

**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 )**

**REBUTTAL TESTIMONY OF**

**HOLLY L. NICHOLAS**

**FUNDING AND PROJECT ADMINISTRATION SPECIALIST**

**KENTUCKY ENGINEERING GROUP, PLLC**

**Filed: June 8, 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 was attached as Appendix A to my Direct Testimony dated March 21,  
8 2018.

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

10 A. Yes.

11 **Q. Describe your work as Funding and Project Administration  
12 Specialist.**

13 A. My work primarily involves the financing of infrastructure projects for  
14 water and wastewater utilities. I am responsible for project  
15 development, environmental review, rate analyses, and coordination of  
16 civil engineering and sanitary projects. I prepare, submit, and track  
17 funding application packages to various state and federal agencies, such  
18 as the Kentucky Infrastructure Authority and Rural Development.

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

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

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

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

11 **Q. Did you previously testify in this proceeding?**

12 A. Yes. I filed Direct Testimony on March 21, 2018. My Direct Testimony  
13 detailed the rate analysis I performed for Lebanon Water Works  
14 Company (“Company”).

15 **Q. Is your Direct Testimony still correct?**

16 A. Yes. My Direct Testimony remains correct, with limited updates that I  
17 will describe in this rebuttal testimony. I hereby incorporate by reference  
18 my Direct Testimony and the exhibits attached thereto.

19 **Q. Have you reviewed the record in this proceeding, including the**  
20 **Direct Testimony of Daren Thompson, the Direct Testimony of**

1           **Charles White, and all of the responses to the Requests for**  
2           **Information?**

3    A.    Yes.

4    **Q.    Have you reviewed the Rebuttal Testimony of Daren Thompson?**

5    A.    Yes.

6    **Q.    Have you reviewed the Depreciation Schedule Worksheet filed with**  
7           **the Rebuttal Testimony of Daren Thompson?**

8    A.    Yes.

9    **Q.    What is the purpose of your Rebuttal Testimony?**

10   A.    The purpose of my Rebuttal Testimony is to present limited adjustments  
11       to the Company's Operating Expenses and Revenue Requirements  
12       calculation based on known and measurable changes that have occurred  
13       and assets placed into service since I conducted the rate analysis in June  
14       2017.

15   **Q.    Are you sponsoring an exhibit to your testimony?**

16   A.    Yes.    The adjustments to the Company's Operating Expenses and  
17       Revenue Requirements are shown in **Exhibit 1**, which is attached to my  
18       testimony. Each adjustment has a corresponding Reference Letter. I will  
19       explain each adjustment.

1 **Q. Please describe the adjustment to “Purchased Water-Cville Water &**  
2 **Sewer” at Reference A.**

3 A. I reduced the purchased water expense from Campbellsville by \$54,020  
4 to account for the reduction in the rate Campbellsville will be charging  
5 the Company. This reduction in purchased water expense is due to the  
6 recalculation of the water purchase rate from Campbellsville from \$3.36  
7 per 1,000 gallons to \$2.99 per 1,000 gallons. This rate reduction was  
8 further explained in the Direct Testimony of Daren Thompson.

9 **Q. Please describe the adjustment to “KRS/CERS – Employer Share” at**  
10 **Reference B.**

11 A. A change in state law placed a cap of 12% on the amount the employer  
12 contribution rate to the County Employees Retirement System (“CERS”)  
13 may be increased. The increase in the employer contribution rate for FY  
14 2019 is further described in the Rebuttal Testimony of Daren Thompson.  
15 Accordingly, I have updated the Company’s contribution amount based  
16 on this known and measurable change.

