COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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AUG 03 2012

PUBLIC SERVICE COMMISSION

In the Matter of:

TARIFF FILING OF KENTUCKY-AMERICAN)	
WATER COMPANY TO ESTABLISH A)	CASE NO. 2012-00155
LATE PAYMENT FEE)	

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

Kentucky-American Water Company provides the attached responses to Commission Staff's July 12, 2012 Supplemental Request for Information.

Respectfully submitted,

STOLL KEENON OGDEN PLLC 300 West Vine Street, Suite 2100 Lexington, Kentucky 40507-1801 Telephone: (859) 231-3000

Monica D. Braun

By:

Lindsey W. Ingram III Monica H. Braun

Attorneys for Kentucky-American Water Company

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing has been served by U.S. Mail delivery, postage prepaid, to the following parties on this 3rd day of August, 2012:

Jennifer Black Hans, Esq.
David Edward Spenard, Esq.
Office of the Attorney General
Office of Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601

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

David J. Barberie, Esq. Department of Law 200 East Main Street Lexington, Kentucky 40507

By: Marica G. Braun

Attorney for Kentucky-American Water Company

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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TARIFF FILING OF KENTUCKY-AMERICAN)	
WATER COMPANY TO ESTABLISH A)	CASE NO. 2012-00155
LATE PAYMENT FEE)	

CERTIFICATION OF RESPONSES TO INFORMATION REQUESTS

This is to certify that I have supervised the preparation of Kentucky-American Water Company's Responses to Commission Staff's July 12, 2012 Supplemental Requests for Information and that the responses are true and accurate to the best of my knowledge, information and belief formed after reasonable inquiry.

Date: 8/2/2012

Linda Bridwell

Manager, Rates and Regulation

Kentucky-American Water Company

Witness: Linda C. Bridwell / Melissa Schwarzell

Question:

- 1. Refer to Kentucky-American's Application, Exhibit 4.
 - a. Provide a net investment rate base, and capital structure, for the calendar year 2011. Provide all documents, state all assumptions, and show all calculations that Kentucky-American uses to prepare its response.
 - b. Using Kentucky-American's response to Item 1 (a), the projected revenue from the late payment fee, and adjusting net operating income to include Allowance for Funds Used During Construction ("AFUDC"):
 - (1) Calculate Kentucky-American's overall return on rate base and return on capital structure for the calendar year 2011
 - (2) Provide a comparison of the returns calculated in Item l(b)(l) to the overall cost of capital that the Commission authorized in Case No. 2010-00036.*
 - c. Using Kentucky-American's response to Item l(a) and the projected revenue from the late payment fee, adjusting net operating income to include AFUDC, and eliminating the one-time, non-utility income tax benefit associated with Kentucky-American's transfer of Jacobson Park to Lexington-Fayette Urban County Government (LFUCG):
 - (1) Calculate the overall return on rate base and return on capital structure for the calendar year 2011.
 - (2) Provide a comparison of the returns calculated in this response to the overall cost of capital authorized in Case No. 2010-00036.
 - d. Kentucky-American is adjusting Net Income to Common Stock to eliminate the "One-Time Non-Utility Income Tax Benefit" of the Jacobson Park transfer to LFUCG by \$4,472,156.
 - (1) Provide all documents, state assumptions, and show all calculations Kentucky-American used to calculate the state and federal income tax benefits from the Jacobson Park transfer to the LFUCG.
 - (2) Explain in detail why Kentucky-American is proposing to eliminate the "One-Time Non-Utility Income Tax Benefit" of the Jacobson Park transfer to the LFUCG.

- (3) Explain why it is not more appropriate to amortize the income tax benefits rather than to totally eliminate the benefits from net operating income.
- e. Provide documentation to support Kentucky-American's contention that only 25 percent of the Jacobson Park Income Tax benefit will affect retained earnings.

- A.-B. Please see the first attachment.
- C. See response to part B.
- D. 1) Please see the second attachment.
 - 2) Kentucky American was not attempting to propose ratemaking treatment for the Jacobson donation in its application for a late fee tariff, but was merely identifying some of the below the line activity that was displayed on the financial statements in Exhibit 4, for explanatory purposes.
 - 3) Kentucky American is not proposing one ratemaking treatment or another in this application, but rather made note of these transactions in order to provide some explanation of the activity on the Exhibit 4 financial statements
- E. This was a high-level assumption. In actuality, Kentucky American must not exceed a 45% equity ratio, and dividend payments can fluctuate in order to prevent excess equity.

