

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)	

**MOTION FOR AN ORDER AUTHORIZING
COMMISSION STAFF’S RECOMMENDED RATES**

Estill County Water District No. 1 (“Estill District”) moves for the issuance of an Order approving Commission Staff’s recommended rates and authorizing Estill District to assess those rates for water service. In support of its Motion, Estill District states:

1. On August 9, 2017, Commission Staff issued a report containing its findings and recommendations regarding Estill District’s application for rate adjustment. Commission Staff found, among other things, that Estill District required annual revenues of approximately \$1,947,095 — an increase in annual revenues of \$360,445 — to meet its reasonable expenses and debt service requirements.¹ Commission Staff further recommended rates that would produce this level of revenue.²

2. On August 18, 2017, the Commission ordered that a hearing in this matter be held “to take evidence on Estill District’s application for a rate adjustment” and directed that the scope of the hearing include the issues of line loss, the alleged issuance of evidences of indebtedness without prior Commission authorization, and the use of the proceeds of such issuances.

¹ *Staff Report on Estill County Water District No. 1 (“Staff Report”)* at 2 (Aug. 9, 2017).

² *Staff Report* at 3.

3. Estill District has tendered a response to the Commission Staff Report in which it accepts Commission Staff's findings and recommendations and requests that the Commission proceed to enter an Order approving the recommended rates and authorizing Estill District to assess those rates for water service.

4. Each month that passes without the Commission Staff-recommended rates taking effect deprives Estill District of approximately \$14,000 in additional revenues.³

5. Estill District's present financial condition is precarious. Additional revenues are desperately needed for Estill District to meet its operating expenses, make its debt service payments, and provide reasonable, safe and reliable service. Estill District's restricted cash flow has already resulted in a reduction of employees and the issuance of debt to meet operating expenses and service debt. As shown in the Estill District's Profit and Loss Statement for the eight month period ending August 31, 2017, a copy of which is attached as Exhibit A, Estill District in the first eight months of this year experienced a net income of (\$332,534.13).⁴ If depreciation expense is excluded, Estill District's net income for this period is (\$95,699.40). Estill District must make a balloon payment of \$110,252.54 to Citizens Guaranty Bank on October 31, 2017. It must also make principal and interest payments of \$194,086 for outstanding long-term debts to Rural Development and to the Kentucky Rural Water Finance Corporation in the first quarter of 2018. According to Estill District's Balance Sheet as of August 31, 2017, a

³ Commission Staff proposed rates that would produce additional revenues of \$360,445. These rates took into consideration the increase in the wholesale water service rate of the City of Irvine, which occurred in July 2017. Pursuant to KRS 278.015, Estill District increased its rates on September 18, 2017 to reflect this increase. *See Case No. 2017-00377, Electronic Purchased Water Adjustment of Estill County Water District No. 1* (Ky. PSC filed Sept. 18, 2017). Based upon its test period sales, Estill District estimates that this rate adjustment will increase its annual revenues by approximately \$189,000. If the Commission Staff-recommended rates are authorized, Estill District will experience annual increase in revenues of approximately \$171,000, or a monthly increase of approximately \$14,125.

⁴ This statement contains an entry "Ask the Accountant" that refers to expenses requiring clarification from the water district's certified public accountant as to their appropriate account classification. The last page of Exhibit A lists these expenses.

copy of which is attached as Exhibit B, Estill District's current assets equal less than half of the total amount of these pending payments.

6. Approval of Commission Staff's recommended rates should not be delayed pending the outcome of the scheduled hearing in this matter.

a. The reasonableness of the recommended rates has not been contested. Estill District has accepted the Commission Staff-recommended rates. While the Commission in its Order of August 18, 2017 identified three issues to be reviewed at the scheduled hearing, it has not identified any specific finding or recommendation in the Commission Staff Report as a potential subject for review at the scheduled hearing or stated any specific concern about the Commission Staff-recommended rates.

b. The issues that the Commission has identified in the Order of August 18, 2017 for review at the scheduled hearing primarily involve Estill District's operations and management, but do not directly affect the Commission Staff-recommended rates.

(1) **Line Loss.** The level of unaccounted-for water loss during the test-period and the required disallowance of purchased water expenses are already well documented and are not disputed. In its application, Estill District acknowledged that unaccounted-for water loss exceeded permitted levels by 17.7 percent and reduced its revenue requirement by \$121,284 to eliminate excessive unaccounted-for water loss and by \$13,139 to remove the cost of purchased power to pump the excessive water loss.⁵ In its report, Commission Staff accepted this rate of excessive unaccounted-for water loss but recalculated the amount of disallowed purchased water expense to reflect the recent increase in the wholesale rate of Estill District's water supplier.⁶ Estill District has accepted Commission Staff's calculation.

