

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2021-00434
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Tricia Sinopole

1. Refer to the Application generally. Provide a succinct list that identifies all proposed pro forma adjustments, the amount of each pro forma adjustment, along with a brief description of each adjustment.

Response:

Please refer to the documents filed with the Application named 4. KAWC Case No. 2021-00434 Schedule of Adjusted Operations and 4. KAWC Case No. 2021-00434 Schedule Operations and Maintenance Expenses. These schedules list each adjustment, as well as a brief description of each adjustment.

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2. Refer to the Application generally. Provide a list of all entities that direct charge or allocate costs to the Kentucky-American wastewater operations and include a description of each entity. Additionally, include the total monetary amount that each entity direct charged and/or allocated to the wastewater operations in the test year.

Response:

American Water Works Service Company (AWWSC) directly charges and/or allocates costs to the Company at an overall total KAW level which are not specifically split into Water and/or Wastewater Operations. The Support Services amount of \$10,573 related to Wastewater Operations in this case is 0.11% of the total Company Support Services RYE Pro Forma Expenses 12 months ended 6/30/2020 as per KAW's last water rate case (Case No. 2018-00358). The 0.11% allocation to Wastewater Operations comes from the Customer Count used in that last water rate case. Please see KAW_R_AGDR1_NUM002_012422_Attachment 1 for further detail.

For a description of AWWSC, the services it provides, and how costs are charged or allocated to KAW, please see KAW_R_AGDR1_NUM002_012422_Attachment 2 which is the AWWSC Cost Allocation Manual. It is confidential and is being provided with a Petition for Confidential Protection.

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3. Refer to the Application generally. Explain in detail whether Kentucky-American provides any assistance program(s) for customers experiencing difficulty paying their wastewater bills.

Response:

KAW participates in the Low-Income Home Water Assistance Program (LIHWAP) program for both its sewer and water customers. Likewise, KAW makes installment plans and budget billing available to its sewer and water customers. KAW also offers to its water customers the ability to seek assistance from KAW's shareholder funded H2O Help to Others Program which is administered by Dollar Energy. At this time, that program is not available to sewer customers, but KAW is working to change that in order to make the program available to sewer customers as well.

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4. Refer to the Customer Notice, pages 1 and 3.
 - a. Confirm that Kentucky-American is requesting a total wastewater revenue increase of 141.4%.
 - b. Confirm that the total impact on the average wastewater bill for the various customer classes range from 118.2% all the way up to a staggering 800.7%.
 - c. Taking into account the economic issues that the Covid-19 pandemic has caused, explain how the Company's ratepayers will be able to afford such a significant increase in wastewater rates.

Response:

- a. Kentucky-American is requesting a total wastewater revenue increase of 141.4% to be recovered over a four-year phase-in period, when looking at adjusted billing determinants. However, the proposed per books revenue increase is 130.97% when comparing proposed revenues to the 2020 test year revenues.
- b. Kentucky-American confirms that the lower bound on total impacts over four years for Owenton residential customers is 118.2% and for all residential classes ranges from 118.2% to 156.1%. The 800.7% figure refers to one OPA customer in Millersburg that has relatively low usage and is assumed for rate design purposes to have a 1" meter. Kentucky-American notes that for the vast majority of nonresidential customers, the four-year increase is less than 200%.
- c. Kentucky-American projects that bills for basic service for residential customers as of June 2025 will be approximately \$75.00 per month based on the proposed rates in this case which on an annualized basis is expected to be approximately 1.5% of median household income for Kentucky-American wastewater customers.

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5. Refer to the Customer Notice, page 2.
- a. Confirm or deny that Ridgewood, Millersburg, Owenton, North Middletown, and Rockwell are the only locations that Kentucky-American provides wastewater services. If denied, provide the additional locations that Kentucky-American provides wastewater services.
 - i. Provide the number of customers in each of the previously designated systems.
 - ii. Identify the number of unsold lots in each system.
 - iii. Explain whether there is any new home construction in any of the neighborhoods that the Company provides wastewater service to, and if so, specify how many new customers could potentially come onto the system.
 - b. Provide a detailed description of Kentucky-American's acquisition/transfer of each of the wastewater locations, and be sure to include the date that Kentucky-American began providing wastewater service to each location, as well as the corresponding Commission case approving of each acquisition/transfer, if any.
 - c. Explain whether Kentucky-American intends to acquire any other wastewater system in the future. If so, provide a detailed response regarding the same.
 - d. Explain why Ridgewood is the only wastewater class that has a flat monthly rate, while all other classes have a minimum bill with a volumetric rate.

Response:

- a. This is correct.
 - i. Customer Count as of December 2020

Ridgewood	88
Millersburg	321
Owenton	617
North Middletown	259
Rockwell	<u>90</u>
Total	1,375

ii. This information is not maintained by the Company.

iii. This information is not maintained by the Company.

b. Ridgewood

Commission Case No: 2016-00222

Date service commenced: October 7, 2016

On July 7, 2016 KAWC and Classic Construction, Inc. filed a joint application requesting approval of an asset purchase agreement for KAWC to acquire Classic Construction's Ridgewood wastewater system. The Commission approved the acquisition on September 27, 2016.

Millersburg

Date service commenced: August 14, 2014

There was no Commission case approving KAW's acquisition of Millersburg sewer customers because, at that time, the Commission did not require Commission approval of municipal customers. However, the Commission did approve the addition of Millersburg sewer customers to KAW's tariff on July 19, 2014.

Owenton

Commission Case No: 2005-00206

Date service commenced: July 19, 2005

In this case, the Commission ruled that KAW's acquisition of Owenton sewer customers did not need Commission approval as they were municipal customers. However, by Order of July 22, 2005, the Commission approved the rates to be charged to Owenton sewer customers.

North Middletown

Date service commenced: May 13, 2019

There was no Commission case approving KAW's acquisition of North Middletown's sewer customers because, at that time, the Commission did not require Commission approval of municipal customers. However, the Commission did approve the addition of North Middletown's sewer customers to KAW's tariff on February 1, 2019.

Rockwell

Commission Case No: 1997-00320

By Order of October 16, 1997, the Commission approved KAW's acquisition of the assets of Boonesboro Water Association which included the wastewater assets used to provide wastewater service to the residents of the Rockwell mobile home park in Clark County, Kentucky. Service to those residents began shortly after that Order was issued.

- c. KAW is always open to discussions regarding the possible acquisition of wastewater systems. At this time, KAW has no definite plans for any such acquisitions.

