

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:)
)
THE APPLICATION OF KENTUCKY-AMERICAN) CASE NO. 2017-00313
WATER COMPANY FOR A QUALIFIED)
INFRASTRUCTURE PROGRAM RIDER)

APPLICATION

Kentucky-American Water Company (“Kentucky American Water” or “Company”) pursuant to 807 KAR 5:011 requests the Commission approve a Qualified Infrastructure Program (“QIP”) Rider so that cost recovery of Kentucky American Water’s investment in certain critical infrastructure can occur via a separate line item charge on customer bills. In support of this tariff filing, Kentucky American Water states as follows:

1. Kentucky American Water is a corporation organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business at 2300 Richmond Road, Lexington, Kentucky 40502. Kentucky American Water can be contacted by e-mail via the e-mail addresses of its counsel set forth below. Kentucky American Water was incorporated on February 27, 1882 and is currently in good standing in the Commonwealth of Kentucky.

2. Kentucky American Water is a wholly-owned subsidiary of American Water Works Company, Inc. (“American Water”) and is engaged in the distribution and sale of water in its Central Division, consisting of Bourbon, Clark, Fayette, Harrison, Jessamine, Nicholas, Scott and Woodford Counties and its Northern Division, consisting of Gallatin, Owen and Grant Counties. It currently owns, operates and maintains potable water production, treatment, storage,

transmission and distribution systems for the purpose of furnishing potable water for residential, commercial, industrial and governmental users in its service territory.

3. Like many other water service providers, Kentucky American Water has critical infrastructure that is nearing the end of its useful life expectancy and must be replaced. Replacement efforts are ongoing, but the Company plans to accelerate the rate at which the aging infrastructure is replaced. Given the consequent acceleration in capital spending necessary to effectuate replacements, Kentucky American Water is requesting approval in this proceeding of a QIP Rider tariff to sustain the financial investment for service rendered on and after January 1, 2018.

4. The proposed QIP Rider will enable Kentucky American Water to implement a more systematic main replacement program for the types of distribution pipe that have proven to be most susceptible to breaks and leaks. For example, as explained in Mr. O'Neill's testimony, Kentucky American Water's cast iron and galvanized steel pipes represent just 16% of all water mains in the system, but are responsible for 61% of main breaks each year. Thus, those pipes will be an initial focus of accelerated replacement under the QIP. This accelerated systematic replacement cycle QIP supports will be more cost effective for customers because replacing these mains will reduce the high cost of unscheduled breaks and emergency situations that are not only costly to repair, but also potentially interrupt customer service.

5. Kentucky American Water previously proposed a similar tariff in Case Nos. 2012-00520 and 2015-00418. In Case No. 2012-00520, the Company requested approval of a Distribution System Improvement Charge rider, or "DSIC." The tariff was denied by the Commission. Kentucky American Water subsequently proposed a QIP rider in Case No. 2015-00418. The Company withdrew that request as part of a settlement agreement with all parties in

the case, which agreement states that the withdrawal of the QIP proposal does not preclude Kentucky American Water from seeking approval of a QIP proposal or any other similar infrastructure replacement regulatory mechanism in the future. Because Kentucky American Water needs a tariff surcharge to support its efforts under the QIP, the Company is again requesting approval of this important regulatory mechanism in this standalone tariff filing.

6. The Commission has broad authority to establish surcharges outside the parameters of a general rate case and in the absence of a statute specifically authorizing recovery of such costs.¹

7. Under the proposed QIP Rider, Kentucky American Water can accelerate its rate of infrastructure replacement with minimal impact to customers' monthly bills. If the Commission approves the QIP Rider, the surcharge would increase the average residential customer's bill by only \$0.71 per month in the first year. The significant benefit customers receive through safer and more reliable infrastructure for less than a dollar per month is a fair, just, and reasonable surcharge.

8. The proposed QIP Rider will provide recovery of the costs of capital, depreciation, and property tax associated with qualified infrastructure investment between base rate case filings. The QIP Rider will apply only to qualified, non-revenue producing plant investment that has not been included in rate base in a prior base rate case proceeding. The QIP Rider would be established on an annual prospective basis and would reflect only those qualified plant additions installed after the conclusion of the initial rate year. The qualified plant additions would be reduced by the projected retirements associated with the QIP additions in the calculation of applicable depreciation and property tax expense. The QIP would cover the upcoming calendar year and would be updated each subsequent year.

