KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2023-00191
COMMISSION STAFF'S POST-HEARING REQUEST FOR INFORMATION

Witness: Larry Kennedy

21. Provide three representative cases in which Mr. Kennedy provided testimony and the utility commission ultimately ordered a recovery methodology for the changes to meter retirements other than changing the rate within the mass plant account depreciation rates.

Response:

Please see attached for decisions regarding the true up of accumulated depreciation over or under recovery related to technological changes dealt with in a manner other than a change in the depreciation rate for the account in question.

KAW_R_PSCPHDR_NUM021_122223_Attachment 1 relates to a FortisAlberta Inc.(FortisAlberta) filing before the Alberta Utilities Commission. In 2008, FortisAlberta filed a general rate application which included an application to install Advanced Meter Reading assets to replace analogue technology. The included depreciation study included the amortization of all future accruals related to the recovery of the net book value of the retired analogue meters over a set period of time, with new meters being assigned the theoretical whole life depreciation rate in a new unique sub account. The depreciation rates for both the new and retired meters were subject to negotiated settlement agreement, which allowed for the recovery of the analogue metering assets over a period of ten years. See pdf pages 7-8 and 26.

KAW_R_PSCPHDR_NUM021_122223_Attachment 2 is a memo prepared by Concentric for FortisBC Inc. (FortisBC) in 2020 relating to potential losses on retirement of metering assets. FortisBC was undergoing a transition to AMI assets at the time of the memo and were concerned about the proper depreciation treatment of approximately $90 million in unrecovered depreciation expense at the time of retirement. Concentric recommended moving the unrecovered original cost relating to retired meters into a gains/losses account and amortize the balance over a period of 10 years. There was not a British Columbia Utility Commission decision related to this memo, however Concentric confirms that FortisBC has implemented the policy recommended in the memo.

KAW_R_PSCPHDR_NUM021_122223_Attachment 3 is a copy of the depreciation study completed by Mr. Kennedy and submitted on behalf of Indiana American Water in a recent rate case. Like KAWC, Indiana American Water has numerous metering asset classes that have historically been depreciated with a single average service life estimate. However, unlike KAWC, Indiana American Water had been using the much shorter life of 15 years for all asset classes at the time of the 2016 depreciation study. As such, at the time of the recent 2022 depreciation study, Account 334.11 was significantly over recovered. Concentric recommended continuing to depreciate Account 334.11 within a single account,

in the same manner that was recommended for KAWC. As such, the depreciation rate for this account is 0.92%. This case is pending a decision from the Indiana Utility Regulatory Commission, however no parties raised concerns regarding the depreciation rate for Account 334.11. See pdf pages 18 and 30.

KAW_R_PSCPHDR_NUM021_122223_Attachment 4 is a copy of a depreciation study filed by Canadian Pacific Railway (now known as "Canadian Pacific Kansas City Limited") in a 2018 filing to the Surface Transportation Board. Historically, Canadian Pacific utilized a whole life depreciation method. However assets purchased as part of a transaction with Dakota, Minnesota, and Eastern Railroad and Iowa Central and Eastern Railroad had historically been depreciated using a remaining life method and therefore had a number of accounts that required the calculation of an accumulated depreciation variance true up as part of the depreciation study. These true up amounts represented the difference between the theoretical accumulated depreciation amounts and the actual booked accumulated depreciation amounts. Typically, these variances are included in the remaining life depreciation calculations, however the transition to whole life depreciation necessitated breaking this true up into their own accounts. The variances were trued up over the composite remaining life of each account. See pdf pages 7-14.

KAW_R_PSCPHDR_NUM021_122223_Attachment 5 is an Alberta Utilities Commission decision in a recent ENMAX proceeding. While the assets under review in this case were software assets, the large under-recovery of accumulated depreciation resulted in similar challenges to those facing KAWC metering fleet. ENMAX proposed including the under-recovery within the depreciation rate of the account as a whole, in the same manner as KAWC proposed to recover the historical metering asset under-recovery. Intervenors objected to this treatment and suggested that the under-recovery should be excluded from the rate base and the loss born by shareholders. Ultimately, the Alberta Utilities Commission decided that all investment in the software accounts was recoverable through rates and allowed for the recovery of this investment within the software accounts. See pdf pages 13-18.