

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

ELECTRONIC APPLICATION OF)	
KENTUCKY-AMERICAN WATER)	CASE NO. 2025-00099
COMPANY FOR A BALANCING)	
ADJUSTMENT FOR ITS QIP CHARGE)	

DIRECT TESTIMONY OF DOMINIC J. DEGRAZIA
SENIOR MANAGER, RATES AND REGULATORY
KENTUCKY-AMERICAN WATER COMPANY, INC.

Filed: March 28, 2025

1 **Q. Please state your name, position, and business address.**

2 A. My name is Dominic J. DeGrazia. I am the Senior Manager, Rates and Regulatory, for
3 Kentucky-American Water Company (“KAW” or “the Company”). My business address
4 is 2300 Richmond Road, Lexington, Kentucky 40502.

5 **Q. Have you previously filed testimony at the Kentucky Public Service Commission**
6 **(“Commission”) or any other regulatory commission?**

7 A. I recently testified before the Commission in KAW’s 2024 case regarding its Qualified
8 Infrastructure Program (“QIP”) which was Case No. 2024-00272 and was for QIP Year 6.
9 I have also submitted testimony before the Pennsylvania Public Utility Commission and
10 Tennessee Public Utilities Commission.

11 **Q. Please state your educational and professional background.**

12 A. I graduated from Arizona State University of Tempe, Arizona with a Master’s in Business
13 Administration in 2009, with a Finance emphasis. I also graduated from Drexel University
14 of Philadelphia, Pennsylvania with a Bachelor of Science Degree in Finance and
15 Economics in 2001. In September 2019, I earned the Chartered Financial Analyst
16 credential. I began my employment in a contract role as a Financial Analyst with New
17 Jersey-American Water Company in October 2011, providing analytical support for the
18 Financial Planning and Rates Department. In August 2013, I started full time with
19 American Water Works Service Company, working as a Financial Analyst in the Financial
20 Planning and Analysis Department. In this capacity, I supported the budgeting and
21 consolidated reporting process for all American Water Works Company, Inc. (“AWW”)
22 subsidiaries, including KAW. In 2015, I was promoted to a Senior Financial Analyst role
23 where I worked in the Budgeting & Internal Reporting Department. In this role, I was

1 primarily responsible for consolidating the long-term financial plans for all AWW
2 subsidiaries. In October 2018, I was promoted to Principal Regulatory Analyst in the
3 Regulatory Services Department where my duties required me to prepare and present
4 regulatory filings and participate in related activities for Pennsylvania-American Water
5 Company and West-Virginia American Company. In March 2023, I was promoted to the
6 position of Senior Manager Regulatory Services. In August 2024, I was promoted to my
7 current position of Senior Manager, Rates and Regulatory for KAW.

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

9 A. The purpose of my testimony is to describe and support the calculated amount of KAW's
10 proposed Balancing Adjustment surcharge for QIP Period 5, which is for the period
11 September 1, 2024 to December 31, 2024. KAW's QIP was approved by the Commission
12 in its June 27, 2019, Order in Case No. 2018-00358, and continued by the Commission in
13 its May 3, 2024, Order in Case No. 2023-00191 which was KAW's last general water rate
14 case. The QIP mechanism, as approved by the Commission, includes an annual Balancing
15 Adjustment process which is to be filed no later than March 31st following the end of each
16 QIP period, with the actuals for the same period. So, for QIP Period 5, which ended
17 December 31, 2024, it is now time to include that Balancing Adjustment and I describe
18 that Balancing Adjustment below. Additionally, I will describe the new proposed
19 cumulative QIP Rider surcharge.

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

21 A. Yes. I am sponsoring Exhibit 1 to my testimony which shows the QIP 5 Balancing
22 Adjustment calculations that lead to the updated QIP Rider Charge being proposed in this
23 case. I am sponsoring Exhibit 2 to my testimony which are the proposed tariff sheets

1 reflecting the Balancing Adjustment. I am also sponsoring my workpapers as an Excel file
2 titled KAW_DT_DD_WP_032825.

3 **Q. Are KAW's calculations in this case consistent with the Commission's Orders in**
4 **KAW's previous QIP cases and most recent rate Case?**

5 A. Yes, with a couple of key items of note. First, consistent with KAW's Application in its
6 2024 QIP case for QIP Period 5 (Case No. 2024-00173), KAW is proposing that the QIP
7 5 balancing adjustment is for the four months ending December 31, 2024, rather than a
8 twelve-month period now being followed with the QIP Year 6 filing in Case No 2024-
9 00272. Secondly, the QIP 5 balancing adjustment reflects only the difference in revenue
10 authorized in QIP 5 versus the actual amount collected for the four-month period. The
11 balancing adjustment does not include a true-up of projected program costs, as KAW did
12 not include any new QIP investments in the QIP 5 period in Case No. 2024-00173, because
13 the recovery of costs related to scheduled main replacement investments during that period
14 were reflected in the revenues from the rate case, Case No. 2023-00191.

