

COMMONWEALTH OF KENTUCKY
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION OF THE IMPACT)	
OF THE TAX CUTS AND JOB ACT ON THE)	
RATES OF KENTUCKY-AMERICAN)	CASE NO. 2018-00042
WATER COMPANY)	

KENTUCKY-AMERICAN WATER
COMPANY'S NOTICE OF AMOUNT OF DEFERRED LIABILITY

Kentucky-American Water Company (“KAW”), by counsel, hereby reports the amounts it has recorded as a deferred liability for the period January 1, 2018 through June 30, 2018 based on the reduction in the federal income tax (“FIT”) rate from 35 to 21 percent in the Tax Cuts and Jobs Act. In John Wilde’s January 26, 2018 direct testimony in this matter, he explained that, based on the 12-month period ending August 31, 2017, KAW estimated the deferred liability amount for 2018 to be \$5,404,718 for water customers and \$14,160 for sewer customers.¹ Having closed its books for the first six months of 2018 (through June 30, 2018), KAW hereby reports that the actual deferred liability amount is \$2,398,230 for water customers and \$2,996 for sewer customers for the first six months of 2018. KAW has also calculated an estimated July reserve, and anticipates a small addition reserve of approximately \$12,000 to true up a rounded number, bringing the total reserve to \$2,968,920 for water customers and \$3,491 for sewer customers. The calculations are shown on Exhibit A. These amounts are FIT expense amounts only and do not include anything in the way of amounts related to accumulated deferred income taxes, or “ADIT.”

¹ See John H. Wilde’s January 26, 2018 Direct Testimony, p. 8.

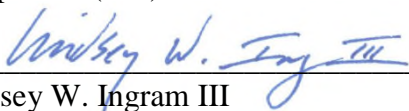
Exhibit C to Mr. Wilde's Direct Testimony set forth a rate reduction and a rate design based on the estimated FIT deferred liability provided therein. With the deferred liability results provided above for the first seven months of 2018, and Mr. Wilde's calculation of the annual amount, KAW hereby provides the rate reduction and rate design set forth in attached Exhibit B. These rates are designed to return the deferred liability for the first seven months of 2018 to customers over the course of eleven months. They are also designed to provide eleven months' worth of annual tax savings to customers over that same time period. KAW stands ready to implement the rate reduction described in Exhibit B on or about August 1, 2018 or within a reasonable time period after the Commission issues an Order authorizing the proposed reduction. KAW anticipates making additional filings, either through this docket or a general rate case, in order to propose rates to be effective after the eleven month period is complete which would be on or about June 30, 2019.

Date: July 23, 2018

Respectfully submitted,

STOLL KEENON OGDEN PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000

By:



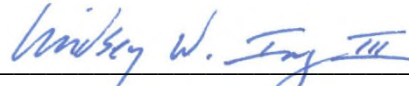
Lindsey W. Ingram III
L.Ingram@skofirm.com

Monica H. Braun
monica.braun@skofirm.com

Counsel for Kentucky-American Water Company

CERTIFICATE OF COMPLIANCE

In accordance with 807 KAR 5:001, Section 8(7), this is to certify that KAW's July 23, 2018 electronic filing is a true and accurate copy of the documents being filed in paper medium; that the electronic filing has been transmitted to the Commission on July 23, 2018; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that an original and six (6) copies of the filing are being hand delivered to the Commission within two (2) business days.



