COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY FOR AN ADJUSTMENT OF RATES SUPPORTED BY A FULLY FORECASTED TEST YEAR	))))	CASE NO. 2012-00520

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION TO KENTUCKY-AMERICAN WATER COMPANY

Pursuant to 807 KAR 5:001, Kentucky-American Water Company ("Kentucky-American"), shall file with the Commission no later than February 20, 2013, an original, one paper copy and one electronic copy of the following information, with a copy to all parties of record. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Kentucky-American shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Kentucky American fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

1. Refer to Kentucky-American's Response to Commission Staff's First Request for Information, Item 3. Provide in a separate storage medium the Excel spreadsheets filed in response to this request in such manner that all links and references are intact and enabled.

2. Refer to Kentucky-American's Response to Commission Staff's First Request for Information, Item 3, W/P-8.

a. State how, for each meter size, Kentucky-American determined the cost of the meter.

b. Describe how Kentucky-American procures meters for new service installations or connections. This description should include a list of each procurement method that Kentucky-American considered and an explanation as to why Kentucky-American chose not to use that method.

c. At page 2 of 5, Kentucky-American lists the contract meter price for a 5/8-inch meter as $95.40 and its "MIU Cost" as $42.00. State what the acronym "MIU" represents. List and describe the costs that compose the "MIU Cost."

d. List and describe each expense included in the five-year average installation cost of $983.

3. Provide for each of the years from 2007 through 2012 a copy of the annual contract with the contractor who performed new service installations for Kentucky-American.

4. At page 13 of her written direct testimony, Linda C. Bridwell states: "An analysis was made of the costs to provide a service trip for fees relating to activation,

disconnect and reconnect." Provide this analysis and identify the person who performed the analysis.

5. Refer to Direct Testimony of Linda C. Bridwell at 39. Identify each workshop, community event, and speaking engagement in calendar year 2012 at which a Kentucky-American employee appeared to promote customer conservation activities. For each event identified, provide the name of the employee who appeared, the sponsor of the event, the approximate attendance, and the general purpose of the event.

6. Provide for calendar year 2012, for each of the programs listed below, Kentucky-American's total expenditure for the program, the total number of Kentucky-American employees involved in the program, and the total number of members of the public participating or receiving materials or funds:

a. Water Conservation Kits;

b. Environmental Grant Program;

c. Water Fest;

d. Arbor Day at The Arboretum;

e. Reforest the Bluegrass;

f. Founders' Day at McConnell Springs;

g. River Sweep;

h. Own It! Video Contest;

i. Leak Detection Booklets;

j. School Presentations and Facility Tours.

7. At page 30 of her written direct testimony, Ms. Bridwell states that Kentucky-American has moved away from the weather normalization analysis that was used in prior rate cases.

a. State why the approach that Kentucky-American has chosen to use in this case is more appropriate that the weather normalization analysis used in prior rate adjustment proceedings.

b. Provide a table that lists average daily consumption for residential customers, commercial customers, and other public authority customers that Kentucky-American has reported in each of its five most recent rate cases (including the present case).

c. List each regulatory jurisdiction in which American Water Works Company ("American Water") or an American Water subsidiary has submitted an application for rate adjustment in which the new method of analysis has been used.

d. List each decision in which a state utility regulatory commission has commented upon the appropriateness and reasonableness of Kentucky-American's proposed approach. Provide either a copy of the decision or a hyperlink that will permit access to the decision.

e. Describe the consequences to Kentucky-American's operations, if any, if the Commission chooses not to accept Kentucky-American's proposed approach.

8. At page 30 of her written direct testimony, Ms. Bridwell states that Kentucky-American "analysis has reviewed water usage trends by KAW's residential, commercial, and 'other public authority' (OPA) customers." Explain why the analysis did not consider other customer classes.

9. Refer to Scott Sloan, *Georgetown Toyota Plant Slashing Water Use*, Lexington Herald-Leader, Jan. 20, 2013, *available at* 2013 WLNR 1541265.

a. Describe how Toyota Manufacturing Co.'s plans to reduce its water consumption affect Kentucky-American's analysis of water usage trends.

b. State whether Kentucky-American knew of these plans when preparing its analysis and took them into consideration.

10. Provide a table that provides the average yearly usage, average monthly usage, and average daily usage for each Kentucky-American customer classification for each year since January 1, 2003.

11. State whether Kentucky-American or American Water has projected usage trends for Kentucky-American's customers for a period beyond 2020 to estimate the effect of any declining usage pattern. If yes, provide such analyses.

12. Refer to Direct Testimony of Linda C. Bridwell at 34, lines 4-8.

a. Explain why usage for the months of December through April is a more reliable indicator than usage for other periods.

b. State whether Kentucky-American analyzed usage during other periods (e.g., December through February). If yes, state the periods analyzed and provide the analyses.