Kentucky American Water Case No. 2012-00155 PSC DR2 1A Net Investment Rate Base 13 Mos Ended December 2011 Exclude Sewer Items & Use Working Capital Per Authorization Case 2010-00036

Net Plant		13 Month Average	Assumptions: (Except where note, these are Total Utility 13 Month Averages less Sewer Utility 13 Mo Averages)
Utility Plant in Service	\$	568,557,703	Balance Sheet Line 1, UPIS, less AFUDC Debt & Property Held for Future Use
Utility Plant Acquisition Adjustments	₩	255,536	Balance Sheet Line 4, UPAA
Construction Work in Progress	❖	6,630,632	Balance Sheet Line 2, CWIP
Accumulated Depreciation	₩	(113,968,880)	Balance Sheet Line 3, Accum Dep. + Account 256250
	Net Plant \$	461,474,990	
Additions			
*Working Capital Allowance	\$	1,729,000	*From Final Order Case 10-00036
Other Working Capital Allowance	❖	678,688	Balance Sheet Line 17, Materials & Supplies
Deferred Maintenance	❖	2,769,251	Account 186401 Deferred Maintenance (no Sewer Amounts)
Deferred Debits	⋄	1,683,861	Account 186598
	S	6,860,800	
Deductions			
Contributions in Aid of Construction	₩	48,449,481	Balance Sheet Line 62
Customer Advances	€	12,461,227	Balance Sheet Line 55
			Balance Sheet Line 56 + (Balance Sheet Line 58 less Account 256250) - Balance Sheet Line 26
Deferred Income Taxes	₩	60,371,682	(no Sewer Amounts)
Deferred Investment Tax Credits	€	75,044	Account 255101, Unamortized ITC-3%
			Account 234200 Accts Pay-Contract Ret + Account 241234 Unclaimed Ext Dep Refund Pay + Account
Other Rate Base Elements	\$	114,979	262120 DCA-Accr Pension Def Benefit
	₩	121,472,413	
Net Rate Base	49	346,863,378	

Kentucky American Water Case No. 2012-00155 PSC DR2 1A

Capital Structure 13 Month Average December 2010 - December 2011

Notes	Cost Per Analysis of Income, Line P58 Cost Per Analysis of Income, Accts 810100, 810400, 820100, 820110 Cost Per Analysis of Income, Accts 860040 & 755201, Plus Line 64 Cost Authorized Case No. 2010-00036	
% Cost Weight Weighted Cost	0.02% 3.06% 0.13% 4.31%	1
Veight	5.09% 48.77% 1.72% 44.42%	
% Cost	0.41% 6.27% 4 7.73% 9.7% 4	
Cost	72,584 10,567,864 459,547	
13 Mo Average	17,591,971 \$ 168,605,385 \$ 5,945,600 \$	345,702,042
Desceription	ebt \$ chistory	\$

7.52%

Overall Weighted Cost of Capital

Kentucky American Water Case No. 2012-00155

PSC DR2 1B

Comparison of Rate of Return Adjusted for AFUDC & Late Payment Revenue vs. Authorized

Authorized Capital Structure Per Case 2010-00036 7

Page 60 for Weight, Page 71-72 for Costs

10000	Weight	ŏ	st	Cost Weighted Cost
Describing		70777 C	1 00%	%50 O
Short Term Debt		6///0.7	T.30/0	2000
Long Torm Dobt		51.921%	6.38%	3.31%
רחום ובווון הכתר		1 6470/	7 7/0/	0.13%
Preferred Stock		T.04170	1.14%	
L		43.855%	9.70%	4.25%
Common Equity				
	Overall Auth	Overall Authorized Rate of Return	of Return	/./4%

Calculate Utility Operating Income, Adjusted for AFUDC and Projected Late Payment Revenue 7)

	Amount	Notes
		11 004 CACC - 14 C A C I I I I
	\$ 24 555 310	Per Exhibit 4, Case No. 2012-00155
Utility Operating Income	010/00/17	
	000 000	2012-0115 A Casa No. 2012-00155
Adjustmont to Add AFIIDC	S 412,080	TELEVILLE, CASC 140: FOTE COTO
Adjustified to Add Africa		7. L.
Administration And Draincted Late Dayment Fee Revenue	5 669,467	Per exhibit 3, Case NO. 2012-00133
Adjustitient to Add Frojected cate i aprilent control of	١	
Company of the Control of the Contro	¢ 25.636.857	
Adjusted Utility Operating income		

Calculate Adjusted Rates of Return on Rate Base and Capitlal Strucutre and Compare to Authorized Rate of Return 3)

Variance		-0.35%	Variance			-0.33%
Vs Authorized		7.74%	Vs Authorized			7.74%
As Calculated	\$ 25,636,857 \$ 346,863,378	7.39%	As Calculated	\$ 25,636,857	\$ 345,702,042	7.42%
2011 Adjusted Rate of Return on Rate Base	Adjusted Utility Operating Income Rate Base	Adjusted Return on Rate Base	2011 Adjusted Rate of Return on Capital Structure	Adjusted Utility Operating Income	Capital Structure	Adjusted Return on Capital Structure