15 **Q. Please explain the QIP 5 Balancing Adjustment as it relates to the current QIP 4**
16 **Balancing Adjustment and current cumulative QIP Rider Surcharge.**

17 A. As discussed above the QIP 5 Balancing Adjustment covers the under collection of
18 revenues for the period September 1, 2024 through December 31, 2024 and is proposed to
19 be added to the current cumulative QIP Surcharge of 11.06%. This current rate includes
20 the QIP 4 Balancing Adjustment that trued up the projected program costs and revenues
21 with the actuals for the cumulative amount of rate base including the 13-month average
22 ending June 2024.

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

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

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

7 A. Yes. KAW seeks the Commission's approval of a Balancing Adjustment amount related
8 to the completed QIP 5 period that closed on December 31, 2024. The Balancing
9 Adjustment incremental increase requested for the completed QIP 5 period, which was the
10 period September 1, 2024, to December 31, 2024, is 0.03% as shown in Exhibit 1. This
11 adjustment would be added to the currently approved cumulative QIP Rider charge of
12 11.06 percent to change the total cumulative surcharge to 11.09 percent, as set forth in
13 Exhibit 1 and in the proposed tariff sheet attached as Exhibit 2 to my testimony. The 11.09
14 percent consists of: the September 1, 2024 QIP charge of 6.29%, plus an additional 1.85%
15 for the QIP 6 2025 investments, plus an additional 2.92% for the QIP Year 4 Balancing
16 Adjustment, plus an additional 0.03% for the QIP 5 Balancing Adjustment.

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

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

23 **Q. Have you included the calculation of the Balancing Adjustment proposed in this case?**

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

4 **Q. Please describe in more detail the Balancing Adjustment calculation for QIP Period**
5 **5.**

6 A. KAW seeks an upward adjustment to the QIP Rider charge that would result in recovery
7 of \$16,066 related to *under* recovery during the QIP 5 Period of September 1, 2024, to
8 December 31, 2024, or a QIP Percentage of 0.03%. This represents an increase to the
9 average residential customer of \$0.01 per month. The QIP Percentage was calculated by
10 taking the Under/(Over) Recovery Variance of \$16,066 divided by \$60,078,254, which is
11 the Base Revenues from Case No. 2023-00191 of \$119,828,211, prorated to match the
12 expected rate effective period for the QIP 5 Balancing Adjustment. As stated, these
13 calculations are summarized on Exhibit 1 of my testimony and in the Excel file being
14 submitted electronically along with this testimony on the workbook sheet labelled “QIP 5
15 Balancing Adjustment” and “Summary Adjustment.”

16 **Q. Will you summarize the components of the revised cumulative request of 11.09%**
17 **discussed above?**

18 A. Yes. The cumulative charge of 11.09% consists of the 6.29% resulting from KAW’s QIP
19 5 case (Case No. 2024-00173), plus the 1.85% from QIP 6 2025 forecasted projects for the
20 calendar year 2025 (Case No. 2024-00272), plus 2.92% from the QIP 4 balancing
21 adjustment reflecting the cumulative amount of rate base including the 13-Month average
22 ending June 2024 (also in Case No. 2024-00272), plus 0.03% from the QIP 5 balancing

1 adjustment requested herein reflecting the under recovery of revenue from the period
2 September 1, 2024 and December 31, 2024.

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

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

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

6 A. Yes, it does.

VERIFICATION

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

The undersigned, Dominic DeGrazia, being duly sworn, deposes and says that he is the Senior Manager of Rates and Regulatory for Kentucky-American Water Company, that he 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 his information, knowledge, and belief.

Dominic DeGrazia
_____ **Dominic DeGrazia**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 28th day of March, 2025.

Molly McCleese Van Over
_____ Notary Public

My Commission Expires:
July 31, 2025
Notary ID: KYNP26988

Kentucky-American Water Company
Case No. 2025-00099
QIP Year 5 Annual Balancing Adjustment
For the Four Months Ended December 31, 2024

Line No.