- d. Ridgewood - In Case No. 2016-0022, the Commission approved the acquisition of the Ridgewood wastewater system with no change to the applicable customer monthly flat rate of \$36.57. The rate design in place at the time of the acquisition did not contain a volumetric charge. On September 1, 2018, the rate was lowered to \$35.14 in Case No. 2018-00042 in response to the Tax Cuts and Jobs Act. KAW plans on having discussions with the water provider for Ridgewood customers to determine whether water usage and meter information can be obtained that would then allow for the possibility of a wastewater rate with a volumetric component. However, at this time, those discussions have not occurred, so KAW has proposed a flat monthly rate.

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6. Refer to the Customer Notice, page 3. Explain what the "OPA" class stands for under Millersburg, Owenton, and North Middletown.

Response:

OPA class stands for all Other Public Authority customers.

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Witness: David Farrar

7. Refer to the Application generally.
 - a. Identify the total number of water customers that Kentucky-American currently serves in the state of Kentucky.
 - b. Identify the total number of wastewater customers that Kentucky-American currently serves in the state of Kentucky.
 - c. Identify the number of wastewater customers that Kentucky-American has served in the state of Kentucky for each of the following years: 2015, 2016, 2017, 2018, 2019, 2020, 2021, and 2022.
 - d. Explain in detail whether there is a separate department within Kentucky-American that services the wastewater operations, or if designated Kentucky-American employees handle both the water and wastewater operations.
 - e. If Kentucky-American does not have a separate wastewater department, explain in detail how costs are allocated to water versus wastewater operations.
 - f. Identify the number of Kentucky-American employees who handle the wastewater operations, including the title and duties of each, and designate whether they exclusively work on wastewater operations or if they also work on water operations.
 - g. Identify the number of Kentucky-American employees who handle exclusively water operations.

Response:

- a. Water customers as of Dec 31, 2021 – 136,214
- b. Wastewater customers as of Dec 31, 2021 – 1,364
- c. Wastewater customers as of Dec 31
 - 2015 - 1,028
 - 2016 - 1,115
 - 2017 - 1,127
 - 2018 - 1,106
 - 2019 - 1,360
 - 2020 - 1,375

2021 - 1,364

As of January 11, 2022 – 1,363

- d. There is no separate wastewater department within Kentucky-American. There are two employees dedicated to wastewater only and some other employees who work on both water and wastewater.
- e. Wastewater costs are charged to the specific wastewater location cost centers.
- f.

Name	Job Title	Time Spent on Wastewater Operations
Nick Dotson	Operations Technician	Full time
Marshall Gibson	Operations Technician	Full time
Dorothy Rader	Operations Manager	Part time
Keith Buffin	Maintenance Service Specialist	Part time
Terry Fryman	Maintenance Service Specialist	Part time
Jeremy Dempsey	Operations Generalists	Part time
Lee Castleman	Operations Generalists	Part time
Lonnie Perkins	Operations Generalists	Part time
Cody Matt	Operations Generalists	Part time
Russell Lilly	Operations Generalists	Part time
Angie True	Operations Clerk	Part time
LeeAnn Webster	Operations Clerk	Part time
Jason Case	Operations Supervisor	Part time
Stephan Schmidt	Operations Sr. Supervisor	Part time
Russell Music	Operations Specialist	Part time
Brandon Smith	Operations Supervisor	Part time
Eileen Burk	Water Quality Specialist	Part time
Bob Money	Water Quality Manager	Part time
Travis Gentry	Operations Generalist	Part time

- g. There are 82 Kentucky-American employees who work exclusively on water operations.

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8. Refer to ARF Form 1 – Attachment SR.
- a. Kentucky-American states that in the last five years, the sewer operations have operated at a loss. Explain why Kentucky-American waited five years to file a rate case for its sewer operations if it has continuously been operating at a loss.
 - b. Kentucky-American asserts that a rate increase is necessary in order to attract the capital necessary to properly maintain the system and provide further needed capital improvements.
 - i. Expound on this statement by providing all of the system maintenance and improvements that Kentucky-American is planning for its wastewater system, and specify the amount of capital necessary for each.
 - ii. Provide all of the system maintenance and improvements that Kentucky-American has performed to its wastewater system from 2015 to the present broken down by location, and include the corresponding monetary amount associated with each project.
 - c. Kentucky-American asserts that it is proposing to unify and consolidate its current five district rate design into a statewide unified and consolidated tariff pricing rate design in the final phase of the four-year rate phase-in. However, based upon the Customer Notice, the Ridgewood customer class will still have a flat rate instead of a minimum bill with a volumetric charge after the final phase in of the proposed rate increase. Explain the discrepancy in the aforementioned information.
 - d. Kentucky-American asserts that most of the customers with meters larger than one inch who will be paying higher rates are commercial, industrial, and other public authority. Explain in detail whether any residential customer has a meter larger than one inch, and if so, quantify the same.

Response:

- a. Kentucky American Water (“KAW”) last filed a sewer case in November 2014, which at that time included only the Owenton and Rockwell Village service areas. Rates were phased in over a four-year period in the 2014 case, with the final phase becoming effective September 1, 2018. KAW didn’t think it was appropriate to request an increase in rates before the final phase of the prior case were complete. Since that time, three additional service areas have been acquired, which include

the City of Millersburg, Ridgewood subdivision, and the City of North Middletown. All three systems were acquired in different years, with Millersburg in November 2014, Ridgewood in October 2016 and North Middletown in February 2019. In all three acquisitions, KAW adopted the existing rates. To mitigate immediate rate shock and to give KAW a fair amount of time to assess each system and improvement needs, KAW thought it was best not to increase rates immediately. In addition, KAW had filed a general water case in November 2018 and did not want to overextend its own, Commission or Consumer Advocate resources by filing a sewer case as well.

After receiving the decision for the 2018 general water case in June 2019, KAW had planned to file a sewer case in early 2020. When a global pandemic was declared in March 2020, KAW didn't think it was the best time to file a sewer rate case as there were so many unknowns at the time. As the pandemic went on and economic conditions worsened with the unemployment rate growing, KAW made the decision to delay filing a sewer rate case until economic conditions improved. KAW continued to monitor economic conditions and by the third quarter of 2021, the economy and unemployment rates had improved. Based on this assessment, KAW made the decision to file its sewer case in the fourth quarter of 2021.

- b. i. Please see exhibit KAW_R_AGDR1_NUM008_012422_Attachment_1 for Kentucky American Water's current 2-year detailed capital budget plan for years 2022 and 2023 by wastewater district.
- ii. Please see exhibit KAW_R_AGDR1_NUM008_012422_Attachment_2 for all wastewater system capital improvements that Kentucky-American has placed into service from 2015 to present broken down by location, including the corresponding monetary amount associated with each project.
- c. The consolidated and unified tariff pricing rate design which would occur in the final year of the proposed four-year phase-in would apply to all customers except the customers in the Ridgewood subdivision. KAW plans on having discussions with the water provider for Ridgewood customers to determine whether water usage and meter information can be obtained that would then allow for the possibility of a wastewater rate with a volumetric component. However, at this time, those discussions have not occurred, so KAW has proposed a flat monthly rate.
- d. There is one residential customer who has a one-inch meter.