⁵ Application, References at 1-2.

⁶ *Staff Report* at 11-13.

To the extent that the Commission seeks to review the reasonableness and effectiveness of Estill District's efforts to reduce unaccounted-for water loss, this review will not alter those calculations or otherwise affect the Commission Staff-recommended rates.

(2) **Unauthorized Issuances of Debt.** In its report, Commission Staff has recommended the exclusion of any debt service payments related to three promissory notes issued without prior Commission authorization from the calculation of Estill District's revenue requirement.⁷ Estill District has accepted this recommendation. While the Commission may wish to review the unauthorized issuances for other purposes, the unauthorized issuances have no effect on the calculation of Estill District's revenue requirement nor will any evidence presented at the scheduled hearing regarding these issuances affect the Commission Staff-recommended rates.

(3) **Use of Debt to Pay Operating Expenses and Service Debt.** In its report, Commission Staff refused to consider the inclusion of any debt service payments related to the three promissory notes in the calculation of Estill District's revenue requirement.⁸ Estill District has accepted Commission Staff's recommendation. Therefore, while Estill District's practice of issuing debt to pay operating expenses and service debt is an appropriate area for Commission review, the Commission review's will have no effect on the Commission Staff-recommended rates and should not prevent immediate action on the Commission Staff-recommended rates.

⁷ *Staff Report* at 21-22.

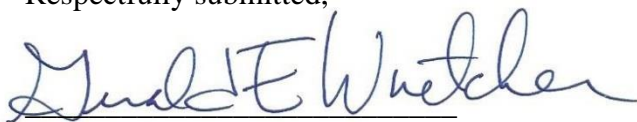
⁸ *Staff Report* at 21-22.

7. Historically, the Commission has addressed the issues identified in its Order of August 18, 2017 in separate proceedings outside of a rate case.⁹ This practice has allowed the Commission greater time to deal with those collateral issues and has avoided the imposition of any financial hardship on a utility that a delay in the implementation of a needed rate adjustment might create. To the extent that the Commission prefers to address the three collateral issues in the current proceeding in lieu of establishing a separate proceeding, the Commission has previously ordered Commission Staff-recommended rates to become effective while investigating collateral matters.¹⁰

WHEREFORE, Estill County Water District No. 1 respectfully requests that the Commission immediately approve the rates recommended in the Commission Staff Report and authorize Estill County Water District No. 1 to charge those rates for water service.

Dated: October 12, 2017

Respectfully submitted,



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Counsel for Estill County Water District No. 1

⁹ See, e.g., *Alternative Rate Adjustment Filing of Western Mason County Water District*, Case No. 2014-00421 (Ky. PSC May 15, 2015) (approving Commission Staff Report findings without holding a hearing but announcing the establishment of a new proceeding to address allegations of issuance of evidences of indebtedness without prior Commission approval); *Application of Wood Creek Water District for Rate Adjustment Pursuant to 807 KAR 5:076*, Case No. 2015-00428 (Ky. PSC July 14, 2016) (approving Commission Staff Report findings without holding a hearing but announcing the establishment of a new proceeding to address allegations of issuance of evidences of indebtedness the exceeded the amount approved by the Commission).

¹⁰ *Application of Southern Water and Sewer District for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities*, Case No. 2012-00309 (Ky.PSC Dec. 21, 2012).

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 12, 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 Motion will be delivered to the Public Service Commission on or before October 16, 2017.

A handwritten signature in blue ink that reads "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

