COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY FOR AN ADJUSTMENT OF RATES	)))	CASE NO. 2018-00358

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

Kentucky-American Water Company (Kentucky-American), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of the following information. The information requested is due on or before January 25, 2019. Responses to requests for information in paper medium shall be appropriately bound, tabbed and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked. 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.

Kentucky-American shall make timely amendment to any prior response if it obtains information that 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.

Careful attention should be given to copied material to ensure 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 applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Kentucky-American shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

<u>Slippage</u>

1. Refer to the responses to Commission Staff's First Request for Information (Staff's First Request), Item 14.a.

a. Provide revised budget project schedules for the calendar years 2008 through 2017, eliminating the actual and budgeted construction costs of Kentucky River Station II (KRS II) in pool 3 of the Kentucky River.

b. Provide a schedule listing the actual and budgeted annual construction costs of KRS II that are being eliminated in the response to Item 1.a above.

c. Provide copies of all schedules, supporting calculations, and documentation requested in Items 1.a and 1.b in Excel spreadsheet format, with formulas intact and unprotected, and all rows and columns fully accessible.

2. Refer to the responses to Staff's First Request, Items 14.a and 14.b.

a. Using the data provided in the response to 1.a above, provide a schedule, similar to the schedule provided in the response to 14.b, that calculates the ten-year average slippage factor for the budget projects for the calendar years 2008 through 2017.

b. Using the data provided in the response to 14.a of Staff's First Request for the recurring capital projects A–S expenditures, provide a schedule that, similar to the schedule provided in the response to 14.b, calculates the ten-year average slippage factor for the calendar years 2008 through 2017.

c. Provide copies of all schedules, supporting calculations, and documentation requested in Items 2.a and 2.b in Excel spreadsheet format, with formulas intact and unprotected, and all rows and columns fully accessible.

3. Refer to Kentucky-American's responses to Staff's First Request, Item 13.b and the responses to Items 2.a and 2.b above.

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

(1) Use the slippage factor calculated in the response to Item 2.a for all monthly forecasted budget projects expenditures beginning September 1, 2018, through the end of the forecasted period, June 30, 2020.

(2) Use the slippage factor calculated in the response to Item 2.b for all monthly forecasted projects for the recurring capital projects A–S expenditures beginning September 1, 2018, through the end of the forecasted period, June 30, 2020.

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

c. Provide copies of all schedules, supporting calculations, and documentation requested in Item 3.b in Excel spreadsheet format, with formulas intact and unprotected, and all rows and columns fully accessible.

4. Refer to the responses to Staff's First Request, Item 12 and Item 14.a.

a. The table below lists the total cost, by calendar year, of projects that were constructed but were not included in Kentucky-American's original budgets. Provide a detailed reason for each project that was constructed but not included in the annual budget.

Years	Non-Budgeted Projects
2017	4,815,347
2016	4,750,808
2015	5,134,475
2014	1,691,575
2013	167,292
2012	(254,896)
2011	722,796
2010	2,675,442
2009	261,416
2008	714,448

b. Provide a copy of Kentucky-American's Comprehensive Planning Study.

c. Kentucky-American states that the approval of its business plan does not constitute approval of individual projects that were included in the plan. Release and approval of each project is through the Capital Investment Management Committee (CIMC). For each budgeted project approved by the CIMC, but that was not included in

Kentucky-American's original budget, provide annual schedules for the years 2008 through 2017 that compares budget cost approved by the CIMC to the actual completed project cost.

d. Provide any written monthly project approval that was issued by the CIMC in the calendar years 2016 and 2017.

e. Provide revised budget project schedules for the calendar years 2008 through 2017 that includes budgeted items approved by the CIMC that were not included in the budget originally approved for Kentucky-American.

f. Refer to the application, the Direct Testimony of Brent E. O'Neill (O'Neill Testimony), page 3, line 13. Kentucky-American states that the last Comprehensive Planning Study (CPS) was completed in 2013. Provide the estimated completion date of the next CPS study.

Investment Projects

5. Provide a detailed explanation of the criteria Kentucky-American uses to identify the investment projects that require a Certificate of Public Convenience and Necessity (CPCN).

