

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|                                     |   |            |
|-------------------------------------|---|------------|
| ELECTRONIC APPLICATION OF KENTUCKY- | ) |            |
| AMERICAN WATER COMPANY FOR AN       | ) | CASE NO.   |
| ORDER APPROVING THE ESTABLISHMENT   | ) | 2020-00257 |
| OF A REGULATORY ASSET               | ) |            |

ORDER

On July 29, 2020, Kentucky-American Water Company (Kentucky-American) filed an application, pursuant to KRS 278.220, seeking approval to establish a regulatory asset for certain expenses related to the COVID-19 emergency. On October 28, 2020, Kentucky-American supplemented its application with the monetary amounts for which it sought a regulatory asset, with expenses totaling \$1,055,890 as of September 30, 2020. Kentucky-American filed an additional supplement on December 4, 2020, with an updated total of \$1,196,603 through October 30, 2020.

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General) is the only intervenor in this proceeding. Pursuant to a procedural schedule, Kentucky-American responded to one round of data requests. On December 4, 2020, the Commission granted Kentucky-American and the Attorney General’s joint request to file briefs and submit this matter for a decision based on the written record. On December 9, 2020, the parties filed their respective briefs. This matter now stands submitted for a decision.

## LEGAL STANDARD

A utility must obtain Commission approval for accounting adjustments before establishing any expense as a new regulatory asset. A regulatory asset is created when a utility is authorized to capitalize an expenditure that would be recorded as a current expense under traditional accounting rules. A utility may request recovery of the capitalized amount in future rates, but recovery is subject to Commission review and approval. The authority to establish regulatory assets arises out of the Commission's plenary authority to regulate utilities under KRS 278.040 and its authority to establish a system of accounts for utilities under KRS 278.220.

The Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, which was codified as Accounting Standards Codification (ASC) 980, Regulated Operations, provides the criteria for recognition of a regulatory asset.<sup>1</sup> Supplemental to generally accepted accounting principles (GAAP), long-standing Commission precedent provides

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<sup>1</sup> ASC 980-340-25-1 provides, in full, as follows:

25-1 Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:

- a. It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
- b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date.

that regulatory assets may be established when a utility incurs (1) an extraordinary, nonrecurring expense that could not have been reasonably anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry-sponsored initiative; or (4) an extraordinary or nonrecurring expense that, over time, will result in a savings that fully offsets the cost.<sup>2</sup>

### COVID-19 EMERGENCY

In response to the COVID-19 pandemic and state of emergency declared by Governor Andy Beshear, the Commission initiated an administrative case, Case No. 2020-00085, that, among other things, ordered utilities to suspend disconnections due to nonpayment and waive the assessment of all late payment fees, noting that customers still had the obligation to pay for service received.<sup>3</sup> By Order entered September 21, 2020, the Commission terminated the moratorium on residential disconnections for nonpayment as of October 20, 2020, but found good cause to continue the moratorium on the assessment of late payment fees for residential customers until December 31, 2020.<sup>4</sup> The Commission prohibited utilities from assessing late fees on any past-due residential amounts accrued between March 16, 2020, and December 31, 2020, directing that such residential customer accounts should be considered "on time" for all purposes as long as the customers timely pay their bill for current service and any amount required

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<sup>2</sup> See Case No. 2008-00436, *The Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages* (Ky. PSC Dec. 23, 2008).

<sup>3</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 3.

<sup>4</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Sept. 21, 2020), Order at 6–7.

under the default or an agreed-upon payment plan.<sup>5</sup> The Commission terminated the moratorium on disconnection and the assessment of late payment fees for nonresidential accounts as of October 20, 2020, finding that commercial and industrial customers had access to forgivable federal loans and other financing options not available to residential customers.<sup>6</sup>

Utilities were expressly permitted to apply and defer carrying charges to past due amounts paid pursuant to a payment plan in order to finance the payment plans for arrearages accumulated between March 16, 2020, and October 1, 2020.<sup>7</sup> The Commission approved such financing costs for deferral accounting, with recovery in a subsequent proceeding either through rate base or as part of capitalization in later proceedings.<sup>8</sup>

