

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF )  
KENTUCKY-AMERICAN WATER COMPANY ) CASE NO. 10069

O R D E R

IT IS ORDERED that Kentucky-American Water Company shall file an original and 12 copies of the following information with the Commission, with a copy to all parties of record, not later than January 26, 1988. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. If the information cannot be provided by this date, you should submit a motion for an extension of time stating the reason delay is necessary and

include a date by which it will be furnished. Such motion will be considered by the Commission.

1. Provide the end of test period capitalization structure in compliance with the methodology the Commission used in Case No. 9482.<sup>1</sup>

2. Provide both the accounted-for and unaccounted-for water loss for the test period.

3. Provide the cost and estimated life of the leak detection equipment referred to on page 7 of Mr. Eden's testimony.

4. Provide separate estimates for 1986 and the test period for cost and the savings Kentucky-American realized in reducing the water loss. (Include supporting calculations.)

5. Provide a detailed breakdown of CWIP by project. This should be presented as shown in format 4 of the this request.

6. Exhibit No. 5, Schedule 4, page 1 of 4 of the original application reveals that the level of CWIP has increased over the past 5-year period and has remained at the \$5 million range during 1986 and the test period. What does Kentucky-American expect the level of CWIP to be over the next 5-year period? (Provide estimated levels and the basis for those estimates.)

7. In response to Item No. 16 of the Commission's initial information request Kentucky-American included a workpaper entitled "CWIP by 300 Accounts". Kentucky-American calculated end of test period CWIP to be \$447,564 and increased this amount by

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<sup>1</sup> In the Matter of Notice of Adjustment of Rates of Kentucky-American Water Company issued on July 8, 1986.

\$104,236 to \$651,800. The following are in reference to the adjustment:

- a. What does the adjustment represent?
- b. Provide the basis and the calculation for the adjustment.
- c. Explain why it was spread over the different accounts that make-up CWIP.

8. Kentucky-American has reported end of period CWIP to be \$6,551,800, however, in response to Item No. 16 on the workpaper entitled "Workpaper for CWIP Analysis" CWIP is reported to be \$6,651,595. Explain the difference between the two numbers.

9. What was the basis for including depreciation expense on CWIP?

10. Was the depreciation expense calculated on CWIP included in end of test period accumulated depreciation?

11. According to page 12 of Mr. Grubb's testimony AFUDC was calculated using the 13-month average for CWIP available for capitalized interest. Explain why the 13-month average was used rather than the end of test period level.

12. Explain why it would not be considered a mismatch to use the 13-month average in calculating AFUDC while including the end of test period level of CWIP in rate base.

13. Explain why 8.76 percent was used in the calculation of AFUDC rather than the over all cost of capital.

14. According to pages 6 and 7 of Mr. Grubb's testimony, Kentucky-American has proposed adjustments to both deferred income taxes and the reserve for accumulated depreciation to exclude from

rate base items associated with the Kentucky River Station not recovered from ratepayers. Explain why adjustments of this type would not be considered retroactive rate-making. Does this allowance attempt to contradict prior decisions of this Commission?

15. In response to Item No. 16 Kentucky-American proposed to reduce customer advances by \$676,427 to reflect Customer Advances received but not included in CWIP or plant in service. Elaborate further on the purpose of this adjustment.

16. According to page 7 of Grubb's testimony, Kentucky-American has proposed to increase deferred state income taxes due to the increase in rates that has occurred since 1974. Explain why Kentucky-American has waited this long to recognize the increases in the state tax rate.

17. Provide the state tax rate which was in effect prior to 1974.

18. Considering the mandatory flow back period mandated by the Federal Tax Code, explain why the amortization of the deferred state taxes should not be flowed back over the same period.

19. According to page 5 of Mr. Grubb's testimony, the deferred debits on waste water disposal of \$216,448 and the least cost study of \$126,742 are to be included in rate base and amortized over a 5-year period. The following are in reference to those two items:

- a. Is the amortization of these expenditures also included as a reduction to rate base?

- b. Over what period of time where the expenses incurred?
- c. Provide a detailed prescription of what the waste disposal expense consisted of.
- d. Why is it appropriate to include these items in rate base?

