

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) CASE NO.
CITY OF DANVILLE) 2014-00392

ORDER

Pursuant to 807 KAR 5:011, on October 17, 2014, the city of Danville (“Danville”) filed with the Commission a revised tariff setting forth proposed rate adjustments to its existing rates with a proposed effective date on and after November 19, 2014, for wholesale water service to Garrard County Water Association, Inc. (“Garrard Association”); Lake Village Water Association, Inc. (“Lake Village”); and Parksville Water District (“Parksville District”). Danville also filed copies of notices it had sent to the wholesale customers affected by the proposed rate increases.

Danville provided a cost-of-service study (“COSS”) showing that it could justify increasing annual revenues by 11.039 percent,¹ resulting in a wholesale water rate of \$2.89 per 1,000 gallons to Garrard Association and Lake Village and a wholesale water rate of \$3.25 per 1,000 gallons to Parksville District.² In limiting its request to recover only 50 percent of allowable depreciation expense, Danville is seeking a 7.54

¹ Danville’s Response to the Commission Staff’s First Request for Information (“Staff’s First Request”) (filed Feb. 5, 2015), Item 13, Workbook – 5 January 15 summary, Spreadsheet – summary pro forma. $\$1,027,019$ (COSS Rate Revenues) - $\$530,072$ (Revenues Present Rates) = $\$496,947$ (Revenue Increase) \div $\$4,501,553$ (Total System Present Rate Revenues) = 11.039%.

² *Id.* Spreadsheet – cost Kgal w adj.

percent increase in annual revenues.³ To achieve an increase in revenues of 7.54 percent, Danville proposes to charge wholesale water rates of \$2.41 per 1,000 gallons to Garrard Association and Lake Village and charge wholesale water rates of \$2.68 per 1,000 gallons to Parksville District.⁴

Prior to Danville's October 17, 2014 tariff filing, Garrard Association⁵ and Parksville District⁶ had filed formal complaints against Danville regarding the proposed increase. By Order entered on November 24, 2014, the Commission consolidated the two complaint cases into this rate case and closed the complaint cases.

On November 14, 2014, the Commission issued an Order that suspended Danville's proposed wholesale rates, established this docket to investigate the reasonableness of the proposed rates, and found that Garrard Association and Parksville District should be made parties to this case. The November 14, 2014 Order also included a procedural schedule and an information request from the Commission. Danville responded to the Commission's information request on December 1, 2014.

Following extensive discovery, the Commission held an evidentiary hearing in this matter on June 3, 2015, in Frankfort, Kentucky. Danville and Parksville District were the only parties that submitted written briefs following the conclusion of the

³ Danville's Responses to the Commission's November 14, 2014 Order (filed Dec. 1, 2015), Appendix B, Item 21, Workbook – PCS DR 1-21 (CSS summary) (00549599xA9D25), Spreadsheet – summary pro forma. $\$869,496$ (Proposed Rate Revenues) - $\$530,072$ (Revenues Present Rates) = $\$339,424$ (Requested Increase) \div $\$4,501,553$ (Total System Present Rate Revenues) = 7.54%.

⁴ *Id.* Spreadsheet – cost Kgal w adj.

⁵ Case No. 2014-00361, *Garrard County Water Association, Inc. vs. City of Danville* (Ky. PSC filed Sept. 8, 2014).

⁶ Case No. 2014-00314, *Parksville Water District v. City of Danville* (Ky. PSC filed Aug. 28, 2014).

evidentiary hearing. The matter now stands submitted to the Commission for a decision.

Wholesale Water Rate

Danville proposes in this case to revise the current declining block rate design to a flat per-1,000-gallon rate for all wholesale customers. The proposed rate design has raised no objection from the parties to this case. The Commission recognizes that a flat rate for wholesale customers simplifies the rate calculations for budgetary purposes as well as for future rate adjustments.

Connie Allen, P.E., Salt River Engineering, performed the COSS following acceptable standards outlined by the American Water Works Association's "*Water Rates Manual M-1 Fifth Edition*," which has previously been accepted by the Commission.

Parksville District has not taken issue with the revised rate design, but disputes the per-1,000-gallon rate specifically calculated by Danville in its application for Parksville District. Parksville District's issue with the calculation is based on its interpretation of Ms. Allen's utilization of information provided by Danville to compute the needs of the Danville system to meet the possible demands placed upon it by all its customers.

