

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, by February 18, 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 in 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. Exhibit EJG-1, of Mr. Edward J. Grubb's supplemental testimony filed January 21, 1988, contains Kentucky-American's revised calculations of AFUDC for both book and tax purposes of \$147,677 and \$179,030, respectively. The following are in reference to those calculations and the revised level of AFUDC:

a. Kentucky-American has proposed to eliminate from its AFUDC calculation projects that have either (1) been completed prior to September 30, 1987, and yet to be reclassified, (2) completed and placed in service by December 1987, or (3) projected to be completed prior to the issuance of the final Order in this case. Has Kentucky-American projected the expected known and measurable impact on revenues and expenses that these projects will have on future operations? (Provide documentation and calculations for the expected known and measurable impacts.)

b. Provide the derivation of the AFUDC rate used in calculating the AFUDC for tax purposes.

c. Provide the reason for using a different AFUDC rate for tax purposes than for book.

d. Explain why Kentucky-American calculated AFUDC on customer advances for tax purposes.

e. What does AFUDC interest on customer advances of \$23,992 represent?

f. Is AFUDC for book purposes inclusive of AFUDC on customer advances as was calculated for tax purposes?

g. Which AFUDC is included in Kentucky-American's state and federal tax calculations?

h. Which projects were either completed by the end of 1987, or will be prior to the issuance of the Order? (Reconcile this to the response to Item No. 5 of the Commission's Second Request.)

2. The response to Item No. 13 of the Commission's Second Request is the derivation of the AFUDC rate which Kentucky-American used in determining AFUDC for book purposes. The following are in reference to that response:

a. In explaining the derivation, Kentucky-American makes reference to interest deductions associated with long term debt in the income tax calculation. Elaborate further on the purpose of the adjustments to the AFUDC rate.

b. Explain why Kentucky-American has not used the overall cost of capital requested in this case in calculating AFUDC?

3. Provide the monthly level of CWIP and CWIP available for AFUDC for the period August 1987 through January 1988.

4. In response to Item No. 13 of the Commission's Second Request Kentucky-American projected the levels of CWIP for 1988 through 1991. Based on those projections, would the future levels of CWIP available for AFUDC be in the same range as the actual end of period level?

5. In response to Item No. 10 of the Attorney General and Lexington Fayette Urban County Government's first request

Kentucky-American pointed to Case No. 9482,<sup>1</sup> in support of depreciation on CWIP. The following are in reference to the proposed depreciation on CWIP:

a. Can Kentucky-American point to any other instance where the Commission has allowed this adjustment?

b. Wouldn't it be inappropriate accounting or not in accordance with GAAP to claim depreciation on plant that has not yet been placed in service?

6. In response to Item No. 9 of the Commission's Second Request, Kentucky-American compared depreciation on CWIP to the annualization of revenues to reflect the end of period customers. The following are in reference to that response:

a. Is operating expenses adjusted to reflect the annualization of the cost associated with providing service to the end of period customer level to properly match revenues and expenses?

b. Has Kentucky-American estimated the expected impact on revenues and expenses, other than depreciation, that CWIP will have on future operations? (Provide documentation and calculations for the expected impacts.)

c. How can the two compare if one reflects the adjustments to both the revenues and expenses while the other only recognizes the impact of one expense?

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<sup>1</sup> Notice of Adjustment of Rates of Kentucky-American Water Company, Order dated July 8, 1986.

7. In response to Item No. 15 of the Commission's Second Request Kentucky-American explained the reduction to customer advances as advances received but not yet included in either CWIP or plant in service. Are any of the amounts in question included in CWIP or plant in service as of this date?

8. The following are in reference to the inclusion of AFUDC in the federal and state tax calculations:

a. Provide the Commission with Kentucky-American's interpretation of "the avoided cost method" in determining the amount of AFUDC for tax purposes.

b. Since Kentucky has yet to mirror the Tax Reform Act of 1986, explain why Kentucky-American included AFUDC for State tax purposes when it is not considered taxable?

c. Isn't the inclusion of AFUDC in the tax calculation a double recovery through current rates and future capitalization included in rate base?

9. The following are in reference to the tax calculations contained in the Updated Exhibit 4, Schedule 6 Page 2 of 2:

a. Are the tax calculations based on actual tax liabilities recognizing items such as accelerated depreciation?

b. Are these items referenced in a. above in accordance with normal rate-making practices. If so, explain why?

10. The following are in reference to Kentucky-American's response to Item No. 19 of the Commissions Second Request:

a. What criteria did Kentucky-American use in determining the 3-year amortization period of the cost of the waste water disposal?

b. How often does Kentucky-American remove the sludge from its lagoons?

c. What criteria did Kentucky-American use in determining the 5-year amortization period of the cost of the least cost study?

d. If the preliminary study is connected with future projects and will not be capitalized until the projects are completed, explain why Kentucky-American's stockholders should not finance the cost of those projects until they are actually constructed?

11. In reference to Kentucky-American's response to Item No. 14 of the Commission's Second Request, explain why the Kentucky River Station costs not previously recovered from rate payers due to excess capacity, should now be recovered through rates rather than from the stockholders?

12. In response to Item No. 38 of the Commission's Second Request, Kentucky-American stated that interest on temporary cash investment was recorded in Account 419. Identify the total interest associated with the temporary investments.

13. In response to Item No. 37 of the Commission's Second Request, Kentucky-American stated the reasons for the fluctuations and high end of period level of temporary cash investments. Considering the projected levels of construction, does Kentucky-American anticipate future temporary cash investments to follow the pattern of the test period?

14. In calculating property taxes on CWIP Kentucky-American used the end of period level of \$6,551,800. Explain why total CWIP was used when normally property taxes are paid on half the value of CWIP. (If the valuation for property taxes is different, provide documentation for the use of total CWIP.)

15. Since Kentucky-American has both the actual county property tax rates and the breakdown of CWIP by county, why was the composite rate used rather than the actual rates?

16. In response to Item No. 14(b) of the Intervenor's First Request, Kentucky-American stated that the requested calculation could not be performed due to the information currently available. Describe the information required and why it is not available.

17. The following are in reference to the System 36 Computer installed at the Lexington office:

a. Does Kentucky-American plan to use the System 36 for any other purpose other than billing.

b. Does the System 36 have excess capacity and, if so, will the excess be needed for projected system growth in regards to billing requirements?

c. If the System 36 remains in CWIP (Item 31 Intervenor's First Request), how can the cost savings be reflected in this case (Item 28 Intervenor's First Request)?

18. Provide a copy of the most recent Urban Studies Center Population Forecast and all subsequent revisions in Kentucky-American's possession.

19. On Schedule 8 of the Arithmetical Update of Cost of Service Study, an adjustment has been made for 8" and smaller distribution mains. Explain why this reallocation of costs was made given that the Commission disallowed this adjustment in Case No. 9283.<sup>2</sup>

20. On November 9, 1987, Kentucky-American filed a Demand Investigation Proposal with the Commission. What expenses were incurred in the preparation of this proposal? Have they been included in this case?

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

PUBLIC SERVICE COMMISSION

*Richard D. Hemmery*  
For the Commission

ATTEST:

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Executive Director

<sup>2</sup> Notice of Adjustment of the Rates of Kentucky-American Water Company, Order dated October 1, 1985.