Estill County Water District #1
Profit & Loss
 January through August 2017

Jan - Aug 17

Ordinary Income/Expense	
Income	
474 · OTHER WATER REVENUES	
474-3 · UTILITY TAX/COMMERCIAL	2,921.77
474-1 · UTILITY TAX/RESIDENTIAL	26,927.65
Total 474 · OTHER WATER REVENUES	29,849.42
471 · MISC. SERVICE REVENUE	
471-5 · RETURNED CHECK FEE	315.00
471-4 · DISCONNECT/RECONNECT FEE	12,275.00
471-3 · MISC. INCOME	930.06
Total 471 · MISC. SERVICE REVENUE	13,520.06
470 · PENALTIES	
470-2 · PENALTIES	24,206.93
Total 470 · PENALTIES	24,206.93
462 · FIRE PROTECTION REVENUE	
462-2 · FIRE PROTECTION-PRIVATE	1,921.50
462-1 · FIRE PROTECTION-PUBLIC	329.00
Total 462 · FIRE PROTECTION REVENUE	2,250.50
461 · METERED WATER REVENUE	
461-2 · METERED SALES/COMMERCIAL	75,600.51
461-1 · METERED SALES/RESIDENTIAL	929,107.53
Total 461 · METERED WATER REVENUE	1,004,708.04
Total Income	1,074,534.95
Cost of Goods Sold	
610-1 · PURCHASED WATER	475,835.17
Total COGS	475,835.17
Gross Profit	598,699.78
Expense	
611-4 · UTILITIES/SEWER	169.61
604-1 · HEALTH REIMBURSEMENT ACCOUNT	5,117.16
623-6 · SMALL TOOLS/MAINT	3,352.08
620-9 · OFFICE/ BREAKROOM SUPPLIES	208.69
640-6 · UNIFORMS-MAINT.	1,413.13
640-8 · UNIFORMS-AD&G	351.30
640-7 · UNIFORMS-CUST SERV.	670.46
999 · ASK THE ACCOUNTANT	9,930.82
671 · CREDIT CARD REIMBURSEMENT	0.00
655-2 · TAXES-UTILITY	23,155.64
655-1 · TAXES-SALES	4,564.82
671-9 · C/C PROCESSING FEES	112.00
675-8 · MISC. EXPENSE/AD&G	3,552.52
675-6 · MISC. EXPENSE/MAINTENANCE	3,737.83
675-5 · MISC. EXPENSE/OPERATIONS	396.82
671-8 · BANK FEES	4,871.04
660-8 · ADVERTISING EXPENSE/AD&G	468.00
659-8 · INSURANCE/BONDS	407.20
658-8 · WORKMANS COMP	3,917.34
657-8 · INSURANCE GEN LIAB/AD&G	12,000.00
650-6 · TRANSPORTATION EXP/MAINTENANCE	12,014.03
650-5 · TRANSPORTATION EXP/OPERATIONS	2,892.68
635-8 · CONT SERVICE OTHER/AD&G	50.00
635-6 · CONT SERVICE/SUPPORT	18,280.05
635-5 · CONT SERVICE OTHER/OPERATIONS	1,779.44
634-8 · CONT SERVICE LAB/AD&G	2,343.50
633-8 · CONT SERVICE LEGAL/AD&G	6,611.25

Estill County Water District #1
Profit & Loss
 January through August 2017

	Jan - Aug 17
632-8 · CONT SERVICE ACCOUNTING/AD&G	13.75
621-8 · POSTAGE	13,814.47
620-7 · MATERIALS & SUPPLIES/CUST. SERV	412.24
620-6 · MATERIALS & SUPPLIES/MAINT.	26,352.99
620-5 · MATERIALS & SUPPLIES/OPERATIONS	9,835.65
615-5 · PURCHASED POWER/OPERATIONS	50,656.54
611-3 · UTILITIES/TRASH	150.00
611-2 · UTILITIES/TELEPHONE	3,559.02
611-1 · UTILITIES/INTERNET	425.70
604-8 · EMPLOYEE PEN & BEN/AD & G	21,625.84
604-7 · EMPLOYEE PEN & BEN/CUST SERVICE	28,685.11
604-6 · EMPLOYEE PEN & BEN/MAINTENANCE	77,571.41
603-8 · SALARY & WAGES/OFFICERS	12,000.00
601-8 · SALARY & WAGES/AD & G	28,172.16
601-7 · SALARY & WAGES/CUST. SERVICE	34,887.32
601-6 · SALARY & WAGES/MAINTENANCE	107,565.73
66000 · Payroll Expenses	0.00
Total Expense	538,095.34
Net Ordinary Income	60,604.44
Other Income/Expense	
Other Income	
419 · INTEREST & DIVIDEND INCOME	68.02
Total Other Income	68.02
Other Expense	
427-2 · INT ON LONG TERM DEBT/'15 CGB	1,709.85
427-1 · INT ON LONG TERM DEBT/'13 CGB	2,000.68
403 · DEPRECIATION EXPENSES	236,864.64
427-5 · INTEREST EXPENSE/84 REGIONS	4,549.00
428 · AMORT. OF DEBT EXPENSE	450.00
427-8 · INTEREST EXP./CUSTOMER DEPOSIT	323.36
427-3 · INT. ON LONG TERM DEBT/USDA-RD	145,709.06
427-6 · INT. ON LONG TERM DEBT/BERKADIA	1,600.00
Total Other Expense	393,206.59
Net Other Income	-393,138.57
Net Income	<u>-332,534.13</u>

