

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY-)	
AMERICAN WATER COMPANY FOR)	CASE NO. 2020-00027
ESTABLISHMENT OF QUALIFIED)	
INFRASTRUCTURE PROGRAM RATES)	

DIRECT TESTIMONY OF ELAINE K. CHAMBERS
DIRECTOR, RATES AND REGULATORY
KENTUCKY-AMERICAN WATER COMPANY, INC.

Filed: March 2, 2020

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1 I. INTRODUCTION

2 Q. Please state your name, position, and business address.

3 A. My name is Elaine K. Chambers. I am the Director, Rates and Regulatory for American
4 Water Works Company, Inc.'s Southeast Division which includes Kentucky-American
5 Water Company, Inc. ("KAW" or "the Company"). My business address is 2300
6 Richmond Road, Lexington, Kentucky 40502.

7 Q. Have you previously filed testimony at the Kentucky Public Service Commission
8 ("Commission")?

9 A. No, but I have filed testimony in numerous other proceedings before regulatory
10 commissions. I submitted an affidavit in support of Federal Energy Regulatory
11 Commission proceeding EL05-55-001, while employed by the Midcontinent Independent
12 System Operator ("MISO"). I also submitted testimony for Indianapolis Power and Light
13 Company's case in chief in the following Cause Nos.: 44576, 44893, and 45029. I have
14 also submitted testimony for various Tennessee Public Utility Commission dockets.

15 Q. Please state your educational and professional background.

16 A. I have a Bachelor of Science degree from the University of Indianapolis in Accounting. I
17 also have a Master of Business Administration from the University of Indianapolis, and I
18 am a Certified Public Accountant in the State of Indiana. I have twenty-one years of
19 experience at Indianapolis Power and Light Company, twelve of which have been in the
20 Rates area. I also have experience in energy consulting with Andersen and Black &
21 Veatch. While employed by MISO, I managed the transmission and market settlement
22 functions, along with dispute resolution. At Exelon, I managed various Information
23 Technology initiatives, which included merger and acquisition responsibilities. I have
24 now been with KAW approximately 13 months.

1 **Q. What is the purpose of your direct testimony?**

2 A. The purpose of my testimony is to support the calculation of KAW's initial filing of the
3 Qualified Infrastructure Program Rider ("QIP Rider") which was approved by Order of the
4 Kentucky Public Service Commission ("Commission") in Case No. 2018-00358 dated
5 June 27, 2019.

6 **II. DESCRIPTION OF THE QIP RIDER**

7 **Q. Please explain the purpose of the QIP Rider.**

8 A. The QIP Rider is a regulatory tool to provide for the recovery of the costs of capital,
9 depreciation and taxes associated with qualified infrastructure investment between base
10 rate case filings. KAW's tariff on file with the Commission described the QIP Rider at
11 Sheet Nos. 48-49.

12 **Q. What are Qualified Infrastructure Investments under this program?**

13 A. The QIP Rider will apply only to qualified, non-revenue producing plant investment that
14 is incremental to recovery from the rates established in the Company's most recent base
15 water rates proceeding (Case No. 2018-00358). The types of qualified investment include
16 distribution and water treatment infrastructure, as described in Kurt A. Stafford's testimony
17 and in KAW's QIP Rider Tariff Sheets.

18 **Q. Is KAW proposing in this case an amount that will be charged to customers as a line
19 item on customer bills?**

20 A. Yes. KAW seeks the Commission's approval of a new QIP amount that will appear on
21 customer bills effective July 1, 2020. The amount requested is set forth in the proposed
22 tariff sheet attached to KAW's Application in this case and is 1.62%.

23 **Q. What will happen to the QIP Rider amount upon approval of new rates in a rate case
24 proceeding?**

1 A. The QIP Rider amount will be reset to zero as of the effective date of the new base rates.
2 Upon reset, the base rates would be providing recovery of the annual costs that had
3 previously been recovered through the QIP.

