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COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

TARIFF FILING OF KENTUCKY-AMERICAN)
WATER COMPANY TO ESTABLISH A) CASE NO. 2012-00155
LATE PAYMENT FEE)

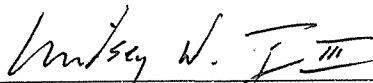
**KENTUCKY-AMERICAN WATER COMPANY'S
RESPONSES TO COMMISSION STAFF'S FIRST
REQUEST FOR INFORMATION**

Kentucky-American Water Company provides the attached responses to Commission Staff's May 11, 2012 First Request for Information.

Respectfully submitted,

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By:



Lindsey W. Ingram III
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Attorneys for Kentucky-American Water Company

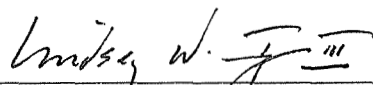
CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing has been served by U.S. Mail delivery, postage prepaid, to the following parties on this 7th day of June, 2012:

Jennifer Black Hans, Esq.
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By: 
Attorney for Kentucky-American Water Company

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

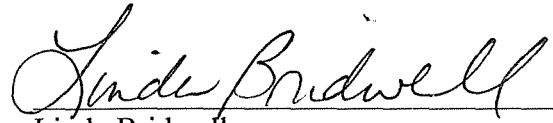
In the Matter of:

TARIFF FILING OF KENTUCKY-AMERICAN)
WATER COMPANY TO ESTABLISH A) **CASE NO. 2012-00155**
LATE PAYMENT FEE)

CERTIFICATION OF RESPONSES TO INFORMATION REQUESTS

This is to certify that I have supervised the preparation of Kentucky-American Water Company's Responses to Commission Staff's May 11, 2012 First Request for Information and that the responses are true and accurate to the best of my knowledge, information and belief formed after reasonable inquiry.

Date: 6/7/12



Linda Bridwell
Manager, Rates and Regulation
Kentucky-American Water Company

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: **Melissa L. Schwarzell**

Question:

1. Provide all studies, reports, and analyses that Kentucky-American prepared or commissioned to determine the amount of annual revenue that the proposed late payment fee will produce.

Response:

Kentucky-American Water Company ("KAW") prepared an analysis to determine the amount of annual revenue that the proposed late payment fee will produce. Exhibit 5 to KAW's March 30, 2012 Application in this matter contains that analysis. No additional studies, reports or analyses were prepared or commissioned.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: Melissa L. Schwarzell

Question:

2. Provide all studies, reports, and analyses that Kentucky-American prepared or commissioned to determine the proposed late payment fee's effect on Kentucky-American's earnings in the first year that the proposed late fee is assessed.

Response:

KAW prepared an analysis to determine the proposed late payment fee's effect on earnings in the first year that the proposed late fee is assessed. Exhibit 5 to KAW's March 30, 2012 Application in this matter contains that analysis. No additional study, report, or analysis was prepared or commissioned.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: Melissa L. Schwarzell

Question:

3. Provide all studies, reports, and analyses that Kentucky-American prepared or commissioned to determine the proposed late payment fee's effect on Kentucky-American's return on equity in the first annual period that the proposed late fee is assessed.

Response:

KAW prepared an analysis to determine the proposed late payment fee's effect on return on equity in the first annual period that the proposed late fee is assessed. Exhibit 5 to KAW's March 30, 2012 Application in this matter contains that analysis. No additional study, report, or analysis was prepared or commissioned.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: **Linda C. Bridwell**

Question:

4. State when Kentucky-American presently expects to submit its next application to the Commission for a general rate adjustment.

Response:

 The timing of KAW's next general rate case is an issue that is currently under analysis. However, KAW does not expect to file such a case within the next several months.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: Linda C. Bridwell

Question:

5. Explain why Kentucky-American did not defer requesting the proposed late payment fee until its next general rate adjustment proceeding.

Response:

The implementation of a late payment fee appropriately allocates the costs associated with late payments to the cost causers, which is fair and appropriate. As mentioned in response to Item No. 4, KAW does not expect to file its next general rate case within the next several months. When it does file its next general rate case, it is a virtual certainty that any proposed tariff changes, including one for the imposition of a late payment fee as has been requested in this matter, would not become effective for at least seven months after the case is filed pursuant to KRS 278.180(1) and 278.190(2).

