

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF)
KENTUCKY-AMERICAN WATER COMPANY) CASE NO. 89-348

O R D E R

IT IS ORDERED that Kentucky-American Water Company ("Kentucky-American") shall file the original and 12 copies of the following information with the Commission, with a copy to all parties of record, by February 19, 1990. 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 a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

1. Provide copies of available floppy disks containing LOTUS 1-2-3 spreadsheets of working papers and various adjustments previously filed in this proceeding on hard copy.

2. On page 12 of Edward Grubb's direct testimony, he states that the company is now required to pay the LFUCG a monthly fee for sanitary sewer service at the Richmond Road Station. Provide documentation explaining why Kentucky-American had not incurred this expense prior to September 1989. Provide available monthly invoices for this service received subsequent to the test period.

3. Explain in detail the nature of the Low Retrofit expenses referred to on page 10 of Mr. Grubb's testimony.

4. W/P-C-4-1 estimates the expense of this current case to be \$129,000. Provide invoices and documentation to support the estimated expense.

5. Provide current contract bid prices of chemicals and the actual chemical usage utilized in the calculation on page 9 of Mr. Grubb's testimony.

6. Provide invoices supporting the total cost-of-service study expense of \$148,074 as set forth on W/P-C-4-1.

7. Mr. Eden, in Exhibit 6 of his prepared testimony, described the additional employees proposed by the Company. With regard to the Construction Inspector, was this person hired to replace another employee who previously held that position? If not, who inspected the installation of new distribution and transmission mains prior to the Inspector's employment?

8. Based on page 5 of Mr. Grubb's testimony, Exhibit 3, Schedule 2, of the application reflects Kentucky-American's level

of Construction Work in Process ("CWIP") per books, net of contract retentions, to be \$5,625,619. 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.

9. Provide a detailed analysis of Kentucky-American's contract retention for the past 5 years.

10. Exhibit 4, Schedule 2, of the application includes Allowance for Funds Used During Construction ("AFUDC") of \$98,199. Provide Kentucky-American's calculation of AFUDC and any related workpapers.

11. The following items are in reference to Item 10 of the response to the Commission's initial information request:

a. Explain the increase in notes payable from October 1988 to October 1989 as shown on line 23.

b. Explain the decrease in accounts payable from October 1988 to October 1989 as shown on line 24.

c. Line 6 indicates the balance of the Temporary Cash Investment account. Explain the balance shown for October 1988. Why did this account reflect a zero balance for the remaining months of the test period?

d. Explain the increase in Working Funds on line 7 which occurred in December 1988.

12. With regard to the monthly cash balances as shown on line 3 of Item No. 10 of the response to the Commission's initial request, provide the following:

a. Explanation of why cash balances are negative with the exception of October 1988 and August 1988.

b. Reconciliation of cash balances shown for May and June 1989 with those balances shown in Item 13 of the response.

c. Verification of cash balance for November 1988.

13. Reconcile the October 31, 1988 and 1989 cash balances as shown in Item 13 of \$650,029 and (\$212,958), respectively, to the appropriate cash balances per the balance sheet in Item 8 of \$656,429 and \$11,200.

14. The following questions are in reference to Item 15 of the Commission's initial information request:

a. Provide an explanation for the \$7,703 decrease in Account No. 3102 in August 1988.

b. Provide an explanation for the \$2,044,453 increase in Account No. 316, Supply Mains, in June 1989.

c. Provide an explanation for the increase in Account No. 3902, Stores Shop & Garage Structure, from \$72,797 in September 1989 to \$119,045 in October 1989.

d. Explain the \$64,223 increase in Account No. 3903, Miscellaneous Structures, in October 1989.

e. Account 39212, Trans. Eq.-Heavy Trucks, more than doubled in December 1988. Provide an explanation for this increase.

f. Provide an explanation for the fluctuations in Other Tangible Property Account from a low of \$2,626 to a high of \$35,511 during the test year.

g. Provide an explanation for the increase in Account No. 397, Communication Equipment, from \$179,705 in November 1988 to \$335,501 in October 1989.

h. Explain the increase in Account 325, Electric Pumping Equipment, from \$4,135,468 in November 1988 to \$4,336,614 in October 1989.

i. Explain the fluctuations during the test period in Accounts 343, T&D Mains, and 345, Services.

j. Explain the increase in Accounts 347 and 348 which occurred during the test period.

k. Explain the fluctuations in Account 3901, Office Structures, and Account 39121, Computer Equipment, which occurred during the test period.

