

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-	)	
AMERICAN WATER COMPANY FOR AN	)	
ADJUSTMENT OF RATES, A CERTIFICATE OF	)	
PUBLIC CONVENIENCE AND NECESSITY FOR	)	CASE NO.
INSTALLATION OF ADVANCED METERING	)	2023-00191
INFRASTRUCTURE, APPROVAL OF	)	
REGULATORY AND ACCOUNTING	)	
TREATMENTS, AND TARIFF REVISIONS	)	

COMMISSION STAFF'S THIRD 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 an electronic version of the following information. The information requested is due on September 21, 2023. The Commission directs Kentucky-American to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the question to which the response is made and 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 the

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<sup>1</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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 Kentucky-American obtains information that indicates the response was incorrect or incomplete when made or, though correct or complete when made, is now incorrect or incomplete 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 respond completely and precisely.

Careful attention shall be given to copied and scanned 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 applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Kentucky-American shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the Application, Exhibit 3, page 52.
  - a. Provide the adjustment to remove the roll-in of the Qualified Infrastructure Program (QIP) into base rates. Provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

b. Provide the plant in service, accumulated depreciation, accumulated deferred income taxes, and any expenses related to the QIP in the base and forecasted test periods in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

2. Refer to the Application, Exhibit 37, Schedule B-4.

a. Provide the amount of Allowance for Funds Used During Construction (AFUDC) included in Plant in Service for projects included in rate base as Construction Work in Progress (CWIP) in previous rate cases. Provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

b. Provide the 13-month average amount of AFUDC included in rate base as CWIP for the forecasted test period. Provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

3. Refer to the Application, Exhibit 37, Schedule B-1 and C-1.

a. Explain why Kentucky-American believes its treatment of AFUDC does not overstate rate base and revenues.

b. In the same format as the Application, Exhibit 37, Schedule B-1 and C-1, provide the rate base and revenues for the base and forecasted periods that would result from removing AFUDC from CWIP and not adjusting revenues for the return on AFUDC. Provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

c. Provide an adjusted revenue requirement in the format of the Application, Exhibit 37, Schedule A-1, using the rate base and revenues from part (b) above. Provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

4. Refer to the Application, Exhibit 37, Schedule C-2, line 334. Explain what is included in the discount's available expenses. Include in the explanation why the base year has a (\$108,259) amount.

5. Refer to the Application, Direct Testimony of Jeffrey Newcomb, page 29. Provide the cash expenditures for Pension and Other Post-Retirement Employment Benefits for 2014-2022.

6. Provide the adjustment to remove plant and expenses related to advanced metering infrastructure (AMI). Provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

7. Provide the number of occurrences and the dollar amount for Forfeited Discounts/Late Fees that were reported in the general ledger during the base year and the anticipated amount at the end of the forecasted test year.

8. Provide the total amount recorded in the general ledger and account number for each nonrecurring charge during the base year and the anticipated amount at the end of the forecasted test year.

9. Provide the total number of occurrences for each nonrecurring charge assessed during the base year and the anticipated amount at the end of the forecasted test year.

10. Provide an updated cost justification sheet for each nonrecurring charge listed in Kentucky-American's tariff.

11. a. Provide the date that Kentucky-American billing cycle begins (meter read date).

b. State whether the date that the billing cycle begins is the date that would be best stated as the effective date of any order the Commission issues concerning rates in this case.

12. Refer to the Application, Exhibit 37, Schedule M, Billing Analysis for current and proposed rates.

a. Provide the billing analysis in Excel Spreadsheet format with all formulas, rows and columns unprotected and fully accessible.

b. Provide a list of applicable billing adjustments made to the billing analysis and include an explanation of each adjustment.

13. Refer to Kentucky-American's response to Commission Staff's Second Request for Information (Staff's Second Request), Item 11. Explain when Kentucky-American expects the request for proposal (RFP) for the installation labor to be completed.

14. Refer to Kentucky-American's response to Staff's Second Request, Item 13.

a. Explain how the Consumer Pricing Index (CPI) is relevant to AMI meters.

b. Explain, when considering only AMI, if Kentucky-American considered any other inflation indexes to adjust for inflation.

