

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN WATER)
COMPANY TO INCREASE ITS RATES) CASE NO. 95-554

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 by March 29, 1996, with a copy to all parties of record. 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. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. a. Compare Kentucky-American's forecasted rate base, capital structure, and income statement from Case No. 92-452¹ with

¹ Case No. 92-452, Notice of Adjustment of the Rates of Kentucky-American Water Company, Order Dated November 19, 1993.

its actual results. Include a detailed explanation of any variance that occurred.

b. Compare Kentucky-American's forecasted rate base, capital structure, and income statement from Case No. 94-197² with its actual results. Include a detailed explanation of any variance that occurred.

2. Has Kentucky-American obtained all of the necessary approvals for the construction projects to be started or completed during the forecasted test period? If no, provide a list of those projects that need approval, specify the type of approval needed, and the date approval will be requested.

3. For the budget projects that were started or completed during the period 1986 through 1995, provide the following:

- a. The number started or completed ahead of schedule.
- b. The number started or completed on schedule.
- c. The number started or completed behind schedule.

4. Describe budget project 90-13, Kentucky River Lock Study, in the amount of \$412,005.

5. Describe budget project 96-O, AS400 upgrade, in the amount of \$120,000.

6. Refer to the description of budget project 97-G, major highway reconstruction project, on page 14 of Stockton's Direct Testimony. For the period 1990 through 1995, provide the names of

² Case No. 94-197, Notice of Adjustment of the Rates of Kentucky-American Water Company, Order dated January 25, 1995.

the major highway relocations, the projected cost of the project, and the actual project cost.

7. In Case No. 94-197, Kentucky-American estimated that budget project 95-02, the installation of 16,100 feet of 12-inch main in Haley Pike would cost \$250,000. Explain the increased estimate of \$650,000 for this project.

8. In Case No. 94-197, Kentucky-American estimated that budget project 95-06, the study to review the alternatives for sludge hauling, would cost \$30,000. Explain the increased estimate of \$65,000 for this project.

9. In Case No. 94-197, budget project 95-09 was the conversion of customer service files to an optical disk system, but in this proceeding it is the Kentucky River Station access road. Explain this discrepancy.

10. In Case No. 94-197, budget project 95-11 was the rerouting of meter routes, but in this proceeding it is the installation of an 8-inch main in Scott County. Explain this discrepancy.

11. In Case No. 94-197, budget project 95-12 was the replacement of meter reading equipment, but in this proceeding it is the design and installation of a zebra mussel control facility at the Kentucky River Station. Explain this discrepancy.

12. Refer to workpapers W/P-1-5, page 7 and 8, CWIP:

a. From August 1996 through March 1997 budget project 92-12, Develop Additional Source of Supply, was in an account that accrued AFUDC, but in April 1997 it was transferred to an account

that does not accrue AFUDC. Explain why AFUDC will not be accrued on this project after April 1997.

b. From August 1996 through March 1997 budget project 90-14, Evaluate Source of Supply, had a balance of \$319,623, but, beginning in April 1997, the balance was zero. Did Kentucky-American combine budget projects 90-14, Evaluate Source of Supply, and 92-12, Develop Additional Source of Supply? If yes, why? If no, explain the zero balance for budget project 90-14.

13. The Uniform System of Accounts for Class A and B Water Companies ("USoA") requires that all expenditures for preliminary surveys, plans, investigations, etc., made for determining the feasibility of construction projects under contemplation be charged to Account 183 - Preliminary Survey and Investigation Charges. Explain why Kentucky-American has included these costs in CWIP rather than Account 183 as required by the USoA?

14. In Case No. 92-452, the Commission found that the Ohio River supply line costs should be removed from rate base because of "the nature of the pipeline costs, the USoA requirements, and the uncertainty surrounding the construction." Identify any changes that have occurred since that conclusion was reached or provide any evidence that would support a change in that finding.