6. Provide a schedule listing the investment projects for the past five calendar years, indicating for each project whether a CPCN was required and, if so, provide the case number and date when the CPCN was granted or denied. Refer to the O'Neill Testimony, pages 13–14, which describes the Investment Projects constructed in 2017 and 2018.

a. Explain if each of the listed projects was included in Kentucky-American's business plan.

b. List all investment projects constructed in 2017 and 2018 that were not included in the business plan but were authorized by the CIMC. For each project, explain why the CIMC authorized the project.

7. Refer to O'Neil Testimony, attachment KAW_DT_ONeill_Exhibit_1.

a. For each investment project listed, state whether it requires a CPCN and state the projected date that a CPCN application will be filed.

b. For each investment project that does not require a CPCN, explain why Kentucky-American believes the project does not require a CPCN.

c. Provide a separate schedule listing each project, the total estimated completed project cost, and the 13-month average project cost that is included in Kentucky-American's forecasted rate base.

8. List each construction project that Kentucky-American will commence or complete during the forecasted period for which Kentucky-American, 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 Kentucky-American has obtained as of the date of this request; and

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

Revenue Increase

9. Refer to the Direct Testimony of Nick O. Rowe (Rowe Testimony), page 7, lines 8–11, which states that $4.1 million of the proposed $19.9 million revenue increase is due to flowing back to customers the Tax Cut and Jobs Act (TCJA) rate reduction for the stub period of January 1, 2018, through August 31, 2018. Also refer to the Updated Notice of Amount of Deferred Liability filed by Kentucky-American in Case No. 2018-00042, which states that Kentucky-American anticipated filing proposed rates to be effective on or about June 30, 2019, when the deferred liability for the temporary TCJA rate reduction for the stub period had been returned to customers.[1] Last, refer to the Direct Testimony of Melissa L. Schwarzell (Schwarzell Testimony), page 7, lines 1–20, which references two components of Kentucky-American's TCJA rate reduction, the first being a $5.4 million rate reduction resulting from an ongoing lower corporate income tax rate and the second being the temporary rate reduction of $3.4 million for the stub period. Ms. Schwarzell states that, because no alternate rate is set to go into effect in July 2019 once the temporary rate reduction for the stub period has expired, $4.1 million of the proposed $19.9 million increase in revenue is the annualized effect of the temporary rate reduction. Explain why Kentucky-American decided not to file proposed rates to be effective on or about June 30, 2019, as it stated it would do in Case No. 2018-00042.

10. Refer to Schwarzell Testimony, page 9, lines 15–17, which states that the approximately $4.1 million drop in revenue due to the temporary TCJA rate reduction is "partially offset by a net increase in billing determinants." State the amount of the partial

[1] Case No. 2018-00042, *Electronic Investigation of the Impact of the Tax Cuts and Job Act on the Rates of Kentucky-American Water Company* (filed August 20, 2018). Case No. 2018-00042 was consolidated into this proceeding by Order entered December 21, 2018.

offset and explain why Kentucky-American requests a $4.1 million increase in revenue related to the temporary TCJA rate reduction if that amount is partially offset.

11. Provide a revised copy of the application, Exhibit 37, Schedule M, without the adjustment for weather normalization, in hard copy form and in electronic Microsoft Excel format.

12. Refer to the application, Exhibit 37, Schedule N, typical bill comparison under present and proposed rates. Provide a revised Schedule N for all customer classes and service areas that reflect the current rates as prescribed in Kentucky-American's current tariff on file with the Commission.

13. Refer to the application, Exhibit 37, Schedule M-2.

a. Explain why the present rates for both the test period and base period are not the same for each customer class, as well as why these present rates are not reflective of what is prescribed in Kentucky-American's current tariffs on file with the Commission.

b. File a revised Schedule M-2 for all customer classes and service areas using the current rates from Kentucky-American's tariff for both the test period and base period present rates.

14. Refer to the O'Neill Testimony, page 5, line 11. For the recurring projects, Kentucky-American states that for the forecast period, estimates are made based on current year pricing. Confirm that there is no inflationary escalation included in this estimation. If this cannot be confirmed, provide the inflationary escalation factor percentage.

