes 5,000 gallons of water per month if the KRS II plan is authorized and placed into service.

C. A Central Division residential customer of KAWC who utilizes 5,000 gallons of water per month if the Owenton WTP option (the non-KRS II plan is authorized and placed into service.

D. A Northern Division residential customer of KAWC who utilizes 5,000 gallons of water per month if the Owenton WTP option (the non-KRS II plan) is authorized and placed into service.

17. Were the costs of the Northern Division Connection to KRS II be allocated in future rate cases solely to those customers to be served by the Connection in Owenton and the other areas within KAW's identified Northern Division, could such a cost in the form of an infrastructure surcharge and/or special tariff be economically feasible?

18. Reference: KAWC response to OAG 1-23(A). If the Commission approves the KRS II Northern Division Connection to KRS II as presented in the Application, will the existing purchase agreements with Georgetown Municipal Water and Sewer Service, Gallatin County, and Carroll County continue or be discontinued?

A. If KAWC plans to discontinue any of these purchase agreements, has it so advised the corresponding utility or utilities?

B. If yes, is KAWC assisting the relevant utility or utilities with regard to future water distribution and conservation planning?

C. (with regard to sub-part A) If no, why not?

19. Reference: KAWC response to OAG 1-23(B). Please provide detailed information concerning “the investment of new infrastructure, replacement and upsizing of existing infrastructure,” which were analyzed and rejected by KAWC as related to the options of treated water purchases. (Include in the response the identity of each individual who participated in the analysis and determination.)

20. Reference: KAWC response to OAG 1 - 26. Does KAWC agree or disagree that by reducing or eliminating its need to purchase treated water from the surrounding municipal water systems it is more competitively positioned to seek to purchase those entire systems? Please explain your response in detail.

21. Reference: KAWC response to OAG 1 - 27. Would President Cheryl Norton and Vice-President Keith Cartier be willing to voluntarily appear at any public evidentiary hearing scheduled regarding this matter, be sworn, and answer questions of the Commissioners, staff and, intervening counsel? If not, then please explain why not.

22. Reference: KAWC response to PSC 1 - 1; pages 15, 18, and 19. The description of the Chemical Bulk Storage Improvements per the 4 April 2012 letter (appearing at page 18) is “a new chemical feed building that houses bulk liquid chemicals, access road improvements, and a chlorine scrubber.” The corresponding opinion of probable costs in the second quarter of 2008 (page 19 - which includes construction and engineering costs and contingency) is \$2,100,000. Comparatively, the summary of construction cost opinion for the third quarter of 2008 (page 15 - including a “general conditions” adjustment of 8% and a contingency of 15%) is \$1,060,000 for the proposed chemical building; \$110,000 for the chlorine scrubber; and \$200,000 for access road improvements for a total of \$1,370,000. Please explain the difference between these cost estimates and include in the explanation a discussion of the reasons for the increase in cost.

23. Reference: KAWC response to PSC 1 - 2; page 4 of 62. “A second rate increase for the water model, to coincide with the rehabilitation of the water treatment plant, is included in the model with a rate year beginning October 1, 2006. This increase is 13.91%.” With regard to this statement, please indicate whether the increase was sought and obtained.

24. Reference: KAWC response to PSC 1 - 2; page 5 of 62. “Purchase of this water system will give KAWC access to a new and reliable source of water - Pool #2 of the Kentucky River.” Additionally, page 6 of 62 “An important part of this transaction is the construction of a new raw water intake on the Kentucky River

at Pool #2 (at a location approximately 1,000 feet from the current intake) to help meet new water quality regulations." Also see page 8 of 62. Further, page 7 of 62, "When the new intake is built, the 12" raw water line from the Severn Creek intake will be extended to the new intake and after connection will by-pass the reservoir and go straight to the filtration plant." KAWC knew that access to a new and reliable source of water was important part of the transaction, therefore explain the KAWC analysis or examination of access by the Northern Division to the Kentucky River via the KRS II station at the time that the KRS II facility was being designed and submitted for approval?

