

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2008-00427
COMMISSION STAFF'S HEARING DATA REQUESTS

Witness: Michael A. Miller

Question 1:

Please provide the level of KRA fee that would be required if the KRA fee were embedded into the water tariffs of Kentucky American Water, based on the billing requirements utilized by the Company for the forecasted test-year?

Response:

Please see the attachment titled Schedule 1. As indicated on page 1 of Schedule 1 (under column 1, line 28) the KRA tariff filed by the Company in case number 2009-00124 would produce an annual revenue of \$1,060,065, which includes a refund of \$169,320 to true up the KRA fees collected from April 1, 2008 through March 31, 2009.

As indicated in column 2, line 28 of page 1, the Company believes it would have to collect \$1,169,363 in the water tariffs approved in case number 2008-00427 if the KRA were embedded into the regular water tariffs as part of this case. This would increase the total rate increase from this case from the \$10.3 million submitted in the Settlement Agreement between the Company, the AG, the LFUCG and the CAC to \$11,469,343 as shown on Schedule 1, page 3, column (E), line 27. As indicated on Note 1 shown on page 1, the Company believes the true-up of the KRA fee (separate tariff) for the period April 1, 2008 through March 31, 2009 would have to be spread over the expected 18 month period between the June 1, 2009 effective date of new rates from the current case and the expected effective date of the Company's next general rate case. If the true-up were not spread over the 18 month period, the Company would be under recovering its KRA fees for the period beginning 12 months from the effective date of the rates in this case until the effective date of the rates authorized in the Company's next case.

There are a number of problems with embedding the KRA fee into the regular water tariffs of which the Company would like to make the Commission aware:

1. The calculations in Schedule 1, pages 1-4 attached to this response do not address the true-up of the KRA fee to be billed between April 1, 2009 and June 1, 2009 (the effective date for new rates in this case) since the KRA fees paid and collected can not be known at this time. The Company does not know how that true-up could occur if the KRA fee were embedded into the water tariffs as part of this case.
2. Including KRA fees in base rates will result in an expanded timeframe for the true-up to the customers for the KRA fee if in fact the Company continues its past

practice of filing general rate cases less frequently than on an annual basis. The Company expects to file its next rate case sometime next year to include the remaining cost of KRS II in rates. Afterwards, however, if subsequent rate cases are spaced out further, the true-ups will likewise occur less frequently.

3. Including the KRA fee in base rates will likely place increased volatility into the rate setting process that may lead to more frequent rate filings.
4. There will be an increased administrative burden on the Company to track KRA fees paid and the amounts collected from customers if the fee is embedded into regular water tariffs versus the relatively easy tracking currently performed where the fee is clearly identified as a separate tariff item.
5. The KRA fee would no longer be identified as a separate item on the customer's bill, which will eliminate notice to the customers that a portion of their water bill is going to fund improvements on the Kentucky River.

The Company provided several responses to discovery requests by the Commission Staff during the course of this proceeding. The Company believes its responses to those discovery requests are very pertinent to this Hearing Data Request and is providing copies of those responses with its response to this request.

The Company continues to believe that maintaining the KRA fee as a separate tariff is the most efficient and fair method for addressing rate recovery of the KRA fee. Due to the significant fluctuations in customer demand and continued declines in customer usage related to the Company's conservation program, it is the Company's opinion that continuation of the annual KRA tariff filing with annual true-ups for the over or under collection of those KRA fees on an annual basis as was first approved by the Commission in case number 1992-00452 is the most efficient and fair method to both the Company and its customers.

For the electronic version, refer to KAW_R_PSCHDR1#1_042209.pdf.

