

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

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

**ORDERING PARAGRAPH 6 REPORT**

Kentucky-American Water Company (“KAW”) applied for an adjustment of its rates for water service on January 29, 2016 with the Kentucky Public Service Commission (“Commission”). The Commission established this case to examine the proposed rates. During the course of the case, the Commission raised questions regarding whether KAW’s billing processes show with clarity the computation of franchise fees and taxes set forth in billing statements. By Order of August 23, 2016, the Commission approved a unanimous settlement reached in the case, but also ordered KAW to revise its billing processes so that the computation of franchise fees and taxes is clear to customers. In Ordering Paragraph 6 of that Order, the Commission directed KAW to file a report of its review of this issue. This report is in response to that Ordering Paragraph.

**Background**

807 KAR 5:006, Section 7(1)(a)8 states that “Each bill for utility service issued periodically by a utility shall clearly show: ... 8. All taxes . . . .” KAW provides on each billing statement a separate line item for each tax or fee that is collected by KAW on behalf on other entities. This includes, if applicable, the Kentucky River Authority withdrawal fee, franchise fees, sales taxes, and local school taxes.

Prior to the rate case, KAW received a call from Commission Staff on behalf of a customer who was trying to verify the accuracy of his/her bill. The customer was unable to verify from KAW tariff sheets the components that were included in each tax item, or the rate that would be applied to calculate the tax on the bill. Although KAW was able to provide a satisfactory response to Commission Staff, KAW acknowledged that the actual calculation of taxes and franchise fees is not reflected on the face of the bill nor are the components of such calculation set forth in KAW's tariff.

As a result of those discussions with Commission Staff, when KAW prepared its Application in this case, KAW included a proposed revision to its tariff sheet 28.2 that was intended to clarify the computation of taxes and fees. KAW tariff sheet 28.1 is a sample bill and tariff sheet 28.2 is detailed explanation for each item on the bill. Copies of the sheets are attached as Exhibit A. The revision, specifically, was to add text under Item 42, Franchise Tax, to read "(if applicable – rate % x Total Water Service Related Charges) and under Item 43, School District Tax, to read "(if applicable – rate % x Total Water Service Related Charges)". These changed tariff sheets were approved by the Commission's August 23, 2016 Order.

However, as mentioned above, the Commission addressed this issue in further detail:

"807 KAR 5:006, Section 7(1)(a)8, requires a utility to clearly show, for each bill for utility service issued, information regarding all taxes collected. While the Commission recognizes that the taxes collected by Kentucky-American are not rates which are subject to our jurisdiction, Kentucky-American's billing practices for the collection of these taxes is a matter within our jurisdiction. The Commission has a concern that Kentucky-American may not have an adequate process in place to permit its customers to readily ascertain how the amounts appearing on their bills for franchise tax and school district tax are calculated.

We find that a Kentucky-American customer should be able to determine whether the amounts on his or her bill have been correctly calculated by accessing Kentucky-American's billing statement, tariff sheets, website, or customer service center. The

Commission finds that Kentucky-American should review and, where necessary, revise its billing practices to ensure that it is meeting this standard. We find that Kentucky-American should file, within 120 days of the date of this Order, a report that describes the practices that it has in place for meeting this standard.”<sup>1</sup>

### Review

In accordance with the Commission’s Order, KAW has reviewed the relevant regulation, tariff sheets, and billing statements. KAW believes that its tariffs and billing practices, including the bill issued each month, meet the letter and spirit of the regulation. However, KAW appreciates the Commission’s concern that the calculation may not be transparent and easily verified by customers. Therefore, KAW has explored what practices could be adjusted so that the calculation of taxes and fees will be more transparent and easily verified. KAW reviewed the practices of other utilities, met extensively with its internal billing and Information Technology personnel, and reviewed the challenges involved in undertaking a number of changes. KAW concluded that there were three possible adjustments that could be made: (1) revise the billing statement itself to show the calculation of taxes and fees; (2) provide more detailed language in the tariff sheets to show the calculations for taxes and franchise fees; and (3) provide more detailed information on KAW’s website with regard to the rates and calculations of taxes and franchise fees.

First, KAW investigated how difficult and costly it would be to simply print the calculation of taxes and fees on the billing statement (similar to how the cost of water use is calculated). When KAW’s parent company (American Water Works Company) first transitioned to its current billing software, the response from IT personnel indicated that a programming change of this nature would be expensive to undertake. During the more recent review, however,

---

<sup>1</sup> August 23, 2016 Order, p. 9.

it was determined that the programming change could be done in-house without significant expense to KAW. The taxes and fees can still be listed as a separate line item on the bill, but the calculation of the amount would follow in parentheses. This adjustment can be implemented quickly and will clearly provide the information to the customer about the computation of the amount owed, including the tax or fee itself and the applicable rate.

