

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00027
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: Kurt Stafford

1. Refer to Chambers Workpaper Spreadsheet, Tab labeled "Placed in Service."
 - a. Identify any contingency costs Kentucky-American included in its QIP projections by category.
 - b. Provide the methodology Kentucky-American used to calculate any contingency included that it included in its QIP projections.
 - c. Provide a detailed explanation as to why Kentucky-American should be allowed to recover through the QIP any projected contingency.

Response:

- a. No contingencies were included in the QIP projections.
- b. Please refer to the Kentucky American response to item 1a.
- c. Please refer to the Kentucky American response to item 1a.

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2. Provide a comparison of methods that were used by Kentucky-American in budgeting in the application to the methods that were used in Case No. 2018-00358 for each QIP category listed below. For each different method, provide a detailed explanation for any differences in the methods used by Kentucky-American.

B - mains replaced
C - mains unscheduled
D - mains relocated
F - valves, hydrants and MHs replaced
H - services and laterals replaced
J - meters replaced
L - SCADA
M - security
Q - plant equipment

Response:

The methodology for budgeting these nine Reoccurring Project or RP budget lines is consistent between the General Rate Case (Case No. 2018-00358) and what was described in the Qualified Infrastructure Program or QIP Application (Case No. 2020-00027). Please see KAW_R_PSCDR2_NUM002_041320_Attachment (Excel file) for further information concerning budgeting methods for each budget line.

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Witness: Kurt Stafford

3. Refer to Kentucky-American's Response to Commission Staff's First Request for Information (Staff's First Request), Item 1. For each calendar year from 2015 to 2019, provide a comparison of budgeted main relocations to actual main relocations. For differences exceeding 5 percent, provide a detailed explanation of the cause of the difference.

Response:

Please see attached spreadsheet KAW_R_PSC2_NUM3,5,6,7,8,9,12_041320 for comparisons and comments on Budget Line D spend between 2015 and 2019.

It is important to note that the Company's yearly capital budget has been managed to ensure the total budget is achieved. This method has been successful as described in Mr. Brent O'Neill's Direct Testimony in Case No. 2018-00358 (Page 9, Table starting at Line 8). Between 2012 and 2017, the total annual capital budget was managed to within 1.43% of its cumulative total. This means that the budget is managed in total to ensure safe, adequate and reliable water service for Kentucky American Water's customers.

As described in my Direct Testimony in this case (Page 6 starting Line 5), the Company employs a robust and thorough capital budget monitoring program which is in place to ensure capital spend is evaluated on a monthly basis and maintains conformity to the overall budget while balancing the various capital needs and emerging projects and initiatives. Dollars are reallocated each month, as needed, to ensure the overall success of the program. Therefore, it is difficult to look at any one budget line in isolation. This structured program has allowed the Company to completed numerous capital projects while maintaining fiscal responsibility. The Qualified Infrastructure Program or QIP will also receive the same high level of scrutiny and fiscal responsibility.

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Witness: Kurt Stafford

4. Refer to Kentucky-American's Response to Staff's First Request, Item 2. Refer to the attachment outlining Kentucky-American's Strategic Capital Expenditure Plans for years 2015–2019.
- a. Provide a reconciliation for the Row Labels in the table below to the QIP categories listed in Item 1 above.

<u>Row Labels</u>
CAPDV
CAPIP
CAPRPA
CAPRPB
CAPRPC
CAPRPD
CAPRPE
CAPRPF
CAPRPG
CAPRPH
CAPRPI
CAPRPJ
CAPRPK
CAPRPL
CAPRPM
CAPRPN
CAPRPO
CAPRPP
CAPRPQ
CAPRPS

- b. Provide an explanation of the impact the QIP will have on Kentucky- American's current and future Strategic Capital Expenditure Plans.
- c. Provide an explanation of the impact the QIP will have on projected outside and inside capital financing needs in the future.
- d. Provide a detailed explanation as to why Kentucky-American does not have a strategic plan that would include the QIP period from July 1, 2020, through June 30, 2021.

