

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2020-00091
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

Witness: Scott Rungren

1. Refer to the June 27, 2019 Order Case No. 2018-00358,² page 55, Kentucky-American's authorized forecasted capital structure, and page 66, the assigned cost rates for the forecasted capital structure.
 - a. Provide a revised Cost of Capital Summary similar to Exhibit 37, Schedule J of the application for Case No. 2018-00358 reflecting the impact the November 14, 2019 Long-Term Debt refinancing of \$71,390,000 (November 2019 Refinancing) would have on the weighted cost of long-term debt of 5.86 percent and the Commission's authorized overall weighted cost of capital of 7.69 percent.
 - b. Provide a schedule comparing Kentucky-American's forecasted capital structure and assigned cost rates to the capital structure and cost rates that would have been authorized if the November 2019 Refinancing had been included in Kentucky-American's forecast.
 - c. The schedules and supporting calculations provided in the responses to Item 1.a and Item 1.b, should be in Excel format with all formulas intact and cells unprotected.

Response:

- a. Please see KAW_R_PSCDR1_NUM001_042720_Attachment 1. Within this Excel file refer to the tab labelled "Sch J-1" for the Cost of Capital Summary.
- b. Please see KAW_R_PSCDR1_NUM001_042720_Attachment 2. Within this Excel file refer to the tab labelled "Sch J-1_Original" for the Company's forecasted capital structure and weighted costs of capital, and see the tab labelled "Sch J-1_Updated" for the same forecast adjusted for the actual terms of the November 2019 tax-exempt debt refinancing.
- c. These have been provided as noted in the responses to Parts (a) and (b) above.

² Case No. 2018-00358, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates*, (Ky. PSC Jun. 27, 2019).

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Witness: Elaine Chambers

2. Refer to the June 27, 2019 Order in Case No. 2018-00358, page 66, the Commission's calculation of Kentucky-American's Operating Deficiency of \$9,944,052. Provide a schedule comparing Kentucky-American's calculation of its Operating Deficiency using the overall weighted cost of capital calculated in its response to Item 1.b to the Operating Deficiency calculation contained in the Commission's Order. The comparative schedule and any supporting calculations should be provided in an Excel format with all formulas intact and cells unprotected.

Response:

After consultation with Commission Staff, KAW has utilized the overall weighted cost of capital provided in response to PSC 1-1(a). Based on that, please see KAW_R_PSCDR1_NUM002_042720_Attachment.

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Witness: Elaine Chambers

3. Kentucky-American determined that its November 2019 Refinancing resulted in an interest expense savings of \$1,331,165 for November 14, 2019, through June 30, 2020, and proposed to return those savings to its ratepayers via a one-time line item of credit on bills beginning on or about July 1, 2020. Describe the mechanism Kentucky-American proposes to use to return to its ratepayers the interest expense savings from the November 2019 Refinancing for the period from July 1, 2020, until the filing of its next rate case. The schedules and supporting calculations provided in this response should be in an Excel format with all formulas intact and cells unprotected.

Response:

Kentucky-American stands by its existing April 8, 2020 proposal to issue a one-time credit on customer bills on or about July 1, 2020 for a total credit amount of \$1,331,165 which represents the entire savings achieved from November 14, 2019 to June 30, 2020. That proposal was directly responsive to the Commission's March 24, 2020 Order in this case which, appropriately, sought a proposal for savings *only* for the period of November 14, 2019 to June 30, 2020. Kentucky-American agrees with the implication of the Commission's March 24, 2020 Order that the only relevant time period for considering savings is from November 14, 2019 to June 30, 2020 because June 30, 2020 is the last day of the forecasted test period used to set rates that became final when the Commission issued its June 27, 2019 Order in Kentucky-American's base rate case (Case No. 2018-00358).

In addition to being consistent with the Commission's March 24, 2020 Order in this matter, Kentucky-American's proposal was limited only to the period through June 30, 2020 because that is the same time period Kentucky-American suggested should be used when it alerted the Commission to this issue in its rebuttal testimony in Case No. 2018-00358.²

Moreover, Kentucky-American's proposal is to return the *entire* amount of savings achieved for the relevant time period without any sort of offset or "netting" of items that have occurred to Kentucky-American's detriment since the rate case was decided such as decreased revenues from the loss of a significant sale-for-resale customer. Kentucky-American intentionally proposed that entire amount with no netting because it wanted to pass to customers all of those savings in a simple and expeditious manner. However, with all due respect to the Commission, Kentucky-American's proposal ends at June 30, 2020 and Kentucky-American believes it should be allowed to retain any savings after that date, just as it must bear the burden of any ordinary decreased revenues or increased expenses suffered since the rate case concluded.

² Case No. 2018-00358, *In the Matter of: Electronic Application of Kentucky-American Water Company for an Adjustment of Rates*, Rebuttal Testimony of Melissa L. Schwarzell, April 30, 2019, pp. 26-27.

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Witness: Elaine Chambers

4. Refer to Case No. 2020-00027,³ Kentucky-American's Application request for Commission authorization of its Qualified Infrastructure Program (QIP) Rider, Direct Testimony of Elaine Chambers, Workpaper KAW_DT_EKC_WP_030220.xlsx (Chambers Workpaper Spreadsheet).
- a. Provide a detailed explanation of how the November 2019 Refinancing impact of Kentucky-American's overall weighted cost of capital as calculated in the response to Item 1.b will have on Kentucky-American's requested QIP Rider.
 - b. Provide a revised copy of the Chambers Workpaper Spreadsheet reflecting the weighted cost of capital as calculated in the response to Item 1.b. The revised workpaper and any supporting calculations should be provided in an Excel format with all formulas intact and cells unprotected.

Response:

- a. After consultation with Commission Staff, KAW has utilized the overall weighted cost of capital provided in response to PSC 1-1(a). Based on that, the November 2019 Refinancing impact of Kentucky-American's overall weighted cost of capital as calculated in the response to PSC 1-1(a) would decrease the amount that Kentucky-American has requested for the QIP Rider from \$1,603,757 to \$1,534,993.
- b. Please see KAW_R_PSCDR1_NUM004_042720_Attachment.

³ Case No. 2020-00027, *Electronic Application of Kentucky-American Water Company to Amend Tariff for the Establishment of Qualified Infrastructure Program Charge* filed Mar. 2, 2020.

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Witness: Elaine Chambers

5. Refer to Kentucky-American's Proposal, page 2. Explain how Kentucky-American calculated the 16 percent credit of each customer's total bill. Provide any supporting calculations in Excel format with all formulas intact and cells unprotected.

Response:

Please see KAW_R_PSCDR1_NUM005_042720_Attachment.

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6. Refer to the August 30, 2018 Order in Case No. 2018-00042,⁴ page 5. For the change in rates due to the Tax Cuts and Job Act, Kentucky-American estimated the tax savings, determined the proportional amount of savings for each customer class based on each class's test-year revenue, and then calculated the rate. Explain whether Kentucky-American supports a similar rate design for the impact of the November 2019 Refinancing.

Response:

Please see KAW_R_PSCDR1_NUM005_042720_Attachment. Kentucky-American proposed a flat percentage of bill line item credit as shown in KAW_R_PSCDR1_NUM005_042720_Attachment. However, if the Commission wishes Kentucky-American to distribute the funds similar to the customer class methodology used in Case No. 2018-00042, Kentucky-American is willing to do so.

⁴ Case No. 2018-00042, *Electronic Investigation of the Impact of the Tax Cuts and Job Act on the Rates of Kentucky-American Water Company* (Ky. PSC Dec. 21, 2018).