KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00096
LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
SUPPLEMENTAL REQUEST FOR INFORMATION

Witness: Linda Bridwell

1. Please explain in detail how this proposal impacts KAW's Fayette County or Central division customers.

Response:

Operationally there will be little or no impact on KAW's Fayette County or Central division customers. Please see responses to KAW_R_LFUCGDR1#003_082012 and KAW_R_LFUCGDR1#005_082012 for additional information.

Witness: Lance Williams/Linda Bridwell

2. Does this proposed project benefit KAW's Fayette County or Central division customers in any way? Explain in detail.

Response:

Because KAW has single-tariff rates, any efficiencies and/or operational savings resulting from the proposed project will benefit Fayette County or Central division customers in future rate proceedings. See KAW_R_PSCDR1#40_072312 and KAW_R_LFUCGDR1#005_082012.

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Witness: Lance Williams

3. What assurances, if any, will be provided KAW's Fayette County or Central division customers that the proposal will not impact them in the event of a drought or water shortage?

Response:

The revised demand projections can be found at KAW_R_AGDR1#29_072312. The current demand projections without the Northern Division connection identify a projected average day demand in 2015 of 41.30 mgd that grows to 46.34 mgd by 2030. These projections are slightly lower than the projections in Case No. 2007-00134. The current maximum day demands with a 95% confidence interval and drought average day demands are slightly higher than in Case No. 2007-00134, however. This is due to an increase in the summer average demand over the last ten years, and an increase in the peak day/average day actual ratios in the last five years.

With regard to a drought period, the addition of supplying the Northern Division through KRS II could potentially affect the availability of water during a drought of record by increasing the overall system demands to be supplied by 2%. This is a manageable increase to overall system demands, however, and the immediate cost savings to all KAW customers, in addition to the reduced risk to the Northern Division customers, outweighs the incremental potential risk of reduced water availability during a drought of record or other extreme drought periods. KRS II has a rated capacity of 20 mgd and is capable of being safely operated at flows up to 24 mgd. The ability of KRS II to operate at 24 mgd is due to its pumping and filtration capacity. KRS II has five filters and with all filters in service, KRS II could produce 25 mgd. The pumps at KRS II are also sized to reliably produce 24 mgd with one unit out of service.

The Kentucky Division of Water generally permits withdrawals based on actual production of the plant, and will only consider requests for increased withdrawal amounts based on actual withdrawals above the permitted amount by 15% or more, for more than 30 days on average. With regard to heavy use periods, KAW has projected that KRS II will need to be expanded sometime between 2025 and 2030 to meet peak day demands without the addition of supplying the Northern Division through KRS II. KAW has, on occasion, operated its plants in excess of the rated plant capacities and still met all water quality standards and concurrently exceeded EPA Safe Drinking Water Partnership standards while reviewing the appropriate timing for additional plant capacity. The addition of supplying the Northern Division through KRS II would not potentially affect the availability of water during a heavy demand period, but may potentially cause the need for the plant to be expanded a year or two sooner than previously expected. The immediate cost savings to all KAW customers, in addition to the reduced risk to the Northern Division customers make the Northern Division Connection the best solution to the problem. Please also see KAW_R_AGDR1#7_072312.

Witness: Linda Bridwell

4. Has KAW considered crediting or otherwise compensating KAW's Fayette County or Central division customers for the Northern division's use of the water from the treatment plant as part of its proposal? Why or why not?

Response:

No. Please see the explanation at KAW_R_LFUCGDR1#005_082012 regarding single tariff pricing.

Witness: Linda Bridwell

5. In the event that the proposal is approved, what will be the future rate impact to KAW's Fayette County or Central division customers?

