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BEFORE THE
COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

ADJUSTMENT OF THE RATES OF
KENTUCKY-AMERICAN WATER COMPANY

CASE NO. 2004-00103

RECEIVED
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COMMISSION

TRANSCRIPT OF EVIDENCE
VOLUME V

DATE OF HEARING: November 23, 2004

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1 CHAIRMAN GOSS:

2 We'll be on the record in the Commonwealth of Kentucky,
3 Public Service Commission in the matter of notice of
4 adjustment of the rates of Kentucky-American Water
5 Company effective on and after May 30, 2004, Case
6 No. 2004-00103. We're here today for a continuation of
7 the hearing in the captioned case. I think all proof
8 had been taken before today except for the testimony of
9 Dr. Vander Weide, Dr. James H. Vander Weide, who,
10 because of, I think, an illness and medical situation,
11 could not be here live, and I think we have Dr. Vander
12 Weide hooked up by video conferencing. Good afternoon,
13 Dr. Vander Weide. Can you hear us okay?

14 DR. VANDER WEIDE:

15 Good afternoon. I can hear you fine.

16 CHAIRMAN GOSS:

17 Thank you. It's a pleasure to see you, sir.

18 DR. VANDER WEIDE:

19 Thank you.

20 CHAIRMAN GOSS:

21 Before we begin, let's go ahead and take appearances of
22 counsel, just so the record will be clear as to who is
23 here, and let's start with Kentucky-American. Mr.
24 Ingram?

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MR. INGRAM:

Lindsey Ingram, Jr. and Lindsey Ingram III, Stoll,
Keenon & Park, 300 West Vine Street, Lexington,
Kentucky 40507 for Kentucky-American Water Company.

CHAIRMAN GOSS:

Good afternoon.

MR. INGRAM:

Good afternoon, sir.

CHAIRMAN GOSS:

Mr. Spenard, good afternoon to you, sir.

MR. SPENARD:

Good afternoon, Mr. Chairman. David Edward Spenard and
Elizabeth Blackford on behalf of Gregory D. Stumbo,
Attorney General, 1024 Capital Center Drive, Suite 200,
Frankfort, Kentucky 40601.

CHAIRMAN GOSS:

Thank you. Ms. Blackford, nice to see you? Mr.
Ockerman, nice to see you. Would you please rise and
enter your appearance, sir?

MR. OCKERMAN:

Yes, sir. Nice to be here again. Foster Ockerman,
Jr., Martin, Ockerman & Brabant, 200 North Upper,
Lexington, Kentucky for the intervenor Bluegrass FLOW,
Inc.

1 CHAIRMAN GOSS:

2 Thank you, sir. Mr. Barberie, nice to see you, sir.

3 MR. BARBERIE:

4 David Barberie, Department of Law, Lexington-Fayette
5 Urban County Government, 200 East Main Street,
6 Lexington, Kentucky.

7 CHAIRMAN GOSS:

8 Thank you. Mr. Wuetcher?

9 MR. WUETCHER:

10 Your Honor, on behalf of Commission Staff, Gerald
11 Wuetcher and Jeb Pinney.

12 CHAIRMAN GOSS:

13 All right. Okay. We will now proceed to take Dr.
14 Vander Weide's testimony. I have been cautioned by my
15 IT staff that, because we're doing this through this
16 technology, that there will be a little bit of a delay
17 or a little bit lapse of time. So, when one of us
18 speaks to Dr. Vander Weide, let's give it a second or
19 two for it to make its way there and then, when he
20 stops, we'll give it a second or two for it to make its
21 way in the other direction. That way, we're not
22 overlapping and Connie not pulling her hair out trying
23 to figure out what's being said. In other words, let's
24 try not to talk over each other. Are there any matters
25 to take up, then, before Dr. Vander Weide is sworn?

1 MR. INGRAM:

2 I have one, Your Honor. It will take just a second.

3 CHAIRMAN GOSS:

4 Okay.

5 MR. INGRAM:

6 I just want to publicly thank counsel involved in this
7 case for their courtesies in dealing with Dr. Vander
8 Weide's inability to travel, certainly the Commission
9 for extending the schedule, the Staff and particularly
10 David McDowell and Jim Rhodes who have made this
11 possible.

