COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE	)	
WATER SERVICE RATES OF THE CITY OF	)	Case No. 2019-00080
PIKEVILLE TO MOUNTAIN WATER DISTRICT	)	

REPLY BRIEF OF THE CITY OF PIKEVILLE

Documentation filed in this case demonstrates the reasonableness of the City of Pikeville's proposed wholesale water rates and rate-case expense surcharge to Mountain Water District ("MWD"). MWD filed its Post-Hearing Brief ("Response Brief") on October 18, 2019. Most of the arguments contained in the MWD's Response Brief have no support in the record. Accordingly, Pikeville submits the following Reply to address the arguments presented by MWD. Our analysis begins with revenue requirements.

I. Revenue Requirements

A. Expenses Pikeville pays to UMG are reasonable.

MWD erroneously argues that there is no evidence to support the reasonableness of the expenses Pikeville pays to UMG for management and operation of the water system.[1] It also incorrectly maintains that the City wants differential treatment on proving the reasonableness of these expenses paid to UMG as compared to other utilities. That is simply not accurate.

[1] Response Brief at 21.

1. Because the UMG contract is an arms-length transaction, it has a presumption of reasonableness.

Prior Commission decisions demonstrate that the expenses paid by Pikeville to UMG should be recovered in rates. This Commission has followed a long history of judicial and administrative cases finding that contracts negotiated at arms-length deserve a presumption of reasonableness.[2] It is undisputed that the agreement between UMG and Pikeville is an arms-length transaction. It follows that, based on prior Commission precedent, the expenses associated with the UMG contract are presumed to be reasonable.

"The burden of overcoming the presumption of managerial good faith falls on the party challenging it."[3] In other words, because MWD is challenging the UMG contractual expenses, MWD has the burden of overcoming the presumption that those expenses are reasonable.[4] In order to meet that burden, MWD would have to produce some affirmative evidence in this case. MWD has not presented any evidence that the UMG expenses are unreasonable. Accordingly, MWD's argument must be rejected.[5]

2. Pikeville has produced evidence to further support the reasonableness of Pikeville's UMG expenses.

Even if Pikeville's UMG expenses were not presumed to be reasonable, Pikeville has presented evidence of those expenses' reasonableness. Pikeville compared its expenses associated with UMG to the expenses identified in annual reports of other utilities under

[2] *See Hopkinsville Water Envir't Auth.*, Case No. 2009-00373 (Ky. PSC Aug. 9, 2010)("a utility's operating expenses are presumed to be reasonable"); *Fern Lake Co.*, Case No. 2013-00172 (Ky. PSC Dec. 12, 2013) ("Generally, a utility management decision to incur an expense will be presumed reasonable absent evidence that the expense is unreasonable, inefficient, or an abuse of management discretion."); *see also W. Ohio Gas Co. v. Ohio Pub. Util. Comm'n*, 294 U.S. 63 (1935); *Pa. Publ. Util. Comm'n v. Phila. Elec. Co.*, 561 A.2d 1224 (Pa. 1989).

[3] *City of Pikeville*, Case No. 2002-00022 at 8 (Ky. PSC Oct. 18, 2002).

[4] With this principal in mind, MWD's suggestion that it does not need to "prove the presumptively reasonable fees are unreasonable" is simply incorrect. As the fact finder, the Commission does not have a burden of proof. But when Pikeville's expenses are presumed to be reasonable (i.e., "presumptively reasonable"), MWD has the burden of proof to show that the expenses are unreasonable.

[5] *Cf.* CR 43.01(2) ("The burden of proof in the whole action lies on the party who would be defeated if no evidence were given on either side.")

Commission jurisdiction.[6] The results of this comparative analysis demonstrate that Pikeville's expenses related to the services that UMG provides are reasonable. The first comparison is based on consumption, and it reveals that only one out of twenty water utilities has a lower cost per thousand gallons for similar services than Pikeville's expenses. This comparison had three separate measuring points to demonstrate the reasonableness of Pikeville's expenses.[7]

The second comparison also had three separate measuring points and is based on expense per customer for four other utilities that produce nearly all of their own water and have more than 40% of consumption from wholesale purchases.[8] This comparison revealed that Pikeville's expenses related to UMG were squarely in the middle of the comparative utilities' expenses, and Pikeville's expense for each of the three factors was below the median cost per customer of each of the four utilities.[9]

Without providing any further discussion, MWD argues that this "list of revenues/expenses" for PSC-regulated utilities has "no correlation or relevance to the expenses billed to Pikeville by UMG."[10] MWD's assertion has no basis in fact. Pikeville's comparative analysis has three sets of measuring points to ensure that there is direct correlation to the expenses related to UMG's services.

For the first measuring point in the comparative analysis, Pikeville totaled its inside-city 2017 UMG expense with the City's costs for Worker's Comp, Wages, Payroll Taxes, Insurance, Pension, and Unemployment, and compared it to the following expenses identified in each utilities' Annual Report on file with the Commission: Salaries and wages – employees, Employee Pensions and Benefits, chemicals, Contractual Services – Eng., Contractual Services –

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[6] Pikeville's Response to PSC 3-17.
[7] *Id.* ("Comparison by Customers").
[8] Pikeville was only able to locate data for four utilities meeting this criteria.
[9] Pikeville's Response to PSC 3-17 ("Comparison by Customers").
[10] Response Brief at 23.

Management Fees, Water Testing, Contractual Services – Other, and Insurance Worker's Compensation. The City added costs for Worker's Comp, Wages, Payroll Taxes, Insurance, Pension, and Unemployment to ensure that these expenses were not underreported in comparison to the information from the utilities' Annual Reports.[11]

The second measuring point is based on the same categories as the first comparative, but it includes insurance expenses (both for the City and the utilities' reported expenses for Vehicle, General Liability, and Other). This comparison recognizes that UMG has insurance expenses that it must cover through its contract with Pikeville.

The third measuring point is based on total expenses excluding depreciation. Although this third comparison is broader than the scope of services provided by UMG, it provides additional verification as to the reliability of the comparative analysis. It also does not change the fact that the first two measuring points have a direct correlation to the exact services provided by UMG as to other Commission-jurisdictional utilities.

Pikeville's comparative analysis presents an "apples-to-apples" comparison of its expenses incurred by UMG's management and operation of its water system with other jurisdictional utilities. MWD simply ignores the substance of the analysis because the analysis does not support the outcome that MWD desires.