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9. Refer to ARF Form 1 – Attachment SAO-S, Schedule of Adjusted Operations -Sewer Utility, Sheet 1 of 2.
- a. Under “Other Operating Revenues” explain what “Forfeited Discounts” represent, and provide a breakdown of the \$3,085.00 amount.
 - b. Under “Other Operating Revenues” explain what “Miscellaneous Operating Revenues” represent, and provide a breakdown of the \$7,740.00 amount.
 - c. Under “Operating Expenses” provide a breakdown and explanation of the negative \$60,437.00 in “Amortization Expense.”
 - d. Under “Operating Expenses” provide a breakdown of “Taxes Other than Income” in the amount of \$19,379.00.
 - e. Under “Operating Expenses” explain why there is \$0.00 “Income Tax Expense.”

Response:

a. Forfeited Discounts:

<u>GL Accts</u>	<u>Name</u>	<u>Amt</u>
40310100	Other Revenue – Late Payment Charge	(\$3,085)

b. Miscellaneous Operating Revenues:

<u>GL Accts</u>	<u>Name</u>	<u>Amt</u>
40310400	Other Revenue – NSF Check Charge	\$0
40310500	Other Revenue – Application/Initiation Fee	(\$140)
40310700	Other Revenue – Reconnection Fee	\$0
40359900	Other Revenue Wastewater – Misc Service	<u>(\$7,600)</u>
		(\$7,740)

c. Amortization Expense:

<u>GL Accts</u>	<u>Name</u>	<u>Amt</u>
68012500	Depreciation Exp – Amort CIAC Nontax	(\$75,203)
68255000	Amortization – UPAA	<u>\$14,766</u>
		\$60,437

d. Taxes Other than Income:

<u>GL Accts</u>	<u>Name</u>	<u>Amt</u>
68532000	FUTA	\$157
68532100	FUTA Cap Credits	(\$41)

68533000	FICA	\$21,213
68533100	FICA Cap Credits	(\$2,325)
68535000	SUTA	\$514
68535100	SUTA Cap Credits	<u>(\$140)</u>
		\$19,379

- e. Attachment SAO-S, Schedule of Adjusted Operations -Sewer Utility pulls data from the Annual Commission Report which does not have an amount for income tax expense because income taxes are recorded based on the total company for KAW. For Commission Report purposes, taxes are reported in the water report, but for this case a separate calculation was prepared for wastewater based on the revenue requirement.

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10. Refer to ARF Form 1 – Attachment SAO-S, Sheet 2 of 2.
- a. Concerning the adjustment of \$32,238.00 to the “Total Operation and Maintenance Expenses,” provide a breakdown and explanation of the following:
 - i. \$10,159.00 for allocation of Kentucky-American management salaries;
 - ii. \$2,211.00 for allocation of benefit load factor on Kentucky-American management salaries;
 - iii. \$10,573.00 in Service Company expense;
 - iv. \$445.00 in general liability insurance; and,
 - v. \$100.00 in workers compensation insurance.
 - b. Kentucky-American asserts that it is requesting \$35,000 in rate case expense to be allowed recovery in the rates, and amortized over a four-year period.
 - i. Provide the total rate case expense that has been accrued thus far. Consider this a continuing request.
 - ii. Provide a breakdown of the total rate case expense that has been accrued thus far by category.
 - iii. Provide copies of invoices supporting the level of incurred rate case costs to date and supply such new invoices as they become available.

Response:

- a.
 - i. The \$10,159.00 allocation of Kentucky-American management salaries was included as an adjustment to labor expense in KAW's 2018 water case in W/P 3-1. It was derived by taking 0.985% of all of KAW's non-union management team's labor expense as authorized in Case No. 2018-00358. Total management labor expense in Case No. 2018-00358 was \$1,031,357 (\$1,031,357 x 0.985% = \$10,159).

- ii. The \$2,211.00 allocation of benefit load factor on KAW management salaries was derived by taking the following items from Case No. 2018-00358, W/P 3-1:

\$145,935	Total Payroll taxes for Non-Union Employees
6,632	Total Other benefits exp for Non-Union Employees
<u>291,780</u>	Total Group Insurance exp for Non-Union Employees
\$444,347	Total benefits exp for Non-Union Employees
<u>\$2,041,715</u>	Divided by Total Labor Expense for Non-Union Employees
21.8%	% Benefits / Labor Exp
<u>10,159</u>	x WW Allocated Labor Exp
\$2,211	= Benefits on Allocated WW Labor Exp

- iii. The \$10,573.00 allocation in Service Company expense was derived by taking total service company expense of \$9,729,591 in Case No. 2018-00358, W/P 3-7 and multiplying by the allocation factor of 0.11% (rounded) to get the \$10,573.00 allocation to sewer. The 0.11% sewer allocation percent was calculated as follows:

<u>Total Water Customers</u>		
Average - July 2019-June 2020		133,284
Wastewater as of 8/31/18		695
Total Customers		133,979
Less Dual		(550)
		<u>133,429</u>
Water Percentage		99.89%
Wastewater Percentage		0.11%

- iv. The \$445.00 allocation in general liability expense was derived by taking total Insurance – General Liability expense of \$409,137 in Case No. 2018-00358, W/P 3-8 and multiplying the allocation factor of 0.11% (rounded) to get the \$445.00 allocation to sewer.
- v. The \$100.00 allocation in workers compensation insurance expense was derived by taking total Insurance – Workers Comp expense of \$91,642 in Case No. 2018-00358, W/P 3-8 and multiplying the allocation factor of 0.11% (rounded) to get the \$100.00 allocation to sewer.

b.

- i. The total rate case expense that has been accrued thus far is \$10,355.04.
- ii. Thus far, KAW has realized \$945.54 of actual expense for customer notices and \$9,409.50 for professional legal expenses related to the filing.
- iii. Please see attachment KAW_R_AGDR1_NUM010_012422_ Attachment for copies of the actual invoices received thus far.

