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

Witness: Tricia Sinopole/David Farrar

1. Provide in written verified form the direct testimony of each witness that Kentucky-American intends to rely on in this matter.

Response:

The written testimony of Tricia Sinople and David Farrar is being filed contemporaneously with these data responses.

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

Witness: Tricia Sinopole

2. Provide a copy of the general ledgers for Kentucky-American's sewer division for calendar years 2020 and 2021. The general ledgers shall include all check registers and spreadsheets used to record and track financial transactions. If available, provide a copy of the requested general ledgers in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

Response:

Please see attached KAW_R_PSCDR1_NUM002_012422.xlsx. KAW's 2021 books are not final so the attached data for 2021 is subject to change. KAW will supplement this response in the event any changes occur.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2021-00434
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Witness: Tricia Sinopole

3. a. Provide a copy of the Adjusted Trial Balances for Kentucky-American's sewer division showing unaudited account balances, audit adjustments, and audited balances for the calendar years 2020 and 2021. The trial balances shall be traced and referenced directly to the general ledgers that are requested in Item 2.

   b. Provide a schedule tracing the unadjusted account balances from the Adjusted Trial Balance provided in response to 3.a. to the General Ledgers provided in response to Item 2.

   c. Provide a schedule tracing the adjusted account balances from the Adjusted Trial Balance provided in response to 3.a. to the actual test-year reported in the Application, Attachment 4, Schedule of Adjusted Operations.

   d. Provide copies of the responses to Item 3.a, Item 3.b., and Item 3.c in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

Response:

a. Please see the attachment KAW_R_PSCDR1_NUM002_012422.xlsx for the unaudited 2020 and 2021 Trial Balance. Please see KAW_R_PSCDR1_NUM003_012422_2020 for Kentucky-American Water Company's Audited Financial Statements for 2020. Audited 2021 financial statements are not yet available.
b. The audited financial statements for 2020 are for both water and sewer operations, as the Company does not maintain audited financial statements for only its sewer operations. As a result, tracing schedules between the audited financial statements and the unaudited general ledgers are unavailable.
c. See b above.
d. See a above.

Kentucky-American Water Company

(A wholly-owned subsidiary of American Water Works Company, Inc.)

Financial Statements

As of and for the years ended December 31, 2020 and 2019

Report of Independent Auditors

To the Board of Directors of
Kentucky-American Water Company

We have audited the accompanying financial statements of Kentucky-American Water Company, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, cash flows, and changes in common stockholder's equity for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky-American Water Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 31, 2021

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19103-7042
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KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2020 and 2019
(Dollars in thousands)

Assets				
		2020		**2019**
Property, plant and equipment, net				
Utility plant, net	$	666,847	$	646,852
Utility plant acquisition adjustments		386		431
Non-utility property, net		250		250
Total property, plant and equipment		667,483		647,533
Current assets				
Cash and cash equivalents		479		642
Accounts receivable		8,318		6,353
Allowance for uncollectible accounts		(1,618)		(1,056)
Unbilled utility revenues		4,533		4,447
Accounts receivable - affiliated company		11		6,642
State income tax receivable - affiliated company		33		973
Materials and supplies		1,098		869
Current portion of regulatory assets		123		139
Other current assets		431		1,038
Total current assets		13,408		20,047
Regulatory and other long-term assets				
Regulatory assets		17,922		17,179
Goodwill		576		576
Prepaid pension expense		1,026		677
Prepaid postretirement benefit expense		1,287		429
Other long-term assets		77		92
Total regulatory and other long-term assets		20,888		18,953
Total assets	$	701,779	$	686,533

The accompanying notes are an integral part of these financial statements

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2020 and 2019
(Dollars in thousands)

Capitalization and Liabilities

Capitalization	**2020**	**2019**
Common stockholder's equity	$ 235,058	$ 220,875
Long-term debt	221,619	221,614
Preferred stock with mandatory redemption requirements	2,250	2,250
Total capitalization	458,927	444,739
Current liabilities		
Notes payable - affiliated company	31,195	21,787
Accounts payable	5,301	11,943
Accounts payable - affiliated company	730	5,821
Taxes accrued	7,242	6,682
Interest accrued	1,895	1,745
Refunds due to customers	792	788
Advances for construction	1,360	1,344
Other current liabilities	4,474	4,128
Total current liabilities	52,989	54,238
Regulatory and other long-term liabilities		
Advances for construction	8,960	9,605
Deferred income taxes, net	52,335	50,569
Deferred investment tax credits	136	215
Regulatory liability - cost of removal	15,922	14,632
Other regulatory liabilities	35,621	37,595
Other long-term liabilities	563	109
Total regulatory and other long-term liabilities	113,537	112,725
Contributions in aid of construction	76,326	74,831
Commitments and contingencies (see Note 17)	—	—
Total capitalization and liabilities	$ 701,779	$ 686,533

The accompanying notes are an integral part of these financial statements

KENTUCKY-AMERICAN WATER COMPANY
Statements of Income
December 31, 2020 and 2019
(Dollars in thousands)

	2020	2019
Operating revenues	$ 100,622	$ 98,931
Operating expenses (income)		
Operation and maintenance	38,799	36,986
Depreciation	16,833	15,433
Amortization	2,783	2,622
General taxes	8,105	7,067
Gain on asset dispositions and purchases	(19)	—
Total operating expenses, net	66,501	62,108
Operating income	34,121	36,823
Other income (expenses)		
Interest, net	(10,531)	(13,257)
Allowance for other funds used during construction	1,227	1,331
Allowance for borrowed funds used during construction	560	629
Amortization of debt expense	(211)	(99)
Non-operating benefit costs, net	1,306	417
Other, net	(13)	(62)
Total other expenses	(7,662)	(11,041)
Income before income taxes	26,459	25,782
Provision for income taxes	5,222	5,712
Net income	$ 21,237	$ 20,069
Net income available to common stockholder	$ 21,237	$ 20,069

The accompanying notes are an integral part of these financial statements

KENTUCKY-AMERICAN WATER COMPANY
Statements of Cash Flows
December 31, 2020 and 2019
(Dollars in thousands)

	2020	2019
Cash flows from operating activities		
Net income	$ 21,237	$ 20,069
Adjustments:		
Depreciation and amortization	19,616	18,055
Amortization of debt expense	196	99
Provision for deferred income taxes	308	5,356
Amortization of deferred investment tax credits	(78)	(78)
Provision for losses on accounts receivable	1,132	680
Allowance for other funds used during construction	(1,227)	(1,331)
Gain on asset dispositions and acquisitions	(19)	—
Pension and non-pension postretirement benefits	(905)	109
Deferred programmed maintenance expense	(2,463)	(2,711)
Other, net	1,456	211
Changes in assets and liabilities:		
Accounts receivable and unbilled revenues	(2,593)	(541)
Federal income tax from affiliated company	—	(1)
State income tax from affiliated company	940	(80)
Other current assets	379	(636)
Pension and non-pension postretirement benefit contributions	(536)	(453)
Accounts payable	(1,650)	1,863
Accounts receivable and payable - affiliated company	2,300	(2,130)
Accrued interest	150	(407)
Accrued taxes	560	104
Other current liabilities	374	(1,681)
Net cash provided by operating activities	39,177	36,498
Cash flows from investing activities		
Capital expenditures	(42,445)	(46,999)
Acquisitions	—	(1,576)
Removal costs from property, plant and equipment retirements, net	(1,822)	(6,494)
Net cash used in investing activities	(44,267)	(55,069)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	—	16,000
Net borrowings of notes payable - affiliated company	9,408	3,348
Debt issuance costs	(827)	(803)
Advances and contributions, net of refunds of $1,513 and 1,349 in 2020 and 2019, respectively	3,431	4,533
Capital contributions by stockholder	10,000	9,300
Dividends paid	(17,085)	(14,357)
Net cash provided by financing activities	4,927	18,021
Net decrease in cash	(163)	(550)
Cash at beginning of year	642	1,192
Cash at end of year	479	$ 642
Cash paid during the year for:		
Interest, net of capitalized amount	$ 10,377	$ 12,470
Income taxes	$ 3,563	$ 3,440
Non-cash investing activity		
Capital expenditures acquired on account but unpaid as of year end	$ 2,429	$ 7,073
Non-cash financing activity		
Capital contributions/(distributions) by stockholder	$ 31	$ (39)

The accompanying notes are an integral part of these financial statements

KENTUCKY-AMERICAN WATER COMPANY
Statements of Changes in Common Stockholder's Equity
December 31, 2020 and 2019
(Dollars in thousands)

	Common Stock		Paid-in	Retained	
	Shares	Par Value	Capital	Earnings	Total
Balance at December 31, 2018	1,567,391	$ 36,569	$ 94,170	$ 75,188	$ 205,928
Net income				20,069	20,069
Capital contributions			9,260		9,260
Cumulative effect of change in accounting principle				(25)	(25)
Dividends				(14,357)	(14,357)
Balance at December 31, 2019	1,567,391	$ 36,569	$ 103,430	$ 80,875	$ 220,875
Net income	—	—	—	21,237	21,237
Capital contributions	—	—	10,031	—	10,031
Dividends	—	—	—	(17,085)	(17,085)
Balance at December 31, 2020	1,567,391	$ 36,569	$ 113,461	$ 85,027	$ 235,058

Note 1: Organization and Operation

Kentucky-American Water Company (the "Company") provides water and wastewater services in the state of Kentucky. As a public utility operating in Kentucky, the Company functions under rules and regulations prescribed by the Kentucky Board of Public Utilities (the "Commission"). The Company is a wholly-owned subsidiary of American Water Works Company, Inc. ("AWW").

Note 2: Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires that management make estimates, assumptions and judgments that could affect the Company's financial condition, results of operations and cash flows. Actual results could differ from these estimates, assumptions and judgments. The Company considers its critical accounting estimates to include (i) the application of regulatory accounting principles and the related determination and estimation of regulatory assets and liabilities, (ii) revenue recognition and the estimates used in the calculation of unbilled revenue, (iii) accounting for income taxes and (iv) benefit plan assumptions. The Company's critical accounting estimates that are particularly sensitive to change in the near term are amounts reported for regulatory assets and liabilities, income taxes and benefit plan assumptions.