15. Refer to pages 5 and 6 of Pellock's Direct Testimony:

a. Kentucky-American has requested rate base treatment for the cost of Case No. 93-434³ until a final Order is issued. Explain why this expenditure should not be considered a preliminary construction cost and recorded in Account 183?

b. If the USoA delays including these costs in rate base or operating expenses until a decision is made to begin construction or abandon the project, explain why Kentucky-American should be allowed to earn a return on these costs before the decision to construct or abandon is made.

c. If the project is abandoned how will Kentucky-American propose to recover these costs?

16. Refer to budget project 92-12, development of the Ohio River supply line, on page 8 of Stockton's Direct Testimony. Describe the 1997 estimated \$200,000 expenditure.

17. The Commission decided to keep Case No. 93-434 open until the University of Kentucky ("UK") performed a new safe-yield analysis of the Kentucky River for the Kentucky River Authority ("Authority").

a. When did UK begin the analysis?

b. When is the analysis scheduled to be completed?

c. In its request for rehearing in Case No. 93-434, Kentucky-American requested that the case remain open so the Authority's safe-yield analysis could be monitored. Has Kentucky-

³ Case No. 93-434, An Investigation of the Sources of Supply and Future Demand of Kentucky-American Water Company, Order dated April 24, 1995.

American monitored the progress of the analysis? If yes, provide any preliminary information Kentucky-American has received concerning the Authority's safe-yield analysis.

18. The Authority was to repair the leaks in locks and dams 5 through 14, and to install valves in a number of the dams.

a. Have any of the locks and dams been repaired?

b. If yes, describe the repairs to the locks and dams since April 1994.

c. Has the ownership of the locks and dams been transferred from the federal government to the Commonwealth?

d. The Order in Case No. 93-434 referenced a \$10 million federal appropriation. What is the current status of this appropriation?

19. Refer to the response to Item 9 of the Commission's January 30, 1996 Order. For the period 1986 through 1995, the ratios of actual to budgeted capital construction expenditures ("slippage factors") are: 97.12 percent for Investment Projects 1A-5; and 74.03 percent for Budget Projects. Recalculate Kentucky-American's forecasted revenue requirement, rate base, and cost of service as follows:

a. Reduce all monthly Investment Project 1A-5 expenditures beginning November 1995 through the end of the forecasted period, using the 97.12 percent slippage factor.

b. Reduce all monthly budget project expenditures beginning November 1995 through the end of the forecasted period, using the 74.03 percent slippage factor.

c. Provide workpapers and calculations showing the impact to each element of rate base and cost of service.

20. Provide the information required in the preceding question excluding budget project 90-14, Evaluate Source of Supply Options, and budget project 92-12, Develop Additional Source of Supply.

21. Table No. 1 to Kentucky-American's depreciation study as filed in this proceeding lists 12 accounts in which cost of removal is a factor in determining the actual rates. For each account (Accounts 316, 321, 325, 326, 331, 332, 342, 343, 345, 347, 348, and 395), provide the criteria used to determine what can be abandoned in place and what has to be removed.

22. In Case No. 10069,⁴ Kentucky-American performed a lead/lag study to arrive at a 1/6 formula used to calculate its cash working capital. Explain the reason Kentucky-American did not use this approach in this rate case.

23. a. Calculate the cash working capital formula that the March 1991 lead/lag study would have produced. Include all assumptions, workpapers, and calculations used to develop the formula.

b. Calculate the cash working capital formula that the modified March 1991 lead/lag study would produce. Include all assumptions, workpapers, and calculations used to develop the formula.

⁴ Case No. 10069, Notice of Adjustment of the Rates of Kentucky-American Water Company.

c. Compare Kentucky-American's cash working capital requirements using the proposed method, the formula calculated in a, and the formula calculated in b. Include all assumptions, workpapers, and calculations used to develop the comparison.

24. Refer to the discussion of the Toyota Main Extension Agreement on page 6 of Fuller's Direct Testimony:

a. Provide the effect the transfer of the Toyota Customer Advance to the Contributions In Aid Of Construction ("CIAC") account will have on the accumulated depreciation reserve and depreciation expense.

b. Provide the journal entry Kentucky-American will make when it transfers the Toyota advance to the CIAC account.

25. For the deferred maintenance projects that were started or completed during the period 1986 through 1995, provide the following:

- a. The number started or completed ahead of schedule.
- b. The number started or completed on schedule.
- c. The number started or completed behind schedule.
- d. The number completed below the projected cost.
- e. The number completed above the projected cost.

