

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF)
KENTUCKY-AMERICAN WATER COMPANY) CASE NO. 10481

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 17, 1989. 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. Item No. 1 of the response to the Commission's initial request is an analysis of Kentucky-American's test-period capital structure, which differs from the pro forma capital structure in Exhibit No. 5, Schedule 1, of the application. Provide a reconciliation of the two capital structures.

2. Show why the calculation on line 33 of Item No. 2(a), Schedule 2, of the response to the Commission's initial information request equals 9.83 percent instead of 8.95 percent.

3. Show why the calculation on line 27 of Item No. 3, Schedule 2, of the response to the Commission's initial information request equals 7.00 percent instead of 7.10 percent.

4. With reference to Item No. 10, page 2, of the response to the Commission's initial information request, explain the extinguishment of notes payable totalling \$7,354,737 during October 1988.

5. With reference to Exhibit No. 3, Schedule 4, of the application, please explain the decrease in inventory of chemicals, auto supplies, and plant materials from October, 1987 to October 1988.

6. Explain the negative prepayment charged in November 1987 as shown in Exhibit No. 3, Schedule 5, of the application.

7. Exhibit 3, Schedule 2, of the application includes Kentucky-American's pro forma level of Construction Work In Progress ("CWIP") of \$1,719,680. The following questions are in reference to CWIP:

a. Provide a detailed breakdown of CWIP by project. This should be presented as shown in format 7a of this request.

b. Provide Kentucky-American's projected CWIP levels for the 5-year period subsequent to the test period. Provide estimated levels, the basis for the estimates, and the major projects.

8. Provide an analysis of Kentucky-American's contract retention for the 5-year period preceding the test period.

9. Exhibit 4, Schedule 2, of the application includes Allowance for Funds Used During Construction ("AFUDC") of \$150,350. Provide Kentucky-American's calculation of AFUDC and any related workpapers.

10. Explain why several of the monthly cash balances as shown on Item No. 10, page 1, of the response to the Commission's initial information request are negative, and reconcile all monthly cash balances to Item No. 13.

11. Reconcile the December 31, 1987 cash balance as shown in Item No. 13 of \$576,705 to the cash balance per the balance sheet in Item No. 8 of \$656,429.

12. The following questions are in reference to Item No. 15 of the Commission's initial information request:

a. Account No. 312 Coll & Impound Reservoirs fluctuates from a low of \$206,871 to a high of \$1,569,825. Provide a detailed explanation of this fluctuation.

b. Account 332 Water Treatment Equipment increased from \$9,159,248 in September to \$15,037,759 in October. Provide an explanation for this increase.

c. Account 39123 Office Machine and Equipment - Software doubled in October. Provide an explanation for this increase.

13. Item No. 19(b) of the response to the Commission's initial information request reveals that the service company charges have increased over the 5-year period preceding the test period. The following questions are in reference to the service company charges:

a. Provide a detailed breakdown of all service company charges for the test period. This should be by month and service type.

b. These charges increased by 6.63 percent from 1987 to the test period. Explain what occurred to cause this increase.

c. Provide a detailed analysis of how the service company charges are allocated among the separate subsidiaries.

14. Item No. 26(a) of the Commission's initial information request reveals that Account 930 Miscellaneous General Expenses includes drought expenses. Provide an analysis of all drought expenses Kentucky-American incurred during the test period, by account and month.

15. a. In response to Item No. 27 of the Commission's initial information request, Kentucky-American provided invoices for the professional expenses incurred during the test period. Provide a detailed reconciliation of the invoices with the monthly analysis.

b. Included on numerous invoices from Stoll, Keenon and Park are commissioner fees of \$200 each. Provide an explanation of these charges.

16. The following questions are in reference to the cost of Case No. 10423:

a. Has Kentucky-American included in test-period expenses the cost of filing Case No. 10423? If yes, which account(s) include these expenses?

b. Provide the cost incurred and the total estimated cost (include invoices and working papers).

17. Provide a detailed explanation of the telephone loop and the basis for the adjustment as shown in Exhibit No. 4, Schedule 3, of the application.

18. Page 498 of the response to Item No. 17 of the Commission's initial information request identifies 1987 adjusted property taxes of \$517,900, while Exhibit 4, Schedule 5, of the application shows test-period property taxes of \$570,880. Provide a detailed reconciliation of the two amounts.