15. Refer to Kentucky-American's response to Staff's Second Request, Item 16. Explain how Kentucky-American plans on addressing, in year 11 of installation, the cellular AMI meters that were installed in 2024 and have a 10-year useful life.

16. Refer to Kentucky-American's response to Staff's Second Request, Item 17.

a. Explain whether Kentucky-American is using a 20-year net present value (NPV) to keep costs down for its customers or is it due to revenue benefits not appearing until year 11.

b. Explain and compare the potential benefits of installing the AMI meters over a 3-year period and over a 5-year period, as compared with installing over the proposed 10-year period. Include in the response the estimated cost differential and estimated cost impact to customers for each scenario.

17. Refer to Kentucky-American's response to Staff's Second Request, Item 35, which was non-responsive. Provide the most recent awarded ROEs for each utility used in the proxy group.

18. Refer to Kentucky-American's response to Staff's Second Request, Item 40.

a. Given that Kentucky-American has not issued preferred stock since December 1991, explain why Kentucky-American is proposing to decrease the preferred stock from 0.50 percent to 0.38 percent.

b. Refer also to Exhibit 37, Schedule J-5. Reconcile the discrepancy that Kentucky-American issues its preferred stock in December 1991 or on January 24, 1992.

c. Confirm whether Kentucky-American is still issuing a 15 percent discount common stock option to its employees and if so, explain how the discount amount is being recovered by Kentucky-American.

d. Explain a scenario when Kentucky-American would issue common stock over debt.

19. Refer to Kentucky-American's response to Staff's Second Request, Item 41.

a. Confirm that the Equity Infusions from 2019–2023 were from Kentucky-American's parent company American Water Company (American Water).

b. Explain the frequency that American Water raises debt and makes equity purchases to its subsidiaries and to Kentucky-American.

c. Explain what purposes Kentucky-American used the \$120,016,287 million in Equity Infusions.

d. Explain how much ownership interest American Water currently has in Kentucky-American.

20. Refer to Kentucky-American's response to Attorney General's First Request for Information (Attorney General's First Request), Item 33b. Kentucky-American states that the Dollar Energy Fund has sustained an unusually high balance of funds for the last two years.

a. Explain the need for a Universal Affordability Tariff if the Dollar Energy Fund is maintaining a high balance.

b. Provide the Balance for funds for the last five years.

c. Explain whether Kentucky-American expects there to be a high balance again this year.

21. Refer to Kentucky-American's response to Attorney General's First Request, Item 38b.

a. Explain whether Kentucky-American selected a third-party vendor to conduct income verification for the proposed Universal Affordability program and to manage the program. If yes, provide the name of the third-party vendor.

b. Explain the costs associated with the third-party vendor to conduct income verification for the proposed Universal Affordability program and to manage the program. If the actual cost is unknown, please provide the estimated cost.

22. Refer to Kentucky-American's response to Staff's Second Request, Item 80a and to Kentucky-American's response to Attorney General's First Request, Item 31.

a. Explain whether the District Metering Area (DMA) vault discussed in response to Staff's Second Request, Item 80a is the same equipment as the new and larger meter discussed in response to Attorney General's First Request.

b. If there is a difference, provide the cost to install the new and larger meters to each of the Kentucky-American special connections.

23. Refer to Kentucky-American's response to Staff's Second Request, Item 80 and to Kentucky-American's response to Attorney General's First Request, Item 31.

a. Explain whether a special connection requires approval from Kentucky-American before the special connection customer expands its private water



lines. If yes, provide a list of what special connections have requested an extension, and if granted, when it was granted for the last ten years.

b. Provide, if possible, the estimated percentage of Kentucky-American's water loss that is attributable to special connections and show how Kentucky-American calculated this estimate.

c. Explain whether Kentucky-American has ever considered ending the special connections with property owners and purchase the private lines. If so, explain the reasoning for not initiating the change. If not considered, explain why not.