#### PROPOSED REGULATORY ASSET

In its July 29, 2020 application, Kentucky-American requested to defer the following COVID-19 related “lost revenue” and expenses: Reconnection Fees; Forgone Late Payment Fees; Incremental Operating expenses; Uncollectible expense; Term-Loan Interest expense; and Travel/Conference Savings. Kentucky-American also requested to defer “lost revenues” that occurred due to the lower volumetric sales to customers in the various customer classes. However, in subsequent filings and in its brief, Kentucky-American requested to defer only “lost revenue” for reconnection fees and late fees.

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<sup>5</sup> *Id.* at 8.

<sup>6</sup> *Id.* at 12.

<sup>7</sup> *Id.* at 10.

<sup>8</sup> *Id.* at 10–11.

In the application, Kentucky-American requested approval to establish a regulatory asset, but did not provide the amounts that it planned to defer until its October 28, 2020 supplemental filing. In that filing, Kentucky-American requested regulatory asset treatment for \$1,055,890 in “lost revenue” and expenses, noting these amounts were current as of September 30, 2020, and that Kentucky-American expected that the amounts that it identified would grow going forward.

On December 4, 2020, Kentucky-American filed an updated accounting summary, that increased its purported lost revenue and expenses to \$1,196,603 as of October 30, 2020. The following table compares the requested COVID-19 costs incurred up to September 30, 2020, to the amounts updated to October 30, 2020.

| <u>Regulatory Asset Category</u> | <u>Balances as of<br/>09/30/20</u> | <u>Cost<br/>Increases</u> | <u>Balances as of<br/>10/30/20</u> |
|----------------------------------|------------------------------------|---------------------------|------------------------------------|
| Reconnection Fees                | \$ 616                             | \$ -                      | \$ 616                             |
| Foregone Late Payment Fees       | 628,277                            | 104,375                   | 732,652                            |
| Incremental Operating Expenses   | 220,044                            | 11,282                    | 231,326                            |
| Uncollectible Expense            | 173,551                            | 35,600                    | 209,151                            |
| Term Loan Interest Expense       | 170,529                            | 16,091                    | 186,620                            |
| Travel/Conference Savings        | (137,127)                          | (26,635)                  | (163,762)                          |
| Totals                           | <u>\$ 1,055,890</u>                | <u>\$ 140,713</u>         | <u>\$ 1,196,603</u>                |

#### PARTIES' ARGUMENTS

The following is a brief description of each individual category in Kentucky-American’s requested COVID-19 regulatory asset and each party’s position.

#### Lower Volumetric Sales.

As noted above, Kentucky-American indicated in its application that it would seek to defer “lost revenues” that have resulted from lower volumetric sales to customers in

various customer classes,<sup>9</sup> but Kentucky-American did not quantify lost water sale revenues in its supplemental filings or reference the issue in its brief.

The Attorney General argued that the Commission should deny recovery for “lost revenue” due to reduced sales and business closings. The Attorney General maintained that approving recovery for lost sales is equivalent to retroactive ratemaking.<sup>10</sup> The Attorney General further maintained that the record does not support Kentucky-American’s claim that it incurred any losses due to changes in volumetric usage.<sup>11</sup> Finally, the Attorney General asserted that businesses closings do not represent “lost revenues” because the costs and revenues associated with the demand were avoided.<sup>12</sup>

#### Reconnection Fees.

Kentucky-American also requested to defer “lost revenue” from foregone fees resulting from reconnecting service that was disconnected for late payment. On March 13, 2020, when it voluntarily stopped collecting late fees and disconnecting customers for nonpayment, Kentucky-American also voluntarily reconnected customers currently disconnected for nonpayment and waived the reconnection fee.<sup>13</sup> Kentucky-American calculated the “lost revenue” associated with the COVID-19 moratorium on reconnect fees by taking the number of reconnects performed during the moratorium period times

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<sup>9</sup> Application at 3.