Regulation

The Company is subject to regulation by the Commission, the Kentucky Department for Environmental Protection and the U.S. Environmental Protection Agency. As such, the Company follows authoritative accounting principles required for rate regulated utilities, which requires the effects of rate regulation to be reflected in the Company's Financial Statements. The Commission generally authorizes revenue at levels intended to recover the estimated costs of providing service, plus a return on net investments, or rate base. The Commission may also approve accounting treatments, long-term financing programs and cost of capital, capital expenditures, operation and maintenance (O&M) expenses, taxes, transactions and affiliate relationships, reorganizations and mergers, and acquisitions, along with imposing certain penalties or granting certain incentives. Due to timing and other differences in the collection of utility revenue, an incurred cost that would otherwise be charged as an expense, could be deferred as a regulatory asset if it is probable that such cost is recoverable through future rates. Conversely, GAAP requires the creation of a regulatory liability for amounts collected in rates to recover costs expected to be incurred in the future, or amounts collected in excess of costs incurred and refundable to customers.

Property, Plant and Equipment

Property, plant and equipment consist primarily of utility plant. Additions to utility plant and replacements of retirement units of utility plant are capitalized and include costs such as materials, direct labor, payroll taxes and benefits, indirect items such as engineering and supervision, transportation and an allowance for funds used during construction ("AFUDC"). Costs for repair, maintenance and minor replacements are charged to O&M expense as incurred.

When units of property, plant and equipment are replaced, retired or abandoned, the recorded value is credited against the asset and charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates, until the costs to retire those assets are incurred.

The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. The carrying value of these costs amounted to $8,914 and $8,387 as of December 31, 2020 and 2019, respectively.

Nonutility property consists primarily of buildings, equipment and land utilized by the Company for internal operations. This property is stated at cost, net of accumulated depreciation, which is calculated using the straight-line method over the useful lives of the assets.

Utility plant acquisition adjustments represent the difference between the fair value of plant at the date of purchase and its original cost when first devoted to public service, less accumulated depreciation, and are amortized to expense over amortization periods authorized by the Commission. Amortization of utility plant acquisition adjustments was $45 and $8 for the years ended December 31, 2020 and 2019, respectively. The remaining useful lives range from 9 to 25 years.

The cost of utility plant is depreciated using the straight-line average remaining life group method. The Company records depreciation in conformity with amounts approved by the Commission after regulatory review of the information the Company submits to support its estimates of the assets' remaining useful lives.

Cash and Cash Equivalents

Substantially all of the Company's cash is invested in interest-bearing accounts. The Company had $479 and $642 at December 31, 2020 and 2019, respectively. The Company has no restricted cash. All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Accounts Receivable and Unbilled Revenues

The majority of the Company's accounts receivable is due from utility customers and represents amounts billed to the Company's customers on a cycle basis. Credit is extended based on the guidelines of the Commission and collateral is generally not required. Unbilled revenues are accrued when service has been provided but has not been billed to customers.

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due, previous loss history, current economic and societal conditions and reasonable and supportable forecasts that affect the collectability of receivables from customers. The Company generally writes off accounts when they become uncollectible or are over a certain number of days outstanding. An increase in the allowance for uncollectible accounts for the period ending December 31, 2020 reflects the impacts from the current novel coronavirus ("COVID-19") pandemic, including an increase in uncollectible accounts expense and a reduction in amounts written off due to shutoff moratoria in place.

Leases

On January 1, 2019, the Company adopted Accounting Standards Update 2016-02, Leases (Topic 842), and all related amendments (collectively, the "Standard"). The Company implemented the guidance in the Standard using the modified retrospective approach and applied the optional transition method, which allowed entities to apply the new Standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Standard includes practical expedients, which relate to the identification and classification of leases that commenced before the adoption date, initial direct costs for leases that commenced before the adoption date, the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset and the ability to carry forward accounting treatment for existing land easements.

Adoption of the Standard resulted in the recognition of operating lease right-of-use ("ROU") assets and operating lease liabilities as of January 1, 2019 of approximately $3 and $3, respectively. The Standard did not materially impact the Company's results of operations and had no impact on cash flows.

The Company has operating involving real property, including facilities, utility assets, vehicles, and equipment. The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets, accrued liabilities and operating lease liabilities on the Balance Sheets. The Company has made an accounting policy election not to include operating leases with a lease term of twelve months or less.

ROU assets represent the right to use an underlying asset for the lease term and the lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are generally recognized at the commencement date based on the present value of discounted lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of discounted lease payments. The implicit rate is used when readily determinable. ROU assets also include any upfront lease payments and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense is recognized on a straight line basis over the lease term.

The Company has lease agreements with lease components (e.g., fixed payments including rent, real estate taxes and insurance costs) and non-lease components (e.g., common-area maintenance costs), which are generally accounted for separately; however, the Company accounts for the lease and non-lease components as a single lease component for certain leases. Certain lease agreements include variable rental payments adjusted periodically for inflation. Additionally, the Company applies a portfolio approach to effectively account for the ROU assets and lease liabilities. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Goodwill

Goodwill represents the excess of the purchase price paid over the estimated fair value of the assets acquired and liabilities assumed in the acquisition of a business. The Company has recorded $576 of goodwill at December 31, 2020 and 2019. Goodwill is not amortized, and is tested for impairment at least annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

The annual impairment testing is performed as of November 30 of each year, in conjunction with the completion of the Company's annual business plan. The Company assesses qualitative factors to determine whether quantitative testing is necessary. If it is determined, based upon qualitative factors, that the estimated fair value of a reporting unit is more likely than not, greater than its carrying value, no further testing is required. If the Company bypasses the qualitative assessment, or performs the qualitative assessment and determines that the estimated fair value of a reporting unit is more likely than not, less than its carrying value, a quantitative, fair value-based test is performed. This quantitative testing compares the estimated fair value of the reporting unit to its respective net carrying value, including goodwill, on the measurement date. An impairment loss will be recognized in the amount equal to the excess of the reporting unit's carrying value compared to its estimated fair value, limited to the total amount of goodwill allocated to that reporting unit.

Application of goodwill impairment testing requires management judgment, including the identification of reporting units and determining the fair value of reporting units. Management estimates fair value using a discounted cash flow analysis. Significant assumptions used in these fair value estimations include, but are not limited to, forecasts of future operating results, discount and growth rates.

The Company believes the assumptions and other considerations used to value goodwill to be appropriate, however, if actual experience differs from the assumptions and considerations used in its analysis, the resulting change could have a material adverse impact on the financial statements.

Advances for Construction and Contributions in Aid of Construction

The Company may receive advances for construction and contributions in aid of construction from customers, home builders, real estate developers, and others to fund construction necessary to extend service to new areas. Advances are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled.

Advances that are no longer refundable are reclassified to contributions. Contributions are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such contributions generally serves as a rate base reduction since the contributions represents non-investor supplied funds.

The Company depreciates utility plant funded by contributions and amortizes its contributions balance as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. Amortization of contributions in aid of construction was $2,565 and $2,423 for the years ended December 31, 2020 and 2019, respectively. For the years ended December 31, 2020 and 2019, no non-cash advances or contributions were received.

Revenue Recognition

Under ASC 606, a performance obligation is a promise within a contract to transfer a distinct good or service, or a series of distinct goods and services, to a customer. Revenue is recognized when performance obligations are satisfied and the customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for goods or services. Under ASC 606, a contract's transaction price is allocated to each distinct performance obligation. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps: (i) identifies the contracts with a customer; (ii) identifies the performance obligations within the contract, including whether any performance obligations are distinct and capable of being distinct in the context of the contracts; (iii) determines the transaction price; (iv) allocates the transaction price to the performance obligations in the contract; (v) recognizes revenue when, or as, the Company satisfies each performance obligation.

The Company’s revenues from contracts with customers are discussed below. Customer payments for contracts are generally due within 30 days of billing and none of the contracts with customers have payment terms that exceed one year; therefore, the Company elected to apply the significant financing component practical expedient and no amount of consideration has been allocated as a financing component.

Revenue is generated primarily from water and wastewater services delivered to customers. These contracts contain a single performance obligation, the delivery of water and/or wastewater services, as the promise to transfer the individual good or service is not separately identifiable from other promises within the contracts and, therefore, is not distinct. Revenues are recognized over time, as services are provided. There are generally no significant financing components or variable consideration. Revenues include amounts billed to customers on a cycle basis and unbilled amounts calculated based on estimated usage from the date of the meter reading associated with the latest customer bill, to the end of the accounting period. The amounts that the Company has a right to invoice are determined by each customer’s actual usage, an indicator that the invoice amount corresponds directly to the value transferred to the customer. The Company also recognizes revenue when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process.

Income Taxes

AWW and its subsidiaries participate in a consolidated federal income tax return for U.S. tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. The Company provides deferred income taxes on the difference between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates expected to be in effect when these temporary differences are projected to reverse. In addition, regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences, previously flowed through to customers, reverse.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

The Company recognizes accrued interest and penalties related to tax positions as a component of income tax expense and accounts for sales tax collected from customers and remitted to taxing authorities on a net basis. See Note 12-Income Taxes for additional information.

Allowance for Funds Used During Construction ("AFUDC")

AFUDC is a non-cash credit to income with a corresponding charge to utility plant that represents the cost of borrowed funds or a return on equity funds devoted to plant under construction. AFUDC is recorded to the extent permitted by the Commission.

New Accounting Standards

The following accounting standards were adopted by the Company in 2020:

Measurement of Credit Losses

In June 2016, the FASB issued guidance that updated the accounting guidance on reporting credit losses for financial assets held at amortized cost basis and available-for-sale debt securities. Under this guidance, expected credit losses are required to be measured based on historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount of financial assets. Also, this guidance requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The Company early adopted January 1, 2020 on a modified retrospective basis. The standard did not have a material impact on the Consolidated Financial Statements.

Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB updated the disclosure requirements for fair value measurement. The guidance removes the requirements to disclose transfers between Level 1 and Level 2 measurements, the timing of transfers between levels, and the valuation processes for Level 3 measurements. Disclosure of transfers into and out of Level 3 measurements will be required. The guidance adds disclosure requirements for the change in unrealized gains and losses in other comprehensive income for recurring Level 3 measurements, as well as the range and weighted average of significant unobservable inputs used to develop Level 3 measurements. The new standard is effective January 1, 2020 for the Company. The standard did not have a material impact on the Consolidated Financial Statements.

Facilitation of the Effects of Reference Rate Reform on Financial Reporting

FASB provided optional guidance for a limited time to ease the potential accounting burden associated with the transition from London Interbank Offered Rate ("LIBOR"). The guidance contains optional expedients and exceptions for contract modifications, hedging relationships, and other transactions that reference LIBOR or other reference rates expected to be discontinued. The expedients elected must be applied for all eligible contracts or transactions, with the exception of hedging relationships, which can be applied on an individual basis. The new standard is adopted for March 12, 2020 through December 31, 2022 for the Company. The Standard is applied prospectively for contract modifications and hedging relationships as of January 1, 2020. The standard did not have a material impact on the Consolidated Financial Statements.

The following recently issued accounting standards have not yet been adopted by the Company at December 31, 2020:

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued guidance that simplified the accounting for income taxes by removing certain exceptions and by adding certain requirements. The guidance removes exceptions related to the incremental approach for intraperiod tax allocation, the requirement to recognize a deferred tax liability for changes in ownership of a foreign subsidiary or equity method investment, and the general methodology for calculating income taxes in an interim period when the year-to-date loss exceeds the anticipated loss. The guidance adds requirements to reflect changes to tax laws or rates in the annual effective tax rate computation in the interim period in which the changes were enacted, to recognize franchise or other similar taxes that are partially based on income as an income-based tax and any incremental amounts as non-income-based tax, and to evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction. The new standard is effective January 1, 2022 for the Company. Early adoption is permitted. The Company is currently evaluating the impact on the financial statements, as well as the timing of adoption.

(Dollars in thousands)

Note 3: Impact of Novel Coronavirus (COVID-19) Pandemic

AWW has been monitoring the global outbreak of the COVID-19 pandemic. To date, the Company has experienced COVID-19 financial impacts, including an increase in uncollectible accounts expense, additional debt costs, and certain incremental O&M expenses. The Company has also experienced reduced late fees and foregone reconnect fees as a result of the pandemic. These impacts are collectively referred to as "financial impacts."

Note 4: Regulatory Matters

The Company received an order approving a joint settlement agreement with all major parties with respect to its general rate case filing, authorizing annualized incremental revenues of $13,000 effective June 28, 2019.

The State of Kentucky has authorized the use of regulatory mechanisms that permit rates to be adjusted outside of a general rate case for certain costs and investments, such as infrastructure surcharge mechanisms that permit recovery of capital investments to replace aging infrastructure. In 2020, $1,000 annualized revenue increase was effective July 1 for investment from July 1, 2020 to June 30, 2021.

Note 5: Revenue Recognition

Disaggregated Revenues

Presented in the table below are operating revenues disaggregated for the year ended December 31, 2020:

	Revenue from Contracts with Customers	Total Operating Revenues
Water Services:		
Residential	$ 58,307	$ 58,307
Commercial	24,455	24,455
Industrial	2,507	2,507
Fire Service	7,346	7,346
Public and other	4,839	4,839
Sales for resale	1,119	1,119
Total water services	98,573	98,573
Wastewater services:		
Residential	537	537
Commercial	157	157
Public and other	21	21
Total wastewater services	715	715
Miscellaneous utility charges	1,179	1,179
Lease contract revenue (a)	—	155
Total operating revenues	$ 100,467	$ 100,622

(a) Includes revenues associated with lease contracts which are outside the scope of ASC 606 and accounted for under other existing GAAP.

(Dollars in thousands)

Note 6: Acquisitions

During 2019, the Company acquired one regulated water system for a total aggregate purchase price of $1,571 plus acquisition costs of $5 for a total cash outlay of $1,576. Assets acquired, principally utility plant, totaled $2,500 and liabilities assumed totaled $1,500. This acquisition was accounted for as a business combination. There were no acquisitions in 2020.

Note 7: Utility Plant

Presented in the table below are the major classes of utility plant by category at December 31:

	Range of Remaining Useful Life	2020	2019
Utility plant:			
Land and other non-depreciable assets	—	$ 9,899	$ 9,898
Sources of supply	42 to 72 Years	62,069	59,267
Treatment and pumping	28 to 46 Years	165,297	152,810
Transmission and distribution	38 to 82 Years	371,388	361,587
Services, meters and fire hydrants	27 to 65 Years	147,838	143,196
General structures and equipment	5 to 57 Years	63,356	61,407
Wastewater	5 to 50 Years	13,630	11,325
Construction work in progress	—	14,116	23,813
		847,593	823,303
Less: Accumulated depreciation		(180,746)	(176,451)
Utility plant, net		$ 666,847	$ 646,852

The provision for depreciation expressed as a percentage of the aggregate average depreciable asset balances was 2.68% and 2.58% in 2020 and 2019, respectively.

Note 8: Regulatory Assets and Liabilities

Regulatory Assets

Regulatory assets represent costs that are expected to be fully recovered from customers in future rates. Generally, the Company does not earn a return on its regulatory assets.

Provided in the table below is the composition of regulatory assets as of December 31:

	2020	2019
Programmed maintenance expense	13,406	12,394
Debt and preferred stock expense	2,671	2,472
Bluegrass water project	1,142	1,199
Other	703	1,114
Total regulatory assets	$ 17,922	$ 17,179

(Dollars in thousands)

Programmed maintenance costs are deferred and amortized to current operations on a straight-line basis over a fifteen-year period, as authorized by the Commission in their determination of rates charged for service.

Debt and preferred stock expense represent unamortized debt expense and is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt issuance costs, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of issues with sinking fund provisions are charged to operations as shares are retired.

The Company previously recorded a regulatory asset for the Bluegrass water project source of supply costs in the amount of $2,283 to be amortized over a forty-year period.

Other regulatory assets are mostly comprised of deferred rate case expense, certain employee related benefits and deferred waste disposal costs.

Regulatory Liabilities

Regulatory liabilities represent amounts that are expected to be refunded to customers in future rates, items deferred pending Commission guidance, or amounts recovered from customers in advance of incurring the costs.

Provided in the table below is the composition of regulatory liabilities as of December 31:

	2020	**2019**
Income taxes recovered through rates	$ 35,621	37,595
Removal costs recovered through rates	15,922	14,632
Total regulatory liabilities	$ 51,543	$ 52,227

Income taxes recovered through rates relate to excess accumulated deferred income taxes ("EADIT") that are either currently being amortized as a reduction to income tax expense or will be addressed in future rate cases or other proceedings.

This regulatory liability is mainly compromised of the remeasurement of accumulated deferred income taxes resulting from the reduction in the federal corporate income tax rate from 35% to 21%, which became effective January 1, 2018, as a result of the Tax Cuts and Jobs Act (TCJA).

The Company has adjusted customer rates to reflect the lower income tax rate and is currently amortizing the EADIT as a reduction to income tax expense.

Removal costs recovered through rates are estimated costs to retire assets at the end of their expected useful lives that are recovered through customer rates over the lives of the associated assets.

(Dollars in thousands)

Note 9: Long-Term Debt

Presented in the table below are the components of long-term debt as of December 31:

	Rate	Weighted Average Rate	Maturity Date	2020	2019
Mortgage bonds	6.96%-7.15%	7.03%	2023-2028	$ 23,500	$ 23,500
Variable rate loans					
Notes payable to affiliated company	.70%-6.59%	3.74%	2023-2049	198,249	198,249
Cumulative preferred stock with mandatory redemption requirements	8.47%	8.47%	2036	2,250	2,250
Long-term debt				223,999	223,999
Unamortized debt premium, net				(130)	(135)
Total long-term debt				$ 223,869	$ 223,864

The general mortgage bonds are issued in series. No bonds senior to the general mortgage bonds may be issued so long as the general mortgage bonds are outstanding. Based on the calculation methodology specified by the debt agreements, the amount of bonds authorized is limited, as long-term debt cannot exceed 65% of total capitalization, and adjusted net income of the Company must be equal to or greater than 1.5 times the aggregate annual interest charges on all long-term debt of the Company. At December 31, 2020, long-term debt was 49% of total capitalization and net income excluding gains or losses on property sales, amortization of debt issuance costs, interest on long-term debt, and provision for income taxes was 3.56 times the aggregate annual interest charges on all long-term debt. Mortgage bonds are collateralized by utility plant.

The long-term notes payable to affiliated company are unsecured and were issued to American Water Capital Corporation (“AWCC”), a subsidiary of AWW, for the principal amount. AWCC provided the funding for these notes by issuing senior notes to institutional investors at a price equal to the principal amount.

In 2020, AWCC, a subsidiary of AWW provided the refunding of 2010 Series A 5.375% $26,000 County of Owen Waterworks System Revenue Bonds. The proceeds were used to issue Series 2020 .70% $26,000 County of Owen Waterworks Facilities Revenue bonds maturing in 2040 with a mandatory purchase date in 2023.

In 2019, the Company issued $16,000 of long-term notes payable to AWCC at a rate of 4.15% due in 2049. In 2019, the Company used proceeds from the offering to repay AWCC’s commercial paper obligations and for general corporate purposes.

In 2019, the Company issued long-term notes payable of $45,390 bearing interest of 2.45% with a mandatory purchase date of October 1, 2029 and $26,000 bearing interest of 2.45% with a mandatory purchase date of October 1, 2029. The Issuer loaned the proceeds to AWCC and the Company to: (i) refund $45,390 of its outstanding 6.25% Water Facilities Refunding Revenue Bonds due June 1, 2039 and (ii) refund $26,000 of its outstanding 5.625% Water Facilities Refunding Revenue Bonds due September 1, 2039.

(Dollars in thousands)

Maturities of long-term debt, including sinking fund payments and capital leases, will amount to $0 in 2021 through 2022, and $33,000 in 2023, and $190,999 thereafter. Preferred stock agreements contain provisions for redemption at various prices on thirty-day notice at the Company's discretion. In the event of voluntary liquidation, the 8.47% series is redeemable at $100 per share plus the make-whole premium, together with accrued dividends.