25. Reference: KAWC response to PSC 1 - 2; page 7 of 62. "One lacking factor in the filtration plant is reliance on a single claricone for treatment." Further: "KAWC's proposal includes funds to study and make improvements in the filtration plant to improve efficiency and to provide necessary redundancy." KAWC was aware that redundancy was an important consideration, therefore, with regard to redundancy, explain the KAWC analysis or examination of interconnection of the Northern Division with the KRS II facility at the time that the KRS II facility was being designed and submitted for approval?

26. Reference: KAWC response to PSC 1 - 2; page 34 of 62. "Submission of Business Development Package to KAWC Board for approval to purchase the City of Owenton's water and sewer assets." Provide a copy of this package.

27. Reference: KAWC response to PSC 1 - 2; page 42 (Draft Purchase Agreement). "Seller agrees to maintain the surrounding land, including the dam, in a safe and operational condition."

A. Was this condition part of the executed Purchase Agreement? If it was revised or eliminated, please fully explain.

B. Does KAWC believe that the Seller has ever breached this condition? If yes, then please fully explain.

28. Reference: KAWC response to PSC 1 - 3; page 11. 16 November 2005 message from Thomas W. Williams includes the following statement: "Again, from the told-you-so column, the bids on the Intake were quite high." Please explain the significance of the bids being "quite high."

29. Reference: KAWC response to PSC 1 - 56. Explain why the intake project was not built.

30. Reference: KAWC response to PSC 1 - 59. Please identify the date when the distribution system evaluation referenced in the second paragraph was completed.

31. Reference: KAWC response to PSC 1 - 3; page 16. The 13 January 2006 message from Richard C. Svindland includes the following statement: "Could we have copies available for ... 2) the asset purchase agreement between Owenton & KAW to help define what we actually purchased and what they may still own."

A. Please provide a schedule that identifies the water system assets retained by the City of Owenton under the Asset Purchase Agreement that Mr. Svindland references.

B. Please identify any water systems assets retained by the City of Owenton under the Asset Purchase Agreement that KAWC mistakenly thought it had purchased.

32. Reference: KAWC response to PSC 1 - 3; page 16. The 13 January 2006 message from Richard C. Svindland includes the following statement: "Could we have copies available for ... 5) an estimate of what it could cost if KAW did the entire project as a stand alone. (i.e, include AFUDC, inspections, engineering, construction, etc.)." Please provide the estimate prepared and/or the response prepared in response to Mr. Svindland's request.

33. Reference: KAWC response to PSC 1 - 3; page 16. The 13 January 2006 message from Nick Rowe includes the following statement: "Linda [Bridwell]- I expect your Dept. to drive the intake solution issue." Does KAWC agree or disagree that the individual responsible for the pursuit of the KRS II project was aware of the issues associated with the intake problems for the Northern Division?

34. Reference: KAWC response to PSC 1 - 3; page 20. The 23 February 2006 message from Thomas W. Williams includes the following statement: "Donna Marlin, DOW, says that they have never jointed a municipality in funding discussions with elected officials, but the grave situation in Owenton warrants their involvement." Did KAWC oppose DOW's involvement? If yes, then how and why?

35. Reference: KAWC response to PSC 1 - 3; page 22. The 5 April 2006 message from Thomas W. Williams contains the following statement: "KAWC's plans for a regional plant in Owen County may reduce the need for a new intake." Please indicate whether KAWC gave consideration to an interconnection between the Northern Division and the KRS II station as an option prior to KAWC filing its application for Commission approval to build the KRS II station.

36. Reference: KAWC response to PSC 1 - 3; page 47. The 18 November 2008 message from Dillard Griffin includes the following statement: "I am hearing rumors that we may want to leave that plant open and not consider connecting it into the New pipeline network and that the plans are to proceed with the chemical upgrades." Further: "If we are going to continue to operate the existing plant then we need a residuals plan, then we need to get into a budget a plan for this." Further: "If you can provide an update on the status or current thinking about the existing plant then we will know more about plans for maintenance, equipment, and some more firm multi-year operating plans. With residuals disposal and the existing old plant being large items that we need to get an operating plan in place for." When, exactly, did KAWC first give consideration to connecting the Northern Division to the KRS II station?

