

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR AN ADJUSTMENT OF) CASE NO. 2012-00520
RATES SUPPORTED BY A FULLY)
FORECASTED TEST YEAR)

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

Kentucky-American Water Company ("Kentucky-American"), pursuant to 807 KAR 5:001, shall file with the Commission the original, one paper copy, and one electronic copy of the following information within 14 days of the date of this request. 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.

Kentucky-American shall make timely amendment to any prior response if it 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 request to which Kentucky-American fails or refuses to furnish all or part of the requested information, Kentucky-

American shall provide a written explanation of the specific grounds for its 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.

1. List each of Kentucky-American's sewer facilities.
2. List each Kentucky-American facility and contract operation that is not subject to the Commission's regulation.
3.
 - a. Provide a copy of the workpapers and calculations that Kentucky-American used to develop its forecasted test-period financial information.
 - b. State all assumptions that Kentucky-American used to develop its forecasted test-period financial information.
 - c. Provide the workpapers, calculations, and assumptions requested in Item 3(a) in Microsoft Excel format.
4.
 - a. State whether Kentucky-American's internal accounting manuals, directives, policies, and procedures, that were submitted in Case No. 2010-00036,¹ have been modified, amended, or replaced.
 - b. If any of the documents identified in Item 3(a) have been modified, amended, or replaced, provide a complete copy of the current document and identify the sections that differ from the document provided in Case No. 2010-00036.

¹ Case No. 2010-00036, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Dec. 14, 2010). Kentucky-American's Response to the Commission Staff's First Set of Information Requests, Item 2, filed July 8, 2010.

5. Provide a complete copy of all Kentucky-American budget instructions, assumptions, directives, manuals, policies and procedures, time lines, and descriptions of budget procedures.

6. a. Provide a comparison of Kentucky-American's monthly operating budgets to the actual results, by account, for each of the following calendar years: 2008 through 2011. Kentucky-American's response shall include comparisons for the following major expense categories:

- (1) Fuel and Power Expense;
- (2) Chemical Expense;
- (3) Management Fee Expense;
- (4) Customer Accounting Expense;
- (5) General Office Expense;
- (6) Miscellaneous Expense; and
- (7) Maintenance Expense.

b. Provide, for each yearly account variance that exceeds 5 percent, a detailed explanation for the variance.

7. Provide a reconciliation and a detailed explanation of each difference, if any, in the capitalization and the net investment rate base of Kentucky-American for the base period.

8. Provide a rate base, capital structure, and statement of income for Kentucky-American for the most recent actual 12-month period at the time of the company's application for rate adjustment and for the base period used in the company's application.

Provide detailed explanations necessary to reconcile this information with the filed base-period revenue-requirement information.

9. Describe the process that Kentucky-American uses to plan and approve construction projects.

10. Provide Kentucky-American's long-term construction planning program in effect as of the date of the filing of Kentucky-American's application.

11. a. For each construction project that Kentucky-American has commenced from January 1, 2002 through December 31, 2011, provide the information listed below in the format contained in Schedule 1:

- (1) Project number;
- (2) Project title and description;
- (3) Annual actual cost;
- (4) Annual original budgeted cost;
- (5) Variance between annual actual cost and annual original budgeted cost in dollars;
- (6) Variance between annual actual cost and annual original budgeted cost as a percentage;
- (7) Percentage of total construction budget that proposed project comprises for the budgeted year;
- (8) Total actual project cost;
- (9) Total budgeted project cost;
- (10) Variance between total actual project cost and total budgeted project cost;

- (11) Date the original budget projected the project to start;
- (12) Date the original budget projected the project to be completed;
- (13) Date construction of project actually commenced; and
- (14) Date construction of the project was actually completed.

b. For each project in which a variance between actual and budgeted cost occurred, or in which a delay in its start or completion occurred, describe the variance or delay and the reasons for such variance or delay.

c. Provide the information requested in 11(a) and 11(b) for the calendar year 2012 when available.

d. Provide a copy of the construction budget variance information requested in Item 11(a) and 11(c) on a CD-ROM in Microsoft Excel format.

12. Provide, in the format provided as Schedule 2, an analysis of the Construction Work in Progress as defined in the Uniform System of Accounts for the 12-month period preceding the base period, the base period, and the forecasted test period.

13. For each construction project listed in Kentucky-American's response to Item 10, provide the information listed below in the format contained in Schedule 3:

- a. Project number;
- b. Date on which construction began;
- c. Estimated date of project completion;
- d. Time elapsed since the beginning of construction as a percentage of total estimated time of construction;
- e. Original budget estimate of project's cost;
- f. Most recent budget estimate of project's cost;

- g. Total expenditure on project; and
- h. Total project expenditure as percentage of total budgeted estimate.

