COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF THE RATES OF KENTUCKY-AMERICAN WATER COMPANY	))	CASE NO. 2000-120

O R D E R

IT IS ORDERED that Kentucky-American Water Company ("Kentucky-American") shall file the original, 3 paper copies, and one electronic copy of the following information with the Commission no later than June 16, 2000, with a copy in paper medium to all parties of record. Each copy of the information 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 its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this Order. When applicable, the requested information should be provided for total company operations and jurisdictional operations, separately.

1. Provide a comparison of Kentucky-American's forecasted rate base, capital structure, and income statement from Case No. 97-034[1] with its actual results. Provide a detailed narrative for each variance.

2. Provide a monthly comparison of Kentucky-American's forecasted construction expenditures from Case No. 97-034 with its actual results by construction project. Provide a detailed narrative for each variance.

3. a. List each construction project that will be commenced and/or completed during the forecasted test period for which Kentucky-American, as of the date of this Order, has not obtained all necessary governmental permits, licenses, or other approvals.

b. For each project listed,

(1) List all required governmental permits, licenses, or other approvals.

(2) List those governmental permits, licenses, or other approvals Kentucky-American has not obtained as of the date of this Order.

(3) State the date on which Kentucky-American applied or expects to apply for such governmental permit, license, or other approval.

4. For each budget project started and/or completed during the period 1990 through 1999, provide:

a. The number of budget projects that were completed ahead of schedule.

[1] Case No. 97-034, Application of Kentucky-American Water Company to Increase Its Rates.

b. The number of budget projects that were completed on schedule.

c. The number of budget projects that were completed behind schedule.

5. Refer to Kentucky-American's Response to the Commission's Order of April 13, 2000, Item 10. For the period from 1990 through 1999, the 10-year average ratios of actual to budgeted capital construction expenditures ("slippage factors") are 97.23 percent for Investment Projects; and 74.871 percent for Budget Projects. Recalculate Kentucky-American's forecasted revenue requirement, rate base, and cost of service as follows:

a. Reduce all monthly Investment Project A-H expenditures beginning December 1999 through the end of the forecasted period, using the 97.23 percent slippage factor.

b. Reduce all monthly Budget Project expenditures beginning December 1999 through the end of the forecasted period, using the 74.871 percent slippage factor.

c. Provide all workpapers, assumptions, and calculations showing the effect of the slippage factors to each forecasted element of rate base, capital structure, and cost of service.

6. Refer to Kentucky-American's Response to the Commission's Order of April 13, 2000, Item 10 at 1. Budget Projects 96-02, 96-17, 96-18, 98-03, 98-06 were originally scheduled for completion prior to 1999 but were not completed on schedule. Why, although $535,382 was spent on these projects during 1999, were no funds budgeted in 1999 for these projects?

7. Refer to Kentucky-American's Response to the Commission's Order of April 13, 2000, Item 10 at 1. Kentucky-American scheduled Budget Projects 99-07 and 99-08 to begin in August 1999. Explain why Kentucky-American did not budget any funds in its 1999 budget for these projects although $1,283,127 was expended on them during 1999.

8. Refer to Kentucky-American's Response to the Commission's Order of April 13, 2000, Item 10 at 1. Explain why a variance totaling $1,773,801 occurred between the amount budgeted for Budget Projects 98-02, 98-05, 98-08, 98-09, 99-01 in 1999 and the amount actually expended for these projects in 1999.

9. Refer to Kentucky-American's Response to the Commission's Order of April 13, 2000, Item 10 at 2, "Grand Total Completed BP's." Total original budget project cost is shown as $12,514,200 while total actual project cost is shown as $6,217,113. The variance between original budget project cost and actual project cost is $6,297,087, or 50.23 percent, which is substantially higher than variances in previous years. Describe the measures, if any, that Kentucky-American has taken to more accurately estimate budgeted verses actual total project cost.

