COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY FOR AN ADJUSTMENT OF RATES SUPPORTED BY A FULLY FORECASTED TEST YEAR

COMMISSION STAFF’S FIRST REQUEST FOR INFORMATION TO KENTUCKY-AMERICAN WATER COMPANY

Kentucky-American Water Company (“Kentucky-American”), pursuant to 807 KAR 5:001, shall file with the Commission the original, one paper copy, and one electronic copy of the following information within 14 days of the date of this request. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person’s knowledge, information, and belief formed after a reasonable inquiry.

Kentucky-American shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Kentucky-American fails or refuses to furnish all or part of the requested information, Kentucky-
American shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. List each of Kentucky-American's sewer facilities.

2. List each Kentucky-American facility and contract operation that is not subject to the Commission's regulation.

3. a. Provide a copy of the workpapers and calculations that Kentucky-American used to develop its forecasted test-period financial information.

   b. State all assumptions that Kentucky-American used to develop its forecasted test-period financial information.

   c. Provide the workpapers, calculations, and assumptions requested in Item 3(a) in Microsoft Excel format.

4. a. State whether Kentucky-American's internal accounting manuals, directives, policies, and procedures, that were submitted in Case No. 2010-00036,1 have been modified, amended, or replaced.

   b. If any of the documents identified in Item 3(a) have been modified, amended, or replaced, provide a complete copy of the current document and identify the sections that differ from the document provided in Case No. 2010-00036.

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5. Provide a complete copy of all Kentucky-American budget instructions, assumptions, directives, manuals, policies and procedures, time lines, and descriptions of budget procedures.

6. a. Provide a comparison of Kentucky-American's monthly operating budgets to the actual results, by account, for each of the following calendar years: 2008 through 2011. Kentucky-American's response shall include comparisons for the following major expense categories:

(1) Fuel and Power Expense;
(2) Chemical Expense;
(3) Management Fee Expense;
(4) Customer Accounting Expense;
(5) General Office Expense;
(6) Miscellaneous Expense; and
(7) Maintenance Expense.

b. Provide, for each yearly account variance that exceeds 5 percent, a detailed explanation for the variance.

7. Provide a reconciliation and a detailed explanation of each difference, if any, in the capitalization and the net investment rate base of Kentucky-American for the base period.

8. Provide a rate base, capital structure, and statement of income for Kentucky-American for the most recent actual 12-month period at the time of the company's application for rate adjustment and for the base period used in the company's application.
Provide detailed explanations necessary to reconcile this information with the filed base-period revenue-requirement information.

9. Describe the process that Kentucky-American uses to plan and approve construction projects.

10. Provide Kentucky-American's long-term construction planning program in effect as of the date of the filing of Kentucky-American's application.

11. a. For each construction project that Kentucky-American has commenced from January 1, 2002 through December 31, 2011, provide the information listed below in the format contained in Schedule 1:

(1) Project number;
(2) Project title and description;
(3) Annual actual cost;
(4) Annual original budgeted cost;
(5) Variance between annual actual cost and annual original budgeted cost in dollars;
(6) Variance between annual actual cost and annual original budgeted cost as a percentage;
(7) Percentage of total construction budget that proposed project comprises for the budgeted year;
(8) Total actual project cost;
(9) Total budgeted project cost;
(10) Variance between total actual project cost and total budgeted project cost;
(11) Date the original budget projected the project to start;
(12) Date the original budget projected the project to be completed;
(13) Date construction of project actually commenced; and
(14) Date construction of the project was actually completed.

b. For each project in which a variance between actual and budgeted cost occurred, or in which a delay in its start or completion occurred, describe the variance or delay and the reasons for such variance or delay.

c. Provide the information requested in 11(a) and 11(b) for the calendar year 2012 when available.

d. Provide a copy of the construction budget variance information requested in Item 11(a) and 11(c) on a CD-ROM in Microsoft Excel format.

12. Provide, in the format provided as Schedule 2, an analysis of the Construction Work in Progress as defined in the Uniform System of Accounts for the 12-month period preceding the base period, the base period, and the forecasted test period.

13. For each construction project listed in Kentucky-American's response to Item 10, provide the information listed below in the format contained in Schedule 3:

   a. Project number;
   b. Date on which construction began;
   c. Estimated date of project completion;
   d. Time elapsed since the beginning of construction as a percentage of total estimated time of construction;
   e. Original budget estimate of project's cost;
   f. Most recent budget estimate of project's cost;
g. Total expenditure on project; and  
h. Total project expenditure as percentage of total budgeted estimate.

14. Provide a copy of all schedules presented in the cost-of-service study, electronically, in Microsoft Excel format, allowing for the review of and unrestricted access to the underlying formulas.

