

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

<b>IN THE MATTER OF:</b>	)	
	)	
<b>THE APPLICATION OF KENTUCKY-AMERICAN</b>	)	<b>CASE NO. 2015-00418</b>
<b>WATER COMPANY FOR AN ADJUSTMENT OF</b>	)	
<b>RATES</b>	)	

**APPLICATION, STATEMENT AND NOTICE**

Kentucky-American Water Company (“Kentucky American Water”) states the following:

1. Kentucky American Water is a corporation organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business at 2300 Richmond Road, Lexington, Kentucky 40502. Kentucky American Water can be contacted by e-mail via the e-mail addresses of its counsel set forth below. Kentucky American Water was incorporated on February 27, 1882 and is currently in good standing in the Commonwealth of Kentucky.

2. Kentucky American Water is a wholly-owned subsidiary of American Water Works Company, Inc. (“American Water”) and is engaged in the distribution and sale of water in its Central Division, consisting of Bourbon, Clark, Fayette, Harrison, Jessamine, Nicholas, Scott and Woodford Counties and its Northern Division, consisting of Gallatin, Owen and Grant Counties. It currently owns, operates and maintains potable water production, treatment, storage, transmission and distribution systems for the purpose of furnishing potable water for residential, commercial, industrial and governmental users in its service territory.

3. To meet continuing demand for adequate service, Kentucky American Water has continued to invest substantial capital to maintain and upgrade its facilities, including main replacements, treatment plant upgrades and energy efficiency projects.

4. The cost increases associated with these necessary investments and improvements have not been offset by the additional revenue produced by the increase in rates set forth in the October 25, 2013 Order in Case No. 2012-00520,<sup>1</sup> which is causing an erosion of earnings for Kentucky American Water as demonstrated in the attached exhibits.

5. Pursuant to 807 KAR 5:001, Section 16(1)(b)(1), Kentucky American Water is requesting an increase in rates because its existing rates for water service do not afford Kentucky American Water the opportunity to recover its reasonable operating costs or to earn a just and reasonable rate of return on its investment. Kentucky American Water must be granted a rate increase at this time in order to maintain its facilities and provide service commensurate with its customers' reasonable expectations and the Public Service Commission's requirements, as well as attract capital at reasonable rates. Because Kentucky American Water's present rates do not permit it to fulfill each of these requisites, the rates presently charged are confiscatory, and are, consequently, unfair, unreasonable, and unjust.

6. As explained in Linda Bridwell's testimony (as well the testimony of other witnesses), a concern that must be addressed by many water service providers, including Kentucky American Water, is its aging infrastructure and the need to replace and/or upgrade its facilities in order to fulfill its obligations of providing safe, adequate, and reliable water service. Because of the substantial capital expenditures that are involved in performing the replacements and/or upgrades, Kentucky American Water is proposing a Qualified Infrastructure Program as a

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<sup>1</sup> As amended by the December 6, 2013 Order that corrected computational errors.

tariff rate adjustment mechanism that will allow Kentucky American Water to make capital improvements to its distribution system. These improvements will allow safe and reliable service, and, all else being equal, will result in less frequent general rate cases, which will allow customers to gradually absorb the associated costs.

7. As authorized by KRS 278.192(1) and for the purpose of justifying the reasonableness of the proposed increase in rates, Kentucky American Water has utilized a forward-looking test period corresponding to the first twelve (12) consecutive calendar months the proposed rates will be in effect after the six-month suspension of the proposed rates. The forward-looking test period is the twelve months ending August 31, 2017 (September 1, 2016 – August 31, 2017).

8. Kentucky American Water has used, in the attached exhibits, a base period consisting of the twelve (12) months ending April 30, 2016 (May 1, 2015 – April 30, 2016). This base period begins not more than nine (9) months prior to the date of the filing of this Application, and is a period consisting of not less than six (6) months of actual historical data and not more than six (6) months of estimated data, all as authorized by KRS 278.192(2)(a).

9. Within forty-five (45) days after the last day of the base period, Kentucky American Water will file the actual results for the estimated months of the base period as required by KRS 278.192(2)(b).

10. Kentucky American Water's annual reports, including the annual reports for 2014, are on file with the Public Service Commission as required by 807 KAR 5:006, Section 4.

11. Kentucky American Water gives notice to the Public Service Commission of the adjustment of its rates from those set forth in Exhibit No. 1 in the filing requirements to those rates set forth in Exhibit No. 2 in the filing requirements, in the total amount of \$13,453,664

million on an annual basis. The percentage increase will approximate an overall increase of 15.23% to Kentucky American Water. A comparison of the current and proposed rates is set forth in attached Exhibit No. 3.

