

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2018-00358
COMMISSION STAFF'S FOURTH REQUEST FOR INFORMATION

Witness: Brent E. O'Neill

1. Refer to Kentucky-American's Response to Commission Staff's Third Request for Information (Staff's Third Request), Item 2. Confirm that the ten-year slippage factor of 91.97 percent included both the recurring capital projects A-S expenditures and the budget projects.

Response:

While the term "budget project" was used in response to PSC 3-2, the Company would like to first emphasize that, as explained in PSC 3-1, there is no such thing as a "budget project" or a "CIMC project." There is an overall budget for capital spend, and all projects are approved through the CIMC process with the goal of maintaining the overall budget for capital spend.

Item 2 of the Commission Staff's Third Request for Information is the ten-year slippage factor that was calculated from Staff's Third Request, Item 1. The schedule provided in response to Item 1 included both the recurring capital projects A-S budgeted expenditures and investment projects that were part of Kentucky-American's original Strategic Capital Expenditure Plan (SCEP). The schedule in response to Staff's Third Request, Item 1 removed construction projects that were approved by the Capital Investment Management Committee (CIMC) but had not been planned when the SCEP was developed.

As indicated in response to Staff's Third Request, Item 1, the SCEP is developed to determine and obtain approval for the overall expected capital spend for the Company during a specific year. Throughout the year, the Company manages its capital spend to account for unexpected changes that occur due to outside influences, unexpected failures that affect the infrastructure's ability to serve the customer, or to meet regulatory requirements to ensure that the overall capital spend is maintained. This requires projects that were originally identified within the budget to be changed or delayed to make room for the new, unexpected projects or a change in an existing project so that the overall Company capital spend for the year is maintained as presented in the original SCEP.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2018-00358
COMMISSION STAFF'S FOURTH REQUEST FOR INFORMATION

Witness: Brent E. O'Neill

2. Refer to Kentucky-American's Response to Staff's Third Request, Item 1.
 - a. Confirm that the ten-year average slippage factor for the budget projects for calendar years 2008 through 2017 is 68.19 percent as calculated in the attached Schedule 2.
 - b. If the ten-year average slippage factor for the budget projects is not 68.19 percent, provide a corrected schedule that calculates the ten-year average slippage factor for the budget projects.
 - c. Provide a comparative analysis between Schedule 2 and the corrected schedule provided in Kentucky-American's response to Item 2.b above. Include a detailed explanation for any noted differences.

Response:

a. Although the math in Staff's Schedule 2 is correct, the Company does not confirm that Schedule 2 is an appropriate way to calculate slippage. While the term "budget project" was used in response to PSC 3-1, the Company would like to first emphasize that as explained in in PSC 3-1, there is no such thing as a "budget project" or a "CIMC project." There is an overall budget for capital spend, and all projects are approved through the CIMC process with the goal of maintaining the overall budget for capital spend.

Kentucky-American understands that Schedule 2 of the Staff's Fourth Request was developed by taking only the Investment Project portion of Kentucky-American's Response to Staff's Third Request, Item 1. This portion of Schedule 1 of the response to Staff's Third Request presents a ten-year factor of 68.19%, however it is not an appropriate calculation of slippage because it does not represent the variance in capital spend from the overall budget.

b. As noted above, there is no such thing as a "budget project." Kentucky-American believes that this dissection and exclusion of portions of the capital spend does not allow for a true picture of the management of the overall Company capital spend during each year. Staff's creation of this schedule does not reflect the Company's adjustment of the capital program during the year to account for unexpected changes that occur while operating and maintaining the infrastructure to serve customers. The Company believes that the Schedule 1 in response to Staff's Second Request reflects a more cohesive and accurate view of the overall management of the overall capital spend to achieve the overall capital budget, while removing the effect of the construction of Kentucky River Station II, and is the appropriate calculation of slippage. Please find attached the ten-year slippage factor based on Schedule 1 in response to Staff's Second Request.

c. The attached schedule provides a ten-year average slippage factor of 100.499%. Schedule 1 in response to Staff's Second Request accounts for the portfolio of projects that contributed to the overall capital spend for each year and reflects a more cohesive view of the management the

Company implemented throughout the year to adjust projects that were originally identified within the budget to make room for the new, unexpected projects or a change in an existing project so that the overall Company capital spend for the year is maintained.

