

**Answers of Office of Attorney General to
Kentucky-American Water Company's Request for Information**

1. Provide a copy of all documents Scott J. Rubin consulted which address "water budgets."

Answer:

In addition to documents provided by KAWC during discovery and documents related to the AwwaRF study referred to on page 6 of Mr. Rubin's testimony (which Mr. Rubin is not permitted to disclose), Mr. Rubin conducted a brief literature review to determine if there were any studies addressing the use of water budgets as KAWC has proposed to use them. He did not locate any such studies and did not keep any notes of that research. He did locate one paper that discussed the theoretical possibility of using customer-specific rates (termed "tailored rates" in the article) as a method to encourage conservation and enhance water utilities' revenue stability. That paper is very theoretical in nature and did not assist Mr. Rubin in preparing his testimony, but it was "consulted" by him. That paper is Teodoro, Manuel P., "Tailored Rates," *Journal American Water Works Association*, 94:10:54 (Oct. 2002).

Responsible witness: Scott J. Rubin

**Answers of Office of Attorney General to
Kentucky-American Water Company's Request for Information**

2. Identify the individual requesting, the dates requested, and the individual providing the opinions that the Low Income Discount and Economic Development Tariff are unlawful. If the opinions are in written form provide a copy.

Answer:

Mr. Rubin did not request a legal opinion on this issue and no such opinion was provided. Rather, counsel for the Office of Attorney General informed Mr. Rubin that this was a legal matter that would be addressed by counsel in its pleadings.

**Answers of Office of Attorney General to
Kentucky-American Water Company's Request for Information**

3. Provide all the documents Scott J. Rubin utilized, generated or consulted in his study with American Water Works Association to determine how water utilities can assist low-income customers.

Answer:

The work conducted by Mr. Rubin and his colleagues for the American Water Works Association has occurred over the course of nearly a year and involved the review and generation of hundreds, if not thousands, of pages of documents and other data. Thus, the request is overly broad and requests information that is not related to the witness's work or testimony in this proceeding. Moreover, the documents requested would be voluminous and it would be burdensome and time-consuming to provide all such documents. Furthermore, many of the documents requested are the work product of the American Water Works Association, are not the property of Mr. Rubin, are in draft form that cannot be disclosed publicly, and are otherwise subject to confidentiality protections.

In an attempt to be responsive to the request without breaching those confidentiality requirements and without providing voluminous data, a copy of a presentation summarizing some of this work and given by Mr. Rubin at the Annual Conference and Exhibition of the American Water Works Association on June 14, 2004, is provided. (File: AG_KAWC_Attach_3-1.pdf) In addition, a copy of the draft list of references to a portion of the work conducted for the Association is provided. (File: AG_KAWC_Attach_3-2.doc)

Responsible witness: Scott J. Rubin



Serving Low-Income Water Customers

American Water Works Association
Annual Conference
Orlando, Florida
June 14, 2004

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Acknowledgments

- This presentation: work in progress funded by AWWA
- This Fall will be producing guide to low-income assistance programs for water utilities

Outline

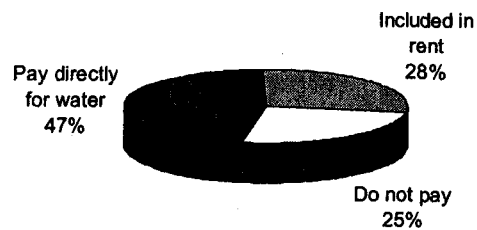
- Low-income water customers
- Overview of assistance programs
- Survey of AWWA utility members
- What can you do right now?

Low-income customers

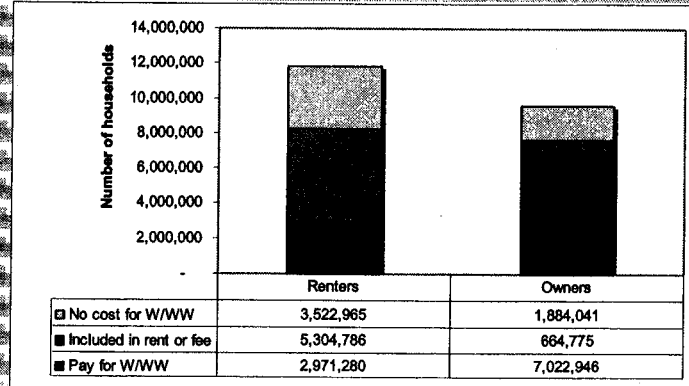
What is "low income"?