13. Provide Kentucky-American's projected maximum day demand usage for following years:

a. 2013;

b. 2015;

c. 2020;

d. 2025; and

e. 2030.

14. At page 41 of her written direct testimony, Ms. Bridwell states: "[R]ecent updates to that model show that the current increased water efficiency trends will offset increased projections in population growth that have also occurred since the [Kentucky River Station II] plant was originally designed." State whether, assuming that no transmission main between Kentucky River Station II and Kentucky-American's Northern Division is constructed, the increased water efficiency trends will stabilize Kentucky-American's maximum day demand and lower the maximum day demand that Kentucky-American previously projected for the period from 2010 through 2030. Explain.

15. Refer to Kentucky-American's Application, Exhibit 2 at 17-19. Second Revised Tariff Sheet No. 57 provides for an insufficient-funds charge of $12.00 to be applied to all Kentucky-American customers. Second Revised Tariff Sheet No. 58.1 provides for returned charge of $10.00 to be applied to all Kentucky-American customers in the Northern Division whom Tri-Village Water District previously served. Second Revised Tariff Sheet No. 58.2 provides for a returned check fee of $10.00 to be applied to all Kentucky-American customers whom Elk Lake Shores Subdivision previously served.

a. Explain why Kentucky-American is imposing different amounts for the same customer activity.

b. Explain why Kentucky-American has not unified non-recurring charges throughout its service area.

16. At pages 9 and 10 of his written direct testimony, Paul R. Herbert attributes an increase in service charges to the installation of automated meter reading devices ("AMR").

a. Explain why the full customer cost of $14.86 per unit was not used.

b. Describe how Mr. Herbert determined the monthly rate of $14.00 per month for the 5/8-inch meter service charge.

c. Provide all correspondence, internal memoranda, electronic mail messages, and notes in which the monthly service charge rate is discussed.

d. Provide by meter size the number of meters that Kentucky-American had in service as of December 31, 2012, and the number of meters on which an AMR device has been installed.

17. In its issue of January 18, 2013, *Value Line Investment Survey* ("*Value Line*") initiates coverage on Connecticut Water Service, Inc. ("Connecticut Water").

a. Explain whether Connecticut Water qualifies for inclusion in in Dr. Vander Weide's water utility proxy group.

b. Describe how the inclusion of Connecticut Water in Dr. Vander Weide's water utility proxy group would affect his cost of equity calculations.

18. In its issue of January 18, 2013, *Value Line* ranks the water utility industry for Timeliness at four out of the 98 surveyed industries. In July 2012, it ranked the water utility industry 54th out of 98 surveyed industries in Timeliness. In October 2012, it ranked the water utility industry 28th of 98 surveyed industries. State whether the water utility industry's increase in Timeliness rankings reflects an improvement in investor sentiment towards the water utility proxy group. Explain.

19. Describe how the recent economic downturn and current economic conditions affect investors' required return on equity investments.

20. Explain why Dr. Vander Weide did not consider in his Discounted Cash Flow ("DCF") calculations expected dividend growth when estimating investors' expectations for the growth rate.

21. Explain why Dr. Vander Weide used a three-month average of stock prices to calculate the dividend yield instead of the most current stock prices available at the time of the DCF analyses.

22. State whether, in Dr. Vander Weide's opinion, it is realistic to assume for purposes of DCF calculations that earnings growth will continue at the same rate on a long-term basis beyond five years.

23. Provide for each member of Dr. Vander Weide's proxy group of water companies the most current Returns on Equity ("ROE") awarded by state regulatory agency and the date of the award. If the proxy group member is a holding company, the information for the member's regulated subsidiaries should be provided.

24. Identify each member of Dr. Vander Weide's proxy group of water companies that may use a forecasted test period when applying for rate adjustment or has subsidiaries that may use a forecasted test period when applying for rate adjustment.

25. Identify each member of Dr. Vander Weide's proxy group of water companies that has a rate mechanism in its rate schedule similar to Kentucky-American's proposed Distribution System Improvement Charge ("DISC") or has a subsidiary with such a rate mechanism.

26. Identify each member of Dr. Vander Weide's proxy group of water companies that has a rate mechanism in its rate schedule that permits the automatic pass-through of purchased power and chemical expenses similar to that proposed by Kentucky-American or that has a subsidiary with such a rate mechanism.

27. Identify each member of Dr. Vander Weide's proxy group of water companies that has a regulator-approved revenue-stabilizing mechanism in its rate schedule other than the mechanisms identified in Items 25 and 26 of this Request or a purchased water adjustment mechanism or that has a subsidiary with such a rate mechanism. For each member listed, describe the revenue-stabilizing mechanism.

28. Describe the effect of a regulated utility's ability to use a forecasted test period on an investor's perception of that utility's risk.

29. Describe the effect of a regulated utility's ability to use revenue-stabilizing mechanisms, such as a DISC or automatic pass-through mechanism, on an investor's perception of that utility's risk.

