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1 I. INTRODUCTION

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

3 A. My name is Tricia Sinopole. I am the Director, Rates and Regulatory for Kentucky-
4 American Water Company (“KAW” or “the Company”). My business address is 2300
5 Richmond Road, Lexington, Kentucky 40502.

6 Q. Have you previously filed testimony at the Kentucky Public Service Commission
7 (“Commission”)?

8 A. Yes. I recently filed written direct testimony in KAW’s pending case for an increase in
9 wastewater rates (Case No. 2021-00434).

10 Q. Please state your educational and professional background.

11 A. I have a Bachelor of Science in Business Administration degree with an emphasis in
12 Finance from Southeast Missouri State University. I also have a Master of Business
13 Administration from Southeast Missouri State University. I have also completed the
14 NARUC Utility Rate School.

15 I have over nine years of experience at American Water, three of which have been in the
16 rates area. I accepted the role as Director of Rates and Regulatory for Tennessee and
17 Kentucky in June 2021 and prior to that was the Senior Manager of Finance for Virginia
18 and Maryland. I was also the Senior Manager of Finance for Indiana and Michigan before
19 accepting the role for Virginia and Maryland. Prior to my Senior Manager of Finance roles,
20 I was a Rates and Regulatory Analyst serving multiple American Water states and a
21 Financial Analyst specializing in revenue analytics, also serving multiple American Water
22 states. Before joining American Water in 2012, I worked as a Project Manager for a
23 software company for over four years, where I led accounting and business software

1 implementations for multi-million-dollar electric cooperatives throughout the United
2 States.

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

4 A. The purpose of my testimony is to describe and support the calculated amount of KAW's
5 Year 3 Qualified Infrastructure Program ("QIP") proposed charge. KAW's QIP was
6 approved by the Commission in its June 27, 2019 Order in Case No. 2018-00358 which
7 was KAW's last general water rate case.

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

9 A. Yes. I am sponsoring Exhibit 1 to my testimony which shows the QIP 3 calculations that
10 lead to the requested revenue requirement in this case. I am also sponsoring my workpapers
11 as an Excel file titled KAW_DT_TS_WP_030122.

12 **Q. Are KAW's revenue requirement calculations in this case consistent with the
13 Commission's Orders in KAW's previous QIP cases?**

14 A. Yes. After the Commission approved KAW's QIP in Case No. 2018-00358, KAW filed
15 its first QIP case which was for QIP Year 1. QIP Year 1 was for the period July 1, 2020 to
16 June 30, 2021 and it was Case No. 2020-00027. The Commission decided that case by
17 Order of June 17, 2020. In that Order, the Commission scaled back significantly the
18 infrastructure asset classes that could be included in the QIP charge from what it had
19 approved in Case No. 2018-00358 and then approved a QIP charge amount of .97%.¹

¹ Case No. 2020-00027, June 17, 2020 Order, p. 20.

1 KAW's next QIP case for QIP Year 2 was Case No. 2021-00090. In that case, the
2 Commission scaled back even further the infrastructure asset classes that could be included
3 in the QIP charge and approved a cumulative QIP charge of 2.04%.²

4 The combined effect of the Final Orders in both previous QIP cases for Year 1 and Year 2
5 is that KAW has proposed only a single asset class for the Year 3 QIP which is "Budget
6 Line B: QIP Mains Replaced/Restored." The revenue requirement for QIP 3 is based on
7 the 58 proposed projects in that "Budget Line B" asset class. Please see the engineering
8 joint direct testimony of Shelley Porter and Krista Citron filed contemporaneously herewith
9 for a detailed description for each main replacement project proposed in this case.

10 II. DESCRIPTION OF THE QIP RIDER

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

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

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

18 A. Yes. KAW seeks the Commission's approval of an additional QIP amount that will appear
19 on customer bills effective July 1, 2022. The total amount requested for QIP 3, which is
20 for the period June July 1, 2022 to June 30, 2023 is the QIP Year 1 authorized reconciliation
21 amount of 1.03%, plus an additional charge of 2.47% for the recalculated rate base for QIP

² The QIP charge was subsequently increased to 2.14% as a result of the Commission's January 25, 2022 Order in Case No. 2021-000376 which was the balancing adjustment case to "true up" the actual results of the QIP Year 1 projects.

