

Application of Kentucky-American Water Company
For an Adjustment of Rates
Case No. 2015-00418
The Attorney General and Lexington-Fayette Urban County Government's
Responses to the Kentucky-American Water Company's First Request for Information

WITNESS/RESPONDENT RESPONSIBLE

Dr. J. Randall Woolridge

REQUEST No.1

Page 1 of 1

Please provide the workpapers in Excel format supporting Dr. Woolridge's testimony and exhibits, including the data files that produce the charts/tables provided in either testimony or exhibits. The Excel files should contain the data which produce the charts and tables, not just pictures of images of the charts and tables. All formulas in the Excel files should be intact.

RESPONSE:

Dr. Woolridge's work papers, data and work sheets, and source documents are provided as Woolridge Articles, Woolridge Gas Lines, Woolridge Water Lines, and Woolridge Excel Workpapers.

Articles	Copies of articles and studies used and cited in the Testimony, exhibits, and appendices, listed by Authors name and date of publication
Gas Lines – March 6, 2016	Copies of gas company <i>Value Line</i> reports used in Exhibits JRW-4, 7, 10, and 11
Water Lines – April, 2016	Copies of water company <i>Value Line</i> reports used in Exhibits JRW-4, 7, 10, and 11
Workpapers	Copies of data and work sheets used in the development of Dr. Woolridge's Exhibits, including copies of Exhibits JRW-1 through JRW-14

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REQUEST No.2
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Please provide copies of all articles and sources cited in Dr. Woolridge's testimony.

RESPONSE:

See prior response to KAWC 1-1.

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WITNESS/RESPONDENT RESPONSIBLE

Andrea C. Crane

REQUEST No.3

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Please provide the workpapers in Excel format supporting Ms. Crane's testimony and exhibits, including the data files that produce the charts/tables provided in either testimony or exhibits. The Excel files should contain the data which produce the charts and tables, not just pictures of images of the charts and tables. All formulae in the Excel files should be intact.

RESPONSE:

The requested workpapers are uploaded as Crane Excel Workpapers.

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Andrea C. Crane

REQUEST No.4

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Please provide copies of all articles and sources cited in Ms. Crane's testimony.

RESPONSE:

Ms. Crane did not reference any articles in her testimony. The sources referenced in Ms. Crane's testimony are the responses to data requests and documents from prior KAWC rate proceedings, all of which should already be in the Company's possession.

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REQUEST No.5

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At page 8, Ms. Crane states: "While I understand that state law permits the use of a forward-looking Test Period, the use of forecast data does make it more difficult for regulators to assess the reasonableness of a utility's claim."

- a. How many public utility commissions in the US use partially or fully forecasted test years to set base rates?

- b. Has a utility commission ever abandoned the use of forecasted test years because it was too difficult for regulators to assess the reasonable of a utility's claim? If so, provide the details.

RESPONSE:

- a. Ms. Crane has not conducted a study to determine how many public utility commissions in the United States use partially or fully forecasted test years to set base rates.

- b. Ms. Crane has not conducted a study to determine if any public utility commission has ever abandoned the use of forecasted test years because it was too difficult for regulators to assess the reasonableness of a utility's claim. However, she is aware of some companies that have voluntarily used an historic test year (as opposed to a partially or fully forecasted test year) in order to simplify the regulatory review process.

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REQUEST No.6
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Reference Ms. Crane's testimony, page 20 at line 6. Please provide the support or citation with regard to the statement "I understand that the IRS in fact approved the Company's tax deduction for these costs in February 2010."

RESPONSE:

See the Commission's Order in Case No. 2012-00520, page 16.

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Andrea C. Crane

REQUEST No.7

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Reference Ms. Crane's testimony, page 23. Ms. Crane states that "[s]ince the Company will be made "whole" for these costs once rate recovery begins, there is no reason to speculate on projected future levels of deferred maintenance costs." Please explain how the Company will be "made whole" for these costs once rate recovery commences? Does this mean that the Company will recover the full amount of these costs?

RESPONSE:

Assuming that the amortization does not start until new rates are established, the utility is made whole because it will recover the full amount of these costs, i.e., it will receive the return of these deferred maintenance costs over the amortization period that is authorized by the Commission.

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Andrea C. Crane

REQUEST No.8

Page 1 of 2

Reference Ms. Crane's testimony, pages 24-29.

