

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

**IN THE MATTER OF:**

<b>APPLICATION OF KENTUCKY-</b>	)	
<b>AMERICAN WATER COMPANY TO</b>	)	<b>CASE NO. 2021-00090</b>
<b>AMEND TARIFF TO REVISE QUALIFIED</b>	)	
<b>INFRASTRUCTURE PROGRAM CHARGE</b>	)	

**DIRECT TESTIMONY OF ELAINE K. CHAMBERS**

**Filed: March 26, 2021**

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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. Yes. I have testified in several Commission cases, including KAW's 2020 case to establish  
10 the initial Qualified Infrastructure Program ("QIP Rider") charge or rider which was Case  
11 No. 2020-00027.

12 Q. Please state your educational and professional background.

13 A. I have a Bachelor of Science degree from the University of Indianapolis in Accounting. I  
14 also have a Master of Business Administration from the University of Indianapolis, and I  
15 am a Certified Public Accountant in the State of Indiana. I have twenty-one years of  
16 experience at Indianapolis Power and Light Company, twelve of which have been in the  
17 Rates area. I also have experience in energy consulting with Andersen and Black & Veatch.  
18 While employed by MISO, I managed the transmission and market settlement functions,  
19 along with dispute resolution. At Exelon, I managed various Information Technology  
20 initiatives, which included merger and acquisition responsibilities. I have been with KAW  
21 since January 2019.

22 Q. What is the purpose of your direct testimony?

1 A. The purpose of my testimony is to support the calculation of KAW's Year 2 QIP ("QIP 2")  
2 filing of the QIP Rider which was approved by the Commission's June 27, 2019 Order in  
3 Case No. 2018-00358.

4 **Q. Are you sponsoring any exhibits?**

5 A. Yes. I am sponsoring Exhibit 1 to my testimony which shows the QIP 2 calculations. I  
6 am also sponsoring my workpapers as an Excel file titled KAW\_DT\_EKC\_WP\_032621.

7 **Q. Did you follow the same methodology for QIP 2 that you followed for QIP 1?**

8 A. Yes. The same methodology was followed. However, in preparing QIP 2, we discovered  
9 errors in a data request response KAW submitted in Case No. 2020-00027. In KAW's  
10 response to PSC 2-4 submitted on May 28, 2020, there were errors in retirement ratios,  
11 depreciation rates, and the tax repairs reduction. I will explain each error below. For ease  
12 of reference, all of the 2020 filing workbook sheets that were in the Excel file in response  
13 to PSC 2-4 in 2020-00027 are included in the filing in this case, immediately after the  
14 worksheet books for this case. Also, on the workbook sheet labelled 2021\_QIP Revenues,  
15 we have added lines in blue to show the errors from last year's filing and have adjusted the  
16 QIP 2 QIP filing to account for these errors.

17 **Q. Please describe the errors found in the Excel file provided in response to PSC 2-4 in**  
18 **Case No. 2020-00027.**

19 A. The first error involved the workbook sheet labelled 2020\_Retirement Ratio. In that  
20 workbook sheet, after all categories other than main were eliminated as requested in the  
21 data request, all of the indicators in the code column other than the indicators for mains  
22 should have been removed but they were not. The result is that a composite rate of -7.24%  
23 was used for the calculation of retirements instead of the correct rate of -4.59%. The result

1 of that error is shown on line 3 and line 8 of the 2021\_QIP Revenues workbook sheet. The  
2 amount is \$217,861, which has been used to adjust the amount requested for the 2021 QIP  
3 2 filing.

4 The second error involved the workbook sheet labelled 2020\_Depreciation Rates.  
5 In that workbook sheet, after all categories other than main were eliminated as requested  
6 in the data request, all of the indicators in the code column other than the indicators for  
7 mains should have been removed. The result is that a composite rate of 2.20% was used  
8 for the calculation of depreciation instead of the correct rate of 1.53%. The result of that  
9 error is shown on line 10 and line 22 of the 2021\_QIP Revenues workbook sheet. The  
10 amount is \$47,822, which has been used to adjust the amount requested for the 2021 QIP  
11 2 filing.