1 Year 2 based on “end of period” values as of June 30, 2022, plus an additional charge of
2 1.11% for the projects proposed in QIP Year 3 based on a forecasted 13-month average
3 rate base for those forecasted projects. Thus, the cumulative amount KAW proposes in
4 this matter is 4.61%, as set forth in the proposed tariff sheet attached to KAW’s Application
5 in this case.

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

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

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

12 A. Yes. As mentioned above, the QIP mechanism, as approved by this Commission and as set
13 forth in KAW’s tariff, includes an annual Balancing Adjustment Filing. This filing is made
14 within 90 days after the conclusion of each QIP annual period. Thus, KAW filed and the
15 Commission approved a balancing adjustment for QIP Year 1 in Case No. 2021-00376.
16 The next Balancing Adjustment Filing will be for QIP Year 2 (the period July 1, 2021 to
17 June 30, 2022) and will be made no later than 90 days after June 30, 2022.

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

19 A. The QIP is expressed as a percent of water and fire service charges for each customer class
20 included in the QIP tariff. It applies to all Water Revenue (meter fees, fire service fees,
21 public or private hydrant fees, and volumetric water sales), but prior to the inclusion of any
22 other surcharge or tax (such as franchise fees or Kentucky River Authority withdrawal
23 fees). The QIP Rider is reflected as a line item on each customer’s bill.

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

2 **Q. What is the QIP test period in this filing, which is QIP 3?**

3 A. July 1, 2022 – June 30, 2023.

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

6 A. Yes. KAW joint witnesses Shelley Porter and Krista Citron discuss the details of the
7 qualifying QIP projects for which recovery is sought in this case.

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

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

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

13 2. Depreciation and Property Tax Expense: The qualified plant additions are reduced by
14 the retirements associated with the QIP eligible additions in the calculation of applicable
15 depreciation and property tax expense. The depreciation rates last approved by the
16 Commission, for the respective plant accounts in which the specific items of QIP-eligible
17 plant are recorded, are used to determine the depreciation expense.

18 The property tax rate for QIP utility plant is estimated at 1.34%.

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

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

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

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

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

5 **Q. You mentioned above that KAW is requesting two additions to the current QIP**
6 **charge. The first is for a recalculated rate base for QIP Year 2 based on “end of**
7 **period” values. Please explain the reason for that addition.**

8 A. In Case No. 2021-00090 which was for QIP Year 2 (the forecasted period of July 2021 to
9 June 2022), KAW’s proposed rate base was based on “end of period” or “terminal” values
10 as of the end of June 2022. In its June 21, 2021 Order deciding that case, the Commission
11 disagreed with that approach and recalculated QIP Year 2 rate base on a 13-month average.
12 The Commission stated that use of a 13-month average is both appropriate when
13 *forecasting* rate base and is consistent with how rate base is calculated in *forecasted* period
14 general base rate cases.³ In fact, the Commission directed KAW to revise its QIP tariff
15 language to state the following, which KAW did:

16 Within 20 days of the date of this Order, Kentucky-American shall,
17 using the Commission’s electronic Tariff Filing System, file its
18 revised tariffs setting out the rates authorized in this Order and the
19 revised QIP Rider and reflecting they were approved pursuant to this
20 Order, and stating that Kentucky-American’s QIP rate base in any
21 *forecasted* period will be calculated in a manner consistent with 807
22 KAR 5:001, Section 16(6)(c).⁴

³ 807 KAR 5:001, Section 16(6) is the Commission’s regulation with specific requirements for forecasted period general base rate cases. Section 16(6)(c) states that “rate base shall be based on a thirteen (13) month average for the *forecasted* period.” (Emphasis added). For general base rate cases based on a *historic* period, no such requirement exists because “end-of-period” rate base is already known when the case is filed; there is no forecasting, so there is no need to use a 13-month average.

⁴ Case No. 2021-00090, June 21, 2021 Order, Ordering Paragraph 5, p. 22 (emphasis added).

1 The gist of the Commission’s June 21, 2021 Order in Case No. 2021-00090 on this
2 issue is that, when calculating rate base for a *forecasted* period, it is appropriate to use a
3 13-month average rather than “end-of-period” since the investment has not yet occurred
4 and the exact timing of the investment is not known for certain. However, once the period
5 is no longer forecasted, it then becomes historic. So, as of July 1, 2022, the effective date
6 of the new charge to come out of this proceeding, the QIP 2 period will be completely
7 historic. The amount of the investment will be known precisely and all of it will then be
8 “used and useful.” Thus, at that point in time, it is appropriate to use “end-of-period”
9 values in calculating rate base, just as would occur in a general rate case based on a historic
10 test period.

