**KENTUCKY-AMERICAN WATER COMPANY**
**CASE NO. 2025-00122**
**COMMISSION STAFF'S POST-HEARING REQUEST FOR INFORMATION**

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**Witness: Ann Bulkley**

1. Provide an update to Kentucky-American's return on equity (ROE) analysis using data as of July 31, 2025, or after.

**Response:**

Please see the Response to KAW_R_PSCHDR_NUM01_100625, Attachment 1.

**KENTUCKY-AMERICAN WATER COMPANY**
**CASE NO. 2025-00122**
**COMMISSION STAFF'S POST-HEARING REQUEST FOR INFORMATION**

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**Witness: Jennifer Gonzales**

2. Refer to the hearing testimony of Jennifer Gonzales which referenced a debt issuance that was executed by American Water Works on August 6, 2025, and provided to Kentucky-American on September 15, 2025. Provide an update to Exhibit 37, J to include the debt issuance. In the response, provide the terms of the debt issuance.

**Response:**

Please refer to KAW_R_PSCHDR_NUM002_100625_Attachment which includes an updated Exhibit 37, J with the updated September 15, 2025 debt issuance. The Company is also including the corresponding Excel workpaper.

Please note: Kentucky-American actually received $19 million in the September 15, 2025 transaction, which differs from the projected $13 million as presented in Exhibit 37, J. The Company is not seeking to recover the additional debt and cost of long-term debt in this proceeding even though the additional long-term debt leads to a corresponding change to the projected balance of short-term debt and an increased Rate of Return (ROR). The debt issuance costs detailed in the attached document correspond to the actual $19 million issuance. Because the Company is not seeking to recover the additional costs as stated above, the update results in no change to the overall ROR presented in the Company's update prior to the hearing in this proceeding.

In the attached Exhibit 37, J, the total cost of long-term debt (including debt issuance costs, discount and hedge discount for the $19 million debt) has decreased in total by $81,697, thereby increasing the carrying value. The $81,697 increase in carrying value and $2,600 in annual cost is too small to materially affect the ratios and cost rate.

Sch J-4 Line No. 25 includes the updated costs as of December 2026. Sch J WPs, Column AJ Line No. 22 shows the 13-month average costs for December 2026.

**Kentucky American Water Company**
**Case No. 2025-00122**
**Cost of Capital Summary**
**13-Month Average For Forecast Period Ending December 31, 2026**

Data: ___ Base Period _X_ Forecasted Period
Type of Filing: _____ Original __X__ Updated _____ Revised

Exhibit 37, Schedule J-1
KAW_R_PSCHDR_NUM002_100625_Attachment Sch J-1
Witness Responsible: Jennifer Gonzales
Page 1 of 1

| Line No. | Class of Capital | Reference | 13-Month Average Net Carrying Amount | % of Total | Add (1) | Adjusted Capital | Cost Rate | 13-Month Average Weighted Cost |
|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | |
| 2 | Short-Term Debt | W/P - 7-3 | $8,914,663 | 1.31% | $0 | $8,914,663 | 4.158% | 0.050% |
| 3 | | | | | | | | |
| 4 | Long-Term Debt | W/P - 7-4 | 314,834,744 | 46.11% | 0.30 | 314,834,744 | 4.689% | 2.160% |
| 5 | | | | | | | | |
| 6 | Preferred Stock | W/P - 7-5 | 2,245,974 | 0.33% | 0 | 2,245,974 | 8.500% | 0.030% |
| 7 | | | | | | | | |
| 8 | Common Equity | W/P - 7-6 | 356,818,465 | 52.26% | 0.33 | 356,818,465 | 10.75% | 5.620% |
| 9 | | | | | | | | |
| 10 | Total Capital | | $682,813,846 | 100.00% | $0.64 | $682,813,847 | | 7.860% |
| 11 | | | | | | | | |
| 12 | | | | | | | | |
| 13 | | | | | | | | |
| 14 | | | | | | | | |
| 15 | | | | | | | | |
| 16 | (1) JDITC: | W/P - 7-7 | $0.64 | | | | | |

**Kentucky American Water Company**
**Case No. 2025-00122**
**Cost of Capital Summary**
**As of December 31, 2026**

Data: ___ Base Period _X_ Forecasted Period
Type of Filing: _____ Original __X__ Updated _____ Revised

Exhibit 37, Schedule J-2
KAW_R_PSCHDR_NUM002_100625_Attachment Sch J-2
Witness Responsible: Jennifer Gonzales
Page 1 of 2

| Line No. | Class of Capital | Reference | Net Carrying Amount | % of Total | Add (1) | Adjusted Capital | Cost Rate | Terminal Weighted Cost |
|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | |
| 2 | Short-Term Debt | J-3, Page 1 | $16,412,973 | 2.306% | $0 | $16,412,973 | 4.151% | 0.100% |
| 3 | | | | | | | | |
| 4 | Long-Term Debt | J-4, Page 1 | 323,301,054 | 45.414% | 0 | 323,301,054 | 4.760% | 2.160% |
| 5 | | | | | | | | |
| 6 | Preferred Stock | J-5, Page 1 | 2,246,137 | 0.316% | 0 | 2,246,137 | 8.500% | 0.030% |
| 7 | | | | | | | | |
| 8 | Common Equity | W/P - 7-6 | 369,937,925 | 51.96% | 0.64 | 369,937,925 | 10.750% | 5.590% |
| 9 | | | | | | | | |
| 10 | Total Capital | | $711,898,090 | 100.000% | $0.64 | $711,898,090 | | 7.880% |
| 11 | | | | | | | | |
| 12 | | | | | | | | |
| 13 | | | | | | | | |
| 14 | | | | | | | | |
| 15 | | | | | | | | |
| 16 | (1) JDITC | W/P - 7-7 | $0.64 | | | | | |

**Kentucky American Water Company**
**Case No. 2025-00122**
**Cost of Capital Summary**
**As of August 2025**

Data: _X_ Base Period __ Forecasted Period
Type of Filing: _____ Original __X__ Updated _____ Revised

Exhibit 37, Schedule J-2
KAW_R_PSCHDR_NUM002_100625_Attachment Sch J-2
Witness Responsible: Jennifer Gonzales
Page 2 of 2

| Line No. | Class of Capital | Reference | Net Carrying Amount | % of Total | Add (1) | Adjusted Capital | Cost Rate | Terminal Weighted Cost |
|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | |
| 2 | Short-Term Debt | J-3, Page 1 | $15,704,768 | 2.406% | $0 | $15,704,768 | 4.547% | 0.110% |
| 3 | | | | | | | | |
| 4 | Long-Term Debt | J-4, Page 1 | 292,250,544 | 44.778% | 0 | 292,250,544 | 4.550% | 2.040% |
| 5 | | | | | | | | |
| 6 | Preferred Stock | J-5, Page 1 | 2,245,654 | 0.344% | 0 | 2,245,654 | 8.500% | 0.030% |
| 7 | | | | | | | | |
| 8 | Common Equity | W/P - 7-6 | 342,467,543 | 52.47% | 0.64 | 342,467,543 | 10.750% | 5.640% |
| 9 | | | | | | | | |
| 10 | Total Capital | | $652,668,509 | 100.000% | 0.64 | $652,668,509 | | 7.820% |
| 11 | | | | | | | | |
| 12 | | | | | | | | |
| 13 | | | | | | | | |
| 14 | | | | | | | | |
| 15 | | | | | | | | |
| 16 | (1) JDITC: | W/P - 7-7 | $1 | | | | | |

