

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)	2022-00328
CHARGE)	

ORDER

On September 28, 2022, 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, 2022, for the updated QIP tariff. The Commission issued an Order on October 18, 2022, suspending Kentucky-American’s proposed tariff revisions until March 21, 2023.

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), Order.

In Case No. 2021-00090, the Commission approved discrete projects with net plant additions totaling \$8,757,692 for the 13-month values for QIP Year 2, June 1, 2021, to June 30, 2022.² In Case No. 2022-00032, Kentucky-American argued that for consistent and sound ratemaking purposes it was appropriate to update the QIP 2 rate base and revenue requirement to reflect “end-of-period” values given that its QIP 2 replacement projects.³ The Commission found that Kentucky-American’s proposal to revise its QIP 2 surcharge rate to reflect its forecasted “end-of-period” construction investment to be reasonable and, therefore, modified Kentucky-American’s QIP 2 surcharge rate to reflect the estimated end-of-period QIP investment of \$20,050,000.⁴

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.⁵ 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.⁶ Kentucky-American further stated that the QIP would utilize a

² See Case No. 2022-00032, *Electronic Application of Kentucky-American Water Company to Amend Tariff to Revise Qualified Infrastructure Program Charge* (Ky. PSC June 30, 2021), Order, Appendix at 1.

³ Case No. 2022-00032, June 30, 2022 Order at 9.

⁴ Case No. 2022-00032, June 30, 2022 Order at 9 and the Appendix at 1.

⁵ Case No. 2022-00032, June 27, 2019 Order at 73–74. According to Kentucky-American, its infrastructure was deteriorating at a faster rate than the replacement rate.

⁶ Case No. 2022-00032, June 27, 2019 Order at 76.

“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.⁷

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 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. 2018-00358.⁸ 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, the Commission rejected Kentucky-American’s proposal to include non-main plant replacement projects that were not incidental to main replacement. The Commission made the finding that QIP-eligible

⁷ 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.

⁸ Case No. 2018-00358, Kentucky-American Water Company, Application, O’Neill Testimony, Exhibit 2 at 10.

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.”⁹

PROPOSED BALANCING ADJUSTMENT

In its application, Kentucky-American provided a schedule indicating that of the 24 QIP 2 projects approved by the Commission in Case No. 2021-00090, 15 of the projects were completed under budget, while the remaining nine projects were completed over budget.¹⁰ Additionally, Kentucky-American spent \$1,445,475 post in-service for QIP 1 projects during the QIP 2 period.¹¹ The overall net effect is that Kentucky-American’s Capital Expenditures for QIP 2 Rider Charge were \$103,760 less than estimated.¹² Comparing the calculation of QIP 2 actual revenue requirement of \$2,300,395¹³ to the QIP 2 estimated revenue requirement based on the estimated “end of period” amount of \$2,445,553¹⁴ is a decrease in QIP 2 revenue requirement \$145,158. This includes actual costs for retirements, cost of removal, depreciation accrual, accumulated deferred taxes, pre-tax rate of return, depreciation expense and property taxes. Additionally, Kentucky-American’s net billed revenues undercollected the

⁹ See 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) Order at 17.

¹⁰ Application, KAW_BA_092822.pdf, Exhibit 2 at 1–4.

¹¹ Application, KAW_BA_092822.pdf, Exhibit 2 at 4.

¹² Application, KAW_BA_092822.pdf, Exhibit 2 at 4.

¹³ Application, KAW_BA_092822.pdf, Exhibit 1 at 4, line 26.

¹⁴ See Case No. 2022-00032, *Electronic Application of Kentucky-American Water Company to Amend Tariff for the Establishment of the Qualified Infrastructure Program Charge* (March 1, 2022) (Sinople Workpapers, KAW_DT_TS_WP_030122.xlsx) at 2022_QIP Revenues.

authorized amount by \$9,403.¹⁵ Although all of Kentucky-American's QIP 2 projects were placed in service as of June 30, 2022, some of the projects have a relatively small amount of costs that will be incurred after June 30, 2022, that will bring those projects to full completion.¹⁶ Kentucky-American will request recovery of the costs incurred after June 30, 2022, in its next QIP application.¹⁷

In order to true up the overcollection, Kentucky-American asserted that its QIP 3 Rider Charge should be decreased from 4.61 percent to 4.49 percent.¹⁸ The effect on the average residential customer bill would be a decrease of \$0.05 per month.¹⁹ The table below compares Kentucky-American's original projected construction costs to the actual costs by project.

¹⁵ Application, KAW_BA_092822.pdf, Exhibit 1 at 1.

¹⁶ Application, KAW_CLRead1st_092822.pdf, at unnumbered page 1.

