COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY FOR AN ADJUSTMENT OF RATES	)))	CASE NO. 2015-00418

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

Kentucky-American Water Company ("KAWC"), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium, one paper copy, and an electronic version of the following information. The information requested herein is due on or before March 24, 2016. Responses to requests for information in paper medium 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 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.

KAWC 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

KAWC fails or refuses to furnish all or part of the requested information, KAWC shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When filing a paper containing personal information, KAWC shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to KAWC's Application, Exhibit 37, Schedules A and J. On Schedule A, KAWC requests that the Commission allow it rates that will generate net operating income in the amount of $33,197,797. Applying KAWC's weighted cost of capital to its 13-month Average Capital Structure results in an overall cost of capital of $32,777,669.[1] Explain why KAWC requests rates that will generate a net operating income that exceeds its cost of capital.

2. Refer to KAWC's Application, Exhibit 9, Reconciliation of Rate Base to Capital used to determine its Revenue Requirements. KAWC identifies the following two items in its reconciliation: Accrued Pension of $1,069,885 and Other (Net),

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[1]

Total Adjusted Capital	$	398,755,027
Times: 13-Month Average Weighted Cost		8.220%
Forecasted Overal Cost of Capital	$	32,777,663

Miscellaneous and Sundry Items of $4,071,230. Provide a schedule that lists each item that make up the $4,071,230 of Other (Net) Miscellaneous and Sundry Items, and include a detailed description of each item included on the schedule.

3. Refer to KAWC's Application Exhibit 37, Schedule A, Overall Summary; Schedule E-1.3, Federal Income Tax Calculation for the Forecast Period; and Schedule E-1.4, State Income Tax for the Forecast Period.

a. On Schedule A, KAWC calculates its requested revenue increase of $13,453,664; however, on Schedules E-1.3 and E-1.4, KAWC uses a revenue increase of $12,788,480 to calculate its forecasted current federal and state income taxes. Provide a detailed explanation for the apparent discrepancies between the schedules.

b. Identify the correct revenue increase that KAWC is requesting in this proceeding.

c. If KAWC is requesting an increase of $13,453,664, provide revisions to the following schedules:

(1) Schedule C-1, Operating Summary for the Base and Forecast Periods;

(2) Schedule E-1.3; and

(3) Schedule E-1.4.

4. Refer to KAWC's Responses to the Commission Staff's First Request for Information ("Staff's First Request"), Item 6.

a. Refer to pages 53, 55, 57, and 59 of 66. Several of the accounts that have variances above 5 percent have no explanation. Provide detailed explanations for these account variances.

b. Refer to pages 59-66 of 66. Confirm that column "Var %" should be calculated by dividing column "Variance" by column "Budget." Provide revised calculations and explanations of accounts with variances above 5 percent.

5. Refer to KAWC's Responses to Staff's First Request, Item 8, page 4. Provide further explanation of "penalties due to sales audit" and "Charges for Property Damages."

6. Refer to KAWC's Responses to Staff's First Request, Item 11.

a. Refer to page 3 of 35. The numbers in column "Percent of Budget" sum to 46.72 percent. Explain why this column does not sum to 100 percent.

b. Refer to pages 4 and 6 of 35. Explain why there are no entries for some projects in "Annual Original Budget."

7. In Case No. 2012-00520, KAWC proposed to implement a Distribution System Improvement Charge ("DSIC") that would permit it to accelerate the replacement of KAWC's aging infrastructure.[2]

a. Provide a comparative analysis listing the similarities and differences between the DSIC and the Qualified Infrastructure Program ("QIP") tariff rider KAWC has proposed to implement in this instant case.

b. Include detailed discussions for each similarity and difference noted in KAWC's comparative analysis.

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[2] Case No. 2012-00520, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Oct. 25, 2013), Final Order at 57.

8. Provide all correspondence, internal memoranda, electronic mail messages, and all other documents in which KAWC and/or American Water officers and employees discuss the use and development of a QIP.

9. Refer to the Direct Testimony of Linda C. Bridwell ("Bridwell Testimony"), pages 41–42. For each state that has been identified as adopting tariff riders similar to KAWC's proposed QIP:

a. Identify the statute, administrative regulation, or administrative order authorizing each state's infrastructure-replacement tariff rider and provide a copy of such statute, administrative regulation, or order;

b. Provide the order from the state's utility regulatory commission authorizing that state's initial infrastructure-replacement tariff rider;

c. Provide the most recent order from the state's utility regulatory commission authorizing that states infrastructure-replacement tariff rider;

d. State whether that state's utility regulatory commission permits the use of a forecasted test year in a general rate adjustment case, and whether the use of a infrastructure replacement tariff rider limits the use of a forecasted test year;

e. State whether the state's infrastructure-replacement tariff rider uses a forecasted or historical period; and

f. Provide a comparative analysis listing the similarities and differences between KAWC's proposed QIP to the infrastructure-replacement tariff riders in the listed states. Include detailed discussions for each similarity and difference noted in KAWC's comparative analysis.

