COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY FOR AN ADJUSTMENT OF RATES SUPPORTED BY A FULLY FORECASTED TEST YEAR	))))	CASE NO. 2010-00036

COMMISSION STAFF'S SECOND SET OF INFORMATION REQUESTS TO KENTUCKY-AMERICAN WATER COMPANY

Pursuant to 807 KAR 5:001, Kentucky-American Water Company ("Kentucky-American") shall file with the Commission no later than April 30, 2010 the original, a paper copy and an electronic copy of the information requested below. 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.

Kentucky-American 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 Kentucky-American 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. List all of Kentucky-American's sewer collection and treatment facilities.

2. List all Kentucky-American facilities and contract operations that are not subject to Commission regulation.

3. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-1.

a. Identify each position that is currently vacant or that Kentucky-American projects will be vacant during the forecasted test period.

b. For each position identified in Item 3(a) above:

(1) State why the position must be filled.

(2) State why the position is currently or will be vacant.

(3) Describe the current status of Kentucky-American's efforts to fill the position and state the anticipated hire date.

(4) State the total cost of the position included in the forecasted test period, the cost of each individual component of the total cost (e.g., payroll

expenses, payroll capitalized, retirement, taxes, insurance benefits), and the accounts to which each amount was charged.

c. At page 9, Kentucky-American lists the following job title: "Meter Reader (11/2/88-11/1/98)." Describe this job position and explain the job title used for this position.

4. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, W/P3-1 at 2. Incentive pay included in forecasted labor is $376,757.

a. Describe the incentive pay plan and explain why such a plan is necessary and reasonable.

b. (1) State whether the forecasted incentive pay is being awarded under the same long-term incentive plan and annual incentive plan compensation programs (respectively, "LIP" and "AIP") whose costs the Commission disallowed for ratemaking purposes in Case No. 2004-00103.[1]

(2) If the incentive plan is the same, explain why Kentucky-American proposes to include its costs in the determination of rates in this proceeding.

(3) If the incentive plan differs from that reviewed in Case No. 2004-00103, describe how the plan differs from the plan previously reviewed.

c. List each Kentucky-American employee who is eligible to participate in the incentive pay plan.

d. State the level of incentive pay available to each participant in the forecasted period.

[1] Case No. 2004-00103, Adjustment of the Rates of Kentucky-American Water Company (Ky. PSC Feb. 28, 2005) at 47 – 49.

e. State the level of incentive pay awarded to each individual participating in the program for each of the previous five years compared to the level of incentive pay available to each participant in the forecasted period.

f. For the previous five calendar years, provide a comparison of the incentive pay that was budgeted to actual amount paid in each year. Include detailed explanations for any variance between the budgeted and actual payments.

g. Describe how incentive payment awards in previous years were determined.

h. State the amounts of incentive payment awards included in the forecasted test period and describe how the amounts were determined.

5. In Case No. 2004-00103,[2] the Commission disallowed for ratemaking purposes the costs associated with the LIP and AIP because of the lack of any study or analysis that quantified the programs' alleged benefits.

a. Provide a copy of all studies and analyses that Kentucky-American has performed or commissioned that qualifies the benefits the ratepayers derive from the LIP or AIP.

b. If Kentucky-American has not performed or commissioned such studies or analyses, explain why Kentucky-American has not done so.

c. If Kentucky-American is unable to document the benefits of its or American Water Works Service Company's ("Service Company") incentive compensation plans, explain why Kentucky-American's ratepayers should bear the cost of these plans.

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[2] Id. at 49.

6. In Case No. 2004-00103, the Commission found that other utilities' use of incentive pay plans is insufficient evidence to demonstrate that Kentucky-American's incentive pay plans benefit Kentucky-American ratepayers and that the costs of such plans should be recovered through rates. Explain how the wide use of incentive pay plans by other utilities and business in general demonstrates that Kentucky-American's plans benefit Kentucky-American ratepayers.

7. Provide all studies and analyses that address the effect of Kentucky-American's and Service Company's incentive compensation programs on employee retention.

