

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2023-00191
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

Witness: Krista Citron, Jeffrey Newcomb, and John Watkins

1. Refer to the Application, Exhibit 3, page 52.
 - a. Provide the adjustment to remove the roll-in of the Qualified Infrastructure Program (QIP) into base rates. Provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.
 - b. Provide the plant in service, accumulated depreciation, accumulated deferred income taxes, and any expenses related to the QIP in the base and forecasted test periods in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

Response:

- a. and b. Please refer to KAW_R_PSCDR3_NUM001_092123_Attachment. While the Company is providing the requested information, the Company continues to believe that it is appropriate to roll the QIP revenues into base rates in this proceeding. Not only is this a customary practice across the industry, but it is consistent with the Commission's long-standing practice of regularly transferring revenue requirements related to cost recovery mechanisms into base rates or transferring such revenue requirements into base rates in a general rate case. This practice has been followed for the pipeline replacement programs for Louisville Gas and Electric Company and other local gas distributors (LDCs). This practice has also been followed for the environmental cost recovery (ECR) mechanisms for the electric utilities in Kentucky.

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Witness: John Watkins

2. Refer to the Application, Exhibit 37, Schedule B-4.
 - a. Provide the amount of Allowance for Funds Used During Construction (AFUDC) included in Plant in Service for projects included in rate base as Construction Work in Progress (CWIP) in previous rate cases. Provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.
 - b. Provide the 13-month average amount of AFUDC included in rate base as CWIP for the forecasted test period. Provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

Response:

- a. Please refer to KAW_R_PSCDR3_NUM002_Attachment for the amount of AFUDC included in Plant in Service for projects included in rate base as Construction Work in Progress (CWIP) at June 30, 2020 in Case 2018-00358-GRC.
- b. Please refer to the KAW 2023 Rate Case – Capital-Depr Exp.xlsx file provided in the response to KAW_R_PSCDR1_NUM001_071823. The tab labeled “Bal AFUDC” provides the 13-month average amount of AFUDC included in rate base as CWIP for the forecasted test period in cell AO6 which is \$596,073.

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Witness: Jeffrey Newcomb and John Watkins

3. Refer to the Application, Exhibit 37, Schedule B-1 and C-1.
 - a. Explain why Kentucky-American believes its treatment of AFUDC does not overstate rate base and revenues.
 - b. In the same format as the Application, Exhibit 37, Schedule B-1 and C-1, provide the rate base and revenues for the base and forecasted periods that would result from removing AFUDC from CWIP and not adjusting revenues for the return on AFUDC. Provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.
 - c. Provide an adjusted revenue requirement in the format of the Application, Exhibit 37, Schedule A-1, using the rate base and revenues from part (b) above. Provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

Response:

- a. AFUDC is appropriate to include in both rate base and revenues. By including AFUDC in present rate revenues, the Company is offsetting the inclusion of CWIP in rate base for projects that are accruing AFUDC until the project is placed into service. Please refer to the responses provided in KAW_R_AGDR1_NUM085_081823 and KAW_PSCDR2_NUM023_081823.

Kentucky-American has utilized this approach for over a decade, and the Commission has expressly approved of its use. In Case No. 2010-00036, the Commission in its December 14, 2010 Order rejected an intervenor's adjustment on this issue, explaining:

“Finally, we find no merit in the AG’s contention that the Commission’s treatment of CWIP places an unfair and unnecessary burden on ratepayers. Generally, regulated utilities recognize the carrying costs of construction in rates through one of two methods: inclusion of CWIP in rate base or accrual of Allowance for Funds Used During Construction (“AFUDC”). This Commission has, in previous Kentucky-American rate proceedings, applied a hybrid approach that combines these two methods. This approach allows Kentucky-American to include all CWIP in rate base while accruing AFUDC on projects taking longer than 30 days to complete. Under

this approach, AFUDC revenue is reported “above the line.” This approach eliminates the effects of including AFUDC bearing CWIP in rate base. It further allows Kentucky-American to accrue AFUDC as part of an asset’s cost where appropriate and to earn a return on CWIP where AFUDC is not accrued.”

Please also see KAW_R_PSCDR3_NUM003_092123_Attachment. On the “Summary” tab of the attachment, when removing the 13-month average AFUDC balance component from rate base, the resulting amount of base revenue is not different than the base revenue proposed in this case. In addition, when removing the total 13-month average CWIP, inclusive of the 13-month average AFUDC balance, the resulting amount of base revenue is not materially different than the base revenue proposed in this case.

- b. and c. Please refer to KAW_R_PSCDR3_NUM003_092123_Attachment for updated B-1, C-1 and A-1 schedules with removing AFUDC from CWIP and not adjusting revenues for the return on AFUDC. Please note that the Company does not believe it is proper to adjust only one piece of the balanced equation, in other words any change to AFUDC in CWIP should also change the revenues that are reflected in Operating Revenues on Exhibit 37, Schedule C-1 that are listed in line 4 as AFUDC.

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Witness: John Watkins

4. Refer to the Application, Exhibit 37, Schedule C-2, line 334. Explain what is included in the discount's available expenses. Include in the explanation why the base year has a (\$108,259) amount.

Response:

The discounts available account is a contra-expense account where the Company records the discounts it receives from vendors in exchange for paying invoices early. When the Company makes a payment to a vendor with a discount, the full amount of the payment is recorded in the corresponding expense line item and the discount for early payment is recorded in discounts available as an offset to the expense. The base year has a (\$108,259) amount in discounts available, as that was the actual discounts the Company received for paying vendors early.

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Witness: John Watkins

5. Refer to the Application, Direct Testimony of Jeffrey Newcomb, page 29. Provide the cash expenditures for Pension and Other Post-Retirement Employment Benefits for 2014-2022.

Response:

Please refer to the below table for Kentucky American's cash contributions to the Pension and Other Post-Retirement Employment Benefits plans.

| Contribution | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Pension | \$619,340 | \$495,600 | \$626,480 | \$641,216 | \$354,900 | \$452,880 | \$535,800 | \$457,200 | \$419,520 |
| OPEB | 379,095 | 721,564 | 480,905 | 211,560 | 0 | 0 | 0 | 61,750 | 269,022 |

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Witness: Melissa Schwarzell and John Watkins

6. Provide the adjustment to remove plant and expenses related to advanced metering infrastructure (AMI). Provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

Response:

If AMI is not approved, the Company would plan to install AMR endpoints instead as it completes scheduled meter replacements during the test year.

Please refer to KAW_R_PSCDR3_NUM006_092123_Attachment which shows the cost differential between AMI and AMR.

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Witness: Charles Rea

7. Provide the number of occurrences and the dollar amount for Forfeited Discounts/Late Fees that were reported in the general ledger during the base year and the anticipated amount at the end of the forecasted test year.

Response:

Please refer to KAW_R_PSCDR3_NUM009_092123 response for the information requested.

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Witness: Charles Rea

8. Provide the total amount recorded in the general ledger and account number for each nonrecurring charge during the base year and the anticipated amount at the end of the forecasted test year.

Response:

Please see below for the nonrecurring charges recorded in the general ledger for the base year period and the anticipated amount for the forecast period. September 2023 actual amount is currently not available.

| Account Number | General Ledger Text | Oct-22 | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Base Year Total | Forecast Period |
|----------------|---------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--------|-----------------|-----------------|
| 40310100 | Late Payment Fees | \$ 66,843 | \$ 66,582 | \$ 65,093 | \$ 73,055 | \$ 62,261 | \$ 62,591 | \$ 53,545 | \$ 63,674 | \$ 60,106 | \$ 57,483 | \$ 65,724 | | \$ 696,957 | \$ 817,945 |
| 40310400 | NSF Ck Charges | \$ 3,492 | \$ 3,240 | \$ 3,048 | \$ 2,412 | \$ 2,040 | \$ 2,760 | \$ 2,472 | \$ 3,324 | \$ 3,276 | \$ 2,712 | \$ 3,564 | | \$ 32,340 | \$ 31,484 |
| 40310500 | Application Fees | \$ 46,144 | \$ 42,196 | \$ 42,702 | \$ 39,256 | \$ 39,569 | \$ 48,916 | \$ 43,820 | \$ 59,220 | \$ 64,344 | \$ 70,280 | \$ 74,648 | | \$ 571,095 | \$ 671,412 |
| 40310700 | Reconnection Fees | \$ 39,242 | \$ 46,592 | \$ 39,816 | \$ 37,296 | \$ 35,812 | \$ 47,852 | \$ 47,208 | \$ 43,512 | \$ 43,512 | \$ 41,071 | \$ 37,201 | | \$ 459,114 | \$ 479,041 |

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Witness: Charles Rea

9. Provide the total number of occurrences for each nonrecurring charge assessed during the base year and the anticipated amount at the end of the forecasted test year.

Response:

Please see table below showing the monthly average count and the number of contract accounts billed for each of the recurring charges listed for the base period October 2022 through August 2023. The actual information for September 2023 is currently not available. Also shown below is the anticipated amount for the forecast period.

| Account Number | General Ledger Text | Average Monthly Occurrence | # of Occurrence 10.2022-08.2023 | Forecast Period |
|-----------------------|----------------------------|-----------------------------------|--|------------------------|
| 40310100 | Late Payment Fees | 21,738 | 237,783 | \$ 817,945 |
| 40310400 | NSF Ck Charges | 245 | 2,695 | \$ 31,484 |
| 40310500 | Application Fees | 2,025 | 22,271 | \$ 671,412 |
| 40310700 | Reconnection Fees | 352 | 3,873 | \$ 479,041 |

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Witness: Charles Rea

10. Provide an updated cost justification sheet for each nonrecurring charge listed in Kentucky-American's tariff.

Response:

Please see the attached cost justifications. Kentucky-American also notes it is not proposing to revise any of its current nonrecurring charges in this proceeding. Tapping fees were last updated in 2018 in Case No. 2018-00358. The activation fee and disconnection fee were revised in 2012 in Case No. 2012-00520. The late payment fee was established in Case No. 2012-00155 and has not changed since implementation. The insufficient funds fee has remained unchanged since 1993, and the service line inspection fee has not changed since at least 1988.