11 When the new rate from the QIP Year 3 filing becomes effective on July 1, 2022, the QIP
12 Year 2 investment period will have actually occurred and no longer be based on a
13 forecasted period. All QIP Year 2 investment will be used and useful. Therefore, for
14 consistent and sound ratemaking purposes, it is appropriate to update the QIP Year 2 rate
15 base calculation using “end-of-period” values and in turn update the revenue requirement
16 based on “end-of-period” rate base values rather than 13-month average values.

17 **Q. What methodology is used to calculate rate base for KAW’s general rate cases?**

18 A. In KAW’s general rate cases, base period rate base is calculated using end of period values
19 for six months of actual rate base along with changes forecasted by month for the next six
20 months. Then, rate base is updated with actuals for the forecasted six month within 45 days
21 of the close of the base period. Rate base is calculated using a 13-month average of planned
22 changes to rate base for the forecasted test year, which is the first year rates are anticipated
23 to be in place.

1 **Q. Does this mean that how KAW is proposing to recalculate rate base for QIP Year 2**
2 **is consistent with how rate base is calculated and updated in general rate cases?**

3 A. Yes, it does.

4 **Q. Will actual QIP Year 2 rate base be trued-up based on actual investment using end**
5 **of period values?**

6 A. Yes, it will. There will be two pieces to the QIP Year 2 Annual Balancing Adjustment,
7 which will be filed no later than 90 days after the period ends on June 30, 2022. First, KAW
8 will true-up the QIP Year 2 actual rate base for the period of July 2021 to June 2022 using
9 13-month average rate base, just as it was done in the QIP Year 1 Annual Balancing
10 Adjustment. Both rate base and the associated revenue requirement will be calculated using
11 a 13-month average of actuals and compared to the forecasted amounts. Any resulting over
12 or under collection of authorized revenue using 13-month average rate base will be made
13 to the QIP rate for the QIP Year 2 rate that was effective July 1, 2021 to June 30, 2022.
14 In addition, the Annual Balancing Adjustment for the period of July 2021 to June 2022 will
15 reconcile the authorized “end of period” rate base in QIP Year 2 to the actual “end of
16 period” rate base. Any resulting differences to the revenue requirement using “end of
17 period” rate base will also be made to the QIP rate that became effective July 1, 2022. This
18 ensures actual investment will be trued-up in a timely manner and KAW will not over or
19 under collect based on “end of period” rate base.

20 **Q. What is the impact to the QIP Year 2 rate in using “end of period” rate base in this**
21 **filing?**

1 A. Using “end of period” rate base results in additional revenue requirement of \$1,389,355 or
2 an additional 1.40% QIP rider charge. It will increase the current QIP 2 rate from 1.07% to
3 2.47%. This represents an increase to the average residential customer of \$.52 per month.

4 **Q. The second requested addition is for QIP Year 3 based on a 13-month average**
5 **calculation of rate base. Please explain that addition.**

6 A. The 13-month average calculation of rate base for QIP Year 3 is comprised of specific
7 projects that are planned to be in-service during the future test year period of July 1, 2022
8 to June 30, 2023, less estimated retirements, accumulated depreciation and deferred taxes.
9 KAW witness Shelley Porter explains the specific planned projects in more detail in her
10 testimony. Since they are forecasted projects, rate base for them is based on a 13-month
11 average.

12 **Q. What is the Net Change to Gross Plant for QIP Year 3?**

13 A.

Line No.		July 2022 - June 2023
1	QIP Plant Additions	\$8,737,865
2	Retirements	(330,929)
3	Net Change to Gross Plant	8,406,936

14

15 KAW is proposing QIP Plant Additions of \$8,737,865 less Retirements of -\$330,929, for
16 a Net Change to Gross Plant of \$8,406,936. Additional plant addition details are found on
17 the workbook sheet labelled 2022_Placed in Service. QIP 3 Retirements are calculated by
18 taking the Plant Additions of \$8,737,865 times the average of the most current three years
19 retirement rate of 3.79%, arriving at -\$330,929. Retirement detail used to determine the
20 retirement rate is located on the workbook sheet labelled 2022_Retirement Ratio.

1 **Q. Have all of the QIP Year 1 adjustments made in the QIP Year 2 filing been removed**
2 **in this filing?**

3 A. Yes, they have. Since QIP Year 1 has been updated with actuals and the reconciliation was
4 approved in Case No. 2021-00376, the adjustments to retirements, depreciation, deferred
5 taxes and property taxes are no longer necessary.

