

Commonwealth of Kentucky  
Before the Public Service Commission

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN )  
WATER COMPANY FOR AN ADJUSTMENT OF ) Case No. 2012-00520  
RATES SUPPORTED BY A FULLY FORECASTED )  
TEST YEAR )

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Brief of the Attorney General

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## INTRODUCTION

By a 28 December 2013 rate adjustment filing, Kentucky-American Water Company proposes to increase rates for water service. Per the Application, the estimates for the increase per customer class in both annual dollars and expressed as a percentage: residential, \$7,944,541, 17.88%; commercial, \$1,902,961, 8.90%; industrial, \$425,844, 19.83%; private fire hydrants or fire connections, \$231,907, 10.00%; public fire hydrants, \$659,367, 19.71%; municipal and other public authority, \$748,874, 11.84%; and, sales for resale, \$45,796, 2.50%.<sup>1</sup>

Kentucky-American Water Company utilizes a forward-looking test period corresponding to the first twelve (12) consecutive months the proposed rates will be in effect after the six-month suspension of the proposed rates.<sup>2</sup> The forward-looking test period is the twelve months ending 31 July 2014.<sup>3</sup> Hence, the end of the forward-looking test period is approximately 19 months following the date of the filing.

As the Commission has observed:

Kentucky-American's frequency of rate case applications since 1992 clearly demonstrates management's focused efforts to minimize regulatory risk and the risk associated with the recovery of capital investments.<sup>4</sup>

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<sup>1</sup> Application, Statement and Notice, Numbered Paragraph 11, page 4.

<sup>2</sup> Application, Statement and Notice, Numbered Paragraph 7, page 3.

<sup>3</sup> *Id.*

<sup>4</sup> *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, Order, 14 December 2010, page 71.

In fact, during the twenty-year span preceding this application,<sup>5</sup> KAW filed nine (9) applications for rate adjustments.<sup>6</sup> Factoring out the approximate two-year period from 30 May 2002 until 16 March 2004 in which KAW was prohibited from filing a rate increase application,<sup>7</sup> the Company files an application for a rate increase approximately every two (2) years. For the American Water corporate family, it seems that there is an average timing of rate cases of approximately every two (2) years.<sup>8</sup> KAWC is a low-risk utility in terms of investment.

Unremarkably, KAWC is performing very well.<sup>9</sup> With the KRS II plant in operation, operational risks are the lowest in years. There is, not only, an adequate water supply for its Central Division during a severe drought; Kentucky-American Water is able to reallocate a portion of the KRS II capacity to resolve an inordinately long-standing problem with its drinking water operations in its Northern Division.

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<sup>5</sup> Given that the application in Case No. 92-452 was filed on 22 January 1993 (*In the Matter of: Notice of Adjustment of the Rates of Kentucky-American Water Company*, Case No. 92-452, Order, 19 November 1993, page 1), the Attorney General uses the twenty-year span of 1993 through 2012 for the analysis.

<sup>6</sup> Case No. 92-452; *In the Matter of: Adjustment of Rates of Kentucky-American Water Company*, Case No. 94-197; *In the Matter of: Application of Kentucky-American Water Company to Increase Its Rates*, Case No. 95-554; *In the Matter of: Application of Kentucky-American Water Company to Increase Its Rates*, Case No. 97-034; *In the Matter of: Adjustment of the Rates of Kentucky-American Water Company*, Case No. 2000-120; *In the Matter of: Adjustment of the Rates of Kentucky-American Water Company*, Case No. 2004-00103; *In the Matter of: Adjustment of Rates of Kentucky-American Water Company*, Case No. 2007-00143; *In the Matter of: Adjustment of Rates of Kentucky-American Water Company*, Case No. 2008-00427; and Case No. 2010-00036.

<sup>7</sup> *In the Matter of: Application for Approval of the Transfer of Control of Kentucky-American Water Company to RWE Aktiengesellschaft and Thames Water Aqua Holdings GMBH*, Case No. 2002-00018, Order, 20 May 2002, Appendix A, page 1, Operations and Financial condition 1.

<sup>8</sup> American Water Works Company, Inc., Investor Conference, February 15, 2011, Financial Overview, Ellen Wolf, page 38; <http://ir.amwater.com/phoenix.zhtml?c=215126&p=irol-presentations> (OAG Brief Appendix Item "A").

<sup>9</sup> TE 4 June 2013 (C. Norton) 10:35:25 to 10:35:55.

## FORMAT OF THE BRIEF

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### SECTION 1 – UTILITY PLANT IN SERVICE (“UPIS”)

Kentucky-American Water Company offers several revisions to its revenue requirement request.<sup>10</sup> One revision is the incorporation of the application of slippage factors to the Recurring Capital Expenditure projects and also to all Investment Project expenditures.<sup>11</sup> The Attorney General still has qualms about the use of a slippage factor mechanism to increase the Company’s revenue requirement.<sup>12</sup> Nonetheless, evidence indicates that the slippage factor has served as an effective regulatory device to correct KAWC’s former “pervasive pattern of overbudgeting for its construction.”<sup>13</sup>

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<sup>10</sup> KAW Rebuttal Testimony, L. Bridwell, pages 1 and 2.

<sup>11</sup> KAW Rebuttal Testimony, L. Bridwell, page 2; see also KAW response to PSC Staff 2–41.

<sup>12</sup> See for additional discussion OAG response to PSC Staff 1-26.

<sup>13</sup> Case No. 92-452, Order, 19 November 1993, page 10.

The slippage factor was a much needed regulatory safeguard that forced a “culture shift”<sup>14</sup> at the Kentucky-American Water Company.<sup>15</sup>

The Company increased the level of detail and oversight involved in identifying and planning projects. Additional engineering resources were allocated and comprehensive planning across the operations was heightened. Projects were planned to a much high degree before capital construction dollars were included in the budget. Kentucky American looked at the timing of the construction projects to shift across fiscal years, allowing more flexibility to accelerate or delay projects as needed in managing the overall capital construction spending. Most importantly, capital construction plans no longer have large contingency percentages budgeted on a project level. Kentucky American approves individual project cost increases after the budget is approved on an individual, as needed basis.<sup>16</sup>

The Attorney General supports the application of a slippage factor (which in a scenario that increases the Company’s revenue requirement is also known as “reverse slippage”). The slippage factor protects ratepayers from overbudgeting and also properly serves to provide the utility with a measure of protection (and risk management). The slippage factor is a very effective regulatory method with regard to protecting the Company and ratepayers.<sup>17</sup> As importantly, the application of a slippage factor in tandem with the use of a forward-looking test period by a utility that files a rate case approximately every two (2) years renders the distribution system improvement charge (DSIC) undesirable, nonessential, and otherwise needless.