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Witness: Charles Rea

11. a. Provide the date that Kentucky-American billing cycle begins (meter read date).
- b. State whether the date that the billing cycle begins is the date that would be best stated as the effective date of any order the Commission issues concerning rates in this case.

Response:

- a. Billing cycles can be different for different customers depending on meter read routes that each customer is in. Each customer has a monthly schedule meter reading date and that is when the billing cycle begins.
- b. The effective date of the new rates will be based on the date of the Commission's Order approving new rates. If that date does not coincide with the date a customer's billing cycle begins, the bill is pro-rated by charging the old rate for days of service prior to the effective date of the Order and the new rate for days of service on and after the effective date of the Order.

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Witness: Charles Rea

12. Refer to the Application, Exhibit 37, Schedule M, Billing Analysis for current and proposed rates.
 - a. Provide the billing analysis in Excel Spreadsheet format with all formulas, rows and columns unprotected and fully accessible.
 - b. Provide a list of applicable billing adjustments made to the billing analysis and include an explanation of each adjustment.

Response:

- a. Please refer to KAW_R_PSCDR3_NUM012_092123_Attachment, tab "Sch M2-M3" for the billing analysis for current and proposed rates.
- b. The adjustment amounts from base year to forecast period at present rate per account class are shown in tab "Sch M1" by account class and these adjustments are a result of the following:
 - Residential and Commercial forecasts include organic growth, usage normalization and the change in QIP rate.
 - Industrial, Public Authority and Sales for Resale forecasted usage are based on a 3-year average of actual historical average usage per customer for each corresponding class. The adjustment also includes the change in QIP Rate.
 - Private Fire and Public Fire increases in revenue are from anticipated organic growth and the change in QIP rate.
 - Miscellaneous revenue and nonrecurring charges forecast amount are based on a 3-year average of historical actual revenue.
 - Other Operating Revenue-Rents and Usage Data are based on contract and lease agreements.

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Witness: Melissa Schwarzell and William A. Lewis

13. Refer to Kentucky-American's response to Commission Staff's Second Request for Information (Staff's Second Request), Item 11. Explain when Kentucky-American expects the request for proposal (RFP) for the installation labor to be completed.

Response:

The RFP is expected to be complete in early November 2023.

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Witness: Melissa Schwarzell

14. Refer to Kentucky-American's response to Staff's Second Request, Item 13.
- a. Explain how the Consumer Pricing Index (CPI) is relevant to AMI meters.
 - b. Explain, when considering only AMI, if Kentucky-American considered any other inflation indexes to adjust for inflation.

Response:

- a. The Consumer Price Index (CPI) is used as an all-purpose inflation index in the study for items other than union labor. The CPI inflation metric was applied to meters, cellular endpoints, composite meter pit lids, miscellaneous meter parts, as well as to items like vehicle maintenance and various costs associated with the hybrid scenario (such as subscription costs and collector maintenance). While these specific items may not be in the basket of goods sampled for the purposes of the CPI, the CPI does include items various machine and technology-related goods such as vehicles, computers, and telephones.
- b. No other indexes were considered for use in the AMI cost benefit analysis.

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Witness: Melissa Schwarzell

15. Refer to Kentucky-American's response to Staff's Second Request, Item 16. Explain how Kentucky-American plans on addressing, in year 11 of installation, the cellular AMI meters that were installed in 2024 and have a 10-year useful life.

Response:

The Company currently plans to replace 1" and 5/8" meters and associated endpoints every 10 years, as part of a scheduled periodic replacement program. Under this schedule, eleven years from now (in 2034), the company would plan to replace 1" and 5/8" meters that were installed in 2024.

Meters larger than 1" follow a different replacement and testing cycle, as noted in Exhibit A to the Application, Figure 3.

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Witness: Melissa Schwarzell

16. Refer to Kentucky-American's response to Staff's Second Request, Item 17.
- a. Explain whether Kentucky-American is using a 20-year net present value (NPV) to keep costs down for its customers or is it due to revenue benefits not appearing until year 11.
 - b. Explain and compare the potential benefits of installing the AMI meters over a 3-year period and over a 5-year period, as compared with installing over the proposed 10-year period. Include in the response the estimated cost differential and estimated cost impact to customers for each scenario.

Response:

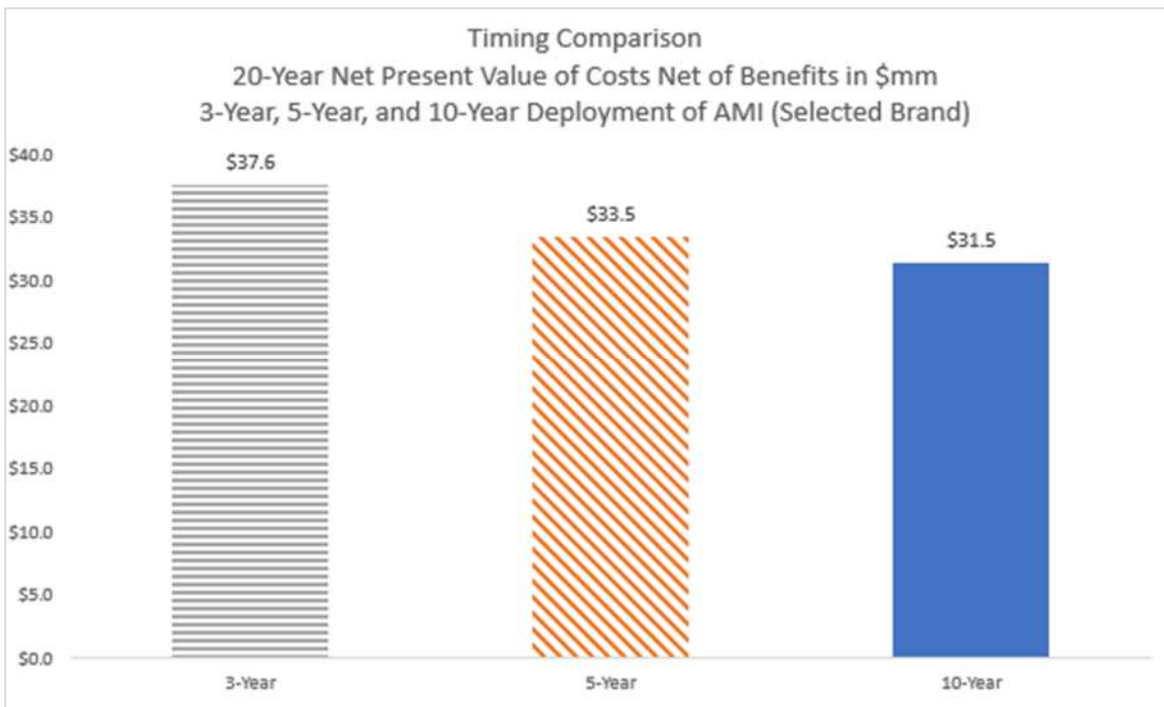
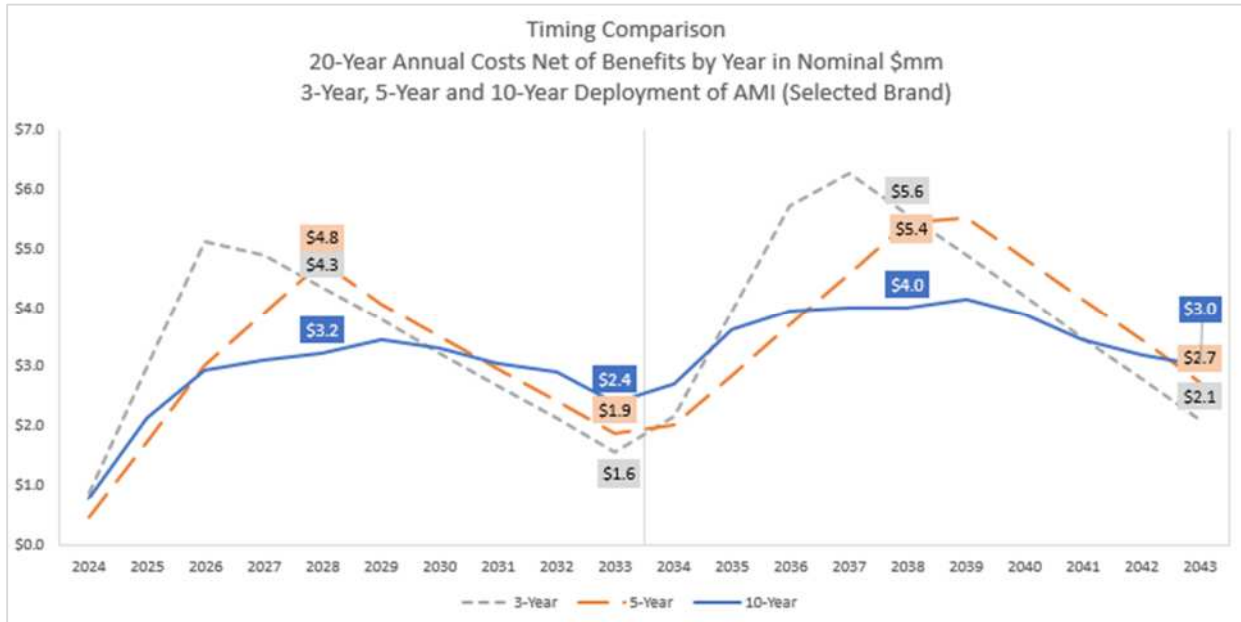
- a. A net present value (NPV) analysis does not impact cost for customers. It is an analytical tool used for the purpose of comparing costs and benefits over time for various scenarios.

