

Kentucky Public Service Commission
Case No. 2012-00520

Attorney General's Response to Commission Staff's Request for Information

1. Assuming that Mr. Rackers' adjustments are accepted, state the total amount of allocated costs for billing and collection, meters and service lines that Mr. Kalcic believes should be recovered through service charges. Provide all work papers, show all calculations, and state all assumptions used to derive the total amount.

RESPONSE:

This information request requires that KAW's cost-of-service study be rerun at the AG/LFUCG's recommended revenue requirement level. When the Company's cost-of-service study is modified to reflect all of Mr. Rackers' adjustments, the total customer-related portion of the resulting revenue requirement is as follows:

Customer Costs	
Meters:	\$10,621,416
Services:	3,103,215
Billing & Collection:	<u>8,107,880</u>
Total	\$21,832,511

Workpapers: See the tabs labeled "Staff-AG-1", "COS 1" and "ServiceCharges" in the attached electronic file.

Electronic File(s): oag_r_pscdr1_num1_coss.xlsx

Witness: Brian Kalcic

Kentucky Public Service Commission
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Attorney General's Response to Commission Staff's Request for Information

2. Refer to Direct Testimony of Brian Kalcic at 10. Explain why, if service charges are limited to the recovery of customer-related costs, the effect on consumption charges should be considered.

RESPONSE:

The utility rate design process involves many considerations, including: 1) cost of service; 2) customer rate impacts; 3) gradualism; 4) customer acceptance; and 5) rate continuity. Balancing these considerations often entails trade-offs. As a result, it may not be possible to set service charges at full cost of service (i.e., so as to recover all customer-related costs) in a given rate proceeding.

In the instant proceeding, Mr. Kalcic determined that it would not be feasible to set KAW's service charges at full cost of service, since doing so would necessitate a decrease in one or more GMS consumption charges. See Mr. Kalcic's direct testimony at page 11.

Witness: Brian Kalcic

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3. Refer to Direct Testimony of Brian Kalcic at 11. Describe how Mr. Kalcic determined that all GMS service charges should be increased 10.7 percent. Provide all work papers, show all calculations, and state all assumptions used to derive Mr. Kalcic's recommended increase.

RESPONSE:

As discussed on page 11, Mr. Kalcic recommends a 10.7% increase to GMS service charges. That percentage increase represents the maximum service charge increase that may be implemented (under Mr. Kalcic's recommended revenue allocation) without causing a decrease in one or more GMS consumption charges.

To establish that 10.7% is the maximum permissible increase, assume that KAW's 5/8" monthly service charge were to be increased from \$8.90 to \$9.90 or 11.24%, or by an additional \$0.05 per month over that proposed by Mr. Kalcic. Since KAW's non-5/8" service charges are based on meter capacity ratios, an 11.2% increase in the 5/8" service charge would necessitate that all service charges increase by the same 11.2%. As shown in Attachment_STAFF-AG-3, page 1 of 2, an 11.2% increase in service charges would necessitate a decrease in the Commercial consumption charge.

Similarly, one finds that if KAW's 5/8" monthly service charge were to be increased from \$8.90 to \$9.95 or 11.8%, the Residential class would also require a consumption charge decrease. See Attachment_STAFF-AG-3, page 2 of 2.

Witness: Brian Kalcic

KENTUCKY-AMERICAN WATER COMPANY

AG / LFUCG Hypothetical Rates and Proof of Revenue

Commercial

Meter Size	Test Year at Present Rates			Test Year at Hypothetical Rates		
	Adj. Billings	Rate	Revenue	Rate	Revenue	Revenue
5/8 "	54,431	8.90	\$ 484,433	9.90	\$	538,864
3/4 "	0	13.35	-	14.85		-
1 "	28,080	22.25	624,780	24.75		694,980
1 1/2 "	2,069	44.50	92,057	49.50		102,401
2 "	21,804	71.20	1,552,445	79.20		1,726,877
3 "	156	133.50	20,873	148.50		23,219
4 "	337	222.50	74,930	247.50		83,349
6 "	144	445.00	64,226	495.00		71,442
8 "	132	712.00	94,198	792.00		104,782
Meter Revenue	107,153		\$ 3,007,942			\$ 3,345,914
Usage						
Block 1	Sales	Rate	Revenue	Rate		Revenue
	3,931,401	\$ 4.8280	\$ 18,980,805	\$ 4.8258		\$ 18,972,155
Usage Revenue	3,931,401		\$ 18,980,805			\$ 18,972,155
Tapping Fees			\$ 44,326			\$ 56,410
Total Revenue			\$ 22,033,073			\$ 22,374,479

KENTUCKY-AMERICAN WATER COMPANY

AG / LFUCG Hypothetical Rates and Proof of Revenue

Residential

Meter Size	Test Year at Present Rates			Test Year at Hypothetical Rates		
	Adj. Billings	Rate	Revenue	Rate	Revenue	Revenue
5/8 "	1,320,569	\$ 8.90	\$ 11,753,067	9.95	\$	\$ 13,139,665
3/4 "	12	13.35	160	14.93		179
1 "	21,816	22.25	485,406	24.88		542,782
1 1/2 "	168	44.50	7,476	49.75		8,358
2 "	924	71.20	65,789	79.60		73,550
3 "	0	133.50	-	149.25		-
4 "	0	222.50	-	248.75		-
6 "	24	445.00	10,680	497.50		11,940
8 "	0	712.00	-	796.00		-
Meter	1,343,513		\$ 12,322,578			\$ 13,776,474
Usage						
Block 1	Sales 6,190,423	Rate 5.3004	Revenue \$ 32,811,720	Rate 5.2923	Revenue \$ 32,761,577	
Usage	6,190,423		\$ 32,811,720		\$ 32,761,577	
Total Revenue			\$ 45,134,298			\$ 46,538,051

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4. Refer to Direct Testimony of Brian Kalcic, Schedule BK-2 at 2. Provide a schedule of class revenue subsidies similar to this schedule using the rates proposed by the AG and Lexington-Fayette Urban County Government ("LFUCG").

RESPONSE:

The requested information is provided in Attachment_STAFF-AG-4.

Note that this information request requires the re-running of KAW's cost-of-service study at AG/LFUCG's present and proposed revenue levels.

Electronic File(s): oag_r_pscdr1_num4_coss.xlsx, and
oag_r_pscdr1_num1_coss.xlsx

Witness: Brian Kalcic

KENTUCKY-AMERICAN WATER COMPANY

Calculation of Class Revenue Subsidies
 at AG/LFUCG's Present and Proposed Revenue Levels
 (Test Year Ending July 31, 2014)

<u>Line Classification</u>	<u>Present AG Rate Revenue</u> (1)	<u>Cost of Service at AG Present Revenues</u> (2)	<u>Subsidies at AG Present Revenues</u> (3) = (1) - (2)	<u>AG Proposed Rate Revenue</u> (4)	<u>Cost of Service at AG Proposed Revenues</u> (5)	<u>Subsidies at AG Proposed Revenues</u> (6) = (4) - (5)
1 Residential	\$45,134,298	\$47,502,644	(\$2,368,346)	\$46,538,261	\$48,602,295	(\$2,064,034)
2 Commercial	\$22,033,073	\$20,340,140	\$1,692,932	\$22,374,625	\$20,896,770	\$1,477,855
3 Industrial	\$2,440,753	\$2,567,523	(\$126,770)	\$2,524,938	\$2,640,472	(\$115,534)
4 Public	\$6,813,404	\$6,563,947	\$249,457	\$6,953,724	\$6,748,072	\$205,652
5 Resale	\$1,977,521	\$1,651,045	\$326,476	\$1,990,531	\$1,700,783	\$289,748
6 Private Fire	\$2,319,440	\$1,898,889	\$420,551	\$2,359,812	\$1,955,725	\$404,087
7 Public Fire	<u>\$3,365,902</u>	<u>\$3,560,214</u>	<u>(\$194,312)</u>	<u>\$3,481,538</u>	<u>\$3,677,849</u>	<u>(\$196,311)</u>
8 Total Sales	\$ 84,084,391	\$ 84,084,401	(\$11)	\$ 86,223,429	\$86,221,966	\$ 1,463

Source: Schedule BK-3
 Attach_COSS_
 Staff-AG-4.xlsx

Schedule BK-3
 Attach_COSS_
 Staff-AG-1.xlsx

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Attorney General's Response to Commission Staff's Request for Information

5. State whether, in Mr. Kalcic's opinion, the AG's and LFUCG's proposed rates eliminate all subsidies. Explain.

RESPONSE:

As stated on page 8 of his direct testimony, Mr. Kalcic's recommended class revenue allocation and rate design are consistent with the results of the Company's class cost-of-service study. Like KAW's proposed rate design, Mr. Kalcic's recommended rates are intended to move class revenues toward (rather than to) their respective cost-of-service revenue levels. As such, Mr. Kalcic's recommended rates are intended to reduce class subsidies, not eliminate all subsidies. See also the response to Item 4 of the Public Service Commission Staff's First Request for Information to the Attorney General.

Witness: Brian Kalcic

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Attorney General's Response to Commission Staff's Request for Information**

6. Refer to the Direct Testimony of Dr. J. Randall Woolridge at 6. State whether the sentence beginning at line 16 should read: "This differential primarily reflects the additional return required"

RESPONSE:

Yes.

