

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WATER SERVICE)	
CORPORATION OF KENTUCKY FOR A GENERAL)	CASE NO.
ADJUSTMENT IN EXISTING RATES AND A CERTIFICATE)	2022-00147
OF PUBLIC CONVENIENCE AND NECESSITY TO)	
DEPLOY ADVANCED METERING INFRASTRUCTURE)	

NOTICE OF ERRATA FILING

The Intervenor, the Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention, provides the attached errata to the Direct Testimony of Randy A. Futral previously filed in this case.

Respectfully submitted,

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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 November 28, 2022, and there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

This 28th day of November, 2022.

Angela M. Aoad

Assistant Attorney General

1 agreed to that amount as part of a settlement, but the Commission took the matter one
2 step further when it made the following statements:⁶⁴

3 The Commission has long stated that the most accurate way to determine the
4 amount of CWC component of rate base is a lead-lag study. For that reason,
5 the Commission finds that Duke Kentucky should be required to submit a
6 lead/lag study in all general rate cases it files until further Order by the
7 Commission.
8

9 The Commission also ruled in the last Atmos Energy Corporation rate case that
10 “[n]oncash expenses are not appropriate to include in the CWC determination” and
11 that “noncash items should be removed from the lead/lag study.”⁶⁵ Finally, the
12 Commission put all Kentucky utilities on notice in a recent Columbia Gas of
13 Kentucky, Inc. rate case that it will be requiring the submission of properly performed
14 lead/lag studies in future rate case proceedings. The Commission stated the following
15 in its Order in that case:⁶⁶

16 The Commission finds that, for settlement purposes, the adjustment made to
17 include the Attorney General’s proposed adjustment is appropriate and that no
18 further adjustment is necessary. However, the Commission notes that its
19 acceptance of the proposed adjustment does not necessarily represent an
20 opinion that the Commission approves of Columbia Kentucky’s cash working
21 capital practices or the methods used in its lead/lag study. Furthermore, the
22 Commission places Columbia Kentucky and all other utilities on notice that in
23 any future rate cases, a lead/lag study is to be performed and shall exclude
24 noncash items and balance sheet adjustments.
25

26 ~~Q. Water Service Kentucky states in testimony that use of the one-eighth~~
27 ~~methodology is consistent with the methodology used in prior Water Service~~

PAF
strike

⁶⁴ *Id.*

⁶⁵ Case No. 2021-00214, *Electronic Application of Atmos Energy Corporation for An Adjustment of Rates*, (Ky. PSC May 19, 2022), Order at 20.

⁶⁶ Case No. 2021-00183, *Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions: Issuance of a Certificate of Public Convenience and Necessity; and Other Relief* (Dec. 28, 2021), Order at 14.

RAF
Strike

1 **Kentucky cases.⁶⁷ Have the Company's rates been set based on the level of cash**
2 **working capital in rate base in the last several proceedings?**

3 A. No. The Company's rates have been set based on the operating margin method, which
4 does not rely upon the level of cash working capital or rate base in order to set rates.
5 The Company was required to compute the level of net investment rate base in those
6 proceedings only for administrative filing requirements, but the rates were not
7 ultimately set based on net investment rate base. The Company was ordered by the
8 Commission in the last rate case to file its next case based upon a rate base/rate of
9 return methodology.⁶⁸ Thus, this rate base issue is really a matter of first impression
10 for Water Service Kentucky, but still subject to the Commission's prior decisions.

11

12 **Q. Did the Company refuse to provide a lead/lag study in response to discovery?**

13 A. Yes. The Company objected to the provision of such a study in response to discovery,
14 citing to the fact that it had not performed such a study and that it had not retained a
15 consultant to perform such a study.⁶⁹ As part of the same response, the Company cited
16 to several cases in which it was determined that the one-eighth method was reasonable.
17 All but two of the cases cited in that response had order dates associated with them
18 ranging from 1990 to 2003, far older than the recent orders cited above. The two cases
19 that were more recent were both Kentucky-American Water Company cases, Case.
20 Nos. 2021-00434 and 2014-00390.⁷⁰ However, it should be noted that these two

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⁶⁷ Kilbane Testimony at 23-24.

~~⁶⁸ Case No. 2020-00160, *Electronic Application of Water Service Corporation of Kentucky for General Adjustment in Existing Rates* (Ky. PSC Dec. 8, 2020), Order at 46.~~

⁶⁹ Water Service Kentucky's response to AG 1-63. I have provided a copy of this response as my Exhibit __ (RAF-22).

⁷⁰ Case No. 2021-00434, *Electronic Application of Kentucky-American Water Company for an Alternative Rate Adjustment* (Ky. PSC Sept. 2, 2022); Case No. 2014-00390, *Application of Kentucky-American Water Company*

1 specific cases concern Kentucky-American Water Company's wastewater operations
2 that only serve approximately 1,378 customers.⁷¹ As such, the revenue requirement
3 was calculated on the operating margin method in those cases and not based upon a
4 return on rate base method. ~~Thus, rates were not based on the level of cash working~~
5 ~~capital in those cases.~~

AAF
strike

6
7 **Q. What is your recommendation?**

8 A. I recommend that the Commission set the Company's cash working capital at \$0 in
9 the absence of a proper lead/lag study, even though other properly performed lead/lag
10 studies performed for Kentucky utilities have yielded negative cash working capital
11 results. I further recommend that the Commission direct the Company to reflect cash
12 working capital in rate base calculated using a properly prepared lead/lag study in all
13 future rate cases.

14
15 **Q. Have you quantified the effect of your recommendation?**

16 A. Yes. The effect is to reduce the revenue requirement by \$33,762. I multiplied the
17 Company's proposed cash working capital times the Company's grossed-up rate of
18 return.

19

20

21

III. OPERATING INCOME ISSUES

22 **A. Increases in Operating Expenses in Recent Years**

for an Adjustment of its Wastewater Rates Pursuant to 807 KAR 5:076 (Ky. PSC July 2, 2015).

⁷¹ Case No. 2021-00434, *Electronic Application of Kentucky-American Water Company for an Alternative Rate Adjustment* (Ky. PSC Sept. 2, 2022), Order at 3.