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May 15, 2009

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

RECEIVED

MAY 15 2009

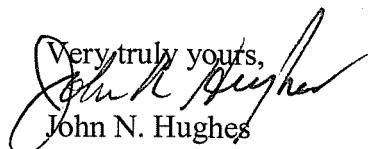
PUBLIC SERVICE
COMMISSION

Re: Case No. 2008-00563

Dear Mr. Derouen:

Attached are the responses of Water Service Corporation of Kentucky to the PSC's Second Data Request and the Attorney General's Initial Data Request. Each response includes a disk with the attachments. There are approximately 80 invoices related to the Attorney General's Request that have not yet been located. Those will be provided as soon as possible.

If you have any questions about this matter, please contact me.

Very truly yours,

John N. Hughes

Attorney for WSCK

AFFIDAVIT

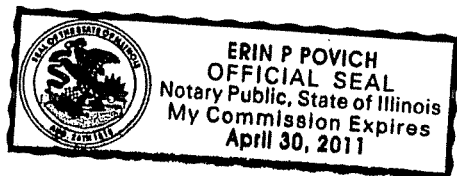
Affiant, Lena Georgiev, after being first sworn, deposes and says that she is authorized to submit this Response on behalf of Water Service Corporation of KY, and that the information contained in the Response is true and accurate to the best of her knowledge, information and belief, after a reasonable inquiry, and as to those matters that are based on information provided to her, she believes to be true and correct.

LG
Lena Georgiev

This instrument was produced, signed, acknowledged and declared by Lena Georgiev to be her act and deed the 12 day of May, 2009.

Erin P. Povich
Notary Public

My Commission expires: April 30, 2011



**Water Service Corporation
of Kentucky
Case No. 2008-00563**

**RESPONSES TO ATTORNEY GENERAL'S
FIRST DATA REQUEST**

MAY 15, 2008

- 1) Please identify and describe any ratemaking adjustments and/or ratemaking methodologies used in the instant rate proceeding that have not previously been addressed and/or adopted by the Kentucky Public Service Commission.

RESPONSE:

Witness: Lena Georgiev

No such adjustments or methodologies are used.

2) RE: Application, Numbered Paragraph 1. Please identify the owner or owners of Utilities, Inc.

RESPONSE:

Witness: Lena Georgiev

UI is owned by Hydro Star, LLC. The organization chart was provided in DR 1 item 2.

- 3) RE: Application, Numbered Paragraph 1. Please identify any entity that was supplying debt capital to Utilities, Inc., on 31 December 2008. Include in the response the corresponding amount of debt and as well as the cost rate for each entity.

RESPONSE:

Witness: Lowell Yap

Please see enclosed documents.

- 4) RE: Application, Numbered Paragraph 3. Please indicate whether the operating results for the wastewater contract (both revenues and expenses) have been removed from the test period. If not, then explain why not. If yes, then explain how the operating results have been removed and provide a schedule showing the adjustments.

RESPONSE:

Witness: Lena Georgiev

Yes, these operations have been removed. The line item on schedule BIS is shown as "Expense reduction related to Clinton Sewer Operations". An adjustment was made for the last two quarters of the test year to remove allocated expenses to Clinton since the Clinton sewer ERCs were not removed during the change in allocation methodology that was effective beginning of 2008. The detailed calculation for these adjustments was provided in DR 1 item 3 – expense reallocation work paper. The first two quarters of the test year when the allocation methodology was based on CEs the Clinton Sewer Customers did not get any allocated expenses.

WSCKY receives a management fee for Clinton operations and that management fee is being adjusted for actual expense reductions summarized on w/p q provided in DR 1 item 3.

- 5) RE: Application, Numbered Paragraph 3. Please provide the number of customers served by Middlesboro operations for each of the following dates: 31 December 2005, 31 December 2006, 31 December 2007, and 31 December 2008.

RESPONSE:

Witness: Lena Georgiev

Please see enclosed attachment.

- 6) RE: Application, Numbered Paragraph 3. Please provide the number of customers projected for the Middlesboro operations for each of the following dates: 31 December 2009, 31 December 2010, 31 December 2011, and 31 December 2012.

RESPONSE:

Witness: Martin Lashua

We predict an addition of 35 new connections a year. However, with economic conditions presently, the near future is not predictable or representative of the past.

7) RE: Application, Numbered Paragraph 4. Please provide the number of customers served by the Clinton operations for each of the following dates: 31 December 2005, 31 December 2006, 31 December 2007, and 31 December 2008.

RESPONSE:

Witness: Lena Georgiev

Please see attachment provided in item 5.

8) RE: Application, Numbered Paragraph 4. Please provide the number of customers projected for the Clinton operations for each of the following dates: 31 December 2009, 31 December 2010, 31 December 2011, and 31 December 2012.

RESPONSE:

Witness: Martin Lashua

There was no new growth and none is expected in the next 4 years.

9) RE: Application, Numbered Paragraph 12. With regard to witness Pauline Ahren, CRRA, for each rate proceeding since 1 January 2007, in which Ahern provided testimony, provide a copy of the testimony.

RESPONSE:

Witness: Brian Shrake

Please see attached PDF Files.

10) Please confirm that Water Service Corporation of Kentucky (WSCK) is a for-profit Kentucky business entity.

RESPONSE:

Witness: Lena Georgiev

Yes, WSCKY is a for-profit Kentucky business entity.

11) Please identify the members of WSCK's board of directors.

RESPONSE:

Witness: Lena Georgiev

The members are John Stokes, Michael Miller, Andrew Nevin and Lawrence Schumacher.

12) Please identify the officers of WSCK.

RESPONSE:

Witness: Lena Georgiev

The following are the officers of UI/WSCK:

- Larry Schumacher: CEO
- John Hoy: CRO
- Lisa Sparrow: COO
- Steve Lubertozzi: CFO
- John Stover: VP&General Counsel
- Don Suddoth: VP, Corporate Development

13) Please provide a copy of WSCK most recent strategic business plan (the plan containing, but not limited to, projections of income, investment, debt, cost rates, operating budgets, etc.).

RESPONSE:

Witness: Lena Georgiev

No such plan exists.

14) Please provide a copy of Utilities, Inc.'s most recent strategic business plan (the plan containing, but not limited to, projections of income, investment, debt, cost rates, operating budget, etc.).

RESPONSE:

Witness: Lena Georgiev

No such plan exists.

15) Is WSCK a member of the National Association of Water Companies (NAWC)? If yes, please identify the payments to NAWC.

RESPONSE:

Witness: Brian Shrake

Yes, WSCK is a member of NAWC. Please see attached paid invoice in the amount of \$2,198 for NAWC Membership Dues.

16) Is Utilities, Inc., a member of NAWC? If yes, please identify the payments to NAWC and, if applicable, any allocation of the costs to KWSC.

RESPONSE:

Witness: Brian Shrake

UI is a member of NAWC, it pays dues by system. The \$2,198 mentioned in the previous data request for WSCK are the only NAWC dues charged to WSCK.

17) Please confirm that WSCK does not file a separate federal tax return. If it does, then provide a copy of the federal return for each year, 2005, 2006, 2007, and 2008.

RESPONSE:

Witness: Lena Georgiev

WSCK does not file a separate federal tax return.

18) Please confirm that WSCK is a participating entity in a consolidated federal tax return and provide a copy of the federal return for each year, 2005, 2006, 2007, and 2008.

RESPONSE:

Witness: Brian Shrake

Please see enclosed confidential documents. The 2008 Federal Income Tax Return has not been completed yet and is not available for disbursement.

19) For any membership or organizational dues paid by or on behalf of WSCK, identify the entity, the amount of dues, whether rate-recovery is sought for the payment, and, if applicable, the basis for seeking recovery through rates.

RESPONSE:

Witness: Brian Shrake

Please see attached general ledgers and operator expense reports. The \$4,166 Membership balance in the filing is made up of \$3,988 from the WSCKY ledger and \$178 from the Allocation ledger. The balances in the Membership expense accounts are for the Kentucky Water and Wastewater Operators Association, Kentucky Department of Environmental Protection, NAWC, and American Water Works Association. The entities above provide training and certification for the operators and employees of WSCK and are a necessary and reasonable business expense which should be recovered through rates.

20) For any costs allocated to WSCK pursuant to an incentive plan, please provide all studies and analyses performed or commissioned that quantify the benefits that the incentive plan provides to its ratepayers.

RESPONSE:

Witness: Lena Georgiev

No such costs exist.



21) For any costs allocated to WSCK pursuant to an incentive plan, please provide all studies and analyses performed or commissioned that address how the costs of incentive compensation programs should be allocated between shareholders and ratepayers.

RESPONSE:

Witness: Lena Georgiev

No such costs exist.

22) With regard to Project Phoenix, please supply all materials from the Deloitte presentation referenced on page 5 of John D. Williams' pre-filed testimony.

RESPONSE:

Witness: Brian Shrake

Please see attached presentations.

23) With regard to Project Phoenix, please provide all studies and analyses performed or commissioned that quantify the benefits that the project provides to Kentucky ratepayers.

RESPONSE:

Witness: Brian Shrake

Please see the Deloitte analysis provided with Request #22.

24) With regard to Project Phoenix, please provide the Minutes for all Utilities, Inc., Board of Directors' meetings in which Project Phoenix was discussed.

RESPONSE:

Witness: John Stover

Minutes are attached.

Utilities, Inc.
Meeting of the Board of Directors
November 28, 2007

REDACTED COPY

Board members present

John Stokes, Chairman (by telephone)
Lawrence N. Schumacher
Michael Walsh
Andrew Nevin
Michael Miller

Board members absent

None

The meeting of the Board of Directors was convened at 8:30 a.m. Pacific Standard Time by Mr. Stokes, in the Van Gogh 2 Conference Room of the Bellagio Hotel in Las Vegas, Nevada. Mr. Stokes acted as Chairman of the meeting and noted that a quorum of Directors was present. Also in attendance were Christopher Lee, Managing Partner, AIG Highstar Capital; Steve Gudovic, Investment Associate, AIG Highstar Capital; Lisa Crossett, Vice President and Chief Operating Officer of the Company; Steve Lubertozi, Vice President, Chief Financial Officer and Treasurer of the Company; John Hoy, Vice President and Chief Regulatory Officer of the Company; John Stover, Vice President and Secretary of the Company; and Donald Sudduth, Director of Corporate Development of the Company.

John Stover acted as Secretary of the meeting and recorded the minutes.

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Business Overview

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- **Project Phoenix** – The Board discussed the anticipated “Go-live” on December 3, 2007 of the Company’s new integrated financial system, as well as additional costs associated with previous delays in the Go-live date.

....

Other Business

There being no further business brought before the Board, upon motion duly made and seconded, Mr. Stokes adjourned the meeting at 11:20 a.m. Pacific Standard Time.

Utilities, Inc.
Meeting of the Board of Directors
August 14, 2007

REDACTED COPY

Board members present

John Stokes, Chairman
Lawrence N. Schumacher
Michael Walsh (by telephone)
Aaron Gold (by telephone)

Board members absent

Michael Miller

The meeting of the Board of Directors was convened at 8:30 a.m. Eastern Daylight Time by Mr. Stokes, at the offices of AIG Investments office at 599 Lexington Ave, New York, New York. Mr. Stokes acted as Chairman of the meeting and noted that a quorum of Directors was present. Also in attendance were Christopher Lee, Managing Partner, AIG Highstar Capital; Andrew Nevin, Vice President, AIG Highstar Capital; Steve Gudovic, Investment Associate, AIG Highstar Capital; Lisa Crossett, Vice President and Chief Operating Officer of the Company; Steve Lubertozi, Vice President, Chief Financial Officer and Treasurer of the Company; John Hoy, Vice President and Chief Regulatory Officer of the Company; John Stover, Vice President and Secretary of the Company; and Donald Sudduth, Director of Corporate Development of the Company.

John Stover acted as Secretary of the meeting and recorded the minutes.

....

Project Phoenix

Mr. Schumacher reviewed the current status of the Company's effort to integrate, simplify and automate its business processes. The Board noted that the project was currently under budget, but that it was likely to exceed the budget before completion.

....

Other Business

There being no further business brought before the Board, upon motion duly made and seconded, Mr. Stokes adjourned the meeting at 12:25 p.m. Eastern Daylight Time.

25) With regard to Project Phoenix, please provide the Minutes for all WSCK Board of Directors' meetings in which Project Phoenix was discussed.

RESPONSE:

Witness: John Stover

See Response 24

26) With regard to the JDE system, please provide all studies and analyses performed or commissioned that quantify the benefits that the system provides to Kentucky ratepayers.

RESPONSE:

Witness: Brian Shrake

Please see the Deloitte analysis provided with Request #22.

27) With regard to the CC&B system, please provide all studies and analyses performed or commissioned that quantify the benefits that the system provides to Kentucky ratepayers.

RESPONSE:

Witness: Brian Shrake

Please see the Deloitte analysis provided with Request #22.

28) Notwithstanding any prior question, please provide the Minutes for all WSK Board of Directors' meetings in which allocations to Kentucky of either the JDE or CC&B systems were discussed.

RESPONSE:

Witness: John Stover

See Response 24

29) Does WSCK engage in business development activities? If yes, please describe the activities and identify the corresponding costs.

RESPONSE:

Witness: Lena Georgiev

No, WSCKY does not engage in business development activities.

30) To the extent any changes or revisions are made to the filing data based on errors/omissions/revisions found after the WSCK filed its case, please provide a listing and description of these required changes/revisions, as well as the impact on the WSCK filed revenue requirement.

RESPONSE:

Witness: Lena Georgiev

No such changes were made.

31) For any aspect of WSCK's operations that are competitively bid, please provide a narrative explaining how WSCK bids the works (The narrative should include a discussion regarding how WSCK 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 WSCK provides notice via a newspaper, then provide a photocopy of a newspaper notice. If WSCK utilizes requests for proposals, then please provide a sample RFP.

RESPONSE:

Witness: Martin Lashua

WSCK does seek competitive bids of usually 2 – 3 bids but there is no public notification process and the bids are solicited from vendors by specific invitation. There is no formal request for proposal procedure and this may be done with a simple letter or even perhaps in a personal meeting to convey the specifications, plans or requirements of the job. This is usually because of past experience with the vendor and understanding of their reasonable rates and good performance.

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

RESPONSE:

Witness: Lena Georgiev

No such document exists.

33) Since 1 January 2006, has any other jurisdiction ordered a management audit for a Utilities, Inc., subsidiary or operating company? If yes, please provide a copy of the Order requiring the audit and a copy of the audit if complete.

RESPONSE:

Witness: Brian Shrake

Please see the attached Management Review Audit Dated 4/2/2007 by Schumaker & Company which was required by the South Carolina Public Service Commission.

34) Please provide the amortization schedule for any currently existing deferred debits.

RESPONSE:

Witness: Lena Georgiev

The Company is not incorporating any deferred charges into the revenue requirement calculation. The per-books deferred charges are not linked to schedule CRB. They are simply items that are recorded on the Company's books during a normal course of business and the Company provided the per-books TB unaltered as a source document. Neither gross deferred charges nor their amortization are included in the rate case. Depreciation/Amortization is recalculated on the restatement work paper and these charges are not included on that work paper.

35) Please provide a schedule for the outside consulting fees paid during the test year and for the post-test year to date.

RESPONSE:

Witness: Lowell Yap

Please see the corresponding schedule of outside consulting fees paid during the test year and for the post-test year to date as of the end of April 2009. Entries listed as Code 1 are allocations from the parent company to WSC KY based on the corresponding monthly ERCs at that time. Subdivisions beginning with YA are from the old Legacy computer system, which also have entries that allocate their corresponding expenses from parent to WSC KY.

36) RE: Application, Numbered Paragraph 30. Please explain why an operating budget is not prepared by the company.

RESPONSE:

Witness: Lena Georgiev

An operating budget is prepared on a UI level. This is the Company's practice.

37) RE: Application, Exhibit 4. Please explain or otherwise describe the basis for a proposed "Operating Margin" of 13.81%. Include with the explanation all work papers and memoranda relating to its development.

RESPONSE:

Witness: Lena Georgiev

The rate increase application is based on the recommended return on equity percentage recommended by the Company's ROE Expert, Pauline Ahern. The ROE that was used in the filing is 11.85%. The 13.81% operating margin is just the translation of the 11.85% in operating margin terms. It is calculated by dividing the net pro forma income of 341,754 on BIS page 1 by the pro-forma operating revenues of 2,474,539 on the same exhibit.

38) RE: Application, Exhibit 4 (Trial Balance 06/30/08). For numbers 1580, 1585, 1590, and 1595, please provide a description for each of these accounts and the activity these accounts are to reflect.

RESPONSE:

Witness: Lowell Yap

Account 1580, Mainframe Computer Wtr, deals with the servers for each region.

Account 1585, Mini Computers, is the workstation's desktop/laptop computers employees work with.

Account 1590, Comp Sys Cost Wtr, is the parent company's license and maintenance of the JDE and CCB systems.

Account 1595, Micro Sys Cost, deals with company cell phones and meters.

39) RE: Application, Exhibit 4 (Trial Balance 06/30/08). Rates case expense.
Please provide the projected amount of rate case expense and current amount of rate case expense for this rate case.

RESPONSE:

Witness: Lowell Yap

Please see the response given to PSC's DR 1, Item 12. Please find the attached updated up to the end of April 2009 general ledger for Rate Case Expense.

40) RE: Application, Exhibit 4 (Trial Balance 06/30/08). For any deferred charge, please supply a copy of the Order, letter, or other indication of authorization from the Kentucky Public Service Commission that permits the establishment of a deferred debit.

RESPONSE:

Witness: Lena Georgiev

The Company is not incorporating any deferred charges into the revenue requirement calculation. The per-books deferred charges are not linked to schedule CRB. They are simply items that are recorded on the Company's books during a normal course of business and the Company provided the per-books TB unaltered as a source document. Neither gross deferred charges nor their amortization are included in the rate case. Depreciation/Amortization is recalculated on the restatement work paper and these charges are not included on that work paper.

41) RE: Application, Exhibit 4 (Trial Balance 06/30/08). Please provide the detail relating to the deferred charge for relocation expenses (when the relocation took place, who was relocated, etc.) and explain why the recovery of this expense through rates should be considered.

RESPONSE:

Lena Georgiev

Please see response to item 40.

42) RE: Application, Exhibit 4 (Trial Balance 06/30/08). Please provide the detail relating to the deferred charge for employee fees (the fees being paid, the employee on behalf the fees are paid) and explain why the recovery of this expense through rates should be considered.

RESPONSE:

Lena Georgiev

Please see response to item 40.

43) RE: Application, Exhibit 4 (Trial Balance 06/30/08). Please provide the detail relating to the deferred charge for vocational testing (the testing, the necessity for the test, etc.) and explain why this is a deferred charge.

RESPONSE:

Lena Georgiev

Please see response to item 40.

44) RE: Application, Exhibit 17. The right hand column on the copy of the 30 June 2008 Balance Sheet provided to the Attorney General is not legible/readable. Please provide a legible/readable copy of this document.

RESPONSE:

Lena Georgiev

Please see enclosed document.

45) RE: Application, Exhibit 17. Please provide the accounts payable ledger for "Accounts Payable-Trade" for the test year.

RESPONSE:

Witness: Lena Georgiev

All general ledgers were provided in DR 1 item 8. Accounts Payable – Trade is 4515 in the new system and 2311000 in the old system.

46) RE: Application, Exhibit 17. Please provide the accounts payable ledger for "A/P – Assoc. Companies" for the test year.

RESPONSE:

Witness: Lena Georgiev

All general ledgers were provided in DR 1 item 8. Accounts Payable – Assoc. Companies is a grand total account.

47) State the amount of Hydro Star's ownership in Utilities, Inc., as of the following dates, 1 January 2006, 1 January 2007, 1 January 2008, and 1 January 2009.

RESPONSE:

Witness: Brian Shrake

Hydro Star's ownership In UI as of 1 January 2006, 1 January 2007, 1 January 2008, and 1 January 2009 are 0%, 100%, 100%, 100% and 100% respectively.

48) RE: Application, Exhibit 4 (Trial Balance 06/30/08). For Number "5870," please explain why any amount of holiday expense and picnics should be included in rates.

RESPONSE:

Witness: Lena Georgiev

Two events during the year represent an incentive to increase employees' morale and productivity: a Christmas party and a Company picnic during the summer. These events are allocated to each UI Company. The amount allocated to WSKY for the test year ended 6/30/08 is \$386.

49) RE: Application, Exhibit 4 (Trial Balance 06/30/08). Number "5900," please provide a summary of the charges that comprise "Other Office Expenses." For each expense amount over \$200.00, provide a copy of the billing statement or invoice.

RESPONSE:

Witness: Lowell Yap

Please refer to the Income Statement general ledgers provided in PSC DR 1 Item 8 pertaining to the test year (Inc Stmt 345 Dec (this is only Dec 07 since new system was transferred over on 12/1/07), Income Statement 345 010108-063008, and BS & IS 160 070107-113007). Please see the attached corresponding documents regarding Account 5900 (JDE) or 6759090 (Legacy) Other Office Expenses.

	Grand Total
Jan-June 2008	\$41,753
Dec 2007	\$2,437
July-Nov 2007	\$6,522

	\$50,713

The \$50,713 equals the total amount shown in Sch. B-Income Statement and on the Trial Balance from the filing.

Direct Invoices:

An example of a direct invoice for WSC KY is Office Products, Inc. found in the Income Statement 345 010108-063008 file under business unit 345101.5900. The invoice is for \$438.05 and can be found with the invoices provided with this response. The copy of the invoice is labeled Item 49 5900 Other Office Expenses Part 2.pdf

Indirect Invoices/Allocations:

Code 1 is the allocation from the parent company 102 to WSC KY 345 during the test year. The allocation from parent to WSC KY is based on the monthly ERCs at the time. If you look at 345101.5900 in the Income Statement 345 010108-063008 file, there is an entry for Code 1 – Office Expense 121 at 3/31/2008. The amount is for \$39.63. This is the ERC allocation to WSC KY from the parent company. At the time, the ERC for 345101 was 785. The total amount of ERCs in March 2008 was 292,695.60. Therefore the % for 345101 is $785/292695.60 = .27\%$.

The total amount of Other Office Expenses for the parent company, WSC, from Jan 1, 2008 thru March 31, 2008 was \$14,778. Please refer to the corresponding GL provided for this account from the parent company, WSC. Using 345101's ERC %, we allocate .27% of the \$14,778 to that particular subdivision which is $\$14,778 \times .27\% = \39.63 , thus matching the amount mentioned above.

The parent company invoices allocated to WSC KY have been provided. Any outstanding invoices will be provided as soon as possible once they have become available.

50) RE: Application, Exhibit 4 (Trial Balance 06/30/08). Number "6205," please provide all vouchers for "Travel Entertainment."

RESPONSE:

Witness: Lowell Yap

Please refer to the Income Statement general ledgers provided in PSC DR 1 Item 8 pertaining to the test year (Inc Stmt 345 Dec (this is only Dec 07 since new system was transferred over on 12/1/07), Income Statement 345 010108-063008, and BS & IS 160 070107-113007). Please see the attached corresponding documents regarding Account 6205 (JDE) Travel Entertainment.

	Grand Total
Jan-June 2008	\$127

	\$127

The \$127 equals the total amount shown in Sch. B-Income Statement and on the Trial Balance from the filing.

Direct Invoices:

An example of a direct invoice for WSC KY is G & C Supply Co, Inc. found in the Income Statement 345 010108-063008 file under business unit 345101.6205. The invoice is for \$92.82 and can be found with the invoices provided with this response. The copy of the invoice is labeled Item 50 6205 Travel Entertainment.pdf.

Indirect Invoices/Allocations:

Code 1 is the allocation from the parent company 102 to WSC KY 345 during the test year. The allocation from parent to WSC KY is based on the monthly ERCs at the time. If you look at 345101.6205 in the Income Statement 345 010108-063008 file, there is an entry for Code 1 - Office Expense 272 at 3/31/2008. The amount is for \$.56. This is the ERC allocation to WSC KY from the parent company. At the time, the ERC for 345101 was 785. The total amount of ERCs in March 2008 was 292,695.60. Therefore the % for 345101 is $785/292695.60 = .27\%$.

The total amount of Other Office Expenses for the parent company, WSC, from Jan 1, 2008 thru March 31, 2008 was \$208.92. Please refer to the corresponding GL provided for this account from the parent company, WSC. Using 345101's

ERC %, we allocate .27% of the \$208.92 to that particular subdivision which is $\$208.92 \times .27\% = \$.56$, thus matching the amount mentioned above.

The parent company invoices allocated to WSC KY have been provided.

51) RE: Exhibit 10 (reconciliation of rate base and capital). Please explain the plant acquisition adjustment of \$162,892 (in terms of how it was created, its corresponding accounting treatment, and its corresponding rate treatment).

RESPONSE:

Witness: Lena Georgiev

The PAA was created when WSCKY was purchased. On the books the PAA is amortized over 50 years. However, WSCKY is not seeking recovery on the positive PAA or its amortization. On schedules BIS and CRB both items have been removed for rate making purposes.