<sup>10</sup> Attorney General Brief at 8.

<sup>11</sup> *Id.* at 8–9.

<sup>12</sup> *Id.* at 9.

<sup>13</sup> Application at 2. See Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020) Order at 2. Kentucky-American’s moratorium on collecting reconnection fees was directed by its parent company, American Water Works Company, Inc.

the associated reconnect fee.<sup>14</sup> Kentucky-American reported that, during the moratorium period, it reconnected 11 customers, waiving the \$56 dollar reconnection fee for a total of \$616.<sup>15</sup>

The Attorney General did not expressly address reconnection fees in its brief, but did object to Kentucky-American being compensated for fees similar to late fees that should have been waived pursuant to the Commission's March 16, 2020 Order.

### Late Fees.

Kentucky-American requested to defer foregone late fees as a "lost revenue."<sup>16</sup> Kentucky-American explained that it discontinued collecting late fees in compliance with the Commission's March 16, 2020 Order in Case No. 2020-00085.<sup>17</sup> Pursuant to a subsequent Order in Case No. 2020-00085, Kentucky-American tracked the "lost revenue" that would have otherwise been collected from late fees. Kentucky-American explained that it tracked late fees based on its assumption that the Commission would authorize deferred accounting to recover "lost revenue."<sup>18</sup> Kentucky-American argued that it complied with the Commission's administrative directive to waive late fees, and thus should be approved to defer the financial impact pursuant to Commission precedent and consistent with other states' utility regulatory agencies.<sup>19</sup>

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<sup>14</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19*, Kentucky-American's Response to Commission Staff's First Request for Information (Case No. 2020-00085 Staff's First Request), Item 7.a.

<sup>15</sup> Kentucky-American Water Company's Notice of Filing of Updated Information (filed Dec. 4, 2020), Excel Workbook: KAW\_N\_ATT\_120420, Tab: Reconnection Fees.

<sup>16</sup> Kentucky-American Brief at 7 and 9.

<sup>17</sup> *Id.* at 9.

<sup>18</sup> *Id.*

<sup>19</sup> *Id.* at 5–6.

Kentucky-American disputed that it had to address rate recovery for late fees in this proceeding, arguing that any decision regarding recovery of late fees should occur in a general rate case, and not in this proceeding, in which the only issue is whether a regulatory asset should be established for foregone late fees.<sup>20</sup> However, in light of a recent Commission decision in another proceeding that disallowed late fees,<sup>21</sup> Kentucky-American felt compelled to address future recovery of late fees. Kentucky-American distinguished the facts under which it charges late fees and the other proceeding. Kentucky-American argued that, as the Commission found in Case No. 2012-00155,<sup>22</sup> Kentucky-American's late fees are directly related to costs that Kentucky-American incurs as a result of customers making late payments in accordance with the requirements of 807 KAR 5:006, Section 9(2), unlike the Commission's denial of fees that are designed to be punitive.<sup>23</sup> Kentucky-American disagreed with the Commission's statement in the September 21, 2020 Order in Case No. 2020-00085 that late fees apparently do not encourage customers to make timely payments, contending that even when late fees are suspended, most of Kentucky-American's customers routinely pay their bills on time.<sup>24</sup>

The Attorney General interpreted the Commission's statement in the March 16, 2020 Order in Case No. 2020-00085 that a utility's customers are not relieved of the

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<sup>20</sup> *Id.* at 8.

<sup>21</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

<sup>22</sup> Case No. 2012-00155, *Tariff Filing of Kentucky-American Water Company to Establish a Late-Payment Fee* (Ky. PSC Nov. 1, 2012).

<sup>23</sup> Kentucky-American Brief at 10.

