

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

NOTICE OF KENTUCKY-AMERICAN WATER) CASE NO. 8314
COMPANY OF AN ADJUSTMENT IN ITS RATES)

O R D E R

IT IS ORDERED That Kentucky-American Water Company shall file an original and five copies of the following information with the Commission, with a copy to the Attorney General's Consumer Protection Division by September 28, 1981. Each copy of the data requested should be placed in a bound volume with each item tabbed. Where a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Careful attention should be given to copied material to insure that it is legible.

Staff Request No. 1

1. A. A calculation of total company average (13-month) and end-of-period debt, preferred stock, and common equity capital for the test year in the format as shown in Format 1A attached.
- B. A calculation of the average (13-month) and end-of-period long-term debt composite for the 12 months of the test year. Supporting

details underlying calculations should be provided. The average long-term debt composite interest cost is calculated by dividing the sum of the book interest accrued on long-term debt and related amortization of discount, premium, and issuance cost by average long-term debt as calculated in Format 1A, column c, line 15.

2. The following monthly balances and a calculation of the thirteen month average data for the test year operations.
 - A. Plant in service
 - B. Plant purchased or sold
 - C. Property held for future use
 - D. Construction in progress--separate this balance into CWIP that Interest During Construction is calculated on and other CWIP.
 - E. Depreciation reserve
 - F. Balance in accounts payable (applicable to material and supplies)*
 - G. Unamortized investment credit--Pre-Revenue Act of 1971
 - H. Unamortized investment credit--Revenue Act of 1971
 - I. Accumulated deferred income taxes

*if actual is unavailable, give a reasonable estimate

- J. Balance in accounts payable applicable to amounts included in plant in service*
 - K. Balance in accounts payable applicable to amounts included in plant under construction*
 - L. Short term borrowings
 - M. Interest on short term borrowings (expense)
3. Provide the following information for each item of property held for future use at the end of the test year:
- A. Description of property
 - B. Location
 - C. Date purchased
 - D. Cost
 - E. Estimated date to be placed in service
 - F. Brief description of intended use
4. Schedules in comparative form showing by months for the test year and the year preceding the test year the balance in each plant and reserve account or sub-account included in the applicant's chart of accounts as shown in Format 4 attached.
5. The detailed work papers showing calculations supporting all accounting, pro forma, end-of-period, and proposed rate adjustments in the rate application to revenue, expense, investment, and reserve accounts for the test year and a complete

*if actual is unavailable, give a reasonable estimate

detailed narrative explanation of each adjustment including the reason why each adjustment is required. Explain all components used in each calculation. Index each calculation to the accounting, pro forma, end-of-period, and proposed rate adjustment which it supports.

6. A schedule showing a comparison by month of the monthly balances in the revenue accounts for the test year to the same month of the preceding year for each revenue account or sub-account included in the applicant's chart of accounts. Include appropriate footnotes to show the month each rate increase or rate change went into effect and the first month the full increase was recorded in the accounts. See Format 4.
7.
 - A. A schedule showing a comparison of the monthly balances in the operating expense accounts for the test year to the same month of the preceding year for each account or sub-account included in the applicant's chart of accounts. See Format 4.
 - B. A schedule of total company employees and salaries and wages for the test year and each of the five calendar years preceding the test year as shown in Format 7B, Schedules 1 and 2, respectively.

8. The following tax data for the test year for total company and Kentucky operations.

A. Income taxes:

- (1) Federal operating income taxes deferred-- accelerated tax depreciation.
- (2) Federal operating income taxes deferred-- other (explain)
- (3) Federal income taxes--operating (provision for current year liability)
- (4) Income credits resulting from prior deferrals of federal income taxes
- (5) Investment tax credit net
 - (i) Investment credit realized
 - (ii) Investment credit amortized--Pre-Revenue Act of 1971
 - (iii) Investment credit amortized--Revenue Act of 1971
- (6) Provide the information in 8a(1) through 8a(4) for state income taxes
- (7) (i) Reconciliation of book to taxable income as shown in Format 8a(7) attached and a calculation of the book federal and state income tax expense for the test year using book taxable income as the starting point.