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<sup>14</sup> TE 5 June 2013 (L. Bridwell) 10:37:25 *et seq.* (discussion of Commission Order changing the culture)

<sup>15</sup> KAW Rebuttal Testimony, L. Bridwell, page 3 (lines 8 and 9); TE 5 June 2013 (L. Bridwell) 10:27:50 *et seq.* and 10:36:15 *et seq.*

<sup>16</sup> KAW Rebuttal Testimony, L. Bridwell, page 3 (lines 9 through 18).

<sup>17</sup> See TE 5 June 2013 (L. Bridwell) 10:41:15

## SECTION 2 – DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC)

The Commission can take administrative notice that the number of areas of dispute between the Attorney General and Kentucky-American Water Company has been decreasing in recent rate cases.<sup>18</sup> In this case, there are remarkably few areas of dispute. Still, of the areas that are in dispute, the significance of what Kentucky-American Water Company seeks cannot be understated. And, a very unfortunate theme of Kentucky-American's Application is a desire to reverse all of the progress that we have made during the past two decades in capital construction budgeting and spending. The foremost demonstration of this point is KAWC's very ill-advised and equally unnecessary request for a distribution system improvement charge or DSIC.

Kentucky-American uses a forward-looking test period. The roots of the use of a forward-looking test period trace back to Case No. 10423.<sup>19</sup> Citing concern that Kentucky-American was not earning a return on its investment in a timely manner,<sup>20</sup> KAWC filed a "proposed tariff" which "if accepted, would allow Kentucky-American to adjust its rates, outside of a general rate case."<sup>21</sup> While the tariff filing in Case No. 10423 pertained to a 30-inch raw water main, KAWC made clear that the filing was a

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<sup>18</sup> In fact, in two relatively recent cases, Applicant and the parties (including the Attorney General) have been able to recommend the acceptance of settlements. See Case No. 2007-143 and Case No. 2008-427.

<sup>19</sup> *In the Matter of: The Tariff Application of Kentucky-American Water Company Procedure for Computing Revenue Requirements*, Case No. 10423. See Order, 9 May 1989.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*

“bellwether” or “trial balloon” “in an effort to receive philosophical approval of this method of recovering a revenue requirement associated with capital investment.”<sup>22</sup>

In rejecting the filing and ordering the tariff denied, the Commission notes that Kentucky-American’s investment in the project did not warrant “a deviation from traditional rate-making methodology.”<sup>23</sup> The Commission observes:

This does not preclude Kentucky-American from investigating and pursuing other alternatives, such as the inclusion of committed construction in rate base, as [then-] currently proposed in Case No. 10481 or filing a general rate case based on a future or projected test period.<sup>24</sup>

Following the enactment of KRS 278.192 (effective 14 July 1992), KAWC began using a forward-looking test period. And, with the application of a slippage factor and a culture shift, KAWC finds itself as a high performing member of the American Water family<sup>25</sup> that successfully completed “the largest project completed by American Water, in any of its regulated businesses, at \$164 million.”<sup>26</sup>

The DSIC is ill-advised and unnecessary.

- KAWC uses a forward-looking test period and files for rate adjustments, on average, each two years.
- Kentucky-American’s frequency of rate case applications since 1992 clearly demonstrates management’s focused efforts to minimize

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<sup>22</sup> Case No. 10423, Order, 9 May 1989, pages 1 and 2.

<sup>23</sup> Case No. 10413, Order, 9 May 1989, page 4.

<sup>24</sup> *Id.* (footnote in passage omitted)

<sup>25</sup> See KAW response to OAG 1-21, page 42 of 46 (ROE by American Water Subsidiaries).

<sup>26</sup> KAW Pre-filed Direct Testimony, L. Bridwell, page 2 (lines 5 and 6).

regulatory risk and the risk associated with the recovery of capital investments.<sup>27</sup>

- KAWC indicates that there is no certainty that the DSIC Tariff Rider will reduce the frequency of KAWC's base rate filings.<sup>28</sup>
- KAWC indicates that there are no anticipated savings in O&M costs in the near term, and in the long-term there "may" be some reduction in costs.<sup>29</sup>
- The DSIC will result in additional regulatory proceedings and regulatory oversight.
- The DSIC stands to reverse all of the gains made during the last twenty years in KAWC's capital budgeting and construction practices.<sup>30</sup>

It is not merely the case that KAWC wants a solution for something that is not actually a problem. It is the case that KAWC's proposal will actually move us in the wrong direction for something that offers no material, incremental benefit. We should avoid throwing aside twenty years of improvements and effective regulatory oversight. The Commission should deny the DISC Tracker proposal.<sup>31</sup>

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<sup>27</sup> *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, Order, 14 December 2010, page 71.

<sup>28</sup> KAW response to PSC 2-60; see also KAW response to PSC 3-19.

<sup>29</sup> KAW response to PSC 2-51.

<sup>30</sup> If there is any question as to whether we risk experiencing a reverse "culture shift," simply consider KAWC's less than complete provision of information concerning the 1999 NARUC Resolution (KAW Rebuttal (G. Verdow) pages 14 and 15) and 2005 NARUC Resolution (KAW Rebuttal (G. Verdow) page 15) as compared to the complete Resolutions as per oag hearing exhibits 10 and 11 (marked 12 and 13 in the record). KAWC's decision to excise large portions of the Resolutions is quite regrettable and a crystal clear warning signal to the Commission and the parties with regard to the credibility and reliability of KAWC's evidence and advocacy on behalf of the DSIC.

<sup>31</sup> This is not to suggest that the Attorney General does not support Mr. Rackers' recommendations regarding structure of the mechanism in the worst-case event that the DSIC is approved. See OAG/LFUCG Pre-filed testimony, S. Rackers, pages 14 and 15.



### SECTION 3 - FIN 48

The Commission's 14 December 2010 Order in Case No. 2010-00036 contains a comprehensive discussion of the Major Tax Accounting Change/FIN 48 issue.<sup>32</sup> From that Order: "Kentucky-American determined that some uncertainty exists regarding the legality of the deduction related to the change in accounting methods."<sup>33</sup> Kentucky-American established a reserve in the event of an adverse ruling by the Internal Revenue Service.<sup>34</sup> The Attorney General does not dispute the amount of the current reserve.<sup>35</sup> The concern is the rate-making treatment.

Deferred income taxes arise from *temporary* differences between book and tax treatment of an item of income or expense. There is a delay in payment of the taxes; nonetheless, there will be a payment.<sup>36</sup> Deferred income taxes (amounts that will eventually be paid) provide the utility with a cost-free source of capital. And, logically, accumulated deferred income tax expense (ADIT) reduces rate base.<sup>37</sup>

As noted, Kentucky-American has a reserve *in the event of an adverse ruling* by the Internal Revenue Service. The FIN 48 reserve amount (as an offset to ADIT) decreases ADIT; consequently, the FIN 48 reserve amount increases rate base.<sup>38</sup> In this case, the amount by which the reserve increases the forward-looking test period rate

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<sup>32</sup> Case No. 2010-00036, Order, 14 December 2010, pages 17 to 20.