12 The third error involved the workbook sheet labelled 2020\_Tax Repairs  
13 Deductions. Both transmission and non-transmission rates were used on that workbook  
14 sheet, which resulted in a factor of 41.49% based on an 11-year average. The correct rate  
15 should have been 61.32%, which is the correct rate based on transmission only. The result  
16 of that error is shown on line 16 of the 2021\_QIP Revenues workbook sheet. The amount  
17 is \$418,413, which has been used to adjust the amount requested for the 2021 QIP 2 filing.  
18 Property taxes were also adjusted as a result of the incorrect retirement ratio mentioned in  
19 error one above. That amount is \$2,505 and was used to adjust the amount requested for  
20 the 2021 QIP 2 filing.

21 For ease of reference, all of the calculations and corrections for the errors described  
22 above have been included in a workbook sheet labelled 2021\_Adjustments to QIP 1.

1 **Q. Why did you include corrections for errors found in the QIP 1 filing in this filing,**  
2 **instead of waiting until the balancing adjustment filing in September 2021?**

3 A. KAW believes it is important to correct these errors as soon as they were discovered instead  
4 of waiting for the filing in September 2021.

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

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

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

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

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

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

19 A. Yes. KAW seeks the Commission's approval of an additional QIP amount that will appear  
20 on customer bills effective July 1, 2021. The amount requested for QIP 2 is 2.52%, in  
21 addition to the amount approved in Case No. 2020-00027 of .97%, for a cumulative total  
22 of 3.49%, as set forth in the proposed tariff sheet attached to KAW's Application in this  
23 case.

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

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

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

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

11 **Q. How is the QIP Rider billed to customers?**

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

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

18 **Q. What is the QIP test period in this filing, which is QIP 2?**

19 A. July 1, 2021 – June 30, 2022.

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

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

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

- 1 A. The components of the revenue requirement calculation include:
- 2 1. Pre-Tax Return: The qualified additions and removal expenditures, less the related
- 3 accumulated depreciation and QIP related accumulated deferred income taxes, are
- 4 multiplied by the authorized rate of return of on capital, grossed up for federal and state
- 5 taxes.
- 6 2. Depreciation and Property Tax Expense: The qualified plant additions are reduced by
- 7 the retirements associated with the QIP eligible additions in the calculation of
- 8 applicable depreciation and property tax expense. The depreciation rates last approved
- 9 by the Commission, for the respective plant accounts in which the specific items of
- 10 QIP-eligible plant are recorded, are used to determine the depreciation expense.
- 11 The property tax rate for QIP utility plant is estimated at 1.39%.
- 12 3. Total QIP Revenue Requirement: The total QIP revenue requirement is equal to the pre-
- 13 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 tariff
- 16 sheet.

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

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

19 **A.** Yes. The revenue requirement calculation is attached as Exhibit 1 to this testimony. All

20 supporting calculations for the revenue requirement are set forth in the Excel file being

21 submitted electronically along with this testimony.

22 **Q. What is the Net Change to Gross Plant?**



Line No.		QIP 2 July 2021 - June 2022
1	QIP Plant Additions	\$22,333,833
2	Retirements	(1,570,153)
3	Retirement Adjustment to QIP 1	217,861
4	<b>Net Change to Gross Plant</b>	<b>20,981,541</b>

1 A.

2 KAW is proposing QIP Plant Additions of \$22,333,833 less Retirements of -\$1,570,153,  
3 plus the adjustment to the QIP 1 filing of \$217,861 for a Net Change to Gross Plant of  
4 \$20,981,541. Additional plant addition details are found on the workbook sheet labelled  
5 2021\_Placed in Service. QIP 2 Retirements are calculated by taking the Plant Additions  
6 of \$22,333,833 times the average of the most current three years retirement rate of 7.03%,  
7 arriving at -\$1,570,153. Retirement detail used to determine the retirement rate is located  
8 on the workbook sheet labelled 2021\_Retirement Ratio. Detail for the retirement  
9 adjustment to the QIP 1 filing is found on the workbook sheet labelled 2021\_Adjustments  
10 to QIP 1.

