

1 **Q. State your name and business address.**

2 A. Anthony Habermehl, Bracken County Water District, 1324 Brooksville-
3 Germantown Road, Brooksville, Kentucky 41004. My mailing address is P.O. Box 201,
4 Brooksville, Kentucky 41004-0201.

5 **Q. State your title.**

6 A. Chairman, Bracken County Water District Board of Commissioners.

7 **Q. How long have you been chairman of Bracken County Water District's Board of**
8 **Commissioners?**

9 A. Approximately eight years.

10 **Q. How long have you been a member of Bracken County Water District's Board of**
11 **Commissioners?**

12 A. Almost 15 years. I have been a member of the Board of Commissioners since
13 October 25, 2000.

14 **Q. What is the Board of Commissioners?**

15 A. The Board of Commissioners is a five-member board which controls and manages
16 Bracken District's affairs. All corporate powers of the water district are exercised by, or
17 under the authority of Board.

18 **Q. Describe Bracken County Water District.**

19 A. Bracken District is a water district organized pursuant to KRS Chapter 74. It was
20 established on September 15, 1960. Bracken District's territory includes all
21 unincorporated areas of Bracken County, Kentucky. It provides water service to Bracken
22 County, Kentucky with the exception of the incorporated areas of Augusta and

1 Brooksville, Kentucky. Bracken District was created by the merger of Bracken County
2 Water District No. 1 and Western Bracken County Water District.

3 Bracken District provides water service to approximately 2,446 retail customers
4 and wholesale water service to the City of Brooksville, Kentucky and East Pendleton
5 County Water District. For the year ending December 31, 2014, Bracken District had
6 total water operating revenues of \$1,581,127 and total water sales of 139,709,000
7 gallons. As of December 31, 2014, it had net utility plant of \$11,522,429 and total assets
8 and other debits of \$13,002,493. Bracken District has five full-time employees and seven
9 part-time employees.

10 **Q. What is the relationship between Bracken County Water District and the City of**
11 **Augusta?**

12 A. Since October 1996, Bracken District has purchased its total water requirements
13 from Augusta. During the test period, July 1, 2013 through June 30, 2014 Bracken
14 District purchased 164,627,400 gallons of water from Augusta.

15 On March 4, 1993 Augusta and Bracken District executed a Water Purchase
16 Contract (“Contract”) to facilitate the construction of a water treatment plant. A copy of
17 the Contract is attached to my testimony as Exhibit A. Under the Contract’s terms,
18 Augusta would own and operate the water treatment plant. It would issue bonds to Rural
19 Development (“RD”)¹ to finance the water treatment plant’s construction. The Contract
20 required Augusta to provide Bracken District with up to 880,000 gallons of water per day
21 (or 61.45 percent of the water treatment plant’s capacity). The Contract had a term of 40
22 years from the date of Augusta’s issuance of the bonds, which was 1996.

¹ At the time of the bond issue, RD was known as the Farmers’ Home Administration.

1 The Contract required Bracken District to pay three fees or charges. The first
2 charge was a “capital cost charge” that was intended to recover the cost of annual debt
3 service payments on Augusta’s bonds. To finance the water treatment plant’s
4 construction, Augusta had issued a total of \$1,500,000 of bonds in two series (1995
5 Series A and 1995 Series B). Bracken District’s share of the annual debt service
6 payments on these bonds was determined by applying Bracken District’s allotted share of
7 the water treatment plant’s capacity (61.45 percent) to the annual payments. Originally,
8 the monthly capital cost charge was \$3,848 but it was subsequently revised to \$4,407.²

9 The second charge was a “cash operation and maintenance expense charge”. This
10 charge included all operating expenses but excluded depreciation expense, capital costs
11 of improvements and debt service costs. In effect this charge covered the variable cost of
12 producing water at the water treatment plant. Operating expenses would be allocated
13 based upon the parties’ share of the water treatment production. The Contract required
14 the “cash operation and maintenance expense charge” rate to be established at the
15 beginning of each fiscal year. At the end of that year, an accounting would occur and the
16 actual cost of producing water would be calculated. If the actual cost of water sold to
17 Bracken District exceeded the revenues produced by the billed rate, the Contract
18 permitted Augusta to bill Bracken District for the difference. If the actual cost was less
19 than the revenues produced by the billed rate, Augusta was to refund the difference to
20 Bracken District. The billed rate for the following fiscal year would be based upon the
21 actual costs for the preceding year.

22 The Contract also provided for a “capital cost replacement factor or fee.” This fee
23 is determined by capital asset replacements made during the fiscal year and the amount of

² See Exhibit B to this Testimony.

1 treatment plant capacity allocated to each party. For example, if Augusta purchased a
2 new motor for the water treatment plant, the cost of the motor would be funded through
3 the plant's depreciation account. If there were insufficient funds in that account, then
4 61.45 percent of the remaining cost would be allocated to Bracken District based upon its
5 assignment of plant capacity.

6 Under the Contract, Augusta was to construct, own and operate the treatment
7 plant. It was to "at all times, operate and maintain in an efficient manner and . . . to take
8 such action as may be necessary to furnish" Bracken District with its allocation of
9 water.³ Augusta was to establish an accounting system, pursuant to generally accepted
10 accounting procedures, "which shall facilitate the identification of costs actually
11 incurred."⁴ Augusta also agreed to keep a separate set of books and records and bank
12 accounts for the treatment plant.⁵

13 The Contract also required Augusta to appoint a Water Advisory Board that
14 would consist of one person from Augusta, one from Bracken County, and one from the
15 city of Brooksville. The Board was to have full access to all water treatment plant
16 records and to recommend any needed or required changes in the water treatment plant's
17 operations to the Augusta City Council.

18 Construction of the Augusta Water Treatment Plant ("Treatment Plant") was
19 completed in late 1996. The Treatment Plant began operations in October 1996. Prior to
20 the commencement of the Treatment Plant, Bracken District and Augusta each operated

³ Exhibit A at 3.

⁴ *Id.* at 2.

⁵ *Id.* at 6 ("First Party [Augusta] agrees that all books and records and bank accounts regarding the New Plant will be kept separate and apart from other business of the First Party . . .").

1 their own water production systems. Once the Treatment Plant began operations, both
2 utilities abandoned their previous systems.

3 A copy of the Contract was filed with the Kentucky Public Service Commission
4 (“KPSC”) on or about June 24, 1996.

5 **Q. What revisions, if any, have been made to the Contract?**

6 A. There have been three modifications to the Contract. First, in 1995 the parties
7 agreed that Bracken District’s monthly fee for debt service on the plant would be
8 increased to reflect the issuance of a greater amount of debt than originally estimated. A
9 copy of this modification, which is entitled “Water Purchase Contract Addendum #1,” is
10 attached to this Testimony as Exhibit B.

11 Next, in November 1999, as part of a Settlement Agreement filed with the KPSC
12 in Case No. 98-497,⁶ Augusta and Bracken District agreed to changes in methodology
13 used to calculate the rate, the date that rate revisions would become effective, and a
14 process for collecting undercharges and refunding overcharges. A copy of this
15 Settlement Agreement is attached to this Testimony as Exhibit C.

16 On May 15, 2008, the parties entered into the “Water Purchase Contract
17 Modification Agreement of 2008” (“Modification Agreement”), a copy of which is
18 attached to this Testimony as Exhibit D. Under the terms of the Modification Agreement,
19 75 percent of the treatment plant’s capacity was assigned to Bracken District. In return,
20 Bracken District would pay 75 percent of the monthly debt service cost.

21 The parties also agreed to fund the water treatment plant’s depreciation reserve
22 account. Rural Development (“RD”) required that the level of the account be

⁶ Case No. 98-497, *Proposed Adjustment of the Wholesale Rate of the City of Augusta* (Ky. PSC filed Sep. 14, 1998).

1 \$94,200. To reach that level, Bracken District agreed to make monthly payments of
2 \$588.75 to the account until that level was reached. Augusta was to make monthly
3 payments of \$196.25. They further agreed that if the account fell below \$94,200, they
4 would again begin making monthly payments in the same amounts until the account
5 balance was restored to \$94,200. Augusta and Bracken District further agreed that the
6 account would have a separate bank account and that withdrawals from the account
7 would only be made if approved by the Augusta's Mayor and Bracken District's
8 Chairman.

9 The Modification Agreement also contained provisions that suggested that
10 Bracken District would be afforded a greater voice in the operation and management of
11 the Water Treatment Plant. First, it noted that that parties "wished to investigate the
12 feasibility of increasing Bracken County [Water District]'s and Brooksville's
13 involvement with the management of the Augusta Plant and also in increase general Plant
14 efficiency through the possible future establishment of a Water Supply Management
15 Board."⁷ A joint committee was also to be established to investigate the formation of a
16 Water Supply Management Board. The Modification Agreement also envisioned a
17 greater role for the existing Water Supply Advisory Board, which the Contract had
18 created. "It is the intent of the parties," the Modification Agreement stated, "that the
19 Advisory Board shall become more involved in the day to day [sic] operations of the
20 Treatment Plant."⁸ The Modification Agreement provided that Augusta would provide a
21 monthly statement of expenses to Bracken District.

⁷ Exhibit D at 3.

⁸ *Id.*

1 A copy of Water Purchase Contract Addendum #1 and the 1999 Settlement
2 Agreement were filed with the KPSC. Augusta has not formally filed a copy of the
3 Modification Agreement with the KPSC, but has filed a copy as part of its responses to
4 requests for information in this proceeding.

5 **Q. Describe the Treatment Plant.**

6 A. The Treatment Plant is located within the boundaries of the City of Augusta. It
7 has a design capacity of 1.44million gallons per day. The Treatment Plant's water source
8 is well water. Water is pumped from four wells and treated. Treated water is delivered
9 to Bracken District and Augusta at master meters located within the immediate vicinity of
10 the Treatment Plant. The Treatment Plant is not responsible for the transmission of water
11 from the Treatment Plant site. The Treatment Plant has three operators. Various
12 departments of the City of Augusta provide additional services to the Treatment Plant.

