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Public Service
Commission

September 14, 2016

Ms. Talina R. Mathews
Executive Director
Public Service Commission
P O Box 615
Frankfort, KY 40602-0615

In Re: Case No. 2016-00163
Informal Conference – Sept. 1, 2016

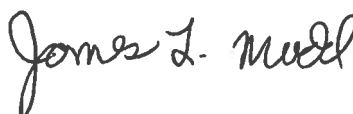
Dear Ms. Mathews:

The PSC's financial analyst has spent a good deal of time and energy addressing GASB 68 in this instance. This is a new pronouncement that the District was required to include in the most recently completed audit. The data used to compute the GASB 68 adjustment was taken from information provided by the state of Kentucky. These numbers were the most current amounts available to use at the time the audit was completed. Using these numbers was deemed reasonable in order to comply with filing requirements of the PSC. Going forward, the district will have to request an extension each year for filing their annual audit if GASB 68 is to be applied based on the analyst's interpretation. For purposes of this rate case, the proper reporting on GASB 68 is unimportant to the analyst, since the PSC's analyst believes that the water rates should be computed based on actual monies paid into the pension fund. This position, in fact, chooses to ignore GASB 68 altogether. The District has experienced increases in their annual cost exceeding twenty five percent over the last three to four years and anticipate those cost will be escalating from there. Whether data from FYE June 30, 2014 or FYE June 30, 2015 are used in this case is unimportant. What is important is that the PSC recognize that all districts are faced with this issue. It is real and will significantly impact the budgets for everyone governed by the PSC. How else will these districts fund this liability without building it into new rates? The analyst infers in the memorandum dated September 9, 2016 that we acquiesce on this issue. That is not the case.

The September 9th memorandum does acknowledge the testimony of Charles M. White, CPA, in Case No. 7901, related to depreciation lives used by the District. The analyst has taken a very arbitrary position related to depreciable lives and wishes to overturn a depreciable life that has been used by the District since 1970 with the consent of the PSC. The life used is within the range specified in the NARUC study published in 1979. The PSC had no issue with this method when it heard Case No. 7901. The PSC has acknowledged allowing other districts to use 50 year lives. The District has in recent years replaced transmission lines that were no more than 40 years old. This was done because the PVC pipe was ultimately deemed to be too brittle and subject to leaks. No other solution was available but to replace it. We further wish to point out that during the informal conference of September 9th, a representative of the engineering firm of Kentucky Engineering Group PLLC was present and offered support to the District's argument that PVC pipe does fail due to brittle characteristics. We were disappointed that these comments were not included in the memorandum.

We believe this arbitrary lengthening in depreciable lives for a significant part of the physical plant is not warranted and request that the District be allowed to continue to use this longstanding practice going forward.

Sincerely,



James L. Mudd
General Manager

JLM:mgm