(1) QIP 5 Rider Charge

1	QIP 5 Revenue Requirement	\$7,735,980
2	Revenues - Order in Case No. 2024-00173	122,919,594
3	QIP 5 Rider Charge	6.29%

(2) Prorated QIP 5 Revenue Requirement for Future QIP 5 Balancing Adjustment

4	Prorated QIP 5 Revenue Requirement [A]	\$2,585,725
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(3) Prorated QIP 5 Revenue Requirement compared to Actual Billed Revenues

5	Prorated QIP 5 Revenue Requirement	\$2,585,725
6	Billed Revenues - September 1, 2024-December 31, 2024	2,569,659
7	QIP 5 Under/(Over) Recovery Variance	\$16,066

(4) QIP 5 Balancing Adjustment Calculation

8	QIP 5 Under/(Over) Recovery Variance	\$16,066
9	Prorated Base Revenues - Case No. 2023-00191* [B]	60,078,254
10	QIP 5 Balancing Adjustment Rider Charge	0.03%

Balancing Adjustment Monthly Bill Impact \$0.01
 (Average Residential Customer using 3,800 gal)

*Base Revenues - Rehearing Order in Case No. 2023-00191 \$119,828,211

[A] Prorated Days for QIP 5 Revenue Requirement

QIP 5 Start Date	9/1/2024
QIP 5 End Date	12/31/2024
Total Days	122

[B] Prorated Days for QIP 5 Balancing Adjustment

QIP 5 Balancing Adjustment Effective Date	7/2/2025
QIP 5 Balancing Adjustment End Date	12/31/2025
Total Days	183

Line No.

Total QIP Charge Summary

1	QIP 5 Revenue Requirement	\$7,735,980
2	QIP 6 Incremental Revenue Requirement	\$2,213,890
3	QIP 4 Balancing Adjustment	\$3,499,506
4	QIP 5 Balancing Adjustment	\$16,066
5	QIP 5 Revenue Requirement Charge	6.29% *
6	QIP 6 Incremental Revenue Requirement Charge	1.85%
7	QIP 4 Balancing Adjustment Charge	2.92%
8	Total QIP Charge Case No. 2024-00272	11.06%
9	QIP 5 Balancing Adjustment Charge	0.03%
10	Total Proposed QIP Charge Case	11.09%

Note:

*Prior QIP Charge is based on the Prior QIP Revenue Requirement divided by the Revenue Requirement ordered in Case No. 2024-00173

		Updated Case No. 2024-00272 QIP 6 January - December 2025
Line No.		
1	13-Month Average Rate Base	\$82,249,891
2		
3	After-Tax Rate of Return - Debt	2.16%
4	After-Tax Rate of Return - Equity	5.10%
5	After-Tax Rate of Return - Total	7.26%
6		
7	After-Tax Return - Debt (Line 1 x Line 3)	\$1,776,598
8	After-Tax Return - Equity (Line 1 x Line 4)	4,194,744
9	After-Tax Return - Total (Line 7 + Line 8)	\$5,971,342
10		
11	Gross Revenue Conversion Factor - Debt & Expense	100.7396%
12	Gross Revenue Conversion Factor - Equity	134.2300%
13		
14	Pre-Tax Return - Debt (Line 7 x Line 11)	\$1,789,738
15	Pre-Tax Return - Equity (Line 8 x Line 12)	5,630,606
16	Pre-Tax Return - Total (Line 7 + Line 8)	\$7,420,344
17		
18	After-Tax Expense - Depreciation	\$1,274,298
19	After-Tax Expense - Property Tax	1,236,656
20	After-Tax Expense - Total	\$2,510,954
21		
22	Pre-Tax Expense Total (Line 20 x Line 11)	\$2,529,526
23		
24	Total QIP Revenue Requirement (Line 16 + Line 22)	\$9,949,870
25		
26	Prior QIP Revenue Requirement	\$7,735,980
27	Incremental QIP Revenue (Line 24 - Line 26)	2,213,890
28	Balancing Adjustment	3,499,506
29		
30	Revenues - Rehearing Order in Case No. 2023-00191	\$119,828,211
31		
32	Prior QIP Charge (Line 26 / Line 30)	6.29%
33	Incremental QIP Charge (Line 27 / Line 30)	1.85%
34	Balancing Adjustment (Line 28 / Line 30)	2.92%
35	Total QIP Charge (Line 32 + Line 33 + Line 34)	11.06%
36		

Note:

*Prior QIP Charge is based on the Prior QIP Revenue Requirement divided by the Revenue Requirement ordered in Case No. 2024-00173

