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December 13, 2010

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Kentucky-American Water Company  
2300 Richmond Road  
Lexington, Kentucky 40502

Iris G Skidmore, Esq.  
415 West Main Street, Suite 2  
Frankfort, Kentucky 40601

Re: Case No. 2010-00036  
Kentucky-American Water Company

Ladies and Gentlemen:

The enclosed electronic mail message and its attachment have been placed in the record of the above-referenced case.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".

Jeff Derouen  
Executive Director

gw  
Enclosure

## Wuetcher, Jerry (PSC)

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**From:** Ingram III, Lindsey [L.Ingram@skofirm.com]  
**Sent:** Wednesday, September 15, 2010 14:39  
**To:** Wuetcher, Jerry (PSC)  
**Cc:** Spenard, David (KYOAG); Howard, Dennis (KYOAG); dbarberi@lfucg.com; batesandskidmore@gmail.com; Osterloh, Todd (PSC); Frost, Mark C (PSC); Reid, Sam H (PSC); Beavers, Eddie (PSC); Rice, James D (PSC); Robards, Bob (PSC); lbowman@lfucg.com; Louise.Magee@amwater.com; Kash, Heather (KYOAG); Mike.Miller@amwater.com; Sheila.Miller@amwater.com; Gerald.Reynolds@amwater.com  
**Subject:** RE: Case No. 2010-00036: PSC Staff Request for Clarification  
**Attachments:** Summary of revisions.xls

Jerry:

You are correct about the deferred compensation adjustment to rate base. The attached has been revised to make that correction. Per our discussion regarding procedure for getting this information into the record, the Commission will take care of it so it is my understanding that I do not need to e-file this. Please let me know if that changes.

Lindsey

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**From:** Wuetcher, Jerry (PSC) [mailto:JWuetcher@ky.gov]  
**Sent:** Wednesday, September 15, 2010 10:11 AM  
**To:** Ingram III, Lindsey  
**Cc:** Spenard, David (KYOAG); Howard, Dennis (KYOAG); dbarberi@lfucg.com; batesandskidmore@gmail.com; Osterloh, Todd (PSC); Frost, Mark C (PSC); Reid, Sam H (PSC); Beavers, Eddie (PSC); Rice, James D (PSC); Robards, Bob (PSC); lbowman@lfucg.com; Louise.Magee@amwater.com; Kash, Heather (KYOAG); Mike.Miller@amwater.com; Sheila.Miller@amwater.com; Gerald.Reynolds@amwater.com  
**Subject:** RE: Case No. 2010-00036: PSC Staff Request for Clarification

Lindsey:

The format is acceptable to PSC Staff. PSC Staff noted a circular reference in the copy of the file that we opened. (This problem may be related to the version of Excel that the PSC uses. The PSC's computers are equipped with Excel 2003.) PSC Staff suggests that KAWC review Deferred Compensation adjustment to rate base to ensure its accuracy. Should the adjustment increase or decrease rate base?

Gerald E. Wuetcher  
Executive Advisor  
Public Service Commission of Kentucky  
(502) 564-3940, Extension 259  
(502) 229-6500 (cell)  
gerald.wuetcher@ky.gov

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**From:** Ingram III, Lindsey [mailto:L.Ingram@skofirm.com]  
**Sent:** Tuesday, September 14, 2010 16:57  
**To:** Wuetcher, Jerry (PSC)  
**Cc:** Spenard, David (KYOAG); Howard, Dennis (KYOAG); dbarberi@lfucg.com; batesandskidmore@gmail.com; Osterloh, Todd (PSC); Frost, Mark C (PSC); Reid, Sam H (PSC); Beavers, Eddie (PSC); Rice, James D (PSC); Robards, Bob (PSC); lbowman@lfucg.com; Louise.Magee@amwater.com; Kash, Heather (KYOAG); Mike.Miller@amwater.com; Sheila.Miller@amwater.com; Gerald.Reynolds@amwater.com  
**Subject:** RE: Case No. 2010-00036: PSC Staff Request for Clarification

Jerry:

12/13/10

We have prepared the attached Excel spreadsheet in an effort to provide the requested information. I plan on e-filing this in the case, but I want to make sure that it provides the requested information and that it does so in a format acceptable to Commission Staff. I am not sure if it shows on your end, but the suggested format you provided below gets a little garbled when I view it (maybe because I use Outlook and you use a different e-mail program?). Regardless, if the attached is what the Commission Staff needs, please let me know and I will file it right away. If it is not, please let us know how it needs to be revised and we will do so.

Lindsey W. Ingram III  
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859-231-3982 (direct dial)  
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**From:** Wuetcher, Jerry (PSC) [mailto:[JWuetcher@ky.gov](mailto:JWuetcher@ky.gov)]

**Sent:** Monday, September 13, 2010 5:18 AM

**To:** Ingram III, Lindsey

**Cc:** Spenard, David (KYOAG); Howard, Dennis (KYOAG); [dbarberi@lfucg.com](mailto:dbarberi@lfucg.com); [batesandskidmore@gmail.com](mailto:batesandskidmore@gmail.com); Osterloh, Todd (PSC); Frost, Mark C (PSC); Reid, Sam H (PSC); Beavers, Eddie (PSC); Rice, James D (PSC); Robards, Bob (PSC); [lbowman@lfucg.com](mailto:lbowman@lfucg.com); [Louise.Magee@amwater.com](mailto:Louise.Magee@amwater.com); Kash, Heather (KYOAG)

**Subject:** Case No. 2010-00036: PSC Staff Request for Clarification

Mr. Ingram:

On July 15, 2010, Kentucky-American Water Company (KAWC) submitted its base period updates. This submission included a schedule that lists KAWC's various revisions to its forecasted revenue requirement. A copy of this schedule is attached. Commission Staff requests that NLT 17 September 2010 KAWC provide for each revision listed in the attached schedule the revision's effect on KAWC's forecasted rate base, operating revenues, operating expenses, and capital accounts. An example of the suggested format for KAWC's response appears below:

Slippage:	Rate Base	Utility Plant in Service	\$Adjustment
		Accumulated Depreciation	\$Adjustment
		Deferred Income Tax	\$Adjustment
	Operating Revenues	AFUDC	\$Adjustment

If KAWC has questions regarding this request, please submit them by e-mail and copy the parties to Case No. 2010-00036. A copy of this message will be placed in the record of Case No. 2010-00036.