6 **Q. What is the Net Change to Accumulated Depreciation for QIP Year 3?**

7 A.

5	Cost of Removal	873,787
6	Retirements	330,929
7	Depreciation Accrual - QIP 1	
8	Depreciation Accrual - QIP 2	
9	Depreciation Accrual - QIP 3	(128,626)
10	Net Change to Accum Depr	<u>1,076,090</u>

8

9 KAW has calculated the Net Change to Accumulated Depreciation as \$1,076,090. The
10 components include Cost of Removal of \$873,787 plus retirements of \$330,929 less the
11 depreciation accrual for QIP 3 of -\$128,626. Details of the Cost of Removal may be found
12 on the workbook sheet labelled 2022_Placed in Service. Retirement rate detail is found in
13 the workbook sheet labelled 2022_Retirement Ratio, as discussed above. The QIP 3
14 Depreciation Accrual was calculated by taking a composite depreciation rate of 1.53%
15 times the 2022 Net Plant of \$8,406,936 to arrive at \$128,626. Additional detail for the
16 composite rate of the Depreciation Accrual is found in the workbook sheet labelled
17 2022_Depreciation Rates.

18 **Q. What is the Net Change to Rate Base for QIP Year 3?**

19 A.

12	Net Change to Net Plant	9,483,026
13	Accumulated Deferred Taxes - QIP 1	

14	Accumulated Deferred Taxes - QIP 2	
15	Accumulated Deferred Taxes - QIP 3	(1,345,808)
16	Net Change to Rate Base	<u>8,137,218</u>

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Net Change to Rate Base is \$8,137,218. This is calculated by taking the Net Change to Net Plant of \$9,483,026 less the Accumulated Deferred Taxes QIP 3 of -\$1,345,808. Additional details of the QIP 2 Accumulated Deferred Taxes can be found on the workbook sheet labelled 2022_Deferred Income Taxes.

Q. Are there any changes in how QIP 3 projects are projected to go in-service?

A. Yes. In QIP Years 1 and 2, the assumption was that Line B – Mains Replaced projects would go into service two months after the spend occurred. Rather than use the same two-month timeframe from spend to in-service, KAW has projected actual in-service dates based on current planning and best estimates for project completion for each individual QIP 3 project. Witnesses Shelly Porter and Krista Citron discuss the individual projects and the projected spend and in-service dates in more detail in their joint testimony.

Q. Have any updates been made to calculate estimated accumulated deferred taxes?

A. Yes. The methodology in how deferred taxes is calculated is the same as the QIP 2 filing, but rather than use a five-year average for repairs and replacements to come up with the average repairs percentage, a three year average was used. A three-year average was used to be consistent with how estimates are calculated in KAW’s financials.

Q. What is the Proposed QIP Revenue Requirement and QIP Rider Percentage KAW is requesting for QIP Year 3?

A.

16	Net Change to Rate Base	8,137,218
17	Pre-Tax Rate of Return	<u>9.28%</u>
18	QIP Revenue on Net Change to Rate Base	755,305

19	QIP Depreciation Expense - QIP 1	
20	QIP Depreciation Expense - QIP 2	
21	QIP Depreciation Expense - QIP 3	128,626
22	QIP Property Taxes - QIP 1	(4,348)
23	QIP Property Taxes - QIP 2	(9,565)
24	QIP Property Taxes - QIP 3	230,888
25		
26	QIP Revenue Requirement Rate Adj	<u><u>\$1,100,906</u></u>
27		
28	Authorized Revenues 2018-0358	<u><u>\$98,880,622</u></u>
29	QIP Rider Charge	<u><u>1.11%</u></u>

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KAW is proposing a QIP rider that would result in an increase of annualized revenue recovery of \$1,100,906 for the 12-month period July 1, 2022 to June 30, 2023 or a QIP additional percentage of 1.11%. This represents an increase to the average residential customer of \$.41 per month. The QIP Revenue on Net Change to Rate base is \$755,305 which is the product of Net Change to Rate Base of \$8,137,218 times the Pre-Tax Rate of Return authorized in the last rate case of 9.28%. Adding Depreciation Expense of \$128,626 for QIP 3 plus Property Taxes for QIP 3 of \$230,888 and subtracting the Property Tax difference from QIP 1 and QIP 2 of \$4,348 and \$9,565, respectively, arrives at the total revenue Requirement of \$1,100,906. Property Taxes were calculated based on the property tax rate of 1.34%, as shown on the workbook sheet labelled 2022_Property Taxes. Additional assumptions are documented on the workbook sheet labelled 2022_Assumptions. The QIP Percentage was calculated by taking the QIP Revenue Requirement divided by the authorized revenues from the last rate case of \$98,880,622. These calculations are summarized on the attachment to my testimony in the workbook sheet labelled 2022_QIP Revenues.