17 **Q. Please describe the adjustment to “Miscellaneous” expense at**  
18 **Reference C.**

19 A. An adjustment to Miscellaneous expense was made to account for the  
20 GIS Base Mapping Project and the GIS Asset Management Solution,

1 which were undertaken and completed since the Revenue Requirements  
2 were calculated. The GIS Base Mapping Project will increase the  
3 Company's annual miscellaneous expense by \$16,667. The Company  
4 will also pay a \$4,000 annual license fee to ESRI as a result of the GIS  
5 Asset Management Solution. See pages 24-25 of the Direct Testimony of  
6 Daren Thompson dated March 21, 2018 for a more detailed explanation.

7 **Q. Please describe the adjustment to "Repairs/Maintenance" expense at**  
8 **Reference D.**

9 A. Another adjustment was made to reflect the cost of ongoing service  
10 contracts with third parties to perform deferred maintenance projects at  
11 the Water Treatment Plant and other ongoing services. These contracts  
12 and agreements were entered into after the Revenue Requirements were  
13 calculated. These repair and maintenance expenses are shown below:

| <b>Name</b>                      | <b>Annual Amount</b> |
|----------------------------------|----------------------|
| Clearwell Cleaning               | \$16,075             |
| Filter Cleaning                  | \$19,465             |
| Electrical Inspections & Testing | \$10,000             |
| Megger Testing                   | \$1,500              |
| Sludge Hauling                   | \$23,400             |
| <b>Total</b>                     | <b>\$70,440</b>      |

14  
15 See pages 23-24 of the Direct Testimony of Daren Thompson dated  
16 March 21, 2018 for a more detailed explanation of these contracts and  
17 agreements.

1 **Q. Please describe the adjustment to “Depreciation Expense” at**  
2 **Reference E.**

3 A. Certainly. There are two major components to the Depreciation Expense  
4 adjustment: (1) Depreciation Schedule Worksheet; and (2) additional  
5 assets placed into service since the original Revenue Requirements were  
6 calculated.

7 **Q. Please describe the Depreciation Schedule Worksheet adjustment.**

8 A. The Company created a Depreciation Schedule Worksheet, which  
9 calculates a full year of depreciation for assets placed into service in 2017  
10 and corrects the useful lives of certain assets misclassified. The  
11 Depreciation Schedule Worksheet is further described in the Rebuttal  
12 Testimony of Daren Thompson.

13 **Q. Please describe the second component of the Depreciation Expense**  
14 **adjustment.**

15 A. An adjustment was made to add the depreciation expense for all the  
16 capital projects which have been completed and placed into service since  
17 the Revenue Requirements were calculated in June 2017. These include:

| <b>Project Name</b>  | <b>Amount</b>   |
|--|-----------------|
| Marion-Taylor Interconnect<br>(Campbellsville Transmission Main) | \$63,365        |
| WTP Filter Rehab   | \$8,977         |
| WTP Clearwell  | \$25,390        |
| <b>Total</b>   | <b>\$97,732</b> |

1 **Q. Please describe the adjustment to “Average Annual Debt P&I**  
2 **Payments” at Reference F.**

3 A. I made this adjustment to reflect the final loan amount for the  
4 Campbellsville project. The adjustment reflects the total loan amount of  
5 \$2,261,000.

6 **Q. Please describe the adjustment to “Debt Coverage Requirement” at**  
7 **Reference G.**

8 A. This adjustment reflects the final amount of the Campbellsville loan and  
9 also corrects the debt service coverage, which was originally incorrectly  
10 calculated.

11 **Q. Please refer to Exhibit 1, page 2. It appears that you have reduced**  
12 **the amount of “Revenue Required from Rates” by \$53,400 because**  
13 **of “Non-operating Revenue.” What is “Non-operating Revenue”?**

14 A. Non-operating revenue is revenue from a source other than the sale of  
15 water. In this particular case, the Company received non-operating  
16 revenue from three (3) sources: (1) tap fees; (2) developer contributions;  
17 and (3) fees from collecting residential garbage bills for the Marion  
18 County Fiscal Court.

