

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PROPOSED)	
ADJUSTMENT OF THE WHOLESALE)	
WATER SERVICE RATES OF)	CASE NO. 2017-00133
MADISONVILLE WATER)	
DISTRIBUTION)	

JOINT SETTLEMENT AGREEMENT AND STIPULATION

It is the intent and purpose of the parties to this proceeding, the City of Madisonville (“City” or “Madisonville”), Nebo Water District (“Nebo”), and North Hopkins Water District (“North Hopkins”) (collectively, “Parties”), by counsel, to express their agreement on a mutually satisfactory resolution of all of the issues in this proceeding, which shall hereafter be referred to as the “Settlement.”

The Parties stipulate the following:

1. On February 6, 2017, Madisonville filed with the Public Service Commission (“Commission”) notice of a proposed increase in its rate for wholesale water service to Nebo, North Hopkins, and South Hopkins Water District (“South Hopkins”) from \$4.13 per 1,000 gallons to \$5.01 per 1,000 gallons. Simultaneous with its filing with the Commission, Madisonville also provided notice of its proposed increase to Nebo, North Hopkins, and South Hopkins.

2. On March 6, 2017, Nebo and North Hopkins requested that the Commission investigate the reasonableness of the proposed rate adjustment.

3. On March 20, 2017, South Hopkins advised the Commission in writing of its opposition to the proposed rate adjustment. South Hopkins, however, did not intervene in this matter and is not a party to this proceeding.

4. On March 30, 2017, the Commission initiated Case No. 2017-00133 to investigate the reasonableness of the proposed adjustment of rates.

5. On May 23, 2017, Madisonville filed the testimony of Charles A. Kington to support the proposed rate adjustment. In his testimony, Mr. Kington stated that the “significant increase” in the wholesale rates is “mainly attributable to the City’s replacement of portions of its water filtration membranes in the amounts of \$706,057.” In its original calculation of the wholesale rates, Madisonville expensed the cost of the replacement water filtration membranes.

6. Upon further review, Madisonville has determined that the cost of the replacement water filtration membranes should be capitalized over the membranes’ seven-year useful life rather than expensed. Madisonville has revised its rate calculations to reflect this revision. A copy of the revised calculations is attached to this Settlement as **EXHIBIT A**.

7. These revised calculations produce a wholesale rate of \$4.39 per 1,000 gallons to Nebo and North Hopkins and a wholesale rate of \$4.41 per 1,000 gallons to South Hopkins.

8. The cost of the replacement water filtration membranes should be capitalized and not expensed when determining the wholesale rate.

9. A rate of \$4.39 per 1,000 gallons for Nebo and North Hopkins is reasonable and appropriate.

10. In its revised rate calculations, Madisonville has, in addition to reducing water filtration expenses by \$706,057, increased capital cost by \$684,592.32 to reflect the capitalization of the replacement water filter membranes. Mr. Kington, Madisonville's accountant, states that Madisonville has always reported capital costs net of depreciation. In the revised rate calculation, Mr. Kington prepared a calculation of the applicable depreciation from the invoice date until June 30, 2016, which was \$21,527.68. Therefore, the applicable capital costs included in the revised rate calculation were net of applicable depreciation, or \$684,529.32.

10. The revised rate calculations contain no other revisions.

The Parties agree as follows:

A. This Settlement is not binding on the Commission.

B. The Settlement, viewed in its entirety, constitutes a reasonable resolution of the issues in this proceeding and the Parties recommend its adoption. The adoption of this Settlement will eliminate the need for the Commission and the Parties to expend significant resources in litigation of this proceeding, and eliminate the possibility of, and any need for, rehearing or appeals of the Commission's final order.

C. Madisonville should be permitted to adjust its wholesale rates to the following to reflect the cost of providing wholesale water service based upon the costs incurred during the year ending June 30, 2016:

Nebo - \$4.39 per 1,000 gallons

North Hopkins - \$4.39 per 1,000 gallons

D. Each party waives a hearing in this matter unless the Commission disapproves this Settlement. This Settlement is submitted for purposes of this case only and is not deemed binding upon the Parties in any other proceeding. It does not prevent any party from challenging a future rate adjustment.