Witness: Dr. J. Randall Woolridge

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Attorney General's Response to Commission Staff's Request for Information

7. Refer to the Direct Testimony of Dr. J. Randall Woolridge at 14 and Exhibit JRW-12 at 1.
- a. Show Dr. Woolridge's calculation for the authorized returns on equity ("ROE") for American Water Works Company and Aqua America, Inc.
 - b. State whether Dr. Woolridge agrees that the most recently authorized returns for the regulated subsidiaries of American Water Works and Aqua America, Inc. are correctly reflected in Kentucky-American Water Company's ("Kentucky-American") Response to Item 23 of Commission Staff's Second Request for Information.
 - c. State whether, in Dr. Woolridge's opinion, investors are aware of authorized and earned ROEs for regulated water utilities.
 - d. If investors are aware of authorized and earned ROEs for regulated water utilities, state whether, in Dr. Woolridge's opinion, a water utility would likely attract equity investors if its state regulatory commission approved an 8.5 percent ROE, given the ROE awards and earned returns shown in Exhibits JRW-4 and JRW-12 and in Kentucky-American's Response to Item 23 of Commission Staff's Second Request for Information.

RESPONSE:

- a. Dr. Woolridge did not make the calculation. The authorized ROE figures are published by AUS Utilities Report. AUS provides the following definitions on the ROEs.

Allowed R O E -

Most recent reported state-level allowed return rate on common equity (ROE). ROE for companies operating in multiple jurisdictions are averages. Various companies have received incentive-base ROE authorizations that are not reported upon in this report.

Order Date -

The date of the commission order authorizing reported ROE. For companies operating in multiple jurisdictions, no date is given because the reported ROE is an average derived from multiple commission orders issued at different times.

- b. Dr. Woolridge does not know if they are correct or not.
- c. Yes, Dr. Woolridge does believe that investors are aware of authorized and earned ROEs for regulated water utilities.

- d. Dr. Woolridge addresses this issue at pages 53-56 of his testimony. In addition, the utility sector, including the water utility industry, has been among the best performing stock sectors in the U.S. this year. There is no evidence that water utility stocks are not able to attract capital.

Witness: Dr. J. Randall Woolridge

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Attorney General's Response to Commission Staff's Request for Information

8. State whether Dr. Woolridge has assessed whether Value Line's long-term projections of utility EPS growth share the same problem of upward bias that he attributes to Wall Street analysts. If yes, provide the results of such assessment.

RESPONSE:

See page B-13 of Appendix B to Dr. Woolridge' pre-filed Direct Testimony. Also see Exhibit JRW-B1, page 6 of 6 of Appendix B.

Witness: Dr. J. Randall Woolridge

Kentucky Public Service Commission
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Attorney General's Response to Commission Staff's Request for Information

9. State whether analysts' EPS long-term growth projections for utilities are likely to take into account that the utilities are subject to ROE regulation.

RESPONSE:

Dr. Woolridge believes that the EPS long-term growth projections for utilities do take into account that the utilities are subject to ROE regulation, among many other factors.

Witness: Dr. J. Randall Woolridge

**Kentucky Public Service Commission
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Attorney General's Response to Commission Staff's Request for Information

10. Refer to the Direct Testimony of Dr. J. Randall Woolridge at 40, lines 16–17 and Exhibit JRW-10 at 1. State whether the Discounted Cash Flow (“DCF”) growth rate of 4.5 percent is for the Gas Proxy Group and not for the Water Proxy Group.

RESPONSE:

The 4.5% is for the Gas Proxy Group.

Witness: Dr. J. Randall Woolridge

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11. Refer to the Direct Testimony of Dr. J. Randall Woolridge at 48 49 and Exhibit JRW-11 at 6. State whether the second-to-lowest value of mean equity risk premium studies is from a study that Dr. Woolridge conducted and that the time period is the year 2013.

RESPONSE:

That is not quite correct. Dr. Woolridge's estimate is the third-to-lowest value of the mean equity risk premium studies. The time period is the year 2013.

Witness: Dr. J. Randall Woolridge

Kentucky Public Service Commission
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12. Refer to Direct Testimony of Dr. J. Randall Woolridge at Exhibit JRW-10. Explain why averaging median values, as Dr. Woolridge has done in calculating his dividend yield and growth rates in his DCF study, produces meaningful estimates of Kentucky-American's cost of equity.

RESPONSE:

There are various measures of central tendency for a series or distribution of outcomes. These measures include the mean, median, mode, and midpoint. The mean and median are the most commonly used. As Dr. Woolridge discusses in his testimony, he uses the median figure throughout his testimony to minimize the effect of outliers on the measure of central tendency.

Witness: Dr. J. Randall Woolridge

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13. Refer to Direct Testimony of Stephen Rackers at 37. List and provide a copy of each state utility regulatory commission decision or opinion in which the ratemaking treatment of a reserve created to meet the requirements of Financial Accounting Standards Board Interpretation No. 48 ("FIN 48") is discussed. This listing should include the name of the state commission, case number, case style, and date of decision or opinion.

RESPONSE:

Mr. Rackers is aware of the following four cases.

1. Missouri Public Service Commission
 - a. Case No. ER-2008-0318, In The Matter Of Union Electric Company, d/b/a AmerenUE's Tariffs To Increase Its Annual Revenues For Electric Service, 1/27/2009. See attached Report and Order, beginning at page 53.
 - b. Case No. ER-2011-0028, In The Matter Of Union Electric Company, d/b/a Ameren Missouri's Tariffs To Increase Its Annual Revenues For Electric Service, 6/1/2011. See attached Order Approving Stipulations and Agreements, beginning at page 3 and The Nonunanimous Stipulation And Agreement Regarding Tax Issues, beginning at page 1.
 - c. The process stipulated to in ER-2011-0028 was followed in the Company's filed position and was not contested by any party in the next rate proceeding, Case No. ER-2012-0166, In The Matter Of Union Electric Company, d/b/a Ameren Missouri's Tariffs To Increase Its Annual Revenues For Electric Service.
2. Illinois Commerce Commission
Docket Number 12-0001, Ameren Illinois Company d/b/a/ Ameren Illinois Rate MAP-P Modernization Action Plan Filing, 9/19/12. See attached Order, beginning at page 32.
3. Kentucky Public Service Commission
Case No. 2010-00036, Application Of Kentucky-American Water Company For An Adjustment Of Rates Supported By A Fully Forecasted Test Year. See attached Order, beginning at page 16.

Witness: Stephen M. Rackers

Kentucky Public Service Commission
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14. State for each of the statements below whether Mr. Rackers agrees. If he does not agree, explain why not.
- a. "Theoretically, net earnings are earned when customer service is provided, and become the property of the stockholders. This requires that a cash working capital requirement should be recognized for the lag in receipt of operating income."¹
 - b. "While it is true that recording depreciation does not require the expenditure of cash at the time the expense is recorded and charged to the customer, cash was expended at the time the property was acquired, the recorded depreciation is used to reduce the investment in that property even though approximately one-and-one half month's depreciation (equivalent to the revenue lag) has not yet been received from the customer."²

RESPONSE:

- a. Mr. Rackers does not agree with this statement. The purpose of cash working capital is to provide the cash necessary to pay for the goods and services required for day to day operations of the utility. Net earnings are not owed or required to be paid out to these suppliers of goods and services.
- b. Mr. Rackers does not agree with this statement. The above statement fully recognizes that depreciation is not owed or required to be paid out to any suppliers of goods and services necessary for the day to day operations of the utility. Therefore, it is a non-cash item and should not be included in the calculation of cash working capital.

¹ Case No. 92-452, *Notice of Adjustment of the Rates of Kentucky-American Water Company* (Ky PSSC Nov. 19, 1993) at 20.

² Robert L. Hahne and Gregory E. Aliff, *Accounting for Public Utilities* § 5.08[2] (Matthew Bender Nov. 1991).

The statement also assumes near perfect timing between the recording of depreciation expense, the determination of the rate base and the establishment of rates. All the depreciation expense provided in rates is not reflected in the rate base that exists during the period rates are in effect. As a result, the rate base established in a rate case continues to decline due to the build-up of not only accumulated depreciation, but also accumulated deferred income taxes, which is not fully reflected in rates until the next rate case.

Cash from depreciation and deferred income taxes are also a source of funding for additional plant investment. These funds reduce the need for debt and equity financing.

The revenue requirement effect of accumulating depreciation expense in the rate base is not dollar for dollar. Accumulated depreciation in the rate base results in a reduction in the amount of return on investment.

Witness: Stephen M. Rackers

Kentucky Public Service Commission
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Attorney General's Response to Commission Staff's Request for Information

15. Explain why the Commission should reverse its long-standing position on including non-cash items and net income in Kentucky-American's lead-lag study.

RESPONSE:

In addition to Mr. Rackers' testimony, the following discussion and information should provide justification for changing the policy of including net earnings, depreciation and deferred income taxes in cash working capital.

Cash working capital should be designed to determine the need for funds for day to day operations. Through the recovery in rates of a return on rate base and non cash expenses, KAWC already receives cash from net earnings, depreciation expense and deferred income taxes. Including these items in cash working capital results in additional net earnings and cash. Several other states and companies, including Missouri-American Water Company do not even request cash working capital for net earnings, depreciation and deferred income taxes. See attached list and supporting documents.

