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PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

GARRARD COUTY WATER)
ASSOCIATION, INC.)

v.)

CITY OF DANVILLE)

CASE NO.
2014-00361

ANSWER

Comes now the Defendant City of Danville ("City"), by counsel, and for its Answer to the Complaint states as follows:

FIRST DEFENSE

The Complaint fails to state a claim against this Defendant upon which relief can be granted and should be dismissed.

SECOND DEFENSE

The City has not implemented a rate increase. It is charging Garrard County Water Association ("GCWA") the same rates that were approved by the Commission in Case Nos. 2007-00405 and 2008-00176.

THIRD DEFENSE

Pursuant to the Agreement between the City and GCWA that was approved by the Commission in Case Nos. 2007-00405 and 2008-00176, a party to the contract that objects to a proposed rated increase must object in writing within 45 days of the notice given to that party.

The City provided notice of the proposed rate increase to GCWA by letter dated August 20, 2014. The City did not receive a written objection from GCWA within 45 days of that letter. Pursuant to the contract, the proposed rates should go into effect according to the notice given. See Agreement at 3. Further, the rates can only go into effect in compliance with other applicable law. Because the City has proposed an effective date of November 19, 2014, for the proposed rate filed with the Commission, the Commission should accept the City's water rate to GCWA effective on that date as required by the contractual provisions between the City and GCWA. Thereafter, any investigation into the reasonableness of the City's rate to GCWA would still be subject to the Commission's review under KRS 278.260.

FOURTH DEFENSE

1. The City is without sufficient information or knowledge to form a belief as to the allegations of paragraph 1 of the Complaint and therefore denies the allegations of those paragraphs.

2. The City admits the allegations of paragraph 2 of the Complaint, and specifically that it provides wholesale water service to Parksville Water District, GCWA, Lake Village Water Association, and the City of Hustonville.

3. With respect to the allegations of paragraph 6 of the Complaint, the City admits that GCWA purchases wholesale water from the City. The documents attached to GCWA's complaint speak for themselves. The City denies that the documents attached as Exhibit 1 to GCWA's complaint contain an exhaustive collection of the contractual commitments between the City and GCWA.

4. With respect to the allegations of paragraph 4 of the Complaint, the City admits that it notified GCWA by letter dated August 20, 2014, indicating that the City was proposing to

increase the wholesale water rate to GCWA to \$2.41 per 1,000 gallons. As the letter indicates, the City had previously notified GCWA that it intended to increase its wholesale rates. A copy of that letter is attached hereto as Exhibit 1. Contrary to the statement in the letter, the proposed rates did not become effective on September 1, 2014. Consistent with the terms of the contractual agreement between the City and GCWA, the City has proposed new water rates to GCWA to be effective on November 19, 2014.

5. With respect to the allegations of paragraph 5 of the Complaint, the Water Agreement speaks for itself. To the extent that an answer is required, the City denies the averments of paragraph 5 because the Agreement between the City and GCWA approved by the Commission in Case Nos. 2007-00405 and 2008-00176 sets forth different terms. This Agreement is attached hereto as Exhibit 2.

6. The City denies the allegations of paragraph 6 of the Complaint.

7. The City denies the allegations of paragraph 7 of the Complaint.

8. The City denies the allegations of paragraph 8 of the Complaint.

9. The City denies the allegations of paragraph 9 of the Complaint.

10. The City denies the remaining allegations of the Complaint not specifically admitted herein.

WHEREFORE, the City respectfully requests judgment be entered in its favor, and that GCWA's Complaint be dismissed and that it take nothing thereby. Because the City has not implemented any proposed rate increase, there cannot be a claim that the increase is void. Pursuant to the terms of the Agreement approved by the Commission, the Commission should accept the City's proposed rate to GCWA docketed as TFS2014-00614, and any investigation on the reasonableness of the rate should proceed with that rate in effect. The City also requests a

surcharge added to its rate to recoup the costs it incurs for reasonable expenses associated with an investigation into the reasonableness of its rates.

