COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION OF THE IMPACT OF THE TAX CUTS AND JOB ACT ON THE RATES OF KENTUCKY-AMERICAN WATER COMPANY	))))	CASE NO 2018-00042

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO KENTUCKY-AMERICAN WATER COMPANY

Kentucky-American Water Company ("Kentucky-American"), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of the following information. The information requested herein is due on or before March 27, 2018. Responses to requests for information in paper medium 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 the 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.

Kentucky-American shall make timely amendment to any prior response if it obtains information that indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Kentucky-American fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall 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 filing a paper containing personal information, Kentucky-American shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Provide Kentucky-American's income statement, balance sheet, and statement of retained earnings for the calendar year ending December 31, 2017.

2. Provide Kentucky-American's Net Investment Rate Base and Capital Structure for 2017. Provide all supporting work papers, assumptions, and calculations.

3. Using the financial information provided in the responses to Items 1 and 2, calculate:

a. Kentucky-American's actual Return on Equity (income available to common shareholders divided by common equity) for the calendar year ending December 31, 2017.

b. Kentucky-American's average cost of long-term debt for the calendar year ending December 31, 2017.

c. Kentucky-American's average cost of short-term debt for the calendar year ending December 31, 2017.

d. Provide all supporting work papers, assumptions, and calculations.

4. Using the Capital Structure provided in the response to Item 1 and the return/interest rates calculated in the response to Item 3, fill out the table below:

Component of Capitalization	Per Books 12/31/17	Ratios	Actual Rates	Average Weighted Cost
Short-Term Debt				
Long-Term Debt				
Preferred Stock				
Common Equity				
Total Capitalization	$ -	0.000%		0.0000%

5. Using the table below, provide the calculation of the gross revenue conversion factor ("GRCF") including a 35 percent Federal Income Tax ("FIT") rate.

Line #	Description	Rates	State	Federal
1	Operating Revenue		100.000000%	100.000000%
2	Less: Uncollectible Expense			
3	Less: PSC Assessment			
4	Less: Production Activities Deduction State			
5				
6	Income before State Income Tax		100.000000%	100.000000%
7	State Income Tax		0.000000%	0.000000%
8				
9	Income before Federal Income Tax			100.000000%
10	Federal Income Tax			0.000000%
11				
12	Operating Income Percentage (Line 9 - Line 10)			100.000000%
13				
14	Gross Revenue Conversion FACTOR (Line 1 / Line 12)			1.000000
15				
16	Composite Income Tax Rate (Line 7 + Line 10)			0.000000%
17				
18	Common Equity Gross-up (Line 16 / (1 - Line 16))			0.000000%

6. Using the table below, provide the calculation of the GRCF including a 21 percent FIT rate.

Line #	Description	Rates	State	Federal
1	Operating Revenue		100.000000%	100.000000%
2	Less: Uncollectible Expense			
3	Less: PSC Assessment			
4	Less: Production Activities Deduction State			
5				
6	Income before State Income Tax		100.000000%	100.000000%
7	State Income Tax		0.000000%	0.000000%
8				
9	Income before Federal Income Tax			100.000000%
10	Federal Income Tax			0.000000%
11				
12	Operating Income Percentage (Line 9 - Line 10)			100.000000%
13				
14	Gross Revenue Conversion FACTOR (Line 1 / Line 12)			1.000000
15				
16	Composite Income Tax Rate (Line 7 + Line 10)			0.000000%
17				
18	Common Equity Gross-up (Line 16 / (1 - Line 16))			0.000000%

7. Using the table below, calculate the weighted average cost of capital ("WACC") with a 35 percent FIT rate and WACC with a 21 percent FIT rate.

Component of Capitalization	Average Weighted Cost	Adjusted Weighted Cost of Capital to Reflect 35% Fed. Tax Rate		Adjusted Weighted Cost of Capital to Reflect 21% Fed. Tax Rate	
		Equity Gross-up	Adj. Cost	Equity Gross-up	Adj. Cost
Short-Term Debt			0.00%		0.00%
Long-Term Debt			0.00%		0.00%
Preferred Stock			0.00%		0.00%
Common Equity			0.00%		0.00%
Total Capitalization	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%

8. Refer to the Direct Testimony of John R. Wilde at 4. Given that Kentucky Utilities Company, Louisville Gas and Electric Company, and other utilities were able to calculate the impact the Tax Cuts and Jobs Act has on the excess accumulated deferred income taxes ("ADIT"), explain in detail why Kentucky-American is unable to calculate the impact to its excess ADIT.

9. Using Kentucky-American's responses to this Request for Information and the table below, provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent.

