

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF:** )  
 )  
**THE APPLICATION OF KENTUCKY-AMERICAN ) CASE NO. 2012-00520**  
**WATER COMPANY FOR AN ADJUSTMENT OF )**  
**RATES ON AND AFTER JANUARY 27, 2013 )**

**KENTUCKY-AMERICAN WATER COMPANY’S MOTION FOR RELIEF AND/OR  
CLARIFICATION FROM ITEMS 11 AND 14 OF COMMISSION STAFF’S THIRD  
INFORMATION REQUEST**

Kentucky-American Water Company (“KAW”), by counsel, moves the Commission for an Order relieving KAW from its obligation (or clarifying that obligation) to respond to Items 11 and 14 of Commission Staff’s March 6, 2013 Third Information Request. As grounds for its motion, KAW states that it is not possible for KAW to respond to Items 11 and 14 as written because KAW does not have the data that would be required to answer those items in any meaningful manner. Therefore, KAW seeks relief from having to respond to Items 11 and 14 as written, or, in the alternative, clarification from the Commission that KAW may file responses to Items 11 and 14 based on the limited data that KAW does have.

In its March 6, 2013 Third Request for Information, Commission Staff asked the following two questions:

Item 11: Provide separate rate base, capital structure, income statement, and revenue requirement for the Central and Northern Divisions. Provide all workpapers, state all assumptions, and show all calculations used to derive this Response.

Item 14: Assume the Commission determines that a unified rate approach should be abandoned and that rates for each division within Kentucky-American’s operations must be based on that division’s cost of service.

a. Provide a revised Cost of Service Study that establishes rates for the Northern Division and Central Division, separately, based upon the cost of serving each division. This study should include:

(1) A breakdown of costs assigned to the Northern Division.

- (2) A breakdown of costs assigned to the Central Division.
  - (3) A billing analysis for each division with sufficient customer detail as to allow for verification of the rates.
- b. List and describe the capital costs that are currently assigned to both divisions jointly that would require separate assignment if separate rates are established for each division.

When KAW began gathering information necessary to file its Application in this case last fall, it knew that Commission regulations require the filing of a cost of service study along with its Application.<sup>1</sup> Therefore, months in advance of filing its Application, KAW began the process of compiling, refining and preparing for presentation all of the information that serves as the foundation for a cost of service study. At the conclusion of that process, KAW provided the information it had developed to its cost of service expert witness in this case (Mr. Paul Herbert). Mr. Herbert then took the foundational information KAW provided to him and prepared the Cost of Service Study KAW filed in this matter on December 28, 2012. Mr. Herbert's Cost of Service Study was attached to KAW's Application as Filing Exhibit 36. The Commission reviewed KAW's Application and supporting materials (including Mr. Herbert's Cost of Service Study) and declared KAW's Application to be in compliance with the Commission's minimum filing requirements.<sup>2</sup>

Items 11 and 14 seek the same type, volume and depth of information that KAW and Mr. Herbert spent several months last fall developing, only the questions seek that information broken down between KAW's Central and Northern Divisions. The two questions are closely related in that KAW would need to develop the information requested in Item 11 on a division-specific basis to be able to prepare the Cost of Service study requested in Item 14.

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<sup>1</sup> The requirement for a cost of service study is set forth 807 KAR 5:001, Section 10(9)(v). Under the revised Commission regulation that became effective after KAW filed its December 28, 2012 Application, the same cost of service study requirement is set forth at 807 KAR 5:001, Section 16(12)(v).

<sup>2</sup> See Ms. Linda Faulkner's January 15, 2013 letter to KAW's counsel of record in this matter.

When KAW moved to a “single” or “unified” tariff as a result of Case No. 2007-00143, KAW stopped tracking the information that would serve as the basis for a cost of service study broken down in a division-specific format. Therefore, KAW simply does not have the data available in a way that would allow it to answer Items 11 and 14 in that format. And because the move to a unified tariff happened years ago with Commission encouragement and approval,<sup>3</sup> KAW had no reason to continue to perform the inefficient process of division-specific cost of service information. Certainly, as part of the resolution of this case, should the Commission choose to direct KAW to keep its records in a way that would allow for a meaningful analysis of something other than a unified tariff in a future rate case or other proceeding, KAW will, of course, do so.

