

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

Having reviewed the responses of Kentucky-American Water Company (“Kentucky-American”) and having given further consideration Kentucky-American’s Request for Termination of Case, the Commission finds that the request for termination should be denied and that Kentucky-American should be required to provide additional information. We further find that, unless a request for hearing is filed within 21 days of the date of this Order, this case should stand submitted for decision.

IT IS THEREFORE ORDERED that:

1. Kentucky-American’s Request for Termination of Case is denied.
2. Kentucky-American shall file with the Commission no later than 14 days from the date of this Order the original and five copies of the information identified in the Appendix to this Order, with a copy to all parties of record.
3. 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.
4. 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

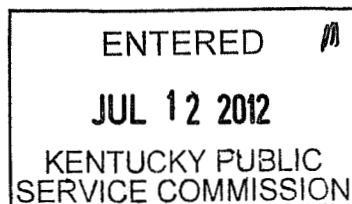
preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry. Kentucky-American shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

5. For any request to which Kentucky-American fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

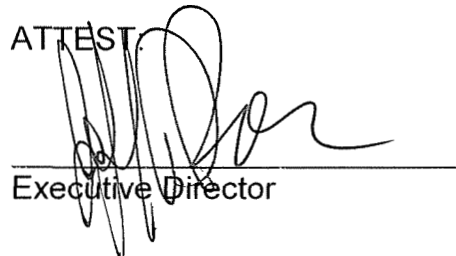
6. Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

7. Unless the Commission receives a request for hearing within 21 days of the date of this Order, this matter shall stand submitted for decision.

By the Commission



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00155 DATED JUL 12 2012

1. Refer to Kentucky-American's Application, Exhibit 4.

a. Provide a net investment rate base, and capital structure, for the calendar year 2011. Provide all documents, state all assumptions, and show all calculations that Kentucky-American uses to prepare its response.

b. Using Kentucky-American's response to Item 1(a), the projected revenue from the late payment fee, and adjusting net operating income to include Allowance for Funds Used During Construction ("AFUDC"):¹

(1) Calculate Kentucky-American's overall return on rate base and return on capital structure for the calendar year 2011.

(2) Provide a comparison of the returns calculated in Item 1(b)(1) to the overall cost of capital that the Commission authorized in Case No. 2010-00036.²

c. Using Kentucky-American's response to Item 1(a) and the projected revenue from the late payment fee, adjusting net operating income to include AFUDC, and eliminating the one-time, non-utility income tax benefit associated with Kentucky-American's transfer of Jacobson Park to Lexington-Fayette Urban County Government ("LFUCG"):

¹ $\$10,199,190$ (Construction Work In Progress) x 7.74% (Overall Cost of Capital, Case No. 2010-00036) = $\$789,417$ (AFUDC).

² The Commission authorized an overall cost of capital authorized of 7.74 percent. Case No. 2010-00036, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by A Fully Forecasted Test Year* (Ky. PSC Dec. 14, 2010) at 72.

(1) Calculate the overall return on rate base and return on capital structure for the calendar year 2011.

(2) Provide a comparison of the returns calculated in this response to the overall cost of capital authorized in Case No. 2010-00036.

d. Kentucky-American is adjusting Net Income to Common Stock to eliminate the "One-Time Non-Utility Income Tax Benefit" of the Jacobson Park transfer to LFUCG by \$4,472,156.³

(1) Provide all documents, state assumptions, and show all calculations Kentucky-American used to calculate the state and federal income tax benefits from the Jacobson Park transfer to the LFUCG.

(2) Explain in detail why Kentucky-American is proposing to eliminate the "One-Time Non-Utility Income Tax Benefit" of the Jacobson Park transfer to the LFUCG.

(3) Explain why it is not more appropriate to amortize the income tax benefits rather than to totally eliminate the benefits from net operating income.

e. Provide documentation to support Kentucky-American's contention that only 25 percent of the Jacobson Park Income Tax benefit will affect retained earnings.

2. Refer to the Application, Exhibit 5.

a. Provide a net investment rate base, capital structure, and statement of income for Kentucky-American for the 12-month budget period ending December 31,

³ \$689,793 (State Income Tax Benefit) + \$3,782,363 (Federal Income Tax Benefit) = \$4,472,156.

2012. Provide all documents, state all assumptions, and show all calculations that Kentucky-American used to prepare its response.

b. Using Kentucky-American's response to Item 2(a), the projected revenue from the late payment fee, and adjusting net operating income to include AFUDC:

(1) Calculate the overall return on rate base and return on capital structure for the 12-month budget period ending December 31, 2012.