30. Provide the most current earned ROE for each member of the proxy group of water companies. If the proxy group member is a holding company, the information for the member's regulated subsidiaries should be provided.

31. For each member of the proxy group of water companies, state whether the member has operations that are not associated with regulated water service, including those related to the provision of electric or natural gas service.

32. Explain why inclusion of Kentucky-American's parent corporation in Dr. Vander Weide's DCF analysis is appropriate.

33. Provide Revised Exhibit JVW-1, Schedules 1, 2, 3 and 8, to remove the flotation cost adjustment.

34. a. State whether the members of Dr. Vander Weide's LDC proxy group face the same business risks that water companies face.

b. State whether Dr. Vander Weide agrees that the members of the LDC proxy group have aspects of their operations that are wholly unrelated to the business activities of Kentucky-American, including unregulated natural gas marketing and electric distribution.

c. State whether Dr. Vander Weide agrees that, if a member of the LDC proxy group is involved in operations other than regulated water service, it faces business risks that Kentucky-American does not. Explain.

d. Describe the business risks that the members of Dr. Vander Weide's LDC proxy group face.

35. Explain why the different business risk that members of the LDC proxy group face does not disqualify them as proxies for Kentucky-American.

36. Describe how investors would view the timeliness of the natural gas utility industry, which *Value Line* in its issue of December 7, 2012 ranked 27th out of 98 industries in Timeliness, as opposed to the water utility industry's rating of fourth out of 98 industries.

37. Refer to the Direct Testimony of Dr. James H. Vander Weide at 3-4. Although Dr. Vander Weide testifies that little or no weight should be assigned to the results of the Capital Asset Pricing Model ("CAPM") when the average beta is significantly less than 1.0 and because CAPM underestimates the cost of equity for companies with small market capitalization, he includes the results of a CAPM analysis in his testimony.

a. State whether it is possible to make adjustments to the CAPM results to compensate for the perceived problems with CAPM. If yes, describe the adjustments that could be made.

b. Explain why a 5.11 percent long-term Treasury bond yield forecast is used for the CAPM risk-free rate, as shown on Schedules 7 and 8 of Exhibit JVW-1 as opposed to an actual Treasury yield such as the current 20- or 30-year Treasury bond yield.

38. Explain why the Risk Premium analysis does not include an approach that includes long-term Treasury bonds as a measure of the risk-free rate.

39. Refer to the Direct Testimony of Dr. James H. Vander Weide at 35.

a. State whether Footnote 1 references 4.02 percent as being the A-rated utility bond yield.

b. Explain why, if 4.02 percent is the current A-rated utility bond yield, a forecasted 6.6 percent yield to maturity was used to calculate the ex ante and ex post risk premium instead of 4.02 percent.

c. Explain why the ex ante risk premium was calculated using a time period beginning in 1998. If earlier data is available, provide the results of the ex ante risk premium calculation over a time period similar to the ex post risk premium, or for as long a period as possible.

40. Provide in Microsoft Excel format the spreadsheets that support Dr. Vander Weide's Direct Testimony as well as his responses to this Information Request, where appropriate, with the underlying data and formulas intact.

41. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 11. The 10-year average ratio of actual to budgeted

capital construction ("slippage factors") for 2002 through 2012 is 122.14 percent for the Recurring Capital Expenditure Projects A-S, and 82.25 percent for the Investment Projects.[1]

a. Assuming all other factors are unchanged, recalculate Kentucky-American's forecasted revenue requirement, rate base, and cost-of-service study to take into account the use of a slippage factor of 122.14 for all monthly Recurring Capital Expenditure Projects A-S expenditures beginning December 2009 through the end of the forecasted period **and** the use of a slippage factor of 82.25 for all monthly Investment Project expenditures, except "Project 06-07 New WTP Pool 3 of Kentucky," beginning December 2009 through the end of the forecasted period.

b. Provide all work papers, state assumptions, and show all calculations used to determine the effect of these slippage factors to each forecasted element of revenue requirement, rate base, and cost-of-service study.

c. Provide the work papers, calculations, and assumptions requested in Item 41(b) in Microsoft Excel format.

42. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P-3-1, Labor.

a. Identify each position that is currently vacant or that Kentucky-American projects will be vacant during the forecasted test period.

b. For each position identified in Item 42(a) above:

(1) State why the position must be filled.

(2) State why the position is currently or will be vacant.

[1] Investment Project "06-07 New WTP Pool 3 of Kentucky" is not included in the slippage factor calculation.

(3) Describe the current status of Kentucky-American's efforts to fill the position and state the anticipated hire date.

(4) State the total cost of the position included in the forecasted test period, the cost of each individual component of the total cost (e.g., payroll expenses, payroll capitalized, retirement, taxes, insurance benefits), and the accounts to which each amount was charged.

