COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

IT IS ORDERED that Kentucky-American Water Company ("Kentucky-American") shall file the original and 12 copies of the following information with the Commission by September 26, 1994, 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. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to the response to Item 5 of the Commission's August 4, 1994 Order.

a. Do the 41,650 customers that will be contacted between 1995 and 1999 represent the total number of homes in Kentucky-American's service territory that were built before 1980?

b. Why has Kentucky-American projected that only 30 to 40 percent of those contacted will participate in its retrofit program?

c. Are apartments included in the 41,650 customers that will be contacted between 1995 and 1999?

2. a. Refer to the response to Item 10 of the Commission's August 4, 1994 Order. Provide the same information on an annual basis.

b. Since approximately 53 percent of the construction projects started or completed between January 1, 1984 and December 31, 1993 were started or completed behind schedule, how can the investment budget schedule presented by Kentucky-American be realistic and reliable?

3. Refer to the response to Item 11 of the Commission's August 4, 1994 Order. Provide a detailed analysis of the bids when the contract for the Kentucky River Feed Building is awarded.

4. Refer to the response to Item 12 of the Commission's August 4, 1994 Order. Provide the actual cost when available to construct the Jack's Creek Pipeline.

5. Refer to the response to Item 132 of the Attorney General's data request of August 4, 1994. Are the projected 1994 expenditures for "BP92-12 Develop Source of Supply" considered design and development costs?

6. If a satisfactory source of supply could be obtained from the Kentucky River, would Kentucky-American build the Louisville pipeline?

7. Refer to the response to Item 18 of the Commission's Order of August 4, 1994. Since an application for a Certificate of Public Convenience and Necessity is projected to be filed in 1995, provide the anticipated construction schedule.

8. Refer to the response to Item 19 of the Commission's August 4, 1994 Order:

a. Does the Kentucky River Authority intend to reexamine the Kentucky River supply deficit in the near future? If yes, provide any schedule that may exist for such reexamination.

b. Does the Kentucky River Authority have a construction schedule for eliminating the supply deficit in the Kentucky River? If yes, provide the schedule.

9. Refer to the response to Item 20 of the Commission's August 4, 1994 Order. Provide a detailed definition of the supply deficit referred to in this response.

10. Refer to the response to Item 21 of the Commission's August 4, 1994 Order:

a. Does the inability to control and track costs in Account 183 - Preliminary Survey & Investigation justify ignoring the requirements of the Uniform System of Accounts for Class A and B Water Companies as prescribed by the Commission?

b. Explain why Kentucky-American cannot implement the same control system for Account 183 - Preliminary Survey &

Investigation that is used to monitor Construction Work In Progress.

11. Given that Case No. 93-434[1] is not a certificate proceeding but an investigation of Kentucky-American's demand forecast and sources of supply, how will the decision in that case impact the inclusion or exclusion of the pipeline expenditures in this case?

12. Refer to the response to Item 23 of the Commission's August 4, 1994 Order. Kentucky-American has proposed to change its forecasted capital structure to reflect the reduction in short-term debt caused by slippage. Provide a detailed explanation as to why the slippage factor reduction to capital construction expenditures would cause a change in Kentucky-American's capital structure when in theory expenditures cannot be traced to their source of funding.

13. Refer to the response to Item 24 of the Commission's August 4, 1994 Order. Are all materials purchased for a construction project similar to the Jack's Creek Pipeline recorded in the Stock E Plant Materials account before they are charged to a specific work order?

14. Refer to the responses to Items 29 and 31 of the Commission's August 4, 1994 Order. Given that all salaried and non-union employees wage increases are based on a performance based pay system, how can Kentucky-American predict an employee's performance in advance.

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[1] Case No. 93-434, An Investigation of the Sources of Supply and Future Demand of Kentucky-American Water Company.

15. Refer to the response to Item 35 of the Commission's August 4, 1994 Order:

a. Kentucky-American did not provide a reason for switching from a 6-year average as used in its last rate case to a 5-year average as now proposed for calculating forecasted fuel and power. Provide a detailed reason for changing the averages.

b. Recalculate the forecasted fuel and power expense using a 6-year average. Provide all workpapers and assumptions used in the recalculation.

16. Refer to the response to Item 42 of the Commission's August 4, 1994 Order:

a. Kentucky-American explained that it used a 13-year history of weighted average increases to calculate forecasted chemical expense because that was the same methodology used by the Commission in the previous rate case.[2] However, the Commission used an 11-year average in its calculation. Explain why Kentucky-American used a 13-year average rather than a 11-year average.

b. Recalculate Kentucky-American's forecasted chemical expense using an 11-year history of weighted average increase. Provide all workpapers and assumptions used in the recalculation.

