

**MARION COUNTY WATER DISTRICT  
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August 19, 2016

RECEIVED

Ms. Talina R. Mathews  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

AUG 22 2016

Public Service  
Commission

In Re: Case No. 2016-00163

Dear Ms. Mathews:

The Marion County Water District has had distribution mains in the ground since 1970. The useful lives assigned to them was consistently set at 50 years from 1970 until 2008. We do not have a reference document to reflect where this useful life came from. We believe it was likely take from "Public Utility Depreciation Practices" which was published in 1968. We do feel that the assigned life for transmission lines was considered reasonable at that time. We are aware of the National Association of Regulatory Utility Commissioners Study from 1979 and have used it as a reference guide in the past. We would like to point out a few things from this study.

- 1) The study defines a small water district as having less than 200 customers and less than \$50,000 in annual revenue.
- 2) The study defines a small water utility as having a plant investment of less than \$1,000,000.
- 3) The study acknowledges that "other factors such as anticipated changeover to new or improved kinds of plant, or specific plans of management must be give consideration".

The Marion County Water District services 5,900 customers spread over two counties. Its' 2015 revenue was \$2,651,218. Its' investment in plant was \$18,962,891 as of December 31, 2015. It has a record of availing itself of new technology. The last point is particularly important to this case. In 2008 the district made the decision to begin changing out its' old meters for electronic radio read meters. This was new technology whose installation was going to save the District tens of thousands of dollars per year in meter reading labor. At the time it was unknown how many years would be required to convert all of the old meters to the more efficient meters. As of December 31, 2015, the District was servicing 5,900 meters. Of these, approximately 4,800 have been converted to the new technology. That is an 81% conversion to the new meters. The 1979 study gave us no guidance for depreciation of these meters. We ultimately settled on a 20 year life based on the manufacturer's estimate of life as well as the manufacturer's willingness to warrantee the meters. It was quite clear in 2008 that meters with electronic components could not be depreciated over 50 years. The PSC has finally agreed with this life

for new meters. However, that does not resolve how the District should recover its' remaining investment in the old meters. Faced with the uncertainty of the new program, the decision was made to leave this cost on the books and continue to depreciate them. The intent was to write off the remaining cost at some point in the future when the change out of meters was near completion. As of 2009, the remaining unrecovered investment in these old meters was \$863,668. They have subsequently been depreciated down to \$679,120 using the useful life of 50 years. It is pretty obvious at this point that this old useful life (as reflected in the 1979 study) turned out to be significantly shorter than the actual useful life for meters.

The District has had issues in the past with high water losses. We were previously forced to abandon a transmission line that was five miles long. This particular line had pipe that was particularly brittle and constantly experiencing breaks and excessive water losses. Ultimately, the line was replaced after all other efforts to contain the problem were exhausted. This action resulted in an improved water loss percentage. Currently the District is being required to do much more line flushing than they feel they should because of standards put in place by the EPA. This water loss is expensive. The District feels that some of these water losses and flushing issues are the end result of an aging infrastructure that was initially put in place 45 years ago. Further, the District has to deal with the maintenance of numerous miles of asbestos cement transmission lines which were installed in the 1970s and are acknowledged to have a shorter life than PVC lines. There is little difference in the topography of Marion County's service area and that of Southern Water and Sewer District's. Marion County's lines follow road right of ways and are subject to the strain of construction projects, road upgrades and high pressure conditions. Marion County should be afforded the same consideration as Southern Water in using 50 year lives.

All of the above issues were taken into consideration in shortening the useful life of transmission lines to 40 years from 50 years. Please note that this was done only for new transmission lines put in service in 2008 and after. Currently, 70% of transmission lines are depreciated over a 50 year life and 30% are depreciated over a 40 year life. Had we depreciated all lines over a 50 year life, we would have claimed approximately \$249,500 less depreciation over the last 8 years. The PSC is proposing to expand the depreciable life of all transmission lines to 62.5 years. The District has been through rate cases in the past where depreciation schedules were provided to the PSC and these lives were not challenged. Please note that the 50 year life is within the NARUC range quoted in the 1979 study. We question the fairness of challenging this long term practice after it being in place for nearly a half century.

In summary, writing off the remaining cost of old meters which have been retired would result in a depreciation deduction of approximately \$550,087 ( $\$679,120 \text{ net book value} \times 81\% \text{ of old meters retired}$ ). This would create a much larger write-off than the District claimed by reducing depreciation lives on new transmission mains to 40 years (\$249,500). The collective impact of both of these decisions has been a net conservative approach to depreciation expense for the District. Hopefully there is room for compromise on this issue.

The District has no control over reporting standards issued by the Governmental Accounting Standards Board. We are, however, required to follow them in our reporting practices as are most of the water districts who are regulated by the PSC. We believe the pension liability as reflected on the audit report has been properly computed and reported. The PSC would not be pleased if we submitted an audit report which disclaims an opinion because the GASB 68 reporting standards have not been complied with. That is what we will be facing if the recommendation on page 25 of the Commission's report is followed. We all recognize that this is a difficult area and that this is the first rate case dealing with it. The suggested treatment for pension expense and the creation of a "regulatory asset" does not address

the reporting requirements that we are governed by. We are not happy with the significant increase in pension liability but it is required that we report it in order to be compliant with GASB 68. We are convinced that our pension plan requirements will increase significantly. The timing of that increase is less certain but it is certainly prudent for the District to prepare for that eventuality. Treating pension expense as suggested in the report has the impact of ignoring GASB 68 completely. How does that help anyone?

Our CPA firm assisted us in preparing this response. Please contact the undersigned with questions or call Charles M White CPA at (270) 692-2102.

Sincerely,



James L. Mudd  
General Manager  
Marion County Water District

JLM: mgm

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