14. Provide a copy of all schedules presented in the cost-of-service study, electronically, in Microsoft Excel format, allowing for the review of and unrestricted access to the underlying formulas.

15. a. Provide Kentucky-American's budgeted and actual regular wages, overtime wages, and total wages by employee group, by month, for the most recent two years available in the format provided as Schedule 4. Kentucky-American shall supplement its response as further information becomes available.

b. For each variance that exceeds 5 percent in a monthly period, state the reasons for the variance.

16. Provide a complete copy of all wage, compensation, and employee benefits studies, analyses, and surveys that Kentucky-American has conducted, commissioned, or used.

17. State for each employee group the amounts, percentages of increase, and effective dates for general wage increases and, separately, for merit increases granted for calendar years 2009, 2010, and 2011, the base period and the forecasted period.

18. a. Identify the amounts of incentive pay that are included in base year and forecasted labor. Describe the incentive pay plans and explain why such a plan is necessary and reasonable.

b. List each Kentucky-American employee who is eligible to participate in the incentive pay program.

c. State the level of incentive pay awarded to all individuals participating in the program for the previous five calendar years compared to the level of incentive pay available to each participant in the forecasted period.

d. For the previous five calendar years, provide a comparison of the incentive pay that was budgeted to the actual amounts paid in each year. Include detailed explanations for any variance between the budgeted and actual payments.

19. a. Provide complete details of each early retirement plan and employee-reduction program that Kentucky-American or American Water Works Company ("American Water") intends to offer to its employees during the base period and the forecasted test period.

b. For each program listed above, provide all cost-benefit analyses or studies upon which the program is based.

20. a. List all fringe or other employee benefits available to Kentucky-American employees and indicate which benefits, if any, are limited to management employees.

b. For each benefit listed above, state the expected cost of each benefit in the base period and the forecasted test period and its historical cost for each of the two years preceding the base period.

c. List each change in fringe or other employee benefits or the availability of such benefits that has occurred within two years of the start of the base period.

21. List separately the budgeted and actual number of full- and part-time employees by employee group, by month and by year, for the five years immediately preceding the base period, the base period, and the forecasted period.

22. Provide a detailed description of each Other Post-retirement Employee Benefits package that Kentucky-American or American Water provides to Kentucky-American employees.

23. Provide all employment contracts between Kentucky-American and its non-management employees that are currently in effect and the most recent contracts previously in effect.

24. Provide a complete copy of each group medical insurance policy that Kentucky-American currently maintains for its employees.

25. a. Provide, for each major functional plant property group or account in the format shown in Schedule 5, the following:

- (1) Plant beginning balances;
- (2) Plant ending balances;
- (3) Gross additions occurring in the forecasted test period;
- (4) Retirements occurring in the forecasted test period; and
- (5) Transfers for Kentucky-American occurring in the forecasted

test period.

b. For any account in which transfers regularly occur in the normal course of business, provide a general description of the nature of the transfers.

26. Provide, in the format shown in Schedule 6 for each property leased to the utility or improvement to leased property, the following:

- a. An identification or reference number;
- b. A description of the property's type and use;
- c. The name of the lessor;

- d. The frequency of lease payments;
- e. The amount of each lease payment;
- f. The original value of the property, together with annual lease payments; and
- g. An explanation of the method that Kentucky-American uses to capitalize the lease payment.

27. Provide, in the format shown in Schedule 7 for each property held for future use, the following:

- a. A description of the property;
- b. The date of its acquisition;
- c. Its original cost;
- d. Its accumulated depreciation;
- e. Its expected in-service date; and
- f. Its expected use.

28. Provide the information in the format listed in Schedule 8 regarding Certain Deferred Credits, Accumulated Deferred Income Taxes, and Other Rate Base items included in the forecasted test-period rate base.

29. Provide the following (original cost) monthly account balances and a calculation of the average (13-month) account balances for total company and jurisdictional operations:

- a. Plant in Service;
- b. Plant Purchased or Sold;
- c. Property Held for Future Use;

d. Construction Work in Progress ("CWIP") (Separate this balance into CWIP eligible for capitalized interest and other CWIP.);

e. Completed Construction Not Classified;

f. Accumulated Depreciation and Amortization;

g. Plant Acquisition Adjustment;

h. Amortization of Utility Plant Acquisition Adjustment;

i. Materials and Supplies;

j. Balance in Accounts Payable Applicable to each account in (i) above

(If actual cannot be determined, give reasonable estimate.);

k. Unamortized Investment Tax Credit—Pre-Revenue Act of 1971;

l. Unamortized Investment Tax Credit—Revenue Act of 1971;

m. Accumulated Deferred Income Taxes;

n. Summary of Customer Deposits;

o. Computation and Development of Minimum Cash Requirements;

p. Balance in Accounts Payable Applicable to amounts included in utility plant in service (If actual cannot be determined, provide a reasonable estimate.);

q. Balance in Accounts Payable Applicable to prepayments by major category or subaccount;

r. Balance in Accounts Payable applicable to amounts included in plant under construction (If actual cannot be determined, provide a reasonable estimate.); and

s. All Current Assets and Current Liability accounts not included above.

