COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| ADJUSTMENT OF THE RATES OF KENTUCKY-AMERICAN WATER COMPANY | ) <br> ) | CASE NO. 2000-120 |

COMMISSION STAFF'S FIRST SET OF INFORMATION REQUESTS (ON REHEARING) TO KENTUCKY-AMERICAN WATER COMPANY

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Kentucky-American Water Company ("Kentucky-American") file the original, 3 paper copies, and one electronic copy of the following information no later than February 26, 2001, with a copy to all parties of record. Each copy of the information 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 its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information should be provided for total company operations and jurisdictional operations, separately.

1. For each calendar year from 1991 through 2000, state Kentucky-American's Community Education/Conservation Advertising expenses, the total rainfall

within Kentucky-American's service, and whether drought conditions existed. The response should use the format set forth below.

| Year | Community Education/Conservation Advertising Expense | Total Annual Rainfall (inches) | Existence of Drought Conditions (Y or N) |
|---|---|---|---|
| 1991 | | | |
| 1992 | | | |
| 1993 | | | |
| 1994 | | | |
| 1995 | | | |
| 1996 | | | |
| 1997 | | | |
| 1998 | | | |
| 1999 | | | |
| 2000 | | | |

2. At page 3 of his Rehearing Testimony, Mr. Mundy states "the drought of 1999 and the related requirements placed upon customers to conserve due to imposed restrictions that carried monetary fines has provided a keen awareness of conservation." What consideration, if any, did Kentucky-American give to imposing restrictions that carried monetary fines to promote conservation in the period from August 1998 through August 1999 rather than incurring the costs of the advertising campaign that it implemented?

3. In Applicant Hearing Exhibit No. 4, Kentucky-American indicated that the amount of community education expenses which it seeks to amortize is $340,402. At page 16 of its Post Hearing Brief, Kentucky-American "proposes to include $481,576 of community education costs in rate base with an amortization period of five years." What amount reflects Kentucky-American's current position?

4. Why did Kentucky-American chose to use an aggressive community education campaign over a 13-month period rather than continue a "high profile mechanism" until a solution to the water supply deficit was clearly determined?

5. During what time periods of drought has Kentucky-American undertaken levels of conservation advertising similar to that undertaken in 1999?

6. a. Indicate which artwork used for conservation advertisements during the conservation education process has been used since August 1999.

b. What level of savings has been realized as a result of re-using this artwork?

7. At page 4 of his Rehearing Testimony, Mr. Mundy states that "it is very probable another such high profile initiative by Kentucky-American Water Company may be necessary to once again sensitize our customers to the necessity of conservation until resolution of our water supply deficit."

a. By describing Kentucky-American's effort as a "high profile initiative," is Mr. Mundy suggesting that the conservation advertising campaign was an extraordinary effort and was not part of Kentucky-American's normal method of operations?

b. In its Order of November 27, 2000, the Commission encouraged Kentucky-American "to evaluate its current conservation education programs with the goal of developing a comprehensive approach to encouraging water conservation . . . on a consistent, continuing basis." Would Mr. Mundy agree that the use of a "high profile initiative" is not the same as a program operated on a "consistent, continuing basis"?

c. In Mr. Mundy's opinion, is the use of a high profile conservation initiative more effective than a consistent, on-going program to promote conservation? Why?

8. Refer to the Rehearing Testimony of Roy W. Mundy at 5-6.

a. Provide the customer surveys to which Mr. Mundy refers in his response to Question 11.

b. Provide a summary of the responses to these customer surveys.

9. Refer to Kentucky-American's Response to the First Data Request of the Attorney General, Item 82. Included in the $184,568 Boonesboro Acquisition Adjustment is $46,350 for company labor, $87,230 for legal fees, and $17,188 for other. Provide a breakdown of each cost category. Further, provide a copy of detailed invoices to support all legal fees and describe in detail each item or entry included in the company labor and other categories.

10. Refer to the Rehearing Testimony of Michael A. Miller at 18.

a. How are the Y2K, GIS, and KRS Automation similar to the AMR Study, the Disinfection By-Product Studies I & II, the Lake Ellerslie Dam Study, and the Meter Deviation Application?

b. Refer to the Direct Testimony of Edward J. Grubb at Exhibit EJG-1. Why are the Y2K, GIS, and KRS costs listed as new deferrals proposed by Kentucky-American rather than as similar costs approved in prior Commission proceedings?

11. How did Kentucky-American determine that the recovery of Y2K, GIS, and KRS costs was "probable" as required by Financial Accounting Standard ("FAS") 71?

