

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-)
AMERICAN WATER COMPANY FOR AN) Case No. 2021-00434
ALTERNATIVE RATE ADJUSTMENT)

**ATTORNEY GENERAL’S FIRST REQUEST FOR INFORMATION TO
KENTUCKY-AMERICAN WATER COMPANY**

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention (“Attorney General”), and submits his First Request for Information to Kentucky-American Water Company (hereinafter “Kentucky-American” or the “Company”) to be answered by January 24, 2022, and in accord with the following:

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate requested item will be deemed a satisfactory response.
- (2) Identify the witness who will be prepared to answer questions concerning each request.
- (3) Repeat the question to which each response is intended to refer.
- (4) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.
- (5) Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that

the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

(6) If you believe any request appears confusing, please request clarification directly from undersigned Counsel for the Office of Attorney General.

(7) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(8) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout, which would not be self-evident to a person not familiar with the printout.

(9) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, notify the Office of the Attorney General as soon as possible, and in accordance with Commission direction.

(10) As used herein, the words "document" or "documents" are to be construed broadly and shall mean the original of the same (and all non-identical copies or drafts thereof) and if the original is not available, the best copy available. These terms shall include all information recorded in any written, graphic or other tangible form and shall include, without limiting the generality of the foregoing, all reports; memoranda; books or notebooks; written or recorded statements, interviews, affidavits and depositions; all letters or correspondence; telegrams, cables and telex messages; contracts, leases, insurance policies or other agreements; warnings and caution/hazard notices or labels; mechanical and electronic recordings and all information so stored, or transcripts of such recordings; calendars, appointment books, schedules, agendas and diary entries; notes or memoranda

of conversations (telephonic or otherwise), meetings or conferences; legal pleadings and transcripts of legal proceedings; maps, models, charts, diagrams, graphs and other demonstrative materials; financial statements, annual reports, balance sheets and other accounting records; quotations or offers; bulletins, newsletters, pamphlets, brochures and all other similar publications; summaries or compilations of data; deeds, titles, or other instruments of ownership; blueprints and specifications; manuals, guidelines, regulations, procedures, policies and instructional materials of any type; photographs or pictures, film, microfilm and microfiche; videotapes; articles; announcements and notices of any type; surveys, studies, evaluations, tests and all research and development (R&D) materials; newspaper clippings and press releases; time cards, employee schedules or rosters, and other payroll records; cancelled checks, invoices, bills and receipts; and writings of any kind and all other tangible things upon which any handwriting, typing, printing, drawings, representations, graphic matter, magnetic or electrical impulses, or other forms of communication are recorded or produced, including audio and video recordings, computer stored information (whether or not in printout form), computer-readable media or other electronically maintained or transmitted information regardless of the media or format in which they are stored, and all other rough drafts, revised drafts (including all handwritten notes or other marks on the same) and copies of documents as hereinbefore defined by whatever means made.

(11) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(12) In the event any document called for has been destroyed or transferred beyond the

control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(13) Provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response, in compliance with Kentucky Public Service Commission Regulations.

(14) “And” and “or” should be considered to be both conjunctive and disjunctive, unless specifically stated otherwise.

(15) “Each” and “any” should be considered to be both singular and plural, unless specifically stated otherwise.

Respectfully submitted,

DANIEL J. CAMERON
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Certificate of Service and Filing

Pursuant to the Commission's Orders and in accord with all other applicable law, Counsel certifies that the foregoing electronic filing was transmitted to the Commission on January 7, 2022, and there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

This 7th day of January, 2022.

Angela M. Aoad

Assistant Attorney General

1. Refer to the Application generally. Provide a succinct list that identifies all proposed pro forma adjustments, the amount of each pro forma adjustment, along with a brief description of each adjustment.
2. Refer to the Application generally. Provide a list of all entities that direct charge or allocate costs to the Kentucky-American wastewater operations and include a description of each entity. Additionally, include the total monetary amount that each entity direct charged and/or allocated to the wastewater operations in the test year.
3. Refer to the Application generally. Explain in detail whether Kentucky-American provides any assistance program(s) for customers experiencing difficulty paying their wastewater bills.
4. Refer to the Customer Notice, pages 1 and 3.
 - a. Confirm that Kentucky-American is requesting a total wastewater revenue increase of 141.4%.
 - b. Confirm that the total impact on the average wastewater bill for the various customer classes range from 118.2% all the way up to a staggering 800.7%.
 - c. Taking into account the economic issues that the Covid-19 pandemic has caused, explain how the Company's ratepayers will be able to afford such a significant increase in wastewater rates.
5. Refer to the Customer Notice, page 2.
 - a. Confirm or deny that Ridgewood, Millersburg, Owenton, North Middletown, and Rockwell are the only locations that Kentucky-American

provides wastewater services. If denied, provide the additional locations that Kentucky-American provides wastewater services.