Kentucky American Water Cause 2012-00155 PSC DR2 1D1

Calculation of Tax Benefit for Jacobson Park Donation

Estimated Restricted Use Value	\$ 11,480,000
Cash Donation for Main Entrance	35,000
Appraisal Fee	2,000
Original Book Value of Land	(20,455)
Deduction	\$ 11,496,545
Tax Rate	38.9%
Calculated Tax Benefit	\$ 4,472,156

Witness: Melissa Schwarzell

Question:

- 2. Refer to the Application, Exhibit 5.
 - a. Provide a net investment rate base, capital structure, and statement of income for Kentucky-American for the 12-month budget period ending December 31, 2012. Provide all documents, state all assumptions, and show all calculations that Kentucky-American used to prepare its response.
 - b. Using Kentucky-American's response to Item 2(a), the projected revenue from the late payment fee, and adjusting net operating income to include AFUDC:
 - (1) Calculate the overall return on rate base and return on capital structure for the 12-month budget period ending December 31, 2012.
 - (2) Provide a comparison of the returns calculated in response to Item 2(b)(l) to the overall cost of capital that the Commission authorized in Case No. 2010-00036.

Response:

Please see the attachment.

Kentucky American Water

Case No. 2012-00155

PSC DR2 2A

Net Investment Rate Base Per 2012 Operating Budget, 13 Month Average Exclude Sewer Items & Use Working Capital Per Authorization Case 2010-00036

Acceptance of the District of	13	13 Month Budgeted Average December 2011 - December 2012	Assumptions: (Except where note, these are Total Utility 13 Month Averages less Sewer Utility 13 Mo Averages)
Net right			Balance Sheet Line 1, UPIS (less AFUDC Debt & Property Held for Future Use, for which June 2012 actual balance used not
Utility Plant in Service Utility Plant Acquisition Adjustments Construction Work in Progress Accumulated Depreciation Net Plan	ant &	591,303,133 255,000 10,056,846 (122,466,615) 479,148,364	budgeted separately) Balance Sheet Line 4, UPAA Balance Sheet Line 2, CWIP Balance Sheet Line 3 Accumulated Depreciation & Balance Sheet Line Cost of Removal

Additions *Working Capital Allowance Other Working Capital Allowance Deferred Maintenance Deferred Debits	w w w w	1,729,000 426,769 3,664,385 1,682,000 7,502,154	*From Final Order Case 10-00036 Balance Sheet Line 17, Materials & Supplies Account 186401 Deferred Maintenance Account 186598 Other Reg Assets
Deductions Contributions in Aid of Construction Customer Advances Deferred Income Taxes Deferred Investment Tax Credits	ፁ ቀ	50.040,769 12.695,692 49,122,308 75,000	Balance Sheet Line 62 CIAC Balance Sheet Line 55 Customer Advances Balance Sheet Line 55 Deferred Income Taxes + - Balance Sheet Line 26 Income Tax Recovery (in budget, this encompasses Balance Sheet Line 58 less Cost of Removal) Account 255101, Unamortized ITC-3% Account 234200 Accts Pay-Contract Ret + Account 262120 DCA-Accr Pension Def Benefit + Account
Other Rate Base Elements	↔	(716,900)	241234 Unclaimed Ext Dep Refund Pay (used June 2012 balance for 241234 not budgeted separately)
Net Rate Base	↔	375,433,649	

^{*}Balance Sheet Line #'s are JDE reference. Hyperion is used for Balance Sheet Budgeting and Line #'s Are Not Relevant to Hyperion

Kentucky American Water Case No. 2012-00155 PSC DR2 2A Capital Structure Per 2012 Operating Budget

Description	13	13 Mo Average		Cost	% Cost	Weight	Weight Weighted Cost	Notes
Short Term Debt	\$	4,869,231	\$	54,175	1.11%	1.11% 1.35%	0.02%	Cost Per Budgeted Income Statement, "Interest on Bank Debt" Cost Per Budgeted Income Statement, Interest on Long Term Debt +
Long Term Debt		\$ 191,466,462 \$	ب	11,978,311	6.26%	53.16%	3.33%	Amortization of Debt Expense Cost Per Budgeted Income Statement, Preferred Dividend + Preferred
Preferred Stock	\$	5,946,000	\$	457,038	7.69%	.69% 1.65% 9.7% 43.84%	0.13%	Stock Debt Payments Cost Per Authorized Case No. 2010-00036
Garage Control of the	٠ د	360,164,385		Overall Wo	eighted Cos	Overall Weighted Cost of Capital	7.72%	

Kentucky American Water 2012 Budgeted Income Statement Sewer Business Units Excluded Case No. 2012-00155 PSC DR2 2A