52) RE: Exhibit 10 (reconciliation of rate base and capital). Please confirm that the new billing system corresponds to an increase in rate base of \$178,715. If not, please identify the amount of increase to rate base for this system.

RESPONSE:

Witness: Lena Georgiev

The new billing system increases WCKY rate base by \$178,715.

53) For WSCK, what was the cost of billing a customer on a per customer basis prior to the new billing system?

RESPONSE:

Witness: Lena Georgiev

All costs (income and rate base items) are included in the filing. The total WSCKY expenses included on BIS in the amount of \$1,823,948 and the total rate base items on CRB in the amount of \$6,139,342 can be divided by the total number of customers to come up with a cost per customer amount. The amount of the new billing and computer system can be subtracted from these totals in order to calculate the before cost per customer.

54) For WSCK, what is the cost of billing a customer on a per customer basis consequent to the new billing system?

RESPONSE:

Witness: Lena Georgiev

All costs (income and rate base items) are included in the filing. The total WSKY expenses included on BIS in the amount of \$1,823,948 and the total rate base items on CRB in the amount of \$6,139,342 can be divided by the total number of customers to come up with a cost per customer amount.

55) RE: Exhibit 15. Please explain the difference between purchased water under the description "5435 Purchased Water" and "5425 Purchased Water." For each account, identify the vendor and provide a copy of each billing statement for the test period.

RESPONSE:

Witness: Lowell Yap

Account # 5425 is the subtotal for Account # 5435. Please see the attached schedule and copies of billing statement for the test period requested. Please refer to the Income Statement general ledgers provided in PSC DR 1 Item 8 pertaining to the test year (Inc Stmt 345 Dec (this is only Dec 07 since new system was transferred over on 12/1/07), Income Statement 345 010108-063008, and BS & IS 160 070107-113007). Please see the attached corresponding documents regarding Account 5435 (JDE) or 6101010 (Legacy). Any outstanding invoices will be provided as soon as possible once they have become available.

56) RE: Exhibit 15. Please explain the difference between electric power expense under the description "5465.10 Elec Pwr-W" and "5465.13 Elec Pwr-W" For each account, identify the vendor and provide a copy of each billing statement for the test period.

RESPONSE:

Witness: Lowell Yap

Account # 5465.10 is the subtotal for Account # 5465.13. Please see the attached schedule and copies of billing statement for the test period requested. Please refer to the Income Statement general ledgers provided in PSC DR 1 Item 8 pertaining to the test year (Inc Stmt 345 Dec (this is only Dec 07 since new system was transferred over on 12/1/07), Income Statement 345 010108-063008, and BS & IS 160 070107-113007). Please see the attached corresponding documents regarding Account 5465 (JDE) or 6151010 (Legacy). Any outstanding invoices will be provided as soon as possible once they have become available.

57) RE: Exhibit 15. Please identify the payment(s) for "5870 Holiday Events/." For this account, identify the vendor(s) and provide a copy of each billing statement for the test period.

RESPONSE:

Witness: Lowell Yap

Please refer to the Income Statement general ledgers provided in PSC DR 1 Item 8 pertaining to the test year (Inc Stmt 345 Dec (this is only Dec 07 since new system was transferred over on 12/1/07), Income Statement 345 010108-063008, and BS & IS 160 070107-113007). Please see the attached corresponding documents regarding Account 5870 (JDE) Holiday Events.

	Grand Total
Jan-June 2008	\$386

	\$386

The \$386 equals the total amount shown in Sch. B-Income Statement and on the Trial Balance from the filing.

Direct Invoices:

An example of a direct invoice for WSC KY is Thomas, Pamela found in the Income Statement 345 010108-063008 file under business unit 345101.5870. The invoice is for \$131.50 and can be found with the invoices provided with this response. The copy of the invoice is labeled Item 57 5870 Holiday Events Part A.pdf.

Indirect Invoices/Allocations:

Code 1 in regards to this account relates to a reclassification from Pickard, Michael Anthony in the amount of 254.28 in business unit 345104.5870 to business units 345101.5870 and 345103.5870 in the amounts of 137.04 and 117.24 respectively.

58) RE: Exhibit 15. For "5890 Publ Subscripti," provide a schedule that lists each publication and explain why it is necessary.

RESPONSE:

Witness: Lowell Yap

Please refer to the attached schedule that lists each publication. The different publications included in this charge serve various purposes.

59)RE: Exhibit 15 "6005 Accounting Stud." Please explain this item and provide invoices and a copy of the study.

RESPONSE:

Witness: Lowell Yap

Please refer to the Income Statement general ledgers provided in PSC DR 1 Item 8 pertaining to the test year (Inc Stmt 345 Dec (this is only Dec 07 since new system was transferred over on 12/1/07), Income Statement 345 010108-063008, and BS & IS 160 070107-113007). Please see the attached corresponding documents regarding Account 6005 (JDE) or 6329013 (Legacy) Accounting Stud.

	Grand Total
Jan-June 2008	\$2,000
Dec 2007	\$1,049
July-Nov 2007	\$2,437

	\$5,486

The \$5,486 equals the total amount shown in Sch. B-Income Statement and on the Trial Balance from the filing.

Direct Invoices:

An example of a direct invoice for WSC KY is Hughes Consulting, Inc. found in the Income Statement 345 010108-063008 file under business unit 345100.6005. The invoice is for \$400 and can be found with the invoices provided with this response. The copy of the invoice is labeled Item 59 6005 Accounting Stud.pdf.

Indirect Invoices/Allocations:

For Legacy Allocations, please refer to the SE60 Tab in the 3rd and 4th quarter Water Service Corporation Distribution of Expenses Books.

The parent company invoices allocated to WSC KY have been provided. Any outstanding invoices will be provided as soon as possible once they have become available.

60) RE: Exhibit 15. "6205 Travel Entertai." Please provide a copy of each billing statement or voucher (if reimbursement, a copy of the receipt used as support for reimbursement).

RESPONSE:

Witness: Lowell Yap

Please see the response provided in Item 50.

61) RE: Exhibit 16. How does WSCK know that the charges for services rendered under the 19 December 2007 Agreement are reasonable?

RESPONSE:

Witness: Lena Georgiev

During the 6/30/06 test period for a Virginia UI subdivision (Case No. PUE-2006-00126), the Company spent resources to implement a comprehensive cost of services study for WSC services that are allocated to all UI subdivisions. The study shows that it would be significantly more expensive for any subdivision to find professional services similar to the ones provided by WSC.

During 6/30/06 all subdivisions of UI received allocations based on customer equivalents (CEs) while the new allocation methodology as of 6/30/08 is ERCs. A comparison of WSKY CEs vs. ERCs for the two periods in question is included. For 6/30/06 WSKY CEs represented 2.0% of total UI CEs and WSKY ERCs represented 2.78% of total UI ERCs. As of 6/30/08 WSKY ERC percentage was 2.53% of total UI ERCs. The two different allocation methodologies yield very similar allocation results. Further, the WSC services provided to all UI subdivisions have not changed since the most recent cost of services study was implemented.

62) RE: Exhibit 16. Does the 19 December 2007 Agreement include a profit margin? If yes, then what is the margin?

RESPONSE:

Witness: Lena Georgiev

No, it does not.

63) RE: Exhibit 16. For each type of service provided under the 19 December 2007 Agreement, provide the corresponding cost rate.

RESPONSE:

Witness: Lena Georgiev

No such cost study has been performed under the 2007 Agreement. However, please see explanations for the comparison of the two different allocation methodologies in item 61.

64) RE: Exhibit 16. If the cost billed by the service company does not include a markup for profit, then how does this reconcile with the fact that under the Agreement the allocation of the cost of the Service Company's rate base including a return on the equity invested is part of the Operating Company's agreement to pay?

RESPONSE:

Witness: Lena Georgiev

The allocated rate base including the new computer system is part of the operating agreement. However, it is allocated strictly based on cost. It does not include the required return on equity built in the allocated cost. Each UI company is analyzed for performance periodically after all costs are booked. A need for rate relief arises in order to obtain a reasonable return on equity for the Company's investors. If UI's investors are not able to earn a reasonable return on their investment, they will not invest needed capital in the Company and obtaining capital will be extremely costly given the recent credit crisis situation.

65) Exhibit 15. Please confirm that Steven Lubertozi signed the agreement for WSKK in his capacity as Vice President and Chief Financial Officer of Water Service Corporation as well as in his capacity as Vice President and Chief Financial Officer of Water Service Corporation of Kentucky. Who were the members of the board of directors who authorized him to enter into the agreement?

RESPONSE:

Witness: Lena Georgiev

Yes, this is correct. Steven Lubertozi has been duly elected by the Board of Directors as CFO and has the authority to sign the agreement.

66) What is the formula for determining an equivalent residential customer?

RESPONSE:

Witness: Lena Georgiev

The ERCs are calculated based on meter size. The below schedule shows the actual calculation of the different meter size factors where 5/8" residential is the basis:

2.5 times the base is 1" meter
5 times the base is 1.5" meter
8 times the base is 2" meter
15 times the base is 3" meter
25 times the base is 4" meter
50 times the base is 6" meter

Enclosed please find a schedule of calculating ERCs. Distribution customers are counted as one under the ERC methodology and as 1/2 under the Customer Equivalent methodology.

Please see DR 61 for more information between ERCs and CEs.

67) RE: Application, Exhibit 17. Please provide a balance sheet for WCK for each of the following dates: 30 September 2008, 31 December 2008, and (when available) 31 March 2009.

RESPONSE:

Witness: Brian Shrake

Please see attached 09/31/08 and 12/31/08 Balance Sheets. 1Q09 allocations have not been completed 3/31/09 Balance sheet will be provided when available.

68) RE: Application, Exhibit 18 (Footnote). Please confirm that the “g/l additions from December to March 2008” should read “g/l additions from December 2008 to March 2009.” If this is not the case, then please identify the corresponding time frame.

RESPONSE:

Witness: Brian Shrake

Yes, this is correct.

69) RE: Application, Exhibit 19. Please confirm that the installation of the security camera system was for facilities in Kentucky. (If not, then please identify the location of the facilities.) Further, please provide a description of the project and include a copy of the RFP.

RESPONSE:

Witness: Lowell Yap.

Yes, the installation of the security camera system was for the facilities in Kentucky only. Please refer to the prior data request regarding the description and details to the project. There is no RFP for this project.

70) Please provide a consolidating balance sheet for Utilities, Inc., (an accounting balance sheet in which all of the holding company's subsidiaries are displayed with their actual capital structure and consolidated into the parent company). If the information does not exist, please indicate through a comprehensive narrative how the holding company prepares a consolidated balance sheet and include in the narrative the actual consolidation process as applied to the information pertaining to the WSCK for the most recent year available.

RESPONSE:

Witness: Brian Shrake.

Please see the attached Consolidated UI Balance Sheet and Capital Structure for the Test Year ended 6/30/08

71)RE: For each jurisdiction in which Utilities, Inc., has a subsidiary or operating company, provide a schedule showing the most recent Commission Order establishing a return on equity for that the Utilities, Inc., subsidiary or holding company in that jurisdiction.

RESPONSE:

Witness: Brian Shrake

Please see attached Schedule.

72) Please confirm that the Applicant is adjusting certain expense items based upon an increase in the consumer price index. Please provide the study or analyses showing the correlation or predictive value between the CPI and each expense item.

RESPONSE:

Witness: Lowell Yap

Yes, we confirm that WSC KY is adjusting certain expense items based upon an increase in the consumer price index. Please see the corresponding schedule for CPI.

73) Did WSCK conduct any study or review of how Kentucky jurisdictional water utilities of comparable size (in terms of metrics such as customer count, net plant, sales, etc.) put together a rate case? If yes, please provide the study. If no, then please explain why not.

RESPONSE:

Witness Brian Shrake

No. The Company believes that using the ROE method is the fairest way to set rates for both the customer and the company.

74) Did WSCK conduct any study or review of how Kentucky jurisdictional water utilities of comparable size bill their customers? If yes, please provide the study. If no, then please explain why not.

RESPONSE:

Witness: MARTIN LASHUA

No, WSC KY did not conduct any study/review of how Kentucky jurisdictional water utilities of comparable size bill their customers.

75) RE: Question 7 in John D. Williams' pre-filed direct testimony. Please confirm that when Mr. Williams' is discussing the evaluation of "the state of the Company's processes and systems" he is discussing Utilities, Inc.'s overall processes (enterprise-wide) processes and systems rather than simply the processes and systems of WSCK.

RESPONSE:

Witness: Lena Georgiev

Mr. Williams is discussing the entire Company's processes and systems which include WSCKY's processes and systems. WSCKY uses the integrated computer and billing systems for everyday's business operations.

76) RE: John D. Williams' pre-filed direct testimony. Please identify, with specificity, the gaps between the pre-Project Phoenix Utilities, Inc., processes and the best practices at a well-run water utility.

RESPONSE:

Witness: Brian Shrake

Please see the Deloitte presentation supplied in item 22.

77) On a per customer basis, identify the cost of the Project Phoenix that has been allocated to Kentucky.

RESPONSE:

Witness: Lena Georgiev

Project Phoenix is referred to the entire system upgrade (accounting and billing). The total allocated WSKY cost of the computer portion is \$425,915 which translates into \$53.30 per customer. However, the \$425,915 is a rate base item which does not have the same dollar impact per customer. WSKY is seeking an 8 year amortization period for the new system which means \$6.66 per customer per year.

The billing portion of Project Phoenix is CC&B and the allocated WSKY portion is \$178,715 treated as a pro-forma adjustment on Schedule C. The 8 year amortization divided by the customer number yields a \$2.80 charge per customer per year. The calculation of the amortization was included on wp – f – depr. in DR 1 item 3.

78) Please describe the customer service offices in Clinton and in Middlesboro in terms of what they do including the scope of their authority to resolve billing disputes.

RESPONSE:

Witness: Martin Lashua

Customers Service Representatives located in the Middlesboro KY office that provides assistance to all KY customers. Customer Service Representatives have full authority to resolve billing disputes. The Regional Office Manager located in NC is available by phone or email to assist in addressing any customer matter.

The Middlesboro KY office is located in a convenient place with ample parking and daily hours of 8:00 to 12:00 noon and then from 12:30 pm to 4:30 pm Monday through Friday.

There is no customer service office in Clinton but we do have an arrangement with a local bank to process walk-in local payments.

79) Please provide the relevant Order of the Kentucky Public Service Commission through which WSKY received approval for the use of its current depreciation rates.

RESPONSE:

Witness: Lena Georgiev

No such Order exists. However, WSKY is using depreciation rates that are used company-wide and have been accepted by many jurisdictions.

80) Please identify WSCK's 10 largest non-residential customers and their usage by year for each year 2006, 2007, and 2008.

RESPONSE:

Witness: Martin Lashua

Please see attached corresponding document.

81) Please provide a copy of the text of each press release or any media communication by or on behalf of WSCK for the period of 1 January 2007 to date.

RESPONSE:

Witness: Brian Shrake

Please see attached files.

82) For each jurisdiction in which Utilities, Inc., has a subsidiary or an operating company, please provide the corresponding customer count as of 1 January 2007, 1 January 2008, and 1 January 2009.

RESPONSE:

Witness: Brian Shrake

Please see attached file.

83) With regard to the Distribution of Expenses 4th Quarter Ended December 31, 2007, please indicate why Bio-Tech is not allocated any Office Salary.

RESPONSE:

Witness: Brian Shrake

Bio-Tech is allocated Office Salary in the SE.60A.

84) With regard to the Distribution of Expenses 4th Quarter Ended December 31, 2007, please confirm that Northbrook Office (in terms of its location on the organization chart provided in response to PSC 1 - 2) is Water Service Corporation and explain why it is allocated Office Salary.

RESPONSE:

Witness Brian Shrake

Northbrook Office is WSC. Water Service Corporation is not allocated Office Salaries. The Direct salary expense is calculated in the SE 50. The Northbrook Office salaries are then allocated out in the SE 60A.

85) With regard to the Distribution of Expenses 4th Quarter Ended December 31, 2007, please indicate why Virginia, Pennsylvania, New Jersey, Indiana, and Ohio are not allocated any Office Salary.

RESPONSE:

Witness Brian Shrake:

Virginia, Pennsylvania, New Jersey and Ohio are allocated Office Salary in the SE. 50 from the Illinois and Maryland Offices and from WSC in the SE. 60A.

86) With regard to the Distribution of Expenses 4th Quarter Ended December 31, 2007, please provide this Office with a copy of pages 2 of 6, 3 of 6, and 5 of 6 that containing the entire schedule.

RESPONSE:

Witness: Brian Shrake

Please see attached file.

87) With regard to the Distribution of Expenses 4th Quarter Ended December 31, 2007 (page 3 of 6), please identify and explain the basis for each allocation to Kentucky (and include any corresponding billing invoices, charge sheets, or similar documents supporting the charges).

RESPONSE:

Witness: Lena Georgiev

In 4th Quarter Ended 12/31/07 Distribution Book under SE 50 on page 3 of 6 there is nothing going to WSC of KY. On this page Companies 43-67 are getting operator allocations. On page 6 WSC of KY, Company 160 shows an allocation of \$140,756 for that quarter ended 12/31/07 only. In the filing, on the salary work paper provided in DR 1 item 3 and item 11 the entire test year allocation for 7/1/07-6/30/08 shows in detail who the operators allocated to WSC of KY are and what their pay was at that time period. In the filing, operators allocated to WSC of KY have a total allocated wage/salary of \$416,245 which is comparable to 140,756 and 3,399 (4Q 07) + 125,745 and 3,453 (3Q 07) + 210,877 (1&2 Q 08) for a total of 484,230 recorded on schedule BIS of the filing. We are adjusting per book numbers (decreasing them by 79,240) in order to account for actual current employees' allocations. The same methodology can be followed for allocated office salary employees by adding all 4 quarters of allocations and comparing them to the salary work papers of actual employees currently employed by WSC KY. Again, the Company is adjusting allocated salary office employees down from what is on the books. Please note the WSC (NB) employees are allocated via SE 60A and a detailed explanation and g/1 is included to explain the methodology used in both SE 60A and the rate case filing.

88) With regard to the Distribution of Expenses 4th Quarter Ended December 31, 2007 (page 6 of 6), please identify (in terms of its location on the organization chart provided in response to PSC 1 - 2) the operating unit containing the Mississippi Office.

RESPONSE:

Witness: Lowell Yap

In terms of its location based on the organization chart provided in response to PSC 1-2, it is located in the Florida Region.

89) With regard to the Distribution of Expenses 4th Quarter Ended December 31, 2007 (Distribution of Computer Costs, page 7 of 7), please identify and provide the basis for distribution of costs to Bio Tech and indicate whether the formula for distributing computer costs to Bio Tech differs from the formula for distributing computer costs to Kentucky.

RESPONSE:

Witness: Brian Shrake

The company estimates based on number of invoices processed by the billing system that Bio-Tech uses .01% of UI resources. Biotech ERCs will always amount to .01% of UI's total ERCs,

90) With regard to the Distribution of Expenses 4th Quarter Ended December 31, 2007 (Distribution of General Expenses), please confirm that WSCK was allocated \$323.00 for Account Number 6329014 (Tax Return Review).

RESPONSE:

Witness: Brian Shrake

That is correct.

91) With regard to the Distribution of Expenses 4th Quarter Ended December 31, 2007 (Customer Equivalents), please identify the terms in the third column represented by the letters "W," "S," "D," and "C."

RESPONSE:

Witness: Brian Shrake

The letters describe the type of customer and system. They represent "Water", "Sewer", "Distribution" and "Collection".

92) With regard to the Distribution of Expenses 4th Quarter Ended December 31, 2007 (Distribution of Expenses for Computer Operating Costs), please explain why the "Total Invoices" for WSCK and the corresponding "% of Total" is so large relative to the other companies listed in this report.

RESPONSE:

Witness: Brian Shrake

The majority of companies with fewer "Total Invoices" than WSCK are smaller systems than WSCK. Generally, smaller systems would have fewer expenses and fewer invoices to process.

93) With regard to the Distribution of Expenses 4th Quarter Ended December 31, 2007 (Adjustment to Allocate WSC Rate Base), please indicate whether WSC, itself, has any retail or wholesale customers subject to the jurisdiction of the Kentucky Public Service Commission.

RESPONSE:

Witness: Brian Shrake

No, it does not.

94) With regard to the Distribution of Expenses 4th Quarter Ended December 31, 2007 (Adjustment to Allocate WSC Rate Base), please indicate whether WSC considers this expense as a cost in the nature of overhead. If not, please identify the nature of the expense.

RESPONSE

Witness: Brian Shrake

Rate Base is the sum and total at the investors' original cost, of the utility's prudent investment that is used and useful plant and property. WSC Allocated Rate Base by definition is not an expense.

95) With regard to Water Service Corporation of Kentucky's Response to the PSC's 3 April 2009 Order, Item 3 (r), is it WSCK's position that the depreciation rates utilized by the prior owner were not approved by the Kentucky Public Service Commission? If yes, please explain the basis for this position.

RESPONSE:

Witness: Lena Georgiev

The Company is not aware of Commission depreciation rates approved for the prior owner.

96) With regard to Water Service Corporation of Kentucky's Response to the PSC's 3 April 2009 Order, Item 3 (r), could the organizational costs alleged not to have been booked been discovered at the time of the acquisition by a due diligence review? If no, then please explain why not.

RESPONSE:

Witness: Lena Georgiev

\$36,282.69 of organizational costs were capitalized by the previous companies, Aqua/KWS, inc. and Utilities of Kentucky, Inc., which were acquired by WSC on August 18, 1992. These organizational costs were overlooked at the time of the booking of the acquisition. These organizational costs should be included in Water Service's rate base because they represent an additional benefit received by customers. These organization costs relate to the prior owner of WSKY. However, since organization costs do not get amortized, the time of their discovery does not affect rate base.

97) With regard to Water Service Corporation of Kentucky's Response to the PSC's 3 April 2009 Order, Item 3 (r), please explain why this adjustment is not a collateral attack upon prior Commission Orders (for which there has been a procedural default of further consideration through the expiration of the time for seeking administrative rehearing or judicial review).

RESPONSE:

Witness: Lena Georgiev

WSCKY is entitled to have a rate base established. Fixed asset balances and A/D are included from the acquisition to the end of the test year. A/D has been restated, however, based on company-wide depreciation rates schedule rather than based on the prior owner's tax depreciation rates which grossly overstated A/D. The A/D restatement does not constitute a collateral attack since prior Commission Orders have not ruled on this matter. The company is strictly following its company-wide book's using a 2% plant, 25% vehicle, and 12.5% computer depreciation rates.

98) With regard to Water Service Corporation of Kentucky's Response to the PSC's 3 April 2009 Order, Item 3 (r), in light of the allegations contained in this adjustment, does WSCK also propose to provide ratepayers with a remedy for the fact that expenses have previously been overstated by virtue of depreciating plant too quickly? If yes, what is the remedy? If no, why is a remedy not necessary?

RESPONSE:

Witness: Lena Georgiev

No remedy is necessary. In the prior rate case, 2005-00323, the Company restated A/D to use the 2% plant depreciation rates rather than the prior owner's higher tax depreciation rates. The PSC had audited WSCKY's books during that past rate case. During the current rate case, the Company is simply restating A/D to comply with the practices used during the 2005 rate case. Rate payers were not affected by any higher depreciation rates because the Company's per book rates are the lower rates. The higher rates were used by the prior owner and that is the reason the company is restating the acquisition A/D balances and rolling those forward to the end of the test year.

99) With regard to Water Service Corporation of Kentucky's Response to the PSC's 3 April 2009 Order, Item 4, please indicate whether WSCK is accruing interest on the rate case expense for this proceeding.

RESPONSE:

Witness: Lena Georgiev

No, WSCKY is not accruing interest on the rate case expense.

100) With regard to Water Service Corporation of Kentucky's Response to the PSC's 3 April 2009 Order, Item 5, please indicate whether it is WSCK's position that WSCK does not have a separately identifiable capital structure and a separately identifiable net investment rate base for its Kentucky operations subject to the jurisdiction of the Kentucky Public Service Commission.

RESPONSE:

Witness: Lena Georgiev

WSCKY has a separate identifiable rate base. Since the time of acquisition WSCKY has made significant improvements and investments in its operations. The only allocated (not identifiable) rate base comes from the allocated umbrella of items used by all UI subdivisions (computer system, office structures in the corporate office, etc.). This portion of the total WSCKY is included on the rate base reallocation work paper included in item 3 of DR 1 and flows through to schedule CRB (rate base and rate of return statement).

WSCKY does not have an identifiable capital structure. The capital structure WSCKY uses is based on the UI cap structure.

101) With regard to Water Service Corporation of Kentucky's Response to the PSC's 3 April 2009 Order, Item 8, please provide all invoices, billing statements, charge orders, or similar documentary support for Other Miscellaneous Expense.

RESPONSE:

Witness: Lowell Yap

Please refer to the Income Statement general ledgers provided in PSC DR 1 Item 8 pertaining to the test year (Inc Stmt 345 Dec (this is only Dec 07 since new system was transferred over on 12/1/07), Income Statement 345 010108-063008, and BS & IS 160 070107-113007). Please see the attached corresponding documents regarding Account 5825 (JDE) or 7758390 (Legacy) Other Misc. Expenses.