19. The following questions are in reference to Kentucky-American's pro forma adjustment recognizing the cost of serving new customers of \$74,685 as shown in Exhibit No. 4, Schedule 3, of the application.

a. Kentucky-American's adjustment is based on operation and maintenance expenses net of wages and wage related expenses. There are expenses that vary proportionately with either the number of customers served or the sales volume. Provide an analysis of operation and maintenance expenses

separated into two categories. First, those that vary directly to the number of customers served or the sales volume, and second those that do not.

b. Provide the relationship between the service company charges and either the number of customers served or the sales volume. Use historical data to support the analysis.

c. Provide the average test-period cost per 1,000 gallons of producing and pumping water, including workpapers.

d. Provide the average test-period cost of customer billing separated by customer class, including workpapers.

20. On page 7 of Edwin Oxley's direct testimony is a description of the pro forma electric expense adjustment. The following questions are in reference to that adjustment:

a. Provide a monthly breakdown of the adjustment into its two components of current rate increase and expected increase in the fuel adjustment factor.

b. Provide the basis for the projected increase in the fuel adjustment factor.

21. Due to the severe drought during the test period, does Kentucky-American foresee the need to normalize either revenues or expenses?

22. Provide an analysis of water testing performed by Kentucky-American and its service company for the test year and the 12-months preceding the test period. The analysis should include both type and monthly cost.

23. With reference to Item No. 19(a), please explain the following fluctuations in monthly expenses:

- a. Account 6332: March, April, August
- b. Account 6521: December
- c. Account 65112: July
- d. Account 67212: July
- e. Account 6731: December
- f. Account 90352: July
- g. Account 93021: November, August, September
- h. Account 93024: April, October

24. Describe the expenses charged to research and development - service company account as shown in Item No. 19(a), page 37 of the response to the Commission's initial information request.

25. With reference to Item No. 19(b) of the response to the Commission's initial information request, please explain the following test-year fluctuations in expenses compared to prior years:

- a. Account 604 - Rents
- b. Account 616.2 - Maint. Supply Mains-Mat.
- c. Account 617.1 - Maint. Misc. Water Source Plant
- d. Account 644 - Rents
- e. Account 651.1 - Maint. Wt. Structure & Improve-Mat.
- f. Account 661.1 - Storage Facilities Expenses
- g. Account 923.1 - Service Company Charges
- h. Account 930.2 - Misc. General Expenses

26. With reference to No. Item 17, pages 172 through 177 of the response to the Commissions initial information request, provide the following information:

a. The account(s) to which other wages are capitalized and where this account(s) is included in rate base as shown in Exhibit No. 3, Schedule 2 of the application.

b. Reconcile the test-year wages charged to operation and maintenance labor to the per books amount as shown in Exhibit No. 4, Schedule 3, of the application.

c. For all salaried employees with total pro forma wages in excess of the maximum FICA base, show the allocation of salaries subject to FICA between operation and maintenance labor and capitalized other labor.

d. For all salaried employees, provide the percentage increase of the test-year actual salary to the pro forma salary and the reason for the increase.

27. Referring to Item No. 17, page 199 of the response to the Commission's initial information request, explain how the production department employees' pro forma wage rates are determined.

28. With reference to Item No. 17, pages 311 through 313 of the response to the Commission's initial information request, explain in detail how the pro forma group insurance amount is determined.

29. Reconcile the test-year insurance other than group expense of \$438,230 per Exhibit No. 4, Schedule 3, of the application to the test-year booked amount per Item No. 70, page 342 of the response to the Commission's initial information request.

30. With reference to Item No. 17, pages 370 and 371 of the response to the Commission's initial information request, please describe the other postage costs and the proposed 6.03 percent increase.

31. Explain the difference between the test-year actual electric power costs per Exhibit No. 4, Schedule 3, of the application, and the test-year amount per Item No. 17, page 385 of the response to the Commission's initial information request.

32. With reference to the proposed pro forma adjustment to the electric power costs per Item No. 17, page 385 of the response to the Commission's initial information request, explain the following:

a. Why this percentage increase method was used in determining the pro forma adjustment.

b. Why the pro forma adjustment does not include any normalization adjustment for the Richmond Road pumping station, which apparently became operational in July, 1988.

33. With reference to Item No. 17, pages 473 and 474 of the response to the Commission's initial information request, provide the following:

a. Explain the 1 and 2 months' amortization expense for projects M-437 and M-439.

b. Provide the completion dates and the actual costs incurred for painting the Cox Street tank, the York Street tank, the Kentucky River Station No. 1 intake, and the Kentucky River Station lime silo.

34. Explain in detail the calculations of the adjustment to the waste disposal expense per Item No. 17, pages 490 through 494 of the response to the Commission's initial information request.