Respectfully submitted,



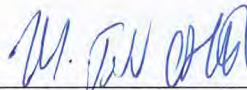
M. TODD OSTERLOH
CHARLES D. COLE
STURGILL, TURNER, BARKER & MOLONEY, PLLC
333 W. Vine Street, Suite 1400
Lexington, Kentucky 40507
Telephone No.: (859) 255-8581
tosterloh@sturgillturner.com

ATTORNEYS FOR CITY OF DANVILLE

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served via U.S. Mail, postage prepaid, to the following on October 29, 2014:

Caywood Metcalf
Attorney for Garrard Water
214 Stanford Street
Lancaster, Kentucky 40444



COUNSEL FOR CITY OF DANVILLE

City of
DANVILLE
KENTUCKY

P.O. Box 670
Danville, KY 40425
(859) 258-1200

August 20, 2014

Garrard County Water Association

Paul Reynolds
315 Lexington Street
Lancaster, Kentucky 40444
(859)792-4501

RE: 2014 Wholesale Water Rate Adjustment

Dear Mr. Reynolds,

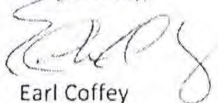
We are providing this letter as the official notice of the 2014 Wholesale Water Rate Adjustment as discussed previously. This letter is to confirm for you the basis for the rate adjustment and also the details of the change.

Recall the City previously indicated its intention to complete a utility rate study this year. The City contracted with a third party, Salt River Engineering, to complete the rate study with a cost of service component and to evaluate and recommend adjustments for all rates charged by the City's municipal utility. The study began this past winter and the wholesale portion of the evaluation has been completed. The rate study was completed consistent with the principles established in the American Water Works Association Manual M-1. The chosen study approach was the *Hybrid Method (Cash Needs/Utility Basis)* which was used to determine the revenue requirements for both owner and non-owner utility customers.

The City Commission accepted the recommendations from the consultant by implementing revised wholesale rates. The implementation of the revised rates will begin with the effective date of September 1st 2014. Consistent with the recommendations, the Garrard County Water Association shall pay a Flat Rate of \$2.41 per 1000 gallons consumed or \$1.80 per 100 cubic feet consumed. The minimum bill will not adjust as a result of this change.

As stated previously it is our goal to help you understand the details related to the rate identified. As such we will be more than willing to provide information to provide a better understanding. Please let us know how we may address your questions. We look forward to working with you as we transition into this revised rate.

Respectfully,



Earl Coffey
City Engineer

"This institution is an equal opportunity provider and employer."

"The City of Firsts"

First Courthouse in Kentucky - 1785
First U. S. Post Office in the West - 1792
First Successful Ovariectomy in the World - 1809

First Capitol of Kentucky District - 1785
First Political Club in the West - 1786
First Constitutional Convention in the West - 1792

First College in the West - 1785
First Law School in the West - 1799
First State Supported School for Deaf - 1825



Agreement

This Settlement Agreement is between Garrard County Water Association, Inc. ("GCWA"), with its principal office at 315 Lexington Road, P.O. Box 670, Lancaster, Kentucky 40444, and the City of Danville ("Danville"), a municipal corporation of the third class.

- (1) During the course of a proceeding before the Public Service Commission of Kentucky ("Commission") styled Case No. 2008-00176, Danville and GCWA have identified a number of issues and questions relating to usage, calculation of charges, billings, and payments, including purchasing power adjustments made to rates in 2005, 2006, and 2007 and involving periods of time before, during, and after those affected by the purchasing power adjustments.
- (2) This settlement is intended as a resolution of all disputes, issues, and questions about usage, charges, billings, and payments up through and including the month of April 2009, an agreement about the proper calculation of charges thereafter and currently, and an accord about procedures for considering proposed changes to billing methods and elements in the future.
- (3) The parties acknowledge and agree: that approval by the Commission is necessary for this Settlement Agreement to be effective and binding on either party; and that, if Commission approval of the entire agreement without modification, together with a final and appealable dismissal of the case is not obtained within 90 days of submission to the Commission with a request for approval, then this Settlement Agreement shall be null and void and shall be without any effect whatsoever on the parties' respective rights, arguments, or positions in Case No. 2008-00176 or otherwise. If and when approved by the Commission, this Settlement Agreement will operate as an addendum or revision to the existing Water Purchase Contract between Danville and GCWA.
- (4) Danville and GCWA agree to compromise all disputes, issues, and questions about usage, charges, billings, and payments up through and including the month of April 2009 for the payment by Danville to GCWA of the amount of \$ 18,270.44. Danville will pay that amount to GCWA by crediting one-twelfth of that amount to each month's basic supply charges following the close of any period in which a timely rehearing request or