30. Provide a calculation of federal and state income tax expense, including a reconciliation of book to taxable income, for the base period and the forecasted period in the format shown in Schedule 9.

31. Provide a trial balance as of the last day of the base period showing account number, account title, and actual base period accounts. All income statement accounts should show activity for 12 months.

32. Provide a copy of the current service contract between Kentucky-American and American Water Works Service Company.

33. a. Provide a copy of each service agreement or contract that Kentucky-American has with an affiliate company.

b. Describe in detail the pricing policies of Kentucky-American and its affiliates with regard to affiliate company transactions.

34. a. List and describe each service that each affiliated company renders to Kentucky-American.

b. For each service listed above, describe the benefit(s), if any, that Kentucky-American derives from the provision of this service from the affiliate.

35. Provide a comprehensive list and detailed description of the services that Kentucky-American has provided to affiliated companies.

36. Provide a list, with descriptions, of all activities, initiatives, or programs undertaken or continued by Kentucky-American since its last general rate case for the purpose of minimizing costs or improving the efficiency of its operations or maintenance activities.

37. State whether Kentucky-American has developed a written plan or procedure for managing its electricity usage. Provide a copy of this plan or procedure. If no plan or procedure presently exists, explain why Kentucky-American lacks a written plan.

38. State whether Kentucky-American has had a comprehensive energy audit performed on its facilities and operations. If an audit has been performed, provide a copy of the audit report. If no comprehensive energy audit has been performed, explain why Kentucky-American has not performed such an audit.

39. a. Describe in detail each target and goal that Kentucky-American has established to reduce:

- (1) Electricity Usage;
- (2) Electric Demand;
- (3) Power Purchase Costs; and
- (4) Greenhouse Gas Emissions.

b. Identify all specific performance measures Kentucky-American will use to evaluate its progress towards meeting the targets established in 39(a). Include a description of the process Kentucky-American used in developing its targets and goals.

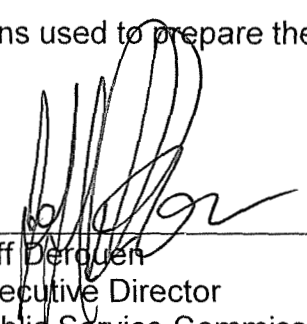
c. State whether Kentucky-American has a written procedure to monitor its progress in meeting the targets and goals listed in 39(a). Provide a copy if a written procedure exists.

40. Describe how Kentucky-American evaluates electricity use and cost criteria when developing its capital improvement plan.

41. Describe how Kentucky-American evaluates electricity use when considering the construction of new treatment systems.

42. a. Provide a detailed description of each reorganization that has occurred either at the corporate or service company level that has affected Kentucky-American's operations.

b. Quantify the effect each reorganization has had on Kentucky-American's reallocation of cost from the corporate or service company level. Provide all workpapers, show all calculations, and state assumptions used to prepare the response.



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DATED JAN 09 2013 TW

cc: Parties of Record

Kentucky-American
Case No. 2012-00520
Construction Work in Progress
As of _____

Schedule 2
Page 1 of 1
Witness Responsible:

Data: ___ Base Period ___ Forecasted Period
Type of Filing: ___ Original ___ Updated ___ Revised
Workpaper Reference No(s): _____

Line No. (A)	Project No. (B)	Description of Project (C)	Accumulated Costs			Total Cost (G=D+E+F)	Estimated Physical Percent Completed (H)
			Construction Amount (D)	Indirect AFDUC Capitalized (E)	Costs Other (F)*		
			\$	\$	\$	\$	\$
TOTAL							

*Explain the nature of all other indirect costs in footnotes.

Kentucky-American
Case No. 2012-00520
Construction Work in Progress - Percent Complete*
As of _____

Data: ___ Base Period ___ Forecasted Period
Type of Filing: ___ Original ___ Updated ___ Revised
Workpaper Reference No(s): _____

Schedule 3
Page 1 of 1
Witness Responsible: _____

Line No. (A)	Project No. (B)	Date Construction Work Began (C)	Estimated Project Completion Date (D)	Percent of Elapsed Time (E)	Original Budget Estimate (F)	Most Recent Budget Estimate (G)	Total Project Expenditures (H)	Percent of Total Expenditures (I)=H+G
					\$	\$	\$	

*Should be based on expenditures including AFUDC.