The immediacy of the need to establish a late payment fee is exacerbated by the fact that KAW's customers have, in recent years, become financially incentivized to pay other utilities' bills before paying KAW. For example, Kentucky Utilities Company, which provides electric service to a substantial majority of KAW's customers, implemented a 5% late fee in 2009. Similarly, Columbia Gas of Kentucky, Inc., which provides natural gas service to a portion of KAW's customers, established a late payment fee of 5% percent for residential customers in October 2009. This is in addition to late fees imposed by Windstream and Insight, which provide telephone and cable services in Fayette County, where over 90% of KAW's customers are located. Because these utilities have implemented late payment fees, customers are financially incentivized to pay their other utility bills first and KAW's later, after the due date has passed. Moreover, establishing a late payment fee in this action will help delay the timing of the next requested rate increase. Therefore, KAW seeks approval of a late payment fee now, rather than waiting until its next general rate case.

Additionally, according to KAW's research, over 90% of water utilities regulated by the Commission charge late fees. Although the vast majority of those charge a late payment fee of 10%, as mentioned above, several of Kentucky's larger utilities charge a late payment fee of 5%. Of course, these fees and the amounts of the fees have been approved by the Commission. KAW seeks only to impose a late payment fee that is consistent with what the Commission has authorized dozens of other utilities to impose.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: **Melissa L. Schwarzell**

Question:

6. Describe the effect that the proposed late payment fee will have on Kentucky-American's earnings.

Response:

Please refer to Exhibit 5 of KAW's March 30, 2012 Application in this matter. Please also see KAW's response to Item No. 2.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

Witness: **Linda C. Bridwell**

Question:

7. Provide a schedule that shows, for each year from 2001 to 2011, Kentucky-American's bad debt expense, total sales in dollars to the customer groups upon which bad debt expense was accrued, and bad debt expense as a percentage of those sales.

Response:

Please see the attached.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bad Debt Expense	200,488	257,556	184,497	450,398	477,358	405,811	383,957	383,520	526,282	526,059	602,346
Revenues:											
Residential	21,480,777	22,835,991	21,394,943	22,094,519	26,440,906	27,262,686	27,594,445	30,854,938	31,956,121	36,794,586	43,262,213
Commercial	10,784,505	10,984,488	10,378,280	10,477,600	12,193,418	12,143,005	12,388,694	14,530,582	14,949,949	18,050,238	21,068,039
Industrial	1,574,684	1,578,640	1,442,871	1,359,278	1,569,209	1,444,547	1,480,187	1,480,364	1,403,661	1,794,636	1,970,863
Other Public Authority	2,971,355	3,378,198	3,376,301	3,177,804	3,771,324	3,565,255	3,896,261	4,890,969	4,808,636	6,127,453	6,417,428
Private Fire	797,244	844,334	839,932	854,523	1,007,204	1,052,049	1,138,372	1,354,634	1,538,493	1,855,354	2,325,378
Public Fire	1,769,542	1,799,387	1,828,600	1,896,742	2,096,410	2,182,373	2,216,224	2,333,248	2,567,693	2,907,026	3,341,008
Sale for Resale	988,730	986,221	829,887	824,589	1,000,284	1,109,393	1,431,676	1,438,391	1,467,485	1,737,943	1,912,474
Miscellaneous	15,908	29,482	16,503	9,780	5,768	19,513	18,789	26,577	13,740	76,558	13,017
Total Revenues	40,382,744	42,436,741	40,107,317	40,696,835	48,084,523	48,778,821	50,164,648	56,909,703	58,705,778	69,343,793	80,310,420

Bad Debt Percentage	0.50%	0.61%	0.46%	1.11%	0.99%	0.83%	0.77%	0.67%	0.90%	0.76%	0.75%
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**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: **Linda C. Bridwell**

Question:

8. State the effects that Kentucky-American expects the proposed late payment fee to have on its bad debt expense. To the extent possible, the response should quantify these effects and include all reports or studies used to assess the effects of the late payment fee and show all calculations used and state all assumptions made to derive the response.

Response:

KAW has not prepared any reports or studies to assess the effects of the late payment fee other than the information provided in the filing. Having said that, it is reasonable to hope that the presence of a late fee payment will encourage and incentivize KAW customers to pay their bills timely and fully. At this point, KAW cannot know what impact the proposed late fee will have on bad debt expense.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: **Melissa L. Schwarzell/Linda C. Bridwell**

Question:

9. Refer to Kentucky-American's Application, Exhibit 3, Line 4. Describe how Kentucky-American determined "Kentucky-American Customer Advocates" cost to be \$143,115. Provide all workpapers, state all assumptions, and show all calculations used to derive this amount.

Response:

KAW determined that the customer advocate costs associated with late payments equaled \$143,115, based on 2.5 clerks / customer advocates currently performing work related to late payments on a regular basis. An average of the clerk salaries and overhead was calculated and multiplied by 2.5. Please see the attached calculations.