Second, KAW explored the challenges involved with revising tariff sheets to reflect the rates and calculations of the taxes and franchise fees. The fees are authorized under tariff sheet 55. However, the exact amounts of the different rates are not included on the tariff sheet, nor are the components of each tax or fee specifically called out on the tariff sheet. KAW explored adding the local school tax rate for each county, and the franchise fee rate to that sheet. The immediate challenge that arose is that KAW provides water service in eleven different counties, and the county school tax rate changes periodically. Including the exact rate for each county school tax rate on that page would create a logistic issue of keeping the tariff sheet current. The sheet does not have enough room to list them all, and would require a re-numbering to adjust other sheets for accommodation. An alternative would possibly be to provide a link to a location on a state government website, but it does not appear that a listing of those rates is readily available. Since there is only one locality that requires a franchise fee, there is less of a logistical challenge in keeping a tariff sheet updated, but providing this information for the franchise fee but not the local taxes would only partially improve the clarity on the issue.

Third, KAW considered providing detailed information on its website separate from its tariff sheets. The challenges with regard to keeping the information updated and accurate were similar to providing the information in the tariff sheets. Additionally, American Water is undergoing a website re-design process for all of its regulated businesses, and making changes to

the information to be included on the website may take the longest of all the alternatives considered.

Conclusion

After reviewing all of the alternatives, KAW believes that the most effective method of improving clarity for customers who wish to verify the tax and franchise fee amounts rate on their bills is to revise the billing statements so that the calculations are shown on the face of the bill. This will provide the amount to which the rate is applied, and the rate that is used in the calculation. The applicable tax or fee rate will be built into the KAW billing system so that the only updating that will be required will be to the billing system itself. Further, KAW is able to implement this change quickly as part of the services normally provided to KAW by American Water Works Service Company. KAW customers will see this change on their bills in early 2017. A representative sample of the changes is shown in highlight on Exhibit B hereto.

Date: December 21, 2016

Respectfully submitted,

Lindsey W. Ingram III  
[L.Ingram@skofirm.com](mailto:L.Ingram@skofirm.com)  
Monica H. Braun  
[Monica.braun@skofirm.com](mailto:Monica.braun@skofirm.com)  
STOLL KEENON OGDEN PLLC  
300 West Vine Street, Suite 2100  
Lexington, Kentucky 40507-1801  
Telephone: (859) 231-3000  
Fax: (859) 259-3503

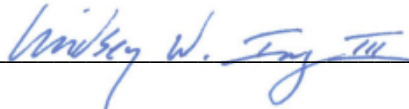
By: \_\_\_\_\_

  
Lindsey W. Ingram III  
Monica H. Braun

**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; that the electronic filing has been transmitted to the Commission on December 21, 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

KENTUCKY AMERICAN WATER COMPANY

P.S.C. KY NO. 6  
Eighth Revised Sheet No. 28.1  
Canceling Seventh Revised Sheet No. 28.1



0001012210013524033000000000010637016

2	Account Number	1012-210012345678
3	Due Date	November 14, 2016
4	Total Due	\$113.46
5	If Paid After Due Date	\$115.53 after 11/14/16

6 For Service To: 433 E MAXWELL ST

8  Check this box for address changes and note new address on back.

7 Amount Enclosed \$ \_\_\_\_\_

10 **JOHN B. DOE**  
1 FIRST STREET  
LEXINGTON, KY 40504

9 KENTUCKY AMERICAN WATER  
PO BOX 371880  
PITTSBURGH, PA 15250-7880



11 Please return this portion with your payment.

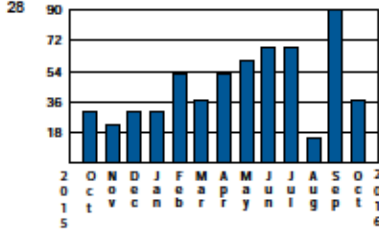
12 BILLING PERIOD AND METER READINGS

- 13 • Billing date: October 30, 2016
- 14 • Due Date: November 14, 2016
- 15 • Billing period: Sep 28 to Oct 30 (33 Days)
- 16 • Next reading on or about: Dec 03, 2016
- 17 • Customer Type: Residential
- 18 • Meter Reading Measurement:  
1 unit = 100 CF or 748 gallons of water
- 19 • Billing Measurement: 100 gallons (CGL)