In addition to the analysis comparing Pikeville's UMG expenses with the same expenses incurred by jurisdictional utilities, Pikeville provided information on UMG's calculation of its own expenses. A comparison of these expenses to Pikeville's allocation is remarkably similar, as it shows that these two figures are within $300 of each other.[12]

[11] Pikeville's Response to PSC 3-17.
[12] *See* Pikeville's Initial Brief at 7-8.

MWD is critical of the fact that UMG earns a profit on the services it provides. UMG's profit margin, however, is not relevant to the calculation of Pikeville's rates. This can be most aptly demonstrated by the slippery slope it presents. If a third-party's profit were relevant to the calculation of a utility's rates, intervenors in future cases may be tempted to ask for the profit margin of Ferguson Waterworks and Badger Meters because those companies supplied materials for the water utility, or for the profit margin of the utility's local attorney who provided services to the utility throughout the year, or for the profit margin of the electric utility's coal supplier.

Ultimately, by standards established in a variety of prior Commission cases, there should be no exception to the general rule that Pikeville's UMG expenses are presumptively reasonable because they are the product of an arms-length transaction. But even if there was no such general standard, Pikeville has produced the only evidence[13] in this case to support those expenses' reasonableness. Because the Commission's decision must be based on substantial evidence and because the only evidence in the record supports a finding of reasonableness, Pikeville must be permitted to include in rates the expenses it incurs for UMG's services.

B. Pikeville's depreciation expense is reasonable.

MWD argues that Pikeville's depreciation expense should be decreased by approximately $88,000, but its arguments are not well founded. Initially, MWD criticizes Pikeville for not having a depreciation study. But the Commission has previously recognized that a depreciation study requires detailed information and is expensive to complete.[14] As such, water districts (and other public entities) rarely have one performed.[15] The total depreciation expense calculated by Pikeville is remarkably similar to the depreciation expense calculated using the mid-point of the 1979 NARUC guidelines. Pikeville reported its depreciation expense as $414,224, and the

[13] Specifically, Pikeville refers to its Response to PSC 3-17.
[14] *Northern Kentucky Water Dist.*, Case No. 2006-00398 at 3 (Ky. PSC Nov. 21, 2007).
[15] *See id.*

calculation of the depreciation expense using the mid-point of the 1979 NARUC guidelines is $414,137.[16] The similarity in total depreciation expense demonstrates the reasonableness of Pikeville's depreciation expense.

MWD attempts to whittle Pikeville's depreciation expense away by arguing that the depreciation expense is over-reported because it maintains that the appropriate "useful life of pipe" is 62.5 years, instead of 40 years.[17] MWD, however, is trying to "have its cake and eat it, too" because MWD only isolates an asset that has a longer service life according to the NARUC guidelines. Pikeville's depreciation schedule has several accounts for which service lives are just the opposite. If MWD supports using the mid-point of the service range identified in the NARUC guidelines for one asset group, it must use the mid-points of the service ranges identified in the NARUC guidelines for all asset groups. The result of such a proposal would be $414,137 in depreciation expense, a reduction of $87 to the overall revenue requirement.

C. MWD has not provided sufficient support for adjustments to other expenses.

MWD has identified a few miscellaneous "discrepancies,"[18] but MWD has failed to support any cursory argument that an alleged discrepancy impacts the result in this case. For example, MWD suggests that the variable operating expenses identified in Figure 3 of Pikeville's Cost of Service Analysis are different than the variable costs in Figure 6.[19] Figure 3 of the Cost of Service Analysis shows variable expenses of $727,948 and $1,028,645. Figure 6 of the Cost of Service Analysis also shows variable expenses of $727,948 and $1,028,645.[20] It is unclear

[16] *See* Pikeville's Response to PSC 1-19. The spreadsheet filed July 15, 2019, incorrectly identified the mid-point of the service-life range for "Transmission and Distribution Mains" from the NARUC guidelines as 67.5 years instead of 62.5 years. With this correction in the calculation to each of the asset groups identified as having a 67.5-year service life, the mid-point depreciation expense is $414,137.
[17] Response Brief at 26.
[18] Response Brief at 28-31.
[19] Response Brief at 28.
[20] Pikeville's Response to PSC 2-16(c).

why MWD believes there is a discrepancy. Similarly, it is unclear why MWD believes there is no correlation between expenses listed in the general ledger, Figure 3 of the Cost of Service Analysis, and the audit report.

MWD also states—without elaboration—that "the debt service information includes bonds that are not relevant to the water system and bonds that pertain to the water utility but are irrelevant to the deliver and sale of wholesale water."[21] It can be presumed that MWD is referring back to an argument presented in a section on allocation factors[22] in which MWD argues that only 70.5 percent of the GO Bond Series 2012C could relate to MWD and neither of the Sewer Revenue Bonds Series 2016A or GO Bond Series 2017 relates to MWD. As discussed below,[23] Pikeville has only included the relevant portions of the Series 2012C and 2016A debt in its calculation of MWD's rate. None of the expenses related to the referenced 2017 debt were included.

In this section of its Response Brief as elsewhere,[24] MWD erroneously argues that it purchased 456,592,000 gallons of water from Pikeville, instead of 463,158,000. The total gallons sold to MWD in the test year were 463,158,000. The discrepancy between the numbers is based on MWD reliance on the monthly handwritten reports for the test year, which do not account for the change-out of the South Mayo Trail meter in December 2016. In response to the Commission's initial request, Pikeville produced the monthly volumetric sales to MWD.[25] That table demonstrates that MWD received 463,158,000 gallons from Pikeville between July 2016 to June 2017.[26]

[21] Response Brief at 28.
[22] Response Brief at 12-13.
[23] *See* notes 32-43 *infra* and accompanying text.
[24] *Id.; see also id.* at 17.
[25] Pikeville's Response to PSC 1-18
[26] In addition, MWD's annual consumption could be calculated from the average daily consumption identified in Pikeville's Response to MWD 1-5.

This fact is corroborated by reviewing the table produced by MWD on page 17 of its Response Brief. On that table, the December 2016 consumption is listed at 1,701 gallons for the South Mayo Trail meter, but the average monthly usage at that location excluding that month was approximately 9,196 gallons.

Having addressed MWD's arguments related to revenues and expenses that would impact revenue requirements, we move to MWD's discussion of Pikeville's Cost of Service Analysis and its allocation factors.