12 CHAIRMAN GOSS:

13 Thank you, Mr. Ingram.

14 MR. INGRAM:

15 On behalf of Kentucky-American, we appreciate the
16 courtesies.

17 CHAIRMAN GOSS:

18 We appreciate that, sir. Anything else? Mr. Barberie?

19 MR. BARBERIE:

20 Can I verify the remaining procedural schedule? I
21 think I have it clear in my head, but, unless I missed
22 it, I don't think you all have issued a further Order
23 on the briefs.

24 CHAIRMAN GOSS:

25 No, I don't think we did, and those dates are not in

1 the front part of my brain right now. So would you go
2 over those with us, Mr. Wuetcher, if you remember them?

3 MR. WUETCHER:

4 If we could, Your Honor, if we could defer that until
5 the close of the hearing so I can confirm the
6 dates . . .

7 CHAIRMAN GOSS:

8 Okay.

9 MR. WUETCHER:

10 . . . I will check.

11 MR. BARBERIE:

12 That's fine. I just wanted to make sure I didn't miss
13 anything on that.

14 CHAIRMAN GOSS:

15 Okay.

16 MR. INGRAM:

17 I believe they're January 4th and January 11th.

18 MR. WUETCHER:

19 I believe that's correct. I'll just confirm that with
20 my calendar.

21 CHAIRMAN GOSS:

22 Okay. All right. Thank you, Mr. Ingram. Okay. Dr.
23 Vander Weide, would you please raise your right hand,
24 sir?

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WITNESS SWORN

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CHAIRMAN GOSS:

Is the oath that I administered electronically sufficient for everyone? Is everyone happy?

MR. SPENARD:

We have no objection.

CHAIRMAN GOSS:

Okay. All right. Okay, Mr. Ingram, go ahead and proceed, then, sir.

The witness, DR. JAMES H. VANDER WEIDE, after having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. INGRAM:

Q. Would you state your name, please?

A. Yes. My name is James H. Vander Weide.

Q. Dr. Vander Weide, what is your business address?

A. My business address is 3606 Stoneybrook Drive, Durham, North Carolina 27705.

Q. Have you filed direct and rebuttal testimony in this rate application for Kentucky-American Water Company?

A. Yes, I have.

Q. If I asked you the questions contained in your direct and rebuttal testimony today, would you give me the same answers?

A. Yes, I would.

1 MR. INGRAM:

2 That's all I have at this time, Your Honor.

3 CHAIRMAN GOSS:

4 Thank you, Mr. Ingram. Mr. Spenard, do you have
5 cross examination?

6 MR. SPENARD:

7 Yes, sir, I do. One of the limitations of not
8 having the witness here will be with regard to
9 exhibits and, bearing that in mind, we do have
10 some exhibits, but I don't think that any of them
11 will be controversial, and I think that Dr. Vander
12 Weide should have knowledge, should have a good
13 working knowledge of all exhibits.

14 CHAIRMAN GOSS:

15 Does Dr. Vander Weide have these exhibits before
16 him, I wonder? Do you know?

17 MR. SPENARD:

18 No, but I think that, if I ask him a few
19 questions, we should make sure we're on the same
20 page.

21 CHAIRMAN GOSS:

22 Okay. Do you know your next exhibit number,
23 Mr. Spenard?

24 MR. SPENARD:

25 That is a good question. Could we just

1 provisionally mark it as Cross Examination
2 Exhibit A and then, when we get the number,
3 substitute it in?

4 CHAIRMAN GOSS:

5 That would be fine.

6 MR. SPENARD:

7 Okay.

8 CROSS EXAMINATION

9 BY MR. SPENARD:

10 Q. Dr. Vander Weide, I just handed out a printout of the
11 Duke Fuqua School of Business website information for
12 you. It contains your biography, your Vita, your
13 education experience. Are you familiar with this
14 particular document?

15 A. Yes, I am.

16 Q. Okay, and, in reviewing this, it contains some
17 information with regard to your consulting work. Am I
18 correct that this is the first time that you've
19 provided testimony on behalf of the Kentucky-American
20 Water Company?

21 A. Yes, it is.

22 Q. Okay, and when were you retained by Kentucky-American
23 to prepare testimony?

24 A. I don't recall the exact date. It would have been
25 several months prior to the filing of the direct

1 testimony, which was on April 30, 2004. So it probably
2 would have been in February or March sometime, but I'm
3 not sure exactly.