Note 10: Short-Term Debt

The Company maintained a line of credit through AWCC of $35,000 and $20,000 at December 31, 2020 and 2019, respectively. The Company may borrow from the line of credit assuming loan balance is a credit for both years. No compensating balances are required under the agreements. Funds were primarily used for short-term operating needs. There were $31,195 and $21,787 of outstanding borrowings at December 31, 2020 and 2019, respectively. The weighted average annual interest rate on the borrowings at December 31, 2020 and 2019 were 0.79% and 2.48%, respectively. Short-term debt is presented as notes payable-affiliated company in the Balance Sheets.

Note 11: General Taxes

Presented in the table below are the components of general tax expense for the years ended December 31:

	2020	2019
Property	7,325	6,242
Payroll	582	612
Public Utility Commission assessment	198	213
Total general taxes	$ 8,105	$ 7,067

Note 12: Income Taxes

Presented in the table below are the components of income tax expense for the years ended December 31:

	2020	2019
State Income Tax		
Current	$ 940	$ (114)
Deferred	386	1,303
Total income taxes	$ 1,326	$ 1,189
Federal income taxes:		
Current	$ 4,052	$ 548
Deferred	(78)	4,054
Amortization of deferred investment tax credits	(78)	(79)
	3,896	4,523
Total income taxes	$ 5,222	$ 5,712

The primary components of the net deferred tax liability of $52,335 and $50,569 at December 31, 2020 and December 31, 2019, respectively, include basis differences in utility plant partially offset by advances and contributions. No valuation allowances were required on deferred tax assets at December 31, 2020 and 2019 as management believes it is more likely than not that deferred tax assets will be realized.

As of December 31, 2020 and 2019, the Company's reserve for uncertain tax positions is $870 and $717 respectively, excluding accrued interest and penalties. The Company does not expect a material change in this estimate in the next twelve months. The reserve could increase or decrease for such things as the expiration of statutes of limitations, audit settlement, or tax examination activities.

The Company recognizes interest and penalties related to income tax matters in income tax expense. The Company recognized interest expense of $21 and $18 for 2020 and 2019, respectively.

The Company files income tax returns in the United States federal and state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal or state tax examinations by tax authorities for years before 2017.

For taxable years beginning on or after January 1, 2019, H.B. 487 mandates that all Kentucky taxpayers engaged in a unitary business group with one or more corporations must file a combined report in the state.

Note 13: Employee Benefit Plans

Savings Plan for Employees

The Company maintains a 401(k) Savings Plan, sponsored by AWW, allowing employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitations. Due to the Company’s discontinuing new entrants into the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and for non-union employees hired on or after January 1, 2006.

The Company expensed contributions to the plans of $446 and $410 for 2020 and 2019, respectively. All of the Company’s contributions are invested in one or more funds at the direction of the employee.

Pension Benefits

The Company participates in a Company-funded defined benefit pension plan, sponsored by AWW, covering eligible employees hired before January 1, 2006. Benefits under the plan are based on an employee’s years of service and compensation. The pension plan is closed for all new employees. The pension plan was closed for most employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement.

(Dollars in thousands)

The Company's pension cost is based on an allocation from AWW of the total cost related to the plan. The allocation is based upon the Company's participants' pensionable earnings as a percentage of AWW's total plan pensionable earnings. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated costs of $187 and $945 in 2020 and 2019, respectively.

AWW's funding practice is to contribute at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost. Further, AWW will consider additional contributions if needed to avoid "at risk" status and benefit restrictions under the Pension Protection Act of 2006. AWW may also consider increased contributions based on other financial requirements and the plan's funded position. The Company's pension contributions are based on an allocation from AWW of the total contributions related to the plan. Contributions are allocated to the Company from AWW based upon the Company's participants' pensionable earnings as a percentage of AWW's total plan pensionable earnings. The Company made contributions of $536 and $453 in 2020 and 2019, respectively. The Company expects to contribute $457 to the AWW plan in 2021.

Postretirement Benefits Other Than Pensions

The Company participates in a Company-funded plan, sponsored by AWW that provides varying levels of medical and life insurance to eligible retirees. The retiree welfare plans are closed for union employees hired on or after January 1, 2006, and for non-union employees hired on or after January 1, 2002.

Costs of the Company are based on an allocation from AWW of the total cost related to the plan. The allocation is based upon the Company's covered participants as a percentage of AWW's total plan covered participants. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated benefit of $943 and $836 in 2020 and 2019, respectively.

No contributions were made in 2020 and 2019, respectively. No contribution to the plan is required in 2021.

Note 14: Related Party Transactions

American Water Works Service Company, Inc. ("AWWS"), a subsidiary of AWW, provides certain management and operational services to the Company (administration, accounting, communications, data processing, education and training, engineering, financial, health and safety, human resources, information systems, internal audit, legal, operations, procurement, rates, security, risk management, water quality, research and development, etc.) and other operating companies that are subsidiaries of AWW on an at-cost, not-for-profit basis in accordance with a management and service agreement.

Purchases of such services by the Company were accounted for as follows:

	2020	2019
Included in operation and maintenance expense		
as a charge against income	$ 12,000	$ 10,397
Capitalized primarily in utility plant	3,633	4,207
	$ 15,633	$ 14,604

The Company provided workspace for certain associates of AWWS. Charges for direct costs and indirect overhead costs associated with these associates are billed to AWWS on an at-cost, not for profit basis, which amounted to $155 and $135 in 2020 and 2019, respectively.

The Company maintains a line of credit through AWCC. The Company also participates in AWCC's centralized treasury function, whereby the Company transfers its cash to AWCC and the Company's checks are issued out of AWCC. Under this arrangement, available cash is used to pay-down the line of credit and issued checks increase the Company's line of credit balance.

The Company paid AWCC fees of $78 in 2020 and $51 in 2019, and recorded interest expense on short-term borrowings of $444 in 2020 and $560 in 2019. Interest expense on long-term debt with AWCC amounted to $8,240 and $10,845 in 2020 and 2019, respectively.

Accrued interest expense included amounts due to AWCC of $1,563 and $1,413 for 2020 and 2019, respectively.

The Company received cash capital contributions of $10,000 and $9,300 from AWW in 2020 and 2019, respectively.

The Company pays dividends to AWW on a quarterly basis. The amount of the dividend is based on a percentage of net income adjusted for certain items. The Company paid dividends of $17,085 and $14,357 in 2020 and 2019, respectively.

The Company paid permit fees of $3,170 and $0 for the years ended December 31, 2020 and 2019, respectively, to the Kentucky River Authority for the right to extract water from the Kentucky river for use in its water and waste water services. A member of the Company's board of directors, David Farrar, is also a member of the board of directors for the Kentucky River Authority.

Note 15: Fair Values of Financial Instruments

Fair Value Measurements

To increase consistency and comparability in fair value measurements, GAAP guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date. Financial assets and liabilities utilizing Level 1 inputs include active exchange-trade equity securities, exchange-based derivatives, mutual funds, and money market funds.

- Level 2 - Inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial assets and liabilities utilizing Level 2 inputs include fixed income securities, non-exchange-based derivatives, commingled investment funds not subject to purchase, and sale restrictions and fair-value hedges.

(Dollars in thousands)

- Level 3 - Unobservable inputs, such as internally-developed pricing models for the asset or liability due to little or no market activity for the asset or liability. Financial assets and liabilities utilizing Level 3 inputs include infrequently-traded non-exchange-based derivatives and commingled investment funds subject to purchase and sale restrictions.

Current assets and current liabilities: The carrying amounts reported in the Balance Sheets for current assets and current liabilities approximate their fair values.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Preferred stock with mandatory redemption and long-term debt: The fair values of the Company's long-term debt are determined by a valuation model which is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As the majority of the Company's debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of AWCC's own publicly-traded debt securities and the current market rates for U.S. Utility debt securities based on an internal quantitative credit assessment of the Company. The Company used these yield curve assumptions to derive a base yield for Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities including call features, coupon tax treatment and collateral for the Level 3 instruments.

Presented in the table below are carrying amounts and fair values of the financial instruments:

		At Fair Value as of December 31, 2020			
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Preferred stock with mandatory redemption requirements	$ 2,250	—	$ —	$ 3,245	$ 3,245
Long-term debt	221,619	—	142,684	136,194	278,878

		At Fair Value as of December 31, 2019			
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Preferred stock with mandatory redemption requirements	$ 2,250	—	$ —	$ 3,135	$ 3,135
Long-term debt	221,614	—	129,319	127,052	256,371

Recurring Fair Value Measurements

As of December 31, 2020 and 2019, the Company had immaterial amounts of assets and liabilities measured and recorded at fair value on a recurring basis.

Note 16: Leases

Certain operating leases have renewal options ranging from 1 to 6 years. The exercise of lease renewal options is at the Company's sole discretion. Renewal options that the Company was reasonably certain to exercise are included in the Company's ROU assets. Certain operating leases contain the option to purchase the leased property. The operating leases equipment will expire over the next 6 years.

Rental expenses under operating leases presented on the Balance Sheets were $2 and $3 for the years ended December 31, 2020 and 2019, respectively.

Presented in the table below is supplemental cash flow information for the year ended December 31 (in thousands):

	2020
Cash paid for amounts in lease liabilities (a)	$ 2
Right-of-use assets obtained in exchange for new operating lease liabilities	5

(a) Includes operating and financing cash flows from operating and finance leases.

Presented in the table below are the weighed-average remaining lease terms and the weighted-average discount rates for operating leases:

	As of December 31, 2020
Weighted-average remaining lease term:	
Operating leases	4 years
Weighted-average discount rate:	
Operating leases	0.67 %

Presented in the table below are the future maturities of lease liabilities at December 31, 2020 (in thousands):

	Amount
2021	$ 1
2022	1
2023	1
2024	1
2025	—
Thereafter	—
Total lease payments	4
Less imputed interest	—
Total	$ 4

Note 17: Commitments and Contingencies

Commitments have been made in connection with certain construction programs. The estimated capital expenditures required under legally binding contracts amounted to $3,136 at December 31, 2020.

