

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

IN THE MATTER OF:)	
)	
ELECTRONIC INVESTIGATION INTO)	
KENTUCKY-AMERICAN WATER COMPANY’S)	CASE NO. 2020-00091
PROPOSAL TO IMPLEMENT A RATE)	
MECHANISM RELATED TO COST SAVINGS)	
FROM REFINANCING OF LONG-TERM DEBT)	

KENTUCKY-AMERICAN WATER COMPANY’S RESPONSE COMMENTS

Pursuant to the Commission’s Order dated April 13, 2020, Kentucky-American Water Company (“KAW”) hereby submits its response comments. Since KAW first notified the Commission of its plan to refinance some of its long-term debt, KAW has taken numerous affirmative steps to inform the Commission of its plans for refinancing and to suggest a method to allow customers to share in the refinancing savings. Now, KAW respectfully submits it is time for the Commission to approve KAW’s April 8, 2020 proposal allowing KAW to issue one-time credits to customers in the total approximate amount of over \$1.3 million and close this matter.

In KAW’s last base rate case, KAW raised the possibility of the future refinancing of some of its existing long-term debt to achieve a lower interest rate, thereby reducing its long-term debt interest expense.¹ KAW sought Commission approval for the possible refinancing pursuant to KRS 278.300 in a separate proceeding, which it filed on March 8, 2019.² The Commission approved the proposed possible refinancing by Order dated April 23, 2019.³ KAW explained in

¹ *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates*, Case No. 2018-00358, Rebuttal Testimony of Melissa L. Schwarzell at 26-27 (Ky. PSC Apr. 30, 2019).

² *Electronic Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corporation Pursuant to KRS 278.300*, Case No. 2019-00083, Application (Ky. PSC Mar. 8, 2019).

³ *Electronic Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corporation Pursuant to KRS 278.300*, Case No. 2019-00083, Order (Ky. PSC Apr. 23, 2019).

the rate case that “uncertainties preclude a precise rate case adjustment at this time.”⁴ Instead, KAW proposed to “defer any savings achieved and to make a filing within 90 days of the end of the test year to determine if any change of rates is appropriate.”⁵ The end of the test year in the rate case is June 30, 2020. The Commission issued its final Order in Case No. 2018-00358 on June 27, 2019. The Order did not discuss the possible refinancing.

As KAW had hoped, nearly five months after the conclusion of Case No. 2018-00358, KAW was able to refinance \$71,390,000 of its long-term debt at a lower interest rate on November 14, 2019. Of the \$71.39 million of debt, \$45.39 million of it was originally procured at an interest rate of 6.25% and \$26 million of it was originally procured at an interest rate of 5.625%. All of the \$71.39 million was refinanced at the lower interest rate of 2.45% on November 14, 2019. KAW informed the Commission of that refinancing and of the new and lower interest rate on November 25, 2019.⁶

The Commission’s March 24, 2020 Order in this matter sought KAW’s proposal as to how the interest expense savings achieved between November 14, 2019 and June 30, 2020 (the end of the forecasted period used in Case No. 2018-00358) could be provided to customers so they would receive the benefit of those savings. In response, KAW proposed to provide the entire savings amount of \$1,331,165⁷ for the relevant time period (November 14, 2019 to June 30, 2020) to customers via a one-time line item credit on bills beginning on or about July 1, 2020.⁸ For a typical residential customer with a \$40 invoice, the credit would be approximately \$6.40. KAW also proposed the procedure for including the one-time line item credit on customer bills. KAW’s

⁴ *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates*, Case No. 2018-00358, Rebuttal Testimony of Melissa L. Schwarzell at 26-27 (Ky. PSC Apr. 30, 2019).

⁵ *Id.*

⁶ See KAW’s November 25, 2019 Ordering Paragraph 5 Report in Case No. 2019-00083.

⁷ In its filing on April 8, 2020, KAW submitted an Excel file showing the calculations used to compute the total savings of \$1,331,165 broken down by each month for the period November 2019 through June 2020.

⁸ KAW’s Proposal (Ky. PSC Apr. 8, 2020).

proposal is generous, as it proposes to return *all* refinancing savings experienced in the time period requested by the Commission to customers without any offsetting or netting for items that have worked to KAW's detriment since the rate case concluded, several of which have been significant.

The Commission Staff issued its First Request for Information in this case on April 15, 2020. That information request sought another proposal from KAW for a different time period. It asked KAW to explain how it "propose[d] to return to its ratepayers the interest expense savings . . . for the period from July 1, 2020, until the filing of its next rate case."⁹ In response, KAW explained that its proposal to issue a one-time credit on customer bills representing the entire savings achieved from November 14, 2019 to June 30, 2020 was directly responsive to the Commission's March 24, 2020 Order in this case. KAW explained that it agrees with the implication of that Order that the only relevant time period is November 14, 2019 to June 30, 2020, as June 30, 2020 is the last day of the forecasted period used to set rates in the rate case. KAW also noted that the time period in the proposal is consistent with KAW's suggestion in the rate case rebuttal testimony. KAW explained that it proposes to return the *entire* amount of savings achieved through June 30, 2020 without any offset for items that have occurred since the rate case was decided so that savings may be passed to customers in a simple and expeditious manner.¹⁰ Finally, KAW explained that it believes it should be allowed to retain any savings after June 30, 2020, just as it must bear the burden of any ordinary decreased revenues or increased expenses suffered since the last rate case concluded. Certainly, if for some reason KAW needed to refinance long-term debt and had to accept a *higher* rate than the original rate, KAW would not ask to pass that increased expense to customers and the Commission would not allow it anyway. Thus, KAW

⁹ Commission Staff's First Request for Information, Question No. 3.

