

**Goss
Samford**

ATTORNEYS AT LAW | PLLC

Case No. 2018-00329

L. Allyson Honaker
allyson@gosssamfordlaw.com
(859) 368-7740

RECEIVED

SEP 26 2018

PUBLIC SERVICE
COMMISSION

September 26, 2018

Via Hand-Delivery

Ms. Gwen R. Pinson
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: *In the Matter of: The Application of Marion County Water District for an Order Approving the Establishment of a Regulatory Asset for the Rate Case Expenses Incurred by Lebanon Water Works Company and Order in Case No. 2017-00417 – Case No. 2018-00___*

Dear Ms. Pinson:

Please find enclosed an original and ten (10) copies of Marion County Water District's ("Marion District") Application to Establish a Regulatory Asset. Please return a file-stamped copy to me.

Please let me know if you have any questions.

Sincerely,



L. Allyson Honaker

Enc.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE APPLICATION OF MARION COUNTY WATER)
DISTRICT FOR AN ORDER APPROVING THE)
ESTABLISHMENT OF A REGULATORY ASSET) CASE NO. 2018-00329
FOR THE RATE CASE EXPENSES INCURRED BY)
LEBANON WATER WORKS COMPANY AND)
ORDERED IN CASE NO. 2017-00417)

APPLICATION

Comes now Marion County Water District (“Marion District”), by counsel, pursuant to KRS 278.030(1), KRS 278.040(2), KRS 278.220, 807 KAR 5:001, Section 14, and other applicable law, and does hereby request the Kentucky Public Service Commission (“Commission”) to approve the establishment of a regulatory asset for the cost incurred by Marion District to reimburse the rate case expense of Lebanon Water Works Company (“Lebanon”), ordered by the Commission in Case No. 2017-00417, as well as permission to defer and accumulate appropriate carrying costs associated with the regulatory asset, respectfully stating as follows:

I. Applicant Information and General Filing Requirements

1. Marion District is a water district that was formed in 1969 under the authority of KRS Chapter 74 and is currently serving approximately 6,000 customers in Marion County, Kentucky. Marion District’s customers are primarily rural and agricultural in nature. Marion District is governed by five commissioners appointed by the Marion County Fiscal Court. Marion

has approximately 435 miles of water mains and eight full-time employees.¹ As a water district, Marion District is subject to the full rate and service jurisdiction of the Commission. Marion District has no water treatment facilities and must acquire 100% of its customers' water supply requirements from Lebanon. Marion District is non-profit political subdivision of the Commonwealth of Kentucky.²

2. Pursuant to 807 KAR 5:001, Section 14(1), Marion District's mailing address is P.O. Box 528, Lebanon, Kentucky 40033 and its email address is mcwdh2o@yahoo.com. The facts and law upon which this Application is based are stated in paragraphs four (4) through eight (8) below.

3. Counsel for Marion District should be served at the following email addresses: david@gosssamfordlaw.com and allyson@gosssamfordlaw.com.

II. Background

4. Lebanon filed an Application for an increase in its wholesale rate charged to Marion District on September 13, 2017. Marion County filed a protest letter on September 25, 2017 wherein it alleged that the proposed rate increase was unfair, unjust and unreasonable in multiple respects. The case proceeded with discovery and a hearing before the Commission. The Commission issued its Order in that proceeding on July 12, 2018 wherein the Commission denied Lebanon's rate case expense requested in its brief, but instead ordered that the initial estimate of \$72,000 was all that Lebanon could recover from Marion District.

5. As a result of the Commission's July 12, 2018 Order, there will be a surcharge amount of \$2,000 each month for thirty-six months added to Marion District's bill from Lebanon.

¹ See Marion District 2016 Annual Report.

² See *Davis v. Powell's Valley Water Dist.*, 920 S.W.2d 75, 77 (Ky. App. 1995) citing *Louisville Extension Water District v. Diehl Pump & Supply Co.*, 246 S.W.2d 585, 586 (Ky. 1952); *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725, 727 (Ky. 1986).

Marion District is unable to recover this expense through its purchased water adjustment mechanism and therefore lacks the ability to pass this surcharge on to its customers in a timely manner. Marion District is therefore requesting that it be allowed to establish a regulatory asset for the \$72,000 in Lebanon's rate case expense with an allowance for a carrying charge at Marion District's average weighted cost of long-term debt.

III. Request to Establish Regulatory Asset

6. Marion District has not established the requested regulatory asset on its books and acknowledges that prior Commission approval is required to establish the requested regulatory asset. At this time, Marion District is requesting the regulatory asset treatment for accounting purposes only.

7. The Commission has previously authorized other jurisdictional utilities to establish regulatory assets. The Commission has exercised its discretion to approve regulatory assets where a utility has incurred: (a) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; (b) an expense resulting from a statutory or administrative directive; (c) an expense in relation to an industry sponsored initiative; or (d) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.³ Marion District believes its request to establish the regulatory asset for the rate case expenses of Lebanon that it has been ordered to pay is consistent with the second criteria cited above, as: (1) the recovery of reasonable rate case expense is generally authorized by *Driscoll v.*

³ See *In the Matter of the Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages*, Order, Case No. 2008-00436, p. 4 (Ky. P.S.C., Dec. 23, 2008). Also See *In the Matter of Application of East Kentucky Power Cooperative, Inc. for an Order Approving the Establishment of a Regulatory Asset for the Amount Expended on Its Smith 1 Generating Unit*, Order, Case No. 2010-00449, p. 7 (Ky. P.S.C., Feb. 28, 2011).

Edison Light & Power Co., 307 U.S. 104, 120 (1939); and (2) the amount to be paid to Lebanon was specifically approved by the Commission.