**Kentucky American Water Company**
**Case No. 2025-00122**
**Embedded Cost of Short-Term Debt**
**As of December 31, 2026**

Data: ___ Base Period _X_ Forecasted Period
Type of Filing: _____ Original __X__ Updated _____ Revised

Exhibit 37, Schedule J-3
KAW_R_PSCHDR_NUM002_100625_Attachment Sch J-3
Witness Responsible: Jennifer Gonzales


| Line No. | Issue | Reference | Amount Outstanding | Interest Rate | Interest Requirement |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | Promissory Note | W/P - 7-3 | $16,412,973 | 4.151% | $681,335 |
| 5 | | | | | |
| 6 | | | | | |
| 7 | Weighted Cost of Short-Term Debt | | 4.151% | | |

**Kentucky American Water Company**
**Case No. 2025-00122**
**Embedded Cost of Short-Term Debt**
**As of August 2025**

Data: _X_ Base Period ___ Forecasted Period
Type of Filing: _____ Original __X__ Updated _____ Revised

Exhibit 37, Schedule J-3
KAW_R_PSCHDR_NUM002_100625_Attachment Sch J-3
Witness Responsible: Jennifer Gonzales
Page 2 of 2

| Line No. | Issue | Reference | Amount Outstanding | Interest Rate | Interest Requirement |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | Promissory Note | W/P - 7-3 | $15,704,768 | 4.547% | $714,090 |
| 5 | | | | | |
| 6 | | | | | |
| 7 | Weighted Cost of Short-Term Debt | | 4.547% | | |

**Kentucky American Water Company**
**Case No. 2025-00122**
**Embedded Cost of Long-Term Debt**
**As of December 31, 2026**

Data: ___ Base Period _X_ Forecasted Period
Type of Filing: _____ Original __X__ Updated _____ Revised
Workpaper Reference No(s): W/P - 7-4

Exhibit 37, Schedule J-4
KAW_R_PSCHDR_NUM002_100625_Attachment Sch J-4
Witness Responsible: Jennifer Gonzales


| Line No. | Debt Issue Type & Rate | Issue Date | Maturity Date | Amount Outstanding | Cost Rate at Issue | Cost Rate at Maturity | Bond Rating at Issue | Annualized Interest | Principal Amount | Annual Amort. of Issue Expense | Unamortized Discount | Unamortized Debt Expense | Unamortized Gain/Loss | Carrying Value |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | | |
| 2 | | | | | | | | | | | | | | |
| 3 | General Mortgage Bonds: | | | | | | | | | | | | | |
| 4 | | | | | | | | | | | | | | |
| 5 | Series 7.15% GMB | 02/01/97 | 02/01/27 | 7,500,000 | 7.150% | 7.182% | N/A | 538,650 | 7,500,000 | 2,418 | 0 | 230 | 0 | 7,499,770 |
| 6 | Series 6.99% GMB | 06/01/98 | 06/01/28 | 9,000,000 | 6.990% | 7.026% | N/A | 632,340 | 9,000,000 | 3,250 | 0 | 4,642 | 0 | 8,995,358 |
| 7 | | | | | | | | | | | | | | |
| 8 | AWCC Inter-Company Notes: | | | | | | | | | | | | | |
| 9 | | | | | | | | | | | | | | |
| 10 | Series 6.593% Note | 10/22/07 | 10/15/37 | 47,000,000 | 6.593% | 6.628% | N/A | 3,115,160 | 47,000,000 | 16,577 | 0 | 180,231 | 0 | 46,819,769 |
| 11 | Series 2.45% Note | 11/14/19 | 10/01/29 | 45,390,000 | 2.450% | 2.580% | N/A | 1,171,062 | 45,390,000 | 58,845 | 0 | 162,167 | 0 | 45,227,833 |
| 12 | Series 2.45% Note | 11/14/19 | 10/01/29 | 26,000,000 | 2.450% | 2.590% | N/A | 673,400 | 26,000,000 | 36,375 | 0 | 100,244 | 0 | 25,899,756 |
| 13 | Series 5.05% Note | 11/21/11 | 10/15/37 | 20,000,000 | 5.050% | 5.050% | N/A | 1,010,000 | 20,000,000 | 0 | 0 | 0 | 0 | 20,000,000 |
| 14 | Series 4.00% Note | 05/15/13 | 10/15/37 | 7,859,000 | 4.000% | 4.000% | N/A | 314,360 | 7,859,000 | 0 | 0 | 0 | 0 | 7,859,000 |
| 15 | Series 4.00% Note | 11/17/16 | 12/01/46 | 5,000,000 | 4.000% | 4.063% | N/A | 203,150 | 5,000,000 | 3,132 | 27,583 | 34,818 | 0 | 4,937,599 |
| 16 | Series 3.75% Note | 09/13/17 | 09/01/47 | 5,000,000 | 3.750% | 3.795% | N/A | 189,750 | 5,000,000 | 2,243 | 10,569 | 35,782 | 0 | 4,953,649 |
| 17 | Series 4.15% Note | 05/22/19 | 06/01/49 | 16,000,000 | 4.150% | 4.202% | N/A | 672,320 | 16,000,000 | 8,375 | 63,312 | 124,475 | 0 | 15,812,213 |
| 18 | Series 3.25% Note | 05/24/21 | 06/01/51 | 13,000,000 | 3.250% | 3.295% | N/A | 428,350 | 13,000,000 | 5,857 | 30,318 | 112,694 | 0 | 12,856,988 |
| 19 | Series 4.45% Note | 05/18/22 | 06/01/32 | 10,000,000 | 4.450% | 4.566% | N/A | 456,600 | 10,000,000 | 11,574 | 17,048 | 45,644 | 0 | 9,937,308 |
| 20 | Series 3.875% Note | 09/01/23 | 09/01/28 | 26,000,000 | 3.875% | 4.076% | N/A | 1,059,760 | 26,000,000 | 52,309 | 0 | 87,199 | 0 | 25,912,801 |
| 21 | Series 3.625% Note | 09/15/23 | 06/15/26 | 0 | 3.625% | 0.000% | N/A | 0 | 0 | 40,228 | 0 | 0 | 0 | 0 |
| 22 | Series 5.15% Note | 05/15/24 | 03/01/34 | 14,000,000 | 5.150% | 5.267% | N/A | 737,380 | 14,000,000 | 16,353 | 31,916 | 85,297 | 0 | 13,882,787 |
| 23 | Series 5.45% Note | 05/15/24 | 03/01/54 | 14,000,000 | 5.450% | 5.516% | N/A | 772,240 | 14,000,000 | 9,237 | 114,877 | 136,079 | 0 | 13,749,044 |
| 24 | Proposed 2025 Issuance (10-year) | 03/15/25 | 03/01/35 | 10,000,000 | 5.250% | 5.341% | N/A | 534,100 | 10,000,000 | 9,065 | 31,398 | 72,024 | 29,364 | 9,925,942 |
| 25 | Proposed 2025 Issuance (30-year) | 09/15/25 | 10/01/55 | 13,000,000 | 5.700% | 5.753% | N/A | 747,890 | 13,000,000 | 6,878 | 99,440 | 197,182 | 252,518 | 12,955,896 |
| 26 | Proposed 2026 Issuance (10-year) | 03/15/26 | 04/01/36 | 9,250,000 | 5.600% | 5.679% | N/A | 525,308 | 9,250,000 | 7,323 | 0 | 85,177 | 0 | 9,164,823 |
| 27 | Proposed 2026 Issuance (30-year) | 03/15/26 | 04/01/56 | 9,250,000 | 5.799% | 5.825% | N/A | 538,813 | 9,250,000 | 2,441 | 0 | 90,059 | 0 | 9,159,941 |
| 28 | Proposed 2026 Issuance (10-year) | 09/15/26 | 10/01/36 | 9,250,000 | 5.600% | 5.629% | N/A | 520,683 | 9,250,000 | 2,698 | 0 | 89,802 | 0 | 9,160,198 |
| 29 | Proposed 2026 Issuance (30-year) | 09/15/26 | 10/01/56 | 9,250,000 | 5.799% | 5.809% | N/A | 537,333 | 9,250,000 | 899 | 0 | 91,601 | 0 | 9,158,399 |
| 30 | | | | | | | | | | | | | | |
| 31 | Carry Over Unamortized Debt Expense | | | | | | | | | | | | | |
| 32 | Redeemed - Carryover | N/A | N/A | 0 | 0.000% | 0.000% | N/A | 0 | 0 | 45,636 | 0 | 568,021 | 0 | (568,021) |
| 33 | | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | | |
| 35 | Total Long-Term Debt and Annualized Cost | | | $325,749,000 | | | | $15,378,649 | $325,749,000 | $341,714 | $426,460 | $2,303,367 | $281,882 | $323,301,054 |
| 36 | | | | | | | | | | | | | | |
| 37 | | | | | | | | | | | | | | |
| 38 | Annualized Cost Rate | | | 4.760% | | | | | | | | | | |

