

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

**IN THE MATTER OF:** )  
 )  
**THE APPLICATION OF KENTUCKY-AMERICAN ) CASE NO. 2010-00036**  
**WATER COMPANY FOR AN ADJUSTMENT OF )**  
**RATES ON AND AFTER MARCH 28, 2010 )**

**KENTUCKY-AMERICAN WATER COMPANY'S  
DATA REQUESTS TO THE ATTORNEY GENERAL**

In accordance with the Public Service Commission's ("Commission") March 17, 2010 Order, Kentucky-American Water Company ("KAW") propounds the following data requests upon the Attorney General. The Attorney General shall respond to these requests in accordance with the provisions of the Commission's March 17, 2010 Order and the instructions set forth below.

**INSTRUCTIONS**

1. In producing documents and things responsive to these requests, the Attorney General ("you") shall respond in accordance with the requirements set forth in the Commission's March 17, 2010 Order and the production shall be organized and labeled to correspond with the data requests to which they are responsive, regardless of whether these documents and things are possessed directly by you or by your present or past agents, employees, companies, licensees, representatives, investigators, or attorneys.

2. If the attorney-client privilege or work product immunity is asserted as to any document or thing, or if any document or thing is not produced in full, produce the document or

thing to the extent the request for production is not objected to, and, in so doing, state the following:

- (a) the specific ground(s) for not producing the document or thing in full;
- (b) the basis for such a claim of privilege or immunity and the facts supporting that basis; and
- (c) fully identify the information or material contained within the document or thing for which such privilege or immunity is asserted, including as applicable, the name of any document or thing; its date; the name, address and job title of each author or other person involved in its preparation, each addressee and each person to whom a copy of the document or thing has been sent or received; and the general nature of the document or thing (e.g., memoranda, letter).

3. Where an objection is made to a request, state all grounds upon which your objection is based.

4. If, after exercising due diligence, you are unable to determine the existence of any documents or things falling within a specific request, you shall so state in your written response.

5. With respect to each of the following requests, you shall identify and/or produce all documents which are known to you or which can be located or discovered by you through diligent effort on your part, including, but not limited to, all documents which are in your business, personnel, and/or personal files or those of your present or past employees or contained or stored within a computer in your possession or those of your present or past representatives, attorneys, or accountants, or accessible to you or your present and past employees, or its representatives, attorneys, or accountants.

6. Whenever used herein, the singular shall be deemed to include the plural and the plural shall be deemed to include the singular and the disjunctive shall be deemed to include the conjunctive and the conjunctive shall be deemed to include the disjunctive so as to elicit all information potentially responsive to the request for production.

## **REQUESTS**

### **BACKGROUND AND EXPERIENCE**

1. Mr. Smith states on pages 2-3 of his testimony that he has “performed work in the field of utility regulation on behalf of industry, state attorneys general, consumer groups, municipalities, and public service commission staffs” in a variety of states, including Kentucky. On page 3 of Mr. Smith’s testimony, however, he states that he has never testified before the Kentucky Public Service Commission. Please state and describe the complete history of Mr. Smith’s utility regulation work in Kentucky.
2. Please list all of the cases before the Kentucky Public Service Commission in which Mr. Smith worked “as a regulatory analyst where testimony was submitted before the Commission.”

### **RATE BASE**

#### **CWIP**

3. Does Mr. Smith agree or disagree that the Company must deploy capital to invest in CWIP? If Mr. Smith disagrees, please provide detailed reasoning supporting that disagreement.
4. Does Mr. Smith agree or disagree that including (non-cash) AFUDC above the line as going level revenue offsets any revenue requirement related to CWIP? If Mr. Smith disagrees, please provide detailed reasoning supporting that disagreement.
5. Is Mr. Smith aware that the AG, in Case No. 2004-00103, proposed to eliminate all of KAW’s CWIP from rate base, as Mr. Smith has proposed in this proceeding?
6. At the time Mr. Smith’s testimony was filed, was he aware that KAW is complying with the Commission-established “hybrid approach,” as explained in its February 28, 2005 Order in Case No. 2004-00103, which requires KAW to include all CWIP in rate base while accruing AFUDC on projects taking longer than thirty days to complete? If he was, please explain why the Commission should deviate from the established “hybrid approach.”
7. At the time Mr. Smith’s testimony was filed, was he aware that the Commission rejected the AG’s past proposed adjustment to remove CWIP from KAW’s rate base in its

February 28, 2005 Order in Case No. 2004-00103, stating “We find no merit to the AG’s argument that CWIP should be eliminated because of Kentucky-American’s use of a forecasted test year...Kentucky-American is entitled to a return on non-AFUDC bearing CWIP regardless of the test period employed”?

8. Please provide a list of the “other recent utility rate cases” referenced on page 25 of Mr. Smith’s testimony in which ADIT was increased due to an income tax accounting change.

## **REVENUE REQUIREMENT**

### **AFUDC**

9. At the time Mr. Smith’s testimony was filed, was he aware that KAW is complying with the Commission-established “hybrid approach,” as explained in its February 28, 2005 Order in Case No. 2004-00103, which requires KAW to include all CWIP in rate base while accruing AFUDC on projects taking longer than thirty days to complete?
10. Is Mr. Smith aware of any Commission authority that supports his argument that AFUDC should be removed from operating revenues? If so, please provide citations to that authority.