9:38 AM

Estill County Water District #1

10/11/17

Account QuickReport

Accrual Basis

January through October 2017

Type	Date	Num	Name	Memo	Split	Amount
999 - ASK THE ACCOUNTANT						
Bill	02/28/2017	2/28/2...	RAYMOND JONES ...	OVERPAYME...	231 - ACCOU...	118.09
Check	02/28/2017	1753	CITIZEN'S GUARA...	1009834824597	131-3 · CASH I...	1,419.97
Check	03/30/2017	1755	CITIZEN'S GUARA...	LOAN # 24597	131-3 · CASH I...	1,419.97
Check	03/30/2017	1756	CITIZEN'S GUARA...	LOAN # 24597	131-3 · CASH I...	1,352.35
Bill	03/31/2017	3/18	AMBER HUGHES	OVERPAYME...	231 - ACCOU...	22.71
Check	04/28/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 · CASH I...	4.00
Bill	04/30/2017	10103...	LOGAN GRIFFIN	OVERPAYME...	231 - ACCOU...	110.88
Check	05/11/2017		DEPOSIT CORREC...		131-3 · CASH I...	0.40
Check	05/31/2017	1761	CITIZEN'S GUARA...	1009834824597	131-3 · CASH I...	1,352.35
Check	06/08/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 · CASH I...	1.00
Deposit	06/12/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 · CASH I...	-2.95
Deposit	06/15/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 · CASH I...	-0.70
Check	06/22/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 · CASH I...	0.22
Check	06/30/2017	1764	CITIZEN'S GUARA...	1009834824597	131-3 · CASH I...	1,352.35
Check	07/11/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 · CASH I...	0.08
Check	07/31/2017	1768	CITIZEN'S GUARA...	10098348 245...	131-3 · CASH I...	1,419.97
Check	08/11/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 · CASH I...	7.78
Check	08/31/2017	1773	CITIZEN'S GUARA...	1009834824597	131-3 · CASH I...	1,352.35
General ...	09/30/2017	9/17 8		TO RECLASS...	220-3 · '17 CG...	-9,669.31
Total 999 · ASK THE ACCOUNTANT						261.51
TOTAL						261.51

Estill County Water District #1
Balance Sheet
 As of August 31, 2017

	Aug 31, 17
ASSETS	
Current Assets	
Checking/Savings	
135 · TEMPORARY CASH INVESTMENTS	
135-7 · 2006 SINKING RESERVE/USDA-RD	25,039.72
135-6 · 2002(84) SINKING/REGIONS	17,952.86
135-3 · 91/96/98 SINKING/USDA-RD	43.85
Total 135 · TEMPORARY CASH INVESTMENTS	43,036.43
131 · CASH	
131-7 · CASH IN BANK/CUSTOMER SECURITY	72,427.32
131-2 · CASH IN BANK/GENERAL	-61,269.76
131-3 · CASH IN BANK/REVENUE	-36,688.89
131-1 · CASH ON HAND	807.21
Total 131 · CASH	-24,724.12
Total Checking/Savings	18,312.31
Accounts Receivable	
141 · ACCOUNTS RECEIVABLE	160,763.88
141-1 · UNBILLED RECEIVABLES	64,070.52
142 · OTHER ACCOUNTS RECEIVABLE	-118,119.37
143 · RETURNED CHECK	1,096.08
144 · ALLOW FOR DOUBTFUL ACCOUNTS	-14,517.00
145 · ACCOUNTS RECEIVABLE SEWER	12,340.65
Total Accounts Receivable	105,634.76
Total Current Assets	123,947.07
Other Assets	
180 · BOND ISSUE COST	765.72
340 · OFFICE FURNITURE AND EQUIPMENT	35,666.48
347 · MISCELLANEOUS EQUIPMENT	125,294.87
346 · COMMUNICATION EQUIPMENT	12,062.73
343 · TOOLS, SHOP, & GARAGE EQUIPMENT	16,027.17
341 · TRANSPORTATION EQUIPMENT	158,783.27
334-1 · METERS INSTALLED	1,099,653.20
334 · METERS BOUGHT	148,938.70
331 · TRANSMIS. & DISTRIBUTION MAINS	9,529,098.28
330 · DISTRIBU. RESERV. & STAND PIPES	1,351,262.51
311 · PUMPING EQUIPMENT	320,824.78
304 · STRUCTURES & IMPROVEMENTS	443,226.60
303 · LAND & LAND RIGHTS	15,565.02
181 · UNAMORT. DEBT DIS. & EXPENSE	8,636.55
162 · PREPAYMENTS	17,096.95
151 · PLANT MATERIALS & SUPPLIES	40,176.30
105 · CONSTRUCTION IN PROGRESS	
105-8 · IRVINE/CLAY CITY RELOCATE (KTC)	19,533.00
105-3 · CONST. IN PROGRESS-PHASE IX	750.00
105-7 · CONST. IN PROGRESS-PHASE 10	2,529,161.38
105 · CONSTRUCTION IN PROGRESS - Other	25,419.58
Total 105 · CONSTRUCTION IN PROGRESS	2,574,863.96
108 · ACCU. DEPR/PLANT IN SERVICE	-7,289,784.64
Total Other Assets	8,608,158.45
TOTAL ASSETS	8,732,105.52

