

RECEIVED

SEP 20 2019

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**APPLICATION OF KNOTT COUNTY WATER AND)
SEWER DISTRICT FOR AN ALTERNATIVE RATE) CASE NO. 2019-00268
ADJUSTMENT)**

**KNOTT COUNTY WATER AND SEWER DISTRICT'S RESPONSE TO THE
ATTORNEY GENERAL OF KENTUCKY'S FIRST REQUEST FOR
INFORMATION ISSUED SEPTEMBER 6, 2019**

Filed: September 20, 2019

Commission expiration: 5/02/20

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KNOTT COUNTY)
WATER AND SEWER DISTRICT FOR)
AN ALTERNATIVE RATE ADJUSTMENT) CASE NO. 2019-00268

VERIFICATION OF ALAN VILINES

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF Warren)

Alan Vilines, Kentucky Rural Water Association on behalf of Knott County Water and Sewer District, states that he has supervised the preparation of certain of the following responses to data requests in the above-referenced case and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.



Alan Vilines

The foregoing Verification was signed, acknowledged and sworn to before me this 18th day of September, 2019, by Alan Vilines.

Bobbie S. Shanahan #603266
Commission expiration: 7/12/2022



Knott County Water and Sewer District
Case No. 2019-00268
Attorney General of Kentucky's First Request for Information
issued September 6, 2019

1. Explain the intent and formulation of the proposed 3 phase rate implementation.
 - a. Though the full rate increase is proposed to increase over time in 3 phases, confirm that the eventual result is an 80% increase in the retail rates over the course of two years.
 - b. Explain how the time period of one year between each phase was selected, and what factors were used to determine the length of this time period.
 - c. Fully explain how such an increase comports with the principle of gradualism.

Response:

- a. Please see the chart below that shows the increase of each rate by phase and the percentage of that increase. The proposed rates are proposed to be increased in three phases with a total increase of approximately 80%. The three phases are scheduled to be implemented within a two year period. However, since the last rate change was in 2011, it is also true that rates will have changed by approximately 80% over a ten year period.

Monthly Rates for Water Usage								
	Current	Phase 1		Phase 2		Phase 3		Total Increase
		Rate	Increase	Rate	Increase	Rate	Increase	Full Rate Increase
First 2000 Gal	18.25	22.08	21%	26.72	21%	32.3	21%	77%
Next 8000 Gal	5.63	6.92	23%	8.52	23%	10.5	23%	87%
Over 10000 Gal	4.55	5.55	22%	6.77	22%	8.25	22%	81%

- b. When we were informed by Alan Vilines that the total rate increase was approximately an 80% increase, KCWSD felt that this was too much of an increase for residential customers to bear at one time. The importance of KCWSD capturing revenue to compensate depreciation was also considered. Although there will be a loss of revenue that KCWSD should be capturing for the first two years, spreading

the increase over three even phases on a yearly basis was considered the most fair to KCWSD customers. The timing of one year between each phase is typical in Commission cases. Such an increase could occur in one or two increments, but KCWSD determined that a more gradual change would be better for its customers. Three phases with one year between each is reasonable for the customers to adjust to the change and for the utility to begin to receive needed additional revenue.

c. Please see the responses to Requests 1a and 1b above.

**Knott County Water and Sewer District
Case No. 2019-00268
Attorney General of Kentucky's First Request for Information
issued September 6, 2019**

2. Reference the Application, Attachment 3, which states that the "District's existing retail water rates were established in 2011."
 - a. Reference Case No. 2002-00292. Confirm that this was Knott County's last base rate case/ Alternative Rate Filing.
 - b. Further reference Case No. 2002-00292, Commission's Order of May 20, 2003, Appendix A. Confirm that the retail water rates approved in the 2002 case are the same rates currently in use by Knott County.
 - c. Fully explain whether the District's water rates were ever changed after they were set in Case No. 2002-00292. If not, explain why the District has waited until now to seek a rate increase.
 - d. Explain whether the District's sewer rates have increased since Case No. 2002-00292. If not, explain why not.

