

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PROPOSED ADJUSTMENT OF)	CASE NO.
THE WHOLESALE WATER SERVICE RATES OF)	2019-00260
CENTRAL CITY MUNICIPAL WATER & SEWER)	

ORDER

This matter arises from a proposed wholesale rate increase filed by Central City Municipal Water & Sewer (Central City). Muhlenberg County Water District (Muhlenberg District) and Muhlenberg County Water District #3 (Muhlenberg District #3), which are the only customers served under the wholesale rate at issue, were made parties to this case when they filed objections to Central City’s proposed rate increase. On October 1, 2019, Central City, Muhlenberg District, and Muhlenberg District #3 filed a joint motion to hold the procedural schedule in abeyance, approve their Settlement Agreement and Stipulations, and accept Central City’s proposed wholesale rate (Joint Motion). The Joint Motion is now before the Commission for a decision.

BACKGROUND

On June 24, 2019, Central City filed a revised tariff sheet setting forth proposed adjustments to its existing rates for wholesale water service to Muhlenberg District and Muhlenberg District #3 (collectively, the Muhlenberg Districts) to be effective on July 31, 2019.¹ Pursuant to the revised tariff sheet, Central City proposed to increase its uniform

¹ Tariff Filing, pg. 8 (filed Jun. 24, 2019).

monthly wholesale water rate (wholesale rate) from \$2.63 per 1,000 gallons to \$3.31 per 1,000 gallons for service for both Muhlenberg District and Muhlenberg District #3.²

On July 22, 2019, Muhlenberg Districts filed separate objections to Central City's proposed rate increase alleging that Central City failed to comply with certain provisions of its wholesale contracts with the Muhlenberg Districts before proposing the rate increase and that the Muhlenberg Districts were unable to determine from the information provided by Central City whether the rates were reasonable.³ On July 30, 2019, after receiving objections from the Muhlenberg Districts, the Commission suspended Central City's proposed tariff to conduct further proceedings regarding whether Central City is in compliance with its wholesale water contracts and whether its proposed tariff is reasonable.⁴

As part of the July 30, 2019 Order suspending rates, the Commission ordered that Central City respond to a number of requests for information regarding its compliance with its wholesale contracts with the Muhlenberg Districts, the basis for its proposed rate increase, and its underlying expenses to determine if the proposed rate is justified.⁵ Further, after Central City responded to the request for information included with the July 30, 2019 Order, the Muhlenberg Districts and Commission Staff served additional

² *Id.* at 4, 8.

³ Letter Dated July 22, 2019 from Damon Talley to Executive Director, Re: TFS2019-00357, Muhlenberg District No. 3 (filed July 22, 3019); Letter Dated July 22, 2019 from Damon Talley to Executive Director, Re: TFS2019-00357, Muhlenberg District (filed July 22, 3019).

⁴ Order, (Ky. PSC Jul. 30, 2019).

⁵ *Id.* at 5, Appendix A.

requests for information on Central City to which Central City responded on September 19, 2019.⁶

On October 1, 2019, Central City and the Muhlenberg Districts filed the Joint Motion requesting that the Commission hold the procedural schedule in abeyance and that the Commission approve the parties' Settlement Agreement and Stipulations. The Settlement Agreement and Stipulations proposed that Central City be permitted to increase its wholesale rate to \$3.31 per 1,000 gallons effective October 31, 2019.⁷ Further, Central City agreed not to seek to recover rate case expenses, which it requested as a surcharge in this case on top of the proposed wholesale rate increase.⁸ Central City also agreed to allocate a portion of its water storage by contract to Muhlenberg District #3 for three years,⁹ so Muhlenberg District #3 may be able to rely on that storage capacity to satisfy a portion of the capacity it is required to maintain pursuant to 807 KAR 5:066, Section 4(4).¹⁰

The Muhlenberg Districts indicated in the Joint Motion that based on the information provided by Central City in response to the request for information that they have now been able to evaluate the rate proposed by Central City and that they believe

⁶ Central City's Response to Commission Staff's First Request for Information (filed Sept. 18, 2019); Central City's Response to Muhlenberg District and Muhlenberg District #3's First Request for Information (filed Sept. 18, 2019).

⁷ Settlement Agreement and Stipulation (Settlement Agreement), pg. 4 (filed as Exhibit 1 to the Oct. 1, 2019 Joint Motion).