**Kentucky American Water
 Calculation of Customer Advocate Costs, as Related to Late Paying Customers
 Case No. 2012 - 00155, Commission Staff's First Request for Information, Question 9**

Salary Data, for Each of 5 Clerks / Customer Advocates Employed

Line #	Business Unit	Business Unit Description	Job Title	Pay Grade	Hourly Pay Rate	Salary
1	120206	LEX-Field Services	Clerk Opns (N)	L13	19.23	\$ 39,992.16
2	120206	LEX-Field Services	Clerk Opns (N)	L13	21.39	\$ 44,491.20
3	120206	LEX-Field Services	Clerk Opns (N)	L13	16.60	\$ 34,528.00
4	120206	LEX-Field Services	Clerk Opns (N)	L13	16.60	\$ 34,528.00
5	120206	LEX-Field Services	Clerk Opns (N)	L13	16.60	\$ 34,528.00
					Average Salary (Average Line 1-5)	\$ 37,613.47
					Group Insurance Per Person	\$ 13,963.87
					Misc Benefits (401k, DCP, Training, Tuition etc.)	\$ 2,734.71
					SUTA, FUTA, FICA	\$ 2,933.85
					Sum	\$ 57,245.91

Multiply Per Clerk Cost by 2.5 2.5
 Total Cost \$ 143,114.77

2011 General Ledger
Case No. 2012 - 00155, Commission Staff's First Request for Information, Question 9

P14 Group Insurance \$2,094,581

Labor Related Miscellaneous Charges			
P21 Miscellaneous	504500	Other Welf Oper AG	\$43,763
	504610	Employee Awards AG	\$26,367
	504620	Employee Physical Exam AG	\$5,017
	504640	Safety Incentive	\$188
	504660	Tuition Aid AG	\$29,469
	504670	Training AG	\$10,677
	507100	401k Oper AG	\$130,463
	508101	DCP Oper AG	\$147,115
	508102	Retiree Med Oper AG	\$8,490
	508200	ESPP Oper AG	\$8,658

Sum of Miscellaneous Labor-Related \$410,207

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: **Linda C. Bridwell**

Question:

10. Refer to Kentucky-American's Application, Exhibit 3, Line 10.
- a. Explain why uncollected revenue should be considered as a cost of a customer's failure to make timely payment of his or her bill.
 - b. Explain why the recovery of "uncollected revenue" is not better recovered through general rates than through a fee assessed to customers who pay their bills late.

Response:

- a. Uncollected revenue is not an expense that is generated from customers who pay their bills timely.
- b. KAW is not proposing to recover all uncollected revenue through the late payment fee. There is no question, however, that uncollected revenue is generated in part by customers who are late in paying KAW bills. When that happens, KAW must generate additional mailings and increase customer advocate efforts in an attempt to prevent the situation from eventually becoming uncollected revenue. The expense including all of uncollected revenues as reflected on Exhibit 3 to KAW's March 30, 2012 Application is \$1,224,892, yet KAW is proposing a late fee mechanism which would recover an estimated \$669,468. Please also see KAW's response to Item No. 11.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: **Linda C. Bridwell**

Question:

11. At Exhibit 3 of its Application, Kentucky-American states that the annual cost of late payments is \$1,224,892. At Exhibit 5 of its Application, Kentucky-American states that the proposed late payment fee will produce annual revenues of \$669,468. Explain why Kentucky-American is not proposing a fee that will generate revenues sufficient to recover the purported total cost of late payments.

Response:

KAW is proposing a 5% late fee because two of the costs identified on Exhibit 3 are associated with, but not exclusively caused by, late-paying customers. Uncollectible revenue, for example, is not ever the result of a timely-paid bill. But clearly not every customer who pays late becomes uncollectible. By assigning a portion, but not all, of these uncollectible costs through the late payment fee, timely-paying customers are appropriately relieved of some of the uncollectible burden. Similarly, working capital involves more than just late-paid revenues. However, customers who pay timely help keep these costs lower, while customers who pay late exacerbate them. By assigning a portion of the working capital costs through the late payment fee, timely-paying customers are appropriately relieved of some of the working capital burden.

KAW is also proposing a late payment fee to be consistent with the practices of other large utilities in Kentucky whose customers are also KAW customers. Kentucky Utilities and Columbia Gas both charge 5% late payment fees and also both serve many of KAW's customers. Of course, the Commission has approved those late payment fees. Thus, KAW has proposed a late payment fee that is both consistent with prior Commission approvals and familiar to most of KAW's customers.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: **Melissa L. Schwarzell**

Question:

12. Describe the actions that Kentucky-American takes when a customer has failed to pay his or her bill by the due date.

Response:

When a customer has failed to pay his or her bill by the due date, the customer is given an eight (8) day grace period and then a disconnection notice is mailed with the intended disconnection date identified on the notice. If the customer then fails to pay within ten (10) days after the disconnection notice is mailed, a service order is generated for disconnection. During the 10 days or even prior to that time, customers may work with the collections department or local customer service advocates to develop payment terms. As long as the payment terms are met, the disconnection will be waived.

