

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2023-00030
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: Krista E. Citron and Jeffrey Newcomb

1. For each of the following questions, refer to the final Order in Case No. 2022- 00032,¹ which states:

[t]he Commission directs Kentucky-American that its end-of period update to QIP 3 should reflect the actual construction costs incurred for the QIP 3 projects as of January 31, 2023, and the remaining five months (February 1, 2023-June 30, 2023) of the QIP 3 period should reflect the forecasted construction costs for that period. Additionally, any differences between the between the forecasted construction costs for the remaining period and what was forecasted in the instant case should be supported by filed testimony.

Additionally, refer to the Direct Testimony of Tricia Sinopole (Sinopole Direct Testimony), Exhibit 1 in Case No. 2022-00032, and the supplemental Direct Testimony of Jefferey Newcomb (Newcomb Supplemental Testimony), Exhibit 1 in this matter.

- a) In Sinopole Direct Testimony, Exhibit 1, the total estimated cost of QIP 3 Plant Additions was \$8,737,865. In Newcomb Supplemental Testimony Exhibit 1, the revised total estimated cost of QIP 3 Plant Additions is \$29,387,592. For each QIP 3 project, provide a detailed explanation of project, cost, and listing of scope changes made to each project that generated additional cost to the project.
- b) For each QIP 3 project, provide an itemized breakdown of the original estimated cost and the actual final cost. Provide a detailed explanation for any variances and include documentation supporting these variances.
- c) For the period July 2022 through July 2023, provide, by month, an itemized breakdown of the original estimated QIP 3 monthly project costs and the actual expended costs. Provide a detailed explanation for variances including scheduling, supply chain issues and project management issues and include documentation supporting the impact on cost.
- d) For the QIP 4 projects, explain what actions Kentucky-American has taken, or plans to take, to reduce variances in estimated and actual project cost.

RESPONSE:

- a. Please see KAW_R_PSCDR2_NUM001_080323_Attachment 1 for reconciliation that details the update from \$8,737,865 to \$29,387,592. The three parts to this update include: (A) the update of QIP 3 plant additions from 13-month average to terminal balance (or “end-of-period” balance) as of June 30, 2023; (B) the update of QIP 3 plant additions for July 2022 to January 2023 with actuals and the update of the forecast for February to June 2023; (C) QIP 1 and QIP 2 post-in-service spend for July 2022 to January 2023. These reconciling items are consistent with and pursuant to the Commission’s June 30, 2022 Final Order (pp. 9-10) in Case No. 2022-00032, directing Kentucky-American in its 2023 QIP filing that its end-of-period update should reflect the actual construction

¹ Case No. 2022-00032, *Electronic Application of Kentucky-American Water Company to Amend Tariff to Revise Qualified Infrastructure Program Charge (Ky. PSC June 30, 2023)*, Order pages 9-10.

costs incurred as of January 31, 2023, that the remaining five months (February 1, 2023-June 30, 2023) of the QIP 3 period should reflect the forecasted construction costs for that period, and additionally, any differences between the forecasted construction costs for the remaining period and what was forecasted in Case No. 2022-00032 should be supported by filed testimony. For that testimony, please see Exhibit 6 to the March 1, 2023 Direct Testimony of Krista Citron in this case (Case No. 2023-00030) for project cost variance descriptions. Please refer to KAW_R_PSCDR2_NUM001_080323_Attachment 1a for original costs and actual costs (through June 30, 2023) for each QIP 3 project and explanation of variances.

- b. Note that not all QIP 3 projects have reached final completion, as some paving and restoration activities are still occurring. Refer to KAW_R_PSCDR2_NUM001_080323_Attachment 1a, Tab 2, for original costs (Column E, “Estimated Project Cost in QIP Application”) and actual costs through June 30, 2023 (“Column J, Total Project Cost as of June 30, 2023”) for each QIP 3 project with explanations of variances (Columns I, “Variance including February 2023-June 2023” and N, “Reason for Variance”). Tab 2 also includes the reforecasted estimated project cost that occurred as part of the midyear reconciliation discussed in response to 1a above (Column L, “Estimated Project Cost in QIP 3 Midyear Reconciliation”) and the resulting reforecasted variance (Column M, “Variance including February 2023-June 2023”). For documentation and support, please see the response to 1c below.
- c. July 2023 actual costs cannot be reported until the conclusion of the month and after accounting processes have been closed. Refer to KAW_R_PSCDR2_NUM001_080323_Attachment 1c for original estimated monthly costs and actual expended costs through the end of QIP 3 which occurred on June 30, 2023. Note that these costs are considered “construction work in progress” spend and not project in-service spend. A detailed explanation of variances to project costs through January 2023 was provided in the March 1, 2023 QIP 4 Application in this case (Case No. 2023-00030) at Exhibit 6 of the Krista Citron Direct Testimony. Updated variances for projects occurring February 2023 to June 2023 are included in KAW_R_PSCDR2_NUM001_080323_Attachment 1a.

Documentation of supply chain delays and cost increases were discussed in KAW’s response to Commission Staff’s First Request for Information, Questions 2 and 4, in this case (Case No. 2023-00030).

In general, the QIP 3 projects were slower to begin, and therefore complete, than compared to estimated. This is reflected in the actual expended costs being lower than the original estimated costs for July, August, and September 2022; and in the actual expended costs being more than the original estimated costs for October, November, and December 2022. Actual expended costs for April, May, and June 2023 were higher than original estimated costs due to the volume of paving that occurred once the asphalt plants opened for the season. The typical process for pavement restoration on QIP projects is as follows:

- 1) Extents of pavement restoration, based on disturbance to the roadway and the guidelines set forth in LFUCG Ordinance 17-C, are estimated as part of the initial project cost.
- 2) After all roadway work is complete and mains are in-service, there is an on-site inspection performed by LFUCG’s inspector with the KAW inspector present. Occasionally, a representative from KAW’s paving contractor is present too. LFUCG’s inspector marks the extent of the actual required pavement restoration.

- 3) After the on-site inspection, KAW's paving contractor estimates the concrete and asphalt quantities needed to complete the work, and then a final invoice is submitted with actual quantities once the work has been completed.

KAW works to align our estimated restoration costs as closely as possible to actual final restoration costs, however, this can be difficult and often results in "variances" of the actual final project cost to the original estimated project cost.

- d. As explained in detail in the March 1, 2023 Direct Testimony of Krista Citron in this case, actions taken to reduce costs include:
 - Bundling projects in geographic proximity;
 - Competitively bidding construction contracts;
 - Installing mains under sidewalks or utility strips as opposed to pavement, where feasible;
 - Bulk ordering materials to anticipate long lead times;
 - Coordinating with LFUCG and other utilities for shared work areas;
 - Implementing a formal pavement sharing agreement with LFUCG; and
 - Increasing the initial estimated extent of pavement restoration to better reflect the actual final extents.