¹⁰ Since the rate case concluded, KAW has experienced the loss of a significant sale-for-resale customer and the economic effects of the COVID-19 pandemic. See KAW's May 15, 2020 responses to Items 1 and 2 of Commission Staff's Second Set of Information Requests.

continues to believe that it should be permitted to retain any savings achieved after June 30, 2020 and asks the Commission to make that specific finding and resolve this matter.

The Office of the Attorney General (“AG”) intervened in this case and issued data requests to which KAW responded on April 27, 2020. Following the completion of discovery, the AG submitted comments on May 18, 2020. The AG commented that it “is appreciative of KAW’s consideration and proposal of implementing a rate rebate from savings realized through refinancing of debt.”¹¹ The AG particularly noted that “[f]or KAW to do so during the current COVID-19 State of Emergency instead of seeking to keep the money is commendable.”¹² The AG encouraged the Commission to approve KAW’s plan as proposed. KAW appreciates and agrees with the AG’s position.

KAW continues to stand by the proposal it recommended in its April 8, 2020 Response and urges the Commission to approve the plan as proposed. To require KAW to give customers the savings associated with the refinancing beyond the end of the test year would be unjust and violate the rule against single-issue ratemaking.¹³ The Commission has defined single-issue ratemaking as “establishing rates based on one or a few expenses or revenue sources without consideration of potential offsets of changes in the expenses or revenues.”¹⁴ Considering changes to components of the revenue requirement in isolation is improper because “[o]ften times a change

¹¹ Attorney General’s Comments, Case No. 2020-00091 (May 18, 2020).

¹² *Id.*

¹³ Although the Commission has engaged in single-issue ratemaking in limited circumstances, it has indicated a reluctance to do so. *See, e.g., The Application of Louisville Gas and Electric Company for Approval of New Rate Tariffs Containing a Mechanism for the Pass-Through of MISO-Related Revenues and Costs Not Already Included in Existing Base Rates*, Case No. 2004-00459, Order (Ky. PSC Dec. 22, 2004) (“Simply stated, the pending applications appear to be requests for the Commission to engage in single-issue rate-making by focusing exclusively on one or more closely related items of revenue and expense, to the exclusion of all other items of revenue and expense. Although the Commission has, in limited instances, previously engaged in single-issue rate-making, those instances were either specifically authorized by statute or the result of a unanimous agreement by all parties with approval by the Commission.”).

¹⁴ *Application of Blue Grass Energy Cooperative Corporation for an Adjustment of Its Security Deposit and Cable Television Attachment Rates*, Case No. 2010-00185, Order (Ky. PSC Aug. 23, 2010).

in one item of the revenue formula is offset by a corresponding change in another component of the formula.”¹⁵ If the Commission were to require a refund for the refinancing savings beyond June 30, 2020, without considering offsets to changes in expenses or revenues, it would be engaging in single-issue ratemaking.

When the Commission initiated this case on March 24, 2020, it asked KAW to propose a plan to provide customers the interest expense savings achieved from the refinancing of long-term debt *through June 30, 2020*. KAW proposed, via a one-time credit on customer bills, to give customers \$1,331,165, which represents the *entire* amount of savings from refinancing through June 30, 2020. KAW’s proposal does not offset the savings with any additional expenses KAW has experienced or will experience through June 30, 2020. It is difficult to imagine a proposal that responded to the Commission’s request that is *more* advantageous to customers; KAW proposes to give back *all* savings as *quickly* as practicable via a one-time credit on customer bills. The AG agrees that this is a commendable proposal and has encouraged the Commission to approve the plan as proposed.

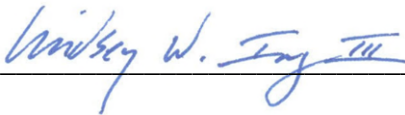
KAW respectfully requests the Commission approve KAW’s plan for providing interest expense savings to customers submitted on April 8, 2020 and resolve this matter by: (1) authorizing KAW to issue a one-time credit to all customers beginning on or about July 1, 2020 for a total credit amount of \$1,331,165; (2) approving the use of “One-time refi savings” language on customer bills describing the credit; (3) directing KAW to file a report within 60 days after all credits are issued showing the total amount of credits issued and the percentage used to derive the total amount; and (4) finding that KAW is permitted to retain all interest expense savings achieved after June 30, 2020.

¹⁵ *Big Rivers Electric Corporation’s Proposed Mechanism to Credit Customers Amounts Recovered in Judicial Proceedings Involving Fuel Procurement Contracts*, Case No. 1994-00453, Order (Ky. PSC Feb. 21, 1997).

The Commission's April 13, 2020 Order in this matter directed the parties to either request an evidentiary hearing or state that it may be submitted on the record. The AG has stated that the matter may be submitted on the record. KAW agrees that an evidentiary hearing is not necessary and that this matter may be submitted on the existing record.

Respectfully submitted,

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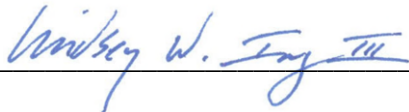
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Attorneys for Kentucky-American Water Company

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 May 27, 2020; that a paper copy of the filing will be delivered to the Commission in accordance with the Commission's March 16, 2020 Order in Case No. 2020-00085; and that no party has been excused from participation by electronic means.

STOLL KEENON OGDEN PLLC

By  _____

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