43. Refer to Application, Exhibit 37, Schedule J at 7; Case No. 2010-00036,[2] Application, Exhibit 37, Schedule J at 7. Reconcile the discrepancies noted in Table I.

TABLE I		
	Case No. 2010-00037	**Case No. 2012-00520**
Debt Issue	Series 6.9%	Series 6.9%
Rate At Maturity	6.993%	9.346%
Annualized Interest	$489,510	$654,220
Amortization of Interest Exp.	$ 2,294	$167,010
Unamortized Debt Exp.	$ 27,908	$ 30,361

44. Describe the process Kentucky-American uses to project the debt issuance costs for the projected long-term debt.

45. a. On December 17, 2012, American Water announced "that its financing subsidiary, American Water Capital Corp., successfully closed the sale of $300 million of its 4.300% Senior Notes due December 1, 2042."[3] Explain why, in light of the recent issuance, use of the 4.3 percent rate is more appropriate and reasonable than the projected rate of 5.2 percent.

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[2] Case No. 2010-00036, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by A Fully Forecasted Test Year* (Ky. PSC filed Feb. 26, 2010).

[3] Press Release, American Water Works Company, American Water Closes Sale of $300 Million of Senior Unsecured Notes (Dec. 17, 2012), *available at* http://ir.amwater.com/phoenix.zhtml?c=215126&p=irol-newsArticle&ID=1767835&highlight= (last visited Feb. 5, 2013).

b. Recalculate the Annualized Cost Rate by substituting 4.3 percent rate for the projected 5.2 percent for 2013 and 2014 long-term debt issuances. Provide a revised Exhibit 37, Schedule J at 7, "Embedded Cost of Long-Term Debt as of July 31, 2014" to support the calculation.

c. Describe in detail the measures that Kentucky-American has taken to refinance its highest interest rate debt.

46. For each long-term debt instrument that Kentucky-American has issued between 2008 through 2011 provide a schedule listing:

a. Projected and actual issuance dates;

b. Projected and actual interest rates;

c. Projected and actual debt issuance cost;

d. Projected and actual principal amounts;

e. The interest rate of the American Water Capital Corporation ("American Capital") debt issuance that supports Kentucky-American's projected debt issuance.

f. Cost Differences between the Projected and Actual Amounts.

47. a. For each American Water operating subsidiary, regulated or non-regulated, calculate the "Annualized Long-term Debt Cost Rate" as of December 31, 2012.

b. For each response to Item 47(a), provide a schedule similar to Exhibit 37, Schedule J at 7, "Embedded Cost of Long-Term Debt as of July 31, 2014" to support the calculation.

c. Provide the information requested in Item 47(a) and (b) for American Capital.

48. Refer to the Direct Testimony of Gary M. VerDouw at 21. For each state that has been identified as adopting tariff riders similar to Kentucky-American's proposed DISC,

a. State the date on which the DSIC was first authorized.

b. Identify the statute, administrative regulation, or administrative order authorizing the DISC and provide a copy of such statute, administrative regulation or order.

c. State whether that state's utility regulatory commission permits the use of a forecasted test period in a general rate adjustment case and whether the use of a DISC limits the use of a forecasted test period.

49. List the jurisdictions in which an American Water operating subsidiary's application to a DSIC has been denied. For each listed jurisdiction, provide the citation(s) to the decisions denying the application(s) and a copy of the decision.

50. At page 15 of his written direct testimony, Mr. Lance Williams states that at its current replacement rate, Kentucky-American will replace all of its water mains that are 6-inch or smaller and 75 years or older in 41 years. State the number of years that Kentucky-American will need to replace these water mains if the Commission approves the proposed DSIC. Provide all work papers, show all calculations and state all assumptions used to derive this response.

51. Explain why the proposed DSIC lacks any provision to recognize expected cost savings.

52. Provide Kentucky-American's projected annual construction budget for water main replacements for the next ten calendar years if the Commission authorizes Kentucky-American's requested DSIC.

53. Provide Kentucky-American's projected annual construction budget for water main replacements for the next ten calendar years if the Commission denies Kentucky-American's requested DSIC.

54. Provide all correspondence, internal memoranda, electronic mail messages, and all other documents in which Kentucky-American officers and employees discuss the use and development of a DISC.

55. Provide Kentucky-American's actual annual construction budget for water main replacements for each calendar year from 2000 to 2012 in actual dollars and as a percentage of Kentucky-American's total annual construction budget.

56. Provide Kentucky-American's estimate of its infrastructure replacement needs for the period from 2013 to 2032. Provide all work papers, show all calculations and state all assumptions used to derive this estimate.

57. State whether Kentucky-American is of the opinion that its efforts at the replacement of 6-inch and smaller mains in the period from 2000 to 2012 were adequate and that Kentucky-American was devoting sufficient funds to such replacement. If not, explain why Kentucky-American did not allocate a greater portion of its prior years construction budgets to water main replacement projects.