Response:

In Case No. 2004-00103, when KAW had separate tariffs for its Central and Northern Division customers, it indicated that it intended to move to a single-tariff or "unified" rate structure in its next rate case and the Commission agreed that such a move would be consistent with generally accepted principles of sound rate design. (February 28, 2005 Order in Case No. 2004-00103, pp. 75-76). After Case No. 2004-00103, KAW acquired the Owenton system. In Case No. 2005-00206, in which the Commission addressed KAW's acquisition of the Owenton system, the Commission again recognized and encouraged a shift to single-tariff rate design when it stated, "the Commission places KAWC on notice that KAWC's next application for a general rate adjustment should contain a proposal for a single rate schedule applicable to all KAWC customers . . .". (July 22, 2005 Order in Case No. 2005-00206, p. 6). Given those Commission directives, in KAW's subsequent general rate case (Case No. 2007-00143), it proposed a single-tariff structure. The parties to that case proposed an agreed resolution of the case to the Commission. The proposed agreed resolution included the move to a single-tariff structure (November 29, 2007 Order in Case No 2007-00143, Exhibit B, p. 2), and the Commission approved the agreed resolution, including the single-tariff structure. (November 29, 2007 Order in Case No. 2007-00143). That same single-tariff structure has remained in place ever since and KAW continues to agree with the Commission that it is consistent with sound rate design.

Because KAW has single-tariff rates, all customers whether in the Northern or Central Division will have the same rate impact based solely on the required investments and operating costs, regardless of which option is pursued. Please refer to the attached. The additional revenue requirement for the proposed KRS II scenario is an additional $1,242,110. The additional revenue requirement for the continuation of the Owenton WTP is $1,543,169.

Ratemaking Impact of Owenton WTP Improvements vs. Proposed KRS II Scenario
AG DR1 21A & AG DR1 21B

Ratemaking Impact: Owenton WTP Option

Investment in Owenton WTP

O&M & Depreciation & Tax - Incremental Due to Capital Investments

Line #	Item	2014	2015	2016	2017	2018
1	O&M*					
2	Labor					
3	Chemical					
4	Fuel & Power					
5	Sludge Disposal					
6						
7	Depreciation (for New Investments)	$ 329,090	$ 329,090	$ 329,090	$ 329,090	$ 329,090
8	General Tax					
9	Income Tax (Effect of Above Items)	$ (128,016)	$ (128,016)	$ (128,016)	$ (128,016)	$ (128,016)
10	Income Tax (Interest Effect)	$ (149,070)	$ (149,070)	$ (149,070)	$ (149,070)	$ (149,070)
11	**Total O&M, Depreciation, Tax (Sum Lines 1-9)**	**$ 52,004**	**$ 52,004**	**$ 52,004**	**$ 52,004**	**$ 52,004**
12						
13						
14	**Capital Investments to Improve Owenton WTP**					
15	**Item**	**2014**	**2015**	**2016**	**2017**	**2018**
16	Additional UPIS	$ 11,400,000	$ 11,400,000	$ 11,400,000	$ 11,400,000	$ 11,400,000
17	Accumulated Depreciation		$ (329,090)	$ (658,180)	$ (987,270)	$ (1,316,360)
18	Net Rate Base	$ 11,400,000	$ 11,070,910	$ 10,741,820	$ 10,412,730	$ 10,083,640
19						
20	Rate of Return **	7.74%	7.74%	7.74%	7.74%	7.74%
21	**Return on Rate Base (Line 17 x Line 19)**	**$ 882,360**	**$ 856,888**	**$ 831,417**	**$ 805,945**	**$ 780,474**
22						
23	**Total Impact Pre-Gross Up (Line 10 + Line 20)**	**$ 934,364**	**$ 908,892**	**$ 883,421**	**$ 857,949**	**$ 832,478**
24						
25	Gross Up**	1.6515716	1.6515716	1.6515716	1.6515716	1.6515716
26						
27	**Ratemaking Impact (Line 22 x Line 24)**	**$ 1,543,169**	**$ 1,501,101**	**$ 1,459,033**	**$ 1,416,965**	**$ 1,374,896**
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Ratemaking Impact: Proposed KRS II Scenario

Investment in Pipeline to KRS II, Shift in Production Cost from Owenton WTP to KRS II

O&M & Depreciation & Tax - Incremental KRS II Costs for Additional Production & for Capital Investments