26. On page 10 of his Direct Testimony, Grubb determined that during the period July 1993 through December 1994 Kentucky-American funded \$325,672 more of Other Post-Retirement Employee Benefits ("OPEB") cost than the Commission allowed it to collect in rates.

a. Since the Order in Case No. 92-452 was issued on November 19, 1993, explain why Kentucky-American continued to fund OPEBs at a higher level than the Commission allowed in rates.

b. Explain in detail why Kentucky-American's stockholders should earn a return on the OPEB amount which exceeds the amount the Commission determined to be reasonable in Case No. 92-452.

c. Does Kentucky-American expect the amount funded to be fully tax deductible? If not, provide calculations showing the amount expected to be tax deductible.

d. Are there any other instances where the difference between the amount expended and the amount of expense included in rates is included in rate base. If no, justify Kentucky-American's special treatment of the difference between OPEB funding and OPEB rate recovery.

e. Explain in detail why Kentucky-American's OPEB over-funding ceased in November 1994.

27. For each deferred cost Kentucky-American proposes to include in rate base that has not been included in a prior case:

a. Do the deferred items benefit both the ratepayers and stockholders? If no, explain in detail why not.

b. Explain why Kentucky-American's ratepayers should be required to pay both the carrying charge and amortization of these costs?

28. a. Refer to the response to Item 17 of the Commission's January 30, 1996 Order. The average number of employees between

May 1990 and January 1996 is 3 below Kentucky-American's average budgeted level. Explain why Kentucky-American's forecasted level of employees has not been adjusted to reflect the average actual level of employees.

b. Recalculate Kentucky-American's forecasted labor expense to reflect an average of 147 employees.

29. a. Workpaper W/P-3-7 page 1, O & M Exp.-Pensions, shows total operation and maintenance labor of \$4,965,823, while Schedule C-2, page 1, Overall Financial Summary for the 12 Months Ended August 31, 1997, shows labor expense of \$4,969,423. Reconcile the two labor expenses.

b. Workpaper W/P-3-1, page 3, Capital Summary Report by Employee for the Forecasted Test Year Ended 8/31/97, shows regular payroll of \$4,969,423, the same amount reported on Schedule C-2, page 1. However, the workpaper also shows forecasted overtime payroll of \$768,712. Explain why Kentucky-American's forecasted overtime is not reflected in its forecasted operations.

30. Kentucky-American is proposing to grant its salaried and non-union hourly employees pay increases of 3 percent in 1996 and 1997, while union employees will receive a 2.5 percent pay increases in those years. Explain why non-union employees will receive larger pay raises than the union employees.

31. Cite specific instances in the calculation of overtime hours where management judgment and operation needs were used to adjust the forecasted hours.

32. Provide an analysis of the overtime hours for the period 1986 through 1995 comparing the budgeted overtime hours with the actual overtime hours. Describe and explain any variance which exceeds 5 percent.

33. For each of the following expenses provide comparisons of the annual budgeted amounts and actual results for the period 1986 through 1995. Describe and explain any variance which exceeds 5 percent.

- a. Fuel and Power Expense.
- b. Chemical Expense.
- c. Management Fee Expense.
- d. Customer Accounting Expense.
- e. General Office Expense.
- f. Miscellaneous Expense.
- g. Maintenance Expense.

34. Forecasted fuel and power is based on 5-year averages of pumping by month, system delivery by plant, and kwh to million gallons. In Case No. 92-452, Kentucky-American used 6-year averages. Explain why different averages are now used in the calculation.

35. a. Cite instances in the calculation of Kentucky-American's fuel and power expense where operational judgment was used to adjust averages.

b. Cite instances in the calculation of Kentucky-American's chemical expense where operational judgment was used to adjust averages.

36. In 1996 Kentucky-American will begin to lease its granular activated carbon. Compare the cost to purchase and dispose of the granular activated carbon with the lease fee.