Invoice

Invoice Number 54096
Invoice Date Dec 8, 2021
Supply Date Dec 1, 2021
Currency USD (US Dollar)
Reference Number 64070
Payment Terms 45 days net
AW Contact SUSAN.LANCHO@AMWATER.COM

Supplier
 DIRECT RESPONSE
 157 VENTURE CT
 STE 4
 LEXINGTON, KY 40511-2621
 US (United States)
 859-254-1667
 859-254-2333

Customer
 Kentucky American Water Company
 1 Water St
 Camden, NJ 08102-1658
 US (United States)
 8667778426
 8565199733

Remit to
 Direct Response, Inc
 157 VENTURE CT STE 4
 KY
 LEXINGTON, KY 40511
 US (United States)

Phone
 8592541667

Contact Email
 lee@drafky.com

Ship From
 DIRECT RESPONSE, INC.
 157 VENTURE CT STE 4
 LEXINGTON, KY 40511
 US (United States)

Phone
 8592541667

Contact Email
 lee@drafky.com

Ship To
 Direct Responce, Inc
 157 VENTURE CT STE 4
 LEXINGTON, KY 40511
 US (United States)

Phone
 8592541667

Contact Email
 lee@drafky.com

#	Description	Unit	Qty	Unit Price	Line Total
1	1400 Sewer Cover Letter Printed Single Sided	Ea (Each)	1	\$113.45	\$113.45
2	1400 Sewer Letter Second page Printed 2-Sided	Ea (Each)	1	\$168.85	\$168.85
3	1360 - Address /Assemble/Mail Prep	Ea (Each)	1	\$258.40	\$258.40
4	Postage	Ea (Each)	1	\$387.90	\$387.90
Subtotal					\$928.60
Total Tax Amount					\$16.94
Invoice Amount					\$945.54





Phone: 859.254.1667
Fax: 859.254.2333
Web: drofky.com

157 Venture Ct., Ste 4
Lexington, KY 40511

DATE

12/8/2021

INVOICE #

54096

BILLED TO:

KAWC - Shared Services Center
Susan Lancho
P.O. Box 5610
Cherry Hill, NJ 08034

SALES REP	JOB #	PURCHASE ORDER #	TERMS
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64070

Susan Lancho

Due on receipt

Code	Quantity	Description	Amount
03	1,400	Customer Notice Sewer Rate Letter Printed - Single-sided	113.45T
03	1,400	Customer Notice Sewer Rate (2nd Page) Printed - 2-sided	168.85T
02	1,360	Address Envelopes/Insert 2 pages & Mail Prep	258.40
05		Postage	387.90

Subtotal	\$928.60
Sales Tax (6.0%)	\$16.94
Credit (When Applicable)	\$0.00
Balance Due	\$945.54

STOLL · KEENON · OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id # 61-0421389
December 7, 2021

Kentucky-American Water Company
Attn: Ms. Molly Van Over
AP Dept. 1012
1 Water Street
Camden NJ 08102

INVOICE NO.: 968162
SKO File No.: 10311/171840

PAYMENT REMITTANCE

Payments via regular mail:

STOLL · KEENON · OGDEN PLLC
P.O. Box 11969
Lexington, Kentucky 40579-1969

Payments via ACH or EFT:

**Note: this is a new account—please update
your records**

Stoll Keenon Ogden PLLC
Central Bank, Lexington, KY
ABA/Bank Routing Number: 042100146
Account Number: 61136702

Please reference your account and invoice numbers.
Email remittance to payments@skofirm.com

Re: 2021 Wastewater Rate Case

Email Entire Invoice to: molly.vanover@amwater.com
Our Reference: 010311/171840/LWI/2404
Fees rendered this bill

\$ 7,561.50

Total Current Charges This Matter

\$ 7,561.50

STOLL · KEENON · OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id # 61-0421389

December 7, 2021

Kentucky-American Water Company
Attn: Ms. Molly Van Over
AP Dept. 1012
1 Water Street
Camden NJ 08102

INVOICE NO.: 968162
SKO File No.: 10311/171840

Email Entire Invoice to: molly.vanover@amwater.com

MATTER NAME: 2021 Wastewater Rate Case

TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED 7,561.50

TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES
PER ATTACHED 0.00

INVOICE TOTAL \$ 7,561.50

TOTAL BALANCE DUE \$7,561.50

BILL DATE: December 7, 2021

Kentucky-American Water Company
Attn: Ms. Molly Van Over
AP Dept. 1012
Camden, NJ 08102

2021 Wastewater Rate Case

LEGAL FEES

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
11/09/21	LWI	Review sewer filing questions and confer client re same	0.70	385.00	\$ 269.50
11/15/21	LWI	Research history of acquisitions for client; correspondence re same	1.00	385.00	385.00
11/16/21	LWI	Begin review of Application documents and review ARF procedure	1.50	385.00	577.50
11/17/21	LWI	Review application materials; work on customer notice and tariff revision issues	2.50	385.00	962.50
11/18/21	LWI	Continue review of all documents to be filed; continue work on customer notice	4.70	385.00	1,809.50
11/19/21	LWI	Continue review of filing; conferences with client re same; work on tariff issues	3.80	385.00	1,463.00
11/19/21	GEW	Research/response to inquiry on unified rates	0.50	320.00	160.00
11/23/21	MLB	Prepare tariffs for rate application	3.60	270.00	972.00
11/30/21	LWI	Review of all files; confer client re same	2.50	385.00	962.50
		SUBTOTAL	20.80		\$7,561.50

EXPENSES AND OTHER SERVICES

***note: all copies are billed at .10/page unless otherwise indicated*

DATE	DESCRIPTION	AMOUNT
	SUBTOTAL	0.00
GRAND TOTAL:		\$7,561.50

ATTORNEY/PARALEGAL SUMMARY

TIMEKEEPER	RANK	HOURS	RATE	AMOUNT
M. Braun	Member	3.60	270.00	\$972.00
L. W Ingram, III	Member	16.70	385.00	\$6,429.50
G. E Wuetcher	Of Counsel	0.50	320.00	\$160.00

*PLEASE INDICATE INVOICE NUMBER 968162 ON PAYMENT

STOLL · KEENON · OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id # 61-0421389
January 11, 2022

Kentucky-American Water Company
Attn: Ms. Molly Van Over
AP Dept. 1012
1 Water Street
Camden NJ 08102

INVOICE NO.: 970493
SKO File No.: 10311/171840

PAYMENT REMITTANCE

Payments via regular mail:

STOLL · KEENON · OGDEN PLLC
P.O. Box 11969
Lexington, Kentucky 40579-1969

Payments via ACH or EFT:

**Note: this is a new account—please update
your records**

Stoll Keenon Ogden PLLC
Central Bank, Lexington, KY
ABA/Bank Routing Number: 042100146
Account Number: 61136702

Please reference your account and invoice numbers.
Email remittance to payments@skofirm.com

Re: 2021 Wastewater Rate Case

Email Entire Invoice to: molly.vanover@amwater.com

Our Reference: 010311/171840/LWI/2404

Fees rendered this bill \$ 1,848.00

Total Current Charges This Matter \$ 1,848.00

Balance as of 12/07/21 \$7,561.50

Less credits (payments, adjustments) \$0.00

Balance due on prior billings \$7,561.50

Total Amount Due This Matter \$9,409.50

STOLL · KEENON · OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000
Tax Id # 61-0421389