Part	Year Line	Line # Line # Description	Object	Account Description	Jan	Feb	Mar	Apr	May	Jun	Inf	Aug	Sep	ğ	- 1	Dec	Sum
Other Revenues S220,000 S220,000 S277,000 S151,100 S161,175 S17,101 S17,118 S185,188 S161,178 S17,118 S161,178 S161,178 S17,118 S161,178 S161,178 S17,118 S17,118 S161,178 S17,118 S17,118 S161,178 S17,118	-	Water Revenues			-\$6,380,719	-\$6,031,802	-\$5,921,888	-\$6,247,414	-\$6,522,354	-\$7,059,828	1 1	\$7,932,159	- 1	- 1	-\$6,478,588	-\$6,009,323	-\$81,579,158
	P03	П														200	72000
Authority State	P04	Γ			-\$230,000	-\$249,000	-\$277,000	-\$125,000	-\$151,375	-\$161,375	-\$167,375	-\$187,375	-\$178,375	-\$177,183	-\$185,183	-\$167,183	-52,256,424
Particle of Water Particle of	P08	Γ			\$643,225	\$605,524	\$631,446	\$612,676	\$670,498	\$618,417	\$648,137	\$669,282	\$590,244	\$674,165	\$674,892	\$648,776	57,687,282
Demicial Point Sign Sig	608	Т			\$37,272	\$27,306	\$25,211	\$26,382	\$30,069	\$25,866	\$26,026	\$30,518	\$27,510	\$30,225	\$26,359	\$27,399	\$340,143
Chemicals Che	120	Т			\$310,979	\$291,345	\$291,714	\$286,533	\$313,903	\$392,728	\$397,792	\$406,838	\$375,261	\$353,165	\$316,012	\$294,037	\$4,030,307
Warsepingeral Warse Pigeoral Warse	1	Т			\$129,384	\$123,738	\$139,661	\$130,823	\$163,363	\$161,370	\$176,576	\$237,011	\$159,170	\$163,692	\$128,510	\$141,925	\$1,855,223
Management FreeCorporate S666,090 S646,040 S668,390 S668,390 S668,390 S668,390 S678,330 S78,320	12	Τ			\$23,416	\$23,416	\$24,416	\$23,416	\$23,416	\$23,416	\$24,416	\$21,916	\$21,916	\$21,916	\$21,916	\$21,916	\$275,492
Circle Distriction Circle	13	T	orporate		\$666,090	\$646,040	\$688,494	\$663,209	\$699,272	\$667,962	\$688,215	\$717,425	\$666,869	\$708,736	\$694,737	\$674,230	\$8,181,279
Penetions STR3.29 ST	P14	Т			\$162,673	\$162,652	\$162,653	\$162,657	\$162,657	\$162,661	\$162,660	\$162,660	\$162,657	\$162,649	\$162,648	\$162,648	\$1,951.875
Regulatory Expense S17745	P15	Г			\$78,329	\$78,329	\$78,329	\$78,329	\$78,329	\$78,329	\$78,329	\$78,329	\$78,329	\$78,329	\$78,329	\$78,329	\$939,948
Parchitect Plani Group S53.462 S53	P16	T			\$17.745	\$17,745	\$17,745	\$17,745	\$17,745	\$17,745	\$17,745	\$17,745	\$17.745	\$17,745	\$17,745	\$17,745	\$212,940
Customer Accounting S108.981 S126.225 S144.563 S157.457 S179.879 S172.616 S20.419 S166.589 S10.595 S10.527 S10.334 S97.227 S10.891 S126.225 S10.419 S10.596 S10.59	17	T	0		\$53,462	\$53,462	\$53,462	\$53,462	\$53,462	\$53,462	\$53,462	\$53,462	\$53,462	\$53,462	\$53,462	\$53,462	\$641,544
Peter Pete	18	Т			\$108,981	\$126,225	\$144,563	\$157,457	\$179,879	\$172,616	\$204,119	\$196,589	\$210,592	\$162,710	\$130,354	\$97,221	\$1,891,306
Size day	100	T			\$2,696	\$2.696	\$5,696	\$2,696	\$2,696	\$2,696	\$2,696	\$2,696	\$2,696	\$2,696	\$2,696	\$2,696	\$35,352
Miscellaneous Miscellaneous S281,722 S272,928 S269,824 S280,786 S291,625 S286,824 S286,844	2 2	Т			\$56,448	\$60,571	\$67,146	\$46,594	\$59,318	\$64,179	\$92,309	\$56,296	\$62,657	\$61,738	\$49,704	\$78,085	\$755,045
Maintenance Expense 5102.710 5108.720 5115.084 5191.835 5115.187 5118.401 5118.210 5118.504	2 2	Т			\$281.732	\$272,928	\$269,824	\$280,786	\$279,126	\$292,642	\$284,870	\$252,918	\$262,240	\$265,648	\$244,580	\$295,517	\$3,282,811
Amortization Amor	200	T	92		\$102.710	\$107.710	\$118,325	\$125,084	\$191,835	\$115,187	\$183,401	\$141,577	\$113,261	\$183,112	\$177,533	\$191,902	\$1,751,637
Amortization S182,283 \$182,480 \$182,785 \$182,946 \$183,537 \$183,631 \$184,484 \$184,883 \$185,793 \$185,749 \$186,164 S402,789 \$408,243 \$409,269 \$402,779 \$418,272 \$408,292 \$431,280 \$444,442 S402,779 \$418,779	2 6	1			\$748.132	\$748,709	\$749,964	\$751,339	\$753,572	\$755,573	\$760,485	\$763.170	\$841.683	\$844,929	\$853,096	\$855,226	\$9,425,878
