

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WATER SERVICE)	
CORPORATION OF KENTUCKY FOR A)	CASE NO. 2015-00382
GENERAL ADJUSTMENT OF EXISTING)	
RATES)	

ORDER

On November 30, 2015, Water Service Corporation of Kentucky (“WSCK”) applied for an adjustment of its rates. The proposed rates, which WSCK proposed to become effective on December 30, 2015, and which were based upon a historical test period of the 12 months ended June 30, 2015, would produce additional annual revenues of \$516,989, or 24.62 percent, over pro forma test-year revenues from existing rates of \$2,167,760.¹

On December 9, 2015, the Commission entered an Order which suspended the proposed rates for five months from January 8, 2016, up to and including June 7, 2016, and which also established a schedule for the Commission’s investigation.² The Commission granted intervention, upon request, to the Attorney General of Kentucky (“AG”) and the city of Clinton (“Clinton”).

Following extensive discovery and the submission of written testimony, the parties filed a Stipulation, Partial Settlement Agreement, and Recommendation (“Partial

¹ Application at 3 and Schedule B, page 1 of 2.

² Order (Ky. PSC Dec. 9, 2015) at 2 as amended *nunc pro tunc* by Order (Ky. PSC Dec. 18, 2015).

Settlement”).³ Following a conference with Commission Staff in which Staff inquired as to whether the parties might be able to reach a “global” or comprehensive settlement,⁴ WSCK and the AG filed a joint motion to withdraw from consideration the Partial Settlement.⁵ In support of the joint motion, the parties stated that they had reached an “agreement-in-principle for a global settlement.”⁶

On April 19, 2016, the Commission commenced the hearing scheduled in this matter and, ruling from the bench, granted the joint motion to withdraw the Partial Settlement.⁷ The Commission thereafter provided an opportunity for public comments and continued the hearing until May 12, 2016.⁸ On May 5, 2016, the Commission entered an Order that continued the hearing from May 12, 2016, to May 13, 2016.⁹

On May 3, 2016, WSCK filed a Stipulation, Settlement Agreement and Recommendation (“Settlement Agreement”) executed by the parties and a motion requesting an Order approving the Settlement. On May 13, 2016, the Commission resumed the hearing, and Steven Lubertozi, President of WSCK, testified in support of the Settlement.¹⁰

³ Partial Settlement (filed Apr. 8, 2016).

⁴ Intra-Agency Memorandum for Informal Conference of April 12, 2016 (filed Apr. 15, 2016) at 1.

⁵ Joint Motion (filed Apr. 18, 2016).

⁶ *Id.*

⁷ Order (Ky. PSC May 5, 2016) at 2.

⁸ *Id.*

⁹ *Id.*

¹⁰ Justin Kersey was also present and available to testify on behalf of WSCK at the May 13, 2016 hearing; however, the Commission did not have any questions for Mr. Kersey and he was not called to testify.

Per the Settlement Agreement, all parties agreed to recommend to the Commission the following:

1. WSCK should be authorized to adjust its rates in order to permit it to recover \$2,462,154 in annual revenue, effective on the date that the Commission approves the Settlement. The revenue requirement reflects an annual increase of \$361,892 over pro forma present revenues.

2. WSCK should be permitted to implement the increases to the service charges and volumetric rates in a manner that is agreed to by the parties and is based upon the model proposed by the AG's witness, Scott J. Rubin.¹¹

3. WSCK shall continue using its current depreciation rates and will not change them as originally proposed in its application.

4. WSCK anticipates requesting Commission approval in its next case seeking a general adjustment of rates to use depreciation rates that are consistent with the National Association of Regulatory Utility Commissioners Study of Depreciation Practices for Small Water Utilities. The AG and Clinton shall not object to WSCK's request to use depreciation rates that are consistent with that study.