4 **Q. Does the QIP Rider Include a Balancing Adjustment?**

5 A. Yes. The QIP mechanism, as approved by this Commission and as set forth in KAW's
6 tariff, includes an annual Balancing Adjustment Filing. This filing will be made within 90
7 days after the conclusion of the first QIP period, ending June 30, 2021, which would make
8 the balancing adjustment filing due by September 28, 2021.

9 **Q. How will the QIP be billed to customers?**

10 A. The QIP is expressed as a percent of water and fire service charges for each customer class
11 included in the QIP tariff. It would be applied to all Water Revenue (meter fees, fire service
12 fees, public or private hydrant fees, and volumetric water sales), but prior to the inclusion
13 of any other surcharge or tax (such as franchise fees or Kentucky River Authority
14 withdrawal fees). The QIP will be reflected as a line item on each customer's bill.

15 **III. KEY COMPONENTS OF THE QIP RIDER**

16
17 **Q. What is the QIP test period in this filing?**

18 A. July 1, 2020 – June 30, 2021.

19 **Q. Does this filing include a detailed listing of each qualifying QIP project for which**
20 **recovery is sought under this rider?**

21 A. Yes. KAW witness Kurt Stafford will discuss the details of the qualifying QIP projects for
22 which recovery is sought in this case.

23 **Q. Please describe the QIP revenue requirement calculation.**

24 A. The components of the revenue requirement calculation include:

1 1. Pre-Tax Return: The qualified additions and removal expenditures, less the related
2 accumulated depreciation and QIP related accumulated deferred income taxes, are
3 multiplied by the authorized rate of return of on capital, grossed up for federal and
4 state taxes.

5 2. Depreciation and Property Tax Expense: The qualified plant additions are reduced
6 by the retirements associated with the QIP eligible additions in the calculation of
7 applicable depreciation and property tax expense.

8 The depreciation rates last approved by the Commission, for the respective plant
9 accounts in which the specific items of QIP-eligible plant are recorded, are used to
10 determine the depreciation expense.

11 The property tax rate for QIP utility plant is estimated at 1.15%.

12 3. Total QIP Revenue Requirement: The total QIP revenue requirement is equal to
13 the pre-tax return plus the depreciation and property tax.

14 4. QIP Percentage: The QIP percentage is calculated by dividing the QIP revenue
15 requirement by the total authorized Water Revenues for classes listed on the QIP
16 tariff sheet.

17 **IV. QIP CALCULATION AND PROPOSED TARIFF**

18
19 **Q. Have you included the calculation of the QIP Rider in this petition?**

20 A. Yes. The revenue requirement calculation is attached as Exhibit 1. All supporting
21 calculations for the revenue requirement are set forth in the Excel file being submitted
22 electronically along with this testimony.

23 **Q. What is the Net Change to Gross Plant in this filing?**

1 A. KAW is proposing QIP Plant Additions of \$13,470,000 less Retirements of -\$975,553, for
2 a Net Change to Gross Plant of \$12,494,447. Additional plant addition details are found
3 on the workbook sheet labelled Placed in Service. Retirements are calculated by taking the
4 Plant Additions of \$13,470,000 times the average of the most current three years retirement
5 rate of 7.24%, arriving at -\$975,553. Retirement detail used to determine the retirement
6 rate is located on the workbook sheet labelled Retirement Ratio.

7 **Q. What is the Net Change to Accumulated Depreciation in this filing?**

8 A. KAW has calculated the Net Change to Accumulated Depreciation as \$1,992,560. The
9 components include Cost of Removal of \$1,292,015 plus retirements of \$975,553 less the
10 Depreciation Accrual of -\$275,008. Details of the Cost of Removal may be found on the
11 workbook sheet labelled Placed in Service. Retirement rate detail is found in the workbook
12 sheet labelled Retirement Ratio, as discussed above. The Depreciation Accrual was
13 calculated by taking a composite depreciation rate of 2.20% times the Net Plant of
14 \$12,494,447 to arrive at \$275,008. Additional detail for the composite rate of the
15 Depreciation Accrual is found in the workbook sheet labelled Depreciation Rates.