Witness: Stephen M. Rackers

**Kentucky-American Water
Case No. 2012-00520
Response to PSC Staff Question 15**

**Cash Working Capital Allowances
Determined by a Lead/Lag Study**

<u>Line</u>	<u>Utility</u>	<u>Case Reference</u>	<u>Page No.</u>
1	Ameren Illinois - Electric	11-0279	1
2	Ameren Illinois – Gas	11-0282	2
3	Ameren Missouri	ER-2012-0166	3
4	Georgia Power Company	31958-U	4
5	Kansas City Power & Light Company	ER-2012-0174	5
6	Laclede Gas Company	GR-2013-0171	6
7	National Grid NH	DG 10-017	7
8	Rocky Mountain Power – Utah	11-035-200	10

Ameren Illinois Company
Cash Working Capital Requirements of the Electric Business

Line No.	Description (A)	Test Year Adjusted Revenues and Expenses (\$000s) (B)	Revenue Lag/Expense (Leads) (C)	CWC Factor (D) (Col D/365)	Cash Working Capital Requirement (\$000s) (E)
REVENUES					
1	Revenues at Proposed Rates	\$ 851,509	49.75	13.63%	\$ 116,062
2	Plus Energy Assistance Charges	18,475	34.54	9.46%	1,748
3	Plus Electric Distribution Tax	49,600	49.75	13.63%	6,761
4	Plus Interest Expense	70,419	49.75	13.63%	9,598
5	(Less) Uncollectibles	(9,276)	49.75	13.63%	(1,264)
6	(Less) Depreciation and Amortization	(168,536)	49.75	13.63%	(22,972)
7	(Less) Return on Equity	(156,220)	49.75	13.63%	(21,293)
11	TOTAL - REVENUES	<u>\$ 655,971</u>			<u>\$ 88,640</u>
EXPENSES					
12	Employee Benefits	39,570	(12.69)	-3.48%	(1,376)
13	FICA	9,715	(13.13)	-3.60%	(349)
14	Payroll	154,578	(11.39)	-3.12%	(4,825)
15	Other Operations and Maintenance (less uncollectibles)	247,942	(48.87)	-13.39%	(33,198)
16	Federal Unemployment Tax	85	(76.38)	-20.92%	(18)
17	State Unemployment Tax	189	(76.38)	-20.92%	(40)
18	St. Louis Payroll Expense Tax	5	(83.51)	-22.88%	(1)
19	Electric Distribution Tax	49,600	(30.13)	-8.25%	(4,094)
20	Energy Assistance Charges	18,475	(41.84)	-11.46%	(2,118)
21	Corporation Franchise Tax	1,171	(161.97)	-44.37%	(520)
22	Property/Real Estate Taxes	4,166	(375.08)	-102.76%	(4,281)
23	Interest Expense	68,622	(91.25)	-25.00%	(17,156)
24	Bank Facility Fees	1,797	156.59	42.90%	771
25	Federal Income Tax	46,201	(37.88)	-10.38%	(4,794)
26	State Income Tax	13,856	(37.88)	-10.38%	(1,438)
32	TOTAL EXPENSES	<u>\$ 655,972</u>			<u>\$ (73,436)</u>
33	CASH WORKING CAPITAL REQUIREMENT				<u>\$ 15,204</u>

Ameren Illinois Company
Cash Working Capital Requirements of the Gas Business

Line No.	Description (A)	Test Year Revenues and Expenses at Proposed Rates (\$000s) (B)	Revenue Lag/Expense (Leads) (C)	CWC Factor (D) (Col D/365)	Cash Working Capital Requirement (\$000s) (E)
REVENUES					
1	Revenues at Proposed Rates	\$ 300,659	49.74	13.63%	\$ 40,972
2	Plus PGA Revenues	563,230	49.74	13.63%	76,754
3	Plus ICC Gross Revenue Tax	893	49.74	13.63%	122
4	Plus Municipal Utility Tax	12,103	49.74	13.63%	1,649
5	Plus Energy Assistance Charges	8,659	34.53	9.46%	819
6	Plus Illinois Public Utility Tax	21,212	49.74	13.63%	2,891
7	Plus Interest Expense	34,479	49.74	13.63%	4,699
8	(Less) Uncollectibles	(4,997)	49.74	13.63%	(681)
9	(Less) Depreciation and Amortization	(35,209)	49.74	13.63%	(4,798)
10	(Less) Return on Equity	(42,438)	49.74	13.63%	(5,783)
11	TOTAL - REVENUES	<u>\$ 858,590</u>			<u>\$ 116,643</u>
EXPENSES					
12	Employee Benefits	\$ 17,130	(12.69)	-3.48%	(596)
13	Payroll	68,321	(11.39)	-3.12%	(2,133)
14	PGA Expense	563,230	(39.23)	-10.75%	(60,537)
15	Other Operations and Maintenance (less uncollectibles)	78,568	(48.87)	-13.39%	(10,520)
16	FICA	4,344	(13.13)	-3.60%	(156)
17	Federal Unemployment Tax	38	(76.38)	-20.92%	(8)
18	State Unemployment Tax	85	(76.38)	-20.92%	(18)
19	St. Louis Payroll Expense Tax	2	(83.51)	-22.88%	(1)
20	ICC Gross Revenue Tax	893	29.74	8.15%	73
21	Invested Capital Tax	6,350	(30.13)	-8.25%	(524)
22	Municipal Utility Tax	12,103	(45.63)	-12.50%	(1,513)
23	Energy Assistance Charges	8,659	(41.84)	-11.46%	(993)
24	Corporation Franchise Tax	600	(161.97)	-44.37%	(266)
25	Illinois Public Utility Tax	21,212	(29.79)	-8.16%	(1,731)
26	Property/Real Estate Taxes	2,145	(375.08)	-102.76%	(2,204)
27	Interest Expense	33,599	(91.25)	-25.00%	(8,400)
28	Bank Facility Fees	880	156.59	42.90%	378
29	Federal Income Tax	31,103	(37.88)	-10.38%	(3,227)
30	State Income Tax	9,329	(37.88)	-10.38%	(968)
31	TOTAL EXPENSES	<u>\$ 858,590</u>			<u>\$ (93,344)</u>
32	CASH WORKING CAPITAL REQUIREMENT				<u>\$ 23,299</u>

Ameren Missouri
Case No. ER-2012-0166
Test Year 12 Months Ending September 30, 2011
True-Up through July 31, 2012
Cash Working Capital

Line Number	A Description	B Test Year Adj. Expenses	C Revenue Lag	D Expense Lag	E Net Lag C-D	F Factor (Col E/365)	G CWC Req B x F
1	OPERATION AND MAINT. EXPENSE						
2	Payroll Expense	\$324,119,209	42.66	12.12	30.54	0.083671	\$27,119,378
3	Employee Benefits	\$110,185,291	42.66	29.21	13.45	0.036849	\$4,060,218
4	Fuel - Nuclear	\$85,001,000	42.66	15.21	27.45	0.075205	\$6,392,500
5	Fuel - Coal	\$760,126,000	42.66	17.14	25.52	0.069918	\$53,146,490
6	Fuel - Gas	\$26,441,000	42.66	40.36	2.30	0.006301	\$166,605
7	Fuel - Oil	\$2,893,000	42.66	12.70	29.96	0.082082	\$237,463
8	Purchased Power	\$26,089,053	42.66	25.83	16.83	0.046110	\$1,202,966
9	Incentive Compensation	\$17,864,961	42.66	253.77	-211.11	-0.578384	-\$10,332,808
10	Uncollectibles Expense	\$14,320,597	42.66	42.66	0.00	0.000000	\$0
11	Cash Vouchers	\$612,542,458	42.66	36.41	6.25	0.017123	\$10,488,565
12	TOTAL OPERATION AND MAINT. EXPENSE	\$1,979,582,569					\$92,481,377
13	TAXES						
14	FICA - Employer Portion	\$21,730,774	42.66	12.73	29.93	0.082000	\$1,781,923
15	St. Louis Payroll Expense Tax	\$231,567	42.66	76.38	-33.72	-0.092384	-\$21,393
16	Federal Unemployment Tax	\$358,525	42.66	76.38	-33.72	-0.092384	-\$33,122
17	State Unemployment Tax	\$728,218	42.66	76.38	-33.72	-0.092384	-\$67,276
18	Corporate Franchise Tax	\$1,593,423	42.66	-77.50	120.16	0.329205	\$524,563
19	Property Tax	\$127,192,036	42.66	182.50	-139.84	-0.383123	-\$48,730,194
20	TOTAL TAXES	\$151,834,543					-\$46,545,499
21	OTHER EXPENSES						
22	Decommissioning Fees	\$6,759,098	42.66	70.63	-27.97	-0.076630	-\$517,950
23	Use Tax	\$501,953	42.66	76.38	-33.72	-0.092384	-\$46,372
24	Sales Tax	\$59,213,831	42.66	38.79	3.87	0.010603	\$627,844
25	Gross Receipts Tax	\$133,351,001	29.74	27.54	2.20	0.006027	\$803,706
26	TOTAL OTHER EXPENSES	\$199,825,883					\$867,228
27	CWC REQ'D BEFORE RATE BASE OFFSETS						\$46,803,106
28	TAX OFFSET FROM RATE BASE						
29	Federal Tax Offset	\$164,228,913	42.66	37.88	4.78	0.013096	\$2,150,742
30	State Tax Offset	\$26,075,564	42.66	37.88	4.78	0.013096	\$341,486
31	City Tax Offset	\$111,520	42.66	273.50	-230.84	-0.632438	-\$70,529
32	Interest Expense Offset	\$187,230,009	42.66	90.76	-48.10	-0.131781	-\$24,673,358
33	TOTAL OFFSET FROM RATE BASE	\$377,646,006					-\$22,251,659
34	TOTAL CASH WORKING CAPITAL REQUIRED						\$24,551,447

**GEORGIA POWER COMPANY
CASH WORKING CAPITAL
SUMMARY OF LEAD/(LAG) DAYS**

Operating Revenue	(38.1)
Fuels Other Than Nuclear	16.2
Nuclear Fuel Disposal Costs	75.9
Nuclear Decommissioning	258.0
Purchased Power	
Power Pool (Net) *	(2.5)
Non-Power Pool (Net) *	(3.5)
Other Operating and Maintenance Expenses	27.2
Taxes Other Than Income Taxes **	149.5
Current Income Taxes	
Federal	37.5
State	37.5
Adjustment for Average Sales Tax Collections	5.3
Interest Expense – Long-Term Debt	64.4
Interest Expense – Preferred Securities	45.0
Preferred Dividends	45.0

* These amounts include combined credits of \$71,033,561 representing power sales which are credited to retail revenue for regulatory reporting purposes.