<sup>24</sup> *Id.* at 11.



obligation to pay for services rendered to apply only to the fixed and variable rates charged for the provision of service.<sup>25</sup> The Attorney General argued that Kentucky-American should not be compensated for late payment fees and other ancillary charges that do not represent payment for the provision of service.<sup>26</sup> The Attorney General further argued that the March 16, 2020 Order required utilities to waive late fees, noting that the Order directed utilities with concerns that the waiver of fees was in conflict of approved tariffs to request an amendment of their tariffs.<sup>27</sup>

The Attorney General challenged Kentucky-American's argument that foregoing late fees inhibits the opportunity for Kentucky-American to earn its allowed rate of return, arguing that Kentucky-American's revenue requirement was calculated based on a lower percentage of customers paying late fees than actually occurred during the COVID-19 emergency.<sup>28</sup> The Attorney General asserted that a detailed analysis was needed to determine whether recovery of foregone late fees fairly compensates Kentucky-American for its costs.<sup>29</sup>

#### Incremental Operating Expenses.

Kentucky-American tracked Kentucky-American's and the American Water Service Company's (Service Company) incremental operating expense related to COVID-19, including facility preparedness, customer communications, personal

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<sup>25</sup> Attorney General Brief at 2.

<sup>26</sup> *Id.* at 4.

<sup>27</sup> *Id.*

<sup>28</sup> *Id.* at 5.

<sup>29</sup> *Id.* at 6.

protective equipment, temporary housing, emergency water supplies, signage, rental equipment, and remote employee work, including a work from home stipend.<sup>30</sup> The Service Company determined that employees of American Water and its subsidiaries should be paid a \$50 stipend as reimbursement for reasonable expenses incurred by employees related to working remotely.<sup>31</sup> The Service Company allocated 4.19 percent of its work from home stipend to Kentucky-American.<sup>32</sup> The incremental operating costs that Kentucky-American tracked as of October 30, 2020, total \$231,326.<sup>33</sup>

The Attorney General alleged that Kentucky-American did not implement appropriate measures to control costs during the COVID 19 pandemic.<sup>34</sup> According to the Attorney General, Kentucky-American should have implemented cost control measures such as employee wage freezes, reductions to capital investment, and reductions to charitable contributions or sponsorships.<sup>35</sup> However, the only incremental operating expenses that the Attorney General proposed to deny deferred regulatory asset treatment was the work from home stipend.<sup>36</sup> The Attorney General asserted that Kentucky-American had not provided sufficient evidence to substantiate the necessity of

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<sup>30</sup> Kentucky-American Water Company's Notice of Filing of Updated Information (filed Dec. 4, 2020), Excel Workbook: KAW\_N\_ATT\_120420, Tab: Incremental Operating Expense.

<sup>31</sup> Kentucky-American Response to Commission Staff's First Request (Staff's First Request)(filed Nov. 12, 2020), Item 6.

<sup>32</sup> *Id.*

<sup>33</sup> *Id.*

<sup>34</sup> Attorney General Brief at 7.

<sup>35</sup> *Id.* 7–8.

<sup>36</sup> *Id.* at 6.

the work from home stipend, and therefore the Commission should deny recovery of the work from home stipend.<sup>37</sup>

### Term-Loan Interest Expense

Citing the impact the COVID-19 pandemic had on the financial market, specifically the market for corporate commercial paper, American Water Capital Corporation (AWCC) entered into a \$750 million, 364-day term loan credit facility.<sup>38</sup> AWCC executed a \$500 million draw to ensure adequate liquidity for its regulated operating utilities and allocated \$19.6 million of the 364-day term loan credit facility to Kentucky American.<sup>39</sup> Kentucky-American explained that there are no prepayment penalties associated with this loan and the term of the loan ends on March 19, 2021.<sup>40</sup> Kentucky-American confirmed that it has not used any of its allocated share of the term loan proceeds.<sup>41</sup>

The Attorney General did not address the Term-Loan Interest expense in his brief.

### Uncollectible Expense

Kentucky-American requested to defer \$209,151 in Uncollectible expense in the regulatory asset. In response to a data request filed in Case No. 2020-00085, Kentucky-American explained that, if a customer's payment is not received within 90 days of the final bill due date, then Kentucky-American's Customer Relationship & Billing system

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<sup>37</sup> *Id.*

<sup>38</sup> Kentucky-American's Responses to the Staff's First Request (filed Nov. 12, 2020), Item 1.a.

