

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00257
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

Witness: Elaine Chambers

1. Refer to the Application, paragraphs 8–9, and the Supplement to the Application, pages 2–3, and Attachment 1.
 - a. Provide a detailed explanation of Kentucky-American's need for \$19,634,954 in incremental borrowing.
 - b. Provide Kentucky-American's monthly cash reserve ending balance from December 2019 to October 2020.
 - c. Provide the maturity date and interest rate of the \$19,634,954 term loan.

Response:

- a. 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 2020. The shortages in the commercial paper market significantly restricted access to adequate liquidity for investment grade commercial paper issuers including American Water.

On March 20, 2020, American Water Capital Corporation ("AWCC") 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 was allocated \$19,634,954 of that loan amount.

- b. Kentucky American generally does not maintain material levels of cash reserves. However, in response to the impacts of COVID-19 on the capital markets, AWCC entered into the term loan discussed in 1a above in order to enhance existing liquidity for its regulated operating utilities in the event that other sources of financing, particularly commercial paper, were not available at reasonable rates or in sufficient quantity. AWCC has retained the \$500,000,000 of term loan proceeds in cash. Kentucky-American has been allocated and has retained its share of the cash in the amount of \$19,634,954 as an intercompany receivable effective April 1, 2020.
- c. There are no prepayment penalties associated with this loan and the loan terminates on March 19, 2021. 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.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00257
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

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2. Provide the journal entries that Kentucky-American proposes to effectuate the establishment of the requested regulatory asset.

Response:

Attached please find a summary of the deferral journal entries. The Company seeks Commission approval of these entries.

Attachment - KAW_R_PSCDR1_NUM002_111220_Attachment

Kentucky American Water
CASE NO. 2020-00257
Journal Entry to Establish Regulatory Asset
KAW_R_PSCDR1_NUM_002_111220

Description	Amount	Deferred From GL Account #	Deferred From GL Account Name	Deferred To GL Account #	Deferred To GL Account Name
Reconnection Fees	\$616	40310700	OthRev-Reconnct Fee	18680228	RA - Pandemic Costs
Foregone Late Payment Fees	628,277	40310100	OthRev-Late Pymt Fee	18680228	RA - Pandemic Costs
Costs					
Incremental Operating Expenses	220,044	52500000	Misc Expense (O&M)	18680228	RA - Pandemic Costs
Uncollectible Expense	173,551	57010000	Uncoll Accts Exp	18680228	RA - Pandemic Costs
Term Loan Interest Expense	170,529	81500000	Interest Other	18680228	RA - Pandemic Costs
Direct Offsets					
Travel/Conference Savings	(137,127)	52534200	Conferences & Reg	25636000	RL - Pandemic Costs
Total	<u>\$1,055,890</u>				

Regulatory Asset and Liability Journal Entries Summary¹

Description	GL Account #	96 NARUC Account	Debit	Credit
RA - Pandemic Costs	18680228	186.1	\$1,193,017	
RL - Pandemic Costs	25636000	253.1		137,127
OthRev-Reconnct Fee	40310700	471.		616
OthRev-Late Pymt Fee	40310100	470.		628,277
Uncoll Accts Exp	57010000	670.7		173,551
Interest Other	81500000	427.5		170,529
Misc Expense AG	52501600	675.8		220,044
Conferences & Reg	52534200	675.8	137,127	
			<u>\$1,330,144</u>	<u>\$1,330,144</u>

¹Monthly deferral entries establishing the regulatory asset will be on-going in similar fashion based on the impact and duration of the public health emergency

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00257
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

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3. Refer to the Supplement to the Application, page 3. Kentucky-American asks that the Commission rule on its request by December 18, 2020, so that it may reflect the related adjustments on its books for calendar year 2020. Provide the date by which Kentucky-American will close its books for 2020, and if that date is in early 2021, explain why Kentucky-American requests a ruling prior to that date.

Response:

The year-end close schedule has not been finalized; although American Water and subsidiaries typically close the books in five business days and therefore the expectation is that the books will close by January 8th, 2020. KAW has identified \$1,055,890 in financial impacts related to COVID through September 30th, 2020 and anticipates the number will continue to grow. KAW is requesting a ruling by December 18, 2020 in order to properly record the financial impacts of the COVID related deferral.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00257
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

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4. Refer to the Supplement to the Application, Attachment, Tab “Foregone Late Payment Fees” and Case No. 2018-00358,¹ Application, Exhibit 37, page 2, line 17. Confirm that the late payment revenues used to offset base rates were \$784,484.

Response:

Yes. The company confirms the late payment revenues included in base rates (Case No. 2018-00358) is \$784,484.

¹ Case No. 2018-00358, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates* (Ky. PSC June 27, 2019).

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00257
COMMISSION STAFF’S FIRST REQUEST FOR INFORMATION

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5. Refer to the Supplement to the Application, Attachment, Tab “Foregone Late Payment Fees.”
- a. Provide the late payment fees assessed and collected monthly from July 2019, through February 2020.
 - b. Confirm that the \$682,277 in foregone late payment fees is calculated as 5.00 percent of new past due amounts. If this cannot be confirmed, explain how the foregone late payment fees are calculated.

Response:

- a. Please see Table 1 for late payment fees assessed from July 2019 through February 2020. Please see Table 2 for late payment fees collected from July 2019 through February 2020.

Table 1

	2019						2020	
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Late Fees Assessed	\$56,811	\$63,377	\$69,940	\$74,936	\$68,389	\$71,893	\$77,782	\$57,077

Table 2

	2019						2020	
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Late Fees Collected	\$58,318	\$64,251	\$71,459	\$75,889	\$69,452	\$73,318	\$78,784	\$59,346

- b. 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.”