12. In Case No. 2007-00143, the Public Service Commission approved the implementation of single-tariff pricing for Kentucky American Water. Accordingly, the rates for each customer class are and will be uniform throughout each customer class without regard to Kentucky American Water division. The estimated amount of increase per customer class in both dollars and as a percentage is: residential, \$8,324,451, 17.5%; commercial, \$2,756,667, 13.0%; industrial, \$557,063, 21.9%; private fire service and hydrants, \$80,739, 3%; public fire hydrants, \$575,462, 15.4%; other public authority, \$1,047,117, 17.7%; and, sales for resale, \$111,947, 6.3%.

13. The effect upon the average bill for each customer class that the proposed rate change will apply is an increase in the following dollar and percentage amounts: residential, \$6.00, 17%; commercial, \$21.59, 12%; industrial, \$1,723.80, 22%; private fire hydrants, \$0, 0%, private fire line, \$3.94, 5%; public fire hydrants, \$6.40, 15%; other public authority, \$164.78, 18%; and sales for resale, \$599.67, 6%.

14. Kentucky American Water is a corporation, and a certified copy of its Articles of Incorporation, together with all amendments, are incorporated by reference as authorized by 807 KAR 5:001, Section 11(5) and were filed as Filing Exhibit No. 4 in Case No. 95-554, Notice of the Adjustment of The Rates of Kentucky American Water Company Effective on and after February 29, 1996, and are referred to in the attached Exhibit No. 4.

15. Kentucky American Water is a corporation in good standing with the Secretary of State of the Commonwealth of Kentucky. A certificate to that effect, dated within sixty (60) days of January 29, 2016, is attached as Exhibit No. 5.

16. The legal name of the applicant is Kentucky-American Water Company. It does business under an assumed name and has filed a Certificate of Assumed Name as required by KRS 365.015. A certified copy of the Certificate of Assumed Name as required by 807 KAR 5:001, Section 16(1)(b)(2) is attached as Exhibit No. 6.

17. Kentucky American Water has complied with 807 KAR Section 5:001, Section 17(1)(a)-(b)(2) by: (1) posting at its place of business a copy of the Customer Notice no later than the date this Application is submitted to the Commission; and (2) within five (5) business days of the date this Application is submitted to the Commission, posting on its website copy of the public notice and a hyperlink to the location on the Commission's website where the case documents are available. In accordance with 807 KAR 5:001, Section 17(2)(b)(2), Kentucky American Water mailed a typewritten Customer Notice to all customers no later than the date of this Application. A copy of the Customer Notice is attached as Exhibit No. 7.

18. Pursuant to 807 KAR Section 16(2), Kentucky American Water has filed with the Executive Director of the Public Service Commission a written notice of its intention to file this rate application. The notice stated that the application would be supported by a fully forecasted test period, was delivered to the Executive Director's office on December 15, 2015 and a copy was provided to the Utility Intervention and Rate Division of the Attorney General's office of the Commonwealth of Kentucky as required by 807 KAR 5:001, Section 16(2)(c). A copy of the notice is attached as Exhibit No. 8.

19. In support of its application for a general adjustment of rates, supported by a fully forecasted test year, Kentucky American Water has presented its financial data for the forecasted period in the form of pro forma adjustments to the base period. Kentucky American Water has limited the forecasted adjustments to the twelve (12) calendar months immediately following the suspension period, and has based capitalization and net investment rate base on a thirteen (13) month average for the forecasted period, all as set forth in 807 KAR 5:001, Section 16(6)(a)(b) and (c) and as shown in Exhibit Nos. 37B, 37D and 37J.

20. In further support of its application for a general adjustment of rates, supported by a fully forecasted test year, Kentucky American Water attaches the following documents or explains their absence:

<b>Filing Requirements</b>	<b>Abbreviated Document Description</b>	<b>Location or Absence Reason</b>
807 KAR 5:001 Section 16(6)(f)	Rate base/capital reconciliation	Exhibit 9
807 KAR 5:001 Section 16(7)(a)	Testimony of Witnesses, including chief officer in charge of Kentucky operations - Linda Bridwell - Paul Herbert - Robert Mustich - Brent O’Neill - Don Petry - Kevin Rogers - Nick O. Rowe - Scott W. Rungren - John Spanos - Edward Spitznagel - Dr. James H. Vander Weide	Exhibit 10
807 KAR 5:001 Section 16(7)(b)	Capital construction budget with a 3-year forecast	Exhibit 11

