

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

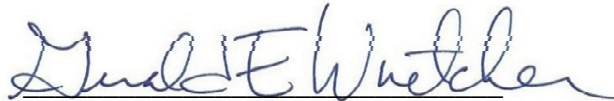
**ELECTRONIC APPLICATION OF ESTILL)
COUNTY WATER DISTRICT NO. 1 FOR A) CASE NO. 2019-00119
SURCHARGE TO FINANCE WATER LOSS)
CONTROL EFFORTS)**

**RESPONSE OF ESTILL COUNTY WATER DISTRICT NO. 1
TO COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION**

Estill County Water District No. 1 submits its Response to Commission Staff's Third Request for Information.

Dated: August 1, 2024

Respectfully submitted,

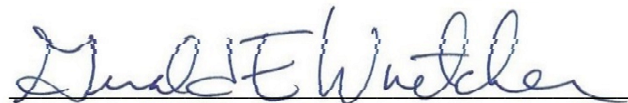


Gerald E. Wuetcher
gerald.wuetcher@skofirm.com
Stoll Keenon Ogden PLLC
300 West Vine St. Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000
Fax: (859) 259-3517

Counsel for Estill County Water District No. 1

CERTIFICATE OF SERVICE

In accordance with the Commission's Order of July 22, 2021 in Case No. 2020-00085 (Electronic Emergency Docket Related to the Novel Coronavirus COVID-19), I certify that the electronic filing has been transmitted to the Commission on August 1, 2024; and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.



Counsel for Estill County Water District No. 1

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FILED: August 1, 2024

ESTILL COUNTY WATER DISTRICT NO. 1

Response to Commission Staff's Third Request for Information Case No. 2019-00119

Question No. 1

Responding Witness: Audrea Miller

Q-1. Refer to Estill District's No. 1's Response to Commission Staff's Report filed in Case No. 2023-00371 as well as the Commission's Order, dated April 8, 2021, entered in Case No. 2021-00064. Explain why Estill District No. 1 did not use surcharge funds for debt service payments on KIA loan F20-013 after requesting to use the surcharge funds for this purpose and receiving Commission approval in Case No. 2021-00064 [footnotes omitted].

A-1. Estill County Water District No. 1 ("Estill District" or "the District") has previously addressed this issue in its Verified Motion for Authorization to Expend Surcharge Proceeds and to Continue Billing Surcharge Until December 31, 2023 which was filed with the Public Service Commission ("Commission") on August 31, 2023. As stated in that motion, Estill District "determined that the use of the surcharge proceeds for debt service was impractical and elected to forego their use for such purpose."

On February 22, 2021 Estill District requested authority to use surcharge proceeds to debt service payments on KIA Loan F20-013 when applying for a certificate of public convenience and necessity to construct certain water works improvements to address its water loss problems and for authority to enter an assistance agreement for that loan. At that time the District was considering the option of using surcharge proceeds to meet principal and interest payments on the loan. When it originally requested authority to assess the surcharge, the District intended to use the surcharge proceeds for several purposes, including meter replacement and the establishment of a zone meter system. KIA's favorable treatment of the District's loan application was unexpected and allowed the District to accelerate its water loss reduction plans. Instead of surcharge funds, the KIA loan proceeds would be used to purchase meters and finance planned water loss reduction improvements. The District considered the use of surcharge proceeds to service the KIA loan as consistent with the original purpose of the surcharge. The Commission had in fact authorized at least one other water district to use water loss surcharge proceeds for such purpose. Using the surcharge proceeds for debt service payments also allowed the District to defer an application for rate adjustment to meet the KIA loan's debt service requirements until the District had significantly reduced its water loss. At the time, the District's unaccounted-for water loss exceeded 30 percent, significantly above the 15 percent level established by 807 KAR 5:066. Accordingly, the District expected a significant amount of its purchased water and purchased power costs to be denied rate recovery.

Under the terms of the KIA Assistance Agreement, interest accrued on loan withdrawals beginning at the time of the withdrawals. Interest payments on withdrawn funds were required after the first withdrawal. Payment of interest and principal, however, did not

begin until twelve months after project facilities began operation. At the time of its initial application, the District expected the projects to be completed within six months. Under this scenario, repayment of interest and principal would begin within one year, or approximately Summer 2022. The District originally believed that surcharge proceeds would be needed for principal and interest payments to defer an immediate rate.

The extended period of time required to complete the project postponed the District's need for funds to make principal and interest payments. The projects were not certified as completed until May 19, 2023, the first principal and interest payments on the loan would not begin until Summer 2024 – far later than originally anticipated. Given that the loan's interest rate is only 0.5 percent per annum, the District had adequate financial resources to make interest payments on pre-completion loan withdrawals.

Using surcharge proceeds to defer a rate adjustment made no sense after the Commission, on June 3, 2022, in Case No. 2021-00064, ordered the District to apply for a rate adjustment. The original deadline for filing such application was June 3, 2023, but was later extended to December 3, 2023.

After the issuance of the June 22, 2022 Order, the District reassessed the use of surcharge proceeds for principal and interest payments. It concluded that the debt service payments required a stable and secure funding source throughout the life of the KIA Loan and only general rates would provide that stable source of funding. The District viewed the surcharge as a temporary source of funding that would not remain in effect throughout the loan's 30-year life. The District concluded that financing the debt service on KIA Loan F20-13, and hence the improvements constructed with the loan's proceeds, is fairer and more equitable to current and future ratepayers if done through general rates. It allows recovery of the cost of the facilities over the life of the loan and the facilities.

The District also gave great weight to the effect the surcharge proceeds would have on water loss reduction efforts if used to hire and equip leak detection personnel. The cost to hire and equip additional personnel is not easily recovered through a general rate adjustment. As a practical matter, the must use a historical test period when applying for a rate adjustment. Unless the additional personnel are employed at the time of the rate proceeding, the expenses related to their compensation and equipment are not considered as known and measurable and, therefore, are not recoverable through rates. The surcharge proceeds represented a source of funding to permit the immediate hiring and equipping of such personnel. These personnel will enable the District to build upon the improvements financed through the KIA loan to bring its water loss down to an acceptable level. While the District expects to employ leak detection personnel permanently – leak detection and water loss prevention require an unwavering commitment and will always be an essential task even after the District brings its water loss within regulatory standards, the District does not intend to permanently fund the cost of its leak detection team through surcharge proceeds. It recently received Commission approval to use surcharge proceeds to fund leak detection personnel and equipment and has hired personnel to staff that team. In the District's next rate proceeding, which will likely occur in 2027, it will apply to recover the

cost of those personnel through general rates. By that time, those costs will be known and measurable.

The District's decision to use surcharge proceeds for purposes other than debt service has allowed the District to finance additional efforts to reducing its water loss and to have available funding in place to meet unexpected water loss events and take advantage of developing strategies and approaches to reducing water loss.