

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) CASE NO. 2015-00039
THE CITY OF AUGUSTA)

RESPONSE OF CITY OF AUGUSTA
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION MADE
JOINTLY TO THE CITY OF AUGUSTA, KENTUCKY
AND BRACKEN COUNTY WATER DISTRICT
DATED MARCH 16 2016

FILED: MARCH 29, 2016

CITY OF AUGUSTA

**Response To Commission Staff's First Joint Request For Information
March 16, 2016**

Case No. 2015-00039

Question No. 1

Witness: Doug Padgett

- Q-1.** Refer to the New Water Purchase Contract (“New Contract”) attached as Exhibit A to the Settlement Agreement and Stipulation, which is attached as Exhibit A to the Joint Motion for Approval of Settlement Agreement and Stipulation and Water Purchase Contract.
- a. Numbered paragraph 2 of the New Contract states that Bracken District is relinquishing any equitable ownership interest it may have in the Augusta water treatment plant. Explain why Commission approval of the relinquishment of interest pursuant to KRS 278.020(5) is not required.
 - b. Did Bracken District record an amount in its Annual Report to the Public Service Commission for the year ended December 31, 2014, for an equitable interest in the Augusta water treatment plant? If so, provide the amount and the account name and account number on the Balance Sheet that contains the amount.
- A-1.**
- a. This item is directed to Bracken County Water District (“Bracken District”), as it is a “utility” defined under KRS 278.010 and subject to the provisions of KRS 278.020, if applicable.
 - b. This item is directed to Bracken District.

CITY OF AUGUSTA

**Response To Commission Staff's First Joint Request For Information
March 16, 2016**

Case No. 2015-00039

Question No. 2

Witness: Doug Padgett

- Q-2. Refer to the New Contract, numbered paragraph 6, which states in pertinent part: "For the first 120 months following the Effective Date of this Agreement, Bracken District shall purchase a minimum of 6,500,000 gallons of water each month ('Agreed Monthly Minimum Volume'). At the end of this 120-month period, Bracken District shall not be required to purchase the Agreed Monthly Minimum Volume."
- a. State the basis for the number of gallons included in the Agreed Monthly Minimum Volume and explain why this number of gallons is reasonable.
 - b. State the basis for the period of time, 120 months, that is assigned to the Agreed Monthly Minimum Volume and explain why this period of time is reasonable.
 - c. The original 1993 contract between the parties was an integral part of Rural Development's ("RD") decision to fund the construction of, and improvements to, Augusta's water treatment plant. State whether RD has been notified of the proposed modifications to the existing agreement.
- A-2.
- a. The number of gallons was the product of negotiations between the parties. The parties deemed the establishment of a minimum volume in exchange for elimination of the capital charge and for significant revisions in the methodology used to establish a wholesale rate to be reasonable. Other Commission-approved wholesale contracts contain similar provisions.
 - b. The time period was the product of negotiations between the parties. The parties deemed the duration of the contract to be reasonable. Other Commission-approved wholesale contracts contain similar provisions.
 - c. The parties informed Rural Development of the negotiations and inquired as to the need for Rural Development approval of any agreement. State Rural Development officials advised counsel for Bracken District by e-mail that Rural Development approval of any revised contract was not required. Augusta has sent a courtesy copy of the New Contract to Rural Development.

CITY OF AUGUSTA

**Response To Commission Staff's First Joint Request For Information
March 16, 2016**

Case No. 2015-00039

Question No. 3

Witness: Doug Padgett

- Q-3. Refer to the New Contract, numbered paragraph 16.d., which states: "Bracken District shall not be assigned more than 64 percent of the Water Treatment Plant's total annual debt service."
- a. Explain whether it is Bracken District's position that this provision entitles Bracken District to be assigned less than 64 percent of the Water Treatment Plant's total debt service.
 - b. Explain how the amount of the 64 percent ceiling was determined.
- A-3.
- a. This item is directed at Bracken District.
 - b. The ceiling is a product of negotiations between the parties and is consistent with the volume of water that Augusta must make available to Bracken District on a daily basis.