Agreement page 1 of 3

KENTUCKY PUBLIC SERVICE COMMISSION
JEFFREY W. BROWN EXECUTIVE DIRECTOR TARIFF BRANCH
<i>Brent Kirtley</i>
EFFECTIVE 8/17/2010 PURSUANT TO 807 KAR 5.011 SECTION 9 (1)



review action is still possible from a final and appealable Commission order approving this Settlement Agreement in its entirety and without modification.

(5) Danville and GCWA agree that charges for water supplied to GCWA are to be calculated at this time as follows:

(a) for water supplied, with rates stated on a per 100 cubic foot (ccf) basis:

first 20,000 cu. ft.	\$1.68 per ccf
next 80,000 cu. ft.	\$1.44 per ccf
next 100,000 cu. ft.	\$1.20 per ccf
next 300,000 cu. ft.	\$1.06 per ccf
all over 500,000 cu. ft.	\$0.86 per ccf

(b) plus a 20% surcharge, applied to the total water charge (but not to any applicable fees or taxes);

(c) plus any applicable fee or tax by a third-party authority, which currently consists of a \$0.0165 per ccf (\$0.022 per 1000 gallons) Kentucky River Authority charge, to be stated as a separate line item on the bill.

(d) If there are multiple meters, dials, or accounts for service to GCWA, measured usage will be totaled for all meters, dials, or accounts and the rates in subpart (a) applied to the total monthly usage amount.

GCWA acknowledges that other wholesale customers of Danville have rates different from those listed in subpart (a).

(6) Danville and GCWA retain the right and ability to make changes to their existing Water Purchase Contract (as it may be supplemented or amended by this Settlement Agreement) through a writing signed on behalf of both parties. Changes are to be filed with the Commission no fewer than 30 days prior to the date on which the changes are to become effective (unless a shorter period is requested and granted). As an alternative, Danville and GCWA agree that changes in billing methods, rates, and other elements may be made in the future as follows:

(a) Either party may propose a change affecting the amount billed — whether to the rates, surcharge percentage, or otherwise — by notifying the Commission in writing

Agreement page 2 of 3

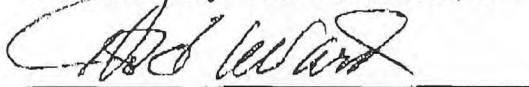
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of the proposed change and proposed effective date and providing an explanation or justification of the proposed change. Such notice shall be provided at least 90 days in advance of the proposed change being made.

- (b) The other party shall have 45 days from receipt of the notice in which to object in writing to the proposed change; if the other party does not so object within 45 days, then the rate change is to be made according to the notice given.
 - (c) If the other party does so object, then the proposing party may apply to the Commission for the proposed change, to become effective no fewer than 30 days from the date the application is filed (unless a shorter period is requested and granted).
- (7) To the extent that the parties provide herein for approval by or application/notice to the Commission, they do so based on the existing situation in which the Commission asserts jurisdiction and authority over such matters. If by legislative action, court ruling, or Commission order or regulation it is determined that the Commission has not had or thenceforth shall not have jurisdiction and authority over one or more such matters (generally or as between Danville and GCWA), then the parties agree that:
- (a) their rights, obligations, and undertakings under paragraphs (1) - (5) above shall remain unaffected thereby; however,
 - (b) paragraph (6) above shall thereafter be null and void, and the parties' rights, obligations, and undertakings regarding such changes or matters shall be determined without reference to this Settlement Agreement.

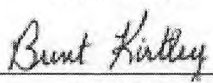
AGREED as of this 1st day of June, 2009.

Garrard County Water Association, Inc.



Harold C. Ward, President/Executive Director

City of Danville

Hugh C. Coomer, Mayor	KENTUCKY PUBLIC SERVICE COMMISSION
	JEFF R. DEROUEN EXECUTIVE DIRECTOR
	TARIFF BRANCH 
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City of Danville

Hugh C. Coomer

Hugh C. Coomer, Mayor

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