- (ii) Provide a reconciliation of the consolidated book to consolidated taxable income as shown in Format 8a(7) attached and a calculation of the consolidated federal income tax expense. The calculation should break down the federal income tax expense into the provision for deferred taxes and the provision for the current liability due on the consolidated return.
- (8) A copy of federal and state income tax returns for the taxable year ended during the test year including supporting schedules (three copies required).
- B. An analysis of Kentucky other operating taxes as shown in Format 8b attached.
- 9. The comparative operating statistics as shown in Format 9 attached.
- 10. A. Provide a detailed analysis of all advertising expenditures booked during the test period. This analysis should include a complete breakdown of advertising as shown in Format 10a attached. The analysis should, moreover, be specific as to the purpose of the expenditure and the expected benefit to be derived. Advertising expenses allocated

from either the parent company or any other affiliated company should be so identified.

- B. Provide an analysis of Account 930--Miscellaneous General Expenses for the test period. This analysis should show a complete breakdown of this account as shown in attached Format 10b and further provide all detailed working papers supporting this analysis. As a minimum the work papers should show the date, vendor, dollar amount and a brief description of each expenditure for amounts of \$500 or more.
- C. A detailed analysis of all charitable and political contributions charged to operations during the test period. This analysis should indicate the amount of the expenditure, the recipient of the donation and the specific account charged. Expenses allocated from either the parent or from another affiliate should be so identified.
- D. Provide an analysis of Account 426--Miscellaneous Income Deductions for the test period. This analysis should show a complete breakdown of this account as shown in attached Format 10d, and further provide all detailed working papers supporting this analysis. As a minimum the work

papers should show the date, vendor, dollar amount and a brief description of each expenditure for amounts of \$500 or more.

11. A statement describing the applicant's lobbying activities and a schedule showing the name of the individual, his salary, and all company-paid or reimbursed expenses or allowances and the account charged for all personnel for whom a principal function is that of lobbying, whether it be lobbying on the local, state, or national level.
12. Rates of return as shown in Format 12 attached.
13. Provide a detailed analysis of the retained earnings account for the test period and twelve month period immediately preceding the test period.
14. Provide the following information with regard to uncollectable accounts for the test year and the five preceding calendar years (taxable year acceptable):
 - A. Reserve account balance at the beginning of the year
 - B. Charges to reserve account (accounts charged off)
 - C. Credits to reserve account
 - D. Current year provision

E. Reserve account balance at the end of the year

F. Percent of provision to total revenue

15. Additional data relating to affiliated or parent company(s).

A. Consolidated parent and subsidiaries balance sheet, income statement, and statement of changes in financial position for test year and last two calendar years.

B. Schedule showing balance sheet, income statement, and retained earnings adjusting entries for Kentucky subsidiary in its consolidation with the parent company and affiliated companies.

C. Schedule of company's home office and/or inter-company charges; monthly for the test year and yearly for the last two calendar years. State the type of goods or services provided (i.e., supplies capitalized, data service, management services, etc.).

The amount by type from each billing unit and the method used in billing (i.e., direct, allocated) and basis for allocating common charges.

D. Provide a calculation of the average (thirteen month) and the end-of-period debt and equity

ratio and average (thirteen month) and end-of-period composite interest cost and preferred stock cost for the twelve months of the test period for the parent company and for the consolidated companies including all subsidiaries.

E. Schedule of federal income tax reductions due to filing a consolidated parent tax return for last two taxable years. Show source and type of reduction, and method and basis of allocating to companies and states.

16. A calculation of the rate or rates used to capitalize interest during construction for the test year and the three preceding calendar years. Provide a narrative explanation of each component entering into the calculation of this rate.

