

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**ELECTRONIC PROPOSED)
ADJUSTMENT OF THE WHOLESALE) CASE NO. 2017-00417
WATER SERVICE RATES OF)
LEBANON WATER WORKS)**

TESTIMONY OF

HOLLY L. NICHOLAS

FUNDING AND PROJECT ADMINISTRATION SPECIALIST

KENTUCKY ENGINEERING GROUP, PLLC

Filed: March 21, 2018

1 **INTRODUCTION**

2 **Q. Please state your name, position, and business address.**

3 A. My name is Holly L. Nicholas. I am a Funding and Project
4 Administration Specialist with Kentucky Engineering Group, PLLC. My
5 business address is P.O. Box 1034, 161 North Locust Street, Versailles,
6 Kentucky 40383. A statement of my qualifications and work experience
7 is attached as Appendix A.

8 **Q. Have you previously testified before the Public Service Commission?**

9 A. Yes.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to explain how Lebanon Water Works
12 Company (“the Company”) determined its revenue requirement and then
13 developed its proposed rates to meet that requirement.

14 **Q. Describe your work as Funding and Project Administration
15 Specialist?**

16 A. My work primarily involves the financing of infrastructure projects for
17 water and wastewater utilities. I am responsible for project development,
18 environmental review, rate analyses, and coordination of civil
19 engineering and sanitary projects. I prepare, submit, and track funding

1 application packages to various state and federal agencies, such as the
2 Kentucky Infrastructure Authority and Rural Development.

3 **Q. For what types of water utilities have you worked?**

4 A. I have worked with municipal utilities that served populations ranging in
5 size from less than 1,000 to 7,000 persons and with water districts whose
6 number of customers ranged from less than 300 customers to almost
7 10,000 customers.

8 **Q. Do you prepare rate analyses as part of your duties?**

9 A. Yes. One requirement for obtaining funding from some federal and state
10 lending agencies is proving financial viability. Accordingly, I have
11 prepared rate analyses in conjunction with numerous federally and state
12 funded construction projects for water and wastewater utilities.
13 Additionally, I have prepared several standalone rate studies.

14 **Q. Have you previously submitted any rate studies to the Public Service
15 Commission?**

16 A. Yes. I was involved in the preparation of rate applications for Marion
17 County Water District in Case No. 2016-00163¹ and Sandy Hook Water
18 District in Case No. 2016-00265.²

¹ *Alternative Rate Adjustment filing of Marion County Water District*, Case No. 2016-00163 (Ky. PSC filed Apr. 28, 2016).

² *Alternative Rate Adjustment filing of Sandy Hook Water District*, Case No. 2016-00265 (Ky. PSC filed July 19, 2016).

1 **Q. Have you prepared a rate analysis for the Company?**

2 A. Yes. In November 2016, the Company's Board of Directors authorized
3 Darren Thompson, the Company's Operations and Management
4 Superintendent, to retain me to prepare a water rate study. I completed
5 this rate study in June 2017 and presented it to the Company's Board of
6 Directors at its meeting on June 12, 2017.

7 **Q. Describe how you prepared your rate study.**

8 A. I generally followed the debt service coverage methodology that the
9 Public Service Commission has historically used to calculate the overall
10 revenue requirement for water associations and water districts that has
11 outstanding long-term debts. This method allows for recovery of: (1)
12 cash related pro forma operating expenses; (2) depreciation expense; (3)
13 the average annual principal and interest payments on all long-term
14 debts, and (4) working capital required by the Company's loan
15 agreements.

16 **Q. What period did you select as your study's test period?**

17 A. I selected the Fiscal Year Ending June 30, 2016 ("FY 2016") as the test
18 period to determine pro forma operating expenses. I selected this period
19 because the financial statement for that period was the most recent
20 audited financial statement available.

1 **Q. Was this test period generally reflective of the Company’s normal**
2 **operations?**

3 A. It was after adjustments were made to reduce or eliminate the effects of
4 unusual occurrences. The Company and I realized that this period and a
5 substantial portion of the Fiscal Year Ending June 30, 2017 (“FY 2017”)
6 were a transitional period for the Company. During these periods,
7 several long-time employees who would shortly retire were still on the
8 Company’s payroll, as well as their replacements, who were being
9 trained by these long-time employees. For example, the Company
10 employed both Daren Thompson as its new General Manager
11 (Operations & Management Superintendent) and its retiring General
12 Manager, John L. Thomas, during this transition period.