Line No.	Description	35% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Net Investment Rate Base			
2	Returns Adjusted For Income Taxes			
3				
4	Required Annual Operating Income Before Taxes (Line 1 x Line 2)	$ -	$ -	$ -
5				
6	Amortization Of Excess ADIT (Protected) - Using Aram			
7	Amortization Of Excess ADIT (Unprotected)			
8				
9	Total Amortization Of Excess ADIT (Line 6 + Line 7)		-	
10	Gross-Up Factor Using 21% Federal Tax Rate			
11				
11	Total Reduction In Deferred Income Tax Expense (Line 9 x Line 10)			-
12				
13	Total Reduction In Revenue Requirements (Line 4 + Line 11)			$ -

If Kentucky-American lacks sufficient information to apply the ARAM method, please instead use the Reverse South Georgia Method to calculate the amortization of excess protected ADIT in Line 6 of the above table. If estimates and assumptions were made to calculate the amounts identified in response to this Request, please identify and describe any estimates and assumptions.

10. Using Kentucky-American's responses to this Request for Information and the table below provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent.

Line No.	Description	35% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Capitalization			
2	Returns Adjusted For Income Taxes			
3				
4	Required Annual Operating Income Before Taxes (Line 1 x Line 2)	$ -	$ -	$ -
5				
6	Amortization Of Excess ADIT (Protected) - Using Aram			
7	Amortization Of Excess ADIT (Unprotected)			
8				
9	Total Amortization Of Excess ADIT (Line 6 + Line 7)		-	
10	Gross-Up Factor Using 21% Federal Tax Rate			
11				
11	Total Reduction In Deferred Income Tax Expense (Line 9 x Line 10)			-
12				
13	Total Reduction In Revenue Requirements (Line 4 + Line 11)			$ -

11. Provide an updated schedule to reflect the actual revenues recorded in 2017 by customer class.

12. Explain whether any of the expenses charged to Kentucky American by its affiliates in the test year contain any FIT implications. If so, state whether Kentucky-American addressed the impacts on its revenue requirements. If not, provide the impact of the FIT implications on Kentucky-American's test-year expense and revenue requirement.

13. State whether Kentucky-American has received any letter or written opinion from the Internal Revenue Service since January 1, 2010 regarding the treatment of Kentucky-American's excess ADIT and, if so, provide a copy of the letter or written opinion.

14. Provide any letters or written opinions prepared by the Internal Revenue Service and relied on by Kentucky-American or its agents to calculate Kentucky-American's excess ADIT or to determine how the excess ADIT may be reimbursed to ratepayers under federal tax law, regardless of whether those letters or written opinions were prepared for or at the request of Kentucky-American.

15. Provide Kentucky-American's fiscal year if different from the calendar year ending on December 31, 2017, and identify and describe any effect that a non-calendar fiscal year has on the calculation of excess ADIT.

16. Provide the maximum total amount of excess protected ADIT that Kentucky-American contends may be reimbursed to ratepayers annually in 2018 and for each year thereafter through 2033 using the ARAM method. If Kentucky-American is not able to apply the ARAM method because it lacks the relevant information, please separately provide the maximum total amount of excess protected ADIT that Kentucky-American contends may be reimbursed to ratepayers annually in 2018 and for each year thereafter through 2033 using the Reverse South Georgia Method.

17. Identify any assets, property and accounts the depreciation of which gave rise to protected excess ADIT and:

a. Provide the extent to which such assets, property, and accounts were depreciated as of December 31, 2017, in terms of percentage and total value;

b. Provide the annual depreciation schedule for each such asset, property, and account for tax and regulatory purposes through 2034;

c. Identify the date on which each such asset, property, and account will be fully depreciated under the current regulatory depreciation schedule;

d. Provide the excess ADIT that arose from the depreciation of each such asset, property, and account as of January 1, 2018;

e. Provide the total accumulated deferred income taxes, including excess accumulated deferred income taxes and accumulated deferred income taxes that are not excess, attributable to each such asset, property, and account as of December 31, 2017;

f. Identify and provide any other information used by you to calculate the maximum protected excess ADIT that may be reimbursed to ratepayers in 2018 through 2033 using the ARAM method;

g. If the information necessary to use the ARAM method is not available, please explain the method and basis for your calculation in response to the preceding Item; and

h. If estimates and assumptions were made to calculate the response to the preceding Item, please identify and describe any estimates and assumptions.

18. Identify and describe the source of all unprotected excess ADIT, and if any excess unprotected ADIT arose from the depreciation of any property or account, please state the extent to which such property or account was depreciated as of December 31, 2017, in percentage terms and total value; identify the date on which each would be fully depreciated based on the current regulatory depreciation schedule; and identify the excess unprotected ADIT attributable to each such property or account as of January 1, 2018.

19. Please state the date on which your tax year runs, and identify and describe any effect that has on your calculation of the excess ADIT, the rate at which it may be reimbursed pursuant to the Tax Cut and Jobs Act, and any of your answers herein above.

20. Provide all supporting schedules, calculations and documentation in Excel spreadsheet format with formulas intact and unprotected, and all rows and columns fully accessible.

Gwen R. Pinson

Gwen R. Pinson
Executive Director
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DATED MAR 1 3 2018

cc: Parties of Record

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