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NEWS RELEASE

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PSC OKs Settlement in Kentucky-American Water Rate Case *Company receives about half of requested amount; drops surcharge request*

FRANKFORT, Ky. (Aug. 23, 2016) – The Kentucky Public Service Commission (PSC) has approved a settlement granting Kentucky-American Water Co. a rate adjustment that will increase its annual revenue by nearly \$6.5 million, or slightly less than half the amount requested by the company.

As a result, a typical residential customer using 5,000 gallons per month will see the monthly bill rise from \$38.99 to \$42.59, an increase of \$3.60, or about 9.2 percent. The new rates take effect Aug. 28.

In an order issued today, the PSC said the settlement sets forth rates that are “fair, just and reasonable” and thus merits approval.

Kentucky-American proposed in January to increase its annual revenue by \$13.45 million. A residential customer using 5,000 gallons per month would have seen the monthly bill increase to \$45.76, or by about 17.4 percent.

The company said in its application that a rate increase is needed to recover the cost of capital improvements made since the last rate increase in October 2013.

Kentucky-American proposed to increase the residential monthly service charge from \$12.49 to \$14.85 and to raise the usage charge from \$5.30 per 1,000 gallons to \$6.18 per 1,000 gallons. The settlement approved today leaves the monthly residential charge unchanged and raises the usage charge to \$6.02 per 1,000 gallons.

In addition to Kentucky-American Water, parties to the rate case included the Kentucky Office of Attorney General, Lexington-Fayette County Urban Government, and the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties.

Kentucky-American Water serves about 126,000 customers in 10 counties in central Kentucky. All but about 3,900 are in Lexington and surrounding communities. The company also is a wholesale water provider to five municipalities, four water districts and a water association.

Kentucky-American Water is a subsidiary of the American Water Works Company.

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In addition to trimming the rate increase, the settlement set aside Kentucky-American's request for an annual rate adjustment mechanism that would have imposed a surcharge to cover the cost of infrastructure repairs and replacement. The PSC had rejected a similar proposal in the company's previous rate case.

The settlement also includes an increase in Kentucky-American Water's annual shareholder contribution to the Help to Others (H2O) program, which assists low-income ratepayers who are having trouble paying their water bills. The company will now contribute \$62,500 annually, an increase of \$2,500.

Today's PSC order directs Kentucky-American Water to provide its customers with more detailed information about the calculation of franchise and school taxes that appear as a line item on water bills. Customers should be able to determine the tax rate and whether the amount on the bill has been properly calculated, the PSC said.

The PSC ordered Kentucky-American Water to report within 120 days how it has addressed the issue.

The PSC also ordered Kentucky-American Water to cease a billing practice regarding monthly service charges on bills that fall outside the normal 26 to 35 days between meter readings. When the time between meter readings has exceeded 35 days, the company has prorated the service charge upward to reflect the longer billing period.

But that practice is not spelled out in the company's tariff – the legal document containing rates and terms of service. Because Kentucky law prohibits charges not in the tariff, the practice of prorating bills is not allowed, the PSC said.

Evidence in the case showed that since January of 2012, Kentucky-American Water has prorated upward 15,545 bills (out of about 6.8 million), resulting in unauthorized charges of nearly \$45,000. About \$3,600 of that amount was offset by bills that were reduced on a prorated basis for billing periods of fewer than 26 days.

The PSC ordered the company to refund any remaining unauthorized charges, with interest, to any affected current customers. Because of the difficulty and expense of locating former customers and issuing what would be relatively small checks to them, the PSC ordered that any money owed to former customers be deposited in the Help to Others program. Kentucky-American Water was ordered to file a report with the PSC once the process is completed.

A public meeting in the case was held June 7 in Lexington. The evidentiary hearing on the settlement was held in Frankfort on July 13.

Today's order, the case file and videos of the evidentiary hearing and public meeting are available on the PSC website, psc.ky.gov. The case number is 2015-00418.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 85 employees.