¹⁷ Application, KAW_CLRead1st_092822.pdf, at unnumbered page 1.

¹⁸ Application, KAW_CLRead1st_092822.pdf, at unnumbered page 2.

¹⁹ Application, KAW_CLRead1st_092822.pdf, at unnumbered page 2.

Line B - Main Replacements:	Original Project Cost Estimates	Actual as of 06/30/22	Over and (Under) Collections
Wickliffe / Corral	\$ 46,800	\$ 20,548	\$ (26,252)
Range / Writtson / Ford	201,600	244,566	42,966
Thistleton Circle	73,140	32,109	(41,031)
Crosskeys Court	60,950	50,801	(10,149)
Corydon Court	127,730	159,741	32,011
Fairway Phase I	775,000	1,191,832	416,832
Wyatt Avenue	1,532,500	1,134,090	(398,410)
Bluegrass / Highlawn	625,000	359,423	(265,577)
Codell Drive	1,312,500	1,408,343	95,843
N. Ashland / Aurora	1,000,000	698,858	(301,142)
National Avenue	875,000	806,461	(68,539)
Whitney / Ash	1,650,000	2,017,587	367,587
Clays Mill Road - Phase II	1,575,000	1,804,892	229,892
Montclair Drive	550,000	527,192	(22,808)
Summit Drive	725,000	788,952	63,952
Valley Farm	1,350,000	1,437,054	87,054
Colchester / Barksdale	925,000	911,958	(13,042)
Campbell Lane	275,000	222,708	(52,292)
Westgate / Hamilton Park	900,000	609,347	(290,653)
Lancelot	617,500	612,822	(4,678)
Kilrush / Caywood	1,567,500	1,012,319	(555,181)
Merrimac / Fogo / Crewe	860,000	484,693	(375,307)
Tisdale / Fraserdale	1,322,500	1,575,173	252,673
Montavesta Road	1,087,500	374,878	(712,622)
Totals	<u>\$ 20,035,220</u>	<u>\$ 18,486,347</u>	<u>\$ (1,548,873)</u>

The following are Kentucky-American's explanations for construction cost underruns and overruns.²⁰

Wickliffe / Corral: The water main installation was performed by a Kentucky-American crew. The linear footage actually installed was less than originally estimated.

Range / Writtson / Ford: The actual linear footage of water main replacement for this project was 230 feet which was less than the original estimate of 340 feet. The reduction in the linear footage of main replacement resulted in a reduction in pavement replacement from 920 square feet to 717 square

²⁰ Application, KAW_BA_092822.pdf, Exhibit 2 at 1-4 and Kentucky-American's Responses to Commission Staff's First Request for Information (filed Nov. 7, 2022), Item 3–Item 14.

feet. The water main installation was performed by a Kentucky-American crew.

Thistleton Circle: Actual linear footage installed was less than originally estimated. The water main installation was performed by a Kentucky-American crew.

Crosskeys Court: Estimated cost included a 4-foot paving width when the actual pavement required was full curb-to-curb width plus all cul-de-sacs. The water main installation was performed by a Kentucky-American crew.

Corydon Court: A determination by Lexington Fayette Urban County Government's (LFUCG) inspector that this project required full curb-to-curb pavement width plus all cul-de-sacs rather than the original 4-foot paving estimate. The water main installation was performed by a Kentucky-American crew.

Fairway Phase I: Additional cold patch (temporary asphalt) was required along the entire length of the project prior to final pavement restoration. The original estimate was that gravel would be used, but a new LFUCG now requires the use of cold patch. Proposed connection points along Henry Clay Blvd required full intersection pavement restoration. More service lines required replacement compared to estimated.

Wyatt Avenue: Actual linear footage installed was less than estimated. Amount of pavement restoration required was in line with pavement restoration estimates.

Bluegrass / Highlawn: Actual linear footage installed was less than estimated. Post-June 30 paving restoration work is not reflected in total project cost. The paving for this project is being cost-shared with LFUCG.

Codell Drive: Approximately 250 additional linear feet of main were installed compared to original estimate. Amount of pavement restoration required was in line with pavement restoration estimates.

N. Ashland / Aurora: Post-in-service work is not reflected in total project cost. During the construction of this project, it was discovered that there was a section of Richmond Avenue adjacent to Aurora Avenue that was also 6-inch cast iron main. Replacement of the cast iron main on Richmond

Avenue resulted in the replacement of the additional 800 linear feet of main.

National Avenue: Additional main installation costs required due to a storm sewer alignment change. Additional costs incurred on project to uncover valve boxes covered by LFUCG's roadway contractor during project. The paving for this project is being cost-shared with LFUCG.