The benefits measured are meter reading labor, field service labor, and associated vehicle costs. While meter reading benefits are not forecasted to begin until sometime in year ten or eleven, field service labor benefits, and their associated vehicle benefits, are forecasted to begin in year one.

The Company's response to PSC 2-17 details the reasons for selecting a 20-year rather than 10-year NPV.

- b. Installing AMI meters over an accelerated 3-year or 5-year basis, rather than over a non-accelerated 10-year basis would make benefits available more quickly, including improvements to safety, customer service, water conservation, and operational efficiency, as discussed on pages 6 and 7 of Exhibit A to the Application.

The cost benefit analysis for a 10-year deployment (which is consistent with the normal, scheduled, periodic replacement cycle) was compared to a cost benefit analysis for an accelerated 5-year or 3-year deployment. The analysis was changed for quantities of meters, endpoints and lids installed by year. The resulting 20-year annual nominal cost net of benefits and 20-year NPV charts are shown below. The 10-year deployment cycle produces the lowest 20-year NPV for costs net of benefits, and also produces a smoother, and generally lower, annual result for costs net of benefits. Please also see Attachment 1, which details out the modeled costs and benefits for each of these three timing scenarios.



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Witness: Ann Bulkley

17. Refer to Kentucky-American's response to Staff's Second Request, Item 35, which was non-responsive. Provide the most recent awarded ROEs for each utility used in the proxy group.

Response:

Please see the response to PSC 3-17, Attachment 1 (Exhibit AEB-8 Tab). This analysis is performed using subscription service data from S&P. To the extent that a rate case result was not captured by the S&P database, or the information was not made available in that database for an individual operating company of the proxy group, it is reported as "NA" in the attachment.

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Witness: Nicholas Furia

18. Refer to Kentucky-American's response to Staff's Second Request, Item 40.
- a. Given that Kentucky-American has not issued preferred stock since December 1991, explain why Kentucky-American is proposing to decrease the preferred stock from 0.50 percent to 0.38 percent.
 - b. Refer also to Exhibit 37, Schedule J-5. Reconcile the discrepancy that Kentucky-American issues its preferred stock in December 1991 or on January 24, 1992.
 - c. Confirm whether Kentucky-American is still issuing a 15 percent discount common stock option to its employees and if so, explain how the discount amount is being recovered by Kentucky-American.
 - d. Explain a scenario when Kentucky-American would issue common stock over debt.

Response:

- a. Kentucky-American has not issued preferred stock since January 1992, but its rate base and associated capitalization have continued to grow. Thus, the preferred stock has become a smaller proportion of the overall capitalization.
- b. The date of the Preference Stock Purchase Agreement of December 1991 is incorrect. The correct date is the closing date of the sale, January 1992, as was indicated in Schedule J-5 of Exhibit 37.
- c. Kentucky-American employees may participate in the American Water Employee Stock Purchase Program (ESPP), in which they are able to purchase American Water stock at 85% of the market value of the share on the purchase date with certain limits on timing and contributions to the plan. The differential between the market price and the price paid by the employee through the ESPP is included in the proposed revenue requirement in this case.
- d. Kentucky-American would seek an equity infusion from American Water over issuing debt if the Company determined it was needed to maintain an appropriate capital structure.

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Witness: Nicholas Furia

19. Refer to Kentucky-American's response to Staff's Second Request, Item 41.
- a. Confirm that the Equity Infusions from 2019–2023 were from Kentucky-American's parent company American Water Company (American Water).
 - b. Explain the frequency that American Water raises debt and makes equity purchases to its subsidiaries and to Kentucky-American.
 - c. Explain what purposes Kentucky-American used the \$120,016,287 million in Equity Infusions.
 - d. Explain how much ownership interest American Water currently has in Kentucky-American.

Response:

- a. Confirmed, the 2019-2023 equity infusions were from American Water.
- b. American Water does not have a set frequency with which it raises long-term debt. American Water raises short-term debt on an as needed basis, either daily or weekly depending on the needs of the business. American Water makes equity infusions periodically as requested, at its discretion.
- c. Kentucky-American used the equity infusions to fund its capital improvement program.
- d. American Water owns 100 percent of the common stock of Kentucky-American.

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Witness: Kathryn Nash and Charles Rea

20. Refer to Kentucky-American's response to Attorney General's First Request for Information (Attorney General's First Request), Item 33b. Kentucky-American states that the Dollar Energy Fund has sustained an unusually high balance of funds for the last two years.
- a. Explain the need for a Universal Affordability Tariff if the Dollar Energy Fund is maintaining a high balance.
 - b. Provide the Balance for funds for the last five years.
 - c. Explain whether Kentucky-American expects there to be a high balance again this year.

Response:

- a. As stated in response to Attorney General's First Request for Information (Attorney General's First Request), Item 33b, the unusual high balance is likely due to the establishment of other temporary government-funded programs, such as the Low-Income Home Water Assistance Program, that became available during the pandemic and in compliance with KAW's commitment to fund the program annually with a minimum donation of \$74,264 regardless of the customer demand for funds, so a build-up of funds has been experienced. As such, the Company considered this balance to be a short-term phenomenon which does not negate the need for longer-term affordability assistance measures such as the Company's proposed Universal Affordability Tariff. See Mr. Rea's Direct Testimony for a discussion of the need for the Company's proposed Universal Affordability Tariff.
- b. Dollar Energy Fund, the H2O Help to Others program administrator, indicates the following balances in the H2O fund as of September 30 for each year listed:

2018: \$5,673
2019: \$2,480
2020: \$25,739
2021: \$65,262
2022: \$80,360

The H2O Help to Others fund balance is \$88,967 as of September 12, 2023.

- c. With the additional funding of \$74,264 to be provided by company shareholders this year, the balance as of October 1 is expected to be approximately \$163,000 minus any funding that is distributed.

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Witness: Charles Rea

21. Refer to Kentucky-American's response to Attorney General's First Request, Item 38b.
- a. Explain whether Kentucky-American selected a third-party vendor to conduct income verification for the proposed Universal Affordability program and to manage the program. If yes, provide the name of the third-party vendor.
 - b. Explain the costs associated with the third-party vendor to conduct income verification for the proposed Universal Affordability program and to manage the program. If the actual cost is unknown, please provide the estimated cost.

Response:

- a. The Company will utilize a third-party vendor to conduct income verification and manage the Universal Affordability program. The Company has not yet engaged a third-party vendor for these services, but it currently uses Dollar Energy to administer its H2O Help to Others Program.
- b. There are zero dollars of administrative cost added to the revenue requirement for this filing. The program is not yet in place, actual cost at this time is zero. However, the estimated annual cost to administer the program is \$1.65 per customer.

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Witness: Shelley Porter

22. Refer to Kentucky-American's response to Staff's Second Request, Item 80a and to Kentucky-American's response to Attorney General's First Request, Item 31.
- a. Explain whether the District Metering Area (DMA) vault discussed in response to Staff's Second Request, Item 80a is the same equipment as the new and larger meter discussed in response to Attorney General's First Request.
 - b. If there is a difference, provide the cost to install the new and larger meters to each of the Kentucky-American special connections.

Response:

The DMA meter vault would contain the like metering equipment to a master meter set-up discussed in Witness Lewis' response to the Attorney General's First Request, Item 31, and would be of similar construction cost for the vault. However, with a master meter set-up, the meter would be the point of service to the customer, and the tariff requires the customer to fund the installation of the master meter. The customer would also have an additional expense associated with the installation of a required backflow prevention assembly of similar size to the master meter, located immediately after the master meter vault. The design, installation and additional costs associated with the installation of the required backflow assembly would be established by the customer, as backflow assemblies are customer owned and maintained equipment. KAWC would then cease to meter individual customers past the master meter, and it would be the responsibility of the customer to bill the entities serviced along their private mains.

The installation of two district meters area ("DMA") vaults containing meters at the points of demarcation between KAWC's system and Kentucky Horse Park's system allows KAWC to isolate and accurately measure flow into the area being serviced by the Horse Park's private mains. Unlike the master meter approach, with the DMA the various individual entities within the Horse Park are still metered individually and receive bills from KAWC. The NRW attributable to leakage or unmetered usage associated with the Horse Park's private main can then be established by determining the difference in water measured by the two DMA meters and usage on individual meters. This would allow KAWC to continually verify instances of suspicion of leakage or the installation of unmetered connections and work with the Horse Park to remediate the source of the verified NRW or proceed to bill the owner of the private mains for the verified NRW measured. The use of AMI in the DMA area would assist in characterizing the source of NRW leakage versus unauthorized connections through comparison of the usage pattern

when measuring flow into the DMA area and reducing the flow sold through individual customer meters with multiple measurements throughout the day.