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*, Item 1.c.

<sup>41</sup> *Id.*, Item 9.b.

automatically writes-off the accounts with balances under \$50,000.<sup>42</sup> In this proceeding, Kentucky-American contradicted that response, stating that 100 percent of Uncollectible expenses are recorded for those customer balances that are aged beyond 150 days.<sup>43</sup> The Uncollectible expense amount for which Kentucky-American requests to defer includes customer balances greater than 150 days old that are subject to a default payment plan; Kentucky-American stated that if a customer makes a payment against their balance, the payment is recorded as an offset to expense in the subsequent months' Uncollectible expense.<sup>44</sup> Uncollectible expense also includes customer balances for services rendered prior to the current state of emergency, if those balances were greater than 150 days old.<sup>45</sup>

The Attorney General did not address the Uncollectible expense in his brief.

#### Travel/Conference Savings.

Kentucky-American identified cost savings related to travel and conferences for both Kentucky-American and Service Company costs that have occurred since COVID-19 travel restrictions went into effect.<sup>46</sup> To determine the cost savings related to travel and conferences, Kentucky-American compared the actual costs for travel and conferences for the period of the COVID-19 state of emergency to the same period of the

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<sup>42</sup> Kentucky-American's Responses to Case No. 2020-00085 Staff's First Request (filed July 21, 2020), Item 7.a.

<sup>43</sup> Kentucky-American's Responses to the Staff's First Request (filed Nov. 12, 2020), Item 8.a.

<sup>44</sup> *Id.*

<sup>45</sup> *Id.*, Item 8.a.

<sup>46</sup> Kentucky-American Water Company's Notice of Filing of Updated Information (filed Dec. 4, 2020), Excel Workbook: KAW\_N\_ATT\_120420, Tab: TravelConference Savings.

prior year.<sup>47</sup> Kentucky-American's cost comparison resulted cost savings offset to the requested regulatory of (\$163,762) as of October 2020.<sup>48</sup>

The Attorney General did not address travel and conference savings in his brief.

## DISCUSSION AND FINDINGS

### Lower Volumetric Sales.

A regulatory asset is created when a rate-regulated business is authorized by its regulatory authority to capitalize an expenditure that, under traditional accounting rules, would be recorded as a current expense. "Lost revenues" are not incurred costs that would otherwise be charged as an expense, and therefore do not meet the criteria under ASC 980-340-25-1 for recognition of a regulatory asset.<sup>49</sup> To meet the recognition criteria, these amounts would need to qualify as alternative revenue program, for which there are specific requirements under ASC 980-605 related to accounting recognition as revenues and a regulatory asset. ASC 980-605-25-1 and 25-2 segregate the major alternative revenue programs into two categories, Type A and Type B. As ASC 980-605-25-2 explains:

- "Type A programs adjust billings for the effects of weather abnormalities or broad external factors or to compensate the [rate-regulated] utility for demand-side management initiatives." Examples include no-growth plans and similar conservation efforts.
- "Type B programs provide for additional billings (incentive awards) if the [rate-regulated] utility achieves

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<sup>47</sup> *Id.*

<sup>48</sup> *Id.*

<sup>49</sup><https://www2.deloitte.com/content/dam/Deloitte/us/Documents/energy-resources/pur-covid-update-september2020.pdf>

certain objectives, such as reducing costs, reaching specified milestones, or demonstratively improving customer service.”<sup>50</sup>

The Commission concludes that Kentucky-American’s claimed “lost revenues” do not meet the requirements that would allow for GAAP recognition as a regulatory asset; therefore, Kentucky-American’s request to establish its claimed “lost revenues” as a regulatory asset should be denied.