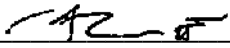
E. If the Commission issues an order adopting this Settlement in its entirety, each of the Parties agrees that it shall not file an application for rehearing with the Commission nor bring an action for review in the Franklin County Circuit Court with respect to that order.

F. If this Settlement is not adopted in its entirety, each party reserves the right to withdraw from it and require that discovery proceed and request an evidentiary hearing be held by the Commission. In such an event the terms of this Settlement shall not be deemed binding upon the Parties, nor shall such Settlement be admitted into evidence, or referred to, or relied upon in any manner by any party, the Commission, or its Staff in any such hearing.


G. The Parties agree that the foregoing Settlement is reasonable and in the best interests of all concerned, and urge the Commission to adopt the Settlement in its entirety.

AGREED: This 28th day of June, 2017.

CITY OF MADISONVILLE

BY: 
Joe A. Evans, III
Counsel for City of Madisonville

NEBO WATER DISTRICT

BY: 
Damon R. Talley
Counsel for Nebo Water District

NORTH HOPKINS WATER DISTRICT


BY: 
Damon R. Talley
Counsel for Nebo Water District

EXHIBIT A



BerryKington & Utley PSC
Certified Public Accountants

2822 North Main Street ■ Madisonville, KY 42431
Phone 270-821-3355 ■ Fax 270-821-0101

June 21, 2017

Mr. Cory Alexander
City Finance Director/Treasurer
City of Madisonville, Kentucky
67 North Main Street
Madisonville, KY 42431

Dear Cory:

We have prepared the accompanying Cost Review Formulas for revising wholesale rate charges as per Treated Water Sale and Purchase Agreements with the Nebo Water District and for the North Hopkins and South Hopkins Water Districts.

We prepared the Cost Review Formulas using June 30, 2016 audited financial statements and wholesale user consumption records as provided by the City of Madisonville. We did not audit the wholesale user consumption records during our June 30, 2016 audit due to the fact that such records were outside the scope of the audit.

The main revisions to the rate calculations relates to the capitalization of Water Filtration Membrane replacements over a seven-year useful life utilizing the straight-line method of depreciation. The result of moving the membrane replacements from Treatment expenses under the Cash Operation and Maintenance Expenses category to the Capital Costs category reduces the previously calculated wholesale water rate to be charged to the various Districts from \$5.01 per thousand gallons of treated water to \$4.39. We understand that the new rate will be charged from March 31, 2017 to March 31, 2018.

We appreciate the opportunity to be of service to the City of Madisonville. Please call if you have any questions regarding these computations.

Very truly yours,

Charles A. Kington, CPA

CITY OF MADISONVILLE, KENTUCKY

WATER RATE ANALYSIS

NEBO WATER DISTRICT

(PER 1,000 GALLONS)

CAPITAL COSTS	Amount	Percentage To Be Shared	Capital Costs To Be Shared	(B/C) 108,325 938,505 Allocation Percentage	Allocated Capital Costs	Cost Per 1,000 Gallons Of Water
Source of Supply	\$ 2,050,392.44	100.00	\$ 2,050,392.44	11.5423	\$ 236,662.45	
Water Treatment Plant	19,966,326.32	100.00	19,966,326.32	11.5423	2,304,573.28	
Storage Facilities	1,995,265.63	65.00	1,296,922.66	11.5423	149,694.70	
Transmission and Distribution	8,699,961.69	43.00	3,740,983.53	11.5423	431,795.54	
General	615,857.40	10.00	61,585.74	11.5423	7,108.41	
Customer and Administrative	4,358,082.79	0.10	4,358.08	11.5423	503.02	
Hydrants	201,960.13	-	-		-	
Total	\$ 37,887,846.40		\$ 27,120,568.77		\$ 3,130,337.40	

ALLOCATED CAPITAL COST X 2%

DIVIDED BY WHOLESALE USER'S

MOST RECENT ANNUAL BILLED

GALLONS

$$\$ 3,130,337.40 \times 2 \text{ Percent} = \$ 62,606.75 \times 1/108,325 = \$ 0.57795$$

