February 14, 2019

Senator Brandon Smith

Chairman, Senate Natural Resources & Energy Committee

702 Capital Avenue, Annex Room 252

Frankfort, KY 40601

Chairman Smith,

My name is Rebecca Goodman and I am the Executive Director of the Attorney General’s Office of Rate Intervention. As you may be aware, my office intervenes to represent the interests of ratepayers in proceedings before the Kentucky Public Service Commission (PSC).  I am writing in opposition to the passage of Senate Bill 163 on behalf of Kentucky ratepayers.

SB 163 allows an investor-owned water or sewer utility that acquires an existing utility to establish a fair market value (FMV) for the acquisition to be used in setting the rates customers will pay. Currently, the PSC uses the depreciated book value of the acquired utility in setting those rates. Once the value is established, the assets are included in the acquiring utility’s rate base and the shareholders earn a return on the assets acquired. The greater the FMV, the bigger the return to shareholders.  The bigger the return to shareholders, the higher the rates customers pay.

This bill ignores long-standing regulatory practice of valuing the assets acquired at the depreciated book value. Using depreciated book value ensures customers do not pay twice for the pipes in the ground that deliver their water. An additional concern is that the acquiring investor-owned utility has no incentive to keep the purchase price down since its shareholders will earn a return on the value of the assets. Under SB 163, however, the buyer may recover the FMV as determined by appraisals or the purchase price, whichever is lower.  Certainly, both of those amounts are going to be greater than the depreciated book value of the acquired system and will lead to higher rates for all customers.

Kentucky American Water (KAW) is the largest investor-owned water utility in Kentucky (PSC records indicate a total of five investor-owned water utilities, however, the remaining 4 have fewer than 8,000 customers between them). KAW is well aware of the regulatory treatment available under PSC policy when acquiring utility assets. In fact, KAW is presently requesting recovery of its purchase price of another utility under the current PSC standard in Case No. 2018-358. Under SB 163, however, KAW would be able to increase rate base merely because it paid more, the cost of which is passed on to captive customers who have no viable alternative. The new process will also require that KAW pay for the three appraisals required under the bill. If the PSC approves the acquisition, customers will pay that cost.

SB 163 benefits *only* the investor-owned utility and its shareholders. Existing and newly acquired customers will see their rates increase as the utility’s rate base increases. As utility rates in Kentucky continue to rise above what Kentucky families can reasonably afford, I urge you to oppose the passage of SB 163. Thank you for your attention.

Sincerely,

Rebecca Goodman, Executive Director

KY Office of the Attorney General,

Office of Rate Intervention

Committee Members, via electronic mail