	Grand Total
Jan-June 2008	\$1,394.68
Dec 2007	\$81
July-Nov 2007	\$1,543.94

	\$3,020

The \$3,020 equals the total amount shown in Sch. B-Income Statement and on the Trial Balance from the filing.

Direct Invoices:

An example of a direct invoice for WSC KY is Clinton Bank Rec 03/2008 found in the Income Statement 345 010108-063008 file under business unit 345100.5825. The invoice is for \$129.50 and will be provided as soon as possible once it has been made available.

Indirect Invoices/Allocations:

Code 1 is the allocation from the parent company 102 to WSC KY 345 during the test year. The allocation from parent to WSC KY is based on the monthly ERCs at the time. If you look at 345101.5825 in the Income Statement 345 010108-063008 file, there is an entry for Code 1 - Office Expense 92 at 3/31/2008. The amount is for \$3.19. This is the ERC allocation to WSC KY from the parent company. At the time, the ERC for 345101 was 785. The total amount of ERCs in March 2008 was 292,695.60. Therefore the % for 345101 is $785/292695.60 = .27\%$.

The total amount of Other Office Expenses for the parent company, WSC business unit 102101.5825, from Jan 1, 2008 thru March 31, 2008 was \$1,189.51. Please refer to the corresponding GL provided for this account from the parent company, WSC. Using 345101's ERC %, we allocate .27% of the \$1,189.51 to that particular subdivision which is $\$1,189.51 \times .27\% = \3.19 , thus matching the amount mentioned above.

The parent company invoices allocated to WSC KY have been provided. Any outstanding invoices will be provided as soon as possible once they have become available.

102) With regard to Water Service Corporation of Kentucky's Response to the PSC's 3 April 2009 Order, Item 9, how does WSCK identify specific cash disbursements made on behalf of WSCK?

RESPONSE:

Witness: Brian Shrake

For an invoice to be processed it should either have the appropriate business unit coded on the invoice by the purchaser or regional manager, or a purchase order with the appropriate business unit which is prepared by the purchaser attached. Please see the attached flow chart describing UI's procurement policies.

103) With regard to Water Service Corporation of Kentucky's Response to the PSC's 3 April 2009 Order, Item 24, is it WSKY's representation that WSKY's portion of federal tax liability is lower than it would otherwise be if WSKY filed a separate, "stand-alone" tax return?

RESPONSE:

Witness: Lena Georgiev

Yes, it is the Company's representation that WSKY's portion of the federal tax liability is lower during the current tax treatment.

104) With regard to Water Service Corporation of Kentucky's billing of its customers, for each WSKC customer dispute of a bill for the period running from the beginning of the test period to date, provide a schedule that identifies the date of the commencement of the dispute, the nature of the dispute, the date of the resolution of the dispute, and a description of the resolution.

RESPONSE:

Witness: Martin Lashua

NAME	DATE OF DISPUTE
Concrete Products	6-19-2007
High Bill Complaint: Customer had a leak and requested an adjustment. WSKC policy does not provide adjustments for customer leaks; Customer was allowed to pay the high bill over a period of 6 months without interest. Arrangement made 6/19/07.	
Larry McCullough	8-27-2008
High Bill Complaint: Read correct, no indication of a leak. Meter tested and found to be accurate. Customer notified of results 8/27/08.	
Pauline Turner	9-29-2008
High Bill Complaint: Read correct, dye test indicated customer had leak in toilet. Meter tested and found to be accurate. Customer onsite for testing and results 9/29/08.	
Kountry Café	9-10-2008
Misc Bill Complaint: Customer received 3 bills in one month. Customer's first two bills on our new billing system billed without WW charges. Customer was sent corrected bills and current bill in same month on 9/2/08.	

It should be noted that we have other minor concerns and issues that are addressed and resolved immediately during a call and are of such nature that they are not recorded. The above are the few that have not been resolved immediately upon speaking with a customer service rep.

105) In their 10 October 2005 Response to Question 3 of the first data request of Commission Staff in Ky PSC Case No. 2005-00323, the Joint Applicants discuss the relationship between Highstar II and the AIG Global Investment Group. With regard to the response, please answer the following:

- a. Does AIG Global Investment Group (AIGGIG) still sponsor Highstar II. If not, then please indicate the date that the sponsorship ended and the reasons for the termination of the sponsorship.

RESPONSE:

Witness: Lena Georgiev

There is no change in the sponsorship.

- b. Does AIGGIG, through its affiliates, still have an obligation to commit not less than 10% of the aggregate capital commitments of the Fund? If no, then please indicate the date that the obligation ended and the reason for the termination of the obligation.

RESPONSE:

Witness: Lena Georgiev

The obligation has not changed. However, Highstar II is fully funded and committed. Therefore no further capital commitments are required.

- c. In the case of Highstar, does AIGGIG's total limited partner still commit approximately 12.5%? If not, then please identify the amount.

RESPONSE:

Witness: Lena Georgiev

Please see response to 105b.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

MAY 15 2009

PUBLIC SERVICE
COMMISSION

In the Matter of:

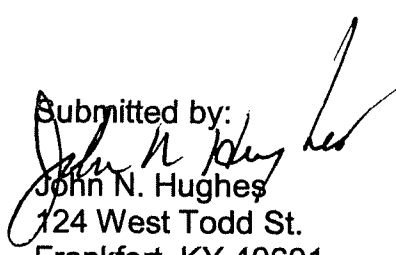
Application of Kentucky Water
Service Corporation of Kentucky
For an Adjustment of Rates

)
) Case No. 2008-00563
)

RESPONSES TO PSC ORDER OF MAY 1, 2009

Water Service Corporation of Kentucky, by counsel, submits its responses to the Commission's order of May 1, 2009. Because of the voluminous nature of many of the responses, the attachments are provided only on the attached disk.

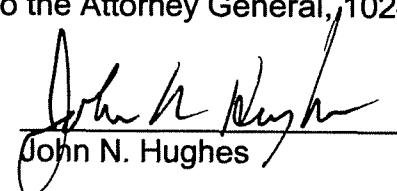
Submitted by:


John N. Hughes
124 West Todd St.
Frankfort, KY 40601

Attorney for Water Service
Corporation of Kentucky

Certificate of Service:

A copy of this response was delivered to the Attorney General, 1024 Capital Canter Drive, the 15th day of May, 2009.


John N. Hughes

AFFIDAVIT

Affiant, Lena Georgiev, after being first sworn, deposes and says that she is authorized to submit this Response on behalf of Water Service Corporation of KY, and that the information contained in the Response is true and accurate to the best of her knowledge, information and belief, after a reasonable inquiry, and as to those matters that are based on information provided to her, she believes to be true and correct.

LG

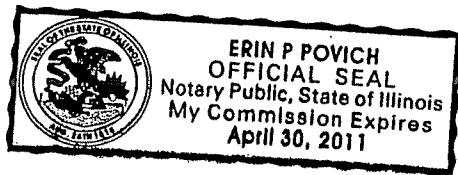
Lena Georgiev

This instrument was produced, signed, acknowledged and declared by Lena Georgiev to be her act and deed the 12 day of May, 2009.

Erin P. Povich

Notary Public

My Commission expires: April 30, 2011



**Water Service Corporation
of Kentucky
Case No. 2008-00563**

**RESPONSES TO PUBLIC SERVICE
COMMISSION'S
SECOND DATA REQUEST**

MAY 15, 2008

1. At page 4 of her direct testimony, Lena Georgiev refers to statistics compiled by the United States Department of Labor Bureau and Labor Statistics that state the cost of water and sewer maintenance has increased by approximately 3.514 percent per year since Water Service's last rate case. Provide a copy of the referenced Department of Labor study. Explain in detail how an adjustment based upon this statistic would meet the rate-making criteria of known and measurable.

RESPONSE:

Witness: Lena Georgiev

Please see response for item 4.

2. Refer to Distribution of Expenses 4th Quarter Ended December 31 2007, SE60 at 17.

a. Provide a breakdown of travel and lodging expenses, identify the person the expenses were paid for, the amounts, who received the payments, and the amounts actually spent in Kentucky.

Response:

Witness: Lowell Yap

Please see the provided general ledgers for the 4th Quarter Ended December 31, 2007 for the parent company, WSC. We have also attached the invoices corresponding to the travel and lodging expenses from WSC parent. Please refer to DR 1 Item 3 Response 3.s regarding the allocation from parent to WSC KY. Please refer to DR 1 item 8 for the 4th quarter 2007 g/l for WSC of KY where the allocated amounts from WSC parent are located.

b.State whether the Bank Service Charges allocated to Kentucky are charges assessed by local Clinton and Middlesboro banks. Provide a breakdown of the total of \$66,654.

Response:

Witness: Lowell Yap

These amounts are allocated from the parent company to WSC KY. Please refer to DR 1 Item 3 Response 3.s regarding the allocation from parent to WSC KY.

Please refer to the attached schedule showing the detailed monthly calculation totaling \$206,794.

12 mos. Bank Serv Charges: 206,794

09 mos. Bank Serv Charges: 140,141

Total Bank Serv Charges: 66,654

The \$66,654 is just the difference between the 12 months bank service charges calculations (attachment) and the 9 months of bank service charges (see beginning balance of the attached g/l. It simply represents the 4th quarter SE 5 calculations for all WSC bank service charges which are allocated to each subdivision.

c.Reference page 18 SE60. Provide a detail of the Intercompany interest and explain how the portion of this expense allocated to Kentucky's operations benefited Kentucky rate payers.

2.c RESPONSE:

Witness: Lena Georgiev

Intercompany interest expense is allocated to each UI company based on the rate base ratio of the particular UI company divided by total UI rate base. However, for rate making purposes interest expense is re-calculated. The starting point of interest expense on schedule B.I.S. in the amount of \$217,564 is recalculated based on the cap structure work paper provided in PSC DR 1 item 3. The total interest expense for WSC KY is calculated as follows:

Total adjusted rate base in the amount of \$6,139,342 is multiplied times the UI debt ratio at 6/30/08 of 53.03% times the UI embedded cost of debt at 6/30/08 of 6.58% to obtain a

recalculated interest expense in the amount of \$214,217. The beginning per books interest expense is a moot point since the UI debt/equity ratio and interest expense change over different time frames. None of the wholly owned subsidiaries of WSC of KY carry debt but debt for WSC of KY is calculated based on the UI (parent) capital structure.

WSC of KY customers benefit from the economies of scale created by the UI umbrella of all services including the provision for capital based on the UI capital structure. If WSC of KY was a stand-alone company, it would have to obtain capital through bank loans or other financial instruments. Obtaining capital on a stand-alone basis would be more costly for WSC of KY. With increasingly more stringent health and environmental standards, ready access to capital will prove vital to continued quality service in the water and sewer utility business.

3. Refer to Exhibit 4 of the Application. Schedule C, Rate Base.

a. The first column is the restated operations. Provide a revised Rate Base Schedule that includes columns for the actual test-period operations and the restatement adjustments.

b. For each restatement adjustment shown, provide the allocation factor that was used and the calculation of the restatement adjustment.

RESPONSE:

Witness: Lena Georgiev

Please see attached CD.

4. At page six of her direct testimony, Ms. Georgiev states that expenses were adjusted by 3.514 percent to account for the increase in the consumer price index. 807 KAR 5:001, Section 10(7), provides that that “[u]pon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period,” Explain how an inflationary expense adjustment based upon a consumer price index is a known and measurable change.

RESPONSE:

Witness: Lena Georgiev

WSCK considers changes in the purchasing power of the dollar measured by the Consumer Price Index is a reasonable estimate of changes in the cost of providing service to its customers. The cost of operating its water systems has risen each year for at least the past four fiscal years; the cumulative increase from the start of fiscal year 2006 through the mid of fiscal year 2008 has been over 9%. Enclosed please find the source document for this calculation on page 11.

It is reasonable for WSCK to use such a general, publicly-available measure as the Index because its expenses, employees and customers are subject to the purchasing power fluctuations measured by the CPI, which affects the cost of providing water service. Furthermore, the increases in CPI reflect broad trends in prices, which affect WSCK's costs.

It is not practicable for a water system the size of WSCK to prepare a cost-of-service study every few years assess increased costs to its water operations. The use of this index provides a uniformly calculated, standardized measure of a number of costs directly affecting the company's operations. Because of its widely accepted use, it can be considered a “known and measurable” change in the cost of goods from year to year.

5. At page 10 of her direct testimony, Ms. Georgiev states the filing also includes \$36,282.69 for organizational costs in utility plant in service that was not booked at the time of acquisition. State the purpose of the organizational costs, explain why these costs were not booked at the time of the acquisition and why the organizational costs should be included Water Service's rate base.

RESPONSE:

Witness: Lena Georgiev

Intercompany interest expense is allocated to each UI company based on the rate base ratio of the particular UI company divided by total UI rate base. However, for rate making purposes interest expense is re-calculated. The starting point of interest expense on schedule B.I.S. in the amount of \$217,564 is recalculated based on the cap structure work paper provided in PSC DR 1 item 3. The total interest expense for WSC KY is calculated as follows:

Total adjusted rate base in the amount of \$6,139,342 is multiplied times the UI debt ratio at 6/30/08 of 53.03% times the UI embedded cost of debt at 6/30/08 of 6.58% to obtain a recalculated interest expense in the amount of \$214,217. The beginning per books interest expense is a mute point since the UI debt/equity ratio and interest expense change over different time frames. None of the wholly owned subsidiaries of WSC of KY carry debt but debt for WSC of KY is calculated based on the UI (parent) capital structure.

WSC of KY customers benefit from the economies of scale created by the UI umbrella of all services including the provision for capital based on the UI capital structure. If WSC of KY was a stand-alone company, it would have to obtain capital through bank loans or other financial instruments. Obtaining capital on a stand-alone basis would be more costly for WSC of KY. With increasingly more stringent health and environmental standards, ready access to capital will prove vital to continued quality service in the water and sewer utility business.

6. At page 9 of her direct testimony, Ms. Georgiev states that Accumulated Depreciation, Contributions In Aid of Construction, and 'AIAC' have been restated to reflect a 2 percent depreciation rate from the date the assets were placed in service. State the effect of Water Service's proposed adjustments on deferred income taxes. State all assumptions, show all calculations, and provide all work papers used to determine These effects.

RESPONSE:

Witness: Lena Georgiev

No calculation is made, therefore there are no work-papers to provide.

7. At page 7 of her direct testimony, Ms. Georgiev lists pro forma adjustments to the rate base. These adjustments include: an adjustment for CC&B closed out after the test-year but before the filing of the rate case, and plant additions for July 2008 to November 2008 prorated to March 2009. The Commission has stated that adjustments for post test-period additions to plant in service should not be requested unless all revenues, expenses, rate base, and capital have been updated to the same period as plant additions.

a.State whether Water Service's application complies with this requirement.

b.Identify each adjustment that Water Service proposes to its revenues, expenses, rate base, and capital that follows this post test-period requirement.

RESPONSE:

Witness: Lena Georgiev

a.Yes, the Company complies with this requirement. CC&B is the billing portion of the new computer system that was placed in service in all UI subdivisions. It is not a post test year item. The accounting department booked the CC&B cost (rolled it over to fixed assets) at a post – test year date, 7/31/08. The CC&B cost was known and measurable at the time of the test year period 6/30/08. The billing system was also fully in service as of 6/30/08. Due to final invoice delays from the consultants, the transfer of the total CC&B cost from CWIP to fixed assets occurred one month after the test year ending date. At the time of rate case preparation, the cost was known and measurable. The pro-forma project (Install Security Camera) falls in the same category. The project was in service as of 6/30/08 but the final costs did not come in until September of 2008 when the project was transferred to fixed assets. At the time of filing the total cost of the already in-service project was known and measurable. Finally, the g/l additions prorated to March of 2009 when the actual filing occurred are also known and measurable. In the filing the Company included \$83,743 estimated g/l additions. In PSC DR 1 item 7 the Company provided a revised g/l additions summary from July 2008 to March 2009 (filing date) which amount to \$83,830. The g/l additions estimate at the time of filing preparation was accurate to account for everyday known and measurable g/l additions that occurred from the end of the test year until the filing was actually filed.

b.Every adjustment in the filing follows this requirement. Every rate base and expense adjustment is based on known and measurable factors from the time of the preparation of the filing until the filing date. All adjustments have been made on the BIS and CRB schedules.

8.807 KAR 5:001, Section 10(1), provides that all applications for a general rate adjustment shall be supported by either a 12-month historical test period which may include adjustments for known and measurable changes or a fully forecasted test period. Given that Water Service had the option to file a forecasted test period, explain why adjustments to reflect estimated post test-period plant additions and inflationary expense adjustments should be allowed in a rate case with an historical test year.

RESPONSE:

Witness: Lena Georgiev

The post test year plant additions are now in service and are known, measurable adjustments. The proximity of the completion of the projects to the test year made them more appropriate for inclusion in this historical case, than in a future test year case.

The inflationary expense adjustment is also a known and measurable component of the company's expenses. The CPI provides a uniform, standardized benchmark, which reflects changes in the costs of goods directly applicable to the utility's operations. It is a reliable substitute for a cost study and allows recovery of expenses that directly impact the operations of the company.

9. Please provide a copy of the Deloitte case presentation referred to at page 5 of John D. Williams' Direct Testimony.

Response:

Witness: Lowell Yap

Please see Attorney General Data Request Item 22 regarding a copy of the Deloitte case presentations referred to at page 5 of John D. Williams' Direct Testimony.

10. Exhibit 17, the balance sheet for June 30, 2008, is not legible. Provide a legible Balance Sheet.

Response:

Witness: Lowell Yap

Please find the attached balance sheet for June 30, 2008 included in the CD.

11.Explain if 100 percent of the security camera referenced in Exhibit 19 is a Kentucky project.

Response:

Witness: Lowell Yap

Yes, 100 percent of the security camera referenced in Exhibit 19 is a Kentucky Project

12.State the number of employees Water Service has at its Clinton, Kentucky operation.

Response:

Witness: Lowell Yap

The number of employees Water Service has at it's Clinton, Kentucky operation is 3 operators. James Leonard shares his time between Clinton and Middlesboro.

There are five office employees who share their time with Clinton and Middlesboro and the rest of the Atlantic region operations.

13.State the number of employees Water Service has at its Middlesboro, Kentucky operation.

Response:

Witness: Lowell Yap

The number of employees Water Service has at it's Middlesboro, Kentucky is 8 operators. Martin Scanlon shares his time between Middlesboro and other Atlantic Region operations.

There are three office employees at it's Middlesboro, Kentucky operations and four supervisory employees who also share their time with the rest of the Atlantic Region operations.

14. On Exhibit 4, at wp(e), Water Service lists real estate tax of \$40,970.

a. Is this the tax on Kentucky real estate?

b. If not, how much is the actual tax on Kentucky real estate?

c. List all other properties whose tax is included in the \$40,970.

d. Provide property tax statements to support the real estate tax of \$40,970.

Response:

Witness: Lowell Yap

a. Yes, this is the tax on Kentucky real estate.

b. Please see the response to a.

c. Please refer to the response in d below.

d. Please refer to the attached corresponding invoices.

Total of \$40,970

345100.7555	\$31,293
-------------	----------

345101.7555	\$91
-------------	------

345102.7555	\$8,908
-------------	---------

345103.7555	\$78
-------------	------

345104.7555	\$683
-------------	-------

Exp Reallocation WP	-\$82
---------------------	-------

Total	\$40,970
-------	----------

15. In its Response to the Commission Order of April 3, 2009, item 13, Water Service states that it has no debt and that all debt is carried at the parent company level.

a. Provide the requested information during the test-year for the parent company.

RESPONSE:

Witness: Lena Georgiev

The debt on the UI books as is \$180,000,000 as of 6/30/08. The interest percentage is 6.58% and enclosed is support for the \$11,844,000 yearly interest expense calculation and how that figure is allocated amongst the different UI subdivisions. The debt note is provided in 15b.

b. Provide a description of the borrowed funds and the amount directly used at the Kentucky operations.

RESPONSE:

Witness: Lena Georgiev

Please see attached CD.

Water Service Corporation of Kentucky
Case No. 2008-00563
Second data request

16. At Sheet 9-10 of its proposed tariff, Water Service lists the service connection fee for a less than 1-inch connection as \$1,434. On its Notice of the proposed rate adjustment, Water Service lists a Tap/Connection Fee of \$1,434 for connections "Less than or equal to 1 inch connection." Explain why these statements differ. State the correct fees to be charged for the appropriate meter size connection. Refer to the application. Exhibit 2, proposed tariff, Sheet 9-10, Section 2(b), Applications for Water Service, tap fee section.

Witness: Martin Lashua

Response: We apologize for the inadvertent and unintentional discrepancies and confusion in this regard. The Tap/Connection Fee should be "**Less than or equal to 1 inch connection**" in all locations and consistent with the public notice.

Please see attached revised New Connection Expense Cost Justification form for the Tap/Connection Fee.

**AVERAGE METER NEW CONNECTION EXPENSE
COST JUSTIFICATION**

Name of Utility Water Service Corporation of KY Case 2008-00563

The following is an itemization of expenses for providing a metered service connection.

A. Meter Size

5/8-Inch 3/4-Inch 1-Inch 1 1/2 -Inch 2-Inch

Other (specify) _____

B. Materials Expense

		<u>Unit Quantity</u>	<u>Cost</u>	<u>Total Cost</u>
1.	Water Meter	1	50.00	50.00
2.	Meter Yoke	1	78.00	78.00
3.	Corporation Stop	1	14.00	14.00
4.	Meter Box and Top	1	40.00	40.00
5.	Miscellaneous Fittings	1	12.00	12.00
6.	Other (Itemize)			
	_____	_____	_____	_____
	_____	_____	_____	_____
	_____	_____	_____	_____
	TOTAL MATERIALS EXPENSE			<u>\$ 194.00</u>
	(add total cost)			

C. Service Pipe Expense

Type of Service Pipe (**Copper**) Size of Service Pipe(**3/4" or 1" as needed**)

		<u>Unit Quantity</u>	<u>Cost</u>	<u>Total Cost</u>
1.	Short Side Service	20 ft.	\$3.25	65.00
2.	Long Side Service	50 ft.	\$3.25	162.50
				227.50
	AVERAGE SERVICE PIPE EXPENSE (add total cost and divide by 2)			<u>\$ 113.75</u>

D. Installation Labor Expense

		<u>Total Hours</u>	<u>Hourly Rate</u>	<u>Total Cost</u>
1.	Short Side Service <u>2</u> Men*	3	50.00*	150.00
2.	Long Side Service <u>2</u> Men*	5	50.00*	250.00
				400.00
	AVERAGE INSTALLATION LABOR EXPENSE (add total cost and divide by 2)			<u>\$ 200.00</u>

E. Installation Equipment Expense

		<u>Total Hours</u>	<u>Hourly Rate</u>	<u>Total Cost</u>
1.	Short Side Service <u>2</u> Vehicles*	3	100.00*	300.00
2.	Long Side Service <u>2</u> Vehicles*	4	100.00*	400.00
				700.00
	AVERAGE INSTALLATION EQUIPMENT EXPENSE (add total cost and divide by 2)			<u>\$ 350.00</u>

F. Installation Miscellaneous Expense

	<u>Total Hours</u>	<u>Hourly Rate</u>	<u>Total Cost</u>
1. Inspection	0.5	25.00	12.50
2. Site Clean-Up	2	25.00	50.00
3. Other			
<u>Dense Grade</u>			61.75
<u>Concrete</u>			225.00
<u>Asphalt</u>			200.00
AVERAGE INSTALLATION MISCELLANEOUS EXPENSE (add total cost)			<u>\$549.25</u>

G. Overhead Expense

1. Installation expense (\$ _____) times
overhead rate (____%) \$0

H. Administrative Expense

1. Office expense for establishing a new account
and billing record. \$27.00

I. Total Expenses

Materials Expense	\$ 194.00
Service Pipe Expense	\$113.75
Installation Labor Expense	\$200.00
Installation Equipment Expense	\$350.00
Installation Miscellaneous Expense	\$549.25
Overhead Expense	\$ 0.00
Administrative Expense	\$27.00

TOTAL CONNECTION EXPENSE \$ 1,434.00

17. Refer to Water Service's Response to the Commission Order of April 3, 2009, item 28. In this response, Water Service states: "[T]he Meter Fee was inadvertently included in the public notice. It is not being requested in this case." Explain why a cost justification page was filed for this charge if the increased fee is not being requested.

RESPONSE:

Witness: John Williams

The information was included as part of the response to the information requested by the Commission. The fee is not being requested as part of this application.

18. Refer to the Direct Testimony of Pauline M. Ahern (“Ahern Testimony”). Provide all Schedules in Microsoft Excel 1997-2003 format with all formulas intact and unprotected.

RESPONSE: Witness – Pauline M. Ahern.

The requested electronic schedules can be found in the attached Electronic Exhibit WSCoK.xls file.