58. In Case No. 2001-00092,[4] the Commission rejected a proposal to gross up, for purposes of calculating an Accelerated Main Replacement Program ("AMRP") Rider, the rate of return applied to a gas utility's net investment in replacement lines for uncollectible accounts, the PSC Assessment, state income taxes, and federal income taxes. It noted that those factors were excluded from environmental surcharge

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[4] *See* Case No. 2001-00092, *Adjustment of Gas Rates of the Union Light, Heat and Power* (Ky. PSC Jan. 31, 2002) at 77-78.

mechanisms and that the gross-up factors used in a surcharge mechanism do not have to match the factor used to determine a utility's revenue requirement in a base rate proceeding. Explain why, in light of this decision, the Commission should include uncollectible accounts and PSC assessment factors in Kentucky-American's proposed DSIC.

59. Refer to the Direct Testimony of Gary M. VerDouw at 19-20.

a. Explain why Kentucky-American is currently unable to partner with Lexington Fayette Urban County Government ("LFUCG") in LFUCG's sewer and storm water infrastructure replacement program to coordinate the replacement of aging water main infrastructure.

b. Describe Kentucky-American's current efforts to coordinate its water main replacement program with LFUCG's sewer and storm water infrastructure replacement program.

c. Describe how Kentucky-American's current efforts to coordinate its water main replacement program with LFUCG's sewer and storm water infrastructure replacement program would change with the approval of the proposed DISC.

d. Provide all correspondence, internal memoranda, electronic mail messages and other documents in which the coordination of Kentucky-American and LFUCG's water, sewer, and storm water infrastructure replacement efforts have been discussed

60. State whether implementation of Kentucky-American's proposed DISC will reduce the frequency of general rate adjustment proceedings. If yes, explain.

61. Refer to the Direct Testimony of Gary M. VerDouw at 28.

a. List the states that have approved a rate adjustment mechanism similar to Kentucky-American's proposed Purchased Power and Chemicals Charge Tariff Rider ("Power and Chemical Rider").

b. For each state listed in Item 60(a)

(1) State the date on which the rate mechanism was first authorized.

(2) Identify the statute, administrative regulation, or administrative order authorizing the rate mechanism and provide a copy of such statute, administrative regulation or order.

(3) State whether that state's utility regulatory commission permits the use of a forecasted test period in a general rate adjustment case and whether the use of a Power and Chemical Rider limits the use of a forecasted test period.

62. List the jurisdictions in which an American Water operating subsidiary has proposed to implement a rate mechanism similar to the proposed Power and Chemical Rider and provide a copy of the administrative order in which the state utility regulatory commission addressed the proposal. (If the administrative order is published or available through the Internet, a citation to the order or a hyperlink to the site where the order is accessible may be provided in lieu of a copy.)

63. a. Provide a monthly comparison of Kentucky-American's projected to actual purchased power expense for the calendar years 2008 through 2012.

b. Provide a monthly comparison of Kentucky-American's projected to actual chemical expense for the calendar years 2008 through 2012.

c. Provide a schedule that separately lists each chemical and its contract price for 2008, 2009, 2010, 2011, and 2012.

64. State whether Kentucky-American has since 1995 actively participated in any administrative proceedings involving its electric power suppliers' request for rate adjustments. If no, explain why not.

65. At page 29 of his written direct testimony, Mr. VerDouw states: "Cost over-recovery or under-recovery is possible due to the above factors, creating the possibility of a detrimental impact on customers or shareholders." Provide all studies and analyses that quantify the detrimental impact that could occur to the customers or shareholders.

66. On page 37 of his written direct testimony, Mr. VerDouw states that the total cost of the Business Transformation Program ("BT Program") is $320.3 million and the cost to be allocated to Kentucky-American is $12.3 million.

a. Provide the total costs of the JD Edwards program and the Customer Service and Information System.

b. Provide the cost of the JD Edwards program and the Customer Service and Information System that was allocated to Kentucky-American.

c. Provide a schedule showing the amount of the BT Program that will be allocated to each regulated and non-regulated American Water subsidiary.

67. At page 41 of his written direct testimony, Mr. VerDouw states that SAP and Accenture were selected through a competitive bidding process.

a. Provide copies of each bid received.

b. Provide all correspondence, electronic mail, analyses, notes, memoranda, studies, and related documents that discuss or review submitted bids or contain recommendations regarding the bids.

c. For each of the following groups participating in the review process identify each employee participating in the group, his or her position title, and American Water subsidiary at which he or she was employed.

(1) BT Program Team;

(2) Advisory Counsel;

(3) Other American Employees

d. Provide for each group listed above a detailed description of its role in evaluating the BT Program and the level of responsibility that it was given.

