

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-) CASE NO. 2025-00122
AMERICAN WATER COMPANY FOR AN)
ADJUSTMENT OF WATER RATES)

**THE ATTORNEY GENERAL AND LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT’S RESPONSE TO THE COMMISSION STAFF’S FIRST REQUEST
FOR INFORMATION**

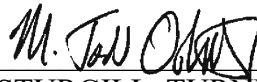
Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention (“Attorney General”), and Lexington-Fayette Urban County Government (“LFUCG”), by counsel, submit the following response to the Commission Staff’s First Request for Information in the above-styled matter.

Respectfully submitted,

RUSSELL COLEMAN
ATTORNEY GENERAL



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Certificate of Service and Filing

Pursuant to the Commission's Orders and in accord with all other applicable law, Counsel certifies that the foregoing electronic filing was transmitted to the Commission on September 8, 2025, and there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

This 8th day of September, 2025,



Assistant Attorney General

WITNESS RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION NO. 1
Page 1 of 1

Refer to the Direct Testimony of Richard A. Baudino (Baudino Direct Testimony), page 12, lines 18-20 and page 13, lines 1-4. Provide the workpapers or support for the referenced analysis, in Excel spreadsheet format with all formulas, columns, and rows intact and fully accessible, if available.

RESPONSE:

The spreadsheet used by Mr. Baudino was obtained through his subscription to S&P Capital IQ Pro ("S&P") and cannot be provided publicly due to terms of use restrictions on Mr. Baudino's subscription placed by S&P. Upon reasonable request, the OAG/LFUCG can make this copyrighted material available for in-person inspection at a mutually agreeable day and time. Per S&P's instructions, a confidentiality agreement would need to be signed before viewing said material.

WITNESS RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION NO. 2
Page 1 of 1

Refer to the Baudino Direct Testimony, page 15, lines 17-18. Provide support for the use of a combined utility proxy group. Include in the response a discussion regarding the comparability of natural gas distribution companies to water utilities.

RESPONSE:

Mr. Baudino generally agrees with Ms. Bulkley that with respect to estimating the ROE for Kentucky American Water, it is desirable to have a larger proxy group to estimate the return on equity than only utilizing the much smaller water utilities group found in Value Line. This approach was accepted by the Commission in Kentucky American's last rate case as noted by Mr. Baudino on pages 15 and 16 of his Direct Testimony. Ms. Bulkley's selection criteria for the Combination Proxy Group are reasonable and resulted in a group of utilities that is mainly involved in the distribution of gas and water services to customers. In this sense, they are all distribution companies. However, Mr. Baudino also noted the Commission's Order in Case No. 2023-00191, in which the Commission expressed concerns with including gas and electric companies in the proxy group.¹ Therefore, Mr. Baudino presented a Water Proxy Group along with the Combination Proxy Group in this case in order to assess the results using a proxy group strictly comprised of water utilities. Mr. Baudino did not conduct a formal assessment of the relative risks of water and gas distribution utilities for this case.

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), Order, pages 39 – 40.

WITNESS RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION NO. 3
Page 1 of 1

Refer to the Baudino Direct Testimony, page 17, lines 11-13. Refer also to the Baudino Direct Testimony, page 30, lines 13-19. Explain how the use of a six-month period in estimating the dividend yield, but a three-month period in determining the risk-free rate, is not inconsistent.

RESPONSE:

Please refer to Mr. Baudino's Direct Testimony, Exhibits RAB-2 and RAB-4. Note that there was not a significant difference between the 3-month and 6-month dividend yields for the Combination Proxy Group and the Water Proxy Group. As Mr. Baudino noted on page 30, lines 13 – 19, of his Direct Testimony, there was a significant difference between the 3-month and 6-month average Treasury bond yields that reflected a significant rise in yields for May through July 2025. Mr. Baudino used his judgment and employed the 3-month average Treasury yield as being more reflective of current circumstances.

WITNESS RESPONSIBLE:
JOHN DEFEVER

QUESTION NO. 4
Page 1 of 1

Refer to the Direct Testimony of John Defever (Defever Direct Testimony), page 8, lines 6-8. Provide the justification for applying a 3.6 percent vacancy rate to Kentucky-American's payroll expenses.