II. Cost of Service Analysis

A. Pikeville's Cost of Service Analysis is reliable.

MWD argues that Pikeville's Cost of Service Analysis does not conform to the AWWA Methodology. If it wanted to be accurate, MWD should have stated that Pikeville's Cost of Service Analysis does not use the methodology identified in AWWA's Manual M1. Pikeville and its expert Samuel Petty have admitted that the Cost of Service Analysis does not use the same methodology identified in Manual M1 because Pikeville did not have maximum-day and maximum-hour demand data that is necessary to perform such an analysis.

Several facts demonstrate there is more than one way to determine appropriate allocations for expenses. For example, Manual M54 states that it "provides guidelines for the development of rates for utilities that lack the data and resources needed to apply the methods described in Manual M1." In addition, few rate increases approved by the Commission for water utilities are supported by a cost-of-service study based on Manual M1's methodology. If the M1 methodology was the only one acceptable, M54 would not propose a different methodology and the Commission would never approve a rate increase that was not based on M1 analysis.

MWD attempts to draw similarities to decades' old decisions that are clearly distinguishable. Citing to *Harrison County RECC*, MWD argues that the Commission rejected undocumented adjustments.[27] But in that case, the Commission rejected the RECC's attempt to normalize mailing costs based on projected increases in postage rates. *See Harrison County RECC*, Case No. 7944 at 3 (Ky. PSC Feb. 20, 1981). The Commission effectively held that the projected postage rate increase was not known and measurable and was, therefore, not an appropriate pro forma adjustment to the RECC's expenses. In Pikeville's case, there were no pro forma adjustments made to any test-year expenses. Pikeville did not attempt to normalize or adjust any of is test-year expenses. Accordingly, the 1981 *Harrison County RECC* case is clearly inapplicable to Pikeville's case.

Similarly, MWD mentions a case involving Hardin County Water District No. 1, in which the Commission determined that the Water District could not explain the source of the data used in the cost-of-service study. *See* Response Brief at 8 (quoting *Hardin County Water District No. 1*, Case No. 90-019 (Ky. PSC Feb. 21, 1991). In that case, the Commission criticized the sponsor of the Water District's cost-of-service study because he "was unfamiliar with accepted authorities on rate design and the basic principles to develop a cost-of-service study." *Id.* at 20. The Commission disapproved the Water District's expert because he "did not collect the data used for the study nor was he able to explain how it was collected." *Id.*

Those circumstances are not present in Pikeville's case. Petty demonstrated his knowledge of accepted authorities and the principles of rate design. In both written discovery responses and testimony at the hearing, Petty described various methodologies for calculating rates.[28] He explained that an M1 analysis would require peak-hour and peak-day demand data.[29]

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[27] *See* Response Brief at 7.
[28] *See, e.g.*, Pikeville's Response to PSC 2-10.

He was also able to articulate that MWD would likely have higher rates if an M1 analysis was used because the MWD's monthly peak-to-average demand ratio was higher than other inside city customers.[30] Petty was also the primary person involved in requesting, collecting, and analyzing information to determine the appropriate allocation factors. He explained how he collected the information that he analyzed (e.g., that he met with numerous individuals from UMG and Pikeville to obtain data and learn more about Pikeville's system in order to assign the appropriate allocation factors). Although, in hindsight, it would have been better to maintain records on every piece of information that factored in the determination of allocation percentages, Petty's allocation factors are supported evidence in the record of this case.

B. Bob Amos Tank

MWD attempts to criticize Pikeville's cost-of-service analysis by referring to the Bob Amos water tank, which MWD argues "does not loop back into the Pikeville distribution system."[31] This criticism is based on the faulty premise that the Bob Amos tank does not assist in providing water to MWD. That tank has a regulated bypass, which can allow it to feed into Pikeville's system. If MWD is pulling high volumes of water through the Island Creek meter, Pikeville can utilize the Bob Amos tank to ensure reliable water service.

C. Debt Expense

Contrary to MWD's position, Pikeville has not allocated an unjustified portion of debt to MWD. In support of its argument, MWD states that only 70.5 percent of the GO Bond Series 2012C could relate to MWD and neither of the Sewer Revenue Bonds Series 2016A or GO Bond Series 2017 relates to MWD.[32]

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[29] *See, e.g.*, Pikeville's Response to MWD 1-10.
[30] *See* Pikeville's Response to MWD 1-48.
[31] *See* Response Brief at 11.
[32] *See* Response Brief at 12.

MWD asserts that only "70.5 percent of the GO Bond Series 2012C could possibly pertain to MWD."[33] Because MWD references items (i), (vi), and (vii) of Ordinance No. 0-2012-011 in a data request, it appears that MWD attempts to calculate a percentage of the total amount of the loans that were identified in and were outstanding when Ordinance No. 0-2012-011 was enacted.[34] However, those paragraphs only identify the then-current revenue bonds and obligations. Those do not reference all the loans that would be refinanced by the GO Bond Series 2012C.

Pikeville specifically addressed this in response to MWD's Request for Information. It stated, "Series 2012C was only for an advance refunding of KY Rural Water Finance debt that is referenced in O-2012-011 part i. It is appropriate to include this amount because the KRWFC debt was used to provide water service, which benefits MWD."[35]

The terms of Ordinance No. 0-2012-011 also make it clear that the 2012C bond issuance was for the refinance of the 2004 KRWFC Loan identified in paragraph (i) on page 1 of the Ordinance.[36] Some of the relevant language[37] from that ordinance on page 3 states as follows:

> WHEREAS, upon the recommendation of the Financial Advisor, the Board of Commissioners has determined that it is necessary and desirable and in the public interest that the City advance refund, pay and redeem on January 1, 2013, and defease the pledges and commitments securing the portion of the 2004 KRWFC Loan, which mature on January 1, 2014 - 2023, in order to effect debt service savings; and
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> WHEREAS, the projects financed by the 2004 USDA Loan constituted a public project within the meaning of KRS Section 66.011 used for public purposes; and the weighted average life or period of usefulness, as estimated by the City, of the projects being refinanced extends beyond January 1, 2023; and
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> . . .

[33] *See* Response Brief at 12.
[34] *See* MWD Request for Information 1-30(a).
[35] Pikeville Response to MWD 1-30(a).
[36] *See* Ordinance No. 0-2012-011, filed by Pikeville in response to PSC 1-5.
[37] Other paragraphs in the Ordinance mention that the 2012B Series would refinance other commitments. The Series 2012B is not at issue in this case.

