

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

IN THE MATTER OF:)
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)
ADJUSTMENT OF THE RATES OF) **CASE NO. 2004-00103**
KENTUCKY-AMERICAN WATER COMPANY)
)
)
)

**REBUTTAL TESTIMONY
OF
JAMES E. SALSER
ON BEHALF OF
KENTUCKY-AMERICAN WATER COMPANY**

October 8, 2004

1 leased telephone lines for computers and group insurance, to name just a
2 few. The service company makes overnight investments on cash at the
3 end of each business day and the interest earned is reflected as a reduction
4 on the service company bill. The Service Company charges are not the
5 same as Company payroll as suggested by Ms. Crane, and the timing of
6 the payment of Service Company invoices does not support change from
7 (1.34) days to the 12 days proposed by Ms. Crane.

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9 **CASH WORKING CAPITAL – DEPRECIATION EXPENSE**

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11 **5. Q. PLEASE EXPLAIN MS. CRANE’S POSITION ON THE**
12 **DEPRECIATION EXPENSE AS IT RELATED TO THE**
13 **COMPANY’S CASH WORKING CAPITAL ALLOWANCE.**

14 **A.** Ms. Crane proposes depreciation expense be eliminated from the
15 Company’s cash working capital allowance.

16
17 **6. Q. DO YOU AGREE WITH ELIMINATING DEPRECIATION**
18 **EXPENSE FROM THE CASH WORKING CAPITAL**
19 **ALLOWNACE?**

20 **A.** No, not at all. Depreciation expense is the recovery of the depreciable
21 utility plant placed in service over their plant lives. I have assigned a zero
22 expense lag in this lead/lag study for depreciation expense. With a 36.59
23 day lag between customer payment and the water service provided, the
24 collection for depreciation will also be 36.59 days. The Company records
25 depreciation expense monthly that increases accumulated depreciation that
26 reduces the Company’s rate base, therefore in determining the rate base
27 utilizing a thirteen month average if the 36.59 day lag is not reflect in rate
28 base the investor will not have the opportunity to earn a return on their full
29 investment. This method has been approved by the Commission in the
30 last eight rate decisions of the Company’s rate cases. This issue was
31 specifically addressed in the Order in Case 92-452, approving depreciation

1 in the working cash allowance and indicating the issue had previously
2 been upheld by the Franklin County Circuit Court. Ms. Crane's
3 inappropriate elimination of depreciation from the lead/lay study reduces
4 cash working capital by \$691,025 and her proposed change of my
5 recommended service company lag of (1.34) days also inappropriately
6 reduces the cash working capital by \$142,000, or a total rate base
7 deduction of \$ 833,025.

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9 **CASH WORKING CAPITAL – UPDATED LAG DAYS**

10 **RELATED TO AG DR NO. 2-29.**

11
12 **7. Q. WOULD YOU EXPLAIN THE DIFFERENCE BETWEEN THE**
13 **KAWC FILING AND THE RESPONSE TO AG 2-29.**

14 **A.** I utilized a sister company lag days for the expenses in the Company's rate
15 case filing as reflected on Ms. Crane direct testimony page 25. Before the
16 dead line to issue the AG's Data Request it was my understanding that
17 there was an understanding between the Company and AG's office that I
18 would update the lag day by using KAWC actual information for the year
19 2003 for these expenses. The response to AG 2-29 reflects that update.

20
21 **ANNUALIZATION OF RESIDENTIAL AND COMMERCIAL CUSTOMERS**

22
23 **8. Q. MR. SALSER, IN PREPARING THE BILL ANALYSIS FOR THE**
24 **ACTUAL BASE PERIOD, DID YOU FIND A PROBLEM WITH**
25 **THE NUMBER OF CUSTOMERS FOR RESIDENTIAL AND**
26 **COMMERCIAL CLASSES IN THE BASE PERIOD OF SIX**
27 **MONTHS ACTUAL AND SIX MONTHS BUDGET?**

28 **A.** Yes. The first six months of the base period was overstated due to
29 doubling up of the billings for the period December 13, 2003 through
30 December 31, 2003. December 2003 financials were cut off on December
31 12, 2003. To reflect a full month billing, the period December 13, 2003

1 through December 31, 2003 was added to the first part of December
2 billings. The month of January 2004 billing information also included the
3 period December 13, 2003 through January 30, 2004 that was added to the
4 first five months of the base period, doubling the usage and customers for
5 this period in the base period. Update Schedules M – 3.1C, T and E Page
6 1 of 8 shows the number of residential customer bills of 1,154,162,
7 19,823, and 3,254 respectively. .

8
9 **9. Q. MR. SALSER HAVE YOU PREPARED AN EXHIBIT JES-1**
10 **FOLLOWING THE FORMAT INCLUDED IN MS. CRANE’S**
11 **DIRECT TESTIMONY?**

12 **A.** Yes.

