

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---------------------------------|---|------------|
| APPLICATION OF NORTH MANCHESTER |) | CASE NO. |
| WATER ASSOCIATION, INC. FOR AN |) | 2019-00052 |
| ALTERNATIVE RATE ADJUSTMENT |) | |

ORDER

On February 15, 2019, North Manchester Water Association, Inc. (North Manchester Water), filed an application (Application) with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. North Manchester Water requested rates that would increase annual water sales revenues by approximately \$109,097, a 12.1 percent increase to pro forma present rate water sales revenues. The Application used calendar year 2017 as the test year. There are no intervenors in this proceeding.

Commission Staff (Staff), on April 4, 2019, conducted a field review at North Manchester Water. During this field review, Staff discovered various deficiencies due to incomplete 2017 financial data. North Manchester Water had none of the information needed to conduct the review on site. By speaking with North Manchester Water's current president and accountant during the field review, Staff confirmed that the 2017 financial documents were incomplete. After the field review, Staff followed up with several phone calls and a certified letter dated July 1, 2019, to North Manchester Water's employees and confirmed that the 2017 financial audit was not complete and that North Manchester could not produce the financial records required to process the rate case. The letter is

appended to this Order. By letter dated July 8, 2019, North Manchester responded that it agreed with the position and summary set forth in Staff's letter; the letter is attached hereto. On July 23, 2019, North Manchester Water filed its completed 2017 audit report in Case No. 2019-00041.¹ However, as of the date of this Order, North Manchester Water has not provided supporting documentation for the 2017 financial data. As a result, Staff cannot complete its report.

Based upon the evidence of record and being otherwise sufficiently advised, the Commission finds that North Manchester Water failed to provide sufficient evidence to support its request, and therefore its request should be denied. A utility requesting a rate increase has the burden of proof to show that the rates it seeks are fair, just, and reasonable.² In reaching a decision on whether rates are fair, just, and reasonable, there must be sufficient evidence of record for the Commission, as the trier of fact, to weigh. The Commission finds that it cannot reasonably rely on the incomplete 2017 financial data and, therefore, cannot calculate the requested revenue adjustment. The 2017 financial information is an indispensable component in the calculation of the revenue requirement. Without information reflecting a test year of base revenue, a reasonable percentage increase cannot be calculated.

The Commission further finds that this matter should be dismissed without prejudice, which permits North Manchester Water to submit a new alternative rate adjustment filing when North Manchester Water has the requisite base revenue data for

¹ Case No. 2019-00041, *Electronic Investigation Into Excessive Water Loss By Kentucky's Jurisdictional Water Utilities* (filed on Jul 23, 2019).

² "[T]he burden of proof of showing that an increase of rate or charge is just and reasonable [is] upon the applicant utility." *Kentucky American Water Co. v. Commonwealth ex rel. Cowan*, 847 S.W.2d 737, 741 (Ky. 1993).

a complete (12 months) historical test year, accompanied by all other information required by 807 KAR 5:076. A copy of this order will be mailed to North Manchester Water's Board of Commissioners, the Clay County Judge/Executive, Johnny Johnson, and the Clay County Fiscal Court.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The 2017 financial data is incomplete and cannot be reasonably relied upon and should not be accepted.
2. The water service rates proposed by North Manchester Water should be denied.
3. The water service rates and percentage cannot be reasonably calculated by Staff.

IT IS THEREFORE ORDERED that:

1. The rates proposed by North Manchester Water are denied.
2. This case is dismissed without prejudice and removed from the Commission's docket.

By the Commission

ENTERED
JUL 31 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

*for
Gwen Robinson*

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2019-00052 DATED **JUL 31 2019**

TWO PAGES TO FOLLOW



Matthew G. Bevin
Governor

Charles G. Snavelly
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
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Michael J. Schmitt
Chairman

Robert Cicero
Vice Chairman

Talina R. Mathews
Commissioner

July 1, 2019

VIA U.S. Certified Mail

Steve Davis
193 Isaiah Seth Lane
Manchester, KY 40962

Ted Woods
305 Main St.
Manchester, KY 40962

North Manchester Water Association
7362 North Highway 421
Manchester, KY 40962

Re: **PSC Case No. 2019-00052**
In the Matter of: Application of North Manchester Water Association, Inc.
For an Alternative Rate Adjustment