8. Identify each Service Company employee by position who is eligible to participate in the LIP. For each position listed, provide the total amount of LIP budgeted for the forecasted period and the amount allocated to Kentucky-American.

9. Identify each Service Company employees by position that is eligible to participate in the AIP. For each position listed, provide the total amount of LIP budgeted for the forecasted period and the amount allocated to Kentucky-American.

10. State whether each incentive pay plan offered to Service Company employees is identical to the plan(s) offered to Kentucky-American employees.

11. Provide all analyses and studies that address the benefits to Kentucky-American ratepayers of the incentive compensation plans provided to Service Company employees.

12. Describe how Kentucky-American's ratepayers benefit from incentive compensation plans provided to Service Company employees and why Kentucky-American ratepayers should bear the costs of such plans.

13. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, W/P3-1 at 2 and Direct Testimony of Sheila Miller at 6. Kentucky-American uses a 17.34 percent capitalization rate in its forecasted operations.

a. Provide a schedule comparing the budgeted and actual labor capitalization rates for the five most recent calendar years. Explain any variance between the budget and the actual capitalization rates.

b. In Case No 2008-00427,[3] Kentucky-American used a 21.06 percent capitalization rate in the forecasted period. Explain the decrease in the forecasted capitalization rate of 21.06 percent used in that case and the current forecasted rate of 17.34 percent.

14. Refer to Direct Testimony of Sheila Miller at 6.

a. Ms. Miller states that a forecasted number of overtime hours is used to calculate forecasted operation and maintenance labor expense. Provide a detailed description of Kentucky-American's methodology for forecasting the overtime hours.

b. Provide a schedule comparing the budgeted and actual overtime hours by employee for the five most recent calendar years. Explain each variance between the budget and the actual capitalization rates.

c. Provide the percentage annual wage increase that Kentucky-American applied in the forecasted test period for union and non-union employees.

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[3] Case No. 2008-00427, Application of Kentucky-American Water Company for a General Adjustment of Rates Supported by a Fully Forecasted Test Year (Ky. PSC Jun. 1, 2009).

d. Provide a schedule comparing the budgeted and historical percentage wage increases for Kentucky-American's union and non-union employees for each of the previous five calendar years.

15. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-2 at 1 - 15.

a. Provide the annual percentage increase for Kentucky-American's total electricity purchases for each of the previous five calendar years.

b. Provide the calculations and documents used to derive the "kwh/mg" per month.

c. Show the calculations and provide the work papers used to derive "energy cost/kwh" per month.

16. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 3-3 at 1 - 10.

a. Provide the annual percentage increases in Kentucky-American's total chemical and chlorine costs for each of the previous five calendar years.

b. A schedule that lists each chemical, the contract price for 2009 and the estimated price for 2010 appears at Page 10. Provide a schedule showing the percentage increase between the 2009 contract prices and the 2010 estimated prices for each chemical. Explain each projected price increase.

c. Provide all correspondence between Kentucky-American and its chemical suppliers since January 1, 2008 in which the cost of chemicals is discussed.

17. Refer to Direct Testimony of Keith Carter at 10. Mr. Carter states that "[C]hemical expenses are projected based on the most recent five-year average

consumption for each chemical (in pounds per million gallon treated), adjusted if warranted based on operating experience." Identify each instance where projected chemical usage was adjusted to reflect operating experience. For each instance, explain in detail why this adjustment was made and describe how it was made.

18. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-4 at 2.

a. According to Kentucky-American, the cleaning cost of Kentucky River Station is increasing from $184,628 to $245,000, an increase of $60,372 or 32.7 percent. Provide a detailed explanation for this increase.

b. Explain why Kentucky-American refers to the 2011 cost to clean the Kentucky River Station as the "actual cost."

c. For each Kentucky-American water treatment facility, list the dates in the previous ten years that the facility was cleaned, the cost of each cleaning, and the amortization period that Kentucky-American used for the cost of each cleaning.

d. Provide the date the Kentucky River Station will be cleaned in 2011 and the basis for the cost estimate.