- Federal poverty level (FPL) in 2002:
 - Family of 3: \$14,072
 - Family of 4: \$18,556
- In 2002, households below:
 - 100% FPL: 16.8 million
 - 125% FPL: 22.6 million
- In 1999, 23 million households had incomes less than \$20,000 per year

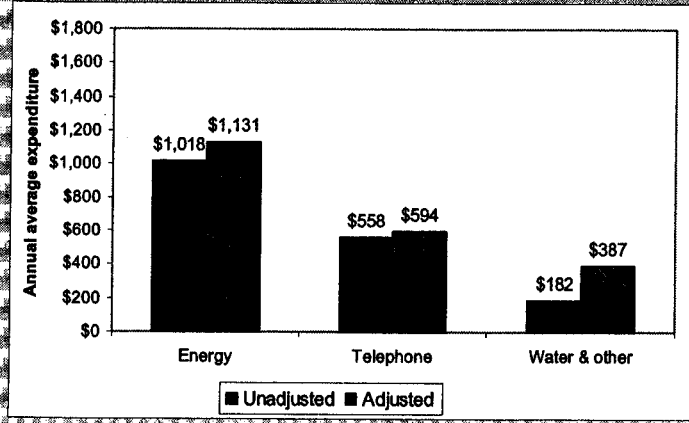
Income less than \$20,000 paying directly for water (1999)



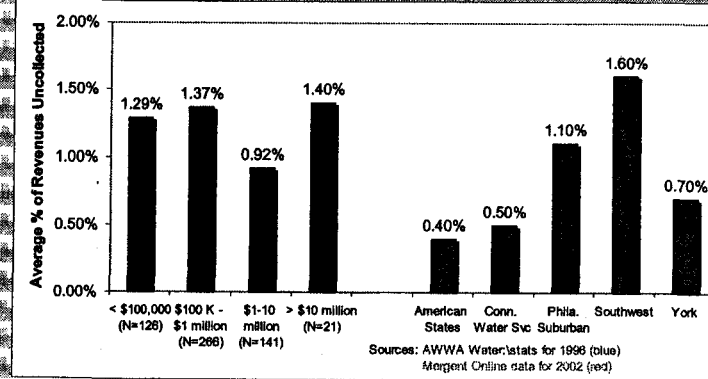
Low-income renters vs. homeowners



Cost of water and other utilities for low-income households: adjusted for non-paying households (2001)



Unpaid water bills



Overview of assistance programs

Utility-sponsored programs

- Rate discounts
- Waive customer (meter) charge
- Percentage of income
- Percentage of bill
- Arrearage forgiveness
- Conservation

Utility-private partnership

- Hardship fund
- Referral with funding

Non-utility assistance

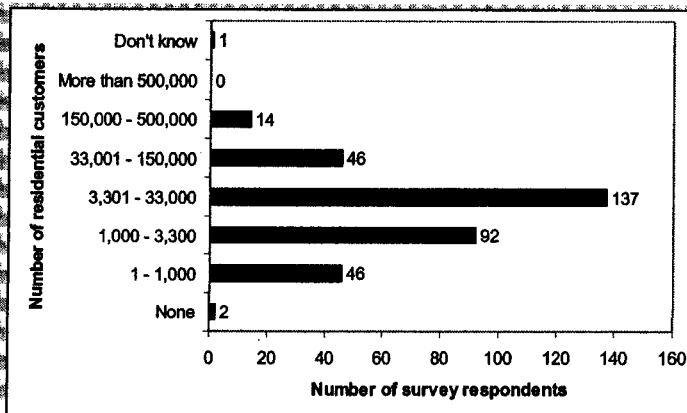
- Private, non-profit groups, e.g. :
 - Salvation Army
 - Churches and synagogues
- Local government

