



Steven L. Beshear
Governor

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Secretary
Energy and Environment Cabinet

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Chairman

James W. Gardner
Vice Chairman

Linda K. Breathitt
Commissioner

May 28, 2013

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Department of Law
Lexington-Fayette Urban County Government
200 East Main Street
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Lindsey W. Ingram, III, Esq.
Monica Braun, Esq.
Stoll Keenon Ogden PLLC
300 West Vine Street
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Lexington, Kentucky 40507-1801

Jennifer B. Hans, Esq.
David Edward Spenard, Esq.
Attorney General's Office
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

Iris G. Skidmore, Esq.
Bates and Skidmore
Suite 2
415 W. Main Street
Frankfort, Kentucky 40601

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

Ladies and Gentlemen:

The enclosed memorandum has been filed in the record of the above-referenced case. Any comments regarding this memorandum's contents should be submitted to the Commission within five days of receipt of this letter. Any questions regarding this memorandum should be directed to Gerald Wuetcher, Executive Advisor/Attorney, at (502) 782-2590.

Sincerely,

Jeff Derouen
Executive Director

gw
Enclosure
cc: Parties of Record

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2012-00520

FROM: Gerald Wuetcher **GEW**
Executive Advisor/Attorney

DATE: May 28, 2013

RE: Conference Call of March 12, 2013

On March 12, 2013, a conference call was conducted at the request of Kentucky-American Water Company ("KAWC") to discuss Items 11 through 14 of Commission Staff's Third Information Request to KAWC. Participating in the call were:

Eddie Beavers	-	Commission Staff
Jonathan Beyer	-	Commission Staff
David Foster	-	Commission Staff
Mark Frost	-	Commission Staff
Scott Lawless	-	Commission Staff
Sam Reid	-	Commission Staff
James Rice	-	Commission Staff
George Wakim	-	Commission Staff
Gerald Wuetcher	-	Commission Staff
David Spenard	-	Office of Attorney General
David Barberie	-	Lexington-Fayette Urban County Government
Jacob Walbourn	-	Lexington-Fayette Urban County Government
Linda Bridwell	-	Kentucky-American Water Company
Lindsey Ingram III	-	Kentucky-American Water Company
Gary VerDow	-	Kentucky-American Water Company
Iris Skidmore	-	Community Action Council

Enclosed is the electronic mail traffic leading to the establishment of the conference call.

Beginning the conference, Mr. Wuetcher stated that Commission Staff would prepare minutes of the conference call for the case record, that a copy of the minutes would be provided to all parties, and that all parties would be given an opportunity to submit written comments upon those minutes.

Mr. Ingram stated that KAWC does not currently possess the information to prepare separate cost-of-service studies for its Northern Division and Central Division or to provide the other information on a division-specific basis to properly respond to Items 11 through 14 of Commission Staff's Third Request for Information. He stated that

KAWC ceased maintaining division-specific information that would serve as the basis for a cost-of-service study after the Commission established a unified tariff for Kentucky-American in Case No. 2007-00143. Mr. Ingram stated that KAWC estimated that, to gather the information necessary to prepare the requested cost-of-service studies would require the effort of several KAWC employees for several weeks. He further stated that the accuracy and reliability of the information that is provided will be limited and of little use for ratemaking purposes. KAWC estimates that the cost of assembling division-specific information and preparing the requested cost-of-service studies will likely range between \$40,000 and \$50,000.

Mr. Ingram stated that KAWC could provide a limited assessment by analyzing costs on a gallon sold basis to each division, but would not be able to produce division-specific exhibits such as income statements. He further stated that, any cost allocation would be based on several assumptions and that guidance from Commission Staff would be necessary to develop these assumptions. Ms. Bridwell added that an abbreviated study based upon gallons utilized would be imprecise in allocating actual costs and would be primarily based upon general assumptions.

Mr. Ingram proposed that, in lieu of KAWC attempting division-specific cost-of-service studies in this proceeding, the Commission should defer any review of the unified rate structure to KAWC's next general rate proceeding and direct KAWC at the conclusion of the current proceeding to begin maintaining division-specific records for the Northern and Central Divisions to permit division-specific cost-of-service studies.

In response to a question from Mr. Spenard, Ms. Bridwell confirmed that KAWC ceased division-specific accounting, beyond that required for tax purposes, after the Commission approved a unified tariff. She stated that to resume such accounting, KAWC must reassemble some discontinued accounting practices and systems.