15. a. Provide Kentucky-American’s budgeted and actual regular wages, overtime wages, and total wages by employee group, by month, for the most recent two years available in the format provided as Schedule 4. Kentucky-American shall supplement its response as further information becomes available.

b. For each variance that exceeds 5 percent in a monthly period, state the reasons for the variance.

16. Provide a complete copy of all wage, compensation, and employee benefits studies, analyses, and surveys that Kentucky-American has conducted, commissioned, or used.

17. State for each employee group the amounts, percentages of increase, and effective dates for general wage increases and, separately, for merit increases granted for calendar years 2009, 2010, and 2011, the base period and the forecasted period.

18. a. Identify the amounts of incentive pay that are included in base year and forecasted labor. Describe the incentive pay plans and explain why such a plan is necessary and reasonable.

b. List each Kentucky-American employee who is eligible to participate in the incentive pay program.
c. State the level of incentive pay awarded to all individuals participating in the program for the previous five calendar years compared to the level of incentive pay available to each participant in the forecasted period.

d. For the previous five calendar years, provide a comparison of the incentive pay that was budgeted to the actual amounts paid in each year. Include detailed explanations for any variance between the budgeted and actual payments.

19. a. Provide complete details of each early retirement plan and employee-reduction program that Kentucky-American or American Water Works Company ("American Water") intends to offer to its employees during the base period and the forecasted test period.

   b. For each program listed above, provide all cost-benefit analyses or studies upon which the program is based.

20. a. List all fringe or other employee benefits available to Kentucky-American employees and indicate which benefits, if any, are limited to management employees.

   b. For each benefit listed above, state the expected cost of each benefit in the base period and the forecasted test period and its historical cost for each of the two years preceding the base period.

   c. List each change in fringe or other employee benefits or the availability of such benefits that has occurred within two years of the start of the base period.

21. List separately the budgeted and actual number of full- and part-time employees by employee group, by month and by year, for the five years immediately preceding the base period, the base period, and the forecasted period.
22. Provide a detailed description of each Other Post-retirement Employee Benefits package that Kentucky-American or American Water provides to Kentucky-American employees.

23. Provide all employment contracts between Kentucky-American and its non-management employees that are currently in effect and the most recent contracts previously in effect.

24. Provide a complete copy of each group medical insurance policy that Kentucky-American currently maintains for its employees.

25. a. Provide, for each major functional plant property group or account in the format shown in Schedule 5, the following:

   (1) Plant beginning balances;
   (2) Plant ending balances;
   (3) Gross additions occurring in the forecasted test period;
   (4) Retirements occurring in the forecasted test period; and
   (5) Transfers for Kentucky-American occurring in the forecasted test period.

   b. For any account in which transfers regularly occur in the normal course of business, provide a general description of the nature of the transfers.

26. Provide, in the format shown in Schedule 6 for each property leased to the utility or improvement to leased property, the following:

   a. An identification or reference number;
   b. A description of the property's type and use;
   c. The name of the lessor;
d. The frequency of lease payments;
e. The amount of each lease payment;
f. The original value of the property, together with annual lease payments; and
g. An explanation of the method that Kentucky-American uses to capitalize the lease payment.

27. Provide, in the format shown in Schedule 7 for each property held for future use, the following:
   a. A description of the property;
   b. The date of its acquisition;
   c. Its original cost;
   d. Its accumulated depreciation;
   e. Its expected in-service date; and
   f. Its expected use.

28. Provide the information in the format listed in Schedule 8 regarding Certain Deferred Credits, Accumulated Deferred Income Taxes, and Other Rate Base items included in the forecasted test-period rate base.

29. Provide the following (original cost) monthly account balances and a calculation of the average (13-month) account balances for total company and jurisdictional operations:
   a. Plant in Service;
   b. Plant Purchased or Sold;
   c. Property Held for Future Use;
d. Construction Work in Progress ("CWIP") (Separate this balance into CWIP eligible for capitalized interest and other CWIP.);

e. Completed Construction Not Classified;

f. Accumulated Depreciation and Amortization;

g. Plant Acquisition Adjustment;

h. Amortization of Utility Plant Acquisition Adjustment;

i. Materials and Supplies;

j. Balance in Accounts Payable Applicable to each account in (i) above (If actual cannot be determined, give reasonable estimate.);

k. Unamortized Investment Tax Credit–Pre-Revenue Act of 1971;

l. Unamortized Investment Tax Credit–Revenue Act of 1971;

m. Accumulated Deferred Income Taxes;

n. Summary of Customer Deposits;

o. Computation and Development of Minimum Cash Requirements;

p. Balance in Accounts Payable Applicable to amounts included in utility plant in service (If actual cannot be determined, provide a reasonable estimate.);

q. Balance in Accounts Payable Applicable to prepayments by major category or subaccount;

r. Balance in Accounts Payable applicable to amounts included in plant under construction (If actual cannot be determined, provide a reasonable estimate.); and

s. All Current Assets and Current Liability accounts not included above.
30. Provide a calculation of federal and state income tax expense, including a reconciliation of book to taxable income, for the base period and the forecasted period in the format shown in Schedule 9.