**Kentucky American Water Company**
**Case No. 2025-00122**
**Embedded Cost of Long-Term Debt**
**As of August 2025**

Data: _X_ Base Period ___ Forecasted Period
Type of Filing: _____ Original __X__ Updated _____ Revised
Workpaper Reference No(s): W/P - 7-4

Exhibit 37, Schedule J-4
KAW_R_PSCHDR_NUM002_100625_Attachment Sch J-4
Witness Responsible: Jennifer Gonzales
Page 2 of 2

| Line No. | Debt Issue Type & Rate | Issue Date | Maturity Date | Amount Outstanding | Cost Rate at Issue | Cost Rate at Maturity | Bond Rating at Issue | Annualized Interest | Principal Amount | Annual Amort. of Issue Expense | Unamortized Discount | Unamortized Debt Expense | Unamortized Gain/Loss | Carrying Value |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | | | |
| 2 | | | | | | | | | | | | | | |
| 3 | General Mortgage Bonds: | | | | | | | | | | | | | |
| 4 | | | | | | | | | | | | | | |
| 5 | Series 7.15% GMB | 02/01/97 | 02/01/27 | 7,500,000 | 7.150% | 7.182% | N/A | 538,650 | 7,500,000 | 2,418 | 0 | 3,454 | 0 | 7,496,546 |
| 6 | Series 6.99% GMB | 06/01/98 | 06/01/28 | 9,000,000 | 6.990% | 7.026% | N/A | 632,340 | 9,000,000 | 3,250 | 0 | 8,976 | 0 | 8,991,024 |
| 7 | | | | | | | | | | | | | | |
| 8 | AWCC Inter-Company Notes: | | | | | | | | | | | | | |
| 9 | | | | | | | | | | | | | | |
| 10 | Series 6.593% Note | 10/22/07 | 10/15/37 | 47,000,000 | 6.593% | 6.628% | N/A | 3,115,160 | 47,000,000 | 16,577 | 0 | 202,334 | 0 | 46,797,666 |
| 11 | Series 2.45% Note | 11/14/19 | 10/01/29 | 45,390,000 | 2.450% | 2.580% | N/A | 1,171,062 | 45,390,000 | 58,845 | 0 | 240,628 | 0 | 45,149,372 |
| 12 | Series 2.45% Note | 11/14/19 | 10/01/29 | 26,000,000 | 2.450% | 2.590% | N/A | 673,400 | 26,000,000 | 36,375 | 0 | 148,744 | 0 | 25,851,256 |
| 13 | Series 5.05% Note | 11/21/11 | 10/15/37 | 20,000,000 | 5.050% | 5.050% | N/A | 1,010,000 | 20,000,000 | 0 | 0 | 0 | 0 | 20,000,000 |
| 14 | Series 4.00% Note | 05/15/13 | 10/15/37 | 7,859,000 | 4.000% | 4.000% | N/A | 314,360 | 7,859,000 | 0 | 0 | 0 | 0 | 7,859,000 |
| 15 | Series 4.00% Note | 11/17/16 | 12/01/46 | 5,000,000 | 4.000% | 4.063% | N/A | 203,150 | 5,000,000 | 3,132 | 29,429 | 37,148 | 0 | 4,933,423 |
| 16 | Series 3.75% Note | 09/13/17 | 09/01/47 | 5,000,000 | 3.750% | 3.795% | N/A | 189,750 | 5,000,000 | 2,243 | 11,252 | 38,090 | 0 | 4,950,659 |
| 17 | Series 4.15% Note | 05/22/19 | 06/01/49 | 16,000,000 | 4.150% | 4.202% | N/A | 672,320 | 16,000,000 | 8,375 | 67,077 | 131,876 | 0 | 15,801,047 |
| 18 | Series 3.25% Note | 05/24/21 | 06/01/51 | 13,000,000 | 3.250% | 3.295% | N/A | 428,350 | 13,000,000 | 5,857 | 31,974 | 118,847 | 0 | 12,849,179 |
| 19 | Series 4.45% Note | 05/18/22 | 06/01/32 | 10,000,000 | 4.450% | 4.566% | N/A | 456,600 | 10,000,000 | 11,574 | 21,244 | 56,879 | 0 | 9,921,877 |
| 20 | Series 3.875% Note | 09/01/23 | 09/01/28 | 26,000,000 | 3.875% | 4.076% | N/A | 1,059,760 | 26,000,000 | 52,309 | 0 | 156,944 | 0 | 25,843,056 |
| 21 | Series 3.625% Note | 09/15/23 | 06/15/26 | 19,000,000 | 3.625% | 4.133% | N/A | 785,270 | 19,000,000 | 96,547 | 0 | 76,258 | 0 | 18,923,742 |
| 22 | Series 5.15% Note | 05/15/24 | 03/01/34 | 14,000,000 | 5.150% | 5.267% | N/A | 737,380 | 14,000,000 | 16,353 | 37,852 | 101,165 | 0 | 13,860,982 |
| 23 | Series 5.45% Note | 05/15/24 | 03/01/54 | 14,000,000 | 5.450% | 5.516% | N/A | 772,240 | 14,000,000 | 9,237 | 120,514 | 142,758 | 0 | 13,736,728 |
| 24 | Proposed 2025 Issuance (10-year) | 03/15/25 | 03/01/35 | 10,000,000 | 5.250% | 5.341% | N/A | 534,100 | 10,000,000 | 9,065 | 36,524 | 83,779 | 34,158 | 9,913,855 |
| 25 | | | | | | | | | | | | | | |
| 26 | Carry Over Unamortized Debt Expense | | | | | | | | | | | | | |
| 27 | Redeemed - Carryover | N/A | N/A | 0 | 0.000% | 0.000% | N/A | 0 | 0 | 45,636 | 0 | 628,869 | 0 | (628,869) |
| 28 | | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | | |
| 30 | Total Long-Term Debt and Annualized Cost | | | $294,749,000 | | | | $13,293,892 | $294,749,000 | $377,793 | $355,867 | $2,176,747 | $34,158 | $292,250,544 |
| 31 | | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | | |
| 33 | Annualized Cost Rate | | | 4.550% | | | | | | | | | | |