Response:

- a. Yes, this appears to be KCWSD's last rate filing.
- b. The rates established in Case No. 2002-00292 are the same as KCWSD's current rates.
- c. The water rates have not changed since they were established in Case No. 2002-00292. There have been numerous factors for the decision to not seek a rate increase before now. Although current management is unable to speak regarding decisions that were made prior to current management coming on board, it appears that the newness of KCWSD and the political climate surrounding the decision making process may have played a large role in the decision not to file in the past. In 2016, the financial statements show that KCWSD captured roughly 20% of its depreciation. This percentage has steadily declined since 2016. The audit completed in 2018 indicated that KCWSD's net cash position that year actually indicated a loss in revenue which basically means that KCWSD captured 0% of its depreciation. After the current management reviewed the audit of 2017 and

determined the steady decline in the amount of depreciation captured, management expressed its concerns to the board and discussed the need for a rate increase. Since KCWSD sells approximately 75% of its water to wholesale customers, the Board of Commissioners made the decision to raise the wholesale rate from \$3.00 per thousand gallons to \$3.50 per thousand gallons. The Board reviewed the current tariff rate of \$4.55 and determined that KCWSD was still operating within the range of the maximum tariff amount. When Letcher County Water and Sewer District ("LCWSD") received notification that the rate was going to change, LCWSD requested that a rate study be performed to determine the new wholesale rate. This was required under the agreement that KCWSD and LCWSD had in place at that time.

d. The sewer rates have not changed after they were established in Case No. 2002-00292. KCWSD has two sewer plants that are owned and operated by KCWSD. The operations and maintenance ("O&M") costs for the Caney Creek Wastewater Treatment Plant ("WWTP") has changed very little since the rates were set and no adjustment is needed at this time. The Ball Creek WWTP and its collection system has had changes, including the addition of lift stations, collection lines, residential grinder stations, etc., which will affect the financial situation of that system. Furthermore, the treatment process at the WWTP is currently in a trial period that if approved may reduce some of the costs of operation. It is possible that the sewer rates for KCWSD's Ball Creek portion of the sewer operations will need an adjustment in the more immediate future.

**Knott County Water and Sewer District
Case No. 2019-00268
Attorney General of Kentucky's First Request for Information
issued September 6, 2019**

3. Explain whether the District expects much or any load growth over the next 5–10 years.
- a. If so, describe where in the service territory and provide an estimate of the scale of such growth.

Response:

- a. With regards to the retail rate, KCWSD sees very little to no load growth in its service territory. The decline of jobs in KCWSD's service territory was caused by the loss of mining and has greatly affected KCWSD's service territory and surrounding areas economies. KCWSD does foresee small load growth in the wholesale sales. Perry County Water has shown an interest in purchasing more water from KCWSD. Also, there are currently projects in design that would give Perry County Water the option to purchase water along Highway 80 in at the Knott and Perry County line.

Knott County Water and Sewer District
Case No. 2019-00268
Attorney General of Kentucky's First Request for Information
issued September 6, 2019

4. Reference the Application, Attachment 2. The wholesale customer rate is proposed to increase by 18.3%. Further reference the District's Response to Letcher County Water and Sewer District ("LCWSD")'s Motion to Intervene, and the attached letter of the District dated December 27, 2019.
 - a. Explain whether the decision to increase the wholesale rates was connected to the District's decision not to renew a written contract for wholesale water service with LCWSD.
 - b. Explain the rationale for continuing to provide uninterrupted water service to LCWSD without a contract, but on a month-to-month basis.
 - c. Describe whether LCWSD has continued to purchase the same amount of water and provide the monthly amounts for 2019 to date.

Response:

- a. The rate study was done in large part due to LCWSD's request to have one completed for KCWSD's system. KCWSD was currently in a contract with LCWSD that renewed on a year by year basis in January of each year. With the uncertainty of when the study would be completed, KCWSD's board decided to not renew the agreement until completion of the study.
- b. It has always been KCWSD's intention to sell LCWSD water and KCWSD has continued to do so without interruption. KCWSD sells the majority of the water it produces to wholesale customers. By establishing a wholesale rate determined by a rate study, KCWSD feels that this is the fairest way to move forward with all of its wholesale customers. KCWSD intends to pursue contracts with each of our wholesale customers to protect both the interest of KCWSD and the water purchaser.
- c. In the last half of 2018, LCWSD purchased an average of 16,429,717 gallons of water per month. In 2019, through the month of July, LCWSD has purchased an average of 16,988,186 gallons of water per month. Based on the averages, KCWSD believes that LCWSD has continued to purchase the majority of its water from KCWSD.