17. Refer to the response to Item 46(a) of the Commission's August 4, 1994 Order. Provide a copy of the June 30, 1994 letter referenced in that response.

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[2] Case No. 92-452, Notice of Adjustment of the Rates of Kentucky-American Water Company, Order dated November 19, 1993.

18. In its response to Item 48 of the Commission's August 4, 1994 Order, Kentucky-American stated that the West Virginia-American Water Company ("West Virginia-American") increased its staff to perform the services previously provided by the Southern Region of the American Water Works Service Company ("AWWS").

a. Provide a detailed description of the staff increases including number of employees, job titles, job descriptions, and salaries.

b. How has the West Virginia Commission reacted to these staff increases?

c. What was the effect on West Virginia-American's operating cost of increasing staff and eliminating AWWS charges?

d. Is Kentucky-American considering to increase its staff to eliminate the need for the AWWS?

19. In response to Item 50 of the Commission's August 4, 1994 Order, Kentucky-American provided no response but referenced its response to Item 46(a) of the same Commission Order. Provide a detailed response to the question.

20. Refer to the response to Item 53(a) of the Commission's August 4, 1994 Order:

a. Since each subsidiary receives the same IS services, except for the number of bills processed, provide a detailed explanation for not dividing the data processing costs evenly between the operating subsidiaries.

b. Why would the installation of a computer system or software be allocated rather than directly billed to each subsidiary?

21. Refer to the response to Item 54 of the Commission's August 4, 1994 Order:

a. Provide an analysis comparing the costs for data processing if all services are performed by Kentucky-American to such services being performed by both Kentucky-American and AWWS.

b. Explain why the data processing would have a better quality if performed by the AWWS.

22. The responses to Items 56 and 57 of the Commission's August 4, 1994 Order fail to indicate whether any analysis or study exists to support the statements referenced in those items. Does any analysis or study exist? If yes, provide copies.

23. Refer to the response to Item 59 of the Commission's August 4, 1994 Order. Provide a detailed description of the services the AWWS Accountants provide to the operating subsidiaries.

24. Refer to the response to Item 68 of the Commission's August 4, 1994 Order. When available, provide the retro adjustments for the 1989 insurance policy period for: the real & personal property; the workers compensation; and the general liability.

25. Explain if Kentucky-American's fuel and power expense varies directly with its volume of water sales.

26. In Case No. 92-452 the Commission reduced forecasted fuel and power expense because Kentucky-American's fuel and power budgets historically exceeded the actual results. Given this past decision, explain why forecasted fuel and power expense is more reliable than trended historical data.

27. Refer to the response to Item 74 of the Commission's August 4, 1994 Order. For the period of 1984 through 1993, the ratios of actual to budgeted programmed maintenance is 86.62 percent. Since the historical trend shows that budgeted programmed maintenance exceeds the actual results, explain why forecasted programmed maintenance should not be adjusted to reflect that trend.

28. Recalculate Kentucky-American's forecasted revenue requirement and rate base to reflect the historical trend that actual programmed maintenance is 86.62 percent of the forecasted amount. Provide detailed workpapers and calculations to show the impact to each element of rate base and cost of service.

29. When available, provide the monthly variance reports for the period of April 1994 through January 1995.

30. Refer to the memorandum from R. D. Sievers dated April 29, 1994 provided in response to Item 129 of the Commission's August 4, 1994 Order.

a. The estimate for pension expense and allocations of the estimated expense were revised as of April 27, 1994. Why were these revisions not considered when making the estimate for allocation of pension expense for the forecasted test year?

b. The memorandum indicated final allocations of 1994 pension expense, pension contribution, and OPEB cost will be made using July 1, 1994 census data. Provide schedules showing these final allocations. If the information is not yet available, state the expected availability date and provide the schedules when available.

c. Schedules attached to the memorandum showed the following AWWS OPEB allocations for Kentucky-American: Voorhees - $27,938, Belleville - $2,965, Hershey Data Center - $13,087, and Regions - $23,810. These allocations total $67,800. The response to Item 140 of the Commission's August 4, 1994 Order reported an AWWS OPEB allocation of $80,932. Explain the discrepancy between these figures.

31. Refer to the documents provided in response to Item 129 of the Commission's August 4, 1994 Order.

a. According to the 1994 interim actuarial report, Table 4, a discount rate of 7.25 percent and a health care cost trend rate for 1994 of 12 percent declining to 5.5 percent in 2004 and after were used in calculating OPEB expense. However, James E. Salser's Exhibit JES-3 reported a discount rate of 8 percent and a health care cost trend rate of 13 percent for 1994 declining to 6 percent in 2011 and after. Clarify which discount rate and trend rates were used to calculate the requested OPEB expense of $678,879.

b. Pages 2 and 4 of the Towers Perrin mini-survey "Trends in Key Actuarial Assumptions Under FAS 87 and FAS 106" were not included in the response. Provide the report in its entirety.