Mr. Ingram requested guidance from Commission Staff as to how to proceed to answer Commission Staff's request. Mr. Wuetcher stated that Commission Staff would consider the request and then advise all parties.

The conference call then ended.

Following the conference, Mr. Wuetcher advised Mr. Ingram by electronic mail that, if KAWC wished clarification of the Commission Staff requests or excusal from responding to those requests, it should move the Commission for such relief.

Enclosures

cc: Parties of Record

From: [Wuetcher, Jerry \(PSC\)](#)
To: [Lindsey W. Ingram III \(L.Ingram@skofirm.com\)](#); [monica.braun@skofirm.com](#); [dbarberi@lexingtonky.gov](#); [Spenard, David \(KYOAG\)](#); [Hans, Jennifer \(KYOAG\)](#); [batesandskidmore@gmail.com](#)
Subject: Case No. 2012-00520: Kentucky-American Water Company
Date: Monday, March 11, 2013 3:16:38 PM
Importance: High

Ladies and Gentlemen:

Please advise specifically as to your availability to participate in a conference call tomorrow morning at 11:00 a.m. to discuss KAWC's Response to Commission Staff's Third Request for Information. Please also advise as to your availability later in the day to permit Staff to arrange a call at a later time if one or more parties are not available at 11:00 a.m.

Respectfully,

Gerald E. Wuetcher
Executive Advisor/Attorney
Public Service Commission of Kentucky
gerald.wuetcher@ky.gov
Office: (502) 564-3940
Direct: (502) 782-2590
Cell: (502) 229-6500

From: [Spenard, David \(KYOAG\)](#)
To: [Wuetcher, Jerry \(PSC\)](#); L.Ingram@skofirm.com; monica.braun@skofirm.com; dbarberi@lexingtonky.gov; [Hans, Jennifer \(KYOAG\)](#); batesandskidmore@gmail.com
Subject: RE: Case No. 2012-00520: Kentucky-American Water Company
Date: Monday, March 11, 2013 3:21:04 PM

Good afternoon.

The Attorney General will have a person available to participate on the call at 11:00AM and also a person available later in the day.

Regards,

David Edward Spenard
Assistant Attorney General

This electronic-mail message (including any information in or documents, attachments, or files that accompany the message) is for the use of the individual or entity that is the recipient of its initial transmission. Do not convey, distribute, or forward the message in the absence of permission by the sender. The message may contain confidential information that is subject to a legal privilege or that may otherwise be exempt from disclosure. If you are not the recipient of the initial transmission, or if you believe that you are in receipt of the message due to an error, or if you believe that the message may contain information inadvertently sent, then please notify this office by telephone (502-696-5453) as soon as reasonable. (If you believe that the message contains a virus, then please do not forward the message.)

Under Kentucky Rule of Evidence 503, this communication is confidential. Please do not disclose or forward the message to third persons, persons other than those to whom the initial message is sent. Unless the communication expressly indicates that it is a formal Opinion of the Office of the Attorney General under KRS 15.020, this communication does not constitute a formal Opinion. Any assessment made through this message is applicable only to the corresponding presentation of facts.

From: Wuetcher, Jerry (PSC) [mailto:JWuetcher@ky.gov]
Sent: Monday, March 11, 2013 3:17 PM
To: Lindsey W. Ingram III (L.Ingram@skofirm.com); monica.braun@skofirm.com; dbarberi@lexingtonky.gov; Spenard, David (KYOAG); Hans, Jennifer (KYOAG); batesandskidmore@gmail.com
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Direct: (502) 782-2590
Cell: (502) 229-6500

From: [Ingram III, Lindsey](#)
To: [David Barberie](#); [Wuetcher, Jerry \(PSC\)](#); [Braun, Monica](#); [Spenard, David \(KYOAG\)](#); [Hans, Jennifer \(KYOAG\)](#); batesandskidmore@gmail.com
Cc: [Jacob Walbourn](#); [Janet Graham](#)
Subject: RE: Case No. 2012-00520: Kentucky-American Water Company
Date: Monday, March 11, 2013 3:59:10 PM

11 am is fine for KAW. Anytime in the afternoon also works.