** Refer to Exhibit ___ (APD-1) page 3 for lag days associated with Municipal Franchise Fees.

Kansas City Power & Light Company
2012 RATE CASE - Direct Filing
Missouri Jurisdiction
TY 9/30/11; Update TBD; K&M 8/31/12

Cash Working Capital

Line No.	Account Description	Jurisdictional		Net		Factor (Col E/366)	CWC Req (B) X (F)
		Test Year Expenses	Revenue Lag	Expense Lead	(Lead)/Lag (C) - (D)		
	A	B	C	D	E	F	G
Operations & Maintenance Expense							
1	Gross Payroll excl Wolf Creek Prod & Accrued Vac	63,815,400	27.42	13.85	13.57	0.0371	2,366,052
2	Accrued Vacation	6,436,568	27.42	344.83	-317.41	-0.8672	(5,582,052)
3	Wolf Creek Operations & Fuel, incl Payroll	64,315,299	27.42	25.85	1.57	0.0043	275,888
4	Purchased Coal & Freight	106,107,758	27.42	20.88	6.54	0.0179	1,896,024
5	Purchased Gas	1,179,441	27.42	28.62	-1.2	-0.0033	(3,867)
6	Purchased Oil, excl Wolf Creek	5,849,318	27.42	8.5	18.92	0.0517	302,375
7	Purchased Power	24,345,430	27.42	30.72	-3.3	-0.0090	(219,508)
8	Injuries & Damages	3,544,831	27.42	149.56	-122.14	-0.3337	(1,182,966)
9	Pension Expense	24,458,261	27.42	51.74	-24.32	-0.0664	(1,625,205)
10	OPEBs	3,991,719	27.42	178.44	-151.02	-0.4126	(1,647,075)
11	Cash Vouchers	141,514,825	27.42	30	-2.58	-0.0070	(997,564)
12	Total Operation & Maintenance Expense	445,558,850					(6,417,898)
Taxes other than Income Taxes							
13	FICA Taxes - Employer's	7,024,005	27.42	13.77	13.65	0.0373	261,961
14	Unemployment Taxes - Federal & State	0	27.42	71	-43.58	-0.1191	0
15	City Franchise Taxes - 6% GRT - MO	33,929,345	12.17	72.28	-60.11	-0.1642	(5,572,385)
16	City Franchise Taxes - 4% GRT - MO	12,992,010	12.17	39.34	-27.17	-0.0742	(964,462)
17	City Franchise Taxes - Other MO Cities	7,599,020	12.17	60.94	-48.77	-0.1333	(1,012,580)
18	Ad Valorem / Property Taxes	41,477,437	12.17	208.84	-196.67	-0.5373	(22,287,890)
19	Sales & Use Taxes - MO	18,501,466	12.17	22	-9.83	-0.0269	(496,911)
20	Total Taxes other than Income Taxes	114,499,278					(30,072,266)
21	Current Income Taxes-Federal	6,943,483	27.42	45.63	-18.21	-0.0498	(345,467)
22	Current Income Taxes-State	2,871,154	27.42	45.63	-18.21	-0.0498	(142,852)
23	Total Income Taxes	9,814,637					(488,318)
24	Interest Expense	66,303,404	27.42	86.55	-59.13	-0.1616	(10,711,804)
25	Total Cash Working Capital Requirement	636,176,169					(47,690,286)

Laclede Gas Company
 Mo. PSC Case No. GR-2013-0171
 Cash Working Capital
 Schedule 2, Page 1 of 1

LACLEDE GAS COMPANY
 SUMMARY OF LAG TIME FROM PAYMENT OF EXPENSE UNTIL REVENUE IS RECEIVED
 TEST YEAR ENDED SEPTEMBER 30, 2012
 (Thousands of Dollars)

	Normalized 12 Month Expenses	Average Daily Expense	Lag Days From Day of Expense To Day Paid	Net (Lead)/Lag Days from Day Exp. Paid To Day Rev. Rec'd	Cash Required For Operating Expenses
Gas Costs					
Natural Gas	322,760	881.858	39.7	11.3	9,965
L.P. - Peaking	0	0.000	13.5	37.5	0
L.P. - Subdivision	56	0.153	27.4	23.6	4
Total Gas Costs	<u>322,816</u>	<u>882.011</u>			<u>9,969</u>
Labor and Related Expenses					
Wages - Contract	44,389	121.281	12.0	39.0	4,730
- Management	30,834	84.246	12.0	39.0	3,286
- Missouri Natural	6,042	16.508	12.0	39.0	644
Group Insurance	12,987	35.484	2.8	48.2	1,709
401 (k) Contributions	2,773	7.577	13.5	37.5	284
Pensions and Other Postretirement Benefits	30,329	82.866	51.0	0.0	0
Total Labor and Related Expenses	<u>127,354</u>	<u>347.962</u>			<u>10,653</u>
Other Expenses					
Transportation	9,158	25.022	14.8	36.2	907
Natural Gas Costs to Operations	197	0.538	39.7	11.3	6
Utilities	860	2.350	19.4	31.6	74
Postage	2,884	7.880	(11.6)	62.6	494
Uncollectible Accounts - Actual	8,183	22.358	182.5	(131.5)	(2,940)
Uncollectible Accounts - Adjustment	717	1.959	0.0	51.0	100
Fees - Misc. Services	1,324	3.617	71.3	(20.3)	(73)
MoPSC Assessment	1,917	5.238	0.0	51.0	267
Rents	906	2.475	(9.7)	60.7	150
Miscellaneous Expense	34,854	95.230	30.0	21.0	2,000
Total Expense	<u>61,000</u>	<u>166.667</u>			<u>985</u>
Incidental Oil Sales - Expense	117	0.320	71.5	(20.5)	(7)
Subtotal of Above Expenses	<u>511,287</u>	<u>1,396.960</u>			<u>21,600</u>
Taxes (Other Than Deferred Taxes)					
Distribution - Income Taxes	3,336	9.115	59.9	(8.9)	(81)
- Gross Receipts Taxes	35,484	96.951	*	5.3	514
- Employment Taxes	6,234	17.033	16.1	17.2	293
- Property Taxes	12,204	33.344	182.5	(131.5)	(4,385)
- Other Taxes	399	1.090	(1.0)	52.0	57
Total Taxes	<u>57,657</u>	<u>157.533</u>			<u>(3,602)</u>
TOTAL OPERATING EXPENSES EXCLUDING DEPRECIATION, AMORTIZATION, AND DEFERRED TAXES	<u>568,944</u>	<u>1,554.493</u>			<u>17,998</u>
Sales Taxes	9,003	24.598	*	11.2	275
Employee Taxes Withheld	11,389	31.117	*	3.3	102
Interest Expense Offset - LTD	22,853	62.440	73.8	(22.8)	(1,426)
Interest Expense Offset - STD	-	0.000	12.4	38.6	0
TOTAL CASH WORKING CAPITAL ITEMS	<u>612,189</u>	<u>1,672.648</u>			<u>16,949</u>

* - Net (Lead)/Lag Days determined independently for these items

National Grid NH
Cash Working Capital Requirements
12 Months Ended Jun 30, 2009
Lead Lag Summary