35. Provide a schedule of the expenses incurred during the test-year maintaining the existing water main, which is to be replaced by the 30" raw water main. Reconcile the total amount to Exhibit No. 4, Schedule 3, of the application.

36. Exhibit 3, Schedule 2, of the application includes the estimated raw water main cost of \$2,072,000. Provide the basis for this estimate.

37. At the completion of the raw water main provide an analysis of the estimated cost and the actual cost, showing the variances.

38. Exhibit EJG-1 of Edward J. Grubb's direct testimony includes deferred taxes on contributions and customer advances of \$1,936,963. Provide a detailed calculation of the \$1,936,963 and documentation of the actual taxes paid on contributions in aid of construction and customer advances.

39. Item No. 7 of the Commission's initial information request is an analysis of water sold, water produced, number of customers, and monthly revenue collections. The following requests for reconciliations are in reference to Kentucky-American's response to that question:

a. According to Item No. 7, May water sales are 852,153 gallons, however the monthly report has 860,951.

b. According to Item No. 7, system delivery for July is 1,212,002 gallons, however the monthly report has 1,559,495.

c. According to Item No. 7, the number of customers for July and August is 72,456 and 72,767, respectively. However, the monthly report shows 72,490 and 72,546 customers for July and August.

40. Based on the response to Item No. 7, of the Commission's initial information request, provide the following analysis:

a. Provide the average monthly usage by customer class.

b. Based on the average monthly usage, determine by customer class the average monthly bill using the end-of-period rates.

c. Determine the average monthly revenue using the calculation in (b) and the end-of-period customer level.

41. The following questions are in reference to Robert Eden's direct testimony:

a. On page 5 of your testimony you describe programs that you have used to promote public awareness of the efficient use of water. How has Kentucky-American benefitted from implementing programs to encourage water conservation?

b. On page 5 of your testimony you describe the company's leak detection program. Has the company done a cost/benefit analysis comparing the cost of the leak detection van with the savings resulting from leak detection? If yes, provide.

c. On page 6 of your testimony you state that for the 12 months ended 10/31/88 the unaccounted-for water was 12.2 percent. Does the company have a definite goal to reduce the

unaccounted-for water? If yes, provide the goal, the expected time frame, and the steps the company intends to take to achieve the goal.

d. On page 7 of your testimony you describe the technical difficulties with the Comprehensive Cost of Service Data Gathering Project. You indicate that the remainder of the work to correct the technical difficulties will be completed by March 1989. Describe the steps that will be taken to complete the data gathering project and the timetable for completion.

e. On page 8 of your testimony you state that since the last test year, additional service lines and meter installations have been installed to provide service to approximately 2,000 additional customers. How much growth in demand is the company forecasting over the next 5 years? Provide a demand forecast and a list of all the assumptions used to project demand.

f. Given the importance of Kentucky-American's role as a regional supplier has the company considered obtaining letters of intent or some sort of formal agreement to indicate demand from other area water suppliers, such as the city of Georgetown, North Middletown, and Spears Water District?

g. On page 10 of your testimony you state that the company is in the process of developing methods which will require bulk water purchasers to reserve an increment of plant compatible with their demands. Describe how this process would work.

42. On page 3 of Jerry Ware's testimony he indicates that the positions of filter plant operators in the Richmond Road Station have been eliminated. Why were these positions eliminated?

43. Provide a copy of Kentucky-American's service contract with American Water Works Service Company, Inc.

44. Dr. Phillips, on page 14 of his testimony, states that an adjustment should be made to dividend yields to allow for flotation costs.

a. Is it possible that such costs may have already been recovered as expense items through Kentucky-American's service contract?

b. If this were the case, would you then agree that there would be no need for additional adjustments to dividend yields?

45. a. Provide a detailed billing analysis for the test year showing actual bills, usage, and revenue resulting from rates in effect during the test year.

b. Provide a reconciliation schedule for any differences from test year actual revenue.

46. Explain in detail and provide calculations for the billing analysis reconciliation items. (Exhibit 6, Schedule 4, pages 1-8.)

47. a. Explain in detail the methodology used to annualize revenues and customers.

b. Does the result reflect the going-forward levels of customers and revenues? Explain.

48. a. What effect will planned construction have on customer levels?

b. Have any adjustments been made to the billing analysis as a result of any anticipated effects of planned construction?

Done at Frankfort, Kentucky, this 3rd day of February, 1989.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 10481

Analysis CWIP

Project
DescriptionPresent Cost
Included in CWIPEstimated Completion
CostEstimated Completion
DateAmount Available
for AFUDC