15. Refer to the O'Neill Testimony, page 9. Provide the variance between the budget and actual Net Capital Investment for 2018. If this is not available, provide as soon as it is available.

16. Refer to the O'Neill Testimony, page 47. Provide all workpapers and calculations and state all assumptions that show how the proposed tap fees were calculated.

17. Refer to the O'Neill Testimony, page 47, lines 14–23, which states that the proposed tap fees were determined using a three-year average and that in previous cases the utility used a five-year average. Provide the proposed tap fees calculated on a five-year average. Provide all workpapers and calculations and state all assumptions relied upon to determine the amount of the tap fees.

18. Refer to the application, Exhibit 2, page 34 of 63. Given that the Commission ruled in Administrative Case No. 313 that Taxable Class A and B water utilities should not gross-up Contributions in Aid of Construction and customer advances, explain why the Commission should approve the following proposed language: "Rates may be grossed up for state and federal income taxes."

<u>Expenses</u>

19. Refer to the Direct Testimony of Kevin Rogers (Rogers Testimony), page 30, which states that the chemical adjustment is $750,000. Also, refer to Kentucky-American's response to Staff's First Request, Item 1, KAWC_2018_Rate_Case_-_Chemicals_Exhibit.xlsx, Exhibit Tab, Row 9, Column E, which states that the chemicals adjustment is $985,429. Reconcile this difference.

20. Refer to the application, the Direct Testimony of James S. Pellock (Pellock Testimony), page 11, line 12. Provide the four projects and their individual amortization amounts.

21. Refer to the Rogers Testimony, page 13, lines 21–22, which states that Kentucky-American seeks to enhance its maintenance activities. Provide a list and description of each maintenance activity Kentucky-American wishes to enhance. With each, provide support for the need for the enhanced maintenance activity and the associated increase in expenditures.

22. Refer to the Rogers Testimony, pages 28, lines 8–22 and page 29, lines 1–5, which state that there are four purchased power expense impact adjustments but only list three. Provide the fourth purchased power expense impact.

23. Refer to the Rogers Testimony, page 29, lines 15–17. Provide support for the 2019 price changes for chemical costs.

24. Refer to the Schwarzell Testimony, page 14, lines 12–13. Confirm that the pro forma service cost does not include an escalation rate.

Weather Normalization

25. Refer to the Direct Testimony of Gregory P. Roach (Roach Testimony), page 5, line 10. Explain why the cooling degree days are maximized at 90 degrees.

26. Refer to the Roach Testimony, page 12, Table GPR-3.

a. Provide a detailed explanation for the 0.46 percent increase in the average residential use.

b. Provide a detailed explanation for the 1.45 percent decrease in the average commercial use.

<u>Employee Staffing, Compensation, and Benefits</u>

27. Refer to the Direct Testimony of Kurt Kogler (Kogler Testimony), page 11, which provides the cost share for Kentucky-American's group insurance program, specifying that employees pay 24 percent and Kentucky-American pays 76 percent. Provide a breakdown of cost share for medical, dental, vision, life, disability, and any other group insurance offered by Kentucky-American that comprises the 24 percent and 76 percent paid by employees and Kentucky-American, for both the base and forecast test years.

28. Refer to the Kogler Testimony, page 13, which explains that employees hired prior to 2006 are eligible for a defined benefit "pension" plan, while those hired after 2006 are eligible for a defined contribution plan consisting of employer matching of employees qualified deferred pay as well as a fixed contribution of 5.25 percent of qualifying pay. Further, employees in the defined benefit plan are eligible to participate in the defined contribution plan, but at a lower matching formula and with no 5.25 percent fixed contribution. Provide the total contributions made by Kentucky-American to the defined contribution plan for employees also eligible for the defined benefit plan for both the base and forecast test years.

29. Refer to the Kogler Testimony, page 14, which describes Kentucky-American's employee stock purchase plan.

a. Explain why Kentucky-American is increasing the discount for employee stock purchases from 10 percent to 15 percent.

b. Confirm that Kentucky-American does not contribute to the employee acquisition of the common stock purchased by employees. If this cannot be confirmed, provide the contribution amount for the base and forecast test years.

c. Confirm that Kentucky-American does not pay the difference in cost that comprises the discount offered to employees. If this cannot be confirmed, provide the contribution amount for the base and forecast test years.