State Income Taxes S401.593 S412.500 S407.868 S406.177 S410.649 S406.640 S408.243 S409.279 S408.295 S408.	200	Т			\$182.283	\$182,480	\$182,725	\$182,946	\$183,257	\$183,631	\$184,454	\$184,883	\$185,303	\$185,749	\$186,165	\$186,544	\$2,210.420
State in come Taxes State	2 6	T	***************************************		\$421 593	\$412,500	\$407.868	\$406.177	\$410.649	\$406,640	\$408,243	\$409,269	\$402,779	\$418,252	\$406,290	\$404,142	\$4,914,402
Federal Income Taxes S510,505 S472,508 S385,399 S456,499 S470,947 S664,043 S857,544 S916.22 S905,073 S739,599 S484,378 S317,830 Federal Income Taxes Pederal Income Taxes P	622	Τ			\$40.867	\$84.073	\$68.248	\$81.058	\$82.520	\$117,033	\$151,828	\$162,577	\$160,460	\$129,799	\$83,250	\$52,953	\$1,264.666
Acutoc controller large Actoc controller l	2 2	Т	34		\$510 505	\$477.508	\$385,939	\$456.499	\$470.947	\$664,043	\$857,544	\$916,222	\$905,073	\$739,599	\$484,378	\$317,850	\$7,181,107
AFUDC Equity AFUD		7	3	Utility Operating Income	상	\$1,780,845	\$1,685,459	\$1,826,546	\$1,847,216	\$2,245,007	\$2,556,748	\$2,638,151	\$2,641,142	\$2,358,596	\$1,871,115	\$1,573,903	\$25,006,925
Misc Other Deductions Misc Other Deduction Misc Other De	070	Γ			-\$33.988	-\$36.877	-\$39.299	-\$42.134	-\$41,286	-\$36,824	-\$35,402	-\$38,573	-\$26,568	-\$29,721	-\$33,018	-\$34,862	-\$428,552
Ministration Mini	2 0	Τ	200		\$73.000	\$10,000	\$20,000	\$39,000	\$18,000	\$65,000	\$23,500	\$14,500	\$23,500	\$33,500	\$9,500	\$9,500	\$339,000
State Stat	1 2 2	Т	810100	Int LTD-Outside Reg	\$137,713	\$128,532	\$137,713	\$137,713	\$137,713	\$137,713	\$137,713	\$137,713	\$137,713	\$141,631	\$141,642	\$141,635	\$1,655,144
Amort Debt Exp R60040 Div Dec PS-Out w/ mand \$31,763 \$23,665 \$31,763 \$31	-		810400	Int LTD-Inside AW46	\$832.965	\$784,101	\$832,965	\$832,965	\$852,965	\$872,965	\$872,965	\$872,965	\$872,965	\$872,965	\$872,965	\$882,525	\$10,256,276
Amort Debt Exp \$4,907 \$4,907 \$4,907 \$5,683 \$5,663 \$5,468 \$5,468 \$5,468 \$5,468 \$5,468 \$5,468 \$5,468 \$5,469 \$5,403 \$5,503 \$5,504 \$5,504 \$5,504 \$6,500 <th< td=""><td> · - · · · · · · · · · · · · · · · ·</td><td></td><td>860040</td><td>Div Dec PS-Out w/ mand</td><td>L</td><td>\$29,645</td><td>\$31,763</td><td>\$31,763</td><td>\$31,763</td><td>\$31,763</td><td>\$31,763</td><td>\$31,763</td><td>\$31,763</td><td>\$31,763</td><td>\$31,763</td><td>\$31,763</td><td>\$379,038</td></th<>	· - · · · · · · · · · · · · · · · ·		860040	Div Dec PS-Out w/ mand	L	\$29,645	\$31,763	\$31,763	\$31,763	\$31,763	\$31,763	\$31,763	\$31,763	\$31,763	\$31,763	\$31,763	\$379,038
Interest on Bank Debt	P57	Т				\$4,907	\$4,907	\$4,907	\$5,285	\$5,663	\$5,663	\$5,663	\$5,663	\$5,663	\$5,663	\$8,000	\$66,891
AFUNC Debt -\$26,072 -\$28,289 -\$30,147 -\$32,328 -\$21,671 -\$28,248 -\$27,158 -\$29,590 -\$20,781 -\$22,799 -\$25,748 -\$25,748 -\$27,158 -\$29,590 -\$20,381 -\$22,799 -\$25,748 -\$25,748 -\$27,158 -\$29,590 -\$20,381 -\$22,799 -\$25,328 -\$25,744 -\$20,748	820	T	Į.		\$11,280	\$9,302	\$5,133	\$7,966	\$9,153	\$37	\$2,751	\$671	-\$825	\$1,657	\$4,582	\$2,468	\$54,175
preferred Dividends \$6,500	B60	Т			-\$26,072	-\$28,289	-\$30,147	-\$32,322	-\$31,671	-\$28,248	-\$27,158	-\$29,590	-\$20,381	-\$22,799	-\$25,328	-\$26,744	-\$328,749
Common Dividends -\$1,000 -\$1,000 \$2,700,222 -\$1,000 \$1,799,925 -\$1,000 \$2,082,822 -\$1,000 \$3,582,612	P64	Τ			\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$78,000
	694	Т			-\$1,000	-\$1,000	\$2,700,222	-\$1,000	-\$1,000	\$1,799,925	-\$1,000	-\$1,000	\$2,082,822	-\$1,000	-\$1,000	\$3,552,612	\$10,127,581