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Witness: Shelley Porter and William A. Lewis

23. Refer to Kentucky-American's response to Staff's Second Request, Item 80 and to Kentucky-American's response to Attorney General's First Request, Item 31.
- a. Explain whether a special connection requires approval from Kentucky-American before the special connection customer expands its private water lines. If yes, provide a list of what special connections have requested an extension, and if granted, when it was granted for the last ten years.
 - b. Provide, if possible, the estimated percentage of Kentucky-American's water loss that is attributable to special connections and show how Kentucky-American calculated this estimate.
 - c. Explain whether Kentucky-American has ever considered ending the special connections with property owners and purchase the private lines. If so, explain the reasoning for not initiating the change. If not considered, explain why not.

Response:

- a. The Owners of special connections established under Multiple Service Agreements are not required to receive approval from KAWC prior to expanding their private system but the agreements do require that notification be made to the Company in writing for any new connections prior to backfilling of the trenches. With the exception of the University of Kentucky ("UK"), Bluegrass Community & Technical College, and the Bluegrass Airport, the expansion of private systems under Multiple Services Agreements is not commonplace. In the last 10 years, KAWC has been approached regarding modifications made by UK, primarily to coordinate the retirement of KAWC facilities that may exist along public roadways subsequently purchased by UK for inclusion in its campus. KAWC does not maintain a list of prior notices nor has it received any notifications of expansion from UK or any entity in the last 10 years.
- b. Based on KAWC's observations, private system facilities are not typically maintained or provided the same level of capital replacements as KAWC does. Since the private systems are not metered, it is difficult to estimate water loss with a level of accuracy. Having said that, water loss is attributable to leaks, potential unmetered connections, and potential usage from hydrants for purposes other than fighting fires. Based on the observations during surveys at UK, the Bluegrass Airport, the Kentucky Horse Park, and observed major leak events, if we assume leakage and unmetered usage at an average of 5-10 GPM each for 270 connections,

the rate of water loss associated with private mains would be approximately 1350-2700 GPM, and the volume of water loss would range from 60.26 MG to 120.53 MG in a month with 31 days in the period. This would equate to approximately 18.3-36.7% of KAWC water loss attributable to these private systems, based on the total unaccounted for water volume of 328.53 MG reported for July 2023. Major leaks like the 12" cast-iron blow out depicted in the picture below, that occurred from Friday evening to Saturday morning, September 8-9, 2023, along UK's private main could result in a much higher water loss. Additionally, UK located two leaks in August- one on a hydrant lateral (approximately 5-10 GPM) and one on a hydrant (approximately 3-5 GPM) that UK maintenance has planned for repair this month.



- c. KAWC has considered eliminating some specific special connections as established under Multiple Services Agreements and acquiring the private lines in limited situations, as redevelopment projects are undertaken by entities served by the private systems. One example is the private system that originally served the Old Lexington Mall along Richmond Rd., redeveloped by Southland Christian Church, which is currently awaiting the completion of a project being executed by Southland Church. It is important to evaluate the system prior to considering the

acquisition, as private system facilities served by the special connection valves have not typically been maintained to the same level as KAWC does and are typically located on private property. The purchase of these private systems, which have not been maintained by utility entities, could result in additional expenses being borne by all customers.

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Witness: William A. Lewis

24. Refer to Kentucky-American's response to Staff's Second Request, Item 55 and Kentucky-American's response to Lexington Fayette Urban County Government's First Request for Information (LFUCG's First Request), Item 43. Reconcile the difference in the usage numbers provided.

Response:

The 2022 usage of 15,713,364,000 gallons noted in Staff's Second Request, Item 55 reflects total system delivery volume. This volume represents all water produced in the system and is inclusive of non-revenue water. The 2022 usage of 12,117,786,000 gallons in LFUCG's First Request, Item 43 reflects metered usage by our customers. The difference between the two volumes is approximately equal to non-revenue water.

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Witness: Jeffrey Newcomb and John Watkins

25. Refer to Kentucky-American's response to Staff's Second Request, Item 2, which was non-responsive. Refer to the Application, Exhibit 37 and Kentucky-American's response to Commission Staff's First Request for Information, Item 1.
- a. For each pro forma line-item adjustment in the forecasted income statement, provide a detailed explanation of how each pro forma adjustment was developed and made for the instant case, along with how Kentucky-American calculated the same pro forma adjustment in the prior rate Case No. 2018-00358.² For each instance where a change was made in the methodology approach in calculating the pro forma from the prior case, explain the reasoning for the change in approach and why it was appropriate in the instant case.
 - b. For each pro forma line-item adjustment in the forecasted rate base, provide a detailed explanation of how each pro forma adjustment was developed and made for the instant case, along with how Kentucky-American calculated the same pro forma adjustment in the prior rate Case No. 2018-00358. For each instance where a change was made in the methodology approach in calculating the pro forma from the prior case, explain the reasoning for the change in approach and why it was appropriate in the instant case.
 - c. State whether Kentucky-American incorporated CPI in its proposed pro forma adjustments in Case No. 2018-00358. If not, explain why Kentucky-American believes it is appropriate to incorporate the index into the adjustments in the instant case.

Response:

- a. - c. Please see KAW_R_PSCDR3_NUM025_092123_Attachment. The Company incorporated an inflation factor in its prior rate case. In Case No. 2018-00358, the Company used a general inflation factor in its forecast of certain categories of operations and maintenance (O&M) expense identified in KAW_R_PSCDR25_Attachment 1. In Case No. 2023-00191, the Company identified unique and specific inflation factors for certain O&M expense categories as calculated from the U.S. Bureau of Labor Statistics.

² Case No. 2018-00358, Electronic Application of Kentucky-American Water Company for an Adjustment of Rates.

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Witness: Jeffrey Newcomb and John Watkins

26. Refer to Kentucky American's response to Staff's Second Request, Item 2. Kentucky-American states that it continuously develops and improves its forecasting capabilities, but that it does not track or maintain a compendium of ever change to its assumptions or methodology over time.
- a. Explain what improvements and changes Kentucky-American made to its forecasting process since its last rate case and how these improvements and changes impacted the forecast in the instant case.
 - b. Explain why Kentucky-American does not maintain changes and modifications made to its forecasting assumptions and methodologies over time, especially between rate case.

Response:

- a. Cost forecasting is a complex process that requires one to consider multiple factors, including changes in historical data, operational changes over time (e.g., new processes or different materials), changes in resources and staffing, changes in the cost of goods and services, changes in government regulations, and changes in the economy and inflation. The rate case process employed a bottom-up approach to the development of the pro forma expense levels that involves inputs and several factors from the operational management team to build operating and maintenance ("O&M") expenses that are reasonably predicted to occur during the future test year. The changes and improvements help plan future resources and allocate them efficiently.

For example, the Company uses chemicals for both water and wastewater treatment to bring chemical and biological contaminants within the levels prescribed by the United States Environmental Protection Agency ("EPA") in accordance with the Safe Drinking Water Act and the Clean Water Act. Chemicals are also utilized to remove turbidity (cloudiness) of the water and to address any remaining taste or odor issues. In both the 2018 and 2023 cases, KAW used the recent cost per chemical pricing forecasts and applied those costs to the usage forecasts to calculate the total expense for chemicals. See the Direct Testimony of Company witnesses Rogers and supporting exhibits for an explanation of the process of calculating and forecasting chemical expenses in Case No. 2018-00358 (DT Rogers pp. 26-28, Exhibits 37, Schedules C and D). Please see the Direct Testimony of Company Witness O'Drain for explanations and support of the significant price increases for chemicals and their recent volatility and the Direct Testimony of Company witness

Watkins and supporting exhibits for an explanation of the process of calculating and forecasting chemical expenses in this case (Case No. 2023-00191, DT Watkins pp. 11 – 12, Exhibit 37, Schedules C and D; DT O'Drain). See also KAW's response to PSC 3-25 in this case for a comparison of KAW's pro forma forecasted adjustments to operations and maintenance expenses and rate base from Case No. 2018-00358 to Case No. 2023-00191.

In its revenue forecasts, the Company conducts time series analysis that looks at historical data and how various variables have interacted with one another in the past. These statistical relationships are then extrapolated into the future to generate forecasts. See the Direct Testimony of Company witnesses Roach and Schwarzell and supporting exhibits for an explanation of the process of calculating and forecasting customer usage, present rate revenues and proposed rate revenues in Case No. 2018-00358 (DT Roach pp. 2-28, Exhibits GPR 1-5 and DT Schwarzell pp. 9-13, Exhibit 37). Please see the Direct Testimony of Company witness Rea and supporting exhibits for an explanation of the process of calculating and forecasting customer usage, present rate revenues and proposed rate revenues in this case (Case No. 2023-00191, DT Rea pp. 50 – 54 and Exhibits 25, 26, and 37).

- b. As explained in the Company's response above, forecasting is a complex process that requires one to consider multiple factors, and the changes and improvements help plan future resources and allocate them efficiently. KAW does not maintain a compendium of every change to the Company's forecasting assumptions and methodologies because it has not had an administrative reason or business requirement to do so.

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Witness: Jeffrey Newcomb

27. Refer to Kentucky-American's response to Staff's Second Request, Item 4. Reconcile Kentucky-American's response with 807 KAR 5:006, Section 7(3).

Response:

807 KAR 5:006, Section 7(3) states that "Each utility shall include the billing form" in its tariff. As explained in the response to PSC 2-4, the regulation does not delineate the contents of the "billing form" with any specificity and the Commission approved the QIP tariff sheets in Case No. 2018-00358 (the case in which QIP was approved). As also stated in the response to PSC 2-4, should the Commission want KAW to modify its sample bill to include a line for QIP, it will do so.

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Witness: Shelley Porter

28. Refer to Kentucky-American's response to Staff's Second Request, Item 22. Provide details of the deferred maintenance additions.