When KAW received Items 11 and 14, it analyzed what would be required to respond to the questions as asked. KAW estimates that it would take at least several weeks for multiple KAW personnel to attempt to break down cost of service information on a division-specific basis. After that, Mr. Herbert would require an additional two weeks to prepare two new cost of service studies (one for each KAW division). Mr. Herbert has indicated to KAW that his fees for two new cost of service studies would range from \$30,000 - \$40,000 and KAW estimates that it would require at least \$10,000 worth of internal labor in compiling the information and creating

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<sup>3</sup> In Case No. 2004-00103, when KAW had separate tariffs for its Central and Northern Division customers, it indicated that it intended to move to a single-tariff or “unified” rate structure in its next rate case and the Commission agreed that such a move would be consistent with generally accepted principles of sound rate design. (February 28, 2005 Order in Case No. 2004-00103, pp. 75-76). After Case No. 2004-00103, KAW acquired the Owenton system. In Case No. 2005-00206, in which the Commission addressed KAW’s acquisition of the Owenton system, the Commission again recognized and encouraged a shift to single-tariff rate design when it stated, “the Commission places KAWC on notice that KAWC’s next application for a general rate adjustment should contain a proposal for a single rate schedule applicable to all KAWC customers . . .”. (July 22, 2005 Order in Case No. 2005-00206, p. 6). Given those Commission directives, in KAW’s subsequent general rate case (Case No. 2007-00143), it proposed a single-tariff structure. The parties to that case (which included the Attorney General, the Lexington-Fayette Urban County Government, and Community Action Council) proposed an agreed resolution of the case to the Commission. The proposed agreed resolution included the move to a single-tariff structure (November 29, 2007 Order in Case No 2007-00143, Exhibit B, p. 2), and the Commission approved the agreed resolution, including the single-tariff structure. (November 29, 2007 Order in Case No. 2007-00143). That same single-tariff structure has remained in place since that time.

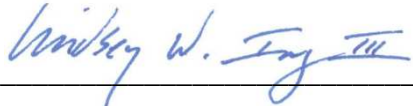
the files (including Service Company support services) to provide Mr. Herbert the information he would need. And even if all of that happens, the responses will not be as credible as the Cost of Service Study KAW filed with its Application because of the limited amount of time to develop division-specific cost information. Indeed, KAW believes that the time and expense that would be incurred in responding to Items 11 and 14 would be far greater than the time and expense required for any other discovery question in any KAW rate case in recent memory because the questions are essentially asking KAW to create two sub-rate cases within the existing rate case.

If it would be helpful to the Commission and/or Commission Staff, KAW is able to provide some rate base information that is division-specific that it has kept because it is required to do so for tax purposes. Likewise, KAW has advised Commission Staff and the parties in this matter that if it would be helpful for KAW to provide some cost allocation information between the Central and Northern Divisions that it can do so based on customer counts and/or gallons sold. However, any such information should not and cannot be considered to be any sort of accurate or reliable cost of service information of the type KAW and Mr. Herbert have already submitted in this case. For example, based on gallons purchased in each division, KAW can make assumptions regarding the allocation of chemical costs, but a “gallons sold” based allocation would not lead to meaningful information concerning customer service costs, administrative costs, or rate base, to name a few examples. Notwithstanding those inadequacies, if such an analysis is desired, KAW will provide and requests a short of extension of time (one week) beyond March 20, 2013 to provide it. KAW believes that such an extension would not disrupt the existing procedural schedule in this matter.

Dated: March 12, 2013

Respectfully submitted,

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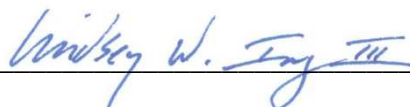
BY: 

Attorneys for Kentucky-American Water Company

**CERTIFICATE**

In accordance with Ordering Paragraph No. 10 of the Commission's December 17, 2012 Order, this is to certify that Kentucky-American Water Company's March 12, 2013 electronic filing is a true and accurate copy of the documents to be filed in paper medium; that the electronic filing has been transmitted to the Commission on March 12, 2013; that an original and one copy of the filing will be delivered to the Commission on March 13, 2013; and that no party has been excused from participation by electronic means.

STOLL KEENON OGDEN PLLC

By 

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