37. On what dates did Kentucky-American began to use each chemical listed in workpapers W/P-3-3 page 1 through 6.

38. Schedule C-2, page 1, shows waste disposal expense of \$137,563, but Workpaper W/P-3-4 shows O & M Exp-Waste Disposal of \$100,904. Explain the difference in these expenses.

39. Refer to page 26 of Stockton's Direct Testimony:

a. Kentucky-American has forecasted that sludge will be removed in December 1995 and June 1997. When was sludge last removed?

b. Compare the budgeted cost of removal with the actual cost and explain any variance.

c. Why did Kentucky-American propose a 24-month amortization period?

d. Provide a copy of the state regulation referenced.

e. Provide a detailed analysis to support the estimated cost to close the residual storage sites of \$100,000.

f. Provide a detailed analysis to support the estimated annual sludge hauling cost of \$30,000.

40. a. Provide comparisons of the annual budgeted amounts and actual results for programmed maintenance projects for the period 1986 through 1995. Describe and explain each variance which exceeds 5 percent.

b. Provide comparisons of the annual budgeted amounts and actual results for non-programmed maintenance projects for the period 1986 through 1995. Describe and explain any variance which exceeds 5 percent.

41. a. On page 28 of his Direct Testimony, Mr. Stockton stated that programmed maintenance increased in the forecasted test period because some of the 1995 projects were delayed. How does Kentucky-American determine which projects will be performed and which will be delayed?

b. Does the delay of programmed maintenance decrease the reliability of Kentucky-American's distribution system?

42. Describe Kentucky-American's current relationship with the American Waterworks Service Company ("Service Company") and any changes which are planned to occur in the future.

43. Implementation of several recommendations from Kentucky-American's 1991 Management Audit is tied to Kentucky-American's and the Service Company's strategic planning efforts. Explain in detail the strategic planning efforts, the manner in which Kentucky-American employees were involved, and the current status of the strategic plan.

44. Is the Hershey, Pennsylvania data processing center the only resource available to meet Kentucky-American's data processing needs? If no, list the other resources and the services they provide.

45. Provide a detailed list of the data processing services provided to Kentucky-American at the Hershey, Pennsylvania data

processing center. Specify whether the cost for each service is direct or allocated cost.

46. Provide a detailed list of the data processing services performed in-house by Kentucky-American.

47. Besides the explanation provided in Grubb's Direct Testimony, Answer No. 20, is there any analysis or study to support the statement that, "[T]he allocation of the accounting function based on the number of vouchers is just plain inappropriate."

48. In Case No. 90-321⁵ the Commission stated that, "The problem with the Service Company's approach is that it has allocated all costs in the same manner without looking at the underlying characteristics of each cost separately." Has the Service Company or Kentucky-American since performed any studies to look at each cost separately to identify its underlying characteristics?

49. Identify any changes that have occurred since Case No. 90-321 that would support reconsideration of the Commission's position on the customer allocation methodology used in the 1989 Service Agreement.

50. Refer to the response to Item 34 of the Commission's January 30, 1996 Order:

a. The Service Company Contract Comparison for the forecasted period reflects a \$134,114 difference between 1971 and 1989 contracts. Does this difference reflect Kentucky-American's

⁵ Case No. 90-321, Adjustment of the Rates of Kentucky-American Water Company, Order dated May 30, 1991.

proposed switch to monthly billing? If no, resubmit this analysis to reflect Kentucky-American's proposed switch to monthly billing.

b. The 1989 allocated Service Company charges combined with the directly billed charges result in management fees of \$1,726,351 for the forecasted test period, but Workpaper W/P-3-5, O & M Exp.-Management Fees, shows that cost to be \$1,161,141. Reconcile these amounts.

51. a. Compare the testing to be performed at the Belleville Laboratory for Kentucky-American during the base period with that to be performed during the forecast period. Explain increases in the cost or number of tests performed and identify the tests required by the Clean Water Act.

b. Compare the testing to be performed by Kentucky-American in-house during the base period with that to be performed during the forecast period. Explain increases in the cost or number of tests performed and identify the tests required by the Clean Water Act.

52. Compare the budgeted and actual group insurance premium increases for the period 1986 through 1995. Describe any variance.