10. a. List the jurisdictions in which an American Water Works Company ("American Water") operating subsidiary's application to implement an infrastructure replacement tariff rider similar to KWAC's proposed QIP was denied.

b. For each jurisdiction listed in KAWC's response to 10.a., provide the most recent order from the state's utility regulatory commission denying the requested tariff rider.

11. Refer to the Bridwell Testimony, page 45. Ms. Bridwell claims that the "alternative regulatory riders" have allowed Tennessee-American Water Company ("TAWC") to increase the amount of time between filing general rate cases.

a. Provide quantifiable evidence linking the alternative regulatory riders to the extended time between TAWC's filing of general rater cases.

b. Describe in detail each alternative regulatory rider that TAWC is currently authorized to use.

12. Refer to the Bridwell Testimony, page 37, which states the historical annual improvement rate for infrastructure by KAWC is 0.2 percent.

a. Are there any legal or regulatory requirements that determine the level of infrastructure replacement? If so, explain.

b. How does KAWC determine the level of infrastructure replacement?

c. Explain fully how the burden of the associated carrying costs denies KAWC the opportunity to achieve the rate of return authorized by the Commission in base rate cases.

13. Refer to the Bridwell Testimony, pages 37–54. Many of the benefits stated in Ms. Bridwell's testimony in support of the QIP rider appear to be as a result of infrastructure improvements. KAWC could increase the annual amount of infrastructure replacement without a rider such as the proposed QIP. Provide KAWC's response to this statement.

14. KAWC's proposed DSIC mechanism was denied by the Commission in Case No. 2012-00520. Explain why the proposed QIP should be approved in this case.

15. Refer to the Bridwell Testimony, page 45, which states, "I am confident that the QIP would allow Kentucky-American to increase the time between general rate case filings." Explain why Ms. Bridwell is confident.

16. List each American Water subsidiary that currently uses an infrastructure replacement tariff rider similar to KWAC's proposed QIP.

a. For each American Water subsidiary listed, state the frequency of its general rate adjustment proceedings for the ten years prior to implementing the infrastructure replacement tariff rider.

b. For each American Water subsidiary listed, state the frequency of its general rate adjustment proceedings since adopting the infrastructure replacement tariff rider.

17. Refer to the Bridwell Testimony, pages 42–44. Ms. Bridwell describes the expected cost savings that will occur if the QIP is implemented. Quantify the cost savings identified by Ms. Bridwell in her direct testimony. Include copies of all work papers, calculations, and assumptions used by KAWC in its response.

18. Refer to the Bridwell Testimony, pages 50–51. Ms. Bridwell explains how the proposed QIP will function and provides the proposed QIP formula. Explain why the proposed QIP lacks any provision to recognize cost savings.

19. Refer to the Bridwell Testimony, page 48, where Ms. Bridwell lists the categories of utility plant that would qualify for inclusion in KAWC's proposed QIP. Given that the proposed QIP is intended to accelerate KAWC's replacement of its aging transmission and distribution mains, provide a detailed explanation as to why KAWC is proposing to include each of the following utility plant categories in its QIP:

a. Account 333, Services;

b. Account 334, Meters and Meter Installations;

c. Account 335, Hydrants; and

d. Account 311, Pumping Equipment.

20. Refer to the Direct Testimony of Brent O'Neill ("O'Neill Testimony"), page 25. Mr. O'Neill states that with a 25-year replacement period, KAWC will replace 240 miles of cast iron or galvanized steel mains at a rate of 9.6 miles per year at an expected annual cost of $6.59 million. Provide the cost estimate for each utility plant category listed in Item 19 above that is included in the expected annual cost of $6.59 million.

21. Refer to the O'Neill Testimony, page 25, and Exhibit BEO-1, KAWC Aging Infrastructures Review of the Water Distribution System, Appendix – Five Year Projected Projects for Main Replacement Program.

a. Using the QIP formula on page 51 of the Bridwell Testimony, calculate the QIP(s) for the five-year projected construction period. Include copies of all work papers, calculations and assumptions used by KAWC in its calculations.

b. Refer to KAWC's Response to Staff's First Request, Item 10, Strategic Capital Expenditure Plan. Explain how the proposed QIP would impact KAWC's five-year construction plan.

22. Refer to the Bridwell Testimony, page 48. Ms. Bridwell explains that the proposed QIP "would be established on an annual prospective basis utilizing 13 month average end-of-month balances."

a. Explain why KAWC is proposing to use a forecasted rather than a historical period for its QIP.

b. On page 49, Ms. Bridwell explains that KAWC proposes to make annual "Reconciliation" filings at the conclusion of each QIP year. If a historical period were to be used, explain whether this would eliminate the need for an annual reconciliation filing and result in a decreased QIP cost.