10. Refer to Kentucky-American's Response to the Commission's Order of April 13, 2000, Item 10 at 1. Explain how Kentucky-American accounted for the costs associated with cancelled Budget Projects 96-12, 98-02, and 99-01.

11. The budget variance for Investment Plan Project A is 400.65 percent. Provide a detailed calculation and explanation for this variance.

12. Kentucky-American underbudgeted Investment Plan Projects C, G, and H by 21.87 percent, 35.47 percent, and 88.50 percent, respectively. Provide a detailed explanation for each of these variances.

13. Refer to Kentucky-American's Application, Exhibit 11 at 1. Provide a detailed analysis of all costs related to Investment Project 92-12, "Bluegrass Water Project," including the $5,950,000 carried forward from 1999 and the $270,000 budgeted for 2000 for a total project cost of $6,220,000.

14. At page 10 of his direct testimony, Roy W. Mundy II states that the "Bluegrass Water Project" is "the pipeline from Lexington to Louisville."

a. Does the "Bluegrass Water Project" consist of projects other than a pipeline from Lexington to Louisville?

b. If yes, identify these projects.

15. Refer to Direct Testimony of Linda C. Bridwell at 17, line 29, and Kentucky-American's Application, Exhibit 11 at 1. Explain why $270,000 was budgeted for the Bluegrass Water Project in the year 2000 if the project has been halted.

16. At Exhibit 11, page 1 of its Application, Kentucky-American indicates the total project cost of the Bluegrass Water Project is $6,220,000. At Exhibit 37, Schedule B-1, of its Application, it reports Bluegrass Water Project Pipeline Related Costs at a level of $3,181,479. Reconcile the difference between these two amounts.

17. Refer to Kentucky-American's Application, Exhibit 37, Schedule B-1. Provide a detailed analysis of all costs related to and included in the following rate base components:

a. Kentucky River System ("KRS") II Costs.

b. KRS Residuals Project Costs.

c. Bluegrass Water Project Pipeline Related Costs.

d. Community Education Costs.

18. Refer to Direct Testimony of Linda C. Bridwell at 7, lines 1-3.

a. Was software in question purchased to replace existing software?

b. If yes, state where the retirement of the existing software is reflected in the forecasted test period.

19. Refer to Direct Testimony of Linda C. Bridwell at 7, lines 20-24. IP 98-05 is for the installation of a water main along Leestown Road. Has the retirement of the existing main been reflected in the forecasted rate base?

20. Refer to Direct Testimony of Linda C. Bridwell at 7, lines 25-31.

a. Why has Kentucky-American chosen to construct the Clark County mains in lieu of continuing to purchase water from Winchester Municipal Utilities?

b. Provide all studies and analyses that Kentucky-American performed or commissioned that address how Kentucky-American would supply water to the areas previously served by the Boonesboro Water Association ("Boonesboro").

21. Refer to Direct Testimony of Linda C. Bridwell at 8, lines 1-7.

a. Has the $958,000 to be contributed by the Scott County Fiscal Court been reflected in the forecasted financial statements?

b. Describe Kentucky-American's accounting treatment of these funds.

22. Refer to Direct Testimony of Linda C. Bridwell at 8, lines 8-14.

a. Have the contributed funds related to Project IP 99-07 been reflected in the forecasted financial statements?

b. Describe Kentucky-American's accounting treatment of these funds.

23. Refer to Direct Testimony of Linda C. Bridwell at 8, lines 15-22.

a. Has the $775,000 reimbursement from the Kentucky Transportation Cabinet been reflected in the forecasted financial statements?

b. Describe Kentucky-American's accounting treatment of these funds.

24. Refer to Direct Testimony of Linda C. Bridwell at 8, lines 27-30.

a. Does Kentucky-American anticipate any contributions in aid of construction for this project?

b. If yes, has Kentucky-American reflected these contributions in its forecasted financial statements? Describe Kentucky-American's accounting treatment of these funds.