As of December 31, 2020, the Company has no future annual commitments for service agreements.

The Company is routinely involved in legal actions incident to the normal conduct of its business. At December 31, 2020, the Company has not identified any loss contingencies that are probable or reasonably possible for existing matters.

Note 18: Subsequent Events

The Company performed an evaluation of subsequent events for the accompanying financial statements through March 31, 2021, the date this report was issued and determined that no circumstances warranted recognition and disclosure of those events or transactions in the financial statements as of December 31, 2020.

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

Witness: Tricia Sinopole

4. Refer to the Application, the PDF schedules entitled: Schedule of Adjusted Operations – Sewer Utility; Sewer Operations and Maintenance Expenses; Revenue Requirement Calculation – Operating Ratio Method; and Depreciation, Interest, Capital Structure. Provide the workpapers that support the listed PDF schedules in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

Response:

Please see the attachment KAW_R_PSCDR1_NUM0004_012422.xlsx. Please note the difference between the Revenue Requirement Calculation pdf and attachment showing the Excess ADIT Amortization of ($29,150). The Commission's ARF pdf template did not include an option for this adjustment and discussion about it is included in the document filed with KAW's Application entitled KAWC Case No. 2021-00434 Reasons for Application Attachment.

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

Witness: Tricia Sinopole

5. Refer to the Application, the PDF schedules entitled: Schedule of Adjusted Operations – Sewer Utility; Sewer Operations and Maintenance Expenses; Revenue Requirement Calculation – Operating Ratio Method; Depreciation, Interest, Capital Structure and Reasons for the Application. In its reasons for its application, Kentucky-American explains that it is currently operating five separate wastewater treatment plants.

   a. Provide the following schedules in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible separately for each wastewater treatment plant.

      (1) Revenue Requirement Calculation.

      (2) Pro Forma Income Statement.

      (3) Net Investment Rate Base.

      (4) Capital Structure.

   b. Provide the requested schedules in Item 6.a. in the table format below.

Waste Water Treatment Plants						Application
Plant 1	Plant 2	Plant 3	Plant 4	Plant 5	Total	Schedule

Response:

Please see the attachment KAW_R_PSCDR1_NUM005_012422.xlsx. Please note we are not able to break out the Capital Structure by profit center/wastewater treatment plant. Please see the response to KAW_R_AGDR1_NUM015_012422 for an explanation of the changes to the Depreciation Expense. Also, please note that KAW does not record depreciation expense by profit center (treatment plant) on its books because the depreciation rates are the same for all profit centers and depreciation is calculated at a group level rather than at the asset level. So, an allocation was done to estimate the 2020 actual test year depreciation expense of $467,299 to each profit center on the SAO_OME tab, based on annual calculated depreciation expense on the Depreciation tab. An allocation was also done to estimate the accumulated depreciation for each profit center that is used in the rate base calculation.

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

Witness: David Farrar

6. a. Using a table format, provide the following information for each Kentucky-American employee identified by employee number and job title: job description, date hired, date terminated (if applicable), and pay rates for each employee on December 31 for calendar years 2019 through 2021. Provide the requested tables in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

   b. Identify any employees listed in the response to 6.a. that are no longer employed. State if the vacant positions have been filled and provide the information requested in 6(a) for the new employee(s). If the position has not been filled state when you expect to hire a new employee or state if the position will remain vacant.

Response:

a. Please refer to KAW_R_PSCDR1_NUM006_012422_Attachment 1 CONFIDENTIAL which is being filed pursuant to a Petition for Confidential Protection.
b. Please refer to KAW_R_PSCDR1_NUM006_012422_Attachment 2 CONFIDENTIAL which is being filed pursuant to a Petition for Confidential Protection.

Witness: David Farrar

7. Using a table format, provide the regular hours and overtime hours for each employee identified in Kentucky-American's response to Item 6.a. for the calendar years 2019 through 2021. Provide the requested table in an Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible in table format below.

Employee		Sewer Division		Water Division		Total	
Number	Position	Regular	Overtime	Regular	Overtime	Regular	Overtime

Response:

Please refer to KAW_R_PSCDR1_NUM007_012422_Attachment.

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

Witness: David Farrar

8. Using a table format, provide the following actual full-year salary information for each employee listed in Item 6.a. above, identified by employee number and job title, for the calendar years 2017 through 2021 (in gross dollars—not hourly or monthly rates). The employee salary information for each year shall be provided by division and in a separate table for each year. Provide the requested tables in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

   a. Regular salary or pay.

   b. Overtime pay.

   c. Vacation payout.

   d. Standby/Dispatch pay.

   e. Bonus and incentive pay.

   f. Any other forms of incentives (may include stock options or forms of deferred compensation).

   g. Other amounts paid and reported on the employees' W-2 (specify).

Response:

a-g. Please refer to KAW_R_PSCDR1_NUM008_012422_Attachment CONFIDENTIAL related to full-year salary information for each employee listed in Item 6.a. for the calendar years 2017-2021. It is being filed pursuant to a Petition for Confidential Protection.

Witness: David Farrar / Tricia Sinopole

9. Using a table format, provide the following actual full-year benefit information for each employee listed in Item 6.a. above, identified by employee number and job title, for the calendar years 2017 through 2021. The employee's benefit information for each year shall be provided by division and in a separate table for each year. Provide the requested tables in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

    a. Health care benefit cost for each employee.

        (1) Amount paid by Kentucky-American.

        (2) Amount paid by each employee.

    b. Dental benefits cost for each employee.

        (1) Amount paid by Kentucky-American.

        (2) Amount paid by each employee.

    c. Vision benefits cost for each employee.

        (1) Amount paid by Kentucky-American.

        (2) Amount paid by each employee.

    d. Life insurance cost for each employee.

        (1) Amount paid by Kentucky-American.

        (2) Amount paid by each employee.

    e. Accidental death and disability benefits for each employee.

        (1) Amount paid by Kentucky-American.

        (2) Amount paid by each employee.

    f. Defined Contribution - 401(k) or similar plan cost for each employee. Provide the amount paid by Kentucky-American.

g. Defined Benefit Retirement cost for each employee.

(1) Amount paid by Kentucky-American.

(2) Amount paid by each employee.

h. Cost of any other benefit available to an employee (specify).

Response:

A-F & H. Please refer to KAW_R_PSCDR1_NUM009_012422_Attachment 1 for the employees listed in Item 6.a. for 2017-2021.

G. Please refer to KAW_R_PSCDR1_NUM009_012422_Attachment 2 for Pension and OPEBs. The eligible employees do not pay any amount for these benefits.

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

Witness: David Farrar

10. Provide a listing of all health care plan categories available to Kentucky-American's employees, i.e., single, married no dependents, single parent with dependents, family, etc. For each employee listed in Item 12 above, identify the type of health insurance coverage each employee was provided.

Response:

Please refer to KAW_R_PSCDR1_NUM010_012422_Attachment.

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

Witness: David Farrar / Tricia Sinopole

11. Identify the amounts of incentive pay that are included in test-year labor and Service Company costs. Describe the incentive pay plans and explain why such a plan is necessary and reasonable.

    a. List each Kentucky-American employee who is eligible to participate in the incentive pay program.

    b. State the level of incentive pay awarded to all individuals participating in the program for the previous five calendar years compared to the level of incentive pay available to each participant in the forecasted period.

    c. For the previous five calendar years, provide a comparison of the incentive pay that was budgeted to the actual amounts paid in each year. Include detailed explanations for any variance between the budgeted and actual payments.

Response:

For the test year of 2020, there is $6,457 in performance pay. That amount was provided to employees via the American Water Annual Performance Plan for achieving goals related to safety, customer satisfaction, and environmental leadership. KAW's performance pay is a vital and necessary part of the overall compensation offered to KAW employees. It is critical in attracting and retaining an adequate workforce. As shown in KAW's 2018 water rate case, without performance pay, KAW's total compensation paid to employees would fall well below market medians.[1]

a. All full-time employees are eligible to participate in the Annual Performance Plan (APP) as of January 1, 2019.
b. Please refer to KAW_R_PSCDR1_NUM008_012422_Attachment CONFIDENTIAL.
c. Please refer to KAW_R_PSCDR1_NUM011_012422_Attachment.

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[1] See page 7 of the November 28, 2018 Direct Testimony of Robert V. Mustich of Willis Towers Watson in KAW's most recent water rate case (Case No. 2018-00358).

Witness: David Farrar / Tricia Sinopole

12. For each employee listed in the responses to Item 6.a and Item 9, describe how Kentucky-American allocated each employee's payroll and payroll overhead charges between the sewer and water divisions in the calendar years 2020 and 2021. This response should include a detailed explanation of all allocation procedures. Payroll overhead charges include payroll taxes, health insurance premiums, pension costs, and any other employee benefit costs.

Response:

Employees are required to timely and accurately report their hours worked on a weekly basis. In doing so, a WBS (Work Breakdown Structure) element is selected to appropriately allocate those hours to either water or sewer operations. This allocation process covers payroll and payroll overhead charges.

Witness: Tricia Sinopole

13. Refer to the Application, the PDF schedule entitled Depreciation, Interest, Capital Structure, Cost of Capital Summary and the *Annual Report of Kentucky-American Water Company Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2021* at 13.

a. Provide explanations for the differences between the following account balances reported in the Cost of Capital Summary and the 2013 Annual Report.

	Class of Capital	Capital Summary	Difference	2021 Annual Report
(1)	Short-Term Debt	31,195,453	21,029,647	52,225,100
(2)	Long-Term Debt	218,953,592	2,665,617	221,619,209
(3)	Preferred Stock	2,243,852	6,148	2,250,000

b. Provide copies of all workpapers, assumptions, and calculations used by the Kentucky-American to calculate the following cost rates.

(1)	Short-Term Debt	0.24%
(2)	Long-Term Debt	4.24%
(3)	Preferred Stock	8.51%

Response:

a. The difference associated with long-term debt is related to the exclusion of unamortized debt expense in the ARF filing. The difference identified for preferred stock is related to the exclusion of unamortized debt issuance expense.