Knott County Water and Sewer District
Case No. 2019-00268
Attorney General of Kentucky's First Request for Information
issued September 6, 2019

5. Reference the Application, Attachment 3. As one of the reasons stated for seeking the rate increase and more revenue, the District listed its need to maintain and replace infrastructure to "ensure reliable service to its customers and control water loss."
- a. Further reference the Application, Schedule 5d, which lists the current line losses at 9.18%. Confirm that this loss and the associated purchased, sold, and used water are based on the 2018 calendar year figures.
 - b. Reference the District's Annual Reports from 2014 to 2017, Water Statistics Reference Page 30. Confirm the water loss figures listed from those years are:

2014: 22.68%
2015: 18.60%
2016: 20.79%
2017: 5.22%
 - c. Fully explain how the District has been able to reduce its water loss from a high of 22.68% to single digit percentages in 2017 and 2018.
 - d. Explain what specific challenges remain for the District to keep water loss at an acceptable percentage.
 - e. Name and describe any specific projects of infrastructure repair or replacement the District has identified which will specifically help to maintain a low water loss.

Response:

- a. Yes, these numbers are based on the 2018 calendar year.
- b. Yes, these are the water loss numbers reported for the years indicated.
- c. Although KCWSD has made great efforts to reducing the water loss, one of the main contributing factors to KCWSD's water loss was its finished water meter. KCWSD tested the meter in 2017 and found a large discrepancy in the readings.

Once this was corrected, KCWSD's water loss was much lower than KCWSD had been reporting. This change along with other efforts that have been made in the last year are the driving factors in KCWSD's lower reported water loss numbers.

d. KCWSD has approximately 260 miles of main water distribution lines and over 3000 water connections with a great deal of service line to each of those connections. KCWSD has over 60 sites including tanks, pumps, valve vaults, telemetry sites, etc., that must be inspected and maintained each month. With KCWSD's topography which causes drastic pressure changes and with the rocky geology of the area, KCWSD is a high risk area for water loss.

e. KCWSD has discussed developing a master plan to target areas where repairs and replacements are most needed. KCWSD has recently updated its asset management software to help it identify the areas in its system that need the most attention. KCWSD has areas in its system, such as the Pippa Passes area, that have been in place since the 1960's. These areas are prone to water loss and KCWSD is frequently repairing lines in these areas. KCWSD has some high pressure areas in its system, such as KY route 550, which have frequent leaks and would be a high priority for replacement. Once the asset management software has been fully updated, KCWSD's plan is to rate each area to develop its master plan for repair and replacement in the future.

**Knott County Water and Sewer District
Case No. 2019-00268
Attorney General of Kentucky's First Request for Information
issued September 6, 2019**

6. Provide the current number of District employees, and identify how many are full-time versus part-time.
- a. Explain whether the District requires contributions from its employees for health insurance premiums consistent with recent Commission precedent.
 - b. If so, provide the percentage of employee contribution. If not, explain why not.
 - c. Provide the percentage of any merit-based or cost of living wage increases to employees over the past three (3) years and explain the process of how the District evaluates whether to award such increases and how much to award.

Response:

- a. KCWSD currently requires employee contributions that are less than the Commission precedent. KCWSD does not require employee contributions for employee only plans. On all other plans, KCWSD requires employees to contribute approximately 20% of the premium cost.
- b. KCWSD tries to offer a competitive benefit package to attract skilled and experienced workers from a workforce that has a finite amount of potential employees. While the insurance contributions may be slightly less than the Commission precedent, it is important to consider all aspects of an employee's wages and benefits as a total package.
- c. KCWSD does not offer any type of cost of living increases to its employees.

**Knott County Water and Sewer District
Case No. 2019-00268
Attorney General of Kentucky's First Request for Information
issued September 6, 2019**

7. Reference the Application, Schedule 5b.
- a. Explain the apparent redundancies for Computer equipment with large purchases in 2010, 2012, and 2014 despite all having a pro forma service life of ten (10) years.
 - b. Explain the apparent redundancy for billing software with large purchases in 2010 and 2014, despite having a pro forma service life of ten (10) years.
 - c. Explain the need to purchase two mini excavators in 2010.