- e. Provide a comparison of methods that were used by Kentucky-American in budgeting in the application to the methods that were used in developing its strategic plans for each QIP category listed in Item 2 above. For each different method, provide a detailed explanation for any differences in the methods used by Kentucky-American.

Response:

- a. Please see the table below for reconciliation of the row labels to QIP categories.

QIP Budget Lines

Row Labels	RP Budget Line	Description
CAPDV		ADVANCES, REFUNDS AND CONTRIBUTIONS
CAPIP		INVESTMENT PROJECTS OR IPs
CAPRPA	A	MAINS - NEW
CAPRPB	B	MAINS - REPLACED/RESTORED
CAPRPC	C	MAINS - UNSCHEDULED
CAPRPD	D	MAINS - RELOCATED
CAPRPE	E	HYDRANTS, VALVES, AND MANHOLES - NEW
CAPRPF	F	HYDRANTS, VALVES, AND MANHOLES - REPLACED
CAPRPG	G	SERVICES AND LATERALS - NEW
CAPRPH	H	SERVICES AND LATERALS - REPLACED
CAPRPI	I	METERS - NEW
CAPRPJ	J	METERS - REPLACED
CAPRPK	K	ITS EQUIPMENT AND SYSTEMS
CAPRPL	L	SCADA EQUIPMENT AND SYSTEMS
CAPRPM	M	SECURITY EQUIPMENT AND SYSTEMS
CAPRPN	N	OFFICES AND OPERATIONS CENTERS
CAPRPO	O	VEHICLES
CAPRPP	P	TOOLS AND EQUIPMENT
CAPRPQ	Q	PROCESS PLANT FACILITIES AND EQUIPMENT
CAPRPS	S	ENGINEERING STUDIES

- b. As described in Mr. Brent O'Neill's Direct Testimony in Case No. 2018-00358, the Company plans to invest \$4M to \$6.9M annually over the next 25 years to accelerate the replacement of cast iron and galvanized water mains while also investing \$1M to \$4M annually to address aging distribution and water treatment infrastructure (Page 36, Lines 3-7). An example of a how Strategic Capital Expenditures Plan or SCEP could look like with QIP included was provided as a response to AG 1-59 in Case No. 2018-00358 (copy attached).
- c. The impact to capital financing needs will be minimal. Any timing differences between capital spend and recovery through the QIP will be funded through short-term debt.

- d. At the time of submission for Case No. 2018-00358, it was not known for certain that QIP would straddle two calendar years. The Company's standard budget cycle runs from Jan 1st to December 31st. Having said that, Exhibit 1 to Kurt Stafford's Direct Testimony in this case is, in fact, a strategic plan for QIP.

- e. In the response to part (a) above, each QIP category is matched to its appropriate row label. Please see the Company's response to PSC 2-2. The budgeting methodology for each QIP category is explained within that response.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2018-00358
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Brent E. O'Neill

- 59.** Provide all projects that KAWC will include in its proposed QIP over the next 5 years. Include the cost of each project and the purpose of each project, i.e., pipe replacement, pumping station replacement, treatment plant replacement, etc.

Response:

Please see attached.

QIP STRATEGIC CAPITAL EXPENDITURE PLAN - 5 YEAR PROGRAM UPDATED

Business Unit Kentucky
 Description KY QIP BP 2020-2024 SCEP
 First Year of Plan 2020*