**Kentucky American Water Company**
**Case No. 2025-00122**
**Embedded Cost of Preferred Stock**
**As of December 31, 2026**

Data: ___ Base Period _X_ Forecasted Period
Type of Filing: _____ Original __X__ Updated _____ Revised
Workpaper Reference No(s): W/P - 7-5

Exhibit 37, Schedule J-5
KAW_R_PSCHDR_NUM002_100625_Attachment Sch J-5
Witness Responsible: Jennifer Gonzales
Page 1 of 2

| Line No. | Dividend Rate, Type & Par Value | Date Issued | Amount Outstanding | Premium or Discount | Unamortized Issue Expense | Gain or Loss on Reaquired Stock | Net Proceeds | Annual Amort. of Issue Expense | Cost Rate at Issue | Cost Rate at Maturity | Annualized Dividends |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | |
| 2 | | | | | | | | | | | |
| 3 | | | | | | | | | | | |
| 4 | | | | | | | | | | | |
| 5 | 8.47% Series, $100 Par | 01/24/92 | $2,250,000 | $0 | $3,863 | $0 | $2,246,137 | $386 | 8.470% | 8.500% | $190,922 |
| 6 | | | | | | | | | | | |
| 7 | | | | | | | | | | | |
| 8 | | | | | | | | | | | |
| 9 | | | | | | | | | | | |
| 10 | Total | | $2,250,000 | $0 | $3,863 | $0 | $2,246,137 | $386 | | | $190,922 |
| 11 | | | | | | | | | | | |
| 12 | | | | | | | | | | | |
| 13 | Annualized Cost Rate | | 8.500% | | | | | | | | |

**Kentucky American Water Company**
**Case No. 2025-00122**
**Embedded Cost of Preferred Stock**
**As of August 2025**

Data: _X_ Base Period ___ Forecasted Period
Type of Filing: _____ Original __X__ Updated _____ Revised
Workpaper Reference No(s): W/P - 7-5

Exhibit 37, Schedule J-5
KAW_R_PSCHDR_NUM002_100625_Attachment Sch J-5
Witness Responsible: Jennifer Gonzales
Page 2 of 2

| Line No. | Dividend Rate, Type & Par Value | Date Issued | Amount Outstanding | Premium or Discount | Unamortized Issue Expense | Gain or Loss on Reaquired Stock | Net Proceeds | Annual Amort. of Issue Expense | Cost Rate at Issue | Cost Rate at Maturity | Annualized Dividends |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | |
| 2 | | | | | | | | | | | |
| 3 | | | | | | | | | | | |
| 4 | | | | | | | | | | | |
| 5 | 8.47% Series, $100 Par | 01/24/92 | $2,250,000 | $0 | $4,346 | $0 | $2,245,654 | $386 | 8.470% | 8.500% | $190,881 |
| 6 | | | | | | | | | | | |
| 7 | | | | | | | | | | | |
| 8 | | | | | | | | | | | |
| 9 | | | | | | | | | | | |
| 10 | Total | | $2,250,000 | $0 | $4,346 | $0 | $2,245,654 | $386 | | | $190,881 |
| 11 | | | | | | | | | | | |
| 12 | | | | | | | | | | | |
| 13 | Annualized Cost Rate | | 8.500% | | | | | | | | |

**KENTUCKY-AMERICAN WATER COMPANY**
**CASE NO. 2025-00122**
**COMMISSION STAFF'S POST-HEARING REQUEST FOR INFORMATION**

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**Witness: Ann Bulkley**

3. Explain why Kentucky-American believes an increase in ROE from its previously approved 9.70 percent to the proposed 10.75 percent is reasonable. In addition, explain how the proposed 10.75 percent ROE compares to Kentucky-American's earned ROE since its last base rate proceeding.

**Response:**

As discussed in Ms. Bulkley's direct and rebuttal testimonies, the cost of capital, as indicated by many factors, indicate that the cost of equity has increased. Those indicators include the following:

1. The 30-year Treasury bond yield has increased from 4.30% in the Company's last rate proceeding to 4.90%, as shown in Figure 2 of Ms. Bulkley's rebuttal testimony.

2. The Range of the Cost of Equity Models has increased substantially. The following two figures present the summary of results from Ms. Bulkley's rebuttal testimony in Case No. 2023-00191 and the summary of results presented in the current case in Ms. Bulkley's direct testimony. As shown, the range of cost of equity model results presented in Figure 10 of Ms. Bulkley's direct testimony are considerably higher than the results presented in Ms. Bulkley's rebuttal testimony in Case No. 2023-00191.