20	Meter No.	88918456N
21	Size of meter	5/8"
22	Current Read	160 (Actual)
23	Previous Read	155 (Actual)
24	Total water used this billing period	5 units (3,740 gallons)

- 25 Total Water Use Comparison (in 100 gallons)
- 26 • Current billing period 2016: 37.40 CGL
- 27 • Same billing period 2015: 29.92 CGL

Billed Use Graph (100 gallons)



29 BILLING SUMMARY

30	Prior Balance	
31	• Balance from last bill	69.73
31	<b>TOTAL PAST AMOUNT - DUE IMMEDIATELY</b>	<b>69.73</b>
32	Current Water Service	
33	• Water Service Charge	12.49
34(I)	• Water Usage Charge (\$0.6019 x 37.40)	22.51
35	• Total Water Service Related Charges	35.00
36	Other Charges	
37	• Georgetown Hydrant Fee	2.28
38	• Water Late Payment Charge	3.49
39	• Total Other Charges	5.77
40	Taxes	
41(T)	• KRA Withdrawal Fee (\$0.0170 x 37.40)	0.64
42(T)	• Franchise Tax	1.16
43(T)	• School District Tax	1.16
44	• Total Taxes	2.96
44	<b>TOTAL CURRENT CHARGES</b>	<b>43.73</b>

46(T) **TOTAL AMOUNT DUE** **\$113.46**

- 47 Pay your bill online: [www.water.paymybill.com](http://www.water.paymybill.com)
- Pay by phone: 24-hours a day, every day at 1-888-422-5269
- Pay in person: Residential customers may obtain a listing of payment locations by visiting [www.amwater.com/myh2o](http://www.amwater.com/myh2o)

48 Important messages from Kentucky American Water

- This area will be used for important messages from American Water
- The due date pertains to current charges only. Any past due balance should be paid immediately.
- Copies of your annual water quality report (Consumer Confidence Report) can be obtained by visiting our website printed at the bottom of this bill.
- Need to update your contact information? Check out our self service options at [www.amwater.com/myH2O](http://www.amwater.com/myH2O)

49 Questions about this bill? Call our 24-Hour Customer Service Center: 1-800-678-6301

[www.kentuckyamwater.com](http://www.kentuckyamwater.com)  
10000003803

(I) Indicates Increase  
(T) Indicates change in text

ISSUED: August 29, 2016  
EFFECTIVE: August 28, 2016

ISSUED BY: /s/Nick O. Rowe  
Nick O. Rowe, President  
2300 Richmond Rd, Lexington, KY 40502

Issued by authority of an Order of the Public Service Commission in Case No. 2015-00418 dated August 23, 2016.

**KENTUCKY**  
**PUBLIC SERVICE COMMISSION**

**Talina R. Mathews**  
**EXECUTIVE DIRECTOR**

*Talina R. Mathews*

EFFECTIVE  
**8/28/2016**  
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

**(Continued)**

**Here is an explanation of the typical customer’s bill.**

- |  |  |
|--|--|
| 1. Assumed Name for Kentucky American Water Company and payment mailing address            | 25. Total Water Use Comparison (in 100 gallons)  |
| 2. Customer Account Number – use this when making inquiries                                | 26. Current Billing Period Current Year  |
| 3. Date Payment is Due   | 27. Same Billing Period Prior Year   |
| 4. Total Amount Due or DO NOT PAY (if credit balance or paid through automatic withdrawal) | 28. Billed Use Graph (100 Gallons)   |
| 5. Amount Due if payment is late (with applicable late fee included)                       | 29. Billing Summary  |
| 6. Address where service is received   | 30. Balance from Last Bill   |
| 7. Amount enclosed   | 31. Total Past Amount – Due Immediately  |
| 8. Area to request a change of address or telephone number                                 | 32. Current Water Service  |
| 9. Address to mail payment   | 33. Water Service Charge   |
| 10. Customer Name and Billing Address  | 34. Water Usage  |
| 11. Please return this portion with your payment   | 35. (T) Total Water Service Related Charges  |
| 12. Billing Period & Meter Information   | 36. Other Charges  |
| 13. Billing Date   | 37. (T) Hydrant Fee (if applicable by local ordinance)                                     |
| 14. Due Date   | 38. Water Late Payment Charge  |
| 15. Billing Period and number of days of service   | 39. Total Other Charges  |
| 16. Next reading on or about   | 40. Taxes  |
| 17. Customer Type  | 41. KRA (Kentucky River Authority) withdrawal Fee  |
| 18. Meter Reading Measurement  | 42. (T) FranchiseTax (if applicable – rate% x Total Water Service Related Charges)         |
| 19. Billing Measurement  | 43. (T) School District Tax (if applicable – rate % x Total Water Service Related Charges) |
| 20. Meter Number   | 44. Total Taxes  |
| 21. Meter Size   | 45. Total Current Charges  |
| 22. Current Meter Reading  | 46. Total Amount Due   |
| 23. Previous Meter Reading   | 47. Bill Pay Information (Online/Phone/In Person)  |
| 24. Total Water Used This Billing Period   | 48. Messages from Kentucky American Water  |
|  | 49. Customer Service, Emergency Phone Number, and Internet Address                         |