<sup>33</sup> Case No. 2010-00036, Order, 14 December 2010, page 20.

<sup>34</sup> *Id.*

<sup>35</sup> OAG/LFUCG Pre-filed Testimony, S. Rackers, page 4.

<sup>36</sup> See additionally TE 4 June 2013 (C. Myers) 15:56:15 – 15:57:45.

<sup>37</sup> TE 4 June 2013 (C. Myers) 15:55:45.

<sup>38</sup> TE 4 June 2013 (C. Myers) 16:00:30 – 16:01:01.

base is approximately \$3,900,000.<sup>39</sup> The burden on the ratepayers, in terms of the corresponding annual revenue requirement impact, is approximately \$400,000.<sup>40</sup>

Unlike a temporary difference between book and tax treatment (say, for example, accelerated depreciation) that creates an amount consequent to the difference that will eventually be paid, it does not follow that a company will actually pay a tax (with interest and penalties) when it takes an uncertain tax position. The FIN 48 reserve amount is an informed (best estimate) estimate of what the Company expects to pay.<sup>41</sup> It does not follow that the Company will, in fact, pay the entire reserve.

The uncertainty serving as the basis for the amount will be removed by a formal IRS audit, the expiration of the statute of limitations, or a change in the existing tax laws.<sup>42</sup> It is the case that the IRS may sustain the position or that the position will otherwise stand.<sup>43</sup> Therefore, the character of the FIN 48 reserve is not the same as the ADIT balance. For FIN 48, there is uncertainty as to whether an amount will be paid. For ADIT, there is certainty because it is only a timing difference. We reduce rate base by something that is certain - ADIT; therefore, it is awkward to thereafter turn around and increase rate base by something that is uncertain.

In Case No. 2010-00036, the Commission noted:

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<sup>39</sup> KAW response to OAG 2-13

<sup>40</sup> OAG/LFUCG Pre-filed Testimony, S. Rackers, page 2 (line 24).

<sup>41</sup> TE 4 June 2013 (C. Myers) 15:58:30; 15:58:45; 16:00:00; KAW determined that "some uncertainty exists." Case No. 2010-00036, Order, 14 December 2010, page 20; see also TE 4 June 2013 (C. Myers) 16:01:45 – 16:02:06.

<sup>42</sup> Case No. 2010-00036, Order, 14 December 2010, page 18.

<sup>43</sup> TE 4 June 2013 (C. Myers) 16:02:30 – 16:02:42; see also Footnote 49 (immediately above).

If the IRS ultimately allows the deduction or the statute of limitations expires without a challenge to the deduction, ratepayers and shareholders will benefit for the tax deferral. If the IRS disallows Kentucky-American's deduction, Kentucky-American has stated that it will not seek recovery for interest and penalties imposed by the IRS and the ratepayers will not be negatively affected.<sup>44</sup>

There is a ratepayer protection through this method. Still, the focus is upon whether the method contains a process that, overall, balances the costs and benefits as between the Company and its ratepayers. Unless and until actually paid, the non-investor supplied funds are available to KAW. If the Company does not pay the tax (and interest and penalties), then the FIN 48 reserve amount, non-investor supplied funds, will be cost-free capital until the next rate case.

Given the growth of the FIN 48 reserve amount from \$2,392,803 in Case No. 2010-00036<sup>45</sup> to \$3,922,247 in this case<sup>46</sup> and the fact that a FIN 48 balance appears here to stay because the Company continues to add new liability each year,<sup>47</sup> we have a new normal with regard to KAW's ability to use cost-free capital. Through the current approach, KAW has a definite incentive to reflect the maximum amount possible for the FIN 48 reserve.<sup>48</sup> Further, KAWC is charging ratepayers 11.45% for each dollar of ADIT associated with the repairs deduction that is not recognized in rate base.<sup>49</sup>

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<sup>44</sup> Case No. 2010-00036, Order, 14 December 2010, page 20.

<sup>45</sup> TE 4 June 2013 (C. Myers) 16:05:57 – 16:06:06.

<sup>46</sup> TE 4 June 2013 (C. Myers) 16:06:06 – 16:06:14 and 16:12:05 – 16:12:35.

<sup>47</sup> TE 4 June 2013 (C. Myers) 16:06:40 – 16:07:05; 16:08:05 *et seq.*; 16:10:30 – 16:11:53.

<sup>48</sup> OAG/LFUCG Pre-filed Testimony, S. Rackers, page 4 (line 21).

<sup>49</sup> OAG/LFUCG Pre-filed Testimony, S. Rackers, page 6 (line 18).

The treatment of the FIN 48 amount is a policy choice by this Commission, and the Attorney General requests that the Commission reconsider its policy in view of the growth of the FIN 48 reserve amount as well as the fact that the cost to the ratepayers of the FIN 48 reserve.<sup>50</sup> The Attorney General also points out that the FIN 48 issue should not be determined in isolation from the remaining issues in this case. It is necessary to view the overall result for fairness given the various alternatives that are chosen. Specifically, if we are to provide KAW with a new source of cost-free capital that it did not otherwise have prior to 31 December 2008, then we need to take that into consideration when reviewing other policy choices relating to Kentucky-American's various request for funds.

#### **SECTION 4 – WORKING CAPITAL**

As the record in this hearing reflects (and as the Commission's prior Orders bear out), the Commission has consistently rejected the Attorney General's requests that the Commission exclude non-cash expenses and common equity from the determination of working capital.<sup>51</sup> However, as the record in this hearing also reflects rate-making is iterative.<sup>52</sup> It considers new information and incorporates changes over time.

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<sup>50</sup> OAG/LFUCG Pre-filed Testimony. S Rackers, pages 3 through 7.

<sup>51</sup> See, for example, Case No. 2004-00103, Order, 28 February 2005, pages 17 and 18 (depreciation); Case No. 92-452, Order, 19 November 1993, pages 17 through 21 (net earnings and non-cash items).

<sup>52</sup> Certainly the Applicant, through its repudiation of the previously-approved weather normalization method, believes that rate-making is iterative.

Working capital is necessary to fund the daily operations of the Company.<sup>53</sup> The non-cash expenses and common equity profits should not be considered in the analysis of working capital since these items are not cash expenses necessary to fund daily operations.<sup>54</sup> No expense lag days are associated with these items.<sup>55</sup> These items and their corresponding amounts should be excluded.

#### SECTION 5 - WEATHER NORMALIZATION

In a remarkable act, Kentucky-American Water has chosen to vary from express Commission instructions regarding the process through which it develops forward-looking test period sales revenues for certain customer classes. It has abandoned its long-standing, Commission-approved weather normalization procedure.