13 **Q. Does Augusta operate its own water distribution system?**

14 A. Yes. Augusta operates a water distribution system that serves approximately 569
15 retail customers. Its system is composed of 8.71 miles of distribution mains and 0.76
16 miles of transmission mains.⁹ It employs four persons who are responsible for the
17 operation of the distribution system. Augusta also operates a natural gas distribution
18 system and a wastewater collection and treatment system.

19 **Q. How many times has Augusta adjusted the rate assessed for water provided by the**
20 **Treatment Plant?**

21 A. Since 2000 Augusta has adjusted its wholesale rate for water 12 times, generally
22 each year.

⁹ See Kentucky Infrastructure Authority, *Kentucky Water Management Plan* (Feb. 5, 2015) at 200, available at http://wris.ky.gov/downloads/wmp/2015_Water_Management_Plan_Final.pdf (last visited Aug. 25, 2015).

1 **Q. How many times has the PSC conducted a hearing on the proposed rate revisions?**

2 A. To my knowledge, prior to the proceeding, the PSC has held only one proceeding
3 on a revision to the Treatment Plant's rate. That proceeding was PSC Case No. 98-497.
4 PSC Staff conducted a review of the proposed rate adjustment and made findings and
5 recommendations, which the PSC adopted in its Order of July 14, 1999. After granting
6 Bracken District's and Augusta's joint application for rehearing, the PSC amended that
7 Order and established to establish a rate of \$1.30 per 1,000 gallons. The PSC has not
8 conducted any proceedings on any rate revisions that Augusta has made since that time.

9 **Q. What is the Treatment Plant's current rate?**

10 A. Augusta currently assesses a rate of \$1.83 per 1,000 gallons and a capital cost
11 charge of \$6,090 per month.

12 **Q. What rate does Augusta propose to charge?**

13 A. It proposes to charge a rate of \$1.95 per 1,000 gallons and to continue charging
14 the capital cost charge of \$6,090.

15 **Q. What is Bracken District's position regarding this proposed rate?**

16 A. Bracken District opposes the rate adjustment. Based upon the Treatment Plant's
17 operations for the period from July 1, 2013 through June 30, 2014, Bracken District
18 believes that rate for service should be based upon total annual revenue requirement of
19 \$366,865. Using the rate formula set forth in the Contract and assuming that Bracken
20 District's total water purchases for the test period were 164,627,400 gallons and the
21 Treatment Plant's total water sales were 214,653,400 gallons, then a rate of \$1.71 per
22 1,000 gallons is the appropriate rate. Bracken District believes that, because the
23 Modification Agreement has never been filed with the PSC, because the PSC never held

1 a hearing on the proposed increase in the capital cost charge from that set in the Contract
2 and because Augusta has failed to comply with the terms of that agreement, the monthly
3 capital cost charge should be \$5,041.39.

4 **Q. Please explain how Bracken District determined that a total annual revenue**
5 **requirement of \$366,865 should be used to determine the wholesale rate.**

6 A. Let me first state that I am not a financial analyst or a ratemaking expert. Bracken
7 District's employees and commissioners merely reviewed the Treatment Plant's reported
8 operating expenses for FY 2013-2014, which totaled \$417,778. Based upon that
9 examination, Bracken District believes that Augusta has overstated the Treatment Plant's
10 reasonable operating costs by \$50,000.

11 The overstatement of costs involves the following seven areas:

12 • **Allocation of Assistant City Clerk's Salary and Benefits to Treatment**
13 **Plant.** Augusta reports the Assistant City Clerk's total salary and benefits for FY 2013-
14 2014 was \$42,475.54.¹⁰ It has allocated \$36,104 - 85 percent of this amount - to the
15 Treatment Plant.¹¹ Augusta has allocated this portion of the Assistant City Clerk's salary
16 and benefits to the Treatment Plant since began its operations in 1996.¹² It acknowledges
17 this allocation is not based upon any study or analysis of the worked performed by the
18 Assistant City Clerk or any other Augusta employee, but was solely "an executive
19 decision" of Augusta's then-mayor.¹³ Augusta has not performed any time studies or
20 detail analyses since that time to confirm the accuracy of this executive decision.¹⁴ It has

¹⁰ Bracken District Notice of Filing, Exhibit 3 at 13.

¹¹ \$42,475 x .85 = \$36,104.

¹² Augusta's Response to Bracken District's First Request for Information, Item 12.

¹³ Augusta's Response to Bracken District's Second Request for Information, Item 14(c).

¹⁴ *Id.* at Item 14(e); Augusta's Response to Bracken County Water District Third Request for Information, Item 10.

1 acknowledged that 85 percent of the Assistant City Clerk’s work hours are not spent
2 performing duties for the Treatment Plant.

3 Following the initiation of this proceeding, Augusta defended this allocation as a
4 proxy for all services that Augusta provided to the Treatment Plant. It reported that its
5 employees spend 34 hours of each work week or 85 percent of a 40-hour work week
6 supporting the Treatment Plant.¹⁵ It prepared an exhibit (“Exhibit 13”) that purports to
7 represent the nature of these services and the employee or city department that provided
8 the service.¹⁶ This exhibit is based upon employee interviews conducted on or about
9 March 23, 2015.¹⁷

10 Bracken District believes that the proposed allocation is inconsistent with the
11 provisions of the Contract and should not be accorded any weight. The Contract required
12 Augusta to establish an accounting system to facilitate the identification of costs actually
13 incurred. Despite operating the Treatment Plant for 19 years, Augusta has failed to
14 establish any system to the cost of services that it provided. The sole basis for the
15 allocation is its Exhibit 13. Exhibit 13 is not based upon any time study. It is based
16 solely upon employee estimates, is not supported by documentary evidence such as time
17 records, and prepared in response to litigation to justify a predetermined position.

18 According to Exhibit 13, Augusta’s City Clerk and Assistant City Clerk (“the
19 Clerks”) each estimate that she spends 14 hours weekly on matters related to the
20 Treatment Plant. This means that each employee spends more than one-third of their
21 normal work week on Treatment Plant matters.

¹⁵ Augusta’s Response to Bracken County Water District First Request for Information, Item 13.

¹⁶ *Id.* at Exhibit 13.

¹⁷ Augusta’s Response to Bracken County Water District Second Request for Information, Item 15(d).

1 Given the Clerks' wide range of duties and number and nature of the city
2 departments that they support, this estimate does not appear realistic. Among the many
3 duties that the City Clerk and Assistant City Clerk ("Clerks") perform are preparing the
4 payroll and maintaining the personnel records for Augusta's employees; preparing,
5 collecting and recording bills for Augusta's sewer, water and natural gas systems;
6 preparing and issuing bills for Augusta's various fees and taxes and recording their
7 payments; recording and payment of bills and invoices for all city departments, and
8 preparing budgets for all city departments.

9 As shown below, a comparison of the Treatment Plant with the other city
10 departments and with the duties that the Clerks perform for those respective departments
11 does not support their claim that 35 percent of their time is devoted to supporting the
12 Treatment Plant.

13 - Expenditures. For FY 2013-2014, the Treatment Plant's total operating
14 expenses (excluding depreciation expense) were \$417,778. By contrast, Augusta's other
15 departments had total operating expenses (excluding depreciation expense) of
16 \$2,018,504. Therefore, the Treatment Plant represented only 17 percent of Augusta's
17 total operating expenses (excluding depreciation expense) for FY 2013-2014.

18 - Employees. As of June 30, 2014, Augusta had 44 employees.¹⁸ The
19 Treatment Plant had only 3 full-time employees or approximately seven percent of
20 Augusta's employees.

21 - Customers. The Treatment Plant has only two customers – Bracken District
22 and Augusta's water distribution system. As of June 30, 2014, Augusta's water
23 distribution system had 571 billed customers; Augusta's sewer operations had 548

¹⁸ *Id.* at Item 1.

1 customers; and Augusta's gas distribution system had 434 customers. The Treatment
2 Plant, therefore, had less than 0.1 percent of Augusta's utility customers with whom the
3 Clerks had to deal.

4 - Bills. Annually the Clerks issued 12 invoices for the services that the
5 Treatment Plant performed. All of these invoices are issued to Bracken District.
6 Assuming that the Clerks issue combined bills to the customers of Augusta's other utility
7 operations, they issued at a minimum 6,876 bills annually.¹⁹ This number is 573 times
8 greater than the number of bills issued and processed for the Treatment Plant. Assuming
9 that every bill also represents a potential customer complaint or inquiry, the Clerks were
10 573 times more likely to have to deal with customer complaints from non-Treatment
11 Plant customers than Treatment Plant customers. This billing comparison does not
12 include the 640 tax bills that the Clerks were responsible for collecting during the same
13 period.²⁰

14 - Purchase Orders. Augusta estimates that the Clerks handle approximately
15 1300 for all departments.²¹ Based upon the entries in the Treatment Plant's Expense
16 Register for FY 2013-2014, it appears that the Treatment Plant received and paid
17 approximately 196 invoices during that year. This amount represents approximately 15
18 percent of all invoices that the Clerks' processed during FY 2013-2014.

19 The above comparison suggests that the Clerks devote a much smaller amount of
20 their work hours performing duties in support of the Treatment Plant than Exhibit 13
21 suggests. Bracken District suggests only 25 percent of the Assistant Clerk's salary be

¹⁹ This number assumes that all gas and sewer utility customers also receive water service. 573 water bills x 12 months = 6,876 bills.

²⁰ Augusta's Response to Bracken County Water District Second Request for Information, Item 7.

²¹ *Id.* at Item 17.

