

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

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

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), and Lexington-Fayette Urban County Government (LFUCG), pursuant to 807 KAR 5:001, are to jointly 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 April 15, 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.

The Attorney General and LFUCG 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 the Attorney General and LFUCG fail or refuse to furnish all or part of the requested information, they 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, the Attorney General and 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 Lane Kollen (Kollen Testimony), page 7, lines 5–8, regarding American Water Works Service Company, Inc.’s (AWWS) practice of invoicing Kentucky-American Water Company (Kentucky-American) for the estimated expenses for the current month plus or minus a true-up for the prior month. Mr. Kollen states that it is unusual for a service company to invoice for estimated expenses.

a. Identify any other utilities that Mr. Kollen is aware of that invoice for estimated expenses at the beginning of the month.

b. Explain whether AWWS bills an estimated expense to all of its affiliates.

2. Refer to the Kollen Testimony, page 19, lines 17–19. Mr. Kollen proposes to defer lost revenues associated with the closing of the Trane Lexington plant as a regulatory liability and amortize them over two years.

- a. Explain why two years was chosen.
- b. Provide an explanation supporting the proposed amortization of this lost revenue.

3. Refer to the Kollen Testimony, page 29, lines 9–10, which states that an adjustment disallowing the retirement plan expense incurred for employees who participate in both defined benefit and defined contribution retirement plans would reduce the retirement plan expense by \$0.070 million and reduce the revenue requirement of \$0.071 million. Provide a schedule in Excel spreadsheet format, with all formulas intact and unprotected and all rows and columns accessible, that supports your calculation of the reduction, and include a breakdown of the total reduction in the retirement plan expense detailing the amounts for hourly union employees, hourly non-union employees, and exempt employees.

4. Refer to the Kollen Testimony, page 37, line 19 to page 38, line 3, regarding excess Accumulated Deferred Income Taxes (ADIT) due to the repair allowance.

- a. Provide the basis for Mr. Kollen’s proposal to amortize the unprotected excess Accumulated Deferred Income Taxes (ADIT) over three years.

- b. Explain whether the average amortization life of the unprotected excess ADIT should be used rather than the proposed three-year amortization period.

5. Refer to the Direct Testimony of Richard A. Baudino (Baudino Testimony), page 9, lines 22–25 and page 10, line 1. Provide any updates to these projections based on the March 20, 2019 Federal Open Market Committee (FOMC) Meeting.

6. Refer to the Baudino Testimony, page 12. Provide an update to Table 1 with March data.

7. Refer to the Baudino Testimony, page 32, line 7. The market return portion of the Capital Asset Pricing Model (CAPM) is estimated to be 12.16 percent. The market return estimated by Kentucky-American's expert, Ann E. Buckley, is 15.19 percent, over 300 basis points larger. Provide an explanation discussing the key differences in modeling the market return and why the two models differ to such a degree.

8. Refer to the Baudino Testimony, page 59, lines 16–23. Mr. Baudino recommends a yearly and cumulative rate cap of 2.5 percent for the proposed QIP stating that this is a reasonable yearly increase.

a. Explain why 2.5 percent was chosen.

b. Provide any studies that support a yearly and communicative cap.

9. Refer to the Baudino Testimony, page 61, lines 11–17. Provide an outline of the QIP review process you would recommend the Commission implement and an estimate of a reasonable review period.

10. Refer to the Baudino Testimony, page 19, lines 19–23. It is proposed that the QIP be limited to a 2-year pilot program. State whether the Attorney General would support the QIP as a pilot program until Kentucky-American files its next base rate case.

11. At the March 20, 2019 FOMC Meeting, the Federal Reserve (FED) maintained the target range for the federal funds rate at 2.25 percent and 2.50 percent and softened its economic outlook from the December FOMC meeting. Explain whether these announcements alter Mr. Baudino's proposed ROE of 9.15 percent.

12. Refer to the combined utility proxy group. Explain whether the Attorney General believes the inclusion of American Water Works is circular or not.

13. Refer to the Baudino Testimony. Provide all exhibits in Excel spreadsheet format with all formulas intact and unprotected and all rows and columns accessible.



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DATED MAR 27 2019

cc: Parties of Record

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