

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC TARIFF FILING OF)	
PENDLETON COUNTY WATER DISTRICT OF)	CASE NO.
AN AMENDMENT TO A SPECIAL CONTRACT)	2020-00158
WITH THE CITY OF BUTLER)	

ORDER

On May 1, 2020, Pendleton County Water District (Pendleton District) submitted a contract through the Commission's electronic Tariff Filing System between it and the city of Butler (Butler) entitled *Amendment to Water Purchase Contract* (Amended Contract). This Amended Contract proposes to amend Pendleton District's rate from \$4.48 per 1,000 gallons to \$4.82 per 1,000 gallons and reduces the minimum bill from 55,000 gallons per day to 45,000 gallons per day, averaged on a monthly basis. The Commission suspended the contract in an order entered May 26, 2020, to investigate the reasonableness of the proposed amendment. Pendleton District responded to two rounds of requests for information. On August 23, 2020, Butler filed a motion requesting that it be permitted to intervene in this matter and that the Commission immediately enter an order approving the Amended Contract. On September 9, 2020, Pendleton District requested an informal conference, and Butler responded to that motion on September 16, 2020. The Commission now takes the proposed amendment and the pending motions under submission.

BACKGROUND

Pendleton District is a water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 2,417 customers in Campbell, Grant, and Pendleton counties, Kentucky, and provides wholesale water to Butler,¹ which currently does not have the means to produce its own water.

Pendleton District and Butler entered into a contract on May 20, 2000, in which Pendleton District agreed to supply wholesale water to Butler at a rate of \$2.00 per 1,000 gallons with a minimum bill based on usage of 55,000 gallons per day.² However, the original contract was not properly filed with the Commission, and Butler has not been charged the minimum bill or the volumetric rate in that contract since at least August 22, 2002. Rather, on August 22, 2002, pursuant to an Order by the Commission, Pendleton District filed a tariff with rates for Butler that consisted of a minimum bill of \$3,680.42 per month for Butler's first 1,672,917 gallons of usage and a rate of \$2.20 per 1,000 gallons for usage beyond 1,672,917 gallons per month.³ Since the tariff was filed on August 22, 2002, Pendleton District has periodically increased its rates, including the rate it charges Butler, but Butler's minimum bill has continued to be based on a minimum monthly usage of 1,672,917, which is consistent, on average, with the minimum usage of 55,000 gallons per day in the initial contract dated May 20, 2000.

¹ *Annual Report of Pendleton District to the Public Service Commission for the Calendar Year Ended December 31, 2019* (Annual Report) at 12 and 48.

² Pendleton District and Butler's *Preliminary Water Purchase Contract* (tendered Apr. 28, 2020).

³ Pendleton District Tariff Sheet (effective Aug. 29, 2002).

Most recently, in Case No. 2019-00310, Pendleton District filed an application pursuant to 807 KAR 5:076 in which it proposed to increase its rates.⁴ In that case, Pendleton District did not perform a cost of service study, but rather, proposed to increase all rates on a pro-rata basis based on the necessary increase in the revenue requirement.⁵ Using that method of cost allocation, it proposed to increase Butler's minimum bill from \$6,584.60 to \$7,505.23 from the first 1,672,917 gallons per month and to increase the volumetric rate from \$3.93 per 1,000 gallons to \$4.48 per 1,000 gallons for usage over 1,672,917 gallons in a month.⁶ The Commission, based on Commission Staff's report, approved Pendleton District's proposed increase in Butler's rates with a minor adjustments to the minimum bill for Butler, reducing it from \$7,505.23 to \$7,503.15 for the first 1,672,917 gallons per month. Thus, pursuant to the final Order in Case No. 2019-00310, Pendleton District filed a tariff with an effective date of March 10, 2020, setting a minimum bill of \$7,503.15 for the first 1,672,917 gallons per month and a rate of \$4.48 per 1,000 gallons for anything in excess of 1,672,917 gallons per month.⁷

Following the final Order in Case No. 2019-00310, Pendleton District and Butler entered into the Amended Contract to lower Butler's minimum bill because Butler's usage makes up a smaller share of Pendleton District's usage than it did when the minimum bill

⁴ Case No. 2019-00310, *Application of Pendleton District for an Alternative Rate Adjustment* (Ky. PSC Mar. 10, 2020), Application.

⁵ Case No. 2019-00310, *Application of Pendleton District for an Alternative Rate Adjustment* (Ky. PSC Mar. 10, 2020) at 4 (in which the Commission indicated that staff used this method to arrive at rates that were similar to those proposed by Pendleton District).

⁶ Case No. 2019-00310, *Application of Pendleton District for an Alternative Rate Adjustment* (filed Sept. 3, 2019), Application.

