**KENTUCKY-AMERICAN WATER COMPANY**
**CASE NO. 2020-00257**
**ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**

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**Witness: Elaine Chambers**

**1.** Specifically identify the costs the company incurs when reconnecting a customer.

**Response:**

There are labor costs, miscellaneous and general office, transportation costs, customer service center costs, and Field Resource Coordination Center ("FRCC") costs. Below is the cost per order authorized in 2012-00520 by the Commission. A reconnect involves 2 trips to the property, for a total of $56 ($28 * 2).

| | | **# Field Service (FS) Orders Worked** |
|---|---|---|
| | | 127,733 |

| **Cost Category** | **Amount** | **Average Cost Per FS Order** |
|---|---|---|
| Labor and related overheads | $1,916,797 | $15.01 |
| Misc and general office expense | 142,988 | 1.12 |
| Transportation expense | 221,681 | 1.74 |
| Customer Service Center costs | 1,031,820 | 8.08 |
| Field Resource Coordination Center | 300,000 | 2.35 |
| Total | **$3,613,286** | **$28.29** |

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**Witness: Elaine Chambers**

**2.** Specifically identify and describe the methodology for calculating foregone late charges as provided in KAW_N_ATT_102820.xls.

**Response:**

The lost revenue associated with the foregone late charges is calculated based on the Company's late fee policy as it would have been applied to past due invoices during the moratorium period.

The Company identifies those customers who have not remitted payment for their current invoice within 5 days of the due date. The late payment is then calculated pursuant to the Company's approved tariff sheet (First Sheet 44) for late fees as quoted below:

"Kentucky American Water Company shall charge a 5% late fee on all charges that are paid after the due date on the bill. The late payment fee is 5% calculated upon all amounts owed with the exception of any amounts Kentucky-American Water Company collects pursuant to a third-party billing services contract, or on previously assessed late payment fees or other penalty charges. The late payment charge will only be assessed once on any bill for rendered services. Customers who receive a pledge for or notice of low-income water assistance from an authorized agency will not be assessed or required to pay a late payment charge for the bill for which the pledge or notice is received."

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**Witness: Elaine Chambers**

**3.** Provide a copy of the late fee policy referenced in KAW_N_ATT_102820.xls.

**Response:**

Please reference KAW_R_AGDR1_NUM002 that details the Company's late fee policy and explains that it is at Sheet 42 of KAW's approved tariff on file with the Commission.

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**Witness: Elaine Chambers**

**4.** Explain why KAW should be compensated for foregone late charges accrued related to the COVID-19 related orders.

**Response:**

Please refer to KAW_R_AGDR1_NUM005 for additional discussion regarding foregone late charges.

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**Witness: Elaine Chambers**

**5.** Identify any authority, which supports KAW being compensated for foregone late charges.

**Response:**

Authority specific to KAW is captured within the Company's approved Tariff, which provides for a 5% late fee on all charges that are paid after the due date on the bill. The actions of the Commission in instituting a moratorium on the collection of late fees during the COVID-19 pandemic eliminates the opportunity for KAW to utilize its approved Tariff to collect these fees. Without the ability to collect these fees, KAW is not provided a proper opportunity to earn its allowed rate of return.

Finally, please reference the response to KAW_R_AGDR1_NUM007 for support for other American Water jurisdictions whereby foregone late charges are authorized for deferral during the pandemic.

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**Witness: Elaine Chambers**

**6.** Reference the KAW application, numerical paragraph 10, wherein KAW states that: "The COVID-19 emergency and its economic effects are undoubtedly extraordinary and could not have been reasonably anticipated, and the expenses will only increase as the emergency continues."

a. Confirm that the COVID-19 crisis was just as unforeseeable to ratepayers as it was to shareholders.

b. If so confirmed, explain why shareholders should not share in the risks of unrecovered late payment fees, instead of placing the full risk on ratepayers.

**Response:**

a. The Company agrees that the COVID-19 health emergency was equally unforeseeable by all parties.

b. Were it not for the emergency and the imposed or agreed to shut off moratoria, customers would have been charged appropriate late fees and/or reconnect fees, The fact that those moratoria are in place does not change the fact that these fees are a proper element for the collection of the approved revenue requirement. In this instance, it is reasonable to conclude that if regulators ordered the temporary suspension of tariff approved rates and activities (e.g., suspended late fees) that result in incremental costs or lost revenues for utilities that utilities should be entitled to request deferred accounting approval consistent with the Commission's prior orders.