WHEREAS, the Board of Commissioners has determined that in order to carry out the advance refunding it is necessary to issue at this time $1,555,000 principal amount (subject to adjustment as provided herein) General Obligation Bonds, Series 2012C (the "Series 2012C Bonds"); and

Section 11 of Ordinance No. 0-2012-011 is specifically titled, "Application of the 2012C Series Bonds Proceeds; Advanced Refunding and Defeasance of 2004 KRWFC Loan." And, on page 19, the Ordinance specifically states, "The proceeds of the Series 2012C Bonds will be used to advance refund the 2004 KRWFC Loan . . . ."

Pikeville has further explained that the 2012C bonds related directly to the water system, stating:

> The only debt that was refinanced with the General Obligation 2012C relates to the water treatment plant and waterworks improvements. General Obligation 2012C refinanced a debt incurred in 2004 that refinanced debt from 1985. The following descriptions were provided in the 1985 ordinances: "Whereas the portion of the system constituting the present water treatment plant facilities and appurtenances is inadequate to service the present and future needs"; "in order to aid in financing the construction and installation of major improvements and additions to such water treatment plant facilities and appurtenances"; and "proceeds thereof to be applied to the construction and installation of certain waterworks improvements and additions (the 'Project')."[38]

Accordingly, any suggestion by MWD that the entire 2012C bond issuance was not used to finance Pikeville's water system, which serves MWD, is not supported by the record.

It is unclear why MWD also mentions that the "Water and Sewer Revenue Bonds Series 2016A relates to sewer as per the bond description supplied by Pikeville."[39] As Pikeville has stated, the 2016A bond was used to construct water and sewer services to the Kentucky Enterprise Industrial Park at Marion's Branch.[40] Documentation demonstrates that MWD

[38] Pikeville's Response to PSC 3-4.
[39] Response Brief at 12.
[40] Pikeville's Response to PSC 1-5.

supported this project, as it provided benefits to MWD.[41] In addition, Pikeville has explained that it separated costs between the water and sewer systems, and only the costs related to the water system were included in the cost-of-service analysis.[42] As such, any mention by MWD that a part of the Industrial Park project included sewer is not relevant to this case.

It is also unclear why MWD mentions the GO Bond Series 2017. Pikeville has explained that none of the principal and interest amounts of the GO Bond Series 2017 were included in the calculation of the proposed rate to MWD.[43] This is yet another red herring presented by MWD.

D. Debt Service

Pikeville correctly applied the debt service coverage methodology based on Commission precedent. The "DSC Method" has been routinely accepted by the Commission for determining revenue requirements for municipal utilities. *See, e.g.*, *W. McCracken County Water Dist.*, Case No. 2017-00319 (Ky. PSC Jan. 30, 2018); *Hopkinsville Water Envir. Auth.*, Case No. 2010-00373 (Ky. PSC Aug. 9, 2010)("As it relates to municipal utilities, the debt service coverage method is generally used to determine a reasonable rate of return on net revenues."). As shown in the Commission's order for West McCracken District, the Commission calculates the overall revenue requirement through the DSC Method by adding the operating expenses (including depreciation),[44] debt service payments, and the debt service coverage requirement.[45] The

[41] *See* MWD Responses to PHDR. In fact, it appears that MWD concedes this point by its omission of oppositional arguments related to the Marion's Branch debt service.
[42] Pikeville's Response to PSC 3-5.
[43] Pikeville's Response to MWD 1-30(c).
[44] As this Commission frequently notes: The Kentucky Supreme Court has held that the Commission must permit a non-profit utility to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. *See Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W .2d 725, 728 (Ky. 1986). Although a non-profit utility's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the utility's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. *See Southern Water and Sewer District,* Case No. 2012-00309 (Ky. PSC Dec. 21 , 2012).

Commission later verifies that the anticipated revenues will produce an annual cash working capital allowance and will meet the debt service requirements of the utility's lenders.[46] But the Commission does not reduce the revenue requirement when those anticipated revenues exceed the debt service requirements.[47] Accordingly, MWD's argument on the debt service coverage is incorrect and must be rejected based on Commission precedent.

E. Pikeville's allocation factors for distribution facilities are appropriate.

1. Pikeville's recovery of expenses associated with meters is appropriate.

MWD maintains that the allocation factors used in the cost-of-service analysis may not be appropriate. Initially, MWD indicates that the allocation for meters is appropriate if it relates to customer accounting or service, but not if the allocation relates to replacing or repairing meters.[48] As Pikeville has stated, expenses associated with furnishing, installing, operating, and maintaining all of the City's infrastructure that provides safe, reliable water service to its customers are reasonably included in rates.[49] There is nothing in the contract between MWD and Pikeville that forbids Pikeville from recouping the normal operating expenses associated with metering equipment.[50] Any finding to the contrary would lead to absurd results, as discussed in Pikeville's Initial Brief.[51] Accordingly, MWD's position must be rejected.

2. The 50-percent consumption factor is appropriate because MWD consumed 463,158,000 gallons in the test year.

Next, MWD argues that the 50-percent factor was not calculated accurately.[52] Here again, MWD's premise to its argument is faulty. MWD relies exclusively on the monthly

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[45] *See W. McCracken Cnty. Water Dist.*, Case No. 2017-00319 at 3.
[46] *See id.* at 4.
[47] *Id.*
[48] Response Brief at 13; Testimony of Connie Allen at 7:18-21.
[49] Pikeville Response to MWD 1-39.
[50] *See* Pikeville's Initial Brief at 10.
[51] *Id.*
[52] Response Brief at 14; *see also* Response Brief at 28

handwritten reports for the test year, which does not account for the change-out of the South Mayo Trail meter in December 2016. In response to the Commission's initial request, Pikeville produced the monthly volumetric sales to MWD.[53] That table demonstrates that MWD received 463,158,000 gallons from Pikeville between July 2016 to June 2017.

3. Pikeville's allocation factor for line maintenance, leak detection, and distribution and transmission mains is appropriate.

MWD also criticizes Pikeville's factor used for costs associated with line maintenance, leak detection, and distribution and transmission mains,[54] but it proposes no other solution that is based on information related to Pikeville's system. As with many small systems, Pikeville does not have a hydraulic model or other unique mapping to assist in calculating such a factor. In lieu of that modeling, Pikeville engaged in a collaborative process, in which Petty was able to request and obtain information about the system from numerous individuals involved in its operations. With his expertise and their information, Petty was able to determine the appropriate allocation factors.

