

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-)	
AMERICAN WATER COMPANY FOR A)	CASE NO.
BALANCING ADJUSTMENT FOR ITS QIP)	2021-00376
CHARGE)	

ORDER

On September 22, 2021, Kentucky-American Water Company (Kentucky-American) filed an application for a balancing adjustment to its Qualified Infrastructure Program (QIP) Rider to true up actual costs with estimated costs. Kentucky-American proposed an effective date of December 27, 2021, for the updated QIP tariff. The Commission issued an Order on October 11, 2021, suspending Kentucky-American's proposed tariff revisions until March 21, 2022.

There are no intervenors in this proceeding. Kentucky-American responded to two rounds of discovery. Kentucky-American requested that the case be submitted for a decision based on the evidence in the record. This matter now stands submitted to the Commission for a decision.

LEGAL STANDARD

In Case No. 2018-00358, the Commission approved the QIP and required an annual true-up of the projected costs and revenues, and the actual costs.¹ Kentucky-American must file the true-up no later than 90 days after the end of the QIP period.

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

In Case No. 2020-00027, the Commission approved discrete projects with net plant additions totaling \$7,623,282 for QIP Year 1, July 1, 2020 to June 30, 2021.²

BACKGROUND

In Case No. 2018-00358, Kentucky-American requested approval of a QIP Rider to make incremental capital improvements to replace its aging mains that otherwise would not be replaced in a timely manner.³ In that proceeding, Kentucky-American stated that it would prioritize the replacement of cast iron and galvanized steel mains, which represented 15 percent of the distribution system but accounted for 64.2 percent of annual main breaks.⁴ Kentucky-American further stated that the QIP would utilize a “systematic replacement plan” with a 25-year replacement cycle, and provided a list of QIP-eligible projects for the first five years of the QIP.⁵

In approving the QIP Rider, the Commission established a filing schedule, calculation methodology, and filing contents. QIP applications are filed on an annual basis on or before April 2, have a 90-day review period that can be extended for good cause, are based on a forecasted test period of July 1 to June 30, and have an annual true-up filing of projected costs and actual costs.

The QIP Rider is based upon a revenue requirement that is the sum of the pre-tax return for qualified additions and removal expenditures, plus the depreciation and

² Case No. 2020-00027, *Electronic Application of Kentucky-American Water Company to Amend Tariff for the Establishment of Qualified Infrastructure Program Charge* (Ky. PSC June 17, 2020).

³ June 27, 2019 Order at 73–74. According to Kentucky-American, its infrastructure was deteriorating at a faster rate than the replacement rate.

⁴ *Id.* at 76.

⁵ Case No. 2018-00358, *Kentucky-American Water Company* (filed Nov. 28, 2018), Application, Direct Testimony of Brent E. O’Neill (O’Neill Testimony), Exhibit 1 and Exhibit 2 at 12.

property tax for the proposed projects in the forecasted test year. The QIP surcharge percentage is calculated as the amount of the QIP revenue requirement divided by the \$98,880,622 authorized revenue requirement established in Case No. 2018-00358.⁶ The QIP Rider is applied as a percentage to all water revenue, excluding other surcharges or taxes, and is displayed as a separate line item on customer bills. The QIP Rider is reset to zero when the next base rates are approved because the next base rates will include recovery of the annual costs previously recovered through the QIP.

In the first QIP tariff (QIP 1), Case No. 2020-00027, Kentucky-American proposed 60 percent main replacement projects and 40 percent non-main plant replacement projects that were stand-alone projects and not incidental to main replacement.⁷ The Commission rejected most of the non-main plant replacement, finding that QIP-eligible plant other than replacement of aging main “may be included in the QIP only if such plant is replaced incidental to the replacement of aging main.”⁸

PROPOSED BALANCING ADJUSTMENT

In its application, Kentucky-American stated that for all projects except for one, the actual costs have been greater than projected. The overall net effect is that Kentucky-American has under collected \$94,998. In order to true up the under collection, Kentucky-American asserted that the QIP charge should be increased from 2.04 percent to 2.14 percent. The effect on the average residential customer bill will result in an increase of

⁶ *Id.* at 10.