January 11, 2022

Kentucky-American Water Company
Attn: Ms. Molly Van Over
AP Dept. 1012
1 Water Street
Camden NJ 08102

INVOICE NO.: 970493
SKO File No.: 10311/171840

Email Entire Invoice to: molly.vanover@amwater.com

MATTER NAME: 2021 Wastewater Rate Case

TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED 1,848.00

TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES
PER ATTACHED 0.00

INVOICE TOTAL \$ 1,848.00

BALANCE DUE from previous statements:

Bill Date	Invoice	Outstanding Amount
12/07/21	968162	7,561.50

Total Balance Due on Previous Statements: \$ 7,561.50

TOTAL BALANCE DUE \$9,409.50

BILL DATE: January 11, 2022

Kentucky-American Water Company
Attn: Ms. Molly Van Over
AP Dept. 1012
Camden, NJ 08102

2021 Wastewater Rate Case

LEGAL FEES

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
12/01/21	LWI	Review, finalize and file application and supporting materials; related follow-up	2.50	385.00	\$ 962.50
12/10/21	LWI	Receive review/order and communicate with client re same	0.30	385.00	115.50
12/15/21	LWI	Finalize customer notice affidavit; confer client re same; prepare same for filing	0.50	385.00	192.50
12/28/21	LWI	Finalize and file proof of customer notice and related pleading; correspondence re same; prepare confidentiality agreement	1.00	385.00	385.00
12/31/21	LWI	Review, finalize and circulate draft confidentiality agreement	0.50	385.00	192.50
SUBTOTAL			4.80		\$1,848.00

EXPENSES AND OTHER SERVICES

***note: all copies are billed at .10/page unless otherwise indicated*

DATE	DESCRIPTION	AMOUNT
SUBTOTAL		0.00
GRAND TOTAL:		\$1,848.00

ATTORNEY/PARALEGAL SUMMARY

TIMEKEEPER	RANK	HOURS	RATE	AMOUNT
L. W Ingram, III	Member	4.80	385.00	\$1,848.00

*PLEASE INDICATE INVOICE NUMBER 970493 ON PAYMENT

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2021-00434
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Tricia Sinopole / David Farrar

11. Refer to ARF Form 1 – Attachment OME-1, Sewer Operations and Maintenance Expenses, Test year 12/31/2020.
- a. Provide a brief explanation and breakdown of the following expenses:
- i. “Pumping System-Labor, Materials and Expenses” in the amount of \$157,915.00.
 - ii. “Sludge Hauling” in the amount of \$54,936.00.
 - iii. “Other-Labor, Materials and Expenses” in the amount of \$102,006.00.
 - iv. “Fuel/Power Purchased for Pumping and Treatment” in the amount of \$130,102.00.
 - v. “Chemicals” in the amount of \$23,814.00.
 - vi. “Miscellaneous Supplies and Expenses, Collection System” in the amount of \$11,540.00.
 - vii. “Miscellaneous Supplies and Expenses, Treatment and Disposal” in the amount of \$164,784.00.
 - viii. “Maintenance of Pumping System” in the amount of \$20,675.00.
 - ix. “Maintenance of Treatment and Disposal Plant” in the amount of \$71,180.00.
 - x. “Miscellaneous Customer Accounts Expense” in the amount of \$167.00.
 - xi. “Administrative and General Salaries” in the amount of \$7,335.00.
 - xii. The pro forma adjustment of \$20,732.00 to the “Administrative and General Salaries.”
 - xiii. “Office Supplies and Other Expense” in the amount of \$233.00.
 - xiv. “Insurance Expenses” in the amount of \$2,850.00.

- xv. The pro forma adjustment of \$545.00 to the “Insurance Expenses.”
- xvi. “Employee Pensions and Benefits” in the amount of \$87,328.00.
- xvii. The pro forma adjustment of \$2,211.00 to “Employee Pensions and Benefits.”
- xviii. “Transportation Expense” in the amount of \$15,731.00.
- xix. “Miscellaneous General Expenses” in the amount of \$5,001.00.

Response:

For subparts xii, xv and xvii, see KAW’s response to KAW_R_AGDR_NUM010_012422, where the breakdown is provided for these adjustments. The \$20,732 adjustment in subpart xii is the sum of the \$10,159 allocation for management salaries and \$10,573 allocation for service company expense.

For all other subparts, please see KAW_R_AGDR1_NUM011_012422 Attachment 1.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2021-00434
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Tricia Sinopole

12. Refer to ARF Form 1 – Attachment RR-OR, Revenue Requirement Calculation – Operating Ratio Method.
- a. Confirm that Kentucky-American utilized an 88% operating-ratio method to calculate its profit for the wastewater system in the pending case.
 - b. Confirm that Kentucky-American's profit for the wastewater system based upon the operating-ratio method is \$179,192.18. If not confirmed, provide the profit amount.
 - c. Provide the return on equity equivalency that the \$179,192.18 profit represents in this case.
 - d. In the final Order in Case No. 2020-00160,¹ the Commission found it was evident that an 88% operating ratio results in a revenue requirement that produces excessive margins and capital returns. The Commission therefore found that an operating ratio of 89% was reasonable. Explain why Kentucky-American did not utilize an operating ratio of 89% in accordance with the recent Commission precedent.
 - e. Provide a breakdown of the \$30,421.29 of state and federal income taxes.
 - f. Provide a breakdown of the \$142,792.35 interest expense.

Response:

- a. That is correct.
- b. That is correct.
- c. Please see calculation below:

¹ Case No. 2020-00160, *Electronic Application of Water Service Corporation of Kentucky for a General Adjustment in Existing Rates* (Ky. PSC Dec. 8, 2020) Order at 25 - 32.