19. Refer to Direct Testimony of Patrick L. Baryenbruch.

a. At page 4 of "Market Cost Comparison of Service Company Charges to Kentucky American Water Company 12-Months Ended September 30, 2009," Mr. Baryenbruch refers to monthly bills that the Service Company issues to the operating companies. Provide each monthly invoice that the Service Company issued to Kentucky-American for the 12-month period ending September 30, 2009.

b. Provide each monthly invoice that the Service Company issued to Kentucky-American for the period from October 1, 2009 to December 31, 2009.

c. Refer to "Market Cost Comparison of Service Company Charges to Kentucky American Water Company 12-Months Ended September 30, 2009" at 7. List and describe each of the $891,627 of Service Company charges that was considered "Capital."

d. Refer to "Market Cost Comparison of Service Company Charges to Kentucky American Water Company 12-Months Ended September 30, 2009" at 9. List and describe each Service Company charge that is included in each category listed in Table 1.

Table 1			
	Expense Category		Amount
(1)	Engineering	$	11,031
(2)	Operations	$	1,073,526
(3)	Water Quality	$	260,216

e. Explain why the expense categories would not be included in the "Kentucky-American Cost Per Customer."

f. List each service that American Water Works Company's ("AWWC") Corporate Office provides to AWWC subsidiaries.

20. In Case No. 2004-00103, Kentucky-American's forecasted management fees were:

Belleville Lab	$ 190,529
Call Center/National Customer Care Center	831,065
Corporate	707,381
ITS Shared Service	819,399
Shared Service	448,017
Southeast Region	+ 804,286
Total	$ 3,800,677

Of this total, the Commission allocated $367 to other operations, removed business development costs of $117,525, and permitted the recovery of $3,682,785 through general rates. The forecasted management fees in this case are $9,082,929, a 138.98[4] percent increase.

a. Restate the amounts shown in Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-5 at 2, using the Service Company categories used in Case No. 2004-00103 as shown above.

b. State the reasons for the change in the level of each forecasted Service Company charge in this case as compared to that of Case No. 2004-00103.

c. List each business development cost included in the forecasted Management Fees of this case, state whether it is directly assignable or allocated, and describe the services associated with the cost.

21. At page 7 of her direct testimony, Shelia Miller states that the forecasted group insurance reflects the current insurance premium rates in effect as of January 1, 2010. Provide the current group insurance statements to support the "current group insurance premium rates" that are referenced.

22. Refer to Direct Testimony of Sheila Miller at 6 and Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-6 at 2. Provide the Towers Perrin projections that support the estimated OPEB expenses.

23. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-7 at 1 - 3.

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[4] $9,082,929 (Current Forecast) - $3,800,677 (Forecast 2004-00103) = $5,282,252 ÷ $3,800,677 (Forecast 2004-00103) = 138.98%.

a. Provide all studies, reports and analyses from Towers Perrin which were used to develop the pension projections for the years 2010, 2011, 2012, 2013, and 2014.

b. State the number of active participants for each company listed.

c. Explain why the ratio to allocate pensions to Kentucky-American is 2.06 percent while the ratio to allocate post-retirement employee benefit costs ("OPEBs") is 2.75 percent.

24. In Case No. 2004-00103, Kentucky-American's total forecasted rate case cost was $622,409. In that case the Commission found that, "[i]n the next rate application, Kentucky-American should demonstrate fully its efforts to contain these expenses." In the current case, Kentucky-American's forecasted rate case costs are $632,500,[5] a $10,091 or a 1.62 percent increase. Describe Kentucky-American's efforts to contain rate case expenses.

25. Refer to Direct Testimony of Shelia Miller at 7 and Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-9 at 2-14.

a. Provide all reports, studies, analyses and other documents upon which Kentucky-American relied to project its premium increases in 2011 for each item listed on the schedule. Include the percentage increase premium listed.

b. Provide copies of the invoices that document the actual 2010 insurance premiums that are listed on the schedule.