24. Refer to Kentucky-American's response to Staff's Second Request, Item 55 and Kentucky-American's response to Lexington Fayette Urban County Government's First Request for Information (LFUCG's First Request), Item 43. Reconcile the difference in the usage numbers provided.

25. Refer to Kentucky-American's response to Staff's Second Request, Item 2, which was non-responsive. Refer to the Application, Exhibit 37 and Kentucky-American's response to Commission Staff's First Request for Information, Item 1.

a. For each pro forma line-item adjustment in the forecasted income statement, provide a detailed explanation of how each pro forma adjustment was developed and made for the instant case, along with how Kentucky-American calculated the same pro forma adjustment in the prior rate Case No. 2018-00358.<sup>2</sup> For each instance where a change was made in the methodology approach in calculating the pro

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<sup>2</sup> Case No. 2018-00358, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates*.

forma from the prior case, explain the reasoning for the change in approach and why it was appropriate in the instant case.

b. For each pro forma line-item adjustment in the forecasted rate base, provide a detailed explanation of how each pro forma adjustment was developed and made for the instant case, along with how Kentucky-American calculated the same pro forma adjustment in the prior rate Case No. 2018-00358. For each instance where a change was made in the methodology approach in calculating the pro forma from the prior case, explain the reasoning for the change in approach and why it was appropriate in the instant case.

c. State whether Kentucky-American incorporated CPI in its proposed pro forma adjustments in Case No. 2018-00358. If not, explain why Kentucky-American believes it is appropriate to incorporate the index into the adjustments in the instant case.

26. Refer to Kentucky American's response to Staff's Second Request, Item 2. Kentucky-American states that it continuously develops and improves its forecasting capabilities, but that it does not track or maintain a compendium of ever change to its assumptions or methodology over time.

a. Explain what improvements and changes Kentucky-American made to its forecasting process since its last rate case and how these improvements and changes impacted the forecast in the instant case.

b. Explain why Kentucky-American does not maintain changes and modifications made to its forecasting assumptions and methodologies over time, especially between rate case.

27. Refer to Kentucky-American's response to Staff's Second Request, Item 4. Reconcile Kentucky-American's response with 807 KAR 5:006, Section 7(3).

28. Refer to Kentucky-American's response to Staff's Second Request, Item 22. Provide details of the deferred maintenance additions.

29. Refer to Kentucky-American's response to Staff's Second Request, Item 60.

a. In response to Staff's Second Request, Item 60a, Kentucky-American did not answer the question via yes or no. Confirm that the MHI for the Company's service territory as presented in the exhibit is based solely on owner-occupied and single-unit renter occupied homes.

b. In response to Staff's Second Request, Item 60c, Kentucky-American did not provide the percentage of owner-occupied homes. Provide the percentage of owner-occupied and single-unit renter occupied homes.

c. Provide the number of customers Kentucky-American serves with a connection within the city limits of:

- (1) Winchester;
- (2) Paris;
- (3) Versailles;
- (4) Frankfort;
- (5) Midway;
- (6) Stamping Ground;
- (7) Corinth;
- (8) Mount Vernon;

(9) McKee.

d. Explain why Kentucky-American did not use census data for information on customers in multi-unit renter occupied housing.

30. Refer to Kentucky-American's response to Staff's Second Request, Item 61a, which was non-responsive. Explain the basis for the increase in MHI shown in Chart 1, not the basis for the number.

31. Refer to Kentucky-American's response to Staff's Second Request, Item 63. Explain why Kentucky-American chose to use a lower base water amount than the amount recommended in the cited article.

32. Refer to Kentucky-American's response to Staff's Second Request, Item 67a.

a. Provide the source of the data provided in the table.

b. Explain whether the MHI in this table represent all occupied housing (single and multiunit) in each zip code. If not, explain what it represents.

33. Refer to Kentucky-American's response to Staff's Second Request, Item 68.

a. Provide the calculations for the amount in the table.

b. Provide the supporting documentation showing that the average household size is 2.5 persons in Kentucky-American's service area.

34. Refer to Kentucky-American's response to Staff's Second Request, Item 77.

a. Have there been any changes to the number of meter readers in the last five years.

b. Explain if Kentucky-American is proposing a change in the number of meter readers in the next ten years.