Lindsey W. Ingram III
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Lexington, KY 40507
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859-221-0997 (cell)
859-246-3672 (direct fax)
L.ingram@skofirm.com

From: David Barberie [<mailto:dbarberi@lexingtonky.gov>]
Sent: Monday, March 11, 2013 3:20 PM
To: Wuetcher, Jerry (PSC); Ingram III, Lindsey; Braun, Monica; Spenard, David (KYOAG); Hans, Jennifer (KYOAG); batesandskidmore@gmail.com
Cc: Jacob Walbourn; Janet Graham
Subject: RE: Case No. 2012-00520: Kentucky-American Water Company

11 am is fine. Afternoon from 2:30 on should also work for Lexington.

This message may contain information which is confidential or privileged and should not be disseminated to the public. If you are not the intended recipient, please advise the sender immediately by reply e-mail and delete this message and any attachments without retaining a copy. Thank you.

David J. Barberie
Managing Attorney
Lexington-Fayette Urban County Government
Department of Law (11th floor)
200 East Main Street
Lexington, Kentucky 40507
Telephone: (859)258-3500
Facsimile: (859)258-3538
dbarberi@lexingtonky.gov

From: Wuetcher, Jerry (PSC) [<mailto:JWuetcher@ky.gov>]
Sent: Monday, March 11, 2013 3:17 PM
To: Lindsey W. Ingram III (L.Ingram@skofirm.com); monica.braun@skofirm.com; David Barberie; Spenard, David (KYOAG); Hans, Jennifer (KYOAG); batesandskidmore@gmail.com
Subject: Case No. 2012-00520: Kentucky-American Water Company
Importance: High

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Direct: (502) 782-2590
Cell: (502) 229-6500

From: [Iris Skidmore](#)
To: [Wuetcher, Jerry \(PSC\)](#)
Cc: [Lindsey W. Ingram III \(L.Ingram@skofirm.com\)](#); [monica.braun@skofirm.com](#); [dbarberi@lexingtonky.gov](#); [Spenard, David \(KYOAG\)](#); [Hans, Jennifer \(KYOAG\)](#)
Subject: Re: Case No. 2012-00520: Kentucky-American Water Company
Date: Monday, March 11, 2013 8:09:57 PM

I am available tomorrow.

Sent from my iPhone

On Mar 11, 2013, at 3:16 PM, "Wuetcher, Jerry (PSC)" <JWuetcher@ky.gov> wrote:

Ladies and Gentlemen:

Please advise specifically as to your availability to participate in a conference call tomorrow morning at 11:00 a.m. to discuss KAWC's Response to Commission Staff's Third Request for Information. Please also advise as to your availability later in the day to permit Staff to arrange a call at a later time if one or more parties are not available at 11:00 a.m.

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Executive Advisor/Attorney
Public Service Commission of Kentucky
gerald.wuetcher@ky.gov
Office: (502) 564-3940
Direct: (502) 782-2590
Cell: (502) 229-6500

From: [Wuetcher, Jerry \(PSC\)](#)
To: [Lindsey W. Ingram III \(L.Ingram@skofirm.com\)](#); [monica.braun@skofirm.com](#); [dbarberi@lexingtonky.gov](#); [batesandskidmore@gmail.com](#); [Spenard, David \(KYOAG\)](#); [Hans, Jennifer \(KYOAG\)](#)
Subject: Case No. 2012-00520: Kentucky-American Water Company
Date: Tuesday, March 12, 2013 9:16:03 AM
Importance: High

Ladies and Gentlemen:

A conference call is scheduled for 11:00 a.m. this morning in the above-referenced case. To access the call, dial 502-██████████. When prompted, enter ██████████

Sincerely,

Gerald E. Wuetcher
Executive Advisor/Attorney
Public Service Commission of Kentucky
gerald.wuetcher@ky.gov
Office: (502) 564-3940
Direct: (502) 782-2590
Cell: (502) 229-6500

From: [Ingram III, Lindsey](#)
To: [Wuetcher, Jerry \(PSC\)](#); dbarberi@lexingtonky.gov; batesandskidmore@gmail.com; [Spenard, David \(KYOAG\)](#); [Hans, Jennifer \(KYOAG\)](#)
Cc: [Braun, Monica](#)
Subject: RE: Case No. 2012-00520: Kentucky-American Water Company
Date: Tuesday, March 12, 2013 9:48:41 AM

All:

As promised in the letter that was e-filed on March 9, I write to provide the following background information relating to the issues we would like to discuss during today's telephonic informal conference.

