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LAW OFFICES OF
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September 19, 2017

Mr. John S. Lyons
Acting Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: TFS2017-00512
Provider: Lebanon Water Works Company, Inc.
Purchaser: Marion County Water District

Dear Mr. Lyons:

On September 13, 2017, Lebanon Water Works Company, Inc. ("Lebanon") filed with the Kentucky Public Service Commission (the "Commission") notice of a proposed adjustment of its rate for water service to Marion County Water District ("MCWD") as follows:

Meter Charge, per meter, per month:	Increase from \$6.75 to \$7.35;
Volume Charge, per 100 cubic feet:	Increase from \$2.50 to \$3.35; and
Rate Case Expense Surcharge:	Estimated \$2,000/month for 36 months

According to this notice, Lebanon's proposed adjustment is to become effective on November 15, 2017.

Based upon the limited information contained in Lebanon's notice, and the supplemental information provided to MCWD upon request of counsel, MCWD is unable to ascertain whether the proposed adjustment is consistent with the methodology set forth in the water purchase contract that Lebanon and MCWD have executed. Further, it is unclear from the information provided by Lebanon whether the proposed rate increase reflects Lebanon's actual cost of providing service to MCWD. In short, Lebanon has failed to provide sufficient evidence to demonstrate the reasonableness of the proposed water service rate increase. MCWD is particularly concerned about the following aspects of Lebanon's proposed rate increase, and the calculations relied upon therein:

- Use of aggressive depreciation schedules for transmission lines and other capital improvements which are inconsistent with the allowable depreciation referenced in MCWD's recent rate case, 2016-00163;
- Decision to voluntarily purchase water from Campbellsville, over and above contracted quantities, with no demonstrable need;
- Use of budgeted expense in its calculations, as opposed to audited figures from the current test year;
- Use of significant projected increase in salaries, despite the recent retirement of long-time employees who were replaced by entry-level personnel;
- Use of a test period in which it employed two General Managers during a transition (non-recurring expense);
- Inclusion of costs for extraordinary maintenance expenses, attorney's fees, lab-testing equipment (non-recurring expenses);
- Discrepancy between the percentage of water purchased by MCWD and the percentage of the proposed increase borne by MCWD;
- Inclusion of 100% of the costs of health benefits payable to Lebanon's employees; and
- Lebanon's public acknowledgement that the primary reason for the rate increase is to fund \$2,270,000 of prospective system improvements over the next five (5) years, despite Lebanon's recent 15% rate increase that was meant, presumably, to address some of these same issues (See TFS2013-00315).

Pursuant to KRS 278.200 and the Kentucky Supreme Court's holding in *Simpson County Water District v. City of Franklin*, 872 S.W.2d 460 (Ky. 1994), a rate set forth in a contract between a non-regulated entity (*i.e.* a municipally-owned water company) and a utility may not be charged until the Commission holds a hearing on the proposed change. The Commission has not held a hearing on Lebanon's proposed rate adjustment. Accordingly, MCWD respectfully requests that the Commission initiate a formal proceeding to investigate the reasonableness of the proposed rate, establish a procedural schedule that allows for discovery, and issue all orders necessary to ensure that the proposed rate is not placed into effect or otherwise assessed before the required hearing. In initiating this proceeding, MCWD requests that, pursuant to 807 KAR 5:001, Section 8, the Commission direct the use of electronic filing procedures for such proceeding.

Dr. John S. Lyons
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With kindest regards,

MATTINGLY & NALLY-MARTIN, PLLC

By Kaelin Reed
KAELIN G. REED

KGR:

cc: Marion County Water District
Lebanon Water Works Company, Inc.
City of Lebanon