11/21/2008

3 Standard Deviations

TICKER SYMBOL	COMPANY	ADJUSTED BETA	UNADJ. BETA	RESIDUAL STD ERR	STD. DEV. OF BETA	STD. DEV. OF Y	R FACTOR
Proxy Group of Seven AUS Utility Reports Companies							
AWR	Amer. States Water	0.95	0.91	2.9959	0.1098	3.3663	0.4594
WTR	Aqua America	1.00	0.98	2.4542	0.0900	2.9640	0.5631
CWT	California Water	1.10	1.08	3.3886	0.1242	3.8508	0.4782
MSEX	Middlesex Water	0.90	0.81	2.6984	0.0989	3.0246	0.4551
SJW	SJW Corp.	1.15	1.21	3.9420	0.1445	4.4390	0.4631
SWWC	Southwest Water	1.00	0.94	3.7467	0.1373	4.0643	0.3917
YORW	York Water Co	0.50	0.23	3.0499	0.1118	3.0694	0.1283
	Average	<u>0.94</u>	<u>0.88</u>	<u>3.1822</u>	<u>0.1166</u>	<u>3.5398</u>	<u>0.4198</u>
	Beta Range (+/- 3 std. Devs. of Beta)	0.53	1.23				
	3 std. Devs. of Beta	0.35					
	Residual Std. Err. Range (+/- 3 std. Devs. of the Residual Std. Err.)	2.7628	3.6017				
	Std. dev. of the Res. Std. Err.	0.1398					
	3 std. devs. of the Res. Std. Err.	0.4195					

TICKER SYMBOL	COMPANY	ADJUSTED BETA	UNADJ. BETA	RESIDUAL STD ERR	STD. DEV. OF BETA	STD. DEV. OF Y	R FACTOR
Proxy Group of Ten AUS Utility Reports Companies							
ATG	AGL Resources	0.85	0.71	1.8025	0.0661	2.1642	0.5559
DGAS	Delta Natural Gas	0.55	0.28	2.4409	0.0895	2.4830	0.1932
LG	Laclede Group	0.80	0.66	2.1323	0.0782	2.4017	0.4635
NJR	New Jersey Resources	0.80	0.62	1.8677	0.0685	2.1447	0.4946
GAS	Nicor Inc.	0.90	0.82	2.1047	0.0771	2.5189	0.5518
NWN	Northwest Nat. Gas	0.75	0.57	2.0621	0.0756	2.2713	0.4230
PNY	Piedmont Natural Gas	0.80	0.63	1.9058	0.0699	2.1833	0.4909
SJI	South Jersey Inds.	0.80	0.67	2.1214	0.0778	2.4007	0.4713
SWX	Southwest Gas	0.80	0.69	1.9964	0.0732	2.3149	0.5090
WGL	WGL Holdings Inc.	0.85	0.70	1.7735	0.0650	2.1318	0.5573
	Average	<u>0.79</u>	<u>0.64</u>	<u>2.0207</u>	<u>0.0741</u>	<u>2.3015</u>	<u>0.4711</u>
	Beta Range (+/- 3 std. Devs. of Beta)	0.41	0.86				
	3 std. Devs. of Beta	0.22					
	Residual Std. Err. Range (+/- 3 std. Devs. of the Residual Std. Err.)	1.7544	2.2871				
	Std. dev of the Res. Std. Err.	0.0888					
	3 std. devs. of the Res. Std. Err.	0.2664					

Source of Information: Value Line Inc., October, 2008

R2.

0.2110
0.3171
0.2287
0.2071
0.2145
0.1534
0.0165
0.1926

R2.

0.3090
0.0373
0.2148
0.2446
0.3045
0.1789
0.2410
0.2221
0.2591
0.3106
0.2322

Water Service Corporation of Kentucky
Comparable Earnings Analysis
for a Proxy Group of Thirty-Five Non-Utility Companies Comparable to the
Proxy Group of Ten AUS Utility Reports Natural Gas Distribution Companies (9)

Proxy Group of Thirty-Five Non-Utility Companies Comparable to the Proxy Group of Ten AUS Utility Reports Natural Gas Distribution Companies (9)	Adj Beta	Unadj Beta	Standard Error of the Regression	Standard Deviation of Beta	5-Year Projected Return on Book Common Equity, Net Worth or Partners' Capital(3)
Automatic Data Proc.	0.75	0.61	2.1859	0.0805	18.0 %
At&T Inc.	0.80	0.63	2.2551	0.0827	21.0
Allstate Corp.	0.90	0.84	2.1023	0.0771	15.5
Baird (C.R.)	0.65	0.45	2.2685	0.0831	23.5
Buckeye Partners L.P	0.75	0.56	2.2149	0.0812	15.0
Commerce Bancshs.	0.95	0.85	1.8554	0.0680	12.0
Campbell Soup	0.80	0.62	1.9161	0.0702	30.0
Chevron Corp.	0.90	0.84	2.1261	0.0779	21.5
Ecolab Inc.	0.90	0.79	1.9264	0.0706	19.5
Elite Indemnity Co.	0.70	0.48	1.8643	0.0683	22.0
Genl Dynamics	0.85	0.76	2.1002	0.0770	17.0
Genl Electric	0.85	0.76	2.1091	0.0773	18.0
Hormel Foods	0.70	0.54	2.2832	0.0837	16.0
Intl Flavors & Frag.	0.85	0.76	2.0680	0.0758	25.5
Kraft Foods	0.75	0.57	2.0898	0.0766	10.5
Kinder Morgan Energy	0.65	0.46	2.0568	0.0754	28.0
Lockheed Martin	0.80	0.64	2.1260	0.0779	30.0
Mercury General	0.90	0.82	2.2101	0.0810	12.5
3M Company	0.90	0.79	2.1897	0.0803	28.5
Northrop Grumman	0.80	0.63	1.8205	0.0704	12.5
Plains All Amer. Pipe.	0.75	0.59	2.2560	0.0827	10.0
Pitney Bowes	0.80	0.69	1.9316	0.0708	78.0
PartnersRe Ltd.	0.80	0.64	1.9580	0.0718	11.0
Everest Re Group Ltd.	0.85	0.85	2.2843	0.0837	13.0
Republic Services	0.85	0.74	2.0803	0.0763	25.0
Raytheon Co.	0.85	0.76	1.9244	0.0705	14.5
Sigma-Aldrich	0.85	0.70	2.0365	0.0746	19.5
Sara Lee Corp.	0.80	0.64	2.1562	0.0790	25.0
TEPCO Partners L.P	0.70	0.54	2.2388	0.0821	17.5
TransCanada Corp.	0.80	0.62	2.2706	0.0832	15.5
United Parcel Serv.	0.85	0.70	2.1869	0.0802	32.0
Waste Connections	0.85	0.71	2.1854	0.0801	11.0
Waste Management	0.80	0.83	2.0041	0.0735	20.0
Washington Post	0.75	0.61	2.1074	0.0772	7.5
Alleghany Corp.	0.70	0.54	2.2261	0.0816	6.0
Average	0.81	0.67	2.1064	0.0772	

Gas Distribution Companies

0.79

0.64

2.0207

0.0741

See page 13 for notes.

e of Return on Book Con

Proxy Group of Two Hundred Twenty-Nine Non-Utility Companies Comparable to the Proxy Group of Seven AUS Utility Reports Water Companies		VI. Adjusted Beta		Residual Standard Error of the Regression		Standard Deviation of Beta		2003	2004
Ticker	Company Name	Adj Beta	Unadj Beta	Resid Std Error	Std Dev Of Beta	2003	2004		
A	Agilent Technologies	1.1	1.15	3.5319	0.1295	NMF	9.8		
AAP	Advance Auto Parts	1.05	1.02	3.5257	0.1292	25.4	26.3		
ABI	Applied Biosystems	0.8	0.67	2.8002	0.1026	13	13.9		
ABM	ABM Industries Inc.	0.9	0.81	3.2908	0.1206	8.2	9.5		
ACE	ACE Limited	1.1	1.14	2.8575	0.1047	13.8	10		
ACL	Alcon Inc.	0.8	0.63	3.4382	0.126	37.1	39.8		
ACN	Accenture Ltd.	1	1	2.8097	0.103	62.7	46.9		
ACS	Affiliated Computer	0.95	0.89	3.1689	0.1162	12.6	13.9		
ADI	Analog Devices	0.85	0.76	3.3892	0.1242	9.1	15		
AES	AES Corp.	1.15	1.17	3.531	0.1294	52.1	27		
AF	Astoria Financial	1.15	1.19	3.2096	0.1176	14.1	16.7		
AGN	Allergan, Inc.	0.85	0.72	2.8943	0.1061	42.4	33.2		
AIN	Albany Intl A	1.05	1.07	2.8042	0.1028	11.6	9.8		
ALB	Albermarle Corp.	1.1	1.14	3.1438	0.1152	10.3	10.8		
AMT	Amer. Tower A	1.15	1.21	3.1227	0.1145	NMF	NMF		
AOC	Aon Corp.	0.9	0.83	3.5724	0.1309	14.6	11.2		
APA	Apache Corp.	1.05	1.07	3.5705	0.1309	19.1	20.4		
APC	Anadarko Petroleum	1.05	1.04	3.3364	0.1223	14.4	17.2		
ARB	Arbitron Inc.	0.75	0.6	3.1342	0.1149	NMF	NMF		
ARJ	Arch Chemicals	1.15	1.17	3.5715	0.1309	4.5	4.8		
ARW	Arrow Electronics	1.15	1.21	3.5252	0.1292	5	10.7		
AVB	AvalonBay Communities	1.15	1.23	2.8531	0.1046	3.8	3.6		
AZO	AutoZone Inc.	1.05	1	3.1792	0.1165	NMF	NMF		
BBBY	Bed Bath & Beyond	1	0.98	3.3183	0.1216	20.1	22.9		
BCO	Brinks (The) Co.	1.1	1.08	3.1718	0.1163	3.7	14.9		
BDK	Black & Decker	1.05	1.04	2.9714	0.1089	36.5	28.3		
BHI	Baker Hughes	1.05	1.04	3.5555	0.1303	9.9	13.6		
BIO	Bio-Rad Labs. A	0.9	0.78	3.4815	0.1276	17.3	13.1		

BLC	Belo Corp. A	1	0.96	3.2351	0.1186	8.1	9.7
BMC	BMC Software	1.05	1.05	3.5833	0.1313	5	6.5
BOBE	Bob Evans Farms	0.9	0.81	3.5626	0.1306	11.4	5.7
BRE	BRE Properties	1	0.99	2.9464	0.108	6	7
BRO	Brown & Brown	0.75	0.59	3.0463	0.1117	22.2	20.6
CA	CA, Inc.	1	0.99	3.1954	0.1171	1.6	4.1
CAE.TO	CAE Inc.	1	0.94	3.5987	0.1319	8.1	7.2
CAH	Cardinal Health	0.85	0.75	3.5734	0.131	18.6	19.6
CAM	Carderon Intl Corp.	1.1	1.07	3.536	0.1296	5.7	7.7
CASY	Caseys Genl Stores	1	0.94	3.5068	0.1285	8.3	9.1
CCE	Coca-Cola Enterprises	0.75	0.6	2.8912	0.106	15.5	11.1
CCI	Crown Castle Intl	1.15	1.17	3.5932	0.1317	NM/F	NM/F
CCU	Clear Channel	1.05	1.06	3.1845	0.1167	4.6	8.7
CHRW	C.H. Robinson	1.1	1.1	3.5322	0.1295	22.1	22.1
CLC	CLARCOR Inc.	1.1	1.12	3.3706	0.1235	14.7	14.9
CLI	Mack-Cali Rlty	1	0.97	3.0065	0.1102	9.3	6.4
CMCSK	Comcast Corp.	0.95	0.89	3.0907	0.1133	NM/F	2.3
CNA	CNA Finl	1.05	1.04	2.8324	0.1038	NM/F	6.5
CNMD	Commed Corp.	0.95	0.9	3.5362	0.1296	10.2	11.3
CNW	Con-way Inc.	1	0.96	3.5189	0.129	10.5	19.4
COKE	Coca-Cola Bottling	0.75	0.62	3.13	0.1147	58.5	33.9
COLM	Columbia Sportswear	1	0.95	3.2951	0.1208	18.7	17.8
COP	ConocoPhillips	1.1	1.08	2.8449	0.1043	13.4	19
CP	Can. Pacific Railway	1.1	1.14	2.8	0.1026	9	9.1
CPS	ChoicePoint Inc.	0.8	0.64	3.4781	0.1275	16.1	15
CRL	Charles River	0.75	0.56	3.1286	0.1147	17.3	6.5
CSC	Computer Sciences	1	0.98	3.2295	0.1184	9.7	7.6
CSCO	Cisco Systems	1.05	1.03	3.1772	0.1165	15.3	20.7
CSL	Carlisle Cos.	0.95	0.92	3.1044	0.1138	14.1	16.9
CSX	CSX Corp.	1.2	1.23	2.8078	0.1029	6.3	6.8
CVD	Covance Inc.	0.75	0.55	3.03	0.1111	13.5	15.4
CVS	CVS Caremark Corp.	0.7	0.53	2.8266	0.1036	14.1	13.1
CW	Curtiss-Wright	1.1	1.14	2.9405	0.1078	10.9	11.3
CXW	Corrections Corp. Amer.	0.9	0.84	3.0008	0.11	19.2	7.7
CYT	Cytec Inds.	1.15	1.22	2.9058	0.1065	12	13.2
DCI	Donaldson Co.	1.1	1.08	2.8349	0.1039	21.3	19.4

DELL	Dell Inc.	0.95	0.85	3.3562	0.123	42.1	51.2
DNEX	Dionex Corp.	1	0.93	3.1756	0.1164	19.7	22.6
DRE	Duke Realty Corp.	1.15	1.21	2.8884	0.1059	7.9	7.5
DTV	DIRECTV Group (The)	0.95	0.88	2.9708	0.1089	NMF	NMF
DVA	Davita Inc.	0.75	0.61	3.0385	0.1114	53.2	41.5
EL	Lauder (Estee)	0.8	0.66	2.9939	0.1097	18.7	21.7
EMN	Eastman Chemical	1.1	1.12	2.9433	0.1079	7.2	16.5
ENR	Energizer Holdings	0.8	0.66	3.3105	0.1213	21	45.5
EQR	Equity Residential	1.15	1.17	2.9036	0.1064	4.6	2.9
FDS	FactSet Research	1.1	1.1	3.596	0.1318	23.6	35.3
FII	Federated Investors	1.05	1.07	2.8251	0.1035	51.7	43.4
FLO	Flowers Foods	0.95	0.86	3.1667	0.1161	9.1	9.5
FMC	FMC Corp.	1.15	1.22	3.1528	0.1156	11.5	15.4
FMER	FirstMerit Corp.	1.15	1.16	3.3748	0.1237	12.3	10.5
FRT	Federal Rlty. Inv. Trust	1.15	1.21	2.9075	0.1066	10.8	12.5
GKSR	G&K Services 'A	0.75	0.58	2.8546	0.1046	8.9	8.3
GLAD	Gladstone Capital	0.9	0.84	3.0864	0.1131	8.6	8.7
GLT	Glatfelter	1.15	1.15	3.3563	0.123	2.9	3.2
GPN	Global Payments	0.95	0.89	3.4804	0.1276	14.5	13.9
GR	Goodrich Corp.	1.05	1.07	3.4253	0.1255	3.2	12.8
GWV	Granger (W.W.)	1.05	1.05	2.8458	0.1043	12.3	13.4
GY	GenCorp Inc.	1.05	1.07	3.3474	0.1227	5.1	NMF
HAE	Haemonetics Corp.	0.8	0.63	3.2931	0.1207	10.5	11.2
HAIN	Hain Celestial Group	0.85	0.71	3.4066	0.1249	6.2	5.4
HAS	Hasbro, Inc.	0.95	0.86	3.0093	0.1103	15.3	13.3
HBHC	Hancock Holding	1.1	1.12	3.5515	0.1302	12.6	12.5
HCP	HCP Inc.	1	0.97	3.12	0.1144	10.8	11.1
HEW	Hewitt Associates A	0.8	0.67	3.2466	0.119	17.1	15.4
HHS	Harte-Hanks	0.95	0.91	3.1238	0.1145	15.7	17.1
HOG	Harley-Davidson	1.1	1.08	3.1892	0.1169	25.7	27.6
HPC	Hercules Inc.	1.15	1.16	3.4257	0.1256	112.1	94
HPQ	Hewlett-Packard	1.05	1.05	2.9856	0.1094	9.4	10.8
HPT	Hospitality Properties	1	0.99	2.8447	0.1043	7	7.5
HR	Healthcare Rlty Trust	1	0.98	3.2166	0.1179	7.7	5
HRB	Block (H&R)	1	0.97	3.2288	0.1183	37.1	32.2
HTLD	Hearland Express	1.1	1.09	3.5873	0.1315	15.6	16

IAF	Aberdeen Australia Fd.	1.05	1.05	2.9578	0.1084				
IART	Integra LifeSciences	0.75	0.59	3.4608	0.1268	10	5.6		
IDXX	IDEXX Labs.	0.8	0.64	3.0704	0.1125	14.9	18.8		
IM	Ingram Micro A	1	0.94	3.5902	0.1316	6.6	7.2		
IMO	Imperial Oil Ltd.	1.1	1.08	3.398	0.1245	29.1	32.5		
INTU	Intuit Inc.	0.95	0.89	3.0882	0.1132	15	17.4		
IPG	Interpublic Group	1.05	1.06	3.4034	0.1247	NMF	NMF		
IRM	Iron Mountain	1.05	1.02	3.2191	0.118	7.9	7.7		
JRN	Journal Communications	0.95	0.89	3.301	0.122	14.4	16		
KELYA	Kelly Services A	1.05	1.01	3.0352	0.1112	0.8	3.4		
KWR	Quaker Chemical	1.15	1.19	3.4919	0.128	13.2	7.6		
LECO	Lincoln Elec Hldgs.	1.15	1.21	2.8586	0.1048	11.7	14.8		
LEG	Leggett & Platt	1	0.98	3.5079	0.1286	9.7	12.3		
LLTC	Linear Technology	0.85	0.71	3.0999	0.1136	13	18.1		
LOW	Lowes Cos.	1.05	1.05	3.1553	0.1157	18.1	18.9		
LRV	Liberty Property	1.1	1.12	2.9045	0.1065	10.6	10.1		
LUV	Southwest Airlines	0.9	0.8	3.0446	0.1116	5.9	5.7		
MAN	Manpower Inc.	1.15	1.22	3.2373	0.1187	10.5	11.3		
MAR	Marriott Intl	1.15	1.19	2.9212	0.1071	11.6	14.6		
MAS	Masco Corp.	1.2	1.23	2.8798	0.1056	15.7	19.8		
MAT	Mattel, Inc.	0.9	0.82	3.2654	0.1197	24.9	21.3		
MATW	Matthews Intl	1.05	1	3.0053	0.1102	17.5	18		
MCK	Mckesson Corp.	0.85	0.72	3.2251	0.1182	12.5	12.4		
MGA	Magna Intl A	1.05	1.07	2.8224	0.1035	12.9	13.2		
MHK	Mohawk Inds.	1.1	1.14	2.8349	0.1039	13.5	13.8		
MHP	McGraw-Hill	1.05	1	2.8087	0.1029	24.6	24.7		
MIC	Macquarie Infrastructure	0.95	0.86	3.3806	0.1386	NMF	NMF		
MMS	MAXIMUS Inc.	0.85	0.74	3.359	0.1231	10.6	10.4		
MOLX	Molex Inc.	1.05	1.05	3.0894	0.1132	6	8.5		
MTB	M&T Bank Corp.	1.15	1.22	3.0677	0.1124	10.7	12.6		
MTN	Vail Resorts	1.05	1.02	3.5744	0.131	NMF	6.5		
MXGL	Max Capital Group	0.85	0.71	2.9209	0.1071	15	14.3		
NATI	National Instruments	1.05	1.04	3.5139	0.1288	7.6	10		
NBL	Noble Energy	1.15	1.17	3.4177	0.1283	13.1	22.4		
NPK	National Presto Ind.	0.9	0.78	3.2429	0.1189	6.3	6		
NSC	Norfolk Southern	1.1	1.13	3.404	0.1248	7.6	10.9		

NYB	New York Community	1.05	1.06	3.2105	0.1177	11.3	11.1
NYT	New York Times	0.95	0.85	2.8583	0.1048	21.5	20.9
O	Realty Income Corp.	1.05	1	2.939	0.1077	9.6	9.2
OMI	Owens & Minor	0.8	0.69	3.2352	0.1186	13.1	13.1
ONB	Old Natl Bancorp	1.1	1.12	3.4757	0.1274	9.8	9.6
ORCL	Oracle Corp.	1	0.98	3.1498	0.1155	36.5	33.5
ORI	Old Republic	1.15	1.19	2.8458	0.1043	12.6	10.5
ORLY	O'Reilly Automotive	1.05	1.02	3.2083	0.1176	12.8	12.4
OXY	Occidental Petroleum	1.15	1.21	3.1585	0.1158	20.3	25.4
PAYX	Paychex, Inc.	0.9	0.79	2.8044	0.1028	27.2	25.2
PBCT	Peoples United Finl	1	1	3.1737	0.1163	6.4	7.8
PDCO	Patterson Cos.	0.8	0.64	3.4949	0.1281	18.6	18.1
PDX	Pediatric Medical	0.9	0.83	3.1256	0.1146	14.7	17.1
PEI	Penn. R.E.I.T.	1.1	1.15	3.4658	0.127	2.8	4.8
PKI	PerkinElmer Inc.	1.05	1.03	3.2589	0.1194	4.1	6.7
PLL	Pall Corp.	1	0.97	2.8757	0.1054	15.4	14.4
PNC	PNC Financial Serv.	1.15	1.21	2.8825	0.1057	15.5	16
PSA	Public Storage	1.05	1.05	2.9446	0.1079	8	8.3
PTV	Pactiv Corp.	1.1	1.14	3.2099	0.1177	21.7	19.7
PVR	Penn Virginia Res.	0.95	0.87	3.3195	0.1217	14.8	22.9
PVX	Provident Energy	0.8	0.66	3.1483	0.1154	4.9	2.1
PZZA	Papa Johns Intl	0.9	0.8	3.2599	0.1195	23	28
R	Ryder System	1.15	1.16	3.464	0.127	10.1	12.7
RAH	Ralcorp Holdings	0.75	0.58	3.4856	0.1278	13	15
RAI	Reynolds American	0.85	0.73	2.935	0.1076	4.3	10.2
RDK	Ruddick Corp.	0.9	0.79	3.2068	0.1175	12.1	11.8
RGS	Regis Corp.	1.15	1.15	3.0321	0.1111	15.4	15.3
RHI	Robert Half Intl	1.15	1.21	3.5803	0.1312	0.8	15.4
RLI	RLI Corp.	0.9	0.83	2.7905	0.1023	10.6	10.3
RMD	ResMed Inc.	0.8	0.63	3.5712	0.1309	16	15.8
RNR	RenaissanceRe Hldgs.	0.85	0.71	3.05	0.1118	26.7	6.2
ROL	Rollins, Inc.	0.9	0.8	3.2344	0.1185	25.8	26.1
RX	IMS Health	0.95	0.89	2.7697	0.1015	8.1	14.5
SAF	Safeco Corp.	0.8	0.63	3.2552	0.1193	12.9	15.8
SBJX	Starbucks Corp.	1.05	1.03	3.1909	0.117	7.6	7.1
SCHL	Scholastic Corp.	0.95	0.88	3.3149	0.1215		

SCI	Service Corp. Intl	1.05	1.01	3.2996	0.1209	5.6	6.1
SCS	Steelcase, Inc. A	1.15	1.15	3.273	0.12	NMF	1
SEE	Sealed Air	0.95	0.9	2.9609	0.1085	21.4	16.2
SFD	Smithfield Foods	0.85	0.76	3.5594	0.1305	10.1	15.7
SHLM	Schulman (A.)	0.9	0.83	3.4308	0.1257	4.2	6.4
SHW	Sherwin-Williams	1.05	1.02	2.9068	0.1065	22.8	23.9
SIGI	Selective Ins. Group	1	0.93	3.149	0.1154	7.7	12.8
SJRB.TO	Shaw Commun. B	0.9	0.8	2.9987	0.1099	NMF	3.8
SLB	Schlumberger Ltd.	1.1	1.13	3.5744	0.131	15.5	20.2
SLGN	Silgan Holdings	1.1	1.14	3.0715	0.1126	48.5	40.1
SNA	Snap-on Inc.	1	0.94	2.9078	0.1066	7.8	7.4
SNF	Spain Fund	0.75	0.55	3.1795	0.1165		
SONC	Sonic Corp.	1.05	1.05	3.2233	0.1181	19.7	18.8
SPG	Simon Property Group	1.15	1.18	2.7962	0.1025	10.1	5.7
SPLS	Staples, Inc.	1.1	1.14	3.0354	0.1113	15.1	17.2
SRCL	Stericycle Inc.	0.85	0.71	3.417	0.1252	15.3	15.8
STE	STERIS Corp.	0.8	0.64	3.3951	0.1244	13.8	11.4
STZ	Constellation Brands	0.85	0.7	3.4379	0.126	11.2	11.3
SUP	Superior Inds. Intl	0.9	0.83	3.4139	0.1251	12.4	7.4
SVU	SUPERVALU INC.	0.75	0.59	3.4176	0.1253	13.1	13.3
SWY	Safeway Inc.	0.8	0.62	3.0988	0.1136	22	13
SXT	Sensient Techn.	0.95	0.88	2.8249	0.1035	11.1	13.5
SY	Sybase Inc.	0.9	0.84	3.2643	0.1196	10.5	8.7
SYK	Stryker Corp.	0.8	0.69	2.9021	0.1064	21	21.3
TECD	Tech Data	0.95	0.88	2.9574	0.1084	6.4	7.8
TECH	Techno Corp.	0.95	0.86	2.7642	0.1013	19.2	18.3
TEVA	Teva Pharmac. (ADR)	0.7	0.54	3.3353	0.1222	18.8	17.9
TFX	Teleflex Inc.	1.05	1.01	2.8047	0.1028	10.3	11.1
TGT	Target Corp.	1	0.93	2.9994	0.1099	16.6	14.5
THG	Hanover Insurance	1.15	1.18	2.8959	0.1061	4.5	6
TJX	TJX Companies	0.85	0.75	2.9889	0.1096	42.4	41.3
TRY	Tiarc Cos. A	1	0.94	3.5553	0.1303	NMF	0.5
TSS	Total System Svcs.	1.05	1.03	3.5042	0.1284	19.2	17.4
TWN	Taiwan Fund	1.15	1.18	2.9942	0.1097		
TXN	Texas Instruments	1	0.99	3.4685	0.1271	7.1	14.2
UNH	UnitedHealth Group	0.8	0.69	3.5983	0.1319	35.6	24.1