Commission Staff appreciates KAWC's efforts in timely responding to this request.

Sincerely,

Gerald E. Wuetcher  
Executive Advisor  
Public Service Commission of Kentucky  
(502) 564-3940, Extension 259  
(502) 229-6500 (cell)  
[gerald.wuetcher@ky.gov](mailto:gerald.wuetcher@ky.gov)

<<Pages from KAW\_SAPP\_EX37\_071510.pdf>>

**Kentucky American Water Company**  
**Summary of revisions**

	Rate base	Operating Revenues	Operating Expenses	Capital Accounts
<b>Slippage:</b>				
Utility Plant in Service	3,040,339			
Accumulated depreciation	(62,956)			
CWIP	(25,443)			
Working Capital	1,000			
CIAC's	(916,100)			
CAC's	(792,057)			
Accumulated Deferred IT	1,474			
	1,246,257			
AFUDC		(17,066)		
Property tax expense			18,132	
Depreciation expense			60,553	
SIT current			4,007	
SIT deferred			144	
FIT current			21,968	
FIT deferred			755	
				Avg Wt cost
ST debt			1,249,182	0.01%
LT debt			(1,558)	-0.01%
Preferred stock			(52)	0.00%
Common equity			(1,315)	-0.02%
				<hr style="width: 100px; margin-left: auto; margin-right: 0;"/> -0.02%
<b>Reduced Pensions:</b>				
pension expense			(253,262)	
SIT current			15,246	
FIT current			83,606	
Working capital	(25,000)			
<b>Reduced OPEB's:</b>				
OPEB expense			(52,215)	
SIT current			3,147	
FIT current			17,256	
Working capital	(7,000)			
<b>Reduced management fees:</b>				
Management fees expense			(132,950)	
SIT current			8,010	
FIT current			43,919	
Working capital	(16,000)			
<b>Adj rate case expense - 2 months amortization:</b>				
Regulatory expense amortization			24,866	
SIT current			(1,498)	
FIT current			(8,214)	
working capital	3,000			
<b>Adj working capital for AIP lag days:</b>				
Majority of this difference is due to the net operating funds total on Sch B5.2 did not originally include the payroll totals in the dollar days column.				
Working Capital	(458,883)			

**Kentucky American Water Company**  
**Summary of revisions**

	Rate base	Operating Revenues	Operating Expenses	Capital Accounts	
Accumulated Deferred IT	117				
Result of chg in equity grossup due to adj to working cap and slight change in capital structure between short term debt - adj for slippage					
SIT current			3,139		
FIT current			17,219		
ST debt				(459,956)	-0.01%
LT debt				571	0
Preferred stock				18	0
Common equity				484	0.01%
					<u>0.00%</u>

**Other Rate Base - deferred compensation:**

Working capital	(3,000)				
Accumulated deferred IT	(24)				
Other rate base items	188,379				
SIT current			(410)		
FIT current			(2,251)		
AFUDC		(304)			
ST debt				185,788	0
LT debt				(234)	0
Preferred stock				-	0
Common equity				(190)	-0.01%
					<u>-0.01%</u>

**Eliminate duplicate UPAA - Boonesboro:**

Utility Plant Acquisition Adjustment	(2,342)				
SIT current			5		
FIT current			26		

**Adj insurance other than group to 2010 premiums:**

Insurance other than group			(47,931)		
Working capital	(9,000)				
SIT current			2,894		
FIT current			15,870		

**Adj labor & mgmt fees - move Braxton, Shryock, and Slone to SC:**

Kentucky labor			(240,001)		
Management Fees			370,765		
Pensions			(31,462)		
OPEB's			(26,620)		
Group Insurance			(42,360)		
Worker's compensation			(804)		
Payroll Taxes			(20,468)		
401K			(3,995)		
DCP			(846)		
Retiree Medical			(61)		
Incentive			(13,766)		
Working Capital	23,000				
SIT current			584		
FIT current			3,197		

**Adj Tax exempt financing bond rate from 5.625% to 5.375%:**

**Kentucky American Water Company**  
**Summary of revisions**

	Rate base	Operating Revenues	Operating Expenses	Capital Accounts
Working Capital	11,000			
Accumulated Deferred IT	188			
SIT current			4,339	
SIT deferred			(20)	
FIT current			23,796	
FIT deferred			(107)	
AFUDC		(653)		
ST debt				(11,214) 0
LT debt				9 -0.02%
Preferred stock				9 0
Common equity				9 0
				<hr style="width: 100%; border: 0.5px solid black;"/> -0.02%
Interest on LTD			(113,077)	
 <b>Adj depreciation rates to include KRS II:</b>				
Accumulated depreciation	130,773			
Working Capital	(12,000)			
Accumulated deferred IT	(73,262)			
Depreciation expense			(262,146)	
Property Taxes			444	
SIT current			(118)	
SIT deferred			23,142	
FIT current			(649)	
FIT deferred			126,904	