

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION INTO KENTUCKY-)	
AMERICAN WATER COMPANY'S PROPOSAL TO)	CASE NO.
IMPLEMENT A RATE MECHANISM RELATED TO)	2020-00091
COST SAVINGS FROM REFINANCING OF LONG-)	
TERM DEBT)	

ORDER

On March 24, 2020, the Commission initiated this proceeding to investigate the reasonableness of Kentucky-American Water Company's (Kentucky-American) proposal to establish a rate mechanism to return to ratepayers cost savings achieved from refinancing of \$71,390,000 in long-term debt on November 14, 2019.

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), is the only intervenor in this proceeding. Kentucky-American responded to two rounds of discovery. On May 18, 2020, the Attorney General filed comments requesting that the Commission approve Kentucky-American's plan as proposed. The Attorney General also requested that the matter be submitted or a decision on the written record. On May 27, 2020, Kentucky-American also filed response comments and requested that the matter be submitted for a decision on the written record.

BACKGROUND

On June 27, 2019, the Commission approved a general rate adjustment in Kentucky-American's most recent rate case, Case No. 2018-00358, based upon a

forecasted test year ending June 30, 2020.¹ In a separate financing proceeding filed while the rate case was pending, Kentucky-American requested, among other things, approval to pursue refinancing of up to \$97,390,000 in existing long-term debt that Kentucky-American said it “may” undertake between 2019 and 2021, depending upon market conditions.² Kentucky-American subsequently notified the Commission that it had refinanced \$71,390,000 in long-term debt on November 14, 2019.³

During the pendency of the rate case, Case No. 2018-00358, Kentucky-American proposed a rate mechanism to address the cost savings in the event that refinancing of certain long-term debt occurred prior to the end of the forecasted test year used in the rate case. In rebuttal testimony filed in that rate case, Kentucky-American stated:

As noted in the financing petition submitted March 18, 2019 (Case No. 2019-00083), the Company is pursuing an opportunity to call and refinance two tax exempt bonds. Several factors make the success, timing, and benefit of this effort significantly uncertain. However, the Company has made an adjustment to the managerial forecast in anticipation of savings from these potential refinancings, and a portion of the benefit may be achieved during the forecasted test year. **While the uncertainties preclude a precise rate case adjustment at this time, the Company is proposing to defer any savings achieved and to make a filing within 90 days of the end of the test year to determine if any change to rates is appropriate.** (emphasis added).⁴

¹ Case No. 2018-00358, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates* (Ky. PSC June 27, 2019).

² Case No. 2019-00083, *Electronic Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp. Pursuant to KRS 278.300* (filed March 8, 2019), Application at paragraph 12. Kentucky-American also requested approval to issue \$16,000,000 in new long-term debt, which was granted. Kentucky-American issued the \$16,000,000 new long-term debt on May 22, 2019. In the rate case, Case No. 2018-00358, Kentucky-American proposed and the Commission made an adjustment related to the \$16,000,000 long-term debt because the impact was known and measurable.

³ *Id.* at ordering paragraph 5 Report (filed Nov. 25, 2019).

⁴ Case No. 2018-00358, Schwarzell Rebuttal Testimony at 26–27.

At the formal hearing in this matter, Kentucky-American testified that it took an unusual step in that it made an adjustment to its managerial forecast in anticipation of savings from the potential refinancing.⁵ Kentucky-American explained that it provided the information to the Commission in rebuttal testimony because, although the refinancing was not scheduled and conditioned upon certain events, Kentucky-American included the potential cost savings from refinancing in managerial reports.⁶ As Kentucky-American noted, pursuant to Section 16(7)(n), managerial reports are among the types of information that must be filed in support of forecasted test years in rate cases. Kentucky-American further testified that prospective savings from the potential refinancing were not reflected in any adjustments to the revenue requirement.⁷ Kentucky-American stated that it did not know how or when the refinancing would occur, but provided the information to the Commission so that a post-test-year filing could be made to reconsider rates in light of cost savings from the proposed refinancing.⁸ Because the refinancing was indefinite and thus the prospective cost savings were uncertain, the cost savings were not reflected in the rates approved in Case No. 2018-00358.

In February 2020, Kentucky-American notified Commission Staff of the refinancing and proposed a post-case rate mechanism to reflect the cost saving achieved. Thereafter, the Commission issued the March 24, 2020 initiating order finding that Kentucky-American should file its rate mechanism proposal to reflect the interest savings

⁵ Case No. 2018-0035, May 14, 2019 Hearing Video Transcript (HVT) at 10:42:09.