1 used as a proxy for the services that other city departments may have provided to the
2 Treatment Plant. This lower amount recognizes that Augusta should be compensated for
3 these services, but also takes into account that Augusta was required by the Contract to
4 develop a procedure to accurately account for the cost of these services, was in the best
5 position to develop such procedures, and chose not to do so. It, not Bracken District,
6 should be required to bear any burden for its failure to develop the required procedures.
7 This action would result in a decrease of \$25,485 to Salaries and Benefits Expense.²²

8 • **Incorrectly Allocated Chemical Costs.** A review of the invoices for
9 chemical costs incurred during FY 2013-2014 showed that chemical purchases of \$9,773
10 were incorrectly allocated to the Treatment Plant. These chemicals were acquired and
11 used at Augusta's wastewater treatment plant. Augusta has acknowledged the error.²³

12 • **Failure to allocate a portion of Operators' Salaries for duties that benefit**
13 **only Augusta's water distribution system.** Augusta reported that two of the Treatment
14 Plant's operators, Shane Mains and John Olson, collected water samples to determine the
15 water quality of the water provided through Augusta's water distribution system. It states
16 that approximately one hour of each day is expended in the collection of these samples.²⁴
17 These collection activities provide no benefit to the Treatment Plant, but are rather part of
18 Augusta's obligation as the operator of a water distribution system. According, the
19 portion of these employees' wages devoted to this activity should not be allocated to the
20 Treatment Plant, but instead to Augusta's water distribution system. Using an average of

²² Assistant City Clerk's Total Salary and Benefits = \$42,475.54. Augusta's Proposed Allocation = .85 x \$42,475.54 = \$36,104.21. Bracken District's Proposed Allocation = .25 x \$42,475.54 = \$10,618.81. Total Reduction in Salaries and Benefit Expense = \$36,104.21 - \$10,618.81 = \$25,485.40.

²³ *Id.* at Item 20.

²⁴ Augusta's Response to Bracken County Water District First Request for Information, Item 2a.

1 Mr. Mains' and Mr. Olson's hourly wage rates (\$11.72)²⁵ and assuming that one hour of
2 time is employed each day to take water samples for Augusta's water distribution system,
3 it appears that \$4,278²⁶ of wages and salaries were incorrectly assigned to the Treatment
4 Plant.

5 • **Inclusion of an operator pay increase.** On December 18, 2013, Augusta
6 increased the hourly wage rate for Shane Mains by \$1.00 as a result of Mr. Mains
7 obtaining his distribution system operator's license.²⁷ The increase was unrelated to Mr.
8 Mains' performance as a water treatment plant operator and appears due to the benefit
9 that Augusta's distribution system receives by having an additional licensed distribution
10 system operator on its staff. The increase wages, therefore, should be assigned to
11 Augusta's water distribution system and not to the Treatment Plant and that \$1,040²⁸
12 should be removed from the Treatment Plant's operating costs.

13 • **Misallocation of worker's compensation premium.** For FY 2013-2014,
14 Augusta assigned \$18,615.41 to the Treatment Plant's Salaries and Benefits for the
15 purchase of workers compensation insurance from the Kentucky League of Cities
16 ("KLC"). This amount fails to reflect refunds that Augusta received from KLC during
17 FY 2013-2014. On January 22, 2014, Augusta received a refund of \$786.60 from KLC
18 for workers compensation insurance. While Augusta recorded the receipt of this refund
19 in its Expense Register, it did not credit Salaries and Benefits Expense to reflect this
20 refund. By failing to credit the Salaries and Benefits Expense, Augusta has overstated
21 Salaries and Benefits Expense by \$786.60.

²⁵ $\$11.22 + \$12.22 = \$23.44$. $\$23.44 \div 2 = \11.72

²⁶ $\$4,278 = \$11.72/\text{hour} \times 1 \text{ hour} \times 365 \text{ days}$.

²⁷ Augusta's Response to Bracken County Water District First Request for Information, Item 3(a).

²⁸ $\$1,040 = \$1 \times 40 \text{ hours/week} \times 26 \text{ weeks}$.

1 The cost assignment also overstates the cost of workers' compensation insurance
2 coverage by including premiums for non-water treatment plant employees. The
3 premiums for workers compensation insurance are based upon the employees' salaries
4 and job classification. KLC used total salaries or payroll of \$174,650.55 to determine the
5 portion of premiums allocated to the Treatment Plant. This amount included the salaries
6 of five Public Works Department employees. Table I, which Augusta provided in
7 response to a request for information, reflects the names, salaries, and department of the
8 employees whose salaries were used to determine the cost of worker's compensation
9 insurance for the Treatment Plant. The salaries of the Treatment Plant employees total
10 only \$123,171.97, or approximately 70.52 percent²⁹ of the total salaries used to calculate
11 the premiums assigned to the Treatment Plant. Applying this percentage to the total
12 premium amount that KLC assigned to the Treatment Plant results in the amount of
13 workers compensation insurance premiums that should be assigned to the Treatment
14 Plant, which is \$12,572.87.³⁰

TABLE I			
Employee	Positions	Salary	Department
Susan Butts	Water Plant Superintendent	\$55,751.81	Treatment Plant
Shane Mains	Water Plant Operator	\$28,924.29	Treatment Plant
John Olson	Water Plant Operator	\$32,938.80	Treatment Plant
Summer Workers	Summer Help	\$ 5,557.07	Treatment Plant
Darian Blevins	Public Works Superintendent	\$19,213.80	Public Works
Mark Kiskaden	Utility Service Worker	\$13,632.21	Public Works
Rick Saunders	Utility Service Worker	\$10,734.99	Public Works
Troy Archibald	Utility Service Worker	\$ 7,897.58	Public Works

15 • **Franchise Fees.** During FY 2013-2014, Augusta assigned to the
16 Treatment Plant expenses of \$71,392.70 for electricity provided to the Treatment Plant's

²⁹ \$123,171.97 ÷ \$174,650.55 = 0.7052.

³⁰ (\$18,615.40 – \$786.60) x 0.7052 = \$12,572.87.

1 facilities. A review of the bills for electric service indicates approximately \$585.20 of
2 this amount was for franchise fees that Augusta assesses to Kentucky Utilities Company
3 (“KU”) and that KU then recovers as a separate line item on its electric bill.

4 Augusta was not required to pay these fees. KU’s Rate Schedule FF provides:
5 “At its option, a governmental body imposing a franchise fee shall not be billed for that
6 portion of a franchise fee, applied to services designated by the governmental body, that
7 would ultimately be repaid to the governmental body.” (A copy of this schedule is
8 attached to this Testimony as Exhibit E.) By failing to exercise this option, the Treatment
9 Plant incurred unnecessary expenses. As KU subsequently remitted all franchise fee
10 receipts to Augusta, Augusta actually paid no franchise fees.

11 • **Summer Youth Employment Wages.** During FY 2013-14, Augusta
12 assigned \$2,831.89 related to the wages for summer youth employees to the Treatment
13 Plant. This expense is related to a social program whose purpose is promote youth
14 employment and is not necessary or required for the Treatment Plant’s operation.
15 Augusta has not shown that these wages were necessary or that the services provided by
16 the summer employees could not have been performed by existing salaried employees
17 without additional cost.

18 **Q. Bracken District proposes that the monthly Capital Cost Charge should be reduced**
19 **from \$6,090 to \$5,041.39. State the reasons for this proposal.**

20 A. Our proposal is based upon several legal arguments that are better presented by
21 Bracken District’s legal counsel in Bracken District’s post-hearing brief. I will briefly
22 describe those arguments.

1 The Capital Cost Charge’s current level of \$6,090 is the result of the Modification
2 Agreement. That agreement requires Bracken District to pay a Capital Cost Charge
3 based upon an assignment of 75 percent of the Treatment Plant’s capacity to Bracken
4 District. Under the Contract’s terms, which the Modification Agreement sought to
5 revise, only 61.45 percent of the Treatment Plant’s capacity was assigned to Bracken
6 District and thus only 61.45 percent of the debt service payments related to the Treatment
7 Plant. The Modification Agreement is not legally binding and may not be used to
8 determine the level of the capital cost charge.

9 The Modification Agreement is not legally binding for three reasons. First, the
10 Modification Agreement has never been filed with the KPSC. Although executed in
11 2008, Augusta never formally filed the Agreement with the KPSC. It was Augusta’s
12 responsibility to file the Agreement with the KPSC.³¹ The Agreement specifically
13 contained new terms and rates for Augusta’s provision of wholesale water service to
14 Bracken District. The KPSC has previously held that if a municipal utility fails to file a
15 contract containing a rate or service provision with the KPSC, that contract has no legal
16 force.³² As the Modification Agreement has not been formally filed with the KPSC, it
17 may not serve as the basis for the capital cost charge.

18 Second, the KPSC has never conducted a hearing on the terms of the Modification
19 Agreement or the increased capital cost charge. KRS 278.200 provides:

20 The commission may, under the provisions of this chapter,
21 originate, establish, change, promulgate and enforce any
22 rate or service standard of any utility that has been or may

³¹ See Case No. 2001-230, *A Water Purchase Agreement between Kentucky-American Water Company and Winchester Municipal Utilities Commission* (Ky. PSC Oct. 19, 2001). See also Administrative Case No. 351, *Submission of Contracts and Rates of Municipal Utilities* (Ky. PSC Aug. 10, 1994).

³² See Case No. 2006-00072, *Alleged Failure of the City of North Middletown to Comply With KRS 278.160 And 278.180 and the Commission’s Order of August 10, 1994 in Administrative Case No. 351* (Ky. PSC Jan. 12, 2007).

1 be fixed by any contract, franchise or agreement between
2 the utility and any city, and all rights, privileges and
3 obligations arising out of any such contract, franchise or
4 agreement, regulating any such rate or service standard,
5 shall be subject to the jurisdiction and supervision of the
6 commission, but no such rate or service standard shall be
7 changed, nor any contract, franchise or agreement affecting
8 it abrogated or changed, until a hearing has been had before
9 the commission in the manner prescribed in this chapter.