68. At page 42 of his written direct testimony, Mr. VerDouw describes the process used to select a solution implementer.

a. Provide copies of each bid submitted.

b. Provide all correspondence, electronic mail, analyses, notes, memoranda, studies, and related documents that were prepared as part of the review process or that discusses or review submitted bids or contain recommendations regarding the bids of potential solution implementer.

c. Provide the report containing the recommendation to accept the Accenture bid.

d. Identify each group that participated in the review process.

69. a. State whether American Water or Kentucky-American has performed any studies or analyses of the financial effects on Kentucky-American of the

BT Program or of the benefits that BT Program provides specifically to Kentucky-American.

b. If the response to Item 69(a) is yes, provide all studies or analyses that were prepared.

c. If the response to item 69(a) is no, explain why the allocated cost of the BT Program of $12 million to Kentucky-American is reasonable.

d. Explain why it is reasonable for a company of Kentucky-American's size to spend $12 million on a software package.

e. Quantify the benefits Kentucky-American receives from the BT Group. Show all calculations and state all assumptions made to quantify these benefits.

70. Refer to Kentucky-American's Response to Commission Staff's First Request for Information, Item 3(a), W/P-3 at 85, Pro Forma Adjustment to Support Services Expenses.

a. Kentucky-American's forecasted support services fees in this case are $9,324,233. Provide a breakdown of this forecasted amount using the categories listed below:

(1) Belleville Lab;

(2) Call Center/National Customer Care Center;

(3) Corporate;

(4) ITS Shared Service;

(5) Shared Service;

(6) Central Region Charges.

b. Confirm that the $120,497 that was misclassified as miscellaneous expense in the chart of accounts has been deducted from the miscellaneous expense category.

c. Kentucky-American proposes to adjust the base year support service expense by $382,055 to reflect "Call Center and IT" labor increases.

(1) State whether the referenced wage increases are 3 percent. If not, state the level of the increase.

(2) Provide the negotiated union contract referenced in the work paper.

d. There is a $415,023 adjustment to other non-labor costs. Provide a breakdown of the adjustment of $415,023 to other non-labor costs into the following categories with a detailed description for each adjustment category:

(1) IT Maintenance;

(2) Consulting;

(3) Depreciation;

(4) Interest;

(5) Inflation Adjustments

e. List each business development cost included in the forecasted Support Services Fees of this case. State whether the cost is directly assignable or allocated and describe the services associated with the cost.

71. Provide a comparison of the support service fees charged to each American Water subsidiary for the calendar year 2012 using the categories listed in Item 70(a). This comparison should state the number of customers that each subsidiary served as December 31, 2012.

72. At page 17 of her written direct testimony, Linda Bridwell refers to "inflationary increases of 1.8% in 2013 and 1.9% in 2014 for other expenses."

a. Describe how Kentucky-American or American Water Works Service Company ("Service Company") determined these increases.

b. Provide all work papers, show all calculations, and state all assumptions used to derive these "inflationary increases."

c. Explain why the use these "inflationary increases" is reasonable and should be considered in determining the level of Service Company charges.

73. a. Provide the increase in Customer Call Center costs between the forecasted period in Case No. 2010-00036 to the forecasted period in this case.

b. State whether Kentucky-American is being billed directly for each call to the Call Center.

c. State whether Call Center costs are being allocated to each operating subsidiary based on call frequency and duration factors.

d. State whether Kentucky-American's 1989 Agreement with the Service Company has been or will be revised to reflect the change in the factors used to allocate the Call Center costs.

e. Provide a comparison of the allocated Call Center costs for the forecast test-period using the proportionate number of customers and the current allocation factors.

f. Provide an analysis to show that the costs incurred at the Call Center are dependent on the number of calls received in a calendar year and call handling time.

g. Provide for calendar year 2011 and 2012 the number of calls received at the Call Center for Kentucky-American that were related LFUCG's sewer, storm water or to garbage charges or operations.

74. Identify the entities for which Kentucky-American performed billing services prior to December 31, 2012.

75. State the date on which Kentucky-American terminated its agreement(s) to perform billing services for LFUCG.

76. Identify each billing services contract in effect at any time between January 1, 2008 and December 31, 2012 and provide for each year during that time period the annual revenue derived from each contract and the annual expenses related or attributed to each contract.

77. Provide all correspondence, electronic mail, analyses, notes, memoranda, studies, and related documents in which employees of Kentucky-American, American Water, or Service Company discuss the provision of billing services for non-Kentucky-American or American Water entities.

78. State the effect of the termination of the billing services contract(s) on Kentucky-American's requested revenue requirement and the average customer bills. Provide all work papers, show all calculations, and state assumptions used to derive the effect.

79. At page 7 of her written direct testimony, Melisa Schwarzell references the "O&M %" that "eliminates the labor expense that is projected to be included in capital projects and programs."

a. Identify the projected labor capitalization rate that Kentucky-American is using in its current application and compare to the capitalization rate proposed in Case No. 2010-00036.

b. Provide a schedule comparing the budgeted and actual labor capitalization rates for the five most recent calendar years. Explain any variance between the budget and the actual capitalization rates.