25. Refer to Direct Testimony of Linda C. Bridwell at 9, lines 1-6.

a. What is the amount of the Kentucky Transportation Cabinet's anticipated contribution?

b. Has this amount been reflected in the forecasted financial statements?

c. Describe Kentucky-American's accounting treatment of these funds.

26. Refer to Direct Testimony of Linda C. Bridwell at 9, lines 7-10.

a. Does Kentucky-American anticipate any contributions to help offset the cost of this project?

b. If yes, has Kentucky-American reflected these contributions in its forecasted financial statements? Describe Kentucky-American's accounting treatment of these funds.

27. Refer to Direct Testimony of Linda C. Bridwell at 9-10.

a. When does Kentucky-American anticipate that its Board of Directors will approve Projects 11105, 11106, 11107, 10511, and 11104?

b. Describe the adjustments that should be made to the forecasted financial statements if the projects are not approved.

28. Why did Kentucky-American select a 5-year amortization period for the "KRS II" project?

29. At page 29 of his direct testimony, Edward J. Grubb states that Kentucky-American used a 10-year amortization period for the Bluegrass Water Project Pipeline costs to lower the impact of the revenue requirement to its customers. Explain in detail why Kentucky-American selected a 10-year period rather than a longer period that would further reduce the impact on Kentucky-American customers. Further explain why a 10-year recovery period is more appropriate than a longer period.

30. Why is it appropriate for Kentucky-American to request recovery of the pipeline cost in this proceeding instead of deferring the cost until the supply deficit problem is resolved?

31. Describe the accounting treatment that Kentucky-American would have afforded the Bluegrass Water Project Pipeline costs included in this case had the

project been completed and operational. Explain why, if the recovery period for those costs would have been longer had the project been completed, it is reasonable to use a shorter recovery period since the project will not constructed.

32. Identify all capital construction projects initiated by American Water Works Company ("AWWC") or an AWWC affiliate that were cancelled or postponed under circumstances similar to that experienced by Kentucky-American with the Bluegrass Water Project. For each project listed, describe the rate-making treatment that the state utility regulatory authority afforded to the project's costs.

33. a. Why should the design costs of the KRS Residuals Handling Facilities not be deferred until the project is completed?

b. Over what period of time should these costs be recovered if they were deferred until the facilities are operational?

34. Refer to Kentucky-American's Application, Exhibit 37, Schedule B-4, at 2.

a. Provide a detailed cost breakdown of the Bluegrass Water Project – Design included in construction work in progress of $2,000,162.

b. Are any of these costs also included in the Bluegrass Water Project Pipeline Related Costs of $3,181,479 as shown at Exhibit 37, Schedule B-1, page 2? If yes, identify each included cost in full detail.

35. Provide the effect on forecasted rate base, capital structure, and cost of service if the budget project costs of $2,000,162 related to Budget Project 92-12 are excluded from Construction Work in Progress. Provide all workpapers, state all assumptions, and show all calculations used to prepare the response.

36. Utility plant acquisition adjustments are recorded equaling the difference between the purchase price and net book value of the plant purchased. At page 8 of his direct testimony, Mr. Grubb states that the $175,340 acquisition adjustment included in rate base is attributable to the acquisition of Boonesboro.

a. Why did Kentucky-American pay more than the net book value for the Boonesboro system?

b. How did Kentucky-American determine the purchase price for the Boonesboro system?

c. Why should Kentucky-American's customers pay rates reflecting such payment?

d. Has Kentucky-American determined a value on the benefits of the acquisition to former Boonesboro customers as well as its own? If yes, provide this value and the workpapers used to ascertain this value. State all assumptions used and show all calculations to determine this value.

37. Provide all studies performed to evaluate the effectiveness and the cost/benefit of switching from quarterly to monthly billing.

38. For the deferred maintenance projects that were started or completed during the period 1990 through 1999, provide:

a. The number of deferred maintenance projects that were completed ahead of schedule.

b. The number of deferred maintenance projects that were completed on schedule.

c. The number of deferred maintenance projects that were completed behind schedule.

d. The number of deferred maintenance projects completed below the projected cost.

e. The number of deferred maintenance projects completed above the projected cost.