**Case No. 2025-00122- Direct Testimony of Ann E. Bulkley, Figure 10**

***Constant Growth DCF***

| | Minimum Growth Rate | Average Growth Rate | Maximum Growth Rate |
|---|---|---|---|
| Median | | | |
| 30-Day Avg. Stock Price | 9.42% | 10.63% | 11.36% |
| 90-Day Avg. Stock Price | 9.51% | 10.92% | 11.46% |
| 180-Day Avg. Stock Price | 9.36% | 11.17% | 11.59% |
| Average | 9.43% | 10.91% | 11.47% |

***CAPM and ECAPM***

| | 30-Year Treasury Bond Yield | | |
|---|---|---|---|
| | Current 30-Day Avg | Near-Term Projected | Longer-Term Projected |
| CAPM: | | | |
| Current *Value Line* Beta | 11.57% | 11.56% | 11.53% |
| Current *Bloomberg* Beta | 10.59% | 10.57% | 10.52% |
| Long-term Avg. *Value Line* Beta | 10.65% | 10.62% | 10.57% |
| ECAPM: | | | |
| Current *Value Line* Beta | 11.82% | 11.81% | 11.79% |
| Current *Bloomberg* Beta | 11.09% | 11.07% | 11.03% |
| Long-term Avg. *Value Line* Beta | 11.13% | 11.11% | 11.07% |

**Case No. 2023-00191- Rebuttal Testimony of Ann E. Bulkley, Figure 4:**

| | Minimum Growth Rate | Average Growth Rate | Maximum Growth Rate |
|---|---|---|---|
| **Constant Growth DCF** | | | |
| Mean Results: | | | |
| 30-Day Average | 8.90% | 10.00% | 11.31% |
| 90-Day Average | 8.66% | 9.77% | 11.08% |
| 180-Day Average | 8.50% | 9.60% | 10.91% |
| Average | 8.69% | 9.79% | 11.10% |
| Median Results: | | | |
| 30-Day Average | 8.91% | 9.98% | 11.34% |
| 90-Day Average | 8.65% | 9.54% | 10.90% |
| 180-Day Average | 8.52% | 9.28% | 10.63% |
| Average | 8.69% | 9.60% | 10.96% |

| | Current 30-day Average Treasury Bond Yield | Near-Term Blue Chip Forecast Yield | Long-Term Blue Chip Forecast Yield |
|---|---|---|---|
| **CAPM:** | | | |
| Current Value Line Beta | 10.86% | 10.79% | 10.68% |
| Current Bloomberg Beta | 10.38% | 10.29% | 10.13% |
| Long-term Avg. Beta | 10.16% | 10.05% | 9.88% |
| **ECAPM:** | | | |
| Current Value Line Beta | 11.18% | 11.13% | 11.04% |
| Current Bloomberg Beta | 10.82% | 10.74% | 10.63% |
| Long-term Avg. Beta | 10.65% | 10.57% | 10.44% |

3. Updating the results of Ms. Bulkley's models through the end of September 2025, the model results are, on balance, higher than the results at the time of the rebuttal testimony in the last rate proceeding. The mean and mean high DCF results are higher than in Case No. 2023-00191. While the median results are slightly lower, the CAPM results and ECAPM results are significantly higher in September 2025 than at the time that Ms. Bulkley updated her analyses in her rebuttal testimony. These results continue to support an ROE of 10.75 percent.

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**Witness: John Magner**

4. Refer to the Hearing Testimony of Robert Burton. Provide a list of QIP eligible projects included in the forecasted test year. As part of the response, include the location, the budget, details of the pipe being replaced, including its width, length, and type.

**Response:**

Kentucky American Water is currently performing pipe prioritization modeling to identify and scope water main replacement projects for 2026. Since this process is still ongoing, a definitive list of QIP eligible projects for the forecasted test year is not yet available. However, the attachment to this response provides a preliminary list of potential QIP eligible water main replacement project for the forecasted test year. This preliminary list will be refined based on final prioritization modeling and cost considerations, among other factors.

| Project Street(s) | Projected Cost Estimate | City | Length (LF) | Pipe Material | Pipe Diameter (in) |
|---|---|---|---|---|---|
| Asbury Lane (La Salle Rd to Russell Cave Rd) including Kildare, Kirk and Halsted Ct | $1,575,000 | LEXINGTON | 3,585 | Cast Iron | 8 |
| Burley Avenue | $886,500 | LEXINGTON | 1,949 | Cast Iron | 8 |
| Carson/Roseburg/Swansea/Monaco | $303,300 | LEXINGTON | 674 | Cast Iron | 2, 6 |
| E Loudon Ave (N Limestone to Oak Hill Dr) | $1,350,000 | LEXINGTON | 2,736 | Cast Iron | 6 |
| Graig Court, Middlesex Way/Ct, Severn Way | $1,950,300 | LEXINGTON | 4,334 | Cast Iron | 2, 8 |
| Kelly Ct | $585,000 | OWENTON | 1,361 | Cast Iron | 2, 4 |
| Leahwood Dr, Belvoir Dr | $1,112,400 | LEXINGTON | 2,472 | Cast Iron | 6 |
| Leestown Road (Boiling Springs to S Forbes Rd) | $920,000 | LEXINGTON | 2,733 | Cast Iron | 8 |
| Lincoln Ave, Mefifee Ave (Owsley Ave to Preston Ave) | $1,824,750 | LEXINGTON | 4,055 | Cast Iron | 2, 6 |
| Old Park Ave (Central Ave to E Main St) | $180,000 | LEXINGTON | 613 | Cast Iron | 4, 8 |
| Race (Corral St to Goodloe St), E Second St (Race St to Warnock St), Goodloe | $771,750 | LEXINGTON | 1,715 | Cast Iron | 6 |
| Stone Ave (E Maxwell St to E High St) | $427,500 | LEXINGTON | 1,381 | Cast Iron | 4, 8 |
| Thoroughbred Acres (Lisa Dr/Ct, Faye Cir, Carla Ct, Mimi Ct, Mona Ct, Lisa Cir) | $1,305,000 | LEXINGTON | 2,935 | Cast Iron | 2, 8 |
| Tulsa, Laramie, Witchita and Phoenix( Cardinal Ln to Pasadena Dr), Burbank Ct, Tucson Dr | $1,980,000 | LEXINGTON | 4,410 | Cast Iron | 6, 8 |
| Water Street (S Limestone to Rose St) | $855,000 | LEXINGTON | 1,849 | Cast Iron | 8 |
| Winchester Road (Royster Rd to N Cleveland Rd) | $500,000 | LEXINGTON | 1,063 | Cast Iron | 8 |
| York/Lancaster/ E Seventh (N Limestone to Shropshire Ave) | $1,782,000 | LEXINGTON | 3,244 | Cast Iron | 6, 8 |

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**Witness: Robert Prendergast**

5. Refer to the Application. For each of the following expenses, provide a chart comparing the growth factor that Kentucky-American uses in its annual internal budgeting process and the growth factor applied to the expense in the forecasted test year.
   a. Building Maintenance and Services;
   b. Maintenance Supplies and Services;
   c. Miscellaneous Expense;
   d. Office Supplies and Services;
   e. Telecommunications; and
   f. Rents.