10 Based upon this statute, the Kentucky Supreme Court has found that an existing contract
11 between a municipal utility and public utility for wholesale water service “can only be
12 abrogated or changed after a hearing before the PSC.”³³

13 Third, Augusta’s failure to comply with the terms of the Modification renders the
14 agreement void. Bracken District executed the Modification based in large measure on
15 Augusta’s representations that Bracken District would have a greater role in the
16 Treatment Plant’s management and operation. For example, the Modification Agreement
17 provides that “the [Water Supply] Advisory Board shall become more involved in the day
18 to day operations of the Treatment Plant. Augusta initially reconvened the Water Supply
19 Advisory Board in mid-2008 after Bracken District threatened to withhold payments if
20 the Board was not reconvened. While Augusta implemented some of its
21 recommendations, it subsequently refused to the support the Board or to permit Bracken
22 District a voice in the Treatment Plant’s operations. Augusta has acknowledged that the
23 Water Supply Advisory Board is no longer in existence.”³⁴

24 The Modification Agreement also refers to the establishment of a joint committee
25 to investigate the formation of a Water Supply Management Board which would increase
26 the involvement of Bracken District and Brooksville in the Treatment Plant’s operations.

³³ *Simpson County Water District v. City of Franklin*, 872 S.W.2d 460, 465 (Ky. 1994).

³⁴ Augusta’s Response to Bracken County Water District Third Request for Information, Item 14(b).

1 Augusta has stated that it can find no evidence that such committee was ever met.³⁵
2 Bracken District is not aware of an action by a joint committee.

3 Augusta has also refused to comply with Modification Agreement's provision that
4 Augusta provide Bracken District monthly with a copy of the Treatment Plant's
5 expenditures for the previous month. Augusta has not provided these monthly reports in
6 at least the last three years. In response to requests for information, Augusta cannot
7 verify the date in which it last provided the required monthly reports.³⁶ The
8 correspondence filed by Augusta in this proceeding indicates that Bracken District
9 repeatedly has been required to request information and threaten the withholding of
10 payment to obtain information regarding the Treatment Plant's operations.

11 Finally, Augusta has failed to comply with the Modification Agreement's
12 provision that deposits for the Treatment Plant's Reserve Depreciation Fund be placed in
13 a separate bank account and that no withdrawals be made without the approval and
14 signature of the Mayor of Augusta and Bracken District's Chairman. Augusta did not
15 observe these provisions of the Agreement but has made withdrawals from the account
16 without Bracken District's consent in violation of the Modification Agreement.

17 Bracken District takes the position that, to the extent that Augusta has failed to
18 comply with the Modification Agreement's provisions that induced Bracken District to
19 assume a greater share of the Treatment Plant's capacity, the remaining provisions of the
20 Modification Agreement which favor Augusta and were clearly to Bracken District's
21 disadvantage should no longer be given any legal effect.

³⁵ Augusta's Response to Bracken County Water District First Request for Information, Item 50(a).

³⁶ Augusta's Response to Bracken County Water District Third Request for Information, Items 12 and 13.

1 Reducing Bracken District's capacity allocation to that set forth in the Contract
2 would reduce the monthly capital cost charge. This charge currently has two
3 components: a debt service component and a depreciation reserve fund component.
4 Based upon the average of the Treatment Plant's debt service payments for the years
5 2016 through 2018, the Treatment Plant has an annual debt service requirement of
6 \$89,029. Applying the 61.45 percent allocation to this amount produces an annual
7 obligation of \$54,709 or a monthly obligation of \$4,559. Augusta is currently obligated
8 to make monthly payments of \$785 to its depreciation reserve fund until it reaches
9 \$94,200. If the 61.45 percent allocation is applied to this amount, then Bracken District
10 would make monthly payments of \$482.39. Adding these two components produces a
11 monthly capital cost charge of \$5,041.39.

12 **Q. Are you aware that Augusta has requested recovery of its rate case expenses?**

13 A. Yes.

14 **Q. What is Bracken District's position regarding recovery of these expenses?**

15 A. Bracken District recognizes that a utility is generally entitled to recovery of its
16 reasonable rate cases. In this case, however, Augusta's failure to comply with key
17 provisions of the Contract and Modification Agreement render its rate case expenses
18 unreasonable and preclude their recovery. Furthermore, Augusta's failure to give proper
19 notice of its request for rate case expenses requires denial of those expenses.

20 Section 7B of the Variable Rate Schedule of the Contract provides: "The
21 wholesale user shall be notified at least sixty (60) days in advance of the revised
22 wholesale billing rate for each next succeeding fiscal year. The notification shall include
23 a copy of the computation and cost review formula used for revising the fiscal year

1 wholesale rate charge.” This advanced notice provides the wholesale customer (Bracken
2 District) time to review the calculations, request supporting documentation, and, if
3 necessary, engage in discussions with Augusta regarding the proposed rate adjustment.

4 Augusta did not provide the required 60-day notice. On about January 5, 2015, it
5 mailed notice of its proposed rate adjustment to Bracken District. It filed a revised tariff
6 sheet with the PSC on January 8, 2015 in which it proposed to place its proposed rate into
7 effect on February 11, 2015, less than 60 days after providing written notice to Bracken
8 District.

9 Augusta’s action followed a familiar pattern. As Table II shows, Augusta has
10 routinely failed to comply with the Contract’s notice provisions when revising its
11 wholesale since the execution of the Modification Agreement in 2008.

Year	Date of Notice	Effective Date of Revise Rate	Days Advanced Notice
2015	01/05/2015	02/11/2015	36
2014	01/20/2014	02/26/2014	37
2013	12/11/2012	01/19/2013	39
2012	11/18/2011	12/27/2011	29
2010	12/01/2009	01/08/2010	37
2008	09/23/2008	10/30/2008	37

12 Augusta’s failure to comply with the notice provisions of the Contract deprived
13 Bracken District the opportunity to fully examine the basis for the proposed revision and
14 to engage in settlement discussions that may have negated the need for the current rate
15 proceeding. Bracken District requested substantiation of the proposed revision on
16 January 12, 2015. Augusta did not provide the requested documents until January 30,
17 2015. Augusta’s proposed effective date prevented any additional discovery or any

1 discussions and required Bracken District to request a formal proceeding to protect its
2 rights.

3 Augusta's failure to provide monthly reports of expenditures also contributed to
4 this situation. Paragraph 6 of the Modification Agreement provides: "The Mayor of
5 Augusta agrees to provide to Bracken District a copy of all monthly expenditures for the
6 Treatment Plant by the 15th of the following month." Had Augusta complied with this
7 provision, Bracken District would have had a clear picture of the Water Treatment Plant's
8 financial operations and could have immediately engaged in discussions regarding the
9 proposed rate. Moreover, it would have eliminated the need for some of Bracken
10 District's discovery requests.

11 Augusta also failed to provide proper notice of its intent to seek recovery of its
12 rate case expense. Its revised tariff sheets, which it filed with the KPSC on January 8,
13 2015, make no reference to the recovery of rate case expenses. Its notice of proposed rate
14 adjustment to Bracken District is also silent regarding the recovery of rate case expenses.
15 Augusta has taken no action to amend its proposed rates to recover rate case expenses.
16 Recently, in Case No. 2014-00392,³⁷ a case involving a municipal utility's request to
17 increase its wholesale water service rates, the KPSC held that a municipal utility's failure
18 to state its intent to seek recovery of its rate case expense in its notice to its wholesale
19 customers and its failure to amend its application to request such recovery barred the
20 municipal utility from recovering its rate case expense. The holding of that case is
21 applicable to this case.

³⁷ Case No. 2014-00392, *Proposed Adjustment of the Wholesale Rates of the City of Danville* (Ky. PSC Aug. 13, 2015).

1 Q. Does this complete your testimony?

2 A. Yes.

EXHIBITS

<u>Exhibit</u>	<u>Description</u>
A	Water Purchase Contract (Mar. 4, 1993)
B	Water Purchase Contract - Addendum 1 (Apr. 26, 1995)
C	Settlement Agreement (Nov. 5, 1999)
D	Water Purchase Contract Modification Agreement (May 15, 2008)
E	Kentucky Utilities Company Rate Schedule FF: Franchise Fee Rider

EXHIBIT A

for witness file

RECEIVED
JUN 24 1996

WATER PURCHASE CONTRACT

This Contract for the sale and purchase of water is entered into as of the 4th day of MARCH, 1993, by and between The City of Augusta, Kentucky, hereinafter referred to as "First Party," and Bracken County Water District #1, Brooksville, Kentucky, hereinafter referred to as "Second Party,"

WITNESSETH: Whereas, The City of Augusta, Kentucky, is a duly incorporated City in the Commonwealth of Kentucky, and

Whereas Second Party, Bracken County Water District #1, is a duly organized Water District, pursuant to provisions of Chapter 74, Kentucky Revised Statutes, for the purpose of constructing and operating a water supply distribution system, serving water users within the area described in plans now on file in the office of the Commonwealth of Kentucky Utility Regulation Commission, and

Whereas, First Party now furnishes its own water via certain wells and

Whereas, Second Party in addition to operating its present water purification and treatment plant (hereinafter referred to as "plant"), also furnishes its own water via certain wells and supplies purified water to its own water customers and users, and to the City of Brooksville, Kentucky and Western Bracken County Water District, and

Whereas, all parties hereto agree that the present water supply and purification systems owned and operated by the parties is inadequate to supply present and future needs of the parties hereto, and

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OF KENTUCKY
OFFICE

JUL 27 1996

Whereas, First Party intends to construct a water treatment and purification Plant (hereinafter referred to as "New Plant") to be financed by a loan made or insured by, and for the purpose of supplying adequate amounts of purified water for use by the customers of the parties hereto, and

PURSUANT TO 807 KAR 5011.
FOR THE PUBLIC SERVICE COMMISSION

Whereas, it is the desire and intention of the parties to enter into a relationship as Seller and Purchaser and to share in the costs of constructing and operating said New Plant, and

Whereas, this can best be accomplished by the parties entering into this new Contract which shall supersede all previous contracts and agreements between the parties hereto;

Now, therefore, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth, the parties hereto do hereby contract and agree as follows:

1.) First Party shall, subject to obtaining financing satisfactory to First Party, construct, own and operate said New Plant, the lines appurtenant thereto and the source of the water. Said New Plant, lines and water source shall be constructed pursuant to plans and specifications prepared by Mayes, Sudderath and Etherage Consulting Engineers, Inc., for First Party.