39. For each deferred project that is scheduled to be completed prior to the hearing date, provide the actual cost of construction and its effect on revenue requirement. Include all workpapers, show all calculations, and state all assumptions used to determine the effect on the revenue requirement.

40. The accounts included in the lead/lag study shown at Schedule B-5 of Exhibit 37 are titled differently than those in the income statement shown at Schedule C-2 of Exhibit 37. Provide a calculation of the lead/lag study using the accounts shown in the income statement.

41. a. Has Kentucky-American ever incurred employee relocation expenses other than those included as a deferred debit in this case?

b. If yes, state when these expenses were incurred and how Kentucky-American accounted for them?

42. Why did Kentucky-American select a three-year amortization period for the relocation expenses?

43. Kentucky-American included in deferred debits costs that are related to its investigation of the acquisition of East Clark County Water District, Georgetown Municipal Water System, and Logan and Todd Counties water systems.

a. Explain in detail why Kentucky-American did not pursue the acquisition of these utilities.

b. Provide a detailed analysis of these deferred costs.

c. Explain why Kentucky-American selected a 3-year amortization period for these costs?

44. a. Provide a detailed analysis of all costs included in the Deferred Legal/Settlement Costs.

b. Describe all factors that were discussed and relied upon by Kentucky-American when making its decision to settle each case.

c. Explain why Kentucky-American selected a 5-year amortization period for these costs.

45. For each area listed below, explain how Kentucky-American will realize the savings determined by Cost Containment Solutions, Inc. Include in this explanation the expected time period in which the savings will be achieved.

a.	Office supplies	$5,275.81
b.	Waste disposal services	$1,904.82
c.	Printing	$10,215.21
d.	Lab supplies	$5,053.94
e.	Safety supplies	$1,348.14
f.	Long distance service	$1,265.82
g.	Fleet gasoline	$1,569.89
h.	Cellular phone service	$17,558.99
i.	Janitorial	$229.66

46. Why was a 3-year amortization period selected for the Cost Containment Solutions, Inc. fee?

47. a. Why is it not appropriate for Kentucky-American's stockholders to share some of the Y2K compliance costs?

b. Why was a 5-year amortization period selected for this cost?

48. a. Why is it reasonable for Kentucky-American's customers to bear the cost of a feasibility study on the possible automation of the Kentucky River Station when the study shows that automation is not feasible?

b. Provide a detailed analysis of the costs expended for the study.

c. Why was a 3-year amortization period selected for this deferred debit?

49. a. Identify the benefits that accrue to Kentucky-American's customers from Kentucky-American's easement encroachment investigations.

b. Why was a 3-year amortization period used for this deferred debit?

50. Provide a detailed analysis of the following deferred debits. Include a description for each cost component.

a.	Cost of service Study (2000-120)	35,100
b.	Cost of Demand Study (2000-120)	54,000
c.	Sludge Removal (Waste Disposal)	36,000
d.	Sludge Removal (Waste Disposal)	30,769
e.	Disinfection By Product Study	80,370
f.	GIS – Graphical Interface Study	52,892
g.	Rockwell WWTP Improvement Study	3,490

51. a. Why is it reasonable for Kentucky-American's water customers to pay for expenditures related to the operation of the Rockwell Wastewater Treatment Plant's operations?

b. Identify all other sewer expenditures included in the calculation of the proposed water rates.

52. a. Has Kentucky-American updated the PeopleTech Study since the 1997 update?

b. If yes, provide the revised study.

c. If no, does Kentucky-American intend to perform or commission such study in the future?

53. Why was a 5-year amortization period selected for costs incurred to relocate the Vice-President of Operations and Comptroller and a 3-year period used for relocation costs of the Director of Water Quality and Operations Engineer?