15. Explain, in detailed narrative form, the calculations set forth on W/P-C-10-1 and C-10-2 in support of the cost of serving new customers of \$50,505.

16. Both Exhibit 2, Schedule 2, of the application and Item 8 of the response to the Commission's initial information request contain Kentucky-American's balance sheet for the fiscal year ended October 31, 1989. Provide a reconciliation of the two balance sheets.

17. Explain why Account 154.2 (Materials and Supplies-Auto Supplies), as shown in Item 12 of the response to the Commission's initial request, reflects a zero balance from May 1989 through October 1989.

18. With reference to Item 19(b) of the response to the Commission's initial information request, please explain the following test-year fluctuations in expenses as compared to prior years:

- a. Account 604, Rents
- b. Account 613.1, Maint. Lake, River & Other Intakes--Mat.
- c. Account 623.2, Power Purchased for Pumping--Other
- d. Account 665.2, Maps & Records Labor
- e. Account 932.3, Maint. A & G Office Furniture--Mat

19. Provide a detailed breakdown of all service company charges and their associated benefits for the test period, by month and service type.

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

21. Item 27 of the response to the Commission's initial request reflects rate case expense incurred during the test year to be \$63,211. What portion of this amount is related to this case? If any of this expense is related to a prior case, explain.

22. Provide information, when available, of any transactions or events occurring subsequent to the test year which would have a material effect on net operating income, rate base, and/or cost of capital and have not yet been incorporated into this filing.

23. Provide a statement showing the actual cost of the raw water main addressed in Case No. 10481. Were any expenses associated with the raw water main included in the October 31, 1989 test-year expenses? If so, describe.

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

25. With reference to Item 19(a), explain the following fluctuations in monthly expenses:

- a. Account 6423: January, October
- Account 6431: July
- Account 644: September
- Account 6521: November
- Account 6651: December
- Account 6731: December
- Account 90352: December
- Account 924: September
- Account 93021: March, May, June
- Account 93024: December, May, June
- Account 9303: February
- Account 93039: March
- Account 9321: December

26. In reference to Item 10 of the response to the Commission's initial information request, explain the large fluctuations in Customer Accounts Receivable which occurred in July 1989 and September 1989.

27. With regard to Item 10 of the response to the Commission's initial information request, provide the following:

- a. Explain why the August 1989 balance in Accrued Utility Revenues is higher than the other months during the year.

b. Explain the fluctuations in the Taxes Accrued Account.

28. With regard to Item 12 of the response to the Commission's initial information request, provide a detailed analysis explaining the increase in Plant in Service from October 1988 to October 1989.

29. On page 12 of Mr. Grubb's testimony, he discusses the method used to calculate uncollectibles expense. Explain and compare the Black Motor Formula method and the net write-off method. Provide a schedule comparing the results achieved under the two methods based on test-year data.

30. Describe the recent changes implemented by the Cabinet for Natural Resources and Environmental Protection, Division of Water, which are referred to in Item 19, page 7, of Mr. Edens' testimony.

31. On page 9, Item 27 of Mr. Edens' testimony, he discusses the proposal currently before the Commission which will require bulk water purchasers to reserve an increment of plant compatible with their demands. If this proposal is approved, what impact would it have on this rate case?

32. On page 9 of his testimony in Item 28, Mr. Edens stated that nine additional employees were hired during the test year. Were these new positions or did they replace other employees?