CITY OF AUGUSTA

**Response To Commission Staff's First Joint Request For Information
March 16, 2016**

Case No. 2015-00039

Question No. 4

Witness: Doug Padgett

- Q-4. Refer to the New Contract, number paragraph 16.g., which states: "Depreciation expense shall be included in calculation of the Water Treatment Plant's operating costs, but only such depreciation expense on plant and facilities whose cost is not financed through the issuance of debt and that are in service at the time of the proposed rate adjustment."
- a. Explain how Augusta will separate depreciation expense accrued on plant that was funded with debt from that which was not funded with debt. This explanation should include an example using financial information for the year ended June 30, 2014.
- b. If the Commission authorizes the proposed contract to go into effect with part g included, explain whether Bracken District will commit to removing depreciation expense accrued on debt-funded plant from its revenue requirements in its next application to adjust rates. If it is not willing to make this commitment, explain why it is reasonable for Augusta to forfeit recovery of depreciation accrued on debt-funded plant, but not Bracken District.
- A-4. a. Augusta will coordinate with its auditor to identify separate depreciation expense accrued on plant that was funded with debt from that which was not funded with debt. On initial review, the attached depreciation schedule provides a breakdown of Water Treatment Plant assets that were financed and not financed. Historically, in most years, Augusta has not accrued any depreciation expense accrued on plant that was financed. For example, for the year ended June 30, 2014, the City's water treatment plant account for Fixed Assets Acquired is \$16,004, which is the amount of capital improvements expensed during the fiscal year that will be included in the depreciation expense for plant that was not funded on debt. The attached ledger sheet and audit page provides documentation for this amount.
- b. This item is directed to Bracken District.

WTP Depr. Schedule

DATE	Description	Life	Cost	Accum. Depr 06/30/12	Depr Expense 06/30/13	Accum. Depr. 06/30/13	Depr Expense 06/30/14	Accum Depr. 06/30/14	Book Value
12/01/96	Water Treatment Plant	38	2,882,702.04	1,181,945.70	75,860.58	1,257,806.28	75,860.58	1,333,666.86	1,549,035.18
06/30/98	Additions	38	89,511.62	35,333.55	2,355.57	37,689.12	2,355.57	40,044.69	49,466.93
06/30/02	Engineering	38	32,000.00	8,421.10	842.11	9,263.21	842.11	10,105.32	21,894.68
05/25/05	Lagoon	38	487,854.72	90,937.82	12,838.28	103,776.10	12,838.28	116,614.38	371,240.34
04/30/06	Well Recharge	38	209,847.39	34,049.80	5,522.30	39,572.10	5,522.30	45,094.40	164,752.99
	TOTAL FINANCED ASSETS		3,701,915.77	1,350,687.97	97,418.84	1,448,106.81	97,418.84	1,545,525.65	2,156,390.12
06/28/06	Air Compressor	10	7,824.69	4,760.03	782.47	5,542.50	782.47	6,324.97	1,499.72
04/02/10	Radios	15	14,115.00	2,117.25	941.00	3,058.25	941.00	3,999.25	10,115.75
03/15/11	Pump	10	1,668.86	208.61	166.89	375.50	166.89	542.39	1,126.47
03/01/12	Pump and Motor	10	56,249.00	1,874.97	5,624.90	7,499.87	5,624.90	13,124.77	43,124.23
01/30/13	Motor	10	6,866.65		286.11	286.11	686.67	972.78	5,893.87
01/17/14	Pump	10	1,650.00				68.75	68.75	1,581.25
11/12/13	12" spool & injection line	10	7,984.54				465.76	465.76	7,518.78
04/29/14	Aeration disc on aerator	10	6,369.60				106.16	106.16	6,263.44
	TOTAL NON-FINANCED ASSETS		102,728.34	8,960.86	7,801.37	16,762.23	8,842.60	25,604.83	77,123.51
	TOTAL ASSETS		3,804,644.11	1,359,648.83	105,220.21	1,464,869.04	106,261.44	1,571,130.48	2,233,513.63