23. a. Provide a detailed estimate of the cost KAWC will incur when it files the annual QIP applications.

b. Provide a detailed estimate of the cost KAWC will incur when it files the QIP reconciliation applications.

c. Include copies of all work papers, calculations and assumptions used in its responses to 23.a. and 23.b.

24. Refer to KAWC's Response to Staff's First Request, Item 18, 2015 Annual Incentive Plan.

a. (1) State whether the forecasted employee incentive pay being awarded under KAWC's 2015 Annual Incentive Plan is similar to the plan whose costs the Commission disallowed in Case No, 2004-00103.[3]

(2) If the incentive plan is the same, explain why KAWC proposes to include its costs in the determination of rates in this proceeding.

(3) If the incentive plan differs from that reviewed in Case No. 2004-00103, provide a comparative analysis listing the similarities and differences between the two incentive plans. Include detailed discussions for each similarity and difference noted in KAWC's comparative analysis.

b. (1) State whether forecasted employee incentive pay being awarded under KAWC's 2015 Annual Incentive Plan is similar to the plan whose costs the Commission disallowed in Case No. 2010-00036.[4]

(2) If the incentive plan is the same, explain why KAWC proposes to include its costs in the determination of rates in this proceeding.

(3) If the incentive plan differs from that reviewed in Case No. 2010-00036, provide a comparative analysis listing the similarities and differences between the two incentive plans. Include detailed discussions for each similarity and difference noted in KAWC's comparative analysis.

25. Refer to KAWC's Response to Staff's First Request, Item 18, 2015 Annual Incentive Plan; Attachment A, 2015 Financial Payout Curve; and Attachment B, 2015

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[3] Case No. 2004-00103, *Adjustment of the Rates of Kentucky-American Water Company* (Ky. PSC Feb. 28, 2005), Final Order at 47–49.

[4] Case No. 2010-00036, *Application of Kentucky-American Water* Company *for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Dec. 14, 2010), Final Order at 29–33.

AIP Non-Financial Performance Measures. Confirm that 55 percent of the KAWC's Variable Incentive Plans are weighted towards reaching American Water's financial goals and 45 percent is weighted towards non-financial criteria.

26. Refer to KAWC's Response to Staff's First Request, Item 18, 2015 Annual Incentive Plan, page 13. Confirm that if American Water's financial goals are not met, KAWC's employees will not receive any incentive pay awards.

27. Refer to KAWC's Response to Staff's First Request, Item 18.

a. Provide further explanation of the Long Term Performance Plan.

b. Refer to page 7 of 25. Explain why KAWC is seeking recovery of its Annual Incentive Plan, given that 55 percent of the corporate multiplier is based on financial performance and that "there will be no funding of the AIP Pool if EPS is below 90% of target."

c. Refer to page 25 of 25. Confirm that "LTIP" refers to the Long Term Performance Plan.

28. Refer to KAWC's Response to Staff's First Request, Item 18.a. KAWC states, "Consequently, all of our performance plans are necessary to attract and retain employees." Provide all studies and analyses that quantify the impact that KAWC's and American Water Works Service Company's ("Service Company") incentive compensation programs have on the following:

a. Attracting new employees; and

b. Employee retention.

29. Refer to the Direct Testimony of Donald Petry ("Petry Testimony"), page 4. Mr. Petry states that American Water has two variable compensation plans, the Annual

Performance Plan ("APP"); and the Long-Term Performance Plan ("LTPP"). On page 6, Mr. Petry states that in KAWC's forecasted salaries and wages, expenses is $346,581 for the APP and $14,535 for the LTPP.

a. Identify by position each KAWC employee who is eligible to participate in the APP program. For each position listed, provide the APP budgeted for the forecasted period and the APP available to each employee, if different from the forecasted amount.

b. Identify by position each KAWC employee who is eligible to participate in the LTPP program. For each position listed provide the LTPP budgeted for the forecasted period and the LTPP available to each employee, if different from the forecasted amount.

c. Using the table below, provide the requested APP information for each KAWC employee for the calendar years 2011–2015.

	Calendar Year			
Employee	APP		Difference	
Name/Position	Available	Awarded	Dollar	Percentage
(a)	(b)	(c)	(b)-(c)	((b)-(c) ÷ (b)

d. Using the table below, provide the requested LTPP information for each KAWC employee for the calendar years 2011–2015.

	Calendar Year			
Employee	LTPP		Difference	
Name/Position	Available	Awarded	Dollar	Percentage
(a)	(b)	(c)	(b)-(c)	((b)-(c) ÷ (b)

e. For the previous five calendar years, provide a comparison of the APP pay that was budgeted to the actual amount paid in each year. Include detailed explanations for any variance between the budgeted and actual payments.

f. For the previous five calendar years, provide a comparison of the LTPP pay that was budgeted to the actual amount paid in each year. Include detailed explanations for any variance between the budgeted and actual payments.