4 Q. Okay. An approximate date is okay. If I understand,
5 you're saying approximately February 2004?

6 A. Yes.

7 Q. Okay. In developing your testimony, did you speak with
8 Roy Mundy?

9 A. No, I did not.

10 Q. Okay. Did you speak with Linda Bridwell?

11 A. No.

12 Q. Okay. Did you visit Kentucky?

13 A. No, I did not.

14 Q. Okay. With regard to Kentucky-American, where does
15 Kentucky-American rank in terms of size in regard to
16 other water utilities in the Commonwealth of Kentucky;
17 for example, number of customers?

18 A. I don't have that data before me.

19 Q. Okay. Does Kentucky-American have the right to seek
20 rate relief?

21 A. Yes, it does.

22 Q. Okay, and what is the . . .

23 A. It's . . .

24 Q. I'm sorry.

25 A. Subject to my understanding that, as a part of the

1 agreement to merge, its rates would be capped for a
2 period of time following that agreement, and I believe
3 this is the first time that it has had the ability to
4 seek rate relief since the time of the merger
5 agreement.

6 Q. Okay, and, in advance, I know that - I apologize in
7 advance for walking over any of your answers and I'll
8 try to do the best I can to give you time to answer.
9 So we're discussing the rate freeze. Did you review
10 the Kentucky Public Service Commission Orders regarding
11 the RWE change of control?

12 A. No, I did not.

13 Q. Okay, and what is the test period for this case?

14 A. The test period, I believe, extends to the end of 2005.

15 Q. Okay, and this reflects the fact that Kentucky-American
16 is using a forward-looking test period; is that
17 correct?

18 A. Yes, it does.

19 Q. Okay, and does Kentucky-American have an option to use
20 weather normalized sales in projecting its future test
21 year?

22 A. I don't know.

23 Q. Okay. With respect to growth and development, is it
24 your understanding that Kentucky-American seeks to
25 acquire water systems?

1 A. With regard to Kentucky-American, I do not know. I do
2 know that they currently have a shortage of supply of
3 water and that they are seeking to increase and solve
4 the supply shortage problem.

5 Q. Okay, but, with respect to growth and development, you
6 do not have - you don't have an opinion on whether or
7 not Kentucky-American seeks to acquire water systems?

8 A. No, I do not.

9 MR. INGRAM:

10 Your Honor, I object to the relevance of this
11 question. I don't recall anything in Dr. Vander
12 Weide's direct testimony about the physical growth
13 of Kentucky-American Water Company.

14 MR. SPENARD:

15 Well, what we're doing is we're establishing a
16 return on equity for Kentucky-American. When you
17 take a look at his testimony, he talks about the
18 source of supply in his testimony as a business
19 risk that Kentucky-American faces. It is
20 completely relevant, because he's the one who
21 engaged in the discussion.

22 CHAIRMAN GOSS:

23 Well, it's cross examination. I'm going to give
24 you quite a bit of latitude as long as it's
25 relevant. Certainly, if it's not relevant, the

1 Commission, hopefully, will have sense enough to
2 give it the weight that it deserves and nothing
3 more. So the objection will be overruled. Go
4 ahead and proceed, Mr. Spenard.

5 MR. SPENARD:

6 Yes, sir.

7 Q. Dr. Vander Weide, did your review and did your
8 preparation of this testimony - in the review of
9 Kentucky-American and the preparation of your
10 testimony, did you make any assessments with regard to
11 the risk that Kentucky-American faces?

12 A. Yes. I discuss some of those risks in my testimony.

13 Q. Okay, and, with regard to compliance with the Safe
14 Drinking Water Act, is that a risk that Kentucky-
15 American faces?

16 A. Yes, it is.

17 Q. Okay. What about in terms of competition? Are there
18 any national competitors that will be players in
19 Kentucky's regulated market?

20 A. No.

21 Q. Okay. Dr. Vander Weide, while individual investment
22 decisions differ from investor to investor, would you
23 agree that, overall, investors act rationally in making
24 their investment decisions?

25 A. There's a great deal of debate about that question in

1 the finance community. Some people take it as a tenet
2 of faith that investors do act rationally. On the
3 other hand, over the last several years, we became
4 accustomed to the phrase "irrational exuberance,"
5 indicating that at least some observers believe that
6 investors did not act rationally over this period of
7 time.

8 Q. Well, Dr. Vander Weide, what is your opinion with
9 regard to whether or not investors act rationally or
10 irrationally in making their investment decisions?

11 A. I believe that they act both rationally and
12 irrationally. One cannot say whether they are always
13 rational or always irrational. As human beings, they
14 do a little bit of both.

