COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF THE RATES OF KENTUCKY-AMERICAN WATER COMPANY	)	CASE NO. 2007-00143

COMMISSION STAFF'S FIRST SET OF INFORMATION REQUESTS TO THE ATTORNEY GENERAL

The Attorney General ("AG"), pursuant to 807 KAR 5:001, is to file with the Commission the original, one paper copy, and one electronic copy of the following information, with a copy to all parties of record. The information requested herein is due on or before August 27, 2007. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

The AG shall make timely amendment to any prior responses if he obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any requests to which the AG fails or refuses to furnish all or part of the requested information, the AG shall provide a written explanation of the specific grounds for his failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. 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 shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Direct Testimony of Michael J. Majoros, Jr., Exhibit MJM-1, Schedule 2. Explain why this schedule does not contain any adjustment to forecasted Allowance for Funds Used During Construction ("AFUDC") revenue included above the line of $1,858,197 to account for Dr. Woolridge's adjustments to Kentucky-American Water Company's ("Kentucky-American") return on common equity.

2. Refer to Direct Testimony of Michael J. Majoros, Jr., Exhibit MJM-1, Schedule 2.

a. Explain why the tax effects of the AG's proposed expense adjustments shown in the working capital calculation were not also included in the working capital calculation.

b. Explain the lack of any adjustment for the change in AFUDC in the working capital calculation.

3. Mr. Majoros recommends that forecasted service company charges be decreased by $922,871 for excess fees and $79,365 for business development costs. State whether Mr. Majoros' calculation of working capital takes into account these adjustments. If it does not, explain why it does not.

4. Mr. Majoros recommends the elimination of $922,871 of Kentucky-American's requested $6,201,194 forecasted management fees.

a. Describe the weight that Mr. Majoros gave to the Direct Testimony of Patrick Baryenbruch and Mr. Baryenbruch's study in developing his recommendation.

b. Describe how Mr. Majoros used Mr. Baryenbuch's testimony and study in developing his recommendation.

c. Describe how Mr. Majoros used Kentucky-American's responses to interrogatories regarding Mr. Baryenbruch's testimony and study in developing his recommendation.

d. State Mr. Majoros' conclusions regarding the findings of Mr. Baryenbruch's study and the basis for these conclusions.

5. At page 11 of his direct testimony, Mr. Majoros states that "Mr. Spanos' negative 120 percent future net salvage will increase the regulatory liability because the annual accruals will vastly exceed KAWC's annual cost of removal experience." This statement appears to conflict with Kentucky-American's historic removal costs in which cost of removal generally exceeds the cost of the removed assets by more than 120 percent. See Direct Testimony of John J. Spanos, Exhibit JJS-1 at III-88. State whether, in light of this conflict, Mr. Majoros wishes to revise his statement. Explain.

6. Refer to Direct Testimony of Michael J. Majoros, Jr., Exhibit MJM-4, Schedule 3 at 4.

a. State whether Mr. Majoros expects Kentucky-American to replace the entire $35 million reported as Services as of December 31, 2006.

b. Explain why it is appropriate to limit Kentucky-American's recovery to $6,098,542 over the 56.9 year remaining life, or $107,180 annually, when the historic information supplied in Mr. Spanos' testimony suggests that the historic net salvage is 229 percent of the cost of the services. See Direct Testimony of John J. Spanos, Exhibit JJS-1 at III-88 and III-89.

c. Provide all publications, treatises, studies, and authoritative reports that regard or recognize Mr. Majoros' methodology as generally acceptable.

d. Identify the state and federal regulatory commissions that have accepted Mr. Majoros' salvage ratios methodology. Provide a copy of each state or federal regulatory commission decision in which the methodology is considered and accepted.

e. Identify the state and federal regulatory commissions that have declined to apply Mr. Majoros' salvage ratios methodology. Provide a copy of each state or federal regulatory commission decision in which the methodology is considered and not applied or accepted.

7. Provide all publications, treatises, studies, state or federal regulatory commission decisions, and authoritative reports that regard or recognize the inclusion of the accumulated deprecation resulting from the non-legal asset retirement obligations ("AROs") in the development of remaining life depreciation rates as generally acceptable.

8. Explain why Mr. Majoros did not adjust forecasted uncollectibles expense to .79 percent of water sales as was used in the determination of the AG's revenue conversion factor.

9. Refer to Kentucky-American's Response to Commission Staff's Third Set of Information Requests, Item 42(a) and (b). State whether the AG agrees with Kentucky-American's position. Explain.