**Kentucky-American Water Company
Calculation of Revised Water Withdrawal Fee Pass Through**

Line No		Column 1	Column 2
		Per KRA filing Case # 2009-00124	Per May 2010 Test Year Case # 2008-00427
1	Estimated Fees to be Paid to Kentucky River Authority FYE 12/31/2009		
2			
3	Permit 200 Withdrawal - KRS Low Service Pumpage - Projected FYE 12/31/2009	10,649,596	10,895,523
4	Transfer Pumpage to Watershed - Projected FYE 12/31/2009	3,852,000	3,852,000
5	Subtotal	14,501,596	14,747,523
6	Tier 1 and Tier 2 Rates of \$.022 and \$.06 per 1000 Gallons	\$1,189,131	\$1,209,297
7			
8	Permit 201 - RRS Low Service Pumpage - Projected FYE 12/31/2009	5,466,108	5,466,108
9	Less: Transfer from KRS to Watershed - Projected FYE 12/31/2009	3,852,000	3,852,000
10	Net Withdrawals from WaterShed	1,614,108	1,614,108
11	Tier 1 Rates of \$.022 per 1000 Gallons	\$35,510	\$35,510
12			
13	Permit 874 - Owenton	215,617	215,617
14	Tier 1 Rates of \$.022 per 1000 Gallons	\$4,744	\$4,744
15			
16	Estimated KRA Fees Paid to Kentucky River Authority	\$1,229,385	\$1,249,551
17			
18	Total Withdrawal - 1000 Gallons	16,331,321	16,577,248
19			
20	Weighted Average Rate	\$0.07528	\$0.07538
21			
22	Estimated KRA Fees to be Paid by Customers FYE 12/31/2009		
23			
24	Estimated Net Water Sales - 1000 Gallons - Projected FYE 12/31/2009	13,369,867	13,382,351
25			
26	Estimated KRA Fees to be Paid to Kentucky River Authority FYE 12/31/2009	\$1,229,385	\$1,249,551
27	True-up Net KRA Fee (Liability) Asset at 3/31/2009	(\$169,320)	(\$80,188)
28	Total Fees to be Paid by Customers	\$1,060,065	\$1,169,363
29			
30	KRA Fee Rate per 1000 Gallons	\$0.07929	\$0.08738
31			
32	KRA Fee Rate per CCF	\$0.05947	\$0.06554

Note 1: Next case expected to be filed in 2010 to match scheduled completion of KRS II. If the KRA fee were built into base rates the credit for the true-up should be spread over 18 months, the period between the effective date for rates in Case No. 2008-00427 and the expected effective date for KAWC's next general rate case filing

Note 2: The KRA tariff is shown for illustrative purposes since it would be built into base rates for Column 2.

Adjustment of True-up for Unbilled Revenues at 3/31/2009			
	Billed		
For Period Ended 3/09	Water Rev	Unbilled Revenues 3/09	\$2,557,458
Residential	\$30,888,653	Ratio	2.0407%
Commercial	14,491,248		
Industrial	1,399,692		
OPA	4,906,038	Adjustment for True-up	\$52,190
OWU	1,462,064		
Misc	27,074		
	<u>\$53,174,769</u>		
KRA Fees Paid - 12 mo 3/09	<u>1,085,129.26</u>		
Ratio of KRA Fees to Billed Revenues	<u>2.0407%</u>		

Summary	
Balance 3/09 in Account 241998 Water Withdrawal Fee	(68,092.00)
Unbilled KRA Fee at 3/09	(\$52,190)
KRA True-up Adjustment	(\$120,282)
Annualized true up adjustment June 2009 thru Nov 2010	<u>(80,188)</u>

KENTUCKY-AMERICAN WATER COMPANY
CASE NO: 2008-00427
REVENUES AT PRESENT AND PROPOSED RATES
TWELVE MONTHS ENDED MAY 31, 2010

