

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF)
KENTUCKY-AMERICAN WATER COMPANY) CASE NO. 90-321
EFFECTIVE ON DECEMBER 31, 1990)

O R D E R

IT IS ORDERED that Kentucky-American Water Company ("Kentucky-American") shall file an original and 12 copies of the following information with the Commission, with a copy to all parties of record, by February 6, 1991. 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. Where information requested herein has been provided elsewhere in this proceeding, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. If the information cannot be provided by the date specified, you should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

1. In Item 5 of the response to the Commission's Order of January 9, 1991, Kentucky-American stated that its 1990 leak detection budget was \$69,449; however, the Commission requested the amount Kentucky-American budgeted for its 1991 leak detection program. Provide the 1991 budgeted amount.

2. Since Kentucky-American's leak detection program was deferred for the last quarter of 1990 and its 1991 leak detection budget was reduced, explain why Kentucky-American's test-period leak detection expense was not adjusted to reflect this reduction.

3. In Item 9 of the response to the Commission's Order of January 9, 1991, Kentucky-American stated that its annual review of employees duties had resulted in the elimination, over the past several years, of the following positions: Assistant Customer Service Superintendent, Posting Clerk, Meter Department Helper, Teller, and three Filter Plant Operators. Provide the year the positions were eliminated, the salary for each position, a brief description of why each position was eliminated, and if the employees remained with Kentucky-American.

4. a. In response to Item 14c of the Commission's Order of January 9, 1991, Kentucky-American provided an Amending Order from the Virginia State Corporation Commission ("VSCC"). Provide the Order issued May 8, 1989 that is referenced in the VSCC's Amending Order.

b. The Amending Order directed Virginia-American Water Company ("Virginia-American") to perform a study comparing the number of customers as a general allocator to various other

methodologies. Provide a copy of the study performed by Virginia-American Water Company for the VSCC.

5. For each subsidiary in the same region as Kentucky-American provide the number of customers served, the number of employees, the level of Construction Work in Progress, and Utility Plant In Service, as of September 30, 1990.

6. a. Provide a copy of Kentucky-American's 1971 service contract with American Water Works Service Company ("Service Company").

b. Provide a detailed breakdown by category of the allocation method used in the 1971 Service Company agreement compared to the 1989 agreement.

7. Provide a detailed description of the allocation methodologies considered by the Service Company and the reasons they were rejected.

8. On page 16 of his direct testimony, Chris Jarrett explains why allocating Service Company charges based on customers is preferable to the methods used prior to the 1989 Service Company contract:

a. Mr. Jarrett states that the 1971 Service Company contract used complex and cumbersome allocators that resulted in "spurious accuracy." Explain how allocating all shared costs based on the number of customers is more accurate than the methodologies used in the 1971 agreement.

b. Is the allocation of Service Company costs performed manually or by computer? If it is performed by a computer, how much time is saved by using one allocator?

c. In selecting its cost allocation method, did the Service Company choose one method because it is a more accurate method or because it is "simpler and easier to use"?

d. Mr. Jarrett states that "production and utility plant in service, are in large degree a function of the number of customers served." Provide a detailed discussion of the relationship between production and utility plant in service. In this discussion include the other factors (i.e., number of large industrial users and population sparsity, etc.) that would affect this relationship.

9. In response to Item 15 of the Commission's Order of January 9, 1991, Kentucky-American stated that Virginia-American and Maryland-American Water Company billed its customers on a quarterly, basis; however, the analysis provided in response to 17a shows that of the utilities in the southern region that bill quarterly only Kentucky-American's allocation of Service Company charges increased. Provide a detailed analysis of why this occurred.

10. Refer to Kentucky-American's response to Item 19a of the Commission's Order of January 9, 1991:

a. If these expenditures were to be amortized, what would be the proper amortization period and what effect would the amortization have on deferred taxes? Provide all workpapers and calculations.

b. When was Kentucky-American's in-house accounting system last up-dated or changed?

c. Why wasn't the portion of the Service Company charges connected to finding a source of supply capitalized?

d. What were the conclusions Kentucky-American reached in analyzing the guidelines of the future test period?

11. In its response to Item 18 of the Commission's Order of January 9, 1991, Kentucky-American estimated that test-period pumpage increased by 87 MG due to a combination of main breaks and people letting their water run to avoid water line freeze-ups. Provide a breakdown between the two and an estimate of the increased billed revenues resulting from customers letting their water run. Include all workpapers, calculations, and assumptions.

12. Refer to Kentucky-American's response to Item 21 of the Commission's Order of January 9, 1991:

a. The Uniform System of Accounts for Class A and B Water Companies requires that Account 183 - Preliminary Survey and Investigation Charges be transferred to the appropriate utility plant account when construction is implemented. When will Kentucky-American transfer the Richmond Road Station design costs of \$488,849 to Construction Work In Progress ("CWIP")?

b. Explain why a deferred debit account should be included in rate base.

c. Since the construction on the Richmond Road Station has yet to begin, explain why the design costs should now be included in rate base.

d. Are the design costs considered to be an overhead cost and therefore included in the calculation of Allowance for Funds Used during Construction ("AFUDC") once the construction has begun.

13. In response to Item 78 of the Attorney General/Lexington Fayette County Government's data request, ("AG/LFUCG") Kentucky-American stated that it begins to book AFUDC with the inception of job design and engineering. Provide an explanation as to why Kentucky-American failed to follow this policy with the design costs of its Richmond Road Station.