33. In Item 34 of Mr. Edens' testimony, he refers to a notice of violation received from the Division of Water for discharge from the sludge hauling facilities at the Kentucky River

Station. Describe the facilities required to be designed and constructed as a result of this violation.

34. Provide a detailed analysis showing the calculation of normalized test-year wages as of October 31, 1989.

35. In Items 9 and 10 of his testimony, Roy Ferrell stated that rate base exceeds capitalization by approximately \$1.2 million, and he explained the reason for this variance. Are the accrued long-term debt interest funds considered to be an ongoing source of funds available for the company's use?

36. On page 10 of Mr. Ferrell's testimony, he discusses the method used to determine average residential usage for the test year. Was this based on actual end-of-period customers divided into actual end-of-period sales? Shouldn't a weighted average have been used? If no, why not?

37. Does using average water sales based on actual end-of-period customers to determine average water sales per customer and using the average increase in customers rather than the actual increase in customers served during the test period result in a mismatch? Shouldn't both calculations be based on either actual end-of-period levels or on averages? If not, why?

38. Exhibit 4, Schedule 2, of the application contains a column entitled "Adjustment for End of Test Year Rates and Customers." Does this reflect end-of-period customers X end-of-period rates? If not, explain. Provide any necessary calculations.

39. On page 9 of Mr. Grubb's testimony, the fifth component of Regulatory Expenses is the 2-year amortization of the cost of

the Rate Refund (Case No. 10481). Was it management's decision to place the rates proposed in Case No. 10481 into effect prior to receiving an Order from the Commission? Did Kentucky-American have reason to believe that the proposed rates would not be accepted?

40. With regard to Item 33 of Mr. Ferrell's testimony, if pension expenses were paid through the pension trust fund, would Kentucky-American still incur these expenses and at the same level?

41. Describe the basis for using an operating ratio to determine the cost of serving new customers as discussed on page 11 of Mr. Grubb's testimony. Explain the correlation between new customers and the additional cost calculated using this method. What studies have been done to prove that this is a reliable method for estimating the cost of serving new customers?

42. Explain why Account No. 283.52, Low Retrofit, in the amount of \$24,287 has a debit balance when the other deferred federal tax accounts are credit.

43. Workpaper A-G-1 references Account No. 190.1, Deferred Federal Income Tax, of \$2,492,624. Provide a detailed description of this account.

44. Per workpaper C-7-5, Kentucky-American has estimated that the sludge lagoons at the Kentucky River Station will be cleaned by mid-December at an estimated cost of \$82,850. Provide the actual cost incurred to clean the lagoons and supporting invoices when available.

45. Per workpapers C-9-1 and F-2-2, the Tates Creek water tank painting project will be completed by mid-November at an estimated cost of \$86,000. Provide the actual cost incurred to paint the water tank and supporting invoices when available.

46. Provide copies of the workpapers supporting the calculations of expected dividends and compound growth rates in Phillips Exhibits CFP-2, Schedules 9, 10, and 11. Include copies of excerpts from the relevant issues of S&P's Security Owner's Stock Guide, Moody's Dividend Record, and Financial Statistics of Telephone and Water Companies which contain the support for the calculations.

47. Provide a schedule which reconciles each component of the capital structure at the end of the test period (as shown on the response to the Order dated January 8, 1990, Request No. 1, Item 1, Schedule 1, page 1 of 3) with the capital structure totalling \$74,984,388 as shown on Exhibit No. 5, Schedule 1, of the Statement and Notice, and explaining the difference between the amounts for each component.

48. Relative to Exhibit No. 5, Schedule 1, of the Statement and Notice, explain why the \$2,000,000 common stock issuance on December 1989 was multiplied by a pro forma percentage of 79 percent.

49. Provide a copy of the manual developed by the American Water Works Association titled M-1 "Water Rates" mentioned on page 3 of the Cost of Service Study filed by Mr. McKitrich.

Done at Frankfort, Kentucky, this 5th day of February, 1990.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 89-348

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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