⁷ Case No. 2019-00310, *Application of Pendleton District for an Alternative Rate Adjustment* (Ky. PSC Mar. 10, 2020) at 4–5.

was established and based on an overall decrease in Butler's normal usage. Specifically, Pendleton District indicated that when it began to serve Butler, Pendleton District constructed about 8.4 miles of a 12-inch main, two master meters, and an elevated storage tank for the purpose of establishing another delivery point with the Northern Kentucky Water District (NKWD), identified as the Kentucky Highway 17 Point of Delivery, to obtain wholesale water that would primarily be used to serve Butler. Pendleton District also entered into a water supply agreement with NKWD to purchase a minimum volume of 90,000 gallons per day, averaged on a monthly basis, from the Kentucky Highway 17 Point of Delivery. Pendleton District indicated that the minimum purchase volume that it is proposing to change with the Amended Contract was established based on the assumption that Butler would be responsible for about 65.61 percent of the fixed cost of the capacity provided by NKWD at the Kentucky Highway 17 Point of Delivery. However, Pendleton District stated that the extent to which the Kentucky Highway 17 Point of Delivery has been used to serve Pendleton District's other customers has increased since it entered into the initial contract with Butler, such that purchases for other customers constituted 64.95 percent of purchases from that point of delivery in 2019. Further, Pendleton District indicated that since 2017 Butler has been decreasing its total water purchases such that the minimum purchase requirement makes Butler pay for several hundred thousand gallons per month it does not purchase.⁸

Pendleton District also argued that decreasing Butler's minimum bill will not result in a significant decrease in its net revenue, because the reduction in revenue will be mostly offset by a reduction in purchase water costs. Pendleton District explained that:

⁸ Pendleton District's Supplement Response to the Commission's May 26, 2020 Order (Commission's Request for Information) (filed Sept. 9, 2020) Item 1.

In Case No. 2019-00310 the Commission assumed that water sales to the City of Butler produces annual revenues of \$91,245 and resulted in purchased water expense of \$71,875, leaving a net revenue from these sales of \$19,370. Assuming Butler's purchases in Calendar Year 2019 are more representative of its future purchase pattern, the proposed rate will, after the cost of purchase water is subtract, produce net annual revenue of \$19,051.⁹

DISCUSSION

The Commission suspended the Amended Contract until October 28, 2020, for the purpose of investigating the rate proposed in the Amended Contract because Pendleton District's rates had just become effective on March 10, 2020, pursuant to the final Order in Case No. 2019-00310, when the Amended Contract was filed. Because the new rate is likely to decrease Butler's overall bill by about \$10,753.60 per year, there was concern that this reduction would result in a revenue shortfall that would eventually have to be met by other customers because Pendleton District is a nonprofit utility. However, for the reasons discussed above, the Commission finds that the Amended Contract will have very little effect on Pendleton District's gross revenue. Further, the Commission finds that the circumstances that initially justified establishing a minimum bill based on daily usage of 55,000 gallons per day have changed given the extent to which water delivered at the Kentucky Highway 17 Point of Delivery is now used to serve Pendleton District's other customers. Finally, estimating the cost to serve Butler using the inch-mile method indicates that Butler will cover Pendleton District's cost to serve it at the rate proposed in the amended contract. Thus, the Commission finds that the rate proposed in the Amended Contract is reasonable and should be approved.

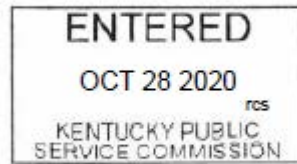
⁹ *Id.*

The Commission observes that Butler moved to intervene in this matter in support of the Amended Contract filed by Pendleton District and to request that the Commission immediately approve the Amended Contract. The Commission finds that those motions are moot since the Commission is approving the rate proposed by Pendleton District in this Order. Similarly, the Commission does not believe that an informal conference is necessary in this matter because additional information or clarification that could be offered at such a conference is unnecessary given this Order approving the Amended Contract.

IT IS THEREFORE ORDERED that:

1. The rates for Butler proposed in the Amended Contract, as shown in the Appendix attached hereto, are approved for service rendered on or after the date of this Order.
2. Within 20 days of the date of entry of this Order, Pendleton District shall file with this Commission, using the Commission's electronic Tariff Filing System, a new tariff sheet setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.
3. Butler's August 23, 2020 motion is denied as moot.
4. Pendleton District's September 9, 2020 motion for an informal conference is denied as moot.
5. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:



Deputy Executive Director

Case No. 2020-00158

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00158 DATED OCT 28 2020

The following rates and charges are prescribed for the city of Butler for the water service provided by Pendleton County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

City of Butler

First 1,372,500 Gallons	\$6,615.45	Minimum Bill
Over 1,372,500 Gallons	4.82	Per 1,000 Gallons

*Gerald E Wuetcher
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Pendleton County Water District
331 Highway 330 W
P. O. Box 232
Falmouth, KY 41040

*Ricky King
Pendleton County Water District
P. O. Box 232
Falmouth, KY 41040