17. A. List all outstanding issues of long-term debt as of the end of the test period. This should include the following information for each outstanding issue:

1. date of issue
2. date of maturity
3. amount outstanding
4. coupon interest rate

5. cost rate at issue
6. cost rate to maturity
7. bond rating at issue - (Moody's,
Standard & Poor's)
8. type of obligation

- B. Provide calculations of embedded cost of long-term debt at the end of each calendar year for the previous ten years. Also provide this calculation for end of the test period.

Items 17 a & b should be provided for the parent and for the subsidiary where applicable.

18. A. List all outstanding issues of preferred stock as of the end of the latest available calendar year.

This should include the following information for each outstanding issue:

1. issue date
2. amount sold (\$)
3. dividend rate
4. cost rate at issue
5. amount outstanding
6. note any convertibility features

- B. Provide calculations of embedded cost of preferred stock at the end of each of the previous ten years. Also provide this

calculation for the most recent quarter available. Items 18 a & b should be provided for the parent company.

19. Capital structure at end of each calendar year for the previous ten years for the parent and the subsidiary.
20. A. Provide a listing of all issues of common stock in the primary market during the most recent ten year period.
- Include the following information:
1. date of issue
 2. number of shares
 3. date of announcement & registration
 4. price per share (net to company)
 5. net proceeds to company
 6. book value per share at time of issue
 7. selling expenses as % of gross issue amount
 8. price per share to public
- B. Provide the following information on a quarterly and yearly basis for the most recent ten year period available. Also provide this through the latest available quarter.
1. average number of shares of common outstanding
 2. book value per share at end of period

3. period earnings per share
4. period declared dividend rate per share
5. rate of return on average common equity
6. rate of return on year end common equity

Items 20 b, 5 & 6 refer to yearly figures only.

- C. Provide monthly market price information for common stock for each month during the most recent ten year period.

Include the following:

1. monthly high
2. monthly low
3. monthly closing price
4. note all stock splits by date and type and adjust prices accordingly

Items 20 a, b & c refer to the parent company.

21. Provide figures showing computation of fixed charge coverage ratios (SEC method, pretax, including short term debt payments) at the end of each of the ten most recent prior years.

Done at Frankfort, Kentucky, this 4th day of September, 1981.

PUBLIC SERVICE COMMISSION

ATTEST:


For the Commission

Secretary

Commonwealth of Kentucky

Case No. 8314

Format 1A

CALCULATION OF AVERAGE AND END-OF-PERIOD CAPITAL

12 Months Ended May 31, 1981

| Line No. | Item (a) | Total Capital ^{1/} (b) | Long-Term Debt (c) | Preferred Stock ^{2/} (d) | Common Stock ^{2/} (e) | Other Capital (f) | Retained Earnings (g) | Total Common Equity (h) |
|----------|-------------------------------------|---------------------------------|--------------------|-----------------------------------|--------------------------------|-------------------|-----------------------|-------------------------|
| 1. | Balance beginning of test year | | | | | | | |
| 2. | 1st Month | | | | | | | |
| 3. | 2nd Month | | | | | | | |
| 4. | 3rd Month | | | | | | | |
| 5. | 4th Month | | | | | | | |
| 6. | 5th Month | | | | | | | |
| 7. | 6th Month | | | | | | | |
| 8. | 7th Month | | | | | | | |
| 9. | 8th Month | | | | | | | |
| 10. | 9th Month | | | | | | | |
| 11. | 10th Month | | | | | | | |
| 12. | 11th Month | | | | | | | |
| 13. | 12th Month | | | | | | | |
| 14. | Total (L1 through L13) | | | | | | | |
| 15. | Average balance (L14 + L13) | | | | | | | |
| 16. | Average capitalization ratios | | | | | | | |
| 17. | End-of-period capitalization ratios | | | | | | | |

^{1/} If applicable, provide an additional schedule in the above format excluding common equity in subsidiaries from the total company capital structure. Show the amount of common equity excluded.