*2020 QIP Spending occurs following Future Test Year ending June 2020

Business Unit	Project ID	Project Title	Project Purpose	5-Year Total	Anticipated In Service Date	2020*	2021	2022	2023	2024
						Total	Total	Total 2022	Total 2023	Total 2024
RECURRING PROJECTS										
Kentucky	B	Mains - Replaced / Restored	Main Replacements other than Cast Iron/ Galvanized Main	8,750,000		750,000	2,000,000	2,000,000	2,000,000	2,000,000
Kentucky	B2	QIP - Mains - Replaced / Restored	Replacement of Cast Iron/ Galvanized Main	46,250,000		2,250,000	8,000,000	12,000,000	12,000,000	12,000,000
Kentucky	C	Mains - Unscheduled	Main Replacements	4,050,000		450,000	900,000	900,000	900,000	900,000
Kentucky	D	Mains - Relocated	Main Replacement caused by relocations	1,825,025		200,025	387,500	387,500	400,000	450,000
Kentucky	F	Hydrants, Valves, and Manholes - Replaced	Hydrant, Valves Replacement	2,272,320		249,480	501,960	504,960	507,960	507,960
Kentucky	H	Services and Laterals - Replaced	Service Line Replacements	2,396,250		266,250	532,500	532,500	532,500	532,500
Kentucky	J	Meters - Replaced	Meter Replacements	5,008,475		571,350	1,220,475	1,010,150	1,106,500	1,100,000
Kentucky	L	SCADA Equipment and Systems	Control System Replacements/ Redundancies	1,746,500		166,500	320,000	360,000	450,000	450,000
Kentucky	M	Security Equipment and Systems	Security System Redundancies/ Replacements	607,000		65,000	167,000	125,000	125,000	125,000
Kentucky	Q	Process Plant Facilities and Equipment	Water Treatment Equipment Replacements	3,375,000		375,000	750,000	750,000	750,000	750,000
Total Recuring Projects						5,343,605	14,779,435	18,570,110	18,771,960	18,815,460
INVESTMENT PROJECTS										
Kentucky	I12-020080	KRS1 Pump 10 and 11 Replacements	High Service Pump Replacement	2,250,270	9/30/2021	-	2,250,270	-	-	-
Kentucky	I12-020081	KRS1 Pump 14 Replacement	High Service Pump Replacement	1,500,000	6/30/2022	-	-	1,500,000	-	-
Kentucky	I12-020095	Mercer Road Booster Station	Pump Station Replacement	1,000,000	5/30/2021	-	1,000,000	-	-	-
Kentucky	I12-020096	Mt Horeb Booster Station	Pump Station Replacement	750,000	5/30/2023	-	-	-	750,000	-
Kentucky	I12-020097	Hall Booster Station	Pump Station Replacement	750,000	5/30/2022	-	-	750,000	-	-
Total Investment Projects						-	3,250,270	2,250,000	750,000	-
TOTAL QIP INVESTMENT						5,343,605	18,029,705	20,820,110	19,521,960	18,815,460

Cost of Removal						Total 2020	Total 2021	Total 2022	Total 2023	Total 2024	Total
Kentucky	B	Mains - Replaced / Restored				300,000	600,000	769,995	769,995	769,995	3,209,985
Kentucky	C	Mains - Unscheduled				99,000	198,000	198,000	198,000	198,000	891,000
Kentucky	D	Mains - Relocated				20,003	38,750	38,750	40,000	40,000	177,503
Kentucky	F	Hydrants, Valves, and Manholes - Replaced				77,339	155,608	156,538	157,468	157,468	704,419
Kentucky	H	Services and Laterals - Replaced				82,538	165,075	165,075	165,075	165,075	742,838
Kentucky	J	Meters - Replaced				74,276	158,662	131,320	143,845	143,845	651,947

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Witness: Kurt Stafford

5. Refer to Kentucky-American's Response to Staff's First Request, Item 3.
- a. For each month of the QIP, identify the main replacements projects that will be placed into service.
 - b. For each calendar year from 2015 to 2019, provide a comparison of budgeted main replacements to actual main replacements. For differences exceeding 5 percent, provide a detailed explanation of the cause of the difference.
 - c. For each calendar year from 2015 to 2019, provide the number of replacements budgeted in that year compared to the number actually completed.
 - d. For each calendar year from 2015 to 2019, provide the number and cost of main replacements for which Kentucky-American received reimbursement.