30. Refer to the Pellock Testimony, page 5, lines 5–8. Provide any other wage increases other than the pro-rated increases of 2.85 percent in April 2019 and 2.90 percent in April 2020.

31. Refer to Kentucky-American's response to Staff's First Request, Item 33, page 8, the 2018 Determination of Company Performance.

a. Confirm that Kentucky-American's Annual Performance Plan is weighted equally (i.e., 50 percent each) toward reaching the financial and non-financial goals of American Water Works Company, Inc. (American Water).

b. Confirm that if American Water's financial goals are not met Kentucky-American's employees will not receive any incentive pay rewards.

32. Refer to Kentucky-American's response to Staff's First Request, Item 33.a, which states that the performance plans "keep employees focused on improved performance at all levels of the organization, particularly in increasing efficiency, decreasing waste, and boosting overall productivity." Provide all studies and analyses that quantify the impact that Kentucky-American's and American Water Works Service Company's (Service Company) incentive compensation programs have on the following:

a. Increasing efficiency;

b. Decreasing waste; and

c. Boosting productivity.

33. Refer to Kentucky-American's response to Staff's First Request, Item 33, page 39 of 39.

a. Confirm that Kentucky-American's forecasted salaries and wages expenses is $477,257 for the Annual Performance Plan and $15,274 for the Long-Term Performance Plan.

b. Identify, by position, each Kentucky-American employee who is eligible to participate in the Annual Performance Plan. For each position listed, provide the Annual Performance Plan budgeted for the forecasted period and the Annual Performance Plan available to each employee, if different from the forecasted amount.

c. Identify, by position, each Kentucky-American employee who is eligible to participate in the Long-Term Performance Plan. For each position listed, provide the Long-Term Performance Plan budgeted for the forecasted period and the Long-Term Performance Plan available to each employee, if different from the forecasted amount.

d. Using the table below, provide the requested Annual Performance Plan information for each Kentucky-American employee for the calendar Years 2013-2018.

Calendar Year

Employee	Annual Performance Plan		Difference	
Name/Position	Available	Awarded	Dollar	Percentage
(a)	(b)	(c)	(b)-(c)	((b)-(c) ÷ (b)

e. Using the table below, provide the requested Long-Term Performance Plan information for each Kentucky-American employee for the calendar Years 2013-2018.

Calendar Year				
Employee	Long Term Performance Plan		Difference	
Name/Position	Available	Awarded	Dollar	Percentage
(a)	(b)	(c)	(b)-(c)	((b)-(c) ÷ (b)

34. In Case No. 2004-00103, the Commission disallowed for ratemaking purposes the costs associated with the Annual and Long-Term Performance Plans because of the lack of any study or analysis that quantified the program's benefits.[2] In this proceeding, Kentucky-American lists benefits its customers receive from the employee variable compensation plans.[3]

a. Provide a copy of all studies and analyses that Kentucky-American has performed or commissioned that qualify the benefits the ratepayers derive from the Annual and Long-Term Performance Plans.

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

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

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

[3] Kentucky-American's Response to Staff's First Request, Item 33.a.

35. Provide all analyses and studies that quantify the benefits Kentucky-American ratepayers receive from the variable employee compensation plans that are provided to the Service Company employees.

36. Refer to Kentucky-American's response to Staff's First Request, Item 1, KAWC_2018_Rate_Case_-_Support_Services_Exhibit.xls, Labor & Related Tab, Column 11, Total RYE 6/30/20 Labor & Related Expense. This Exhibit indicates that labor costs for the Service Company is $6,528,362 in the forecasted period. Separately identify the amount of Annual and Long-Term Performance Plans that is included in the forecasted Service Company labor costs.

37. Identify, by position, each Service Company employee who is eligible to participate in the Annual Performance Plan. For each position listed, provide the Annual Performance Plan budgeted for the forecasted period and the amount allocated to Kentucky-American.

38. Identify, by position, each Service Company employee who is eligible to participate in the Long-Term Performance Plan. For each position listed, provide the Annual Performance Plan budgeted for the forecasted period and the amount allocated to Kentucky-American.