STAPLES

City of Augusta
 Adjusting Entries - WTP
 6/30/14

	Initials	Date
Prepared By		
Approved By		

		1	2	3	4
		A/CH	DR	CR	
1	① Bonds 1996	8123000000	✓ 20300 -		
2	Bond Retirement Prin A	81399810611	✓	22500 -	
3	Bond Retirement P-B	81399810612	✓	6400 -	
4	Bond Retirement - Prin C	81399810618	✓	1400 -	
5	To reclassify principal payments				
8	② WTP Bond Reserve	81398810703	✓ 87000 -		
9	WTP Depreciation	81398810704	✓ 78500		
10	WTP Bond Reserve	81399810811	✓	58000 -	
11	Due to / From (Gas)	81209000000	✓	29050 -	
12	WTP Dep. Reserve	81399810812	✓	78500	
13	To reclass WTP reserves				
15	③ Miscellaneous	81398810702	✓ 420148		
16	Transfers	81399999210	✓	1078493	
17	Due to / From	81209000000	✓	598345	
18	to reclass transfers				
20	④ AIR - BCWD	81123003000	✓ 826812		
21	BCWD	81398810700	✓	826812	
22	To adjust BCWD receivable				
23	to actual				
26	⑤ Due to / From	81209000000	✓ 347206		
27	Water Treatment Plant	81150000000	✓ 1600414		
28	Chemicals	81399810808	✓ 669161		
29	Repairs	81399810863	✓	2616781	
30	To reclassify repairs				
32	⑥ Chemicals	81399810808	✓ 346475		
33	Phones	81399810806	✓ 17804		
34	Repairs	81399810803	✓ 9036		
35	Electric	81399810805	✓ 601037		
36	Travel + Training	81399810804	✓ 26222		
37	AIP	81201000001	✓	1600574	
38	To record expenses recorded				
39	in AIP creating a negative balance				

sewer repair
 Electro Med. Fund
 Capital Improv.

Not Bonded

WTP

**CITY OF AUGUSTA, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Water Fund	Water Treatment Plant Fund	Gas Fund	Sewer Fund	Combined Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating Income (Loss)	\$(19,743)	\$ (26,638)	\$171,968	\$ (53,034)	\$ 72,553
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and Amortization	3,722	106,276	20,297	35,639	165,934
Other Income	(205)	804	(337)	23,789	24,052
Transfers	(6,888)	-	(16,500)	(4,611)	(27,999)
Grants				-	-
(Increase) Decrease in Assets					
Accounts Receivable	3,305	(8,268)	(1,250)	(2,357)	(8,571)
Restricted Funds				-	-
Increase (Decrease) in Liabilities					
Account Payable	(798)	(2,087)	(28,260)	(703)	(31,849)
Other Liabilities	-	-	1,392	-	1,392
Due to Other Funds	34,403	19,544	(211,025)	56,867	(100,211)
Customer Deposits	1,120	-	200	-	1,320
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,916	89,631	(63,515)	55,591	96,621
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interest Income	-	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Loan Proceeds	-	-	-	-	-
Principal Paid	-	(30,300)	(12,778)	-	(43,078)
Interest Paid		(58,557)	(433)	-	(58,990)
Fixed Assets Acquired	(21,165)	(16,004)	(12,700)	(50,053)	(99,922)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(21,165)	(104,861)	(25,911)	(50,053)	(201,990)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,249)	(15,229)	(89,426)	5,538	(105,369)
CASH AND CASH EQUIVALENTS JULY 1, 2013	18,296	36,777	232,696	22,155	309,924
CASH AND CASH EQUIVALENTS JUNE 30, 2014	\$ 12,047	\$ 21,548	\$143,270	\$ 27,692	\$ 204,557