19 **Q. Was this \$53,400 reduction made in your original rate analysis?**



1 A. Yes. I reduced the revenue required from rates by \$53,400 in my original  
2 rate analysis. I did not make any adjustment to that amount in Exhibit 1.

3 **Q. Explain the source of the tap fees.**

4 A. Each new retail customer who connects to the Company's water system  
5 must pay a tap (connection) fee. For 5/8 x 3/4 meters, the amount of the  
6 tap fee is \$900.

7 **Q. Explain the fees earned from collecting garbage bills.**

8 A. The Company has an agreement with the Marion County Fiscal Court to  
9 bill and collect the monthly garbage fees for residential customers who  
10 are also water customers of the Company. The Company retains 5% of  
11 the amount collected for providing this service for Fiscal Court. The  
12 amount shown on Exhibit 1 (\$11,400) represents the fees earned during  
13 the Test Year.

14 **Q. How much revenue was earned from each of these three (3) sources  
15 of non-operating revenue?**

16 A.

| <b>Non-operating Revenue</b>     | <b>Amount</b>   |
|----------------------------------|-----------------|
| Tap Fees                         | \$18,000        |
| Developer Contributions          | \$24,000        |
| Fee for Collecting Garbage Bills | \$11,400        |
| <b>Total</b>                     | <b>\$53,400</b> |

17

18 **Q. Was any portion of the \$53,400 paid by Marion District?**

1 A. No. The tap fees were paid by the Company's retail customers. The  
2 developer fees were paid by persons developing subdivisions within the  
3 Company's water service area. All the garbage bills were paid by the  
4 Company's retail customers. Therefore, the fees earned from billing and  
5 collecting garbage fees are attributable to the Company's retail  
6 customers.

7 **Q. Did Marion District receive the benefit of these Non-operating**  
8 **Revenues when you calculated the proposed rates?**

9 A. Yes. All the Company's customers, including Marion District, received  
10 the benefit of these Non-operating Revenues. First, the Company's  
11 Revenue Requirements were determined. Then Non-operating Revenue  
12 and Interest Income were subtracted to determine the amount of Revenue  
13 Required from Rates.

14 **Q. What do you conclude from Exhibit 1?**

15 A. Based on the information I have today, I would have concluded that the  
16 Company could justify a revenue increase of \$1,164,166, or 44.1%. In  
17 my opinion, the Company has more than justified the proposed revenue  
18 increase of \$798,208.

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

1 A. I continue to recommend that the Commission approve the Company's  
2 proposed rate increase. The proposed rates are fair, just, and reasonable.  
3 The proposed rates do not generate as much revenue as the Company has  
4 justified, but the proposed rate adjustment will improve the Company's  
5 financial condition, will enable it to meet its debt service requirements,  
6 and will produce an annual cash working capital allowance. The  
7 proposed rate adjustment, however, will not enable the Company to fully  
8 fund its depreciation expense.

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

10 A. Yes, it does.

VERIFICATION

COMMONWEALTH OF FLORIDA )  
 ) SS:  
COUNTY OF HERNANDO )

The undersigned, **Holly Nicholas**, being duly sworn, deposes and states that she has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of her information, knowledge, and belief.

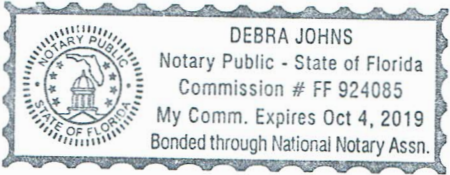
Holly L. Nicholas  
HOLLY NICHOLAS

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 8 day of June 2018.

Debra Johns (SEAL)  
Notary Public

My Commission Expires: 10/4/19

Notary ID: FF924085



STATE OF FLORIDA, COUNTY OF HERNANDO  
THE FOREGOING INSTRUMENT WAS ACKNOWLEDGED BEFORE ME  
THIS 6/8/18 Holly Nicholas BY THE ABOVE  
PERSON(S) WHO IS PERSONALLY KNOWN TO ME OR WHO HAS  
PRODUCED FL DL LIC AS  
IDENTIFICATION AND WHO DID / DID NOT TAKE AN OATH.