2.) First Party shall furnish to Second Party, at its existing clear well on the Augusta-Berlin Road, during the term of this Contract or any renewal or extension thereof, potable treated water meeting applicable purity standards of the PUBLIC SERVICE COMMISSION OF KENTUCKY Department of Health in such quantity as may be required by Second Party, not, however, to exceed the quota specified in Paragraph No. 6 hereof.

3.) First Party shall establish an accounting system, pursuant to generally accepted accounting procedures, which shall facilitate the identification of costs actually incurred in calculating the costs per One Thousand (1,000) gallons of producing and delivering water to Second Party and First Party shall be responsible for operation of said New Plant in accordance with all applicable laws and regulations and this contract.

4.) Second Party shall continue to own and operate, at said points of delivery, the necessary metering equipment, including meter houses or pits, and required devices of standard type for properly measuring the quantity of water furnished by First Party to Second Party. Said meters shall be checked and calibrated at the expenses of the owner of said meters, by a qualified agent, satisfactory to all parties hereto, at least once every twelve (12) months. A meter registering not more than two percent (2%) above or below the test results shall be deemed to be accurate. The previous reading of any meter disclosed by the test to be inaccurate shall be corrected for the six (6) months previous to such test in accordance with the percentage of inaccuracy

JUL 24 1996
PURSUANT TO 807 KAR 5.011, SECTION 9(1)
BY: *[Signature]*
FOR THE PUBLIC SERVICE COMMISSION

found by such tests. If any meter fails to register for any period, the amount of water furnished during such period shall be deemed to be the amount delivered in the corresponding period immediately prior to the failure, unless First Party and the owner of said meter shall agree upon a different amount. The metering equipment shall be read by First Party and the Second Party on or about the 15th day of each month.

5.) First Party shall furnish to Second Party not later than the 5th day of each month an itemized statement of the amount of water furnished during the preceding month. Second Party shall pay First Party, not later than the 15th day of each month for water delivered by First Party during the preceding month. The rate at which Second Party shall pay First Party for said water is to be determined pursuant to the Variable Rate Schedule, attached hereto and made a part hereof.

6.) First Party will, at all times, operate and maintain in an efficient manner and will take such action as may be necessary to furnish to Second Party the quantities of water required by it, not, however, to exceed 61.45 percent (61.45%) of the 1,440,000 gallon per day design capacity of said New Plant of the actual production capacity of said New Plant, whichever is less.

First Party shall be entitled to the remainder of the production of said New Plant.

Temporary or partial failures to deliver water shall be remedied with all possible dispatch. In the event of raw water available to said New Plant is diminished over an extended period of time or in the event that production capacity of said New Plant is substantially diminished or reduced over an extended period of time resulting in inability of said New Plant to produce the quantity of purified water required by the parties hereto, the supply of water to each party hereto shall be reduced or diminished in that same ratio or proportion as set out in this item, above. In the event said New Plant is operating at normal capacity and a sufficient supply of raw water is available to operate said New Plant at normal capacity, no party hereto shall exceed its allocated capacity or quota if such excess shall result in a reduction of supply of the actual

PURSUANT TO 807 KAR 5011,
SECTION 9 (1)
BY Jordan C. Neal
FOR THE PUBLIC SERVICE COMMISSION
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amount of purified water set aside, above for the other party and at the time required by the other party hereto. Failure of pressure to the main supply, line breaks, power failure, flood, fire, earthquake, or other catastrophes shall excuse First Party from complying with those terms of this Agreement for supply of water or pressure until such time as the cause of the reduction of pressure or supply or water has been removed or remedied; provided, however, that such purified water, if any, as is produced and/or available for distribution during such emergencies or catastrophes shall be made available to each party hereto in the same percentage or proportion as water is normally supplied to each party. In the event that the customers of any party hereto require unusually large quantities of water for a period of time not to exceed Twenty-four (24) hours, for the purpose of extinguishing unusual and extreme fires, First Party shall have the right, but not the obligation, to supply said water to the party whose customers so require said water, even though the same may result in diminished or terminated service of water to all parties hereto.

7.) This Contract and Agreement shall become effective upon the date of delivery of the bonds financing the New Plant to the purchaser of said bonds, and shall continue for a term of Forty (40) years from said date or for the life of the New Plant, whichever is longer, and, thereafter, may be renewed or extended for such term or terms as may be agreed upon by the parties hereto.

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8.) This Contract and Agreement is subject to such rules, regulations, or laws, as may be or become applicable to similar agreements in the Commonwealth of Kentucky, and the parties hereto will collaborate in obtaining such permits, certificates, or the like, as may be required to comply therewith.

PURSUANT TO 807 KAR 50.11, SECTION 19.011
BY: Andrew C. Zittel
FOR THE PUBLIC SERVICE COMMISSION

9.) The construction of the New Plant by First Party is being financed by a loan made or insured by, and/or a grant from The United States of America, acting through the Farmers Home Administration of the United States Department of Agriculture, and this Contract and Agreement shall not be legally binding upon any party hereto until approved, in writing, by the appropriate officers or employees of the said Farmers Home Administration.

10.) Beginning on the effective date of this Contract, Bracken County Water District #1, shall pay to First Party monthly capital costs of Three Thousand Six Hundred and Forty Eight per month, to be adjusted based on actual sale of the bonds of the New Plant and subsequently adjusted to reflect the retirement of the bonds, in addition to the "cash operation and maintenance expense", "the capital costs of replacement factor," and the "meter and billing charge," specified in the Variable Rate Schedule attached hereto and made a part hereof. Said monthly payments, as the same may be modified pursuant to the terms of the Variable Rate Schedule, shall continue throughout the term of this Contract.

11.) The "wholesale billing year rate" charges, included in the Variable Rate Schedule provides for variable charges based on demonstrable costs to First Party for providing purified treated water to Second Party, during First Party's "operating year," which should provide sufficient time to obtain the annual audit of First Party's financial records by a Certified Public Accountant. The "wholesale billing year rate" charges to Second Party will remain fixed during each "wholesale billing year" and until modified pursuant to the Variable Rate Schedule attached hereto.

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12.) Any successor to any party hereto shall succeed to the obligations, rights and duties of its predecessor as set forth in this Contract or any amendments.

PURSUANT TO 807 KAR 5011,
SECTION (1)
BY: Jordan C. Neel
FOR THE PUBLIC SERVICE COMMISSION

13.) In the event that any party hereto shall increase its requirements for purified water to the extent that its water requirements exceed its quotas established herein, or in the event that any party hereto requires or desires additional capacity for production of purified water, the party hereto requiring or desiring said additional capacity shall have the right to:

- A) Pay all costs of expansion of the capacity of said New Plant, in which case the party paying said expansion costs shall be entitled to the benefit of all increased production capacity resulting from said expansion; and/or
- B) Continue to purchase water under this Contract to its allocated capacity and obtain additional purified water from other sources.

14.) A.) In the event that said New Plant shall become inadequate

to serve the needs of the parties hereto due to government regulations, technological or physical obsolescence, or because all parties hereto require purified water in excess of their allotted capacities established in Paragraph No. 6 hereof, the parties hereto agree that said Plant shall be improved, expanded or replaced, and that all parties hereto shall participate in the cost thereof and that this Contract shall then be renegotiated, so that all parties shall share in the capital costs involved in said improvement, expansion, or replacement in addition to continuing to pay their proportional parts of the capital costs of the said New Plant until the bonds sold to finance the same are paid in full.

B.) If any water quality problem is identified within any utility system purchasing from the plant and the Kentucky Division of Water determines that adjustments at the water plant are required to remedy the particular problem, then first party agrees to comply as required by the Kentucky Division of Water
15.) Each party acknowledges that it currently owns and operates it own wells, with First Party having 2 such wells and Second Party having 5 such wells.

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In addition, Second Party owns and operates a certain water main from its existing wells to the clear well on the Augusta Berlin Road.

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PURSUANT TO 807 KAR 5011,
SECTION 9(1)

BY: Jordan C. Neal
FOR THE PUBLIC SERVICE COMMISSION

First Party may lease from Second Party, for the sum of \$1.00 for the term hereof, its wells and main supply line and shall fully and completely maintain said wells and main line.

Additionally, those wells now owned by First Party may be connected to the New Plant and used exclusively for the production of water for the New Plant.

16.) First Party agrees that all books and records and bank accounts regarding the New Plant will be kept separate and apart from other business of First Party and further, that First Party will appoint a Water Supply Advisory Board (hereinafter referred to as Board) which Board shall consist of 1 person from the City of Augusta, one person from the City of Brookville, and one person from the area now served by Bracken County Water District #1, each member shall be appointed from a list submitted by the governing body of the applicable utility served.

Said Board shall have full access to the records of the New Plant and shall recommend to the Mayor and City Council of First Party such changes as may, from time to time, be needed or required.

Said Board shall also submit a list of candidates for the Auditing Firm for the annual audit and personnel necessary to operate the New Plant, from which list said employees and/or auditors shall be selected except for good cause shown.

Terms of the members of the Board will be 3 years beginning July 1, 1993.

The first appointees will be appointed for staggered terms of 1 to 3 years as determined by lot so that all members of the Board are not reappointed at once.

Board members will not be paid a salary but will be reimbursed for reasonable expenses directly related to the operation of the New Plant.

Board members will be strongly encouraged to attend Division of Water training sessions regarding compliance with the Safe Drinking Water Act.

