

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 the Attorney General/Lexington Fayette Urban County Government ("AG/LFUCG") shall file the original and 12 copies of the following information with the Commission, with a copy to all parties of record, no later than April 21, 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 ensure 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. 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. The following are in regard to the discussion and proposed adjustments to the Allowance for Funds Used During Construction ("AFUDC") contained on pages 12 through 18 of Thomas C. DeWard's Direct Testimony filed March 24, 1989.

a. The AG/LFUCG estimated that AFUDC was overstated by \$2 million. Provide documentation and calculations supporting the estimated \$2 million adjustment.

b. Compare the methodology proposed in Mr. DeWard's Direct Testimony for calculating AFUDC with the methodology used by the Federal Energy Regulatory Commission outlined in Section 3(17a) of the Electric Plant Instructions in the Electric Uniform System of Accounts ("USoA").

c. Compare the methodology proposed in Mr. DeWard's Direct Testimony for calculating AFUDC with the methodology used by the Internal Revenue Service for imputing AFUDC for federal income tax purposes.

d. Section 20(17) of the accounting instructions of the USoA for A and B Water Utilities states, "AFUDC includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used." Since the USoA makes no distinction between construction supported by accounts payable accruals or actual cash outlays, does your proposed methodology to calculate AFUDC differ from that prescribed in the USoA? If it does differ, explain why the Commission should deviate from the methodology contained in the USoA.

e. On page 15 of Mr. DeWard's Direct Testimony, it is stated that AFUDC should be based on construction work in progress ("CWIP"), net of short-term debt, times the overall rate of return from the previous rate case. Is it Mr. DeWard's position that CWIP supported by short-term debt should accrue AFUDC at the interest rate for short-term debt? Would this be accomplished if the AFUDC rate was based on the actual weighted cost of debt (short and long term), the weighted cost of stock, and the return on equity granted in the last general rate case?

f. Provide a detailed explanation of the third point contained on pages 15 and 16 of Mr. DeWard's Direct Testimony stating that Kentucky-American overstated AFUDC.

g. In your opinion should pre-construction cost, i.e., engineering, included in CWIP prior to beginning construction accrue AFUDC?

h. If the AFUDC method proposed is adopted, would it be prudent on a cost basis to require Kentucky-American Water Company ("Kentucky-American") to recalculate embedded AFUDC? Explain.

2. The following is in regard to that discussion and proposed rate base adjustment for cash working capital contained on pages 21 through 56 of Mr. DeWard's Direct Testimony, filed March 24, 1989:

a. There are two balance sheet methodologies for determining cash working capital. They are the invested capital method and the net current asset method. Explain the pros and

cons of the invested capital approach and how it differs from the method proposed by the AG/LFUCG.

b. Describe the differences between the current asset approach and the lead/lag method.

c. If a portion of current liabilities are due to CWIP, would a mismatch result in current assets and liabilities if the current asset approach was used? Explain.

d. Are you aware of any instances where this Commission has used either balance sheet approach in calculating cash working capital?

3. In determining the adjustment to annualize Toyota water sales, is there a corresponding adjustment to reflect the annualized water costs?

4. There is a proposed reduction to service company charges of 5 percent to reduce historical wage increases below the appropriate inflation rates or CPI index. Provide the basis and all supporting documentation and calculations for the 5 percent Adjustment.

Done at Frankfort, Kentucky, this 7th day of April, 1989.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director