Line No	Annual Expenses (1)	Revenue (Lead) Lag Days (2)	Expense (Lead) Lag Days (3)	Net (Lead) Lag Days (4)	Day Weighted Amount (5)	Source (6)
1		53.17				
2	Total Revenue Lag					
3	Total Expenses Lag					
4	Operation & Maintenance Expense					
5	Purchased Gas	\$112,156,611	36.89	14.27	\$1,600,821,910	Page 3 of 3 - Line 2
6	Labor - Direct	\$5,406,362	20.22	32.94	\$178,098,082	Page 3 of 3 - Line 3
7	Labor - Allocated	\$4,575,008	65.21	-12.04	-\$55,092,537	Page 3 of 3 - Line 4
8	Employee Pensions & Benefits - Direct	\$3,603,256	28.75	26.42	\$85,240,278	Page 3 of 3 - Line 5
9	Employee Pensions & Benefits - Allocated	\$1,585,086	65.21	-12.04	-\$19,087,708	Page 3 of 3 - Line 6
10	Regulatory Commission Expense	\$657,982	53.17	142.17	\$93,542,846	Page 3 of 3 - Line 8
11	Other O&M Expenses - Direct	\$3,410,580	34.50	18.67	\$63,658,689	Page 3 of 3 - Line 9
12	Other O&M Expenses - Allocated	\$4,194,137	65.21	-12.04	-\$50,505,071	Page 3 of 3 - Line 10
13						
14	Other Taxes					
15	Other Taxes Excluding Property Taxes	\$332,748	17.97	35.19	\$11,710,752	Page 3 of 3 - Line 16
16	Property Taxes	\$4,457,169	53.17	78.00	\$347,662,947	Page 3 of 3 - Line 17
17						
18	Income Taxes					
19	Federal Income Taxes	\$3,687,983	30.00	23.17	\$85,436,605	Page 3 of 3 - Line 21
20	State Income Taxes	\$928,128	53.17	23.17	\$21,501,260	Page 3 of 3 - Line 22
21						
22	Interest Expense					
23	Interest on Long-Term Debt	\$3,698,313	53.17	-38.08	-\$224,629,757	Page 3 of 3 - Line 32
24	Interest on Short-Term Debt	\$344,791	53.17	7.51	\$2,586,386	Page 3 of 3 - Line 33
25						
26						
27	Net of Revenue less Expense Lag Days	\$151,240,154	53.17	14.22	\$2,150,848,891	Sum of Lines 5 to 24
28					365	
29						
30	Avg Daily Cash Working Capital Requirements				\$5,893,005	Line 27 / Line 28
31						
32						
33	Cash Working Capital Requirements				\$5,893,005	Line 30
34						
35	Purchased Gas Working Capital					
36	Purchased Gas Net Lag Days		14.27		\$112,156,611	Line 5 Col 4
37	Purchased Gas Cost				\$4,385,813	Line 5 Col 1
38	Purchased Gas CWC					Line 36 / 365 X Line 37
39						
40	Base Revenue Requirements Working Capital					
41	Total Cash Working Capital Requirements				\$5,863,005	Line 33
42	Less: Purchased Gas Cash Working Capital				\$4,385,813	Line 38
43	Base Revenue Requirements Working Capital				\$1,507,192	Line 41 - Line 42
44	Base Revenue Net Lag Days		14.08			Line 43/(Line 27-Line5) X 365
45						
46						
47						
48						
49						
50						

National Grid NH
Cash Working Capital Requirements
12 Months Ended Jun 30, 2009
Revenues Lag Summary

Line No	Revenue Lag	Revenues Billed	Lead (Lag) Days	Source	Wtg Delivery Dollar Days
1	Service Lag		15.22	See Note 1	
2	Billing Lag				
3	Cycle Read Customers		1.00	See Note 3	
4	Collection Lag		37.03	W/P Supporting Page 1 Line 21	
5					
6					
7					
8	Total Firm Gas Sales Revenues	\$157,555,632	53.25	Line 1 + 4 + 6	\$8,389,280,031
9					
10	Sales for Resale	\$0	38.89	W/P Supporting Page 2	\$0
11	Gas Revenues Total	\$157,555,632	53.25		\$8,389,280,031
12					
13	Revenues from Transportation of Gas of Others	\$7,597,409	53.25	Line 8	\$404,535,152
14	Total Sales Revenues	\$165,153,041	53.25		\$8,793,815,184
15					
16	Unbilled Revenues	-\$2,991,010	53.25	Line 8	-\$159,260,701
17					
18	Late Payment Charges	\$1,192,394	42.43	See Note 2	\$50,590,560
19					
20	Reconnect Fees	\$245,820	53.25	Line 8	\$13,089,045
21	NG Check Charge	\$25,905	42.43	See Note 2	\$1,099,090
22					
23	Broker Balancing Charges	\$0	53.25	Line 8	\$0
24					
25	Interruptible Sales	\$0	53.25	Line 8	\$0
26					
27	Non Core Sales	\$733,421	53.25	Line 8	\$39,052,074
28					
29					
30	Total Revenue Lag	\$164,359,571	53.17		\$8,738,385,241
31					
32					
33					
34					
35					
36					
37					

Notes:
 1. Computed as 365.25/12/2
 2. Fees are assessed on the next billing. Lag is computed as the collection lag on Line 6 plus the average of 5.4 days from due date.
 3. Meters are read from 7AM to 3PM and posted to accounts receivable on the following day.

National Grid NH
Cash Working Capital Requirements
12 Months Ended Jun 30, 2009
Cost of Service Lead Lag Summary

Line No	Revenue Req Amount	Lead (Lag) Days	Source	Weighted Amount
1	\$112,166,611	38.89	W/P Supporting Page 2	\$4,362,126,677
2	\$5,406,362	20.22	W/P Supporting Page 46 Line 73	\$109,339,000
3	\$4,675,008	65.21	See Note 2	\$298,328,639
4	\$3,605,266	28.75	W/P Supporting Page 98 Line 31	\$96,437,739
5	\$1,585,088	65.21	See Note 2	\$103,360,825
6	\$5,516,477	-89.00	Non Cash Item	-\$68,560,398
7	\$657,982	34.50	W/P Supporting Page 120 Line 5	\$117,669,116
8	\$3,410,580	65.21	W/P Supporting Page 121 Line 27	\$273,492,714
9	\$4,194,137		See Note 2	
10	\$141,105,469			
11				
12				
13	\$8,042,552		Non Cash Item	
14				
15				
16	\$332,746	17.97	W/P Supporting Page 132 Line 16	\$5,980,238
17	\$4,457,169	-24.83	W/P Supporting Page 139 Line 34	-\$110,661,682
18	\$4,789,918			
19				
20				
21	\$3,887,983	30.00	W/P Supporting Page 172 Line 13	\$110,639,487
22	\$928,128	30.00	W/P Supporting Page 173 Line 13	\$27,843,836
23	\$4,616,111			
24				
25	-\$2,794,586		Non Cash Item	
26				
27	\$0			\$0
28				
29	\$19,557		See Note 1	
30				
31				
32	\$5,686,313	91.25	W/P Supporting Page 174 Line 5	\$338,221,048
33	\$344,791	46.66	W/P Supporting Page 176	\$15,741,856
34	\$2,333,427		Non Cash Item	
35	\$8,576,531			
36				
37	\$164,359,571			
38				
39				
40				
41				
42				
43				

Notes:
1. Customer Deposits and Interest is included as a deduction from Rate Base and therefore excluded from the lead lag study.
2. Lag for Service Company charges is per the Service Agreements where a monthly invoice is submitted on the 20th for the preceding month's charges. Invoice is then payable by the 30th day after the invoice is received.



ROCKY MOUNTAIN
POWER
A DIVISION OF PACIFICORP
Lead/Lag Study
December 2010

Utah Jurisdiction

Line Description	FERC Account(s)	Total Company	Utah Allocated	Lag Days	Dollar Days	Lag Days Ref.
2010 Unadjusted Results ⁽¹⁾						
1 REVENUE LAG:						
2 General Business Revenues	440 - 448, 456 ⁽⁴⁾	3,474,487,964	1,479,882,905	42.00	62,154,850,419	Page 3.1
3 Other CSS Revenues	450-454	32,837,349	13,793,009	23.81	329,752,345	Page 3.1
4 Sales for Resale	447NPC	492,922,473	205,266,414	36.89	7,572,290,820	Page 3.4
5 Wheeling and Other Misc. Revenues	456/447	402,587,588	207,313,006	36.89	7,647,789,840	Page 3.4
6 TOTAL REVENUE LAG		4,402,215,385	1,906,265,333	40.78	77,704,683,523	
7						
8 EXPENSE LAG:						
9 Operation & Maintenance:						
10 Coal	501NPC	618,412,475	255,341,987	29.58	7,553,756,683	Page 4.2
11 Natural Gas	501NPC / 547NPC	446,200,118	183,983,449	40.81	7,470,508,914	Page 4.3
12 Purchased Power	555NPC	418,825,351	173,958,588	38.47	6,892,828,854	Page 4.4
13 Wheeling	558NPC	138,854,649	57,008,534	38.47	2,183,387,331	Page 4.4
14 Labor and Benefits	500-935	475,604,778	197,574,196	14.31	2,827,780,683	Page 4.5
15 Incentive	500-935	18,523,717	7,895,063	167.50	1,288,923,034	Page 4.5
16 Other Operations & Maintenance	500-935	817,082,336	279,464,982	33.54	9,372,815,274	Page 4.6
17 Operation & Maintenance Expense Lag		2,729,503,426	1,155,007,739	32.38	37,399,980,583	
18						
19 Embedded Cost Differential ⁽²⁾	ECO					
20 BPA Credit ⁽³⁾	555	(36,817,673)				
21						
22 O&M Expense From Results of Operations		2,692,685,751	1,155,007,739			
23						
24 Taxes Other Than Income:						
25 Property Taxes	408	100,361,440	41,921,417	140.77	5,901,437,610	Page 4.7
26 Other Taxes	408	36,151,288	4,307,487	41.96	180,325,524	Page 4.8
27 Total Taxes Other Than Income Lag		136,512,728	46,228,904	131.56	6,081,763,134	
28						
29 Income Taxes:						
30 Federal Income Taxes	408	(492,762,100)	(185,977,092)	37.87	(7,043,881,289)	Page 4.9
31 State Income Taxes	408	(58,348,093)	(22,249,114)	38.17	(849,175,358)	Page 4.9
32 Total Income Tax Lag		(541,110,193)	(208,226,206)	37.91	(7,893,056,627)	
33						
34 TOTAL EXPENSE LAG		2,324,905,980	993,010,438	35.84	35,585,687,050	
35						
36 NET REVENUE LAG DAYS (Revenue Lag - Expense Lag)				4.92		
37						
38 Daily Cost of Service (Total Expense Lag Amount / 365)				2,720,577		
39 Cash Working Capital Balance (Net Revenue Lag Days x Daily Cost of Service)				13,396,924		

Notes:
 (1) The Unadjusted results columns reflect actual results from the December 2010 Results of Operation Report based on 2010 Protocol/Rolled-in allocation method (See Tab 5.) Current income taxes calculated using actuals from December 2010 Results and the blended statutory tax rate, consistent with 2010 Protocol, rather than allocated using the IET factor.
 (2) The Embedded Cost Differential is a non-cash expense item. As a result, it has been excluded from the leading lag calculation.
 (3) The Bonneville Power Administration residential exchange credit only applies to Oregon, Washington and Idaho.
 (4) System Benefit Charges (Demand Side Management Revenues) in 458 are included with General Business Revenues since they're collected with customer bills.