5. WSCK will engage an expert to prepare a cost-of-service and rate design study to be filed in WSCK's next case for a general adjustment of rates. The AG and Clinton shall not object to the recovery of reasonably incurred, associated expert costs in WSCK's rates.

6. WSCK shall not file an application for a general adjustment of rates with the Commission before June 1, 2018. This limitation does not prevent WSCK from filing

¹¹ May 13, 2016, VR at 10:04:09-10:04:16.

requests for purchased water adjustments at any appropriate time and receiving approval thereon.

7. Consistent with previous rate cases filed by WSCK, rate case expense shall be amortized over a three-year period. The AG and Clinton shall not object to the recovery of any remaining unamortized rate case expense in WSCK's rates authorized in the next rate case.

8. The parties agreed that if the Settlement Agreement is accepted by the Commission, no petition for rehearing or judicial appeal will be filed.

Having reviewed the Settlement Agreement and the evidence of record, the Commission finds that its terms are reasonable and in the public interest and should be approved. As to the proposed rates, the Commission notes that they represent a compromise between two proposals presented to us. We find that the proposed rates are designed to produce an additional \$361,892 in annual operating revenues and are within the zone of reasonableness. We further find that the parties' recommendation for WSCK to continue to use current depreciation rates is reasonable.

Per the Settlement Agreement, WSCK will engage an expert to prepare a cost-of-service and rate design study to be filed in WSCK's next case for a general adjustment of rates. WSCK commits to perform the study using the American Water Works Association's Manual M1, Sixth Edition, and WSCK further commits to have the study determine the cost of service for fire protection.¹² We find that this provision of the Settlement Agreement in light of WSCK's commitments is reasonable.

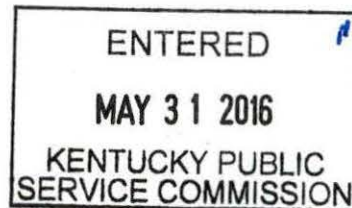
¹² *Id.* at 10:10:08-10:11:50 and 10:12:00-10:12:33.

Per the Settlement Agreement, WSCK will amortize its rate case expense over a three-year period. In response to a request for information made by Commission Staff during the May 13, 2016 hearing, WSCK filed a schedule that contains a revised estimate of its rate case expense for the instant case.¹³ We find that, for accounting purposes, WSCK's request to amortize its rate case expense over a three-year period should be approved and that the amortization should begin as of the date of this Order.

IT IS THEREFORE ORDERED that:

1. WSCK's Motion to approve the Settlement Agreement is granted.
2. The Settlement Agreement attached hereto as Appendix A is approved.
3. The rates and charges set forth in Appendix B of this Order are approved for water service that WSCK renders on and after the date of this Order.
4. WSCK shall, for accounting purposes, amortize its rate case expense identified in the instant proceeding over a three-year period and the amortization shall begin as of the date of this Order.
5. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:



Acting Executive Director

¹³ WSCK Responses to Post-Hearing Information Requests (filed May 20, 2016).

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00382 DATED **MAY 31 2016**

The following rates and charges are prescribed for the customers in the area served by Water Service Corporation of Kentucky. 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.

Service Charge Rates
For All Service Areas

Meter Size

5/8-Inch	\$10.00	per month
3/4-Inch	10.00	per month
1-Inch	17.50	per month
1 1/2-Inch	30.00	per month
2-Inch	45.00	per month
3-Inch	85.00	per month
4-Inch	130.00	per month
6-Inch	255.00	per month

Volumetric Rates

Middlesboro Service Area

First 100,000 gallons	\$ 4.058	per 1,000 gallons
Over 100,000 gallons	3.133	per 1,000 gallons

Clinton Service Area

All usage	4.362	per 1,000 gallons
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Monthly Fire Protection Charges
For all Service Areas

Fire Protection Charges

Municipally Owned Hydrants	\$5.40	per hydrant
Private Hydrants or Sprinkler Systems	24.30	per hydrant or sprinkler