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**Witness: Elaine Chambers**

**7.** Discuss whether other jurisdictions have established regulatory asset mechanisms that compensate utilities for late fees foregone during the COVID-19 pandemic. Specifically identify jurisdictions that have approved such proposals and those that have denied proposals, which include that relief.

**Response:**

Below, please find the jurisdictions applicable to other American Water entities that have allowed regulatory asset deferral to compensate utilities for late fees foregone during the COVID-19 pandemic due to actions by the Commissions or State Governors to implement moratoriums on disconnections for non-payment and the charging of tariff-approved fees.

- Indiana (IURC Cause No. 45380, Order June 29, 2020).
- Iowa (IUB ARU-2020-0123, Order May 1, 2020; ARU-2020-0123, Order August 6, 2020)
- Maryland (MPSC Case No. 9639, Order No. 89542 April 9, 2020)
- California (CPUC Resolution M-4842, Order April 16, 2020)
- New Jersey (NJBPU Docket No. AO20060471, Order July 2, 2020)
- Virginia (SCC Case No. PUR-2020-00074, Order April 29, 2020)
- West Virginia (PSC GO 262.4, Order May 15, 2020)
- Hawaii (HPUC Order No. 37125, Order May 4, 2020)
- Missouri (MO PSA File No. WU-2020-0417, October 7, 2020)
- Illinois (ICC 20-0309, Order June 18, 2020)

To date, American Water has not been denied such a proposal in any of its jurisdictions.

**Witness: Elaine Chambers**

**8.** Explain whether the company would agree to limit any potential recovery of late fees to the amount of late fees the company received in calendar year 2019. If not, explain in complete detail why not.

**Response:**

March 16, 2020 the Commission ordered (Case No. 2020-00085) that utilities suspend assessment of late fees, "for at least the next 30 days, and until further notice". On September 21, 2020 the Commission further order the suspension of late fees through December 31, 2020.

As a result, during the moratorium period March through October, the Company has forgone $732,652 in late payment fees. With the continued suspension of late fee assessments, Kentucky-American expects the amount of forgone late fees will continue to rise through December 31, 2020 based on accounts past due as of the time of this response.

In 2019 the Company assessed $742,874 in late fees over a 12-month period. Based on the current level of forgone fees for the March to October 2020 period of $732,652, the Company fully expects to exceed the 2019 level of late fees assessed. Therefore, the Company does not believe 2019 provides a comparable period of the level of fees waived.

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**Witness: Elaine Chambers**

**9.** Discuss whether the late charges identified in KAW_N_ATT_102820.xls relate to any delinquent balances that pre-existed the COVID-19 pandemic or whether these amounts relate only to balances accrued once the pandemic commenced.

**Response:**

Kentucky-American calculates late fees on the current bill past due. In docket #2020-00085, the Commission's March 16th order waived all late payment charges from being assessed. The late fees identified in KAW_N_ATT_102820.xls relate to all late fees waived since the Commission's order(s) in docket #2020-00085. This would include any current bill amounts that became past due on and after March 16, 2020.

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**Witness: Elaine Chambers**

**10.** Specifically identify and provide a detailed description of all operating expenses categorized in KAW_N_ATT_102820.xls as:

a. Facility Preparedness
b. Communications
c. PPE and Supplies
d. Temporary Housing
e. Bottled Water
f. Signage
g. Rental Equipment
h. Remote-Enabled Work

**Response:**

a. Facility Preparedness - Expenses associated in preparing and maintaining sanitary and social distance space including room dividing materials, sneeze guards or other plexiglass material, cleaning fees or other expenses related to keeping our facilities safe.
b. Communications - Expenses associated to communicating with our customers on COVID related content including customer and employee safety, social distancing, and new payment locations.
c. PPE and Supplies - Reusable face coverings with and without company logos in various styles, disposable surgical grade masks, disposable N95 and K95 masks, half face masks and cartridges, mask extenders, hand sanitizer, spray bottles for hand sanitizer liquid, nitrile gloves, sanitizing wipes, no-touch digital thermometers, reusable thermometer strips kits with logo cases and additional stock of reusable thermometer strips.
d. Temporary Housing - Expenses associated to creating and maintain temporary housing for essential production workers.
e. Bottled Water - Expenses associated to purchasing emergency bottled water in case of an unplanned water outage.
f. Signage - Expenses associated to design, creating, and installing new COVID signage and visual aids across our company owned facilities including signage in and around our customer lobby.
g. Rental Equipment - Expenses associated to any special equipment or vehicle rental because of COVID.
h. Remote-Enabled Work - Expenses associated to enabling employees to remote work from home during the pandemic.