53. Kentucky-American's estimated cost to prepare this rate case is \$366,000. Provide the basis for this estimate.

54. In Case No. 94-197, Kentucky-American estimated that the rate case cost would be \$381,000, but the actual cost for that case was \$249,996. Explain the difference between the actual and forecasted rate case costs.

55. Compare the budgeted and actual insurance other than group insurance premium increases for the period 1986 through 1995. Describe any variance.

56. Refer to Workpaper W/P-3-9, O & M Exp.-Insurance Other Than Group:

a. Explain retroactive adjustments to total property insurance, workers' compensation insurance, and general liability insurance.

b. Identify the insurance policy period for the retroactive adjustments included in Kentucky-American's forecast.

c. Provide an analysis of the retroactive insurance adjustments by category for 1990 through 1993.

d. Describe the 3 workers' compensation credits listed on this workpaper.

57. a. Kentucky-American has proposed to amortize over 3 years the cost to move Roy Mundy, Kentucky-American's Vice President and Manager, to Lexington. How was this cost originally recorded on Kentucky-American's books?

b. In Case No. 90-321, the Commission determined that employee moving expenses were non-recurring and, therefore, not recoverable in rates. Identify any changes that have occurred since Case No. 90-321 that would support reconsideration of the Commission's position on this issue.

58. Identify the effect the change in depreciation rates proposed in this case has on the amortization of the excess

deferred taxes resulting from the reduction in the federal tax rate under the Tax Reform Act of 1986.

59. In Case No. 94-197, Kentucky-American projected that in September 1995 it would be required to issue \$6,000,000 of long-term debt and \$2,000,000 of common stock. However, in July 1995, Kentucky-American requested Commission approval to issue \$5,500,000 of long-term debt and \$3,500,000 of common stock. Explain in detail the variance between the forecasted and actual capital requirements.

60. Compare the budgeted and actual financing requirements for the period 1986 through 1995 and describe any variance.

61. Compare the projected and actual long-term interest rates on new debt issuances for the period 1986 through 1995. Describe any variance in the interest rates.

62. Refer to Exhibit CDB-1, Comparison of Monthly and Quarterly Meter Reading. Provide the current number of meter readers and the accounts per meter reader.

63. Refer to page 12 of Bush's Direct Testimony:

a. Kentucky-American surveyed 21 water companies for information on meter reading. Since Kentucky-American is switching to monthly billing, explain why the survey was not limited to those utilities which bill monthly.

b. Kentucky-American pointed to the flexibility of using contract temporary meter readers instead of hiring permanent meter readers. Explain why contract labor was not used exclusively to fill the meter reading positions created by monthly billing.

c. Compare the cost of the current proposal and using all contract labor for the new meter readers.

64. a. Provide a description of the joint meter reading study by Kentucky-American and Kentucky Utilities.

b. Provide the date the study began or is scheduled to begin.

c. When is the study scheduled to be completed?

d. What is the projected cost of the meter reading study and has this cost been included in the forecasted operations?

e. Has Kentucky-American monitored the progress of the study? If yes, provide any preliminary information Kentucky-American has received.

f. What is the estimated effect joint meter reading will have on Kentucky-American's operations?

65. Refer to Page 14 of Bush's Direct Testimony:

a. Provide the cost per bill based on the actual number of bills mailed in the 12-month period ending August 1995, and the total postage expense, using the current rate, of \$123,555. Include all calculations and workpapers used to determine the cost per bill.

b. Explain how the postage cost per bill of \$0.33445 was inflated to include postage costs for second notices and collection notices.

c. Explain why Kentucky-American used the average number of customers in determining the cost per customer.

d. Since Kentucky-American is proposing to switch to monthly billing, explain the difference between cost per customer and cost per bill.

66. To calculate the increase in transportation cost due to monthly meter reading, Kentucky-American used a 3 percent inflation factor, but in calculating other adjustments a 2.5 percent factor was used. Explain the use of a different factor for this adjustment.

67. Is an allocation for Service Company pension costs included in management fees? If so, provide a workpaper showing cost calculations for the Service Company's pension allocation under the 1971 and 1989 Service Company contracts.