The difference identified for short-term debt is related to the exclusion of a term loan. To ensure adequate liquidity given the impacts of the COVID-19 pandemic on debt and capital markets, on March 20, 2020, American Water Capital Corporation ("AWCC") entered into a Term Loan Credit Agreement, by and among parent company, AWCC and the lenders party thereto (the "Term Loan Facility"). The proceeds were held as cash at AWCC and American Water to provide additional liquidity during uncertain pandemic conditions. The proceeds were not used for utility operations. The Term Loan Facility commitments terminated at maturity on March 19, 2021, and the Term Loan Facility was repaid in full. The term loan was not used for utility operations, including the financing of capital assets, therefore the term loan has been excluded from short term debt for ratemaking purposes. This accounts for approximately $19.63 million of the identified difference. The remaining difference is related to other cash, clearing, and reporting differences that are not appropriately included for ratemaking as short-term debt.

b. Please see the attachment KAW_R_PSCDR1_NUM013_012422_Attachment, which includes the derivation of the above-cited cost rates for short and long-term debt, and preferred stock. The short-term debt rate used is the weighted average short-term borrowing rate for AWCC as of December 2020.

Witness: Tricia Sinopole

14. Refer to the Application, the PDF schedule entitled Depreciation, Interest, Capital Structure. Using Kentucky-American's requested revenue requirement, the test-year rate base, and the test-year cost of capital summary calculate the Sewer Division's return on rate base and the imputed return of common equity. Provide the requested tables in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

Response:

Please see the attachment KAW_R_PSCDR1_NUM014_012422_Attachment. Using Kentucky-American's requested revenue requirement, the test year rate base, and the test year cost of capital summary, the Company's requested overall return on rate base would be 5.184% with an imputed return on common equity of 5.00%.

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

Witness: Tricia Sinopole

15. Refer to the Application, the PDF schedule entitled Reasons for the Application. Kentucky-American explains that the only adjustments proposed were taken from Kentucky-American's adjustments that were made in Case No. 2018-00358[1] for the allocation of management's salaries and benefits, service company, and general and workers compensation insurance expenses.

    a. Provide updated allocation adjustments using the historical 2021 test-year information.

    b. Provide the requested updated allocation adjustments in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

    c. Provide copies of all workpapers, assumptions, and calculations used by the Kentucky-American to calculate the updated allocation adjustments.

Response:

a. See attached KAW_R_PSCDR1_NUM015_012422_CONFIDENTIAL.xlxs. KAW submits it subject to a Petition for Confidential Protection. KAW's 2021 books are not final so the attached data for 2021 is subject to change. KAW will supplement this response in the event any changes occur.
b. Please see subpart a.
c. Please see subpart a.

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[1] *See* 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. 2021-00434
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

Witness: Tricia Sinopole

16. Refer to the Application, the PDF schedule entitled Depreciation, Interest, Capital Structure, Depreciation Schedule per ARF Form-1 Item 14 and to *O&M Guide for the Support of Rural Water-Wastewater Systems* by the Commission for Rural Water, Chicago, Illinois, 1974, Table 44, Average Service Lifetimes, Major Systems Components, Wastewater systems at 246-247 (Commission for Rural Water O&M Guide) attached hereto as an Appendix.

    a. Provide a schedule in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible that compares the depreciation lives for all asset categories in Kentucky-American's Proposed 2021 Depreciation Schedule for its sewer division to the average service life ranges in the Commission for Rural Water O&M Guide.

    b. Using the midpoint depreciation life of the average service life ranges in the Commission for Rural Water O&M Guide recalculate Kentucky-American's pro forma depreciation expense for its sewer division for each asset category. Provide the recalculation of pro forma depreciation expense in an Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

Response:

a. Please see attachment KAW_R_PSCDR1_NUM016_012422_Attachment A

b. Please see attachment KAW_R_PSCDR1_NUM016_012422_Attachment B. Please note per response to KAW_R_AGDR1_NUM015_012422, the recalculation of pro forma depreciation expense excludes Utility Accounts (395000, 393000, 397000).

Witness: Tricia Sinopole

17. a. Provide a schedule detailing each test-period expenditure related to the application filed in this proceeding. Provide in the schedule the nature and amounts of each charge.

    b. Provide the vendor invoice for each expenditure listed in response to Item 17.a. The invoices should contain detailed descriptions of the services, the amount of time billed for each service, and the hourly billing rate. Identify the account number and title to which each amount was charged.

    c. Provide a monthly update of the schedule requested in Item 17.a. that shows total costs incurred as of that date and that includes the supporting detailed vendor invoices as requested in Item 17.b

Response:

a. Please see attachment KAW_R_PSCDR1_NUM017_012422_Attachment A.xlsx.
b. Please see attachment KAW_R_PSCDR1_NUM017_012422_Attachment B.pdf.
c. A monthly update will be provided as additional information becomes available.

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@drofky.com

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

Phone
8592541667

Contact Email
lee@drofky.com

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

Phone
8592541667

Contact Email
lee@drofky.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	INVOICE #
12/8/2021	54096

BILLED TO:

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

SALES REP	JOB #	PURCHASE ORDER #	TERMS
	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**

*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

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**

*PLEASE INDICATE INVOICE NUMBER 968162 ON PAYMENT

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

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**

*PLEASE INDICATE INVOICE NUMBER 970493 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

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**

*PLEASE INDICATE INVOICE NUMBER 970493 ON PAYMENT

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

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

Witness: David Farrar

18. Provide a detailed explanation of any cost containment actions that Kentucky-American's sewer division has implemented in calendar years 2019 through 2021. Quantify the financial impact that each cost containment action had on Kentucky-American's financial condition.

Response:

Please see below the breakdown of cost containment actions by KAW during 2019 through 2021.

<u>Optimize sampling and lab analysis</u>

- Began February 2021, total annual savings of $4,080.00
- Began August 2021, total annual savings of $2,040.00

<u>Shift work schedules to include weekend OT coverage for WW as regular time</u>

- Northern – beginning March 2020, annual savings of $10,038.00
- Central – beginning February 2020, annual savings of $26,769.00

<u>Miscellaneous:</u>

- WW inspection camera, increases response time, reduces contractor inspection cost approximately $7,500.00 per year in Owenton WW system.
- UV disinfection at Owenton WWTP, eliminated chlorine gas and SO2 gas de-chlorination, annual savings of $2,500.00.
- Upgraded skimmers at Millersburg and Rockwell treatment plants, saving basin cleans and sludge hauling of approximately $8,000.00 per year.
- Replaced influent pumps at Millersburg were replaced in March of 2018 with a new design that reduced operational issues for a savings of $25,000.00 per year.

<u>Major Cost Containment Items - Unquantifiable</u>

- Lift station rehabilitations and pump replacements are now including redesigned pumps to eliminate clogs and blockage which results in labor savings and contractor avoidance.
- Process laboratory equipment at North Middletown treatment plant was added. This eliminated the use of a third-party laboratory and delays in treatment changes.
- A new building was installed at Ridgewood to house the blower equipment. Prior to the building the blower equipment was unprotected from the elements.
- In Millersburg KAW installed new air piping, which eliminated constant repairs and dropped amperage by 20 Amps, decreasing energy demand.
- At multiple plants, KAW installed more efficient space heaters that reduced energy usage during cold months.

Witness: Tricia Sinopole

19. Refer to the Application, the PDF entitled Proposed Tariffs.

    a. Refer to Original Sheet No. 21. Provide support for the $20.00 per thousand gallons of material delivered waste fee for the Owenton wastewater treatment system.

    b. Refer to Original Sheet No. 26. Provide support for the $56.00 reconnection fee.

    c. Refer to Original Sheet No. 27. Provide support for the $12.00 insufficient funds charge.

    d. Refer to Original Sheet No. 28. Provide support for the $28.00 activation/new account set up fee.

    e. Refer to Original Sheet No. 29. Provide support for the 5 percent late fee charge.

Response:

a. Kentucky-American adopted Owenton Wastewater's $20.00 per thousand gallons of material delivered waste fee when the Owenton system was acquired. Kentucky-American has not updated the rate since acquiring the system.

b. Please see attachment to Part d. of this question. The calculation of the reconnection fee was calculated as two times the cost of the activation/new account set up fee in KAW's 2012 water rate case (Case No. 2012-00520) ($28.00 x 2 = $56.00).

c. Like the other non-recurring charges that are the subject of this question, the insufficient funds charge was established and approved for KAW's water operations. Despite extensive research, KAW is unable to locate the support used to establish the $12 insufficient funds charge which was approved by the Commission many years ago. Without question, there is a cost incurred when a customer's check bounces or their payment is otherwise not honored, and the cost of that event should be borne by that customer. KAW believes that $12 is less than what a typical bank charges for an overdraft fee. For example, at Central Bank in Lexington, Kentucky, the overdraft fee for personal accounts is $32.[1]

d. Please see attachment KAW_R_PSCDR1_NUM019_012422 Attachment D.pdf. This attachment shows the calculation of the $28.00 activation fee (based on the cost of a service run) from Case No. 2012-00520 as included in PSC DR Set 1, Question 3 (KAW_R_PSCDR1_NUM03_012313_WP-2), page 318 of 342.

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[1] https://www.centralbank.com/online-personal-account-terms-conditions

e. Pursuant to KRS 278.180 and 807 KAR 5:011, Section 10, Kentucky-American filed Case No. 2012-00155, to establish a late fee. Please see attachment KAW_R_PSCDR1_NUM019_012422 Attachment E.pdf. This attachment provides Exhibits 3, 4 and 5 to the Application in Case No. 2012-00155 as support for the establishment of a 5 percent late fee charge. The Commission approved it in its November 1, 2012 Order.