**Response:**

See below for a comparative chart (O&M growth factor vs. O&M 3 Year average). The KAWC internal budgeting process does not apply a singular uniform inflation percentage or "growth factor" to each expense when building the yearly approved budget. Rather, the one-year budget is developed using a bottom-up approach, where each expense account is analyzed using a 3 to 5 year historical period. Each line item is adjusted based on historical trends, price increases, operational changes, known costs drivers, and other anticipated changes. As seen in the table below, which displays average percentage increases for actual financial results, there are wide fluctuations between the expense categories. Due to these wide fluctuations, the Company utilized a 5.16% O&M Growth Factor, which represents the overall three year average.

| | O&M<br>3 Yr Avg | O&M<br>Growth Factor |
|---|---|---|
| Building maintenance and services | 11.15% | 5.16% |
| Maintenance supplies and services | 9.21% | 5.16% |
| Miscellaneous expenses | -7.34% | 5.16% |
| Office supplies and services | -0.65% | 5.16% |
| Telecommunication | 14.27% | 5.16% |
| Rents | 25.10% | 5.16% |

As referenced in Company witness Robert Prendergast's Direct Testimony (page 21) and the response to PSC 3-2, in response to the Commission's ruling in KAWC's 2023 rate case, KAWC developed a single O&M growth factor based on Company's 2021-2024 expenses for the 10 categories to smooth outlier expense increase. The change in forecast methodology resulted directly from the Commission's directive to develop a more robust forecasting methodology

because of the Commission's position that general CPI inflation factors are not an appropriate forecasting methodology as CPI Inflation is not reflective of KAWC costs.[1]

[1] Case No. 2023-00191, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates,* May 3, 2025 Order at 18.

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**Witness: Dominic DeGrazia**

6. Refer to the Supplemental Base Period filing made on September 15, 2025.
   a. Provide the entirety of the filing in Excel spreadsheet format with all formulas, rows, and columns unprotected and fully accessible.
   b. Identify utilizing a red line or highlight, each change made from the original Application filing.
   c. Provide supporting testimony for any changes if not addressed in the Rebuttal Testimony.

**Response:**

a. Please see KAW_R_PSCHDR_NUM006_100625_Attachment_CONFIDENTIAL for the excel version of the supplemental base period filing. This attachment is confidential and is being provided pursuant to a petition for confidential protection.

b. All base period updates for actual results and forecast year updates highlighted in Company witness DeGrazia's Rebuttal Testimony have been highlighted on the respective exhibits.

c. N/A.

**KAW_R_PSCHDR_NUM006_100625_Attachment_CONFIDENTIAL FILED UNDER SEAL PURSUANT TO THE PETITION FOR CONFIDENTIAL TREATMENT FILED ON OCTOBER 6, 2025**

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**Witness: John Magner**

7. Provide the budgeted amount for meter replacement, for each year, for the years 2015 through the forecasted test year.

**Response:**

The table below provides the capital budget for meter replacements for each of the requested years.

| Year | Capital Budget |
|---|---|
| 2015 | $937,917 |
| 2016 | $461,850 |
| 2017 | $745,725 |
| 2018 | $1,023,835 |
| 2019 | $1,516,039 |
| 2020 | $1,142,919 |
| 2021 | $1,452,528 |
| 2022 | $3,013,740 |
| 2023 | $3,190,900 |
| 2024 | $13,352,672 |
| 2025 | $12,498,054 |
| 2026 | $10,538,425 |

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**Witness: Max McClellan and Dominic DeGrazia**

8. Refer to Application, Exhibit 36, Cost of Service Study (COSS).
   a. Provide the sample information used to establish the maximum daily consumption including, but not limited to, the: number of customers; number of months reviewed; whether a time of day was applied, and if so, what time was used; the customer class of all customers included in the calculation; and, if more than one customer class was included in the calculation, the number of customers in each customer class.
   b. Provide each monthly meter charge, for each size meter, supported by the COSS.
   c. Provide the percent subsidization for each customer class. If a class is not subsidized, then provide the percent of positive recovery.
   d. Explain what assets or operations Kentucky-American considers in the account labeled "amortized property loss" as well as a case number if the amount was approved by the Commission.
   e. Explain why there is no amortized rate case expense included in the COSS.
   f. Confirm that the deferred debits is an increase to rate base as approved in Case No. 2000-00120. If not confirmed, provide the number for the Commission Order approving the deferral.

**Response:**

a. The Company utilized AMI meter data from the Company's Missouri American Water Company affiliate to support the maximum daily consumption calculations for the Residential, Commercial, and Other Public Authority ("OPA") classes of the Cost of Service Study. The Industrial, Sales for Resale ("SFR"), and Miscellaneous class calculations were actual customers' monthly sales data from the Kentucky American Water.

The number of meters included in the AMI meter data for each class is as follows:

- Residential - 861
- Commercial – 633
- OPA – 57

The residential class is comprised of Small Residential and Large Residential samples with 488 and 373 meters in each sample respectively. Small Residential in this instance consists of customers/meters that use 50,000 gallons a year or less with all other meters being Large Residential. The commercial class is comprised of Small, Medium, and Large Commercial samples with 319, 199, and 115 meters in each sample respectively. Small Commercial consists of customers/meters that use 100,000 gallons a year or less,

with meters that use between 100,000-500,000 gallons a year being Medium Commercial and all other meters being Large Commercial. These samples are chosen such that the customers in each customer class sample have monthly usage characteristics that are nearly identical to monthly usage characteristics that KAWC customers have and are expected to have during the forecast period, thus providing consistency between the usage characteristics of the customers in each sample and the usage characteristics of KAWC customers in total.

For all meters included, the data spanned the year 2024 starting on January 1st and ending on December 31st.

No defined time of day was applied in any calculations supporting the max day or max hour. Meter reads were recorded hourly. The max hour ratio calculations are essentially performed by determining the maximum hourly usage per meter for a class, determining the average hourly usage per meter for a class, and then dividing the class maximum hourly usage per meter by the class average hourly usage per meter to determine the max hour ratio.

b. The monthly meter charges, for each size meter, supported by the COSS are as follows:

Meter Rates

| Item | | Calculated Rate |
|---|---|---|
| 5/8-METER | $ | 19.45 |
| 3/4-METER | $ | 26.65 |
| 1-METER | $ | 42.96 |
| 1.5-METER | $ | 79.35 |
| 2-METER | $ | 124.47 |
| 3-METER | $ | 239.69 |
| 4-METER | $ | 369.89 |
| 6-METER | $ | 730.92 |
| 8-METER | $ | 1,165.10 |
| 10-METER | $ | 1,676.45 |
| 12-METER | $ | 3,117.88 |

Support for these calculated rates can be found in the ‘Meter Charge Calc’ tab of the Company’s response to PSC 1-3.

c. Please see below for a comparison of each class's class cost of service and Forecast Year Revenue at Proposed Rates as originally filed. The Residential and Commercial classes' revenues at proposed rates are higher than their class costs of service. The Bulk Sales class revenue at proposed rates is approximately at their class cost of service. The remaining classes are all below their class cost of service.