Ms. Allen calculated the rates for all the wholesale customers using information that Danville provided. Prior to filing its October 1, 2014 proposed rate adjustment with the Commission, Danville supplied the COSS summary to its jurisdictional wholesale customers. Danville attempted to answer any questions the wholesale customers might have had prior to filing the proposed rate adjustment with the Commission. Earl Coffey,

P.E., city engineer for Danville, testified during the hearing that Danville provided the COSS during July 2014 to the jurisdictional wholesale customers, and representatives of Danville attended the Board Meetings of the jurisdictional wholesale customers during August 2014.⁷

Danville filed a revised COSS in response to Commission Staff's First Request for Information. The revised COSS calculated the rates substituting depreciation expense for "Rate-Funded Capital."⁸ According to the revised COSS, Danville could support a revenue requirement that would exceed the one requested and would result in higher wholesale water rates than proposed in this proceeding. Danville did not seek to amend its application to recover the revenue requirement and wholesale rates that it could justify.

Ms. Allen's COSS contains a calculation using the peaking factor for each customer classification to determine the allocation of certain expenses. Parksville District disputed the peaking factor that Ms. Allen used to calculate the maximum pumping capacity to Parksville District. Mr. Coffey obtained the 450-gallons-per-minute ("g.p.m.") maximum pumping capacity from Parksville District's engineer.⁹ Parksville District acknowledges that the maximum pumping capacity is 450 g.p.m., but states that

⁷ Danville Hearing, June 3, 2015, Video Recording at 10:33:10–10:37:00.

⁸ Danville's Responses to Staff's First Request, Item 13.

⁹ Danville's Responses to the Information Request from the Informal Conference (filed Apr. 20, 2015), Item 1 at 2.

its system would be unable to accept the amount of water that would be pumped at this rate.¹⁰

Danville's second revised COSS took into consideration Parksville District's pumping station design flow of 335 g.p.m. and calculated the peaking factor of 1.5. The wholesale water rate calculated for Parksville District in the second revised COSS is still greater than the rate Danville proposes to charge Parksville District.

The Commission agrees with and accepts Danville's revision to the COSS in this instance. The Commission notes that while reliance on information from conversations with the Parksville District's engineer is understandable, a better practice would be to obtain written confirmation from the wholesale customer in question when calculating factors that impact the rates.

Rate Case Surcharge

Danville provided an invoice from Salt River Engineering, Inc. to show that the cost of the COSS was \$53,000.¹¹ As of June 2015, Danville's total litigation cost, legal and consulting fees, for this rate case was \$57,191.¹² The total rate case cost that Danville seeks to recover from its three wholesale customers is \$61,333, which comprise an allocation of the COSS to its three wholesale customers in the amount of \$4,142¹³ and its litigation costs to Parksville District and Garrard Association in the

¹⁰ Parksville District's Response to Danville's Responses to the Request from the Informal Conference (filed May 4, 2015); and Parksville District's Response to Commission Staff's Request for Information (filed Mar. 25, 2015), Item 1.d.

¹¹ Danville's Supplemental Responses to the Commission's November 14, 2014 Order (filed Mar. 19, 2015), Item 24.

¹² Danville's Responses to Post-Hearing Data Requests (filed June 15, 2015), Item 3.

¹³ Danville's Responses to the Commission's November 14, 2014 Order (filed Dec. 1, 2015), Item 24, Table at 2. \$1,513 (Parksville WD) + \$1,018 (GCWA) + \$1,611 (LVWA) = \$4,142.

amount of \$57,191. Danville requests that it be allowed to recover the \$61,333 in rate case costs from its wholesale water customers through a 36-month surcharge.¹⁴

Danville did not request to recover its rate-case costs in the wholesale rates that were proposed in its application, but instead made a request in responding to a Commission Staff interrogatory to recover these costs in a monthly surcharge to be billed to its wholesale customers.¹⁵ Danville did not propose to amend its application to request recovery of its rate-case cost from the wholesale customers. Neither did it provide proper notification to its wholesale customers of the proposed surcharge as required by 807 KAR 5:076, Section 5. For these reasons the Commission denies Danville's request to recover its rate case costs through a 36 month surcharge.

Implementation of Rates

After Danville notified the Commission of its intention to place its proposed rates into effect on May 1, 2015, this Commission issued an Order on May 5, 2015, requiring Danville to file a tariff setting forth the rates it was placing in effect and designating those rates as subject to change and refund. Garrard Association,¹⁶ Lake Village,¹⁷ and Parksville District¹⁸ filed purchased-water adjustment applications¹⁹ to increase their rates by the amount of the increased costs for water purchased wholesale from

¹⁴ *Id.*, Item 24.

¹⁵ Danville's Supplemental Responses to the Commission's November 14, 2014 Order (filed Mar. 19, 2015), Item 24.