Kentucky American Water Case No. 2012-00155 PSC DR2 2B

Comparison of Rate of Return Adjusted for AFUDC & Late Payment Revenue vs. Authorized, Using 2012 Operating Budget

1) Authorized Capital Structure Per Case 2010-00036

Page 60 for Weight, Page 71-72 for Costs

Description	Weight	Cost	Weighted Cost
Short Term Debt	2.5	2.577% 1.9	90% 0.05%
long Term Debt	51.9	1.921% 6.3	6.38% 3.31%
Preferred Stock	1.6	1.647% 7.7	7.74% 0.13%
Common Fquity	43.8	43.855% 9.70%	0% 4.25%
	Overall Authorized Rate of Return	d Rate of Reti	J.74%

Calculate 2012 Budgeted Utility Operating Income, Adjusted for AFUDC and Projected Late Payment Revenue 7

ltem	Amount	ınt	Notes
Utility Operating Income	\$	25,006,925	As Calculated, Per Budgeted Income St
Adjustment to Add AFUDC	❖	757,301	Per Budgeted Income Statement
Adjustment to Add Projected Late Payment Fee Revenue	❖	669,467	Per Exhibit 5, Case No. 2012-00155
Adjusted Utility Operating Income	\$	26,433,693	

Calculate Adjusted Rates of Return on Rate Base and Capital Structure and Compare to Authorized Rate of Return 3

Vs Authorized Variance			7.74% -0.70%	Vs Authorized Variance			7.74% -0.40%
As Calculated	\$ 26,433,693	\$ 375,433,649	7.04%	As Calculated	\$ 26,433,693	\$ 360,164,385	7.34%
2012 Budgeted Adjusted Rate of Return on Rate Base	Adjusted Utility Operating Income	Rate Base	Adjusted Return on Rate Base	2012 Budgeted Adjusted Rate of Return on Capital Structure	Adjusted Utility Operating Income	Capital Structure	Adjusted Return on Capital Structure

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Witness:

Melissa Schwarzell

Ouestion:

- 3. Refer to Kentucky-American's Application, Exhibit 4, "Comparative Balance Sheet for the 12-Month Period ending December 31, 2011," and Annual Report of Kentucky-American Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2011 ("2011 Annual Report) at 9.
 - a. Explain why the amounts reported in Exhibit 4 for preferred stock and long-term debt and those reported in the 2011 Annual Report differ by \$4,500,000.
 - b. Kentucky-American reports short-term bank debt of \$11,035,902 in Exhibit 4. Identify the account in the 2011 Annual Report in which the short-term bank debt is recorded.
 - c. In Case No. 2010-00036, the Commission calculated Kentucky-American's net operating income for ratemaking purposes by applying overall cost of capital to net investment rate base. Explain why Kentucky-American based its absorption test solely on the authorized return on equity and not the overall return on net investment rate base.

- a. Exhibit 4 is the 2011 comparative balance sheet per J.D. Edwards, which maps \$4,500,000 of Preferred Stock to the Long Term Debt line. This is broken out properly as preferred stock, and not long term debt, in the 2011 Annual Report.
- b. The \$11,035,902 of Bank Debt in Exhibit 4 was among the accounts recorded in NARUC account 234 in the 2011 Annual Report.
- c. The test was initially done solely on equity in error. Please see Kentucky American's response to the Commission's Supplemental Request for Information Item 2B for a rate-of-return based absorption test.