<u>Item</u>	<u>Amount</u>
Allowable Net Income Using 88% Ratio (as filed)	\$179,192
Sewer Rate Base as of 12/31/20 (as filed)	\$7,437,100
Total KAW Common Equity % as of 12/31/20 (as filed)	x 48.22%
Sewer Only Calculated Equity	\$3,586,318
Imputed ROE (Net Income / Calculated Equity)	5.00%

- d. While an 89% operating ratio may have been appropriate for the circumstances in that case, those circumstances are unique to that case and the utility involved. The Commission has a long history of utilizing an 88% operating ratio which was also used in KAW's last sewer rate case. KAW sees no reason to deviate from that.
- e. Please see the document filed in support of KAW's Application in this case entitled KAWC Case No. 2021-00434 RR-OR. The calculation in that document shows the calculation for total tax of \$59,571.55. As referenced in the Reasons for Application filed with the case, there was a \$29,150.26 reduction to account for the excess accumulated depreciation income tax pass-back to customers. The \$59,571.55 less the \$29,150.26 reduction is how the \$30,421.29 was derived.
- f. Please see page 2 of the document filed in support of KAW's Application in this case entitled KAWC Case No. 2021-00434 Depr, Interest, & Cap Strux.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2021-00434
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Tricia Sinopole

13. Refer to ARF Form-3, Statement of Disclosure of Related Party Transactions.
- a. Explain in full detail where Karen Hill works, her title and duties, yearly salary including a breakdown of all benefits, and how she is associated with the Kentucky-American wastewater operations.
 - b. Explain in full detail where Glenn Leveridge works, his title and duties, yearly salary including a breakdown of all benefits, and how he is associated with the Kentucky-American wastewater operations.
 - c. Explain in full detail where David Adkisson works, his title and duties, yearly salary including a breakdown of all benefits, and how he is associated with the Kentucky-American wastewater operations.

Response:

Ms. Hill, Mr. Leveridge, and Mr. Adkisson are external board members of KAW meaning they are not KAW employees. Thus, the information requested regarding their employment, compensation, and benefits has no relevance to the issues in this case.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2021-00434
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Tricia Sinopole

14. Refer to the Debt Instruments Schedule.
- a. The Bond Purchase Agreement is due on December 1, 2023. Explain in detail whether Kentucky-American will have the principal amount of the bond paid in full on or before December 1, 2023. If not, explain why not.
 - b. Provide the annual monetary amount associated with the bond payment.

Response:

- a. The Company continuously evaluates its financing options and currently does not intend to retire the Kentucky-American 6.96 series bond early. However, the Company will consider any beneficial opportunities to do so, should they arise.
- b. The 6.96 series bond has an annual amortization of \$2,285 of issuance expense and annual interest expense of \$487,200.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2021-00434
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Tricia Sinopole

15. Refer to the Depreciation Schedule.

- a. Refer to Line #4, Utility Account 395000, Laboratory Equipment. It states that the original cost of the asset was \$42,900.00, but the accumulated depreciation is \$50,348.42. Explain why this asset should still have depreciation expense included in the revenue requirement.
- b. Refer to Line #14, Utility Account 393000, TD Equipment. It states that the original cost of the asset was \$45,678.66, but the accumulated depreciation is \$48,132.37. Explain why this asset should still have depreciation expense included in the revenue requirement.
- c. Refer to Line #25, Utility Account 397000, Misc Equipment. It states that the original cost of the asset was \$28,881.77, but the accumulated depreciation is \$29,102.02. Explain why this asset should still have depreciation expense included in the revenue requirement.

Response:

- a. The depreciation expense for Utility Account 395000 should not have been included in the revenue requirement. An adjustment will be made in the revenue requirement to exclude the depreciation expense.
- b. The depreciation expense for Utility Account 393000 should not have been included in the revenue requirement. An adjustment will be made in the revenue requirement to exclude the depreciation expense.
- c. The depreciation expense for Utility Account 397000 should not have been included in the revenue requirement. An adjustment will be made in the revenue requirement to exclude the depreciation expense.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2021-00434
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: David Farrar / Tricia Sinopole

16. Refer to the Application generally, and provide the following information for all employees who work on Kentucky-American wastewater operations, and thereby have costs allocated to the wastewater operations:
- a. Provide the position title and salary for each salaried employee for the years 2015 – 2022.
 - b. Provide the average raise that Kentucky-American provided to its salaried employees for the years 2015 – 2022.
 - c. Provide the average bonus that Kentucky-American provided to its salaried employees for the years 2015 - 2022.
 - d. Provide all awards given to the salaried employees for the years 2015 – 2022.
 - e. Provide all vehicle allowances given to the salaried employees for the years 2015 – 2022.
 - f. Provide all incentive compensation given to the salaried employees for the years 2015 – 2022.
 - g. Provide the position title and wages for each non-salaried employee for the years 2015 – 2022.
 - h. Provide the average raise that Kentucky-American provided to its non-salaried employees for the years 2015 – 2022.
 - i. Provide the average bonus that Kentucky-American provided to its non-salaried employees for the years 2015 – 2022.
 - j. Provide all awards given to the non-salaried employees for the years 2015 – 2022.
 - k. Provide all vehicle allowances given to the non-salaried employees for the years 2015 – 2022.
 - l. Provide all incentive compensation given to the non-salaried employees for the years 2015 – 2022.

- m. Explain in detail whether Kentucky-American has decided what average raise, if any, will be given to salaried and non-salaried employees for 2022, and provide the average raise.
- n. Provide a copy of all formal studies conducted that compares Kentucky-American's wage and benefit information to the local wage and benefit information for the geographic area in which Kentucky-American operates its wastewater system.
- o. Explain the current process of awarding wage/salary increases to union and non-union employees.
- p. Provide a detailed explanation of the insurance benefits provided to the Kentucky-American employees including but not limited to health, dental, vision, life insurance, etc. Ensure to include all premiums paid by Kentucky-American's employees, premiums paid by Kentucky-American on the employees' behalf, as well as all copays, deductibles, and maximum out of pocket amounts.

Response:

- a. Please refer to KAW_R_AGDR1_NUM016_012422_Attachment 1 CONFIDENTIAL for employees who performed work on wastewater operations for the years 2015-2021.
- b. Please refer to the table below for the average merit increase provided to salaried employees for the years 2015-2021.

SALARIED EMPLOYEES						
2015	2016	2017	2018	2019	2020	2021
2.58%	2.27%	2.68%	2.89%	3.05%	2.88%	3.13%

- c. Please refer to KAW_R_AGDR1_NUM016_012422_Attachment 1 CONFIDENTIAL for the average performance pay to employees who performed work on wastewater operations for the years 2015-2021.
- d. There were no awards given to salaried employees for the years 2015-2021.
- e. There were no vehicle allowances given to salaried employees for the years 2015-2021.
- f. Please refer to KAW_R_AGDR1_NUM016_012422_Attachment 1 CONFIDENTIAL.
- g. Please refer to KAW_R_AGDR1_NUM016_012422_Attachment 1 CONFIDENTIAL.

- h. Please refer to the table below for the average merit increase provided to non-salaried employees for the years 2015-2021.