⁶ *Id.* at 10:42:39.

⁷ *Id.* at 10:43:35.

⁸ *Id.* at 10:42:48, 10:43:09.

to date and the cost saving projected through the end of the rate case test year, along with any supporting documents.

KENTUCKY-AMERICAN'S PROPOSAL

In response to the Order, Kentucky-American stated that the total interest expense savings achieved between November 14, 2019, and June 30, 2020, the end of the forecasted test period, is \$1,331,165. Kentucky-American proposed to provide customers a one-time credit beginning July 1, 2020, to all customer classes that, based on preliminary calculations, would amount to an approximately 16 percent credit for each customer's total bill for that billing cycle.⁹ For a typical residential customer with a \$40 monthly bill, the credit would be approximately \$6.40.¹⁰ Kentucky-American stated that the exact percent credit will not be known until the July billing is generated, but will file a support document no later than 60 days after the credits are issued.

Kentucky-American stated that the one-time credit on customer bills represents the entire savings through the end of the rate case test period. Kentucky-American noted the Commission's concern about the total revenue impact if this had been included in the rate case and how, if the adjustment was made, rates would change. Kentucky-American explained that its proposal is consistent with the instant case's opening order and Kentucky American's rate case rebuttal testimony. Kentucky-American asserted that the only relevant time period is November 14, 2019, the date of the refinancing, and June 30, 2020, the end of the test year.¹¹ Kentucky-American argued that requiring Kentucky-

⁹ Kentucky-American's proposal at 2.

¹⁰ *Id.*

¹¹ Kentucky-American's comments at 3.

American to give customers the savings associated with the refinancing beyond the end of the test year would be unjust and violate the rule against single-issue ratemaking.¹²

INTERVENOR COMMENTS

The Attorney General commended the Commission for initiating this investigation and is supportive of Kentucky-American's proposed rate rebate from the savings realized through the refinancing instead of seeking to keep the money, especially during the current COVID-19 state of emergency. The Attorney General supported Kentucky-American's proposed savings rebate plan as submitted and encouraged the Commission to approve the proposed rebate.¹³

DISCUSSION

The Commission notes that the issues of retroactive and single-issue ratemaking might be raised if the revenue requirement approved in Case No. 2018-00358 was later changed without substantial evidence. The Commission has the authority to impute hypothetical debt rates for instruments reasonably anticipated to be issued during a rate case test year provided that the hypothetical rates are supported by substantial evidence.¹⁴ However, in Case No. 2018-00358 the Commission opted not to impute hypothetical rates in determining the revenue requirement, thus resulting in cost savings, for this proposed refinancing based on Kentucky-American's alternative to later reflect the *actual* cost savings. Instead, the Commission opted to accept Kentucky-American's

¹² Id. at 4.

¹³ Attorney General's Comments at 1.

¹⁴ See *Public Service Comm'n v. Continental Telephone Co. of Ky.*, 692 S.W.2d 794,798-801 (Ky. 1985).

proposal to address any cost savings from the refinancing during the forecasted test year in a post-case rate mechanism.

Based upon the evidence of record and being otherwise sufficiently advised, the Commission finds that the actual cost savings to customers as a result of Kentucky-American's refinancing debt in November 2019 is \$1,331,165. Thus, the Commission concludes that the return of the \$1,331,165 savings through a one-time line item credit beginning on or about July 1, 2020, to be reasonable because it reflects the actual cost savings to customers that should be returned to customers. Within 60 days of all issued credits, Kentucky-American should file a report with the Commission showing the total amount of credits issued and the percentage used to derive the total amount.

IT IS THEREFORE ORDERED that:

1. Kentucky-American's proposal to return savings to customers through a one-time line item credit on bills beginning on or about July 1, 2020, is reasonable.
2. Kentucky-American is authorized to return \$1,331,165 to customers through a one-time line item credit beginning on or about July 1, 2020.
3. Within 60 days of all issued credits, Kentucky-American shall file with the Commission a report reflecting the total amount of credits issued and the percentage used to derive the total amount.
4. Any documents filed pursuant to ordering paragraph 3 shall reference this case number and shall be retained in the post-case correspondence file.
5. This case is closed and removed from the Commission's docket.

By the Commission

ENTERED
JUN 12 2020
bsb
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2020-00091

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