The Company's proposal is to adjust rates by moving classes directionally towards their class cost of service. Classes below their cost of service are proposed to receive revenue increase percentages above the overall revenue increase, not exceeding 125% of the overall increase percentage. The Residential and Commercial classes are proposed to receive revenue increase percentages below the overall revenue increase.

| | Class Cost of Service | Forecast Year Revenue at Proposed Rates | Difference |
|---|---|---|---|
| Residential | $ 77,457,275 | $ 88,082,142 | 14% |
| Commercial | $ 39,693,592 | $ 41,916,633 | 6% |
| Industrial | $ 4,402,340 | $ 4,152,932 | -6% |
| Other Public Authority | $ 11,883,679 | $ 11,220,205 | -6% |
| Other Water Utilities | $ 3,443,132 | $ 2,350,273 | -32% |
| Bulk Sales | $ 163,358 | $ 163,357 | 0% |
| Private Fire Service: | $ 7,207,362 | $ 6,072,464 | -16% |
| Public Fire Service | $ 16,810,345 | $ 7,103,074 | -58% |
| Total | $ 161,061,083 | $ 161,061,080 | 0% |

d. The amount reflects the Company's amortization of the Source of Supply Deferred Debit held in account 18689900 and approved for a 40-year amortization in Case No. 2000-00120. Please also see response to KAW_R_AGDR1_NUM102_070725.

e. The amortized rate case expense is included in the Regulatory expense under the Administrative & General Expense Category.

f. Confirmed.

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**Witness: Robert Prendergast**

9. Refer to the 2025 Kentucky-American O&M Growth Factor Workpaper.
   a. Explain why the growth factor was not applied to the following expense categories in the forecast test period: support services; contracted services; employee related expense; and customer accounting, other.

   b. For the following expense categories, (1) Contracted Services, (2) Maintenance Supplies and Services, and (3) Building Maintenance and Services, describe in detail the causal factors and the amounts of each that drove the increases in spending from 2021 to 2023 and 2024 and explain why the spending is expected to continue at the same velocity. State whether the changes for these expenses are due to systemic changes in operations that will result in the continuation of the 2023 and 2024 spending levels.

**Response:**

a. Please see the chart below. The Growth Factor (GF) was applied in the following manner based on the nature of the underlying costs. (1) For Support Services, the factor was only applied to non-labor items; (2) For Contracted Services, the Growth Factor was fully applied; (3) For Employee-Related expense, the Growth Factor was applied to all categories except relocation, which was based on historical averages; and (4) For Customer Accounting, Other, KAWC agreed in response to AG 1-80 to remove the application of the Growth Factor to this expense.

| Expense Category | GF % applied | Applied | Adjustment | Reference |
|---|---|---|---|---|
| Support Services | Y | non-labor only | KAWC applied a three-year average merit increase of 3.75% to non-union labor expense while actual contractual rate increases were used for union employees. | Prendergast Direct Testimony at p. 21, Prendergast Rebuttal Testimony at p. 13; PSC DR 1-1 ; AG DR 1-103; AG2-47; PSC 2-1; PSC3-2; PSC 3-3; PSC 3-4 |
| Contracted services | Y | all | | Prendergast Direct Testimony at p. 21, Prendergast Rebuttal Testimony at p. 13; PSC DR 1-1 ; AG DR 1-103; AG2-47; PSC 2-1; PSC 3-1; PSC3-2; PSC 3-3; PSC 3-4 |
| Employee related expense | Y | all; except for Relocation expense | Relocation expense # 52567000 was based on a 5-year average (2020-2024) | Prendergast Direct Testimony at p. 21, Prendergast Rebuttal Testimony at p. 13; PSC DR 1-1 ; AG DR 1-103; AG2-47; PSC 2-1; PSC3-2; PSC 3-3; PSC 3-4; Exhibit 37 schedules C & D |
| Customer accounting, other | N | n/a | In its response to AG DR 1-80, KAWC agreed to remove the Growth Factor application to Customer accounting, other. | AG 1-80 |

b.

1. **Contracted Services**

   The Contracted Services category includes routine maintenance repair and upkeeping of KAW facilities. Reasons for the increase in 2023 are: utility locates, the Electrical Lock Out Tag Out (LOTO) assessment (this is required to ensure proper electrical equipment safety controls are in place to protect employees from electrical shock hazards during maintenance activities), hydrant painting, generator maintenance, and painting of the Richmond Road Station Chemical Building painting. Reasons for the increase in 2024 are: utility locates, Mt. Vernon office repairs, and painting of the pump equipment and pump stations at the Hume Road, Clays Mill, and Parkers Mill pump stations. KAW is required to comply with various regulatory requirements such as the 811 utility locate system and OSHA. In the case of LOTO, KAW is required to develop specific LOTO plans for existing and new electrical equipment and routinely update these plans in accordance with OSHA requirements. In the case of utility locates, the expense directly corresponds to the total number of locates requested through the 811 system, which continue to increase, and KAW must perform. Since the Base year comparative (Actual vs.

Forecast) is aligned, KAW anticipates the forecast trajectory to continue upwards in the same direction.

**2. Maintenance Supplies and Services**

- The Maintenance category includes Amortization Deferred Maintenance, Paving/Backfill costs, Material & Supplies Maintenance, and Contracted Services. Overall, the Base year comparative (Actual vs. Forecast) shows alignment as the margin of error is approximately 2%. Amortization Deferred Maintenance expense correlates with the Rate Base Deferred Tank painting maintenance project terms.
- Paving/Backfilling costs may fluctuate as it is dependent on the quantity of main breaks, and the size and scope of paving requirements, beyond the actual repair, required by LFUCG to include "curb to curb" pavement replacement in many cases. KAW anticipates this trend to continue.
- Consolidated Material & Supplies and Miscellaneous maintenance accounts remain steady from 2020 through 2024.
- Contracted services costs correlate with headcount vacancy and/or specialized support. As a result of vacant positions, KAW obtains temporary support to meet the needs of the business. For the forecast test year, KAW identified preventative repairs and safety mandated costs for the incline elevator car repair at Kentucky River Station 1, New UV treatment facilities required to comply with the Long-Term Enhanced Surface Water Treatment Rule, and mandated electrical safety work. In the case of UV facility maintenance, KAW will be constructing a third facility in 2026 which will also require preventative maintenance, while this expense was not included in this case, future contracted services expense will include this future cost beginning in 2026. Please see KAW's response to PSC 2-7(b) for the details of the preventative plans and safety mandates. KAW anticipates this trend to continue.