39. Refer to Direct Testimony of Patrick L. Baryenbruch, page 3, lines 17–19. Explain whether Kentucky-American also compared the cost per customer for the Service Company with the cost per customer of other water companies. If so, provide this comparison. If not, explain why not.

40. Using the table below, provide the requested Annual Performance Plan information for each Kentucky-American employee for the calendar Years 2013–2018.

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

41. Using the table below, provide the requested Long-Term Performance Plan information for each Kentucky-American employee for the calendar Years 2013–2018.

Calendar Year				
Employee	Long Term Performance Plan		Difference	
Name/Position	Available	Awarded	Dollar	Percentage
(a)	(b)	(c)	(b)-(c)	((b)-(c) ÷ (b)

42. Refer to Kentucky-American's response to Staff's First Request, Item 33, 2018 Annual Performance Plan. State whether the forecasted employee incentive pay to be awarded under Kentucky-American's 2018 Annual Performance Plan is similar to the pay under the plan that the Commission disallowed in Case No. 2004-00103.

a. If the incentive plan is the same, explain why Kentucky-American proposes to include its costs in the determination of rates in this proceeding.

b. 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 Kentucky-American's comparative analysis.

43. Refer to the Rowe Testimony, page 9, lines 5–6, regarding recovery of employee incentive compensation costs in rate base. Also, refer to the Kogler Testimony, the Direct Testimony of Robert V. Mustich, and the Direct Testimony of Timothy Willig, generally. Finally, refer to Kentucky-American's response to Staff's First Request, Item 33, 2018 Annual Performance Plan. State whether the forecasted employee incentive pay

being awarded under Kentucky-American's 2018 Annual Performance Plan is similar to the plan whose cost the Commission disallowed in Case No. 2010-00036.[4]

a. If the incentive plan is the same, explain why Kentucky-American proposes to include its costs in the determination of rates in this proceeding.

b. 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 Kentucky-American's comparative analysis.

c. Provide definitive quantitative evidence that demonstrates a benefit to ratepayers from Kentucky-American's short-term and long-term employee incentive compensation plans.

44. Provide all studies and analyses that quantify the impact that Kentucky-American's and Service Company's incentive compensation programs have on attracting new employees and employee retention.

45. Refer to the Rogers Testimony, page 18, line 23 through page 9, line 2, which states that Kentucky-American identified 152 full-time positions as the appropriate staffing level for Kentucky-American operations. Describe the process used to determine the appropriate staffing level for Kentucky-American.

Qualified Infrastructure Project (QIP) Rider

46. Refer to the application, paragraph 5, which states that a QIP will result in less frequent general rate cases. Provide a comparative analysis with detailed discussion

[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.

and supporting workpapers and assumptions to corroborate the contention that a QIP will result in less frequent general rate cases.

47. Refer to the O'Neill Testimony, pages 22–24, which cites several studies from the American Water Works Association. Provide any studies addressing the current state of water and wastewater infrastructure specific to Kentucky-American.

48. Refer to the O'Neill Testimony, page 27, lines 6–9, which states that it is difficult to predict and budget for relocation projects. Explain whether Kentucky-American participates with state and local planning boards in regard to projects that require line relocation.

49. Refer to the O'Neill Testimony, page 28, lines 7–17, which states that the infrastructure replacement rate between 2014 and 2017 was 0.3 percent.

a. Provide the annual replacement rate for 2014, 2015, 2016, 2017, and 2018, if available.

b. Explain why Kentucky-American does not increase the replacement rate in their CPS to meet the Nessie Curve average of 0.9 percent.

c. Explain whether there are any legal or regulatory requirements that determine the level of infrastructure replacement.

d. Explain how Kentucky-American determines the level of infrastructure replacement.

50. Refer to the O'Neill Testimony, pages 35–43, which discusses potential benefits for the proposed Qualified Infrastructure Program.

a. Provide all studies supporting these benefits that Kentucky-American conducted or commissioned in support of the proposed QIP.

b. Provide a cost-benefit analysis supporting the proposed QIP.

c. Provide a quantification of the benefits associated with the proposed QIP.

51. Refer to the O'Neill Testimony, page 36, lines 12–14. Provide support for the assertion that the infrastructure replacement construction costs are higher when the capital spending is included with rate case filings as opposed to being contained in the proposed QIP.