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**Witness: Elaine Chambers**

**11.** Specifically identify and provide a detailed description of all service company related operating expenses categorized in KAW_N_ATT_102820.xls as:

a. PPE and Supplies
b. Communications
c. Facility Preparedness
d. WFH Stipend

**Response:**

a. The PPE and supplies included in the Service Company related operating expenses categorized in KAW_N_ATT_102820.xls are as follows: Reusable face coverings, disposable surgical grade masks, disposable N95 and K95 masks, half face masks and cartridges, mask extenders, hand sanitizer, spray bottles for hand sanitizer liquid, nitrile gloves, sanitizing wipes, no-touch digital thermometers, reusable thermometer strips kits with cases and additional stock of reusable thermometer strips.
b. The Communications expense is related to customer email campaigns, which provided our customers with educational information regarding COVID and drinking water and wastewater.
c. Facility preparedness includes expense for instructional COVID related signage for employees who work from American Waters Corporate Headquarters.
d. Under Illinois law, (820 ILCS 115/9.5), " An employer shall reimburse an employee for all necessary expenditures or losses incurred by the employee within the employee's scope of employment and directly related to services performed for the employer".

Employees working remotely under American Water's current business directive, and who have a regularly assigned reporting location in Illinois, receives a temporary 50 monthly stipend to cover reasonable expenses related to working remotely. These Service Company employees located in Illinois, support KAW in the following areas: call handling, billing, collections, field resource coordination, and water quality. The WFH Stipend in KAW_N_ATT_102820.xls represents KAW's allocated portion of this expense.

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**Witness: Elaine Chambers**

**12.** Based on KAW_N_ATT_102820.xls, it appears that the service company spent $417,116.00 in July and August on PPE and supplies. Between March and July, it spent a total of $267,299.00 in this category. Specifically identify the PPE and supplies which caused the increased costs in that category.

**Response:**

The increase in the PPE and supplies category for the period of July and August based on KAW_N_ATT_102820.xls is primarily attributed to the purchase of N95 masks.

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**Witness: Elaine Chambers**

**13.** Discuss why uncollectible expenses should not be reviewed in the company's next base rate case as opposed to being established as a regulatory asset.

**Response:**

On March 16, 2020, the Commission ordered (Case No. 2020-00085) that utilities suspend disconnection due to non-payment, "for at least the next 30 days, and until further notice". On September 21, 2020, the Commission lifted the moratorium on utility disconnects for nonpayment beginning October 20,2020 at the same time requiring all customers with a past due balance of greater than 25 dollars, beyond 31 days be placed on an installment plan. During this moratorium period Kentucky American has seen its uncollectible expense increase beyond is the amount authorized in base rates. KAW's authorized level of uncollectible expense for March through September is $499,212, while actual uncollectible expense was $672,763 for the same period. This results in incremental expense of $173,551 beyond is the amount being recovered in base rates. During the moratorium period, as Ordered by the Commission, KYAW suspended all collection activities that are in place to collect past due account balances which attributed to the increase in incremental uncollectible expense. Therefore, KAW seeks approval for the deferral of the increased uncollectible expense amounts in this proceeding which would then be considered for rate case treatment or recovery through a rider mechanism.

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**Witness: Elaine Chambers**

**14.** Identify the terms and conditions of the loan(s) referenced in KAW_N_ATT_102820.xls.

**Response:**

American Water Capital Corporation entered into a $750 million 364-day term loan credit facility and immediately executed a $500 million draw to ensure adequate liquidity for its regulated operating utilities by retaining that amount in cash. The term loan facility allowed for a single additional borrowing of up to $250 million, which expired unused on June 19, 2020. There are no prepayment penalties associated with this loan and the loan terminates on March 19, 2021. The term loan was executed at favorable rates at LIBOR plus a margin of 0.80% or approximately 1.75% for the first six months of the loan and currently carries a rate of approximately 0.94% which reflect very favorable interest rates.