# **EXHIBIT 1**

## Operating Expenses & Revenue Requirements

06/08/18

|   | Original         |             |           | Revised          |
|---|------------------|-------------|-----------|------------------|
|   | Revenue/Expenses | Adjustments | Reference | Revenue/Expenses |
| <b>Operating Revenues</b>                   |                  |             |           |                  |
| Sales of Water                              |                  |             |           |                  |
| Unmetered water sales                       | -                |             |           | -                |
| Metered water sales                         | 2,640,000        |             |           | 2,640,000        |
| Bulk loading stations                       | -                |             |           | -                |
| Fire protection revenue                     | -                |             |           | -                |
| Sales for resale                            | -                |             |           | -                |
| <b>Total sales of water</b>                 | <b>2,640,000</b> |             |           | <b>2,640,000</b> |
| Other water revenues                        |                  |             |           |                  |
| Forfeited discounts                         | -                |             |           | -                |
| Miscellaneous service revenues              | -                |             |           | -                |
| Rents from water property                   | -                |             |           | -                |
| Other water revenues                        | -                |             |           | -                |
| <b>Total other water revenues</b>           | <b>-</b>         |             |           | <b>-</b>         |
| <b>Total Operating Revenues</b>             | <b>2,640,000</b> |             |           | <b>2,640,000</b> |
| <b>Operating Expenses</b>                   |                  |             |           |                  |
| Purchased Water-Cville Water & Sewer        | 490,560          | (54,020)    | (A)       | 436,540          |
| Savings at WTP                              | (39,733)         |             |           | (39,733)         |
| Salaries                                    | 615,200          |             |           | 615,200          |
| Fringe Benefits - Employee ins              | 188,400          |             |           | 188,400          |
| KRS/CERS - Employer share                   | 118,000          | 14,145      | (B)       | 132,145          |
| Payroll taxes                               | 47,100           |             |           | 47,100           |
| Office - Utilities                          | 12,000           |             |           | 12,000           |
| Office - Repairs/Maintenance                | 33,200           |             |           | 33,200           |
| Office - Supplies                           | 6,100            |             |           | 6,100            |
| Office - Miscellaneous                      | 15,900           |             |           | 15,900           |
| Professional Fees - Legal/Accting/Surveying | 65,400           |             |           | 65,400           |
| Postage                                     | 10,700           |             |           | 10,700           |
| Director fees                               | 12,600           |             |           | 12,600           |
| Advertisements                              | 900              |             |           | 900              |
| Uniforms/Safety Equipment                   | 10,100           |             |           | 10,100           |
| Continuing Education Expense                | 6,800            |             |           | 6,800            |
| Membership Dues/Fees                        | 5,000            |             |           | 5,000            |
| Insurance                                   | 49,100           |             |           | 49,100           |
| Bad Debts                                   | -                |             |           | -                |
| Interest on Customer Deposits               | 1,200            |             |           | 1,200            |
| Donations                                   | 400              |             |           | 400              |
| Rental House - Calvary                      | 800              |             |           | 800              |
| Miscellaneous                               | 4,000            | 20,667      | (C)       | 24,667           |
| Equipment - Repairs/Maintenance             | 2,000            |             |           | 2,000            |
| Shop - Supplies/Expense                     | 13,100           |             |           | 13,100           |
| Meters - Repairs                            | 60,900           |             |           | 60,900           |

