

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF )      CASE NO.  
KENTUCKY-AMERICAN WATER COMPANY )      94-197

O R D E R

IT IS ORDERED that Kentucky-American Water Company ("Kentucky-American") shall file the original and 15 copies of the following information with this Commission, with a copy to all parties of record. 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 along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. The information requested herein is due no later than 20 days from the date the application is filed. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. Each response should include complete details of any items which are allocated among Kentucky-American and other affiliates.

1. Provide a complete copy of Kentucky-American's internal accounting manuals, directives, policies and procedures.

2. Provide a complete copy of all of Kentucky-American's budget instructions, assumptions, directives, manuals, policies and procedures, timelines, and descriptions of budget procedures used in 1992 and 1993.

3. Identify and provide copies of relevant text from any external economic data and/or the economic data relied upon in developing budget and forecast escalation assumptions in sales, construction or cost projections.

4. Provide a comparison of Kentucky-American's operating budget to the actual result, by account, for each year for the period 1989 through 1993. For any yearly account variance greater than 5 percent provide a detailed explanation.

5. Provide an organization chart that reflects the planning process as utilized by Kentucky-American, including those planning processes of regional headquarters that have a direct impact on Kentucky-American. Identify functional responsibility for data sources and responsible personnel. Identify budget inputs, including any computer models or applications employed, as well as personnel responsible for maintaining such models.

6. Provide a reconciliation of any differences in the capitalization and the net investment rate base of Kentucky-American for the base period.

7. Provide a rate base, capital structure and statement of income for Kentucky-American for the most recent actual 12-month

period at the time of the company's rate filing and for the base period used in this case. Provide detailed explanations necessary to reconcile this data with the filed base period revenue requirement information.

8. Describe the procedures used by Kentucky-American in the planning and approval of construction projects. Provide the long-term construction planning program.

9. For each construction project begun during the last ten calendar years, provide the information requested in the format contained in Schedule 9. For each project, include the amount of any cost variance and delay encountered, and explain in detail the reasons for such variances and delays.

10. Provide in the format provided as Schedule 10 an analysis of the Construction Work in Progress for the 12 months preceding the base period, the base period and the forecasted test period. Construction Work in Progress should be consistent with the definition given in the Uniform System of Accounts.

11. Provide the information requested in Schedule 11 for each construction project in progress listed on Schedule 10.

12. Provide the information requested in Schedule 12 for budgeted and actual regular wages, overtime wages, and total wages by employee group, by month, for the most recent two years available. Provide a detailed explanation for any variance exceeding five percent in any one month. Update as further information becomes available.

13. Provide a complete copy of all wage, compensation, and employee benefits studies, analyses, or surveys conducted by or for Kentucky-American or utilized by Kentucky-American for 1992, 1993, 1994 and for the forecasted period. For each, describe how it was used by Kentucky-American, state the costs of the study to Kentucky-American, and indicate in which accounts such cost was recorded and the month recorded.

14. Describe Kentucky-American's policy regarding general wage increases and merit pay increases. State the amount, percent increases, and effective dates for general wage increases and separately, for merit increases granted for the years 1992 and 1993 and for the base period and the forecasted period for each employee group.

15. Provide complete details of any early retirement plans or other downsizing activities Kentucky-American has offered in the last two years or intends to offer its employees during the forecasted test period. Include a copy of any cost-benefit analyses associated with such early retirement programs.

16. Provide a detailed list of all fringe benefits available to Kentucky-American employees and the expected cost of each benefit in the forecasted test year. Provide comparative cost information for the two years preceding the base year and the base year. Indicate which fringe benefits, if any, are available only for management employees. Also explain any changes occurring over this period.

17. List the budgeted, and separately list, the actual number of full- and part-time employees by employee group, by month and by year, for the five years immediately preceding the base period, the base period, and the forecasted period.

18. Provide complete details of Kentucky-American's Other Postretirement Employee Benefits ("OPEB") package(s) provided to employees.