UNM	Unum Group	1.15	1.18	2.9821	0.1093	4.4	7.5
USB	U.S. Bancorp	1.1	1.11	2.777	0.1018	19.3	21.3
USTR	United Stationers	1.05	1.01	3.3845	0.1241	12.3	13.4
UVV	Universal Corp.	0.9	0.82	3.3719	0.1236	18.3	13.5
VARI	Varian Inc.	1.05	1.06	3.5386	0.1297	11.7	11.7
VVI	Viad Corp.	1	0.99	3.5564	0.1412	13.2	6.7
WDFC	WD-40 Co.	0.9	0.84	3.3154	0.1215	27.9	22.8
WERN	Werner Enterprises	1.05	1.06	3.5119	0.1287	10.4	11.3
WFSL	Washington Federal	1.1	1.13	3.0836	0.113	13.8	11.8
WHR	Whitpool Corp.	1.15	1.16	3.5423	0.1298	31.8	25.3
WMB	Williams Cos.	1.1	1.13	3.4151	0.1252	0.3	5.3
WPC	W.P. Carey & Co. LLC	0.85	0.72	2.7866	0.1021	10.5	11.2
WPI	Watson Pharmac.	0.85	0.7	3.3831	0.124	10	9.1
WRB	Berkley (W.R.)	1	1	2.8329	0.1038	17	19.5
WRE	Washington R.E.I.T.	1.05	1.06	2.8329	0.1015	11.9	11.2
WRI	Weingarten Realty	1.05	1.07	2.7689	0.1021	13.4	13.4
WTW	Weight Watchers	0.9	0.81	3.4559	0.1267	96.4	92.7
WWE	World Wrestling Ent.	0.8	0.67	3.2896	0.1206	14	10.1
XRX	Xerox Corp.	1.05	1.01	2.8017	0.1027	11.5	11
ZBRA	Zebra Techn. A	1.05	1.04	3.4401	0.1261	14.1	15.1
ZMH	Zimmer Holdings	0.85	0.71	3.2947	0.1208	9.3	15.2

Common Equity, Net Worth or Partners' Capital

	2005	2006	2007	5 Year Projection
	12.1	14.4	18.9	20
	25.5	22.4	23.6	20
	15.6	18.6	16.8	18
	9.6	8.9	8.2	13
	8.1	16.5	15.8	10.5
	44.6	46.1	48.5 (P)	37.5
	50	52.6	60.2	41.5
	14.3	14.6	12.2	14.5
	13.2	15.5	20.3	28
	38.2	22.8	18.8	14.5
	17.3	14.4	11.4	15
	30.4	14.4	15.4	14
	12.9	12	9.3	11
	11.8	19.2	18.2	19.5
	NMF	0.9	4.1	17
	12.1	12.2	10.9	11.5
	24.9	19.3	18.3	15.5
	22.3	18.7	23.1	15
	67.8	56.8	83.4	27.5
	10.9	10.5	11.8	13
	11.2	12	11.5	10
	4	6.8	6.3	9.5
	NMF	NMF	NMF	66.5
	25.3	23.1	22	18.5
	5.1	12.5	14.2	12.5
	35.7	41.8	27.3	24
	18.6	26	24	16.5
	11.7	11.4	10.4	13

8.3	9	8.3	10
16.5	20.6	31.5	19.5
6.8	8.2	10	13
8	7.4	7.3	7.5
19.7	18.5	17.4	13.5
3.3	3.2	13.5	12
12.9	15.6	17.4	22
15.5	15.6	18.7	17.5
10.7	17.2	22.4	22.5
12	10.6	13.1	12.5
9.1	NMF	12	12.5
NMF	NMF	NMF	8.5
7.2	8.6	8.8	10
26.1	28.3	31.1	24.5
15.8	15.4	16.3	13
5.9	4.6	4.5	6
2.7	5.4	5.5	9.5
2.8	11.2	10.4	10
9.2	6.4	7.9	9
24.4	29.3	18.7	16
30.5	24.7	16.5	18
17.6	14.8	14.9	13
20.3	19.5	16.9	19.5
12	12.9	12.3	12
16	20.9	41.4	18.5
6.4	7.8	8.5	10.5
9.2	11.1	12	10.5
24.8	23.3	23.3	23.5
18.3	18.8	16.4	16
9.7	11.6	14.1	17
16.3	15.7	15.8	15
14.1	13.5	8.4	12
11.8	10.6	11.4	12.5
8	10.1	10.8	11.5
11.4	10.6	10	11.5
21.1	24.2	24.1	21

92.6	58.2	78.9	31
24.9	19.3	24.4	28
5.4	6.1	5.8	6
4.1	21.3	22.8	25
24.4	21.3	19.7	15
25.6	25.7	37.4	37
30.1	20.5	20.3	25
63.2	NMF	47.3	20
2.5	1.8	1.8	2.5
26	22.2	26.8	27
36.8	36.1	37.9	28
12.3	13.3	14.5	15
17.9	21.2	24.3	23
13.9	11.2	13.4	13
10.8	12.1	8.6	12
8.4	7.6	7.3	8
11.4	11.2	10.1	11.1
4	6.3	7.4	10
16.5	16.5	15.1	15.5
16.6	17	19.2	19.5
14.7	16.9	20	19
NMF	NMF	NMF	27.5
11.8	10.5	11.5	14
6	6.5	6.8	9
13.8	15	25	22
11.3	15.9	13.8	12
11.6	NMF	4.3	6.5
11.1	NMF	NMF	25
20.4	22.7	22.7	19
31.1	37.8	39.3	33.5
NMF	56.5	35.5	22
12.7	15.1	18.9	24.5
7	6.9	8.2	6
4.1	4.5	2.6	6.5
24.6	26.5	46	39.5
16.6	17.6	22.2	15.5

12.8	9.9	12.9	15
21.5	21.4	23.3	24
10.1	9.1	8.1	9
37.8	41	39.1	39
22.1	25.4	24.9	23.5
NMF	1.6	6.8	12.5
8.3	8.3	8.5	12
12.6	11.6	8.8	7.5
5.8	7.6	6.8	9
6.4	9.7	12.2	17.5
17.4	20	18.6	17.5
12.3	12.5	2.4	14
21.6	20.4	NMF	72.5
19.3	19.7	17.4	11.5
8	8.2	6.9	11
7	9.2	6.8	9.5
12.1	13.3	16.8	14
22.8	27.4	48.7	21
18	20	15.4	20.5
23.1	22.6	26	25
17.9	16.6	16.1	16.5
12.5	14	16.7	14.5
11.3	9	9.8	10
12.6	12	9.3	8.5
26.3	33.7	64.4	26.5
2.7	5.8	NMF	9
8.9	0.6	4.9	20
9	11.6	10.4	10
13.3	13.4	10.1	10.5
5.2	7.1	8.6	11
0.5	15.6	19.4	14
12.2	12.2	16.2	18
20.4	20.9	19.2	13.5
7.2	10	13.1	15.5
12.5	15.4	15.1	13

8.8	6.3	6.7	12
15.4	20.5	14.2	16.5
9	6.7	8.3	9
13	10.2	11.8	12.5
12.1	12.4	11.5	13.5
32.7	28.3	31.3	28.5
11.5	10.4	5	9.5
13.9	13.1	12.2	11.5
26.4	22.7	19.3	21.5
26.6	28.1	26.4	39
9.7	9.3	3.4	7
16	15.1	22.4	16
16.1	11.4	15.4	14.5
5.1	3.2	2.3	6.5
8.4	9.1	9.8	11.5
12.4	12.3	12	17.5
15.5	14	9.9	12
9.5	3.8	5.2	6.5
17.7	26.8	19.9	15.5
23	18.4	15.2	20
6.9	7.3	5.3	14.5
25.7	32	39.3	20
14.9	14.3	13.5	12
13.8	15.4	18	9.5
15	16.1	18.1	17.5
11.3	10.8	11	11.5
13.6	11.4	10.4	10.5
24.5	27.2	30.1	26.5
14	14.5	21.5	11
13.7	12.5	11.6	14
NMF	24.3	17.6	10.5
29.8	27.3	27.7	26
NMF	19.9	18.9	10.5
15.8	26.1	29.4	25
23.7	6.5	5.2	7
6.9			

6.1	7.7	9.6	13.5
6.1	8.6	15.7	18.5
18.4	17.1	15.6	13.5
9.4	8.4	4.6	8
6.9	8.1	5.3	7.5
26.8	28.9	34.5	24.5
14	13	11.6	11.5
6.7	11.5	19.5	24
26.6	36	34.6	18.5
34.6	29.8	25.3	17
9.9	11.2	14.8	15
19.6	20.1	NMF	36
6.3	10.9	11.3	21
18.9	18.9	17.4	16
17.8	17.4	18	15
8.8	11.4	12.8	16
12.8	11.8	8	10
3.5	NMF	1.7	11.5
12.3	8.5	10	9
12.8	13.7	13.3	13.5
14.4	10.5	7.5	11
12.2	11.3	13.1	12
22.1	19.8	18.6	22.5
6.7	4.2	7.1	8.5
24.7	21.6	19.4	16.5
17.7	16.8	14.2	14
13.1	12.8	11.5	14.5
17	17.8	18.6	17.5
3.6	9.7	10.2	9
33.5	33.9	41.9	45.5
NMF	NMF	6.4	17
19.2	20.5	30.7	17
18.6	23.2	26.5	16
18.6	20	23.2	20

7	7.8	9.7	10.5
22.3	22.4	20.5	18.5
12.7	12.9	18.9	15
5.6	10.6	11.5	12.5
9.3	9.1	10.3	12.5
9.2	8.9	7.9	8.5
21.6	18.2	18.8	15.5
11.4	11.3	9.5	12.5
12.3	11.3	10.2	13.5
24.2	14.8	16.5	13.5
7.9	8.6	13.7	23
7.1	13.9	14.2	15
7.3	6.7	8.2	10.5
20.7	20.8	20.6	17
10.6	8.1	6.6	9.5
13	13.5	10.3	11.5
NMF	92.7	NMF	NMF
11.9	8.2	13.6	26
12.9	14.8	13.2	14.5
13.1	13	12.2	14
16.5	17	16.3	13.3

Rate of Return on Book Common Equity, Net Worth or Partners' Capital

Proxy Group of Two Hundred Non-Utility Companies Comparable to the Proxy Group of Six AUS Utility Reports Water Companies		VL Adjusted Beta	Unadjusted Beta	Residual Standard Error of the Regression	Standard Deviation of Beta	5 Year Projection
Ticker	Company Name					
ADP	Automatic Data Proc.	0.75	0.61	2.1959	0.0805	16
AFL	Aflac Inc.	0.8	0.63	2.2551	0.0827	21
ALL	Allstate Corp	0.9	0.84	2.1023	0.0771	14
BCR	Bard (C.R.)	0.65	0.45	2.2685	0.0831	23.5
BPL	Buckeye Partners L.P	0.75	0.56	2.2149	0.0812	15
CBSH	Commerce Bancshs	0.85	0.65	1.8554	0.068	11
CLX	Clorox Co.	0.7	0.51	1.99	0.0729	NMF
CPB	Campbell Soup	0.8	0.62	1.9161	0.0702	30
CVX	Chevron Corp	0.9	0.84	2.1261	0.0779	21.5
DNB	Dun & Bradstreet	0.85	0.72	2.1568	0.0791	NMF
ECL	Ecolab Inc.	0.9	0.79	1.9264	0.0706	18.5
ERIE	Erie Indemnity Co.	0.7	0.48	1.8643	0.0683	21.5
GD	Genl Dynamics	0.85	0.76	2.1002	0.077	16.5
GE	Genl Electric	0.85	0.76	2.1091	0.0773	16
HRL	Hormel Foods	0.7	0.54	2.2832	0.0837	16
IFF	Intl Flavors & Frag	0.85	0.76	2.068	0.0758	25
KFT	Kraft Foods	0.75	0.57	2.0898	0.0766	10.5
KHI	DWS High Income	0.85	0.42	2.0553	0.0753	NMF
KMP	Kinder Morgan Energy	0.65	0.46	2.0568	0.0754	30
LMT	Lockheed Martin	0.8	0.64	2.126	0.0779	28
MCY	Mercury General	0.9	0.82	2.2101	0.081	14
MMM	3M Company	0.9	0.79	2.1897	0.0803	22.5
NOC	Northrop Grumman	0.8	0.63	1.9205	0.0704	12.5
PAA	Plains All Amer Pipe	0.75	0.59	2.256	0.0827	11.5
PBI	Pitney Bowes	0.8	0.69	1.9318	0.0708	90.5
PRE	PartnerRe Ltd.	0.8	0.64	1.958	0.0718	11
RE	Everest Re Group Ltd.	0.95	0.85	2.2843	0.0837	13
RSG	Republic Services	0.85	0.74	2.0803	0.0763	22.5
RTN	Raytheon Co.	0.85	0.76	1.9244	0.0705	14.5
SIAL	Sigma-Aldrich	0.85	0.7	2.0365	0.0746	19.5
SLE	Sara Lee Corp	0.8	0.64	2.1562	0.079	25
SWZ	Swiss Helvetia Fund	0.85	0.74	1.9057	0.0698	NMF
TRP	TEPPCO Partners L.P	0.7	0.54	2.2388	0.0821	19.5
TRP	TransCanada Corp	0.8	0.62	2.2706	0.0832	16
UPS	United Parcel Serv	0.85	0.7	2.1869	0.0802	26
WCN	Waste Connections	0.85	0.71	2.1854	0.0801	15.5
WMI	Waste Management	0.9	0.83	2.0041	0.0735	22
WPO	Washington Post	0.75	0.61	2.1074	0.0772	8.5
Y	Alleghany Corp	0.7	0.54	2.2261	0.0816	6.5

19. Refer to Ahern Testimony. For other water utilities of comparable size to Water Service, the Commission has generally calculated the utility's revenue requirement using an 88 percent operating ratio. Explain why this methodology is not appropriate in this case.

RESPONSE: Witness – Pauline M. Ahern.

It is Ms. Ahern's understanding that the Company looked at both options, i.e., operating ratio and rate base / rate of return. The Company decided to file the current case based upon rate base / rate of return regulation consistent with filings made in other states in which subsidiaries of Utilities, Inc. operate and consistent with the Company's filing in Case No. 2005-00325, its last rate proceeding.

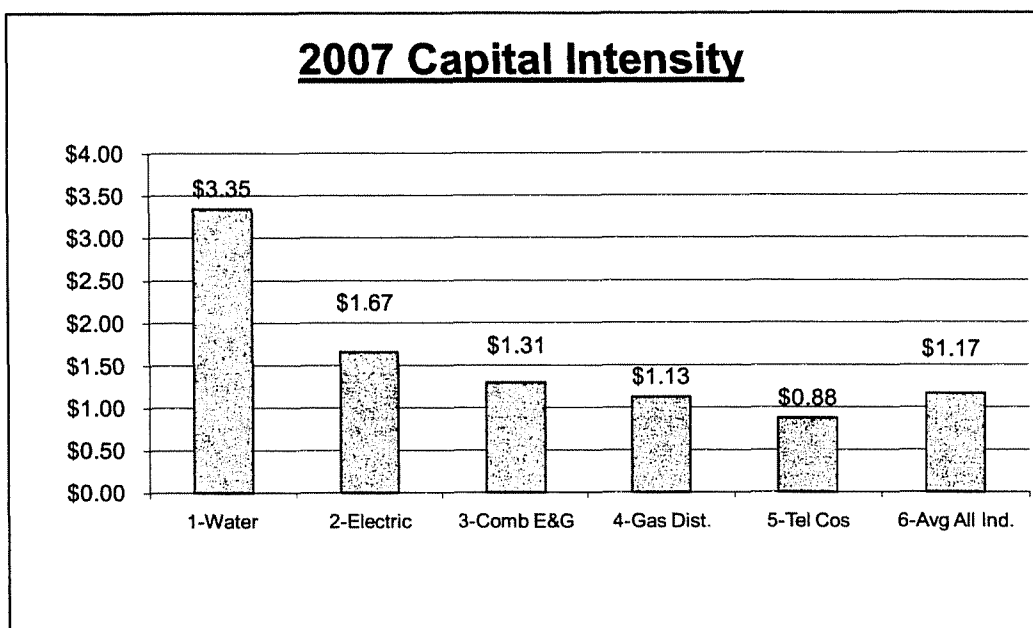
20. Refer to Ahern Testimony at page 8.
- a. Provide all documentation and support for the assertion that the water and waste water industry is much more capital-intensive than the electric, natural gas or telephone industries. Is the assertion also true for regulated utilities across these industries?
 - b. State how much more capital intensive the regulated water and waste water industries are than each of electric, natural gas and telecommunications industries.

RESPONSE: Witness – Pauline M. Ahern.

- a. **See Attachment 20-A.**
- b. **See Attachment 20-A.**

**2007
CAPITAL INTENSITY
AUS UTILITY REPORTS
UTILITY AND TELECOMMUNICATIONS INDUSTRIES**

	Average Net Plant (\$ mill)	Total Operating Revenue (\$ mill)	Capital Intensity (\$)	Capital Intensity of Water Industry v. Other Industries
Water Industry Average	\$ 655.15	\$ 195.41	\$ 3.35	
Electric Industry Average	\$ 8,412.86	\$ 5,039.77	\$ 1.67	100.60%
Combination Elec. & Gas Industry Average	\$ 8,704.46	\$ 6,642.00	\$ 1.31	155.73%
Gas Distribution Average	\$ 3,222.21	\$ 2,853.86	\$ 1.13	196.46%
Telephone Companies Industry Average	\$ 11,806.14	\$ 13,384.99	\$ 0.88	280.68%
Average All AUS Utility Reports Groups	\$ 32,800.81	\$ 28,116.03	\$ 1.17	186.32%



Group 1 - Water Industry Average
 Group 2 - Electric Industry Average
 Group 3 - Combination Electric & Gas Industry Average
 Group 4 - Gas Distribution Industry Average
 Group 5 - Telephone Cos. Industry Average
 Group 6 - Average For All AUS Utility Reports Companies

Notes:

Capital Intensity is equal to Net Plant divided by Total Operating Revenue

The Telephone group excludes Qwest Communications. The company shows Not Meaningful Figures.

The S&P 500 Group excludes 28 companies, for which Edgar Online's I-Metrix does not report data

Source of Information:

EDGAR Online's I-Metrix Database
 PC Plus/Research Insight Database

AUS Utility Reports - July 2008
 Published By AUS Consultants

WATER COMPANIES

Ticker	Name of Company	Fiscal Year	Avg. Net Plant	Total Oper. Rev.	Cap. Intensity
1 AWR	AMERICAN STATES WATER CO	Y07	783,490	301,370	2.53
2 WTR	AQUA AMERICA INC	Y07	2,649,395	602,499	4.40
3 ARTNA	ARTESIAN RESOURCES -CL A	Y07	283,959	52,524	5.03
4 CWT	CALIFORNIA WATER SERVICE GP	Y07	967,069	367,062	2.63
5 CTWS	CONNECTICUT WATER SVC INC	Y07	270,424	59,578	4.54
6 MSEX	MIDDLESEX WATER CO	Y07	322,362	86,114	3.74
7 PNNW	PENNICHUCK CORP	Y07	131,904	29,535	4.47
8 SJW	SJW CORP	Y07	596,145	206,601	2.89
9 SWWC	SOUTHWEST WATER CO	Y07	403,764	217,347	1.86
10 YORW	YORK WATER CO	Y07	182,994	31,433	5.82
Average		2007	855,151	195,408	3.35
Total		2007	6551,506	1954,083	3.35

Total Industry Averages

Water	2007	3.350 Attachment 20-a
Electric	2007	1.720
Comb. Elec. & Gas	2007	1.310
Gas Dist.	2007	1.130
Telco	2007	0.880

Based upon Total Avg. Net Plant / Total Op. Revs.