17.) In the event of the termination or revocation of this agreement due to any circumstances, equity in the New Plant shall be determined in the same percentage that debt service was paid, that is, if First Party has paid 37.5 percent of debt service, then First Party will be entitled to 37.5 percent of equity, etc. etc.

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JUL 2 - 1996

18.) The parties agree that Second Party will execute a contract for the sale of water to the City of Brooksville and said contract once executed, will guarantee the City a percentage of Second Party's allocation of production and of Second Party's equitable interest.

PURSUANT TO 807 KAR 5.011,
SECTION 3(d)
BY: Arden C. Hill
FOR THE PUBLIC SERVICE COMMISSION

A copy of the executed contracts will be appended hereto and incorporated herein by reference as shall each and every amendment to said contract.

The parties hereto understand and agree that this contract will be pledged as security to Farmer's Home Administration for the repayment of the above mentioned loan.

In witness whereof, the parties hereto, acting under authority of their respective governing bodies, have caused this Contract to be duly executed in ten (10) counterparts, each of which shall constitute an original.

CITY OF AUGUSTA, KENTUCKY
FIRST PARTY

BY: *Louis Habermehl Jr.*
LOUIS HABERMEHL JR., MAYOR

ATTEST:

Judy Bonar
JUDY BONAR
CITY CLERK

BRACKEN COUNTY WATER DISTRICT
SECOND PARTY

BY: *Michael H. Beaman*
Chairman

ATTEST:

Dana Cunningham

This contract is approved on behalf of the Farmers Home Administration, this *2nd* day of *JUNE*, 1993.

BY: *Jimmy H. Hall*
TITLE: *COMMUNITY AND BUSINESS DEVELOPMENT SUPERVISOR*

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PURSUANT TO 807 KAR 5011,
SECTION 9(1)

BY: *Jordan C. Keel*
FOR THE PUBLIC SERVICE COMMISSION

VARIABLE RATE SCHEDULE

SECTION 1: GENERAL

This variable rate schedule attachment is a part of and incorporated into the Water Purchase Contract made and entered into as of the 4th day of March, 1993, by and between the City of Augusta, Kentucky as First Party and Bracken County Water District #1, as Second Party.

SECTION 2: DEFINITIONS

Unless the context specifically indicates otherwise, the meaning of terms used in this rate schedule attachment (Section 4 (b)) shall be as follows:

- (a) "Seller" shall mean the City of Augusta.
- (b) "Purchaser" shall mean Bracken County Water District #1.
- (c) "Seller's operating year" shall mean the twelve months from July 1, through June 30.
- (d) "Wholesale billing rate year" shall mean a twelve month period commencing January 1 and ending the following December 31.
- (e) "Cash operation and maintenance expense" shall mean all operating expenses, excluding depreciation expenses, excluding capital costs of improvements, betterments, replacements, etc. and excluding debt service costs (principal and interest, paying agent's fees, sinking fund reserves, etc.) for the Seller's operating year as identified and recognized in the annual examination of the Seller's financial records, by the firm of Certified Public Accountants conducting the examination of the Seller's financial records for the most recent fiscal year. The rate shall be based on demonstrable costs to the Seller for providing treated water. The rate will be computed on the basis of the Seller's costs for the Seller's most recent fiscal year. The rate may vary from year to year depending upon demonstrable costs and an adjustment to the previous year's billings shall be made by the Seller to reflect actual costs within thirty (30) days of the receipt of the Audit report of the Seller's financial records.

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SECTION 9(1)
BY: Jordan C. Neal
FOR THE PUBLIC SERVICE COMMISSION

- (f) "Monthly payment date" shall mean a date established by the Seller whereby the Purchaser agrees to pay not later than the established date the charges for water furnished during the preceding month.
- (g) "Capital cost replacement factor shall mean the actual cost of replacements, additions and betterments paid by the Seller for the portions of the water plant set forth in the rate schedule attachments (Section 4 (b)).
- (h) "Capital cost" shall mean the portion of the actual average annual principal and interest payments of the Seller as specified in the rate schedule attachment as well as the debt service payments specified in the rate schedule attachment (Section 4 (b)).
- (i) "Cost review formula for revising wholesale rate charges" shall mean the formula, which appears in Section 4 of this rate schedule attachment.
- (j) "Total billed gallons" shall mean the total billed water consumption for all users serviced by the Seller during the Seller's most recent fiscal year.

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SECTION 3:

JUL 24 1996

INITIAL WHOLESAL BILLING RATE FOR THE PURCHASERS. PURSUANT TO 807 KAR 5:011.

- (a) The initial calendar year billing rate or wholesale charge to Bracken County Water District #1, for treated water shall be \$3648.00 per month in capital costs, plus 65 cents per 1,000 gallons.
- (b) It is agreed by and between the parties hereto that after the close of the initial calendar year, the actual rate to be charged by the Seller to the Purchaser for water purchased by the Purchaser during the initial calendar year shall be determined pursuant to the terms of this Variable Rate Schedule and any differences between said actual rate and the initial calendar year billing rate shall be rebated by the Seller to the Purchaser or paid to the Seller by the Purchaser, as the case may be, without interest, within sixty (60) days of said determination.

BY: *Jordan*
FOR THE PUBLIC SERVICE COMMISSION

SECTION 4:

MODIFICATION OF CONTRACT.

The provisions of this contract pertaining to the schedule of

rates to be paid by the Second Party for water delivered are subject to modification at the end of every 1 year period. any increase or decrease in rates shall be based on a demonstrable increase or decrease in the costs of performance hereunder, but such costs shall not include increased capitalization of the Saller's system. Other provisions of this contract may be modified or altered by mutual agreement.

SECTION 5:

COST REVIEW FORMULA FOR REVISING FISCAL YEAR WHOLESALE RATE CHARGES.

(a) Each wholesale billing rate year commencing on and after January 1, 19__ the Seller shall prior to October 1 of the prior year determine the rate or charges for wholesale water purchases for the next wholesale billing rate year based upon a calculation of the following demonstrable costs. Such costs shall be taken from the annual financial report of the Seller for the preceding operating year which has been examined by a firm of Certified Public Accountants.

(b) **COST REVIEW FORMULA FOR REVISING FISCAL YEAR WHOLESALE RATE CHARGES:**

1.) Cash operation and maintenance expense:

$$\text{Amount} \times \text{Percent} + \frac{\text{Total Billed Gals.}}{\text{(In thousands)}} = \text{Rate per 1,000 Gals.}$$

Water Utility operating exp. \$ _____ x _____ % + _____ = \$ _____

General & adm. expenc \$ _____ x _____ % + _____ = \$ _____

Total rate per 1,000 gallons to Bracken #1 & Augusta \$ _____

*To be adjusted pursuant to annual audits

Plus,

<u>2.) Capital cost:</u>	<u>Bracken #1</u>	<u>Augusta</u>
Fixed capital charge per mon.*	\$ _____	\$ _____
Debt service reserve:		
Bond and Interest Account		
per month for _____ mos.	\$ _____	\$ _____
Depreciation Account		
per month for _____ mos.	\$ _____	\$ _____
TOTAL MONTHLY CHARGE	\$ _____	\$ _____

*To be adjusted based upon actual sale of the bonds.

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EFFECTIVE

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\$ PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

BY: Jordan C. Neal
FOR THE PUBLIC SERVICE COMMISSION

Plus,

3.) Capital cost replacement factor: Bracken #1

Percent of actual expenditure by Augusta for capital asset replacements to the Raw Water Intake, Water Treatment Plant, Any Altitude Value Vault, Any Storage Reservoir, Raw water Transmission Main or the Sludge Line to Sewage Treatment Plant, assuming funds for said expenditures are not available in the Depreciation Account.

Augusta
PUBLIC SERVICE COMMISSION
OF KENTUCKY
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PURSUANT TO 807 KAR 5011,
SECTION 9(1)

BY: Jordan C. Neel
FOR THE PUBLIC SERVICE COMMISSION

SECTION 6:

PROVISION TO MODIFY FORMULA FOR DETERMINING WHOLESALE WATER RATE CHARGE.

- (a) At the end of every five (5) year period either party to this Agreement may request that a special study be conducted by a firm of consulting engineers, certified public accountants, or other independent utility rate consultants to review the continuing applicability and equity of fiscal year charges determined on the basis of the formula outlined in Section 5, above. Provided, that all parties shall agree upon a consultant for this purpose.
- (b) The cost of such special study authorized in Section 6 (a) above will be borne by the party requesting such study or as may be agreed to by all parties.

SECTION 7:

BILLING PERIOD, MONTHLY PAYMENT DATE AND NOTIFICATION OF CHANGE IN WHOLESALE BILLING RATE.

- (a) The billing period and monthly payment date shall be as established by the Seller in accordance with any applicable laws, rules, regulations or procedures governing normal service and billing charges.
- (b) The wholesale user shall be notified at least sixty (60) days in advance of the revised wholesale billing rate for each next succeeding fiscal year. The notification shall include a copy of the computation and cost review formula used for revising the fiscal year wholesale rate charges.

SECTION 8:

RIGHT TO INSPECT OR OTHERWISE REVIEW SELLER'S FINANCIAL REPORTS AND RECORDS.

- (a) Upon request the Purchaser shall have the right to inspect or review the books and records of the Seller.
- (b) If desired, the Purchaser may request an independent audit of the books of the Seller as they pertain to the cost of treating and supplying water, and the parties shall agree upon a Certified Public Accountant for this purpose. The cost of such audit shall be borne by the Purchaser.