¹ *Kentucky Public Service Comm'n v. Conway*, 324 S.W.3d 373 (Ky. 2010).

9. If approved, Kentucky American Water would make its annual QIP filing establishing the applicable QIP not later than October 1 prior to the effective date of January 1 of each QIP implementation. That filing would include a detailed listing of each qualifying QIP project completed and placed in service to the Company's customers during the immediately preceding QIP year.

10. In support of the proposed tariff, Kentucky American Water is filing the direct testimony of Linda C. Bridwell and Brent E. O'Neill. Ms. Bridwell's testimony explains how the QIP Rider will be calculated and applied to customer billing; sponsors and describes the exhibits filed in support of the QIP Rider; and sponsors and describes the proposed new tariff. Mr. O'Neill's testimony describes the critical infrastructure issues facing the Company, and the need for an investment replacement rider to help enable Kentucky American Water to accelerate the replacement of its aging infrastructure.

11. Ms. Bridwell and Mr. O'Neill sponsor exhibits that explain the QIP Rider process from implementation through the annual reconciliation filing. In addition, Kentucky American Water is providing the exhibits enumerated below that provide thorough financial information regarding the calculations and projections associated with the QIP Rider. Ms. Bridwell sponsors these exhibits. The exhibits are similar to those provided by other utilities in support of surcharges. Kentucky American Water is also filing the workpapers for these exhibits.

- Exhibit 1 - QIP Surcharge by Bill Class
- Exhibit 2 - Forecasted QIP Revenue Requirement for 2018
- Exhibit 3 - Cost of Capital
- Exhibit 4 - 2018 Plant Additions and Depreciation
- Exhibit 5 - 2017 Plant Additions and Depreciation

- Exhibit 6 - Summary of Deferred Taxes and Proration
- Exhibit 7 - Deferred Tax Calculation – Federal
- Exhibit 8 - Deferred Tax Calculation – State
- Exhibit 9 - Income Tax Calculation to Determine NOL Deferred Tax Asset
- Exhibit 10 - Development of QIP Plant Excluded from Base Rates
- Exhibit 11 - Summary of Net Property, Plant & Equipment
- Exhibit 12 - Billing Determinants by Bill Class

12. In accordance with 807 KAR 5: 011, Sections 5 and 6, Kentucky American Water has included the proposed tariff as an exhibit to the direct testimony of Ms. Bridwell. The tariff complies with the requirements in the aforesaid regulations except that the Company has filed this Application on the Commission’s electronic filing system, instead of the tariff filing system, given the documents Kentucky American Water is providing to prove the reasonableness of its request.

13. In accordance with 807 KAR 5:011, Section 8, Kentucky American Water mailed a written notice to each customer on August 4, 2017. A copy of the notice is attached as Exhibit 13 to this Application.

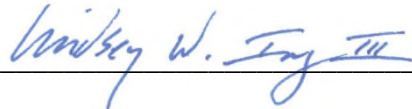
14. Because this is not a general base rate case and Kentucky American Water only seeks approval of a new tariff to establish the requested QIP Rider, the Company has not filed the exhibits required by 807 KAR 5:001, Section 16. Instead, as explained in the preceding paragraphs, Kentucky American Water has filed thorough financial and engineering information regarding the QIP Rider in a manner similar to other surcharge and tariff proceedings. If the Commission were to find that the requested surcharge somehow falls within 807 KAR 5:001, Section 16, the Company requests a deviation from those rate case filing requirements pursuant

to 807 KAR 5:001, Section 22. Such a deviation would be appropriate given that: Kentucky American Water has provided the relevant information necessary to decide this case in this Application and the accompanying testimony and information; Kentucky American Water will provide any further requested information via in discovery in this case; and the 807 KAR 5:001, Section 16 filing requirements have no bearing on the proposed tariff.

WHEREFORE Kentucky American Water respectfully requests the Commission approve the QIP Rider for service provided on and after January 1, 2018 as proposed in the tariff attached to Ms. Bridwell's testimony.

Date: August 4, 2017

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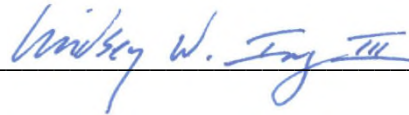
BY:  _____

Attorneys for Kentucky-American Water Company

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 August 4, 2017; 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.

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By 

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