Survey of AWWA members

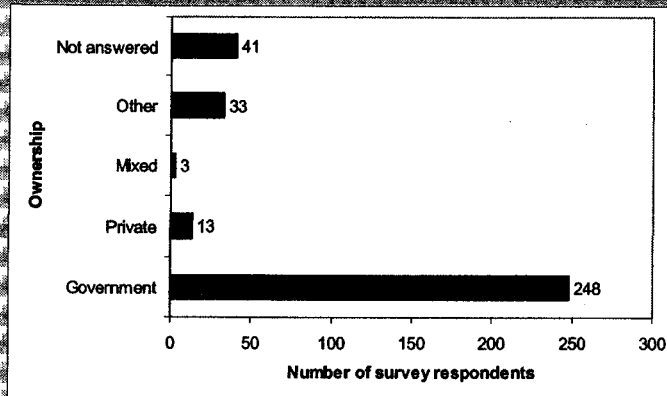
Survey background

- Web-based survey
- Invitation sent to all AWWA utility members (~4500 utilities)
- Survey available for 2 weeks
- Response time: about 10 minutes
- Complete responses received from 338 utilities (7.5%)

Respondents - size

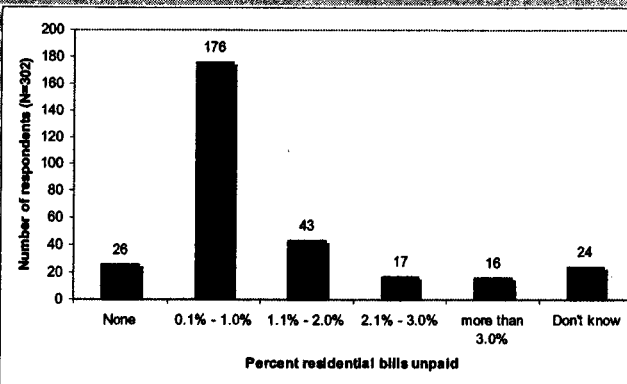


Respondents - ownership



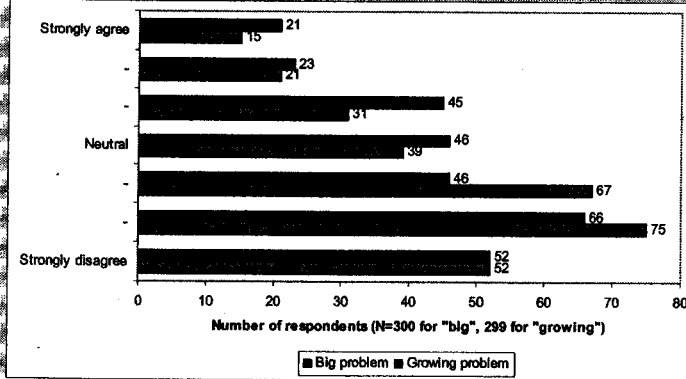
Unpaid water bills

Q. 31: What is your utility's typical percentage of unpaid residential water bills (total value of unpaid water bills as percent of total water sales)?



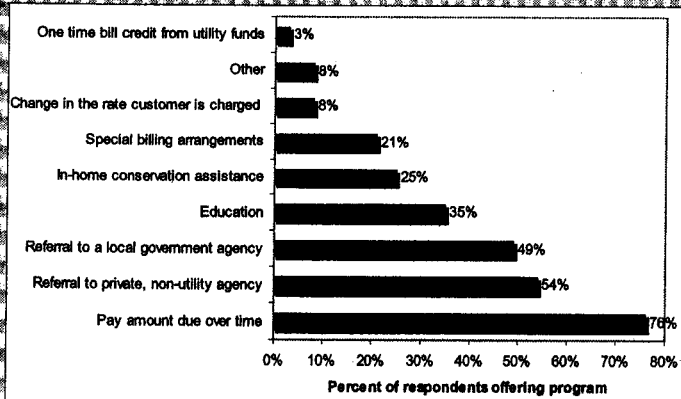
Nature of payment problems

Q. 13. Nonpayment of water bills is a big (or growing) problem for our utility (1 = strongly disagree, 7 = strongly agree)