Kentucky American Water
Case No. 2018-00358
Construction Projects

PSC Data Request 4
Schedule 2b

Type of Filing: Original Updated Revised
Workpaper Reference No(s): _____

Witness Responsible:
Brent O'Neill

Source: PSC_DR2_Schedule 1

Year	Annual Actual Cost	Annual Original Budget	Variance in Dollars	Variance as Percent	Slippage Factor
2008	13,894,640	17,969,149	(4,074,509)	77.32%	77.325%
2009	12,078,721	17,882,051	(5,803,330)	67.55%	67.547%
2010	14,873,871	17,995,116	(3,121,245)	82.66%	82.655%
2011	21,295,634	22,943,595	(1,647,961)	92.82%	92.817%
2012	22,820,219	24,601,436	(1,781,217)	92.76%	92.760%
2013	28,841,816	24,050,759	4,791,057	119.92%	119.921%
2014	20,277,644	19,534,567	743,077	103.80%	103.804%
2015	34,025,824	27,313,795	6,712,029	124.57%	124.574%
2016	25,425,189	19,030,345	6,394,844	133.60%	133.603%
2017	24,712,152	22,469,450	2,242,703	109.98%	109.981%
Totals	196,619,456.10	213,790,261.75	(17,170,805.65)	91.97%	91.968%

Ten Year Slippage Factor

100.499%

The Annual Actual Cost, Annual Original Budget, Variance in Dollars, and Variance as Percent are to be taken from Schedule 1 for Public Service Commission DR2.

The Slippage Factor is calculated by dividing the Annual Actual Cost by the Annual Original Budget. Calculate a Slippage Factor for each year and the Totals line. Carry Slippage Factor percentages to 3 decimal places.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2018-00358
COMMISSION STAFF'S FOURTH REQUEST FOR INFORMATION

Witness: Brent E. O'Neill

3. Kentucky-American's Response to Staff's Third Request, Item 6 calculates a ten-year slippage factor Capital Investment Management Committee (CIMC) of 97.69 percent.
 - a. Confirm that the ten-year average slippage factor for the CIMC Projects for calendar years 2008 through 2017 is 92.05 percent as calculated in the attached Schedule 3.
 - b. If the ten-year average slippage factor for the CIAC construction projects is not 92.05 percent, provide a schedule that calculates the correct ten-year average slippage factor for the CIAC Projects.
 - c. Provide a comparative analysis between Schedule 3 and the corrected schedule provided in Kentucky-American's response to Item 3.b above. Include a detailed explanation for any noted differences.

Response:

- a. Although the math in Staff's Schedule 3 is correct, the Company does not confirm that Schedule 3 is an appropriate way to calculate slippage. Kentucky-American understands that Schedule 3 of the Staff's Fourth Request was developed by taking only the projects approved through the Capital Investment Management Committee (CIMC) as provided in Kentucky-American's Response to Staff's Third Request, Item 5 through Schedule 5. The ten-year factor based on Schedule 5 for the CIMC Projects is 92.05 percent.
- b. Similar to the response to Staff's Fourth Request, Item 2, Kentucky-American believes that this dissection and exclusion of portions of the budget does not allow for a true picture of the management of the overall Company capital spend during each year. The Company believes that the slippage factor provided in the response to Staff's Fourth Request, Item 2(b) reflects a better representation of the management of the overall capital spend. However, if Staff wishes to continue to exclude and manipulate the overall budget, Kentucky-American would propose the revised Schedule 3 for the CIMC Projects.
- c. The revised Schedule 3b that is attached utilizes Schedule 5 as provided in response to Staff's Third Request Item 5. The revision removes the Kentucky River Station II project from years 2012, 2013 and 2014 similar to the response to Schedule 1 in response to Staff's Second Request, Item 1. In addition, the Company removed several projects from the year 2017 on Schedule 5 of Staff's Third Request that were multi-year projects and were only partially through the approved spend as authorized through the CIMC. Kentucky-American does not believe these projects should be included in a project slippage calculation since they are ongoing projects and the

actual spend provided was not the representative of a completed project. Through these adjustments, the ten-year factor is 97.94 percent.

Kentucky American Water
Case No. 2018-00358

Type of Filing: Original Updated Revised
Workpaper Reference No(s): _____

PSC Data Request 4
Schedule 3b

Witness Responsible:
Brent O'Neill

Source: PSC_DR3_Schedule 5 Minus KRS2 and Multi Year Projects in 2017

Year	Actual Project Cost	Cost Approved by CIMC	Variance in Dollars	Variance as Percent	Slippage Factor
2008	\$ 17,985,587	\$ 17,024,299	\$ 961,288	5.65%	105.647%
2009	\$ 6,646,971	\$ 6,255,918	\$ 391,053	6.25%	106.251%
2010	\$ 10,704,036	\$ 10,937,360	\$ (233,324)	-2.13%	97.867%
2011	\$ 7,986,287	\$ 9,324,971	\$ (1,338,684)	-14.36%	85.644%
2012	\$ 16,084,718	\$ 15,104,722	\$ 979,996	6.49%	106.488%
2013	\$ 20,526,040	\$ 21,687,648	\$ (1,161,608)	-5.36%	94.644%
2014	\$ 6,036,531	\$ 6,148,338	\$ (111,807)	-1.82%	98.182%
2015	\$ 25,257,409	\$ 26,246,569	\$ (989,159)	-3.77%	96.231%
2016	\$ 17,434,019	\$ 20,422,643	\$ (2,988,624)	-14.63%	85.366%
2017	\$ 7,899,859	\$ 7,660,785	\$ 239,074	3.12%	103.121%
Totals	\$ 136,561,458	\$ 140,813,253	\$ (4,251,795)	-3.02%	96.981%

10-Year Average Slippage

97.944%

The Annual Actual Cost, Annual Original Budget, Variance in Dollars, and Variance as Percent are to be taken from Schedule 5 for Public Service Commission DR3.