RESPONSE:

As shown in the chart on page 8 of Mr. Defever's Direct Testimony, the Company's actual employee count over the last five years was, on average, 3.6% lower than budgeted. If this trend is not taken into consideration, ratepayers could be harmed if the Company collects payroll and related costs for less employees than it has budgeted. As such, Mr. Defever recommends a reduction of 3.6% to forecasted test period payroll expenses and corresponding adjustments to benefits expense and payroll taxes.

WITNESS RESPONSIBLE:
JOHN DEFEVER

QUESTION NO. 5
Page 1 of 1

Refer to the Defever Direct Testimony, page 12, lines 5-6. Explain why there is only an adjustment to the forecasted test period when Kentucky-American is also forecasting incentive compensation related to financial goals in the base period.

RESPONSE:

Mr. Defever's adjustment to incentive compensation, as well as all of his other adjustments, is to the forecasted test period because the level of expense that will be collected from ratepayers is based on the forecasted test period amount.

WITNESS RESPONSIBLE:
JOHN DEFEVER

QUESTION NO. 6
Page 1 of 1

Refer to the Defever Direct Testimony, page 17, lines 15-16. Explain why there is no adjustment to the base period for expenses related to unaccounted for water when Kentucky-American's forecasted water loss for the base period is also forecasted to be higher than 15 percent.

RESPONSE:

Mr. Defever's adjustment for unaccounted for water, as well as all of his other adjustments, is to the forecasted test period because the level of expense that will be collected from ratepayers is based on the forecasted test period amount.

WITNESS RESPONSIBLE:
JOHN DEFEVER

QUESTION NO. 7
Page 1 of 1

Refer to the Defever Direct Testimony, page 20, line 5. Provide the justification for amortizing Kentucky-American's remaining regulatory expense associated with Case No. 2023-00191 for an additional three years, when standard Commission precedent allows for a total amortization period of three years for the entire related regulatory expense.

RESPONSE:

In the Company's previous rate case, Case No. 2023-00191, the Company was allowed \$996,740 over three years (\$332,246 per year). Had the Company stayed out for three years, that is the amount that would have been collected. However, as the Company came in for a rate case after only two years, only \$664,492 had been collected, leaving \$332,246 uncollected. If the Commission approves Mr. Defever's adjustment, the Company will collect the remaining \$332,246 over three years. The amount of \$332,246 plus the \$664,492 already collected would equal the \$996,740 allowed in Case No. 2023-00191. If the Commission does not accept Mr. Defever's adjustment and instead allows the Company's requested \$332,246 in the adjusted test year, the Company will collect that full amount every year until the next rate case, in addition to the amounts requested for the rate case expenses incurred for this case. Ratepayers would be harmed if the Company does not come in for a rate case within a year, as the Company would collect significantly more than the \$332,246.

AFFIDAVIT


STATE OF GEORGIA)

COUNTY OF FULTON)

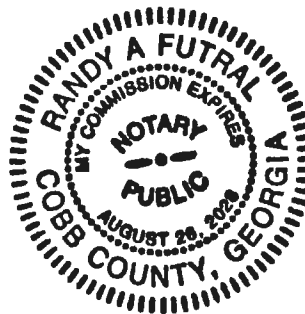
RICHARD A. BAUDINO, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.


Richard A. Baudino

Sworn to and subscribed before me on this
8th day of September 2025.



Notary Public




AFFIDAVIT


STATE OF MICHIGAN)

COUNTY OF WAYNE)

John Defever, Senior Regulatory Consultant, being duly sworn, states that his responses in the above referenced case are true and accurate to the best of his knowledge, information and belief.


John Defever

Sworn to and subscribed before me on this 8th day of September 2025.



Notary Public

CHRISTINE MILLER
NOTARY PUBLIC, STATE OF MI
COUNTY OF WAYNE
MY COMMISSION EXPIRES Nov 8, 2028
ACTING IN COUNTY OF

Wayne