15 Q. Okay. Dr. Vander Weide, . . .

16 A. They try to act rationally, but they don't always
17 succeed.

18 Q. Okay. Well, in the process of making investment
19 decisions, is obtaining information something that
20 investors generally seek to do?

21 A. They will seek to obtain relevant information to their
22 investment decision, yes.

23 Q. And, in your opinion, do investors know the regulatory
24 risk associated with investing in public utilities?

25 A. Yes. That would be one of the risks that they would

1 consider.

2 Q. Okay. You indicate that there are few publicly traded
3 water companies; is that correct?

4 A. Yes.

5 Q. Okay, and this lack of information presents a challenge
6 in determining Kentucky-American's return on equity?
7 Is that your position?

8 A. Yes, it is.

9 Q. And, in your opinion, you use natural gas local
10 distribution companies as one means to meet this
11 challenge; is that correct?

12 A. Yes, it is.

13 Q. Okay. In preparing your testimony, did you review the
14 Louisville Water Company?

15 A. No, I did not.

16 Q. Okay. In reviewing your testimony - in preparing your
17 testimony, did you inquire whether Kentucky-American or
18 any of its affiliates have projected growth rates or
19 economic information for utilities that are
20 approximately the size of Kentucky-American but that
21 are currently either municipally owned or owned in non-
22 profit status?

23 A. I'm sorry. I don't understand the question. Could you
24 repeat it for me, please?

25 Q. Yes, sir, and I'll break it down into subparts. In

1 preparing your testimony, did you inquire whether
2 Kentucky-American or any of its affiliates have
3 projected growth rates or economic information for
4 comparable utilities that are approximately the size of
5 Kentucky-American but are not owned by Kentucky-
6 American or American Water Works, such as the
7 Louisville . . .

8 A. No, I did not.

9 Q. Okay.

10 COURT REPORTER:
11 What was his answer?

12 MR. SPENARD:
13 I believe he said he did not.

14 CHAIRMAN GOSS:
15 Was your answer that you did not?

16 A. I did not inquire whether Kentucky-American had
17 information on growth rates of small electric and gas
18 utilities?

19 Q. Okay. What about water utilities?

20 A. I would guess that they do, but I did not inquire
21 whether they had that, because my testimony is from the
22 point of view of investors, not from the point of view
23 of Kentucky-American's management.

24 Q. Okay, and you are on the faculty of the Fuqua School of
25 Business?

1 A. Yes, I am.

2 Q. And are you familiar with a Professor Campbell Harvey?

3 A. Yes, I am.

4 Q. And he is also on the faculty of the Fuqua School; is
5 that correct?

6 A. Yes.

7 Q. Okay. Are you familiar with an article that's
8 referenced in Dr. Randall - did you review the
9 testimony of Dr. J. Randall Woolridge as part of your
10 preparation for this hearing?

11 A. Yes, I did.

12 Q. And are you familiar with an article that's referenced
13 in Dr. Woolridge's testimony, Page 45, Footnote 18,
14 concerning a study by Duke University Professor Dr.
15 Campbell Harvey and Professor Dr. John Graham?

16 A. Yes, I am.

17 Q. Okay. Dr. Vander Weide, I have just distributed a copy
18 of that particular article. Do you know the date of
19 that particular article?

20 A. I believe it says in the footnote on Page 45 that the
21 Working Paper date was 2003.

22 Q. And, Dr. Vander Weide, even with the limitations that
23 we have, would you accept, subject to check, that, per
24 the abstract of the article, that Doctors Graham and
25 Harvey found that the evidence that the one-year risk

1 premium is highly variable through time while the ten-
2 year expected risk premium is stable and equal to
3 approximately 3.8 percent?

4 A. Are you asking whether I accept that's what it says in
5 the abstract?

6 Q. Yes, sir.

7 A. Or are you asking me - okay. Yes, that's what it says
8 in the abstract.

9 Q. Okay. Dr. Vander Weide, are you familiar with the
10 current 10-year Treasury rate for the last few days?

11 A. No, I am not familiar with what it is in the last few
12 days.

13 Q. Would you accept, subject to check, that the 10-year
14 note is approximately 4.19 percent as of yesterday's
15 Wall Street Journal on-line?