30. In Case No. 2004-00103, the Commission disallowed for ratemaking purposes the costs associated with the LIP and AIP because of the lack of any study or analysis that quantified the program's benefits.[5] In this proceeding, KAWC lists benefits its customers receive from the employee variable compensation plans.[6]

a. Provide a copy of all studies and analyses that KAWC has performed or commissioned that qualify the benefits the ratepayers derive from the APP or the LTPP.

b. If KAWC and/or the Service Company have not performed or commissioned such studies or analysis, explain why they have not done so.

c. If KAWC is unable to document the benefits of its variable employee compensation plans, explain why KAWC's ratepayers should bear the cost of these plans.

31. Provide all analyses and studies that quantify the benefits KAWC ratepayers receive from the variable employee compensation plans that are provided to the Service Company employees.

32. Refer to the Petry Testimony, page 16. Mr. Petry states that that the labor costs for the Service Company is $5,114,776 in the forecasted period. Separately

[5] Case No. 2004-00103, *Kentucky-American Water Company* (Ky. PSC Feb. 28, 2005), Final Order at 49.

[6] Direct Testimony of Kevin Rogers at 20.

identify the amount of APP and LTPP that is included in the forecasted Service Company labor costs.

33. a. Identify by position each Service Company employee who is eligible to participate in the APP program. For each position listed, provide the APP budgeted for the forecasted period and the amount allocated to KAWC.

b. Identify by position each Service Company employee who is eligible to participate in the LTPP program. For each position listed, provide the LTPP budgeted for the forecasted period and the amount allocated to KAWC.

c. Using the table below, provide the requested APP information for each Service Company employee for the calendar years 2011–2015.

	Calendar Year			
Employee	APP		Difference	
Name/Position	Available	Awarded	Dollar	Percentage
(a)	(b)	(c)	(b)-(c)	((b)-(c) ÷ (b)

d. Using the table below, provide the requested LTPP information for each Service Company employee for the calendar years 2011–2015.

	Calendar Year			
Employee	LTPP		Difference	
Name/Position	Available	Awarded	Dollar	Percentage
(a)	(b)	(c)	(b)-(c)	((b)-(c) ÷ (b)

34. Refer to the Petry Testimony, page 6. Mr. Petry states, "[T]he target percent was multiplied by the pro forma base salary to determine gross APP of $346,581 and LTPP of $14,535." Provide a detailed definition for the phrase "target percent" and show how it was calculated.

35. Refer to the Petry Testimony, page 6. Mr. Petry states that each KAWC employee position's gross costs are multiplied by both a "water percentage" and an "O&M percentage."

a. Provide the water percentage and the O&M percentage that was used in the forecasted period. Show how each percentage was calculated.

b. For the calendar years 2010–2015, list the water percentage and O&M percentage KAWC used in its budgets compared to the actual percentages.

36. Refer to the Bridwell Testimony, page 14, Expense Adjustments. Ms. Bridwell states that KAWC adjusted its 2016 annual business plan for known changes that have occurred since that plan was developed in June 2015. KAWC then combines the adjusted 2016 business plan with the first eight months of the 2017 strategic plan to develop the forecasted test year.

a. Provide copies of the work papers KAWC used to develop its 2016 operation and maintenance expenses in its annual business plan.

b. Identify the known changes that KAWC used to adjust its 2016 operation and maintenance expenses in its annual business plan. Also, provide copies of the work papers showing these known change adjustments.

c. Provide copies of the work papers KAWC used to develop its 2017 operation and maintenance expenses in its strategic plan.

d. Provide schedules showing how KAWC combined the adjusted operation and maintenance expenses in its 2016 annual business plan with the 2017 strategic plan.

e. Provide copies of the work papers and/or schedules requested in Item 36.a, 36.b, 36.c, and 36.d in Microsoft Excel format.

f. If the method(s) that KAWC used to budget the operation and maintenance expenses in its forecasted test year differ from the forecasting methods used in Case No. 2010-00036, describe in detail the differences in the forecasting methods KAWC used.

37. Refer to KAWC's Response to Staff's First Request, Item 11. The ten-year average ratio of actual to budgeted capital construction ("slippage factors") for 2002–2012 is 117.7 percent for the Recurring Capital Expenditure Projects A-S, and 91.6 percent for the Investment Projects.[7]

a. Assuming all other factors are unchanged, recalculate KAWC's forecasted revenue requirement, rate base, capital structure and cost-of-service study to take into account both of the following changes:

(1) 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

(2) 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.

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

c. Provide the work papers, calculations, and assumptions requested in Item 38.b in Microsoft Excel format.

38. Refer to KAWC's Application, Exhibit 37, Schedule J-4, page 7; and Case No. 2012-00520, Application, Schedule 7-3, page 7.[8]

a. In Case No. 2012-00520, KAWC projected it would issue bonds in the principal amount of $8,000,000 with an interest rate of 5.2 percent per annum. KAWC actually issued $7,859,000 of bonds on May 15, 2013, at an interest rate of 4 percent per annum. Provide a detailed explanation for the differences between the projections in Case No. 2012-00520 for the May 15, 2013 debt issuance and the actual issuance.

b. KAWC projected that it would issue $9,000,000 of bonds in 2013 and 2014 in three issuances of $3,000,000 each. Explain why KAWC did not issue the long-term debts that it included in the forecasted period.