⁸ *Id.*

⁹ *Id.*

¹⁰ Joint Motion at 6; *see also Electronic Application of Muhlenberg County Water District #3 Requesting Deviation from Requirements of 807 KAR 5:066, Section 4(4)*, Case No. 2018-00159, Order (Ky. PSC Sept. 12, 2018) (discussing the circumstances under which Muhlenberg District #3 might be able to rely on the capacity of another party to satisfy its storage requirements).

it is reasonable.¹¹ The Muhlenberg Districts and Central City contend that the Commission would not have initiated this investigation of Central City's proposed rates if the Muhlenberg Districts had not objected to the proposed rates and requested this investigation.¹² Thus, they argue that since the proposed rates are reasonable and the Muhlenberg Districts are now satisfied that the rates are reasonable, the Commission should accept the settlement and permit the rates to go into effect.¹³

The Muhlenberg Districts and Central City also argued that accepting the settlement agreement and permitting the proposed rates to go into effect will prevent Central City and the districts from incurring additional expenses in this matter.¹⁴ Further, Muhlenberg District #3 indicates that Central City's agreement to allocate a portion of its water storage capacity to Muhlenberg District #3 will allow it to comply with minimum water storage regulations even if there are increases in water consumption.¹⁵ Finally, the parties argued that the U.S. Department of Agriculture, acting through Rural Development (RD), previously reviewed Central City's financial condition and required the proposed wholesale rate as a condition of Central City receiving \$850,000 in financing and a \$150,000 grant from RD for various water projects.¹⁶

¹¹ Joint Motion at 2 ("The Water Districts have thoroughly reviewed the information that has been presented by Central City in this case. Through their review, the Water Districts have determined that Central City's proposed wholesale rate of \$3.31 per 1,000 gallons is fair, just, and reasonable.").

¹² *Id.* at 4.

¹³ *Id.*

¹⁴ *Id.* at 6.

¹⁵ *Id.*

¹⁶ *Id.*; see also Tariff Filing, pg. 1 (filed Jun. 24, 2019).

DISCUSSION

The Commission has broad authority to regulate rates pursuant to KRS 278.040, including the wholesale rates municipal utilities charge water districts, to ensure that they are fair, just, and reasonable as required by KRS 278.030.¹⁷ Generally, when reviewing the rates of a nonprofit water utility, the Commission applies the debt service coverage method to determine the utility's revenue requirement and the inch-mile method to allocate costs between wholesale customers and other customers.¹⁸ Applying those methods here, and based on the costs and expenses from Central City's fiscal year 2018, which is its most recent audited year, the Commission finds that Central City's proposed rate of \$3.31 per 1,000 gallons for wholesale customers is likely supported by Central City's debt service costs and operating expenses.

Because there were still some outstanding questions, the Commission was required to make some assumptions regarding certain costs and how they should be allocated in determining that the proposed rate was justified. However, given Central City's agreement to forego recovery of its rate case expense, it is unlikely that the net effect of any effort to clarify any assumptions would result in a finding that the rate is not justified. Further, the Muhlenberg Districts, which work closely with Central City and are in a good position to understand Central City's costs, support the settlement and indicated

¹⁷ *Kentucky Public Service Com'n v. Com. Ex. Rel. Conway*, 324 S.W.3d 373, 377 (Ky. 2010); see also KRS 278.200 (extending the Commission's jurisdiction to wholesale rates charged by municipal utilities to regulated utilities).

¹⁸ See *Application of Jonathon Creek Water District for an Alternative Rate Adjustment*, Case No. 2017-00323, Order (Ky. PSC Dec. 17, 2017) ("The Commission has historically used a Debt Service Coverage method to calculate the revenue requirement for water districts or associations with outstanding long-term debt."); *Application of Western Fleming County Water District for Rate Adjustment for Small Utilities pursuant to 807 KAR 5:076*, Case No. 2014-00048, Order (Ky. PSC Jul. 28, 2014) (noting that the inch-mile method is typically used to allocate costs and determine a wholesale water rate in rate cases filed pursuant to 807 KAR 5:076).

in the Joint Motion that the proposed rate is justified by Central City's costs and expenses. Thus, the Commission finds the proposed wholesale rate is reasonable and, therefore, the proposed Settlement Agreement and Stipulations should be accepted, except that the proposed wholesale rate may only be placed in effect on or after the date of this order.

IT IS THEREFORE ORDERED that:

1. The wholesale rate proposed by Central City is approved for services rendered by Central City on and after the date of this Order.
2. The parties' Settlement Agreement and Stipulations is approved, except that the proposed wholesale rate shall only be placed in effect on and after the date of this Order.
3. Within 20 days of the date of this Order, Central City shall file with the Commission, using the Commission's electronic Tariff Filing System, a revised tariff noting the rates approved in this Order.
4. The motion to hold the procedural schedule in abeyance during the pendency of the Joint Motion is hereby granted and those portions of the orders in this matter establishing the remainder of the procedural schedule are vacated due to the settlement.
5. This matter is closed and removed from the Commission's docket.

By the Commission

ENTERED
NOV 19 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2019-00260

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