Line No.		Case No. 2021-00376	Case No. 2022-00328	Case No. 2022-00300	Case No. 2023-00030	Case No. 2024-00173	Total QIP
		QIP 1	QIP 2	QIP 3	QIP 4	QIP 5	
		As of June 30, 2021	As of June 30, 2022	As of June 30, 2023	13 Mo. Avg. Ended June 30, 2024	4 Mo. Avg. Ended December 31, 2024	
		July 2020 - June 2021	July 2021 - June 2022	July 2022 - June 2023	July 2023 - June 2024	September 2024 - December 2024	
1	QIP Plant Additions	\$9,328,645	\$19,931,459	\$28,150,400	\$9,728,609	\$0	\$67,139,113
2	Retirements	(633,049)	(414,148)	(524,527)	(219,472)		(1,791,196)
3	Net Change to Gross Plant	8,695,596	19,517,311	27,625,873	9,509,137	0	65,347,917
4							
5	Cost of Removal	549,261	2,433,439	(659,177)	972,861		3,296,384
6	Retirements	633,049	414,148	524,527	219,472		1,791,196
7	Depreciation Accrual - QIP 1	(137,516)					(137,516)
8	Depreciation Accrual - QIP 2		(311,545)				(311,545)
9	Depreciation Accrual - QIP 3			(422,676)			(422,676)
10	Depreciation Accrual - QIP 4				(145,490)		(145,490)
11	Net Change to Accum Depr	1,044,794	2,536,041	(557,326)	1,046,843	0	4,070,353
12							
13	Net Change to Net Plant	9,740,390	22,053,352	27,068,547	10,555,980		69,418,270
14	Accumulated Deferred Taxes - QIP 1	(1,550,183)					(1,550,183)
15	Accumulated Deferred Taxes - QIP 2		(3,674,353)				(3,674,353)
16	Accumulated Deferred Taxes - QIP 3			(1,663,894)			(1,663,894)
17	Accumulated Deferred Taxes - QIP 4				(1,747,671)		(1,747,671)
18	Net Change to Rate Base	8,190,207	18,379,000	25,404,653	8,808,309	0	60,782,170
19	Pre-Tax Rate of Return	9.28%	9.28%	9.28%	9.28%		9.28%
20	QIP Revenue on Net Change to Rate Base	760,223	1,705,957	2,358,085	817,596	0	5,641,862
21	QIP Depreciation Expense - QIP 1	137,516					137,516
22	QIP Depreciation Expense - QIP 2		311,545				311,545
23	QIP Depreciation Expense - QIP 3			422,676			422,676
24	QIP Depreciation Expense - QIP 4				145,490		145,490
25	QIP Property Taxes - QIP 1	120,869	21,361	(4,348)	7,826		145,708
26	QIP Property Taxes - QIP 2		261,532	(9,759)	17,566		269,339
27	QIP Property Taxes - QIP 3			362,929	24,376		387,305
28	QIP Property Taxes - QIP 4				274,540		274,540
29							
30	QIP Revenue Requirement Rate Adj	\$1,018,608	\$2,300,395	\$3,129,584	\$1,287,393	\$0	\$7,735,980
31							
32	Revenues - Order in Case No. 2024-00173	\$122,919,594	\$122,919,594	\$122,919,594	\$122,919,594	\$122,919,594	\$122,919,594
33	QIP Rider Charge	0.83%	1.87%	2.55%	1.05%	0.00%	6.29%
34							