^{2/} Include premium on class of stock.

Kentucky-American Water Company

Commonwealth of Kentucky

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NUMBER OF EMPLOYEES*
TEST YEAR ENDING

| <u>Period</u> | <u>Total</u> (a) | <u>Source of Supply & Pumping</u> (b) | <u>Water Treatment</u> (c) | <u>Transmission & Distribution</u> (d) | <u>Consumer Accounts & Sales</u> (e) | <u>Administrative & General</u> (f) |
|---|---------------------|--|-----------------------------------|---|---|--|
| Month prior to Test Year | | | | | | |
| 1st Month of Test Year | | | | | | |
| 2nd Month | | | | | | |
| 3rd Month | | | | | | |
| 4th Month | | | | | | |
| 5th Month | | | | | | |
| 6th Month | | | | | | |
| 7th Month | | | | | | |
| 8th Month | | | | | | |
| 9th Month | | | | | | |
| 10th Month | | | | | | |
| 11th Month | | | | | | |
| 12th Month | | | | | | |
| A 13-Month Average For Calendar Years Prior to Test Year | | | | | | |
| 5th Year | | | | | | |
| 4th Year | | | | | | |
| 3rd Year | | | | | | |
| 2nd Year | | | | | | |
| 1st Year | | | | | | |
| Test Year | | | | | | |

*Employees whose salaries are allocated to more than one function should be included under Administrative and General

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ANALYSIS OF SALARIES AND WAGES CHARGED TO EXPENSE
TEST YEAR ENDING May 31, 1981

| Line No. | Item (a) | 12 Months Ended | | | | | Test Year (g) |
|-------------|---|-----------------|------------|--------------------|------------|------------|---------------------|
| | | Calendar Years | | Prior to Test Year | | | |
| | | 5th (b) | 4th (c) | 3rd (d) | 2nd (e) | 1st (f) | |
| 1. | Source of Supply (a) Operation (b) Maintenance | \$ | \$ | \$ | \$ | \$ | \$ |
| 2. | Pumping (a) Operation (b) Maintenance | | | | | | |
| 3. | Water Treatment (a) Operation (b) Maintenance | | | | | | |
| 4. | Transmission and Distribution (a) Operation (b) Maintenance | | | | | | |
| 5. | Customer Accounts | | | | | | |
| 6. | Sales | | | | | | |
| 7. | Administrative and General (a) Allocated to (b) | | | | | | |
| 8. | Total Salaries and Wages Charged Expense (1 through 7) | | | | | | |
| 9. | Construction | | | | | | |
| 10. | Total Salaries and Wages | \$ | \$ | \$ | \$ | \$ | \$ |

RECONCILIATION OF BOOK NET INCOME AND FEDERAL TAXABLE INCOME

12 Months Ended May 31, 1981

| Item | Total Company (a) | Total Company Nonoperating (b) | Total Company (c) |
|--|-------------------|--------------------------------|-------------------|
| Net income per books | | | |
| Add income taxes: | | | |
| A. Federal income tax - Current | | | |
| B. Federal income tax deferred - Depreciation | | | |
| C. Federal income tax deferred - Other | | | |
| D. Investment tax credit adjustment | | | |
| E. Federal income taxes charged to other income and deductions | | | |
| F. State income taxes | | | |
| G. State income taxes charged to other income and deductions | | | |
| Total | | | |
| Flow through items: | | | |
| Add (Itemize) | | | |
| Deduct (Itemize) | | | |
| Book taxable income | | | |
| Differences between book taxable income and taxable income per tax return: | | | |
| Add (Itemize) | | | |
| Deduct (Itemize) | | | |
| Taxable income per return | | | |

- (1) Provide a calculation of the amounts shown on lines 3 through 7 above.
- (2) Provide work papers showing the calculation of straight-line tax depreciation and accelerated tax depreciation and all other work papers in support of the calculation of Federal income tax expense.
- (3) Provide a schedule setting forth the basis of allocation of each item of revenue or cost allocated above.