CITY OF AUGUSTA

**Response To Commission Staff's First Joint Request For Information
March 16, 2016**

Case No. 2015-00039

Question No. 5

Witness: Doug Padgett

- Q-5. Refer to the New Contract, numbered paragraph 31.a., which states; "Any Dispute related to an adjustment of the wholesale rate shall be governed by Paragraphs 11 through 16 of this Agreement, shall be subject to the jurisdiction of the Kentucky Public Service Commission, but shall not be subject to the procedures set forth in this Paragraph."
- a. Is it the parties' position that disputes concerning matters in the New Contract other than paragraphs 11 through 16 are not subject to the jurisdiction of the Commission?
- b. The New Contract, numbered paragraph 31.f., states: "If the Parties cannot resolve for any reason . . . any such Dispute, either Party may initiate proceedings in an appropriate forum." Identify each part of the New Contract other than the parts governed by paragraphs 11 through 16 for which the parties believe that the Commission would be the appropriate forum for initiating proceedings.
- A-5. a. No. Disputes involving other provisions of the New Contract may be within the Commission's jurisdiction depending upon the provision in dispute and the circumstances surrounding the dispute. As paragraphs 11 through 16 expressly deal with the methodology and procedure to be used to adjust Augusta's wholesale rate, these provisions are clearly within the Commission's jurisdiction.
- b. Pursuant to KRS 278.200 and the Kentucky Supreme Court's decision in Simpson County Water District v. City of Franklin, 872 S.W.2d 460 (Ky. 1994), the Commission would be an appropriate forum for dispute involving a contractual provision related a rate or service standard.

CITY OF AUGUSTA

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Case No. 2015-00039

Question No. 6

Witness: Doug Padgett

- Q-6. The New Contract, numbered paragraph 20, requires Augusta to submit reports and records to Bracken District. The paragraph also specifies the corresponding periods in which the reports and records must be submitted. Numbered paragraph 21 describes the consequences if Augusta fails to make timely submission of any report or document required by numbered paragraph 20, which includes Bracken District's permanently withholding 10 percent of the total invoiced cost of water for the monthly period in which Augusta's failure is alleged to have occurred.
- a. In the event that Bracken District permanently withholds 10 percent of the total invoiced cost of water by exercising a claim of right under numbered paragraph 21, how will Bracken District record the amount permanently withheld on its books? Provide the proposed journal entries.
 - b. In the event that Bracken District permanently withholds 10 percent of the total invoiced cost of water by exercising a claim of right under numbered paragraph 21, how will Bracken District refund the permanently withheld amount to its ratepayers?
 - c. Explain how the parties arrived at 10 percent as the amount that would be subject to a permanent withholding.
 - d. Is it Bracken District's position that funds permanently withheld are not subject to the jurisdiction of the Commission?
- A-6.
- a. This item is directed to Bracken District.
 - b. This item is directed to Bracken District.
 - c. The amount is a product of negotiations between the parties.
 - d. This item is directed to Bracken District.

CITY OF AUGUSTA

**Response To Commission Staff's First Joint Request For Information
March 16, 2016**

Case No. 2015-00039

Question No. 7

Witness: Doug Padgett

- Q-7. Provide Augusta's total rate case expense to date. Identify, in response, the portion of Augusta's total rate case expense that is attributable to legal fees for the rate issues in this proceeding.
- A-7. Augusta's total rate case expense through March 28, 2016 is \$69,535.10. The total amount of rate case expense attributable to legal fees is \$62,066.60. The City is uncertain as to the Commission Staff's definition of the term "rate issues." It maintains that all rate case expenses incurred are properly recovered as they were necessary and reasonable for this case.

CITY OF AUGUSTA

**Response To Commission Staff's First Joint Request For Information
March 16, 2016**

Case No. 2015-00039

Question No. 8

Witness: Doug Padgett

- Q-8. Provide Bracken District's legal fees for the rate issues in this proceeding.
- A-8. This item is directed to Bracken District.