Certain critical customers, including schools and hospitals, also receive communications directly from local customer service advocates when payments are not received on time.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: **Melissa L. Schwarzell**

Question:

13. a. State the total number of bills that Kentucky-American issued in calendar year 2011.
- b. State the number of bills Kentucky-American issued in calendar year 2011 that were not paid by the required due date.
- c. State the number of disconnection notices that Kentucky-American issued in calendar year 2011 for a customer's failure to pay his or her bill.
- d. State the number of bills that were not timely paid in calendar year 2011 and that no disconnection notice was issued.

Response:

- a. 1,555,098
- b. 289,306
- c. 228,559
- d. 60,747

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

Witness: **Linda C. Bridwell**

Question:

14. a. State whether Kentucky-American considered waiving the proposed late payment fee in those instances where the customer was receiving assistance in paying his or her bill from a public agency.
- b. Explain why, if Kentucky-American considered such waiver, it chose not to include any provision for such waiver in its late payment fee proposal.
- c. Explain why, if Kentucky-American did not consider such waiver, the Commission should not exempt such circumstances from the proposed late payment fee's coverage.

Response:

- a. Yes, KAW has considered waiving the proposed late payment fee in those instances where the customer was receiving assistance in paying his or her bill from a public agency based on a "low-income" status.
- b. KAW did not include the waiver in its original late payment fee tariff proposal because it was appropriate for such a waiver to be determined as part of this matter. Prior to filing its Application on March 30, 2012, KAW notified intervenor Community Action Council ("CAC") of its intent to file its Application because KAW knew of CAC's particular interest in late payment fees.
- c. As stated, KAW did consider such a waiver. Since the issuance of this information request from Commission Staff, KAW has informed the Commission of the proposed agreed resolution that has been unanimously reached among all parties in this matter (see KAW's May 15, 2012 Notice of Agreed Resolution). That agreed resolution includes waiver language that was unanimously agreed to by all parties to this case and it is set forth in the proposed KAW tariff sheet 58.6 that KAW filed on May 15, 2012. KAW believes the Commission should approve the pending tariff sheet 58.6 with the proposed waiver language. KAW represents to the Commission that all intervenors in this case have indicated that the proposed exemption language resolves all of their concerns in this matter. Furthermore, KAW represents to the Commission that all intervenors have indicated that, because the proposed exemption language resolves their concerns in this matter, further investigation and/or suspension in this matter is unnecessary.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: **Linda C. Bridwell**

Question:

15. State the number of bill payments by credit card that Kentucky-American received in calendar year 2011.

Response:

 KAW customers made 142,700 bill payments by credit card in 2011.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: **Linda C. Bridwell**

Question:

16. State the number of customers who currently have authorized Kentucky-American to make automatic monthly withdrawals from their bank accounts for their bills.

Response:

 There are currently 19,475 KAW customers who have authorized their bill payments to be made by electronic funds transfer from their bank accounts.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Witness: **Linda C. Bridwell**

Question:

17. State the effect, if any, that Kentucky-American expects the proposed late payment fee will have on the number of customers who pay by credit card or electronic fund transfer.

Response:

KAW does not have a basis for accurately estimating the effect that the proposed late payment fee will have on the number of customers who pay by credit card or electronic fund transfer. KAW expects the proposed late payment fee to reduce the number of customers who pay late, and it would not be unreasonable to find that in order to avoid late payment fees, some customers will pay by credit card or electronic fund transfer who currently do not pay using either of those methods. Ultimately, the method by which a customer pays is his or her choice.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00155
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

Witness: **Linda C. Bridwell**

Question:

18. List each American Water Works Company that provides water service and state the amount of the late payment fee, if any, that it assesses.

Response:

 Please see the attached.

Company	Rate / Amount	Comment
California American Water Company	-	
Illinois American Water Company	1.5%	
Indiana American Water Company	10.0% 3.0%	10% for the 1st \$3, then 3% for the remaining
Iowa American Water Company	1.5%	
Kentucky American Water Company	-	
Maryland American Water Company	-	
Michigan American Water Company	-	
Missouri American Water Company	\$2 to \$10	varies by district
New Jersey American Water Company	0.27%	commercial only
New York American Water Company	1.5%	
Pennsylvania American Water Company	1.5%	
Tennessee American Water Company	5.0%	
Virginia American Water Company	-	
West Virginia American Water Company	10.0%	