52. Refer O'Neill Testimony, page 40, lines 6–8, which states that the replacement cost for cast iron and galvanized steel main would be $6.9 to $12.6 million per year. Also, refer to O'Neill Testimony, page 41, lines 7–12, which states that Kentucky-American expects to incur $6 to $10 million per year for the first five years of the proposed QIP rider, driven primarily by cast iron and galvanized steel replacements, but also includes replacement of aging distribution pump stations. Reconcile the two amounts referenced in this portion of the O'Neill Testimony.

53. Refer to the Schwarzell Testimony, page 31, lines 12–19, and page 33, lines 4–12, regarding annual QIP filings, prospective test periods, and balancing adjustment filings to capture under or over recovery.

a. Explain why Kentucky-American proposes to use a forecasted period rather than a historical period for its QIP.

b. Explain whether using a historical, rather than forecasted, period would eliminate the need for Balancing Adjustment Filings and result in a decreased QIP cost.

c.

54. Explain whether the proposed QIP includes a provision to recognize cost savings and, if not, explain why it does not.

55. Provide a detailed estimate of the cost Kentucky-American will incur when it files an annual QIP filing. Include copies of all workpapers, calculations, and assumptions in the response.

56. Provide a detailed estimate of the cost Kentucky-American will incur when it files an annual Balancing Adjustment filing. Include copies of all workpapers, calculations, and assumptions in the response.

57. List each American Water subsidiary that currently uses an infrastructure replacement tariff rider similar to Kentucky-American'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.

58. List the jurisdictions in which an American Water operating subsidiary's application to implement an infrastructure replacement tariff rider similar to Kentucky-American's proposed QIP was denied and provide the most recent order from the state's utility regulatory commission denying the requested infrastructure replacement tariff rider.

59. List the jurisdictions in which an American Water operating subsidiary's application to implement an infrastructure replacement tariff rider similar to Kentucky-

American's proposed QIP was granted and provide the most recent order from the state's utility regulatory commission granting the requested infrastructure replacement tariff rider.

60. Given that the proposed QIP will be established on a prospective basis annually and that Kentucky-American will request a CPCN for a QIP-eligible infrastructure project, explain the timing for including a project in the annual QIP calculation in relation to applying for a CPCN.

61. Refer to the O'Neill Testimony, page 43, which states that expected cost of the treatment plant replacement projects could include projects that could require "investments of a couple million dollars to significant replacement work that can cost greater than $5 million".

a. Provide an itemized list of the treatment plant replacement projects that Mr. O'Neill references and include the cost estimate of each project. For each project listed identify if it is for regulatory compliance, system reliability, structural deficiencies, or safety concerns.

b. If Kentucky-American is not able to compile an itemized list, explain how it developed its expected costs.

62. Explain whether Kentucky-American will commit to increasing its infrastructure investment plans if the Commission approves the proposed QIP rider.

63. Explain whether Kentucky-American would commit to extending the time between filing rate cases or to reducing the carrying charge for its QIP investment. If the response is yes, provide the rate case filing interval to which Kentucky-American would commit.

PSC Fee

64. Refer to the Direct Testimony of John Wilde (Wilde Testimony), page 7, line 7, which states that Kentucky-American forecasted a rate for the Public Service Commission Assessment rate of 0.20 percent, but in Case No. 2018-00042, Kentucky-American used a PSC Assessment rate of 0.19 percent.

a. Provide a detailed explanation for the increase in the PSC Assessment rate from 0.19 percent to 0.20 percent.

b. Provide the revenue requirement impact of using PSC Assessment rate of 0.19 percent.

Excess Accumulated Deferred Income Taxes (ADIT)

65. Refer to Wilde Testimony, page 7, lines 3–8, which provides an estimated excess ADIT balance as of December 31, 2018, and page 13, lines 4–9, which provides an estimated date of mid-April 2019 for Kentucky-American to file the precise excess ADIT balance. Also refer to the December 21, 2018 Order issued in Case No. 2018-00042, which consolidated that case into this proceeding to achieve administrative efficiencies for the purpose of determining the amounts of excess ADIT since January 1, 2018, and the impact on Kentucky-American's future revenue requirement.

a. Provide an update on Kentucky-American's progress toward determining the amount of excess ADIT since January 1, 2018.

b. Given that the suspension date for this proceeding is June 27, 2019, and that Case No. 2018-00042 has been consolidated into this proceeding, explain in specific detail how Kentucky-American will address the excess ADIT refund if it is unable to provide a precise ADIT balance by mid-April 2019.