14. According to W/P-C-4-4, Kentucky-American has limited experience (4 months) with the ferric "blanket" operation at the Kentucky River Station:

a. How accurate is an adjustment to reflect the annualization of ferric chloride use if it is based on 4 months of actual usage data?

b. Provide the monthly ferric chloride use for the test period and the 4 months preceding the test period.

15. In response to Item 25 of the Commission's Order of January 9, 1991, Kentucky-American referenced a policy implemented in 1989 whereby its depreciation rates will be reviewed and updated, "if necessary," every 5 years. Provide a copy of the policy referenced.

16. Refer to Kentucky-American's response to Item 26 of the Commission's Order of January 9, 1991:

a. If the management audit results in a more efficient operation, will Kentucky-American's ratepayers and stockholders both receive some benefit from the audit?

b. Since the Management Audit is in progress and the actual cost has yet to be fully incurred, explain why Kentucky-American has included the cost in this rate case.

c. If the estimated cost of the management audit is allowed in this rate case, explain what will occur if the actual cost is either over or under Kentucky-American's estimate.

17. In order to control health insurance costs, the current trend is for companies to provide coverage for their employees and their employees to provide coverage for their family. Explain why Kentucky-American has not followed this trend and if it expects to do so if insurance costs continue to increase.

18. Refer to Kentucky-American's response to Item 34 of the Commission's Order of January 9, 1991:

a. Is the gasoline price quoted by Kentucky-American of \$1.139 the price Superamerica charges at its service station?

b. Does Kentucky-American purchase its gasoline in bulk from Superamerica? If yes, provide the monthly amount of bulk and regular gasoline purchases in gallons for the test period.

c. Document the price Superamerica currently charges for bulk gasoline purchases.

d. Does the gasoline quote of \$1.139 include the increased federal tax of \$0.05?

19. Refer to W/P-C-16-1:

a. Based on its analysis of this workpaper, the Commission determined that Kentucky-American's average test-period gasoline cost was \$0.87. Provide an explanation of the relative low price Kentucky-American paid for its gasoline during the test period.

b. Provide copies of Voucher No.'s 250; 1879; and 8304.

20. a. In response to Item 35 of the Commission's Order of January 9, 1991, Kentucky-American provided the calculation of the amortization of the excess deferred federal income taxes using the depreciation lives recommended in its depreciation study. Since Kentucky-American has adjusted depreciation expense to reflect the recommended depreciation lives, should deferred taxes be adjusted to reflect the change.

b. What impact will the depreciation rate change have on other deferred taxes? Provide all workpapers and calculations.

21. Refer to Kentucky-American's response to Item 38 of the Commission's Order of January 9, 1991:

a. Will the new depreciation rates go into effect May 26, 1990 or 1991?

b. Explain the differences between Kentucky-American's adjustment to depreciation expense to reflect the current rates and its adjustment to reflect the depreciation rates recommended in its depreciation study.

c. Does Kentucky-American record its depreciation expense on a prospective basis?

d. If Kentucky-American's accumulated depreciation reserve is not adjusted to reflect its pro forma depreciation expense, would a mismatch occur?

e. Kentucky-American stated that in its next rate filing, it would adjust accumulated depreciation reserve to reflect the recommended depreciation rates. Explain why Kentucky-American did not wait until its next rate filing to adjust its depreciation expense.

22. Kentucky-American's depreciation study was completed December 1990. Explain why the recommended depreciation rates were not implemented at that time.

23. In Case No. 10481,¹ the Commission set the following guidelines for inclusion of post test-period plant additions, "they should not be requested unless all revenues, expenses, rate base, and capital items have been updated to the same period as the plant additions." If these guidelines have not been met, why should depreciation rates that will become effective subsequent to the test period be included in this proceeding?

24. Provide a copy of the computer program model referenced in Kentucky-American's response to Item 43a of the Commission's Order of January 9, 1991.

25. Based on its review of Kentucky-American's response to Item 7 of the Commission's Order of November 15, 1990, the

¹ Case No. 10481, Notice of Adjustment of Rates of Kentucky-American Water Company effective on February 2, 1989, Order dated August 22, 1989.

Commission can not determine the reasons that the Tennessee analysis cannot be adapted to Kentucky-American. Provide a detailed explanation for the reasons the analysis could not be adapted to fit Kentucky-American's situation.

26. Refer to Kentucky-American's response to Item 47 of the Commission's Order of January 9, 1991:

a. Provide an analysis of the "Other" column in W/P-C-2-4. Include a description and the dollar amount of each category.

b. If the test-period wages included in the "Other" column have not been adjusted to reflect the increased wages, is there an understatement?

27. In response to Item 78 of the AG/LFUCG's data request, Kentucky-American submitted its policies for booking AFUDC:

a. Provide an analysis listing the differences between the policies for booking AFUDC for tax and book purposes.

b. Explain why the Commission should not adopt the tax policy for booking AFUDC for rate-making purposes.

28. In response to Item 95 of the AG/LFUCG's data request, Kentucky-American provided a comparison of tax AFUDC and book AFUDC. Provide an explanation of why tax AFUDC is different than the amount of AFUDC booked.

29. In response to Item 42 of the Commission's Order of January 9, 1991, Kentucky-American provided a monthly analysis of its professional fee:

a. Provide the legal fees expensed during the test period that were incurred as a result of Contribution in Aid of Construction refund and financing cases.

b. Explain why either expense should not be amortized similar to rate case expense.

Done at Frankfort, Kentucky, this 30th day of January, 1991.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director