NON-SALARIED EMPLOYEES						
2015	2016	2017	2018	2019	2020	2021
2.68%	2.30%	2.78%	2.63%	2.73%	2.97%	2.95%

- i. Please refer to KAW_R_AGDR1_NUM016_012422_Attachment 1 CONFIDENTIAL for the average performance pay to employees who performed work on wastewater operations for the years 2015-2021.
- j. There were no awards given to non-salaried employees for the years 2015-2021
- k. There were no vehicle allowances given to non-salaried employees for the years 2015-2021.
- l. Please refer to KAW_R_AGDR1_NUM016_012422_Attachment 1 CONFIDENTIAL.
- m. The Company has not yet finalized decisions on the level of merit increase that will be given to its employees for 2022.
- n. Please refer to KAW_R_AGDR1_NUM016_012422_Attachment 2 CONFIDENTIAL for a copy of the remuneration study conducted in the Company's 2018 Water Rate Case (Case No. 2018-00358-GRC).
- o. The Company may award merit increases on an annual basis. The compensation team regularly reviews the salary structure to ensure alignment with the outside market. Employees must be hired into a non-union position by September 30 of the prior year in order to be eligible for a merit increase during the annual year-end compensation process. Wage increases for union employees are based on their respective collective bargaining agreements.
- p. Please refer to KAW_R_AGDR1_NUM016_012422_Attachment 3 CONFIDENTIAL and KAW_R_AGDR1_NUM016_012422_Attachment 4 CONFIDENTIAL for the 2021 Benefits Guide for both union and non-union employees.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2021-00434
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Tricia Sinopole

17. Refer to the Application generally.
- a. Explain in detail if Kentucky-American's wastewater operations has a separate Board of Directors from its water operations.
 - b. Provide a detailed explanation of all salary and benefits provided to the members of the Board of Directors for the wastewater operations during the years 2015 – 2022. Ensure to provide the salary amounts, and specific details regarding all benefit packages including but not limited to health, dental, vision, accidental death and disability, life insurance, bonuses, awards, vehicle allowances, and the like.
 - c. Provide the total amount of the Board of Directors' fees for the test year.
 - d. Provide a breakdown of the total amount of the Board of Directors' fees for the test year.
 - e. Discuss if there will be any changes to the Board of Directors' salaries and/or benefit packages for 2022.
 - f. When setting the Board of Directors' fees and benefits did Kentucky-American review other wastewater operations' Board of Directors' fees and benefits? If so, explain in detail the findings. If not, explain in detail why not.

Response:

- a. Kentucky-American's wastewater operations do not have a separate Board of Directors from its water operations.
- b. The Board of Directors consists of four Internal (employed by KAW) Directors and three External Directors who have no employment affiliation with KAW. The Internal Directors do not receive additional salary or benefits for their service on the Board of Directors. Each External Director receives an Annual Retainer and a Per Meeting Fee, but no additional benefits. There are four Board of Directors meetings per year. The below chart lists the Annual Retainer and Per Meeting fee received by each External Director during the years 2015 – 2022:

<u>Year</u>	<u>Annual Retainer</u>	<u>Per Meeting Fee (x 4)</u>
2015	\$2,000.00	\$2,500.00
2016	\$2,000.00	\$2,500.00
2017	\$2,000.00	\$2,500.00
2018	\$2,000.00	\$2,500.00
2019	\$3,000.00	\$3,000.00
2020	\$4,000.00	\$4,000.00
2021	\$5,000.00	\$5,000.00
2022	\$5,000.00	\$5,000.00

c. The total amount of the Board of Directors' fees for External Directors (Retainer and Per Meeting Fee) for the test year in this case was \$54,000.00, but none of that is allocated to KAW's wastewater operations.

d. Breakdown of the total amount of the Board of Directors' fees (Retainer and Per Meeting Fee) for the test year (2020) for External Directors:

	<u>Amount x 3</u>	<u>Total</u>
Annual Retainer	\$4,000.00	\$12,000.00
Per Meeting Fee Q1	\$3,000.00	\$9,000.00
Per Meeting Fee Q2	\$3,000.00	\$9,000.00
Per Meeting Fee Q3	\$4,000.00	\$12,000.00
Per Meeting Fee Q4	\$4,000.00	\$12,000.00
Total Board of Directors' Fees for Test Year		\$54,000.00

e. Kentucky-American does not currently plan to make any changes to the Board of Directors' retainer amounts or meeting fees for External Directors for 2022.

f. Kentucky-American does not propose in this case to recover Board of Directors' fees for External Directors from its wastewater customers. Kentucky-American believes that the Retainer and Per Meeting Fee received by External Directors is reasonable given the size of the Company, governance responsibilities, and the experience and talent level desired. Given the customer size and workload differential between water and wastewater, Kentucky-American does not believe an allocation of the External Directors' fees to wastewater customers should be made.

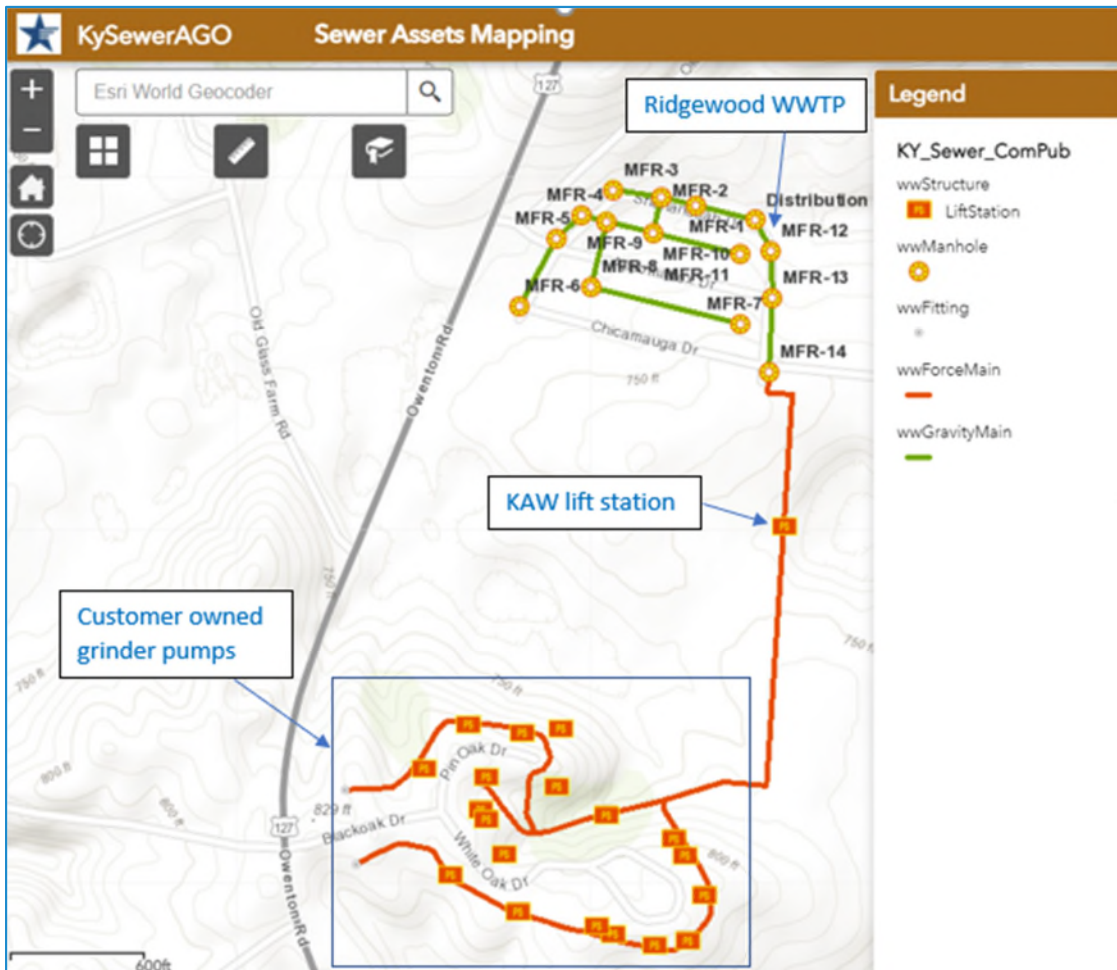
KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2021-00434
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: David Farrar