20. The following are in reference to the Kentucky-American's proposed lead/lag study:

- a. What was the cost of producing the lead/lag study submitted for this proceeding? To which expense account was this cost charged?
- b. According to page no. 15 of Mr. Grubb's testimony, if there exists no material changes then a lead/lag study should be performed every 5 years. How was the 5-year time frame developed?
- c. According to page no. 17 of Mr. Grubb's testimony, the billing lag and collection lag were based on a 6-month analysis. Explain why Kentucky-American relied on a 6-month analysis rather than a full year. Project whether the information contained in a twelve month billing period would increase or decrease the billing lag and collection lag determined by the six month billing period.
- d. According to page no. 18 of Mr. Grubb's testimony, approximately 90 percent of all expenses were analyzed to assure a representative sampling. Explain why 90 percent was used rather than 100

percent. What criteria was used to determine which expenses would comprise the representative sample used to calculate the expense lag?

- e. What financial information is prepared by Kentucky-American on a daily basis?
- f. How often does Kentucky-American actually pay common dividends?
- g. Over what period of time do Kentucky-Americans' investors actually recover amortization expenses?
- h. In his testimony, Mr. Grubb describes delays in the recovery of depreciation charges and deferred taxes. Given this explanation, would it be appropriate to assign certain lead days to each of these expenses? If so, how many lead days should be assigned to these expenses? How would this affect the average expense lag?
- i. Reconcile the working capital figure used in company Exhibit 3, Schedule 2, with that calculated in company Exhibit 3, Schedule 7.
- j. Explain the derivation of the 1/7 formula used in determining the cash working capital.

21. According to Kentucky-American's response to Item No. 16 of the information request, there are engineers employed by Kentucky-American and in reference to Exhibit CEJ-1 of Mr. Jarrett's testimony engineering duties are also performed by the service company. Provide detailed descriptions of the engineering

services performed by both the service company and Kentucky-American and differentiate between those services.

22. In regards to Exhibit CEJ-1 of Mr. Jarrett's testimony, explain why the test period employee relations allocation from the service company has increased approximately 34.2 percent over 1986's level.

23. In regards to Exhibit CEJ-1 of Mr. Jarrett's testimony, explain the adjustment of \$29,577 in the test period column.

24. According to page number 12 of Mr. Jarrett's testimony, American Water Works received bids on its insurance from AETNA and St. Paul Insurance Company. The following are in reference to the bids:

- a. Provide in comparative form the two estimates received.
- b. Explain why only three insurance companies were contacted to provide bids.
- c. Did Kentucky-American attempt to receive quotes on Workman's Compensation Insurance on its own? If not, explain why this was not done.

25. Explain why the pro forma insurance costs calculated in the response to Item No. 16 of the information request are different than those contained on Exhibit CEJ-3 of Mr. Jarrett's testimony.

26. In response to Item No. 16 of the initial information request Kentucky-American provided working papers showing how pro forma operation and maintenance wages were determined. The following are in reference to the pro forma wage adjustment:

- a. Are all union employees granted the same 4 percent wage increase?
- b. Are all non-union employees granted the same percentage wage increases?
- c. Who determines the rates for union/non-union wage increases?
- d. Are the increases granted across the board or is there differentiation between employees (i.e., some received 3.8 percent while others received as much as 8 percent)?
- e. How many employees has Kentucky-American hired during the test period?
- f. Have any employees been hired after the test period, and if so how many?
- g. What does Kentucky-American consider "other compensation" to be?

27. According to the response to Item No. 18 of the information request, operation and maintenance wages increased 8 percent. Provide the reason for this level of increase.

28. Does Kentucky-American seek competitive bids on its employee life insurance?

29. According to the response to Item No. 16, Kentucky-American has proposed a pro forma adjustment to recognize increased chemical cost. Does this represent the normal level of chemical usage and does Kentucky-American attempt to obtain price quotes from vendors when possible?



30. Reference any similar instance where the Commission has allowed Kentucky-American to expense rate case expenditures rather than requiring their amortization.

31. How did Kentucky-American receive notification of the postage rate increase and when does this increase take effect?

32. According to Adjustment No. 11 and Kentucky-American's response to Item No. 16, Kentucky-American proposes to implement an employee stock ownership plan. The following are in reference to that plan:

a. Provide the expected benefits to both Kentucky-American and its ratepayers from the implementation of such a plan.

b. Would all employees be eligible to participate in the plan?