Kentucky American Water Company
Case No. 2012-00520
For the 12 Months Ending July 31, 2014
Cost of a Service Order for KAWC
Based on 2011 Budget or 2010 actuals

Service orders worked per average customer		1.0851
Estimated service orders worked in forecasted test year		128,600
Estimated service orders worked in forecasted test year		128,600
Miles driven per service order in 2010		3.38
Estimated miles driven by field service persons in test year		434,668
IRS rate per mile	$	0.510
Estimated transportation cost by field service persons in test year	**$**	**221,681**
FRCC Costs:		
Total Budget 2011	**$**	**300,000**
Allocation of Customer Service Center Costs		
Call center costs in KY management fees	$	1,779,000
Total service orders worked by field service persons in 2010		127,733
Average customers in forecasted test year		118,514
Estimated calls per customer		1.88
Estimated # of calls received by the KAW Call Center		221,276
Ratio of service order generating calls to total calls received		58.0%
Allocate CSC costs to service orders based on ratio of service orders to calls received	**$**	**1,031,820**
		-
Totals		
Labor	$	1,222,802
Misc and General office expense		142,988
Payroll overhead		693,996
Transportation expense		221,681
Customer Service Center costs		1,031,820
FRCC		300,000
Subtotal	**$**	**3,613,286**
Total Expense		**3,613,286**
# FS Orders Worked in 2010		**127,733**
Cost per Order		**28.29**

Kentucky American Water **Exhibit 3**
Cost Justification for Proposed Late Fee

Line #	Cost Type		2011 Totals
1	**O & M Type Costs**		
2	Customer Service Center - Collections Department Expenses	$	77,047
3			
4	Kentucky American Customer Advocates (2.5 full time employees, both wages & benefits)	$	143,115
5			
6	Kentucky American Collection Agency Fees	$	129,420
7			
8	Postage Costs for Collection Notices	$	82,281
9			
10	Uncollectible Revenue	$	614,166
11			
12	**O and M sum (Line 2 + Line 4 + Line 6 + Line 8 + Line 10)**	**$**	**1,046,029**
13			
14			
15			
16	**Rate Base Type Costs (From Case 2010-0036)**		
17	Working Capital	$	1,729,000
18	Weighted Debt		3.49%
19	**Cost of Debt (Line 17 x Line 18)**	**$**	**60,342**
20			
21	Weighted Equity		4.25%
22	Cost of Equity (Line 17 x Line 21)	$	73,483
23	Tax Rate		38%
24	**Equity Grossed up for 38% Tax (Line 22 / (1 - Line 23))**	**$**	**118,520**
25			
26	**Cost of Working Capital (Line 19 + Line 24)**	**$**	**178,862**
27			
28			
29	**Total Costs Related to Late Payments (Line 12 + Line 26)**	**$**	**1,224,892**

Kentucky American Water - Water Districts Only
January 1, 2011 - December 31, 2011
Equity Return & Equity Return Adjusted for Jacobson Park One-Time Non-Utility Tax Benefit

Line	Line Description		Amount
1	**Per Books:**		
2	Water Utility Net Income	$	18,100,982
3	Water Utility Average Common Equity		153,018,637
4	Unadjusted Water Utility Return (Line 2 / Line 3)		11.83%
5			
6	**Water Utility Net Income Adjusted for One-Time Non-Utility Income Tax Benefit**		
7	Water Utility Net Income to Common Stock (Line 2)	$	18,100,982
8	Net Income Change Due to Jacobson Park State Income Tax Benefit		689,793
9	Net Income Change Due to Jacobson Park Federal Income Tax Benefit		3,782,363
10	**Adjusted Water Utility Net Income (Line 7 - Line 8 - Line 9)**	**$**	**13,628,826.00**
11			
12	**Water Utility Average Common Equity Adjusted for One-Time Non-Utility Income Tax Benefit**		
13	Water Utility Average Common Equity (Line 3)	$	153,018,637
14	Jacobson Park Income Tax Benefit		4,472,156
15	Portion of Jacobson Park Income Tax Benefit That Would Become Retained Earnings & Thus Average Common Equity		25%
16	Average Common Equity Related to Jacobson Park Income Tax Benefit (Line 14 x Line 15)		1,118,039
17	**Adjusted Water Utility Average Common Equity (Line 13 - Line 17)**	**$**	**151,900,598**
18			
22	**Adjusted Return (Line 10 / Line 17)**		**8.97%**

PCDWLD

Exhibit 4 - Page 2

83500 American Water Works Company 1

GL012USR Kentucky American Water-Co 12 3/2/2012

MSISNOSWR Total Company (USGAAP) 11:55:11

Income Statement 12 Month Ended

For the Period Ending 12/31/2011

Water Districts Only

Kentucky-American Water Co.

Description	12 Month Actual		
1 OPERATING REVENUES			
2 Water	$	79,791,416.00	12
3 Sewer	$	3,746.00	12
4 Other	$	3,221,420.00	12
5 Management	$	-	12
6 Total Revenues	$	83,016,582.00	12
7 OPERATIONS & MAINTENANCE EXPENSE			
8 Labor	$	7,594,614.00	12
9 Purchased Water	$	224,867.00	12
10 Fuel & Power	$	3,662,927.00	12
11 Chemicals	$	1,885,466.00	12
12 Waste Disposal	$	301,751.00	12
13 Management Fees	$	7,751,264.00	12
14 Group Insurance	$	2,093,013.00	12
15 Pensions	$	923,432.00	12
16 Regulatory Expense	$	214,599.00	12
17 Insurance Other Than Group	$	580,395.00	12
18 Customer Accounting	$	1,856,699.00	12
19 Rents	$	32,033.00	12
20 General Office Expense	$	769,379.00	12
21 Miscellaneous	$	3,266,534.00	12
25 Other Maintenance	$	1,579,079.00	12
Total Maintenance & Operations Expense	$	32,736,052.00	12
27 Depreciation	$	8,855,144.00	12
28 Amortization	$	2,182,924.00	12
29 General Taxes	$	5,096,705.00	12
30 State Income Taxes	$	1,455,865.00	12
31 Federal Income Taxes	$	8,134,582.00	12
32 Tax Savings Acquisition Adjustment	$	-	12
33 Total Operating Expenses	$	58,461,272.00	12
34 Utility Operating Income	$	24,555,310.00	12
35 OTHER INCOME & DEDUCTIONS			
36 Non-Operating Rental Income	$	-	12
37 Dividend Income-Common	$	-	12
38 Dividend Income-Preferred	$	-	12
39 Interest Income	$	-	12
40 AFUDC Equity	$	280,616.00	12
42 M & J Miscellaneous Income	$	19,117,930.00	12
43 Gain(Loss)on Disposition	$	-	12
45 Total Other Income	$	19,398,546.00	12
46 Miscellaneous Amortization	$	(425.00)	12
47 Tax Savings Acquisition Adjustment	$	-	12
48 Misc. Other Deductions	$	19,513,787.00	12
49 General Taxes	$	-	12
50 State Income Taxes	$	(713,519.00)	12
51 Federal Income Taxes	$	(3,912,460.00)	12
52 Total Other Deductions	$	14,887,383.00	12
53 Total Other Income	$	4,511,163.00	12
54 Income Before Interest Charges	$	29,066,473.00	12
55 INTEREST CHARGES	$	-	12
56 Interest on Long-Term Debt	$	10,863,634.00	12
57 Amortization and Debt Expense	$	86,149.00	12
58 Interest-Short Term Bank Debt	$	72,584.00	12
59 Other Interest Expense	$	(3,038.00)	12
60 AFUDC-Debt	$	(131,464.00)	12
61 Total Interest Charges	$	10,887,865.00	12
62 Net Income	$	18,178,608.00	12
64 Preferred Dividend Declared	$	77,626.00	12
65 Net Income to Common Stock	$	18,100,982.00	12

American Water Works Company
Kentucky American Water-Co 12
Total Company (USGAAP)
Comparative Balance Sheet
For the Period Ending 12/31/2011
Water Districts Only

Kentucky-American Water Co.

Description	Current Year	Prior Year	
ASSETS			
1 Utility Plant	$ 576,875,708.00	$ 559,721,388.00	12
2 Construction work in progress	$ 10,199,190.00	$ 7,229,582.00	12
3 Accumulated depreciation	$ (103,288,677.00)	$ (96,563,347.00)	12
4 Utility plant acquisition adjustment	$ 250,730.00	$ 263,109.00	12
5 Other utility plant adjustments	$ -	$ -	12
6 Sub-total Utility Plant	$ 484,036,951.00	$ 470,650,732.00	12
7 Non-Utility property	$ 249,738.00	$ 270,193.00	12
8 Other investments	$ -	$ -	12
Current Assets			
10 Cash and cash equivalents	$ 282,053.00	$ 268,962.00	12
11 Temporary investments	$ -	$ -	12
12 Customer accounts receivable	$ 2,826,297.00	$ 3,011,145.00	12
13 Allowance for uncollectible accounts	$ (542,769.00)	$ (406,809.00)	12
14 Unbilled revenues	$ 3,893,019.00	$ 4,412,023.00	12
15 FIT refund due from assoc. companies	$ -	$ -	12
16 Miscellaneous receivables	$ 337,252.00	$ 732,006.00	12
17 Materials and supplies	$ 685,285.00	$ 737,645.00	12
19 Other	$ 189,120.00	$ 187,421.00	12
20 Sub-total	$ 7,670,257.00	$ 8,942,393.00	12
22 Deferred debits			
23 Debt and preferred stock	$ 1,803,685.00	$ 1,889,834.00	12
24 Expense of rate proceeding	$ 359,517.00	$ 533,742.00	12
25 Prelim survey & invest charges	$ 35,093.00	$ 35,093.00	12
26 Reg Asset-income tax recovery	$ 7,059,473.00	$ 7,570,031.00	12
27 Other	$ 5,126,156.00	$ 4,624,466.00	12
29 Sub-total	$ 14,383,924.00	$ 14,653,166.00	12
30 Total Assets	$ 506,340,870.00	$ 494,516,484.00	12
32 CAPITAL AND LIABILITIES			
33 Common Stock	$ 36,568,777.00	$ 36,568,777.00	12
34 Paid in capital	$ 74,767,650.00	$ 74,688,528.00	12
35 Retained Earnings	$ 43,985,188.00	$ 39,458,354.00	12
36 Unearned Compensation	$ -	$ -	12
37 Reacquired C/S & Accum Comp Inc	$ -	$ -	12
38 Total common equity	$ 155,321,615.00	$ 150,715,659.00	12
39 Preferred stock	$ 1,445,600.00	$ 1,445,600.00	12
40 Long term debt	$ 192,390,000.00	$ 172,390,000.00	12
41 Total capitalization	$ 349,157,215.00	$ 324,551,259.00	12
42 Current liabilities			
43 Bank debt	$ 11,035,902.00	$ 13,731,627.00	12
44 Current portion of LTD	$ -	$ 3,100,000.00	12
45 Accounts Payable	$ 6,707,764.00	$ 6,032,281.00	12
46 Taxes accrued	$ (4,101,074.00)	$ (10,532,455.00)	12
47 Interest accrued	$ 1,925,961.00	$ 1,867,573.00	12
48 Customer deposits	$ -	$ -	12
49 Dividends declared	$ -	$ -	12
51 Other	$ 4,185,981.00	$ 7,170,590.00	12
52 Sub-total	$ 19,754,534.00	$ 21,369,616.00	12
54 Deferred credits			
55 Customer adv. for construction	$ 12,675,126.00	$ 12,774,225.00	12
56 Deferred income taxes	$ 58,881,409.00	$ 69,347,781.00	12
57 Deferred investment tax credits	$ 878,623.00	$ 963,420.00	12
58 Reg.liab-inc.tax.refund thru rates	$ 16,093,156.00	$ 15,273,914.00	12
59 Other	$ 1,233,244.00	$ 3,653,573.00	12
60 Sub-total	$ 89,761,558.00	$ 102,012,913.00	12
62 Contributions in aid of construction	$ 48,915,241.00	$ 47,780,189.00	12
Total capital and liabilities	$ 507,588,548.00	$ 495,713,977.00	12