Kentucky-American has a statutory right to seek a rate increase by means of a forward-looking test period,<sup>56</sup> and KAW began utilizing the forward-looking test period through its 1992 application for an adjustment in rates.<sup>57</sup> In that proceeding, while accepting the projection of test year operating revenues the Commission stated:

Nonetheless, the Commission is concerned that Kentucky-American did not sufficiently adjust forecasted test year revenues for the affects of abnormal weather. Although some utilities use econometric models to forecast water sales and adjust revenues for normal weather, Kentucky-American believes its budgeting process, which is a system-wide approach that implicitly considers usage patterns, customer growth, and

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<sup>53</sup> OAG/LFUCG Pre-filed Testimony, S. Rackers, page 15.

<sup>54</sup> *Id.*

<sup>55</sup> OAG/LFUCG Pre-filed Testimony, S. Rackers, page 16.

<sup>56</sup> KRS 278.192

<sup>57</sup> *In the Matter of: The Application of Kentucky-American Water Company for An Adjustment of Rates*, Case No. 92-452.

weather factors, is a reasonable means upon which to base its rate request. Even though its budgeting process had performed well in the past, Kentucky-American should begin immediately to develop in-house expertise in weather normalization models and econometric techniques in order to improve its short-term revenue forecasting capabilities.<sup>58</sup>

In Case No. 95-554,<sup>59</sup> KAW's subsequent rate adjustment application, the Company's test period forecast for select customer classes uses a weather normalization procedure.<sup>60</sup> The Commission found the procedure for that proceeding reasonable for the short-run.<sup>61</sup> The Commission states:

However, in its next rate case Kentucky-American should, in addition to using its own weather normalization procedures, construct and utilize a single model based upon all the reliable data available.<sup>62</sup>

For its application in Case No. 97-034,<sup>63</sup> "Kentucky-American constructed and utilized a statistical weather normalization model which uses actual and historical meteorological data and other known predictor variables to predict customer water utilization or sales levels."<sup>64</sup> In terms of this model, the Commission stated:

The Commission is satisfied that Kentucky-American has constructed a reasonable and appropriate weather normalization model which will reliably predict water utilization or sales levels for customer classes whose water usage is sensitive to changes in weather conditions. The Commission accepts Kentucky-American's weather normalization model for use in this case.<sup>65</sup>

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<sup>58</sup> Case No. 92-452, Order, 19 November 1993, pages 22, 23 (with footnote omitted).

<sup>59</sup> *In the Matter of: Application of Kentucky-American Water Company to Increase Its Rates*, Case No. 95-554.

<sup>60</sup> Case No. 95-554, Order, 11 September 1996, pages 25, 26.

<sup>61</sup> Case No. 95-554, Order, 11 September 1996, page 26.

<sup>62</sup> Case No. 95-554, Order, 11 September 1996, page 27.

<sup>63</sup> *In the Matter of: Application of Kentucky-American Water Company to Increase Its Rates*, Case No. 97-034.

<sup>64</sup> Case No. 97-034, Order, 1 October 1997, page 29.

<sup>65</sup> Case No. 97-034, Order, 1 October 1997, page 30.

KAW continued to follow the Commission's instructions with regard to weather normalization in the next five (5) rate adjustment applications following Case No. 97-034.<sup>66</sup> For this application for a rate adjustment (without any suggestion by the Commission that it no longer means what it wrote in the Orders for Cases 92-452, 95-554, and 97-034), KAW "replaces"<sup>67</sup> the approved weather normalization process with a declining use factor. KAW takes us a a rather large step backward.

Kentucky-American Water bases its move away from weather normalization on a KAW/American Water Works Service Company discussion of "overall water usage beyond what may be an impact from weather alone."<sup>68</sup> Ms. Bridwell states, "AWWSC staff has been analyzing water usage patterns in many of the jurisdictions it serves as part of a company wide effort because those trends impact both out short-term and long-term business approach."<sup>69</sup> The approach that Ms. Bridwell describes has the markings of the system-wide approach the Commission determined insufficient in Case No. 92-452.<sup>70</sup>

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<sup>66</sup> *In the Matter of: Adjustment of the Rates of Kentucky-American Water Company, 2000-120; In the Matter of: Adjustment of the Rates of Kentucky-American Water Company, Case No. 2004-00103; In the Matter of: Adjustment of Rates of Kentucky-American Water Company, Case No. 2007-00143; In the Matter of: Adjustment of Rates of Kentucky-American Water Company, Case No. 2008-00427; and 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.*

<sup>67</sup> Application, Pre-filed Direct Testimony of Linda C. Bridwell, P.E., page 10.

<sup>68</sup> KAW Pre-filed Direct Testimony, L. Bridwell, page 30.

<sup>69</sup> KAW Pre-filed Direct Testimony, L. Bridwell, page 30.

<sup>70</sup> Case No. 92-452, Order, 19 November 1993, pages 22, 23 (with footnote omitted).

At issue is Kentucky-American Water's service territory rather than that of California, Indiana, Missouri, etc.<sup>71</sup> So, even if there is a consensus that water usage is declining nationally, the focus of the Commission remains on Kentucky-American. In that each water system and service territory differ, care must be taken to avoid the assumption that the impacts (in terms of the rate of decline and the magnitude of decline) are easily measured, predicted, or explained. KAWC does not know with certainty what, exactly, is taking place.<sup>72</sup>

Kentucky-American testimony regarding water efficiency trends, which serves as the foundation for the declining use factor that replaces weather normalization, contains far too much conjecture and speculation regarding what may take place in Kentucky-American's service territory. It is not reliable for replacing the approved weather normalization method which has served us well. From the Application:

- With regard to new fixtures and appliances: "But how much each fixture will save depends on the type of fixture purchased and the type of fixture being replaced."<sup>73</sup>
- "A recently enacted law will impact indoor water usage further, and *could* perpetuate and further accelerate the downward trend."<sup>74</sup> (emphasis added)

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<sup>71</sup> See, for example of the difference in running average of residential sales per customer for multiple states, American Water, "Reconciling Water Constraints and Reduced Consumption with Financial Viability" NARUC Winter Committee Meetings, Washington, DC, February 14, 2011, page 5. <http://www.narucmeetings.org/Presentations/Water-FORAN%20NARUC%200211%20declining%20usage%20GN%20edits.pdf>

<sup>72</sup> See, for consideration, TE 5 June 2013 (L. Bridwell) 10:05:45 – 10:06:19.

<sup>73</sup> KAW Pre-filed Direct Testimony, L. Bridwell, page 32 (lines 10 and 11).

<sup>74</sup> KAW Pre-filed Direct Testimony, L. Bridwell, page 32 (lines 13 and 14).