80. At page 6 of her written direct testimony, Ms. Schwarzell refers to an "overtime multiplier." Define the term "overtime multiplier."

81. a. Provide a detailed description of Kentucky-American's methodology for forecasting the overtime hours.

b. Provide a schedule comparing the budgeted and actual overtime hours by employee for the five most recent calendar years. Explain each variance between the budget and the actual capitalization rates.

82. At page 5 of her written direct testimony, Ms. Schwarzell refers to 3 percent merit increases for the non-union positions for April 2013 and April 2014. She further states that the wages for the union positions are calculated based on the negotiated union contract that is in effect through October 2014.

a. Provide all studies and analyses that Kentucky-American and American Water have conducted or commissioned on prevailing wages in the Lexington region or in the state of Kentucky.

b. If no studies or analyses have been conducted or commissioned, explain why not.

c. Explain why, in light of the present economic conditions, both locally and nationally, the forecasted wage increases are reasonable and appropriate.

d. Provide a schedule comparing the budgeted and historical percentage wage increases for Kentucky-American's union and non-union employees for each of the previous five calendar years.

83. At page 4 of his written direct testimony, Lew Keathley states: "[W]e began the preparation for this case by taking the annual business plan, and made adjustments for known changes since the annual business plan was developed in 2012."

a. For the following expense categories, provide the work papers that Kentucky-American used to develop its 2012 work plan.

(1) Fuel and Power;

(2) Chemicals;

(3) Waste Disposal;

(4) Other Maintenance;

(5) Insurance Other Than Group.

b. Provide the work papers requested in Item 84(a) in Microsoft Excel format.

c. If the method(s) that Kentucky-American used to budget the expense categories listed in Item 83(a) differs from the forecasting methods used in Case No. 2010-00036, describe the differences in the forecasting methods.

84. At page 7 of his written direct testimony, Lew Keathley states that there is a need to increase the sludge removal from the Richmond Road Station. Explain why sludge removal should be increased and provide all documents supporting this explanation.

85. At page 8 of her written direct testimony, Ms. Schwarzell states that, for Basic Life, Short and Long Term Disability, and AD&D insurance coverages, the 2012 plan rates will be adjusted by 8 percent in October 2013. At page 9 of her testimony, she adjusts the employee health insurance expense by the same percentage increase. State the basis of the projected 8 percent increase in each of these expense categories.

86. At page 9 of her direct testimony, Ms. Schwarzell states that in the forecasted period the employee contribution for health insurance coverage totals $352,096. Provide the basis for the forecasted level of employee contributions.

87. At page 9 of her direct testimony, Ms. Schwarzell states that the OPEB forecast is based on the latest estimates for 2013 and 2014 post-retirement welfare cost. State the basis for the OPEB estimates. Provide all work papers and supporting documents, show all calculations and state all assumptions used to derive the estimates.

88. In Case No. 2010-00036, Kentucky-American's total forecasted rate case cost was $632,500 and in this current case the estimate is $700,142, a $67,642 or a 10.7 percent increase.

a. State the reasons for the expected increase in rate case expense.

b. Describe Kentucky-American's efforts to contain rate case expenses.

89. Provide for the calendar year ended December 31, 2012 for each American Water subsidiary that provides retail water service:

a. Its total uncollectibles;

b. Its total water sales; and

c. Its uncollectibles stated as a percentage of total water sales.

90. Refer to Kentucky-American's Application, Exhibit 37, Schedule F. For each forecasted amount listed in this Schedule, identify the account on page 7 of Exhibit 37, Schedule C, in which Kentucky-American has recorded the amount.

91. Refer to Kentucky-American's Application, Exhibit 37, Schedule F at 8. Provide a copy of each conservation advertisement that is included in the forecasted amount of $110,000.

92. Provide for the investment projects that Kentucky-American started or completed during the period from 2002 through 2012:

a. The number of investment projects that Kentucky-American completed ahead of schedule.

b. The number of investment projects that Kentucky-American completed on schedule.

c. The number of investment projects that Kentucky-American completed behind schedule.

93. a. List each construction project that Kentucky-American will commence or complete during the forecast period for which Kentucky-American, as of the date of this Request, has not obtained all necessary governmental permits, licenses, or other approvals.

b. For each project listed in response to Item 93(a):

(1) List all required governmental permits, licenses, and other approvals.

(2) List all governmental permits, licenses, and other approvals that Kentucky-American has not obtained as of the date of this Request.

(3) State the date on which Kentucky-American applied or expects to apply for each required governmental permit, license, or other approval.

94. Provide a comparison of Kentucky-American's forecasted rate base, capital structure, and income statement from Case No. 2010-00036 with its actual results. Provide a detailed explanation for each variance.