- a. With respect to pension obligation, does Ms. Crane agree that the minimum pension contribution required by ERISA is not the same as the pension contribution that would be required by the former FAS 87, now ASC 715-30?
- b. If a company makes the minimum pension contribution under ERISA, is it not highly likely that the company will be in an under-accrued position under GAAP?
- c. If a pension fund is over funded on a GAAP basis, is it not the case that the rate case expense requirement for the fund will be reduced or eliminated, depending on the amount of overfunding?

RESPONSE:

- a. Ms. Crane agrees that the minimum pension contribution required by ERISA is not the same as the annual pension cost determined pursuant to FAS 87 (ASC 715-230). Ms. Crane is not aware of a specific funding requirement under FAS 87.
- b. Ms. Crane assumes that by "under accrued" the Company is referring to a negative "Funded Status" under FAS 87. Whether the funded status is positive or negative will depend on many factors, including the amount of past contributions to the fund, the actual earnings on fund contributions, changes in benefit assumptions, changes in discount rates, and other factors.
- c. Ms. Crane assumes that by "over funded" the Company is referring to a situation where the Market Value of the Plan Assets ("Market Value") exceeds the Projected Benefit Obligation ("PBO"). She agrees that at any given PBO, a higher Market

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Value will result in a lower annual pension cost under FAS 87, all other things being equal.

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Andrea C. Crane

REQUEST No.9

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Reference Ms. Crane's testimony, page 41, line 2. Please provide support for the overtime rate of \$40.09 and provide the calculations showing that rate.

RESPONSE:

See the excel file to Schedule ACC-12, provided in response to KAWC 1-3, and uploaded as Crane Excel Workpapers.

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Andrea C. Crane

REQUEST No.10

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Reference Ms. Crane's testimony, page 43. Please produce any general or specific studies to support the claim that benchmarking studies produced by Willis Towers Watson or other consulting firms are: "dangerous to the ratemaking process" and "do not objectively report compensation results – they are being used to drive incentive compensation claims across the country."

RESPONSE:

The "study" that supports Ms. Crane's testimony is based on simple arithmetic and two assumptions. These assumptions are: 1) that companies target salaries at the median benchmark level and 2) companies do not reduce their salaries. Given these assumptions, let's look at two companies, each with one employee. Company A employee is paid \$100. Company B employee is paid \$200. The market median is \$150. Company A then increases the employee's salary to the median of \$150. Company B keeps its salary at \$200. The new benchmark is now \$175. Company A then raises its employee's salary to \$175 (and so on). This simple example illustrates how benchmarking will invariably lead to higher salaries unless companies that are above the benchmark are willing to reduce their salaries. In Ms. Crane's experience, she does not recall a utility reducing its salary levels.

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REQUEST No.11

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Reference Ms. Crane's testimony, page 43. Please describe how industry benchmarks, which are widely used by utility companies to support their compensation policies, results in a "spiraling of compensation costs as companies that are below the market median attempt to improve their position relative to the utilities at or above the median." What has been the annual trend over the last 5 years to support your claim? Please provide any general or specific studies supporting this claim.

RESPONSE:

See the response to Question 10, above. Over the last five years, Ms. Crane does not recall a single instance of a utility requesting a reduction in employee salaries as part of a base rate case. However, she is aware of companies introducing incentive compensation programs that they claim are necessary to provide competitive compensation, the most recent of which is Public Service Company of New Mexico. Ms. Crane did not rely upon a specific study to develop her testimony in this proceeding.

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REQUEST No.12

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Reference Ms. Crane's testimony, page 43. Provide evidence that supports your contention that "benchmarking steadily increases compensation levels for all utility employees to which it is applied, regardless of their actual job performance." Please produce any general or specific studies supporting this claim.

RESPONSE:

See the response to Question 10, above. Ms. Crane did not rely upon a specific study to develop her testimony in this proceeding.

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REQUEST No.13

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If not shown in response to Item 3 of this request, please provide the components, a detailed breakdown and all calculations used by Ms. Crane to derive the \$7,250,675 figure set forth for "Cost of Capital" on Schedule ACC-26.

RESPONSE:

See the excel file for Schedule ACC-26, provided in response to KAWC 1-3, and uploaded as Crane Excel Workpapers.