#### Reconnection Fees.

Kentucky-American voluntarily waived reconnection fees for those customers disconnected for late payment when the state of emergency began. While Kentucky-American argued that the moratorium on the collection of reconnection fees represents “lost revenue” to Kentucky-American, because the reconnection fees are cost based, the more appropriate request would be to defer the expenses related to the reconnections. As discussed above, “lost revenues” do not meet the requirements that would allow for GAAP recognition as a regulatory asset, and therefore Kentucky-American’s request to establish a regulatory asset to defer waived reconnection fees should be denied. Additionally, assuming that Kentucky-American’s reconnection fee accurately reflects the expenses associated with reconnections, the amount of the expense is \$616, an obviously immaterial amount to Kentucky-American.

#### Late Fees.

The Uniform System of Accounts for Water Companies Class A and B requires late fees to be recorded as Other Water revenue in Account No. 470- Forfeited Discounts. Kentucky-American argued that the late fees for which it requests deferral represent “lost

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<sup>50</sup><https://www2.deloitte.com/content/dam/Deloitte/us/Documents/energy-resources/us-er-power-utilities-accounting-financial-reporting-and-tax-research-guide.pdf>

revenue.” As discussed above, Kentucky-American’s claimed “lost revenues” do not meet the requirements that would allow for GAAP recognition as a regulatory asset, and therefore Kentucky-American’s request to establish a regulatory asset for the recovery of its “lost revenues” from forfeited late fees should be denied.

Kentucky-American argued that by the Commission directing utilities to track “lost revenue” associated with uncollected late fees the Commission somehow established a program or mechanism by which Kentucky-American could subsequently recover the “lost revenue” from uncollected late fees. To the extent that Kentucky-American believes that this was the Commission’s intent, the Commission hereby clarifies that it was not. The Commission’s direction in its September 21, 2020 Order in Case No. 2020-00085 to continue to track this “lost revenue” was to ensure that the utilities could respond to subsequent requests for information regarding “lost revenue” due to forfeited late fees. Kentucky-American’s proposed regulatory asset, therefore, cannot meet the condition necessary to collect “lost revenues” in ASC 980-605-25-4(a) that: “The program is established by an order of the utility’s regulatory commission that allows for automatic adjustment of future rates. Verification of the adjustment to future rates by the regulator would not preclude the adjustment from being considered automatic.” The Commission neither (1) established such a program; (2) nor provided for any automatic adjustment of rates. Notwithstanding the findings above that Kentucky Power’s regulatory asset should be denied pursuant to GAAP principles, the Commission finds it should also be denied because it does not meet the criteria of ASC 980-605-25-4.

Even if Kentucky-American could defer the waived late fees as a regulatory asset, the Commission would not approve recovery for late fees under the facts presented. In

the September 21, 2020 Order in Case No. 2020-00085, the Commission ordered that utilities consider residential customer accounts with arrearages subject to a payment plan as current for all purposes so long as those customers timely pay their bill for current service and the amount required under the default or alternative, agreed-upon payment plan.<sup>51</sup> Here, there is no evidence that Kentucky-American excluded from its late fee calculation those customer accounts that are deemed current pursuant to the Commission Order.

Additionally, in the September 21, 2020 Order, the Commission allowed utilities to apply and defer carrying charges to past-due amounts paid pursuant to a payment plan in order to finance the payment plans for arrearages accumulated between March 16, 2020, and October 1, 2020.<sup>52</sup> The Commission approved such financing costs for deferral accounting, with recovery in a subsequent proceeding either through rate base or as part of capitalization in later proceedings. Insofar as a utility incurred expenses to finance the late payment or arrearage of utility service, that cost will be appropriately reflected in the financing costs in the deferral accounting previously approved by the Commission. Each utility, including Kentucky-American, was offered the opportunity to apply those financing costs.

Finally, the Commission carefully chose its language when it directed utilities to “waive”<sup>53</sup> late payment fees for residential customers. In directing that late payment fees

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<sup>51</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Sept. 21, 2020), Order at ordering paragraph 5.

<sup>52</sup> *Id.* at 10.