Response:

- a. KCWSD currently has multiple computers that are utilized for the server. KCWSD also has 6 computers that are used in the office for billing, telemetry, equipment monitoring, etc. KCWSD utilizes 2 laptops in the field for meter reading. Despite what the pro forma service life is, KCWSD has to keep the computer system current with the current technology. It is difficult to go back 10 years to explain exactly what those purchases were for but with the changes in technology, the growing size of the utility, and the number of computer based equipment that is being used, I would not be surprised that the computer equipment purchases were larger in those years.
- b. In 2014, the new interim manager/finance officer purchased a new billing software that he was not familiar with. The decision was based on the feeling that this change was needed to adequately monitor the billing system.
- c. This purchase was done when KCWSD was very young and the excavators were needed to meet the daily repairs and maintenance items that are associated with operating a water district. The excavators are still currently being used and are utilized heavily.

Knott County Water and Sewer District
Case No. 2019-00268
Attorney General of Kentucky's First Request for Information
issued September 6, 2019

8. Reference the Application, Attachment 8.
- a. Explain whether the truck purchases in 2018, three Dodge Rams, were paid for in cash or financed.
 - b. If financed, provide the terms and length of the agreement, and the promissory note holder.
 - c. If the financing extends of two years, explain whether the District sought permission from the Commission in accordance with KRS 278.300. If not, fully explain why not.

Response:

- a. These were paid for with cash.
- b. Not Applicable.
- c. Not Applicable.

**Knott County Water and Sewer District
Case No. 2019-00268
Attorney General of Kentucky's First Request for Information
issued September 6, 2019**

9. State the District's projected rate expense for the instant alternative rate filing, or provide where in the application such expense is located.

Response:

KCWSD estimates its rate case expense could be anywhere from \$35,000 to \$70,000 depending on the number of discovery requests received, whether a public hearing is held, etc.

Knott County Water and Sewer District
Case No. 2019-00268
Attorney General of Kentucky's First Request for Information
issued September 6, 2019

10. Reference the Application, Attachment 5, which lists the salaries and wages for officers as \$30,200. Also reference the District's 2017 Annual Report, Contacts Ref. Page 6, which lists five (5) officers and board members but shows their salaries as \$0.
- a. Explain the apparent discrepancy and if officers are currently paid, state the salary paid to each.
 - b. Explain whether officers receive any other remuneration or benefits.

Response:

- a. KCWSD's annual report is conducted by the auditing firm that is hired to conduct our annual audit. This was an oversight by the auditor and the correct salary for each current commissioner is as follows:

- [REDACTED] - \$500 per month
- [REDACTED] - \$500 per month
- [REDACTED] - \$500 per month
- [REDACTED] - \$500 per month
- [REDACTED] - \$300 per month

- b. In addition to monetary compensation, officers receive health, dental, vision and basic life insurance.

Witnesses: Kyle Smith and Alan Vilines

Knott County Water and Sewer District
Case No. 2019-00268
Attorney General of Kentucky's First Request for Information
issued September 6, 2019

11. Reference the Application, Attachment 5. Provide a breakdown of the Miscellaneous Expenses category and the associated adjustment.

Response:

The breakdown of Miscellaneous Expenses is as follows:

- Random Drug Testing - \$505
- Misc. Operational Costs - \$1,305
- Bank Charges/Fees - \$471
- Permits/Licenses - \$4,252
- Training - \$3,035
- Clothing - \$3,061
- Travel - \$1,729
- Office Supplies - \$11,964
- Cell Phones - \$7,871
- Postage - \$700
- Freight - \$6,898
- Professional/Association Dues - \$6,839
- Penalties/Fines - \$12
- Bad Debt Expense - \$62,875
- Refunds to Customers - \$827
- Easements/Recording Fees - \$5,080
- Position Schedule Bond - \$2,560
- Rounding Account – (\$1)

The Miscellaneous Expense total of \$123,090 includes the bad debt expense. In the test year, auditors included an extraordinary amount for bad debt (\$62,875) to catch up prior years where bad debt was not written off in the billing software. Management stated that a more typical figure in normal years is approximately \$10,000. Therefore, the \$52,875 was deducted from Miscellaneous Expense.