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**Witness: Elaine Chambers**

**15.** Identify the charges that required the company to finance $19,634,954.00 as referenced in KAW_N_ATT_102820.xls.

**Response:**

As a result of the COVID-19 pandemic, the financial and capital markets, especially with respect to the market for corporate commercial paper, experienced volatility and shortages of liquidity beginning in March of 2020. The shortages in the commercial paper market significantly impacted access to adequate liquidity for investment grade commercial paper issuers including American Water.

American Water Capital Corporation entered into a $750 million 364-day term loan credit facility and immediately executed a $500 million draw to ensure adequate liquidity for its regulated operating utilities by retaining that amount in cash. Kentucky American received $19,634,954 of that loan amount.

Please KAW_R_AGDR1_NUM016 for additional details regarding the term loan.

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**Witness: Elaine Chambers**

**16.** Discuss whether the company investigated alternative sources of financing, such as commercial paper, inter-company borrowing, and / or short term-term debt, and whether those were available to meet the company's financing needs. Discuss the findings of any such investigation and compare those the terms and conditions of those options to the terms and conditions of the loan identified in KAW_N_ATT_102820.xls.

a. Provide the interest rate of the loan identified in KAW_N_ATT_102820.xls, and provide also the interest rate applicable to all other alternative sources of financing the company investigated.

**Response:**

The term loan was entered into at the time to enhance existing liquidity in the event other sources of financing, particularly commercial paper, were not available at reasonable rates or in sufficient quantity. The term loan carried an interest rate of LIBOR plus 80 basis points or approximately 1.75% for the first six months of the loan and currently carries a rate of approximately 0.94% which reflect very favorable interest rates.

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**Witness: Elaine Chambers**

**17.** Generally describe the impact to ratepayers and the impact to shareholders if the request for regulatory asset treatment were to be denied.

**Response:**

If denied, all incurred costs and lost revenues resulting from the emergency would be borne by shareholders.

Sound and accepted utility ratemaking should not be deterred by unsettling economic circumstances because KAWC's obligation to provide essential safe, adequate, and reliable service at reasonable rates is not suspended during such times. Such stability fosters desirable predictability by ratemaking that normalizes revenues and expenses and allows utilities to continue investing and maintaining the system in a manner that serves the long-term best interest of customers. KAWC's need to recover its operating expenses and attract capital does not disappear during difficult economic straits. If the Commission were to deny the Company's request for deferred accounting treatment, it may send a negative signal to investors that have historically provided capital to Kentucky utilities with the result that capital will become more expensive and potentially not available in difficult economic conditions. Such unpredictability of revenues would seriously handicap management's financial and construction planning and would not serve the long-term best interest of customers.

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**Witness: Elaine Chambers**

**18.** Discuss the impacts to the company, if the company is not allowed to establish a regulatory asset to account for the effects of the COVID-19 emergency.

**Response:**

Please see the response to KAW_R_AGDR1_NUM017.

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**Witness: Elaine Chambers**

**19.** Discuss whether the company's parent company and/or sister companies have experienced differential treatment regarding disconnections and suspension of late fees in the alternative jurisdictions those companies serve. If such a differential treatment exists, discuss whether the allocation of charges amongst the network of companies accounts for those differences in any way.

**Response:**

American Water has experienced differential treatment regarding the resumption of disconnections and application of late fees across its jurisdictions, as evidenced from the table below, as of October 31, 2020.

| State Jurisdiction | Late Fees – Resumption Date | Disconnections – Resumption Date |
|---|---|---|
| California | TBD | TBD |
| Hawaii | TBD | TBD |
| Illinois | September 1, 2020 | September 15, 2020 |
| Indiana | November 1, 2020 | November 9, 2020 |
| Iowa | November 1, 2020 | November 17, 2020 |
| Kentucky | December 31, 2020 | TBD |
| Maryland | TBD | December 21, 2020 |
| Missouri | September 1, 2020 | September 15, 2020 |
| New Jersey – Non-Residential | November 1, 2020 | November 17, 2020 |
| New Jersey - Residential | TBD | April 14, 2021 |
| New York | December 1, 2020 | December 29, 2020 |
| Pennsylvania | TBD | TBD |
| Tennessee | October 1, 2020 | October 13, 2020 |
| Virginia | December 1, 2020 | December 29, 2020 |
| West Virginia | September 1, 2020 | November 18, 2020 |

The allocation of Service Company charges is unchanged while experiencing this differential treatment.