13
14 **10. Q. WOULD YOU BRIEFLY EXPLAIN EACH PART OF EXHIBIT**
15 **JES - 1 AND WHERE THE RELATED INFORMATION IS FOUND**
16 **IN MS. CRANE’S DIRECT TESTIMONY?**

17 **A.** Part I reflects the consumption per day for the residential customer class
18 over certain periods from October 1997 through November 2005. The
19 first three periods are the same as shown in Ms Crane’s direct testimony
20 on page 37. I have added the periods for calendar years 2002, 2003 and
21 the base period has been revised to reflect the actual information ended
22 July 2004. The forecast period reflects Dr. Spitznagel’s and Ms. Crane’s
23 recommended gallons per day. Ms. Crane’s recommended consumption
24 of 174.68 gallon for the residential customer was last realized during the
25 year 2002. As shown in Part 1 of Exhibit JES-1, the residential customer
26 daily consumption is continuing to decline. Dr. Spitznagel’s
27 recommended gallon per day is higher than calendar year 2003 and the
28 twelve months ended July 2004, the base period updated to actual. Ms.
29 Crane’s forecast is not consistent with the detailed analysis prepared by
30 Dr. Spitznagel in past cases nor is it reflective of sales level expected in
31 the forecast period.

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Part II shows the Residential customer annual consumption in thousand gallons as indicated in Ms. Crane’s direct testimony on page 38. The only difference between the three is I inserted a line for the Base Period Update which is the actual during the base period of 59 thousand gallons and secondly added the last two lines showing the comparison of the forecast gallon of 60 thousand gallons supported by Dr. Spitznagel and the 64 thousand gallons recommended by Ms. Crane. Again Ms. Crane’s recommendation is not reflective of expected sales and has been skewed by the error in the six months of the base period.

Part III shows the number of residential customers, by district for the 6 + 6 actual base period (August 2003 – July 2004) per the filing, updated base period, forecasted period per filing (December 2004 – November 2005) and Ms. Crane’s forecast recommendation which was the same as the Company’s filing for the 6 + 6 base period (see Ms. Cranes direct testimony page 41). As I stated earlier in my testimony, the Company doubled-up the customers billed for the period December 13, 2003 through December 31, 2003 as shown in the first column. The second column reflects the updated actual base period (actual billed residential customers for the period August 2003 through July 2004) number of residential customer of 98,103. The Company’s forecast period (December 2004 through November 2005) number of customers is 101,956 with an increase of 3,853 residential customers. Historically the Company has increased the customer base by approximately 2,500 customers annually. The increase of 3,853 customers represents an annual increase of 2,890 for the sixteen month period ending November 2005. Based on this information the company has probably overstated its residential customers by approximately 520 customers instead of understating residential customers by 669 as suggested by Ms. Crane. Ms. Crane’s recommendation regarding residential customers is overstated due

1 to the problem in the 6 + 6 base period, and not reflective of the forecast
2 period

3
4 Part IV shows the Commercial customer annual consumption in thousand
5 gallons as indicated in Ms. Crane's direct testimony on page 43. The only
6 difference between the two schedules is the addition of the Base Period
7 Update which is the actual during the base period of 512 thousand gallons
8 per customer, and Dr. Spitznagel's and Ms. Crane's recommendation of
9 506 and 536 thousand gallons respectively. As shown on Part IV the
10 company has not experienced the average thousand gallons sold supported
11 by Ms. Crane since 2001.

12
13 Part V reflects the consumption per day for the commercial customer over
14 certain periods from October 1997 through November 2005. The first
15 three periods are the same as shown in Ms Crane's direct testimony on
16 page 44. The next three periods show the commercial consumption per
17 day based on more current information. The forecast period is the
18 consumption per day for the forecast period supported by Dr. Spitznagel
19 and Ms. Crane respectively. Here again the last year the actual
20 commercial customer average usage was above Ms. Crane's
21 recommendation was in 2001. As shown in Part V of Exhibit JES-1 the
22 commercial customer daily consumption is continuing to decline, and Ms.
23 Crane's recommendation has been skewed by the error in the 6 + 6 base
24 period filing.

25
26 Part VI shows the number of commercial customers by district for the 6 +
27 6 base period (August 2003 – July 2004) per filing, updated base period,
28 forecasted period per filing (December 2004 – November 2005) and Ms.
29 Crane's recommendation which was the Company's filing for the 6 + 6
30 base period (see Ms. Cranes direct testimony page 45). As I stated earlier
31 in my testimony, the Company doubled-up the customers billed for the

1 period December 13, 2003 through December 31, 2003 as shown in the
2 first column. The second column reflects the updated base period (actual
3 billed commercial customers for the period August 2003 through July
4 2004) number of commercial customers of 8,211. The Company's
5 forecast period (December 2004 through November 2005) number of
6 customers is 8,289 with an increase of 78 commercial customers. Ms.
7 Crane's use of the Company's 6 + 6 base period filing of 8,482 for
8 commercial customers for the forecast period results in an overstatement
9 of approximately 190 commercial customers.

10
11 **11. Q. WHAT IS YOUR CONCLUSION FROM THE DATA SHOWN ON**
12 **EXHIBIT JES-1?**

13 **A.** The Company regrets the doubling of the usage and customers in the 6
14 month actual and 6 months budget base period filing and any
15 inconvenience it has caused Ms. Crane. However, her recommendation
16 for forecasted residential and commercial sales (and going-level
17 revenues) have been overstated because of this error which was corrected
18 in the update to reflect actual data for the base period. Ms. Crane's
19 recommended going level revenue adjustment to add \$1.9 million of
20 revenue is not reflective of actual usage trends and would not be reflective
21 of the going-level revenue for the forecast period. The Company's sales
22 levels and going-level revenues for the forecast period capture current
23 usage trends and are normalized to reflect those trends as adjusted for
24 weather fluctuations. The Company's forecasted customers, water sales,
25 and going-level revenues should be used to determine the appropriate rates
26 in this case.

27
28 **12. Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

29 **A.** Yes.