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

1 A. Yes. New proposed tariff sheets are attached to the Application and include a Fifth Sheet
2 No. 49 setting forth the cumulative rate of 4.61%. The 4.61% consists of the 1.03% that
3 was approved in for the QIP 1 Reconciliation in Case No. 2021-00376, plus 2.47% from
4 the recalculated rate base using “end of period” values for QIP Year 2, plus 1.11% from
5 the QIP Year 3 projects using a 13-month average rate base for those forecasted projects.

6 **V. CONCLUSION**

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

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

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

10 A. Yes, it does.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) **SS:**
COUNTY OF FAYETTE)

The undersigned, Tricia Sinopole, 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.

Tricia Sinopole
Tricia Sinopole

Subscribed and sworn to before me, a Notary Public in and before said County and State,
this 1st day of March, 2022.

Molly McCleese Van Over
Notary Public

My Commission Expires:

July 31, 2025

Notary ID: KYNP26988

Kentucky American Water Company
Case No. 2022-00032
QIP Revenues

Line No.		Case No. 2021-00376	Case No. 2021-00090		
		QIP 1 July 2020 - June 2021	QIP 2 July 2021 - June 2022	QIP 3 July 2022 - June 2023	Total QIP
1	QIP Plant Additions	\$9,328,645	\$20,050,000	\$8,737,865	\$38,116,510
2	Retirements	(633,049)	(920,606)	(330,929)	(1,884,585)
3	Net Change to Gross Plant	<u>8,695,596</u>	<u>19,129,394</u>	<u>8,406,936</u>	<u>36,231,925</u>
4					
5	Cost of Removal	549,261	2,005,000	873,787	3,428,048
6	Retirements	633,049	920,606	330,929	1,884,585
7	Depreciation Accrual - QIP 1	(137,516)			(137,516)
8	Depreciation Accrual - QIP 2		(292,680)		(292,680)
9	Depreciation Accrual - QIP 3			(128,626)	(128,626)
10	Net Change to Accum Depr	<u>1,044,794</u>	<u>2,632,926</u>	<u>1,076,090</u>	<u>4,753,810</u>
11					
12	Net Change to Net Plant	<u>9,740,390</u>	<u>21,762,320</u>	<u>9,483,026</u>	<u>40,985,736</u>
13	Accumulated Deferred Taxes - QIP 1	(1,550,183)			(1,550,183)
14	Accumulated Deferred Taxes - QIP 2		(1,635,882)		(1,635,882)
15	Accumulated Deferred Taxes - QIP 3			(1,345,808)	(1,345,808)
16	Net Change to Rate Base	<u>8,190,207</u>	<u>20,126,438</u>	<u>8,137,218</u>	<u>36,453,863</u>
17	Pre-Tax Rate of Return	9.28%	9.28%	9.28%	9.28%
18	QIP Revenue on Net Change to Rate Base	760,223	1,868,156	755,305	3,383,684
19	QIP Depreciation Expense - QIP 1	137,516			137,516
20	QIP Depreciation Expense - QIP 2		292,680		292,680
21	QIP Depreciation Expense - QIP 3			128,626	128,626
22	QIP Property Taxes - QIP 1	120,869	18,819	(4,348)	135,340
23	QIP Property Taxes - QIP 2		265,899	(9,565)	256,334
24	QIP Property Taxes - QIP 3			230,888	230,888
25					
26	QIP Revenue Requirement Rate Adj	<u>\$1,018,608</u>	<u>\$2,445,553</u>	<u>\$1,100,906</u>	<u>\$4,565,068</u>
27					
28	Authorized Revenues 2018-0358	<u>\$98,880,622</u>	<u>\$98,880,622</u>	<u>\$98,880,622</u>	<u>\$98,880,622</u>
29	QIP Rider Charge	<u>1.03%</u>	<u>2.47%</u>	<u>1.11%</u>	<u>4.61%</u>