|   |                  |         |     |                  |
|---|------------------|---------|-----|------------------|
| Mains - Repairs                                 | 20,000           |         |     | 20,000           |
| Hydrants - Repairs                              | 16,400           |         |     | 16,400           |
| Tanks - Repairs                                 | 10,000           |         |     | 10,000           |
| Tanks - Utilities                               | 4,000            |         |     | 4,000            |
| Lab Equipment/Supplies                          | 2,200            |         |     | 2,200            |
| Lab Testing                                     | 18,600           |         |     | 18,600           |
| Vehicle - Fuel                                  | 13,800           |         |     | 13,800           |
| Vehicle - Repairs/Maintenance                   | 16,700           |         |     | 16,700           |
| Warehouse Rd- BPS - Repairs/Maintenance         | -                |         |     | -                |
| Power   | 230,000          |         |     | 230,000          |
| Chemicals                                       | 170,000          |         |     | 170,000          |
| Utilities                                       | 10,500           |         |     | 10,500           |
| Repairs/Maintenance                             | 38,000           | 70,440  | (D) | 108,440          |
| Supplies  | 8,900            |         |     | 8,900            |
| Lab Equipment                                   | 11,000           |         |     | 11,000           |
| Pump Equipment                                  | -                |         |     | -                |
| Lake - Repairs/Maintenance                      | 1,800            |         |     | 1,800            |
| Buena Vista - Utilities                         | 1,000            |         |     | 1,000            |
| Buena Vista - Supplies                          | -                |         |     | -                |
| Buena Vista - Repairs/Maintenance               | 2,500            |         |     | 2,500            |
| <b>Total Operation and Maintenance Expenses</b> | <b>2,305,127</b> |         |     | <b>2,356,359</b> |
| Depreciation Expense                            | 600,000          | 206,086 | (E) | 806,086          |
| <b>Total Operating Expenses</b>                 | <b>2,905,127</b> |         |     | <b>3,162,445</b> |
| <b>Utility Operating Income</b>                 | <b>(265,127)</b> |         |     | <b>(522,445)</b> |

### Revenue Requirement Calculation - Debt Coverage Method

|   |                  |        |     |                  |
|---|------------------|--------|-----|------------------|
| Pro Forma Operating Expenses  | 2,905,127        |        |     | 3,162,445        |
| Plus: Average Annual Debt P&I Payments  | 532,037          | 31,580 | (F) | 563,617          |
| Debt Coverage Requirement   | 63,844           | 77,060 | (G) | 140,904          |
| <b>Total Revenue Requirement</b>  | <b>3,501,008</b> |        |     | <b>3,866,966</b> |
| Less: Other Operating Revenue   | (53,400)         |        |     | (53,400)         |
| Non-operating Revenue   |                  |        |     |                  |
| Interest Income   | (9,400)          |        |     | (9,400)          |
| <b>Revenue Required from Rates</b>  | <b>3,438,208</b> |        |     | <b>3,804,166</b> |
| Less: Revenue from Sales at Present Rates   | 2,640,000        |        |     | 2,640,000        |
| <b>Required Revenue Increase</b>  | <b>798,208</b>   |        |     | <b>1,164,166</b> |
| <b>Required Revenue Increase stated as a percentage of revenue at Present Rates</b> | <b>30.24%</b>    |        |     | <b>44.10%</b>    |

## Reference

- (A) Water purchase rate from Campbellsville was recalculated and subsequently reduced from \$3.36 per 1000 gallons to \$2.99 per 1000 gallons for 400,000 GPD.
- (B) Pension Expense (CERS) amount was increased by \$14,145 to a total for FY 2019 of \$132,145.
- (C) GIS Base Mapping Project and the annual licensing fee were added.
- (D) \$70,440 was added to cover on-going service contracts at the WTP.
- (E) Depreciation for Campbellsville transmission main, WTP filters, and clearwell have been added to total depreciation amount; adjustments were made to reflect additions from the Depreciation Worksheet.
- (F) Final loan amount for Campbellsville project has been adjusted to reflect total loan of \$2,261,000.
- (G) Debt coverage was incorrectly calculated originally plus it needed to include the final amount of the Campbellsville loan.