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[5] This amount includes the estimated cost of $42,500 for the Cost-of-Service study.

c. State the workers' compensation capitalization rate.

d. At page 2 of W/P3-9, the annual insurance other than group insurance is $776,276 while the amount listed in Ms. Miller's Direct Testimony is $742,262. Explain the discrepancy.

26. Refer to Application, Exhibit 37, Schedule H. Kentucky-American states uncollectibles as 0.783590 percent. In Cases No. 2000-00120[6] and No. 2004-00103, the Commission employed a percentage of 0.45620 and 0.50683, respectively.

a. State the reasons for the increase in uncollectibles.

b. Explain why it is appropriate and reasonable for the Commission to use an uncollectibles rate in this case that is significantly higher than those deemed reasonable in prior Kentucky-American rate proceedings.

27. Provide for the calendar year ended December 31, 2009 for each AWWC subsidiary that provides retail water service:

a. Its total uncollectibles;

b. Its total water sales; and

c. Its uncollectibles stated as a percentage of total water sales.

28. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-12 at 5. Kentucky-American includes in its general office forecast, dues and membership costs of $27,820. For each dues or membership included in this forecast, identify the organization or group to which the dues or membership fee will be paid and the employees for whom the fee will be paid.

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[6] Case No. 2000-00120, Application of Kentucky-American Water Company to Increase Its Rates (Ky. PSC Nov. 27, 2000).

29. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-13 at 5-6.

a. Kentucky-American includes in its miscellaneous expense forecast, dues and membership costs of $91,990. For each dues or membership included in this forecast, identify the organization or group to which the dues or membership fee will be paid and the employees for whom the fee will be paid.

b. Kentucky-American includes in its miscellaneous expense forecast, additional security costs of $207,567. Identify the security costs that are included in this account.

c. Describe the expenses that are included in the account entitled "Employee Awards."

d. Describe the expenses that are included in the account entitled "Water Res Conservation."

30. Refer to Kentucky-American's Application, Exhibit 37, Schedule F. For each forecasted amount listed in this Schedule, identify the account on page 7 of Exhibit 37, Schedule C, in which Kentucky-American has recorded the amount.

31. Refer to Kentucky-American's Application, Exhibit 37, Schedule F at 8. Provide a detailed description of each conservation advertisement that is included in the forecasted amount of $186,684.

32. Refer to Kentucky-American's Application, Exhibit 37, Schedule F, at 10.

a. Provide a detailed description of each item that is included in the other expense forecast of $170,000.

b. The forecasted other expense of $170,000 is $82,500, or 94.3 percent, greater than the amount incurred in the base period of $87,500. Provide a detailed explanation for the percent increase in this expense amount.

c. Provide a detailed description of each legal service that is included in the forecasted amount of $391,311.

d. The forecasted legal expense of $391,311 is $141,682 or 56.8 percent greater than the amount incurred in the base period of $249,659. Provide a detailed explanation for the increase in this expense amount.

33. Refer to Kentucky-American's Application, Exhibit 37, Schedule F at 10. Given that the actual rate case expense for Case No. 2008-00427 was 26.9 percent[7] below estimated cost and that the actual rate case expense for Case No. 2007-00143[8] was 33.3 percent below estimated cost,[9] explain why the current rate case expense should not be reduced by the average of the two prior cases of 30.1 percent.[10]

34. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 4-1 at 2 - 9.

a. Identify each asset listed on these schedules that is used to provide service to Kentucky-American's non-regulated or sewer operations.

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[7] $592,000 (Estimate) - $432,995 (Actual) = $159,905 ÷ $592,000 = 26.9%.

[8] Case No. 2007-00143, Adjustment of Rates of Kentucky-American Water Company (Ky. PSC Nov. 29, 2007).

[9] $700,000 (Estimate) - $466,742 (Actual) = $233,258 ÷ $700,000 = 33.3%.