With respect to distribution, Petty determined that MWD utilized 95% of the inside-city distribution system in order to receive wholesale water service from Pikeville. This was based on system-specific information provided by employees of Pikeville and UMG. The reliability of this collaborative process is confirmed by the inch-mile calculation presented in this case, in which it was determined that 92% of the inch-miles in Pikeville's distribution system served MWD.[55] The close correlation between Petty's determination that 95% of Pikeville's distribution system is utilized by MWD and the inch-mile calculation of 92% demonstrates that Petty's conclusions are sound.

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[53] Pikeville's Response to PSC 1-18
[54] Response Brief at 14, 17-20.
[55] Pikeville's Response to PSC 1-13.

MWD suggests that the information related to Pikeville distribution system produced by Pikeville in this case may not be reliable because of data produced in 2002.[56] MWD's position, however, is misguided because there is no evidence in this case to support information provided in 2002. Pikeville has specifically stated that it does not know what information was used by the Commission in 2002.[57] No person has testified in this case as to the reliability of any information from 2002, and much less, no person has testified that Pikeville's infrastructure is identical to what it was in 2002. Rather, the only evidence in this case as to the current status of Pikeville's system is the information which Pikeville has provided in response to data requests and on which Petty and Grondall have testified. In short, there is no other evidence—let alone, substantial evidence—in the record to support MWD's position.

Equally concerning, MWD proposes to base an allocation factor that has no basis related to Pikeville's system. It proposes to assign a 40% factor to account for lines used to provide service to MWD.[58] But the proposed 40% factor is based on a hypothetical presented at a seminar where they *assumed* that a 2-inch main was the smallest size installed and that a 6-inch main is required for peak domestic flows.[59] MWD witness Allen, however, testified that she did not base her calculation on any data specific to Pikeville's system to show that only water mains 2-inches to 6-inches were required to provide peak domestic flow for Pikeville's system.[60] In addition, Allen relied on information from WRIS related to Pikeville's system which no one in this case has verified. By merely assuming that a hypothetical assumption presented at a utility seminar accurately reflected the actual operating conditions of Pikeville's system, MWD has

[56] Response Brief at 19-20.
[57] Pikeville's Response to PSC 3-20.
[58] Response Brief at 20.
[59] *See* MWD Response to PSC 2-3(b) and Slide S6-11 of the attached PowerPoint presentation entitled "Financial Management: Cost of Service Rate-Making."
[60] VR: 1:58:04.

failed to provide any relevant information to support its proposed allocation related to water lines.

Two other arguments presented by MWD in this discussion are worth addressing. First, MWD argues that Pikeville's cost-of-service analysis did not "account for diurnal demands on retail and wholesale customers."[61] As has been noted before, Pikeville does not have demand data necessary to account for such demand. But equally important, MWD has not provided any alternative to demonstrate that accounting for diurnal demands on the system by certain customers would change the conclusions of the cost-of-service analysis.

Second, MWD erroneously argues that the results of the Cost of Service Analysis are demonstrably unreliable because the proposed rate of $2.30 per 1,000 gallons to MWD is higher than rates to Pikeville's outside city customers.[62] MWD's flawed argument is based on a faulty foundation. The proposed rate to MWD is not higher than rates to its retail customers.[63] Pikeville produced a copy of its inside- and outside-city rate schedule in response to the Commission's request,[64] which showed the following outside-city rates:

Gallons per Month	***Monthly Charge***
First 2,000	$31.50 (min. mo. bill)
Next 3,000	$0.882 per 100 gallons
Next 5,000	$0.882 per 100 gallons
Next 10,000	$0.756 per 100 gallons
Next 30,000	$0.756 per 100 gallons
Next 50,000	$0.700 per 100 gallons
Over 100,000	$0.490 per 100 gallons

[61] Response Brief at 14. Presumably, MWD means the demands placed on the system by customers, as opposed to the diurnal demands on customers.
[62] Response Brief at 15.
[63] At the hearing, Elswick testified in response to a question by Chairman Schmitt that he "believed" that it was the case that Pikeville's retail rates were lower than its proposed wholesale rates. As it turns out, his belief was not entirely correct.
[64] Pikeville's Response to PSC 1-18a.

If MWD paid outside-city rates for each of their master meters, its annual charges would double in comparison to Pikeville's proposed rate of $2.30 (from $1,065,263 to $2,297,712), as shown on the tables below.

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month	master meter readings in 1000 gallons									totals	
	Town Mtn	Chloe Rd	Island Creek	Coon Branch	S Mayo Trail	Hoopwood	Trailer Park	Hurricane	Cowpen		
Jul-16	18,386	2,236	2,285	103	7,600	100	177	1,880	2,293	35,060	
Aug-16	22,652	3,190	3,928	119	11,934	105	200	1,942	2,812	46,882	
Sep-16	22,687	2,931	3,939	124	11,092	89	166	1,776	2,502	45,306	
Oct-16	18,940	2,318	1,389	122	7,451	79	149	1,454	2,494	34,396	
Nov-16	17,989	2,173	2,235	153	9,374	82	155	1,604	2,485	36,250	
Dec-16	20,373	2,508	3,836	186	8,267	92	192	1,919	2,643	40,016	
Jan-17	19,843	2,103	3,693	200	8,344	77	180	1,598	2,862	38,900	
Feb-17	15,697	1,967	2,909	196	6,918	71	163	1,513	2,458	31,892	
Mar-17	19,271	2,203	3,681	242	9,521	78	177	1,731	2,771	39,675	
Apr-17	16,224	1,667	3,938	200	8,477	78	147	1,436	2,260	34,427	
May-17	17,291	1,803	3,724	153	9,566	111	183	1,877	2,680	37,388	
Jun-17	19,635	2,092	3,608	133	10,887	120	243	2,320	3,928	42,966	
FY17 total	228,988	27,191	39,165	1,931	109,431	1,082	2,132	21,050	32,188	463,158	
% of total (rounded)	50.2%	6.0%	8.6%	0.4%	22.5%	0.2%	0.5%	4.6%	7.0%	100.0%	
											Rate at $2.30
Jul-16	$ 90,356	$ 11,221	$ 11,461	$ 769	$ 37,504	$ 754	$ 1,132	$ 9,476	$ 11,500	$ 172,058	$ 80,638
Aug-16	$ 111,259	$ 15,895	$ 19,512	$ 848	$ 58,741	$ 779	$ 1,244	$ 9,780	$ 14,043	$ 229,986	$ 107,829
Sep-16	$ 111,431	$ 14,626	$ 19,566	$ 872	$ 54,615	$ 677	$ 1,078	$ 8,967	$ 12,524	$ 222,264	$ 104,204
Oct-16	$ 93,070	$ 11,623	$ 7,071	$ 862	$ 36,774	$ 607	$ 995	$ 7,389	$ 12,485	$ 168,805	$ 79,111
Nov-16	$ 88,411	$ 10,912	$ 11,216	$ 1,014	$ 46,197	$ 628	$ 1,024	$ 8,124	$ 12,441	$ 177,889	$ 83,375
Dec-16	$ 100,092	$ 12,554	$ 19,061	$ 1,176	$ 40,773	$ 698	$ 1,205	$ 9,668	$ 13,215	$ 196,343	$ 92,037
Jan-17	$ 97,495	$ 10,569	$ 18,360	$ 1,244	$ 41,150	$ 593	$ 1,146	$ 8,095	$ 14,288	$ 190,874	$ 89,470
Feb-17	$ 77,180	$ 9,903	$ 14,519	$ 1,225	$ 34,163	$ 551	$ 1,063	$ 7,678	$ 12,309	$ 156,535	$ 73,352
Mar-17	$ 94,692	$ 11,059	$ 18,301	$ 1,450	$ 46,917	$ 600	$ 1,132	$ 8,746	$ 13,842	$ 194,672	$ 91,253
Apr-17	$ 79,762	$ 8,433	$ 19,561	$ 1,244	$ 41,802	$ 600	$ 985	$ 7,301	$ 11,338	$ 168,957	$ 79,182
May-17	$ 84,990	$ 9,099	$ 18,512	$ 1,014	$ 47,138	$ 808	$ 1,161	$ 9,462	$ 13,396	$ 183,466	$ 85,992
Jun-17	$ 96,476	$ 10,515	$ 17,944	$ 916	$ 53,611	$ 852	$ 1,455	$ 11,632	$ 19,512	$ 210,798	$ 98,822
FY17 total	$1,125,215	$136,409	$ 195,082	$12,635	$ 539,385	$ 8,152	$ 13,620	$106,319	$160,895	**$2,297,712**	**$ 1,065,263**

