

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ESTILL)	
COUNTY WATER DISTRICT NO. 1 FOR)	CASE NO. 2017-00176
RATE ADJUSTMENT PURSUANT TO 807)	
KAR 5:076)	

**ESTILL COUNTY WATER DISTRICT NO. 1'S RESPONSE TO
THE FINDINGS AND RECOMMENDATIONS CONTAINED IN
THE COMMISSION STAFF'S REPORT**

For its response to the findings and recommendations contained in the Commission Staff Report of August 9, 2017, Estill County Water District No. 1 ("Estill District") states:

1. Estill District does not object to Commission Staff's recommended rates and requests that the Commission implement those rates immediately. Estill District requires an immediate increase in revenues to meet its operating expenses and debt service obligations.

2. While Commission Staff's recommended rates are higher than those that Estill District proposed, they will not produce a total increase in revenues greater than 110 percent of the total increase in revenues from Estill District's proposed rates. Accordingly, 807 KAR 5:076, Section 11(3)(f) does not require Estill District to publish notice of the recommended rates upon its acceptance of those rates and, furthermore, permits the Commission to order the recommended rates into effect immediately.

3. Estill District accepts to Commission Staff's findings regarding the proposed revisions to the useful lives assigned to Estill District's utility assets.

4. Estill District accepts Commission Staff's proposed revenue requirement of \$1,947,095. Estill District, however, estimates that as a result of the purchase water adjustment that Estill District implemented on September 18, 2017 pursuant to KRS 278.015, the increase in

Estill District's revenue necessary to obtain Commission Staff's proposed revenue requirement is only \$170,697.

5. Estill District accepts Commission Staff's recommendation for the removal of the retired employee's wages, benefits and payroll taxes from test-period operations. It acknowledges that the Commission's current ratemaking methodology requires such result. Estill District notes, however, that it intends to hire a replacement employee for the vacant position as soon as its financial condition permits. To adequately perform its obligation to provide safe and reliable service to the public, Estill District requires at least eight full-time employees.

6. Estill District accepts Commission Staff's proposed adjustment to employee health and dental insurance expense, but reserves the right to contest such adjustments in future proceedings. It respectfully suggests that the reasonableness of employee compensation should be based upon the total cost of an employee compensation package and that a review that focuses solely on the individual components of such compensation packages will not likely provide a complete or accurate reflection of the reasonableness of those expenses. Estill District further notes that its hourly wage rates of its employees have not been changed or adjusted in approximately ten years while inflation as measured by the Consumer Price Index has increased 20.93 percent.

7. Estill District accepts Commission Staff's recommended billing analysis adjustment, but notes that further revisions to the billing analysis should be made to reflect the effects of the purchase water adjustment that Estill District implemented on September 18, 2017 pursuant to KRS 278.015.

8. Estill District accepts Commission Staff's interpretation that 807 KAR 5:066, Section 6(3) requires disallowance of all purchased water costs associated with unaccounted-for water losses in excess of 15 percent of total water purchases and Commission Staff's calculation of the required disallowance. Estill District notes, however, the disallowance of this amount will significantly worsen Estill District's already distressed financial condition and make it increasingly difficult for Estill District to meet its financial obligations and its statutory obligation to provide safe and reliable water service.

9. Estill District is aware of its unaccounted-for water problem and has undertaken several actions since 2007 to resolve this problem without success. These actions include: the purchase and deployment of leak detection equipment; assigning one field employee to leak detection efforts; requesting and obtaining periodic assistance from the Kentucky Rural Water Association for leak detection surveys; the replacement of an underground river crossing; and the separate testing of the City of Irvine's master meter. Over the past three years, Estill District has expended over \$1,800,000 in repairs and line replacements to reduce suspect leaks. Despite these efforts, Estill District has not been able to significantly reduce its unaccounted-for water loss.

10. In a separate proceeding, Estill District will apply for Commission authorization of a monthly surcharge of approximately \$3.24 per month on each customer bill to generate annual revenues equaled to the disallowed purchased water expense (\$146,741). The proceeds of this surcharge would be used solely for efforts to reduce unaccounted-for water loss. As a condition of assessing this surcharge, Estill District will thoroughly document its use of the surcharge proceeds, submit monthly reports on the collection and use of the proceeds and its water loss, and obtain prior Commission approval before expending any surcharge funds. The

assessment of the surcharge would be limited to a specific time period and could only be continued if Estill District showed success in reducing its unaccounted-for water loss. The Commission has previously permitted such surcharges.¹

11. Estill District acknowledges that: (a) Three promissory notes for various amounts were executed to Citizens Guaranty Bank between October 31, 2013 and January 24, 2017. (b) Each note had a four-year term; (c) Estill District did not obtain prior Commission authorization to issue these notes; (d) Estill District used the proceeds of these notes to pay its proper operating expenses and debt service when its cash flow was inadequate to meet these payments; and (e) Estill District's issuance of these notes was for a lawful object within Estill District's corporate purposes, was necessary and appropriate for the proper performance of Estill District's service to the public, did not impair its ability to perform that service, and was reasonably necessary and appropriate for such purpose.

12. The failure of Estill District and the members of its Board of Commissioners failed to obtain prior Commission authorization of these notes was due to a lack of knowledge of KRS 278.300 and not to any intent to violate that statute. When each note was issued, Estill District lacked legal counsel and, to the extent that it relied upon the expertise of Citizens Guaranty Bank to ensure that all legal requirements were met, it was unaware of the Bank's lack of knowledge of the requirement for prior Commission authorization. No effort to conceal the issuance of these notes has been made. Estill District reported the issuance of these notes in its annual reports to the Commission, its audit reports, and its application for rate adjustment. The

¹ See, e.g., *The Notice By Lake Village Water Association, Inc. of A Tariff Amendment Adjusting Rates; Notice of Tariff Amendment Imposing A Temporary Special Rule To Limit The Availability of Water Service Connections; Application For A Certificate of Public Convenience and Necessity; Application For Authority To Issue A Promissory Note and Mortgage To The Farmers Home Administration; and Application and Request That It Be Included In The Demonstration Project To Define Excessive Water Loss*, Case No. 9290 (Ky. PSC Dec. 30, 1985).


members of Estill District's Board of Commissioner, however, acknowledge that the lack of knowledge or familiarity with KRS 278.300 does not excuse any violation of that statute.

13. A hearing on the Commission Staff-recommended rates or Commission Staff's findings and recommendations is not necessary.

14. Estill District waives its right to any hearing on the Commission Staff-recommended rates or on the findings and recommendations contained in the Commission Staff Report.

Dated: October 9, 2017

Respectfully submitted,

A handwritten signature in blue ink that reads "Gerald E. Wuetcher". The signature is written in a cursive style and is positioned above a horizontal line.

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Counsel for Estill County Water District No. 1

CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that Estill County Water District No. 1's electronic filing of this Motion is a true and accurate copy of the same document being filed in paper medium; that the electronic filing was transmitted to the Public Service Commission on October 9, 2017; that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding; and that an original paper medium of this Notice of Appearance will be delivered to the Public Service Commission on or before October 11, 2017.

A handwritten signature in blue ink, reading "Gerald E. Wretcher". The signature is written in a cursive style with a horizontal line underneath the name.

Counsel for Estill County Water District No. 1