



Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Linda Breathitt
Commissioner

June 12, 2013

David Edward Spenard, Esq.
Office of the Attorney General
1024 Capital Center Drive
Suite 200
Frankfort, Kentucky 40601-8204

Re: Case No. 2012-00520
Kentucky-American Water Company

Dear Mr. Spenard

Pursuant to the Commission's Order of June 3, 2013, in the above-referenced case, enclosed are Commission Staff's written questions to Dr. J. Randall Woolridge.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerald E. Wuetcher".

Gerald E. Wuetcher
Executive Advisor/Attorney

cc: Parties of Record
Enclosure

WRITTEN QUESTIONS FOR DR. J. RANDALL WOOLRIDGE

1. Have you performed an update of your analyses based on the April 19, 2013 edition of Value Line and other more current information? If you have done so, please provide a copy of the update.

2. a. Are you familiar with the articles shown at Table 3 of Dr. Vander Weide's Rebuttal Testimony which represent "more recent research" regarding the accuracy of analysts' forecasts?

b. Do you agree with the Table's conclusions that analysts are either unbiased or exhibit declining optimism or even pessimism?

3. At page 23 of his rebuttal testimony, Dr. Vander Weide states that your studies and those performed by Lacina, Lee, and Xu suffer from substantial statistical difficulties, namely that they fail to recognize the presence of large unexpected accounting write-offs and special accounting charges; and the impact of high correlation in analysts' forecasts. Do you agree that those studies fail to recognize these factors and that the studies therefore suffer from statistical difficulties?

4. In your opinion do the rules shown at page 24 of Dr. Vander Weide's rebuttal testimony sufficiently address potential conflicts of interest on the part of analysts?

5. Do you agree with Dr. Vander Weide that the results produced by your CAPM analysis are unreasonably low?

6. In your opinion, does the CAPM underestimate required return on equity for companies or portfolios with beta less than 1.0?

7. At page 42 of Dr. Vander Weide's Rebuttal Testimony, he discusses your disagreement with his use of the forecasts yield to maturity on A-rated utility bonds to estimate the interest rate component of the risk premium approach. Dr. Vander Wiede references economists' projections that future interest rates will be higher than current interest rates.

a. In your opinion, do projections show that future interest rates will be higher than current rates?

b. How far in the future are economists projecting that interest rates will begin to rise?

c. Are economists projecting significant increases in interest rates?

8. On or about May 24, 2013, Standard & Poor's reported that it had upgraded the corporate credit rating on American Water Works Company and certain of its subsidiaries from BBB+ to A- with a stable outlook. Does this report affect your analysis and testimony in this case? If yes, what effect does it have on your analysis and testimony?