16 A. I would accept that, but I don't believe it's relevant
17 to my testimony.

18 Q. Okay.

19 MR. SPENARD:

20 Mr. Chairman, at this stage, I think that's all
21 the questions we have of Dr. Vander Weide with the
22 condition I am moving for the acceptance of
23 Attorney General's Cross Examination Exhibits A,
24 B, and C.
25

1 CHAIRMAN GOSS:

2 Any objections? Hearing none, the motion will be
3 sustained and let them be entered and we'll just
4 go ahead and, if it's all right with everyone,
5 have the Reporter to renumber these when we figure
6 out what the next number in sequence is and make
7 them formal AG exhibits.

8 AG EXHIBITS 3, 4 and 5

9 MR. SPENARD:

10 And, at this stage, Mr. Chairman, I don't have any
11 further questions. Thank you, Dr. Vander Weide.

12 DR. VANDER WEIDE:

13 Thank you.

14 CHAIRMAN GOSS:

15 Thank you, Mr. Spenard. Mr. Ockerman, do you
16 have questions, sir?

17 MR. OCKERMAN:

18 We have no questions, sir.

19 CHAIRMAN GOSS:

20 Thank you. Mr. Barberie?

21 MR. BARBERIE:

22 None.

23 MR. WUETCHER:

24 Mr. Wuetcher?
25

1 MR. WUETCHER:

2 Your Honor, Mr. Pinney will be conducting
3 Staff's cross examination.

4 CHAIRMAN GOSS:

5 Okay. Mr. Pinney?

6 MR. PINNEY:

7 Yes, Your Honor, we have a few questions.

8 CROSS EXAMINATION

9 BY MR. PINNEY:

10 Q. Good afternoon, Mr. Vander Weide.

11 A. Good afternoon.

12 Q. Do you have a copy of your testimony with you?

13 A. Yes, I do.

14 Q. Okay. Do you also have a copy of your Responses to the
15 Commission's Second Information Request?

16 A. Yes, I do.

17 Q. Would you please refer to Item 10 of your Response to
18 that Second Information Request?

19 A. Exactly what document is that?

20 Q. I believe it's . . .

21 A. Is it - oh, Item 10?

22 Q. It's of your Response to the Second Information
23 Request. I don't have the page number. It's just 10.
24 But, in that, you - have you narrowed it down yet?

25 A. Is it Item No. 10?

1 Q. I believe so. Let me see what the - yes, it is. In
2 your Response, you indicated that you would supply
3 RWE's accounting treatment for the flotation costs.
4 Are you able to supply that information now?
5 A. Where are you referring that I . . .
6 Q. I believe it's - I think it's your Response 10e. It
7 says that, "RWE has not publicly issued common equity
8 for a number of years. The Company does not have the
9 information to provide the answer to this question in
10 its possession at this time. As soon as it receives
11 the information it will forward the information to the
12 Commission." And that was in response to the
13 Commission's question requesting that RWE provide us
14 current accounting treatment for flotation costs.
15 A. Yes, and I do not have that information at this time.
16 Q. Okay. Do you have any idea - excuse me, Mr. Ingram.
17 MR. INGRAM:
18 If you want to treat that as a hearing data
19 request, we'll certainly make every effort to
20 supply an answer as expeditiously as we can.
21 MR. PINNEY:
22 Okay. Thank you. I think that will satisfy
23 Commission Staff.
24 Q. And now I'll refer you back to your direct testimony,
25 please, particularly to the Appendix 2, Page 4, of your

1 direct testimony and I believe that starts out - it's
2 an outline and it starts out "Adjusting for Flotation
3 Costs in Determining a Public Utility's Allowed Rate of
4 Return on Equity," and I'd like to refer you to Page 4,
5 particularly. Are you there, sir, or Doctor?
6 A. Yes, I am.
7 Q. Okay. Thank you. In this exhibit, you describe the
8 various ways that a company with flotation costs can
9 account for them. If RWE does expense these items,
10 would granting recovery of these costs through the cost
11 of equity require RWE to change its accounting for
12 flotation costs?
13 A. Well, there's two kinds of accounting. One is
14 accounting for purposes of external reporting, and the
15 other is regulatory accounting, and regulatory
16 accounting relates more to how items are treated for
17 regulatory purposes. If flotation costs were, in fact,
18 recovered as an expense in the regulatory process, then
19 I would change my treatment of flotation costs in the
20 sense that I would not seek to recover it through the
21 cost of capital. I don't have any evidence that
22 flotation costs are recovered or have been recovered as
23 an expense and so I believe it's appropriate to treat
24 it through the cost of capital, and this Appendix cites
25 numerous articles which support that opinion.