Response:

- a. In the QIP Application, in-service was assumed to be two months after the spend occurred. Here are the estimated in-service dates for the seven identified Budget Line B projects:
 - a. Versailles Road Phase I – December 2020
 - b. Versailles Road Phase II – March 2021
 - c. State Street Phase I – March 2021
 - d. State Street Phase II – June 2021
 - e. Winchester Road – June 2021
 - f. Castlewood Phase I – March 2021
 - g. Castlewood Phase II – June 2021
- b. Please see attached spreadsheet KAW_R_PSC2_NUM3,5,6,7,8,9,12_041320 for comparisons and comments on Budget Line B spend between 2015 and 2019.

It is important to note that the Company's yearly capital budget has been managed to ensure the total budget is achieved. This method has been successful as described in Mr. Brent O'Neill's Direct Testimony in Case No. 2018-00358 (Page 9, Table starting at Line 8). Between 2012 and 2017, the total annual capital budget was managed to within 1.43% of its cumulative total. This means that the budget is managed in total to ensure safe, adequate and reliable water service for Kentucky American's customers.

As described in my Direct Testimony in this case (Page 6 starting Line 5), the Company employs a robust and thorough capital budget monitoring program which is in place to ensure capital spend is evaluated on a monthly basis and maintains conformity to the overall budget while balancing the various capital needs and emerging projects and initiatives. Dollars are reallocated each month, as needed, to ensure the overall success of the program. Therefore, it is difficult to look at any one budget line in isolation. This structured program has allowed the Company to completed numerous capital projects while maintaining fiscal responsibility. The Qualified Infrastructure Program or QIP will also receive the same high level of scrutiny and fiscal responsibility.

- c. The size and quantity of Budget Line B Projects are not consistent from year-to-year. Many are planned and some emerge throughout the year in response to a variety of needs. Historically, the Company has not tracked main replacement projects in a way that allows for an accurate response as to how many projects were planned in any given year, but ten per year would be a reasonable estimate. However, main replacement projects are planned and budgeted using per foot price estimates and those amounts are provided in the Excel file referenced in part (b) above. Going forward, the Company will track the number of main replacement projects that are planned and budgeted. Budget Line B QIP projects are identified Exhibit 1 to Mr. Stafford's Direct Testimony in this matter and will be tracked with this level of granularity.
- d. Between 2015 and 2019 there have been no Budget Line B Projects for which the Company has received reimbursement.

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Witness: Kurt Stafford

6. Refer to Kentucky-American's Response to Staff's First Request, Item 4.
- a. Provide a revised copy of the spreadsheet attachment labeled KAW_R_PSCDR1_NUM004_03252020_ replacing estimated/budgeted totals with actual 2019 totals.
 - b. For each calendar year from 2015 to 2019, provide a comparison of budgeted unscheduled main replacements to actual unscheduled main replacements. For differences exceeding 5 percent, provide a detailed explanation of the cause of the difference.

Response:

- a. See KAW_R_PSCDR2_NUM006_041320_Attachment. All cells with planned 2019 spend were updated with 2019 actuals. These cells are highlighted orange.
- b. Please see attached spreadsheet KAW_R_PSC2_NUM3,5,6,7,8,9,12_041320 for comparisons and comments on Budget Line C spend between 2015 and 2019.

It is important to note that the Company's yearly capital budget has been managed to ensure the total budget is achieved. This method has been successful as described in Mr. Brent O'Neill's Direct Testimony in Case No. 2018-00358 (Page 9, Table starting at Line 8). Between 2012 and 2017, the total annual capital budget was managed to within 1.43% of its cumulative total. This means that the budget is managed in total to ensure safe, adequate and reliable water service for Kentucky American's customers.

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Witness: Kurt Stafford

7. Refer to Kentucky-American's Response to Staff's First Request, Item 5. For each calendar year from 2015 to 2019, provide a comparison of budgeted valve, hydrants, and manhole replacements to actual valve, hydrant, and manhole replacements. For differences exceeding 5 percent, provide a detailed explanation of the cause of the difference.