54. Provide a comparison of actual employees to budgeted employees.

55. Quantify the anticipated savings from the new Team Leader Program.

56. Provide a comparison, by job title, of overtime hours included in the forecasted test period to that for the calendar year ended December 31, 1999. Describe all differences in detail.

57. Explain why Kentucky-American deems it necessary to build an incentive pay plan into its top-level management positions.

58. How will the incentive pay percentage be determined for each eligible employee?

59. Differentiate between the Annual Incentive Plan and the Long-term Incentive Plan for the President where combined the position will be awarded $61,892 during the forecasted period. Describe in detail all procedures used to evaluate the position's performance and how a percentage of award is assigned to the results of that evaluation.

60. Describe how office personnel's (including executives) payroll costs are assigned to capital construction projects or other balance sheet asset accounts.

61. In his direct testimony at pages 23-24, Mr. Grubb states that forecasted labor expense does not reflect changes brought about by the formation of the Southeast Region Service Company Office. At Workpaper 3-5, however, it appears that Kentucky-American has included $448,622 of management fees from the Southeast Region Service Company. Explain why forecasted expenses are not inflated as a result.

62. Refer to Workpaper 3-5. Why is the forecasted amount of $448,662 shown on this schedule when Michael Miller states at page 5 of his direct testimony that the cost allocated to Kentucky-American is $440,540?

63. Are the services provided by the Southeast Region Service Company Office that total $448,622 for the forecasted period included in the analysis of the 1971 and 1989 contracts that Kentucky-American provided in Item 34 of its Response to the Commission's Order of April 13, 2000.

64. Identify any changes that have occurred since Case No. 97-034 that would require the Commission to reconsider its position on the customer allocation methodology in the 1989 Service Agreement?

65. Cite all instances where operational judgement was used to determine forecasted fuel and power and chemical expenses.

66. Provide a comparison of budgeted to actual fuel and power and chemical expenses for the years 1990 through 1999. Include a description of any variance.

67. Provide a detailed calculation of the forecasted waste disposal fee of $200,000.

68. Provide comparisons of budgeted and actual group insurance premium increases for the period 1990 through 1999. Include a description of any variance.

69. When budgeting payroll expenses for a forecasted test period, how are prior period payroll costs that have been deferred to other periods treated?

70. Provide comparisons of budgeted and actual insurance other than group insurance premium increases for the period of 1990 through 1999. Include a brief description of any variance.

71. Why did Kentucky-American budget an increase in uncollectible accounts for the base period and forecasted test period when it recognized a decrease in uncollectible accounts of $21,916 from 1998 to 1999.

72. Provide a detailed analysis of JDE Account 575600.16, Meals & Travel, for 1999 as detailed on Workpapers 3-12 at 1.

73. Did switching to Statement of Financial Accounting Standard (“SFAS”) 109 in this case result in a different revenue requirement than would have been calculated had Accounting Principles Board (“APB”) Opinion 11 been used? Explain any differences in full detail.

74. Provided a comparison of the annual budgeted amounts and actual results for programmed maintenance projects for the period 1990 through 1999. The comparison shall be divided into deferred programmed maintenance and other programmed maintenance. Include a brief description for any instance where a 5 percent variance is exceeded.

75. Provide a comparison of the annual budgeted amounts and actual results for non-programmed maintenance projects for the period 1990 through 1999. Include a brief description for any instance where a 5 percent variance is exceeded.

76. Identify any programmed maintenance project included in the forecasted operations that was delayed from a previous year. Include an explanation describing the reasons for the delay.

77. Refer to the Direct Testimony of Edward L. Spitznagel, Jr., at 3.

a. Describe the advantages of using the monthly data set instead of the quarterly data set to make weather normalization predictions.

b. Describe the disadvantages of using the monthly data set instead of the quarterly data set to make weather normalization predictions.

c. Do Dr. Spitznagel's weather normalization predictions vary significant if monthly billing data is used instead of quarterly data? Explain.

d. Could Dr. Spitznagel have used the monthly data set to corroborate his weather normalization predictions that were based upon the quarterly data set? Explain.

