

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF )  
WEST CARROLL WATER DISTRICT ) CASE NO.: 2017-00244  
FOR ALTERNATIVE RATE ADJUSTMENT )  
PUSUANT TO 807 KAR 5:076 )

**ATTORNEY GENERAL’S COMMENTS ON STAFF REPORT**

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and pursuant to the Commission’s August 18, 2017 Order, hereby tenders his Comments in the above-styled matter.

**STATEMENT OF THE CASE**

West Carroll Water District (the “District” or “West Carroll”) is a water district organized pursuant to KRS Chapter 74, and serves approximately 959 customers in Carroll, Henry, and Trimble counties.<sup>1</sup> On June 23, 2017, the District tendered an application with the Kentucky Public Service Commission (the “Commission” or “PSC”), requesting a revenue increase totaling \$97,278.43, which would produce \$583,670.56 in additional revenue, and would increase the average residential bill by \$10.22 per month, or approximately 20 percent.<sup>2</sup>

The Commission granted the Attorney General’s request for intervention on August 15, 2017.<sup>3</sup> Commission Staff filed its Report on December 4, 2017.<sup>4</sup> West Carroll filed its Comments on the Staff Report on December 14, 2017.<sup>5</sup> West Carroll’s Comments expressed its preference

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<sup>1</sup> *Electronic Application of West Carroll Water District for Rate Adjustment Pursuant to 807 KAR 5:076*, Case No. 2017-00244, ARF Form-1 Completed 2017, at 3 (Ky. P.S.C. June 23, 2017); West Carroll Water District Annual Report, at 12, 48.

<sup>2</sup> *Electronic Application of West Carroll Water District for Rate Adjustment Pursuant to 807 KAR 5:076*, Case No. 2017-00244, ARF Form-1 Completed 2017, at 3 (Ky. P.S.C. June 23, 2017); *Staff Report*, at 3 (Ky. P.S.C. December 4, 2017).

<sup>3</sup> *PSC Order*, Case No. 2017-00244 (Ky. P.S.C. August 15, 2017).

<sup>4</sup> *Staff Report* (Ky. P.S.C. December 4, 2017).

<sup>5</sup> *Response to Staff Report* (Ky. P.S.C. December 14, 2017).

to elect for the increase it originally proposed instead of the higher rate suggested by Staff.<sup>6</sup> West Carroll also waived a formal hearing in this matter.<sup>7</sup>

### COMMENTS

West Carroll does not have any employees, and outsources the management of its system to Carrollton Utilities (“CU”) through a Management Contract.<sup>8</sup> CU’s Management Contract was most recently amended by a supplemental agreement on September 21, 2017, with a management fee which now totals \$248,178.45 annually.<sup>9</sup> The Attorney General agrees with the Staff’s reduction of the test year amount of Contractual Services by \$10,142 to reflect the new annual amount of the recently amended Management Contract.<sup>10</sup>

In the 2002 Management Contract, the management fee totaled \$115,500.00.<sup>11</sup> The fee was subsequently raised five times in amendments to the Management Contract before the September 2017 decrease.<sup>12</sup> West Carroll stated that one of the reasons for the instant rate increase is the increasing costs of the Management Contract, which are driven in turn by rising healthcare and pension costs for CU employees.<sup>13</sup> The Attorney General agrees with the September reduction of the management fee agreed to by CU and West Carroll, but remains concerned by the long-term trend of increases to this fee, especially since West Carroll itself noted that its number of customers “has remained virtually unchanged over the past 15 years” and that “[w]ater usage per household continues to decline.”<sup>14</sup>

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<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *Staff Report*, at 6 (Ky. P.S.C. December 4, 2017).

<sup>9</sup> *West Carroll Water District’s Responses to Attorney Generals Initial Data Requests*, Exhibit B, at 13.

<sup>10</sup> *Staff Report*, at 6 (Ky. P.S.C. December 4, 2017).

<sup>11</sup> *Id.* at 1–6.

<sup>12</sup> *West Carroll Water District’s Responses to Attorney Generals Initial Data Requests*, Exhibit B, at 7–12.

<sup>13</sup> *Electronic Application of West Carroll Water District for Rate Adjustment Pursuant to 807 KAR 5:076*, Case No. 2017-00244, Attachment SR-Reasons for Application (Ky. P.S.C. June 23, 2017).

<sup>14</sup> *Id.*

The Attorney General also agrees with the Staff's reduction of test-year expenses by \$23,408 to deny the costs of purchasing and pumping excess water loss above the 15 percent allowed for ratemaking purposes.<sup>15</sup> However, West Carroll's ongoing water loss rate remains a concern. The rate was 32.3284 percent in the 2016 Annual Report.<sup>16</sup> Previous year's loss rates were 37.1949 percent in 2015, 30.1119 percent in 2014, 35.2247 percent in 2013, and 31.0771 percent in 2012.<sup>17</sup> In its comments on the Staff Report, West Carroll noted that "the Board hopes the plan to reduce water loss will be successful."<sup>18</sup> In response to data requests from the Attorney General, West Carroll listed a number of areas it has targeted to help reduce water loss, and notes that it has maintained a water loss target of 15% since 2013/2014.<sup>19</sup> Despite this target, the water loss has not dropped below 30% since, and has remained closer in range to 40% than 15%.