11 Q. **What is the Net Change to Accumulated Depreciation?**

6	Cost of Removal	2,625,148
7	Retirements	1,570,153
8	Retirement Adjustment to QIP 1	(217,861)
9	Depreciation Accrual - QIP 1	(119,969)
10	Depreciation Accrual Adjustment to QIP 1	47,822
11	Depreciation Accrual - QIP 2	(373,349)
12	<b>Net Change to Accum Depr</b>	<b>3,531,943</b>

12 A.

13 KAW has calculated the Net Change to Accumulated Depreciation as \$3,531,943. The  
14 components include Cost of Removal of \$2,625,148 plus retirements of \$1,570,153 less  
15 the retirement adjustment to QIP 1 of -\$217,861 less the depreciation accrual for QIP 1 of  
16 -\$119,969 plus the depreciation accrual adjustment to QIP 1 of \$47,822 less the  
17 depreciation accrual for QIP 2 of -\$373,349. Details of the Cost of Removal may be found

1 on the workbook sheet labelled 2021\_Placed in Service. Retirement rate detail is found in  
 2 the workbook sheet labelled 2021\_Retirement Ratio, as discussed above. The adjustments  
 3 to QIP 1 for depreciation and retirements is found on the workbook sheet labelled  
 4 2021\_Adjustments to QIP 1. The QIP 2 Depreciation Accrual was calculated by taking a  
 5 composite depreciation rate of 1.80% times the 2021 Net Plant of \$20,763,680 to arrive at  
 6 \$373,349. Additional detail for the composite rate of the Depreciation Accrual is found in  
 7 the workbook sheet labelled 2021\_Depreciation Rates.

8 **Q. What is the Net Change to Rate Base?**

14	<b>Net Change to Net Plant</b>	24,513,484
15	Accumulated Deferred Taxes - QIP 1	(1,796)
16	Accumulated Deferred Taxes Adjustment to QIP 1	(418,413)
17	Accumulated Deferred Taxes - QIP 2	(4,064,302)
18	<b>Net Change to Rate Base</b>	20,028,974

9 **A.**

10 Net Change to Rate Base is \$20,028,974. This is calculated by taking the Net Change to  
 11 Net Plant of \$24,513,484 less the Accumulated Deferred Taxes QIP 1 of -\$1,796 less the  
 12 Accumulated Deferred Taxes Adjustment to QIP 1 of -\$418,413 less the Accumulated  
 13 Deferred Taxes QIP 2 of -\$4,064,302. Additional details of the QIP 2 Accumulated  
 14 Deferred Taxes can be found on the workbook sheet labelled 2021\_Deferred Income  
 15 Taxes.

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

18	<b>Net Change to Rate Base</b>	20,028,974
19	Pre-Tax Rate of Return	9.28%
20	QIP Revenue on Net Change to Rate Base	1,859,109
21	QIP Depreciation Expense - QIP 1	
22	QIP Depreciation Expense Adjustment to QIP 1	(47,822)
23	QIP Depreciation Expense - QIP 2	373,349
24	QIP Property Taxes - QIP 1	18,819
25	QIP Property Taxes Adjustment to QIP 1	2,505
26	QIP Property Taxes - QIP 2	288,615
27		
28	<b>QIP Revenue Requirement Rate Adj</b>	<b>\$2,494,576</b>
29		
30	Authorized Revenues 2018-0358	\$98,880,622
31	QIP Rider Charge	2.52%

1 A.

2 KAW is proposing a QIP rider that would result in an increase of annualized revenue  
3 recovery of \$2,494,576 for the 12-month period July 1, 2021 to June 30, 2022 or a QIP  
4 additional percentage of 2.52%. This represents an increase to the average residential  
5 customer of \$.94 per month. The QIP Revenue on Net Change to Rate base is \$1,859,109  
6 which is the product of Net Change to Rate Base of \$20,028,974 times the Pre-Tax Rate  
7 of Return authorized in the last rate case of 9.28%. Subtracting the Depreciation Expense  
8 Adjustment to QIP 1 of -\$47,822 plus Depreciation Expense of \$373,349 plus Property  
9 Taxes QIP 1 of \$18,819 plus Property Tax Adjustment to QIP 1 of \$2,505 plus Property  
10 Taxes QIP 2 of \$288,615 arrives at the total revenue Requirement of \$2,494,576. Property  
11 Taxes were calculated based on the property tax rate of 1.39%, as shown on the workbook  
12 sheet labelled 2021\_Property Taxes. Detail for the adjustments to the QIP 1 filing is found  
13 on the workbook sheet labelled 2021\_Adjustments to QIP 1. Additional assumptions are  
14 documented on the workbook sheet labelled Assumptions. The QIP Percentage was  
15 calculated by taking the QIP Revenue Requirement divided by the authorized revenues