39. Describe the process KAWC uses to project the debt issuance cost for the projected long-term debt.

40. For each long-term debt instrument that KAWC has issued between 2007 and 2013, provide a schedule listing:

a. Projected and actual issuance dates;

b. Projected and actual interest rates;

c. Projected and actual debt issuance costs; and

d. Projected and actual principal amounts.

[8] Case No. 2012-00520, *Kentucky-American Water Company* (Ky. PSC filed Dec. 28, 2012), Application.

41. a. For each American Water operating subsidiary, regulated or non-regulated, calculate the "Annualized Long-term Debt Cost Rate" as of December 31, 2015.

b. For each response to 41.a., provide a schedule similar to Exhibit 37, Schedule J-4 at 7, "Embedded Cost of Long-Term Debt as of August 31, 2017" to support the calculation.

c. Provide the information requested in Items 41.a. and 41.b. for American Capital Corporation.

42. Refer to the Direct Testimony of Scott Rungren ("Rungren Testimony"), page 7.

a. KAWC explains that it used the rate of a 30-year Treasury Bond taken from Bloomberg's ("30-year Treasury Bond") forward yield curve on August 27, 2015, as the basis for its projected interest rate for its bonds to be issued in June 2016. Explain why the August 27, 2015 Treasury Bond rate was used.

b. For each American Water Capital Corporation ("American Capital") long-term debt issuance for the five-year period from 2011 through 2015, provide a comparison of the rate of a 30-year Treasury Bond on the date of the long-term debt issuance to the actual interest rate of the American Capital debt issuance.

c. Provide a table comparing the end-of-month 30-year Treasury Bond interest rate for the period of January 2015 through February 2016.

d. Provide the basis for the 1.45 percent spread used to calculate the projected interest rate.

43. Refer to the Rungren Testimony, page 10.

a. Provide an analysis to quantify the impact of KAWC's equity-to-capital restriction has on American Water's capital structure.

b. Given that KAWC's long-term debt is issued by American Capital, provide an analysis or study that quantifies the impact KAWC's capital structure has on its long-term debt cost.

44. Provide a comparison of KAWC's capital structure as of December 21, 2016, to the capital structure of American Water.

45. Explain whether American Capital's bond rating is based on American Water's or KAWC's capital structure.

46. Refer to KAWC's Application, Exhibit 37, Schedule C, pages 6–7, Miscellaneous Expenses. Provide a complete description for each item that is included in the following accounts:

a.	Charitb Contr Deduct	$	2,396
b.	Charitb Don-H/Ed/En	$	61,927
c.	CharitbDon-Community	$	36,645
d.	Community Partnerships	$	59,799
e.	Cust Edu Comm-Reg	$	1,671
f.	Cust Edu Comm-Issues	$	20,355
g.	Cust Edu Comm-Consrv	$	80,465
h.	Cust Edu Comm-Printd	$	13,000
i.	Commun Relations-E	$	12,214
j.	Commun Relations-S	$	9,585
k.	Community Relations	$	1,745

l. Co Dues/Membership Ded $ 77,070

47. Refer to the Petry Testimony, page 5. Mr. Petry explains that there are currently six vacant positions: two union positions, three non-union hourly positions, and one non-union salary position.

a. Identify the position title of each employee position that is currently vacant.

b. Are there any employee positions that KAWC projects will be vacant during the forecasted test year? If so, identify those positions.

c. For each position identified in Item 43.a. and 43.b. above:

(1) State why the position must be filled;

(2) State the reason the position is currently vacant or will become vacant during the forecasted test year;

(3) Describe the current status of KAWC's efforts to fill the position and state the anticipated hire date; and

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

d. Explain whether KAWC has included in its forecast test year operating expense the cost of temporary employees. Identify the temporary employee cost, and explain whether any of the temporary employees are performing duties for the six identified positions.

48. Refer to the Petry Testimony, page 5. Mr. Petry refers to merit increase for the non-union employees of 2.75 percent for April 2016 and 3 percent for April 2017. He further states that the wages for the union positions are calculated based on the negotiated union contract that is in effect through October 31, 2017.

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

b. If no studies or analysis have been conducted or commissioned, explain why.

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

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

49. Refer to the Petry Testimony, page 8, which states that the 2016 plan rates for Basic Life, Short and Long Term Disability, and AD&D insurance coverages have been adjusted for a projected 4 percent increase in January 2017. State the basis of the projected 4 percent increases in each of these expense categories.

50. Refer to the Petry Testimony, page 10, which states that the OPEB forecast is based on the latest estimates for 2016 and 2017 post-retirement welfare cost.

a. State the basis for the welfare estimates.

b. Provide all work papers and supporting documents, show all calculations, and state all assumptions used to derive the estimates.