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OF KENTUCKY
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JUL 24 1996

PURSUANT TO 807 KAR 5011,
SECTION 9(1)

BY: Quentin B. Neal
FOR THE PUBLIC SERVICE COMMISSION

RESOLUTION OF BRACKEN
COUNTY WATER DISTRICT #1

A RESOLUTION APPROVING
WATER PURCHASE AND EQUITY
PURCHASE CONTRACT WITH THE
CITY OF AUGUSTA, KY.
RELATING TO THE WATER TREATMENT
PLANT PROJECT; TO SECURE
FMHA FINANCING

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

JUL 24 1996

PURSUANT TO 807 KAR 5011,
SECTION 9 (1)

BY: Jordan C. Neal
FOR THE PUBLIC SERVICE COMMISSION

WHEREAS, on February 2, 1993, FmHA issued a letter of condition regarding a loan of \$1,160,000, an FmHA grant of \$680,000 and a community development block grant of \$750,000; and

WHEREAS, in order to comply therewith, it is necessary to approve a Water Purchase and Equity Purchase Contract with The City of Augusta; and

WHEREAS, the Board of Bracken County Water District #1 has reviewed the attached Water Purchase Contract with the City of Augusta and finds same acceptable; and

WHEREAS, said Water Purchase and Equity Purchase Contract with the City of Augusta is believed to be in a form acceptable to FmHA;

NOW THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF BRACKEN COUNTY WATER DISTRICT #1 as follows:

The Water Purchase and Equity Purchase Contract with the City of Augusta, Kentucky, attached hereto and incorporated herein by reference is hereby approved and the Chairman of the Board of Bracken County Water District #1 is authorized to execute originals of same on behalf of Bracken County Water District #1 and same shall be forwarded to FmHA, Division of Water and The Public Service Commission, together with a certified copy of this ORDER.

Bracken County Water District Board

Michael H. Branam
Michael Branam

Jacob Bauer, Jr.
Jacob Bauer, Jr.

E. B. Kern
E. B. Kern

DATED: 3/4/93

MUNICIPAL ORDER
#93- 5

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

AN ORDER APPROVING
WATER PURCHASE CONTRACT
WITH BRACKEN COUNTY WATER DISTRICT #1
RELATING TO THE WATER TREATMENT
PLANT PROJECT; TO SECURE
FmHA FINANCING.

JUL 2 - 1996

PURSUANT TO 807 KAR 5.011,
SECTION 9(1)

BY: Jordan C. Meel
FOR THE PUBLIC SERVICE COMMISSION

WHEREAS, on February 2, 1993, FmHA issued a letter of condition regarding a loan of \$1,160,000, an FmHA grant of \$680,000 and a community development block grant of \$750,000; and

WHEREAS, in order to comply therewith, it is necessary to approve the Water Purchase Contract with Bracken County Water District #1; and

WHEREAS, the City Council has reviewed the attached Water Purchase Contract with Bracken County Water District #1 and finds same acceptable; and

WHEREAS, said Water Purchase Contract with Bracken County Water District #1 is believed to be in a form acceptable to FmHA;

NOW THEREFORE; IT IS HEREBY ORDERED BY THE CITY COUNCIL OF THE CITY OF AUGUSTA, KY as follows:

The Water Purchase Contract with Bracken County Water District #1 attached hereto and incorporated herein by reference is hereby approved and the Mayor is authorized to execute originals of same on behalf of the City of Augusta and same shall be forwarded to FmHA together with a certified copy of this order.

3/4/93
DATE

Jordan C. Meel
MAYOR, CITY OF AUGUSTA, KY.

Passed by Council Feb 17 1993

Attest: Mary J. Brown
City Clerk/Treasurer

ATTEST:

Michael H. Bean
Secretary

Dora Cunningham
Clerk

Michael A. Clark
ATTORNEY

DATED: 3-7-93

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

JUL 24 1996

PURSUANT TO 807 KAR 5.011,
SECTION 9 (1)

BY: Jordan C. Neel
FOR THE PUBLIC SERVICE COMMISSION

EXHIBIT B

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

JUL 27 1996

WATER PURCHASE CONTRACT
ADDENDUM #1

PURSUANT TO 807 KAR 5011,
SECTION 9 (1)

BY: *Jordan C. Neal*
FOR THE PUBLIC SERVICE COMMISSION

Whereas, the parties hereto previously entered into a water purchase contract dated March 13, 1993, and,

Whereas, said contract called for payment by Bracken County Water District #1 of \$3,648.00 in capital cost each month, and,

Whereas, the bids received will cause the capital outlay to be increased by a total of \$4,407.38, which funds are to be added to the FmHA loan and will require additional capital outlay to reduce the loan.

Now, therefore, the parties hereto agree that paragraph 10 of said Water Purchase Contract is hereby amended to reflect that Bracken County Water District #1 shall pay the sum of \$4,407.38 per month.

Further, the terms and conditions of this contract are subject to approval by all necessary governmental regulatory agencies.

All other terms and conditions of said contract not specifically changed hereby are ratified hereby and incorporated herein by reference.

4/26/95
DATE

James Habermehl
MAYOR, CITY OF AUGUSTA, KY

4/26/95
DATE

Michael A. Brown
CHAIRMAN, BRACKEN COUNTY
WATER DISTRICT #1

EXHIBIT C

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE)
WATER SERVICE RATES OF THE CITY OF) CASE NO. 98-497
AUGUSTA, KENTUCKY)

SETTLEMENT AGREEMENT

- I. That, based upon proof previously submitted by the City, the amount of water sold to Bracken County Water District during the test period was 204 million gallons, which results in the correct rate for that period being \$1.30 per thousand gallons.
- II. That, based upon documentation prepared and submitted by James Smith, C.P.A., the amount of undercharges owed the City by Bracken County Water District from 7-97 to 9-98 is \$114,383.00 and, also, that, in order to cover these undercharges the City has incurred and will incur interest expense.
- III. That the correct and fair method of dealing with these undercharges is by imposition of a surcharge by the City to the Bracken County Water District of 33 cents per thousand gallons, beginning 1/1/2000 and continuing until 12/31/2001 or until paid in full.
- IV. That the City shall keep an accounting of all surcharges actually paid by the District and shall report the amount already paid and balance due on a semiannual basis, on or before the end of the month following the semiannual period quarter beginning with the period ending 6/30/2000.
- V. In the future, the basis for calculation of rates shall be the fiscal year, beginning July 1st of each year and ending June 30th of the following year, effective with the fiscal year 7/1/98 through 6/30/99.
- VI. Given the requirements of an audit and of submission to and approval by P.S.C. of proposed rate increases in the future, rates charged by the City to Bracken County Water District shall become effective January 1st of the year following the test period fiscal year and shall continue in effect until December 31st of that year.
- VII. Future undercharges or overcharges due either party will be set out separately from the rate calculation and will be paid to the party due the same by virtue of a separate surcharge (if due the City) or setoff (if due Bracken County Water District).

City of Augusta

Bracken County Water District

by: Wendell Hix
Mayor

By: John E. Zanni
Chairman

11-5-99
Date

11-4-99
Date

Attest: Butcher England
City Clerk/Treasurer

Attest: Baxter Courts
Secretary

EXHIBIT D

WATER PURCHASE CONTRACT MODIFICATION AGREEMENT
OF 2008

Whereas, the parties hereto previously entered into a Water Purchase Contract dated March 13th, 1993 (Contract), and an Addendum thereto dated April 4th, 1995 (Addendum), and

Whereas, the parties have recently reevaluated the water usage of the parties, and determined that a more accurate representation of Augusta's water use is twenty-five (25%) percent of the total, and Bracken County's water use is seventy-five (75%) percent of the total production, and

Whereas the parties have recently discussed the requirement of depreciation reserves and agreed to be jointly responsible to bring the depreciation reserve to its required level in a fair and reasonable manner, and

Whereas the parties agree that it would be helpful to establish a managerial Water Supply Board; and

Whereas the parties agree that said agreement on such issues should be reduced to writing to reflect the intentions of the parties, and to jointly bind the parties

Now, therefore, the parties agree to modify said Contract and Addendum as follows:

1. In consideration of the mutual benefits derived by the parties hereto, Paragraph 6 of the Water Purchase Contract is hereby modified as follows:

First Party (Augusta) will, at all times, operate and maintain in an efficient manner and will take such action as may be necessary to furnish to Second Party (Bracken County) the quantities of water required by it, however, not to exceed 75.00 percent (75.00%) of the 1,440,000 gallon per day design capacity of said New Plant or of the actual production capacity of said New Plant, whichever is less. First Party (Augusta) shall be entitled to the remainder of the production (25%) of said New Plant. This percentage allocated to the parties shall be known as the "Capacity Percentage". However, the water usage of the individual parties shall be reviewed by the Auditor from year to year and should the usage of either party vary more than five (5%) percent up or down, from the 75/25 proportion

(or any adjusted proportion hereunder) for said audit year, each party's "Capacity Percentage" under this Paragraph 6 shall be adjusted in writing to reflect the percentage each party used during the audit year and this "Capacity Percentage" shall remain the same until said percentage shall vary up or down five (5%) percent or more in a later year.

2. Paragraph 10 of the Water Purchase Contract and said Addendum is hereby modified to provide that beginning May 1st, 2008, Augusta shall pay the sum of \$1833.75 in capital costs charges per month and shall pay the sum of \$196.25 per month for 36 months into the Capital Cost depreciation account; and beginning May 1st, 2008, Bracken County shall pay the sum of \$5501.25 in capital charges per month and shall pay the sum of \$588.75 per month for 36 months into the Capital Cost depreciation account. Both the capital costs and capital costs depreciation shown here in this Paragraph 2. were calculated using the "Capacity Percentage" referred to in Paragraph 1. above. The water usage of the individual parties shall be reviewed by the Auditor from year to year and should the "Capacity Percentage" referred to in Paragraph 1. above be adjusted then the capital costs and capital costs depreciation figures shall be adjusted for each party accordingly.

The parties understand that should the depreciation reserve funds be used to any extent so that the reserve account is reduced to below \$94,200.00 that each party shall be required to continue or once again commence the payments of \$588.75 and \$196.25 (total of the two payments being \$785.00) and to continue to make the monthly payments until the reserve account is funded to its required level (\$94,200.00). The parties also understand that the percentage of the \$785.00 required to be paid in by each may change depending on the "Capacity Percentage" as calculated in Paragraph 1. above.