Pikeville's inside-city rates are also not lower for the average customer, relatively speaking, in comparison to the proposed wholesale rate of $2.30. The average monthly in-city consumption (excluding wholesale customers) is 7,081 gallons per customer.[65] An average account using 7,081 gallons would pay $46.97 per month, or an average of $6.63 per 1,000 gallons.[66] This is significantly higher than the $2.30 wholesale rate proposed by Pikeville.

4. Pikeville's allocation factor for booster pumps and storage tanks is reasonable.

MWD attempts to criticize Pikeville's 50-percent allocation factor used for booster pumps and storage tanks, but ultimately, it does not propose a significant alternative method of calculation for that factor.[67] MWD acknowledges that Pikeville applied a 50-percent factor because MWD accounts for 50 percent of the inside-city consumption.[68] MWD's table presented in its Response Brief between pages 31 and 32 reveals that MWD also applied a factor based on a percentage of water consumed by MWD.

MWD's calculation of this factor is flawed in two ways. First, MWD uses an incorrect numerator for the total amount of water sold to MWD. Instead of 463,158,000 gallons, MWD utilized 456,592,000. But, as discussed above, the total gallons sold to MWD in the test year were 463,158,000. The discrepancy between the numbers is based on a meter change-out that would not have been recorded on the monthly handwritten consumption reports. Second, MWD uses an incorrect denominator for the total amount of water sold. It is only appropriate to use the total gallons sold for the inside-city customers (instead of 973 million for inside- and outside-city

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[65] *See* Pikeville's Response to PSC 1-18 (showing FY2017 total consumption for inside-city retail customers of 281,672,417 gallons) and Pikeville's Response to 3-14 (showing 3,318 customers, of which 3 accounts are related to MWD and Southern District). Note that the average consumption of 7,081 includes larger users.

[66] This calculation is based on the in-city rates identified in Pikeville's Response to PSC 1-19, which show the minimum billing including 2,000 gallons is $12.32 and the next 8,000 gallons of consumption are $6.82 per 1,000 gallons.

[67] *See* Response Brief at 15-17.

[68] *Id.*

customers)[69] because that factor is applied only to inside-city system expenses. The outside-city customers are assigned expenses related to infrastructure required to serve them.

Regardless of MWD's flaws in its calculation, it is important to recognize that MWD ultimately agrees with Pikeville on how to determine the appropriate factor for these expenses—e.g., percentage of consumption.

III. There is no evidentiary support for MWD's table recommending certain adjustments.

MWD created a table of adjustments that is presented between pages 31 and 32 of its Response Brief. This table is contrary to the evidence presented in this case, including the testimony of MWD's expert witness. Notably, the table suggests that Pikeville's wholesale water rate to MWD should be decreased from its current rate. But MWD's witness Connie Allen stated that she was not testifying that Pikeville was not entitled to a rate increase.[70]

The Commission has recently reaffirmed that "a party's position is based upon the evidence sponsored and introduced into the record by that party."[71] At the hearing, MWD's witness made MWD's position clear: it was not asserting that Pikeville was not entitled to an increase. To state it in the affirmative: Pikeville is entitiled to a rate increase. Because MWD's brief and attached table is contrary to the position that MWD took at the hearing, they must be disregarded.

Even if the table were considered, Pikeville has responded to nearly all of the arguments presented in that table and will address each below.

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[69] MWD calculates 973,385,000 for total system sales based on Pikeville's Response to MWD 1-5. Notably, if MWD had also used the annual sales to MWD based on Pikeville's Response to MWD 1-5, it would have calculated 463,158,000 gallons.
[70] VR: 2:10:43.
[71] *Kentucky-American Water Co.*, Case No. 2018-00358 at 14 (Ky. PSC Aug. 8, 2019).

MWD has reduced expenses for booster stations by $89,909 because the Cost of Service Analysis "did not put as much money in the 'tanks' item as the general ledger indicates Pikeville spent on tank maintenance." MWD explained that it "took it [the expense] from booster stations because the same allocation factor is used on booster stations as tanks."

There are two critical flaws with MWD's argument to reduce the booster station expense. First, the Harold's Branch and Bob Amos tanks can be used by Pikeville to serve parts of its system. If MWD is pulling high volumes of water through certain areas, Pikeville can utilize other infrastructure to ensure reliable water service.[72] There is no evidence in the record of this case to suggest otherwise. Second, MWD's explanation that it deduced expenses from the booster station category because it had the same allocation factor as the tank category actually demonstrates the reasonableness of the Cost of Service Analysis. The expense for the tanks that was allocated to MWD did not change depending on whether the expenses appeared in the tank category or the booster station category—both categories used the same allocation factor of approximately 50 percent.