78. At page 4 of his testimony, Dr. Spitznagel states: "I lagged drought severity index and temperature by one month to center them in the three-month period

whose utilization I was predicting." Describe in detail each action that Dr. Spitznagel performed upon the two variables. Provide an example to illustrate Dr. Spitznagel's actions.

79. At page 5 of his testimony, Dr. Spitznagel states: "While it is not possible to make an exact adjustment of the p-values, they are all reported as substantially less than 0.05. We can be reasonably confident that if a correction were possible, they would remain less than 0.05." Explain how Dr. Spitznagel can be reasonably confident that if a correction were possible, the p-values would remain less than 0.05. Provide the mathematical calculations that support Dr. Spitznagel's statement.

80. Refer to the Direct Testimony of Edward L. Spitznagel, Jr., at 5, lines 5-11. How did Dr. Spitznagel achieve his solution using quarterly data?

81. Refer to the Direct Testimony of Edward L. Spitznagel, Jr., at 5, lines 26-27. Provide the Microsoft® Excel files containing the spreadsheets to which Dr. Spitznagel refers.

82. Refer to the Direct Testimony of Edward L. Spitznagel, Jr., at 6, lines 18-27. Provide the Microsoft® Excel files containing the spreadsheets that perform these calculations.

83. a. List all states in which an AWWC affiliate operates and in which the state utility regulatory commission regulating that affiliate's rates has accepted a weather normalization adjustment for purposes of establishing the affiliate's rates.

b. For each state listed above, provide a copy of the order of the state utility regulatory commission that first permitted the weather normalization adjustment.

84. Refer to the Direct Testimony of Paul Ronald Moul at 5.

a. Provide the Value Line sheets used by Mr. Moul for his Value Line Water Group ("VLWG") calculations.

b. Provide the most recent Value Line sheets for the VLWG companies if different from those that Mr. Moul used.

85. Provide all workpapers related to Mr. Moul's calculation of the cost of capital using the Discounted Cash Flow ("DCF"), Capital Asset Pricing Model ("CAPM"), Risk Premium and Comparable Earnings approaches.

86. Provide a schedule that contains each state utility regulatory commission rate adjustment proceeding involving an AWWC affiliate since January 1, 1997, the date of a final decision in that proceeding, the rate of return on common equity authorized in that proceeding, and a description of the investment community's reaction to the decision.

87. Provide a schedule showing by quarter Kentucky-American's and AWWC's long-term debt rating since January 1, 1997.

88. At page 8, lines 19-21, of his testimony, Mr. Moul argues that Kentucky-American deserves a return on equity commensurate with an A credit quality rating, even though it represents only 3 percent (in terms of assets) of a much larger company with a credit rating of BBB/Baa. Assuming <u>arguendo</u> that the Commission could effect a higher credit rating for AWWC, would not the direct extra cost to Kentucky-American ratepayers of such an action outweigh any incremental benefits achieved through a higher bond rating? Explain.

89. At page 8 of his testimony, Mr. Moul states: "Maintenance of a strong A bond rating financial profile is the appropriate regulatory objective and an AA bond

rating should be encouraged." Why should an AA bond rating be encouraged if a strong A bond rating is the appropriate regulatory objective?

90. a. Provide a schedule that compares the credit ratings of each member of the VLWG group for the last three calendar years.

b. Provide all source materials (e.g., NAIC, Standard and Poor, Moody's) used to prepare the previous response.

91. List all companies in the VLWG group that have subsidiaries or affiliates that issue their own debt in a manner similar to Kentucky-American.

92. Is it Mr. Moul's opinion that the private placement of debt is more costly, in terms of interest payments, issuance and financing costs, than the public issuance of debt? Explain.