3. The parties agree that the Depreciation Reserve account as required by Augusta Ordinance No. 2004-15 and as referenced in the Water Purchase Contract is under-funded \$85,211.00 at this time (under-funded \$94,200.00 pursuant to the terms of the new bonds as of 2018) and shall be jointly funded by the parties until said account is in compliance with contract requirements as follows:

As per the Auditor used by both parties, for the last seven years (2001-2007) Bracken County has averaged Seventy-Five (75%) percent ("Capital Percentage") of the water usage of the Plant's water production, Bracken County shall pay the sum of \$1375.83 per month into said Depreciation Reserve Account for the next thirty-six months, and as Augusta has averaged Twenty-Five (25%) percent ("Capital Percentage") of the water usage of the Plant's water production, Augusta shall pay the sum of \$458.61 per month into said Depreciation Reserve Account for the next thirty-six months; and after said thirty-six month period, each party shall pay into said account such amounts as are necessary to maintain compliance with the Depreciation Reserve Account requirements, and in the same proportions ("Capital Percentage") (i.e., as are set as of the date of the execution herein as being 75/25) as are used for payment of the respective parties of the

capital cost payments.

The balance of the present under-funded amount of \$85,211.00 (future amount to be \$94,200.00) which is being jointly funded is being paid in by the parties during the last 24 months that the \$588.75 and \$196.25 is being paid in under Paragraph 2. above.

Provided, however, that should the Auditor determine that either parties average water production use for the prior seven year period the Plant was operable (1993-2000) differs more than 5% than the 75/25 average for the past seven year period, payment for the first eighteen (18) months shall be as provided above, and payment by the parties for the remaining eighteen months (18) shall be made by each party in proportion to such other water production use percentage.

The parties agree that the Depreciation Reserve Account shall be set up at U.S. Bank in Augusta, Kentucky. The signature card shall include both the name of the Mayor of Augusta and the Chairman of Bracken County Water District. No funds shall be withdrawn, nor any check written on this account, unless and until Rural Development shall have approved the expenditure in writing and the withdrawal or check is signed by both the Mayor of Augusta and the Chairman of Bracken County Water District.

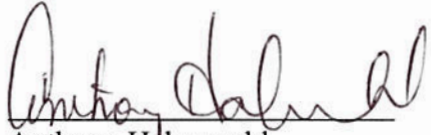
4. The yearly rate calculation performed by the Auditor shall continue to be calculated on actual usage of the parties and the method of rate calculation is not changed by this Water Purchase Modification Agreement but shall be as provided in the Water Purchase Contract and Order (dated February 14th, 2000) and Settlement Agreement (dated November 4th, 1999 and November 5th, 1999) entered in KY PSC Case No. 98-497.) . The yearly water rate calculation shall be based on the actual percentage of water use by each party for the audit year and shall not be determined by the "Capital Percentage" reflected in Paragraph 1. herein.

5. Paragraph 16 of the Water Purchase Contract provides for the establishment of a Water Supply Advisory Board, however, the parties wish to investigate the feasibility of increasing Bracken County's and Brooksville's involvement with the management of the Augusta Plant and also to increase general Plant efficiency through the possible future establishment of a Water Supply Management Board. This shall be further discussed by a joint committee established in May 2008 and comprised of a representative of Augusta, Bracken County and the City of Brooksville. It is the intent of the parties that the Advisory Board shall become more involved in the day to day operations of the Treatment Plant.

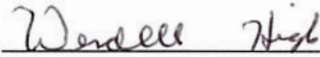
6. The Mayor of Augusta agrees to provide to the Bracken County Water District a copy of all monthly expenditures for the Treatment Plant by the 15th of the following month. (For example a copy of the expenditures for May of 2008 would be made available to the Water District by the 15th of June 2008.)

7. This Water Purchase Contract Modification Agreement is subject to such rules, regulations, or laws as may be applicable to similar agreements in the Commonwealth of Kentucky, and the parties hereto will collaborate in obtaining approval

of the appropriate officers or employees of the USDA. All other provisions of the Water Purchase Contract and the Addendum shall remain in full force and effect, except as are otherwise specifically modified or amended herein.



Anthony Habermehl
Chairman, Bracken County Water District



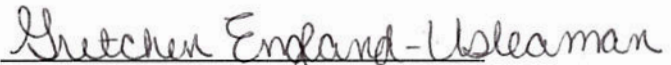
Wendell High
Mayor, City of Augusta

Attest:

Attest:



Diana Moran



Gretchen England Usleaman
Augusta City Clerk



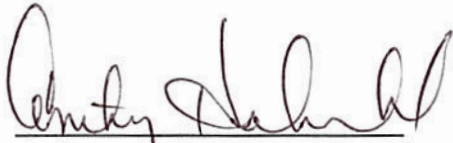
Cynthia Thompson, Attorney for City



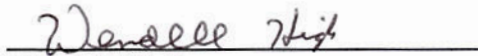
Michael Clark, Co. Attorney

The undersigned parties agree as follows:

1. As per the Auditor's calculations, the City of Augusta has underbilled the Bracken County Water District for water treatment plant expenses and for the cost of producing the water sold to it by the City of Augusta for fiscal years prior to and including the 2006-2007 fiscal year, as evidenced by transfers made from fiscal year 2005 to date by the Augusta City Clerk from other Augusta City Funds to the Water Treatment Plant Fund, said transfers being necessary to keep the plant running, and the amount of such undercharges and reimbursable costs and expenses properly apportioned to Bracken County Water District being \$84,750.00.
2. Such amount, (\$84,750.00) shall be payable by Bracken County ^{Water District} to the City of Augusta, at the rate of \$2354.17 per month, with the first payment to be made on May 1st, 2008 and the first of each month thereafter, until such amount is paid in full.
3. In the future the City of Augusta will present any undercharges or over-charges for the prior year's water charges, to the Bracken County Water District, as soon as possible, after the annual water treatment plant audit is completed.



Anthony Habermehl
Chairman, Bracken County Water District



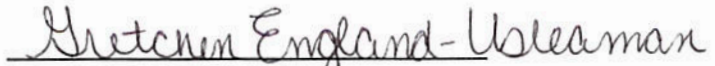
Wendell High
Mayor, City of Augusta

Attest:

Attest:



Diana Moran



Gretchen England Usleaman
Augusta City Clerk

EXHIBIT E

Kentucky Utilities Company**P.S.C. No. 17, Original Sheet No. 90****Adjustment Clause****FF
Franchise Fee Rider****APPLICABLE**

In all territory served.

AVAILABILITY OF SERVICE

Available as an option for collection of revenues within governmental jurisdictions which impose on Company franchise fees, permitting fees, local taxes or other charges by ordinance, franchise, or other governmental directive and not otherwise collected in the charges of Company's base rate schedules.

DEFINITIONS

Base Year - the twelve month period ending November 30.

Collection Year - the full calendar year following the Base Year.

Base Year Amount -

- 1) a percentage of revenues, as determined in the franchise agreement, for the Base Year; and
- 2) license fees, permit fees, or other costs specifically borne by Company for the purpose of maintaining the franchise as incurred in the Base Year and applicable specifically to Company by ordinance or franchise for operation and maintenance of its facilities in the franchise area, including but not limited to costs incurred by Company as a result of governmental regulation or directives requiring construction or installation of facilities beyond that normally provided by Company in accordance with applicable Rules and Regulations approved by and under the direction of the Kentucky Public Service Commission; and
- 3) any adjustment for over or under collection of revenues associated with the amounts in 1) or 2).

RATE

The franchise percentage will be calculated by dividing the Base Year amount by the total revenues in the Base Year for the franchise area. The franchise percentage will be monitored during the Collection Year and adjusted to recover the Base Year Amount in the Collection Year as closely as possible.

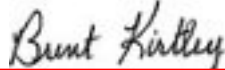
BILLING

- 1) The franchise charge will be applied exclusively to the base rate and all riders of bills of customers receiving service within the franchising governmental jurisdiction, before taxes.
- 2) The franchise charge will appear as a separate line item on the Customer's bill and show the unit of government requiring the franchise.
- 3) Payment of the collected franchise charges will be made to the governmental franchising body as agreed to in the franchise agreement.
- 4) At its option, a governmental body imposing a franchise fee shall not be billed for that portion of a franchise fee, applied to services designated by the governmental body, that would ultimately be repaid to the governmental body.

DATE OF ISSUE: July 10, 2015

DATE EFFECTIVE: May 26, 2013

ISSUED BY: /s/ Edwin R. Staton, Vice President
State Regulation and Rates
Lexington, Kentucky

KENTUCKY PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN EXECUTIVE DIRECTOR
TARIFF BRANCH

EFFECTIVE 7/1/2015
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

Kentucky Utilities Company

P.S.C. No. 17, Original Sheet No. 90.1

Adjustment Clause

FF
Franchise Fee Rider

TERM OF CONTRACT

As agreed to in the franchise agreement. In the event such franchise agreement should lapse but payment of franchise fees, other local taxes, or permitting fees paid by Company by ordinance, franchise, or other governmental directive should continue, collection shall continue under this tariff.

TERMS AND CONDITIONS

Service will be furnished in accordance with the provisions of the franchise agreement in so far as those provisions do not conflict with the Terms and Conditions applicable to Company approved by and under the direction of the Kentucky Public Service Commission.

DATE OF ISSUE: July 10, 2015
DATE EFFECTIVE: October 16, 2003
ISSUED BY: /s/ Edwin R. Staton, Vice President
State Regulation and Rates
Lexington, Kentucky

Issued by Authority of an Order of the
Public Service Commission in Case No.
2009-00548 dated July 30, 2010

KENTUCKY PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN EXECUTIVE DIRECTOR
TARIFF BRANCH <i>Brent Kirtley</i>
EFFECTIVE 7/1/2015 PURSUANT TO 807 KAR 5:011 SECTION 9 (1)