

1 **Q. Please discuss Schedule B of Exhibit JD-1, which summarizes rate base, as**
2 **adjusted.**

3 A. The adjustments I recommend to the forecasted test period rate base amount are
4 illustrated on Schedule B.

5
6 **Q. Please discuss Schedule C of Exhibit JD-1, which summarizes operating**
7 **income, as adjusted.**

8 A. My recommended adjustments to Kentucky-American's expenses for the
9 forecasted test period that are presented in this testimony are provided on
10 Schedule C. Schedules C-1 through C-17 provide further support and calculations
11 for the adjustments I recommend.

12
13 **Q. Based on your review of Kentucky-American's filing, what change in**
14 **revenue requirement are you recommending at this time?**

15 A. Based on the adjustments that have been quantified to date, coupled with OAG
16 witness Mr. Rothschild's recommended overall rate of return of 6.5%, the result is
17 a revenue decrease of \$3.384-638 million for the Company's forecasted test
18 period, which is illustrated in the Summary of Adjustments table on the next page.

Summary of Adjustments

Case No. 2026-00094					
Kentucky-American Water Company Requested Rate Increase				\$	17,684,459
OAG/LFUCG/GMWSS Adjustments:					
Rate of Return Impact				\$	(14,226,027)
Rate Base Adjustments					
Cash Working Capital				\$	(668,000)
Subtotal				\$	(668,000)
O&M Adjustments	Pre Tax Adj	NOI After Tax	GRCF	Rev Req Impact	
Payroll Expense	\$ (1,480,953)	\$ 1,111,455	1.342891	\$ (1,492,563)	
Overtime Expense	\$ (354,887)	\$ 266,343	1.342891	\$ (357,669)	
Incentive Compensation	\$ (1,997,770)	\$ 1,499,326	1.342891	\$ (2,013,431)	
Employee Stock Purchase Plan Discount	\$ (49,477)	\$ 37,132	1.342891	\$ (49,865)	
Severance Expense	\$ (100,447)	\$ 75,385	1.342891	\$ (101,234)	
Temporary Help	\$ (100,808)	\$ 75,657	1.342891	\$ (101,598)	
Unaccounted For Water	\$ (341,582)	\$ 256,358	1.342891	\$ (344,260)	
Rate Case Expense	\$ (238,227)	\$ 178,789	1.342891	\$ (240,095)	
Business Development Expense	\$ (291,898)	\$ 219,069	1.342891	\$ (294,186)	
Board of Directors Expense	\$ (47,223)	\$ 35,441	1.342891	\$ (47,593)	
401(k) Expense	\$ (30,477)	\$ 22,873	1.342891	\$ (30,716)	
Lobbying Expense	\$ (473,472)	\$ 355,341	1.342891	\$ (477,184)	
Membership Dues	\$ (53,012)	\$ 39,786	1.342891	\$ (53,428)	
Benefits Expense	\$ (459,145)	\$ 344,589	1.342891	\$ (462,745)	
Payroll Tax	\$ (296,626)	\$ 222,618	1.342891	\$ (298,951)	
Interest Synchronization	\$ (46,522)		1.342891	\$ (62,474)	
Subtotal				\$	(6,427,992)
OAG/LFUCG/GMWSS Recommended Rate Decrease				\$	(3,637,558)

III. RATE OF RETURN SUMMARY

Q. Please summarize Mr. Rothschild's rate of return recommendation.

A. I have summarized Mr. Rothchild's recommended rate of return and the Company's proposed rate of return below:

1 ~~\$354,887,175,146~~ from the overtime expense as shown on Exhibit JD-1, Schedule
2 C-2. This reduces the forecasted test period revenue requirement by
3 ~~\$357,669,176,519~~ after the gross up for uncollectibles, regulatory assessment
4 fees, and taxes which is shown in the Summary of Adjustments Table on page 5
5 of my testimony.
6

7 Incentive Compensation
8

9 **Q. Has the Company included incentive compensation expense in the**
10 **forecasted test period?**

11 A. Yes. The Company requests \$3,524,976 in the forecasted test period
12 (\$2,348,569 for the Annual Performance Plan (“APP”) and \$1,176,407 for the
13 Long-Term Performance Plan (“LTPP”) expenses).¹¹
14

15 **Q. What percentage of the forecasted test period incentive compensation**
16 **expense is related to financial goals?**

17 A. For the forecasted test period, the Company stated that \$1,997,770 of the
18 incentive compensation expense is related to financial goals. (\$1,174,285 or 50%
19 of the APP and \$823,485 or 70% of the LTPP).¹²
20

21 **Q. Should ratepayers be responsible for incentive compensation related to**
22 **financial goals?**

¹¹ Kentucky-American’s response to the Attorney General’s First Request, No. 117.

¹² *Id.*, No. 114.

1 Georgetown Municipal Water and Sewer Service (“GMWSS”) Revenues

2
3 **Q. Did you make an adjustment to Kentucky American’s proposed GMWSS**
4 **revenues in the forecasted test period?**

5 A. Due to Kentucky-American filing the retraction⁴⁸ regarding GMWSS’ water usage
6 after the first discovery request had already been propounded to the Company,
7 the parties only had the opportunity to ask questions concerning this issue in the
8 supplemental discovery round. Thus, at this time, I do not have enough
9 information to make an adjustment to Kentucky American’s proposed GMWSS
10 revenues in the forecasted test period. However, as stated below, I reserve the
11 right to supplement my testimony upon receipt of additional information at the
12 evidentiary hearing.

