

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION AND NOTICE OF THE)	
AQUA CORPORATION (KENTUCKY WATER)	
SERVICE CO., INC.) FOR AN ADJUST-)	CASE NO. 89-340
MENT OF RATES IN MIDDLESBORO AND)	
CLINTON, KENTUCKY)	

O R D E R

IT IS ORDERED that the Citizens of Clinton shall file an original and 12 copies of the following information with the Commission, with a copy to all parties of record, by July 12, 1990. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. If the information cannot be provided by this date, the Citizens of Clinton should submit a motion for an extension of time stating the reason an extension is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

1. The Citizens of Clinton recommended that if rate base is used that Clinton should be allowed a return on rate base of 7.5

percent, its overall cost of debt. Why was this figure recommended instead of Clinton's overall cost of capital? Explain.

2. If a rate of return based on Clinton's overall cost of capital is used, what would be the appropriate return on equity? Provide the basis for this recommended return on equity.

3. The Citizens of Clinton stated that many states use operating ratios of 90 to 94 percent. Provide a list of those states and a discussion of why they use operating ratios in the 90 to 94 percent range.

4. The Citizens of Clinton stated that an operating ratio of 92 percent would allow Clinton to exist for quite a few years pending no large capital expenditures. Would an operating ratio of 92 percent allow Clinton to accumulate adequate reserves to cover unanticipated capital expenditures?

5. Explain why a 92 percent operating ratio would be appropriate for Clinton and how this ratio was determined.

6. It has been the Commission's policy to recognize Contributions in Aid of Construction, Customer Advances, and Deferred Taxes as sources of cost free capital and, therefore, reduced rate base by those amounts. Do you agree or disagree with this policy? Explain.

7. It has been the Commission's policy to use interest synchronization to arrive at interest expense for income tax purposes. Do you agree or disagree with this policy? Explain.

8. In Aqua's calculation of Clinton's revenue requirement Aqua failed to "gross-up" Clinton's requirement to recognize

income taxes. Do you agree that Clinton's revenue requirement should be "grossed-up" to include income taxes on income taxes? Explain.

Done at Frankfort, Kentucky, this 29th day of June, 1990.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director