19. Provide all current labor contracts and the most recent contracts previously in effect.

20. Provide a complete copy of Kentucky-American's current medical insurance policy.

21. Provide a description of weather and customer data maintained by the company, and complete details of how such data are integrated into the sales forecast model.

22. Provide for each major functional plant property group or account, the plant beginning and ending balances, gross additions, retirements and transfers for Kentucky-American occurring in the forecasted test period in the format provided in Schedule 22. If, in a particular account transfers are a normal course of events, only a general description of the nature of the transfers is required.

23. Provide a list of all properties leased to the utility, as lessee, and improvements to leased properties, together with annual lease payments which are capitalized in the format provided in Schedule 23. Include with this response a description of the

type and use of the property, name of lessee, amount of the lease payment and the dollar value of property involved.

24. Prepare a list of all property held for future use included in rate base in the format provided in Schedule 24. Include with this response a description of the property, date of acquisition, the original cost, accumulated depreciation, expected in-service date and expected use of property.

25. Provide the information requested in Schedule 25 regarding Certain Deferred Credits, Accumulated Deferred Income Taxes, and Other Rate Base items included in the forecasted test period rate base.

26. Provide the following monthly account balances and a calculation of the average (13 month) account balances for the total company and jurisdictional operations (original cost):

- a. Plant in Service;
- b. Plant Purchased or Sold;
- c. Property Held for Future Use;
- d. Construction Work in Progress (Separate this balance into CWIP eligible for capitalized interest and other CWIP);
- e. Completed Construction Not Classified;
- f. Accumulated Depreciation and Amortization;
- g. Plant Acquisition Adjustment;
- h. Amortization of Utility Plant Acquisition Adjustment;
- i. Materials and Supplies;

j. Balance in Accounts Payable Applicable to each account in (i) above; (If actual is indeterminable, give reasonable estimate.)

k. Unamortized Investment Tax Credit - Pre-Revenue Act of 1971;

l. Unamortized Investment Tax Credit - Revenue Act of 1971;

m. Accumulated Deferred Income Taxes;

n. A Summary of Customer Deposits;

o. Computation and Development of Minimum Cash Requirements;

p. Balance in accounts payable applicable to amounts included in utility plant in service; (If actual is indeterminable, give reasonable estimate.)

q. Balance in accounts payable applicable to prepayments by major category or subaccount;

r. Balance in accounts payable applicable to amounts included in plant under construction; (If actual is indeterminable, give reasonable estimate);

s. All Current Assets and Current Liability Accounts not included above.

27. Provide a calculation of federal and state income tax expense, including a reconciliation of book to taxable income for the base period and the forecasted period in the format provided in Schedule 27.

28. Provide a trial balance as of the last day of the base period (all income statement accounts should show activity for 12 months) showing account number, account title, and actual base period accounts.

29. Provide the following information regarding the implementation of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes":

- a. the date of implementation;
- b. the effect on the financial statements;
- c. whether the base year or forecasted period includes any impact of the implementation. If so, provide detailed information regarding the impact.

30. Provide copies of Kentucky-American's 1971 and 1989 service contracts with the American Waterworks Service Company ("Service Company"). If the 1989 service contract has been modified, amended, or replaced, provide a complete copy of the current service contract and identify the areas that differ from the 1971 and 1989 contracts.

31. a. Provide copies of all other service agreements and contracts that Kentucky-American has with any of the affiliate companies.

b. Provide a narrative discussion of the pricing policies of Kentucky-American and its affiliates with regard to affiliate company transactions.



32. a. Provide a comprehensive list and detailed description of any service that has been rendered to Kentucky-American by any of its sister companies.

b. Provide a comprehensive list and detailed description of the services that Kentucky-American has provided to any of its sister companies.