DATA: BASE PERIOD X FORECASTED PERIOD
TYPE OF FILING: ORIGINAL_UPDATED_X_REVIS
WORKPAPER REFERENCE NO(S): SCH M-3.2

SCHEDULE M-3
PAGE 2 OF 2
Witness Responsible: M.A. Miller

Line No.	Rate Classification (A)	Sales (B)	Revenues at Present Rates (C)	Revenues at Proposed Rates (D)	Revenue Change (Amt) (E)	% of Revenues Change (F)
2						
3						
4						
5						
6						
7	Residential	8,406,538	\$30,586,335	\$36,162,298	\$5,573,963	18.220%
8	Commercial	5,837,430	15,056,532	18,432,579	3,376,047	22.420%
9	Industrial	910,670	1,623,443	2,052,334	428,891	26.420%
10	Other Public Authority	2,019,601	4,508,892	5,641,483	1,132,591	25.120%
11	Sales for Resale	668,896	1,388,967	1,730,668	341,701	24.600%
12	Miscellaneous	0	21,626	21,626	0	0.000%
13	Private Fire Service	0	1,283,769	1,556,437	271,668	21.160%
14	Public Fire Service	0	2,428,896	2,773,378	344,482	14.180%
15						
16	Total	17,843,135	\$56,900,460	\$68,369,803	\$11,469,343	20.160%
17						
18	Profoma Other Operating Revenues					
19	Other Revenue-Rentis Water Property		\$105,143	\$105,143	\$0	0.000%
20	Other Revenue - Collections for Others		\$1,071,239	1,071,239	0	0.000%
21	Other Revenues - NSF Checks		\$25,646	25,646	0	0.000%
22	Reconnection Fee		\$694,652	694,652	0	0.000%
23	Activation Fee		\$617,172	617,172	0	0.000%
24	Other revenue - misc		11,845	11,845	0	0.000%
25	AFDUC		6,255,297	6,255,297	0	0.000%
26						
27	Profoma Total Operating Revenues		\$55,681,454	\$77,150,797	\$11,469,343	17.460%
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Note 1: Increase in water tariffs if KRA fee is included in base rates.

10,300,000 settlement
1,169,343 KRA fee

Adjusted for pumpage thru May 2010

2009 Central District System Delivery (1000 Gallons)

2009	Days per month	Sales total form 329	Year	non revenue	un accounted for	total system delivery	HIGH SERVICE			Transfer			Low Service				Usage from Jacobsen Res	Usage from Ky. River
							KRS	KRS avg. per day	RRS	RRS avg. per day	Transfer from Ky. River	Transfer avg. per day	KRS Service	Low Service	RRS service	Total Low Service		
January	31	534206			316031	1252287	880287	26396	372000	12000		905816	386136	386136	1291951.73	386136	905816	
February	28	850568			179175	1029744	693744	24777	336000	12000		713862	348768	348768	1062630.27	348768	713862	
March	31	968754			227289	1195993	823893	26580	372000	12000		847889	386136	386136	1234024.58	386136	847889	
April	30	945322			204705	1150027	700027	23334	450000	15000		720328	467100	467100	1187427.67	467100	720328	
May	31	1066874			275106	1341980	876880	28290	465000	15000	558000	902413	482670	3885082.89	-76330	1460413		
June	30	1199289			334329	1533617	1053617	35121	480000	16000	540000	1084172	498240	1582412.16	-41760	1624172		
July	31	1352139			218290	1570428	1074428	34659	495000	16000	558000	1105887	514848	1620434.57	-43152	1663587		
August	31	1401586			257096	1658682	1100682	35506	558000	18000	558000	1132601	579204	1711805.28	21204	1690601		
September	30	1360425			113492	1473916	933916	31131	540000	18000	540000	961000	560520	1521519.88	20520	1501000		
October	31	1285655			110279	1395934	930934	30030	485000	15000	558000	957931	482670	1440600.85	-75330	1515931		
November	30	1054534			101753	1156287	796287	26543	360000	12000	540000	819380	373680	1193059.59	-166320	1359380		
December	31	962999			132563	1095562	723562	23341	372000	12000	3852000	744545	386136	1130681.16	386136	744545		
Totals		13,382,351		0	2472106	15854457	10588457	5266000	5266000	12000	3852000	10895522.6	5466108	16361630.6	1614108	14747522.6		

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2008-00427
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

Witness: Michael A. Miller

61. Kentucky-American currently has a separate charge for the Kentucky River Authority withdrawal fee. Explain why this fee should not be eliminated and costs be included in Kentucky-American's general rates.

Response:

The Kentucky General Assembly in 1986 authorized the KRA to assume responsibility from the U.S. Army Corps of Engineers for the locks and dams on the Kentucky River through passage of KRS 151.700. Subsequently, the legislature authorized the KRA to collect water use fees from all facilities using water from the Kentucky River basin through passage of 151.720. On December 17, 1993, KRA promulgated administrative regulations that established fees for the withdrawal of surface water and groundwater from the Kentucky River Basin. In anticipation of KRA's assessment of water use fees, the Company in Case Number 1992-00452 proposed revisions to its tariff to permit the billing, as a separate item, of an amount equal to the proportionate part of any KRA fees or charges. The Commission approved the tariff revision in that case.

The reasons that the Company sought and the Commission approved the KRA fee as a separate tariff charge on the bills of the customers in the 1992 case are still present today.