⁷ Case No. 2020-00027, *Electronic Application of Kentucky-American Water Company to Amend Tariff for the Establishment of Qualified Infrastructure Program Charge* (Ky. PSC June 17, 2020).

⁸ *Id.* at 17.

\$0.04 per month. The table below is a comparison are comparisons of Kentucky-American's original projected construction costs to the actual costs by project.

	Original Projections	Actual as of 06/30/21	Differences Actual vs. Budget
Line B - Main Replacements:			
State Street Phase I	\$ 1,315,000	\$ 1,489,692	\$ 174,692
State Street Phase II	1,095,000	1,287,644	192,644
Castlewood Phase I	825,500	1,032,698	207,198
Castlewood Phase II	1,300,000	1,340,574	40,574
Versailles Road Phase I	800,000	866,744	66,744
Versailles Road Phase II	840,000	790,080	(49,920)
Winchester Road	1,125,000	1,448,612	323,612
Sub-total Line B	<u>7,300,500</u>	<u>8,256,044</u>	<u>955,544</u>
Line C - Mains Unscheduled:			
C Line (Jul 2020-Dec 2020)	518,000	536,753	18,753
C Line (Jan 2021-Jun 2021)	<u>400,000</u>	<u>535,849</u>	<u>135,849</u>
Sub-total Line C	<u>918,000</u>	<u>1,072,602</u>	<u>154,602</u>
Total QIP Main Replacement	<u>\$ 8,218,500</u>	<u>\$ 9,328,646</u>	<u>\$ 1,110,146</u>

The following are Kentucky-American's explanations for construction cost overruns.⁹

State Street Phase I: This project included an additional 250 linear feet of additional footage of main to be installed in two locations: approximately 100 feet to connect to a different water main on the far side of Waller Avenue and approximately 150 feet at the end of Crescent Avenue to replace a water main that was not shown on the initial plans.

State Street Phase I and Phase II: The two State Street projects were constructed concurrently by the same contractor. All valves located on the mains that were

⁹ Kentucky-American's Responses to Commission Staff's First Request for Information (filed Nov. 3, 2021), Item 1.b. and Kentucky-American's Responses to Commission Staff's Second Request for Information (filed Dec. 7, 2021), Item 1, Item 3, Item 4, Item 5, and Item 6.

scheduled to be replaced were inspected to insure they were operational. Any valves that were found to be nonoperational were included in the projected construction cost. A 16-Inch valve that operated prior to construction was broken during the project shutdown and had to be replaced. The replacement affected both phases, so the cost of the 16-Inch replacement valve and 16-Inch line stop were included in the final costs of both phases.

Castlewood Phase I: This project included unexpected service line repairs due to brittle existing service lines that Kentucky-American discovered during the construction of Phase I.

Castlewood Phase I and Phase II: Both projects will incorporate pavement restoration cost sharing with Columbia Gas and/or Lexington-Fayette County Urban Government (LFUCG). Multiple utility projects on these streets will enable Kentucky-American to coordinate restoration with other utilities, providing a better final pavement product for customers at a reduced cost. Both phases of this project also encountered unmarked and unplanned-for storm and sanitary lines, which required additional pipeline bends and fittings to work around the conflict points.

Versailles Road Phase I and Phase II: Final paving amounts for both Phases were estimated based on a five-foot wide final pavement area detail as contained in LFUCG's Standard Drawings for Trenching, plus additional amount of pavement for intersections or service line lateral cuts. Final paving requirements are determined after the mains and service lines are installed by LFUCG's Inspector. The final requirement for the pavement restoration area was approximately eight feet wide on roughly half of the projects, with additional full street width (curb to curb) paving on areas where the LFUCG Inspector deemed the service line lateral cuts to be to "close together." The Phase I project also incorporated an additional fire hydrant replacement compared to what was indicated on the decision plans. The Phase II project required full pavement on several of the courts/cul-de-sacs on this project by the LFUCG inspector due to service line lateral cuts.

