

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

In the Matter of:)
)
PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE) Case No. 2014-00392
RATES OF CITY OF DANVILLE)

**Parksville Water District's Response to City of Danville's
Motion to Cancel Hearing and Submit on the Record**

Comes now, Parksville Water District, by counsel, and for its Response to the City of Danville's (the "City" or "Danville") Motion to Cancel the Evidentiary Hearing in this matter and submit the Case for decision based on the Record, states as follows:

The hearing before the Commission is set for June 9, 2015, and the City's witness is not available, so if held, the date of the hearing should be rescheduled. While all of the documentary is in the record, the Commission may find that an evidentiary hearing would be helpful in explaining or clarifying several issues.

The City's proposed rate increase is tied to its Cost of Service Study ("COS") prepared by Connie Allen of Salt River Engineering. The COS has been amended several times as a result of inquiries from the Commission Staff and bears serious examination particularly in relation to the contractual relationship between Parksville Water District ("PWD") and the City.

The 1994 Water Purchase Contract ("Contract") requires PWD to purchase its total water supply from Danville. (The Contract and Amendments thereto were attached as Exhibit 1 to the original Complaint see File #2014-00314 merged into this case by

PSC Order 11/14/14). The Contract also requires Danville to maintain its water system adequately to furnish that water. In response #2 to the April 7 informal conference, Danville says its system is severely diminished by the 450 gpm of the Parksville pump. That is not a cost or issue for Parksville – Danville is responsible for its system operational costs. The table included with that response also incorrectly continues to use 450 gpm. Later in the response Danville refers to a "well balanced" system that does not lose pressure. The pressure loss is due to Danville's inadequate system, not Parksville's pump. Further, in response 1 of that same document, the footnote indicates the city was aware of the upgraded Parksville pump station, but did not object or indicate a need for a lower gpm.

The response also states there is no hydraulic model to support the city's position; and that the issue is moot because the rate proposed is lower than the actual calculated rate. That assumes that all other expenses of the COS are justified and that the assumptions are correct.

The Commission may care to examine PWD's actual historical water usage over the last five (5) years which averages 236 gpm according the historical data supplied by Jerry Feather of PWD. This number is significantly lower than the 450 gpm or the 335 gpm utilized by the City in its COS and amendments thereto. The COS assumes a 450 gpm usage by PWD, which adds additional expense allocations to PWD - making its rate higher than it should be and higher than the other wholesale customers and skews the overall COS because of that incorrect assumption. The actual usage also undermines Danville's assumption that PWD is having a negative impact on its distribution system. This error, along with the lack of a hydraulic study to verify Danville's service parameters

to PWD, calls into question the study's reliability. Generally, in any COS actual usage and expenses, rather than estimates are always more accurate.

Further illustration of the need for inquiry is triggered by a reference to the use inclusion of distribution mains smaller than 10 inches in the allocation to the wholesale customers and a reference to the Frankfort Plant Board case as support. However, the FEWPB had a detailed hydraulic study that proved the wholesale customers could not be served without the distribution mains because of the location of the customers and the configuration of the system. Danville has no such study or justification for inclusion of the mains smaller than 10 inches.

Another issue on which the Commission may seek clarification concerns a request found the City's response filed March 19, 2015, wherein, on page 2, the City asks for a surcharge for rate case expenses. That was not part of the application and not included in the notice to the wholesale customers. The Commission may want to inquire as to why the City should not have to refile the application with the surcharge included or withdraw that request. Also, if the City wants to include rate case expenses in the general wholesale rate, the COS should be amended to include those expenses and the rate revised accordingly. PWD should not be charged for any COS or legal expenses associated with the original or revised iterations of the COS – those were not in conformity with PSC standards and had to be revised because of the City's errors. Further, it seems that all expenses for the rate case should be allocated among all wholesale customers, not just the interveners. Any reduction in the wholesale cost of service benefits everyone.

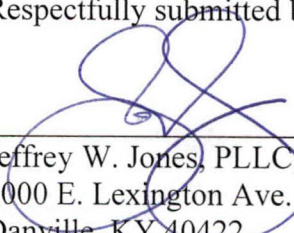
Finally, among the items that the Commission might wish to examine, or benefit from clarification of, are these:

1. It appears that Danville has included debt service for the 2015-2016 project that has not been incurred yet and for construction that has not been completed. As such it is not known and measurable.
2. Throughout the responses there are numerous reference to estimates or allocations. None are supported and perhaps should be questioned.
3. Has total wholesale demand increased (all wholesale customers) in the last few years? If so, what portion of that increase is due to PWD? Is that a greater portion than any other wholesale customer?

In sum, there may be sufficient material in the record to set a fair and reasonable rate for the Parksville Water District, but a hearing seems in order to clarify a number of issues in the case.

This 4th day of May, 2015

Respectfully submitted by:



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CERTIFICATE OF SERVICE

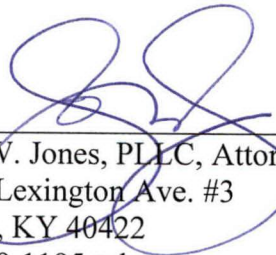
This is to certify that this 4th day of May, 2015, a copy of the foregoing was served by mailing a true and exact copy to:

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