51. Provide for the calendar year ended December 31, 2016, 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.

52. Refer to KAWC's Response to Staff's First Request, Item 3, W/P-3-1, Support Services Summary, page 486.

a. Explain why the following adjustments are resulting in increases to the Service Company allocations:

(1) Removed One Time Items; and

(2) Removed Charitable, Lobbying, Community Relations Penalties and Advertising.

b. Provide work papers to show how KAWC calculated the "4/1/16 Merit Increases" and explain how the 3.5 percent estimated increase was derived.

c. Provide work papers to show how KAWC calculated the "4/1/17 Merit Increases" and explain how the 3.7 percent estimated increase was derived.

d. Provide detailed explanations for the following adjustments:

(1) 2016 Other Increase;

(2) Organizational Realignment; and

(3) 2017 Other Increases.

e. KAWC has included business development costs of $195,842 in its forecasted Service Company fees. List each business development cost that is

included in the forecast. State whether the cost is directly assignable or allocated and describe the services associated with this cost.

f. Provide a detailed explanation for the following Service Company functions and an itemized list of the items that are allocated in the forecast test year:

(1)	Government Affairs	$	21,474
(2)	Regulatory Policy	$	40,033

53. In its application in Case No. 2012-00520, KAWC forecasted rate case cost was $700,142.[9] In the current case, the estimate is $884,370, an increase of $184,228, or 26.3 percent.

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

b. Describe KAWC's efforts to contain its rate-case costs.

54. List each construction project that KAWC will commence or complete during the forecast period for which KAWC, as of the date of this request, has not obtained all necessary governmental permits licenses, or other approvals. For each project listed:

a. List all required governmental permits licenses, and other approvals;

b. List all governmental permits licenses, and other approvals that KAWC has obtained as of the date of this request; and

c. State the date on which KAWC applied or expects to apply for each required governmental permits licenses, or other approvals.

[9] Case No. 2012-00520, *Kentucky-American Water Company* (Ky. PSC filed Dec. 28, 2012). $852,370 (Total Estimated Rate Case Expense) + $32,000 (Depreciation Study) = $884,370.

55. Provide a comparison of KAWC's forecasted rate base capital structure, and income statement from Case No. 2012-00520 with its actual results. Provide a detailed explanation for each variance.

56. Provide a schedule comparing KAWC's forecasted construction expenditures from Case No. 2012-00520 with its actual results by construction project. Provide a detailed explanation for each variance.

57. Refer to KAWC's Application, Exhibit 37, B-5.2, pages 4–5, Working Capital – Lead/Lag Study as on August 31, 2017. Provide a schedule that compares the lead/lag days in this study to the lead/lag days used by KAWC in Case No. 2012-00520. Explain each variance in the lead/lag days.

58. a. For the forecasted period, provide, in Microsoft Excel format, a federal tax basis depreciation schedule that lists separately the balances for each plant account, tax basis accumulated depreciation, tax basis depreciation lives, and tax basis depreciation expense.

b. For the forecasted period, provide, in Microsoft Excel format, a Kentucky tax basis depreciation schedule that lists separately the balances for each plant account, tax basis accumulated depreciation, tax basis depreciation lives, and tax basis depreciation expense.

59. Refer to KAWC's Response to Staff's First Request, Item 3, W/P-3-1, Base Year Adjustment Support Services for the 12 Months Ending August 31, 2017, page 485. Provide a comparison of the Service Company fees charged to each American water subsidiary for the calendar year 2016 using the categories contained on

this schedule. This cost should state the number of customers that each subsidiary served as of December 31, 2016.

60. Refer to the Direct Testimony of John J. Spanos ("Spanos Testimony"), 2014 Depreciation Study ("Depreciation Study"), Part II, Estimation of Survivor Curves, Exhibit JJS-1.

a. Schedule 2 on page II-12 provides information about acquisitions, transfers, and sales for the illustration. Provide similar information for the accounts in the depreciation study.

b. Schedule 3 on page II-14 contains a superscript "a" without a footnote. Provide the footnote.

61. Refer to the Spanos Testimony, Depreciation Study, Part VII, Service Life Statistics of Exhibit JJS-1.

a. For the column "Retirements During Age Interval," explain how the amounts are calculated (i.e., the original cost, average unit cost, etc., of the retirements).

b. Explain why some accounts have two experience bands.

c. Refer to page VII-22. Explain the changes unrelated to retirements in the column "Exposures at the Beginning of Age Interval."

62. Refer to the Spanos Testimony, Depreciation Study, Part VIII, Net Salvage Statistics of Exhibit JJS-1.

a. Refer to page VIII-4. Explain why the cost of removal amount for 2006 is a negative number.

b. Refer to VIII-7. Explain why the regular retirement amount for 1991 is a negative number

c. Refer to VIII-12. Explain how there can be cost of removal of 1,065 for 2013 when there are no retirements.

d. Refer to page VIII-13. Explain why there are cost of removal and gross salvage amounts for 2009 when there are no retirements

e. Refer to page VIII-16. Explain why the gross salvage amount for 2006 is a negative number.