1. Commission Staff Items 11 and 14 (in Commission Staff's Third Information Request) are asking for closely related information in that KAW would need to develop the information requested in Item 11 to be able to prepare the cost of service study requested in Item 14.
2. To answer Item 11, KAW would have to perform the same type, depth and volume of work it performed internally when KAW began preparing its case last fall.
3. Like any utility, several months before filing a rate case application, KAW starts to collect and prepare the data needed to perform a cost of service study.
4. After several months of work, KAW turns that data over to its cost of service expert to do the cost of service study.
5. It takes a cost of service expert at least a couple of weeks to take the data the utility provides to him/her and then produce a cost of service study of the type KAW filed with its Application in December.
6. Items 11 and 14 are essentially asking KAW to prepare two new cases (one for each division) within an existing case, without any advance knowledge that KAW was going to be asked to provide division-specific data.
7. KAW estimates that, at the very best, it will take 4 weeks from the time it starts working on this to get to a point where any sort of response could be produced. But that response will not be as credible as the existing cost of service study. This is because KAW does not keep division-specific data that would enable it to generate division-specific cost of service on short notice. In other words, it is impossible for KAW to provide answers to Items 11 and 14 without, in essence, preparing two new rate cases that would have to be based on data that KAW does not currently have.
8. KAW has obtained a verbal estimate from Paul Herbert (its cost of service expert) to do the work requested and it is in the range of \$30,000 to \$40,000.
9. KAW estimates that it would involve more internal time and effort than any other data response it has ever prepared in any rate case, because these questions are essentially asking to build the foundation for two new rate cases based on data that KAW has not tracked for years (division specific data).

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859-221-0997 (cell)
859-246-3672 (direct fax)
L.ingram@skofirm.com

From: Wuetcher, Jerry (PSC) [mailto:JWuetcher@ky.gov]
Sent: Tuesday, March 12, 2013 9:16 AM
To: Ingram III, Lindsey; Braun, Monica; dbarberi@lexingtonky.gov; batesandskidmore@gmail.com; Spenard, David (KYOAG); Hans, Jennifer (KYOAG)
Subject: Case No. 2012-00520: Kentucky-American Water Company
Importance: High

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Sincerely,

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Cell: (502) 229-6500

From: [Wuetcher, Jerry \(PSC\)](#)
To: [Lindsey W. Ingram III \(L.Ingram@skofirm.com\)](#)
Cc: [batesandskidmore@gmail.com](#); [dbarberi@lexingtonky.gov](#); [Spenard, David \(KYOAG\)](#); [Hans, Jennifer \(KYOAG\)](#)
Subject: Case No. 2012-00520: Kentucky-American Water Company
Date: Tuesday, March 12, 2013 12:21:29 PM

Mr. Ingram:

Based upon the discussion this morning, it appears that Kentucky-American Water Company is requesting one of the three alternatives: relief from the obligation to respond to Questions 11 and 14 of Commission Staff's Third Request for Information; additional time and modification of the existing procedural schedule to permit a full response to the those questions; or clarification of the information requested and a ruling that Kentucky-American Water Company may submit its best available information in response to the questions in lieu of preparing and providing a cost-of-service study on and separate rate base and capital structure information for its Northern and Central Divisions.

As any of these alternatives requires an Order from the Commission, the most appropriate means for KAWC to place this the matter before the Commission is by motion. I suggest that KAWC file a motion as soon as possible.

Sincerely,

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To: [Wuetcher, Jerry \(PSC\)](mailto:Wuetcher, Jerry (PSC)@ky.gov)
Cc: batesandskidmore@gmail.com; dbarberi@lexingtonky.gov; [Spenard, David \(KYOAG\)](mailto:Spenard, David (KYOAG)@ky.gov); [Hans, Jennifer \(KYOAG\)](mailto:Hans, Jennifer (KYOAG)@ky.gov)
Subject: RE: Case No. 2012-00520: Kentucky-American Water Company
Date: Tuesday, March 12, 2013 3:22:56 PM

Thank you Jerry. We will prepare and file a motion as soon as possible.

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From: Wuetcher, Jerry (PSC) [<mailto:JWuetcher@ky.gov>]
Sent: Tuesday, March 12, 2013 12:21 PM
To: Ingram III, Lindsey
Cc: batesandskidmore@gmail.com; dbarberi@lexingtonky.gov; [Spenard, David \(KYOAG\)](mailto:Spenard, David (KYOAG)@ky.gov); [Hans, Jennifer \(KYOAG\)](mailto:Hans, Jennifer (KYOAG)@ky.gov)
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