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00382 DATED **MAY 31 2016**

SETTLEMENT AGREEMENT

STIPULATION, SETTLEMENT AGREEMENT AND RECOMMENDATION

This Stipulation, Settlement Agreement and Recommendation (“Agreement”) is entered into and effective this 2nd day of May 2016 by and among Water Service Corporation of Kentucky (“WSCK”), the Office of the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“AG”) and the City of Clinton (the “City”) in the proceeding involving the above parties, which are the subject of this Agreement, as set forth below. (WSCK, the AG and the City are referred to collectively herein as the “Parties.”)

W I T N E S S E T H:

WHEREAS, WSCK filed on November 30, 2015, with the Kentucky Public Service Commission (“Commission”) its Application in *In the Matter of: Application of Water Service Corporation of Kentucky for a General Adjustment in Existing Rates*, and the Commission has established Case No. 2015-00382;

WHEREAS, the AG and the City have been granted intervention by the Commission in this proceeding;

WHEREAS, the Parties desire to recommend to the Commission that it enter its Order setting the terms and conditions that the Parties believe are reasonable as stated herein;

WHEREAS, it is understood by all Parties that this Agreement is an agreement among the Parties concerning certain matters at issue in these proceedings pursuant to 807 KAR 5:001, Section 9(6);

WHEREAS, the Parties have spent significant time to reach the terms and conditions that form the basis of this Agreement;

WHEREAS, the Parties, who represent diverse interests and divergent viewpoints, agree that this Agreement, viewed in its entirety, is a fair, just and reasonable resolution of issues in this proceeding; and

WHEREAS, the Parties recognize that this Agreement constitutes only an agreement among, and a recommendation by, themselves, and that all issues in this proceeding remain open for consideration by the Commission at any formal hearing in this proceeding.

NOW, THEREFORE, in consideration of the premises and conditions set forth herein, the Parties hereby stipulate, agree, and recommend as follows:

1. WSCK should be authorized to adjust its rates in order to permit it to recover \$2,462,154 in annual revenue, effective on the date the Commission approves this Agreement. This revenue requirement reflects an annual increase of \$361,892 over pro forma present revenues.

2. The increased revenue requirement shall be reflected in increases to the service charges and volumetric rates as shown in the rate schedules in the attachment marked as Exhibit A. These rates are designed to allow WSCK to recover the increased revenue from customers in its Middlesboro and Clinton service areas in the manner agreed to by the parties to this Agreement, as shown in the attachment marked as Exhibit B. The parties agree that these rates are fair, just, and reasonable.

3. WSCK shall continue using its current depreciation rates and will not change them as originally proposed in its application.

4. WSCK anticipates requesting Commission approval in its next case seeking a general adjustment of rates to use depreciation rates that are consistent with the National Association of Regulatory Utility Commissioners Study of Depreciation Practices for Small Water Utilities. The AG and the City shall not object to WSCK's request to use depreciation rates that are consistent with that study.

5. WSCK will engage an expert to prepare a cost-of service and rate design study to be filed in WSCK's next case for a general adjustment of rates. The AG and the City shall not object to the recovery of reasonably incurred, associated expert costs in WSCK's rates.

6. WSCK shall not file an application for a general adjustment of rates with the Public Service Commission before June 1, 2018. This limitation does not prevent WSCK from filing requests for purchased water adjustments at any appropriate time and receiving approval thereon.

7. Consistent with previous rate cases filed by WSCK, rate case expense shall be amortized over a three-year period. The AG and the City shall not object to any remaining unamortized rate case expense being recovered in WSCK's rates authorized in the next rate case.

8. Each Party waives all cross-examination of the other Parties' witnesses unless the Commission disapproves this Agreement. The Parties stipulate that, after the date of this Agreement, they will not otherwise contest WSCK's application in this proceeding, as modified by this Agreement, during the hearing in this proceeding, and that they will refrain from cross-examination of all witnesses during the hearing, except insofar as such cross-examination supports the Agreement or WSCK's application subject to the terms and conditions of this Settlement.