33. What benefits does Kentucky-American derive from having affiliates render the services you have enumerated?

34. a. Provide separate detailed comparisons, using the 1971 and 1989 contracts (or the current contract), allocated charges expensed by Kentucky-American in the base period, and the projected allocated amount expensed in the forecasted period, in the format attached as Schedule 34a.

b. Provide a detailed analysis of the Service Company charges directly billed to Kentucky-American and expensed during the base period, and the projected expenses for the forecasted period as shown in Schedule 34b.

c. Provide a separate detailed analysis of the Service Company charges allocated or directly billed to Kentucky-American and capitalized during the base period, and the projected amounts for the forecasted period as shown in Schedule 34a.

35. The Dismissal Order in Case No. PUA88005<sup>1</sup> required the Virginia-American Water Company ("Virginia-American") to file a schedule of information to support the use of the number of

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<sup>1</sup> Case NO. PUA88005, The Application of Virginia-American Water Company for Authority to Enter Into Service Agreement with Affiliate, Order entered November 17, 1988.

customers as a general allocator in its Service Company contract. Virginia-American was to file the annual schedules by April 1, 1990 or until otherwise directed. Provide copies of the schedules Virginia-American has filed to date and include any Orders, requests, or correspondence that have arisen from this proceeding.

Done at Frankfort, Kentucky, this 27th day of June, 1994.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director



Kentucky-American  
Case No. 94-197  
Construction Work in Progress  
As of \_\_\_\_\_

Data: \_\_\_ Base Period \_\_\_ Forecasted Period  
Type of Filing: \_\_\_ Original \_\_\_ Updated \_\_\_ Revised  
Workpaper Reference No(s): \_\_\_\_\_

Schedule 10  
Page 1 of 1  
Witness Responsible: \_\_\_\_\_

Line No. (A)	Project No. (B)	Description of Project (C)	Accumulated Costs				Estimated Physical Percent Completed (H)
			Construction Amount (D)	Indirect		Total Cost (G=D+E+F)	
				AFDUC Capitalized (E)	Costs Other (F)*		
			\$	\$	\$	\$	\$

TOTAL

\*Explain the nature of all other indirect costs in footnotes.

Kentucky-American  
Case No. 94-197  
Construction Work in Progress - Percent Complete\*  
As of \_\_\_\_\_

Data: \_\_\_ Base Period \_\_\_ Forecasted Period  
Type of Filing: \_\_\_ Original \_\_\_ Updated \_\_\_ Revised  
Workpaper Reference No(s): \_\_\_\_\_

Schedule 11  
Page 1 of 1  
Witness Responsible:  
\_\_\_\_\_

Line No. (A)	Project No. (B)	Date Construction Work Began (C)	Estimated Project Completion Date (D)	Percent of Elapsed Time (E)	Original Budget Estimate (F)	Most Recent Budget Estimate (G)	Total Project Expenditures (H)	Percent of Total Expenditures (I)=(G)+(F)
					\$	\$	\$	

\*Should be based on expenditures including AFUDC.

Kentucky-American  
Case No. 94-197  
Monthly Payroll Variance Analysis  
As of \_\_\_\_\_

Type of Filings: \_\_\_Original \_\_\_Updated \_\_\_Revised  
Workpaper Reference No(s): \_\_\_\_\_

Schedule 12  
Page 1 of 1  
Witness Responsible:  
\_\_\_\_\_

Date	Employee Group	Monthly Budget			Monthly Actual			Variance Percent		
		Reg.	OT	Total	Reg.	OT	Total	Reg.	OT	Total

**Kentucky-American**  
**Case No. 94-197**  
**Gross Additions, Retirements, and Transfers**  
 From \_\_\_\_\_ To \_\_\_\_\_

Data: \_\_\_ Base Period \_\_\_ Forecasted Period  
 Type of Filing: \_\_\_ Original \_\_\_ Updated \_\_\_ Revised  
 Workpaper Reference No(s): \_\_\_\_\_