ALLOCATED CAPITAL COST X 6%

DIVIDED BY WHOLESALE USER'S

MOST RECENT ANNUAL BILLED

GALLONS

$$\$ 3,130,337.40 \times 6 \text{ Percent} = \$ 187,820.24 \times 1/108,325 = 1.73386$$

CASH OPERATION AND MAINTENANCE

EXPENSES

	Amount	Percentage To Be Shared	Allocated Expenses	Billed Gallons	
Treatment	\$ 1,678,000.00	90.00	\$ 1,510,200.00	938,505	1.60915
Transmission and Distribution	884,217.00	45.00	397,897.65	938,505	0.42397
General	91,567.28	45.00	41,205.28	938,505	0.04391
Total	\$ 2,653,784.28		\$ 1,949,302.93		

CUSTOMER COSTS DIVIDED BY

WHOLESALE USER'S MOST RECENT

ANNUAL BILLED GALLONS

$$\$144.00 \times 1/108,325 = \underline{0.00133}$$

CURRENT CALCULATED WATER RATE (Rounded \$4.39)

\$ 4.39017

CITY OF MADISONVILLE, KENTUCKY
WATER RATE ANALYSIS
NORTH HOPKINS WATER DISTRICT
(PER 1,000 GALLONS)

CAPITAL COSTS	Amount	Percentage To Be Shared	Capital Costs To Be Shared	(B/C) 84,949 938,505 Allocation Percentage	Allocated Capital Costs	Cost Per 1,000 Gallons Of Water
Source of Supply	\$ 2,050,392.44	100.00	\$ 2,050,392.44	9.0515	\$ 185,591.27	
Water Treatment Plant	19,966,326.32	100.00	19,966,326.32	9.0515	1,807,252.03	
Storage Facilities	1,995,265.63	65.00	1,296,922.66	9.0515	117,390.95	
Transmission and Distribution	8,699,961.69	43.00	3,740,983.53	9.0515	338,615.12	
General	615,857.40	10.00	61,585.74	9.0515	5,574.43	
Customer and Administrative	4,358,082.79	0.10	4,358.08	9.0515	394.47	
Hydrants	201,960.13	-	-	9.0515	-	
Total	\$ 37,887,846.40		\$ 27,120,568.77		\$ 2,454,818.27	

**ALLOCATED CAPITAL COST X 2%
DIVIDED BY WHOLESALE USER'S
MOST RECENT ANNUAL BILLED
GALLONS**

$$\$ 2,454,818.27 \times 2 \text{ Percent} = \$ 49,096.37 \times \frac{1}{84,949} = \$ 0.57795$$

**ALLOCATED CAPITAL COST X 6%
DIVIDED BY WHOLESALE USER'S
MOST RECENT ANNUAL BILLED
GALLONS**

$$\$ 2,454,818.27 \times 6 \text{ Percent} = \$ 147,289.10 \times \frac{1}{84,949} = 1.73385$$

**CASH OPERATION AND MAINTENANCE
EXPENSES**

	Amount	Percentage To Be Shared	Allocated Expenses	Billed Gallons	
Treatment	\$ 1,678,000.00	90.00	\$ 1,510,200.00	938,505	1.60915
Transmission and Distribution	884,217.00	45.00	397,897.65	938,505	0.42397
General	91,567.28	45.00	41,205.28	938,505	0.04391
Total	\$ 2,653,784.28		\$ 1,949,302.93		

**CUSTOMER COSTS DIVIDED BY
WHOLESALE USER'S MOST RECENT
ANNUAL BILLED GALLONS**

$$\$ 144.00 \times \frac{1}{84,949} = 0.00170$$

CURRENT CALCULATED WATER RATE (\$4.39 Rounded)

\$4.39053

CITY OF MADISONVILLE, KENTUCKY

WATER RATE ANALYSIS

SOUTH HOPKINS WATER DISTRICT

(PER 1,000 GALLONS)