### **Incentive Compensation**

11. Please list all Commission authority you rely upon for the concept that the Commission should remove 100 percent of incentive compensation expenses because payment is premised on a parent company financial trigger.
12. Does Mr. Smith agree that instead of removing 100 percent of incentive compensation expenses, only the amount related to company financial goals, at most, should be removed from operating expenses? If he does not agree, please provide detailed reasoning for his disagreement and citations to Commission authority in support of that disagreement upon which you rely.
13. Why does Mr. Smith contend that the non-financial components of the incentive compensation plan, such as safety performance and customer satisfaction, should be removed from operating expenses? Please provide citations to Commission authority upon which you rely for that contention.

### **Stock-Based Compensation**

14. Please list all Commission authority upon which you rely for the proposal to remove stock-based compensation from operating expenses.

### **Affiliate Management Fees**

15. Please list all cases of which Mr. Smith is aware involving American Water operating utilities and affiliated management fees, as referenced on page 52 of Mr. Smith's testimony.
16. Please list all state public service commissions that use the IRS guidelines for nondeductible expenses to determine whether expenses are permissible for ratemaking purposes as described at page 57 of Mr. Smith's testimony. Please provide citations to supporting authority issued by those commissions upon which you rely.
17. Provide all authority for Mr. Smith's statement on page 58 of his testimony that the "Commission has a ratemaking policy to not allow rate recovery for charitable contributions."

### **Rate Case Expense**

18. At the time Mr. Smith filed his testimony, was he aware that it is well-established Commission practice to amortize rate case expenses? Does Mr. Smith disagree with that Commission practice? If so, provide a detailed explanation for that disagreement and provide Commission authority upon which you rely.
19. Please explain why rate case expenses do not meet the definition of a "regulatory asset" pursuant to FAS 71 and provide all authority upon which you rely for your explanation.
20. Please list all cases you rely upon for the assertion that the Commission has used the cost of the expense compared to the rate base or the total revenue requirement as its standard for evaluating proposed regulatory assets.
21. Please list all Commission cases you rely upon for Mr. Smith's proposal to normalize rate case expenses.

### **Depreciation**

22. Please provide all workpapers, documents and any other authority on which Mr. Smith relied in recommending a negative 20 percent net salvage ratio for Account 333, Services.

### **Capitalization Rate**

23. Please explain the basis of Mr. Smith's argument on page 70 that KAW has the "propensity to budget capitalization percentages that have been well below actual on average" when in two of the last five years, the actual amount was lower than the budgeted amount?
24. Please list all Commission cases you rely upon for Mr. Smith's proposal to normalize capitalization rates.

25. Does Mr. Smith contend that capitalization ratios, which, pursuant to his definition on page 68 of his testimony, are “typically derived from employees accounting for how their work time was spent” between capitalized construction projects and operation and maintenance work, cannot be sufficiently forecasted for vacancies in which the tasks required by those positions are already known and defined? If so, please provide detailed reasoning for that contention.

### **Vacancies**

26. Please provide all workpapers and supporting calculations used in the selection of a three-position vacancy rate.
27. Please list all authorities you rely upon that support using an average vacancy rate, when the actual rate is known and measurable.
28. Why is it reasonable to assume that the KRS II plant will be “appropriately staffed during the forecast test year” as stated on page 73 of Mr. Smith’s testimony, when Mr. Smith acknowledged on page 72 that specialized positions may require a longer recruiting period?

### **Lagoon Cleaning**

29. Please explain why lagoon cleaning is appropriate for normalization as it is an expense for which bids are submitted and for which market data and pricing trends are available. Please provide Commission authority you rely upon for that explanation.

### **Uncollectibles Factor**

30. Please explain how the uncollectibles factor is sufficiently random and unpredictable as to warrant normalization treatment. Please provide Commission authority you rely upon for that explanation.
31. Please list all Commission cases you rely upon for the proposal to normalize an uncollectibles factor.
32. Please explain why Mr. Smith chose to utilize a three-year average for his uncollectibles factor, as opposed to a longer or shorter period. Please provide Commission authority you rely upon for that explanation.

### **ROE**

33. Please provide copies of the AUS Utility Reports that provide the data supporting Dr. Woolridge’s studies and exhibits (JRW-4, JRW-10, JRW-12 and JRW-13).
34. Please provide a copy of the National Association of Water Companies Financial and Operating Data Report referenced in Dr. Woolridge’s testimony at page 51.

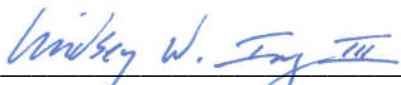
35. Please provide the data underlying Dr. Woolridge's exhibits JRW-14.1, 14.3 and 14.4 (the spreadsheets previously provided contain graphs or results but not the underlying data).

Respectfully submitted,

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BY:   
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**CERTIFICATE**

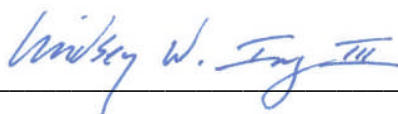
In accordance with Ordering Paragraph No. 6 of the Commission's February 16, 2010 Order, this is to certify that Kentucky-American Water Company's June 25, 2010 electronic filing is a true and accurate copy of the documents to be filed in paper medium; that the electronic filing has been transmitted to the Commission on June 25, 2010; that an original and one copy of the filing will be delivered to the Commission on June 28, 2010; and, that, on June 28, 2010, electronic mail notification of the electronic filing will be provided to the Commission and the following:

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