9. The Parties agree that the foregoing terms and conditions represent a fair, just, and reasonable resolution of the issues addressed herein.

10. The Parties agree that, following the execution of this Agreement, the Parties shall cause the Agreement to be filed with the Commission.

11. The Parties agree to act in good faith and to use their best efforts to recommend to the Commission that this Agreement be accepted and incorporated into any Order approving WSCK's application in this proceeding.

12. If the Commission issues an Order adopting all of the terms and conditions recommended herein, each of the Parties agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin Circuit Court, with respect to such Order on a specific issue agreed to or explicitly not objected to by that party in this Agreement.

13. The Parties agree that if the Commission does not implement all of the terms recommended herein in its final Order in this proceeding, or if the Commission in its final Order in this proceeding adds or imposes additional conditions or burdens upon any or all of the Parties that are unacceptable to any or all of the Parties, then, upon written notice by any Party: (a) this Agreement shall be void and withdrawn by the Parties from further consideration by the Commission and none of the Parties shall be bound by any of the provisions herein, provided that no Party is precluded from advocating any position contained in this Agreement; and (b) neither the terms of this Agreement nor any matters raised during the settlement negotiations shall be binding on any of the Parties to this Agreement or be construed against any of the Parties.

14. The Parties agree that this Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

15. The Parties agree that this Agreement shall inure to the benefit of, and be binding upon, the Parties, their successors and assigns.

16. The Parties agree that this Agreement constitutes the complete agreement and understanding among the Parties, and any and all oral statements, representations, or agreements

made prior hereto or contemporaneously herewith, shall be null and void, and shall be deemed to have been merged into this Agreement. The Parties specifically rescind the Stipulation, Partial Settlement Agreement, and Recommendation executed on April 4, 2016.

17. The Parties agree that, for the purpose of this Agreement only, the terms are based upon the independent analysis of the Parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation.

18. The signatories on behalf of WSCK and the AG warrant that they have informed, advised, and consulted with the Parties they represent in this proceeding in regard to the contents and significance of this Agreement, and based upon the foregoing are authorized to execute this Agreement on behalf of the Parties they represent.

19. The Mayor of the City warrants that she has been informed, advised, and consulted with the City Attorney, who represents the City in this proceeding in regard to the contents and significance of this Agreement, and based upon the foregoing is authorized to execute this Agreement on behalf of the City.

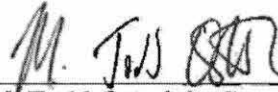
20. The Parties agree that this Agreement is a product of negotiation among all Parties, and that no provision of this Agreement shall be strictly construed in favor of, or against, any Party.

21. The Parties agree that this Agreement may be executed in multiple counterparts.

IN WITNESS WHEREOF, the Parties in Case No. 2015-00382 have hereunto affixed their signatures.

Water Service Corporation of Kentucky

HAVE SEEN AND AGREED:



M. Todd Osterloh, Counsel

**Office of the Attorney General of the
Commonwealth of Kentucky, by and through
his Office of Rate Intervention**

HAVE SEEN AND AGREED:



Kent Chandler, Assistant Attorney General

Rebecca Goodman, Executive Director

City of Clinton

HAVE SEEN AND AGREED:

Phyllis Campbell, Mayor

IN WITNESS WHEREOF, the Parties in Case No. 2015-00382 have hereunto affixed
their signatures.

Water Service Corporation of Kentucky

HAVE SEEN AND AGREED:

M. Todd Osterloh, Counsel

**Office of the Attorney General of the
Commonwealth of Kentucky, by and through
his Office of Rate Intervention**

HAVE SEEN AND AGREED:

Kent Chandler, Assistant Attorney General
Rebecca Goodman, Executive Director

City of Clinton

HAVE SEEN AND AGREED:


Phyllis Campbell, Mayor

FOR Middlesboro and Clinton and Adjacent Territory
Community, Town or City

P.S.C. KY. NO.