¹⁶ Case No. 2015-00148, *Purchased Water Adjustment Filing of Garrard County Water Association, Inc.* (Ky. PSC filed May 26, 2015).

¹⁷ Case No. 2015-00164, *Purchased Water Adjustment Filing of Lake Village Water Association, Inc.* (Ky. PSC filed May 21, 2015).

¹⁸ Case No. 2015-00153, *Purchased Water Adjustment filing of Parksville Water District* (Ky. PSC filed May 14, 2015).

¹⁹ KRS 278.015, 807 KAR 5:068.

Danville. Garrard Association has since increased its rates again due to the increased costs for water purchased wholesale from the city of Lancaster.²⁰

On June 17, 2015, the Commission issued an Order requiring Lake Village to file revised tariff sheets showing the rates approved as a result of the increased costs for water purchased wholesale from Danville. The June 17, 2015 Order further required that the revised tariff sheets indicate that the revised rates were subject to refund.²¹ Lake Village filed a revised tariff indicating the rates are subject to refund on June 25, 2015, and it was accepted for filing by the Commission by letter dated July 15, 2015.²²

On June 3, 2015, we issued an Order requiring Parksville District to file revised tariff sheets showing the rates approved as a result of the increased costs for water purchased wholesale from Danville. The June 3, 2015 Order further required that the revised tariff sheets indicate that the revised rates were subject to refund.²³ Parksville District filed a revised tariff indicating the rates are subject to refund on June 12, 2015, and it was accepted for filing by the Commission by letter dated July 2, 2015.

The Commission, having considered the record in this case, finds that:

1. Danville did not move to amend its application to request recovery of its rate-case cost from its wholesale customers.
2. Danville did not provide proper notification, as required by 807 KAR 5:076, Section 5, to its wholesale customers of a proposed surcharge to recover rate-case cost.

²⁰ Case No. 2015-00162, *Purchased Water Adjustment Filing of Garrard County Water Association, Inc.* (Ky. PSC June 17, 2015).

²¹ Case No. 2015-00162, *Lake Village Water Association, Inc.* (Ky. PSC June 17, 2015) at 2.

²² TFS 2015-00401.

²³ Case No. 2015-00153, *Parksville Water District* (Ky. PSC June 3, 2015) at 3.

3. The rates stated in the Appendix should be approved for the provision of wholesale water service to the jurisdictional water utilities for services rendered on and after May 1, 2015.

4. Danville should file a revised tariff setting out these rates as approved and remove language pertaining to the possibility of a refund if a lower rate is determined from its tariff.

IT IS THEREFORE ORDERED that:

1. The rates in the Appendix for the provision of wholesale water service to the jurisdictional water utilities for service rendered on and after May 1, 2015, are approved.

2. Danville's request to recover its rate-case cost through a surcharge is denied.

3. Within 20 days of the date of this Order, Danville shall file with the Commission, using the Commission's electronic Tariff Filing System, a revised tariff noting the rates approved in this Order and shall remove the language stating the possibility of a refund if a lower rate is determined in this case.

4. Within 20 days of the date of this Order, Lake Village shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets removing the language indicating the rates are subject to refund.

5. Within 20 days of the date of this Order, Parksville District shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets removing the language indicating the rates are subject to refund.

By the Commission

ENTERED ^{mp}
AUG 13 2015
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00392 DATED **AUG 13 2015**

The following rates and charges are prescribed for the jurisdictional customers in the area served by city of Danville Water Utility. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Jurisdictional Wholesale Water Rates

Garrard County Water Association, Inc.	\$ 2.41 per 1,000 gallons
Lake Village Water Association, Inc.	\$ 2.41 per 1,000 gallons
Parksville Water District	\$ 2.68 per 1,000 gallons

*City of Danville Water Dept.
P. O. Box 670
Danville, KY 40423

*Jeffrey W. Jones
Jeffrey W. Jones PLLC, Attorney at Law
1000 E. Lexington Ave. #3
Danville, KENTUCKY 40422

*Caywood Metcalf
Metcalf & Metcalf
214 Stanford Street
Lancaster, KENTUCKY 40444

*M. Todd Osterloh
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507

*Mike Perros
Mayor
City of Danville Water Dept.
P. O. Box 670
Danville, KY 40423

*Sean Smith
Manager
Garrard County Water Association, Inc.
P. O. Box 670
Lancaster, KY 40444

*Debbie Webb
Co-Manager
Parksville Water District
10711 Lebanon Road
P. O. Box 9
Parksville, KY 40464