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**Witness: Elaine Chambers**

**20.** Refer to page 3, paragraph 8 of the company's application. Are each of the primary categories of COVID-19 related financial impacts identified in the company's application, continuing? If so, discuss how long the company expects each one to continue.

**Response:**

In its October 28, 2020 filing the Company identified the financial impacts associated with reconnection fees, forgone late payment fees, incremental operating expenses, uncollectible expense, and term loan interest. The amounts provided in that filing for each category were as of September 30, 2020 and the Company expects the financial impacts associated with forgone late payment fees, incremental operating expenses, uncollectible expense, and term loan interest will continue for the duration of the public health emergency. The Company believes that the full scope of incremental COVID-19 costs cannot be known with complete certainty at this time and will continue to update its deferral as more data and information becomes available.

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**Witness: Elaine Chambers**

**21.** Discuss measures the company has taken during the COVID-19 emergency to control cost. Ensure to include in your response, at a minimum, the following:

a. Explain whether the company has instituted a freeze on salary and benefit increases. If not, why not?
b. Has the company reduced capital expenditures? If not: (i) why not?; and (ii) would the company be willing to reduce or defer capital expenditures? Explain in complete detail.
c. Is the company continuing to pay dividends to American Water Works at the same rate it did at this time last year? If so, explain why.
d. Has the company reduced employee overtime? If not, why not?
e. Has the company reduced charitable contributions and sponsorships? If not, why not?
f. Has the company investigated tax deferral strategies? If not, why not?

**Response:**

a. The Company has not instituted a freeze on salary and benefit increases. The Company committed to no wage freezes or changes in employee compensation, and employee furloughs or reductions to employee headcount at the outset of the health emergency so that we could ensure there was no interruption in the provision of service.

b. No. The Company has not modified its capital investment program as a result of the COVID-19 pandemic. As an essential business, KAW continues to make improvements to its infrastructure to support its continued provision of safe and reliable water service. COVID-19 safety precautions have been implemented by KAW on all construction projects, including social distancing and the wearing of face coverings for both KAW personnel and contractor personnel.

c. Yes. The Company continues to make quarterly dividend payments. Continuation of Kentucky American's dividend practice is important to continue to demonstrate the financial health of the Company. Kentucky American is committed to providing safe and reliable water service, which requires substantial capital investment to maintain and upgrade its facilities. To fund these investments, the Company must be able to continue to attract capital at reasonable rates, and a key component of this capital attraction is the financial health of the Company as demonstrated by its dividend. Absent a consistent dividend, the Company's cost of capital would increase, thus continuation of the Company's dividend is ultimately in the best interest of our customers.

d. No. The Company has not implemented any policies to reduce employee overtime related to COVID-19. The Company continues to provide a high level of service and employee overtime is necessary to ensure the continuation of safe and reliable water and wastewater service for the benefit of all our customers.

e. No. The Company does not believe withdrawing such support in the middle of the COVID 19 emergency is in the best interest of the communities we serve. Such contributions include our support of the H2O Help to Others program which provides financial assistance to low income customers for help in paying utility bills. Furthermore, these contributions and sponsorships are not included in our cost of service.

f. Yes. The Company has reviewed The Federal Coronavirus Aid, Relief and Economic Security (CARES) Act that provides companies with a taxable net operating loss in 2018-2020, the ability to carry that loss backward to prior tax years. The CARES Act also provides for an acceleration of the refund of any AMT credits related to the repeal of the corporate AMT in the Tax Cut and Jobs Act signed in 2017. The Company and the consolidated filing group through which it files for and remits federal taxes did not generate losses in the applicable years and therefore were not eligible for the relief. The Company has not identified any additional deferral of tax (or tax savings) available.

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**Witness: Elaine Chambers**

**22.** Identify all loans, grants, assistance or benefits of any type or source the company has received in connection with COVID-19, that would offset any COVID-19-related expenses.

**Response:**

The Company has not received any grants or assistance in connection with COVID-19 that would offset COVID-19 related expenses. As noted in KAW_R_AGDR1_NUM014 the Company secured a term-loan in March 2020 to ensure liquidity, but this loan did not offset incremental expenses. The Company has identified travel/conference savings of $137,127, as provided in the supplemental filing. There are no other offsets that have been identified.