Estill County Water District #1
Balance Sheet
As of August 31, 2017

Aug 31, 17

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Accounts Payable

232 · N/P CURRENT ISSUE

232-4 · N/P '91 ISSUE SERVICE A CURRENT	14,000.00
232-6 · N/P '96 ISSUE CURRENT	11,000.00
232-9 · NP '06 ISSUE CURRENT	15,000.00
232-5 · N/P '91 ISSUE SERVICE B CURRENT	2,700.00
232-3 · N/P '64 ISSUE CURRENT	27,500.00
232-8 · N/P '98 ISSUE CURRENT	19,000.00
232-1 · N/P 2002 (84) ISSUE CURRENT	15,000.00

Total 232 · N/P CURRENT ISSUE 104,200.00

231 · ACCOUNTS PAYABLE 18,220.91

Total Accounts Payable 122,420.91

Other Current Liabilities

239-6 · CANCER INSURANCE WITHHELD	-127.58
239-9 · EMPLOYEE GARNISHMENTS	-50.00
239-5 · HEALTH INSURANCE	-44.37
271 · CONT. IN AID OF CONSTRUCTION	7,178,085.69
239-4 · LIFE INSURANCE WITHHELD	6,478.86
239-3 · SHORT TERM DISABILITY WITHHELD	-250.09
239-2 · ACCIDENTAL INSURANCE WITHHELD	-91.02
239-1 · DENTAL WITHHELD	372.70
239 · RETIREMENT WITHHELD	-1,408.79
238 · COMPENSATED ABSENCES	2,545.84
237 · INTEREST ACCRUED	272,956.15
236 · TAXES ACCRUED	583.27
235 · CUSTOMER DEPOSITS	72,814.58
24000 · Payroll Liabilities	1,493.69

Total Other Current Liabilities 7,533,358.93

Total Current Liabilities 7,655,779.84

Long Term Liabilities

220-3 · '17 CGB LOAN	110,000.00
220-2 · '15 CGB LOAN	72,222.14
220-1 · '13 CGB LOAN	109,859.05
221 · BONDS	
221-10 · N/P '14 ISSUE	1,603,807.82
221-9 · N/P '06 ISSUE	780,762.51
221-8 · N/P '98 ISSUE	709,642.50
221-6 · N/P '96 ISSUE	335,653.75
221-5 · N/P '91 ISSUE SER B	56,480.00
221-4 · N/P '91 ISSUE SER A	287,125.00
221-2 · N/P '76 ISSUE	20,000.00
221-1 · N/P 2002 (84) ISSUE	46,635.75

Total 221 · BONDS 3,840,107.33

Total Long Term Liabilities 4,132,188.52

Total Liabilities 11,787,968.36

Estill County Water District #1
Balance Sheet
As of August 31, 2017

	Aug 31, 17
Equity	
32000 · Unrestricted Net Assets	-1,765,429.62
215 · UNAPPROPRIATED RETAINED EARNING	2,222,779.85
214 · APPROPRIATED RETAINED EARNINGS	66,025.53
210 · CAPITAL SURPLUS	91,943.37
30000 · Opening Balance Equity	-3,338,647.84
Net Income	-332,534.13
Total Equity	-3,055,862.84
TOTAL LIABILITIES & EQUITY	8,732,105.52