10. Refer to Direct Testimony of Michael J. Majoros, Jr. at 14, lines 3 – 10.

a. State, in light of KRS 278.192 which permits a forward looking test period, why Mr. Majoros considers the medical trend rates provided by Towers and Perrin insufficient to adjust medical insurance premiums.

b. Describe the evidence that Mr. Majoros would find adequate and reasonable to support the forecasting of medical insurance premiums.

11. Refer to Kentucky-American's Application, Exhibit 37, Schedule F. Kentucky-American has included in forecasted expenses $3,386 to the Rotary Club, Audubon Society, Lexington Forum, and Bluegrass Trust. State the AG's position on the recovery of these expenses through general rates.

12. In all previous proceedings in which Kentucky-American applied for a rate adjustment using a fully forecasted test period, the Commission found that "slippage" adjustments were appropriate to account for the effect of capital construction budget variances for the 10 years previous to the forecasted period.

a. State whether the AG agrees with the use of slippage adjustments in rate proceedings in which a fully forecasted test period is used.

b. Refer to Kentucky-American's Response to Commission Staff's Third Information Request, Item 47. State whether the AG agrees with the slippage adjustments set forth in that response.

c. State the reasons why the AG witnesses have not proposed slippage adjustments or otherwise included such adjustments in their recommendations.

13. Refer to Direct Testimony of Dr. J. Randall Woolridge at 8 - 9. Explain why investors as a result of Jobs and Growth Tax Relief Reconciliation Act of 2003 would willingly give up that incremental increase in investment returns to ratepayers vis-à-vis lower equity returns awarded to utilities.

14. Refer to Direct Testimony of Dr. J. Randall Woolridge at 27-29 and Exhibit JRW-6 at 3-5.

a. Explain why blending the mean and median values of ten and five and one year averages produces a meaningful estimate of growth rates.

b. Explain how blending projected estimates of earnings, dividends, and book value growth rates into a single number provides a meaningful estimate of growth rates.

15. Refer to Direct Testimony of Dr. J. Randall Woolridge at 30. Explain why, if Value Line's projected estimates of EPS are excessive and unrealistic, DPS and BVPS are acceptable for use in the analysis.

16. Refer to Direct Testimony of Dr. J. Randall Woolridge, Exhibit JRW-7at 1. State whether the footnotes found at this page should refer to Exhibit JRW-7 rather than Exhibit JRW-8. If no, explain how Exhibit JRW-8 provides the information contained in the table.

17. Refer to Direct Testimony of Dr. J. Randall Woolridge at 30 - 31, 38-53, Exhibit JRW-6, and Exhibit JRW-7.

a. State whether the DCF analysis gives approximately equal weight to historic and projected estimates of growth rates.

b. State whether the CAPM calculations give equal weighting between the historic and projected estimates of risk premiums.

c. Explain why the historical and projected risk premiums estimates should not be weighted equally for the analyses.

18. Refer to Direct Testimony of Dr. J. Randall Woolridge at 38 – 53; Exhibit JRW-7, at 3.

a. Provide the references for <u>all</u> entries in Exhibit JRW-7.

b. Provide the historical data from "SBBI Yearbook 2007" that Dr. Woolridge used to derive the historical entries 6.50 and 5.00 percent.

c. (1) Explain the reference to "Puzzle Research."

(2) Provide a copy of each study to which Dr. Woolridge refers in this section of Exhibit JRW-7.

d. Provide a copy of each study to which Dr. Woolridge refers in the sections of Exhibit JRW-7 labeled "Surveys" and "Social Security."

e. (1) Explain why a substantial difference exists between the risk premium estimates of Ibbotson and Cheng and of Woolridge when the Building Block approach is used.

(2) Provide a copy of the Ibbotson and Cheng study.

f. Provide the portions of "SBBI Yearbook 2007" that:

(1) Discuss the estimation and use of ex ante approaches.

(2) Compare ex ante and historical approaches to calculating risk premiums.

g. For each entry in Exhibit JRW-7, other than the "SBBI Yearbook" estimate in the Historical subsection,

(1) State whether the entry is based upon a forecast or an expectation of a forward looking risk premium.

(2) State the entry's corresponding forecasted or forward looking period.

h. (1) Provide a copy of Mark H. Goedhart, Timothy M. Koller, and Zane D. Williams, "The Real Cost of Equity."

(2) Provide a copy of any updated study that Messrs. Goedhart, Koller and Williams have prepared on the cost of equity.

(3) State the risk premium that McKinsey and Company is currently using and provide the studies that it uses to support this risk premium.

i. For each entry appearing on Exhibit JRW-7 and published prior to 2006, explain why the entry is still relevant and appropriate for use in current risk premium analysis.

Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED: __August 13, 2007___

cc: Parties of Record