33. Reference is made to an atomic absorption spectrophotometer and gas chromatograph in the response to Item No. 16 and page 5 of Mr. Oxley's testimony. Provide the purpose of these two devices and any possible cost savings to be ordered from their use.

34. Is the pro forma level of test period depreciation expense included in pro forma test period accumulated depreciation?

35. According to page 7 of Mr. Oxley's testimony property taxes have been adjusted to reflect taxes on CWIP. Has Kentucky-American taken into account that CWIP is proportioned differently among the counties that it services, than existing plant and, therefore, the same composite tax rate might not apply?

36. According to the response to Item No. 16, Kentucky-American has calculated depreciation on CWIP for tax purposes. Does CWIP qualify for depreciation for tax purposes when it has not yet been placed in service?

37. According to the response to Item No. 9 of the information request, temporary cash investments drastically fluctuate over the 13-month period from a low month of \$300,306 to a high month of \$8,303,772. Provide an explanation for the fluctuations and the reason for such a high end of test period level.

38. Is the interest income earned from the temporary cash investment included as income on the test period income statement, and if so to which account is it recorded?

39. According to page 6 of Mr. Oxley's testimony, Kentucky-American has included the amortization of deferred maintenance. The following are in reference to the planned deferred maintenance:

- a. Explain why Kentucky-American uses this methodology rather than performing the required maintenance and then amortizing the actual cost.
- b. How many times in the past has Kentucky-American either over or under estimated the cost of a deferred maintenance project?
- c. What would be the estimated difficulties and benefits derived in switching methodologies?

40. In response to Item No. 16 of the Commission's request Kentucky-American provided a workpaper entitled, "Statutory Add-

Back-Amortization." Explain in simple terms why Kentucky-American has added the amortization of these items back before calculating its federal and state taxes.

41. Kentucky-American has estimated deferred taxes due to the effects of accelerated depreciation. Are there any other items that would effect deferred taxes due to the tax rate change, and if so over what period of time should they be amortized?

42. Provide the estimated amount of ITC that Kentucky-American has remaining to carry over to 1988 and how much does Kentucky-American expect that it will be able to utilize.

43. Explain the discrepancy between the capital structure used in Schedule 13 of Phillips' testimony and that used in the company's Exhibit No. 2, Schedule 4.

44. Regarding the five water companies used in Dr. Phillips' analysis:

- a. List the criteria used to select these companies.
- b. Are any of these five companies subsidiaries of other companies? If so, which one(s)?
- c. Provide a narrative comparison of the varying investment risks associated with subsidiary water companies, such as Kentucky-American, and "stand-alone" water companies. Does a subsidiary company need a return on equity comparable to that of a "stand-alone" company?
- d. Explain why Dr. Phillips chose companies with a bond rating of A-?

45. Explain why estimation of the dividend growth rate was made using two different 5-year periods.

46. Provide photocopies of all referenced material (C.A. Turner Utility Reports) and all workpapers used to calculate the compound dividend growth rates.

47. Provide the workpapers and explain the method used to calculate the "52 week high-low" stock prices in Phillips' Schedule 8.

48. Describe all the revisions that have been made to Kentucky-American's Transitional Water Demand Model since the previous rate case.

49. Has this or any other model been used to produce current water demand projections for this rate proceeding? If so, how have the results been incorporated into the direct testimony filed in this case? If not, why has Kentucky-American chosen not to produce current water demand projections?

50. Provide the results and all workpapers of the most recent water demand forecast.

51. Describe all the revisions that have been made to the Least Cost/Comprehensive Planning Study since the previous rate case.

52. Provide all workpapers used to produce the Arithmetical Update of the Cost of Service Study.

53. Explain the difference between the "per book" residential and commercial metered sales shown in the first column of Company Exhibit 4, Schedule 2, page 1 of 2 with the "per bill" sales shown in column 2 of Exhibit 4, Schedule 2, page 2 of 2.

Done at Frankfort, Kentucky, this 8th day of January, 1988.

PUBLIC SERVICE COMMISSION

*Richard D. Newman Jr.*  
For the Commission

ATTEST:

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Executive Director

KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 10069

Analysis CWIP

<u>Project Description</u>	<u>Present Cost Included in CWIP</u>	<u>Estimated Completion Cost</u>	<u>Estimated Completion Date</u>	<u>Amount Available for AFUDC</u>
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