

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2017-00383
JAMES E. BALLINGER AND THOMAS P. DUPREE, JR'S
SECOND REQUEST FOR INFORMATION

Witness: Linda C. Bridwell

1. Please clarify Kentucky-American's response to Intervenors' Item No. 10 to their First Request for Information and state whether Kentucky-American currently has plans to merge in the future the minimum bill and volumetric rates of ERWA customers with service charge (as shown on Page 2 of 2 of Item No. 7 in response to the Commission Staff's First Request for Information) and volumetric rates of Kentucky-American's remaining customer base. As an example, Kentucky-American merged the rates for water service charged to customers of the City of Owenton with the rates charged to other customers several years after Kentucky-American acquired Owenton's system.

Response:

Kentucky American currently plans in its next general rate case filing to ask the Commission to authorize merging Eastern Rockcastle Water Association rates (minimum bill and volumetric rates) with the service charge and volumetric rates of the appropriate service classification for Kentucky American's customers. Other taxes and fees that are applicable to customers in Eastern Rockcastle County would apply.

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2. In the newspaper article dated July 27, 2017, that was produced in response to Item No. 1 of the Intervenor's First Request for Information, County Judge/Executive Doug Bishop is quoted as saying that Kentucky –American “has agreed that rates will not go up and could possibly go down a little.” Please state whether Kentucky-American believes that rates for ERWA customers “could possibly go down” if Kentucky-American were to acquire the system. If so, please explain what factors would result in a reduction in rates to ERWA’s former customers after Kentucky-American’s acquisition of ERWA’s system.

Response:

Please refer to the response to Item 1 of this same request for information. Kentucky American believes that if the ERWA rates are merged with Kentucky American rates in its next general rate case filing, that the average customer in ERWA would have a reduction in his/her bill based on a comparison of the current tariffs authorized of both Kentucky American and ERWA.

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3. Refer to response to Item No. 17 of the Intervenors' First Request for Information and Item No. 13 of the Commission Staff's First Request for Information. Please confirm that the maximum amount of increase to net rate base for the proposed acquisition is the \$700,000 cash purchase price. If Kentucky-American will seek an increase to net rate base in addition to the cash purchase price for amounts listed in the table produced in response to Item 13 of the Commission Staff's First Request for Information, please identify each specific amount.

Response:

The response to Item No. 13 of the Commission Staff's First Request for Information dated November 6, 2017 was incorrect. The cash purchase price is \$770,000 as reflected in the Asset Purchase Agreement. Please refer to the supplemental response to Item 13 of the Commission's First Request of Information.

Kentucky American does not intend to seek an increase to rate base above the cash purchase price.

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4. Refer to response to Item No. 19 of the Intervenors' First Request for Information.
- a. Please identify all land included with the acquisition.
 - b. Explain how the value of the land was determined.
 - c. Please identify when Kentucky American plans on conducting a Phase One environmental assessment for each parcel of land included with the acquisition.

Response:

- a. Kentucky American continues to review the records of Eastern Rockcastle's assets. The land parcels below (described by seller, location, and date of acquisition) are included in the acquisition:
 1. Cromer property (Sand Hill), September 16, 1989
 2. Arnold property (Sand Hill), March 12, 1998
 3. Stanley property (Sand Hill), October 6, 2008
 4. Bullock property (Sand Springs), July 23, 2007
 5. Clark property (Red Hill), August 10, 2007
- b. The source of Eastern Rockcastle's land valuation is the balance sheet from their December 31, 2016 audited financial statements.
- c. Kentucky American plans to conduct a Phase One environmental assessment on the included parcels of land prior to the closing of the acquisition.

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5. ERWA's 2016 Annual Report on file with the Commission indicates that its system has a water loss percentage of 48.89%. Please state whether Kentucky-American has identified any expected service improvements to reduce the water loss percentage within ERWA's system if Kentucky-American acquires the system. If so, please explain what improvements Kentucky-American has identified, the amount of water loss each improvement is expected to reduce, and the costs of each improvement.

Response:

Kentucky American Water is aware there are several meters in the system that are not registering properly or have failed. Our initial plan of action includes changing out all of the meters to ensure accurate tracking of NRW and accurate billing. Once the meters have been changed and KAW is afforded an opportunity to evaluate accurate and complete usage data, acoustic and other appropriate methods of detecting leaks will be employed to help further support the objective of reducing water loss.

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- 6.** If Kentucky-American acquires ERWA's system, state whether it will analyze whether it must obtain a certificate of public convenience and necessity for the construction projects within ERWA's system based on the size of its operations in Rockcastle County or within Kentucky-American's entire utility system spanning approximately eleven counties.

Response:

There are numerous factors that determine whether or not Kentucky American would seek to obtain a certificate of public convenience and necessity for any construction project within any of the areas that it provides water service. If the acquisition is approved, Kentucky American will maintain its consistent and transparent approach to filing an application for a certificate of public convenience and necessity for a construction project when warranted.

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7. In Case No. 2012-00520, Kentucky-American stated that its accounting system did not then provide an accurate and precise allocation of costs between its Northern and Central Division and must be modified to permit the maintenance of separate cost records for the two divisions. Please state whether Kentucky-American's accounting system currently has the ability to track allocation of costs between its current Divisions and the ERWA system.

Response:

If the proposed acquisition is completed, KAW will, for a reasonable period of time, maintain a separate set of records that will allow a tracking of the costs of serving former ERWA customers independent of its current customers.

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- 8.** Other than the consideration that is expressly identified in the Asset Purchase Agreement, has there been any additional consideration provided to ERWA officers, board members, agents, members, or any other person for the proposed acquisition. If yes, please identify all additional consideration that was provided, to whom it was provided, and from whom it came.

Response:

No additional consideration has been provided to ERWA officers, board members, agents, members, or any other person for the proposed acquisition.