Response:

Tank painting is deferred maintenance. Please refer to excel file "KAWC 2023 Rate Case - Deferred Maintenance.xlsx" submitted with KAW_R_PSCDR1_NUM001_071823. The tab entitled "Def Maint Amort", rows 5-15 provides additional details related to each tank painting project.

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Witness: Charles Rea

29. Refer to Kentucky-American's response to Staff's Second Request, Item 60.
- a. In response to Staff's Second Request, Item 60a, Kentucky-American did not answer the question via yes or no. Confirm that the MHI for the Company's service territory as presented in the exhibit is based solely on owner-occupied and single-unit renter occupied homes.
 - b. In response to Staff's Second Request, Item 60c, Kentucky-American did not provide the percentage of owner-occupied homes. Provide the percentage of owner-occupied and single-unit renter occupied homes.
 - c. Provide the number of customers Kentucky-American serves with a connection within the city limits of:
 - (1) Winchester;
 - (2) Paris;
 - (3) Versailles;
 - (4) Frankfort;
 - (5) Midway;
 - (6) Stamping Ground;
 - (7) Corinth;
 - (8) Mount Vernon;
 - (9) McKee.
 - d. Explain why Kentucky-American did not use census data for information on customers in multi-unit renter occupied housing.

Response:

- a. Confirmed. MHI for the Company's service territory as presented in the exhibits is an estimate of MHI for the Company's direct residential customers which is based on a weighted average of owner-occupied and single-unit renter occupied homes.

- b. The Company estimates that 13.7% of the population in the Company's service territory live in single-family renter-occupied homes, and 63.5% live in owner-occupied homes. Please see KAW_R_PSCDR2_NUM060_081823_Attachment.
- c. The number of customers within the city limits of the cities referenced is as follows:
- (1) Winchester; 0
 - (2) Paris; 0
 - (3) Versailles; 0
 - (4) Frankfort; 0
 - (5) Midway; 2 (City of Midway and White Dog Trading and Storage, LLC which is inactive and not a current customer)
 - (6) Stamping Ground; 0
 - (7) Corinth; 0
 - (8) Mount Vernon; 0
 - (9) McKee; 0
- d. The Company did not use census data for information on customers in multi-unit renter occupied units because they are not regarded as direct customers in as much as they do not pay bills directly to the Company. While these customers use the Company's services, it is not possible to know how much they pay for water service. The affordability analysis conducted by the Company is based on water service provided to direct customers of the Company.

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Witness: Charles Rea

30. Refer to Kentucky-American's response to Staff's Second Request, Item 61a, which was non-responsive. Explain the basis for the increase in MHI shown in Chart 1, not the basis for the number.

Response:

The MHI shown in Chart 1 of approximately \$80,000 and the MHI quoted in Staff's Second Request, Item 61a of \$61,526 do not measure income for the same population of households and are therefore not comparable figures. The Company's MHI is based on an estimate of direct customers of the Company across the Company's service territory and is based on income of owner-occupied and renter-occupied single family homes in the Company's service territory. The \$61,526 figure¹ represents all households in Lexington only (which is different than the Company's analysis) and includes multi-family households not included in the Company's analysis.

¹ United States Census, Quick Facts, Lexington-Fayette Urban County, Kentucky, <https://www.census.gov/quickfacts/fact/table/lexingtonfayetteurbancountykentucky.KY/PST045222>.

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Witness: Charles Rea

31. Refer to Kentucky-American's response to Staff's Second Request, Item 63. Explain why Kentucky-American chose to use a lower base water amount than the amount recommended in the cited article.

Response:

The Company used a lower base water amount than the amount cited in the article because the Company's definition of Basic Water Service of 40 gallons per household member per day is more consistent with actual residential consumption patterns (usage per customer) in the Company's service territory than the amount recommended in the cited article.

Please also see the response to PSC 2-68.

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Witness: Charles Rea

32. Refer to Kentucky-American's response to Staff's Second Request, Item 67a.
- a. Provide the source of the data provided in the table.
 - b. Explain whether the MHI in this table represent all occupied housing (single and multiunit) in each zip code. If not, explain what it represents.

Response:

- a. The data can be found in Column R of the Community Analysis tab of KAW_R_PSCDR2_NUM061_081823_Attachment.
- b. Consistent with the Company's affordability analysis methodology, the MHI in the table represents an estimate of households that are direct customers of the Company which is a weighted-average of owner-occupied households and renter-occupied single family households.

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Witness: Charles Rea

33. Refer to Kentucky-American's response to Staff's Second Request, Item 68.
- a. Provide the calculations for the amount in the table.
 - b. Provide the supporting documentation showing that the average household size is 2.5 persons in Kentucky-American's service area.

Response:

- a. See KAW_R_PSCDR3_NUM033_092123_Attachment.
- b. The 2.5 person per household stated in response to Staff's Second Request, Item 68, was intended to be a representative figure. The calculated average household size for direct customers in the Company's affordability analysis is 2.40 persons per household as shown in cell U44 of the Community Analysis tab of KAW_R_PSCDR2_NUM061_081823_Attachment. Based on an average persons per household figure of 2.40 persons per household, 40 gallons per household member per day equates to 2880 gallons per month which is still consistent with the median monthly use per customer data shown in response to Staff's Second Request, Item 68, and as shown in KAW_R_PSCDR3_NUM033_092123_Attachment.

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Witness: William A. Lewis

34. Refer to Kentucky-American's response to Staff's Second Request, Item 77.
- a. Have there been any changes to the number of meter readers in the last five years.
 - b. Explain if Kentucky-American is proposing a change in the number of meter readers in the next ten years.

Response:

- a. No, the assigned number of meter readers has not changed over the past 5 years. However, due to the time necessary to fill vacancies due to promotions and retirements, there have been intermittent times when the number of meter reader positions has fluctuated during this time period. When temporary vacancies occur, KAWC assigns FSR representatives to perform meter reading until temporary vacancies can be filled.
- b. In this case, if the proposed deployment of AMI technology is approved, the Company anticipates that there will be no substantial decrease in meter reading labor until the entire service territory is converted to AMI, sometime in 2033-2034. Please also see the Company's responses to PSC 2-9, 2-15, and AG 1-50, as well as page 12 of Exhibit A to the Application, which relate to KAWC's expectations relating to meter reading labor.

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Witness: William A. Lewis

35. Refer to Kentucky-American's response to Staff's Second Request, Item 78a. Confirm there have been no employees dedicated full-time to identifying and reducing the amount of unaccounted-for water loss for the past ten years.

Response:

KAWC does not have a separate job classification for employees performing unaccounted-for water loss investigations, but many different employees have responsibility to support the water loss program. As such, KAWC has a non-revenue water task force focused on this issue, with approximately 35 employees contributing to KAWC's efforts. Also, KAWC does not track time specifically spent on water loss activities. However, generally one field employee is regularly assigned to field leak detection activities in support of our leak repair program, but this number can change up and down based on need. Both members of the management team and the labor force contribute time to the assessment and identification of underground pipe leaks, meter replacement and calibration, hydrant and valve repairs, and other activities that directly support the water loss reduction effort. These activities also include the digital evaluation of acoustical data received from our leak sounding hardware deployed in the field. In this case, KAWC is proposing the expansion of the acoustical leak sounding hardware more broadly throughout the system as well as the deployment of AMI meter technology. Both technologies will further improve the time necessary to identify the location and repair of leaks.

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Witness: William A. Lewis

36. Refer to Kentucky-American's response to Staff's Second Request, Item 78c. Kentucky-American states that it purchased portable ultrasonic flow meters to audit special connections and commercial/industrial fire connections to Kentucky-American's distribution system. Provide the results of the audits that have been conducted.

Response:

Audit results to date are provided in KAW_R_PSCDR3_NUM036_092123_Attachment.