(T) Indicates change in text

**ISSUED:** August 29, 2016

**EFFECTIVE:** August 28, 2016

**ISSUED BY:** /s/Nick O. Rowe  
Nick O. Rowe, President

2300 Richmond Road, Lexington, KY 40502

*Issued by authority of an Order of the Public Service Commission in Case No. 2015-00418 dated August 23, 2016.*

<b>KENTUCKY PUBLIC SERVICE COMMISSION</b>
<b>Talina R. Mathews</b> EXECUTIVE DIRECTOR
<i>Talina R. Mathews</i>
<b>EFFECTIVE 8/28/2016</b> PURSUANT TO 807 KAR 5:011 SECTION 9 (1)





Account Number	1012-210012345678
Due Date	November 14, 2016
Total Due	\$106.37
If Paid After Due Date	\$108.16 after 11/14/16

For Service To: 433 E MAXWELL ST

Check this box for address changes and note new address on back.

Amount Enclosed \$  

**JOHN B. DOE**  
1 FIRST STREET  
LEXINGTON, KY 40504

KENTUCKY AMERICAN WATER  
PO BOX 371880  
PITTSBURGH, PA 15250-7880



Please return this portion with your payment.

**BILLING PERIOD AND METER READINGS**

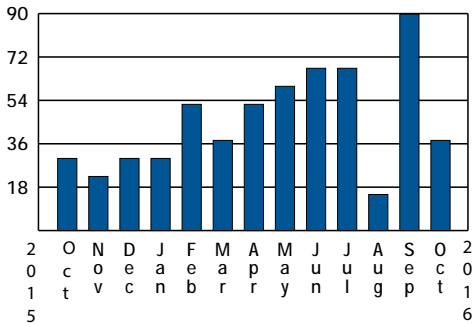
- Billing date: October 30, 2016
- Due Date: November 14, 2016
- Billing period: Sep 28 to Oct 30 (33 Days)
- Next reading on or about: Dec 03, 2016
- Customer Type: Residential
- Meter Reading Measurement:  
1 unit = 100 CF or 748 gallons of water
- Billing Measurement: 100 gallons (CGL)

Meter No.	88918456N
Size of meter	5/8"
Current Read	160 (Actual)
Previous Read	155 (Actual)
Total water used this billing period	5 units (3,740 gallons)

**Total Water Use Comparison (in 100 gallons)**

- Current billing period 2016: 37.40 CGL
- Same billing period 2015: 29.92 CGL

**Billed Use Graph (100 gallons)**



**BILLING SUMMARY**

Prior Balance	
• Balance from last bill	69.73
<b>TOTAL PAST AMOUNT - DUE IMMEDIATELY</b>	<b>69.73</b>
Current Water Service	
• Water Service Charge	12.49
• Water Usage Charge (\$0.6019 x 37.40)	22.51
• Total Water Service Related Charges	35.00
Other Charges	
• Georgetown Hydrant Fee	2.28
• Water Late Payment Charge	3.49
• Total Other Charges	5.77
Taxes	
• KRA Withdrawal Fee (\$0.0170 x 37.40)	0.64
• Franchise Tax (\$35.64 x 3%)	1.07
• School District Tax (\$35.64 x 3%)	1.07
• Total Taxes	2.78
<b>TOTAL CURRENT CHARGES</b>	<b>43.55</b>

**TOTAL AMOUNT DUE** **\$113.28**

Pay your bill online: [www.water.paymybill.com](http://www.water.paymybill.com)

Pay by phone: 24-hours a day, every day at 1-888-422-5269

Pay in person: Residential customers may obtain a listing of payment locations by visiting [www.amwater.com/myh2o](http://www.amwater.com/myh2o)

**Important messages from Kentucky American Water**

- This area will be used for important messages from American Water
- The due date pertains to current charges only. Any past due balance should be paid immediately.
- Copies of your annual water quality report (Consumer Confidence Report) can be obtained by visiting our website printed at the bottom of this bill.
- Need to update your contact information? Check out our self service options at [www.amwater.com/myH2O](http://www.amwater.com/myH2O)