18. Refer to the customer comment filed into the pending case by Ms. Rose Baker on December 13, 2021. In addition to requesting the Commission not to approve such a large wastewater rate increase, Ms. Baker states that each resident in her subdivision is required to install and maintain an expensive E-Pump.
- a. Explain why customers are required to install and maintain E-Pumps.
 - b. If customers are required to install and maintain E-Pumps, provide all wastewater locations in which this is a requirement.
 - c. If customers are required to install and maintain E-Pumps, provide information regarding the purpose of E-Pumps, the price of installing an E-Pump, and the annual cost of maintaining an E-Pump.
 - d. Explain how it is fair, just, or reasonable to force customers to install and maintain expensive E-Pump systems while also paying significant wastewater rates to Kentucky-American.

Response:

- a. Not all Ridgewood customers have a grinder pump. A grinder pump is needed for only those customers in the subdivision not adjacent to the Ridgewood plant. It is worth noting that the current system layout, including customer-owned grinder pumps in the subdivision, was established by prior ownership, and was not established by KAW. It is KAW's understanding that the builder/developer could have had various options including private septic, lagoon, or other on-site treatment systems at each home, installing a packaged treatment plant just for that subdivision, or connecting to the sewage collection system of neighboring development. Either elevation or distance or both prevented gravity feed from this second subdivision to the Ridgewood WWTP. Therefore, the builder/developer chose to install customer-owned sewer grinder pumps at each home and send the sewage to the Ridgewood WWTP. These customer owned grinder pumps pump sewage to the KAW owned/operated lift station. Once at the lift station, sewage is pumped on to the WWTP.
- b.



- c. The purpose of E-pumps is to provide sewer service where there is no gravity feed option. These grinder pumps merely transfer the sewage from one location to another and can compensate for distance and elevation. In the Ridgewood application, homes use these pumps to grind up raw wastewater that feeds into a lift station that carries that waste to the treatment plant. No preventative maintenance is needed; however, a typical single-family home uses approximately 250 gallons of water per day. The E-One pump will use between 9 and 20 kWh per month (60-240 kWh per year). For example, if you pay 11 cents per kilowatt-hour: $\$0.11 \text{ KWh} \times 120 \text{ KWh} = \13.00 per year cost of electricity to operate the E-One pump. Based on KAW's research and a quotation received, a residential grinder system's installation cost depends on the type of equipment required, the soil conditions, and the distance to the sewage treatment facility. A typical grinder can cost \$4,000 or more installed for a new home that didn't have one previously installed. The cost to replace an existing one that has begun failing can cost \$2,500 or more.

- d. Unfortunately, the decision that requires some customers to install grinder or E-pumps was made prior to KAW's acquisition of the system. That is not an excuse, it is just reality and is driven by the unique circumstances of each of those customers' locations relative to the Ridgewood WWTP. The rates proposed in this case are fair, just, and reasonable as required under Kentucky law. The fact that a handful of customers need E-pumps because of their unique location circumstances does not affect the independent analysis of whether the proposed rates are fair, just, and reasonable.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2021-00434
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Tricia Sinopole

19. Refer to the Application generally.
- a. Has Kentucky-American obtained and/or is the Company seeking any funds/grants from federal, state, or local sources which have been or will be made available to wastewater facilities? If so, identify the source and amount of those funds/grants. If not, and funds/grants are available for which the Company is eligible, explain why the Company is foregoing those opportunities.
 - b. Explain in detail how the Company has complied with KRS 278.2201 to 278.2213 regarding affiliate transactions.
 - c. Provide a copy of any and all cost allocation manual(s) related to the Kentucky-American wastewater operations.
 - d. Identify the amount of cash working capital that is included in the proposed revenue requirement, if any.

Response:

- a. Kentucky-American has not obtained, nor is it currently seeking any funds/grants from federal, state, or local sources. Kentucky-American has not previously been eligible for funds or grants from federal, state, or local resources. The only potential access Kentucky-American has had to public funds came via the American Rescue Plan Act of 2021 Coronavirus State Fiscal Recovery Fund to the Kentucky Infrastructure Authority for the Drinking Water and Wastewater Grant Program. For Kentucky-American to qualify for these funds, a public entity would have to apply on behalf of the Company and the project would have to:
 - Provide drinking water services to unserved rural customers or to counties under a federal consent decree
 - Supplement a project in excess of the county's ARP allocation amount or other available grant programs (weighing social, economic and environmental benefits)
- b. The American Water Works Service Company Cost Allocation Manual ensures Kentucky-American's compliance with KRS 278.2201 to 278.2213, and said manual was most recently updated in April 2021. Please see the response to AG 1-2 where the manual is attached as a confidential attachment. The methodologies used to account for affiliate transactions can be found on pages 4 through 11.
- c. See response b, *supra*.

- d. The amount of cash working capital included in the proposed revenue requirement is \$110,979, which was included as an addition in the calculation of rate base. Kentucky-American used the same methodology recommended in Staff's Report in Case No. 2014-00390 (KAW's last sewer rate case). Staff recommended using the 1/8 formula approach in Case No. 2014-00390, where 0.125 (1/8 Formula) is multiplied by Pro Forma Operation and Maintenance Expenses to derive cash working capital. In this case, the Pro Forma Operation and Maintenance Expenses of \$887,835 were multiplied by 0.125 to derive cash working capital of \$110,979. It is important to note that the calculation of rate base is only used in an Alternative Rate Filing to calculate interest expense.