93. a. Do rating agencies recognize the possibility of more stringent water quality Standard as increasing the business risk of water utilities?

b. Provide all rating agency reports that support Kentucky-American's previous response.

c. Is Kentucky-American aware of any instance in which a state utility regulatory commission disallowed in a rate adjustment proceeding costs associated with a water utility's compliance with more stringent federal or state water quality standards? If yes, provide a copy of each utility regulatory commission's decision.

94. At page 13 of his testimony, Mr. Moul states that "water utilities face higher degrees of capital intensity, more costly waste disposal requirements, as well as threats to their source of supply." To what group is Mr. Moul comparing water utilities?

95. Why does Kentucky-American's weather normalization adjustment not significantly mitigate much of the business risk associated with the structural issues that Mr. Moul discusses at page 13, lines 7-13, of his testimony?

96. Refer to the Direct Testimony of Paul Ronald Moul at 14. Provide each Standard and Poor's ("S&P") report that discusses and assigns a business profile to any of the companies included in the VLWG group.

97. Refer to the Direct Testimony of Paul Ronald Moul at 21.

a. Why is the S&P Public Utilities, an index comprised of 28 electric utilities and 11 natural gas utilities but no water utilities, a relevant benchmark to gauge Kentucky-American's relative risk position even when used as a broad measure of regulated public utility endeavors?

b. Provide all source materials, analyst reports and related documents upon which Mr. Moul based his decision to use electric and natural gas companies as a comparable group of companies for purposes of calculating a water utility's cost of equity in a rate proceeding.

c. To Mr. Moul's knowledge, has any state utility regulatory commission used electric and natural gas companies as a comparable group of companies for purposes of calculating a water utility's cost of equity in a rate proceeding? If yes, provide each utility regulatory commission's decision of which Mr. Moul is aware that this practice was used.

98. a. Is Mr. Moul aware of Kentucky-American's application in Case No. 2000-189?[2]

b. If yes, describe how Commission approval of Kentucky-American's application in that proceeding will affect Mr. Moul's testimony on the four methods for calculating the return on common equity and his final recommendations.

99. Refer to the Direct Testimony of Paul Ronald Moul at 36, lines 13-18. Is it Mr. Moul's opinion that the companies comprising the VLWG group are potential take-over targets and, hence, their stock prices are inflated? Explain.

100. Refer to the Direct Testimony of Paul Ronald Moul at Schedule 8 and Appendix F. Schedule 8 only covers stock issues from 1992 to 1996. Appendix F states that Schedule 8 covers stock issues from 1992 – 1998.

a. Provide a revised schedule 8 that covers the period from 1992 to 1998. Include in the revised schedule the comparable data for each Kentucky-American stock issuance during this period.

b. Show how the flotation cost estimates of 5.5 percent are derived for all water utilities in the VLWG group.

101. Refer to the Direct Testimony of Paul Ronald Moul at 45, lines 9-21.

a. In Mr. Moul's opinion, is it appropriate for the Commission to make a flotation adjustment for a utility that does not float its own debt? Explain.

b. Is Mr. Moul aware of any decision(s) in which the Commission granted a flotation adjustment? Identify these decisions.

102. Refer to the Direct Testimony of Paul Ronald Moul at 41-43.

[2] Case No. 2000-189, The Application of Kentucky-American Water Company for

a. Provide for each utility in the VLWG group and the electric and gas utilities in the S&P Public Utility Index a chart showing their weekly stock prices from January 1, 1999 to the present.

b. Is there is a general downward trend in the fair market value of these utilities? If yes, explain how this trend has affected Mr. Moul's analysis.

c. Based upon the stock prices for each member of the VLWG group since January 1, 1999, demonstrate that the Market Value/Fair Value capital structures have deviated significantly from the allowed capital structures.

d. The proposed leverage adjustment effectively raises the return on equity estimate to the Market Value/Fair Value level. As utility regulators typically apply equity returns to the book value of the equity, explain why the application of Market Value/Fair Value would not result in distorted cost of equity estimates.

e. As stock prices change, will the values in the Market Value/Fair Value column at page 41 also change? If yes, will such changes affect the entire comparison?

f. (1) If a utility's capital structure calculated at book value were such that the equity portion were greater than the Market Value/Fair Value, then the associated risk would be relatively less than that associated with the Market Value/Fair Value capital structure. Therefore, the return to common equity should be correspondingly less as well. Does Mr. Moul agree with this statement? Explain.