[10] 26.9% + 33.3% = 60.2% ÷ 2 = 30.1%.

b. Refer to Kentucky-American's Application, Exhibit 37, Schedule B-1 page 2 of 2, "Rate Base Summary as of September 30, 2011." The Contributions In Aid of Construction ("CIAC") balance contained in the workpapers is $65,549,297 while the amount listed on Schedule B-1 is $48,865,890. Reconcile the difference in the CIAC balances.

35. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 1-1 at 12 - 39. The work papers for the Investment Projects are formatted differently than the workpapers for the Recurring Capital Expenditure Projects A-S. Resubmit the work papers for the Investment Projects using the same format as the Recurring Capital Expenditure Projects A-S.

36. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 9. The 10-year average ratio of actual to budgeted capital construction ("slippage factors") for 2000 through 2009 is 120.862 percent for the Recurring Capital Expenditure Projects A-S, and 90.8 percent for the Investment Projects.[11]

a. Assuming all other factors are unchanged, recalculate Kentucky-American's forecasted revenue requirement, rate base, and cost-of-service study to take into account <u>both</u> of the following changes:

(1) Use of a slippage factor of 120.862 for all monthly Recurring Capital Expenditure Projects A-S expenditures beginning December 2009 through the end of the forecasted period; and

[11] Investment Project "06-07 New WTP Pool 3 of Kentucky" is not included in the slippage factor calculation.

(2) Use of a slippage factor of 90.8 for all monthly Investment Project expenditures, except "Project 06-07 New WTP Pool 3 of Kentucky," beginning December 2009 through the end of the forecasted period.

b. Provide all documents, state assumptions, and show all calculations used to determine the effect of these slippage factors to each forecasted element of revenue requirement, rate base, and cost-of-service study.

37. Provide for the investment projects that Kentucky-American started or completed during the period from 2000 through 2009:

a. The number of investment projects that Kentucky-American completed ahead of schedule.

b. The number of investment projects that Kentucky-American completed on schedule.

c. The number of investment projects that Kentucky-American completed behind schedule.

38. a. List each construction project that Kentucky-American will commence or complete during the forecast period for which Kentucky-American, as of the date of this Request, has not obtained all necessary governmental permits, licenses, or other approvals.

b. For each project listed in response to Item 38(a):

(1) List all required governmental permits, licenses, and other approvals.

(2) List all governmental permits, licenses, and other approvals that Kentucky-American has not obtained as of the date of this Request.

(3) State the date on which Kentucky-American applied or expects to apply for each required governmental permit, license, or other approval.

39. Provide a comparison of Kentucky-American's forecasted rate base, capital structure, and income statement from Case No. 2008-00427 with its actual results. Provide a detailed explanation for each variance.

40. Provide a comparison of Kentucky-American's forecasted construction expenditures from Case No. 2008-00427 with its actual results by construction project. Provide a detailed explanation for each variance.

41. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 1-2 at 1 and W/P 1-11 at 1-7. State whether Kentucky-American included the unamortized acquisition adjustment for Boonesboro twice in the forecasted rate base as "Utility Plant Acquisition Adjustment" and "Deferred Debits."

42. In Table 2 below are the estimated construction costs for the Kentucky River Station II and the depreciation rates that were used by Kentucky-American in Case No. 2007-00134. Kentucky-American has presented a depreciation study in this proceeding and the results of that study are also included on Table 2. For each depreciation group listed in Table 2 below, explain why it is appropriate to use the remaining life depreciation rates for the existing plant to calculate the depreciation expense for the Kentucky River Station 2.