Kentucky-American
Case No. 2012-00520
Gross Additions, Retirements, and Transfers

From _____ To _____

Data: ___ Base Period ___ Forecasted Period
Type of Filing: ___ Original ___ Updated ___ Revised
Workpaper Reference No(s): _____

Schedule 5
Page 1 of 1
Witness Responsible:

Line No.	Acct. No.	Account Title	Beginning Balance	Additions	Retirements	Transfers/Reclassifications		Ending Balance
						Amount	Explanation of Transfers Other Accounts Involved	
			\$	\$	\$	\$		\$

Kentucky-American
Case No. 2012-00520
Leased Property
(Total Company)
As of _____

Data: ___ Base Period ___ Forecasted Period
Type of Filing: ___ Original ___ Updated ___ Revised
Workpaper Reference No(s): _____

Schedule 6
Page 1 of 1
Witness Responsible:

Identification or Reference Number	Description of Type and Use of Property	Name of Lessee	Frequency of Payment	Amount of Lease Payment	Dollar* Value of Property Involved	Explain Method of Capitalization
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*If not available, an estimate should be furnished.

Kentucky-American
Case No. 2012-00520
Certain Deferred Credits and Accumulated Deferred Income Taxes*
As of _____

Schedule 8
Page 1 of 1
Witness Responsible:

Data: ___ Base Period ___ Forecasted Period
Type of Filing: ___ Original ___ Updated ___ Revised
Workpaper Reference No(s): _____

Line No.	Account No.	Description
		Customers' Advances for Construction
		Contributions in Aid of Construction
		Investment Tax Credits:
		Pre 1971 3% Credit
		1971 4% Credit
		1975 6% Additional Credit
		1981 10% Credit on Recovery Property
		ITC Tax Benefits Sold
		Deferred Income Taxes:
		Accelerated Amortization
		Liberalized Depreciation
		ACRS Tax Benefits Sold
		Other (Specify and list separately)
		Other (Specify and list separately)

*Also provide the ITC option elected in 1971 and 1975 under Section 46(f) of the 1954 Internal Revenue Code.

Kentucky-American
Case No. 2012-00520
Adjusted Jurisdictional Federal and State Income Taxes*
For the 12 Months Ended _____

Schedule 9
Page 1 of 3
Witness Responsible:

Data: Base Period Forecasted Period
Type of Filing: Original Updated Revised
Workpaper Reference No(s): _____

Line No.	Description	At Current Rates			At Proposed Rates	
		Unadjusted (1)	Schedule 49 Adjustments (2)	Adjusted (3)	Adjustments (4)	Adjusted (5)
		\$	\$	\$	\$	\$
1	Operating Income Before Income Taxes					
2	Reconciling Items					
3	Interest Charges					
4	Tax Accelerated Depreciation					
5	Book Depreciation					
6	Excess of Tax Over Book Depreciation					
7	Other Reconciling Items (Specify and List)					
8	Total Reconciling Items					
9	Taxable Income					
10	Income Tax Rates:					
11	\$ _____ @ _____%					
12	\$ _____ @ _____%					
13	\$ _____ @ _____%					
14	\$ _____ @ _____%					
15	Over \$ _____ @ _____%					
16	Federal (State) Income Tax Liability					

*Separate schedules should be completed for the federal and state calculation.

Kentucky-American
Case No. 2012-00520
Adjusted Jurisdictional Federal and State Income Taxes*
For the 12 Months Ended _____

Schedule 9
Page 2 of 3
Witness Responsible: _____

Data: Base Period Forecasted Period
Type of Filing: Original Updated Revised
Workpaper Reference No(s): _____

Line No.	Description	At Current Rates Schedule 49			At Proposed Rates	
		Unadjusted (1)	Adjustments (2)	Adjusted (3)	Adjustments (4)	Adjusted (5)
17	Investment Tax Credits	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
18	Federal (State) Income Taxes – Current	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
19	Deferred Income Taxes	_____	_____	_____	_____	_____
20	Tax Accelerated Depreciation	_____	_____	_____	_____	_____
21	Tax Straight-Line Depreciation	_____	_____	_____	_____	_____
22	Excess of Accelerated Over Straight-Line Depreciation	_____	_____	_____	_____	_____
23	Deferred Income Tax @ _____%	_____	_____	_____	_____	_____
24	Amortization of Prior Years Deferred Income Taxes	_____	_____	_____	_____	_____
25	Net Deferred Income Taxes Resulting from Depreciation	_____	_____	_____	_____	_____
26	Investment Tax Credit Deferred	_____	_____	_____	_____	_____
27	Amortization of Prior Years I.T.C.	_____	_____	_____	_____	_____

*Separate schedules should be completed for the federal and state calculation.

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