Schedule 22  
 Page 1 of 1  
 Witness Responsible: \_\_\_\_\_

Line No.	Acct. No.	Account Title	Beginning Balance	Additions	Retirements	Transfers/Reclassifications		Ending Balance
						Amount	Explanation of Transfers	
			\$	\$	\$	\$		\$

Kentucky-American  
Case No. 94-197  
Leased Property  
(Total Company)  
As of \_\_\_\_\_

Data: \_\_\_ Base Period \_\_\_ Forecasted Period  
Type of Filing: \_\_\_ Original \_\_\_ Updated \_\_\_ Revised  
Workpaper Reference No(s): \_\_\_\_\_

Schedule 23  
Page 1 of 1  
Witness Responsible:  
\_\_\_\_\_

Identification or Reference Number	Description of Type and Use of Property	Name of Lessee	Frequency of Payment	Amount of Lease Payment	Dollar* Value of Property Involved	Explain Method of Capitalization
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\*If no available, an estimate should be furnished.





Kentucky-American  
Case No. 94-197  
Certain Deferred Credits and Accumulated Deferred Income Taxes  
As of \_\_\_\_\_

Data: \_\_\_ Base Period \_\_\_ Forecasted Period  
Type of Filing: \_\_\_ Original \_\_\_ Updated \_\_\_ Revised  
Workpaper Reference No(s): \_\_\_\_\_

Schedule 25  
Page 1 of 1  
Witness Responsible:  
\_\_\_\_\_

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Line No.	Account No.	Description
		Customers' Advances for Construction
		Contributions in Aid of Construction
		Investment Tax Credits:
		Pre 1971     3% Credit
		1971         4% Credit
		1975         6% Additional Credit
		1981         10% Credit on Recovery Property
		ITC Tax Benefits Sold
		Deferred Income Taxes:
		Accelerated Amortization
		Liberalized Depreciation
		ACRS Tax Benefits Sold
		Other (Specify and list separately)
		Other (Specify and list separately)

Also provide the ITC option elected in 1971 and 1975 under Section 46(f) of the 1954 Internal Revenue Code.

Kentucky-American

Case No. 94-197

Adjusted Jurisdictional        Federal and        State Income Taxes\*  
 For the 12 Months Ended                                 

Data:        Base Period        Forecasted Period  
 Type of Filing:        Original        Updated        Revised  
 Workpaper Reference No(s):                                 

Schedule 27  
 Page 1 of 3  
 Witness Responsible:                                 

Line No.	Description	At Current Rates			At Proposed Rates	
		Unadjusted (1)	Schedule 49 Adjustments (2)	Adjusted (3)	Adjustments (4)	Adjusted (5)
1	Operating Income Before Income Taxes	\$	\$	\$	\$	\$
2	Reconciling Items:					
3	Interest Charges					
4	Tax Accelerated Depreciation					
5	Book Depreciation	_____	_____	_____	_____	_____
6	Excess of Tax Over Book Depreciation					
7	Other Reconciling Items (Specify and List)	_____	_____	_____	_____	_____
8	Total Reconciling Items					
9	Taxable Income	_____	_____	_____	_____	_____
10	Income Tax Rates:					
11	\$ _____ 0 __0					
12	\$ _____ 0 __0					
13	\$ _____ 0 __0					
14	\$ _____ 0 __0					
15	Over \$ _____ 0 __0	_____	_____	_____	_____	_____
16	Federal (State) Income Tax Liability	_____	_____	_____	_____	_____

\*Separate schedules should be completed for the federal and state calculation.