Response:

Please see attached spreadsheet KAW_R_PSC2_NUM3,5,6,7,8,9,12_041320 for comparisons and comments on Budget Line F spend between 2015 and 2019.

It is important to note that the Company's yearly capital budget has been managed to ensure the total budget is achieved. This method has been successful as described in Mr. Brent O'Neill's Direct Testimony in Case No. 2018-00358 (Page 9, Table starting at Line 8). Between 2012 and 2017, the total annual capital budget was managed to within 1.43% of its cumulative total. This means that the budget is managed in total to ensure safe, adequate and reliable water service for Kentucky American's customers.

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Witness: Kurt Stafford

- 8.** Refer to Kentucky-American's Response to Staff's First Request, Item 6.
- a. For each calendar year from 2015 to 2019, provide a comparison of budgeted service and lateral replacements to actual service and lateral replacements. For differences exceeding 5 percent, provide a detailed explanation of the cause of the difference.
 - b. For each calendar year from 2015 to 2019, provide a comparison of budgeted meter replacements to actual meter replacements. For differences exceeding 5 percent, provide a detailed explanation of the cause of the difference.
 - c. For each calendar year from 2015 to 2019, provide a comparison of budgeted SCADA installation and replacements to actual SCADA installation and replacements. For differences exceeding 5 percent, provide a detailed explanation of the cause of the difference.

Response:

Please see attached spreadsheet KAW_R_PSC2_NUM3,5,6,7,8,9,12_041320 for comparisons and comments on Budget Lines H, J and L spend between 2015 and 2019.

It is important to note that the Company's yearly capital budget has been managed to ensure the total budget is achieved. This method has been successful as described in Mr. Brent O'Neill's Direct Testimony in Case No. 2018-00358 (Page 9, Table starting at Line 8). Between 2012 and 2017, the total annual capital budget was managed to within 1.43% of its cumulative total. This means that the budget is managed in total to ensure safe, adequate and reliable water service for Kentucky American's customers.

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COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: Kurt Stafford

9. Refer to Kentucky-American's Response to Staff's First Request, Item 8. For each calendar year from 2015 to 2019, provide a comparison of budgeted security installation, improvement, and replacements to actual security installation, improvement, and replacements. For differences exceeding 5 percent, provide a detailed explanation of the cause of the difference.

Response:

Please see attached spreadsheet KAW_R_PSC2_NUM3,5,6,7,8,9,12_041320 for comparisons and comments on Budget Line M spend between 2015 and 2019.

It is important to note that the Company's yearly capital budget has been managed to ensure the total budget is achieved. This method has been successful as described in Mr. Brent O'Neill's Direct Testimony in Case No. 2018-00358 (Page 9, Table starting at Line 8). Between 2012 and 2017, the total annual capital budget was managed to within 1.43% of its cumulative total. This means that the budget is managed in total to ensure safe, adequate and reliable water service for Kentucky American's customers.

As described in my Direct Testimony in this case (Page 6 starting Line 5), the Company employs a robust and thorough capital budget monitoring program which is in place to ensure capital spend is evaluated on a monthly basis and maintains conformity to the overall budget while balancing the various capital needs and emerging projects and initiatives. Dollars are reallocated each month, as needed, to ensure the overall success of the program. Therefore, it is difficult to look at any one budget line in isolation. This structured program has allowed the Company to completed numerous capital projects while maintaining fiscal responsibility. The Qualified Infrastructure Program or QIP will also receive the same high level of scrutiny and fiscal responsibility.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00027
COMMISSION STAFF’S SECOND REQUEST FOR INFORMATION**

Witness: Elaine Chambers

- 10.** Refer to Kentucky-American’s Response to Staff’s First Request, Item 11(b).
- a. Verify that the cost of retirements is included in the cost of removal. If not, provide an explanation of what is included in each.
 - b. Provide a breakdown of the costs included in the cost of retirement as well as a breakdown of the costs included in the cost of removal.

