

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 March 12, 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. With reference to Kentucky-American's response to Item 2 of the Commission's February 5, 1990 Order, explain the decrease in Sanitary Sewer Charges in November and December 1989. At what average level is this expense expected to continue on a monthly basis? Provide supporting calculations.

2. In Kentucky-American's response to Item 3 of the Commission's February 5, 1990 Order, it is stated that the Low Retrofit Kit Program was a joint effort of Kentucky-American and the Lexington-Fayette Urban County Government ("LFUCG"). Was the total expense of the program for Kentucky-American \$76,997? If no, provide the total expense. What level of expense was incurred by the LFUCG? If none, explain why the LFUCG did not share the expense. If the LFUCG did incur some expense, provide calculations supporting the allocation of the cost of this project.

3. Provide, in schedule form by type of expense, a summary of expenses incurred for each segment of the Cost of Service study as referred to in Kentucky-American's response to Item 6 of the Commission's February 5, 1990 Order.

4. a. Provide a summary schedule of rate case expense incurred to date for this filing by category, e.g. legal fees, consulting fees, etc.

b. Provide invoices to support additional rate case expenses incurred for this filing as they become available.

5. Kentucky-American's response to Item 17 of the Commission's February 5, 1990 Order indicates that the Company discontinued keeping gasoline in stock. What impact, if any, does

purchasing gasoline, as needed, from a local vendor have on operation and maintenance expenses?

6. With regard to Kentucky-American's response to Item 33 of the Commission's February 5, 1990 Order, provide a brief explanation of the various treatment alternatives the company is conducting. How is Kentucky-American accounting for expenses associated with these treatment alternatives? Provide invoices and a summary schedule for expenses associated with the various treatment alternatives. At what level and for what period of time are these expenses expected to be incurred?

7. With reference to Kentucky-American's response to Item 44 of the Commission's February 5, 1990 Order, how often is it necessary to remove the sludge from the four sludge lagoons?

8. With reference to Item 7 of Kentucky American's response to the Commission's February 5, 1990 Order, it appears that the work of the new Construction Inspector position was previously being performed by other company personnel. Provide justification for the need of an additional employee for this purpose. Would any overtime expenses be eliminated or offset by the new position? If so, provide supporting calculations.

9. Show, in comparative form, the annual reduction in the pension trust fund for administrative and legal expenses incurred during the fiscal years ending October 31, 1985 through October 31, 1989. Include in this comparison any pension expense included in operation and maintenance expenses during those years. Project these same figures for the fiscal year subsequent to the test period. If pension expense amounts for the test year and the

subsequent fiscal year differ from those reflected on Exhibit 4, Schedule 3, Line 34, of the application, provide a reconciliation of the amounts.

10. In Kentucky-American's response to Item 87 of the AG/LFUCG's first data request, number 4 indicates that the company currently tests for 11 VOC's at its facility although test procedures performed at Belleville include the testing of the same 11 chemicals. Does this create a duplication of testing expense? What amount of savings would be realized if Kentucky-American discontinued in-house testing of these chemicals?

11. In Kentucky-American's response to Item 95 of the AG/LFUCG's first data request, the company describes services performed by the company with its System 36 Computer that were previously performed by the Service Company. Have the Service Company expenses decreased as a result of this? Has this decrease been reflected throughout the test year?

12. With reference to Kentucky-American's response to Item No. 34 of the Commission's February 5, 1990 Order, indicate the following:

a. Are total test year wages, as reported in Column H, normalized to reflect all wage increases granted as of 10/31/89 for union, non-union, and salaried employees?

b. Do total test year wages, as reported in Column H, include normalized salary expense for the 9 additional employees proposed per Exhibit 6 of Mr. Eden's testimony?

c. Explain the difference in amounts reported in columns I - N as compared with the amounts reported in those same

columns on the same workpaper filed as W/P-C-1-1 thru W/P-C-1-4.

13. With reference to Kentucky-American's responses to Item 25 of the Commission's February 5, 1990 Order and the AG/LFUCG's Data Request No. 1, Item 105, provide invoices to support the total expense of the land study of \$36,292.11.

14. In Kentucky-American's response to Item 29 of the Commission's February 5, 1990 Order, test year Uncollectibles Expense under the Net Write-Off Method was \$102,755. Reconcile that figure with the amount of \$124,337 found in Exhibit 4, Schedule 3, Line 28, of the application under the column, "Pro Forma Present Rates for the Test Year."

15. Item 36 of the Commission's February 5, 1990 Order, refers to the method used to calculate average residential usage for the test year. Kentucky-American's response indicates that the calculation was based on the average number of customers during the test year divided into actual end-of-period sales. Shouldn't a weighted average have been used? If no, why not?

16. In calculating the cash working capital allowance to be included in rate base, Kentucky-American used a ratio equal to 1/7 of adjusted Operation & Maintenance expenses. The 1/7 factor was determined to be reasonable in Case No. 10069.¹ Has a lead-lag

¹ Case No. 10069, Notice of Adjustment Of The Rates of Kentucky-American Water Company.

study or other analysis been performed to verify that 1/7 is the appropriate factor to use in determining working capital for this case? Explain why or why not.

17. Per Witness Ferrell's testimony, page 5, if the company's objective in substituting proposed increments of the new financing components for short-term debt is "to provide a capital structure that reflects a proper mix of permanent capital to support its actual test year rate base," why wouldn't it be proper to use the "mix" (i.e. the ratios for each component of capital structure) which existed after the financing was completed on 12/27/89? Provide the actual capital structure on 12-31-89.


18. Regarding the response to Item 46 of the February 5, 1990 Order, provide a legible copy of the C. A. Turner Annual Report of 1984 for California Water Service Company. The copy previously provided was not legible.

19. Per Phillips Exhibit CFP-2, Schedule 8, page 2 of 2, provide copies of the relevant issues of S & P's Security Owner's Stock Guide to allow verification of the monthly market prices of the proxy water utilities.

20. Provide an explanation as to why the last rate increment was not increased by a higher percentage if the basis of the proposed rates is conservation.

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

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director