37. Reference: KAWC response to PSC 1 - 3; page 47. Would Dillard Griffin be willing to voluntarily appear at any public evidentiary hearing scheduled regarding this matter, be sworn, and answer questions of the Commissioners, staff and, intervening counsel? If not, then please explain why not

38. Reference: KAWC response to PSC 1 - 4; page 2. Please provide a narrative explaining the CDC process (including obtaining "SER CDC Implementation Approval").

39. Reference: KAWC response to PSC 1 - 4; page 2. The 22 April 2005 Implementation Approval Proposal includes the following: "The City's water system is in overall fair condition. The WTP is relatively new however the distribution system is aged and in need of attention and not unlike many municipal systems throughout the US. Owenton has received several violations for elevated THMs due to its source of supply. A new intake project along with treatment modifications will adequately address this problem. Capital expenditures of \$1,500,000 over the next five years have been modeled to accommodate modifications to the WTP and various distribution system improvements." Did KAWC paint an overly optimistic picture of the Owenton water system in order to obtain corporate parent approval for its purchase?

40. Reference: KAWC response to PSC 1 - 4; page 5. Under Market Environment," the following statement appears. "Owenton officials have made it clear that if this transaction is not closed within a reasonable period, they will cease further discussions with KAW." Did KAWC decide to proceed with the transaction in the absence of adequate time to consider the transaction or otherwise without fully considering the transaction?

41. Reference: KAWC response to PSC 1 - 4; page 12. Per the April 2005 discussion, there is an assumption that "Owenton will complete the Kentucky

River intake in a timely manner and not in excess of forecasted use fee.” Please explain whether the intake was completed in a timely manner and at or below the forecasted use fee. If not completed, explain the impact.

42. Reference: KAWC response to PSC 1 - 14. Please answer the following questions.

A. Please confirm that if the KRS II option is approved, it will result in an incremental risk or a reduction of water availability for the Central Division customers. If not, then please explain why not.

B. If the KRS II option is approved, will it result in a reduction of risk to the Northern Division customers?

C. Please confirm that the approval of a KRS II option may accelerate the need for an expansion of the KRS II WTP. If not, then please explain why not.

43. Reference: KAWC responses to PSC 1 - 23; 1 - 24, and 1 - 25. KAWC indicates, in part, that it “is considering whether the facilities could be utilized for KAW own use(s).” Please provide a narrative of this process and identify each use considered or under consideration. Supply any corresponding memoranda, communications, or work-papers.

44. Reference: KAWC response to PSC 1 - 29. What is the total customer count for the Northern Division for the May 2012 sales data?

45. Reference: KAWC to PSC 1 - 36. With regard to the risk associated with an inadequate residuals process, when did the process become inadequate? (Why has KAWC allowed an inadequate process to occur and/or exist?)

46. Reference: KAWC to PSC 1 - 71. What is the maximum transmission capacity of this main? (For example, how many million gallons a day could be transmitted through the main?)

47. With regard to the fees paid by KAWC to the Kentucky River Authority consequent to the utilization of the KRS II WTP, please answer the following.

A. Please identify the fees, if any, paid by KAWC to the Kentucky River Authority consequent to the utilization of the current intake for the Owenton WTP. (Identify the fee type(s) and the fee rate(s).)

B. Please confirm that if KAWC obtains approval of the KRS II option, to the extent that KAWC supplies its Northern Division with water from the KRS II WTP, there will be a KRA fee or fees associated with the water withdrawn from the Kentucky River for supplying the Northern Division. If no, then please explain why not.

C. Does a KAWC director, officer, or employee serving on the Kentucky River Authority? If yes, please identify each person and include the date of appointment (and, if applicable, confirmation).