Winchester Road: This project included a two directional drill bores: one for a stream crossing and another bore for Hume Road. Due to wet weather conditions and the stream

crossing was at a low elevation point the surrounding ground areas were saturated at the time of construction. For this reason, the construction equipment created more disturbance requiring a greater amount restoration work. Additionally, the continued wet weather required the construction contractor to monitor the crossings to ensure that the erosion control measures remained in place and effective.

DISCUSSION AND FINDINGS

Based upon the evidence of record, the Commission finds that Kentucky-American established good cause to approve an increase in the QIP charge from 2.04 percent to 2.14 percent. Kentucky-American provided sufficient information regarding the projected costs and actual costs of each project for the Commission to compare projected and actual expenses, with the exception of pavement restoration costs, which is discussed below. The projects undertaken are consistent with the projects approved by the Commission in 2020-00027.

The Commission is concerned with the increased expenses for projects, purportedly associated with the costs to meet standards established by municipalities or pavement restoration. Kentucky-American asserted that the pavement restoration costs were higher than expected, but failed to provide specific detail to support its assertion. The Commission will not accept a generalized statement regarding pavement restoration costs as sufficient evidence in future QIP surcharge filings. The Commission finds that Kentucky-American should maintain its records with the project costs sufficiently delineated so that the amount and percent resulting from pavement restoration, which are primarily costs related to asphalt, is transparent. Additionally, Kentucky-American should provide specific detail on actions taken by Kentucky-American to obtain accurate estimates, reduce pavement restoration costs, reduce or eliminate change orders, and

increase contractor accountability. Finally, the Commission strongly encourages Kentucky-American to work with local governments to determine ways to reduce expenses.

IT IS THEREFORE ORDERED that:

1. The QIP Rider of 2.14 percent proposed by Kentucky-American as calculated in the Appendix attached hereto, is approved.

2. The QIP Rider of 2.14 percent is fair, just and reasonable, and is approved for service rendered on and after the date of this Order through June 30, 2022.

3. Kentucky-American shall maintain and, in all future QIP filings, file records of projected and actual costs in sufficient detail so that the amount and percent resulting from pavement restoration is clearly designated.

4. Within 20 days of the date of this Order, Kentucky-American shall, using the Commission's electronic Tariff Filing System, file its revised tariffs setting out the rates authorized in this Order and the revised QIP Rider and reflecting they were approved pursuant to this Order, and stating that Kentucky-American's QIP rate base in any forecasted period will be calculated in a manner consistent with 807 KAR 5:001, Section 16(6)(c).

5. This case is now closed and removed from the Commission's docket.

By the Commission

ENTERED
JAN 25 2022 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2021-00376

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00376 DATED JAN 25 2022

Line No.	Description	QIP Period July 2020 - June 2021
1	QIP Plant Additions	\$ 9,328,645
2	Less: Retirements	(633,049)
2		
3	Net Change to Gross Plant	8,695,596
3		
4	Accumulated Depreciation:	
4	Add: Cost of Removal	549,261
5	Add: Retirements	633,049
5	Less: Depreciation Accrual	(137,516)
6		
6	Net Change to Accumulated Depreciation	1,044,794
7		
7	Net Change to Net Plant	9,740,390
8	Less: Accumulated Deferred Taxes	(1,550,183)
8		
9	Net Change to Rate Base	8,190,207
9	Multiplied by: Pre-Tax Rate of Return	9.2821%
10		
10	QIP Revenue on Net Change to Rate Base	760,223
11	Add: QIP Depreciation Expense	137,516
11	Add: QIP Property Taxes	120,869
12		
12	QIP Revenue Requirement Rate Adj	1,018,608
13	Less: Billed Revenues	923,610
13		
14	Difference	94,998
14	Divided by: Authorized Revenues 2018-0358	98,880,622
15		
15	QIP Balancing Adjustment Rider Charge	0.10%
16	Add: Currently Authorized QIP Charge	2.04%
16		
17	Total QIP Rider Charge	2.14%
17		
18	Balancing Adjustment Mthly Bill Impact	\$ 0.04
18	(Average Residential Customer using 3,863 gal)	

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