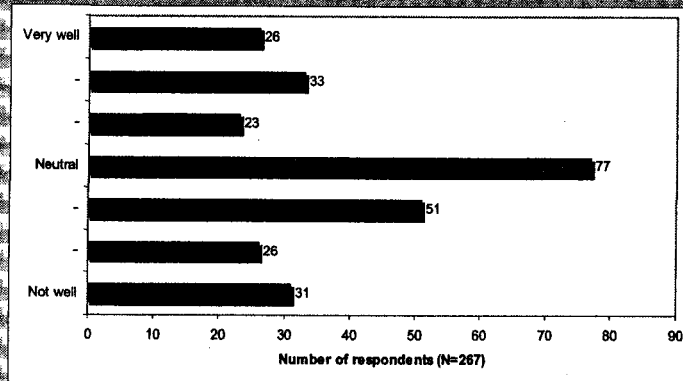
Existing assistance programs

Q. 15. If a low-income residential customer is having trouble paying their bill, which of the following, if any, does your utility offer?



Meeting current needs

Q.27: On a scale of 1 to 7, please rate how well you think your existing assistance program(s) address current needs (1 = Not Well, and 7 = Very Well).



What can you do right now?

First Steps

- Assess need in community
- Identify and contact local agencies and community-based organizations
- Assess need for water program
- Evaluate any existing water program
- Promote non-water programs

Why promote non-water programs?

- Reduce household expenses and/or increase available income
- Maximize ability of low-income household to pay bills for other necessities, including water
- Near-zero cost for water utility
- Avoids legal restrictions (no rate preferences, etc.)

What programs exist?

- Low-income home energy assistance (LIHEAP)
- Telephone lifeline
- Earned income tax credit (EITC)

LIHEAP

- Program elements
 - Annual grant - about \$175
 - Crisis funds
 - Weatherization assistance
 - Match for utility / state contributions
 - \$1.9 billion this year
- Fewer than 20% of eligible households participate

Telephone lifeline

- Program elements
 - Monthly benefit ranges from \$6.75 to \$14.78, depending on state/utility contribution
 - About \$700 million from federal surcharge on telephone bills
 - In many states, participation rate is less than 10% of eligible households

EITC

- Program elements
 - Benefits and eligibility vary by marital status, income, and number of children
 - Generally, incomes under approx. \$30,000
 - Family with 1 child up to \$2,500 per year
 - In 2002, 2.1 million households received more than \$37 billion in benefits
- Claimed by eligible households:
 - 86% of those with children
 - 45% of those without children

Bottom line

- Problem is real, severe, and growing
- There are steps you can take right now
- Don't wait for a major event (rate increase, construction program, crisis)
- Talk to those who know your community

Questions / Discussion

References

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6. Boushey, Heather, et al., *Hardships in America: The Real Story of Working Families*, Economic Policy Institute, 2001.
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10. Federal Communications Commission, *Telecommunications Industry Revenues 2001*, Mar. 2003.
11. Federal Communications Commission, *Telecommunications Provider Locator*, Feb. 2003.
12. Federal Communications Commission, *Telephone Penetration by Income by State*, May 2003.
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16. Lewis, Donna, et al., White Paper: A Review of Collection and Termination Practices for the D.C. Water and Sewer Authority, 2002.

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**Answers of Office of Attorney General to
Kentucky-American Water Company's Request for Information**

4. Provide a copy of the special rates that water utilities have for low-income customers known to Scott J. Rubin. Other than the AWWA Manual M1 and the study mentioned in the footnote on page 13 of the direct testimony of Scott J. Rubin, provide a copy of all materials consulted by Scott J. Rubin in the formation of his opinion not to support the Activation Charge.