Witness: Linda C. Bridwell

Question:

- 4. Refer to Kentucky-American's Application, Exhibit 3.
 - a. State whether Kentucky-American included the late fee costs identified in Exhibit 3 in its statements of forecasted operations that were filed in Case No. 2010-00036.
 - b. State whether, if Kentucky-American included late fee costs included in its statements of forecasted operations that were submitted in Case No. 2010-00036, a double-recovery of these expenses through nonrecurring fees and base water rates results if the late payment charge is approved.
 - c. If Kentucky-American included the late fee costs identified in Exhibit 3 in its statements of forecasted operations that were filed in Case No. 2010-00036, explain why deferring approval of the implementation of any late payment fee until Kentucky-American's next general rate case would be inappropriate or unlawful.

- a. Kentucky American's forecasted test period in Case No. 2010-00036 was from September 2010 August 2011. While the *types* of costs indicated in Exhibit 3 would have been included in Case 2010-00036, the time period for the case and Exhibit 3 are different, with the exception of Working Capital, for which an authorized cost was used in order to avoid a lengthy calculation.
- b. A double recovery of late payment related costs is unlikely due to the variance between the late fee tariff period (August 2012-forward) and the test period for Case No. 2010-00036, which ended in August 2011.
- c. As indicated in the response to subpart a, while these types of costs were included in Case No. 2010-00036, the time period, and thus the costs, are different. Moreover, while it is the Commission's stated practice to permit a late payment fee of up to 10 percent with no specific justification, Kentucky American has demonstrated that a

¹ Case No. 2006-00029, In the Matter of: The Application of Pinewood Subdivision, Inc. d/b/a Pinewood Subdivision Sewer for an Adjustment of Rates for Sewer Service and Establishment of Certain Non-Recurring Charges (February 23, 2006 Order at Staff Report, p. 2). The rates recommended in the Staff Report were adopted by the Commission in its March 14, 2006 Order.

late payment fee of 5 percent is reasonable at this time given the associated costs identified in Exhibit 3, which exceed the estimated revenue from a 5 percent fee.

In addition, the Commission has recognized that late penalties are not only designed to assign costs to cost causers, but are also "intended to provide an incentive for customers to pay their bills on time and are generally used throughout the utility industry," and "[t]his charge recognizes the time value of money and other added costs. It is common practice for a water utility to designate a period during which a bill must be paid to avoid late payment charges." ² Thus, Kentucky American seeks to provide a customary incentive for prompt payment.

Deferring approval of the implementation of any late payment fee until Kentucky American's next general rate case is inappropriate for four reasons. First, customers that are delinquent in paying their bills will continue to have no incentive to alter their behavior. Second, because several of the other utilities providing service to Kentucky American's customers have recently implemented late fees, customers are financially incentivized to pay their water bills last, which exacerbates the lack of incentive for timely payment. Third, Kentucky American is asking the Commission to authorize a tariff it has authorized for dozens of other utilities and to offer our customers the same incentive for timely payment that over 90% of regulated water utilities in Kentucky possess. Finally, even if a rate case were filed tomorrow, which it will not be, the suspension period lengthens the prolonged period to a point that is unfair given that 807 KAR 5:011, Section 10 allows the implementation of nonrecurring charges up to two times between rate cases. Given that Kentucky American has not asked for approval of even one non-recurring charge between rate cases in recent memory, a delay of this nature would be inappropriate.

² In the Matter of: Kentucky Dam Village State Resort Park, et al. v. North Marshall Water District (Case No. 2006-00365) Order, July 31, 2007.

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Witness: Linda C. Bridwell

Question:

- 5. Kentucky-American has revised its initial late payment fee proposal to exempt from the operation of the proposed fee customers who receive a pledge for or notice of low-income water assistance from an authorized agency.
 - a. Explain the process through which an authorized agency will make a pledge of assistance or provide a notice of assistance. State when, in relation to the issuance of a bill for water service and the due date for payment of such bill, the notice or pledge will be provided.
 - b. Describe the form of the pledge or notice that the authorized agency must provide.
 - c. Identify the agencies that are "authorized agencies."
 - d. Describe the process through which an agency will become an "authorized agency" for purposes of the proposed late payment fee rule.
 - e. State whether the late payment fee will be assessed if the notice or pledge of assistance is given after the payment due date.
 - f. Explain why it is reasonable and lawful to classify the applicability of the proposed late fee based upon a customer's eligibility for assistance from an authorized agency.