66. Refer to Wilde Testimony, page 8 lines 6–7. Provide the estimated ADIT regulatory liability associated with the tax deduction for repairs in excess of book repairs.

67. Refer to the Wilde Testimony, pages 13-14, which states that, "[t]he Commission should allow sufficient time for Kentucky-American to complete its ARAM calculation by addressing amortization of net excess ADIT balances in this rate case and incorporating such amortization in the Company's new rates." Confirm that the amortization of net excess ADIT is reported with the protected excess ADIT.

a. Explain whether Kentucky-American would comment to postponing the implementation of the proposed rate increase in this proceeding until Kentucky-American has calculated the actual amortization of the excess ADIT protected and unprotected.

b. Explain whether Kentucky-American would commit to paying interest on the STUB portion for the period from January 1, 2018, until the SUB portion is returned to the ratepayers.

68. Provide the revenue requirement impact of amortizing the excess state ADIT using amortization periods of five, ten, and fifteen years.

69. Provide the revenue requirement impact of amortizing the excess unprotected federal ADIT using amortization periods of five, ten, and fifteen years.

<u>Service Company</u>

70. Refer to Kentucky-American's responses to Staff's First Request, Item 1, Workpaper W/P-3-1, O&M\[KAWC 2018 Rate Case - Support Services Exhibit.xlsx.

a. Refer to Exhibit Tab. Provide detailed explanations for the following adjustments:

Description	Amount
Depreciation and Capital Lease Interest	$ 56,960
Office Rent	$ 20,930
UnionAPP	$ 13,783
Acquired Customers	$ 1,278
Security	$ 157,222

b. Refer to Summary Tab. List each business development cost that is included in the $93,013 forecasted Service Company fees, state whether the cost is directly assignable or allocated, and describe the services associated with each cost identified.

c. Refer to Summary Tab. List each external affairs and public policy cost that is included in the $262,641 forecasted Service Company fees. State whether the cost is directly assignable or allocated, and describe the services associated with each cost identified.

d. Refer to the Summary Tab. Provide a comparison of the prior five calendar years and the forecasted test year of the Service Company costs being allocated and directly charged to Kentucky-American, broken down by function. Include a detailed explanation for any cost variances of 5 percent between years.

Lead/Lag

71. Refer to the application, Exhibit 37, B-5.2, pages 4–6, Working Capital - Lead/Lag Study Forecast Year at June 30, 2020. Provide a schedule that compares the lead/lag days in this study to the lead/lag days used in Case No. 2015-00418.[5] Explain each variance in the lead/lag days.

[5] Case No. 2018-00418, *Application of Kentucky-American Water Company for an Adjustment of Rates* (Ky. PSC Aug. 23, 2016).

North Middletown Acquisition

72. Refer to the Schwarzell Testimony, page 29, lines 10–14. Provide documentary evidence to support the statement that the acquisition of North Middletown meets the criteria established by the Commission in Case No. 9059.

73. Refer to the Schwarzell Testimony, page 29, lines 3–6. Provide a comparison of the net book value of North Middletown's system to the purchase price.

74. Provide a detailed explanation of the fair market value approach referenced in the Schwarzell Testimony.

75. Provide a detailed explanation as to how a reliable and consistent fair market value would be calculated.

Cost of Service Study (COSS)

76. Refer to the Direct Testimony of Constance E. Heppenstall (Heppenstall Testimony), page 7, lines 14–18., which states that "[t]he estimated demands were based on judgment which considered field studies of customer class demands conducted for the Company, field observations of the service areas of the Company, the class factors used in the last cost of service study, the system maximum day and maximum hour demand ratios."

a. Explain whose "judgment" was used to develop the estimated demands.

b. Identify who conducted these field studies of the customer class demands and when these field studies occurred.

c. Explain how the estimated maximum day extra capacity and maximum hour extra capacity demands were calculated.