Answer:

Mr. Rubin does not have a copy of any "special rates that water utilities have for low-income customers." He is aware of those rates from various studies and surveys, as well as conversations that he has had with utility industry professionals. The studies and surveys that discuss such rates, in varying degrees of detail, include the following:

- Survey conducted for American Water Works Association by Rubin, et al., 2004
- Survey conducted by Association of Metropolitan Water Agencies, 2003
- Raftelis Financial Consulting, *Raftelis Financial Consulting 2002 Water and Wastewater Rate Survey*, 2002.
- U.S. Environmental Protection Agency, *Community Water System Survey 2000: Final Report, Data, and Data Documentation*, CD Release version 2, 2002.
- Hasson, David S., Water Utility Options for Low-Income Assistance Programs, *Journal AWWA*, 94:4:128-138 (Apr. 2002).
- Saunders, Margot, et al., *Water Affordability Programs*, AwwaRF, 1998.
- Beecher, Janice A., Water Affordability and Alternatives to Service Disconnection, *Journal AWWA*, Oct. 1994, pp. 61-72.

Concerning the second part of the question, on the Activation Charge, in addition to the AWWA Manual M1 and the study referred to on page 13 of Mr. Rubin's testimony, Mr. Rubin consulted two other studies by the U.S. Census Bureau:

- *American Housing Survey for the United States: 2001* (issued Oct. 2002), No. H150/01, available at: < <http://www.census.gov/prod/2002pubs/h150-01.pdf> > (586 pages).
- Schachter, Jason, Why People Move: Exploring the March 2000 Current Population Survey, *Current Population Reports* (issued May 2001), No. P23-204, available at: < <http://www.census.gov/prod/2001pubs/p23-204.pdf> > (10 pages).

Responsible witness: Scott J. Rubin

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:)
)
NOTICE OF ADJUSTMENT OF THE RATES OF) **CASE NO. 2004-00103**
KENTUCKY-AMERICAN WATER COMPANY)
EFFECTIVE ON AND AFTER MAY 30, 2004)

KENTUCKY-AMERICAN WATER COMPANY'S
REQUEST FOR INFORMATION TO THE
ATTORNEY GENERAL'S WITNESSES

5. Provide a copy of all documents consulted or utilized by Andrea C. Crane to support her conclusions that:

a. The use of forecasted data allows the recovery of increases in investment and operating expenses that may not be recoverable if a historical test period is used,

b. Permitting the inclusion of operating expenses and the deferral of costs for later collection in a forecasted test period that are internally inconsistent, and

c. The significant use of deferrals in states using an historical test year for ratemaking is unusual.

Response:

a. It was not Ms. Crane's conclusion that the use of forecasted data allows the recovery of increases in investment and operating expenses that may not be recoverable if a historical test period is used.

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

IN THE MATTER OF:)
)
NOTICE OF ADJUSTMENT OF THE RATES OF) **CASE NO. 2004-00103**
KENTUCKY-AMERICAN WATER COMPANY)
EFFECTIVE ON AND AFTER MAY 30, 2004)

**KENTUCKY-AMERICAN WATER COMPANY'S
REQUEST FOR INFORMATION TO THE
ATTORNEY GENERAL'S WITNESSES**

5. (Continued)

- b. The use of a forward looking test period permits a utility to make numerous adjustments to actual results, effectively severing a link between an historic twelve month period of actual operating results and the pro forma projections used to set rates. It is an attempt by the regulatory commission to permit the Company every opportunity to recover prospective costs. The use of a forward looking test period is unnecessary if the regulatory commission is going to permit significant cost deferrals and then to permit such deferrals to be recovered in future rates. There doesn't seem to be much point in permitting a forward looking test period if costs are going to be subject to future true-up.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

**NOTICE OF ADJUSTMENT OF THE RATES OF)
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CASE NO. 2004-00103

KENTUCKY-AMERICAN WATER COMPANY'S
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- c. Ms. Crane's source for her statement that the significant use of deferrals in states using an historical test year for ratemaking is unusual is based on the accumulation of over 20 years of utility experience, on her participation in numerous rate proceedings throughout the country, and on the well known ratemaking principle prohibiting retroactive ratemaking.