Table 2					
	Case No. 2007-00134			W/P4-1 at 5.	
Depreciation Group	Est. Cost	Dep. Rate	Dep. Exp.	Dep. Rate	Dep. Exp.
Lake, River and Other Intakes	$ 1,351,955	2.29%	$ 30,960	2.62%	$ 35,421
Raw Water Pumping Station:					
Structure	$ 9,328,491	1.94%	180,973	3.00%	279,855
Electric Pumping Equipment	$ 1,622,346	2.45%	39,747	2.03%	32,934
Supply Mains	$ 1,216,759	1.82%	22,145	2.26%	27,499
Water Treatment Plant					
Structure	$ 57,613,567	1.91%	1,100,419	3.70%	2,131,702
Equipment	$ 11,681,796	2.21%	258,168	2.43%	283,868
Electric Pumping Equipment	$ 5,592,553	2.45%	137,018	2.03%	113,529
Finished Water Main	$ 60,600,924	1.66%	1,005,975	1.67%	1,012,035
Transmission Storage	$ 3,375,489	2.25%	75,949	2.01%	67,847
Transmission Water Pumping Station					
Structure	$ 5,201,458	1.94%	100,908	3.00%	156,044
Electric Pumping Equipment	$ 2,207,541	2.45%	54,085	2.03%	44,813
Totals			$ 3,006,347		$4,185,547

43. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P4-1 at 4 - 8. For each depreciation group listed in Table 2 above, recalculate the composite remaining life and the accrual rate. Provide all work papers, show all calculations, and state assumptions used to make the recalculation.

44. Provide a comparison of the Kentucky River Station 2 costs included in this case to those contained in Table 2 above. Provide a detailed explanation for any construction cost variances that exceed 5 percent of the original construction estimate.

45. Refer to Kentucky-American's Application, Exhibit 37, Schedule B-5 at 1 - 2, "Working Capital Lead Lag Study." Provide a schedule that compares the lead/lag days in this study to the lead/lag days used by Kentucky-American in Case No. 2008-00427. Explain each variance in the lead/lag days.

46. For the forecasted period provide a tax basis depreciation schedule that lists separately the balances for each plant account, tax basis accumulated depreciation, and tax basis depreciable lives.

47. At page 3 of her direct testimony, Linda Bridwell states that Kentucky-American has previously used a three-year average of actual costs to compute the tap fees that are to be adjusted, but is requesting the use of a five-year average in the current case due to the increased costs of materials and supplies.

a. Provide all work papers, show all calculations, and state all assumptions used to develop the proposed tap fees. Provide a breakdown of all component costs that comprise the proposed fee.

b. Provide a comparison of the tap fees as calculated in Kentucky-American's application and calculated using a three-year average.

48. At pages 3 and 4 of her direct testimony, Ms. Bridwell states that Kentucky-American has used one time promotions, as well as mixed delivery methods, to reinforce a water conservation message.

a. Provide detailed examples of how Kentucky-American has used each method.

b. (1) State whether Kentucky-American has partnered with any social, educational, civic or other organization to further the conservation message.

(2) If yes, identify the organizations with which Kentucky-American has partnered and provide detailed examples of these partnerships to include a copy of the materials used to reinforce the water conservation message.

c. Explain the Column D titled "Total Bill Days" and how these numbers were developed.

d. Explain in greater detail what a Bill Day is and how it is utilized in your analysis.

49. Refer to Direct Testimony of Edward L. Spitznagel, Jr., Appendix E.

a. Explain the significance of Column D ("Total Bill Days").

b. Describe how each entry in Column D was developed.

c. Define "Bill Day" and describe how it is used in Mr. Spitznagel's analysis.

d. Explain why Bill Month 1 (Line 4) has 14,097 in "Total Bill Days" while the remaining months (Lines 5 – 15) are significantly less.

50. Refer to Kentucky-American's Application, Exhibit 36.

a. Explain the following entries that appear at Schedule B, page 14 of 41, in the column "Sales for Resale":

(1) Other Water Revenues - $7,284;

(2) Reconnection/Activation-T & D Related - $15,629; and,

(3) Reconnection/Activation-Customer Service Related - $145.

b. For each entry listed above, state why the cost was allocated to "Sales for Resale" column.

51. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 12. A formula error exists in the submitted Excel file. Upon opening the file, an error message appears and states that "Microsoft Office Excel cannot calculate a formula. Cell references in the formula refer to the formula's result,

creating a circular reference". Provide a Microsoft Office Excel file spreadsheet without these errors.