31. Provide a trial balance as of the last day of the base period showing account number, account title, and actual base period accounts. All income statement accounts should show activity for 12 months.

32. Provide a copy of the current service contract between Kentucky-American and American Water Works Service Company.

33. a. Provide a copy of each service agreement or contract that Kentucky-American has with an affiliate company.

b. Describe in detail the pricing policies of Kentucky-American and its affiliates with regard to affiliate company transactions.

34. a. List and describe each service that each affiliated company renders to Kentucky-American.

b. For each service listed above, describe the benefit(s), if any, that Kentucky-American derives from the provision of this service from the affiliate.

35. Provide a comprehensive list and detailed description of the services that Kentucky-American has provided to affiliated companies.

36. Provide a list, with descriptions, of all activities, initiatives, or programs undertaken or continued by Kentucky-American since its last general rate case for the purpose of minimizing costs or improving the efficiency of its operations or maintenance activities.
37. State whether Kentucky-American has developed a written plan or procedure for managing its electricity usage. Provide a copy of this plan or procedure. If no plan or procedure presently exists, explain why Kentucky-American lacks a written plan.

38. State whether Kentucky-American has had a comprehensive energy audit performed on its facilities and operations. If an audit has been performed, provide a copy of the audit report. If no comprehensive energy audit has been performed, explain why Kentucky-American has not performed such an audit.

39. a. Describe in detail each target and goal that Kentucky-American has established to reduce:
   
   (1) Electricity Usage;
   
   (2) Electric Demand;
   
   (3) Power Purchase Costs; and
   

   b. Identify all specific performance measures Kentucky-American will use to evaluate its progress towards meeting the targets established in 39(a). Include a description of the process Kentucky-American used in developing its targets and goals.

   c. State whether Kentucky-American has a written procedure to monitor its progress in meeting the targets and goals listed in 39(a). Provide a copy if a written procedure exists.

40. Describe how Kentucky-American evaluates electricity use and cost criteria when developing its capital improvement plan.
41. Describe how Kentucky-American evaluates electricity use when considering the construction of new treatment systems.

42. a. Provide a detailed description of each reorganization that has occurred either at the corporate or service company level that has affected Kentucky-American's operations.

   b. Quantify the effect each reorganization has had on Kentucky-American's reallocation of cost from the corporate or service company level. Provide all workpapers, show all calculations, and state assumptions used to prepare the response.

Jeff Dequen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED JAN 09 2013

cc: Parties of Record

Case No. 2012-00520
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<th>Project Title/Description</th>
<th>Annual Actual Cost</th>
<th>Annual Original Budget</th>
<th>Variance In Dollars</th>
<th>Variance As Percent</th>
<th>Percent Of Budget</th>
<th>Total Actual Project Cost</th>
<th>Total Budget Project Cost</th>
<th>Variance In Dollars</th>
<th>Date Original Budget Start</th>
<th>Date Original Budget End</th>
<th>Date Actual Start</th>
<th>Date Actual End</th>
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<td>AFUDC Capitalized (E)</td>
<td>Costs Other (F)*</td>
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</table>

**TOTAL**

*Explain the nature of all other indirect costs in footnotes.*
# Kentucky-American
Case No. 2012-00520

Construction Work in Progress - Percent Complete*  
As of _______________________  

Data: ___ Base Period ___ Forecasted Period
Type of Filing: ___ Original ___ Updated ___ Revised
Workpaper Reference No(s): _______________________

<table>
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<th>Line No. (A)</th>
<th>Project No. (B)</th>
<th>Date Construction Work Began (C)</th>
<th>Estimated Project Completion Date (D)</th>
<th>Percent of Elapsed Time (E)</th>
<th>Original Budget Estimate (F)</th>
<th>Most Recent Budget Estimate (G)</th>
<th>Total Project Expenditures (H)</th>
<th>Percent of Total Expenditures (I)=H+G</th>
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</table>

*Should be based on expenditures including AFUDC.
Kentucky-American  
Case No. 2012-00520  
Monthly Payroll Variance Analysis  
As of ____________________  

Type of Filing: ___ Original ___ Updated ___ Revised  
Workpaper Reference No(s): ______________________ 

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<th>Date</th>
<th>Employee Group</th>
<th>Monthly Budget</th>
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<td>Reg. OT Total</td>
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Schedule 4  
Page 1 of 1  
Witness Responsible: ______________________
### Master Summary of Gross Additions, Retirements, and Transfers