- Dishwashers "could reduce water usage."<sup>75</sup> (emphasis added)
- "It is difficult to quantify exact water savings per household, per person, or per appliance."<sup>76</sup>
- And, in fidelity to that system-wide approach, "water efficiency is being realized throughout the country."<sup>77</sup>

In terms of the factors causing the decline:

As awareness of water and energy efficiency increases, customers may decide to replace a fixture or appliance before it has broken. Or when an appliance is being replaced, customers may opt for appliances that are even more efficient but high priced. Also, customers may further reduce consumption by changing their household water use habits in other various ways."<sup>78</sup> (emphasis added)

Then again; they may not. Because "may" and "could" are not the most inspiring of descriptive terms for forecasting, there is a need to base rate-making procedures on more than qualitative methods. To its credit, Kentucky-American Water Company does use quantitative methods. There is a difference of opinion, though, as to the interpretations and, in turn, the reliability of the results.

$R^2$  is the coefficient of determination, the percentage of the variation of the Y values (response values) explained by the X values (input values) in the regression model.<sup>79</sup> The  $R^2$  values are .893 for KAW's Residential Sales Per Customer; .823 for

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<sup>75</sup> KAW Pre-filed Direct Testimony, L. Bridwell, page 32 (line 17).

<sup>76</sup> KAW Pre-filed Direct Testimony, L. Bridwell, page 33 (lines 4 and 5).

<sup>77</sup> KAW Pre-filed Direct Testimony, L. Bridwell, page 33 (lines 5 and 6).

<sup>78</sup> KAW Pre-filed Direct Testimony, L. Bridwell, page 33 (lines 11 through 15).

<sup>79</sup> If  $R^2$  is .526, then it means that 52.6% of the variation of Y has been explained by the regression.

Commercial Sales Per Customer; and .526<sup>80</sup> for OPA Sales Per Customer for the corresponding Winter Trends.<sup>81</sup> The information shows trends, but, the Attorney General submits, KAW should have a requirement to demonstrate that its new allegedly weather neutral procedure for its residential, commercial, and OPA customer classes is, at least, as reliable as the weather normalization procedure it has abandoned. The results of the new process are not sufficient and do not justify departure from Commission instructions.

It is well-established that weather impacts select KAW customer classes, and we already have a tested and approved procedure for this impact with regard to a forward-looking test period. Trends concerning customer usage declines in Kentucky-American's service territory are not yet well-established. Indeed, the nature of the evidence offered by KAW regarding declines in OPA usage seems entirely anecdotal. It is not reliable for predicting an impact on the forward-looking test period. It was a mistake to replace the weather normalization procedure with this declining usage procedure. We are, therefore, left pursuing a remedy for a problem that should have been avoided.

"Some of the use per customer amounts reflect low levels that have either not been achieved in the past, or were only achieved during the wettest year since 2004."<sup>82</sup>

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<sup>80</sup> And, .526 for R<sup>2</sup> for OPA is not a typographical error. See Pre-filed Bridwell, Petitioner's Exhibit LB-3c.

<sup>81</sup> See KAW Pre-filed Direct Testimony, L. Bridwell, Petitioner's Exhibits LB-3a, LB-3b, and LB-3c.

<sup>82</sup> OAG/LFUCG Pre-filed Testimony, S. Rackers, page 22.

There is a need to obtain a reliable, reasonable level of projected sales. The Attorney General's approach is explained through Mr. Rackers' testimony.<sup>83</sup>

With regard to the separate issue of customer counts, the Attorney General made a good-faith effort to reflect the correct counts for forecasting revenues. In fact, for OPA, Kentucky-American states that the difference is in approaches (with KAW asserting their belief that KAW's approach is more reasonable).<sup>84</sup> The Attorney General still seeks the correct counts. Residential and Commercial Class customers should be determined in a manner consistent with Commission precedent. With regard to Industrial, OPA, and Sale for Resale customers, the Attorney General leaves the matter to the discretion of the Commission as to the reasonableness of KAW's counts.

#### SECTION 6 CHEMICALS AND POWER

Kentucky-American Water Company is pursuing approval of a tracker for its chemical and purchased power expenses. KAWC's chemical expense comprises 5.24% of KAWC's total operations and maintenance expenses from its Cost of Service Study and 2.16% of the Total Cost of Service.<sup>85</sup> KAWC's purchased power expense comprises 9.16% of the total O &M expenses and 4.58% of the Total Cost of Service.<sup>86</sup>

These expenses do not, separately or combined, warrant deviation from traditional rate-making methodologies that are already available through current base

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<sup>83</sup> OAG/LFUCG Pre-filed Testimony, S. Rackers, pages 23 through 26.

<sup>84</sup> KAW Rebuttal Testimony, L. Bridwell, page 7 (lines 18 through 20).

<sup>85</sup> KAW response to Hearing Data Requests, Item 31.

<sup>86</sup> *Id.*

rate applications. Given KAWC's frequent rate case applications, even if the expenses were material or otherwise of a significant magnitude to warrant consideration for separate treatment, there is no certain incremental benefit associated with the use of such a tracker. In fact, the tracker may actually serve to add regulatory burden and unnecessary complexity. Finally, a tracker may serve as a disincentive for minimizing the expenses.<sup>87</sup> If there is ever a need for a deviation, the deferred debit methodology seems much better-suited for application.<sup>88</sup> The Commission should deny KAWC's request for this tracker.

#### SECTION 7 - COST OF CAPITAL<sup>89</sup>

##### SECTION 7.1 - DEBT COST RATES

With regard to short-term debt, KAWC uses a projected LIBOR rate above current market rates.<sup>90</sup> Dr. Woolridge uses a current LIBOR rate of 0.25% plus the borrowing spread to LIBOR of 0.25% for a short-term debt cost rate of 0.50%.<sup>91</sup>

For long-term debt, Dr. Woolridge uses a cost rate of 6.05%.<sup>92</sup> Mr. Rungren uses interest rates on pro forma financings that are above current market interest rates.<sup>93</sup> By contrast, Dr. Woolridge's 6.05% overall long-term debt cost rate uses the yield of 4.30%

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<sup>87</sup> OAG/LFUCG Pre-filed Direct Testimony, S. Rackers, page 20 (lines 8 through 13).

<sup>88</sup> OAG/LFUCG Pre-filed Direct Testimony, S. Rackers, page 21 (lines 14 through 19).

<sup>89</sup> Dr. Woolridge uses KAWC's proposed capital structure. OAG/LFUCG Pre-filed Testimony, Dr. Woolridge, page 16.

<sup>90</sup> OAG/LFUCG Pre-filed Testimony, Dr. Woolridge, page 3 (lines 12 and 13).

<sup>91</sup> OAG/LFUCG Pre-filed Testimony, Dr. Woolridge, page 16 (lines 19 through 24).

<sup>92</sup> OAG/LFUCG Pre-filed Testimony, Dr. Woolridge, page 17 (line 1); see also KAW response to PSC 2-45.

