

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF THE RATES OF KENTUCKY-) CASE NO. 2008-00427
AMERICAN WATER COMPANY)

COMMISSION STAFF'S FIRST SET OF
INFORMATION REQUESTS TO THE ATTORNEY GENERAL

The Attorney General ("AG"), pursuant to 807 KAR 5:001, shall file with the Commission the original, a paper copy and one electronic copy of the information requested herein on or before March 23, 2009. Responses to requests for information shall be appropriately bound, tabbed, and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

AG shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which AG fails or

refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. 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 request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. In all previous proceedings in which Kentucky-American applied for a rate adjustment using a fully forecasted test period, the Commission found that “slippage” adjustments were appropriate to account for the effect of capital construction budget variances for the 10 years previous to the forecasted period.

a. State whether the AG agrees with the use of slippage adjustments in rate proceedings in which a fully forecasted test period is used.

b. Refer to Kentucky-American's Response to Commission Staff's Second Information Request, Item 40. State whether the AG agrees with the slippage adjustments set forth in that response.

c. State the reasons why the AG witnesses have not proposed slippage adjustments or otherwise included such adjustments in their recommendations.

2. Refer to Direct Testimony of Robert J. Henkes at 20-23.

a. Mr. Henkes is proposing to use the “effective tax rate methodology” to calculate consolidated income tax benefit for Kentucky-American's ratepayers. State whether Mr. Henkes's proposed consolidated income tax adjustment conforms to the federal income tax normalization requirements. Explain.

b. List any state regulatory commissions that you are aware of that have adopted consolidated income tax adjustments for ratemaking purposes. Provide a copy of each listed commission's decisions on this subject.

c. List any state regulatory commissions that you are aware of that have rejected the use consolidated income tax adjustments for ratemaking purposes. Provide a copy of each listed commission's decisions on this subject.

3. Refer to Direct Testimony of Robert J. Henkes at 35-42. List any state regulatory commissions that you are aware of that have denied a utility rate recovery of employee incentive compensation. Provide a copy of each listed commission's decisions on this subject.

4. In disallowing the forecasted business development costs in Case No. 2004-00103, the Commission cited Kentucky-American's inability to appropriately document and separate forecasted business development costs between those that are directly assignable and those that are allocated.

a. Explain if Kentucky-American was able to document the amount of directly assignable forecasted business development costs.

b. If Kentucky-American is unable to document the directly assignable forecasted business development costs, explain why the AG is proposing to remove only 65 percent of those costs from forecasted management fees.

5. Refer to Direct Testimony of Robert J. Henkes at 56. Explain why the unamortized rate case costs from Case No. 2007-00143 should not be added to the current rate case cost and re-amortized over the appropriate lives.

6. Explain why, as the Commission has permitted a cash return on Construction Work In Progress for the jurisdictional electric and gas utilities, it should not afford the same ratemaking treatment to Kentucky-American.

7. Refer to Kentucky-American's response to the Attorney General's Second Request for Information, Item 1(a). Explain if Kentucky-American's proposed rate-making treatment of the Allowance for Funds Used During Construction for the Kentucky-River Station II complies with the Commission's allowance of a cash return on CWIP in the cases cited by Kentucky-American in its response.

8. Refer to the Direct Testimony of Stephen G. Hill at 11. Provide a copy of the document, "IBES Utility Long-Term Growth Rate Report, January 2009," referenced in footnote 2.

9. Refer to the Direct Testimony of Stephen G. Hill at 19. Provide a copy of the Standard & Poor's "Corporate Ratings Criteria," 1996.

10. Refer to the Direct Testimony of Stephen G. Hill at Exhibit SGH-1 Schedule 2.

a. Provide the Value Line Investment Survey company profile sheets for each of the companies in the water and gas distribution proxy groups which reflect the data in Schedule 2.

b. Provide an explanation of why it is appropriate to include American Water Works in the proxy group since it is the parent of Kentucky-American Water .

11. Refer to the Direct Testimony of Stephen G. Hill at Exhibit SGH-1. Provide a copy of this exhibit in electronic format (excel) with all formulas intact and unprotected.

12. Refer to the Direct Testimony of Stephen G. Hill at Exhibit SGH-1, Schedule 3. Provide an explanation of how the EPS estimates from Zacks are used in the calculations.



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cc: Parties of Record

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