ELECTRIC COMPANIES

Ticker	Name of Company	Fiscal Year	Avg. Net Plant	Total Oper. Rev.	Cap. Intensity
1 aye	ALLEGHENY ENERGY INC	Y07	6,854,737	3,307,020	2.07
2 aep	AMERICAN ELECTRIC POWER CO	Y07	28325,500	13380,000	2.12
3 cv	CENTRAL VERMONT PUB SERV	Y07	314,532	329,107	0.96
4 cni	CLECO CORP	Y07	1,515,383	1,030,616	1.47
5 dpl	DPL INC	Y07	2,668,150	1,515,700	1.76
6 eix	EDISON INTERNATIONAL	Y07	16,658,000	13,113,000	1.27
7 ep	EL PASO ELECTRIC CO	Y07	1,391,369	877,427	1.59
8 fe	FIRSTENERGY CORP	Y07	15,025,000	12,781,000	1.18
9 fpl	FPL GROUP INC	Y07	28,575,500	15,283,000	1.74
10 grp	GREAT PLAINS ENERGY INC	Y07	3,255,350	3,267,100	1.00
11 he	HAWAIIAN ELECTRIC INDS	Y07	2,407,218	2,536,419	0.95
12 ida	IDACORP INC	Y07	2,489,425	879,394	2.83
13 mam	MAINE & MARITIMES CORP	Y07	61,631	37,520	1.64
14 oge	OGE ENERGY CORP	Y07	4,056,900	3,797,600	1.07
15 otr	OTTER TAIL CORP	Y07	786,316	1,238,687	0.63
16 prw	PINNACLE WEST CAPITAL CORP	Y07	8,058,235	3,523,620	2.29
17 por	PORTLAND GENERAL ELECTRIC CO	Y07	2,892,000	1,743,000	1.68
18 pgn	PROGRESS ENERGY INC	Y07	15,925,000	9,153,000	1.74
19 so	SOUTHERN CO	Y07	32,209,500	15,353,000	2.10
20 ul	UIL HOLDINGS CORP	Y07	762,690	981,999	0.78
21 wr	WESTAR ENERGY INC	Y07	4,437,606	1,726,834	2.57
Average		2007	8,412,860	5,039,773	1.67
Total		2007	175,670,062	102,528,222	1.72

COMBINATION ELEC. & GAS COMPANIES

Ticker	Name of Company	Fiscal Year	Avg. Net Plant	Total Oper. Rev.	Cap. Intensity
1 aes	AES CORP. (THE)	Y07	18,608,500	13,588,000	1.37
2 ale	ALLETE INC	Y07	1,013,050	841,700	1.20
3 all	ALLIANT ENERGY CORP	Y07	4,457,900	3,437,600	1.30
4 aec	AMEREN CORP	Y07	14,677,500	7,546,000	1.95
5 ia	AQUILA INC	Y07	2,050,050	1,466,600	1.40
6 avr	AVISTA CORP	Y07	2,283,190	1,417,757	1.61
7 bkb	BLACK HILLS CORP	Y07	1,734,951	695,914	2.49
8 cnp	CENTERPOINT ENERGY INC	Y07	9,472,000	9,623,000	0.98
9 chg	CH ENERGY GROUP INC	Y07	859,182	1,196,757	0.72
10 cms	CMS ENERGY CORP	Y07	8,352,000	6,464,000	1.29
11 ed	CONSOLIDATED EDISON INC	Y07	18,368,000	13,120,000	1.40
12 ceg	CONSTELLATION ENERGY GRP INC	Y07	9,494,600	21,193,199	0.45
13 d	DOMINION RESOURCES INC	Y07	25,367,000	15,674,000	1.62
14 dte	DTE ENERGY CO	Y07	11,429,500	8,506,000	1.34
15 duk	DUKE ENERGY CORP	Y07	36,278,500	12,720,000	2.85
16 ede	EMPIRE DISTRICT ELECTRIC CO	Y07	1,104,934	490,160	2.25
17 eas	ENERGY EAST CORP	Y07	6,053,259	5,178,108	1.17
18 etr	ENTERGY CORP	Y07	20,206,173	11,484,398	1.76
19 exc	EXELON CORP	Y07	23,464,000	18,716,000	1.25
20 fpu	FLORIDA PUBLIC UTILITIES CO	Y07	133,791	136,542	0.98
21 teg	INTEGRYS ENERGY GROUP INC	Y07	3,481,800	10,292,400	0.34
22 mdu	MDU RESOURCES GROUP INC	Y07	3,328,453	4,247,896	0.78
23 mgee	MGE ENERGY INC	Y07	786,205	537,594	1.46
24 ni	NISOURCE INC	Y07	9,518,950	7,973,300	1.19
25 nu	NORTHEAST UTILITIES	Y07	8,738,065	5,822,226	1.16
26 nwe	NORTHWESTERN CORP	Y07	1,631,367	1,200,060	1.36
27 nst	NSTAR	Y07	4,043,778	3,261,784	1.24
28 pom	PEPCO HOLDINGS INC	Y07	7,726,650	9,366,400	0.82
29 psg	PG&E CORP	Y07	22,720,500	13,237,000	1.72
30 psm	PNM RESOURCES INC	Y07	3,348,822	1,914,029	1.75
31 ppl	PPL CORP	Y07	12,337,000	6,488,000	1.90
32 peg	PUBLIC SERVICE ENTRP GRP INC	Y07	13,138,500	12,853,000	1.02
33 psd	PUGET ENERGY INC	Y07	5,411,843	3,220,147	1.68
34 scg	SCANA CORP	Y07	7,272,500	4,621,000	1.57
35 sre	SEMPRA ENERGY	Y07	14,029,500	11,438,000	1.23
36 srp	SIERRA PACIFIC RESOURCES	Y07	6,548,998	3,600,960	1.82
37 te	TECO ENERGY INC	Y07	4827,550	3536,100	1.37
38 teg	INTEGRYS ENERGY GROUP INC	Y07	3,481,800	10,292,400	0.34
39 uns	UNISOURCE ENERGY CORP	Y07	2,333,458	1,381,373	1.69
40 utl	UNITIL CORP	Y07	240,354	282,900	0.91
41 vvc	VECTREN CORP	Y07	2,462,600	2,281,900	1.08
42 wec	WISCONSIN ENERGY CORP	Y07	7,366,850	4,237,800	1.74
xel	XCEL ENERGY INC	Y07	16,112,174	10,034,170	1.61
Average		2007	8,704,456	6,642,004	1.31
Total		2007	374,291,597	285,606,175	1.31

GAS DISTRIBUTION COMPANIES

Ticker	Name of Company	Fiscal Year	Avg. Net Plant	Total Oper. Rev.	Cap. Intensity
1 atg	AGL RESOURCES INC	Y07	3,501,000	2,494,000	1.40
2 ato	ATMOS ENERGY CORP	Y07	3,732,996	5,898,431	0.63
3 cpk	CHESAPEAKE UTILITIES CORP	Y07	250,624	258,286	0.97
4 dgas	DELTA NATURAL GAS CO INC	Y07	121,329	98,168	1.24
5 ep	EL PASO CORP	Y07	18,016,000	4,648,000	3.88
6 egn	ENERGEN CORP	Y07	649,913	1,435,060	0.45
7 ewst	ENERGYWEST	Y07	33,155	59,373	0.56
8 ensi	ENERGYSOUTH INC	Y07	249,540	135,033	1.85
9 eqi	EQUITABLE RESOURCES INC	Y07	2,648,481	1,381,406	1.95
10 lg	LACLEDE GROUP INC	Y07	778,811	2,021,594	0.39
11 nfg	NATIONAL FUEL GAS CO	Y07	2,878,066	2,039,566	1.41
12 njr	NEW JERSEY RESOURCES CORP	Y07	944,079	3,021,765	0.31
13 gas	NICOR INC	Y07	2,736,000	3,176,300	0.86
14 nwn	NORTHWEST NATURAL GAS CO	Y07	1,413,017	1,033,193	1.37
15 oke	ONEOK INC	Y07	5,345,051	13,477,414	0.40
16 pny	PIEDMONT NATURAL GAS CO	Y07	2,108,424	1,711,292	1.23
17 str	QUESTAR CORP	Y07	4,595,000	2,726,600	1.69
18 rgco	RGC RESOURCES INC	Y07	75,813	89,901	0.84
19 sji	SOUTH JERSEY INDUSTRIES INC	Y07	834,762	956,371	0.87
20 sug	SOUTHERN UNION CO	Y07	4,843,357	2,616,665	1.85
21 swx	SOUTHWEST GAS CORP	Y07	2,756,702	2,152,088	1.28
22 swn	SOUTHWESTERN ENERGY CO	Y07	2,547,065	1,255,131	2.03
23 ugi	UGI CORP	Y07	2,306,050	5,476,900	0.42
24 wgl	WGL HOLDINGS INC	Y07	2,109,168	2,646,008	0.80
25 wmb	WILLIAMS COS INC	Y07	15,080,850	10,558,000	1.43
Average		2007	3,222,210	2,853,862	1.13
Total		2007	80,555,253	71,346,545	1.13

TELEPHONE COMPANIES

Ticker	Name of Company	Fiscal Year	Avg. Net Plant	Total Oper. Rev.	Cap. Intensity
1 alsk	ALASKA COMMUNICATIONS SYS GP	Y07	390,068	385,785	1.01
2 t	AT&T INC	Y07	95,243,000	118,828,000	0.80
3 boe	BCE INC	Y07	17,793,826	18,081,166	0.98
4 cdl	CENTURYTEL INC	Y07	3,108,827	2,582,658	1.21
5 cbb	CINCINNATI BELL INC	Y07	876,250	1,348,600	0.65
6 czn	CITIZENS COMMUNICATIONS CO	Y07	3,159,374	2,249,315	1.40
7 eq	EMBARQ CORP	Y07	7,868,000	6,365,000	1.24
8 gncma	GENERAL COMMUNICATION -CL A	Y07	528,354	520,311	1.02
9 q	QWEST COMMUNICATION INTL INC	Y07	14,125,000	13,778,000	1.03
10 lds	TELEPHONE & DATA SYSTEMS INC	Y07	3,553,244	4,828,984	0.74
11 paet	PAETEC HOLDING CORP	Y07	159,780	586,302	0.27
12 vz	VERIZON COMMUNICATIONS INC	Y07	83,825,000	63,469,000	0.90
13 win	WINDSTREAM CORP	Y07	3,991,050	3,280,800	1.22
14 atrl	ATLANTIC TELE-NETWORK INC	Y07	147,163	186,741	0.79
15 decc	D & E COMMUNICATIONS INC	Y07	168,738	152,549	1.11
16 frp	FAIRPOINT COMMUNICATIONS INC	Y07	257,577	279,762	0.92
17 htco	HICKORY TECH CORP	Y07	152,883	156,649	0.98
18 cnsl	CONSOLIDATED COMM HLDGS INC	Y07	363,014	329,248	1.10
19 surv	SUREWEST COMMUNICATIONS	Y07	375,125	206,817	1.81
20 wvvy	WARWICK VALLEY TELEPHONE CO	Y07	36,439	24,042	1.52
Average		2007	11,806,138	13,384,986	0.88
Total		2007	236,122,712	267,699,729	0.88

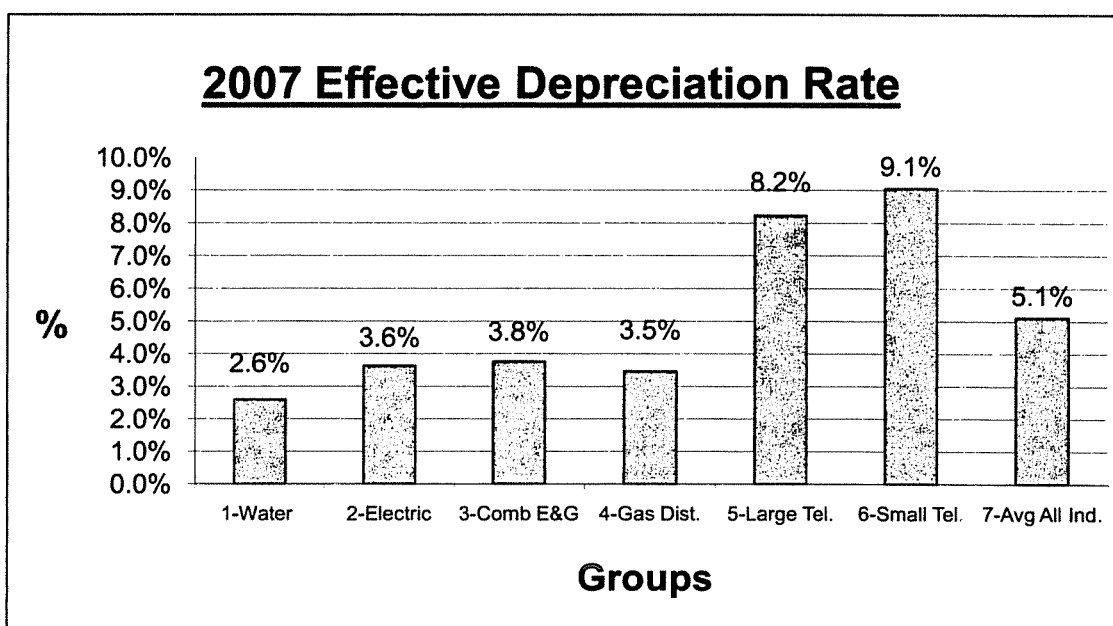
21. Refer to Ahern Testimony at pages 9-10.
 - a. Provide documentation and support for the assertion that water and waste water utilities' assets have longer lives than that of natural gas utilities.
 - b. State the depreciation rates for Water Service and for each of Utilities Inc.'s ("UI") regulated subsidiaries. For each set of depreciation rates, state whether the rate is the result of a fully litigated rate case proceeding.

RESPONSE: Witness – Pauline M. Ahern.

- a. **See Ms. Ahern's prepared direct testimony at page 9, line 35 through page 10, line 10. See also Attachment 21-a.**
- b. **The Company's per book depreciation and amortization rate is 2% and is not the result of a fully litigated rate proceeding. Ms. Ahern does not have access to the requested depreciation rates for Utilities Inc.'s other operating subsidiaries. Note that the depreciation rates referenced on pages 9 and 10 of Ms. Ahern's prepared direct testimony are those actually experienced by the water, electric, combination electric and gas, natural gas and telephone industries during 2007 and are not comparable to depreciation rates resulting from a fully litigated rate case proceeding.**

**2007
EFFECTIVE DEPRECIATION RATE
AUS UTILITY REPORTS
UTILITY AND TELECOMMUNICATIONS INDUSTRIES**

	Depreciation Depletion & Amort. Expense (\$ mill)	Average Total Gross Plant Less CWIP (\$ mill)	Depreciation Rate (%)	Depreciation Rate of Water Industry v. Other Industries
Water Industry Average	\$ 20.78	\$ 799.22	2.6%	--
Electric Industry Average	\$ 442.11	\$ 12,180.07	3.6%	71.64%
Combination Elec. & Gas Industry Average	\$ 489.61	\$ 13,004.52	3.8%	69.07%
Gas Distribution Average	\$ 99.37	\$ 2,869.26	3.5%	75.08%
Large Telephone Cos. Ind. Average	\$ 3,477.99	\$ 42,241.09	8.2%	31.58%
Small Telephone Cos. Ind. Average	\$ 47.15	\$ 520.19	9.1%	28.69%
Average All AUS Utility Reports Groups	\$ 762.83	\$ 11,935.73	5.1%	50.73%



- Group 1 - Water Industry Average
- Group 2 - Electric Industry Average
- Group 3 - Combination Electric & Gas Industry Average
- Group 4 - Gas Distribution Industry Average
- Group 5 - Large Telephone Cos. Industry Average
- Group 6 - Small Telephone Cos. Industry Average
- Group 7 - Average For All AUS Companies

Notes:

Effective Depreciation Rate is equal to Depreciation, Depletion and Amortization Expense divided by average beginning and ending year's Gross Plant minus Construction Work in Progress.

El Paso Energy and The Williams Companies were excluded from the Gas Distribution group. Those two companies were formerly part of the AUS Utility Reports Transmission group, but are now included in the Gas Distribution. However, due to the nature of their business, they have been eliminated from the study.

Source of Information:
EDGAR Online's I-Metrics Database
Company Annual Forms 10-K

WATER COMPANIES				Depreciation, Depletion & Amort. Expense	Gross Plant	CWIP
	<u>Name of Company</u>	<u>Ticker</u>	<u>Fiscal Year</u>			
1	AMERICAN STATES WATER CO	awr	2007	20 941	1,092,417	44,631
2	AQUA AMERICA INC	aqi	2007	88 011	3,573,896	81,876
3	ARTESIAN RESOURCES CORP	artria	2007	5 162	274 140	4,325
4	CALIFORNIA WATER SERVICE GROUP	cwt	2007	33 563	1,447,047	43,646
5	CONNECTICUT WATER SERVICE INC / CT	ctws	2007	6 899	385,828	1,407
6	MIDDLESEX WATER CO	msex	2007	7 539	398 588	9,833
7	PENNICKLUCK CORP	pnrx	2007	-	-	-
8	SJW CORP	sjw	2007	22 854	819 310	24,298
9	SOUTHWEST WATER CO	swwc	2007	11 634	417 003	42,856
10	YORK WATER CO	yorw	2007	3 227	223 538	10 118
	Average		2007	20,783		
ELECTRIC COMPANIES				Depreciation, Depletion & Amort. Expense	Average Gross Plant	CWIP
	<u>Name of Company</u>	<u>Ticker</u>	<u>Fiscal Year</u>			
1	ALLEGHENY ENERGY INC	aye	2007	277 014	11,992,505	658,066
2	AMERICAN ELECTRIC POWER CO INC	aep	2007	1,513 000	46,145 000	3,019,000
3	CENTRAL VERMONT PUBLIC SERVICE CORP	cv	2007	15 217	548 945	9,611
4	CLECO CORP	cnl	2007	79 904	2,642 923	716,075
5	DPL INC	dpl	2007	134 800	5,011 600	364,500
6	EDISON INTERNATIONAL	eix	2007	1,264 000	22,577 000	1,693 000
7	EL PASO ELECTRIC CO /TX/	ee	2007	69 397	2,346 125	185 122
8	FIRSTENERGY CORP	fe	2007	1,133 000	25,731 000	1,112,000
9	FPL GROUP INC	fdj	2007	1,261 000	41,040 000	1,713,000
10	GREAT PLAINS ENERGY INC	gxp	2007	183,800	6,041,400	530,200
11	HAWAIIAN ELECTRIC INDUSTRIES INC	ha	2007	0 391	-	-
12	IDACORP INC	ida	2007	103,072	4,085,384	257,590
13	MAINE & MARITIMES CORP	mam	2007	13 791	107 324	3,035
14	OGG ENERGY CORP	oge	2007	195 300	6,989 000	179,800
15	OTTER TAIL CORP	otb	2007	52 830	1,360 768	74,261
16	PINACLE WEST CAPITAL CORP	pnw	2007	373 436	12,335 587	625,577
17	PORTLAND GENERAL ELECTRIC CO /OR/	por	2007	181 000	5,024 000	126,000
18	PROGRESS ENERGY INC	pgr	2007	905,000	27,500,000	1,765,000
19	SOUTHERN CO	so	2007	1,245,000	50,740,000	3,228,000
20	UIL HOLDINGS CORP	uil	2007	90 370	1,192 727	278,061
21	WESTAR ENERGY INC /KS	wr	2007	192 910	7,254,840	630,782
	Average		2007	442,106		
COMBINATION ELEC. & GAS COMPANIES				Depreciation, Depletion & Amort. Expense	Average Gross Plant	CWIP
	<u>Name of Company</u>	<u>Ticker</u>	<u>Fiscal Year</u>			
1	AES CORP	aes	2007	942 000	27,522 000	1,774,000
2	ALLETE INC	ale	2007	48 500	1,848,800	165,800
3	ALLIANT ENERGY CORP	int	2007	262 700	7,372,400	195,400
4	AMEREN CORP	aee	2007	681 000	22,319 000	1,165 000
5	AVISTA CORP	ava	2007	90 522	3,232 022	100 106
6	BLACK HILLS CORP /SD/	bkh	2007	99 700	2,490 565	19 018
7	CENTERPOINT ENERGY INC	cnp	2007	631 000	12,567 000	-
8	CH ENERGY GROUP INC	chg	2007	35 923	1,245 666	75,866
9	CMS ENERGY CORP	cms	2007	540 000	12,894 000	447 000
10	CONSOLIDATED EDISON INC	ed	2007	645 000	23,897 000	1,028 000
11	CONSTELLATION ENERGY GROUP INC	ceg	2007	68 300	14,512 500	631 000
12	DOMINION RESOURCES INC /VA/	d	2007	1,368 000	33,331 000	1,819 000
13	DTE ENERGY CO	dte	2007	932 000	18,809 000	-
14	DUKE ENERGY CORP	duk	2007	1,746 000	46,056 000	-
15	EMPIRE DISTRICT ELECTRIC CO	ede	2007	52 599	1,667 689	167,049
16	ENERGY EAST CORP	eas	2007	277 490	9,079 631	165,628
17	ENERGY CORP /DE/	etr	2007	963 712	36,081 839	1,054,833
18	EXELON CORP	exc	2007	1,520 000	31,964 000	1,115 000
19	FLORIDA PUBLIC UTILITIES CO	fpu	2007	8 286	202 384	2 754
20	INTEGRYS ENERGY GROUP, INC	teg	2007	195 100	6,831 600	543,500
21	MDU RESOURCES GROUP INC	mdu	2007	301 932	5,930 246	22,253
22	MGE ENERGY INC	mgee	2007	32 199	205 214	205,214
23	NISOURCE INC/DE	ni	2007	559,200	17,882,300	309,000
24	NORTHEAST UTILITIES	nu	2007	305 971	8,882 431	1,009 277
25	NORTHWESTERN CORP	nwe	2007	82 415	2,697 634	19 524
26	NSTAR/MA	nst	2007	369,642	5,463 308	112 513
27	PEPCO HOLDINGS INC	pcn	2007	365 900	12,306 500	561 100
28	PG&E CORP	pcg	2007	1,770 000	36,584 000	1,348 000
29	PNM RESOURCES INC	prn	2007	135 695	4,048 190	299 574
30	PPL CORP	ppl	2008	747 000	20,508 000	930 000
31	PUBLIC SERVICE ENTERPRISE GROUP INC	peg	2007	783 000	19,310 000	821 000
32	PUGET ENERGY INC /WA	psd	2007	279 222	8,733 815	267 994
33	SCANA CORP	scp	2007	324 000	10,519 000	400 000
34	SEMPRA ENERGY	srp	2007	686 000	20,917 000	-
35	SIERRA PACIFIC RESOURCES /NV/	srp	2007	235 532	9,537 377	1,068 666
36	UNISOURCE ENERGY CORP	urs	2007	140 638	4,463 177	195 105
37	UNITIL CORP	uti	2007	17 800	380 500	20 300
38	VECTREN CORP	vvc	2007	184 800	4,062 900	124 100
39	WISCONSIN ENERGY CORP	wec	2007	328 200	10,805 100	1,764 100
40	XCEL ENERGY INC	xel	2007	827 173	26,725 616	1,810 664
	Average		2007	489,607		

WATER COMPANIES						Total Industry Averages			
	<u>Name of Company</u>	<u>Ticker</u>	<u>Fiscal Year</u>	<u>Gross Plant</u>	<u>CWIP</u>	<u>Average Gross Plant - CWIP</u>	<u>Water</u>		
1	AMERICAN STATES WATER CO	asw	2006	1,000,913	36,639		2007	20,783	799,223
2	AQUA AMERICA INC	wtr	2006	3,185,111	76,853	3,300,289	2007	442,166	12,180,069
3	ARTESIAN RESOURCES CORP	artra	2006	253,182	6,188	258,405	2007	489,807	13,004,522
4	CALIFORNIA WATER SERVICE GROUP	cwt	2006	1,329,475	35,659	1,348,609	2007	99,371	2,869,264
5	CONNECTICUT WATER SERVICE INC / CT	ctws	2006	365,592	2,755	373,629	2007	3,477,992	42,241,092
6	MIDDLESEX WATER CO	msex	2006	370,566	6,131	376,595	2007	47,149	520,192
7	PENNSYLVANIA WATER CO	pnw	2006	2,133		1,067			
8	SJW CORP	sjw	2006	732,379		10,863			
9	SOUTHWEST WATER CO	swwc	2006	389,625	32,853	365,910			
10	YORK WATER CO	yorc	2006	203,101	6,658	204,932			
	Average					799,223			
ELECTRIC COMPANIES									
	<u>Name of Company</u>	<u>Ticker</u>	<u>Fiscal Year</u>	<u>Gross Plant</u>	<u>CWIP</u>	<u>Average Gross Plant - CWIP</u>			
1	ALLEGHENY ENERGY INC	aei	2006	11,149,865	262,529	11,110,438			
2	AMERICAN ELECTRIC POWER CO INC	aep	2006	42,021,000	3,473,000	40,837,000			
3	CENTRAL VERMONT PUBLIC SERVICE CORP	cv	2006	536,454	8,496	533,646			
4	CLECO CORP	cnl	2006	1,892,533	289,101	1,765,140			
5	DPL INC	dpl	2006	4,718,500	376,000	4,494,800			
6	EDISON INTERNATIONAL	ex	2006	20,734,000	1,486,000	20,066,000			
7	EL PASO ELECTRIC CO (TX)	ep	2006	2,189,518	134,470	2,053,026			
8	FIRSTENERGY CORP	fe	2006	24,722,000	617,000	24,362,000			
9	FPL GROUP INC	fpl	2006	36,152,000	1,393,000	37,043,000			
10	GREAT PLAINS ENERGY INC	gxp	2006	5,522,400	214,493	5,409,554			
11	HAWAIIAN ELECTRIC INDUSTRIES INC	he	2006	4,298,578	101,313	2,098,633			
12	IDACORP INC	ida	2006	3,825,290	210,094	3,721,495			
13	MAINE & MARITIMES CORP	mam	2006	102,520	0,499	103,155			
14	OGGE ENERGY CORP	oge	2006	6,498,800	191,100	6,558,450			
15	OTTER TAIL CORP	ot	2006	1,198,166	28,208	1,229,233			
16	PINNACLE WEST CAPITAL CORP	pnw	2006	11,583,303	368,284	11,462,515			
17	PORTLAND GENERAL ELECTRIC CO (OR)	por	2006	4,582,000	412,000	4,534,000			
18	PROGRESS ENERGY INC	pgn	2006	25,796,000	1,289,000	25,121,000			
19	SOUTHERN CO	so	2006	45,486,000	1,871,000	45,563,500			
20	UIL HOLDINGS CORP	uil	2006	1,004,267	99,684	909,625			
21	WESTAR ENERGY INC (KS)	wr	2006	7,050,766	142,351	6,766,237			
	Average					12,180,069			
COMBINATION ELEC. & GAS COMPANIES									
	<u>Name of Company</u>	<u>Ticker</u>	<u>Fiscal Year</u>	<u>Gross Plant</u>	<u>CWIP</u>	<u>Average Gross Plant - CWIP</u>			
1	AES CORP	aes	2006	23,742,000	979,000	24,255,500			
2	ALLETE INC	ale	2006	1,646,600	71,400	1,629,100			
3	ALLIANT ENERGY CORP	int	2006	7,393,100	153,200	7,208,450			
4	AMEREN CORP	ame	2006	21,441,000	572,000	21,011,500			
5	AVISTA CORP	ava	2006	3,041,682	103,226	3,035,186			
6	BLACK HILLS CORP (SD)	bkh	2006	2,242,396	7,586,000	(1,436,029)			
7	CENTERPOINT ENERGY INC	cnp	2006	12,567,000	-	12,567,000			
8	CH ENERGY GROUP INC	chg	2006	1,120,551	51,041	1,119,655			
9	CMS ENERGY CORP	cms	2006	12,642,000	651,000	12,219,000			
10	CONSOLIDATED EDISON INC	ed	2006	21,334,000	875,000	21,664,000			
11	CONSTELLATION ENERGY GROUP INC	ceg	2006	13,680,400	97,100	13,732,400			
12	DOMINION RESOURCES INC (VA)	d	2006	43,575,000	-	37,543,500			
13	DTE ENERGY CO	dte	2006	19,224,000	-	19,016,500			
14	DUKE ENERGY CORP	duk	2006	58,330,000	203,000	52,091,500			
15	EMPIRE DISTRICT ELECTRIC CO	ede	2006	1,488,798	111,918	1,438,760			
16	ENERGY EAST CORP	eas	2006	8,762,724	121,097	8,777,815			
17	ENERGY CORP (DE)	etr	2006	38,876,154	786,147	36,558,507			
18	EXELON CORP	exc	2006	30,025,000	861,000	30,006,500			
19	FLORIDA PUBLIC UTILITIES CO	fpu	2006	188,968	2,867,000	(1,239,201)			
20	INTEGRYS ENERGY GROUP, INC	ieg	2006	3,756,200	444,900	4,799,700			
21	MDU RESOURCES GROUP INC	mdu	2006	4,729,163	23,968	5,306,594			
22	MGE ENERGY INC	mgee	2006	728,423	95,949	316,237			
23	NISOURCE INC (DE)	ni	2006	17,544,500	-	17,558,900			
24	NORTHEAST UTILITIES	nu	2006	8,287,876	569,416	7,795,807			
25	NORTHWESTERN CORP	nwe	2006	2,367,347	3,496	2,520,981			
26	NSTAR (MA)	nsi	2006	3,788,359	155,862	4,482,166			
27	PEPCO HOLDINGS INC	pot	2006	11,819,700	343,500	11,610,800			
28	PG&E CORP	pcg	2006	34,214,000	1,047,000	34,201,500			
29	PNM RESOURCES INC	prn	2006	5,401,015	230,871	4,459,380			
30	PPL CORP	ppl	2007	20,377,000	1,287,000	19,334,000			
31	PUBLIC SERVICE ENTERPRISE GROUP INC	peg	2006	18,851,000	472,000	18,434,000			
32	PUGET ENERGY INC (WA)	psd	2006	7,938,678	206,459	8,099,020			
33	SCANA CORP	scg	2006	9,822,000	326,000	9,807,500			
34	SEMPRA ENERGY	sre	2006	18,916,000	-	19,916,500			
35	SIERRA PACIFIC RESOURCES (NV)	srp	2006	8,420,355	466,018	8,211,524			
36	UNISOURCE ENERGY CORP	urs	2006	4,248,406	135,431	4,190,524			
37	UNITIL CORP	uti	2006	352,999	14,047	349,576			
38	VECTREN CORP	vvc	2006	4,114,600	133,400	3,960,000			
39	WISCONSIN ENERGY CORP	wec	2006	10,476,200	952,400	9,262,400			
40	XCEL ENERGY INC	xel	2006	25,218,762	1,425,484	24,354,115			
	Average					13,004,522			