807 KAR 5:001 Section 16(7)(c)	Description of forecast factors	Exhibit 12
807 KAR 5:001 Section 16(7)(d)	Annual and monthly budget for 12 months preceding the filing date, the base period and the forecasted period	Exhibit 13
807 KAR 5:001 Section 16(7)(e)	Nick O. Rowe's statement of attestation	Exhibit 14
807 KAR 5:001 Section 16(7)(f)	Information about major construction projects	Exhibit 15
807 KAR 5:001 Section 16(7)(g)	Information about other construction projects	Exhibit 16
807 KAR 5:001 Section 16(7)(h)1	Financial forecast for the capital construction forecasted years - operating income statement	Exhibit 17
807 KAR 5:001 Section 16(7)(h)2	Financial forecast for the capital construction forecasted years - balance sheet	Exhibit 18
807 KAR 5:001 Section 16(7)(h)3	Financial forecast for the capital construction forecasted years - cash flow statement	Exhibit 19
807 KAR 5:001 Section 16(7)(h)4	Financial forecast for the capital construction forecasted years - revenue requirements	Exhibit 20
807 KAR 5:001 Section 16(7)(h)5	Financial forecast - energy and demand load forecast	Inapplicable to a water company
807 KAR 5:001 Section 16(7)(h)6	Financial forecast - access line forecast	Inapplicable to a water company
807 KAR 5:001 Section 16(7)(h)7	Financial forecast - generation mix	Inapplicable to a water company

807 KAR 5:001 Section 16(7)(h)8	Financial forecast - gas supply mix	Inapplicable to a water company
807 KAR 5:001 Section 16(7)(h)9	Financial forecast for the capital construction forecasted years - employee level	Exhibit 21
807 KAR 5:001 Section 16(7)(h)10	Financial forecast for the capital construction forecasted years - labor cost changes	Exhibit 22
807 KAR 5:001 Section 16(7)(h)11	Financial forecast for the capital construction forecasted years - capital structure requirements	Exhibit 23
807 KAR 5:001 Section 16(7)(h)12	Financial forecast for the capital construction forecasted years - rate base	Exhibit 24
807 KAR 5:001 Section 16(7)(h)13	Financial forecast for the capital construction forecasted years - water sales (gallons)	Exhibit 25
807 KAR 5:001 Section 16(7)(h)14	Financial forecast for the capital construction forecasted years - customer forecast	Exhibit 26
807 KAR 5:001 Section 16(7)(h)15	Financial forecast - gas sales forecast	Inapplicable to a water company
807 KAR 5:001 Section 16(7)(h)16	Financial forecast - toll and access forecast	Inapplicable to a water company
807 KAR 5:001 Section 16(7)(i)	FERC or FCC audit reports	Inapplicable to a water company
807 KAR 5:001 Section 16(7)(j)	Most recent stock or bond prospectus	Exhibit 27
807 KAR 5:001 Section 16(7)(k)	FERC Form 1, FERC Form 2, or PSC Form T	Inapplicable to a water company
807 KAR 5:001 Section 16(7)(l)	Annual reports to shareholders, most recent available two years	Exhibit 28
807 KAR 5:001 Section 16(7)(m)	Current chart of accounts	Exhibit 29

807 KAR 5:001 Section 16(7)(n)	Latest 12 monthly managerial reports	Exhibit 30
807 KAR 5:001 Section 16(7)(o)	Monthly budget variance reports for 12 months pre-base period, for base period, and subsequent months as available	Exhibit 31
807 KAR 5:001 Section 16(7)(p)	SEC 10-Ks, 8-Ks and 10-Qs as available	Exhibit 28
807 KAR 5:001 Section 16(7)(q)	Independent auditor's annual opinion report and any written findings of material weaknesses in internal controls	Exhibit 32  There is no finding of material weaknesses.
807 KAR 5:001 Section 16(7)(r)	Quarterly reports to shareholders for most recent five (5) quarters as available	Exhibit 28
807 KAR 5:001 Section 16(7)(s)	Summary of last depreciation study	Exhibit 33
807 KAR 5:001 Section 16(7)(t)	List of software, programs and models used	Exhibit 34
807 KAR 5:001 Section 16(7)(u)	Affiliate, general or home office allocations	Exhibit 35
807 KAR 5:001 Section 16(7)(v)	Cost of service study	Exhibit 36
807 KAR 5:001 Section 16(7)(w)	Cost of service study for local exchange carriers	Inapplicable to a water company
807 KAR 5:001 Section 16(8)(a)	Jurisdictional financial summary for the base and forecasted period	Exhibit 37, Schedule A
807 KAR 5:001 Section 16(8)(b)	Jurisdictional rate base summary for the base and forecasted period	Exhibit 37, Schedule B
807 KAR 5:001 Section 16(8)(c)	Jurisdictional operating income summary for base and forecasted period	Exhibit 37, Schedule C
807 KAR 5:001 Section 16(8)(d)	Jurisdictional adjustment to operating income	Exhibit 37, Schedule D
807 KAR 5:001 Section 16(8)(e)	Jurisdictional federal and state income tax summary for base and forecasted period	Exhibit 37, Schedule E

