

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

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

The Attorney General and Lexington-Fayette Urban County Government ("AG/LFUCG"), pursuant to 807 KAR 5:001, are to file with the Commission the original and one copy in paper medium, and an electronic version of the following information. The information requested herein is due no later than June 6, 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.

AG/LFUCG shall make timely amendment to any prior response if they obtain 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

AG/LFUCG fail or refuse to furnish all or part of the requested information, AG/LFUCG shall provide a written explanation of the specific grounds for their 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, AG/LFUCG 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 the Direct Testimony of Andrea Crane (“Crane Testimony”), pages 18–21. List and provide a copy of each state utility regulatory commission decision or opinion in which the ratemaking treatment of a reserve created to meet the requirements of Financial Accounting Standards Board Interpretation No. 48 is discussed. This listing should include the name of the state commission, case number, case style, and date of decision or opinion.

2. For each statement below, state whether Ms. Crane agrees or disagrees. If she does not agree, explain why.

a. “Theoretically, net earnings are earned when customer service is provided, and become the property of the stockholders. This requires that a cash working capital requirement should be recognized for the lag in receipt of operating income.”¹

¹ Case No. 92-452, *Notice of Adjustment of the Rates of Kentucky American Water Company* (Ky. PSC Nov. 19, 1993) at 20.

b. "While it is true that recording depreciation does not require the expenditure of cash at the time the expense is recorded and charged to the customer, cash was expensed at the time the property was acquired, the recorded depreciation is used to reduce the investment in that property even though approximately one-and-one half month's depreciation (equivalent to the revenue lag) has not yet been received from the customer."²

3. State whether Ms. Crane believes that the use of the 1/8 formula approach to calculate Kentucky-American Water Company's ("KAWC") cash working capital requirements is a reasonable alternative to the use of a lead/lag study. Explain the response.

4. State whether the AG/LFUCG agree that the use of slippage adjustments is appropriate in general adjustment rate proceedings in which a fully forecasted test period is used to account for the effect of capital construction budget variances for the ten years prior to the forecasted period.

5. Refer to KAWC's response to Commission Staff's Second Request for Information, Item 37. State whether the AG/LFUCG agree with the slippage adjustments set forth in that response.

6. Explain why the AG/LFUCG witnesses have not proposed or recommended slippage adjustments in this proceeding.

7. Refer to the Crane Testimony, page 27. Ms. Crane provides an example of when excess contributions in a utility's pension fund do not benefit its ratepayers. Provide any evidence that has been presented in this proceeding to show that this

² Robert L. Hahne and Gregory E. Aliff, *Accounting for Public Utilities* 55 08[2] (Matthew Bender Nov. 1991).

example is applicable for KAWC and/or American Water Works Company in the instant case.

8. Refer to KAWC's response to Commission Staff's Third Request for Information ("Staff's Third Request"), Item 30. Provide a discussion of the accuracy of Dr. Spitznagel's consumption projections from previous cases.

9. Refer to the Crane Testimony, Appendix A.

a. Provide the weather normalization testimony from the March 2008 New Mexico Generic Commission Investigation shown on page 4.

b. State whether Ms. Crane has testified regarding weather normalization in any proceedings other than the March 2008 New Mexico proceeding. If so, provide a list of cases containing the date, case number, and the location of her testimony in the case dockets.

10. Refer to KAWC's responses to Staff's Third Request, Items 31.d. and 33.a. State whether the conclusion reached in Item 31.d., that using shorter periods for temperature normalization does not apply to water consumption, is reasonable, given the Cooling Degree Day and water utilization projections shown in the response to Item 33.a.

11. Refer to the Crane Testimony, page 33. Ms. Crane states that the data for the past three years suggests that the declining per-customer consumption may have stopped. Provide the information that Ms. Crane relied on to support this claim.

12. Refer to the Crane Testimony, page 46. Ms. Crane states that the proposed adjustment would result in subsidies to customers who pay with credit cards from customers who pay by other means.

a. Does Ms. Crane agree that there are costs associated with paying by cash, check, or credit card?

b. If the response to part a. above is yes, explain whether each customer should be responsible for paying a "fee" depending on the method of payment that customer uses.

c. Explain how the separate customer fees would be calculated?

13. Refer to the Crane Testimony, Schedule ACC-9, Water Sales Revenue. Provide the work papers, calculations, and assumptions used by Ms. Crane to calculate the \$0.51 incremental cost used in her schedule.

14. Refer to KAWC's response to Staff's Third Request, Item 29, Table 4. State whether, in Dr. Woolridge's opinion, investors are aware of these authorized Returns on Equity ("ROE") for American Water subsidiaries, and whether their expectations for KAW's ROE are likely to be influenced by this information.

15. Refer to the Direct Testimony of J. Randall Woolridge, Ph.D. ("Woolridge Testimony"), page 21, line 16, and Exhibits JRW-10 and JRW-11. Confirm that, although Piedmont Natural Gas Company is listed as a member of the gas proxy group on page 21, it is not listed as a member of the gas proxy group in the Exhibits.

16. Refer to the Woolridge Testimony, page 37, line 18, through page 38, line 8, which discusses the model that some analyst use to adjust the dividend yield by some fraction of the long-term expected growth rate, and states that the growth rate is adjusted by one-half. Explain why one-half was chosen.

17. Refer to the Woolridge Testimony, Exhibit JRW-10.

a. Refer to page 2 of 6. Provide a copy of the source documents for the annual dividends and 30-, 60-, and 180-day dividend yields. If any are calculated, provide the calculations used.

b. Refer to page 3 of 6.

(1) Confirm that the data source is from 2013. If confirmed, explain why the most recent data was not used and provide the information shown on this page using the most recent data available.

(2) Explain why the median values produce more meaningful estimates than mean values.

(3) Explain how averaging median values produces meaningful estimates.

c. Refer to page 5 of 6. Provide copies of the source documents for the Yahoo, Reuters, and Zack's projected EPS growth-rate estimates.

18. Refer to the Woolridge Testimony, page 59, lines 17–23, and to Exhibit JRW-12. The testimony on page 59 states that 8.50 percent is consistent with authorized ROE for other water companies. Provide support for this conclusion given the 2014 and 2015 results for authorized ROE for publicly held water companies shown on pages 1 and 2 of Exhibit JRW-12.

19. Refer to the Woolridge Testimony, page 86, lines 8–11, which discuss Dr. Vander Weide's use of a 4.24 percent risk-free interest rate in his CAPM calculations, calling it overstated, given the current 2.24 percent risk-free rate on 20-

year Treasury bonds. Confirm that page 50 of the Woolridge Testimony indicates that a risk-free rate of 4 percent was used in Dr. Woolridge's CAPM calculation.



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cc: Parties of Record

Case No. 2015-00418

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