Line No.		Case No. 2021-00376	Case No. 2022-00328	Case No. 2023-00300	Case No. 2024-00272	Total QIP
		QIP 1	QIP 2	QIP 3	QIP 4	
		As of June 30, 2021	As of June 30, 2022	As of June 30, 2023	13 Mo. Avg. Ended June 30, 2024	
		July 2020 - June 2021	July 2021 - June 2022	July 2022 - June 2023	July 2023 - June 2024	
1	QIP Plant Additions	\$9,328,645	\$19,931,459	\$28,150,400	\$13,613,867	\$71,024,370
2	Retirements	(633,049)	(414,148)	(524,527)	(617,297)	(2,189,021)
3	Net Change to Gross Plant	8,695,596	19,517,311	27,625,873	12,996,570	68,835,350
4						
5	Cost of Removal	549,261	2,433,439	(659,177)	677,955	3,001,478
6	Retirements	633,049	414,148	524,527	617,297	2,189,021
7	Depreciation Accrual - QIP 1	(137,516)				(137,516)
8	Depreciation Accrual - QIP 2		(311,545)			(311,545)
9	Depreciation Accrual - QIP 3			(422,676)		(422,676)
10	Depreciation Accrual - QIP 4				(525,647)	(525,647)
11	Net Change to Accum Depr	1,044,794	2,536,041	(557,326)	769,605	3,793,114
12						
13	Net Change to Net Plant	9,740,390	22,053,352	27,068,547	13,766,175	72,628,464
14	Accumulated Deferred Taxes - QIP 1	(1,550,183)				(1,550,183)
15	Accumulated Deferred Taxes - QIP 2		(3,674,353)			(3,674,353)
16	Accumulated Deferred Taxes - QIP 3			(1,663,894)		(1,663,894)
17	Accumulated Deferred Taxes - QIP 4				(1,750,395)	(1,750,395)
18	Net Change to Rate Base	8,190,207	18,379,000	25,404,653	12,015,780	63,989,641
19	Pre-Tax Rate of Return	9.28%	9.28%	9.28%	9.28%	9.28%
20	QIP Revenue on Net Change to Rate Base	760,223	1,705,957	2,358,085	1,115,317	5,939,582
21	QIP Depreciation Expense - QIP 1	137,516				137,516
22	QIP Depreciation Expense - QIP 2		311,545			311,545
23	QIP Depreciation Expense - QIP 3			422,676		422,676
24	QIP Depreciation Expense - QIP 4				180,505	180,505
25	QIP Property Taxes - QIP 1	120,869	21,361	(4,348)		137,882
26	QIP Property Taxes - QIP 2		261,532	(9,759)		251,773
27	QIP Property Taxes - QIP 3			362,929		362,929
28	QIP Property Taxes - QIP 4				57,227	57,227
29						
30	QIP Revenue Requirement Rate Adj	\$1,018,608	\$2,300,395	\$3,129,584	\$1,353,049	\$7,801,636
31						
32	Billed Revenues					4,417,788
33	Less: QIP 3 Undercollection					115,658
34	Net Billed Revenues					\$4,302,130
35						
36	Under/(Over) Recovery Variance					\$3,499,506
37						
38	Revenues - Rehearing Order in Case No. 2023-00191					\$119,828,211
39	QIP Balancing Adjustment Rider Charge					2.92%
40						

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. KY NO. 10
Original Sheet Nos. 1-28, 30, 32, 34-42, 44-48
Second Sheet Nos. 29, 31, 33, 43
Fourth Sheet No. 49
Cancelling P.S.C KY NO. 9

KENTUCKY-AMERICAN WATER COMPANY

2300 Richmond Road
Lexington, KY 40502

<http://www.amwater.com/kyaw>

RATES – CHARGES – RULES – REGULATIONS

FOR FURNISHING

WATER SERVICE

AT

**BOURBON, CLARK, FAYETTE, FRANKLIN, GALLATIN, GRANT, HARRISON,
JACKSON, JESSAMINE, NICHOLAS, OWEN, SCOTT, WOODFORD, AND ROCKCASTLE
COUNTIES IN KENTUCKY**

FILED WITH THE

PUBLIC SERVICE COMMISSION

OF

KENTUCKY

ISSUED: March 28, 2025

Approved:

EFFECTIVE: July 1, 2025

ISSUED BY: /s/ Robert Burton

Robert Burton

President

2300 Richmond Road, Lexington, KY 40502

RATES

All customers subject to this QIP Rider receiving water service shall be assessed a monthly QIP Rider charge in addition to the service charge, consumption charge or monthly fee component of their applicable rate schedule that will enable the Company to complete the Qualified Infrastructure Program.

The QIP Rider will be updated annually in a filing that includes the (1) projected costs for each QIP period and (2) a balancing adjustment that trues up the projected program costs and revenues with the actuals for the preceding annual QIP period. The annual filing will be submitted on August 31st of every year, to become effective on January 1st of the next year. The balancing adjustment will be filed no later than March 31st following the end of each 12-month QIP period, to become effective on July 1st.

The monthly QIP Rider charges for all respective water service classifications will be calculated as a percentage and applied to all water charges including meter fees, volumetric water sales, fire service fees, and public and private hydrant fees from the Company's most recent base rate case, but excluding any other surcharge or add-on taxes. The percentage is calculated by dividing the QIP revenue requirement by the water revenues authorized in the Company's most recent rate case and multiplying the resulting QIP period by the number of days the QIP percentage will be in effect, divided by 365 days (366 days in a leap year). It will be listed as a separate line item on the customer bill. The QIP percentage shall be calculated on an annual prospective basis. The QIP Rider charge effective on and after the effective date is:

- (I) 11.09%

ISSUED: March 28, 2025
EFFECTIVE: July 1, 2025

Approved:

ISSUED BY: /s/ Robert Burton
Robert Burton
President
2300 Richmond Road, Lexington, KY 40502