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ANALYSIS OF OTHER OPERATING TAXES
FOR THE 12 MONTHS ENDED MAY 31, 1981

| | <u>Charged Expense</u> | <u>Charged to Construction</u> | <u>Charged to Other Accounts 1/</u> | <u>Amount Accrued</u> | <u>Amount Paid</u> |
|------------------------------|------------------------|------------------------------------|---|---------------------------|------------------------|
| Other Operating Taxes | | | | | |
| State Income | \$ | \$ | \$ | \$ | \$ |
| Ad Valorem | | | | | |
| Payroll (Employer's Portion) | | | | | |
| Other Taxes | | | | | |
| Total per Books | \$ | \$ | \$ | \$ | \$ |

1/ Explain items in this column.

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RECONCILIATION OF BOOK NET INCOME AND FEDERAL TAXABLE INCOME

12 Months Ended May 31, 1981

| Line No. | Item (a) | Total Company (b) | Total Company Non-operating (c) |
|----------|---|-------------------|---------------------------------|
| 1. | Net income per books | | |
| 2. | Add income taxes | | |
| 3. | A. Federal income tax - Current | | |
| 4. | B. Federal income tax deferred-depreciation | | |
| 5. | C. Federal income tax deferred-Other | | |
| 6. | D. Investment tax credit adjustment | | |
| 7. | E. Federal income taxes charged to other income and deductions | | |
| 8. | F. State income taxes | | |
| 9. | G. State income taxes charged to other income and deductions | | |
| 10. | Total | | |
| 11. | Flow through items: | | |
| 12. | Add (Itemize) | | |
| 13. | Deduct (Itemize) | | |
| 14. | Book taxable income | | |
| 15. | Difference between book taxable income and taxable income per tax return: | | |
| 16. | Add (Itemize) | | |
| 17. | Deduct (Itemize) | | |
| 18. | Taxable income per return | | |

NOTE: (1) Provide a calculation of the amounts shown on lines 8 through 9 above.
 (2) Provide work papers showing the calculation of straight-line tax depreciation and accelerated tax depreciation and all other work papers in support of the calculation of Federal Income tax expense.
 (3) Provide a schedule setting forth the basis of allocation of each item of revenue or cost allocated above.

COMPARATIVE OPERATING STATISTICS
TEST YEAR ENDING MAY 31, 1981

| Line No. | Item (a) | 5th (b) | 4th (c) | 3rd (d) | 2nd (e) | 1st (f) | Test Year (g) | Net Change Since 5th Prior Year + Increase - Decrease (h) |
|----------|--|------------|------------|------------|------------|------------|---------------------|--|
| 1. | <u>Operating Expenses as a Percentage of:</u> | | | | | | | |
| 2. | Gross operating revenues (include uncollectibles) | | | | | | | |
| 3. | Total operation & maintenance expenses (excluding depreciation) | | | | | | | |
| 4. | Gross plant in service (end-of-period) | | | | | | | |
| 5. | <u>Operating Expenses Per:</u> | | | | | | | |
| 6. | Average number of customers | | | | | | | |
| 7. | Average 1000 gallons water sold | | | | | | | |
| 8. | <u>Materials and Supplies</u> | | | | | | | |
| 9. | Materials and supplies as a percentage of gross plant in service, both on an end-of-period basis | | | | | | | |
| 10. | Average materials and supplies per 1000 gallons of water sold | | | | | | | |
| 11. | <u>Wages and Salaries as a Percentage of:</u> | | | | | | | |
| 12. | Gross operating revenues | | | | | | | |
| 13. | Total operating expenses excluding depreciation | | | | | | | |
| 14. | <u>Depreciation Expenses:</u> | | | | | | | |
| 15. | Per \$100 of average gross plant in service | | | | | | | |
| 16. | <u>Property Taxes:</u> | | | | | | | |
| 17. | Per \$100 of average gross plant in service | | | | | | | |
| 18. | <u>Interest Expense:</u> | | | | | | | |
| 19. | Per \$100 of average debt outstanding | | | | | | | |
| 20. | Per \$100 of average plant investment | | | | | | | |

