

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-
AMERICAN WATER COMPANY FOR AN) CASE NO.
ADJUSTMENT OF RATES) 2015-00418

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

Kentucky-American Water Company ("KAWC"), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium, one paper copy, and an electronic version of the following information. The information requested herein is due on or before ten days from the date of this request. Responses to requests for information in paper medium 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.

KAWC 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 KAWC fails or refuses to furnish all or part of the requested information, KAWC 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. When filing a paper containing personal information, KAWC shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. KAWC proposes to increase its tap fees based on a three-year average cost of the meter installations. Calculate the amount of tap fees using a five-year average cost of installation in the manner KAWC has used in the two most recent KAWC rate applications.

2. KAWC proposes to bill a flat monthly service charge for the various customer meter sizes.

a. Does KAWC prorate the monthly service charge?

b. If the response to Item 2.a. is yes, explain in detail KAWC's billing policies concerning proration of the monthly customer service charge.

3. At page 3 of his direct testimony, John Wilde states that "the guidance that has been issued most recently by the IRS supports the caution that was taken by the Company recording the liability for uncertain tax positions."

a. Provide a copy of the IRS guidance that Mr. Wilde has referenced and explain how this guidance impacts KAWC's FIN 48 deferred income tax liability.

b. Provide a calculation showing how this IRS guidance would impact KAWC's forecasted FIN 48 deferred income tax liability.

4. At page 3 of his direct testimony, Mr. Wilde states, "The Company expects to file a revised tax accounting method change for repairs with its 2015 tax return, reflecting what guidance the IRS has issued on the subject of repairs. This change will cause the liability measured for one uncertain tax position related to meters to be realized."

a. Provide a detailed explanation of the revised tax accounting change for repairs that KAWC is filing with its 2015 tax return.

b. Provide copies of the guidance that the IRS has issued on the subject of repairs.

c. Provide the calculations showing how KAWC's revised tax accounting method change for meters will impact KAWC's forecasted FIN 48 deferred income tax liability. Explain whether this impact has been reflected in KAWC forecasted rate base.

d. Provide an analysis that compares KAWC's FIN 48 deferred income tax liability for the calendar years 2010 through 2015, the base year, and the forecasted test year. The FIN 48 deferred income tax liability should be broken down by category.

e. Has the statute of limitations on KAWC's FIN 48 deferred income tax liability expired? If not, state when it will expire.

5. List and provide a copy of each state utility regulatory commission decision or opinion in which the ratemaking treatment of a reserve created to meet the requirements of (Financial Accounting Standards Board Interpretation No.) FIN 48 is discussed. This listing should include the name of the state commission, case number, case style, and date of decision or opinion.

6. At pages 16–17 of her direct testimony, Andrea Crane explains that the purpose of a lead/lag study is to determine how much cash is required by the utility to operate its business. Ms. Crane believes that the noncash items should be excluded from KAWC's lead/lag study or that the zero lag days should be modified. For each noncash item listed below included in KAWC's lead lag study at zero days, explain in detail why it should be included in the lead/lag study and why zero lag days are appropriate.

- a. Depreciation Expense;
- b. Amortization Expense; and
- c. Deferred Income Taxes.

7. At page 17 of her direct testimony, Ms. Crane states that a lead/lag study that includes net income with a zero lag clearly overstates a utility's cash working capital requirement. Provide a detailed explanation as to why it is appropriate to include net income in KAWC's lead/lag study with a zero lag.

Aaron D. Greenwell

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cc: Parties of Record

Case No. 2015-00418

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