63. Refer to the Spanos Testimony, Depreciation Study, Part IX, Detailed Depreciation Calculations of Exhibit JJS-1.

a. Refer to pages IX-2 and VII-3 as examples. Explain why the total original cost would be higher than the exposures at the beginning of age interval 0.

b. Refer to pages IX-34, IX-36 thru IX-39, IX-41, IX-43, and IX-46. Explain the rows that start with 9999 in the year column. Provide any supporting calculations.

64. Refer to KAWC's Application, Exhibit 37, Schedule C, page 2 of 9, and the Spanos Testimony, Depreciation Study, page VI-5. The forecasted test-year depreciation expense is calculated to be $14,948,095.

a. Recalculate the forecasted test-year depreciation expense using the accrual rates that are included in the Depreciation Study.

b. Provide a schedule comparing KAWC's current depreciation lives with the deprecation lives proposed in this current case. The schedule should show the differences between current and proposed lives with an explanation for each difference.

c. Provide a schedule that lists the 13-month forecasted plant balances.

d. Provide copies of the work papers and/or schedules requested in Items 64.a., 64.b., and 64.c. in Microsoft Excel format.

65. Refer to the Spanos Testimony, Depreciation Study. On page V-2 of the Depreciation Study, Mr. Spanos identifies the average service life and equal life group as the two primary group procedures. On page 2, Mr. Spanos states that the average service life procedure was used to develop the depreciation accrual rates shown on page VI-5 of the Depreciation Study.

a. State why the average service life procedure was chosen.

b. State whether Mr. Spanos also calculated depreciation accrual rates using the equal life group procedure as part of his review of KAWC's depreciation practices.

66. Refer to the Spanos Testimony. If Mr. Spanos calculated depreciation accrual rates using the equal life group procedure, show the calculation of those accrual rates in the same format shown on Page VI-5 of the Depreciation Study.

67. Refer to the Direct Testimony of James H. Vander Weide, PH.D. ("Vander Weide Testimony"), pages 9–16.

a. Describe the specific risks to American Water with regard to the five elements of business risk as listed on the bottom of page 10 to the top of page 11, and indicate how KAWC contributes specifically to, or tends to alleviate, those risks.

b. Describe the specific level of American Water's financial leverage in comparison to other water utilities.

68. Refer to the Vander Weide Testimony, page 35.

a. Provide current AA- and A-rated utility bond yields.

b. Refer to lines 12–13. Explain why 34 basis points are added to the *Value Line Investment Survey* ("*Value Line*") AAA Corporate bond forecast.

c. Refer to line 18. Explain why 18 basis points are added to the Energy Information Administration's ("EIA") AA-utility bond forecast.

d. Refer to lines 5–8. Discuss the current status of interest rates.

69. Refer to the Vander Weide Testimony, page 41, line 16.

a. Explain why 43 basis points are added to *Value Line's* forecast yield on 10-year Treasury notes.

b. Explain why the 43 basis points, which is based on the spread between *Value Line's* 10-year Treasury notes and *Value Line's* 20-year Treasury bonds, is added to the EIA 10-year Treasury notes, instead of adding the spread between the EIA 10-year Treasury notes and 20-year Treasury bonds.

70. Provide a current published yield on 20-year Treasury bonds.

71. Refer to the Vander Weide Testimony, page 45, responses to questions 101 and 102. Confirm that the risk premium on the market portfolio is equal to 7.76, as indicated in response to Question 102, instead of 7.6, as indicated in response to question 101.

72. Refer to the Vander Weide Testimony, page 49, Table 2. Provide this table without the flotation cost adjustments.

73. Refer to the Vander Weide Testimony, page 52. State whether KAWC is aware that the Commission approved a capital structure for Atmos Energy Corporation

consisting of 49.16 percent equity in Case No. 2013-00148;[10] that Columbia Gas of Kentucky's rate cases have been settled with no ruling by the Commission as to a reasonable capital structure since 1989,[11] when it approved a capital structure with 47.24 percent common equity; that the last capital structure approved by the Commission for affiliates Kentucky Utilities Company and Louisville Gas and Electric Company was in Case Nos. 2009-00548[12] and 2009-00549,[13] respectively, reflecting 53.86 percent common equity; and that, although not included in Table 4, the Commission approved capital structures with equity percentages of 44.9 percent for Delta Natural Gas Company in Case No. 2010-00116[14] and 43.9 percent for Kentucky Power Company in Case No. 2014-00396.[15]

74. Refer to the Vander Weide Testimony, Exhibit_(JVW-1), Schedule 1-1.

a. Explain why Consolidated Water Company is appropriate to include in the water utility proxy group given that the *Value Line* reports that this company operates seawater desalination plants, has no operations in the United States, and its recent earnings per share growth has been negative.

