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Commonwealth of Kentucky
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Angie Hatton
Chair

Mary Pat Regan
Commissioner

June 17, 2025

PARTIES OF RECORD

Re: Case No. 2025-00122

Notice is given to all parties that the attached Informal Conference Memorandum and attendance list has been filed into the record of this proceeding.

If you have any comments you would like to make regarding the contents of the document, please do so within five days of receipt of this letter. If you have any questions, please contact Jennifer Fell, Staff Attorney, at Jennifer.Fell@ky.gov.

Sincerely,

A handwritten signature in blue ink that reads "Linda C. Bridwell". To the right of the signature is a small blue circular stamp with the letters "AP" inside.

Linda C. Bridwell, PE
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2025-00122

FROM: Jennifer Fell, Staff Attorney

DATE: June 17, 2025

RE: Informal Conference of June 12, 2025

Pursuant to an Order issued on May 27, 2025, an informal conference (IC) was conducted on June 12, 2025. Attached is a copy of the attendance roster.

The purpose of the IC was to discuss Kentucky-American Water Company's (Kentucky-American) application for a general rate adjustment. Dominic DeGrazia and Robert Prendergast did a presentation about the application. The presentation is included as a part of this filing.

Kentucky-American explained the primary driver of the deficiency for which it seeks a rate increase is the amount spent on infrastructure projects since its last rate case, approximately \$181,000,000, as well as the projected \$212,000,000 for additional future projects.

Kentucky-American's proposed rates reflect its request to roll the existing QIP into base rates, but it has provided an example of potential rates if the Commission does not roll-in the QIP, as part of Mr. DeGrazia's testimony, Exhibit DD-3. Kentucky-American explained that, while the QIP is intended to assist with recovery of costs for projects between rate cases, Kentucky-American's level of investment is higher than its current QIP eligibility. Kentucky-American does not propose an expansion of its QIP in this application.

Kentucky-American's proposal does not include any change to the current rate structure, and it asserted its proposal is part of a gradual move closer to class cost-of-service.

Kentucky-American provided an overview of its financial and rate base schedules. Mr. DeGrazia explained the deferred debit is calculated from a previously granted source of supply project, amortized over 40 years, at approximately \$47,000 annually.

Kentucky-American also discussed the operating income summary, which bridges the base period to forecasted period rates. There is an approximate \$51,000,000 increase in expense for the forecasted period, partly associated with labor costs and new regulatory requirements. Kentucky-American also explained that the growth factor proposed in the application is not across-the-board, and only applied to 10 expenses.

Kentucky-American stated the growth factor was calculated to normalize Kentucky-American's own expenses, instead of utilizing a national inflation index.

Kentucky-American stated that it has kept its calculations and schedules consistent, in regard to tax issues that were raised on rehearing in its last rate case.

In regard to unaccounted-for water loss, Kentucky-American stated its expenses reflect its full cost of service.

There being no further discussion, the IC was then adjourned.

cc: Parties of Record

PSC INFORMAL CONFERENCE SIGN IN SHEET

CASE NUMBER: ITC 2025-00122 KAW

LOCATION: PSC Conference Room #1/Microsoft Teams

DATE: June 12, 2025 1:30pm

NAME	COMPANY
Lindsey Ingram	Stoll Keenon Ogden
Monica Braun	Stoll Keenon Ogden
Mary Ellen Wimberly	Stoll Keenon Ogden
Dominic DeGrazia	Kentucky-American Water
David Pippen	Kentucky-American Water
Molly Van Over	Kentucky-American Water
Robert Prendergast	Kentucky-American Water
John Magner	Kentucky-American Water
Max McClellan	Kentucky-American Water
Deba Ather	Kentucky-American Water
Jennifer Gonzales	Kentucky-American Water
Michi Chao	Kentucky-American Water
Brian Thomas	PSC
Moriah Tussey	PSC

[illegible]



Informal Technical Conference

Case No. 2025-00122

Agenda (Open for Questions Throughout Presentation)

- Summary of the Application
- Key Schedules of the Application
 - Exhibit 37 Schedule A: Jurisdictional Financial Summary for the Base and Forecast Period
 - Exhibit 37 Schedule B: Rate Base
 - Exhibit 37 Schedule C: Operating Income
 - Exhibit 37 Schedule J: Cost of Capital
- Rate Case Model Diagram and Excel linked files
- Questions

Summary of the Application

- **Development of the Forecasted Test Year Cost of Service = Revenue Requirement**

- Base period of the twelve months ending August 31, 2025.
 - Data reflects six months of actual data (September 1, 2024, to February 28, 2025) and six months of forecasted data (March 1, 2025, to August 31, 2025)
- Forecasted test period for revenues and expenses, is January 1, 2026, to December 31, 2026.
- For thirteen-month average rate base and capitalization, the period is from December 2025 to December 2026.

