

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION INTO)	
KENTUCKY-AMERICAN WATER COMPANY'S)	CASE NO.
PROPOSAL TO IMPLEMENT A RATE)	2020-00091
MECHANISM RELATED TO COST SAVINGS)	
FROM REFINANCING OF LONG-TERM DEBT)	

ORDER

This matter arises from a proposal made by Kentucky-American Water Company (Kentucky-American) in Case No. 2018-00358¹ regarding a rate mechanism related to potential cost savings that were not known and measurable during the pendency of that rate case. The Commission, on its own motion, establishes this proceeding, pursuant to KRS 278.260 and KRS 278.270, to conduct a formal investigation into the reasonableness of Kentucky-American's proposed rate mechanism to return to ratepayers the potential cost savings achieved from the refinancing of \$71,390,000 in long-term debt on November 14, 2019.

BACKGROUND

On June 27, 2019, the Commission approved a general rate adjustment in Kentucky-American's most recent rate case, Case No. 2018-00358, based upon a forecasted test year ending June 30, 2020.² In a separate financing proceeding filed

¹ Case No. 2018-00358, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates*, Rebuttal Testimony of Melissa L. Schwarzell (Schwarzell Rebuttal Testimony) (filed Apr. 30, 2019), p. 26-27.

² Case No. 2018-00358, Final Order (Ky. PSC June 27, 2019).

while the rate case was pending, Kentucky-American requested, among other things, approval to pursue refinancing of up to \$97,390,000 in existing long-term debt that Kentucky-American said it “may” undertake between 2019 and 2021, depending upon market conditions.³ Kentucky-American subsequently notified the Commission that it had refinanced \$71,390,000 in long-term debt on November 14, 2019.⁴

DISCUSSION

During the pendency of the rate case, Case No. 2018-00358, Kentucky-American proposed a rate mechanism to address the cost savings in the event that refinancing of certain long-term debt occurred prior to the end of the forecasted test year used in the rate case. In rebuttal testimony filed in that rate case, Kentucky-American stated:

As noted in the financing petition submitted March 18, 2019 (Case No. 2019-00083), the Company is pursuing an opportunity to call and refinance two tax exempt bonds. Several factors make the success, timing, and benefit of this effort significantly uncertain. However, the Company has made an adjustment to the managerial forecast in anticipation of savings from these potential refinancings, and a portion of the benefit may be achieved during the forecasted test year. **While the uncertainties preclude a precise rate case adjustment at this time, the Company is proposing to defer any savings achieved and to make a filing within 90 days of the end of the test year to determine if any change to rates is appropriate** (emphasis added).⁵

³ Case No. 2019-00083, *Electronic Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp. Pursuant to KRS 278.300* (filed March 8, 2019), Application at paragraph 12. Kentucky-American also requested approval to issue \$16,000,000 in new long-term debt, which was granted. Kentucky-American issued the \$16,000,000 new long-term debt on May 22, 2019. In the rate case, Case No. 2018-00358, Kentucky-American proposed and the Commission made an adjustment related to the \$16,000,000 long-term debt because the impact was known and measurable.

⁴ *Id.* at Ordering paragraph 5, Report (filed Nov. 25, 2019).

⁵ Case No. 2018-00358, Schwarzell Rebuttal Testimony at 26–27.

At the formal hearing in this matter, Kentucky-American testified that it took an unusual step in that it made an adjustment to its managerial forecast in anticipation of savings from the potential refinancing.⁶ Kentucky-American explained that it provided the information to the Commission in rebuttal testimony because, although the refinancing was not scheduled and conditioned upon certain events, Kentucky-American included the potential cost savings from refinancing in managerial reports.⁷ As Kentucky-American noted, pursuant to Section 16(7)(n), managerial reports are among the types of information that must be filed in support of forecasted test years in rate cases. Kentucky-American further testified that prospective savings from the potential refinancing were not reflected in any adjustments to the revenue requirement.⁸ Kentucky-American stated that it did not know how or when the refinancing would occur, but provided the information to the Commission so that a post-test year filing could be made to reconsider rates in light of cost savings from the proposed refinancing.⁹

Because the refinancing was indefinite and thus the prospective cost savings were uncertain, the cost savings were not reflected in the rates approved in Case No. 2018-00358.

Given that the refinancing has been issued, that the issuance date is prior to the end of the rate case test year, and that Kentucky-American proposed a post-case rate mechanism to reconsider the rates approved in Case No. 2018-00358 in relation to the cost savings achieved from the refinancing, the Commission finds that this proceeding

⁶ Case No. 2018-0035, May 14, 2019 Hearing Video Transcript (HVT) at 10:42:09.

⁷ *Id.* at 10:42:39.

⁸ *Id.* at 10:43:35.

⁹ *Id.* at 10:42:48, 10:43:09.

should be established. The Commission further finds that Kentucky-American should file its proposal for a rate mechanism to return the cost savings to its ratepayers, along with any supporting documents that reflect the cost savings to date and cost savings projected through June 30, 2020, the end of the rate case test year.

IT IS THEREFORE ORDERED that:

1. This proceeding is established to investigate the reasonableness of Kentucky-American's proposal to implement a rate mechanism to return to ratepayers the cost savings achieved from refinancing of \$71,390,000 in long-term debt.

2. Within 15 days of the date of this Order Kentucky-American shall file a response setting forth Kentucky-American's proposed rate mechanism to return the refinancing cost savings, including supporting documents that reflect the cost savings from November 14, 2019, when the refinancing was issued, through June 30, 2020, the end of the rate case test year.

3. Kentucky-American shall comply with all provisions of the Commission's regulations, 807 KAR 5:001, Section 8, related to the service and electronic filing of documents. Pursuant to an Order entered March 16, 2020,¹⁰ the Commission suspended the filing of original paper documents, except for the filing of confidential information, during the pendency of a public health emergency. Upon further order of the Commission in Case No. 2020-00085, originals in paper medium will be filed with the Commission within 30 days once the state of emergency has ceased.

¹⁰ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus Covid-19* (Ky. PSC Mar. 16, 2020).

4. Pursuant to 807 KAR 5:001, Section 8(9), within seven days of entry of this Order, Kentucky-American shall file a written statement with the Commission that:

a. Certifies that it, or its agent, possesses the facilities to receive electronic transmissions; and

b. Sets forth the electronic mail address to which all electronic notices and messages related to this proceeding should be served.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

By the Commission

ENTERED
MAR 24 2020 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2020-00091

*Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*Kentucky-American Water Company
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502