The Slippage Factor is calculated by dividing the Annual Actual Cost by the Annual Original Budget. Calculate a Slippage Factor for each year and the Totals line. Carry Slippage Factor percentages to 3 decimal places.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2018-00358
COMMISSION STAFF'S FOURTH REQUEST FOR INFORMATION

Witness: Brent E. O'Neill

4. Refer to Kentucky-American's Response to Staff's Third Request, Item 6 and to the response to Item 2 above.
 - a. Confirm that the ten-year average slippage factor for the combined Budget Projects and the CIMC Projects for calendar years 2008 through 2017 is 81.45 percent as calculated in the attached Schedule 4.
 - b. If the ten-year average slippage factor for the combined Budget Projects and the CIMC Projects is not 81.45 percent, provide a schedule that calculates the correct ten-year average slippage factor.
 - c. Provide a comparative analysis between Schedule 4 and the corrected schedule provided in Kentucky-American's response to Item 4.b above. Include a detailed explanation for any noted differences.

Response:

- a. Although the math in Staff's Schedule 4 is correct, the Company does not confirm that Schedule 4 is an appropriate way to calculate slippage. Upon review, it appears that Schedule 4 of Staff's Fourth Request was developed by combining Schedule 2 and Schedule 3 of Staff's Fourth Request. The ten-year factor based on Schedule 4 is 81.45 percent.
- b. As mentioned in response to Staff's Fourth Request, Item 2, Kentucky-American believes that Schedule 1 in response to Staff's Second Request reflects a more cohesive and accurate view of the overall management of the overall capital spend and further reflects the total capital spent by the Company during the period excluding the effect of the construction of Kentucky River Station II. Please see the attachment in response to Staff's Fourth Request, Item 2(b).
- c. Please see the attached which indicates a total capital spend of \$217.9 million during the period of 2008 to 2017 by the Company with both Recurring Projects and Investment Projects while the Schedule 4 of Staff's Fourth Request indicates an overall capital spend of \$707.2 million of only Investment Projects. The Company contends that \$217.9 million is more indicative of the investment level the Company has undertaken during this period and represents a better example of the management of overall capital spend. By parsing out and combining projects from different schedules and data responses, the adjustments and management of the overall capital spend over this period is lost. In addition, it exaggerates the investment level the Company undertook during this period. The reason for the exaggeration is the loss in the manipulated schedules that the Company delays or alters yearly spending on planned projects to make room for new projects to

address unexpected changes that occur while operating and maintaining the infrastructure to serve customers. The Company makes the changes in planned projects to ensure that it maintains the overall capital spend budgeted for that particular year. The attached provides a more comprehensive account for this management of the overall spending while Staff's Schedule 4 is akin to the Company just adding projects and making adjustments to manage the overall capital spend and ensure that the investments are prudent.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2018-00358
COMMISSION STAFF'S FOURTH REQUEST FOR INFORMATION**

Witness: Brent E. O'Neill

5.
 - a. Provide a revised response to Item 3 of the Commission Staff's Second Request for Information using the ten-year average slippage factor calculated of 81.45 percent for all monthly forecasted budget projects expenditures beginning September 1, 2018, through the end of the forecasted period, June 30, 2020.
 - b. Provide copies of all workpapers, state all assumptions, and show all calculations used to determine the effect of the slippage factors to each forecasted element of revenue requirement, rate base, and cost-of-service study.

Response:

See below and the attached Excel files. The workpapers and calculations in Excel format have also been provided on a USB flash drive so that all links will be intact. These files are updates from the files provided in the response to Item 1 of the Commission Staff's first request for information. Please see summary below.

	Original Filing	PSC 2-3 PSC Slippage	PSC 4-5 PSC Slippage
Rate Base	\$441,122,362	\$441,111,572	\$439,040,641
Rate of Return	8.25%	8.26%	8.27%
Return	36,392,595	36,435,816	36,308,661
Utility Operating Income	21,650,009	21,591,811	21,579,995
Deficiency Pre Gross Up	14,742,586	14,844,005	14,728,666
Gross Up	1.347457	1.347457	1.347457
Revenue Increase	\$19,865,003	\$20,001,661	\$19,846,246
AFUDC	\$554,026	\$551,340	\$509,843
Property Taxes	7,032,232	7,039,679	7,028,853
Depreciation & Cost of Removal	18,316,098	18,383,403	18,333,502
Income Tax	7,545,222	7,559,697	7,552,400

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2018-00358
COMMISSION STAFF'S FOURTH REQUEST FOR INFORMATION**

Witness: Brent E. O'Neill

- 6.** Provide copies of all schedules, supporting calculations, and documentation requested in Items 2(b), 3(b), 4(b), and 5 above in Excel spreadsheet format, with formulas intact and unprotected, and all rows and columns fully accessible.

Response:

Please see the files included with the responses to those questions.