Respondent: Andrea C. Crane

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:)
)
NOTICE OF ADJUSTMENT OF THE RATES OF) **CASE NO. 2004-00103**
KENTUCKY-AMERICAN WATER COMPANY)
EFFECTIVE ON AND AFTER MAY 30, 2004)

KENTUCKY-AMERICAN WATER COMPANY'S
REQUEST FOR INFORMATION TO THE
ATTORNEY GENERAL'S WITNESSES

6. Provide a copy of all testimony of Andrea C. Crane in water ratemaking cases in states where American Water Works Company has subsidiaries, including Pennsylvania, New Jersey, Maryland, New Mexico, Hawaii, and West Virginia.

Response: Copies of five testimonies are being provided, the two most recent water testimonies filed in New Jersey (Shorelands Water Company and Montague Water and Sewer Companies); the two most recent water testimonies filed in Pennsylvania (Aqua Pennsylvania and Pennsylvania-American Water Company), and the most recent water testimony filed in Hawaii (Princeville Utilities Company, Inc.). There are approximately two dozen other water testimonies that Ms. Crane has filed in Pennsylvania, New Jersey, and Hawaii. All of Ms. Crane's testimonies are available for review at the offices of The Columbia Group, Inc. Ms. Crane was not filed any testimonies in water cases in Maryland, New Mexico, or West Virginia.

Respondent: Andrea C. Crane

Kentucky-American Water Company
Case No. 2004-00103
Information Request Response to KAWC
Respondent: OAG Witness Dr. J. Randall Woolridge
Set I

KAWC-I-7. Provide a copy of all documents consulted or utilized by Dr. J. Randall Woolridge to support his conclusion that "the yield on 10-year Treasury bonds has replaced the yield on 30-year Treasury bonds as the benchmark long-term Treasury rate."

Response:

The Street.Com: Treasury Bonds

(www.thestreet.com/tsc/basics/tscglossary/Treasury_Securities.html)

The 10-year note is the U.S. benchmark, meaning that people look to its yield as a proxy for all U.S. interest rates. Formerly, that honor went to the 30-year bond. But reduced issuance of 30-year bonds has given them scarcity value, making them less reliable as an indicator of how high people think interest rates should be. (30-year bond sometimes trades like commodities.)

Recession Telltale

(www.forbes.com/forbes/2000/1113/6613388a_print.html)

That bellowing you hear from the bulls would have you believe that this time it's different, that the inversion is really a chimera produced by the shortage of long Treasury bonds. Indeed, the 30-year yield has fallen 20 basis points since the Fed started its rate-raising campaign. Moody's, Merrill Lynch and other major Wall Street powers assume the long bond is going the way of the passenger pigeon and have switched to the 10-year Treasury as their benchmark.

Goldman Sachs Sees 10 year note as its government debt benchmark

(www.bradynet.com/bbs/us/100004-0.html)

2000 Feb, NEW YORK, Feb 9 (Reuters) – With the U.S. Treasury Department buying back benchmark 30-year bonds and cutting back on new issuance of long bonds, investment bank Goldman Sachs said on Wednesday it would now use the Treasury 10-year note as its government debt benchmark to gauge appropriate prices and yields on other types of securities.

Kentucky-American Water Company
Case No. 2004-00103
Information Request Response to KAWC
Respondent: OAG Witness Dr. J. Randall Woolridge
Set I

KAWC-I-8. Provide a copy of the testimony of Dr. J. Randall Woolridge in all cases involving water utilities as listed in Appendix A to his testimony.

Response:

The following water company testimonies have been provided as attachments in response to PSC-I-34.

Pennsylvania-American Water Company (R-00038304), Attachment PSC-I-34A2.

Philadelphia Suburban Water Company (R-00016750), Attachment PSC-I-34A4.

Pennsylvania-American Water Company (R-00016339), Attachment PSC-I-34A5.

In addition, these testimonies are provided as attachments to this data request.

Artesian Water Company (R-00-649), Attachment KAWC-I-2A1.

Philadelphia Suburban Water Company (R-00994868), Attachment KAWC-I-2A2.

Pennsylvania-American Water Company (R-00994638), Attachment PSC-I-34A3.

All other water company testimonies are over five years old and are not available in electronic form and are voluminous. They can be reviewed upon request and by appointment at the Office of Attorney General.