Ultimately, it is clear that the expenses incurred for the Harold's Branch and Bob Amos tanks were reasonably incurred and should be recovered in rates. And there was no differentiation between the allocation factors for booster stations and tanks so the result would not have changed.

MWD's adjustment for depreciation is discussed at length above.[73] In summary, MWD cannot propose that one category of assets should have depreciation expense based the NARUC guidelines but not have all categories of assets based on the NARUC guidelines.

[72] *See* note 31 and accompanying text.
[73] *See* note 14 17 and accompanying text.

Likewise, there is no justification for MWD's argument that debt expense must be reduced because of certain factors related to the Series 2012C, 2016A, or 2017 bonds. The appropriate amount of expense has been recorded for FY2018.[74]

MWD's argument related to debt service coverage is inconsistent with prior Commission decisions.[75] In past cases, the Commission has calculated a revenue requirement to include a debt service coverage component for additional working capital. MWD's proposal on the elimination of this item would be inconsistent with the Commission's prior practice.

MWD's proposed reduction of the capacity factor applied to six categories of expenses is not accurately calculated. MWD purchased 463,158,000 gallons from Pikeville during the test year. The information MWD used to calculate the gallons purchased did not include the readings of a meter-change out that occurred in December 2016. In addition, it is not appropriate to use the total inside- and outside-city consumption as the denominator because outside-city expenses are not included in the expenses to which these factors are applied.[76]

MWD's reliance on a 40% capacity component has no basis related to Pikeville's system.[77] It was generated for a hypothetical utility at an AWWA seminar. MWD's witness even testified that she did not consider information specific to Pikeville's system to determine whether a certain sized main was required to serve peak flow. Without that information, the subsequent calculation of a capacity component is completely unreliable for Pikeville's system.

Moreover, MWD acknowledges its proposed capacity factor should be applied to all expenses related to the water system (e.g., both inside- and outside-city expenses).[78] Pikeville

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[74] *See* note 32-43 and accompanying text. It is also worth noting that MWD concedes that the debt expense should be increased to reflect new principal and interest on 2018 financing.
[75] *See* note 44-47 and accompanying text.
[76] *See* note 53-54 and accompanying text.
[77] *See* note 60-61 and accompanying text.
[78] *See* Response Brief at Table between pages 31-32.

has separate accounts, however, to track inside- and outside-city expenses. Therefore, as MWD acknowledges, it is not appropriate to apply MWD's proposed capacity factor to inside-city expenses only.

IV. Rate Design

Pikeville has proposed a volumetric rate for wholesale water service to MWD at $2.30 per 1,000 gallons, as recommended by the Cost of Service Analysis. Pikeville has not proposed to eliminate that minimum 28,000,000-gallon monthly purchase requirement for MWD, as set by contract. Section 1 of the contract specifically states: "Seller agrees to produce and sell and Purchaser agrees to buy at "points of delivery" hereinafter specified in Paragraph 2 during the term of this Contract or any renewal or extension thereof, potable treated water meeting applicable quality standards of the Kentucky Natural Resources and Environmental Protection Cabinet, Division of Water, a minimum of 28 million gallons per month . . . ." The term of the Contract extends to 2034.

MWD now notes that it does not object to a unified rate for all consumption, as long as the contractual monthly minimum is voided.[79] But no evidence in this case has been produced to support elimination of that minimum monthly requirement. Rather, MWD's expert witness even testified that MWD was contractually required to purchase 28,000,000 gallons.[80] Without any evidence in the record to support amending this contractual provision, the Commission cannot order it. To the extent that MWD insists on having two different rates for the two tiers, the Commission can approve a rate that is significantly higher than the unified $2.30 per 1,000-gallon rate for the monthly minimum of 28,000,000, and a lower rate for usage above that amount.

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[79] Response Brief at 5.

[80] Allen Testimony at 10:19-20 ("Since MWD is only contractually required to buy the first 28 million 20 gallons . . . .").

V. Rate Case Expense Surcharge

"Rate case expenses have long been considered as appropriate expenses for inclusion in utility rates."[81] "It is a well-settled principle of utility law that rate case expenses 'must be included among the costs of operation in the computation of a fair return.'"[82] The Supreme Court has even declared that "[t]he charges of engineers and counsel, incurred in defense of its security and perhaps its very life, were as appropriate and even necessary as expenses could well be."[83]

Contrary to MWD's argument on the proposed rate case expense surcharge,[84] Pikeville has not requested to recover all expenses associated with Pikeville's increase in water rates. It only seeks to recover expenses that are associated with MWD. Based on Commission and judicial precedent, Pikeville is entitled to recover these expenses.

MWD erroneously maintains that Pikeville is attempting to recover 100% of Pikeville's consultant fees for the initial work he performed on the initial cost-of-service analysis. As shown in Pikeville's Response to Item 34 of the Commission's initial data request filed on July 15, 2019, Pikeville specifically reduced its request to recover consultant expenses associated with the initial cost-of-service analysis by nearly $16,000. Pikeville explicitly stated how it allocated the appropriate factor for those expenses: "A factor of 20.44% is based on the FY17 audited expenses of $5,213,038 for inside/outside water and sewer and Mr. Petty's recommended revenue requirement of 1,065,428." This is shown below.

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[81] *City of Owenton*, Case No. 98-283 (Ky. PSC Feb 22, 1999)(citing *West Ohio Gas Co. v. Public Utilities Comm'n*, 294 U.S. 63, 74 (1935)).
[82] *Kentucky-American Water Company*, Case No. 2010-00036 at 46 (Dec. 14, 2010)(quoting *West Ohio Gas Co.* 294 U.S. at 74).
[83] *West Ohio Gas Co.*, 294 U.S. at 74.
[84] Response Brief at 32-34. Additionally, contrary to any suggestion by MWD otherwise, Elswick testified that Pikeville was seeking to recover rate case expenses that are all associated with MWD. VR: 10:12:04.

