

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2018-00042
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

Witness: Linda C. Bridwell

1. Provide Kentucky-American's income statement, balance sheet, and statement of retained earnings for the calendar year ending December 31, 2017.

Response:

Please refer to the attachment. The numbers presented on the attachment are jurisdictional financial results for KAW that have removed a one-time land sale with corresponding tax. This occurred in September 2017.

Supplemental Response filed March 29, 2018:

Attached is the corrected attachment. The numbers presented on the attachment are jurisdictional financial results for KAW that have removed a one-time land sale with corresponding tax. This occurred in September 2017.

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Witness: **Linda C. Bridwell/Scott Rungren**

2. Provide Kentucky-American's Net Investment Rate Base and Capital Structure for 2017. Provide all supporting work papers, assumptions, and calculations.

Response:

Please refer to Attachment 1 for Rate Base and Attachment 2 for the Capital Structure.

Supplemental Response filed March 29, 2018:

Please refer to the corrected Attachment 2 for the Capital Structure. This has removed the impact of the one-time land sale, which occurred in September 2017.

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Witness: **Linda C. Bridwell/Scott Rungren**

3. Using the financial information provided in the responses to Items 1 and 2, calculate:
- a. Kentucky-American's actual Return on Equity (income available to common shareholders divided by common equity) for the calendar year ending December 31, 2017.
 - b. Kentucky-American's average cost of long-term debt for the calendar year ending December 31, 2017.
 - c. Kentucky-American's average cost of short-term debt for the calendar year ending December 31, 2017.
 - d. Provide all supporting work papers, assumptions, and calculations.

Response:

- a. KAW's actual return on average common equity for the year ended December 31, 2017 was 8.884%, calculated as shown below:

Net Income Available to Common Shareholders	\$17,124,240	
Common Equity at 12/31/2016		\$186,819,140
Common Equity at 12/31/2017		\$198,689,748
Average Common Equity	\$192,754,444	
Return on Common Equity	8.884%	

Note: The numbers presented are for jurisdictional financial results for Kentucky American and have removed a one-time land sale that occurred in September of 2017, along with corresponding tax.

- b. KAW's average cost of long-term debt for the calendar year ending December 31, 2017 was 6.02%.
- c. KAW's average cost of short-term debt for the calendar year ending December 31, 2017 was 1.23%.
- d. Please see Attachment 1 for the supporting work paper for Parts b and c.

Supplemental Response dated March 29, 2018:

- a. KAW's actual return on average common equity for the year ended December 31, 2017 was 8.981%, calculated as shown below. This has been corrected from the original response:

Net Income Available to Common Shareholders	\$17,124,240	
Common Equity at 12/31/2016		\$186,819,140
Common Equity at 12/31/2017		\$194,528,461
Average Common Equity	\$190,673,800	
Return on Common Equity	8.981%	

Note: The numbers presented are for jurisdictional financial results for Kentucky American and have removed a one-time land sale that occurred in September of 2017, along with corresponding tax.

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Witness: Linda C. Bridwell/Scott Rungren

4. Using the Capital Structure provided in the response to Item 1 and the return/interest rates calculated in the response to Item 3, fill out the table below:

Component of Capitalization	Per Books 12/31/17	Ratios	Actual Rates	Average Weighted Cost
Short-Term Debt				
Long-Term Debt				
Preferred Stock				
Common Equity				
Total Capitalization	\$ -	0.000%		0.0000%

Response:

Component of Capitalization	Average Net Balance For The Year Ended 12/31/17	Ratio	Cost Rate	Average Weighted Cost
Short-Term Debt	\$17,133,359	4.140%	1.225%	0.050%
Long-Term Debt	201,723,063	48.743%	6.020%	2.930%
Preferred Stock	2,242,500	0.542%	8.520%	0.050%
Common Equity ¹	192,754,444	46.575%	8.907%	4.150%
Total Capitalization	\$413,853,365	100.000%		7.180%

- 1) The common equity balance and cost rate reflect the removal of the gain from the one-time land sale that occurred in September of 2017.

Supplemental Response filed March 29, 2018:

The corrected capital structure for the year ended December 31, 2017 is:

<u>Component of Capitalization</u>	<u>Average Net Balance For The Year Ended 12/31/17</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Average Weighted Cost</u>
Short-Term Debt	\$17,133,359	4.161%	1.225%	0.051%
Long-Term Debt	201,723,063	48.989%	6.020%	2.949%
Preferred Stock	2,242,500	0.545%	8.520%	0.046%
Common Equity ¹	<u>190,673,800</u>	<u>46.305%</u>	8.981%	<u>4.159%</u>
Total Capitalization	<u><u>\$411,772,722</u></u>	<u><u>100.000%</u></u>		<u><u>7.205%</u></u>

- 1) The common equity balance and cost rate reflect the removal of the gain from the one-time land sale that occurred in September of 2017.

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Witness: John R. Wilde

7. Using the table below, calculate the weighted average cost of capital (“WACC”) with a 35 percent FIT rate and WACC with a 21 percent FIT rate.

Component of Capitalization	Average Weighted Cost	Adjusted Weighted Cost of Capital to Reflect 35% Fed. Tax Rate		Adjusted Weighted Cost of Capital to Reflect 21% Fed. Tax Rate	
		Equity Gross-up	Adj. Cost	Equity Gross-up	Adj. Cost
Short-Term Debt			0.00%		0.00%
Long-Term Debt			0.00%		0.00%
Preferred Stock			0.00%		0.00%
Common Equity			0.00%		0.00%
Total Capitalization	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>

Response:

Component of Capitalization	Average Weighted Cost	Adjusted Weighted Cost of Capital to Reflect 35% Fed. Tax Rate		Adjusted Weighted Cost of Capital to Reflect 21% Fed. Tax Rate	
		Equity Gross-Up	Adj. Cost	Equity Gross-Up	Adj. Cost
Short-Term Debt	0.050%	1.00	0.050%	1.00	0.050%
Long-Term Debt	2.930%	1.00	2.930%	1.00	2.930%
Preferred Stock	0.050%	1.00	0.050%	1.00	0.050%
Common Equity	4.150%	1.6527	6.859%	1.3598	5.643%
Total Capitalization	<u>7.180%</u>		<u>9.889%</u>		<u>8.673%</u>

Supplemental Response filed March 29, 2018:

Component of Capitalization	Average Weighted Cost	Adjusted Weighted Cost of Capital to Reflect 35% Fed. Tax Rate		Adjusted Weighted Cost of Capital to Reflect 21% Fed. Tax Rate	
		Equity Gross-Up	Adj. Cost	Equity Gross-Up	Adj. Cost
Short-Term Debt	0.051%	1.00	0.051%	1.00	0.051%
Long-Term Debt	2.949%	1.00	2.949%	1.00	2.949%
Preferred Stock	0.046%	1.00	0.046%	1.00	0.046%
Common Equity	4.159%	1.6527	6.873%	1.3598	5.655%
Total Capitalization	<u>7.205%</u>		<u>9.920%</u>		<u>8.702%</u>