1. The withdraw fee imposed by the KRA is properly identified as a separate charge on the customer bill so that it is clear to the customers that a portion of their water bill goes directly to the KRA for support of infrastructure improvements undertaken by the KRA.
2. The KRA fee is based on the water withdrawals of the Company and can fluctuate widely from year to year depending on weather and conditions.
3. The separate tariff charge based on estimated water withdrawals and water sales for the upcoming year with an annual true-up for any over/under collection the prior year is the fairest way to pass the actual cost/savings from collections of the prior year to the vast majority of customers actually receiving the benefit of that cost. The Company admits that Mr. Miller and the rate department did not file the true-up from 2001-2005 due to a change in personnel, has apologized for that unfortunate situation, and corrected that situation. The Commission has now ordered the Company to file annual adjustments to the KRA charge and this method will assure that timely correction of any over/under collection of the KRA will be addressed.

4. The Company has not historically filed annual rate cases. If the KRA surcharge were discontinued, the rates of the Company would either be too high or too low due to the fluctuations that are present in the actual KRA withdrawal fees at any given time. In the absence of annual rate filings, the fluctuations in the KRA fee would not be trued up as often, and the true-up to actual customers would be less accurate (the longer the time between true-up, the more customers leaving or coming on the system)
5. Due to the fluctuation in the KRA fee, not only will the elimination of the current separate charge for the KRA delay timely correction of the charges to the customers whose usage drives that cost, but the Company could suffer in years where weather and continued customer conservation drives under collection of the KRA fee, which could potentially lead to more frequent rate cases.

The Company believes the current method of having the KRA fee as a separate charge on its bill is the best and fairest method for addressing the rate recovery of that fee for both the customers and the Company as described above.

For the electronic version, refer to KAW_R_PSCDR2#61_010809.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2008-00427
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION**

Witness: Michael A. Miller

18. The Kentucky River Authority charges Kentucky-American a fee based on the volume of water withdrawn.
- a. State whether Kentucky-American considers the fee an expense. Explain.
 - b. State whether Kentucky-American considers the fee a tax. Explain.

Response:

- (a & b) The Company considers the Kentucky River Authority fee neither an expense nor a tax. The Company considers it to be a water use fee as defined at 420 KAR 1:010(11). The Company further considers it to be a fee that it passes through to its customers in accordance with KRS 151.720(5) and KRS 151.723.

For the electronic version, refer to KAW_R_PSCDR3#18_020909.pdf.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2008-00427
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION**

Witness: Michael A. Miller

19. 807 KAR 5:067 provides the process by which a privately-owned water utility can adjust its rates when a supplier's rate increases. State whether Kentucky-American should use this process to recover the increases in the Kentucky River Authority Fee. Explain.

Response:

The regulation cited allows a private water utility to apply for a rate adjustment for its purchased water expenses when the supplier of the purchased water implements a change in its rates. In other words, it creates a mechanism by which a private water utility can recover the actual cost of water it purchases. To the extent the regulation establishes the concept that a private water utility should be afforded a streamlined procedure by which it can be made whole for its purchased water expenses, Kentucky American Water agrees with that concept. Moreover, Kentucky American Water agrees with the concept that it should be made whole on the Kentucky River Authority ("KRA") fees that it must collect and pay to the KRA. That concept is codified at KRS 151.720(5) where it states that those who must pay the KRA water use fees "may pass on all or any part of the fee."

In Case No. 2006-00154, the Commission established a procedure by which Kentucky American Water submits annual information to the Commission regarding KRA fees and related water use. That procedure leads to a revision in the amounts collected by Kentucky American Water from its customers. That procedure works and Kentucky American Water sees no reason to abandon it in favor of a mechanism that was designed for the different purpose of implementing purchased water adjustments. For an example of that difference, an increase in the wholesale price of purchased water is much more likely to be permanent, whereas the KRA water use fees are entirely dependent on the amount of water withdrawn from the Kentucky River, and, thus, are subject to frequent fluctuations driven by all the factors that drive customer demand. Having said that, Kentucky American Water is more than willing to discuss revising the procedure established in Case No. 2006-00154 to the extent the Commission feels the procedure is inadequate.

For the electronic version, refer to KAW_R_PSCDR3#19_020909.pdf.