<sup>53</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at ordering paragraph 2.



be waived, the Commission was directing utilities to forego collecting late payment fees because such fees were not in effect for past-due residential amounts accrued between March 16, 2020, and December 31, 2020, and for past-due nonresidential amounts accrued between March 16, 2020, and October 1, 2020.

The Commission's authority to waive late payment fees arises from its plenary authority pursuant to KRS Chapter 278, exclusive jurisdiction over utility rates and services pursuant to KRS 278.040(2), and the legislative intent to provide economic relief during extraordinary times. As the Kentucky Supreme Court has explained,<sup>54</sup> the General Assembly granted the Commission general powers and plenary authority arising from the Commission's exclusive jurisdiction to regulate utility rates and service under KRS 278.030 and KRS 278.040. In codifying KRS 278.170(2), the General Assembly recognized that utilities may be allowed to provide service at free or reduced rate service "for the purpose of providing relief in case of flood, epidemic, pestilence, or other calamity." Thus, in directing utilities to waive late fees, the Commission's intent was to provide relief to utility customers impacted by the calamitous nature of the COVID-19 pandemic.

Although the Commission utilized its generalized and specific authority to direct that late payment fees be waived, the Commission also expressly stated that customers were not relieved "from the obligation to pay for service rendered," such as monthly billing for electric, gas, water, or sewer service usage.<sup>55</sup> The Commission also permitted utilities

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<sup>54</sup> *Public Serv. Comm'n v. Commonwealth ex rel. Conway*, 324 S.W.3d 373, 380-383 (Ky. 2010).

<sup>55</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5.

to apply and defer carry charges arising from the expense of financing payment plans for arrearages accumulated during the COVID-19 emergency, with recovery in a subsequent proceeding.<sup>56</sup> Thus, the Commission balanced the interests of utilities and consumers in actions taken in response to the COVID-19 pandemic,

### Incremental Operating Expenses.

Historically the Commission has denied regulatory asset treatment for expenses deemed immaterial.<sup>57</sup> As discussed above, Commission precedent has established categories of expenses appropriate for regulatory asset treatment, including “extraordinary, non-recurring expenses.” The Commission previously determined that immaterial expenses cannot be considered extraordinary based on our finding that

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<sup>56</sup> Case No. 2020, 00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Sept. 21, 2020), Order at 10.

<sup>57</sup> See Case No. 2000-00120, *Application of Kentucky-American Water Company to Increase Its Rates* (Ky. PSC Nov. 27, 2000), final Order at 20–22 and Case No. 2008-00440, *Request of Kentucky-American Water Company for Approval to Defer Certain Expenses as Regulatory Assets* (Ky. PSC Aug. 26, 2009). Case No. 2006-00472, *General Adjustment of Electric Rates of East Kentucky Power Cooperative, Inc.* (Ky. PSC July 7, 2007); Case No. 2008-00456, *Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset* (Ky. PSC Dec. 22, 2008); Case No. 2008-00457, *Application of Kentucky Utilities Company for an Order Approving the Establishment of a Regulatory Asset* (Ky. PSC Dec. 22, 2008); Case No. 2009-00168, *Application of Columbia Gas of Kentucky, Inc. to Establish a Regulatory Asset Related to Pension and Other Post-Retirement Benefit Expenses* (Ky. PSC Dec. 23, 2009); Case No. 2009-00174, *Application of Kentucky Utilities Company for an Order Approving the Establishment of a Regulatory Asset* (Ky. PSC Sept. 30, 2009); Case No. 2009-00175, *Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset* (Ky. PSC Sept. 30, 2009); Case No. 2009-00352, *Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with Three Major Event Storms in 2009* (Ky. PSC Dec. 22, 2009); Case No. 2011-00380, *Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset* (Ky. PSC Dec. 27, 2011); Case No. 2012-00445, *Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with Four 2012 Major Storm Events* (Ky. PSC Jan. 7, 2013); Case No. 2016-00180, *Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with the Two 2015 Major Storm Events* (Ky. PSC Dec. 12, 2016); Case No. 2018-00304, *Electronic Joint Application of Kentucky Utilities Company and Louisville Gas and Electric Company for an Order Approving the Establishment of Regulatory Liabilities and Regulatory Assets* (Ky. PSC Dec. 20, 2018); and Case No. 2018-00416, *Application of Duke Energy Kentucky, Inc. for an Order Approving the Establishment of a Regulatory Asset* (Ky. PSC Mar. 25, 2019).

materiality is synonymous with the term extraordinary, and, pursuant to precedent, if an expense is not extraordinary, then it cannot be material.