Kentucky Public Service Commission
Case No. 2012-00520

Attorney General's Response to Commission Staff's Request for Information

16. At page 19 of his written direct testimony, Mr. Rackers states: "Based on discussions with KAWC [Kentucky-American] personnel, the Company has agreed to revise its calculation of net income for cash working capital to eliminate income taxes."
- a. Identify each participant who was involved in these discussions and the party that he or she represented.
 - b. Provide all documents, studies, electronic mail messages, and correspondence between the AG and Kentucky-American related to the revised calculation of net income for cash working capital.

RESPONSE:

- a. Note: The discussions took place during a single telephone conference call held on 25 March 2013. The OAG believes that the following individuals were participants in the teleconference.

David Spenard – Office of the Attorney General

Lindsey W. Ingram III – Counsel for KAW

Monica Braun – Counsel for KAW

Stephen M. Rackers – Consultant for OAG/LFUCG

Linda Bridwell – KAW

Dave Weber – AWK/KAW

The OAG states that there may have been one other representative acting on behalf of AWK/KAW on the telephone conference call; however, the OAG does not have any other names in the notes for the conference call.

- b. The electronic mail messages relating to the telephone call are attached. There are no other documents, studies, electronic mail messages, or other correspondence for this request.

Spenard, David (KYOAG)

From: Ingram III, Lindsey <L.Ingram@skofirm.com>
Sent: Friday, March 22, 2013 1:47 PM
To: Spenard, David (KYOAG)
Cc: Braun, Monica; Hans, Jennifer (KYOAG)
Subject: RE: Case No. 2012-00520

Ok on adding AG 1-168(c) to the call.

Dial In: 888-761-4448

Passcode: 859-231-3982

Lindsey

From: Spenard, David (KYOAG) [mailto:david.spenard@ag.ky.gov]
Sent: Friday, March 22, 2013 1:43 PM
To: Ingram III, Lindsey
Cc: Braun, Monica; Hans, Jennifer (KYOAG)
Subject: RE: Case No. 2012-00520

Lindsey,

Good afternoon.

Yes; please circulate the dial-in information.

Also, today I received a message regarding OAG 1 – 168(c). I would like to discuss the KAW response to that request as well.

Regards,

David Edward Spenard
Assistant Attorney General

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Under Kentucky Rule of Evidence 503, this communication is confidential. Please do not disclose or forward the message to third persons, persons other than those to whom the initial message is sent. Unless the communication expressly indicates that it is a formal Opinion of the Office of the Attorney General under KRS 15.020, this communication does not constitute a formal Opinion. Any assessment made through this message is applicable only to the corresponding presentation of facts.

From: Ingram III, Lindsey [<mailto:L.Ingram@skofirm.com>]
Sent: Friday, March 22, 2013 11:26 AM
To: Spenard, David (KYOAG)
Cc: Braun, Monica
Subject: RE: Case No. 2012-00520

David:

Monday at 9:45 will work. I am glad to circulate dial-in information if you wish.

Lindsey

From: Spenard, David (KYOAG) [<mailto:david.spenard@ag.ky.gov>]
Sent: Thursday, March 21, 2013 11:57 AM
To: Ingram III, Lindsey
Cc: Braun, Monica
Subject: RE: Case No. 2012-00520

Lindsey,

Thank you.

My consultant indicates that it should be a relatively brief call.

Regards,

David

From: Ingram III, Lindsey [<mailto:L.Ingram@skofirm.com>]
Sent: Thursday, March 21, 2013 11:45 AM
To: Spenard, David (KYOAG)
Cc: Braun, Monica
Subject: RE: Case No. 2012-00520

David:

I will check schedules and let you know asap. Thanks.

Lindsey

From: Spenard, David (KYOAG) [mailto:david.spenard@ag.ky.gov]
Sent: Thursday, March 21, 2013 10:09 AM
To: Ingram III, Lindsey
Cc: Braun, Monica
Subject: RE: Case No. 2012-00520

Lindsey,

Good morning.

One of our consultants has a concern about the net income component of working capital. Basically, we are trying to identify if there is an error in the calculation or, alternatively, a misunderstanding on our part.

Could KAW and counsel be available for a telephone conference call on Monday, March 25th at approximately 9:45 AM (Eastern) (with 2:00 PM that day and 9:45 AM the following day, March 26th as alternates)?

Regards,

David Edward Spenard
Assistant Attorney General

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Under Kentucky Rule of Evidence 503, this communication is confidential. Please do not disclose or forward the message to third persons, persons other than those to whom the initial message is sent. Unless the communication expressly indicates that it is a formal Opinion of the Office of the Attorney General under KRS 15.020, this communication does not constitute a formal Opinion. Any assessment made through this message is applicable only to the corresponding presentation of facts.

From: Ingram III, Lindsey [mailto:L.Ingram@skofirm.com]
Sent: Wednesday, March 20, 2013 8:17 AM
To: Spenard, David (KYOAG); Hans, Jennifer (KYOAG); Napier, Heather (KYOAG); jgraham@lexingtonky.gov; dbarberi@lexingtonky.gov; jwalbourn@lexingtonky.gov; batesandskidmore@gmail.com; Wuetcher, Jerry (PSC)
Cc: Braun, Monica
Subject: Case No. 2012-00520

I just e-filed KAW's non-confidential discovery responses that were due today. Given the bump in the road we encountered with e-filing the last round of discovery responses, I wanted to let everybody know that the uploading process that took place this morning went very smoothly (at least based on what I can see). If anyone has an issue with retrieving the documents from the PSC's site, please let me know and I'll get a CD to you asap.

Lindsey W. Ingram III
Stoll Keenon Ogden PLLC
300 W. Vine St.
Suite 2100
Lexington, KY 40507
859-231-3982 (direct dial)
859-221-0997 (cell)
859-246-3672 (direct fax)
L.ingram@skofirm.com

Kentucky Public Service Commission
Case No. 2012-00520

Attorney General's Response to Commission Staff's Request for Information

17. At page 19 of his direct testimony, Mr. Rackers states: "[T]he amount of working capital requested by KAWC would be immaterial if the Company appropriately eliminated depreciation, amortization, deferred income taxes and net income for the reasons I previously discussed." Calculate Kentucky-American's forecasted cash working capital requirement if the items noted by Mr. Rackers are eliminated. Provide all workpapers, show all calculations, and state all assumptions used in the calculation of cash working capital.

RESPONSE:

See attached exhibit.

See attached Excel file: oag_r_num17.xlsx

Witness: Stephen M. Rackers

Cash Working Capital

DESCRIPTION	Amount	Post Payment or		Dollar Days	
		(Lead)	Days		
Salaries & Wages	\$ 6,880,213	12.00		\$ 82,581,817	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Fuel, Power and Electric	\$ 3,768,282	28.09		\$ 105,856,221	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Chemicals	\$ 1,779,872	31.76		\$ 56,525,356	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Purchased Water	\$ 207,227	48.44		\$ 10,037,082	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Waste Disposal	\$ 336,750	34.18		\$ 11,511,159	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Service Company Charges	\$ 9,324,233	(9.56)		\$ (89,128,481)	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Contracted Services	\$ 858,406	27.56		\$ 23,660,580	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Group Insurance	\$ 1,418,443	(7.40)		\$ (10,492,080)	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Other Benefits	\$ 403,472	27.56		\$ 11,121,048	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Pensions	\$ 983,207	8.48		\$ 8,334,156	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Insurance Other than Group	\$ 670,126	(76.06)		\$ (50,968,194)	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Rents	\$ 37,919	(28.21)		\$ (1,069,864)	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Regulatory Expense	\$ 274,985	32.07		\$ 35,424,086	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Maintenance Service & Supplies	\$ 1,104,638	-		\$ -	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Amortization	\$ 485,811	-		\$ -	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Uncollectibles	\$ 1,075,735	-		\$ -	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Office Supplies & Services	\$ 377,375	12.04		\$ 4,543,068	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Employee Related Exp, Travel & En	\$ 190,707	12.04		\$ 2,295,845	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Other Operating Expenses	\$ 2,423,686	27.56		\$ 66,805,309	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Total O & M Expenses	\$ 33,892,179			\$ 265,960,101	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Depreciation and Amortization	\$ 13,331,863	-		\$ -	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Property Taxes	\$ 4,455,772	189.73		\$ 845,415,465	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Utility Tax	\$ 126,399	(178.27)		\$ (22,532,560)	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Payroll Taxes	\$ 532,600	12.00		\$ 6,381,206	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Income Taxes - Current - SIT	\$ 481,703	52.00		\$ 25,568,537	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Income Taxes - Current - FIT	\$ 3,658,209	36.74		\$ 134,402,603	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Deferred Income Taxes	\$ 3,573,987	-		\$ -	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Interest Expense - Long - Term Del	\$ 12,483,472	90.01		\$ 1,123,672,238	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Interest Expense - Short - Term De	\$ 63,445	15.21		\$ 964,709	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Preferred Dividends	\$ 381,150	47.75		\$ 18,198,913	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Net Income	\$ 20,229,593	-		\$ -	Exhibits\Income Statement.xlsx\Inc Statement - SCH C.1
Net Operating Funds	\$ 93,220,371			\$ -	
Less:					
Net Income	20,229,592.9				
Deferred Income Taxes	\$ 3,573,987				
Depreciation and Amortization	\$ 13,331,863				
Adjusted Operating Funds	\$ 56,084,929			\$ 2,368,042,214	
Average Days Interval between Date Expenses are Incurred and Date of Date Service Furnished and Date Collections Deposited				42.76	
				38.55	
Net Lag				-4.21	
Daily Operating Funds (\$56,084,929 / 365 days)				\$ 153,657.34	
Rate Base				\$ (646,488.25)	
Revenue Requirement @ Woolhidge Pre-tax WACC 9.63%				\$ (62,256.82)	

Kentucky Public Service Commission
Case No. 2012-00520

Attorney General's Response to Commission Staff's Request for Information

18. State whether Mr. Rackers believes that the use of the 1/8 formula approach to calculate Kentucky-American's cash working capital is a reasonable alternative to the use of a cash working capital study. Explain.