Whitney / Ash: Additional cold patch was required along the entire length of the project prior to final pavement restoration. Post-June 30 paving restoration work is not reflected in total project cost. The paving for this project is being cost-shared with LFUCG.

Clays Mill Road - Phase II: Additional main installation costs required due to a storm sewer alignment change. Additional costs incurred on project to uncover valve boxes covered by LFUCG's roadway contractor during project. Kentucky-American will attempt to recover the costs it incurred to uncover the valve boxes from LFUCG. The paving for this project is being cost-shared with LFUCG.

Montclair Drive: Post-June 30 paving restoration work is not reflected in total project cost. The paving for this project is being cost-shared with LFUCG.

Summit Drive: Kentucky American Water encountered several brittle house service lines that failed upon re-connection. Post-June 30 paving restoration work is not reflected in total project cost. The paving for this project is being cost-shared with LFUCG.

Valley Farm: Estimated cost included 5-foot paving width; actual pavement required by a LFUCG Inspector was the 8-foot full lane width.

Colchester / Barksdale: Actual linear footage installed was less than estimated. Post-June 30 paving restoration work is not reflected in total project cost. Estimated cost included 5-foot paving width; actual pavement required by a LFUCG Inspector was the 8-foot full lane width.

Campbell Lane: Actual linear footage installed was less than estimated.

Westgate / Hamilton Park: Post-June 30 paving restoration work is not reflected in total project cost.

Lancelot: Post-June 30 paving restoration work is not reflected in total project cost.

Kilrush / Caywood: Post-June 30 paving restoration work is not reflected in total project cost.

Merrimac / Fogo / Crewe: Post-June 30 paving restoration work is not reflected in total project cost.

Tisdale / Fraserdale: Post-June 30 paving restoration work is not reflected in total project cost. Estimated cost included 20,000 square feet of paving; actual pavement required to date is 27,700 square feet with additional amounts yet to be completed.

Montavesta Road: Post-June 30 paving restoration work is not reflected in total project cost. The paving for this project is being cost-shared with LFUCG. The water main installation was performed by a Kentucky-American crew.

DISCUSSION AND FINDINGS

Based upon the evidence of record, the Commission finds that Kentucky-American established good cause to approve a decrease in the QIP charge from 4.61 percent to 4.49 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. The projects undertaken are consistent with the projects approved by the Commission in Case No. 2021-00090.

IT IS THEREFORE ORDERED that:

1. The QIP Rider of 4.49 percent proposed by Kentucky-American as calculated in the Appendix attached hereto, is approved.

2. The QIP Rider of 4.49 percent is fair, just and reasonable, and is approved for service rendered on and after the date of this Order through June 30, 2023.

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).

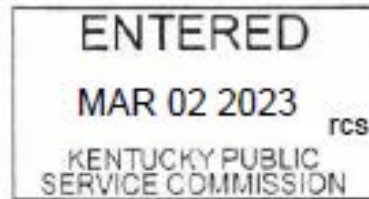
5. This case is now closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00328 DATED MAR 02 2023

Line No.	Description	Amount
1	Billed Revenues - July 1, 2021-June 30, 2022	\$ 1,876,369
2	Less: QIP 1 Variance - Under/(Over) Recovery	94,998
3	Net Billed Revenues - July 1, 2021-June 30, 2022	<u>1,781,371</u>
4		
5	QIP 2 Revenue Requirement	1,790,774
6	Less: Net Billed Revenues - July 1, 2021-June 30, 2023	<u>(1,781,371)</u>
7	Under/(Over) Recovery Variance	<u>9,403</u>
8		
9	Authorized Revenues Case No. 2018-0358	98,880,622
10	Divide by: Prorated Authorized Revenues Case No. 2018-0358	<u>50,388,481</u>
11	QIP 2 Balancing Adjustment Rider Charge	<u>0.02%</u>
12		
13		
14	QIP 3 Revenue Requirement	4,419,803
15	Divide by: Authorized Revenues Case No. 2018-0358	<u>98,880,622</u>
16	Original QIP 3 Rider Charge	4.47%
17	Add: QIP 2 Balancing Adjustment	<u>0.02%</u>
18	Total QIP 3 Rider Charge-Adjusted Case No. 2022-00328	<u>4.49%</u>
19		
20	Total QIP 3 Rider Charge-Adjusted Case No. 2022-00328	4.49%
21	Less: QIP 3 Rider Charge - Case No. 2022-00032	<u>4.61%</u>
22	Change - QIP 3 Rider Charge	<u>-0.12%</u>
23		
24	Balancing Adjustment Monthly Bill Impact	
25	(Average Residential Customer using 3,863 gal)	<u>\$ (0.05)</u>

*Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*Honorable Lindsey W Ingram, III
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Molly Van Over
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502