Kentucky-American argues that these incremental expenses are extraordinary nonrecurring expenses. However, the requested incremental operating expenses of \$231,326 represents only 0.65 percent of the Kentucky-American reported operating expenses for the calendar year ending December 31, 2019, of \$35,857,247.

For the reasons discussed above, the Commission finds that Kentucky-American has failed to establish that the incremental operating expenses are material to Kentucky-American's financial position, and therefore, Kentucky-American's request to establish a regulatory asset for the recovery of its incremental operating expenses should be denied.

#### Term-Loan Interest Expense.

Given the uncertainty of the financial markets at the onset of the COVID-19 pandemic, the Commission notes that AWCC's decision to obtain a \$500 million draw on its 364-day term loan credit facility might have been a reasonable action. However, as the pandemic progressed, the \$19.6 million dollars allocated to Kentucky-American were not used and remain in Kentucky-American's cash reserves. Kentucky-American did not adequately explain why the \$19.6 million debt allocation was not returned to AWCC within the first few months once Kentucky-American realized that the pandemic's impact on the financial markets had not materialized, particularly as there is no prepayment penalty.

For the reasons discussed above regarding materiality, Kentucky-American failed to establish that the Term-Loan Interest expense is material to its financial position and warrants deferral accounting. Kentucky-American's requested Term-Loan Interest expense of \$186,620 represents only 1.42 percent of the Interest expense Kentucky-

American reported in the calendar year ending December 31, 2019, of \$13,165,898. Additionally, Kentucky-American did not demonstrate that the allocation of the AWCC loan was necessary given that the loan proceeds remain in a cash reserve account untouched and that the associated interest expense is not material. For these reasons the Commission finds that Kentucky-American's request to establish a regulatory asset for the recovery of its Term-Loan Interest expense should be denied.

Uncollectible Expense.

Given that customer balances are not written off as uncollectible until they reach 150 days past due, the Commission believes that the balances written off between March and July are predominately for services rendered before the COVID-19 state of emergency was declared. In responding to data requests, Kentucky-American failed to identify the amount of its uncollectibles that were for customer balances for services that were provided prior to March 2020. Further, the September 21, 2020 Order in Case No. 2020-00085 required that residential accounts be deemed "on time" if the customer remained current and made payments towards the payment plan. Kentucky-American failed to identify or eliminate the uncollectible accounts that are or will be subject to the customer default payment plans and thus these accounts should be excluded.

After eliminating the accounts outside the disconnect moratorium and those balances deemed "on time" pursuant to Case No. 2020-00085, Kentucky-American has failed to establish that the remaining Uncollectible expense is material to its financial position and therefore warrants deferral accounting. The Commission finds that Kentucky-American's request to establish a regulatory asset for the recovery of its Uncollectible expense should be denied.

Travel/Conference Savings.

Because the Commission has found that Kentucky-American's requested regulatory asset should likewise be denied, we find that Kentucky-American's proposed expense offset should be denied as well.

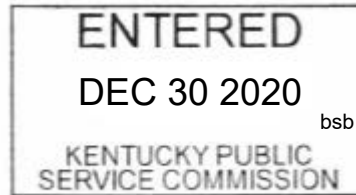
CONCLUSION

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that Kentucky-American's request to establish a regulatory asset should be denied.

IT IS THEREFORE ORDERED that:

1. Kentucky-American's application to establish a regulatory asset for expenses related to COVID-19 is denied.
2. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:

A handwritten signature in blue ink that reads "Linda C. Lindwell". The signature is written in a cursive style and is positioned above a horizontal line.

Executive Director

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