77. Refer to the Heppenstall Testimony, page 10, lines 3–4. Provide a copy of the meter capacity ratios that were used to determine the larger-sized service charges and the calculation of each of these service charges.

78. Refer to the Heppenstall Testimony, page 9, lines 16–18. Provide a copy of the minimum system analysis that was used to determine the readiness to serve as a portion of their service charge calculation.

79. Provide all differences in the cost-of-service model in the instant case and in Case No. 2015-00418.

80. Refer to the Scharzell Testimony, page 10, line 15. Provide support for the additional 1008 annual customers per year.

<u>Return on Equity (ROE)</u>

81. Refer to the application, the Direct Testimony of Ann E. Bulkey (Bulkey Testimony), page 12, line 13 through page 13, line 8, which states that using projected market data is very important.

a. Some analysts believe that the current interest rate is the most efficient as it contains the most relevant information and since many interest rate forecasts are incorrect, using the current rate is most applicable. Provide Kentucky-American's position regarding this opinion.

b. Confirm that the expectations of increased interest rates are just that, an expectation and not a guarantee.

82. Refer to the Bulkey Testimony, page 17, lines 21–22. Provide any workpapers or studies that support the conclusion that using historical market data in a DCF model results in an understated ROE.

83. Refer to the Bulkey Testimony page 32, lines 10–11. Provide all water companies, if any, who have experienced a downgrade related to cash flow metrics resulting from tax reform.

84. Refer to the Bulkey Testimony, page 60. Provide an update to Figure 10 using the means as opposed to the medians.

85. Refer to the Bulkey Testimony, page 61, lines 16–17. Identify orders entered in any Kentucky Public Service Commission case that utilized the projected annualized dividends and stock prices in the ROE analysis.

86. Refer to the Bulkey Testimony, page 66, lines 9–16.

a. Kentucky-American estimated the market risk premium based on the expected total return on the S&P 500 less the 30-year Treasury bond yield. Provide the Capital Asset Pricing Model (CAPM) analysis using a historical market risk premium.

b. Refer to Figure 12 on page 69. Provide an update to Figure 12 using the results from 64a. above.

87. Refer to the Bulkey Testimony, page 78, lines 15–19.

a. Kentucky-American's ROE analysis concludes a reasonable range is from 10.00 percent to 10.80 percent and proposes an ROE of 10.80. Confirm that this proposed ROE is at the maximum of the proposed range.

b. Explain whether Kentucky-American's proposed ROE of 10.80 percent is still recommended if the proposed QIP is approved.

c. Confirm that no flotation costs were added to the ROE estimates.

88. Refer to the Bulkey Testimony, Attachments AEB-1, AEB-2, AEB-3, and AEB-4. Provide an update using the mean as opposed to the median.

89. Refer to the Bulkey Testimony, Attachment AEB-5.

a. Provide any updates to the Value Line ROE Projections.

b. For each proxy group company, provide the most recently authorized ROE awards and the date of this award.

90. Refer to the Bulkey Testimony, Attachment AEB-7.

a. Provide any updates to the Value Line ROE Projections.

b. For each proxy group company, provide the most recently authorized ROE awards and the date of this award.

91. Refer to the Bulkey Testimony. Provide all exhibits in Excel spreadsheet format with all formulas unprotected and all rows and columns fully accessible.

92. Provide the monthly ROE for American Water and for Kentucky-American for January 2017 to the most current month available. This should be considered an ongoing request.

WACC

93. Refer to the application, the Direct Testimony of Scott W. Rungrwn (Rungrwn Testimony), page 7, line 19. Provide any updates to the expected interest rate of 4.55 percent for the issuance of the $16 million in long-term debt.

94. Refer to the Rungrwn Testimony, page 8, line 11. Provide support for the 1.12 percent spread.

Gwen R. Pinson

Gwen R. Pinson
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED JAN 0 9 2019

cc: Parties of Record

*Justin M. McNeil
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Monica Braun
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Kent Chandler
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Rebecca W Goodman
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Honorable Lindsey W Ingram, III
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*Linda C Bridwell
Director Engineering
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*Melissa Schwarzell
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502