95. Provide a comparison of Kentucky-American's forecasted construction expenditures from Case No. 2010-00036 with its actual results by construction project. Provide a detailed explanation for each variance.

96. Refer to Kentucky-American's Application, Exhibit 37, Schedule B-5 at 1 - 2, "Working Capital Lead Lag Study." Provide a schedule that compares the lead/lag days in this study to the lead/lag days used by Kentucky-American in Case No. 2010-00036. Explain each variance in the lead/lag days.

97. For the forecasted period provide a tax basis depreciation schedule that lists separately the balances for each plant account, tax basis accumulated depreciation, and tax basis depreciable lives.

98. Refer to Kentucky-American's Application, Exhibit 37, Schedule E at 4, "Federal Income Taxes at Present Rates for the Forecast Period."

a. Confirm if the Allowance for Funds used during Construction ("AFUDC") has been removed from the reported operating revenue at current rates of $83,666,204.

b. Explain if Kentucky-American's treatment of AFUDC in the calculation of the current income taxes conforms to the treatment of AFUDC in the income tax calculation in Case No. 2010-00036.

c. Confirm if the forecasted interest expense of $12,710,004 was calculated by applying the weighted cost-of-debt to the forecasted rate base.

99. Refer to Direct Testimony of Gary M. VerDouw at 13. Explain how water main breaks involving aging infrastructure may result in fish kills.

100. a. Provide all written procedures, policies, and guidelines that Kentucky-American currently uses to rank and prioritize the replacement of its aging water mains.

b. If no written procedures, policies or guidelines exist, describe how Kentucky-American currently prioritizes or ranks the replacement of its aging water mains.

101. Describe all changes, if any, that Kentucky-American would make to its current practices to rank and prioritize the replacement of its aging water mains if the Commission approves Kentucky-American's proposed DISC.

102. State Kentucky-American's proposed annual rate of water main replacement (in miles) if the proposed DISC is approved.

103. State Kentucky-American's proposed annual rate of water main replacement (in miles) if the proposed DISC is not approved.

104. Refer to Direct Testimony of Lance E. Williams at 11.

a. Describe the existing electric service arrangement at Jacobson Reservoir Pump Station.

b. State the voltages that the existing pumps at Jacobson Reservoir Pump Station require.

c. Describe how Projects 112-020025 and IP-1202-36 will improve the efficiency of Jacobson Reservoir Pump Station. State the expected cost savings to be achieved through the two projects.

d. Describe the effect of Projects 112-020025 and IP-1202-36 on service reliability.

105. Refer to Direct Testimony of Lance E. Williams at 11-13. For each project listed, provide:

a. The priority or ranking placed on the project;

b. A breakdown of the components of the project cost;

c. A description of how Kentucky-American arrived at the project cost;

d. If a request for bids for the project has been issued, each bid submitted in response to the request; and,

e. The current status of the project.

106. State the date when Kentucky-American anticipates issuing a new or updated version of its Least Cost/Comprehensive Planning Study.

107. Refer to Kentucky-American's Response to Commission Staff's First Request for Information, Item 36 at 2.

a. (1) State whether the Comprehensive Planning Study referred to in Paragraph 8 has been completed.

(2) If the Comprehensive Planning Study has been completed, provide a copy of this study.

(3) If the Comprehensive Planning Study has not been completed, state the expected completion date.

b. (1) State whether the tie-in of motor electrical usage into plant SCADA systems has been completed.

(2) If the tie-in has been completed, state the date of completion.

(3) If the tie-in has not been completed, state the expected date of completion.

(4) Describe the information that this tie-in provides to operators and supervisors.

c. Describe the process that Kentucky-American has instituted to assess plant automation technology and manage chemical and electrical costs.

d. Identify the time-of-day and load sharing programs that Kentucky-American presently participates.

e. Identify the electric service contracts that Kentucky-American has renegotiated since January 1, 2008 to ensure appropriate demand levels and tariffs. State the amount of savings from these renegotiations.

f. Provide a copy of any report of lighting audits that have been conducted since January 1, 2008.

g. Provide a copy of each energy audit conducted since January 1, 2008 to evaluate electrical outlet load, windows, HVAC system, and pumping. Identify that each action taken in response to the recommendations of each audit.

108. Provide a detailed organizational chart for:

a. Kentucky-American;

b. American Water; and

c. Service Company.

109. Refer to Kentucky-American's Response to Commission Staffs First Request for Information, Item 3(a), W/P-3 at 175, "Base Year Adjustment Miscellaneous Expense." Kentucky-American includes in its miscellaneous expense forecast, "Charitb Don–H/Ed/En" of $98,000 and "Charitb Don–Community" of $52,250. For each donation included in this forecast, identify the organization or group to which the donation will be paid and an explanation as to why this donation should be recovered through rates.

Aaron D. Greenwell for

Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
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DATED: FEB 06 2013

cc: Parties of Record

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