| # | Fire Service | Owner | PRIORITY | Date Started | Date Stopped | Time Period | Avg GPM | Estimated Daily Avg Loss (gal) |
|----|-----------------------------|--|----------|--------------|--------------|--------------|---------|--------------------------------|
| 1 | 126 Warren Ct | UK | High | 1/20/2023 | 1/22/2023 | 2d 3:24 | 5.69 | 8,193.60 |
| 2 | 2250 Leestown Rd (Bldg 124) | Veterans Administration | High | 1/11/2023 | 1/12/2023 | | 17.52 | 25,228.80 |
| 3 | 2250 Leestown Rd (Bldg 75) | Veterans Administration | High | 1/11/2023 | 1/20/2023 | 8d 23:15 | 5.94 | 8,553.60 |
| 4 | 1800 Newtown Pk | Marriot | High | 3/1/2023 | 3/4/2023 | 3d 54:00 | 0.00 | 3.86 |
| 5 | 1000 Limestone St | UK | High | 3/14/2023 | 3/14/2023 | 6d 23:50 | 16.32 | 23,500.80 |
| 6 | 725 Rose St | UK | High | 4/24/2023 | 4/25/2023 | 0d 22:55 | 0.60 | 864.00 |
| 7 | 556 Wildcat Ct | UK | Medium | 5/11/2023 | 5/12/2023 | 0d 19:00 | 2.92 | 4,204.80 |
| 8 | 336 Redding Rd | FCPS | Medium | 4/18/2023 | 4/19/2023 | 1d 2hr 28min | 0.82 | 1,180.80 |
| 9 | 1850 Mercer Rd | WT Young | High | 4/26/2023 | 4/27/2023 | 0d 12:06 | 2.39 | 3,441.60 |
| # | 255 S Forbes Rd | BLT Holdings | Low | 4/26/2023 | 4/27/2023 | 1d 00:45 | 0.58 | 835.20 |
| # | 767 Winchester Rd | JM Smuckers | High | 4/11/2023 | 4/20/2023 | 8d 22:07 | 1.07 | 1,543.68 |
| # | 650 Tower Pl | Lexington Housing Authority | Medium | 4/20/2023 | 4/23/2023 | 3d 03:30 | 1.90 | 2,736.00 |
| # | 1295 N Broadway St | Lexington Baseball LLC | | 4/25/2023 | 4/26/2023 | 0d 21:42 | 0.85 | 1,224.00 |
| # | 250 Simpson Ave | Greer Land Co - Smyrna #2 LLC | | 3/27/2023 | 3/28/2023 | 2d 08:05 | 1.64 | 2,361.60 |
| # | 440 Greendale | WT Young | | 3/28/2023 | 3/31/2023 | 2d 20:37 | 0.59 | 854.64 |
| # | 789 Limestone | UK - Lee Todd Jr Bldg | High | 4/20/2023 | 4/23/2023 | 3d 07:48 | 9.32 | 13,420.80 |
| # | 1801 Edison Dr | Lexington Warehouse Leasing LLC | High | 4/24/2023 | 4/25/2023 | 1d 02:03 | 17.78 | 25,603.20 |
| 27 | 2710 Man O War | Hancock Regional Hospital | | 4/24/2023 | 4/25/2023 | 1d 03:24 | 2.04 | 2,937.60 |
| 28 | 4057 Mooncoin Way (Bldg 15) | Sirforty57 LLC | | 4/26/2023 | 4/27/2023 | 0d 21:22 | 0.47 | 676.80 |
| 29 | 900 W Maxwell | Alltech Distillery | | 4/26/2023 | 4/27/2023 | 0d 19:37 | 0.63 | 907.20 |
| 30 | 740 W New Circle Rd | Lexmark FS#1 | | 4/27/2023 | 4/28/2023 | 0d 17:20 | 1.72 | 2,476.80 |
| 31 | 740 W New Circle Rd | Lexmark FS#2 | | 5/2/2023 | 5/4/2023 | 1d 19:48 | 2.24 | 3,225.60 |
| 32 | 2651 Palumbo Dr | Link Belt | | 5/4/2023 | 5/7/2023 | 3d 8:0 | 2.52 | 3,628.80 |
| 34 | 305 Huguelet Dr | UK - Don & Cathy Jacobs Science Center | | 5/4/2023 | 5/8/2023 | 4d 1:53 | 1.68 | 2,419.20 |

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Witness: Shelley Porter

37. Refer to Kentucky-American's response to Staff's Second Request, Item 81b.
- a. In previous years, state whether the University of Kentucky approached Kentucky-American about taking over their private mains to eliminate that special connection.
 - b. If so, explain if Kentucky-American explored that further. If not, explain why.

Response:

Please note that KAWC's response to Staff Second Request, Item 81b, refers to Bluegrass Airport, whereas its response to Item 81c and this instant response refers to University of Kentucky.

(a & b) KAWC is unaware of any specific requests from the University of Kentucky ("UK") to have KAWC acquire their private mains in their entirety. UK did approach KAWC in the 2021/2022 timeframe about taking over a segment of private main at the Coldstream facility. KAWC is currently working with UK on a plan to eliminate this section of private main near UK's Coldstream Campus along Interstate 75. A portion of UK's property was acquired by the Lexington-Fayette Urban County Government ("LFUCG") for the development of a new business park, and UK wished to remove the private main within this area. Additionally, UK no longer needs water service on a portion of their property due to former facilities being demolished.

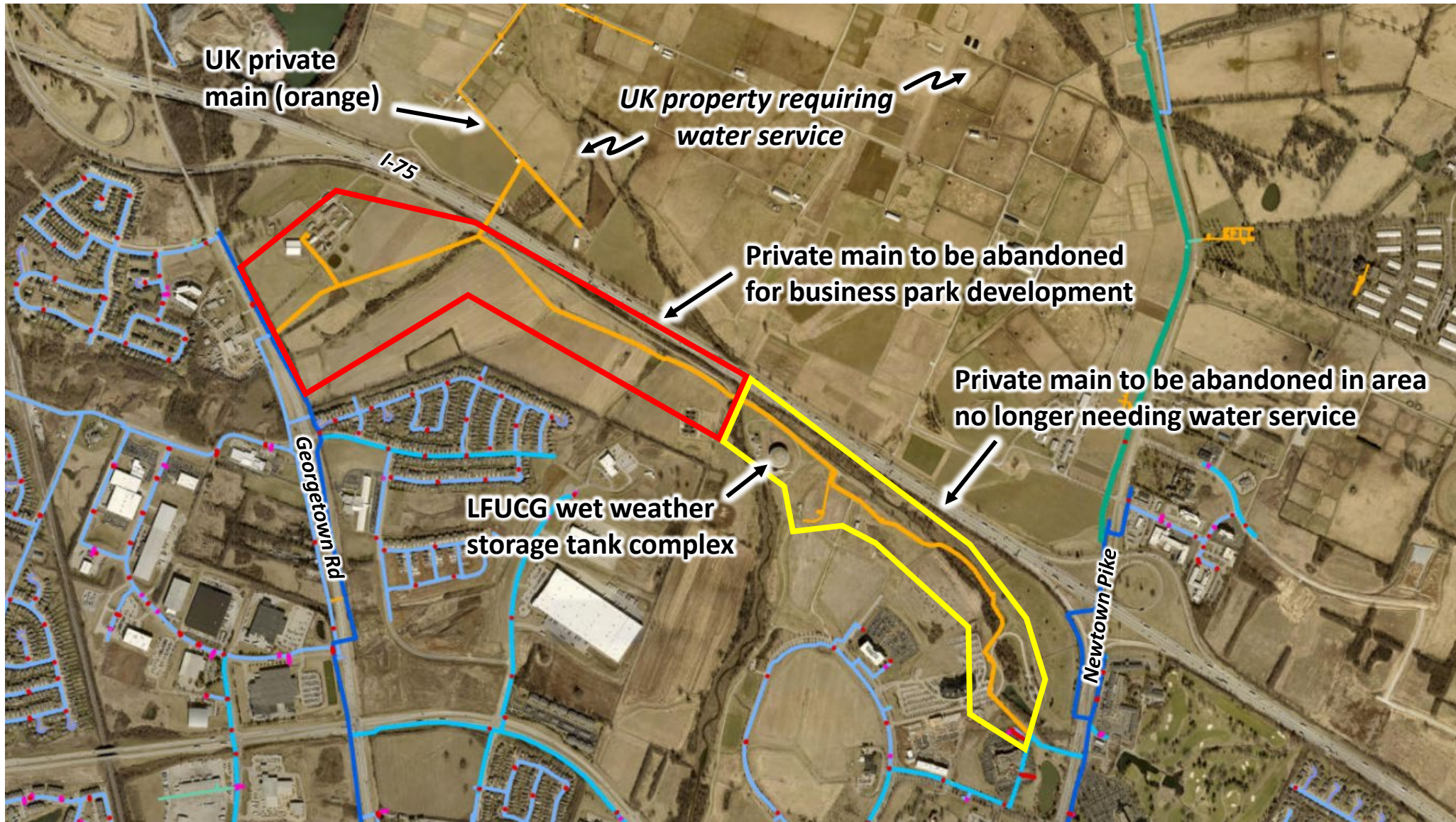
During initial discussions regarding the modifications to the private main, UK inquired about the possibility of KAWC acquiring approximately 5,500 linear feet of private main where UK no longer needs water service. After more detailed evaluations, KAWC developed a solution where this portion of existing pipe owned by UK could be completely abandoned and service could be maintained to the portion of UK's property that still requires water service. The solution also allows for LFUCG's wet weather storage tank complex, which is currently served from UK's private main, to be served from new public main that will be installed on the proposed business park campus. This new water main installed at the business park will be owned and maintained by KAWC.

Conceptual figures depicting the private main modifications are provided in KAW_R_PSCDR3_NUM037_092123_Attachment.