- i. Provide the number of customers in each of the previously designated systems.
 - ii. Identify the number of unsold lots in each system.
 - iii. Explain whether there is any new home construction in any of the neighborhoods that the Company provides wastewater service to, and if so, specify how many new customers could potentially come onto the system.
 - b. Provide a detailed description of Kentucky-American's acquisition/transfer of each of the wastewater locations, and be sure to include the date that Kentucky-American began providing wastewater service to each location, as well as the corresponding Commission case approving of each acquisition/transfer, if any.
 - c. Explain whether Kentucky-American intends to acquire any other wastewater system in the future. If so, provide a detailed response regarding the same.
 - d. Explain why Ridgewood is the only wastewater class that has a flat monthly rate, while all other classes have a minimum bill with a volumetric rate.
6. Refer to the Customer Notice, page 3. Explain what the "OPA" class stands for under Millersburg, Owenton, and North Middletown.
7. Refer to the Application generally.

- a. Identify the total number of water customers that Kentucky-American currently serves in the state of Kentucky.
 - b. Identify the total number of wastewater customers that Kentucky-American currently serves in the state of Kentucky.
 - c. Identify the number of wastewater customers that Kentucky-American has served in the state of Kentucky for each of the following years: 2015, 2016, 2017, 2018, 2019, 2020, 2021, and 2022.
 - d. Explain in detail whether there is a separate department within Kentucky-American that services the wastewater operations, or if designated Kentucky-American employees handle both the water and wastewater operations.
 - e. If Kentucky-American does not have a separate wastewater department, explain in detail how costs are allocated to water versus wastewater operations.
 - f. Identify the number of Kentucky-American employees who handle the wastewater operations, including the title and duties of each, and designate whether they exclusively work on wastewater operations or if they also work on water operations.
 - g. Identify the number of Kentucky-American employees who handle exclusively water operations.
8. Refer to ARF Form 1 – Attachment SR.
- a. Kentucky-American states that in the last five years, the sewer operations have operated at a loss. Explain why Kentucky-American waited five years

to file a rate case for its sewer operations if it has continuously been operating at a loss.

- b. Kentucky-American asserts that a rate increase is necessary in order to attract the capital necessary to properly maintain the system and provide further needed capital improvements.
 - i. Expound on this statement by providing all of the system maintenance and improvements that Kentucky-American is planning for its wastewater system, and specify the amount of capital necessary for each.
 - ii. Provide all of the system maintenance and improvements that Kentucky-American has performed to its wastewater system from 2015 to the present broken down by location, and include the corresponding monetary amount associated with each project.
- c. Kentucky-American asserts that it is proposing to unify and consolidate its current five district rate design into a statewide unified and consolidated tariff pricing rate design in the final phase of the four-year rate phase-in. However, based upon the Customer Notice, the Ridgewood customer class will still have a flat rate instead of a minimum bill with a volumetric charge after the final phase in of the proposed rate increase. Explain the discrepancy in the aforementioned information.
- d. Kentucky-American asserts that most of the customers with meters larger than one inch who will be paying higher rates are commercial, industrial,

and other public authority. Explain in detail whether any residential customer has a meter larger than one inch, and if so, quantify the same.

9. Refer to ARF Form 1 – Attachment SAO-S, Schedule of Adjusted Operations - Sewer Utility, Sheet 1 of 2.

- a. Under “Other Operating Revenues” explain what “Forfeited Discounts” represent, and provide a breakdown of the \$3,085.00 amount.
- b. Under “Other Operating Revenues” explain what “Miscellaneous Operating Revenues” represent, and provide a breakdown of the \$7,740.00 amount.
- c. Under “Operating Expenses” provide a breakdown and explanation of the negative \$60,437.00 in “Amortization Expense.”
- d. Under “Operating Expenses” provide a breakdown of “Taxes Other than Income” in the amount of \$19,379.00.
- e. Under “Operating Expenses” explain why there is \$0.00 “Income Tax Expense.”

10. Refer to ARF Form 1 – Attachment SAO-S, Sheet 2 of 2.

- a. Concerning the adjustment of \$32,238.00 to the “Total Operation and Maintenance Expenses,” provide a breakdown and explanation of the following:
 - i. \$10,159.00 for allocation of Kentucky-American management salaries;
 - ii. \$2,211.00 for allocation of benefit load factor on Kentucky-American management salaries;
 - iii. \$10,573.00 in Service Company expense;

- iv. \$445.00 in general liability insurance; and,
 - v. \$100.00 in workers compensation insurance.
- b. Kentucky-American asserts that it is requesting \$35,000 in rate case expense to be allowed recovery in the rates, and amortized over a four-year period.
- i. Provide the total rate case expense that has been accrued thus far. Consider this a continuing request.
 - ii. Provide a breakdown of the total rate case expense that has been accrued thus far by category.
 - iii. Provide copies of invoices supporting the level of incurred rate case costs to date and supply such new invoices as they become available.