Kentucky American Water **Exhibit 5**
Absorption Test

Estimation of Additional Income From Late Fees

Line #	2011 Revenues and Projected Late Fees Based on These Revenues	Res	Com	Ind	OPA	OWU	Priv Fire	Public Fire	Grand Total
1	Water Revenues	$ 42,860,957.85	$ 20,961,916.61	$ 1,968,382.51	$ 6,402,399.07	$ 1,903,427.26	$ 2,325,377.54	$ 3,341,008.33	$ 79,763,469.17
2	Water Revenues Outstanding Upon Mailing of Disconnect Notices	$ 8,049,285.06	$ 3,418,440.69	$ 91,404.78	$ 496,908.15	$ 256,922.54	$ 353,120.94	$ 723,263.88	$ 13,389,346.04
3	Estimated Late Fees if Revenues Outstanding Charged at 5%	$ 402,464.25	$ 170,922.03	$ 4,570.24	$ 24,845.41	$ 12,846.13	$ 17,656.05	$ 36,163.19	**$ 669,467.30**

Calculation to Determine if Absorption Test is Required

	Total Various Miscellaneous Charges 2011	**Total**
4	Insufficient Check Charges	$ 32,604.00
5	Initiate Service Fees	$ 615,062.00
6	Reconnection Charges	$ 587,576.00
7	**Sum**	**$ 1,235,242.00**

	Assess if Estimated Late Fees Would Exceed 5% of Other Miscellaneous Charges	
8	Estimated Late Fees, Based on 2011 Revenues & Collection Notices (Grand Total Column, Line 3)	$ 669,467.30
9	Current 12 mos. Of Miscellaneous Charges (Line 7)	$ 1,235,242.00
10	% Increase to Miscellaneous Charges This Would Represent (Line 8 / Line 9)	54.2%
11	% Which Requires Absorption Test	5.0%

Absorption Test - Return on Equity not to Exceed Authorized due to Addition of Late Fee

	Absorption Test	
12	Additional Income from Late Fee (Line 8)	$ 669,467.30
13	Tax Rate	38%
14	Additional Taxes (Line 12 x Line 13)	$ 254,397.57
15	**Additional Net Income from Late Fee (Line 12 - Line 14)**	**$ 415,069.73**
16		
17	2012 Budgeted Average Common Equity	$ 157,242,500.00
18	Add Additional Equity from Additional Net Income (Line 15 x 0.25)	$ 103,767.43
19	**2012 Budgeted Avg Common Equity With Late Fee (Presume Whole Year of Late Fee Revenue)**	**$ 157,346,267.43**
20		
21	2012 Budgeted Net Income to Common Stock	$ 12,855,000.00
22	Add Late Fee Net Income (Line 15)	$ 415,069.73
23	**2012 Budgeted Net Income With Late Fee (Presume Whole Year)**	**$ 13,270,069.73**
24		
25	Budgeted Return on Average Common Equity (Line 21 / Line 17)	8.18%
26	Increase in Equity from Late Fee (Line 27 - Line 25)	0.26%
27	**Budgeted 2012 Return if Full Year of Late Fee in 2012 (Line 23 / Line 19]**	**8.43%**
28		
29	**Authorized**	**9.70%**

Witness: Tricia Sinopole / David Farrar

20. Refer to the Application, the PDF entitled Reasons for Application.

    a. Kentucky-American states that in the last five years the sewer operations have operated at a loss. Explain why Kentucky-American did not come in for a rate increase sooner.

    b. Kentucky-American states that it plans to complete a comprehensive planning study for all sewer system areas to determine a long-range capital plan.

        (1) Provide when this plan is expected to be completed.

        (2) Explain whether Kentucky-American or an independent consulting firm is completing this study.

        (3) If an independent consulting firm is completing this study, explain if KAW is issuing a request for proposal.

    c. Kentucky-American states that it plans to complete SCADA for sewer plants. Provide the estimated completion date.

    d. Provide Kentucky-American's forecasted capital budget plans for the sewer system.

    e. Kentucky-American states that consolidated pricing creates benefits in the long run for all customers. Provide all studies that support this statement.

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 was reluctant 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 rate case in November 2018 and did not want to overextend 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 hold off on 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. KAW plans to complete a comprehensive planning study by 2025 for all sewer areas to determine a long-range capital plan. The comprehensive planning study is planned to be completed internally.

c. KAW plans to be complete with the SCADA installations at all existing systems by 2025. The existing Rockwell WWTP, Millersburg WWTP and four system lift stations currently have complete SCADA installations. SCADA installations are planned for the Ridgewood WWTP and one system lift station in 2022. SCADA installations for the North Middletown WWTP, Owenton WWTP and Owenton's fourteen system lift stations are planned for years 2023 through 2025.

d. Please see exhibit KAW_R_PSCDR1_NUM020_012422_Attachment for Kentucky American Water's current 2-year detailed capital budget plan for years 2022 and 2023 by wastewater district.

e. Kentucky-American does not have any specific studies in support of the fact that consolidated pricing creates benefits in the long run for all customers. Please see pages 5 to 8 of the Direct Testimony of Tricia Sinopole filed contemporaneously with these data responses.

Witness: Tricia Sinopole

21. Refer to the Application, the PDF entitled Reasons for Application. Kentucky-American states that it did not perform a cost of service study (COSS).

    a. Provide all documentation supporting the proposed unified rate structure.

    b. Kentucky-American is proposing to phase-in its unified rates over a four year period.

        (1) Explain and provide support for why a four-year period was chosen.

        (2) Explain and provide support how the amount of increase in rates was chosen for each of the four years.

    c. In the past, the Commission has found that an across-the-board percentage increase in rates is appropriate when a COSS has not been performed. Explain why the Commission should accept Kentucky-American's proposed rates instead of an across-the-board percentage increase.

    d. Kentucky-American states that customers that have a meter larger than one inch typically have a higher cost of service allocation, so Kentucky-American is proposing a higher minimum bill for those customer. Provide support that this is the case for each sewer system.

Response:

a. The unified rate structure proposed by Kentucky-American in this case is designed to incorporate all of the breakpoints in volumetric rates in each of the different rate districts into a single rate design and to ultimately match the North Middletown rate structure, which is the most representative structure of the five existing rate designs. Please see response to KAW_R_PSCDR1_NUM022_012422 for more supporting documentation for the calculation of the rates.

b. A four-year period was chosen in order to best balance the need for rate recovery by Kentucky-American with moderating annual rate impacts for its customers. The amount of increase was chosen in each of the four years to equalize as closely as possible the annual percentage increase in revenues in each year of the four-year phase-in period. A four-year phase-in was used in KAW's last wastewater rate case (Case No. 2014-00390).

c. A Class Cost of Service Study ("COSS") was not filed in this case as these studies generally are not used in wastewater rate design. The logic behind a decision to order across-the-board increases in the absence of a COSS is generally aimed at increases by customer class, not by rate district or jurisdiction and therefore should not apply in this proceeding.

d. It is generally the case that customers with larger meters place higher demands on the system and have more expensive metering and service line equipment. This does not generally change from geographic location to geographic location. Kentucky-American has not done specific separate studies in each system to determine whether customers with 1" meters place higher demands on the system than customers with smaller meters for each system. Kentucky-American notes that the increased cost of metering and service lines for higher capacity meters is not system-specific and is generally true across all systems.

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

Witness: Tricia Sinopole

22. Refer to the Application, the PDF entitled Bill Analysis Attachment.

   a. Refer to the billing analysis for Rockwell. Provide supporting documentation for the proposed rates and the declining block rate design.

   b. Refer to the billing analysis for Owenton. Provide supporting documentation for the proposed rates and the declining block rate design.

   c. Refer to the billing analysis for Millersburg. Provide supporting documentation for the proposed rates and the declining block rate design.

   d. Refer to the billing analysis for North Middleton. Provide supporting documentation for the proposed rates and the declining block rate design.

   e. Refer to the billing analysis for Ridgewood Subdivision.

      (1) Explain why the Ridgewood Subdivision service area was not included in the proposed unified rate structure and left its rate as a flat monthly rate for all usage.

      (2) Provide supporting documentation for the proposed rates and the declining block rate design.

   f. Provide the entire PDF in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

Response:

   a. Please see KAW_R_PSCDR1_NUM022_012422_Attachmetn A.xlsx for a worksheet that shows the calculation of the proposed rates. The declining block rate design is based on a universal design across all rate districts that incorporates the breakpoints for each district into a single inclining block rate structure.

   b. See response to part a.

   c. See response to part a.

   d. See response to part a.

e. See response to part a. 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.

f. Please see KAW_R_PSCDR1_NUM022_012422_Attachment F.xlsx