

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF) CASE NO.
KENTUCKY-AMERICAN WATER COMPANY) 97-034

O R D E R

IT IS ORDERED that Kentucky-American Water Company ("Kentucky-American") shall file the original, 3 hard copies, and 11 electronic copies of the following information with this Commission, 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. The information requested herein shall be filed no later than May 12, 1997. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. Each response should include complete details of any items which are allocated among Kentucky-American and other affiliates.

Refer to the response to Item 1 of the Commission's March 13, 1996 Order in Case No. 95-554¹ for questions 1 and 2.

1. Kentucky-American's actual 13 month average Utility Plant In Service ("UPIS") exceeded its forecasted UPIS in Case No. 92-452² by \$4,354,093. Is the primary reason for the variance between forecasted and actual UPIS the result of Kentucky-American's inability to complete its construction projects on schedule? If no, provide a detailed explanation of this variance.

2. Kentucky-American's actual 13 month average UPIS exceeded its forecasted UPIS in Case No. 94-197³ by \$3,568,356. Is the primary reason for the variance between forecasted and actual UPIS the result of Kentucky-American's inability to complete its construction projects on schedule? If no, provide a detailed explanation of this variance.

3. Refer to the comparison of budgeted and actual construction expenditures for 1994, 1995, and 1996 contained in the response to question 11 on page 18 of Linda Bridwell's Direct Testimony. Explain why Kentucky-American's ability to forecast its total construction expenditures for any given year shows that for rate-making purposes its 1997 and 1998 forecast of capital expenditures is realistic and reasonable.

¹ Case No. 95-554, Notice of Adjustment of the Rates of Kentucky-American Water Company, Order Dated September 11, 1996.

² Case No. 92-452, Notice of Adjustment of the Rates of Kentucky-American Water Company, Order Dated November 19, 1993.

³ Case No. 94-197, Notice of Adjustment of the Rates of Kentucky-American Water Company, Order Dated January 25, 1995.

4. Explain why the total construction budget should be viewed without regard to the underlying individual construction projects.

5. Describe how the failure to complete construction projects on schedule would impact rate base and ultimately the revenue requirement calculation.

Refer to the response to Item 3 of the Commission's April 4, 1997 Order for questions 6 through 8.

6. In January 1996 Kentucky-American budgeted \$421,303 for construction projects 1A1 through 5; however, only \$77,968 was actually spent on those projects. Provide a detailed explanation for the \$343,335 difference between the budgeted and actual amount for these projects.

7. For the period November 1995 through February 1997, the slippage factors for the construction budget projects range from a low of -11 percent in February 1996 to a high of 204 percent in November 1996. Is the primary reason for the wide range in slippage factors the result of Kentucky-American's inability to complete its construction projects on schedule? If no, provide a detailed explanation of this variance.

8. According to the information on page 4, in February 1996 Kentucky-American reported a credit on its budget projects. Provide a detailed explanation for the recording of a credit balance.

9. Refer to the response to Item 5 of the Commission's April 4, 1997 Order. Explain why a Certificate of Convenience and Necessity is not required for the 16-inch main from Clay's Mill to Harrodsburg Road described in budget project 98-B.

Refer to the response to Item 6 of the Commission's April 4, 1997 Order for questions 10 and 11.

10. Between January 1, 1987 and December 31, 1996, approximately 60 percent of Kentucky-American's construction budget projects were completed behind schedule and in calendar year 1996 approximately 64 percent of the projects were completed behind schedule. Based on these percentages, explain how the investment budget schedule presented by Kentucky-American can be characterized as "realistic and reliable."

11. Given that approximately 64 percent of the budget projects scheduled to be completed in 1996 were behind schedule, explain the basis for Kentucky-American's claim that its budgeting of construction expenditures has improved.

12. Refer to the response to Item 7 of the Commission's April 4, 1997 Order. Kentucky-American states that since it started using a forecasted test year in 1993, its ability to achieve its projected capital expenditures has increased. Is this improvement evidence that Kentucky-American's budget has become a self-fulfilling prophecy, in that the total budget will be spent?

Refer to the response to Item 25 of the Commission's April 4, 1997 Order for questions 13 and 14.

13. Given the level of uncertainty surrounding the Louisville Pipeline and the expressed opposition to the project, explain why any work performed prior to the granting of a Certificate of Public Convenience and Necessity should not be classified as preliminary in nature.