The Attorney General would note that a clearly delineated section in the 2013 Amendment to the Management Contract provided that West Carroll could terminate CU's management of the system if certain graduated water loss targets were not achieved by respective dates.<sup>20</sup> West Carroll stated that despite this prior termination clause, CU has and continues to meet the District's expectations.<sup>21</sup> In the amendments since 2013, these water loss targets were not present.<sup>22</sup> While the Attorney General makes no recommendation as to whether West Carroll should have exercised the early termination option, he does reiterate that the targets were not readjusted, they were simply

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<sup>15</sup> *Staff Report*, at 5 (Ky. P.S.C. December 4, 2017); 807 KAR 5:066, Section 6(3).

<sup>16</sup> West Carroll Water District 2016 Annual Report, at 56.

<sup>17</sup> West Carroll Water District 2015 Annual Report, at 61; West Carroll Water District 2014 Annual Report, at 61; West Carroll Water District 2013 Annual Report, at 61; West Carroll Water District 2012 Annual Report, at 58–59.

<sup>18</sup> *West Carroll Water District's Response to Staff Report* (Ky. P.S.C. December 14, 2017).

<sup>19</sup> *West Carroll Water District's Responses to Attorney Generals Initial Data Requests*, at 10–12 (Ky. P.S.C. September 25, 2017).

<sup>20</sup> *West Carroll Water District's Responses to Attorney Generals Initial Data Requests*, Exhibit B, at 10 (Ky. P.S.C. September 25, 2017) (The targets were: October 1, 2013 – 35%; January 1, 2014 – 27%; April 1, 2014 – 20%; July 1, 2014 – 15%).

<sup>21</sup> *West Carroll Water District's Responses to Attorney Generals Initial Data Requests*, at 12 (Ky. P.S.C. September 25, 2017).

<sup>22</sup> *West Carroll Water District's Responses to Attorney Generals Initial Data Requests*, Exhibit B, at 12–13 (Ky. P.S.C. September 25, 2017).

removed in the next amendment, and that until this September, the management fee continued to rise. The Attorney General would strongly recommend that the Commission require the District to include water loss targets tied to an option of early termination in the next amendment to the Management Contract. Without metrics, the District is less able to gauge CU's management performance over time, and whether the 15% water loss target is actually achievable.

The Attorney General further agrees with Staff's decision to average over a five-year period, the three outstanding bonds payable to the United States Department of Agriculture Rural Development, and the two interlocal agreements with CU on notes which are payable to the Kentucky Infrastructure Authority. This results in a five year average of \$71,257.<sup>23</sup>

Finally, the Attorney General agrees with Staff's calculation of an allowance for additional working capital totaling \$14,251, and its inclusion in West Carroll's Overall Revenue Requirement.

## CONCLUSION

The Commission has previously acknowledged its long history of relying on the principle of gradualism in rate making in order to mitigate the financial impact of rate increases on customers.<sup>24</sup> The Commission should continue to rely on that principle here. If the Commission finds that a rate increase is reasonable, in the absence of a cost-of-service study, the Attorney General agrees with Commission Staff that any increase in rates should be applied evenly across

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<sup>23</sup> *Staff Report*, at 7–8 (Ky. P.S.C. December 4, 2017).

<sup>24</sup> Case No. 2014-00396, *In the Matter of Application of Kentucky Power Company for: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2014 Environmental Compliance Plan; (2) An Order Approving its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief*, Order (Ky. PSC June 22, 2014) ("...the Commission has long employed the principle of gradualism..."); *See also*, Case No. 2000-080, *In the Matter of: The Application of Louisville Gas & Electric Company to Adjust its Gas Rates and to Increase its Charges for Disconnecting Service, Reconnecting Service and Returned Checks*, Order (Ky. PSC September 27, 2000) ("... the Commission is adhering to the rate-making concepts of continuity and gradualism in order to lessen the impact of these increases on the customers that incur these charges.").

the board.<sup>25</sup> In the event that the Commission grants West Carroll's requested revenue increase, the Commission should apply the increase across the board following the method used in the Staff Report. The continuing water loss and ever increasing management fees concern the Attorney General, and he would ask that the Commission scrutinize each very closely, both when making its final decision here, and in the future.

WHEREFORE, the Attorney General defers to the Commission, based upon the evidentiary record, to set a fair, just, and reasonable rate for the customers of West Carroll Water District. The Attorney General does not believe a hearing will be necessary in this case.

Respectfully submitted,

ANDY BESHEAR  
ATTORNEY GENERAL



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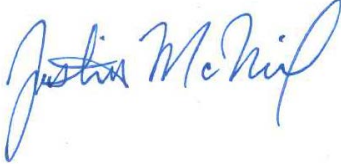
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<sup>25</sup> *Staff Report*, at 3 (Ky. P.S.C. December 4, 2017).

*Certificate of Service and Filing*

Counsel certifies that the foregoing is a true and accurate copy of the same document being filed in paper medium with the Commission within two business days; that the electronic filing has been transmitted to the Commission on December 18, 2017; and that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

This 18<sup>th</sup> day of December, 2017.

A handwritten signature in blue ink that reads "Justin McNeil". The signature is written in a cursive style with a large initial "J" and "M".

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Assistant Attorney General