8. Marion District is requesting that the Commission authorize it to establish a regulatory asset for Lebanon's rate case expense resulting from Case No. 2018-00417. The regulatory asset will begin with an initial balance of \$0 and increase each month by \$2,000 for thirty-six (36) months as Marion District pays the rate case expense surcharge to Lebanon. At the end of thirty-six (36) months, the regulatory asset will quit accumulating a principal balance. However, Marion District requests that it be allowed to add a carrying charge to the regulatory asset to account for the time value of money. The carrying charge will be equal to the weighted average of Marion District's long-term debt interest rate, which is 2.502%. The accounting entries reflecting the establishment of the regulatory asset are shown in Exhibit 1 of this application and a schedule showing Marion District's long-term debt interest rate is attached as Exhibit 2. Marion District will seek to amortize the regulatory asset as part of its next base rate application, however, that is not currently projected to be filed for several years.

WHEREFORE, on the basis of the foregoing, Marion District respectfully requests the Commission to authorize the establishment of a regulatory asset for Lebanon's rate case expense, which Marion District was ordered to pay in Case No. 2017-00417 and permission to defer appropriate carrying costs associated with this regulatory asset.

Done this 26th day of September, 2018.

VERIFICATION

This will certify that I, James Mudd, the General Manager of Marion County Water District, on behalf of Marion County Water District, after having first been duly sworn, did examine the contents of this Application and that, to the best of my knowledge and belief as formed after reasonable diligence and inquiry, said statements are true and correct as of this 24th day of September, 2018

MARION COUNTY WATER DISTRICT

BY: James Mudd
ITS: General Manager

Commonwealth of Kentucky)
County of Marion)

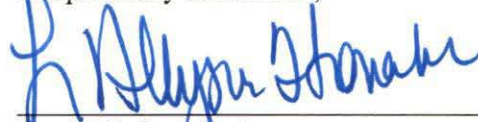
This will certify that the foregoing Verification was signed, under oath, before me, the NOTARY PUBLIC, on this 24th day of September, 2018.

Mary Grace Mattingly
NOTARY PUBLIC

Commission #: 534344

My Commission Expires: 07/08/2019

Respectfully submitted,



David S. Samford
L. Allyson Horaker
GOSS SAMFORD, PLLC
2365 Harrodsburg Road, Suite B-325
Lexington, KY 40504
(859) 368-7740
david@gosssamfordlaw.com
allyson@gosssamfordlaw.com

and

Kaelin G. Reed
The Law Office of Mattingly & Nally-
Martin, PLLC
P.O. Box 678
104 West Main Street
Lebanon, Kentucky 40033
(270) 692-1249
kaelin@mattinglylawoffices.com

Counsel for Marion County Water District

Exhibit 1

Sample Accounting Entries

Sample monthly journal entries:

Regulatory Asset	\$2,000.00	
Cash		\$2,000.00

To record the monthly interest:

There will be a debit to the Regulatory Asset account and a credit to the Regulatory Credit account in the monthly amounts in the table attached.

Marion County Water District
 Regulatory Asset- Lebanon
 Water Works Co Rate Case

Monthly Cost	Accumulated Cost	Accrued Interest	Total Accrued
2,000.00	2,000.00	4.17	2,004.17
2,000.00	4,000.00	8.38	4,012.55
2,000.00	6,000.00	12.54	6,025.09
2,000.00	8,000.00	16.71	8,041.80
2,000.00	10,000.00	20.88	10,062.68
2,000.00	12,000.00	25.06	12,087.74
2,000.00	14,000.00	29.24	14,116.98
2,000.00	16,000.00	33.42	16,150.40
2,000.00	18,000.00	37.60	18,188.00
2,000.00	20,000.00	41.78	20,229.78
2,000.00	22,000.00	45.96	22,275.74
2,000.00	24,000.00	50.14	24,325.88
2,000.00	26,000.00	54.32	26,380.20
2,000.00	28,000.00	58.49	28,438.69
2,000.00	30,000.00	62.67	30,501.36
2,000.00	32,000.00	66.85	32,568.21
2,000.00	34,000.00	71.03	34,639.24
2,000.00	36,000.00	75.21	36,714.45
2,000.00	38,000.00	79.39	38,793.84
2,000.00	40,000.00	83.57	40,877.41
2,000.00	42,000.00	87.74	42,965.15
2,000.00	44,000.00	91.92	45,057.07
2,000.00	46,000.00	96.10	47,153.17
2,000.00	48,000.00	100.28	49,253.45
2,000.00	50,000.00	104.46	51,357.91
2,000.00	52,000.00	108.64	53,466.55
2,000.00	54,000.00	112.82	55,579.37
2,000.00	56,000.00	117.00	57,696.37
2,000.00	58,000.00	121.17	59,817.54
2,000.00	60,000.00	125.35	61,942.89
2,000.00	62,000.00	129.53	64,072.42
2,000.00	64,000.00	133.71	66,206.13
2,000.00	66,000.00	137.89	68,344.02
2,000.00	68,000.00	142.07	70,486.09
2,000.00	70,000.00	146.25	72,632.34
2,000.00	72,000.00	150.42	74,782.76
<u>72,000.00</u>		<u>2,782.76</u>	

∴ 35

= 77.30

Exhibit 2

Schedule of Long-Term Debt and Associated Interest Rates

Marion County Water District

Weighed Average Interest

Lendor

	Loan Amount	Rate	Interest
KIA	465,499.00	1.750	8,146.23
Citizens National Bank	648,926.00	3.500	22,712.41
Build America Bonds	<u>1,314,000.00</u>	2.275	<u>29,893.50</u>
	2,428,425.00	2.502	60,752.14