Response:

- a. As stated in the response to Staff’s First Request, Item 11 (b), the cost of retirements and the cost of removal are two separate items included in accumulated depreciation. Assets that are disposed, abandoned, replaced, destroyed or no longer function as intended are retired and removed from Utility Plant in Service. The original cost of the utility plant asset is recorded as accumulated depreciation upon retirement. (Credit - Utility Plant in Service, Debit – Accumulated Depreciation Reserve).

The removal costs are the costs associated with the removal, dismantlement or demolition of the existing property unit. The costs include labor, contracted services, paving, materials and supplies, etc. The costs are recorded as Retirement Work in Progress (RWIP) and reclassified to the regulatory liability account upon the completion of the removal work. The liability account is included in accumulated depreciation reserve. (Credit - RWIP, Debit – Reg Liab Cost of Removal).

- b. The retirement costs are provided in the “Retirement Ratio” tab of the Excel file that was filed with the Application on March 2, 2020 named KAW_DT_EKC_WP_030220. The historical cost of removal is shown below.

Project	Additions				Project	Cost of Removal				Average COR %
	2017	2018	2019	3 Year Avg		2017	2018	2019	3 Year Avg	
B	2,870,322	5,487,601	4,076,356	4,144,760	B	276,674	389,329	410,481	358,828	8.66%
C	902,290	968,920	1,169,586	1,013,599	C	98,151	149,466	426,524	224,714	22.17%
D	1,181,907	278,719	2,348,440	1,269,689	D	84,272	49,552	378,944	170,923	13.46%
F	912,313	309,870	472,011	564,731	F	33,524	111,161	116,292	86,992	15.40%
H	797,016	457,833	444,334	566,394	H	91,795	162,522	209,871	154,729	27.32%
J	1,800,116	4,045,211	2,898,695	2,914,674	J	78,484	470,416	433,354	327,418	11.23%
Q	2,324,007	1,422,077	2,071,316	1,939,133	Q	778,378	397,252	235,059	470,229	24.25%
IP	10,580,326	7,747,655	21,288,387	13,205,456	IP	(15,452)	1,838,972	4,349,601	2,057,707	15.58%

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Witness: Elaine Chambers

- 11.** Refer to Kentucky-American's Response to Staff's First Request, Item 12(a). Provide explanation for why Kentucky-American included QIP costs for July 1, 2020, to December 1, 2020, instead of a full year in Case No. 2018-00358.

Response:

When Case No. 2018-00358 was submitted, capital expenditure information was shown by calendar year which is the typical planning cycle for Kentucky American Water and the Company was unsure what time period would be used for QIP. Thus, Kentucky American only used QIP costs for July 1, 2020 to December 1, 2020, instead of a full year. When the Order was issued approving QIP, it followed a July 1st to June 30th cycle. See Exhibit 1 to Kurt Stafford's Direct Testimony in this case for the strategic plan for the full QIP period now in place.

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CASE NO. 2020-00027
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: Kurt Stafford

- 12.** Refer to the Direct Testimony of Kurt A. Stafford, pages 14–15. For each calendar year from 2015 to 2019, provide a comparison of budgeted plant equipment purchase or replacements to actual plant equipment purchase or replacements. For differences exceeding 5 percent, provide a detailed explanation of the cause of the difference.

Response:

Please see attached spreadsheet KAW_R_PSC2_NUM3,5,6,7,8,9,12_041320 for comparisons and comments on Budget Line Q spend between 2015 and 2019.

It is important to note that the Company's yearly capital budget has been managed to ensure the total budget is achieved. This method has been successful as described in Mr. Brent O'Neill's Direct Testimony in Case No. 2018-00358 (Page 9, Table starting at Line 8). Between 2012 and 2017, the total annual capital budget was managed to within 1.43% of its cumulative total. This means that the budget is managed in total to ensure safe, adequate and reliable water service for Kentucky American's customers.

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