35. Refer to Kentucky-American's response to Staff's Second Request, Item 78a. Confirm there have been no employees dedicated full-time to identifying and reducing the amount of unaccounted-for water loss for the past ten years.

36. Refer to Kentucky-American's response to Staff's Second Request, Item 78c. Kentucky-American states that it purchased portable ultrasonic flow meters to audit special connections and commercial/industrial fire connections to Kentucky-American's distribution system. Provide the results of the audits that have been conducted.

37. Refer to Kentucky-American's response to Staff's Second Request, Item 81b.

a. In previous years, state whether the University of Kentucky approached Kentucky-American about taking over their private mains to eliminate that special connection.

b. If so, explain if Kentucky-American explored that further. If not, explain why.

38. Refer to Kentucky-American's response to Staff's Second Request, Item 86.

a. State whether Kentucky-American has asked for an increase in the number of employees to focus on water loss. If not, explain why.

b. State whether Kentucky-American is aware of the Commission's final Order in Case No. 2019-00041.<sup>3</sup>

c. Concerning water loss, explain if Kentucky-American believes it should be held to a lower standard than other, small water utilities in the state.

39. Refer to Kentucky-American's response to Staff's Second Request, Item 88a. Explain why non-cash working capital should be included in working capital.

40. Refer to Kentucky-American's response to Staff's Second Request, Item 88c.

a. Identify the person that can provide each American-Water affiliate that has been authorized to include non-cash items in Working Capital for rate purposes.

b. Identify the specific noncash items that have been authorized for each affiliate.

c. Cite to the language quoted in the Order in Case No. 2018-00358.

41. Refer to Kentucky-American's response to Staff's Second Request, Item 90. State how much of the Annual Performance Plan is based on a financial metric for each category listed.

42. Refer to Kentucky-American's response to Staff's Second Request, Item 91. Provide the purchased power expense by power provider for the last five years.

43. Refer to Kentucky-American's response to Staff's Second Request, Item 92.

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<sup>3</sup> Case No. 2019-00041, *Electronic Investigation Into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Order.

a. Provide the annual salary and annual performance plan pay for each of the Kentucky-American executive team for the last five years. This should include anyone with a title of President, Vice-President, or Director.

b. If they were, or currently an employee of the American Water or its service company and assigned to the Kentucky-Tennessee region, located in Kentucky, or had a business address in Kentucky, provide the amount paid to the employee in total and include the amount allocated to Kentucky-American. This should include anyone with a title of President, Vice-President, or Director.

44. Refer to Kentucky American's response to LFUCG's First Request, Item 48. Kentucky-American states that a 12-month rolling, annual, or multi-year water loss percentage would be an appropriate indicator of non-revenue water (NRW). Explain whether a 12-month rolling, annual percentage is used in other American Water jurisdictions to assess NRW. If so, please provide a list of the jurisdictions this approach is used.

45. Refer to Kentucky American's response to LFUCG's First Request, Item 53. Kentucky American states that when considering investment opportunities, American Water invests its capital where it receives the most favorable treatment. Also, Kentucky-American states that it has had difficulty securing proactive capital funding from American Water. State whether Kentucky-American's assertion is that American Water is not adequately supporting the infrastructure needs of the Kentucky-American system. Explain.

46. Refer to Kentucky-American's response to LFUCG's First Request, Item 91. Also, refer to Kentucky-American's response to LFUCG's First Request, Item 92. Kentucky-American states that in 2025, it anticipates an additional \$21,069,495 in QIP expenses for the 14 additional miles of main replacement under the proposed QIP expansion. This would equate to an approximate QIP cost of \$285 per linear foot. Kentucky-American stated that based on its recent QIP Year 3 costs, the linear foot cost would be \$331. Explain and reconcile why the proposed additional 2025 costs would come in below the \$331 estimate.

A handwritten signature in blue ink, consisting of a large, stylized 'L' followed by a cursive 'C' and 'B', and the initials 'RR' to the right.

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DATED SEP 07 2023

cc: Parties of Record



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