1 Q. Thank you. Also in your direct and rebuttal testimony
2 you stated or you testified that it's appropriate to
3 use natural gas companies as proxies for water
4 companies partly because of the insufficient number of
5 water companies on which to perform the analysis.
6 Would you please give us an idea of approximately how
7 many companies would be sufficient to use as a model?
8 A. Well, as I suggested in my testimony, the problem isn't
9 only with the number of companies; it's with their
10 small size, and, in particular, because of their small
11 size, there's very little information available to
12 investors regarding growth expectations and indeed I
13 suggested that - I show data in my testimony and I
14 suggest that normally I would require that there are
15 three analysts' forecasts available for the company to
16 be included and I show data that, in fact, the number
17 of analysts for the water companies is generally less
18 than three and that's particularly true for the small
19 water companies, and so, given the problem of lack of
20 information regarding growth expectations and the small
21 number, I'm recommending that one look at, as well, at
22 local natural gas distribution companies, and I provide
23 evidence that that is also what the Florida Public
24 Commission staff has done. Indeed, they rely entirely
25 on local natural gas distribution companies.

1 Q. Okay. Well, although the answer to what I'm about to
2 ask may have been in what you just said, I'm going to
3 ask it nonetheless. Would it be appropriate to look at
4 electric companies as well?

5 A. I believe that electric companies certainly have many
6 risks that are similar to the risks of water companies,
7 but, in my opinion, one wouldn't want to vary too far
8 into different industries and it seems appropriate to
9 limit the search to local natural gas distribution
10 companies, but electric companies are similar in risk
11 and I believe, for example, that allowed rates of
12 return for water companies should be similar to allowed
13 rates of return for natural gas companies or for
14 electric companies.

15 Q. So the answer is that it would also be appropriate to
16 look at electric companies?

17 A. It would be appropriate. It would be more complicated
18 because one would have more companies and so I chose to
19 look at natural gas, but the risk characteristics are
20 similar to water companies and hence the cost of
21 capital ought to be similar and the allowed rates of
22 return ought to be similar as well. In fact, I give
23 some evidence that the water companies, if anything,
24 are riskier than the natural gas companies or the
25 electric as judged by their Safety ranks, their Value

1 Line Safety ranks, that I cite in my testimony.

2 Q. All right. Thank you. I'm finished with that

3 question. Dr. Vander Weide, your recommendation was

4 not stated as a range. Are you comfortable stating a

5 range and, if you are, what would that range be?

6 A. Well, my range of results was from 10.7 to 11.4, and I

7 had three methods. Two of them produced an 11.4 and

8 one of them produced a 10.7, and so the average of the

9 three methods was 11.2.

10 Q. And I would like for you, if you would, please, to

11 refer to - I believe it's styled LFUCG Item 15. That's

12 Item 15 from the Lexington-Fayette Urban County

13 Government, and what it is it's a list of, I guess,

14 return on equity awards for American Water Works

15 subsidiaries.

16 MR. INGRAM:

17 I don't think Dr. Vander Weide has that in front

18 of him.

19 MR. PINNEY:

20 Okay. Well, . . .

21 A. That's correct.

22 Q. You do not have that in front of you? Well, would you

23 take it subject to check . . .

24 MR. PINNEY:

25 Mr. Ingram, do you have a copy of this with you?

1 MR. INGRAM:
2 Yes.
3 MR. PINNEY:
4 What I'm going to do is I was going to read - I'm
5 basically going to read the return on equity
6 numbers for some of the other American Water Works
7 subsidiaries, subject to check.
8 MR. INGRAM:
9 Sure. Could you give me the reference again,
10 please?
11 MR. PINNEY:
12 I believe it's Item 15 from the Fayette County
13 Urban Government's (sic) attachment.
14 MR. INGRAM:
15 Which data request of the LFUCG, if you know?
16 MR. PINNEY:
17 I think it's in the first one?
18 MR. INGRAM:
19 One?
20 MR. PINNEY:
21 Yeah.
22 MR. INGRAM:
23 Okay.
24 MR. PINNEY:
25 Are you there, Mr. Ingram?

1 MR. INGRAM:

2 Yes.

3 MR. PINNEY:

4 Okay. Thank you.

5 Q. Dr. Vander Weide, in this list, and subject to check
6 obviously, there are eight awards during 2004 to
7 American Water Works subsidiaries. They're ranging
8 from 7 percent in West Virginia to 10.6 percent in
9 Hawaii and Pennsylvania, but your recommendation of
10 11.2 percent is 60 basis points above the highest
11 award. You've explained in your testimony why you
12 recommend 11.2, but can you discuss why Kentucky-
13 American would need a higher return on equity than
14 Hawaii or Pennsylvania?