14. If the Louisville Pipeline costs are included in rate base, would the return earned on that investment be offset by the accrual of Allowance for Funds Used During Construction?

15. Does Kentucky-American's requested rate of return on equity reflect that its shareholders investment has some level of risk?

16. Explain why allowing Kentucky-American's shareholders to recover the carrying cost for preliminary investigations before a final decision is made to construct or abandon does not reduce the investment risk and lower the required return on equity.

Refer to the Projected Costs Case No. 93-434 Rehearing, workpaper W/P-1-12, page 20 for questions 17 and 18.

17. Provide a detailed description of the services that are to be performed for \$150,000 by the community outreach consultant.

18. Provide a detailed breakdown of the costs Kentucky-American has incurred to date on the Case No. 93-434 rehearing.

Refer to the response to Item 40 of the Commission's April 4, 1997 Order for questions 19 and 20.

19. In Case No. 95-554, the Commission determined that from 1986 through 1995, Kentucky-American's actual to programmed maintenance was 82.74 percent of its budgeted level. The response to Item 40 of the Commission's April 4, 1997 Order shows that for 1996 the ratio of actual to budgeted programmed maintenance was approximately 71 percent. Given these results, how can the programmed maintenance budget presented by Kentucky-American be characterized as "realistic and reliable"?

20. According to this response, 4 of the programmed maintenance projects were delayed to protect Kentucky-American's financial integrity. Kentucky-American's estimate shows that the cost to complete these 4 projects would be \$88,232. Describe the effect an \$88,232 expenditure would have on Kentucky-American's financial integrity.

Refer to the response to Item 49 of the Commission's April 4, 1997 Order for questions 21 and 22.

21. Explain how the number of customers served by a utility would impact the number of accounting vouchers, entries, or services provided.

22. Describe the relationship between the number of customers a utility serves and the level of accounting services required by that utility.

23. Refer to the response to Item 14 of the Attorney General's April 4, 1997 information request. In Case No. 95-554, Kentucky-American forecasted that the UPIS balance for December 1996 would be \$180,963,260; however, in this proceeding that amount was reduced to \$177,372,733. Provide an explanation for Kentucky-American's reduction in its forecasted December 1996 UPIS balance.

24. Refer to the response to Item 24 of the Attorney General's April 4, 1997 information request. If a construction project will be completed within 1 year, does Kentucky-American accrue AFUDC on the project?

25. Refer to the response to Item 46 of the Attorney General's April 4, 1997 information request. Provide the revenue requirement impact of filing errors listed in this response and include all workpapers, assumptions, and calculations used to determine this impact.

26. Refer to the response to Item 47 of the Attorney General's April 4, 1997 information request. Provide the revenue requirement impact for each item listed in this response and include all workpapers, assumptions, and calculations used to determine this impact.

27. Refer to the response to Item 61 of the Attorney General's April 4, 1997 information request. Provide a further explanation for the 1996 "pumpage under budget."

28. Refer to the response to Item 69 of the Attorney General's April 4, 1997 information request. In this response Kentucky-American states that there is a possibility that the distribution superintendent might retire in June 1998. Explain how this retirement would impact Kentucky-American's revenue requirement.

29. Refer to the response to Item 61 of the Commission's April 4, 1997 Order. Provide the year each of these returns was awarded.

30. For any company identified in the preceding question whose current return on equity has been approved since January 1, 1996, provide a copy of the Direct Testimony of the company's cost of common equity witness as well as a copy of the relevant regulatory Commission Order granting the return.

31. Refer to the response to Item 60 of the Commission's April 4, 1997 Order.

a. Explain whether the new Safe Drinking Water Act described in Standard & Poor's Global Sector Review would have a positive or negative risk impact on Kentucky-American.

b. Explain whether Kentucky-American fits into the category of the small private and municipal water systems mentioned in the Global Sector Review in the underlined portion of the fifth paragraph on page 1 of 20.

c. Indicate the source of the list of key risk factors provided on page 11 of Hank Mulle's Direct Testimony.

Done at Frankfort, Kentucky, this 2nd day of May, 1997.

PUBLIC SERVICE COMMISSION



For the Commission

ATTEST:



Executive Director