<sup>93</sup> *Id.* (at lines 13 through 15).

corresponding to American Water Works' sale of \$300 million of senior unsecured notes.<sup>94</sup>

## SECTION 7.2 - EQUITY COST RATE

In Case No. 2010-00036, this Commission awarded KAW a return on equity of 9.70%.<sup>95</sup> In reaching this award, the Commission noted Kentucky-American's regulatory history, specifically, its frequency of rate case applications.<sup>96</sup> It "clearly demonstrates management's focused efforts to minimize regulatory risk and the risk associated with the recovery of capital investments."<sup>97</sup> In the American Water corporate family, there is evidence indicating an average timing of rate cases of approximately every two (2) years.<sup>98</sup> This evidence comports with and approximates the frequency of KAW's ten (10) rate adjustment filings since 1992, the year of the first forward-looking test period case.<sup>99</sup> Even with the adoption of a DSIC Tariff Rider, there is no indication

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<sup>94</sup> OAG/LFUCG Pre-filed Testimony, Dr. Woolridge, page 17, (lines 5 through 8).

<sup>95</sup> Case No. 2010-00036, Order, 14 December 2010, page 71.

<sup>96</sup> *Id.*

<sup>97</sup> *Id.*

<sup>98</sup> American Water Works Company, Inc., Investor Conference, February 15, 2011, Financial Overview, Ellen Wolf, page 38; <http://ir.amwater.com/phoenix.zhtml?c=215126&p=irol-presentations>: Appendix "A"

<sup>99</sup> Additionally, it is noteworthy to point out that KAW history of rate case frequency includes a period in which KAW had to "stay out" as an operations and financial condition an RWE transaction. *In the Matter of: Application for Approval of the Transfer of Control of Kentucky-American Water Company to RWE Aktiengesellschaft and Thames Water Aqua Holdings GMBH*, Case No. 2002-00018, Order, 30 May 2002, Appendix A, page 1.

that the frequency of KAW base rate case filings will decline.<sup>100</sup> KAW's focused efforts to minimize risk will continue.

It is also important to point that Kentucky-American continues to use "a forecasted test period with each rate application—a mechanism that also tends to reduce the risk associated with the recovery of capital investments."<sup>101</sup> KAW is performing very well.<sup>102</sup> In terms of the fundamental considerations relating to risk, KAW certainly is no riskier than it was when reviewed in Case No. 2010-00036.

In fact, the evidence points to a lower ROE award in this proceeding given changes since 2010. Specifically, interest rates and capital costs are *below* those at the time of Case No. 2010-00036.<sup>103</sup> The average ten-year Treasury yields have declined from 3.32% to 1.74%.<sup>104</sup> The average yields on thirty-year, A-rated public utility bonds has decreased from 5.48% to 3.99%.<sup>105</sup>

"In assessing market expectations," the Commission gives "considerable weight to present economic conditions."<sup>106</sup> In light of these historically low capital costs for

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<sup>100</sup> See KAW response to PSC 2 – 60; see also KAW response to PSC 3 – 19 (frequency of rate applications for other American Water subsidiaries with a tariff rider similar to the DSIC proposal) for comparison to OAG Exhibit 7 [marked as "ag hearing exhibit 9"] of KAW rate case dockets since 17 January 1986.

<sup>101</sup> Case No. 2010-00036, Order, 14 December 2010, page 71.

<sup>102</sup> TE 6 June 2013 (C. Norton) 10:35:25 to 10:35:55.

<sup>103</sup> OAG/LFUCG Pre-filed Testimony, Dr. Woolridge, page 12 (lines 6 through 14).

<sup>104</sup> OAG/LFUCG Pre-filed Testimony, Dr. Woolridge, page 12 (line 9); Exhibit JRW-3, page 2 of 2, Panel A.

<sup>105</sup> OAG/LFUCG Pre-filed Testimony, Dr. Woolridge, page 12 (line 12); Exhibit JRW-3, page 2 of 2, Panel B.

<sup>106</sup> Case No. 2010-00036, Order, 14 December 2010, page 71.

utilities that are likely to stay low for some time,<sup>107</sup> there has, since 2010, been a wholly-expected decline in ROE amounts granted to American Water Company subsidiaries.<sup>108</sup> These latter results (6 out of 10 American Water Company subsidiaries with ROE granted awards under 10.0%) confirm that the recognized stability of KAW in these market conditions corresponds with an equity cost rate in the range of 7.3% to 8.6%,<sup>109</sup> and an 8.5% ROE is appropriate for Kentucky-American Water Company.<sup>110</sup>

As noted, Kentucky-American Water continues to file rate cases on a regular basis. It utilizes a forward-looking test period, and (holding KAW to its own representations) it has improved upon the weather normalized sales procedure in supporting revenue forecasts in this rate application. With KRS II having plenty of capacity and a solution in sight for the long-unattended needs of the Northern Division, Kentucky-American Water Company is doing nicely. Indeed, by reference to the information supplied by KAWC regarding its financial performance, the Company is doing quite nicely.<sup>111</sup>

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<sup>107</sup> *Id.* (at lines 19 and 20).

<sup>108</sup> American Water Works Company, Inc., Investor Presentation, June 2013, page 38 (Appendix Item "B") <http://ir.amwater.com/phoenix.zhtml?c=215126&p=irol-irhome>; compare with American Water Works Company, Inc., Institutional Investor Meeting, August 2010, page 40 (which appears in the Attorney General's Brief in Case No. 2010-00036 as an Appendix Item and is Appendix Item "C" for this Brief).

<sup>109</sup> OAG/LFUCG Pre-filed Testimony, Dr. Woolridge, page 2 (line 18).

<sup>110</sup> *Id.*; also Woolridge response to Commission Staff's Written Questions, Item 8 (Standard & Poor's upgrade of AWWC corporate credit rating (CCR) from BBB+ to A- with a stable outlook brings the CCR in line with other water companies and makes the 8.50% ROE appear even more reasonable).

<sup>111</sup> See KAW response to OAG 1 – 23 (especially page 5 of 13 and page 12 of 13).

In addition to the foregoing and in lieu of a step-by-step recitation of evidence already in the Pre-filed Testimony, the Attorney General points out that Dr. Woolridge's review includes the results of the DCF and the CAPM model for water utility proxy groups.<sup>112</sup> Further, he uses both historic and projected growth rate measures.<sup>113</sup> His approach is consistent with the Commission's observation that "while recognizing the value of historic data for use in obtaining estimates, we have also considered analysts' projections regarding future growth"<sup>114</sup>

Dr. Vander Weide's recommendation suffers from a variety of problems. Primary among the problems is that Dr. Vander Weide continues to exclusively utilize overly optimistic and upwardly-biased EPS growth estimates.<sup>115</sup> This is not the appropriate approach.<sup>116</sup> As importantly, the empirical evidence is that "long-term EPS growth forecasts of Wall Street securities analysts are overly optimistic and upwardly biased" and provide an overstated equity cost rate.<sup>117</sup>

Kentucky-American Water and its corporate parent provide additional evidence that Dr. Vander Weide grossly overstates the equity cost rate. In terms of Dr. Vander Weide's range of results, he concludes that the range is 10.4% to 11.4%.<sup>118</sup> For the 2012 general rate cases of the American Water Works subsidiaries, only one (1) ROE award

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<sup>112</sup> Case No. 2010-00036, Order, 14 December 2010, page 71.