68. How much did Kentucky-American contribute to its noncontributory defined benefit pension plan in 1995? How much does Kentucky-American anticipate contributing to the plan in 1996?

69. Provide a copy of all correspondence subsequent to August 4, 1994, between Kentucky-American and American Water Works, any actuary, or independent auditor regarding OPEBs.

70. Is an allocation for the Service Company OPEB expense included in management fees? If yes, provide a workpaper showing the calculation of the allocated expense under the 1971 and the 1989 Service Company contracts. Include a breakdown of service cost, interest cost, return on plan assets, gains and losses, and amortization of the transition obligation.

71. According to American Water Works' 1995 actuarial report for OPEBs, the 1994 trend rate used for 1994 valuations was 12

percent whereas the medical component of the 1994 consumer price index was 4.8 percent. Similarly, the American Water Works 1995 trend rate was 11 percent whereas the Bureau of Labor Statistics reports the medical component of the 1995 consumer price index to be 4.5 percent. Thoroughly explain and justify American Water Works' continued use of medical trend rates that are much higher than current statistics.

72. Calculate OPEB costs using the following medical trend rate assumptions:

- a. The trend rates approved in Case No. 92-452.
- b. The trend rates proposed in this case decreased by 1 percent.
- c. The trend rates proposed in this case decreased by 2 percent.
- d. The trend rates proposed in this case decreased by 3 percent.

Show service cost, interest cost, return on plan assets, gains and losses, and amortization of the transition obligation. Also provide this information for Service Company costs using allocations under both the 1971 and the 1989 contracts.

73. For each American Water Works operating company provide: (a) last approved return on common equity; (b) date of order; (c) return proposed by operating company; and (d) the section of the order addressing return on equity.

74. For each "Value Line Water Group" company identified in Moul's Direct Testimony, provide the last approved return on common

equity and the date of the regulatory Commission Order authorizing it.

75. Refer to Moul Direct Testimony, page 14. If a utility files frequently for rate adjustments, is the risk of earning below authorized returns due to conservation lessened?

76. Refer to W/P-7-7, page 8 of 15. Is the federal funds rate plus 45 basis points the basis for the 6.45 percent cost of short-term debt recommended by Kentucky-American? If so, what is the cost of short-term debt calculated at the current federal funds rate?

77. What is the basis of the anticipated coupon rate of 7 percent for the planned February 1, 1997 long-term debt issuance? When was the decision made to assign this cost rate to the issuance? What is Kentucky-American's current estimate of the appropriate cost rate of the planned issuance?

78. Refer to Bush's Direct Testimony at Question 10. Provide information which supports the proposed leak adjustment requiring the customer to pay for 25 percent of the leakage at regular tariff rates.

79. Does the proposed leak adjustment fully cover the cost of water?

80. How is the lost revenue from the leak adjustment allocated among Kentucky-American's customers? Is the expense allocated among all customer classes?

81. Is Kentucky-American proposing to limit availability of the leak adjustment to residential and commercial customers? If

yes, explain why other customers should not be entitled to the adjustment.

82. Has Kentucky-American given any consideration to replacing the current customer categories with declining block usage increments?

83. Given the diverse usage within each customer category, explain why a declining block rate would not be more equitable.

84. Refer to Grubb Direct Testimony, pages 18-19 and Exhibit EJG-1. Describe how closely the weather data and water usage data correspond in the "cycle" series of regressions. For example, heating and cooling degree days will be those actually experienced within any given calendar month. Does the actual usage data exactly correspond to the same time period as weather data? If not, explain why this is not a problem in the regression analysis.

85. a. Explain what is meant by Hi, LOW, and 6 yr. AVG in Exhibit EJG-1.

b. Did the regressions for each of these categories require any data manipulation? Explain.

86. Which regressions from those in Exhibit EJG-1 were actually used to calculate normalized sales for each customer class.

87. Provide the full regression results for each regression equation actually used to normalize sales for each customer class.

88. Kentucky-American's testimony mentions three customer categories where normalized data was used, but Exhibit EJG-1 lists

five categories. Explain why two categories were omitted from your testimony.

Done at Frankfort, Kentucky, this 13th day of March, 1996.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:



Executive Director