32. The response to Item 134 of the Commission's August 4, 1994 Order reports an expense of $6,278 for postemployment benefits included in revenue requirements. Is this Kentucky-American's allocation of the initial effect of applying SFAS 112 which will be reported as a change in accounting principle and, as such, is not a recurring level of expense?

33. Is an allocation for AWWS pension costs included in management fees? If so, provide workpapers showing cost calculations for the AWWS pension allocation under the 1971 and 1989 service company contracts.

34. In response to Item 124 of the Commission's August 4, 1994 Order, Kentucky-American indicated that a detailed breakdown of service cost, interest cost, return on plan assets, gains and losses, and amortization of the transition obligation would be provided when available. Indicate the date the company expects the information to be available.

35. In Case No. 92-452, Grubb's testimony, at page 26, states that a 12 percent increase in health insurance premiums, to be effective October 1993, was assumed in the calculation of the forecasted group insurance expense. What was the actual percentage increase in group insurance premiums in October 1993? Provide a schedule comparing Kentucky-American's actual increase in health

insurance premiums to its budgeted increase in health insurance premiums for each year from 1989 through 1992.

36. The response to Item 122 of the Commission's August 4, 1994 Order stated that the actual group insurance rates scheduled to become effective October 1994 would be provided as documentation for the projected 7.5 percent increase in 1994 group insurance premiums. What documentation does Kentucky-American plan to offer to support the 7.5 percent increase projected for October 1995?

37. On what basis did Towers Perrin adjust the medical trend rate Kentucky-American proposed in Case No. 92-452 to the rates proposed in Case No. 94-197? Explain in detail.

38. Does Towers Perrin maintain that the medical trend rate approved by the Commission in Case No. 92-452 is inappropriate for measuring SFAS 106 cost? If yes, provide a detailed explanation for its position.

39. Explain in detail why the Commission should reconsider the medical trend rates approved in Case No. 92-452.

40. Refer to the response to Item 128 of the Commission's August 4, 1994 Order. Are any of the bargaining strategies reflected in the cost calculations of SFAS 106 costs in Case No. 94-197?

41. Provide a schedule comparing the cost to ratepayers from Kentucky-American earning a return on overfunded SFAS 106 costs and the benefits of the returns and gains on those funds.

42. Calculate Kentucky-American's SFAS 106 costs using the following medical trend rate assumptions:

a. Those used by the Commission in Case No. 92-452.

b. Those used by the Commission in Case No. 92-452 plus 1 percent in each year.

c. The Average Kentucky Utilities medical trend rates as shown on Exhibit JES-3.

d. Those proposed in Case No. 94-197 with the 1994 and 1995 rates being decreased by 2 percent.

For each of the above calculations, show service cost, interest cost, return on plan assets, gains and losses, and amortization of the transition obligation. Show these costs as allocated to Kentucky-American using both allocating methods used in the response to the Commission's August 4, 1994 Order, Item 129, pages 17 and 34 of 62, and show the allocation factors. For Service Company Cost, provide this information using allocations under both the 1971 and 1989 contracts.

43. Refer to the response to Item 92 of the Commission's Order dated August 4, 1994.

a. Is this information updated from the data originally provided in Exhibit CFP-1, Schedules 4 and 6? If so, provide the updated information. If not, reconcile the market prices and book values shown in Item 92 and Schedule 6.

b. Show a calculation of the DCF cost of equity for American Water Works using annual growth rates.

44. Was the proposed 5.35 percent short-term debt cost rate calculated in the same manner as the 4.55 percent cost rate that is currently approved for Kentucky-American? If not, why?

45. Refer to page 6 of Bruce E. Tillotson's Direct Testimony. Explain how a 38 percent common equity level compares favorably with water companies listed in Exhibit CFP-1, Schedule 2.

46. Refer to the response to Item 34 of LFUCG's Request No. 1. Describe impacts specific to Kentucky-American as opposed to the proxy companies.

47. Refer to Statement and Notice, Volume I, Exhibit 16, page 23. Are the pre-tax interest coverage ratios calculated using the common equity and debt cost rates shown in paragraphs 2, 3, and 4 of page 7 of that same exhibit?

48. Why was a 5-year average of weather normalized sales used for the classes for which sales were normalized? Did Kentucky-American consider using any other period of time to calculate an average? Why?