<sup>113</sup> OAG/LFUCG Pre-filed Testimony, Dr. Woolridge, page 32 (lines 3 through 11).

<sup>114</sup> Case No. 2010-00036, Order, 14 December 2010, page 71.

<sup>115</sup> OAG/FLUCG Pre-filed Testimony, Dr. Woolridge, page 60 (lines 9 through 11); pages 62 through 66).

<sup>116</sup> Case No. 2010-00036, Order, 14 December 2010, page 71.

<sup>117</sup> OAG/LFUCG Pre-filed Testimony, Dr. Woolridge, page 63 (lines 10 through 16).

<sup>118</sup> Application, Pre-filed Direct Testimony of Dr. James H. Vander Weide, page 49.



falls within Dr. Vander Weide's range, Michigan at 10.5% (10 basis points above his minimum of 10.4%).<sup>119</sup> The remaining 9 fall below his range with 6 of those 9 falling below 10.0%.<sup>120</sup> Comparatively, *AUS Utilities Reports* demonstrates a range of authorized ROEs between 9.61% and 10.33%.<sup>121</sup> Dr. Vander Weide's range provides an overstated equity cost rate and is not reliable.

#### SECTION 8 - RATE DESIGN

Kentucky-American Water proposes a distribution system improvement charge (DSIC) as well as a purchased power and chemicals rider. The requests, if accepted, will have a significant impact on the manner by which Kentucky-American collects its rates. Each is a request for a fundamental restructuring that is not necessary.

KAW uses a forward-looking test period. The Commission's application of a slippage factor as well as a reverse slippage factor has improved Kentucky-American's budgeting and construction practices.<sup>122</sup> With regard to purchased power and chemicals, the amounts in play and the nature of the costs do not support special treatment. There is no need for this type of restructuring or rate design.

Kentucky-American also expresses concern about declining usage and uses the concern as a reason to jettison its weather normalization procedure. KAW notes a

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<sup>119</sup> American Water Works Company, Inc., Investor Presentation, June 2013, page 38 (Appendix Item "B") <http://ir.amwater.com/phoenix.zhtml?c=215126&p=irol-irhome>

<sup>120</sup> *Id.*

<sup>121</sup> OAG/LFUCG Pre-filed Testimony, Dr. Woolridge, page 54 (lines 4 through 7).

<sup>122</sup> TE 5 June 2013 (L. Bridwell) 10:37:25 *et seq.*

decline in water usage for certain customer classes, and, based principally upon the assertions of “may” and “could,” calls for immediate action.

When Kentucky-American Water Company wants to put resource on an issue, it applies resource “like there’s no tomorrow.” For the DSIC initiative, there is ample verbiage in the application and the responses to the various data requests about the state of the Nation’s water infrastructure replete with dramatic warnings and tales of woe from across the land. Likewise, for the declining usage issue, KAW is zealous in its presentation of facts and figures, trends and analyses, conjecture and speculation. And, for declining usage, as with the DSIC initiative, KAW brings the full weight of AWWC to bear on the issue by reference to what is happening in other jurisdictions. The amount of passion in the pursuit of these objectives is unmistakable.

What, though, has Kentucky-American Water Company done with regard to affordability since Case No. 2010-00036? Does the record contain evidence of KAW approaching the subject on “several levels”?<sup>123</sup> This Commission called upon Kentucky-American to study affordability through a collaborative effort.<sup>124</sup> Per the Commission:

[The effort] “should not be limited to examining potential rate design options to enhance the affordability of water service, but should consider all potential regulatory and legislative solutions to this perplexing issue.<sup>125</sup> (emphasis added)

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<sup>123</sup> Case No. 2010-00036, Order, 14 December 2010, page 75.

<sup>124</sup> *Id.*

<sup>125</sup> *Id.*

The directions were not followed, and this Office is not welcoming of any suggestion that the Attorney General is the cause or was an impediment. Not only was the Attorney General prepared for an examination on several levels, the Attorney General was persistent in seeking a comprehensive approach.<sup>126</sup> To the regret of the Attorney General, KAW's efforts on affordability are properly described as feeble by comparison to the application of resource for these other issues which are matters of KAW's regulatory convenience rather than necessity.

The Attorney General remains ready to work with Kentucky-American Water as well as other stakeholders and interested parties with regard to affordability.<sup>127</sup> The issue of affordability has not gotten any less perplexing on its own since December 2010, and it will not do so going forward. Hopefully, by the time of the filing of the next rate application by KAW, Kentucky-American Water will have resourced this issue with the same zeal as the DISC, power and chemicals rider, and declining usage adjustment.

#### CONCLUSION

The evidence indicates that Kentucky-American Water Company's Application overstates its annual revenue requirement. The principle cause of the Company's overstatement is a request for a return on common equity grossly in excess of the range of reason. Furthermore, the Company, through repudiating specific Commission

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<sup>126</sup> KAW responses to Hearing Data Requests, Item 7.

<sup>127</sup> The Attorney General is ready to work Commission Staff (if Staff has an interest).

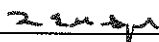
instructions and requesting a fundamental restructuring of its opportunity to recover its cost of service through rates via methods that do not appear to create any discernible benefits in the regulatory process (other than to KAWC and its shareholders), brazenly overreaches. In addition to denying Kentucky-American Water Company's revenue request, the Commission should deny the Company's proposal for a DSIC, chemicals and energy tracker, and a declining sales adjustment.

*Notice of Filing, Certifications, and Notice of Service*

Undersigned counsel provides the following notice with regard to the filing of this material. Pursuant to the Commission's 17 December 2012 Order of procedure, the Attorney General will file the original version under seal on before 10 July 2013, the 2<sup>nd</sup> business day following the electronic filing.

Per 17 December 2013 Order of procedure, undersigned counsel certifies that the version in the electronic filing is a true and accurate of the original version filed with the Commission. With regard to the electronic filing, in conformity with 807 KAR 5:001 and the Commission's December 17<sup>th</sup> Order of procedure, the Attorney General has submitted his electronic copies of the information by uploading the material to the Kentucky Public Service Commission.

The electronic filing took place on 8 July 2013.