- a. Assistance agencies work with our Special Accounts department to review the balances, fees owed, and payment terms of customers who come to them for help. If the agency determines that they will pledge assistance, the agency will provide the Special Accounts department with a verbal account hold and follow up with an Assistance Pledge form.
 - In most cases, the notices and pledges are received after the bill due date and a disconnect notice has been sent.
- b. Kentucky American will accept an oral notification for an assistance pledge by the agency to be followed up within 48 hours with a written pledge. Typically the account is put on hold after oral notification and the pledge is followed up in writing.

- c. Currently, Kentucky American works with four agencies that routinely provide assistance to customers. These are the Community Action Council, Adult Tenant Services, Black Church Coalition, and Christian and Community Services.
- d. If a call is received for pledge assistance, Kentucky American verifies that the agency is a legitimate organization with either a tax identification number, a publicly listed telephone number and address, or through other means.
- e. Late fees will be posted to all accounts through the billing system. The late fee would be then adjusted from those customer bills for which an assistance pledge is received.
- f. The proposed waiver of applicability of the late fee based upon a customer's eligibility for assistance from an authorized agency is consistent with tariffs and waivers authorized for other regulated utilities in Kentucky.

Witness:

Melissa Schwarzell

Question:

6. Refer to Kentucky-American's Response to Commission Staffs First Request for Information, Item 9. Describe how Kentucky-American determined that 2.5 clerks/customer advocates are devoted to late payments.

Response:

Kentucky American determined that the costs for 2.5 clerks/customer advocates were related to late payments through discussion with the local customer advocacy department. This department employs personnel who work directly with late paying customers.

Witness: Melissa Schwarzell

Question:

- 7. Refer to Kentucky-American's Response to Commission Staffs First Request for Information, Item 13(d).
 - a. State whether it is correct to interpret the response to Item 13(d) as meaning that in 2011 approximately 60,747 bills were not paid by the billing due date, but were paid within the eight-day grace period.
 - b. State the total costs that Kentucky-American incurred to collect these 60,747 bills.
 - c. State the total amount of these bills.

- a. The response to Item 13(d) indicated the number of 2011 bills which were not timely paid and for which no disconnection notice was issued. Interpreting the response of 60,747 to be the number of bills paid within the grace period is mostly, but not entirely, correct. While most of these 60,747 would be bills paid within the grace period, some could also indicate unpaid bills of certain critical customers, such as schools and hospitals, which are not mailed disconnect notices.
- b. Kentucky American does not track the costs to the level of detail to be able to delineate the total costs incurred to collect the 60,747 bills.
- c. Our current billing system is unable to summarize the revenue associated with bills paid late but not issued disconnect notices.

Witness:

Linda C. Bridwell

Question:

8. Refer to Kentucky-American's Response to Commission Staffs First Request for information, Item 7. Provide a revised schedule that lists total bad-debt expense for each year from 2001 to 2011, and the actual bad-debt expense for each customer group for each year within that period.

Response:

Please see the attachment, which contains information from 2004-2011 regarding the actual bad debt expense for each customer group. Detailed information for 2001-2003 is not available.

Kentucky American Water Company Case No. 2012-00155 PSC Supplemental DR 2-8

	2007	1000	2000	7000	8000	9000	2010	2011
	2004	COO7	2007	7007	200	5007	0707	7707
Residential	343,229	367,415	359,237	381,333	319,645	397,102	385,314	415,478
Commercial	33,339	23,279	25,834	38,752	20,005	48,321	62,029	42,184
Industrial								
Other Public Authority					18	318		(32)
Private Fire	1,617	4,359	2,974	4,650	9,581	12,614	10,152	9,474
Miscellaneous	481	85	240	102	3,741	(27)	675	380
Total	378,667	395,137	388,285	424,835	352,990	458,328	463,170	467,484
	i C	0	7	(\$00.00)	0		700	120.000
Provisions for Doubtful Accounts	73,895	19,3/1	13,81/	(37,894)	50,047	2,057	06/'67T	006,001
Miscellaneous Entries	(2,164)	2,850	3,709	(2,984)	(19,517)	64,297	(606'99)	(1,098)
Grand Total	450,398	477,358	405,811	383,958	383,520	526,282	526,059	602,346



Witness:

Linda C. Bridwell

Question:

- 9. Refer to Kentucky-American's Response to Commission Staffs First Request for Information, Item 15.
 - a. Describe how a Kentucky-American customer may pay his or her bill by credit card.
 - b. List each fee that a Kentucky-American customer incurs if he or she elects to pay his or her bill by credit card.

- A. Kentucky American accepts credit card, debit card and electronic check payments through a third-party vendor, ORCC. Kentucky American customers can use their credit card, debit card, or pay with electronic check by calling either ORCC toll-free at (866) 271-5522 or Kentucky American's toll-free customer service telephone number.
- B. There is a fee charged by the third-party vendor for credit card, debit card, electronic check payments. The fee is \$1.80 per transaction up to \$1,000.