**3. Building Maintenance and Services**

The Building Maintenance and Services category includes routine expenses such as Electricity, Heating, Groundskeeping, Janitorial, Trash and Security Services. The increase from 2021 to 2023 was due to higher Groundskeeping (tree removal) as a result of significant storm damage. The increase from 2023 to 2024 was due to higher Security costs pertaining to personnel-related cost offset by normalized Groundskeeping spend. While the higher security and storm-related expenses were non-standard costs during this timeframe, other Building Maintenance and Services are anticipated to continue at a similar trend. KAW uses a 3-year average to forecast these expenses to normalize the impact of non-routine expenses from year to year.

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**Witness: Robert Prendergast / William A. Lewis**

10. Explain why contracted services is not forecast to decrease in expense while the number of requested employees increases.

**Response:**

The increase in the requested staffing level is driven by increased work requirements in the forecasted test year. These are new requirements since KAW's last general rate case and require additional staffing levels to meet the forecasted increase in construction activities and to comply with new federally mandated requirements under the United States EPA Lead and Copper Revised Rule that went into effect after KAW's last rate case. KAW requested a net increase of 12 employees in this case to support and comply with the new requirements. All 12 of the requested employee positions have been hired and are a current expense as of the date of this response. While staffing levels are forecasted to increase to meet these new requirements, the contracted services expense is forecasted to remain relatively flat in the forecasted test year. The forecasted contracted services expense was calculated by using the base year expense level adjusted for anticipated inflation using the KAW O&M Growth Factor. For projected overtime, as Mr. Prendergast explained in his rebuttal testimony, per Schedule G-2, the Company projects only 29,637 hours of overtime in the test year even though there were 34,518 overtime hours during the base period, 29,794 overtime hours is 2024, and 33,172 overtime hours in 2023.[1] As he further explained, this is precisely why Mr. Defever's "vacancy adjustment" should be rejected.

In the base year, contracted services supported $85.2M in construction expenditures (see KAW_APP_EX13_051625). The forecasted future test year construction expenditures are forecasted to increase to $96.4M (i.e., an increase of $11.2M over the base year expense levels). The forecasted future test year construction expense requires continued use of contracted services because the increase of $11.2M in capital work requires a different skillset and exceeds the capacity of Company employees to complete within the test year, even with the additional headcount requested. As explained in Company witness William A. Lewis's Direct Testimony[2], the Company has requested additional headcount to meet new and ongoing O&M obligations and are not intended to replace contracted construction resources, which will continue to be needed for executing the forecasted increase in capital work.

Therefore, even with a full complement of employees, KAWC must rely on contracted services to complete the additional $11.2M in construction expenditures and perform new USEPA regulatory requirements required under the LCRR forecasted in the future test period. If the requested employees are not granted by the Commission, forecasted contracted services expense should be increased to reflect the anticipated additional reliance on contracted services.

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[1] Rebuttal Testimony of Robert Prendergast, p. 2.
[2] Direct Testimony of William A. Lewis, pp. 34-39.

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**Witness: John Magner**

11. Refer to Kentucky-American's response to Commission Staff's First Request for Information, Item 14, schedules 14(a) and 14(b). Identify all specific items that were addressed by the company to reduce spending in excess of original estimates to reduce the slippage factor in the time since the Commission's Order issued on May 3, 2024, in Case No. 2023-00191.[1]

**Response:**

Kentucky American Water ("KAWC") has taken the actions noted below to reduce spending in excess of original capital expenditure estimates.

- Internal water main replacement design: For Qualified Infrastructure Program ("QIP") 2025, KAWC has primarily utilized internal resources to design water main replacement projects. KAWC estimates this has reduced design costs by approximately $700,000 compared to the previous QIP year where projects were primary designed by external consultants.
- Expanded Prequalified Contractor List: KAWC continues to expand its list of prequalified contractors that are eligible to bid on capital projects. KAWC added several new pipeline contractors during QIP 2025 to foster more competitive pricing.
- Design Value Engineering: KAWC is currently designing the Kentucky River Station No. 1 UV Project, which involves the implementation of UV disinfection at KAWC's largest water treatment facility. KAWC has worked with the project's engineering consultant to reduce the footprint of the building that will house the UV treatment equipment, which will reduce construction costs for the project.
- Post-bid value engineering and price negotiations: KAWC has worked with contractors after project bids are received to identify opportunities for cost savings.
    - American Water has implemented a centralized supply chain team to support state capital programs. For significant projects, members of this supply chain team work to negotiate pricing reductions prior to signing construction contracts.
    - After receiving bid pricing for the Millersburg Transmission Main Project, members of KAWCs' engineering team worked with the successful bidding contractors via value engineering to identify 37 opportunities for cost savings. This resulted in an approximately $4.3 million reduction in bid pricing.

[1] Case No. 2023-00191, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates, a Certificate of Public Convenience and Necessity for Installation of Advanced Metering Infrastructure, Approval of Regulatory and Accounting Treatments, and Tariff Revisions* (Ky. PSC May 3, 2024), final Order.

- Restoration Cost Sharing: KAWC continues to work with local municipalities and utilities to identify opportunities for restoration cost sharing on water main replacement projects.
    - KAWC's engineering team has a dedicated QIP manager that routinely communicates with local municipalities to facilitate cost sharing.
    - KAWC has currently identified and agreed to restoration cost sharing on 20 QIP 2025 projects.
    - In September 2025, KAWC attended a long-term partnership meeting with several local agencies and utilities to begin identifying cost sharing opportunities for projects in the upcoming years.

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**Witness: Robert Prendergast**

12. Refer to the Direct Testimony of Robert Prendergast, pages 4-5. Confirm whether the collective bargaining agreements for the forecasted test period wages for union employees constitute binding contracts.

**Response:**

The current collective bargaining agreement ("CBA") for union employees does constitute a binding contract. The current CBA expires October 31, 2025. Negotiations for a new contract will begin on October 13, 2025, with the goal of having a new contract in place as the current contract expires. Having said that, the existence of a new contract in place as soon as the current contract expires is immaterial because forecasted test period wages were projected using the most-recent increase from the current contract. The 3% projected increase to Union wages was the agreed upon annual increase for Union wages since 2022. Utilizing the agreed upon actual wage increase for the last 4 years is a conservative and reasonable method of projecting labor expense for union employees in the future test year.

Additionally, Exhibit RVM-1[1] to Robert Mustich's May 16, 2025 Direct Testimony shows that the compensation of union employees was included as part of Mr. Mustich's analysis. That analysis shows that total remuneration paid to KAW employees is reasonable because it is aligned with (and is in fact less than) national and regional benchmarks.

[1] See pages 5 and C-2 of Exhibit RVM-1.