  
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Assistant Attorney General

## Appendix

**Item "A"** Excerpt from February 2011, Ellen Wolf Financial Overview

**Item "B"** Excerpt from June 2013, Investor Presentation

**Item "C"** Excerpt from August 2010, Institutional Investor Meetings

# Core Strategy: Continuing Effort to Earn Appropriate Rate of Return on Prudent Investments

## Rate Cases & Infrastructure Charges Granted in 2010 that will have impact on 2011

	Effective Date for New Rates	ROE Granted	Increase to Revenue
<b>General Rate Cases:</b>			
Illinois	4/23/2010	10.38%	\$41.4
New Mexico (Edgewood)	5/10/2010	10.00%	0.5
Indiana	5/3/2010	10.00%	31.5
Virginia (Eastern)	5/8/2010	10.50%	0.6
Ohio	5/19/2010	9.34%	2.6
Missouri	7/1/2010	10.00%	28.0
California (Sac, LA, Lark)	7/1/2010	10.20%	14.6
Michigan	7/1/2010	10.50%	0.2
Kentucky	10/1/2010	9.70%	18.8
New Jersey	1/1/2011	10.30%	39.9
Pennsylvania Wastewater	1/1/2011	10.60%	8.4
Arizona (Anthem, etc.)	1/1/2011	9.50%	14.7
<b>Subtotal - General Rate Cases</b>			<b>\$201.2</b>
<b>Infrastructure Charges:</b>			
Pennsylvania			8.5
Indiana			5.4
Other			0.4
<b>Subtotal - Infrastructure Charges</b>			<b>\$14.3</b>
<b>Grand Total</b>			<b>\$215.5</b>

**Average Timing of Rate Cases: Approximately every 2 Years**

February 2011

"A"

# Historical Rate Case Summary

General Rate Cases		Effective Date for new rates	ROE Granted	Annualized Rate Order Amount
Michigan		2/1/2012	10.50%	\$0.2
Iowa		3/13/2012	9.40%	2.8
Missouri		4/1/2012	10.00%	24.0
New York - Long Island		4/1/2012	9.65%	3.0 (a)
New Jersey		5/1/2012	10.15%	30.0
Indiana		6/15/2012	9.70%	1.9
California		7/12/2012	9.99%	32.9 (b)
Illinois		10/1/2012	9.34%	17.9
Tennessee		11/1/2012	10.00%	5.2
Virginia		7/12/2012 (d)	9.75%	2.6 (c)
<b>Subtotal - 2012 General Rate Cases</b>				<b>\$120.5</b>
<b>Infrastructure Charges Annualized:</b>				
Pennsylvania		9/20/2012	10/1/2012	\$10.5 (e)
Missouri		6/27/2012	9/25/2012	4.2 (f)
Indiana		10/1/2012	12/27/2012	3.7
<b>Subtotal - Infrastructure Charges</b>				<b>\$18.4</b>
<b>Grand Total</b>				<b>\$138.9</b>

(a) Includes one year of three year revenue increase beginning 4/1/12, 4/1/13 and 4/1/14 for \$3.0M, \$1.4M and \$1.2M respectively.

(b) \$32.9M (\$4.4M from Cost of Capital order, \$4.1M for Ventura and San Diego effective in 2011, \$24.4M All districts in 2012, incl addtl increase for Ventura & San Diego).

(c) Includes non-jurisdictional components.

(d) Rates Under Bond were effective July 12, 2012 and received final order December 12, 2012.

(e) The estimated amount of customer refunds through June 2013 will be \$1.475M.

(f) Reflects the infrastructure filings approved in 2012, does not include the \$6.5M and \$2.9M effective on 1/1/2013 and 4/1/2013, respectively.

(g) Reflects the infrastructure filings approved in 2012, does not include the \$5.4 M effective on or before 6/21/13.

"B"



# Rate Case Awards: 2009 through August 3, 2010

	Docket / Case Number	Date Filed	Amount Filed	ROE Requested	Effective Date for new rates	ROE Granted	Increase to Revenue	Rate Base (Approved)
West Virginia	08-0900-W-42T	5/30/2008	\$14.8	11.75%	3/26/2009	10.00%	\$5.2	\$414.7
New Mexico	08-00134-UT	6/30/2008	\$2.2	11.75%	5/20/2009	10.25%	\$1.4	\$30.0
AWWM (NJ)	WR08080550	8/1/2008	\$4.4	11.80%	5/21/2009	10.30%	\$1.6	\$15.1
California (ROE) *	A 08-05-003	5/1/2008	\$2.8	11.50%	5/6/2009	10.20%	\$0.1	N/A
Kentucky	2008-00427	10/31/2008	\$18.5	11.50%	6/1/2009	10.00%	\$10.3	\$301.3
Michigan	N/A	6/22/2009	\$0.2	10.50%	7/1/2009	10.50%	\$0.2	\$2.7
Calif (Monterey Water)	A 08-01-027	1/30/2008	\$35.3	11.50%	5/11/2009	10.20%	\$12.1	\$102.5
California (Monterey WW)	A 08-01-023	1/30/2008	\$1.8	11.50%	7/9/2009	10.20%	\$1.7	\$2.0
California (Gen Office) **	A 08-01-024	1/30/2008	\$6.4	11.50%	5/11/2009	10.20%	\$2.2	N/A
Maryland	Case No 9187	4/30/2009	\$0.8	11.75%	9/10/2009	10.75%	\$0.6	\$11.6
Iowa	RPU-2009-0004	4/30/2009	\$9.4	12.20%	7/27/2009	10.50%	\$6.1	\$82.4
Pennsylvania	R-2009-2097323	4/24/2009	\$58.1	12.00%	11/7/2009	10.80%	\$30.8	\$1,840.2
Texas	2008-0910-UCR	2/21/2008	\$0.9	12.00%	11/30/2009	12.00%	\$0.5	\$5.5
Arizona (multiple)	W-01303A-08-0227	5/1/2008	\$20.0	11.75%	12/1/2009	9.90%	\$8.1	\$154.7
Illinois	Docket No. 09-0319	5/29/2009	\$58.6	12.25%	4/23/2010	10.38%	\$41.4	\$607.4
New Mexico (Edgewood)	Case No. 09-00156-UT	8/21/2009	\$0.7	12.25%	5/10/2010	10.00%	\$0.5	\$4.0
Indiana	Cause No. 43680	4/30/2009	\$46.9	12.00%	5/3/2010	10.00%	\$31.5	\$670.5
Ohio	Case No. 09-391-WS-AIR	5/1/2009	\$8.8	12.20%	5/19/2010	9.34%	\$2.6	\$70.1
Missouri	WR-2010-0131,SR-2010-0135	10/30/2009	\$48.7	11.60%	7/1/2010	10.00%	\$28.0	\$791.8
California (Sac, LA, Lark)	Case No. A 09-01-013	1/23/2009	\$24.0	10.20%	7/1/2010	10.20%	\$14.6	\$179.9
Michigan	N/A	6/24/2010	\$0.2	10.50%	7/1/2010	10.50%	\$0.2	\$2.4
Total General Rate Cases							\$199.7	
Total Infrastructure Surcharges							\$35.7	
Total to August 3, 2010							\$235.4	

\* Application of approved ROE to rate base additions in 2009 after the ROE order resulted in additional revenues of \$0.7 m

\*\* Additional revenue of \$0.8 m granted by commission in response to a company filed Motion for Reconsideration effective 7/1/2010.