1 from the last rate case of \$98,880,622. These calculations are summarized on the  
2 attachment to my testimony in the workbook sheet labelled 2021\_QIP Revenues.

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

4 **A.** Yes. New proposed tariff sheets are attached to the Application and include a Third Sheet  
5 No. 49 setting forth the cumulative rate of 3.49%. The 3.49% consists of the .97%  
6 approved in 2020-00027 plus the additional 2.52% requested in this filing.

7 **V. CONCLUSION**

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

9 **A.** I recommend that the Commission approve the revision of the QIP percentage in this filing.

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

11 **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*

\_\_\_\_\_  
**Elaine K. Chambers**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 25<sup>th</sup> day of March, 2021.

*Sharon Miller*  
\_\_\_\_\_  
Notary Public ID # KYNP9273

My Commission Expires:  
7/25/24

Kentucky American Water Company  
Case No. 2021-00090  
QIP Revenues

Line No.		QIP 1	QIP 2	Total QIP
		July 2020 - June 2021	July 2021 - June 2022	
1	QIP Plant Additions	\$8,218,500	\$22,333,833	\$30,552,333
2	Retirements	(595,218)	(1,570,153)	(2,165,370)
3	Retirement Adjustment to QIP 1		217,861	217,861
4	<b>Net Change to Gross Plant</b>	<u>7,623,282</u>	<u>20,981,541</u>	<u>28,604,824</u>
5				
6	Cost of Removal	567,070	2,625,148	3,192,218
7	Retirements	595,218	1,570,153	2,165,370
8	Retirement Adjustment to QIP 1		(217,861)	(217,861)
9	Depreciation Accrual - QIP 1	(167,791)	(119,969)	(287,761)
10	Depreciation Accrual Adjustment to QIP 1		47,822	47,822
11	Depreciation Accrual - QIP 2		(373,349)	(373,349)
12	<b>Net Change to Accum Depr</b>	<u>994,496</u>	<u>3,531,943</u>	<u>4,526,439</u>
13				
14	<b>Net Change to Net Plant</b>	<u>8,617,779</u>	<u>24,513,484</u>	<u>33,131,263</u>
15	Accumulated Deferred Taxes - QIP 1	(993,413)	(1,796)	(995,209)
16	Accumulated Deferred Taxes Adjustment to QIP 1		(418,413)	(418,413)
17	Accumulated Deferred Taxes - QIP 2		(4,064,302)	(4,064,302)
18	<b>Net Change to Rate Base</b>	<u>7,624,365</u>	<u>20,028,974</u>	<u>27,653,339</u>
19	Pre-Tax Rate of Return	9.28%	9.28%	9.28%
20	QIP Revenue on Net Change to Rate Base	707,701	1,859,109	2,566,811
21	QIP Depreciation Expense - QIP 1	167,791		167,791
22	QIP Depreciation Expense Adjustment to QIP 1		(47,822)	(47,822)
23	QIP Depreciation Expense - QIP 2		373,349	373,349
24	QIP Property Taxes - QIP 1	87,668	18,819	106,486
25	QIP Property Taxes Adjustment to QIP 1		2,505	2,505
26	QIP Property Taxes - QIP 2		288,615	288,615
27				
28	<b>QIP Revenue Requirement Rate Adj</b>	<u>\$963,160</u>	<u>\$2,494,576</u>	<u>\$3,457,736</u>
29				
30	Authorized Revenues 2018-0358	<u>\$98,880,622</u>	<u>\$98,880,622</u>	<u>\$98,880,622</u>
31	QIP Rider Charge	<u>0.97%</u>	<u>2.52%</u>	<u>3.49%</u>