11. Refer to ARF Form 1 – Attachment OME-1, Sewer Operations and Maintenance Expenses, Test year 12/31/2020.

- a. Provide a brief explanation and breakdown of the following expenses:
- i. “Pumping System-Labor, Materials and Expenses” in the amount of \$157,915.00.
 - ii. “Sludge Hauling” in the amount of \$54,936.00.
 - iii. “Other-Labor, Materials and Expenses” in the amount of \$102,006.00.
 - iv. “Fuel/Power Purchased for Pumping and Treatment” in the amount of \$130,102.00.
 - v. “Chemicals” in the amount of \$23,814.00.

- vi. “Miscellaneous Supplies and Expenses, Collection System” in the amount of \$11,540.00.
- vii. “Miscellaneous Supplies and Expenses, Treatment and Disposal” in the amount of \$164,784.00.
- viii. “Maintenance of Pumping System” in the amount of \$20,675.00.
- ix. “Maintenance of Treatment and Disposal Plant” in the amount of \$71,180.00.
- x. “Miscellaneous Customer Accounts Expense” in the amount of \$167.00.
- xi. “Administrative and General Salaries” in the amount of \$7,335.00.
- xii. The pro forma adjustment of \$20,732.00 to the “Administrative and General Salaries.”
- xiii. “Office Supplies and Other Expense” in the amount of \$233.00.
- xiv. “Insurance Expenses” in the amount of \$2,850.00.
- xv. The pro forma adjustment of \$545.00 to the “Insurance Expenses.”
- xvi. “Employee Pensions and Benefits” in the amount of \$87,328.00.
- xvii. The pro forma adjustment of \$2,211.00 to “Employee Pensions and Benefits.”
- xviii. “Transportation Expense” in the amount of \$15,731.00.
- xix. “Miscellaneous General Expenses” in the amount of \$5,001.00.

12. Refer to ARF Form 1 – Attachment RR-OR, Revenue Requirement Calculation – Operating Ratio Method.

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

13. Refer to ARF Form-3, Statement of Disclosure of Related Party Transactions.

- a. Explain in full detail where Karen Hill works, her title and duties, yearly salary including a breakdown of all benefits, and how she is associated with the Kentucky-American wastewater operations.
- b. Explain in full detail where Glenn Leveridge works, his title and duties, yearly salary including a breakdown of all benefits, and how he is associated with the Kentucky-American wastewater operations.

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

- c. Explain in full detail where David Adkisson works, his title and duties, yearly salary including a breakdown of all benefits, and how he is associated with the Kentucky-American wastewater operations.

14. Refer to the Debt Instruments Schedule.

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

15. Refer to the Depreciation Schedule.

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

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

- k. Provide all vehicle allowances given to the non-salaried employees for the years 2015 – 2022.
- l. Provide all incentive compensation given to the non-salaried employees for the years 2015 – 2022.
- m. Explain in detail whether Kentucky-American has decided what average raise, if any, will be given to salaried and non-salaried employees for 2022, and provide the average raise.
- n. Provide a copy of all formal studies conducted that compares Kentucky-American's wage and benefit information to the local wage and benefit information for the geographic area in which Kentucky-American operates its wastewater system.
- o. Explain the current process of awarding wage/salary increases to union and non-union employees.
- p. Provide a detailed explanation of the insurance benefits provided to the Kentucky-American employees including but not limited to health, dental, vision, life insurance, etc. Ensure to include all premiums paid by Kentucky-American's employees, premiums paid by Kentucky-American on the employees' behalf, as well as all copays, deductibles, and maximum out of pocket amounts.

17. Refer to the Application generally.

- a. Explain in detail if Kentucky-American's wastewater operations has a separate Board of Directors from its water operations.

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

18. Refer to the customer comment filed into the pending case by Ms. Rose Baker on December 13, 2021. In addition to requesting the Commission not to approve such a large wastewater rate increase, Ms. Baker states that each resident in her subdivision is required to install and maintain an expensive E-Pump.

- a. Explain why customers are required to install and maintain E-Pumps.
- b. If customers are required to install and maintain E-Pumps, provide all wastewater locations in which this is a requirement.

- c. If customers are required to install and maintain E-Pumps, provide information regarding the purpose of E-Pumps, the price of installing an E-Pump, and the annual cost of maintaining an E-Pump.
- d. Explain how it is fair, just, or reasonable to force customers to install and maintain expensive E-Pump systems while also paying significant wastewater rates to Kentucky-American.

19. Refer to the Application generally.

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