RESPONSE:

Mr. Rackers does not believe the 1/8 formula is reasonable. The 1/8 formula assumes a 1.5 month net lag (revenue lag minus expense lag) for all operation and maintenance expense rather than performing an analysis to determine the revenue lag and various expense lags. The 1/8 formula also does not include other cash items such as interest expense and taxes, which are usually reductions to cash working capital. In addition, the 1/8 formula will always produce a positive cash working capital amount, whereas in my experience, if a utility has a reasonable collection lag, a negative cash working capital allowance can be achieved.

Witness: Stephen M. Rackers

Kentucky Public Service Commission
Case No. 2012-00520

Attorney General's Response to Commission Staff's Request for Information

19. In its Response to Item 69(a) of Commission Staff's Second Information Request, Kentucky-American states: "Neither American Water nor Kentucky-American has performed any studies or analysis of the financial effects of the BT program on Kentucky-American." Explain why the Commission should allow recovery of the allocation of the financial and billing software costs to the Kentucky-American in the absence of a benefit analysis.

RESPONSE:

The Commission can allow recovery of allocated BT cost if it can assure itself that BT was necessary and the cost was reasonable. While necessity and reasonableness may have been determined on an AWW system basis, there does not appear to have been any such determination on a Kentucky-American basis. There are no studies to determine if Kentucky-American could have developed or purchased a system on its own that would have met the needs of its customers at a more reasonable cost. Additionally, using and paying only for the BT services it needs is another possibility that may have resulted in a more reasonable cost for Kentucky-American.

Begin confidential: [REDACTED]

[REDACTED] End Confidential The

Commission should only allow recovery of BT costs that KAWC has justified as necessary to provide safe and adequate service.

Witness: Stephen M. Rackers

Kentucky Public Service Commission
Case No. 2012-00520
Attorney General's Response to Commission Staff's Request for Information

20. Refer to Kentucky-American's Response to Commission Staff's Third Information Request, Item 26. State whether the expenditure of \$12 million on the Billing Transformation program is reasonable for a company of Kentucky-American's size. Explain.

RESPONSE:

Without a cost benefit analysis including a determination whether Kentucky-American could have developed or purchased a system on its own that would have met its needs at a lower cost, it cannot be determined whether \$12 million for BT was a reasonable cost for a company of KAWC's size.

Witness: Stephen M. Rackers

Kentucky Public Service Commission
Case No. 2012-00520

Attorney General's Response to Commission Staff's Request for Information

21. Refer to Kentucky-American's Response to the Commission Staff's Third Information Request, Item 27. Kentucky-American states that the Service Company Call Center costs are being directly charged to Kentucky-American based on the formula of call frequency and call duration.
- a. State whether, given that the Service Company uses a formula to calculate the amount of Call Center costs billed to Kentucky-American, the AG considers the costs to be directly charged. Explain
 - b. State whether, if the Call Center costs are considered allocated costs, the change in allocation factors from the proportionate number of customers to the current formula requires the Service Company contract to be amended. Explain

RESPONSE:

- a. Using a volume based formula to determine the proportionate share, such as percent of calls or percent of customers is an allocation rather than a direct charge. A direct charge would be billing for actual cost
- b. Based on the KAW response to PSC 3 – 27 the Call Center costs for call handling are allocated on call volumes and overhead Call Center costs are allocated on customers. To the extent the Service Agreement specifically identifies the allocation methods used, the Service Agreement should reflect the most current method. If the Service Agreement simply states that KAWC will be charged for Call Center costs based on its proportionate share of total Call Center costs, an amendment may not be necessary.

Witness: Stephen M. Rackers

Kentucky Public Service Commission
Case No. 2012-00520

Attorney General's Response to Commission Staff's Request for Information

22. Refer to Kentucky-American's Response to Commission Staff's Third Information Request, Item 24(c). For each statement below, state whether the AG agrees with the statement. Explain:
- a. Kentucky-American is an active participant in the Business Transformation program.
 - b. Kentucky-American's and the ratepayer's interests and concerns have been adequately represented.

RESPONSE:

- a. From the information presented in this case it appears that KAWC employees have some level of participation in assisting with the implementation of the Business Transformation program. The information does not indicate the level of KAWC participation in comparison to other operating companies, or the degree to which KAWC's participation influenced, or sought to influence the direction, or the cost of BT. The participation did not appear to influence the decision to choose a BT style of upgrade using SAP and Accenture. Those decisions were made by American Water Works Company employees and current and former American Water Works Service Company employees.
- b. Without an analysis to determine if BT was the most cost effective alternative the interests and concerns of KAWC and its ratepayers were not and cannot be adequately addressed. In addition the information does not indicate that decisions about BT program scope, direction and cost were made based on individual state, KAWC in particular, interests and concerns. Finally the response to 24 (c) does not show that the

management of KAWC adequately represented its Company specific and ratepayer interests and concerns by demonstrating that BT was the least cost option or was necessary for the provision of safe and adequate service.

Witness: Stephen M. Rackers

Kentucky Public Service Commission
Case No. 2012-00520
Attorney General's Response to Commission Staff's Request for Information

23. State whether the revenues that Kentucky-American no longer receives as a result of its decision to terminate the billing services for LFUCG should be should be recovered through the rates assessed for water service provided to Kentucky-American's customers. Explain.

RESPONSE:

Based on the review of the BT Steering Committee minutes provided by KAWC in response to PSC 3 – 24e, **Begin Confidential:** [REDACTED]

[REDACTED]

[REDACTED] **End**

Confidential. This is a clear indication that BT conversion decisions were being made without regard to the impacts on specific operating companies. This results in a twofold increase in revenue requirement due to the loss of billing contract revenue and an increase in information technology cost from BT. KAWC's management has an obligation to seek out opportunities to use utility employees and assets to generate ancillary revenues in an effort to minimize rates while continuing to provide safe and adequate service. As a result, KAWC customers should receive some compensation for the lost billing revenues through a credit towards the cost of BT.

Witness: Stephen M. Rackers

Kentucky Public Service Commission
Case No. 2012-00520

Attorney General's Response to Commission Staff's Request for Information

24. Refer to Kentucky-American's Response to Commission Staff's Third Information Request, Item 28.
- a. Describe the effect of the lack of board-approved budgets for Kentucky-American and American Water Service Company ("Service Company") on the reliability and accuracy of the forecast financial information.
 - b. The Commission has determined that Kentucky-American's budgeting for revenues and expenses is reasonably accurate based upon an analysis that compares the actual amounts to the budgets for a 5-year historical period. State whether, since the forecast is based upon a budget that has been adjusted, the forecast be considered accurate without the historical comparisons.
 - c. State whether, in the absence of board-approved budgets, Kentucky-American's proposed rate adjustment should be based upon a historical test-period. Explain.

RESPONSE:

- a. If the budget supporting the forecasted financial information does not reflect the final approved and enforced budget, there would be an expectation of low reliability and accuracy for the forecast financial information.
- b. The forecast cannot be assumed to be accurate without historical comparisons. Budgets should be developed based on a review of historic causes and amounts of escalations and declines. If a budget is to be increased over prior historic levels, proper documentation and rationale must be provided to explain the increases. Use of historic information is important (critical) to a properly constructed budget.
- c. Based on KAWC's response to PSC 3-28, the Company has followed the accepted procedure for filing a rate case using forecasted data. To the

extent that adequate explanations exist for variances from actual historic costs to the budgeted amounts, the rate adjustment can still be proposed on a budget basis. However, use of budgeted data must be thoroughly audited to determine all causes for increases and decreases from historic actual costs. If this process is cost prohibitive, use of historic data would be a better solution.

Witness: Stephen M. Rackers

**Kentucky Public Service Commission
Case No. 2012-00520
Attorney General's Response to Commission Staff's Request for Information**

25. Refer to Kentucky-American's Response to Commission Staff's Third Information Request, Item 32. State whether that AG agrees with Kentucky-American that the preferred stock dividend should be included in the interest-synchronization calculation.

RESPONSE:

For the reasons provided in the response to PSC 3 – 32 dividends on preferred stock with mandatory redemption should be reflected in the “interest synchronization” calculation, as should any component of the weighted cost of capital that is tax deductible.

Witness: Stephen M. Rackers

Kentucky Public Service Commission
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Attorney General's Response to Commission Staff's Request for Information

26. State whether the AG agrees that the use of slippage adjustments is appropriate in general adjustment rate proceedings in which a fully forecasted test period is used to account for the effect of capital construction budget variances for the 10 years prior to the forecasted period.