15 A. Well, every expert witness provides their expert
16 opinion of what the cost of equity should be, as I have
17 here, and my expert opinion is, although slightly
18 higher, is in the range of allowed rates of return
19 throughout the country. For American Water Works, I
20 believe the - I don't have a calculation of the
21 average, but - is that part of the record, what the
22 average of those would be?

23 Q. I believe, according to this, without the West Virginia
24 award, which they've thrown out - no, there's no
25 average on here.

1 A. Well, the average for awards for - the range of awards
2 for electric and natural gas companies, as published in
3 the Public Utilities Fortnightly in one of the most
4 recent editions, from September of 2003 to September of
5 2004 was from 9.75 to about 12.25 with an average of
6 about 10.5. Now, that was for the last year. For the
7 three prior years, the allowed returns on equity on
8 average were about 11 percent. So my recommended cost
9 of equity would be in the range of allowed rates of
10 return for public utilities published in the Public
11 Utilities Fortnightly and, on the other hand, Mr.
12 Woolridge's recommended 8.75 percent recommendation
13 would be below the range of allowed rates of return and
14 would be very significantly below the average of
15 allowed rates of return in other states, and there is
16 no trend that I can see over the course of the last
17 year. So, if the range is 9.75 to 12.25, my 11.2 would
18 certainly be well within that range and 11.75 would be
19 outside of that range - or 8.75 would be outside of
20 that range.

21 Q. And just to be clear, that average range of their
22 return on equity, is that for all utilities or for
23 water utilities in 2004?

24 A. That's for all utilities' allowed rates of return, and
25 I see no reason why water companies should have lower

1 allowed rates of return because they are certainly
2 comparable in risk to the electric and natural gas
3 companies.

4 Q. I think you've told Mr. Ingram that you have no changes
5 to your original testimony. That being the case,
6 though, has anything occurred that would revise any of
7 your recommendations?

8 A. No. I essentially updated my recommendations in my
9 rebuttal testimony when I looked at the results that
10 Mr. Woolridge would have obtained for his water
11 companies sample group and that would have been in my
12 Rebuttal Schedule A and that would have been data as
13 the same time period of Mr. Woolridge's testimony, and
14 the cost of equity results for his small water company
15 group were 11.08 and for his large water company group
16 were 11.45 percent.

17 Q. Okay.

18 MR. PINNEY:

19 I have no further questions, Your Honor. Thank
20 you very much, Dr. Vander Weide.

21 CHAIRMAN GOSS:

22 All right, Mr. Pinney. Mr. Ingram, redirect, sir?

23 MR. INGRAM:

24 No questions, Your Honor.

25

1 CHAIRMAN GOSS:
2 Okay. Mr. Spenard?
3 MR. SPENARD:
4 Nothing.
5 CHAIRMAN GOSS:
6 Mr. Ockerman?
7 MR. OCKERMAN:
8 No questions.
9 CHAIRMAN GOSS:
10 Mr. Barberie?
11 MR. BARBERIE:
12 No, sir.
13 CHAIRMAN GOSS:
14 Okay. Dr. Vander Weide, thank you very much, sir,
15 for appearing today. We hope you're feeling
16 better certainly, and, if there's nothing further,
17 we'll go ahead and cut you off and we'll remain on
18 the record to discuss briefing issues and some
19 housekeeping matters. Good day to you, sir.
20 DR. VANDER WEIDE:
21 Thank you very much for accommodating my
22 situation. I appreciate it very much.
23 CHAIRMAN GOSS:
24 You're very welcome. Thank you. David, if you're
25 listening back there, I'm going to press this

1 video conferencing button and I think that will
2 probably cut us off. I hope the room doesn't
3 explode. Okay. I think that took care of it.
4 All right. We still appear to be on the in-house
5 record. Okay. All right. In terms of house-
6 keeping matters, then, other than the briefing
7 schedule and all of us leaving here on the same
8 page in terms of the procedural schedule, are
9 there any other matters to take up?