<u>GAS DISTRIBUTION COMPANIES</u>				Depreciation, Depletion	Average	
	<u>Name of Company</u>	<u>Ticker</u>	<u>Fiscal Year</u>	<u>& Amort. Expense</u>	<u>Gross Plant</u>	<u>CWIP</u>
1	AGL RESOURCES INC	alg	2007	144,000	5,177,000	190,000
2	ATMOS ENERGY CORP	atlo	2007	196,063	5,326,621	69,449
3	CHESAPEAKE UTILITIES CORP	cpk	2007	9,060	352,638	4,900
4	DELTA NATURAL GAS CO INC	dgas	2007	5,085	187,148	-
5	ENERGEN CORP	egn	2007	3,948	2,986,296	-
6	ENERGY WEST INC	ewst	2007	1,692	61,482	0,258
7	ENERGY SOUTH INC	ersi	2007	11,017	311,249	53,287
8	EQUITABLE RESOURCES INC /PA/	eqt	2007	149,802	4,207,402	-
9	LAKEDE GROUP INC	lg	2007	34,080	1,187,828	-
10	NATIONAL FUEL GAS CO	rtg	2007	159,919	4,461,586	-
11	NEW JERSEY RESOURCES CORP	rj	2007	36,235	1,328,238	-
12	NICOR INC	gas	2007	165,600	4,611,700	-
13	NORTHWEST NATURAL GAS CO	nwn	2007	68,343	2,119,310	29,540
14	ONEOK INC /NEW/	oko	2007	227,964	7,893,492	954,300
15	PIEDMONT NATURAL GAS CO INC	pnj	2007	88,654	2,894,514	61,228
16	QUESTAR CORP	slr	2007	35,000	5,098,600	244,500
17	RGC RESOURCES INC	rpo	2007	4,089	109,012	0,663
18	SOUTH JERSEY INDUSTRIES INC	sj	2007	27,942	1,236,963	-
19	SOUTHERN UNION CO	sug	2007	177,999	5,887,910	377,918
20	SOUTHWEST GAS CORP	swx	2007	182,514	4,107,167	61,419
21	SOUTHWESTERN ENERGY CO	awn	2007	293,914	4,278,384	-
22	UGI CORP /PA/	ugi	2007	169,200	3,784,600	-
23	WGL HOLDINGS INC	wgl	2007	90,605	3,072,935	80,200
	Average		2007	99,371		
<u>LARGE TELEPHONE COMPANIES</u>				Depreciation, Depletion	Average	
	<u>Name of Company</u>	<u>Ticker</u>	<u>Fiscal Year</u>	<u>& Amort. Expense</u>	<u>Gross Plant</u>	<u>CWIP</u>
1	ALASKA COMMUNICATIONS SYSTEMS GROUP IN	alsk	2007	71,337	1,209,257	42,773
2	AT&T INC.	t	2007	21,577,000	210,518,000	3,776,000
3	CENTURYTEL INC	cti	2007	536,255	856,106	99,641
4	CINCINNATI BELL INC	cbi	2007	150,800	2,808,500	78,500
5	FRONTIER COMMUNICATIONS CORP	czn	2007	545,856	7,375,297	128,250
6	EMBARQ CORP	eq	2007	1,057,000	20,802,000	-
7	GENERAL COMMUNICATION INC	gncma	2007	87,615	573,682	69,409
8	QWEST COMMUNICATIONS INTERNATIONAL INC	q	2007	2,459,000	46,646,000	231,000
9	TELEPHONE & DATA SYSTEMS INC /DE/	tds	2007	291,303	3,204,911	145,093
10	PAETEC HOLDING CORP	paet	2007	75,237	521,131	3,486
11	VERIZON COMMUNICATIONS INC	vz	2007	14,377,000	213,994,000	1,988,000
12	WINDSTREAM CORP	win	2007	507,500	9,220,700	175,300
	Average		2007	3,477,992		
<u>SMALL TELEPHONE COMPANIES</u>				Depreciation, Depletion	Average	
	<u>Name of Company</u>	<u>Ticker</u>	<u>Fiscal Year</u>	<u>& Amort. Expense</u>	<u>Gross Plant</u>	<u>CWIP</u>
1	ATLANTIC TELE NETWORK INC /DE	atn	2007	26,686	277,181	8,895
2	D&E COMMUNICATIONS INC	decc	2007	34,208	403,307	6,648
3	FAIRPOINT COMMUNICATIONS INC	ftp	2007	50,836	896,369	53,335
4	HICKORY TECH CORP	htco	2007	19,004	322,249	-
5	CONSOLIDATED COMMUNICATIONS HOLDINGS, I	cnsl	2007	65,659	1,096,756	10,226
6	SUREWEST COMMUNICATIONS	surw	2007	128,401	876,517	18,974
7	WARWICK VALLEY TELEPHONE CO	wvvy	2007	5,252	79,836	1,324
	Average		2007	47,149		

EXCLUDED COMPANIES - AES, TDS, PAET, EP, WMB

GAS DISTRIBUTION COMPANIES						
	<u>Name of Company</u>	<u>Ticker</u>	<u>Fiscal Year</u>	<u>Gross Plant</u>	<u>CWIP</u>	<u>Average Gross Plant - CWIP</u>
1	AGL RESOURCES INC	alg	2006	4,976,000	208,000	4,877,500
2	ATMOS ENERGY CORP	atoc	2006	5,101,308	74,830	5,141,825
3	CHESAPEAKE UTILITIES CORP	cpk	2006	325,836	1,830	335,972
4	DELTA NATURAL GAS CO INC	dgas	2006	182,155	-	184,652
5	ENERGEN CORP	egn	2006	2,664,568	-	2,825,432
6	ENERGY WEST INC	ewst	2006	73,839	0,138	67,463
7	ENERGYSOUTH INC	ensi	2006	295,503	18,915	267,275
8	EQUITABLE RESOURCES INC /PA	eqt	2006	3,617,297	-	3,912,350
9	LACLEDE GROUP INC	lg	2006	1,149,104	-	1,168,466
10	NATIONAL FUEL GAS CO	rfg	2006	4,703,040	-	4,582,313
11	NEW JERSEY RESOURCES CORP	rjr	2006	1,270,722	-	1,299,480
12	NICOR INC	gas	2006	4,479,700	-	4,545,700
13	NORTHWEST NATURAL GAS CO	nwn	2006	1,963,498	21,427	2,015,921
14	ONEOK INC /NEW/	oke	2006	6,724,759	-	6,831,976
15	PIEDMONT NATURAL GAS CO INC	pnr	2006	2,808,992	94,366	2,773,946
16	QUESTAR CORP	str	2006	4,051,400	56,900	4,444,300
17	RGC RESOURCES INC	rgco	2006	116,837	1,856	111,665
18	SOUTH JERSEY INDUSTRIES INC	sjl	2006	1,186,271	-	1,211,617
19	SOUTHERN UNION CO	sug	2006	5,204,566	178,935	5,267,812
20	SOUTHWEST GAS CORP	swx	2006	3,843,704	78,402	3,905,525
21	SOUTHWESTERN ENERGY CO	swn	2006	3,039,286	-	3,658,835
22	UGI CORP /PA	ugi	2006	3,461,300	-	3,622,950
23	WGL HOLDINGS INC	wgl	2006	2,949,951	62,500	2,940,053
	Average					2,859,264

LARGE TELEPHONE COMPANIES						
	<u>Name of Company</u>	<u>Ticker</u>	<u>Fiscal Year</u>	<u>Gross Plant</u>	<u>CWIP</u>	<u>Average Gross Plant - CWIP</u>
1	ALASKA COMMUNICATIONS SYSTEMS GROUP IN	alisk	2006	1,164,450	33,922	1,148,506
2	AT&T INC.	t	2006	202,149,000	3,137,000	202,877,000
3	CENTURYTEL INC	cti	2006	7,893,760	39,198	4,310,514
4	CINCINNATI BELL INC	cbi	2006	2,586,500	25,000	2,645,750
5	FRONTIER COMMUNICATIONS CORP	czn	2006	6,685,466	131,951	6,900,281
6	EMBARQ CORP	eq	2006	20,805,000	-	20,803,500
7	GENERAL COMMUNICATION INC	gncma	2006	484,873	29,994	479,576
8	QWEST COMMUNICATIONS INTERNATIONAL INC	q	2006	46,374,000	142,000	46,323,500
9	TELEPHONE & DATA SYSTEMS INC /DE/	lds	2006	7,700,746	141,047	5,309,759
10	PAETEC HOLDING CORP.	paet	2006	316,836	0,443	417,019
11	VERIZON COMMUNICATIONS INC	vz	2006	204,109,000	2,315,000	206,900,000
12	WINDSTREAM CORP	wst	2006	8,724,300	214,300	8,777,700
	Average					42,241,092

SMALL TELEPHONE COMPANIES						
	<u>Name of Company</u>	<u>Ticker</u>	<u>Fiscal Year</u>	<u>Gross Plant</u>	<u>CWIP</u>	<u>Average Gross Plant - CWIP</u>
1	ATLANTIC TELE NETWORK INC /DE	atn	2006	237,006	5,280	250,006
2	D&E COMMUNICATIONS INC	decc	2006	386,134	5,504	388,645
3	FAIRPOINT COMMUNICATIONS INC	ftp	2006	829,234	10,100	831,084
4	HICKORY TECH CORP	htco	2006	309,264	-	315,757
5	CONSOLIDATED COMMUNICATIONS HOLDINGS. I	csai	2006	798,343	4,124	940,375
6	SUREWEST COMMUNICATIONS	surw	2006	831,468	15,712	836,650
7	WARWICK VALLEY TELEPHONE CO	wwy	2006	79,836	0,688	78,830
	Average					520,192

EXCLUDED COMPANIES - AES, TDS, PAET, EP, WMB

22. Refer to Ahern Testimony at pages 10-11. Increased levels of spending for improving quality of service, infrastructure, main replacement, increased security and complying with federal mandates may lead to increased levels of risk. Explain whether it is Water Service's position that this Commission has acted in such a manner as to place greater risk upon the company.

RESPONSE: Witness – Pauline M. Ahern.

Ms. Ahern's statements at pages 10 and 11 relative to increase levels of spending for improving quality of service, infrastructure, main replacement, increased security and complying with federal mandates which may lead to increased levels of risk are general statements applicable to the water industry in general and not intended to be specific to Water Service Company of Kentucky or the Kentucky Public Service Commission.

23. Refer to Ahern Testimony at page 12. List each of the projects and the dollar amounts spent for each year since September 11, 2001 that Water Service had undertaken to mitigate its increased security risk from terrorist attack.

RESPONSE: Witness – Pauline M. Ahern.

Ms. Ahern’s statements at page 12 relative to “the need for increased funds to finance the increasing security costs required to protect the water supply and infrastructure from potential terrorist attacks in the post-September 11, 2001 world are general statements applicable to the water industry in general and not intended to be specific to Water Service Company of Kentucky.

24. Refer to Ahern Testimony at page 18. Explain how Water Service and UI obtain debt financing.

RESPONSE: Witness – Pauline M. Ahern.

See Water Service Company of Kentucky’s response to Attorney General Data Request No. 3.

25. Refer to Ahern Testimony Schedule PMA-3 and at pages 18-19.
- a. Explain why the year 2008 was not included in the analysis.
 - b. For each company in the proxy group and for Water Service and UI, provide the percentage of net operating income and the percentage of total assets devoted to regulated water operations.
 - c. Explain why the benchmark for 60 percent was chosen and state the benchmark percentage sought in Water Service's last rate case.
 - d. Explain why a company with up to 40 percent of its income and its assets devoted to lines of business that are subject to different levels and types of risk than a small regulated water utility should be included in the proxy group.

RESPONSE: Witness – Pauline M. Ahern.

- a. **2008 data were not included in Ms. Ahern's analysis because 2007 data were the latest data available for all companies in her two proxy groups at the time of the preparation of her prepared direct testimony and accompanying exhibit in early January 2008.**
- b. **See Attachment 25-b. The requested information is unavailable for Utilities, Inc. (UI) because it is not provided in UI's financial statements.**
- c. **The 60% benchmark was chosen in the current proceeding so that a sufficient number of companies would be included in the proxy group of gas distribution companies. The benchmark chosen in Water Service Company of Kentucky's last rate case was 70%. As shown in Attachment 25-b, none of the water companies selected for inclusion in the proxy group have either Net Operating Income (NOI) derived from or Assets devoted to regulated water operations below 80%. The average 2007 NOI derived from and 2007 Assets devoted to regulated water operations was 94.18% and 94.37%, respectively, as also shown on Attachment 25-b.**
- d. **See Ms. Ahern's prepared direct testimony at page 20, lines 1-16. Note that Ms. Ahern conducted an analysis of the relative size of Water Service Company of Kentucky relative to the companies in both of her proxy groups. (See Ms. Ahern's prepared direct testimony at pages 13-15 and pages 47-49 as well as Schedule PMA-1, pages 3-17. Attached please find page 4 of Schedule PMA-1 which was inadvertently excluded from the Company's filing.**

Water Service Corporation of Kentucky
 Percentage of 2007 Net Operating Income and Assets Devoted to Regulated Water and Gas Operations for the
 Proxy Group of Seven AUS Utility Reports Water Companies
and the Proxy Group of Ten Natural Gas Distribution Companies

Proxy Group of Seven AUS Utility Reports
 Water Companies

Company	Ticker	2007 Net Operating Income (NOI) (2)	2007 NOI from Regulated Water Operations	% of 2007 NOI Provided by Regulated Water Operations	2007 Total Assets	2007 Water Assets	% of 2007 Total Assets Allocated to Regulated Water Operations
American States Water Company	AWR	67.941	62.622	92.17%	776.379	736.820	94.90%
Aqua America	WTR	304.027	301.977	99.33%	3,226.912	3,223.681	99.90%
California Water Service Group	CWT	44.170	44.170	100.00%	1,184.499	1,184.499	100.00%
Middlesex Water Company	MSEX	22.671	21.351	94.18%	396.088	387.931	97.94%
SJW Corporation	SJW	29.753	27.306	91.78%	767.326	641.823	83.64%
Southwest Water Company (2)	SWWC	18.754	15.339	81.79%	524.385	441.464	84.19%
York Water Company	YORW	14.164	14.164	100.00%	210.969	210.969	100.00%
Average				94.18%			94.37%

Proxy Group of Ten AUS Utility Reports
 Natural Gas Distribution Companies

Company	Ticker	2007 Net Operating Income (NOI) (2)	2007 NOI from Regulated Natural Gas Distribution Operations	% of 2007 NOI Provided by Regulated Gas Distribution Operations	2007 Total Assets	2007 Gas Assets	% of 2007 Total Assets Allocated to Regulated Natural Gas Distribution Operations
AGL Resources Inc	ATG	497.000	335.000	67.40%	6,302.000	4,831.000	76.66%
Delta Natural Gas Company	DGAS	12.968	8.138	62.75%	160.401	154.029	96.03%
Laclede Group, Inc	LG	114.000	79.589	69.81%	1,707.602	1,429.415	83.71%
New Jersey Resources Corp.	NJR	127.250	88.528	69.57%	2,247.692	1,565.566	69.65%
NICOR Inc. (1)	GAS	208.100	128.700	61.85%	4,611.700	4,279.700	92.80%
Northwest Natural Gas Co.	NWN	154.923	140.434	90.65%	2,014.183	1,940.844	96.36%
Piedmont Natural Gas Co., Inc.	PNY	245.416	245.934	100.21%	2,751.018	2,655.311	96.52%
South Jersey Industries, Inc.	SJI	129.623	83.989	64.79%	1,621.747	1,227.162	75.67%
Southwest Gas Corporation	SWX	220.587	202.721	91.90%	3,670.400	3,518.304	95.86%
WGL Holdings, Inc.	WGL	224.847	188.651	83.90%	3,143.446	2,836.492	90.24%
Average				76.28%			87.35%

Notes: (1) Company's gas assets are derived using PP and E instead of Assets
 (2) Corporate eliminations excluded.

Source of Information: Forms 10K

Water Service Corporation of Kentucky
 Market Capitalization of Water Service Corporation of Kentucky
 the Proxy Group of Seven AUS Utility Reports Water Companies,
 and the Proxy Group of Ten AUS Utility Reports Natural Gas Distribution Companies

Company	Exchange	1 Common Stock Shares Outstanding at December 31, 2007 (millions)	2 Book Value per Share at December 31, 2007 (1)	3 Total Common Equity at December 31, 2007 (millions)	4 Closing Stock Market Price on January 2, 2009	5 Market-to-Book Ratio on January 2, 2009 (2)	6 Market Capitalization on January 2, 2009 (3) (millions)
Water Service Corporation of Kentucky		NA	NA	\$ 4,235 (4)	NA		
Based Upon the Proxy Group of Seven AUS Utility Reports Water Companies							197.5 % (5) \$ 8,364 (6)
Based Upon the Proxy Group of Ten AUS Utility Reports Gas Distribution Companies							193.1 % (7) \$ 8,178 (8)
Proxy Group of Seven AUS Utility Reports Water Companies							
American States Water Co.	NYSE	17,231	\$ 17,534	\$ 302,129	\$ 34,180	194.9 %	\$ 588,956
Aqua America, Inc.	NYSE	133,400	7,319	976,298	20,980	286.7	2,789,732
California Water Service Group	NYSE	20,888	18,664	385,708	45,860	245.7	947,743
Middlesex Water Company	NASDAQ	13,246	10,054	133,176	17,320	172.3	228,421
SJW Corp.	NYSE	18,962	12,903	238,834	29,410	227.9	540,026
Southwest Water Company	NASDAQ	23,932	6,669	158,736	3,370	50.5	80,213
York Water Company	NASDAQ	11,266	5,972	67,372	12,220	204.6	187,667
Average		33,996	\$ 11,302	\$ 322,694	\$ 23,334	197.5 %	\$ 760,363
Proxy Group of Ten AUS Utility Reports Gas Distribution Companies							
AGL Resources, Inc.	NYSE	78,400	\$ 21,741	\$ 1,691,000	\$ 31,620	145.4 %	\$ 2,415,768
Delta Natural Gas Company	NASDAQ	3,277	16,609	54,428	24,860	148.8	81,532
Laclede Group, Inc.	NYSE	21,648	19,788	428,325	46,810	236.8	1,013,249
New Jersey Resources Corp.	NYSE	41,611	15,498	644,797	39,230	253.2	1,632,400
NICOR Inc.	NYSE	45,130	20,944	945,200	35,060	167.4	1,582,256
Northwest Natural Gas Company	NYSE	28,407	22,522	594,751	43,690	193.5	1,161,081
Piedmont Natural Gas Co., Inc.	NYSE	74,208	11,837	878,374	31,280	284.3	2,321,226
South Jersey Industries, Inc.	NYSE	28,607	16,249	461,060	39,940	245.8	1,182,504
Southwest Gas Corporation	NYSE	42,808	22,980	963,673	25,300	110.1	1,082,602
WGL Holdings, Inc.	NYSE	49,316	16,567	860,787	32,770	164.6	1,816,085
Average		41,041	\$ 18,805	\$ 785,240	\$ 35,048	193.1 %	\$ 1,407,909

NA = Not Available

- Notes: (1) Column 3 / Column 1.
 (2) Column 4 / Column 2.
 (3) Column 6 * Column 3.
 (4) From Schedule A of the Company's Petition.
 (5) The market-to-book ratio of Water Service Corporation of Kentucky on December 1, 2008 is assumed to be equal to the average market-to-book ratio at January 2, 2009 of the proxy group of seven AUS Utility Reports water companies.
 (6) Water Service Corporation of Kentucky's common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at January 2, 2009 of the proxy group of seven AUS Utility Reports water companies, 197.5%, and Water Service Corporation of Kentucky's market capitalization on January 2, 2009 would therefore have been \$8,364 million. (\$8,364 = \$4,235 * 197.5%).
 (7) The market-to-book ratio of Water Service Corporation of Kentucky on January 2, 2009 is assumed to be equal to the average market-to-book ratio at January 2, 2009 of the proxy group of ten AUS Utility Reports gas distribution companies.
 (8) Water Service Corporation of Kentucky's common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at January 2, 2009 of the proxy group of ten AUS Utility Reports gas distribution companies, 193.1%, and Water Service Corporation of Kentucky's market capitalization on January 2, 2009 would therefore have been \$8,178 million. (\$8,178 = \$4,235 * 193.1%).

Source of Information: 2007 Annual Forms 10K
 yahoo.finance.com

26. Refer to Ahern Testimony at Schedule PMA-4 and pages 19-20.
- a. Explain why firms with a bond rating below A3 should be included in the proxy group.
 - b. Explain why the year 2008 was not included in the analysis.
 - c. Explain why the benchmark of 60 percent was chosen.
 - d. For each company in the proxy group, provide the percentage of net operating income and the percentage of total assets devoted to regulated gas distribution activity.

RESPONSE: Witness – Pauline M. Ahern.

- a. **Given that so few water companies have bonds which are rated by Moody's Investor Services or Standard & Poor's, bond rating was not a criterion in the selection of either proxy group.**
- b. **See response to Information Request No. 25 – a.**
- c. **See response to Information Request No. 25 – c. As shown in Attachment 25-b, the average 2007 Net Operating Income derived from and 2007 Assets devoted to regulated gas distribution operations was 76.28% and 87.35%, respectively.**
- d. **See Attachment 25-b.**

27. Refer to Ahern Testimony at Schedule PMA-5. Footnote 2 does not appear to be accurate. Should the second line refer to page 1 of Schedule PMA-8?

RESPONSE: Witness – Pauline M. Ahern.

Yes.

28. Refer to Ahern Testimony at Schedule PMA-6 and page 24.
- a. State why a spot date was chosen and the significance of the specific date chosen for the analysis.
 - b. For each company in the water and natural gas proxy groups, provide the three-month average dividend yield for January-March 2009 and the six-month average dividend yield for October 2008-March 2009.

RESPONSE: Witness – Pauline M. Ahern.