807 KAR 5:001 Section 16(8)(f)	Organization membership dues, initiation fees, country club expenditures, charitable contributions, marketing expenses, sales expenses, advertising expenses, professional service expenses, civic and political activity expenses, employee parties and outings expenses, employee gift expenses, and rate case expenses for the base and forecasted periods	Exhibit 37, Schedule F
807 KAR 5:001 Section 16(8)(g)	Payroll costs analysis	Exhibit 37, Schedule G
807 KAR 5:001 Section 16(8)(h)	Computation of gross revenue conversion factor	Exhibit 37, Schedule H
807 KAR 5:001 Section 16(8)(i)	Comparative income statements, revenue statistics and sales statistics for five most recent calendar years, the base period, forecasted period and two calendar years beyond the forecast period	Exhibit 37, Schedule I
807 KAR 5:001 Section 16(8)(j)	Cost of capital summary for base period and forecasted period	Exhibit 37, Schedule J
807 KAR 5:001 Section 16(8)(k)	Comparative financial data and earning measures for the ten most recent calendar years, base period and forecasted period	Exhibit 37, Schedule K
807 KAR 5:001 Section 16(8)(l)	Narrative description and explanation of all proposed tariff changes	Exhibit 37, Schedule L
807 KAR 5:001 Section 16(8)(m)	Revenue summary for base period and forecasted period with detailed billing analysis for all customer classes	Exhibit 37, Schedule M
807 KAR 5:001 Section 16(8)(n)	Typical bill comparison under present and proposed rates for all customer classes	Exhibit 37, Schedule N

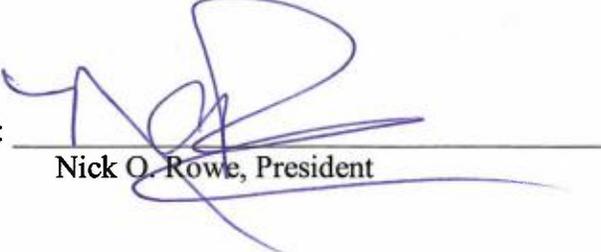
21. In Case No. 2014-00362, Kentucky American Water requested relief from seven conditions set forth in the Final Order in Case No. 2006-00197, dated April 16, 2007, including, *inter alia*, that Kentucky American Water's equity-to-capital ratio must be maintained between 35 to 45 percent. By Order dated May 15, 2015, the Commission denied Kentucky American

Water's request without prejudice because certain of the parties in Case No. 2006-00197 did not intervene in Case 2014-00362. The Commission stated that Kentucky American Water could include the request in its next rate case filing where the impact to its rates and capital structure could be addressed. Kentucky American Water hereby renews its request and moves the Commission for removal of the restriction on its equity-to-capital ratio in this proceeding. The testimony of Scott W. Rungren explains why the restriction should be removed.

22. This Application, Statement and Notice is filed under the provisions of KRS 278.180 and 278.190, and the Public Service Commission is requested to find the proposed rates to be fair, just and reasonable under KRS 278.030(1).

KENTUCKY-AMERICAN WATER COMPANY

BY: \_\_\_\_\_

  
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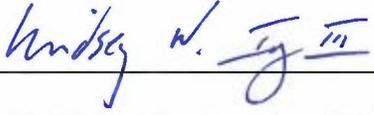
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Attorneys for Kentucky-American Water Company

**CERTIFICATE**

This certifies that Kentucky-American Water Company's electronic filing is a true and accurate copy of the documents to be filed in paper medium with the exception of documents for which confidential protection has been requested; that the electronic filing has been transmitted to the Commission on January 29, 2016; that a paper copy of the filing will be delivered to the Commission within two business days of the electronic filing; and that no party has been excused from participation by electronic means.

STOLL KEENON OGDEN PLLC

By 

Attorneys for Kentucky-American Water Company