13 To avoid including the wages and fringe benefits of duplicate
14 employees and the higher wages of long-time employees who were in the
15 process of retiring, adjustments were made to reflect known and
16 measurable changes to personnel costs. The Company used the actual
17 wages and benefits of its “going-forward” workforce, annualized these
18 amounts, and then included only these amounts to determine its pro
19 forma operating expenses.

1 **Q. Were adjustments made to other operating expenses to ensure that**
2 **the test period was generally reflective of a normal year of**
3 **operations?**

4 A. Yes. Mr. Thompson in his testimony provides a detailed description of
5 these adjustments.

6 **Q. What were your findings regarding test period operating expense?**

7 A. Based upon my review, I determined that the Company had pro forma
8 operating expenses of \$2,905,127.

9 **Q. What were your findings regarding test period depreciation expense?**

10 A. Based upon my review, I determined that the Company's depreciation
11 expense was \$600,000.

12 **Q. How was depreciation expense determined?**

13 A. Based upon the Company's existing depreciation schedules, test period
14 depreciation expense was \$575,320. This amount was rounded up to
15 \$600,000 to reflect some depreciation on capital additions after FY 2016.
16 It does not reflect the full amount of depreciation on these new additions.
17 In his testimony, Mr. Thompson describes these new additions. As Mr.
18 Thompson has testified, to fully account for depreciation on capital
19 projects completed and placed into service after the end of the test period
20 would require a depreciation expense in excess of \$600,000.

1 **Q. How was debt service component of revenue requirements**
2 **determined?**

3 A. The Commission has historically determined a utility's debt service
4 requirement based upon a three-year average of the utility's annual
5 principal and interest payments for long-term debt.

6 At the end of the test period, the Company had five outstanding
7 long-term loans. The average of the principal and interest payments on
8 these loans for the years 2017, 2018, and 2019 was used to determine the
9 debt service component. I determined this average to be \$532,038.

10 **Q. What is the additional working capital component?**

11 A. As historically applied by the Commission, the debt service coverage
12 method includes an allowance for additional working capital that is equal
13 to the minimum net revenues required by the utility's lenders that are
14 above its average annual principal and interest payments.

15 **Q. How did you determine additional working capital component?**

16 A. In the rate study, I assumed that the Company's lenders required a debt
17 coverage ratio of 120 percent, which is the minimum coverage
18 requirement for Rural Development loans. (The Company has three such
19 loans which are now held by Citizens National Bank.). This ratio results

1 in an additional working capital component of \$106,408.³ I subsequently
2 learned that the Company's loans from Citizens National Bank require a
3 debt service coverage of 125 percent because of the City's Bond
4 Ordinances. Thus, the working capital component used in the rate study
5 is understated.

6 **Q. What were your findings regarding the Company's revenue**
7 **requirement?**

8 A. I found that, based upon pro forma operations, the Company's total
9 revenue requirement is \$3,501,009. Deducting other operating revenue
10 from this amount produces a revenue requirement from rates for water
11 service of \$3,438,209. Based upon test period revenues from water sales
12 of \$2,640,000, the Company requires a revenue increase of \$798,209 or a
13 30.24 percent increase in its revenues at present rates.

14 **Q. Are the Company's proposed rates consistent with your findings?**

15 A. Yes. I applied the proposed rates to actual customer usage in FY 2016.
16 My analysis showed that the proposed rates would produce the required
17 revenues.

18 **Q. What is your recommendation to the Commission?**

³ \$532,038 x 1.2 = \$638,446.
\$638,446 - \$532,038 = \$106,408

1 A. I recommend that the Commission approve the Company's proposed rate
2 increase. The proposed rates will generate sufficient revenues to meet
3 the Company's revenue requirements and are fair, just, and reasonable.

4 **Q. Does this conclude your testimony?**

5 A. Yes, it does.

Holly L. Nicholas

Funding and Project Administration Specialist

TECHNICAL EXPERTISE

- Funding applications
- Project development and coordination
- Federal and state grant requirements

YEARS OF EXPERIENCE

30.5

EDUCATION

BA/1979/Planning;
Eastern Kentucky University

PROFESSIONAL PROFILE

Ms. Nicholas has more than 35 years of experience working with the financing of infrastructure projects for communities and utility districts. Ms. Nicholas is responsible for project development, environmental review, rate analyses, and coordination of civil engineering and sanitary projects. She prepares, submits, and tracks funding application packages to various state and federal agencies. Funding and administrative agencies that Ms. Nicholas has worked with include:

- USDA Rural Development, Water & Wastewater Grant and Loan Program, Community Facilities Program
- Kentucky Infrastructure Authority, Clean Water and Drinking Water State Revolving Funds, Fund B and C, and budget line items.
- Gateway, Big Sandy, FIVCO, Northern KY, Lincoln Trail Area Development Districts and the Kentucky Indiana Planning and Development Agency,
- Governor's Office for Local Department, Coal Severance Program, Budget Line items, and Community Development Block Grant
- Appalachian Regional Commission
- Environmental Protection Agency

During her career, Ms. Nicholas has completed over 125 projects with more than 48 projects funded all or in part by Rural Development and more than 32 projects that have been funded all or in part by the Kentucky Infrastructure Authority, SRF programs (water and wastewater). Many of the project funding packages have more than one funding source, requiring considerable coordination between the funding agencies. Clients have ranged in size from less than 1,000 populations to towns of 7,000 and utility districts with less than 300 customers to almost 10,000 customers.

As a Funding and Project Administration Specialist with Kentucky Engineering Group, PLLC, Ms. Nicholas coordinates and assists local government officials and staff in completing requirements of various funding agencies. She coordinates all aspects of projects including securing government approvals of projects, conducting environmental assessments, Davis Bacon (Federal wage rate) compliance, financial documentation, cash disbursements, budget control, and reporting.

A requirement for obtaining funding is proving financial viability. Ms. Nicholas completes rate analysis for Rural Development projects and for SRF funded projects. She has also completed a number of stand alone rate studies for clients.



Holly L. Nicholas

Funding and Project Administration Specialist

REPRESENTATIVE PROJECT EXPERIENCE

City of Hardinsburg Water Treatment Plant and Transmission Mains

- Prepared funding applications to 10 separate funding sources for this complex project. The project resulted in the first reverse osmosis treatment plant for drinking water in the State of Kentucky. The total project cost was \$14.5m and involved nine grants, two loans, and local funds. Ms. Nicholas tracked all project expenditures throughout the project even before construction began. The tracking spreadsheets developed by Ms. Nicholas were used in place of the Federal Rural Development Agency's tracking sheets because they were considered by RD to be superior in completeness. Ms. Nicholas communicated regularly with City personnel, funding agency staff, and project engineers to ensure accuracy in the project budget documents. Ms. Nicholas prepared request for payments to various funding agencies and provided a monthly financial report to the city council.

Martin County Sanitation District - Tug Valley Sewers

- Prepared environmental assessment documents that were submitted to the US Army Corps of Engineers for approval. Coordinated the completion of the archaeological survey, biological survey of the treatment plant site and the collection system routing, and the review of environmental records for the project area. Assisted District personnel in completing the Rural Development Checklist. Developed the project budget that met all agencies' requirements. There are eleven funding sources in this project; four Federal sources - RD, CDBG, ARC, and USCOE, and seven state grants.

City of Louisa Meadowbrook/Burg Subdivision Sewer Rehabilitation

- Prepared the project profile and the submission of the project to the Clean Water SRF Intended Use Plan. Project was selected for funding through the 2010 Stimulus Bill (ARRA). Ms. Nicholas wrote the CWSRF application, completed the environmental review, maintained the required ARRA reports, and conducted the Davis Bacon compliance requirements. Also, managed with the City Clerk the project budget, monthly requests for payment, and oversaw the payment of project expenses.

Oldham County Environmental Authority

- Ms. Nicholas is providing on-going project administrative services to the OCEA. Two projects had state grants, one a special appropriation through the Environmental Protection Agency, and five CWSRF projects. Ms. Nicholas has completed all required applications, environmental reviews, and provided guidance to the project engineers. During construction she prepares the requests for payment, monitors Davis Bacon compliance, and monitors the project budgets. In addition to the construction projects, Ms. Nicholas assists the OCEA with the maintenance and revisions of its project profiles in the state WRIS database.

Holly L. Nicholas

Funding and Project Administration Specialist

RATE STUDIES (since 2010)

Lebanon Water Works, Inc. – 2017 and 2013.

Marion County Water District – PSC Alternative Rate Filing, Case No. 2016-00163.

Sandy Hook Water District – PSC Alternative Rate Filing, Case No, 2016-00265; 2013 RD Project.

Rattlesnake Ridge Water District – 2017 RD Project.

Rowan Water Inc. – 2016 RD Project, 2014 RD Project.

Southern Water & Sewer District – 2017 PSC Alternative Rate Filing – in process, 2013 RD Project.

Trimble County Water District – 2016 RD Project.

City of Irvington – 2014 RD Project.

City of Louisa – 2011 RD Project

Martin County Sanitation District – 2011 RD Project.

City of Hardinsburg – 2010 RD Project

City of Inez – 2011 RD Project