Item	2014	2015	2016	2017	2018
O&M*					
Labor	$ -	$ -	$ -	$ -	$ -
Chemical	$ 40,292.00	$ 40,292.00	$ 40,292.00	$ 43,113.00	$ 46,113.00
Fuel & Power KRS II	$ 93,612.00	$ 102,973.00	$ 113,270.00	$ 124,597.00	$ 137,057.00
Fuel & Power New Booster Station	$ 16,662.00	$ 18,328.00	$ 20,161.00	$ 22,177.00	$ 24,395.00
Depreciation (for New Investments)	$ 249,913	$ 249,913	$ 249,913	$ 249,913	$ 249,913
General Tax (for New Investments)	$ 103,875	$ 103,875	$ 103,875	$ 103,875	$ 103,875
Income Tax (Effect of Above Items)	$ (196,194)	$ (200,483)	$ (205,202)	$ (211,490)	$ (218,366)
Income Tax (Interest Effect)	$ (184,440)	$ (184,440)	$ (184,440)	$ (184,440)	$ (184,440)
Total O&M, Depreciation, Tax (Sum Lines 1-9)	**$ 123,721**	**$ 130,458**	**$ 137,870**	**$ 147,746**	**$ 158,547**

O&M & Depreciation & Tax - Savings from Elimination of Owenton WTP Production Costs

Item	2014	2015	2016	2017	2018
O&M:					
Labor	$ (362,653)	$ (373,532)	$ (384,738)	$ (396,280)	$ (408,169)
Chemical	$ (222,307)	$ (222,307)	$ (222,307)	$ (237,868)	$ (254,519)
Fuel & Power	$ (141,320)	$ (150,126)	$ (153,529)	$ (168,882)	$ (185,770)
Sludge Disposal	$ (32,083)	$ (33,687)	$ (35,371)	$ (37,140)	$ (38,997)
Depreciation (for New Investments)					
General Tax (for New Investments)	$ -	$ -	$ -	$ -	$ -
Income Tax (Effect of Above Items)	$ 295,003	$ 303,285	$ 309,623	$ 326,826	$ 345,220
Total O&M, Depreciation, Tax (Sum Lines 15-22)	**$ (463,360)**	**$ (476,367)**	**$ (486,322)**	**$ (513,344)**	**$ (542,235)**
Net O&M, Depreciation & Tax (Line 10 + Line 23)	**$ (339,639)**	**$ (345,909)**	**$ (348,453)**	**$ (365,598)**	**$ (383,688)**

Capital Investments to Build Pipeline and Booster

Item	2014	2015	2016	2017	2018
Additional UPIS	$ 14,104,868	$ 14,104,868	$ 14,104,868	$ 14,104,868	$ 14,104,868
Accumulated Depreciation		$ (249,913)	$ (499,826)	$ (749,739)	$ (999,652)
Net Rate Base	$ 14,104,868	$ 13,854,955	$ 13,605,042	$ 13,355,129	$ 13,105,216
Rate of Return **	7.74%	7.74%	7.74%	7.74%	7.74%
Return on Rate Base (Line 31 x Line 33)	**$ 1,091,717**	**$ 1,072,374**	**$ 1,053,030**	**$ 1,033,687**	**$ 1,014,344**
Total Impact Pre-Gross Up	**$ 752,078**	**$ 726,464**	**$ 704,577**	**$ 668,089**	**$ 630,656**
Gross Up**	1.6515716	1.6515716	1.6515716	1.6515716	1.6515716
Ratemaking Impact	**$ 1,242,110**	**$ 1,199,808**	**$ 1,163,660**	**$ 1,103,397**	**$ 1,041,573**
More Expensive or (Less Expensive) Than Owenton WTP	**$ (301,059)**	**$ (301,293)**	**$ (295,373)**	**$ (313,568)**	**$ (333,323)**

* O&M Costs and Capital Investments are Per the Company's original filing in this Case, No. 2012-00096.
** Per Final Order for Cause 2010-0036, p. 72