- **Total Cost of Service = Total Revenue Requirement = \$163.5 million**

- Revenue Deficiency: \$26.9 million
- Rate Base: \$674 million
- Rate of Return: 7.86%

- **Driver of the Deficiency is Rate Base Growth of \$181 million since 2023 Rate Case**

- Between February 1, 2025 through December 31, 2026, KAWC has made or will make approximately \$212 million in gross plant additions.

Summary of the Application

- **QIP Reset / Roll-in**
 - Revenues, Rate Base, and Expenses
 - Scenario without QIP Reset
 - Exhibit DD-3
- **Comparison to 2023 Rate Case**
 - 2-year timing gap between rate cases compared to 5 years is driven by the Capital Investment
 - Addressed issues and other considerations from the 2023 Rate Case Order
 - Capitalization Structure consistent @ 52% Equity
 - KAWC Growth Factor incorporated vs CPI
 - CWIP Removed From Rate Base & AFUDC Offset
 - Credit Card Fees not proposed
 - Schedules and supporting workpapers are consistent with 2023 case application
- **Rate Design**
 - Moved each customer class closer to Cost-of-Service including Public Fire

Thank you!

Commission Order for Case No 2023-00191

“The Commission has previously held a general CPI inflation factor is not an appropriate forecasting method and even the granular inflation factors are not specific to Kentucky American’s experience. Use of general inflation factors fails to satisfy Kentucky American’s burden that its proposed rates are just and reasonable, as they are not, in and of themselves, reflective of Kentucky-American’s costs. The Commission expects a utility such as Kentucky-American, with the shared resources of American Water, to develop and implement more robust forecasting methodologies for expenses than general CPI inflation factors with a review of specific factors impacting costs.”

Expense	As filed	Inflation Removed	Difference
Fuel & Power	5,664,614	5,166,090	498,524
Support Services	12,519,428	12,394,857	124,572
Contract Services	1,437,684	1,394,512	43,172
Building Maintenance & Services	911,837	844,101	67,736
Office Supplies & Services	239,411	209,321	30,090
Employee Related Expense	176,764	156,988	19,777
Miscellaneous Expense	807,314	719,101	88,213
Rents	47,180	37,581	9,598
Other Customer Accounting	478,972	474,727	4,245
Maintenance Supplies & Services	2,725,221	2,601,260	123,962
Total	25,008,425	23,998,536	1,009,889

KAW O&M Growth Factor

- Uses Kentucky American Water historical financials that are reflective of KAW's actual costs
- KAW O&M Growth factor is used in forecasting the same expenses as Case No. 2023-00191, with the exceptions of:
 - Fuel and Power, which uses the KAW rate increase experienced from the previous KU rate case rather than the growth factor
 - Telecommunications, which now uses the KAW O&M Growth Factor
- Expenses were totaled in the calculation for 2021 through 2024 to smooth out outlier expense increases

Kentucky American Water Company Case No. 2025-00122 KAW O&M Growth Factor				
in 000's	2021	2022	2023	2024
Support Services	\$12,044	\$11,450	\$11,978	\$13,278
Contracted services	\$930	\$831	\$1,584	\$1,672
Building maintenance and services	\$845	\$852	\$1,094	\$1,160
Telecommunication expenses	\$235	\$256	\$274	\$351
Office supplies and services	\$228	\$293	\$231	\$224
Employee related expense	\$84	\$347	\$127	\$122
Miscellaneous expenses	\$994	\$723	\$1,239	\$791
Rents	\$30	\$44	\$46	\$59
Customer accounting, other	\$132	\$122	\$111	\$104
Maintenance supplies and services	\$2,101	\$2,171	\$2,878	\$2,736
Total	\$17,623	\$17,088	\$19,560	\$20,497
KAW 3 Year Average O&M Growth Factor	5.16%			

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