

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF) CASE NO.
KENTUCKY-AMERICAN WATER COMPANY) 97-034

O R D E R

IT IS ORDERED that the Attorney General ("AG") shall file the original, 3 hard copies, and 1 electronic copy of the following information with the Commission with a copy to all parties of record no later than June 23, 1997. The AG shall furnish with each response the name of the witness who will be available to respond to questions concerning each item of information requested should a public hearing be scheduled.

1. On page 16 of his Direct Testimony filed June 2, 1997, Robert Henkes states that, "Therefore, the rates paid by the rate payers incorporate the assumption that the Company did not receive the accelerated depreciation related tax benefits, even though the Company actually did receive such benefits." Do Kentucky-American's ratepayers benefit from the accelerated depreciation related tax benefits when rate base is reduced by the accumulated deferred taxes?

2. On pages 17 and 18 of his direct testimony, Mr. Henkes states that, "The New Jersey Board of Public Utilities ("New Jersey Commission") has a long-standing and well-established policy of excluding deferred taxes from lead/lag studies from CWC purposes because of its conclusion that deferred taxes do not represent investor-supplied funds." Provide a copy of an Order issued by the New Jersey Commission discussing this policy.

3. Is the AG aware of any state commissions, besides the New Jersey Commission, that exclude deferred income taxes from the lead/lag studies used to calculate the cash working capital allowance? If yes, provide a list of state commissions and include copies of Orders that discuss this treatment.

4. Is the AG aware of any publications or journals that support his position of excluding deferred income taxes from the lead/lag studies used to calculate the cash working capital allowance? If yes, provide copies of the publications and journals.

5. Refer to James A. Rothschild's Testimony, page 6, line 20. Explain the reference to a continued downtrend in the returns on equity allowed to water utilities.

6. Refer to James A. Rothschild's Testimony, page 40, line 12 and Schedule JAR3. The testimony indicates no adjustment is made for capital structure risk. However, Schedule JAR3 shows a capital structure risk adjustment of 0.05 percent. Is a capital structure risk adjustment proposed? If so, explain why such adjustment is necessary and how it is calculated.

Done at Frankfort, Kentucky, this 12th day of June, 1997.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:



Executive Director