16 **Q. What is the Net Change to Rate Base in this filing?**

17 A. Net Change to Rate Base is \$12,767,190. This is calculated by taking the Net Change to
18 Net Plant of \$14,487,007 less the Accumulated Deferred Taxes of -\$1,719,817. Additional
19 details of the Accumulated Deferred Taxes can be found on the workbook sheet labelled
20 Deferred Income Taxes.

21 **Q. What is the Proposed QIP Revenue Requirement and QIP Rider Percentage KAW is**
22 **requesting?**

1 A. KAW is proposing a QIP rider that would result in an annualized revenue recovery of
2 \$1,603,757 for the 12-month period July 1, 2020 to June 30, 2021 or a QIP percentage of
3 1.62%. This represents an increase to the average residential customer of \$.60 per month.
4 The QIP Revenue on Net Change to Rate base is \$1,185,063 which is the product of Net
5 Change to Rate Base of \$12,767,190 times the Pre-Tax Rate of Return authorized in the
6 last rate case of 9.28%. Adding Depreciation Expense of \$275,008 and Property Taxes of
7 \$143,686 to the QIP Revenue on Net Change to Rate base arrives at the total revenue
8 Requirement of \$1,603,757. Property Taxes were calculated based on the property tax rate
9 of 1.15%, as shown on the workbook sheet labelled Property Taxes. Additional
10 assumptions are documented on the workbook sheet labelled Assumptions.

11 The QIP Percentage was calculated by taking the QIP Revenue Requirement divided by
12 the authorized revenues from the last rate case of \$98,880,622. These calculations are
13 summarized on the attachment to my testimony in the workbook sheet labelled QIP
14 Revenues.

15 **Q. Has KAW filed a tariff addressing the proposed QIP Rider?**

16 A. Yes. New proposed tariff sheets are attached to the Application and include a Second Sheet
17 No. 49 setting forth the 1.62%.

18 V. CONCLUSION

19 **Q. What is your recommendation for the Commission?**

20 A. I recommend that the Commission approve the implementation of the QIP percentage in
21 this filing.


22 **Q. Does this conclude your testimony?**

23 A. Yes, it does.

VERIFICATION

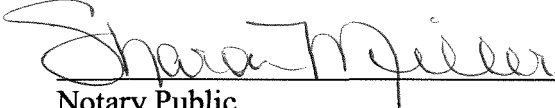
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF FAYETTE)

The undersigned, Elaine K. Chambers, being duly sworn, deposes and says that she is the Director of Rates and Regulatory for Kentucky-American Water Company, that she has personal knowledge of the matters set forth in the foregoing testimony and that the answers contained therein are true and correct to the best of her information, knowledge and belief.



Elaine K. Chambers

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 29th day of March, 2020.



Notary Public

My Commission Expires:

7/25/2020

Kentucky American Water Company
Case No. 2020-00027
QIP Revenues

Line No.		July 2020 - June 2021
1	QIP Plant Additions	\$13,470,000
2	Retirements	(975,553)
3	Net Change to Gross Plant	<u>12,494,447</u>
4		
5	Cost of Removal	1,292,015
6	Retirements	975,553
7	Depreciation Accrual	(275,008)
8	Net Change to Accum Depr	<u>1,992,560</u>
9		
10	Net Change to Net Plant	14,487,007
11	Accumulated Deferred Taxes	(1,719,817)
12	Net Change to Rate Base	<u>12,767,190</u>
13	Pre-Tax Rate of Return	<u>9.28%</u>
14	QIP Revenue on Net Change to Rate Base	1,185,063
15	QIP Depreciation Expense	275,008
16	QIP Property Taxes	<u>143,686</u>
17		
18	QIP Revenue Requirement Rate Adj	<u><u>\$1,603,757</u></u>
19		
20	Authorized Revenues 2018-0358	<u>\$98,880,622</u>
21	QIP Rider Charge	<u><u>1.62%</u></u>