Kentucky-American  
Case No. 94-197  
Adjusted Jurisdictional \_\_\_\_\_ Federal and \_\_\_\_\_ State Income Taxes\*  
For the 12 Months Ended \_\_\_\_\_

Data: \_\_\_ Base Period \_\_\_ Forecasted Period  
Type of Filing: \_\_\_ Original \_\_\_ Updated \_\_\_ Revised  
Workpaper Reference No(s): \_\_\_\_\_

Schedule 27  
Page 2 of 3  
Witness Responsible: \_\_\_\_\_

Line No.	Description	At Current Rates			At Proposed Rates	
		Schedule 49			Adjustments (4)	Adjusted (5)
		Unadjusted (1)	Adjustments (2)	Adjusted (3)		
17	Investment Tax Credits	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
18	Federal (State) Income Taxes - Current	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
19	Deferred Income Taxes:					
20	Tax Accelerated Depreciation					
21	Tax Straight-Line Depreciation	_____	_____	_____	_____	_____
22	Excess of Accelerated Over Straight-Line Depreciation					
23	Deferred Income Tax @ _____ %					
24	Amortization of Prior Years Deferred Income Taxes	_____	_____	_____	_____	_____
25	Net Deferred Income Taxes Resulting from Depreciation					
26	Investment Tax Credit Deferred					
27	Amortization of Prior Years I.T.C.	_____	_____	_____	_____	_____

\*Separate schedules should be completed for the federal and state calculation.

Kentucky-American  
Case No. 94-197  
Adjusted Jurisdictional  Federal and  State Income Taxes\*  
For the 12 Months Ended \_\_\_\_\_

Data:  Base Period  Forecasted Period  
Type of Filing:  Original  Updated  Revised  
Workpaper Reference No(s).: \_\_\_\_\_

Schedule 27  
Page 3 of 3  
Witness Responsible: \_\_\_\_\_

Line No.	Description	At Current Rates			At Proposed Rates	
		Schedule 49			Adjustments (4)	Adjusted (5)
		Unadjusted (1)	Adjustments (2)	Adjusted (3)		
28	Investment Tax Credit - Net	\$	\$	\$	\$	\$
29	Other Tax Deferrals (Specify and List Separately)	_____	_____	_____	_____	_____
30	Total Deferred Income Taxes	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
31	Total Federal (State ) Income Taxes (18 + 30)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

\*Separate schedules should be completed for the federal and state calculation.

Kentucky-American  
Case No. 94-197  
Service Company Contract Comparison

Data:    \_\_\_ Base Period    \_\_\_ Forecasted

Schedule 34a  
Page 1 of 1  
Witness Responsible:

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<u>Description</u>	<u>1971 Contract</u>	<u>Difference</u>	<u>1989 Contract</u>
Administrative			
Regional Office			
General Office			
Engineering			
Regional Office			
General Office			
Customer Relations			
Regional Office			
General Office			
Employee relations			
Regional Office			
General Office			
Water Quality			
Regional Office			
General Office			
Secretarial			
Regional Office			
General Office			
Accounting			
Regional Office			
General Office			
Treasury			
Regional Office			
General Office			
Data Processing -			
General			
Internal Auditing			
Total			
Regional Office			
General Office			
Data Processing			
Authorizations			
Total A/C ___			
Customer Billing A/C ___			
Auth/Water Quality/Var Accounts			
Construction/Maintenance			
Grand Total			

Kentucky-American  
Case No. 94-197  
Service Company Contract Comparison

Data:       Base Period      Forecasted

Schedule 34b  
Page 1 of 1  
Witness Responsible:

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<u>Description</u>	<u>Base Period</u>	<u>Forecasted Period</u>
Administrative		
Regional Office		
General Office		
Engineering		
Regional Office		
General Office		
Customer Relations		
Regional Office		
General Office		
Employee relations		
Regional Office		
General Office		
Water Quality		
Regional Office		
General Office		
Secretarial		
Regional Office		
General Office		
Accounting		
Regional Office		
General Office		
Treasury		
Regional Office		
General Office		
Data Processing -		
General		
Internal Auditing		
Total		
Regional Office		
General Office		
Data Processing		
Authorizations		
Total A/C <u>   </u>		
Customer Billing A/C <u>   </u>		
Auth/Water Quality/Var Accounts		
Construction/Maintenance		
Grand Total		