*Counsel for Kentucky-American Water
Company*

Kentucky American Water Company
Case No. 2018-00042

11-Month Federal Income Tax Calculation - Estimated Revenue for Return

	A YTD June Revenue	B=H*Auth Rev Estimated July Revenue	C=A+B Total Basis Revenue	D TCJA Reduction %	E=C*D Total Stub Revenue	F Test Year July Sales	G Test Year Sales	H=F/G July %
Residential ¹	\$14,817,987	\$3,620,853	\$18,438,840	-9.03%	(\$1,665,898)	601,695	5,575,259	10.79%
Commercial ¹	\$8,005,203	\$1,812,368	\$9,817,571	-7.44%	(\$730,296)	355,718	3,487,266	10.20%
Industrial ¹	\$1,119,154	\$244,339	\$1,363,493	-6.20%	(\$84,487)	56,718	619,086	9.16%
OPA ¹	\$2,207,666	\$524,691	\$2,732,357	-6.82%	(\$186,392)	114,017	1,196,002	9.53%
SFR ¹	\$799,034	\$184,133	\$983,167	-6.15%	(\$60,454)	42,562	403,500	10.55%
Private Fire	\$1,499,728	\$249,955	\$1,749,683	-5.88%	(\$102,871)			
Public Fire	\$2,017,103	\$336,184	\$2,353,287	-5.89%	(\$138,522)			
Sewer ²	\$102,614	\$17,102	\$119,716	-2.92%	(\$3,491)			
	<u>\$30,568,489</u>	<u>\$6,989,625</u>	<u>\$37,558,114</u>		<u>(\$2,972,411)</u>	<u>1,170,710</u>	<u>11,281,113</u>	
		I Annual Federal Tax Difference	J=I*O Federal Tax 11-Month Difference	K=E Stub Revenue Deferred	L=J+K Total 11-Month Revenue	M Test Year Sales W/O July	N=G Test Year Sales	O=M/N 11 Month %
Residential		(\$3,031,826)	(\$2,704,692)	(\$1,665,898)	(\$4,370,590)	4,973,564	5,575,259	89.21%
Commercial		(1,321,674)	(1,186,863)	(730,296)	(1,917,159)	3,131,548	3,487,266	89.80%
Industrial		(165,110)	(149,986)	(84,487)	(234,473)	562,368	619,086	90.84%
Other Public Authority		(376,621)	(340,729)	(186,392)	(527,121)	1,081,985	1,196,002	90.47%
Sale for Resale		(107,331)	(96,008)	(60,454)	(156,462)	360,938	403,500	89.45%
Private Fire Service:		(160,991)	(147,575)	(102,871)	(250,446)			
Public Fire Service		(236,479)	(216,772)	(138,522)	(355,294)			
Miscellaneous		(5,032)	(4,613)		(4,613)	4004	4,368	91.67%
Other Water Revenue		0	0		0			
Sewer		(14,160)	(12,980)	(3,491)	(16,471)			
		<u>(\$5,419,224)</u>	<u>(\$4,860,218)</u>	<u>(\$2,972,411)</u>	<u>(\$7,832,629)</u>	<u>10,114,407</u>	<u>11,285,481</u>	

¹Billed Usage Revenue Only

²Excludes districts Millersburg and East Rockcastle

Kentucky American Water Company
Case No. 2018-00042
Revenue at Present and Proposed Rates
Forecast Test Year for the 11 Months Excluding July

Line No.	Rate Classification (A)	Sales (B)	Revenues at Current Rates (C)	Revenues at Proposed Rates (D)	Revenues Change (Amt) (E)	Revenues Change (F)
1						
2						
3						
4	Residential	4,973,564	\$46,478,819	\$42,107,056	(\$4,371,763)	-9.41%
5	Commercial	3,131,548	20,288,973	18,371,840	(1,917,133)	-9.45%
6	Industrial	562,368	2,552,469	2,318,130	(234,339)	-9.18%
7	Other Public Authority	1,081,985	5,808,579	5,281,219	(527,360)	-9.08%
8	Sale for Resale	360,938	1,637,554	1,481,088	(156,466)	-9.55%
9	Private Fire Service:	0	2,510,348	2,259,868	(250,480)	-9.98%
10	Public Fire Service	0	3,682,660	3,327,417	(355,243)	-9.65%
11	Miscellaneous	4,004	77,595	72,982	(4,613)	-5.94%
12	Other Water Revenue	0	0	0	0	0.00%
13						
14	Total	<u>10,114,407</u>	<u>\$83,036,997</u>	<u>\$75,219,600</u>	<u>(\$7,817,397)</u>	<u>-9.41%</u>
15						
16	Proforma Other Operating Revenues					
17	Other Water Revenue		\$0	\$0	\$0	0.00%
18	Late Payment Fee		\$781,587	781,587	0	0.00%
19	Rent		\$63,877	63,877	0	0.00%
20	Rent I/C		\$59,950	59,950	0	0.00%
21	Collect for Others		\$0	0	0	0.00%
22	NSF Check Charge		\$29,464	29,464	0	0.00%
23	Application/Initiation Fee		\$681,581	681,581	0	0.00%
24	Usage Data		\$48,248	48,248	0	0.00%
25	Reconnect Fee		\$274,638	274,638	0	0.00%
26	Miscellaneous Service		\$54,083	54,083	0	0.00%
27						
28	AFUDC		642,356	642,356	0	0.00%
29						
30	Proforma Tota Operating Revenues		<u>\$85,672,781</u>	<u>\$77,855,384</u>	<u>(\$7,817,397)</u>	<u>-9.12%</u>