13
14 Flow-Through Adjustments

15
16 ***Benefits Expense***

17
18 **Q. Please discuss your adjustment to benefits expense.**

19 A. The adjustment is a flow-through from my adjustments to payroll and overtime.
20 My adjustments also have the effect of lowering benefits expense. This
21 adjustment reduces benefits expense by \$~~459,145~~414,192 in the forecasted test
22 period, which is shown on Exhibit JD-1, Schedule C-14. The revenue requirement

⁴⁸ See Notice of Retraction of a Portion of Kentucky-American Water Company's June 9, 2026 Response to Georgetown Municipal Water and Sewer Service's Motion to Intervene, filed on June 12, 2026.

1 impact is a reduction of \$~~462,745~~417,439 after the gross-up for uncollectibles,
2 regulatory assessment fees, and taxes which is shown in the Summary of
3 Adjustments Table on page 5 of my testimony.

4 ***Payroll Tax Expense***

5
6 **Q. Please discuss your adjustment to payroll tax.**

7 A. The adjustment is a flow-through from my adjustment to payroll, overtime,
8 severance, and incentive compensation that have the effect of lowering payroll
9 taxes. These proposed adjustments reduce payroll tax by \$~~296,626~~267,926 in
10 the forecasted test period, which is shown on Exhibit JD-1, Schedule C-15. The
11 revenue requirement impact is a reduction of \$~~270,027~~298,951 after the gross up
12 for uncollectibles, regulatory assessment fees, and taxes which is shown in the
13 Summary of Adjustments Table on page 5.

14 15 ***Income Tax***

16 **Q. Please discuss your adjustment to income tax.**

17 A. The adjustment is a flow-through from my adjustments to O&M expenses. All of
18 my O&M expense reductions effectively increase operating income. As a result,
19 income tax is increased. My adjustments increase federal income taxes and state
20 income taxes by \$1.~~576~~513 million in the forecasted test year, as shown on
21 Exhibit JD-1, Schedule C-16.

Interest Synchronization

Q. Please discuss your adjustment to interest synchronization.

A. The adjustment is a flow-through from my adjustment to rate base. My adjustment to rate base decreases rate base and applying the OAG's recommended debt and equity rates increases interest expense which decreases income tax expense. My adjustment decreases income tax expense by \$46,~~522395~~ in the forecasted test period as shown on Exhibit JD-1, Schedule C-17. The revenue requirement impact is an decrease of \$62,~~474303~~ after the gross-up for uncollectibles, regulatory assessment fees, and taxes which is shown in the Summary of Adjustments Table on page 5.

V. RATE BASE

Cash Working Capital

Q. Did the Company reflect a cash working capital component in the FTP revenue requirement?

A. No. The Company stated that a lead lag study was not prepared in the current case in order to allegedly reduce rate case expense.⁴⁹

⁴⁹ Kentucky American's response to Staff's Second Request No. 28.

1 **Q. Please provide the total impact of your adjustments to cash working capital.**

2 A. The result of my adjustments to cash working capital is a negative working capital
3 of \$7.~~653670~~ million, which reduces rate base. My cash working capital
4 calculation is reflected on Exhibit JD-1, Schedule B-1. This results in a reduction
5 to the revenue requirement of \$66~~8,0009,474~~ after the gross up for uncollectibles,
6 regulatory assessment fees, and taxes which is shown in the Summary of
7 Adjustments Table on page 5.

8
9 System Improvement Program ("SIP")
10

11 **Q. Do you have any other issues you would like to address?**

12 A. Yes. The Company requests a new capital rider mechanism it refers to as SIP.⁵⁵
13

14 **Q. What is your concern regarding SIP?**

15 A. My concern is that the Company is not proposing to include specific restrictions
16 in the proposed SIP, which were in place for the Company's prior pipeline
17 replacement program called the Qualified Infrastructure Program ("QIP"), which
18 was terminated by the Commission in the 2025 rate case.⁵⁶
19

20 The Company acknowledges that the following restrictions were not included in
21 the proposed SIP:

- 22
- Limitation on how many miles of pipeline could be replaced annually,

⁵⁵ Direct Testimony of Jeffrey Newcomb ("Newcomb Testimony"), page 3.

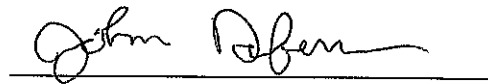
⁵⁶ Kentucky-American's response to the Attorney General's Second Request, No. 23.

AFFIDAVIT

STATE OF MICHIGAN)

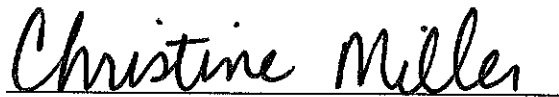
COUNTY OF WAYNE)

John Defever, 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.



John Defever

Sworn to and subscribed before me on this 8th day of October 2026.



Notary Public

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