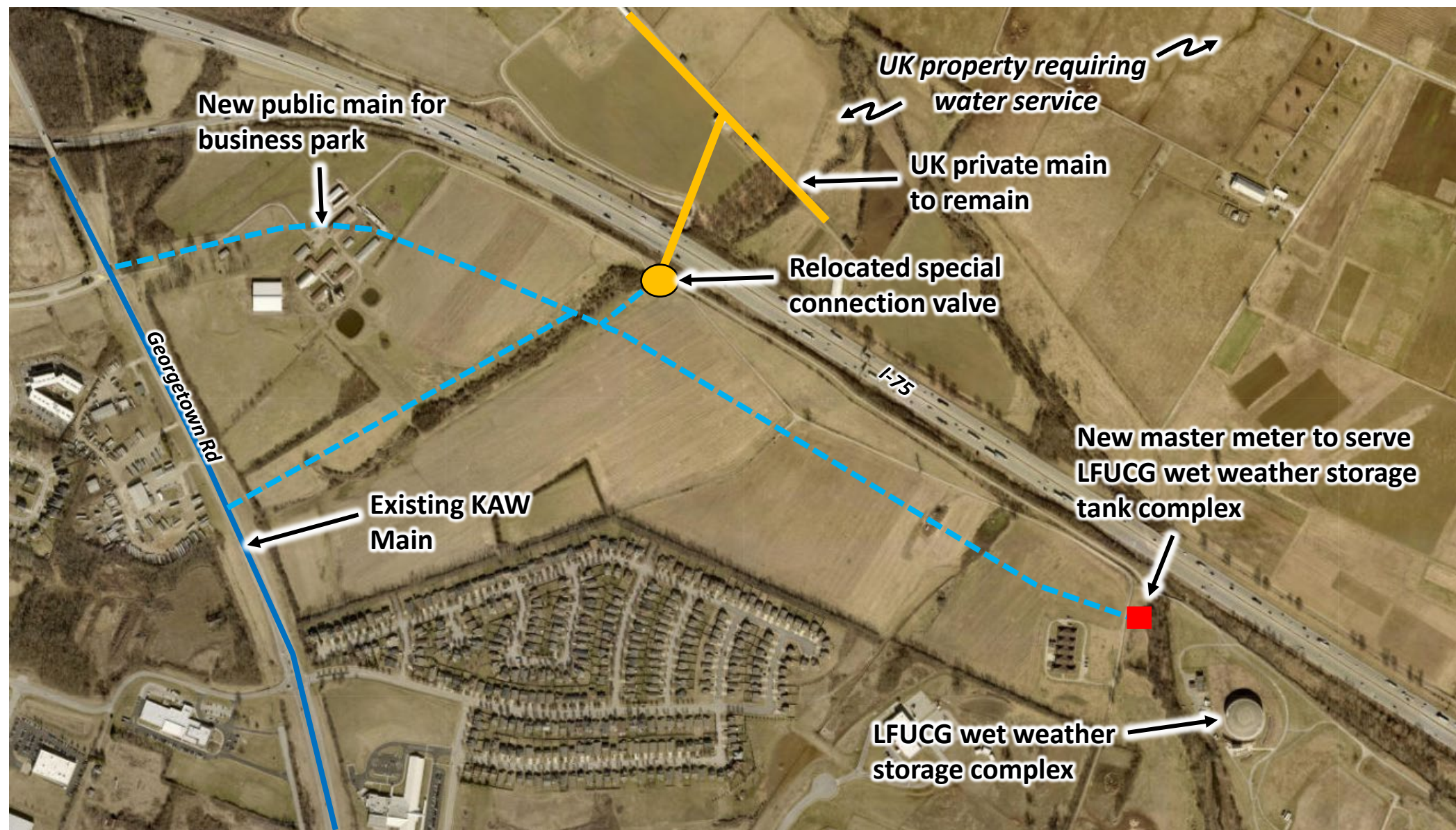
KAWC continues to evaluate solutions to private main challenges at UK facilities. KAWC conducted an audit of UK's facilities in 2022 and is working with UK to gain a better understanding of its private system. KAWC is assisting them in locating leaks along active

and abandoned private main and is discussing possible unmetered connections made to facilities. The UK system is very complex with private waterlines located in expansive tunnels owned by UK, paralleling steam lines and other utilities on UK's campus which have been modified many times over the past over 100 years. Acquisition of the aging and complex facilities would result in: (1) KAWC employees requiring access to UK facilities in confined space tunnels and buildings being exposed to risks associated with other UK facilities in these locations; (2) conducting construction upon private property; and (3) in costs to maintain and replace these private facilities that could be borne by other customers.

CONCEPTUAL PLAN: EXISTING CONDITIONS AND ABANDONMENT



CONCEPTUAL PLAN: PROPOSED CONDITIONS



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Witness: William A. Lewis

38. Refer to Kentucky-American's response to Staff's Second Request, Item 86.
- a. State whether Kentucky-American has asked for an increase in the number of employees to focus on water loss. If not, explain why.
 - b. State whether Kentucky-American is aware of the Commission's final Order in Case No. 2019-00041.³
 - c. Concerning water loss, explain if Kentucky-American believes it should be held to a lower standard than other, small water utilities in the state.

Response:

- a. KAWC is focused on reducing water loss and our approach to staffing assumes all field employees have responsibility for a focus on water loss. We have not requested additional staffing to focus on water loss as we have invested in efficiencies that have allowed KAWC to reduce employee workload in other areas to free up time and resources to perform water loss reduction activities. In this case, KAWC is proposing technological and external service approaches that are intended to create additional staffing efficiencies in the future. For example, the deployment of AMI meter technology will, in the long-term, reduce the required number of meter readers necessary to read all KAWC meters, and the use of an external vendor to perform utility locates reduces the number of utility employees required to support the utility locating requirement. Employee resources, previously assigned to these duties, will be available to perform additional unaccounted-for water loss investigations on a go forward basis in addition to supporting customer field service activities.
- b. Yes, KAWC is aware of the final order in Case No. 2019-00041. Consistent with that order, KAWC has a water loss prevention program that addresses the Commission recommendations to the parties of the investigation.
- c. KAWC believes the Commission should hold KAWC to the applicable legal standards, regardless of its size relative to other water utilities. Part of those legal standards consist of the Commission's regulation allowing KAWC or any other water utility to seek approval for unaccounted for water levels exceeding 15 percent. KAWC has availed itself of that regulation in this case by demonstrating that an alternative level is more reasonable for KAWC than the level prescribed.

³ Case No. 2019-00041, Electronic Investigation Into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities (Ky. PSC Nov. 22, 2019), Order.

The Commission, in its July 30, 2021 Order (p. 2) in Case No. 2019-00041, explained the background for its investigation as:

Reports of excessive water loss year after year can be indicative of the deteriorating overall financial and operational well-being of a water utility. For this reason, as noted in its Orders in recent years, the Commission has been placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission has strongly encouraged utilities to continue to pursue reasonable actions to reduce unaccounted-for water loss.

KAWC is not deteriorating financially or operationally as described in that Order. KAWC has described in this case its many efforts to address water loss in its complex system and in fact is requesting expansion of its Qualified Infrastructure Program as mentioned in the referenced Order at page 9. The requested adjustment to the production cost recovery reduction is not about reducing the water loss efforts, but is recognition that KAWC is investing capital and labor to address water loss.

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Witness: Harold Walker

39. Refer to Kentucky-American's response to Staff's Second Request, Item 88a. Explain why non-cash working capital should be included in working capital.

Response:

Cash working capital is the amount of investor supplied capital used to fund the day-to-day operations of the Company and to compensate shareholders for the delay in recovery of certain expenses from ratepayers, which includes noncash items as these represent true expenses for the Company. The Company's cash working capital methodology used in this case has been utilized in numerous prior rates cases and is the same methodology that the Commission has accepted since 1983. Additionally, as noted in the Company's response to Staff's Second Request, Item 88(c), the Commission held that Kentucky-American's working capital "methodology is consistent with the PSC's determination in Case No. 2018-00358 that '...the Commission has consistently refused to adopt[,] the arguments raised...' against 'the inclusion of non-cash items in the calculation of working capital.'"

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Witness: Harold Walker and John Watkins

40. Refer to Kentucky-American's response to Staff's Second Request, Item 88c.
- a. Identify the person that can provide each American-Water affiliate that has been authorized to include non-cash items in Working Capital for rate purposes.
 - b. Identify the specific noncash items that have been authorized for each affiliate.
 - c. Cite to the language quoted in the Order in Case No. 2018-00358.

Response:

- a. Although Mr. Walker did not gather the requested information for part b below for his testimony, Mr. Walker has undertaken a reasonable review into this matter, and can provide the American-Water affiliates that have been authorized to include non-cash items in Working Capital for rate purposes.
- b. See table below for the American-Water affiliates with non-cash items included in Working Capital for rate purposes:

| Affiliate | "Non-Cash" Items Included | | | | | Most Recent Case |
|------------------------|---------------------------|--------------|---------------|----------------------|--------------|--|
| | Depreciation | Amortization | Uncollectible | Deferred Tax Expense | Net Earnings | |
| California-American | ✓ | | ✓ | ✓ | | Application No. 19-07004 |
| Hawaii-American | ✓ | | ✓ | ✓ | | Docket No. 2021-0063 |
| Indiana-American | ✓ | ✓ | ✓ | | ✓ | Cause No. 45142 |
| New Jersey-American | ✓ | ✓ | ✓ | ✓ | ✓ * | WR-22010019 |
| Virginia-American | ✓ | ✓ | ✓ | ✓ | | PUR-2021-00255 |
| West Virginia-American | ✓ | ✓ | ✓ | | | Case Nos. 21-0369-W-42T 21-0370-S-42T |

*In New Jersey, operating income is included and would be considered a noncash item. The inclusion of operating income requires all interest expense and net income being treated as noncash items and are assigned 0 (zero) lead days.

- c. The language quoted in the Order in Case No. 2018-00358 referred to in Kentucky-American's response to Staff's Second Request, Item 88c is: Case No. 2018-00358, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates* (Ky. PSC June 27, 2019) at 8-9.

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Witness: John Watkins

41. Refer to Kentucky-American's response to Staff's Second Request, Item 90. State how much of the Annual Performance Plan is based on a financial metric for each category listed.

Response:

Please refer to the APP brochure documents provided, as KAW_R_PSCDR1_NUM033_071823_Confidential_Attachment 2 page 3 for nonunion employees and KAW_R_PSCDR1_NUM033_071823_Confidential_Attachment 3 page 3 for union employees.

As shown in the attachments referenced above, the APP goals are the same for all categories of employee and generally broken into five strategic areas for evaluating performance – Safety (15%), Growth (50%), Customer (15%), People (5%) and Environmental Leadership (15%). Under each are objectives or metrics for achieving performance as set forth on the chart on page 3 of each attachment referenced above. While the earnings per share (“EPS”) metric is often considered a financial metric, it is a critical component of the overall performance compensation plan. The financial performance measures are a proxy metric because achievement of them shows an organization focused on improved performance at all levels. Achieving financial goals, such as targeted EPS, requires continual attention to operating efficiently. That is, unless the utility controls its operating costs, it cannot achieve a targeted EPS. This necessitates employees at all levels of the organization to remain focused on increasing efficiency, decreasing waste, and boosting overall productivity. As a result, the Company controls operating costs to the benefit of customers, because doing so mitigates rate increases. Consequently, when financial goals are achieved through efficiency, as is the case for the Company, the interests of customers, employees, and investors are aligned.