RESPONSE:

Through a 14 December 2010 Order in Case No. 2010-00036, the Commission addresses the application of a slippage adjustment to *increase* revenue requirement and rate base. Per the Order, "Their [slippage factors] purpose is to produce a more accurate, reasonable, and reliable level of forecasted construction."³

KAW has the responsibility to accurately budget and properly implement a capital construction program. When KAW, as found by the Commission in Case No. 92-452, demonstrates "a pervasive pattern of overbudgeting for its construction,"⁴ a slippage adjustment serves to protect ratepayers from paying a return for plant not-in-service during the forecasted period due to delayed investment.⁵ A slippage adjustment consequent to overbudgeting also provides KAW with an incentive to accurately budget and properly implement its capital construction program. The Attorney General does not agree with or support the use of an adjustment consequent to a pattern of

³ Case No. 2010-00036, Order, 14 December 2010, page 7.

⁴ Case No. 2010-00026, Brief of the Attorney General, page 17 citing Case No. 92-452, Order, 19 November 1993, page 10.

⁵ Case No. 92-452, Order, 19 November 1993, page 9; see, for comparison regarding excess capacity, Case No. 8571, Order, 17 February 1983, page 7 ("A utility's rate base should include only those items of plant that are used and useful, *i.e.*, reasonably necessary to provide adequate and efficient service." Citation omitted).

underbudgeting.⁶ It removes an incentive for KAW to accurately budget and properly implement its capital construction program.

⁶ Case No. 2010-00036, Brief of the Attorney General, pages 17 and 18.

Kentucky Public Service Commission
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Attorney General's Response to Commission Staff's Request for Information

27. Refer to Kentucky-American's Response to Commission Staff's Second Information Request, item 41. State whether the AG agrees with the slippage adjustments set forth in that response.

RESPONSE:

The Attorney General is not aware of any inaccuracy in KAW's determination of the slippage factors or KAW's calculation of the effect of the factors to each forecasted element of revenue requirement, rate base, and cost-of-service study.

The Attorney General, however, does not agree with the application of the slippage factors to increase rate base or the revenue requirement as was done in Case No. 2010-00036.

Kentucky Public Service Commission
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Attorney General's Response to Commission Staff's Request for Information

28. Explain why the AG witnesses have not proposed or recommended slippage adjustments.

RESPONSE:

Based on discussions with the Office of the Attorney General and a review of the Order in the last KAWC rate proceeding Case No. 2010-00036, the slippage adjustment was originally used as a way to address construction budgets that exceeded actual plant additions. This mechanism offered ratepayers a level of protection for the potential to overstate construction budgets.

KAWC is in possession of all the information regarding its operations, including the budgeting function and construction program. KAWC also controls the timing and completion of the various construction projects. As a result the risk of including the proper level of forecasted plant should be borne by KAWC.

Therefore, the ratepayer protection of a slippage adjustment should not also serve as a mechanism to increase revenue requirement due to potential under budgeting. The incentive for KAWC to control cost is also diminished, by allowing a slippage adjustment to increase forecasted construction.

In addition, the slippage adjustment was not part of the scope Brubaker and Associates, Inc was engaged to address in this proceeding.

Witness: Stephen M. Rackers

Kentucky Public Service Commission
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Attorney General's Response to Commission Staff's Request for Information

29. In his written brief in Case No. 2012-00096,⁷ the AG stated that the record of that proceeding contained "evidence of indifference, poor management, and the disregard of the rights of consumers persisting over a long period of time." He further stated that Kentucky-American's "next application for a rate adjustment is the proper forum for addressing issues pertaining to prudence."⁸ Identify the issues pertaining to prudence to which the AG was referring and describe the effect of each of these issues on Kentucky-American's proposed revenue requirement.

RESPONSE:

As established in the record in Case No. 2012-00096, Kentucky American Water was aware of the various problems with the Owenton Water Treatment Plan prior to its purchase of certain assets of the City of Owenton's water and wastewater-related facilities.⁹

There is a reasonable time limit for addressing water system supply requirements. To the extent that there have been net increases in materials, labor, and other costs for the project since the identification of the need for addressing the OWTP (and intake facility on Severn Creek), the net increases in costs, after the expiration of that reasonable time limit, should be borne by KAW's shareholders rather than ratepayers. To this end, the Company's proposed revenue requirement could be lessened by the exclusion of cost recovery for the increase in net costs attributable to KAW's lack of a prudent or timely response to changing water system requirements.

⁷ Case No. 2012-00096, *Application of Kentucky-American Water Company for a Certificate of Public Convenience and Necessity Authorizing Construction of the Northern Division Connection* (Ky. PSC May 31, 2012).

⁸ Brief of the Attorney General at 2-3.

⁹ Case No. 2012-00096, Brief of the Attorney General, in particular, pages 4 through 6.

In addition, to the extent that the cost of a supply project for the Northern Division would have been lower if it had been included as part of the KRS II project (through economies that could have been realized through one project as opposed to a piecemeal approach), then such cost saving would also have resulted in a lower revenue requirement.

Kentucky Public Service Commission

Case No. 2012-00520

Attorney General's Response to Commission Staff's Request for Information

30. In its brief in Case No. 2012-00096, LFUCG stated that Central Division customers should not be required to pay for the costs related to the Northern Division Connection Project.
- a. State whether the AG agrees with this position. Explain.
 - b. If the AG agrees that Central Division customers should not be required to pay for the costs related to the Northern Division Connection Project, describe how Kentucky-American should recover the costs of the Northern Division Connection Project.
 - c. Assume that the Commission determined that the costs related to the Northern Division Connection Project should be recovered through a surcharge on Northern Division customers. Describe how such a surcharge should be designed.

RESPONSE:

- a. The burden of proof for the recovery of any cost relating to the Northern Division Connection Project falls upon KAW. In Case No. 2012, the Attorney General agreed that the evidence supported the issuance of a certificate. He did not concede that KAW's investigation of alternatives was sufficient and reasonable or that KAW's actions with regard to the OWTP have been prudent.¹⁰ The Attorney General does not concede or recommend that the Central Division or Northern Division customers be required to pay for the costs related to the Northern Division Connection Project.
- b. There is no presumption that KAW should be allowed any rate recovery for the Northern Division Connection Project. KRS 278.190(3). Unless KAW can adequately demonstrate the reasonableness of its conduct and the

¹⁰ Mr. Stephen M. Rackers, the revenue requirement witness co-sponsored by the Attorney General and the LFUCG did not examine the prudence of KAW's actions with regard to water delivery problems in the Northern Division. Pre-filed Direct Testimony of Stephen M. Rackers, page 26.

reasonableness of the expense, it is not a matter for the ratepayers of either the Central or Northern Divisions.

- c. The Attorney General does not recommend a surcharge. It is the understanding of the Attorney General that KAW no longer keeps separate records for the two Divisions (as KAW did through Case No. 2007-00143). The Attorney General does not have adequate information (and the information may not readily be available) to forward a specific proposal.

Kentucky Public Service Commission
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Attorney General's Response to Commission Staff's Request for Information

31. State whether the AG supports the continued use of uniform rates for Kentucky-American customers, regardless of the division that serves the customer. Explain.

RESPONSE:

Kentucky American Water (KAW) made the request for uniform, single tariff pricing in PSC Case No. 2007-00143.¹¹ In that proceeding, the Attorney General sponsored the pre-filed testimony of Scott J. Rubin.¹² Mr. Rubin's testimony, which speaks for itself, includes the following statement regarding his recommendation for uniform rates, "I consider this [his recommendation] to be a reasonable interim measure on the road to eventually having the entire service area served under a common set of rate schedules."¹³

On 29 November 2007, the Public Service Commission entered an Order approving the Settlement Agreement of the parties in Case No. 2007-00143. All parties, including the Attorney General, agreed and recommended to the Commission, in pertinent part, that, "Kentucky-American should be permitted to implement a single-tariff pricing model that requires the same rates for each customer class regardless of the division in which the customer is located."¹⁴ The Commission found this recommendation reasonable.¹⁵ In the subsequent Kentucky American Water rate

¹¹ See PSC Case No. 2007-00143, Application, Pre-filed Direct Testimony of Michael A. Miller, page 5 through 7.

¹² Mr. Rubin addresses the proposal in his pre-filed Direct Testimony, in particular at pages 9 through 13.

¹³ Rubin, pre-filed Direct Testimony, page 13.

¹⁴ PSC Case No. 2007-00143, Order, 29 November 2007, pages 2 and 3.

¹⁵ PSC Case No. 2007-00143, Order, 29 November 2007, page 4.

adjustment applications (prior to this proceeding), Case No. 2008-00427 and Case No. 2010-00036, the Attorney General did not recommend a movement away from the uniform pricing for the Central and Northern Divisions. In this proceeding, the Attorney General is co-sponsoring the pre-filed testimony of Brian Kalcic. Mr. Kalcic does not recommend any changes to KAW's existing rate structure for general metered service.¹⁶ At present, the Attorney General's position for this application is consistent with the testimony of Mr. Kalcic. While contesting the revenue request, the Attorney General does not recommend any changes to the rate structure.

Going-forward, each rate proposal, including requests regarding uniform rates, will be considered on a proposal-by-proposal basis with regard to economic efficiency, equity, rate continuity, rate understandability, as well as KRS 278.030 and 278.170.

¹⁶ Pre-filed Direct Testimony of Brian Kalcic, pages 8 and 9.