(2) What is the proper treatment if a utility's situation were the reverse of that set forth at pages 41 through 43 of Mr. Moul's testimony?

Approval of Participation in Borrowing Program (filed April 20, 2000).

g. If Kentucky-American's capital structure at book value is well within the generally accepted range of debt and equity levels and Kentucky-American has regularly filed for rate adjustments, has taken advantage of its right to use a future test period in its rate adjustment application, and has received regular rate adjustments, then the perceived need for the proposed risk adjustment has been mitigated. Does Mr. Moul agree with this statement? Explain.

h. Provide a copy of each decision rendered within the last five years in which a state utility regulatory commission has accepted the argument and treatment proposed by Mr. Moul for the DCF model for a utility in the VLWG group.

103. Has the Commission, to Mr. Moul's knowledge, ever allowed an adjustment for quarterly dividend growth in a DCF analysis? If yes, identify these decision(s).

104. Refer to the Direct Testimony of Paul Ronald Moul at 52-54.

a. Provide the relevant chapters (not selected pages) from R. Morin, Regulatory Finance: Utilities' Cost of Capital (1994) on capital structures, on issues surrounding capital structures, and on the CAPM model.

b. Does Dr. Morin recommend making the proposed adjustments that Mr. Moul has presented? If yes, identify the relevant portions of Regulatory Finance: Utilities' Cost of Capital where these recommendations are set forth.

c. Provide a copy of each decision rendered within the last five years in which a state utility regulatory commission has accepted the argument and treatment proposed by Mr. Moul for the CAPM model.

105. a. Identify all Commission Orders that Mr. Moul reviewed in preparing his testimony.

b. Identify any summary or summaries of Commission Orders that Mr. Moul reviewed in preparing his testimony. Provide a copy of such summary or summaries.

106. Does Mr. Moul consider electric and natural gas utilities to have a greater risk than water utilities?

107. Refer to the Direct Testimony of Paul Ronald Moul at 9. Provide the interest coverage of each of the comparison utilities.

108. Refer to the Direct Testimony of Paul Ronald Moul at 17.

a. Provide the specific capital costs incurred for the pipeline project.

b. Explain the specific components of the “carrying costs” for the pipeline project.

109. At page 41 of his testimony, Mr. Moul refers to Disclosures about Fair Value of Financial Instruments - FAS No. 107 in developing the capital structure based on market value. Paragraph 8(j) of FAS 107 states that the disclosures about fair value are not required for equity instruments issued by the entity and classified in stockholders’ equity in the statement of financial position. Explain how FAS 107 supports developing Kentucky-American’s capital structure using market value.

110. Refer to Kentucky-American’s Application, Exhibit 36, Schedule E at 26 “Allocation of Pumps and Pumping Expense.” How was the horsepower of pumps determined for maximum day, maximum day and fire, and maximum hour?

111. Provide a more detailed explanation of how the maximum hour, maximum day, and average day factors were determined.

112. Refer to Kentucky-American's Application, Exhibit 36, Schedule E at 25. With regard to fire protection weight, how were the 8,000 gallons per minute and 4 hours determined?

113. a. Why did Kentucky-American consider it inappropriate to use the result of the 1999 demand study prepared by Burgess & Niple?

b. Why is Kentucky-American's use of field studies of similar service areas in Pennsylvania to assist in estimating demands appropriate?

114. Refer to Direct Testimony of Paul R. Herbert at 12, line 10. Provide the cost-of-service study for Boonesboro.

Done at Frankfort, Kentucky, this 2nd day of June, 2000.

By the Commission

ATTEST:

Wm H Bowker

Deputy Executive Director