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GENERAL STATISTICAL DATA
TEST YEAR ENDING May 31, 1981

| <u>Average Net Plant In Service</u> (a) | <u>Increase over Prior Year</u> (b) | <u>Construction Budget Amount</u> (c) | <u>Increase Over Prior Year</u> (d) |
|--|--|--|--|
|--|--|--|--|

Calendar Years Before
Test Year
5th Year
4th Year
3rd Year
2nd Year
1st Year
Test Year

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ANALYSIS OF ADVERTISINGFOR THE TEST YEAR ENDING May 31, 1981

| <u>Line No.</u> | <u>Item</u> (a) | <u>Sales Advertising</u> (b) | <u>Institutional Advertising</u> (c) | <u>Rate Case</u> (d) | <u>Total</u> (e) |
|---------------------|--|-------------------------------------|---|-----------------------------|---------------------|
| 1. | Newspapers and periodicals | | | | |
| 2. | Booklets and pamphlets | | | | |
| 3. | Bill inserts | | | | |
| 4. | Displays, exhibits, posters, and placards | | | | |
| 5. | Motion pictures | | | | |
| 6. | Radio | | | | |
| 7. | Television | | | | |
| 8. | Salaries and wages | | | | |
| 9. | Other expenses | | | | |
| 10. | Other expenses | | | | |
| 11. | Total | | | | |

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930 - Miscellaneous General Expenses
FOR THE TEST YEAR ENDING May 31, 1981

| <u>Line</u> <u>No.</u> | <u>Description</u> (a) | <u>Amount</u> (b) |
|---------------------------|--|----------------------|
| 1. | Preliminary surveys, plans, investigations | |
| 2. | Purchase of employees service emblems | |
| 3. | Membership fees and dues | |
| 4. | Directors' fees and expenses | |
| 5. | Printing Annual Report | |
| 6. | Other items (itemize) | |
| 7. | | |
| 8. | | |
| 9. | Total | |

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ACCOUNT NO. 428 - MISCELLANEOUS INCOME DEDUCTIONS
INCLUDED IN OPERATING EXPENSES
FOR THE YEAR ENDING May 31, 1981

| <u>Line</u> <u>No.</u> | <u>Item</u> <u>(a)</u> | <u>Amount</u> <u>(b)</u> |
|---------------------------|---------------------------------|-----------------------------|
| 1. | Contributions (a) | |
| 2. | Membership fees and dues (a) | |
| 3. | Abandoned construction projects | |
| 4. | Other (itemize) | |
| 5. | Total | |

(a) Detail attached

Kentucky-American Water Company

COMMONWEALTH OF KENTUCKY

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AVERAGE RATES OF RETURN12 Months Ended May 31, 1981

| <u>Line No.</u> | <u>Calendar Years Prior to Test Year (a)</u> | <u>Return (b)</u> |
|---------------------|--|-----------------------|
| 1. | <u>Original Cost Net Investment:</u> | |
| 2. | 5th Year | |
| 3. | 4th Year | |
| 4. | 3rd Year | |
| 5. | 2nd Year | |
| 6. | 1st Year | |
| 7. | Test Year | |
| 8. | <u>Original Cost Common Equity: (Excluding J.D.I.C.)</u> | |
| 9. | 5th Year | |
| 10. | 4th Year | |
| 11. | 3rd Year | |
| 12. | 2nd Year | |
| 13. | 1st Year | |
| 14. | Test Year | |

NOTE: Provide work papers in support of the above calculations