Total Amount	Amount Included for MWD Rate Case Expense	Description	
$ 9,000.00	$ 1,839.60	Consulting Services	*- A factor of 20.44% is based on the FY17 audited expenses of $5,213,038 for inside/outside water and sewer and Mr. Petty's recommended revenue requirement of 1,065,428
$ 7,200.00	$ 1,471.68	Consulting Services	*
$ 1,800.00	$ 367.92	Consulting Services	*
$ 2,000.00	$ 408.80	Consulting Services	*
$ 6,000.00	$ 6,000.00	Consulting Services	All work related to MWD exclusively
$ 2,274.08	$ 2,274.08	Consulting Services	All work related to MWD exclusively
$ 28,274.08	$ 12,362.08		

Pikeville's allocation is based directly on the Commission decision cited by MWD. In Case No. 2009-00428, Greensburg sought to recover the entire cost of a rate study that addressed rates for retail and wholesale customers. The Commission confirmed that the rate study was "a useful tool in reviewing existing retail rates and developing new rates that may better reflect the cost of service." *City of Greensburg*, Case No 2009-00428 at 6 (Ky. PSC Aug. 6, 2010). Accordingly, the Commission allocated the costs of the multi-faceted rate study "based upon each class's percentage of the city's total revenue requirement."

Pikeville's proposed surcharge adheres to the Commission's decision in *City of Greensburg*. Pikeville has applied 20.44% of the expenses of the initial cost-of-service analysis because that was MWD's percentage of the City's total revenue requirement on the study that included both water and sewer. It has applied 100% of the consultant's subsequent work that related to MWD exclusively. This, too, is consistent with the *City of Greensburg* case because other customers did not benefit from the consultant's additional work.

MWD also erroneously suggests that Pikeville includes legal fees associated with the increase to Southern Water and Sewer District. As shown in Pikeville's Response to Item 34 of the Commission's initial data request filed on July 15, 2019, Pikeville specifically reduced its request to recover legal expenses associated with Southern District by over $2,000. Pikeville explicitly states this in that response, as shown below:

Vendor Name	Hours	Rate/Hr	Total Amount	Amount Included for MWD Rate Case Expense	Description	
Sturgill Turner	19.4	$214.07	$ 4,301.24	$ 2,523.50	Legal Services	Reduced for time spent on Southern Water
Sturgill Turner	1.2	$245	$ 294.40	$ -	Legal Services	Reduced for time spent on Southern Water
Sturgill Turner	0.5	$245	$ 122.50	$ 122.50	Legal Services	
Sturgill Turner	13.7	$245	$ 3,356.50	$ 3,356.50	Legal Services	
Sturgill Turner	3.3	$245	$ 808.50	$ 808.50	Legal Services	
Sturgill Turner	5.1	$245	$ 1,250.90	$ 1,250.90	Legal Services	
Sturgill Turner	1	$245	$ 245.00	$ 245.00	Legal Services	
Sturgill Turner	1.7	$245	$ 416.50	$ 416.50	Legal Services	
Sturgill Turner	38.8	$ 202.06	$ 8,743.92	$ 8,743.92	Legal Services	
Total Legal			$ 19,539.46	$ 17,467.32		

It is also worth noting that Pikeville has not included costs associated with the City Attorney's involvement in this matter or the costs of City employees.

Pikeville's claimed rate case expense of $89,488.64 is reasonable.[85] Pikeville has appropriately reduced claimed expenses based on Commission precedent. And the total amount Pikeville seeks is similar to expenses incurred by other municipal utilities in rate cases filed within the last 10 years before this Commission, including City of Lebanon ($162,695), City of Augusta ($69,535), City of Danville ($57,190), Hopkinsville Water and Environment Authority ($153,416), and Frankfort Electric and Water Plant Board ($78,405).[86] There is absolutely no justification for offsetting MWD's expenses against the surcharge.

In addition, the three-year amortization is consistent with Commission precedent.[87] MWD suggests that the rate case expense should be recovered over a five-year period, but its argument is based on the faulty premise that the Wholesale Water Purchase Agreement between Pikeville and MWD precludes future increases for an additional 5 years.

[85] Pikeville's Supplemental September Response to PSC 2-34.
[86] Pikeville's Response to PSC 2-34.
[87] *See, e.g.*, *City of Greensburg* at 7.

Contracts must be interpreted according to their clear, unambiguous terms. *Abney v. Nationwide Mut. Ins. Co.*, 215 S.W.3d 699, 703 (Ky. 2006), as modified on denial of reh'g (Mar. 22, 2007)(citing *3D Enterprises Contracting Corp. v. Louisville and Jefferson County Metro. Sewer Dist.*, 174 S.W.3d 440, 448 (Ky. 2005). MWD's interpretation of the contract is not based on the clear language of the contract.

The last contract between the parties was executed on November 14, 2011. It states, "the rate schedule set forth in paragraph 5 above shall extend for a term of 5 years from the effective date of this agreement set forth hereinabove. The rate schedule shall automatically extend to additional year to year term(s) at the end of the original 5 year term or any one year extension term unless . . ." certain actions are taken by Pikeville to increase those rates.[88] The temporal limitation for increasing rates is only assigned to the rate schedule contained in the original contract or any extension of the "original" term. There is nothing in the contract that sets specific periodic terms for future rates.

It would be illogical to require a five-year "stay out" after a future rate is implemented based on the original contract. The rate schedule in the original contract may have contemplated the risk of increasing costs over the initial five-year term. But it would be impossible to provide such a guarantee for future increases. In addition, Pikeville's proposed rates in this case are based on a test year that covers expenses and revenues from the 2017 fiscal year. If Pikeville cannot change its rates for five years after this increase, the next rate case available to Pikeville could be implemented in 2025. The rates immediately prior to that increase would be based on expenses and revenues from 8 years prior, which is not justified in most scenarios.

[88] Water Purchase Contract at 5.

Ultimately, the Commission should approve a rate case expense surcharge of $2,485.80 per month for 36 months. The expenses incurred by Pikeville are reasonable and should be recovered over a 3-year period, which is consistent with Commission precedent.

VI. Conclusion

Evidence in this case demonstrates the reasonableness of Pikeville's proposed wholesale rate to MWD. In contrast, the arguments presented by MWD are not supported by evidence in the record. Accordingly, Pikeville respectfully requests that the Commission approve the rate of $2.30 per 1,000 gallons for all usage (including the contractual minimum purchase of 28,000,000 gallons per month) and approve the rate case expense surcharge of $2,485.80 per month for 36 months.

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

In accordance with 807 KAR 5:001, Section 8(7), this is to certify that the City of Pikeville's October 25, 2019, electronic filing is a true and accurate copy of the documents being filed in paper medium; that the electronic filing has been transmitted to the Commission on October 25, 2019; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that an original and a copy of the filing are being delivered to the Commission within two (2) business days.

Counsel for City of Pikeville