49. Refer to the Sales portion of the response to Item 3 of the Commission's June 27, 1994 Order. How often does Kentucky-American review existing building lots and plats and consult with developers, home builders, and engineers? Has it done so since its last rate case? Are these reviews and consultations documented? If so, provide copies.

50. Workpapers 2-2.76 through 2-2.87 show monthly customers and water sales for 1988 through 1993. Provide, by class, monthly customers and water sales figures for the base period and the forecast period.

51. Provide the water sales and customer history data referred to in Mr. Grubb's testimony, page 28, lines 13-16, for the years 1983 through 1987.

52. For each year of the period 1983 through 1993 referenced by Mr. Grubb for the review of customer and sales data, provide the average monthly residential usage for the 4-month period June through September, as well as the average for October through May of each year.

53. For reasons enumerated in Mr. McKitrick's and Mr. Harris' testimonies, Kentucky-American is not proposing to change its existing rate design. Mr. Grubb's weather normalization analysis indicates that certain customer classes exhibit a greater correlation between sales and weather conditions. Does Kentucky-American agree that those classes are the most appropriate ones to be billed seasonal rates? Explain your response?

54. In Case No. 92-452, the Commission ordered Kentucky-American to maintain its billing records so that usage increments could be ascertained and used to develop inverted block rates or seasonal rates. Kentucky-American has not proposed any rate design changes and its billing analyses included on Schedules M-3.1 and M-3.2 show total consumption by customer class. Provide a full explanation of the amount of detail maintained by Kentucky-American in compliance with the Commission's Order.

55. Mr. McKitrick's Schedule 1 shows the potential impact on earnings of the implementation of inverted rates and uses an "average" inverted rate of $3.00 per thousand. Does this figure

represent a tail block rate, an average of a tail block rate and another block rate, or something else?

56. Kentucky-American is proposing to increase its existing rates for all customer classes by its approximate overall percentage increase. Explain how this is supported by the results of the cost-of-service study filed with Kentucky-American's application.

57. The response to Item 145 of the Commission's August 4, 1994 Order provided, by class, monthly customers and water sales figures for the base period and the forecast period. Is the information for the forecast period identical to the demand projections filed in Case No. 93-434? If not, identify and explain any differences.

58. Kentucky-American's Conservation Plan, page 17, states that a pilot retrofit program will be initiated in 1994 with a minimum of 300 homes. Provide a status report.

59. In response to Item 99 of the Commission's August 4, 1994 Order, the assumption that weather does not impact industrial sales is listed. What is the basis for this assumption?

60. The response to Item 100 of the Commission's August 4, 1994 Order states that this model has been used by the Tennessee PSC for a number of years. Did the Tennessee PSC order Tennessee-American Water Company to start using this model? If so, why? Has use of this model assisted Tennessee-American? If yes, how?

61. The response to Item 101 of the Commission's August 4, 1994 Order states that the Tennessee PSC has used the Weather

Normalization Model in several prior rate cases. Provide the sections of those rate case orders that address the weather normalization model and any related issues.

62. Refer to the response to Item 102 of the Commission's August 4, 1994 Order:

a. Provide the data to support Assumption No. 1.

b. Explain the basis for conclusion No. 3.

63. What percentage of Kentucky-American's total revenue, under the proposed rates, is due to variable costs?

64. What effect will the variable costs have on revenue stability if rates designed to encourage conservation (e.g. inverted rates, seasonal rates) are implemented?

65. Does the arithmetical update to Exhibit 35 result in a fair allocation of costs among customer classes?

66. Have demand characteristics changed significantly since the cost-of-service study set out in Exhibit 35 was prepared?

67. Would rates based on the cost-of-service study need to be modified since the demand study for maximum day resulted in low demand factors, particularly for the residential class?

68. Would rates allocated according to the costs shown per customer class in Exhibit 35(a) result in a more fair allocation of revenues than the proposed rates? Why?

69. Did Kentucky-American consider designing its proposed rates based on the costs assigned to the customer classes shown in Exhibit 35(a)? If no, explain why not.

70. Taking into consideration low demand factors and the impact on Kentucky-American's customers of any reassignment of costs among customer classes, provide a schedule of rates that incorporates the results of Exhibit 35(a).

71. a. What percentage of Kentucky-American's users live in residential group homes, dormitories, apartments or other types of housing in which water is billed to a non-resident owner of the dwelling rather than the users?

b. What effect would inverted rates or seasonal rates have on the consumption patterns of these types of users?

Done at Frankfort, Kentucky, this 12th day of September, 1994.

PUBLIC SERVICE COMMISSION

Robert M. Davis

For the Commission

ATTEST:

Don Mills

Executive Director