(2) Provide a comparison of the returns calculated in response to Item 2(b)(1) to the overall cost of capital that the Commission authorized in Case No. 2010-00036.

3. Refer to Kentucky-American's Application, Exhibit 4, "Comparative Balance Sheet for the 12-Month Period ending December 31, 2011," and *Annual Report of Kentucky-American Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2011* ("2011 Annual Report") at 9.

a. Explain why the amounts reported in Exhibit 4 for preferred stock⁴ and long-term debt⁵ and those reported in the *2011 Annual Report* differ by \$4,500,000.

b. Kentucky-American reports short-term bank debt of \$11,035,902 in Exhibit 4. Identify the account in the *2011 Annual Report* in which the short-term bank debt is recorded.

⁴ \$1,445,600 (Preferred Stock Exhibit 4) - \$5,945,600 (Preferred Stock 2011 Annual Report) = \$(4,500,000).

⁵ \$192,390,000 (Long-Term Debt Exhibit 4) - \$187,890,000 (Long-Term Debt 2011 Annual Report) = \$4,500,000.

c. In Case No. 2010-00036, the Commission calculated Kentucky-American's net operating income for ratemaking purposes by applying overall cost of capital to net investment rate base. Explain why Kentucky-American based its absorption test solely on the authorized return on equity and not the overall return on net investment rate base.

4. Refer to Kentucky-American's Application, Exhibit 3.

a. State whether Kentucky-American included the late fee costs identified in Exhibit 3 in its statements of forecasted operations that were filed in Case No. 2010-00036.

b. State whether, if Kentucky-American included late fee costs included in its statements of forecasted operations that were submitted in Case No. 2010-00036, a double-recovery of these expenses through nonrecurring fees and base water rates results if the late payment charge is approved.

c. If Kentucky-American included the late fee costs identified in Exhibit 3 in its statements of forecasted operations that were filed in Case No. 2010-00036, explain why deferring approval of the implementation of any late payment fee until Kentucky-American's next general rate case would be inappropriate or unlawful.

5. Kentucky-American has revised its initial late payment fee proposal to exempt from the operation of the proposed fee customers who receive a pledge for or notice of low-income water assistance from an authorized agency.

a. Explain the process through which an authorized agency will make a pledge of assistance or provide a notice of assistance. State when, in relation to the

issuance of a bill for water service and the due date for payment of such bill, the notice or pledge will be provided.

b. Describe the form of the pledge or notice that the authorized agency must provide.

c. Identify the agencies that are “authorized agencies.”

d. Describe the process through which an agency will become an “authorized agency” for purposes of the proposed late payment fee rule.

e. State whether the late payment fee will be assessed if the notice or pledge of assistance is given after the payment due date.

f. Explain why it is reasonable and lawful to classify the applicability of the proposed late fee based upon a customer’s eligibility for assistance from an authorized agency.

6. Refer to Kentucky-American’s Response to Commission Staff’s First Request for Information, Item 9. Describe how Kentucky-American determined that 2.5 clerks/customer advocates are devoted to late payments.

7. Refer to Kentucky-American’s Response to Commission Staff’s First Request for Information, Item 13(d).

a. State whether it is correct to interpret the response to Item 13(d) as meaning that in 2011 approximately 60,747 bills were not paid by the billing due date, but were paid within the eight-day grace period.

b. State the total costs that Kentucky-American incurred to collect these 60,747 bills.

c. State the total amount of these bills.

8. Refer to Kentucky-American's Response to Commission Staff's First Request for Information, Item 7. Provide a revised schedule that lists total bad-debt expense for each year from 2001 to 2011, and the actual bad-debt expense for each customer group for each year within that period.

9. Refer to Kentucky-American's Response to Commission Staff's First Request for Information, Item 15.

a. Describe how a Kentucky-American customer may pay his or her bill by credit card.

b. List each fee that a Kentucky-American customer incurs if he or she elects to pay his or her bill by credit card.

Honorable David J. Barberie
Managing Attorney
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KENTUCKY 40507

Monica Braun
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

Jennifer B Hans
Assistant Attorney General's Office
1024 Capital Center Drive, Ste 200
Frankfort, KENTUCKY 40601-8204

Honorable Iris G Skidmore
415 W. Main Street
Suite 2
Frankfort, KENTUCKY 40601