Also, because water operations are capital-intensive and must constantly and consistently access the capital markets at reasonable costs, customers benefit when their utility has the financial health to do so. Having access to lower cost debt and internal funds to finance water infrastructure investment mitigates the financing costs that customers ultimately pay through rates. The availability of those sources of capital at reasonable costs, however, depends on the utility's financial performance, including credit and bond ratings. So it's important to focus utility employees on the financial health of the organization. Simply put, a financially healthy utility benefits customers because it enables the utility to meet its service obligations at reasonable financing costs, which can help the Company mitigate its

requested rate increase. Again, when financial performance is achieved through efficiency, as is the case for KAWC, the interests of customers and investors are aligned.

All of the performance objectives – both operational and financial – focus employees' efforts in ways that ultimately benefit customers. The use of multiple measures further strengthens our ability to drive results across the enterprise.

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Witness: John Watkins

42. Refer to Kentucky-American's response to Staff's Second Request, Item 91. Provide the purchased power expense by power provider for the last five years.

Response:

Purchased power expense by power provider for the last five years is as follows:

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Jackson Energy Cooperative | \$0 | \$51 | \$700 | \$701 | \$722 |
| KU-Kentucky Utilities Company | 3,011,222 | 3,304,865 | 3,233,841 | 3,466,150 | 4,216,752 |
| Owen Electric Cooperative, Inc. | 718,322 | 684,654 | 640,150 | 713,759 | 886,341 |
| Sales & Use Tax | 161,828 | 148,846 | 154,291 | 112,659 | 105,023 |
| Other | 5,352 | (11,923) | 40,920 | (21,637) | (43,349) |
| Total | \$3,896,724 | \$4,126,493 | \$4,069,902 | \$4,271,633 | \$5,165,490 |

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Witness: John Watkins

43. Refer to Kentucky-American's response to Staff's Second Request, Item 92.
- a. Provide the annual salary and annual performance plan pay for each of the Kentucky-American executive team for the last five years. This should include anyone with a title of President, Vice-President, or Director.
 - b. If they were, or currently an employee of the American Water or its service company and assigned to the Kentucky-Tennessee region, located in Kentucky, or had a business address in Kentucky, provide the amount paid to the employee in total and include the amount allocated to Kentucky-American. This should include anyone with a title of President, Vice-President, or Director.

Response:

- a. Please refer to the below tables for annual salary and annual performance plan pay for each of the Kentucky-American executive team for the last five years.

Annual Salary:

| Title | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------|------------------------------------|-------------|-------------|-------------|-------------|
| President* | | | | | \$270,000 |
| VP Operations | \$154,884 | \$155,000 | \$160,425 | \$168,446 | \$216,444 |
| Director, Eng | Please see Confidential Attachment | | | | |

*Kentucky-American Water President position was a Service Company position prior to 2022.

Annual Performance Plan Pay:

| Title | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------|------------------------------------|-------------|-------------|-------------|-------------|
| President | | | | | |
| VP Operations | \$32,922 | \$40,728 | \$40,788 | \$42,352 | \$54,022 |
| Director, Eng | Please see Confidential Attachment | | | | |

- b. Please refer to the below tables for annual salary and annual performance plan pay for employees with a title of President, Vice-President, or Director from American Water Works Service Company assigned to the region and whose costs are allocated to Kentucky-American.

Annual Salary:

| <u>Title</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|-----------------|------------------------------------|-------------|-------------|-------------|-------------|
| President | \$327,487 | \$335,674 | \$345,409 | \$354,908 | |
| Director, Eng. | Please see Confidential Attachment | | | | |
| Director, Rates | | | | | |

Annual Performance Plan Pay:

| <u>Title</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|-----------------|------------------------------------|-------------|-------------|-------------|-------------|
| President | \$159,439 | \$136,252 | \$209,079 | \$188,852 | \$201,274 |
| Director, Eng. | Please see Confidential Attachment | | | | |
| Director, Rates | | | | | |

Annual Salary and Performance Pay Plan Allocated to Kentucky - American

| <u>Title</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|-----------------|------------------------------------|-------------|-------------|-------------|-------------|
| President | \$316,014 | \$308,001 | \$372,069 | \$344,432 | \$115,945 |
| Director, Eng. | Please see Confidential Attachment | | | | |
| Director, Rates | | | | | |

**KAW_R_PSCDR3_NUM043_092123_
ATTACHMENT_CONFIDENTIAL
FILED UNDER SEAL PURSUANT TO THE PETITION FOR
CONFIDENTIAL TREATMENT FILED ON SEPTEMBER 21, 2023**

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Witness: William A. Lewis

44. Refer to Kentucky American's response to LFUCG's First Request, Item 48. Kentucky-American states that a 12-month rolling, annual, or multi-year water loss percentage would be an appropriate indicator of non-revenue water (NRW). Explain whether a 12-month rolling, annual percentage is used in other American Water jurisdictions to assess NRW. If so, please provide a list of the jurisdictions this approach is used.

Response:

All American Water subsidiaries use the 12-month rolling, annual percentage as a basis to quantify and assess changes to NRW. These include:

- New Jersey American Water
- Pennsylvania American Water
- Virginia American Water
- Maryland American Water
- West Virginia American Water
- Kentucky American Water
- Tennessee American Water
- Indiana American Water
- Missouri American Water
- Iowa American Water
- Illinois American Water
- California American Water
- Hawaii American Water

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Witness: Kathryn Nash

45. Refer to Kentucky American's response to LFUCG's First Request, Item 53. Kentucky American states that when considering investment opportunities, American Water invests its capital where it receives the most favorable treatment. Also, Kentucky-American states that it has had difficulty securing proactive capital funding from American Water. State whether Kentucky-American's assertion is that American Water is not adequately supporting the infrastructure needs of the Kentucky-American system. Explain.

Response:

The Company does and will continue to provide safe and adequate service, making the necessary investments in developing and maintaining adequate sources of supply, treatment, pumping, transmission and distribution facilities, as well as to comply with applicable environmental laws and regulations (Safe Drinking Water Act, the Clean Water Act, etc.). While American Water always ensures that each of its water utilities (including Kentucky-American) is afforded access to capital to provide safe and adequate service, investment funding is not limitless. American Water is competing with other companies and industries in the marketplace for capital, and American Water's subsidiaries (including Kentucky-American) are competing within the American Water system for proactive allocations of American Water's investment and financing capacity. Proactive allocations within American Water can be influenced by a subsidiary company's capital requirements, as well as by market conditions and available funds. Investors have choices. The choices investors make must necessarily consider the returns available on invested capital. American Water is acutely aware that utility statutes and regulatory frameworks vary from state to state; regulatory commissions have different policies, administrative procedures, and precedents; and these differences affect American Water's investment decisions.

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Witness: Krista E. Citron

46. Refer to Kentucky-American's response to LFUCG's First Request, Item 91. Also, refer to Kentucky-American's response to LFUCG's First Request, Item 92. Kentucky-American states that in 2025, it anticipates an additional \$21,069,495 in QIP expenses for the 14 additional miles of main replacement under the proposed QIP expansion. This would equate to an approximate QIP cost of \$285 per linear foot. Kentucky-American stated that based on its recent QIP Year 3 costs, the linear foot cost would be \$331. Explain and reconcile why the proposed additional 2025 costs would come in below the \$331 estimate.

Response:

A cost of \$285 per linear foot assumes that 14 miles of main are installed at a cost of \$21,069,495. Kentucky American's request to expand QIP in 2025 entails a total main replacement budget of \$42,478,470 to replace anywhere from 1.1 to 1.4 percent of the system, roughly 27-34 miles annually. However, each year of the QIP is a balance between miles of main replaced, total annual costs, and average cost per linear foot. When a project is more complex or located in a higher-density/urban area, the total project cost is generally higher with fewer feet of main replaced. Projects that are eligible for paving cost-shares with LFUCG or other utilities are generally less expensive per linear foot than ones where Kentucky American is the sole entity providing final restoration and paving. Over the past several months, Kentucky American has been working with LFUCG and Columbia Gas on a Paving Sharing Agreement that will allow for better coordination of shared paving and restoration activities. This agreement is still awaiting final approval by LFUCG but is expected to provide more opportunities for streamlined coordination. Kentucky American is also working to identify main replacements that can be performed under sidewalks or in utility strips in order to disturb less pavement, thereby reducing the cost per linear foot for those projects.

Kentucky American stated that the \$331 per linear foot cost was an average based on the most recently completed projects at the time of the March 1, 2023 QIP application filing, not a set cost for each project. Some projects finish as low as \$220 per linear foot while others are over \$400 per linear foot. Kentucky American works to balance this mix of projects each year to achieve the 10-13 miles of main replaced within the budget presented, and this same effort would be continued with the QIP expansion of targeting 27-34 miles of main per year. Expanding the QIP to include other pipe materials provides an opportunity to replace mains in areas with fewer restoration requirements, having more chances to cost-share with LFUCG or other utilities, and achieving further efficiencies with design consultants and contractors by bundling projects in adjacent areas. There are also areas of Kentucky American's system where, for example, an aging asbestos cement main

is in parallel with an aging cast iron main, and the expansion would allow Kentucky American to replace both mains at once which results in further cost savings per linear foot.