**Kentucky American Water Company
Case No. 2018-00042
Present and Proposed Rates (for 11 Months Through June 2019)**

WATER

Water - Meter Rates	Rate Per 100 Gallons		
	Current	Proposed	% Change
Residential	\$0.6019	\$0.5140	-14.6%
Commercial	0.5095	0.4483	-12.0%
Industrial	0.4309	0.3892	-9.7%
Municipal& Other Public Authority	0.4603	0.4116	-10.6%
Sale for Resale	0.4326	0.3892	-10.0%
Miscellaneous	0.4500	0.3348	-25.6%

Water - Service Charges	Residential			All Other Classes		
	Current	Proposed	% Change	Current	Proposed	% Change
5/8"	\$12.49	\$12.49	0.0%	\$13.63	\$13.63	0.0%
3/4"	18.74	18.74	0.0%	20.46	20.46	0.0%
1"	31.23	31.23	0.0%	34.07	34.07	0.0%
1-1/2"	62.45	62.45	0.0%	68.17	68.17	0.0%
2"	99.92	99.92	0.0%	109.04	109.04	0.0%
3"	187.35	187.35	0.0%	204.47	204.47	0.0%
4"	312.25	312.25	0.0%	340.77	340.77	0.0%
6"	624.50	624.50	0.0%	681.50	681.50	0.0%
8"	999.20	999.20	0.0%	1,090.40	1,090.40	0.0%

Fire Connections - Monthly Rate	Current	Proposed	% Change
2" Diameter	\$9.13	\$8.22	-9.97%
4" Diameter	36.76	33.09	-9.98%
6" Diameter	82.68	74.43	-9.98%
8" Diameter	146.98	132.32	-9.97%
10" Diameter	229.72	206.80	-9.98%
12" Diameter	331.26	298.21	-9.98%
14" Diameter	450.45	423.96	-5.88%
16" Diameter	588.21	529.52	-9.98%
Private Hydrant	79.77	71.81	-9.98%
Public Hydrant	44.68	40.37	-9.65%

**Kentucky American Water Company
Case No. 2018-00042
Present and Proposed Rates (for 11 Months Through June 2019)**

<u>SEWER</u>	Current	Proposed	% Change	Authorized 7/2/2018	Proposed	% Change
Rockwell Village						
First 12,000 gallons	\$30.06	\$29.18	-2.92%	\$34.00	\$32.74	-3.70%
Over 12,000 gallons (per 100 gal)	0.2504	0.2431	-2.92%	0.283	0.273	-3.70%
					0	
Owenton					0	
First 2,000 gallons (per 100 gal)	25.02	24.29	-2.92%	28.29	27.24	-3.70%
Next 1,000 gallons (per 100 gal)	1.136	1.103	-2.92%	1.285	1.237	-3.70%
Next 2,000 gallons (per 100 gal)	0.894	0.868	-2.92%	1.011	0.974	-3.70%
Next 5,000 gallons (per 100 gal)	0.81	0.786	-2.92%	0.916	0.882	-3.70%
Next 10,000 gallons (per 100 gal)	0.724	0.703	-2.92%	0.819	0.789	-3.70%
Next 20,000 gallons (per 100 gal)	0.639	0.620	-2.92%	0.722	0.695	-3.70%
All over 40,000 gallons (per 100 gal)	0.608	0.590	-2.92%	0.689	0.664	-3.70%
Millersburg (per 100 gal)	1.16	1.16	0.00%			
Ridgewood	36.57	35.22	-3.70%			