52. At page 10 and 11 of his direct testimony, Dr. James Vander Weide states that Kentucky-American faces supply uncertainty as a result of more stringent Environmental Protection Agency regulations and increased costs to comply with those regulations. State whether Dr. Vander Weide is suggesting that the greater risk is due to concerns that the Commission will not allow full and timely recovery of Kentucky-American's costs to comply with the more stringent regulations. If no, explain how Kentucky-American faces higher risks.

53. Refer to Direct Testimony of Dr. James Vander Weide at 14 - 26 and Exhibit_JVW-1 Schedule 1.

a. Explain why it is appropriate to include Kentucky American's parent corporation in the Discounted Cash Follow ("DCF") analysis.

b. Provide the spreadsheets in Microsoft Excel format with the underlying data and formulas intact that support Schedule 1.

c. Provide the data from which the three month average stock prices were calculated.

d. (1) State whether, in the case where more than one analyst provides estimates, the I/B/E/S growth data in Exhibit_JVW-1 represents an average growth figure.

(2) Provide the separate underlying growth data used to make the water company DCF calculations.

e. Provide in Microsoft Excel format with the underlying formulas intact the DCF calculations without the flotation cost adjustment in a format similar to Schedule 1-1.

f. Provide the I/B/E/S and Value Line Company profile sheets from which the data was taken to conduct the analysis.

54. Refer to Direct Testimony of Dr. James Vander Weide at 24. Dr. Vander Weide indicates that cost of equity estimates based on three or more analysts' estimates are more reliable than cost of equity estimates based on just one or two forecasts. At page 27, footnote 1 of this testimony, Dr. Vander Weide states that in December 2009 there are only five natural gas companies with growth forecasts from at least three analysts. Provide the DCF results for the five natural gas companies referenced in this footnote.

55. Refer to Direct Testimony of Dr. James Vander Weide at 26 - 29 and Exhibit_JVW-1 Schedule 2. The companies in the LDC proxy group have aspects of their businesses that include electric generation, transmission and distribution; natural gas exploration and transmission and storage that are wholly unrelated to Kentucky American's business activities.

a. Provide a discussion of the business risks faced by each of the companies in the LDC proxy group.

b. Explain why the different business risks that the LDC proxy group companies face do not disqualify them as proxies for Kentucky American.

c. Provide the Value Line company profile sheets from which the data was taken to conduct the analysis.

d. Value Line lists EQT Corporation and Oneok Inc. as Natural Gas Diversified companies, not Natural Gas Utilities. Explain why it is appropriate for these companies to be in the proxy group for a regulated water utility.

e. Provide a side-by-side comparison of the 2009 number of customers and the various sources of revenues, including but not limited to, state regulated revenues, federal regulated revenues and all other sources of revenues in absolute terms and as a percent of total revenues for Kentucky American and for the natural gas companies.

f. Provide the spreadsheets in Microsoft Excel format with the underlying data and formulas intact that support Schedule 2.

g. Provide in Microsoft Excel format with the underlying formulas intact the DCF calculations without the flotation cost adjustment in a format similar to Schedule 1-1.

56. At pages 30 and 31 of his direct testimony, Dr. Vander Weide discusses use of gas companies as opposed to water companies in applying the ex ante risk premium study. Provide ex ante risk premium results for the "relatively few" companies followed by one or more analyst, for which consistent data extends back for a reasonably long study period.

57. Refer to Direct Testimony of Dr. James Vander Weide at 38-41 and Exhibit_JVW-1 Schedules 7 and 8.

a. Explain why DCF calculations using the LDC proxy group companies are relevant in this case but CAPM calculations are not appropriate. Provide a copy of the relevant pages from the Value Line Selection & Opinion, November 27, 2009, which were in part the basis for the calculations in Schedules 7 and 8.

b. Provide a copy of the relevant pages from the Ibbotson SBBI 2009 Yearbook which discuss the use of the risk premium and from which the long horizon SBBI risk premium may be found.

Jeff Derouen
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DATED: APR - 9 2010

cc: Parties of Record