- a. **At the time of the preparation of Ms. Ahern's prepared direct testimony and accompanying financial exhibit, January 2, 2009 was the most recent date available. A spot date was chosen because the Discounted Cash Flow (DCF) model is derived from classical valuation theory which states that the present, i.e., current or spot, value of a common stock share, i.e., current price, is derived from the discount rate and the expected dividend stream. Hence the spot market price is the most relevant price to use to determine the dividend yield in a DCF analysis, as current stock prices reflect the most current information. However, spot market prices can be volatile, especially during turbulent economic and credit market crises. Therefore, when adapting the DCF for ratemaking purposes, it is not uncommon to average the dividend yield based upon a spot price with the average dividend yield calculated over some historical period in order to obviate any potentially adverse and isolated effects of an aberrational spot market price. Note that the requested January-March 2009 and October 2008-March 2009 average dividend yields should not be combined with the growth rate data developed on Schedule PMA-8 due to timing differences.**
- b. **See Attachment 28-b.**

Water Service Corporation of Kentucky
Derivation of 3 and 6 Month Average Dividend Yields
for the Proxy Group of Seven AUS Utility Reports Water Companies and
the Proxy Group of Ten AUS Utility Reports Natural Gas Distribution Companies

	Date	Close	Ind Dividend	Dividend Yld	
AWR	Mar-09	36.32	1.000	2.75%	
	Feb-09	33.55	1.000	2.98%	
	Jan-09	34.57	1.000	2.89%	2.88% January - March 2009 3 Month Avg
	Dec-08	32.98	1.000	3.03%	
	Nov-08	35.03	1.000	2.85%	
	Oct-08	34.21	1.000	2.92%	2.91% October 2008 - March 2009 6 Month Avg
WTR	Mar-09	20.00	0.540	2.70%	
	Feb-09	18.40	0.540	2.93%	
	Jan-09	20.74	0.540	2.60%	2.75% January - March 2009 3 Month Avg
	Dec-08	20.59	0.540	2.62%	
	Nov-08	21.69	0.500	2.31%	
	Oct-08	18.00	0.500	2.78%	2.66% October 2008 - March 2009 6 Month Avg
CWT	Mar-09	41.86	1.180	2.82%	
	Feb-09	39.26	1.172	2.99%	
	Jan-09	43.50	1.172	2.69%	2.83% January - March 2009 3 Month Avg
	Dec-08	46.43	1.172	2.52%	
	Nov-08	42.50	1.172	2.76%	
	Oct-08	37.56	1.172	3.12%	2.82% October 2008 - March 2009 6 Month Avg
MSEX	Mar-09	14.40	0.712	4.94%	
	Feb-09	13.99	0.712	5.09%	
	Jan-09	16.55	0.712	4.30%	4.78% January - March 2009 3 Month Avg
	Dec-08	17.23	0.712	4.13%	
	Nov-08	17.20	0.700	4.07%	
	Oct-08	17.24	0.700	4.06%	4.43% October 2008 - March 2009 6 Month Avg
SJW	Mar-09	25.43	0.660	2.60%	
	Feb-09	23.05	0.644	2.79%	
	Jan-09	26.89	0.644	2.39%	2.59% January - March 2009 3 Month Avg
	Dec-08	29.94	0.644	2.15%	
	Nov-08	28.00	0.644	2.30%	
	Oct-08	27.80	0.644	2.32%	2.43% October 2008 - March 2009 6 Month Avg
SWWC	Mar-09	4.30	0.100	2.33%	
	Feb-09	4.79	0.100	2.09%	
	Jan-09	4.48	0.240	5.36%	3.26% January - March 2009 3 Month Avg
	Dec-08	3.22	0.240	7.45%	
	Nov-08	4.23	0.240	5.67%	
	Oct-08	7.97	0.240	3.01%	4.32% October 2008 - March 2009 6 Month Avg
YORW	Mar-09	12.36	0.504	4.08%	
	Feb-09	11.30	0.504	4.46%	
	Jan-09	11.81	0.504	4.27%	4.27% January - March 2009 3 Month Avg
	Dec-08	12.10	0.484	4.00%	
	Nov-08	11.24	0.484	4.31%	
	Oct-08	12.00	0.484	4.03%	4.19% October 2008 - March 2009 6 Month Avg

Water Service Corporation of Kentucky
Derivation of 3 and 6 Month Average Dividend Yields
for the Proxy Group of Seven AUS Utility Reports Water Companies and
the Proxy Group of Ten AUS Utility Reports Natural Gas Distribution Companies

	Date	Close	Ind Dividend	Dividend Yld	
AGL	Mar-09	26.53	1.720	6.48%	
	Feb-09	27.74	1.680	6.06%	
	Jan-09	30.83	1.680	5.45%	6.00% January - March 2009 3 Month Avg
	Dec-08	31.35	1.680	5.36%	
	Nov-08	30.11	1.680	5.58%	
	Oct-08	30.40	1.680	5.53%	5.74% October 2008 - March 2009 6 Month Avg
DGAS	Mar-09	21.41	1.280	5.98%	
	Feb-09	21.52	1.280	5.95%	
	Jan-09	23.42	1.280	5.47%	5.80% January - March 2009 3 Month Avg
	Dec-08	24.25	1.280	5.28%	
	Nov-08	23.44	1.280	5.46%	
	Oct-08	24.57	1.280	5.21%	5.56% October 2008 - March 2009 6 Month Avg
LG	Mar-09	38.98	1.540	3.95%	
	Feb-09	39.58	1.540	3.89%	
	Jan-09	45.39	1.540	3.39%	3.74% January - March 2009 3 Month Avg
	Dec-08	46.84	1.500	3.20%	
	Nov-08	52.68	1.500	2.85%	
	Oct-08	52.32	1.500	2.87%	3.36% October 2008 - March 2009 6 Month Avg
NJR	Mar-09	33.98	1.240	3.65%	
	Feb-09	35.07	1.240	3.54%	
	Jan-09	40.09	1.240	3.09%	3.43% January - March 2009 3 Month Avg
	Dec-08	39.35	1.120	2.85%	
	Nov-08	40.16	1.120	2.79%	
	Oct-08	37.24	1.120	3.01%	3.15% October 2008 - March 2009 6 Month Avg
GAS	Mar-09	33.23	1.860	5.60%	
	Feb-09	31.38	1.860	5.93%	
	Jan-09	34.21	1.860	5.44%	5.65% January - March 2009 3 Month Avg
	Dec-08	34.74	1.860	5.35%	
	Nov-08	40.78	1.860	4.56%	
	Oct-08	46.21	1.860	4.03%	5.15% October 2008 - March 2009 6 Month Avg
NWN	Mar-09	43.42	1.580	3.64%	
	Feb-09	40.95	1.580	3.86%	
	Jan-09	42.94	1.580	3.68%	3.73% January - March 2009 3 Month Avg
	Dec-08	44.23	1.580	3.57%	
	Nov-08	49.95	1.580	3.16%	
	Oct-08	50.88	1.500	2.95%	3.48% October 2008 - March 2009 6 Month Avg
PNY	Mar-09	25.89	1.040	4.02%	
	Feb-09	24.14	1.040	4.31%	
	Jan-09	25.91	1.040	4.01%	4.11% January - March 2009 3 Month Avg
	Dec-08	31.67	1.040	3.28%	
	Nov-08	33.60	1.040	3.10%	
	Oct-08	32.92	1.040	3.16%	3.65% October 2008 - March 2009 6 Month Avg
SJI	Mar-09	35.00	1.192	3.41%	
	Feb-09	36.06	1.192	3.31%	
	Jan-09	37.30	1.192	3.20%	3.30% January - March 2009 3 Month Avg
	Dec-08	39.85	1.080	2.71%	
	Nov-08	39.00	1.080	2.77%	
	Oct-08	34.07	1.080	3.17%	3.09% October 2008 - March 2009 6 Month Avg
SWX	Mar-09	21.07	0.900	4.27%	
	Feb-09	19.49	0.900	4.62%	
	Jan-09	25.76	0.900	3.49%	4.13% January - March 2009 3 Month Avg
	Dec-08	25.22	0.900	3.57%	
	Nov-08	25.90	0.900	3.47%	
	Oct-08	26.12	0.900	3.45%	3.81% October 2008 - March 2009 6 Month Avg
WGL	Mar-09	32.80	1.420	4.33%	
	Feb-09	30.36	1.420	4.68%	
	Jan-09	32.10	1.420	4.42%	4.48% January - March 2009 3 Month Avg
	Dec-08	32.69	1.420	4.34%	
	Nov-08	36.10	1.420	3.93%	
	Oct-08	32.19	1.420	4.41%	4.35% October 2008 - March 2009 6 Month Avg

29. Refer to Ahern Testimony at Schedule PMA-8 and page 26.
- a. Explain why Water Service's process of averaging various historical and projected growth rates is valid.
 - b. Explain why a similar process was not used for the natural gas proxy group.
 - c. Explain what parts of the natural gas distribution business have been deregulated.
 - d. Provide a historical analysis for the natural gas proxy group similar to that performed for the water proxy group.

RESPONSE: Witness – Pauline M. Ahern.

- a. **Notwithstanding the academic literature which supports the superiority of analysts' earnings per share growth forecasts for use in the Discounted Cash Flow (DCF) model, Ms. Ahern averaged various historical and projected growth rates for the proxy group of seven AUS Utility Reports water companies because, until the recent economic and capital market crises, it was appropriate to analyze both historical and projected growth rates. See also Ms. Ahern's prepared direct testimony at page 26, lines 12-15**
- b. **See Ms. Ahern's prepared direct testimony at page 26, lines 8-12.**
- c. **In many states, there is competition for the gas commodity as customers, especially large industrial and / or commercial customers can bypass the local gas distribution company (LDC) and tie in directly to a gas pipeline. In addition, in some states, even residential and / or commercial customers have a choice of provider and with the incumbent LDC only passing through the charges as a billing agent, thereby losing the margin on the commodity.**
- d. **See Attachment 29-d. Notwithstanding the provision of the requested historical growth data for the gas distribution proxy group, it is Ms. Ahern's opinion that such a growth rate analysis is not appropriate for use in a DCF analysis based upon the gas distribution proxy group's market data as discussed in her prepared direct testimony at page 26, lines 8-12.**

Water Service Corporation of Kentucky
Historical and Projected Growth

	1		2		3		4		5		6		7		8		9		10		11		12		13		
	DPS	EPS	DPS	EPS	Five Year Historical BR + SV (2)	Value Line Historical Five Year Growth Rate (1)	DPS	EPS	Value Line Projected 2005-07 to 2011-13 Growth Rate (1)	EPS	EPS	Projected Five Year Growth Rate	EPS	EPS	Average Projected Five Year Growth Rate in EPS (3)	Projected Five Year BR + SV (4)	Low	High	Range of Growth Rates	Midpoint	Median of all Growth Rates	Average of Midpoint and Median of all Growth Rates (5)					
Proxy Group of Ten AUS Utility Reports																											
West Virginia	4.00 %	15.00 %	11.76 %	3.00 %	3.00 %	3.00 %	3.00 %	3.00 %	3.00 %	3.00 %	7.00 %	5.00 %	3.00 %	3.00 %	5.00 %	6.15 %	3.00 %	15.00 %	9.00 %	2.49	6.15 %	3.00 %	7.58 %	2.75			
Duke Energy	1.00	8.50	3.88	2.50	2.50	4.83	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	NA	1.00	3.98	3.98	2.49	3.00	4.67	4.96	5.96			
Duke Natural Gas Company	1.00	5.00	7.68	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	4.00	9.50	9.50	5.25	4.67	4.67	5.96	5.96			
Laclede Group, Inc.	1.00	(1.50)	5.65	0.00	0.00	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	2.00	8.50	8.50	3.18	4.15	4.15	5.96	5.96			
New Jersey Resources Corp.	2.00	6.50	4.97	5.00	7.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	4.00	7.00	7.00	4.50	5.63	5.63	5.07	3.87			
NICOR Inc.	4.50	8.00	6.21	5.00	7.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	4.00	4.00	4.00	6.15	6.00	6.00	6.08	6.08			
Northwest Natural Gas Company	4.50	16.00	6.21	5.00	6.00	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	4.50	4.50	12.50	8.50	8.50	8.50	8.50	8.50			
Piedmont Natural Gas Co., Inc.	6.50	16.00	6.21	5.00	6.00	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	4.50	4.50	12.50	8.50	8.50	8.50	8.50	8.50			
South Jersey Industries, Inc.	6.50	16.00	6.21	5.00	6.00	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	4.50	4.50	12.50	8.50	8.50	8.50	8.50	8.50			
West Virginia Gas Corporation	1.50	5.00	4.53	2.50	4.00	5.11	5.11	5.11	5.11	5.11	5.11	5.11	5.11	5.11	5.11	5.11	0.00	6.50	6.50	3.25	5.11	5.11	4.18	4.18			
WGL Holdings, Inc.	1.50	5.00	4.53	2.50	4.00	5.11	5.11	5.11	5.11	5.11	5.11	5.11	5.11	5.11	5.11	5.11	1.50	5.00	5.00	3.25	3.87	3.87	3.56	3.56			
Average									5.45 %		6.01 %	5.53 %											5.27 %				
Median									5.25 %		6.00 %	5.38 %											5.02 %				

Notes: (1) As shown on pages 8 through 24 of Schedule PMA-8 Historical growth rates are five-year compound growth rates.
(2) From page 24 of this Attachment.
(3) Average of Columns 5 and 6.
(4) From page 6 of this Attachment.
(5) Average of Column 11 and Column 12.
(6) Excludes negatives.

Source of Information: Value Line Investment Survey; December 12, 2008
Retiree Company Research; December 31, 2008

Water Service Corporation of Kentucky
Calculation of Historical BR + SV

	1	2	3	4	5
	BR (1)	S Factor (2)	V Factor (3)	SV (4)	BR + SV (5)
Average	<u>4.71 %</u>	<u>3.86 %</u>	<u>45.13 %</u>	<u>1.69 %</u>	<u>6.40 %</u>
Median	<u>4.16 %</u>	<u>3.38 %</u>	<u>44.60 %</u>	<u>1.31 %</u>	<u>5.38 %</u>

Proxy Group of Ten AUS Utility Reports

Gas Distribution Companies	BR (1)	S Factor (2)	V Factor (3)	SV (4)	BR + SV (5)
AGL Resources, Inc.	6.45 %	11.37 %	46.70 %	5.31 %	11.76 %
Delta Natural Gas Company	1.81	5.72	37.99	2.17	3.98
Laclede Group, Inc.	3.64	2.79	42.50	1.19	4.83
New Jersey Resources Corp.	7.13	0.94	58.72	0.55	7.68
NICOR Inc.	5.38	0.51	53.71	0.27	5.65
Northwest Natural Gas Company	3.90	2.57	41.48	1.07	4.97
Piedmont Natural Gas Co., Inc.	3.50	5.22	52.01	2.71	6.21
South Jersey Industries, Inc.	7.19	3.97	51.30	2.04	9.23
Southwest Gas Corporation	3.69	5.18	27.50	1.42	5.11
WGL Holdings, Inc.	4.41	0.31	39.38	0.12	4.53

- Notes: (1) From column 6, page 3 of this Attachment.
(2) From column 12, page 4 of this Attachment.
(3) From column 7, page 5 of this Attachment.
(4) Column 2 * column 3.
(5) Column 1 + column 4.

Walter Sandus Corporation of Kentucky
Historical Internal Growth Rate (1), i.e., BR, for
the Proxy Group of Ten AUS Utility Reports
for the Years 2003-2007

	1	2	3	4	5	6
	2007	2006	2005	2004	2003	Five-Year Average 2003-2007 Internal Growth Rate, i.e., BR
Proxy Group of Ten AUS Utility Reports Gas Distribution Companies						
AGL Resources, Inc.						
Common Equity Return Rate	12.91 %	13.64 %	13.38 %	13.13 %	15.45 %	
Retention Ratio	4.71	45.75	48.19	50.98	48.49	
Internal Growth Rate (1)	5.38	6.24	6.45	6.69	7.49	6.45 %
Delta Natural Gas Company						
Common Equity Return Rate	9.90 %	9.72 %	10.04 %	8.10 %	9.62 %	
Retention Ratio	24.80	22.57	24.06	2.06	19.12	
Internal Growth Rate (1)	2.46	2.19	2.41	0.17	1.84	1.81
Laclede Group, Inc.						
Common Equity Return Rate	11.98 %	12.74 %	11.09 %	11.01 %	11.83 %	
Retention Ratio	36.70	38.67	27.62	24.61	26.29	
Internal Growth Rate (1)	4.40	4.93	3.06	2.71	3.11	3.64
New Jersey Resources Corp.						
Common Equity Return Rate	10.31 %	14.82 %	16.85 %	16.14 %	16.76 %	
Retention Ratio	34.98	48.88	50.86	49.92	48.61	
Internal Growth Rate (1)	3.61	7.24	8.57	9.06	8.15	7.13
NICOR, Inc.						
Common Equity Return Rate	14.69 %	15.24 %	17.47 %	9.99 %	14.19 %	
Retention Ratio	37.90	35.07	39.77	(6.05)	25.34	
Internal Growth Rate (1)	5.62	5.34	6.95	(0.90)	3.60	5.38 (2)
Northwest Natural Gas Company						
Common Equity Return Rate	12.48 %	10.69 %	10.07 %	9.41 %	9.24 %	
Retention Ratio	48.17	39.61	37.44	30.58	28.53	
Internal Growth Rate (1)	6.01	4.23	3.77	2.88	2.63	3.90
Piedmont Natural Gas Co., Inc.						
Common Equity Return Rate	11.85 %	11.00 %	11.65 %	12.82 %	12.19 %	
Retention Ratio	29.53	25.81	31.50	33.53	26.16	
Internal Growth Rate (1)	3.50	2.84	3.67	4.30	3.19	3.50
South Jersey Industries, Inc.						
Common Equity Return Rate	13.48 %	17.13 %	13.03 %	13.17 %	12.45 %	
Retention Ratio	52.67	62.90	49.79	47.56	42.94	
Internal Growth Rate (1)	7.10	10.76	6.49	6.26	5.35	7.19
Southwest Gas Corporation						
Common Equity Return Rate	8.63 %	10.15 %	5.02 %	8.50 %	6.28 %	
Retention Ratio	55.66	59.46	27.66	48.29	27.69	
Internal Growth Rate (1)	4.92	6.03	1.66	4.10	1.73	3.69
WGL Holdings, Inc.						
Common Equity Return Rate	11.34 %	9.65 %	11.85 %	11.56 %	14.18 %	
Retention Ratio	37.71	30.68	37.77	34.81	44.73	
Internal Growth Rate (1)	4.28	2.96	4.47	4.02	6.34	4.41
Average						4.71 %
Median						4.16 %

Notes: (1) The internal growth rate is calculated by multiplying the common equity return rate by the retention ratio (100% minus the dividend payout ratio). All data are on a consolidated basis.

(2) Excludes negatives.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Database
EDGAR Online's iHealth Database
Company Annual Forms 10-K

Proxy Group of Ten AUS Utility Reports Gas Distribution Companies	Water Service Corporation of Kentucky Projected Internal Growth Rate											
	Calculation of Five Year Average Growth in Common Shares Outstanding (1), i.e., S Factor											
	1	2	3	4	5	6	7	8	9	10	11	12
Common Shares Outstanding (1)	02-03 Growth	2003 Common Shares Outstanding (1)	03-04 Growth	2004 Common Shares Outstanding (1)	04-05 Growth	2005 Common Shares Outstanding (1)	05-06 Growth	2006 Common Shares Outstanding (1)	06-07 Growth	2007 Common Shares Outstanding (1)	Five Year Average Common Share Growth	
AGL Resources, Inc.	56,700	13.76 %	64,500	18.91 %	76,700	1.43 %	77,800	(0.13) %	77,700	(1.67) %	76,400	11.37 (2)
Della Natural Gas Company	2,530	25.18	3,167	1.07	3,201	0.91	3,230	0.60	3,255	0.64	3,277	5.72
Laclede Group, Inc.	18,921	0.85	19,062	9.95	20,991	0.91	21,172	0.90	21,352	1.33	21,646	2.76
New Jersey Resources Corp.	40,375	1.17	40,849	1.87	41,611	(0.70)	41,319	0.29	41,438	0.42	41,851	0.64 (2)
NICOR Inc.	44,011	0.07	44,040	0.14	44,102	0.18	44,180	1.63	44,301	0.51	45,130	0.51
Northwest Natural Gas Company	25,586	1.38	25,938	6.20	27,547	0.12	27,579	(1.07)	27,284	(3.21)	26,407	2.57 (2)
Piedmont Natural Gas Co., Inc.	66,180	1.71	67,310	13.91	76,670	0.04	76,688	(1.61)	75,464	(1.66)	74,208	5.22 (2)
South Jersey Industries, Inc.	24,412	8.38	26,458	4.92	27,760	4.40	28,962	1.19	29,326	0.96	29,607	3.97
Southwest Gas Corporation	33,289	2.83	34,232	7.48	36,794	6.69	39,328	6.21	41,770	2.48	42,806	5.16
WGL Holdings, Inc.	48,565	0.10	48,612	0.08	48,653	0.10	48,704	0.36	48,878	0.90	49,316	0.31
Average												3.86 %
Median												3.38 %

Notes: (1) Year-end shares outstanding.
(2) Excludes negatives.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Database
EDGAR Online's I-Matrix Database
Company Annual Forms 10-K

Water Service Corporation of Kentucky
Calculation of the Premium/Discount of a
Company's Stock Price Relative to its Book Value, i.e., V Factor

	1	2	3	4	5	6	7
	2003 Market to Book Ratio (1)	2004 Market to Book Ratio (1)	2005 Market to Book Ratio (1)	2006 Market to Book Ratio (1)	2007 Market to Book Ratio (1)	Five Year Average Market to Book Ratio	V Factor (2)
Proxy Group of Ten AUS Utility Reports							
Gas Distribution Companies							
AGL Resources, Inc.	188.56 %	183.87 %	191.08 %	186.34 %	188.25 %	187.62 %	46.70 %
Delta Natural Gas Company	152.13	168.87	164.68	168.10	152.50	161.26	37.99
Laclede Group, Inc.	164.06	177.47	176.58	177.68	171.73	173.90	42.50
New Jersey Resources Corp.	232.12	242.35	274.27	239.73	222.85	242.27	58.72
NICOR Inc.	187.03	210.11	221.99	234.51	226.51	216.03	53.71
Northwest Natural Gas Company	144.13	153.37	171.88	176.90	208.20	170.89	41.48
Piedmont Natural Gas Co., Inc.	203.21	205.68	209.71	208.93	214.30	208.37	52.01
South Jersey Industries, Inc.	169.62	195.32	221.28	209.37	231.12	205.34	51.30
Southwest Gas Corporation	118.21	126.74	134.80	160.91	149.01	137.93	27.50
WGL Holdings, Inc.	155.55	164.64	174.11	161.01	169.56	164.97	39.38
						<u>186.86 %</u>	<u>45.13 %</u>
						<u>180.76 %</u>	<u>44.60 %</u>

Notes: (1) Market to Book Ratio = average of yearly high-low market price divided by the average of beginning and ending year's balance of book common equity per share.
(2) (1 - (100 / column 6)).

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Database
EDGAR Online's I-Metrix Database
Company Annual Forms 10-K

Water Service Corporation of Kentucky
Projected Internal Growth Rate

	2007			2011-2013			2011-2013			2011-2013			Projected Internal Growth (8)	
	Common Equity (%) (1)	Total Capital (\$ mill) (1)	Common Equity (\$ mill) (2)	Common Equity (%) (1)	Total Capital (\$ mill) (1)	Common Equity (\$ mill) (3)	Annual Common Equity Growth Rate (4)	ROE Adjustment Factor (5)	Return on Common Equity (1)	Return on Average Common Equity (6)	EPS (1)	DPS (1)		Retention Ratio (7)
Proxy Group of Ten AUS Utility Regulated Gas Distribution Companies	49.80	3335.00	\$ 1,660.83	54.50 %	\$ 3,400.00	\$ 1,853.00	2.21 %	1.01 %	13.50 %	13.64 %	\$ 3.15	\$ 1.84	41.59 %	5.57 %
AGL Resources, Inc.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	5.04
Della Natural Gas Company	54.60	784.50	428.34	53.00	1,250.00	662.50	9.11	1.04	11.50	11.96	2.60	1.38	42.17	6.66
Laclede Group, Inc.	62.70	1028.00	644.56	67.50	1,890.00	1,134.00	11.96	1.05	11.50	13.17	3.45	1.66	54.87	6.35
New Jersey Resources Corp.	69.00	1388.00	943.92	73.00	1,575.00	1,148.75	5.86	1.02	13.50	13.77	3.35	1.88	46.09	4.97
NICOR Inc.	53.70	1106.00	594.35	52.00	2,125.00	1,126.25	5.08	1.02	11.00	11.33	2.05	1.19	43.88	5.78
Northwest Natural Gas Company	51.60	1703.00	847.30	52.00	2,125.00	1,126.25	5.38	1.03	13.50	13.77	3.00	1.30	41.95	9.34
Piedmont Natural Gas Co., Inc.	57.30	2349.00	1,218.75	59.50	1,050.00	624.75	5.30	1.03	16.00	16.48	2.50	1.05	56.67	5.68
South Jersey Industries, Inc.	44.30	2349.00	984.57	49.50	2,875.00	1,274.63	5.30	1.03	9.50	9.79	2.50	1.56	58.00	4.15
Southwest Gas Corporation	60.30	1625.40	890.12	66.50	1,860.00	1,250.20	4.99	1.02	10.50	10.71	2.55	1.56	38.82	5.95 %
WGL Holdings, Inc.														5.68 %

Average
Median

NA = Not Available

- Notes: (1) As shown on pages 8 through 24 of Schedule PMA-8.
(2) Column 1 * column 2.
(3) Column 4 * column 5.
(4) $\frac{\text{Common Equity (2)}}{\text{Total Capital (1)}} \times 100$
(5) $2 * (1) + \text{column 7} / (2 * \text{column 7})$
(6) Column 8 * column 9.
(7) $1 - (\text{column 12} / \text{column 11})$
(8) Column 10 * column 13.

Source of Information: Value Line Investment Survey December 12, 2008