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[10] Case No. 2013-00148, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC Apr. 22, 2014).

[11] Case No. 10498, *Adjustment of Rates of Columbia Gas of Kentucky, Inc.* (Ky. PSC Oct. 6, 1989).

[12] Case No. 2009-00549, *Application of Louisville Gas and Electric Company for an Adjustment of Electric and Gas Base Rates* (Ky. PSC July 30, 2010).

[13] Case No. 2009-00548, *Application of Kentucky Utilities Company for an Adjustment of Base Rates* (Ky. PSC July 30, 2010).

[14] Case No. 2010-00116, *Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates* (Ky. PSC Oct. 21, 2010).

[15] Case No. 2014-00396, *Application of Kentucky Power Company for: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief* (Ky. PSC June 22, 2014).

b. Explain whether Consolidated Water Company has been included in the water utility proxy group in previous rate filings for KAWC, and if not, why not.

c. Refer to the *Value Line* EPS Growth and I/B/E/S forecast of future earnings growth for SJW Corp. Explain why there is such a large difference in the two forecasted growth rates.

75. Refer to the Vander Weide Testimony, Exhibit_(JVW-1), Schedules 1-1 and 2-1.

a. Provide the individual I/B/E/S forecasts and *Value Line* used for earnings growth forecasts in calculating the average "g" for the DCF analysis.

b. Provide a revised Schedule 2-1 so that it is in the same format and shows all the same information for gas utilities that Schedule 1-1 contains for water utilities. The revised schedule should set out the DCF model results both with and without flotation costs.

c. Provide the market weights used to calculate the market-weighted Averages in both schedules, show how they were calculated, and explain why results are weighted for market capitalization.

d. Provide the most current earned and approved returns on equity ("ROEs") for the proxy groups of water and gas utilities or their subsidiaries, including all American Water subsidiaries.

e. Provide Schedule 1-1 with no flotation cost adjustments.

76. Refer to the Vander Weide Testimony, Exhibit_(JVW-1), Schedule 3.

a. Confirm that the Schedule is intended to calculate a natural gas utility equity risk premium instead of an electric utility risk premium, as stated at the top of Schedule 3-1.

b. Refer to Schedule 3-5. Confirm that the DCF for the natural gas proxy group, as adjusted for flotation cost, is 10.07 percent as of November 2015.

c. Provide the DCF results for the natural gas proxy group with no flotation adjustment.

d. Provide updates to the Risk Premium table in Schedule 3 for the most current information available.

77. Provide in Microsoft Excel format the spreadsheets that support the Vander Weide Testimony, as well as his responses to this request, where appropriate, with the underlying data and formulas intact.

78. Refer to the Direct Testimony of Paul R. Herbert. Explain how the volumetric charge for each class of customer was determined.

79. The Commission may not allow the proposed weather normalization adjustment. Provide a revised copy of page 46 of Exhibit 36 in KAWC's Application, in a hard copy form and in electronic Microsoft Excel format, showing the results on rates of the study without the adjustment for weather normalization.

80. Refer to the Direct Testimony of Edward L. Spitznagel, Jr. Dr. Spitznagel has provided testimony in previous cases on behalf of KAWC. Provide a comparison between Dr. Spitznagel's forecast and the actual usage for each test period of each of the KAWC cases Dr. Spitznagel provided testimony for.

81. Refer to the O'Neill Testimony. Mr. O'Neill stated that the proposed tap fees were determined using a three-year average and in previous cases the utility used a five-year average.

82. Provide the amount the tap fees would be based on a five-year average. Provide all work papers and calculations and state all assumptions relied upon to determine the amount of the tap fees.

83. Provide all work papers and calculations and state all assumptions that show how the proposed tap fee was calculated.

84. Refer to the O'Neill Testimony.

a. What is the life expectancy of cast iron pipe?

b. What length, by size and material, of water line installed between 1885 and 1940 has been replaced?

c. How were the water line replacements in question 84.b. above financed?

d. How much water line installed between 1885 and 1940 needs to be replaced:

(1) In 2016?

(2) Between 2016 and 2021?

e. Is the replacement of the water lines in Items 84.d.(1) and (2) above scheduled? How is it being financed?

f. How much of the water line installed between 1885 and 1940 can be scheduled for replacement over the next 25 years?

g. What are the length, size and material of line installed between 1945 and 1970?

h. How much of the line installed between 1945 and 1970 has to be replaced annually?

i. Explain how a line installed in 1945 is on average 80 years old?

j. How much of the line installed between 1970 and 2015 has to be replaced annually?

k. How much new water line (not replacement of existing lines) was constructed annually since 2010?

l. What is KAWC doing to inform its customers of the need to replace older lines?

m. If ordered to replace 20 miles of pipe annually, how much money will KAWC need?

James W. Gardner
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Public Service Commission
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DATED MAR 07 2016

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