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00257
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

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6. Refer to the Supplement to the Application, Attachment, Tab "Incremental Operating Expense."

a. For each category listed in the table below, provide an itemized schedule listing each item included in the category that is \$500 or greater.

(1)	Facility Preparedness	70,464
(2)	Communications	60,652
(3)	PPE and Supplies	20,646
(4)	Temporary Housing	19,254
(5)	Signage	6,924
(6)	PPE and Supplies	649,444
(7)	Communications	46,715
(8)	Facility Preparedness	29,428
(9)	WFH Stipend	58,150

b. Provide a detailed explanation for the need for the temporary housing of \$19,254.

c. Explain why the facility preparedness expenditures are not considered capital costs that would be depreciated rather than expensed.

d. Provide a definition for the category titled "WFH Stipend."

Response:

a. Please refer to KAW_R_PSCDR1_NUM006 Attachment which provides the itemized expense for each category listed. Please note that (3) was PPE and Supplies was understated by 543.79 and (5) Signage was overstated by 543.79 in the original filing. The net impact is zero to the incremental expenses.

b. At the beginning of the COVID pandemic the company secured campers to use as temporary housing at all production sites in the event essential workers needed a place to live because it was unsafe to go home.

c. Most of these costs are for additional facility cleanings across our service territory including production facilities and operating centers.

d. WFH Stipend is defined as employees working remotely ("work from home") under American Water's current business directive. Service company employees regularly assigned a 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.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00257
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

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7. Refer to the Supplement to the Application, Attachment, Tabs "Incremental Operating Expense" and "Term Loan Interest Expense." Kentucky-American uses a Service Company allocation factor of 4.12 percent for Incremental Operating Expense but a 3.93 percent allocation factor for Term Loan Interest Expense. Provide a detailed explanation for the different Service Company allocation factors.

Response:

The Service Co allocation is based on KAW's active water and wastewater customer counts as of December 31, 2019 of 134,929 adjusted for dual customers (those customers who receive both water and wastewater service (785) for a total count of 134,144. The 134,144 customers equate to 4.12% of American Waters total customer count of 3,255,077, which is also adjusted for dual customers. This allocation factor is consistent with the billing of Service Company charges and is updated on an annual basis.

The 3.93% allocation factor associated with the Term Loan Interest Expense is based on KAWs total customer count as of March 13, 2020 of 135,321 as a percentage of American Water's total customer count of 3,445,921 as of the same date.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00257
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- 8.** Refer to the Supplement to the Application, Attachment, Tab “Uncollectible Expense,” and Case No. 2020-00085, Kentucky-American’s response to Commission Staff’s First Request for Information, Item 7(a), and the September 21, 2020 Order.
- a. Explain whether Kentucky-American recorded uncollectible accounts expense for amounts written off after 90 days which are now subject to a default payment plan. If so, explain whether and how Kentucky-American will reverse any expenses for subsequent payments.
 - b. Confirm that uncollectible accounts expense recorded in March 2020 through May 2020 relates to service rendered before the current state of emergency. If this cannot be confirmed, explain.

Response:

- a. Uncollectible expense is recorded for 100% of those customer balances that are aged beyond 150 days. The expense would include those customers currently subject to a default payment plan whose balances are greater than 150 days old. If a customer makes a payment against their balance, the payment is reflected as an offset to expense in the subsequent months’ uncollectible expense.
- b. Uncollectible account expense recorded in March 2020 through May 2020 would include balances for services prior to the current state of emergency, if those balances were greater than 150 days old.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00257
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

Witness: Elaine Chambers

9. Refer to the Supplement to the Application, Attachment, Tab "Term Loan Interest Expense."
- a. Provide the calculation(s) of the monthly carrying costs for the \$500,000,000 term loan.
 - b. Provide a schedule listing the amounts by month of the term loan proceeds that were used by Kentucky-American. For each month, provide a detailed explanation as to how Kentucky-American used the loan proceeds.
 - c. If Kentucky-American did not use the term loan obtained by American Water Capital Corporation, explain why it is allocated a portion of the carrying cost.

Response:

- a. Please see KAW_R_PSCDR1_NUM009 Attachment 1 for the calculation of the monthly carrying costs for the \$500,000,000 term loan.
- b. Kentucky American has retained its allocated share of the term loan proceeds in the amount of \$19,634,954, therefore does not have a detailed schedule of the proceeds that were used.
- c. American Water Capital Corporation retained the \$500,000,000 term loan proceeds in cash to ensure adequate liquidity for its regulated operating utilities including Kentucky-American in the event other sources of financing, particularly commercial paper, were not available at reasonable rates or in sufficient quantity.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00257
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- 10.** Refer to the Supplement to the Application, Attachment, Tab "Travel_Conference Savings," and Case No. 2018-00358, Application, Exhibit 13, page 6, line P29.
- a. For the months of March 2020 through June 2020, explain why Kentucky-American is proposing to use travel expense from 2019 to calculate savings as opposed to a comparison of the expenses included in its base rates.
 - b. Provide a revised projection using the base rates expense amounts for March 2020 through June 2020.

Response:

- a. 2019 is most the recent year of incurred travel and conference expense that is representative of the costs expected to be incurred during 2020. These amounts are unadjusted for employee and service levels in those years.
- b. Please refer to the attachment file KAW_R_PSCDR1_NUM010_111220 for the revised projection versus authorized.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00257
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

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- 11.** Provide monthly revenues and accounts receivable by customer class for February 2019 through September 2020.

Response:

Attached, please find the monthly revenues and accounts receivable balances by customer class for February 2019 through September 2020.

Attachment file - KAW_R_PSCDR1_NUM011_111220_Attachment