CAPITAL COSTS	Amount	Percentage To Be Shared	Capital Costs To Be Shared	(B/C) 6,009 938,505 Allocation Percentage	Allocated Capital Costs	Cost Per 1,000 Gallons Of Water
Source of Supply	\$ 2,050,392.44	100.00	\$ 2,050,392.44	0.6403	\$ 13,128.66	
Water Treatment Plant	19,966,326.32	100.00	19,966,326.32	0.6403	127,844.39	
Storage Facilities	1,995,265.63	65.00	1,296,922.66	0.6403	8,304.20	
Transmission and Distribution	8,699,961.69	43.00	3,740,983.53	0.6403	23,953.52	
General	615,857.40	10.00	61,585.74	0.6403	394.33	
Customer and Administrative	4,358,082.79	0.10	4,358.08	0.6403	27.90	
Hydrants	201,960.13	-	-	0.6403	-	
Total	\$ 37,887,846.40		\$ 27,120,568.77		\$ 173,653.00	

ALLOCATED CAPITAL COST X 2% DIVIDED BY WHOLESALE USER'S MOST RECENT ANNUAL BILLED GALLONS

$$\$ 173,653.00 \times 2 \text{ Percent} = \$ 3,473.06 \times 1/6,009 = \$ 0.57798$$

ALLOCATED CAPITAL COST X 6% DIVIDED BY WHOLESALE USER'S MOST RECENT ANNUAL BILLED GALLONS

$$\$ 173,653.00 \times 6 \text{ Percent} = \$ 10,419.18 \times 1/6,009 = 1.73393$$

CASH OPERATION AND MAINTENANCE EXPENSES

	Amount	Percentage To Be Shared	Allocated Expenses	Billed Gallons	
Treatment	\$ 1,678,000.00	90.00	\$ 1,510,200.00	938,505	1.60915
Transmission and Distribution	884,217.00	45.00	397,897.65	938,505	0.42397
General	91,567.28	45.00	41,205.28	938,505	0.04391
Total	\$ 2,653,784.28		\$ 1,949,302.93		

CUSTOMER COSTS DIVIDED BY WHOLESALE USER'S MOST RECENT ANNUAL BILLED GALLONS

$$\$ 144.00 \times 1/6,009 = 0.02396$$

CURRENT CALCULATED WATER RATE (Adjusted to \$4.39)

\$4.41290

CITY OF MADISONVILLE, KENTUCKY
WATER RATE ANALYSIS
CAPITAL COSTS

	<u>COST</u>	
<u>A. SOURCE OF SUPPLY</u>		
Green River Pipeline	\$ 3,364,071.64	11
Land, Dams and Lakes	1,155,924.86	12
Lakes and Intake Sources	530,395.94	10
Sub Total	5,050,392.44	
Less: Grants	(3,000,000.00)	
Total	\$ 2,050,392.44	
 <u>B. WATER TREATMENT PLANT</u>		
Treatment Plant Equipment	\$ 19,281,797.00	14
Water Filtration Membranes	684,529.32	
Total	\$ 19,966,326.32	
 <u>C. STORAGE FACILITIES</u>		
	\$ 1,995,265.63	6
 <u>D. TRANSMISSION AND DISTRIBUTION</u>		
Water Mains	\$ 7,897,923.57	1
Filtration	651,987.03	13
Distribution	114,176.03	2
Easements	35,875.06	3
Total	\$ 8,699,961.69	
 <u>E. GENERAL MAINTENANCE EQUIPMENT</u>		
Distribution	\$ 463,955.98	4
Filtration	151,901.42	5
Total	\$ 615,857.40	
 <u>F. CUSTOMER AND ADMINISTRATIVE</u>		
Water Services	\$ 2,051,536.75	7
Meters	2,197,656.96	8
Filtration Office Equipmen	50,489.15	9
Distribution Office Equipmen	7,910.42	16
Utility Office Equipment - (201,958.02 x 25%)	50,489.51	
Total	\$ 4,358,082.79	
 <u>G. HYDRANTS</u>		
	\$ 201,960.13	15
GRAND TOTAL	\$ 37,887,846.40	