SHEET NO. 38

Water Service Corporation of Kentucky
(Name of Utility)

CANCELLING P.S.C. KY. NO.

CONTENTS

RATES

The following rates and charges are prescribed for the customers in the area served by Water Service Corporation of Kentucky. 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.

Monthly Water Rates

Service Charge Per Month
For All Service Areas

<u>Meter Size</u>	<u>Monthly Charge</u>
5/8"	\$10.00
3/4"	\$10.00
1"	\$17.50
1.5"	\$30.00
2"	\$45.00
3"	\$85.00
4"	\$130.00
6"	\$255.00

Volumetric Rates

Middlesboro Service Area

First 100,000 gallons	\$4.058 per 1,000 gallons
All over 100,000 gallons	\$3.133 per 1,000 gallons

Clinton Service Area

All usage	\$4.362 per 1,000 gallons
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DATE OF ISSUE

Month / Date / Year

DATE EFFECTIVE

Month / Date / Year

ISSUED BY

(Signature of Officer)

TITLE

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION

IN CASE NO.

DATED

Exhibit A

FOR Middlesboro and Clinton and Adjacent Territory
Community, Town or City

P.S.C. KY. NO.

SHEET NO. **39**

CANCELLING P.S.C. KY. NO.

Water Service Corporation of Kentucky
(Name of Utility)

CONTENTS

Monthly Fire Protection Charges

Municipally owned hydrants	\$5.40 per hydrant
Private Hydrants or Sprinkler Systems	\$24.30 per hydrant or sprinkler

DATE OF ISSUE

Month / Date / Year

DATE EFFECTIVE

Month / Date / Year

ISSUED BY

(Signature of Officer)

TITLE

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION

IN CASE NO.

DATED

Settlement Rate Structure

Meter Size	Rate \$	Middlesboro		Clinton		Total
		Units	Revenue	Units	Revenue	Revenue
5/8"	\$ 10.00	65,944	\$ 659,440	295	\$ 2,950	\$ 662,390
3/4"	\$ 10.00	24	\$ 240	6,359	\$ 63,590	\$ 63,830
1"	\$ 17.50	1,136	\$ 19,880	168	\$ 2,940	\$ 22,820
1.5"	\$ 30.00	286	\$ 8,580	59	\$ 1,770	\$ 10,350
2"	\$ 45.00	597	\$ 26,865	60	\$ 2,700	\$ 29,565
3"	\$ 85.00	96	\$ 8,160	-	\$ -	\$ 8,160
4"	\$ 130.00	36	\$ 4,680	-	\$ -	\$ 4,680
6"	\$ 255.00	36	\$ 9,180	-	\$ -	\$ 9,180
BFC			\$ 737,025		\$ 73,950	\$ 810,975
First 100KGal	\$ 4.058	306,762,546	\$ 1,244,842			\$ 1,244,842
Over 100KGal	\$ 3.133	73,200,504	\$ 229,337			\$ 229,337
All Gal	\$ 4.362			30,101,342	\$ 131,302	\$ 131,302
Volume			\$ 1,474,180		\$ 131,302	\$ 1,605,482
Private	\$ 24.30	876	\$ 21,289	120	\$ 2,916	\$ 24,205
Municipal	\$ 5.40	3,300	\$ 17,834	648	\$ 3,502	\$ 21,336
Fire Protection			\$ 39,123		\$ 6,418	\$ 45,541
Total			\$ 2,250,327		\$ 211,670	\$ 2,461,998

*WIND (Middlesboro Water Industrial) has been included in 2" industrial customer with total test year usage of 3,400

Exhibit B

*Water Service Corporation of Kentucky
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Northbrook, IL 60062-6196

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