Dear Mr. Davis and Mr. Woods:

This letter is being sent to summarize and clarify two phone conversations that I had on June 10, 2019, one with Steve Davis, President of North Manchester Water Association, and the other with Ted Woods, CPA and Current Bookkeeper/Board Member of North Manchester Water Association. The initial phone conversation was with Mr. Davis regarding the pending application for an alternative rate adjustment, Case No. 2019-00052. The purpose of that phone call was to obtain North Manchester Water Association's current auditor's name and address and to determine whether North Manchester Water Association's audit had been completed for the year 2017. Mr. Davis stated that, to the best of his knowledge, the audit was in its final review stages but was not yet complete. Mr. Davis explained his understanding as to why the audit was taking so long to complete, which was due to the lack of financial documentation and the accuracy of the financial records available for North Manchester Water Association. In the course of the conversation, Mr. Davis identified the auditor as Sammy Lee, located at 208 Pauline Drive, Suite D, Berea, KY 40403. Finally, Mr. Davis stated that if there were

more questions regarding the audit or other financial issues, Ted Woods would be able to answer those questions.

After concluding my call with Mr. Davis, I next reached out to North Manchester Water Association's current CPA, Mr. Ted Woods. Mr. Woods affirmed that the audit was being reviewed per the auditing process prior to being issued. Mr. Woods concurred with Mr. Davis' understanding that the lack of financial records and the quality or accuracy of those records were the primary reasons the audit was taking so long to complete. Mr. Woods also identified North Manchester Water Association's auditor as Sammy Lee of Berea, KY. During the course of this phone conversation, Mr. Woods suggested that North Manchester Water Association may not even need to complete the rate case that is currently before the Public Service Commission. Mr. Woods explained that since current management has been in control of the day-to-day operations of the water association, the association's financial situation has improved considerably. As a result, the association may not need and, thus, may be unable to provide evidentiary support for a rate increase at the current time. I advised Mr. Woods that the association has the option to file a motion to withdraw the rate case currently before the Public Service Commission. Mr. Woods said he believed the Board of Commissioners would be discussing whether to proceed with the pending rate case at its next board meeting.

Please respond in writing to this letter within seven (7) days of receipt, stating whether or not you agree with the summary of our conversations set forth in this letter and provide any additional comments that you believe are necessary.

Sincerely,



David P. Foster
PSC, Revenue Requirements Branch

ATTACHMENT

ATTACHMENT TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2019-00052 DATED **JUL 31 2019**

ONE PAGE TO FOLLOW

NORTH MANCHESTER WATER ASSOCIATION, INC.
7362 N. Highway 421
Manchester, Ky 40962
Telephone: (606) 598-1488
Facsimile: (606) 598-1483

July 8, 2019

VIA U.S. CERTIFIED MAIL

David P. Foster
PSC, Revenue Requirements Branch
Commonwealth of Kentucky
Public Service Commission
P.O. Box 615
Frankfort, Ky 40602-0615

Re: PSC Case No. 2019-00052
In the Matter of: Application of North Manchester Water Association, Inc.,
For an Alternative Rate Adjustment

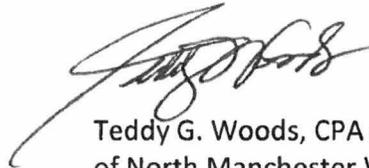
Dear Mr. Foster:

In response to the letter we received from you dated July 1, 2019, we do hereby agree with the summary set forth in the letter of our telephone conversations which took place on June 10, 2019. At this time the only additional comment that needs brought to your attention is that the audit referenced in the letter has been completed and issued. We are in the process of having Sammy Lee, CPA, begin the audit for the year ending December 31, 2018. We will keep you informed of any other changes as information becomes available.

Sincerely,



Steve Davis, President of
North Manchester Water Association



Teddy G. Woods, CPA and Board Member
of North Manchester Water Association

RECEIVED

JUL 10 2019

PUBLIC SERVICE
COMMISSION

*North Manchester Water Association, Inc.
7362 N Highway 421
Manchester, KY 40962

*Steve Davis
President
North Manchester Water Association, Inc.
7362 N Highway 421
Manchester, KY 40962