12. Describe the procedures that Kentucky-American follows to determine if an expense should be deferred as a regulatory asset or expensed.

13. At pages 19 and 20 of his testimony, Mr. Miller states: "Under GAAP (FAS 71) it is appropriate to capitalize the expenditures that create savings, and through the matching process, to recover those expenses as the savings are passed to the rate payer." Identify the specific provisions of FAS 71 that support this statement.

14. How did Kentucky-American determine that the recovery of reorganization costs was “probable” as required by FAS 71?

15. Refer to the Rehearing Testimony of Michael A. Miller at 19 - 20. Why is it “single issue rate-making” to recognize the savings outside the test period, but not to recognize the expenses?

16. Refer to the Rehearing Testimony of Michael A. Miller at 19 - 20.

a. How did Kentucky-American determine that there were savings without taking into consideration the costs incurred to generate those savings?

b. Would it have been more appropriate for Kentucky-American to recognize the net savings that were produced and then amortize those savings over an acceptable period of time? If not, explain why.

17. Has any utility regulatory commission that regulates the rates and service of any American Water Works Company (“AWWC”) affiliate allowed the inclusion of relocation costs in determining that affiliate’s revenue requirement? If yes, list each utility regulatory commission that has permitted such action and each proceeding in which such action was taken.

18. At page 21 of his Rehearing Testimony, Mr. Miller states: “Again, because in the Commission’s view this expense [relocation expense] is not likely to reoccur in the forecasted test period, the Commission has ruled that no rate recovery is appropriate.” Provide the specific page and paragraph in the Commission’s Order of November 27, 2000 in which the Commission held that rate recovery of relocation costs was denied because such costs are not likely to recur in the future.

19. In his Rehearing Testimony, Mr. Miller refers to the Commission's decision in Case No. 2000-080[1] and asserts that, based on Kentucky-American's risk profile as compared to Louisville Gas and Electric Company's ("LG&E"), Kentucky-American should be granted a rate of return on equity of at least 11.25 percent. Is it presently Kentucky-American's position that the appropriate comparison group for determining its rate of return on equity is composed of gas utilities rather than water utilities?

20. Does Mr. Miller agree that, unlike public utilities providing water service, natural gas utilities provide a commodity that can be purchased directly from unregulated entities and, therefore, are subject to competitive pressures that public water utilities do not face?

21. Does Mr. Miller agree that the cost of natural gas service, unlike water the cost of water service, has been very volatile over the past 12 months?

22. Is Kentucky-American aware of any state utility regulatory commission that has based a return-on-equity award for a water utility on a comparison to gas companies? If so, provide copies of orders or articles for Staff to review.

23. At page 3 of his Rehearing Testimony, Mr. Miller discusses the common equity ratios of Kentucky-American and LG&E. The difference between the two ratios is 1.864 percent. Why will an investor assign a different risk profile to LG&E and Kentucky-American based on a difference of only 1.864 percent?

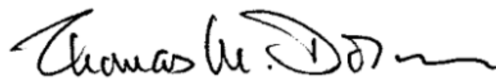
24. Refer to the Rehearing Testimony of Michael A. Miller at 7. Mr. Miller discusses generating an equity return of 11.46 percent by adding the difference

[1] Case No. 2000-080, The Application of Louisville Gas and Electric Company to Adjust Its Gas Rates and to Increase Its Charges for Disconnecting Service, Reconnecting Service and Returned Checks (September 27, 2000).

between the average of AWWC subsidiaries' awards and the average yield on A-ratedpublic utility bonds. Is this action to award a return on equity commensurate with an "A" bond rating? Explain.

25. Given Kentucky-American's position within Standard & Poor's new rating system, does Kentucky-American still require an upward adjustment to bring its return on equity to an "A" bond rating? Explain.

26. Refer to the Rehearing Testimony of Michael A. Miller, Exhibit MAM-1. The two most recent awards on the list of AWWC subsidiary returns are for California-American and Connecticut-American. These two subsidiaries received return-on-equity awards in March 2000 of 9.95 percent and 10.65 percent, respectively. The "A Utility Bond" ratings for these two awards are 8.12 percent, which is very close to the 8.18 percent bond rating for August and September that Mr. Miller uses to develop the 11.46 percent return on equity. The difference between the awards for March 2000 and the "A Utility Bond" is 1.83 percent for California-American and 2.53 percent for Connecticut-American. Why, in Mr. Miller's opinion, would the spread decrease in 2000?



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DATED: 2/15/2001
cc: Parties of Record