City of Madisonville
Depreciation Summary

Filter	2012	2013	2014	2015	2016	
Filter Plant Complex	5,550.00	5,500.00	5,550.00	5,550.00	5,550.00	14
Lake River Intake Source Structures & Imp Plant	522,786.96	522,786.96	522,786.96	522,786.96	522,786.96	10
Tools & Work Equip Plant	14,970.00	32,709.32	32,709.32	32,709.32	32,709.32	14
Chemical Mach Plant	-	-	-	-	-	14
Communications Equip	177,762.46	177,762.46	177,762.46	177,762.46	177,762.46	14
Filter Plant Complex	18,583,905.11	18,624,713.88	18,636,094.62	18,669,614.51	18,708,342.35	14
Lab Equip Plant	114,943.65	114,943.65	114,943.65	114,943.65	123,668.44	14
Lake, River, Intake Source	7,608.98	7,608.98	7,608.98	7,608.98	7,608.98	10
Office Furniture	-	12,332.77	12,332.77	21,360.77	50,489.15	9
Serv & Maint Comp Plant	70,061.28	70,061.28	97,449.21	97,449.21	97,449.21	14
Structures & Imp Plant	77,962.00	77,962.00	77,962.00	77,962.00	77,962.00	14
Tools & Work Equip Plant	7,600.00	35,863.44	35,863.44	35,863.44	35,863.44	5
Vehicles Plant	89,953.98	89,953.98	89,953.98	89,953.98	116,037.98	5
Water Tanks & Towers	1,992,480.64	1,992,480.64	1,992,480.64	1,995,265.63	1,995,265.63	6
Water Treat Equip Plant	58,353.22	58,353.22	58,353.22	58,353.22	58,353.22	14
Location 85	349,797.30	426,821.30	426,821.30	426,821.30	426,821.30	13
Other Pumping Equip:						
South Main Project	196,507.09	196,507.09	196,507.09	196,507.09	196,507.09	13
Peabody Pump	-	-	-	-	-	13
#2 Pumps	9,059.00	9,059.00	9,059.00	9,059.00	9,059.00	13
Actuator	-	-	-	-	-	13
Pumping Equipment	13,155.64	13,155.64	13,155.64	13,155.64	13,155.64	13
Myers Pump 4"	6,444.00	6,444.00	6,444.00	6,444.00	6,444.00	13
Lake River Intake Source:						
Land Dams & Lakes	1,155,924.86	1,155,924.86	1,155,924.86	1,155,924.86	1,155,924.86	12
Green River Pipeline	3,364,071.64	3,364,071.64	3,364,071.64	3,364,071.64	3,364,071.64	11
Total	26,818,897.81	26,995,016.11	27,033,834.78	27,079,167.66	27,181,832.67	
Water						
Backhoes & Compressors	-	-	-	-	-	4
Fire Hydrants	203,363.44	203,363.44	203,363.44	206,534.35	201,960.13	15
Mapping	3,500.00	3,500.00	3,500.00	3,500.00	3,500.00	7
Meters	2,161,941.19	2,197,656.96	2,197,656.96	2,197,656.96	2,197,656.96	8
Service Taps	1,946,614.21	1,960,818.64	1,978,117.92	2,007,706.04	2,048,036.75	7
Tools & Work Equip	3,076.00	3,076.00	3,076.00	3,076.00	-	4
Vehicles	12,527.75	-	-	-	-	4
Water Mains	7,051,691.84	7,347,683.93	7,577,479.70	7,661,777.39	7,897,923.57	1
Backhoes & Compressors	125,737.06	125,737.06	134,700.06	134,700.06	8,963.00	4
Easements	35,875.06	35,875.06	35,875.06	35,875.06	35,875.06	3
Office Furn & Equip	7,910.42	7,910.42	7,910.42	7,910.42	7,910.42	16
Serv & Maint Complex	111,876.03	111,876.03	111,876.03	111,876.03	114,176.03	2
Tools & Work Equip	97,828.55	97,828.55	101,590.42	101,590.42	101,590.42	4
Vehicles	258,025.81	270,553.56	288,145.56	288,145.56	353,402.56	4
Total	12,019,967.36	12,365,879.65	12,643,291.57	12,760,348.29	12,970,994.90	
			39,677,126.35	39,839,515.95	40,152,827.57	
		1	7,897,923.57	9	50,489.15	
		2	114,176.03	10	530,395.94	
		3	35,875.06	11	3,364,071.64	
		4	463,955.98	12	1,155,924.86	