Case No. 2012-00520

**Gross Additions, Retirements, and Transfers**

From ________________ To ________________

- **Data:**  
  - Base Period
  - Forecasted Period

- **Type of Filing:**  
  - Original
  - Updated
  - Revised

- **Workpaper Reference No:** ________________

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<th>Beginning Balance</th>
<th>Additions</th>
<th>Retirements</th>
<th>Transfers/Reclassifications</th>
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</table>

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**Schedule 5**

Page 1 of 1

Witness Responsible: ________________
Kentucky-American
Case No. 2012-00520
Leased Property
(Total Company)
As of ________________

Data: ___Base Period ___Forecasted Period
Type of Filing: ___Original ___Updated ___Revised
Workpaper Reference No(s): ________________

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<tr>
<th>Identification or Reference Number</th>
<th>Description of Type and Use of Property</th>
<th>Name of Lessee</th>
<th>Frequency of Payment</th>
<th>Amount of Lease Payment</th>
<th>Dollar* Value of Property Involved</th>
<th>Explain Method of Capitalization</th>
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</table>

*If not available, an estimate should be furnished.
Kentucky-American  
Case No. 2012-00520  
Property Held for Future Use Included in Rate Base  
As of ____________________

Data: ___Base Period ___Forecasted Period  
Type of Filing: ___Original ___Updated ___Revised  
Workpaper Reference No(s): ____________________

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<th>Line No.</th>
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<th>Acquisition Date</th>
<th>Original Cost</th>
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<th>Revenue Realized</th>
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Kentucky-American  
Case No. 2012-00520  
Certain Deferred Credits and Accumulated Deferred Income Taxes*  
As of ________________________  

Data: ___Base Period ___Forecasted Period  
Type of Filing: ___Original ___Updated ___Revised  
Workpaper Reference No(s).: ________________________  

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<tr>
<th>Line No.</th>
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|          |             | Customers’ Advances for Construction  
|          |             | Contributions in Aid of Construction  
|          |             | Investment Tax Credits:  
|          |             | Pre 1971  3% Credit  
|          |             | 1971  4% Credit  
|          |             | 1975  6% Additional Credit  
|          |             | 1981  10% Credit on Recovery Property  
|          |             | ITC Tax Benefits Sold  
|          |             | Deferred Income Taxes:  
|          |             | Accelerated Amortization  
|          |             | Liberalized Depreciation  
|          |             | ACRS Tax Benefits Sold  
|          |             | Other (Specify and list separately)  
|          |             | Other (Specify and list separately)  

*Also provide the ITC option elected in 1971 and 1975 under Section 46(f) of the 1954 Internal Revenue Code.
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<td>Operating Income Before Income Taxes</td>
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<td>$___________ @ ______%</td>
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<td>16</td>
<td>Federal (State) Income Tax Liability</td>
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*Separate schedules should be completed for the federal and state calculation.
Kentucky-American  
Case No. 2012-00520  
Adjusted Jurisdictional _____ Federal and _____ State Income Taxes* 
For the 12 Months Ended ____________________

Data: ____ Base Period ____ Forecasted Period  
Type of Filing: ____ Original ____ Updated ____ Revised  
Workpaper Reference No(s): ____________________

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<td>Amortization of Prior Years Deferred Income Taxes</td>
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<td>Amortization of Prior Years I.T.C.</td>
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*Separate schedules should be completed for the federal and state calculation.
**Kentucky-American**  
**Case No. 2012-00520**  
**Adjusted Jurisdictional _____ Federal and _____ State Income Taxes**  
For the 12 Months Ended ______________

**Data:**  
- Base Period _____  
- Forecasted Period _____

**Type of Filing:**  
- Original _____  
- Updated _____  
- Revised _____

**Workpaper Reference No(s):**  
________________________

**Schedule 9**  
**Page 3 of 3**  
**Witness Responsible:**  
________________________

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<th>Line No.</th>
<th>Description</th>
<th>At Current Rates</th>
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<td>Schedule 49</td>
<td>At Proposed Rates</td>
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<td></td>
<td>Unadjusted (1)</td>
<td>Adjustments (2)</td>
<td>Adjusted (3)</td>
<td>Adjustments (4)</td>
<td>Adjusted (5)</td>
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<td>Investment Tax Credit - Net</td>
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<td>Other Tax Deferrals (Specify and List Separately)</td>
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<td>30</td>
<td>Total Deferred Income Taxes</td>
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<td>31</td>
<td>Total Federal (State) Income Taxes (18 + 30)</td>
<td>$</td>
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</tbody>
</table>

*Separate schedules should be completed for the federal and state calculation.*
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