10 MR. WUETCHER:

11 Your Honor, there is one. Shortly before the
12 hearing, I was advised by some of the members of
13 Commission Staff that there are a couple of loose
14 ends in terms of following through on some of the
15 documents that were submitted by Kentucky-
16 American. To that extent, Commission Staff would
17 respectfully request that the record be kept open
18 for a few days, for 14 days, so that we could
19 tender a supplemental information request to
20 Kentucky-American. It's not very extensive, but
21 there are a few items that, in order to ensure
22 that we are correctly understanding the documents
23 that Kentucky-American has submitted, we'd like to
24 clarify some items for the record.

25

1 CHAIRMAN GOSS:

2 So these are items that Kentucky-American has
3 provided pursuant to data requests made during the
4 course of the hearing?

5 MR. WUETCHER:

6 Yes, sir.

7 CHAIRMAN GOSS:

8 And what you're saying is you need to follow up
9 and . . .

10 MR. WUETCHER:

11 Yes, sir.

12 CHAIRMAN GOSS:

13 . . . get some clarifications?

14 MR. WUETCHER:

15 Yes, sir. There are a couple of figures that are
16 included in some of the documents that have been
17 submitted that Commission Staff is having
18 difficulty following through in terms of the
19 calculations and we would just like to get some
20 clarification to ensure that those are not
21 mistakes.

22 CHAIRMAN GOSS:

23 Can that be done informally to try to speed it up?

24 MR. WUETCHER:

25 Yes, sir, it can be.

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CHAIRMAN GOSS:

I mean, a phone call or a conference maybe after the hearing?

MR. WUETCHER:

Yes, sir, it could be done that way. We could simply tender our questions by letter to ensure that both the utility and the other parties are aware of it and then just have a response by letter. E-mail would even be acceptable to Commission Staff and we would file that in the record.

CHAIRMAN GOSS:

All right, and you'll just copy everyone and make sure that everybody gets a record of the . . .

MR. WUETCHER:

Yes, sir.

CHAIRMAN GOSS:

Okay. Does anybody have any objection to 14 days? That seems like maybe a little long, a little further extension.

MR. WUETCHER:

I would rather err on the side of having too many days, . . .

CHAIRMAN GOSS:

Okay.

1 MR. WUETCHER:

2 . . . but it's our intent to try to get that
3 out as soon as possible, no later than by
4 Monday or Tuesday at the latest.

5 CHAIRMAN GOSS:

6 Okay. Does anybody have any objection to that
7 request?

8 MR. SPENARD:

9 No objection.

10 CHAIRMAN GOSS:

11 All right. Okay. That will be granted, then.

12 MR. WUETCHER:

13 And, Your Honor, I did go back and check. Mr.
14 Ingram was correct. The briefs are due on the
15 4th of January, which is the first day that the
16 Commission is open for business in 2005, and the
17 reply briefs are due one week later on the 11th of
18 January, and I believe the transcript is due 14
19 working days from today's date, which would be
20 December 15th.

21 CHAIRMAN GOSS:

22 All right. Very good. Is that everyone's under-
23 standing as to the remaining procedural schedule?
24 Does anyone have any objection to those dates?
25 All right. Any other matters, then, to take up

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before the Commission before we adjourn? All right. Again, thank you, Counsel, very much for the very professional way that the hearing was conducted. We appreciate the fact that you got your proof on, got folks on and got them off, and I thought the hearing went very well from the standpoint of time and hope each and every one of you have a very nice Thanksgiving, and we'll look forward to getting the briefs, then, on the 4th of January. Thank you. The Commission will be in recess.

FURTHER THE WITNESS SAITH NOT
HEARING ADJOURNED
OFF THE RECORD

1 STATE OF KENTUCKY
2 COUNTY OF FRANKLIN

3
4 I, Connie Sewell, the undersigned Notary Public, in
5 and for the State of Kentucky at Large, do hereby
6 certify the foregoing transcript is a complete and
7 accurate transcript, to the best of my ability, of the
8 hearing taken down by me in this matter, as styled on
9 the first page of this transcript; that said hearing was
10 first taken down by me in shorthand and mechanically
11 recorded and later transcribed by me; that the witness
12 was first duly sworn before testifying; that said
13 testimony was taken by video conference. The witness
14 was in Durham, North Carolina and all parties to the
15 proceeding were at the offices of the Kentucky Public
16 Service Commission, Frankfort, Kentucky.
17 My commission will expire November 19, 2005.

18 Given under my hand at Frankfort, Kentucky, this the
19 10th day of December, 2004.

20
21
22
23
24
25

Connie Sewell

Connie Sewell, Notary Public
State of Kentucky at Large
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