

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PROPOSED ADJUSTMENT OF THE)	CASE NO.
WHOLESALE WATER SERVICE RATES OF)	2019-00444
PRINCETON WATER AND WASTEWATER)	

DIRECT TESTIMONY OF
ALAN VILINES
ON BEHALF OF
CALDWELL COUNTY WATER DISTRICT
AND LYON COUNTY WATER DISTRICT

Filed on: March 20, 2020

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Alan H. Vilines, P.E. I am a licensed professional engineer and my business
3 address is 690 Scottsborough Circle Bowling Green, KY 42103.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 **A.** I am a self-employed consultant with the Kentucky Rural Water Association.
6

7 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **PROFESSIONAL EXPERIENCE.**

9 **A.** I have attached a Curriculum Vitae to my testimony at Exhibit A, which describes my
10 education background and professional experience.

11 **Q. BY WHOM HAVE YOU BEEN ENGAGED IN THIS PROCEEDING AND WHAT**
12 **IS THE PURPOSE OF YOUR TESTIMONY?**

13 **A.** I have been engaged by Caldwell County Water District (“CCWD”) and Lyon County
14 Water District (“LCWD”) to provide professional review and analysis of Princeton Water
15 and Wastewater Commission’s (“PWW”) request for a wholesale water rate increase, and
16 to suggest a wholesale water rate that is fair to all parties in the proceeding.

17 **Q. WHAT PRIOR EXPERIENCE DO YOU HAVE IN PROVIDING EXPERT**
18 **ANALYSIS AND TESTIMONY BEFORE THE KENTUCKY PUBLIC SERVICE**
19 **COMMISSION (“COMMISSION”) ON ISSUES INVOLVING RATES FOR**
20 **WATER UTILITIES?**

21 **A.** While employed at Warren County Water District (“WCWD”) I worked on many studies
22 regarding wholesale rates charged by suppliers to Warren, Butler and Simpson water
23 systems and several retail rate studies for those three systems. Since retirement from

1 WCWD, I have performed over 25 rate studies, most of which resulted in an application
2 for a rate increase filed with the Commission.

3 **Q. WHAT TYPES OF ANALYSES HAVE YOU PERFORMED IN YOUR CAREER**
4 **INVOLVING WATER UTILITIES?**

5 A. I have performed water system hydraulic analyses, alternative analyses related to capital
6 improvements, water meter accuracy studies, wholesale and retail rate analyses, and
7 general financial analyses.

II. OVERVIEW OF RATE ANALYSIS

8 **Q. ARE YOU FAMILIAR WITH THE METHODS EMPLOYED BY THE**
9 **COMMISSION IN SETTING BOTH WHOLESALE AND RETAIL RATES FOR**
10 **JURISDICTIONAL WATER UTILITIES?**

11 A. Yes.

12 **Q. PLEASE GENERALLY DESCRIBE THE ACCEPTED PROCESS INVOLVED IN**
13 **THE SETTING OF RATES FOR A MUNICIPAL UTILITY LIKE PWW THAT**
14 **HAS BOTH WATER AND SEWER DIVISIONS AND WHICH SEEKS AN**
15 **ADJUSTMENT OF ITS WHOLESALE RATES TO TWO RURAL WATER**
16 **DISTRICTS LIKE LCWD AND CCWD?**

17 A. Expenses from audited financial statements are adjusted to recognize "known and
18 measureable" changes that may have occurred during or after the test year and to make
19 rational allocations of expenses between water and sewer divisions. The resulting pro
20 forma expenses are further allocated to four categories: water production, transmission &
21 distribution, customer accounts and administration. Expenses in each of these categories
22 are then allocated to wholesale and retail customers by applying "use" factors. These
23 factors are based on percentages of water system components that are useful and beneficial

1 to wholesale customers. The sums of expenses allocated to wholesale customers and retail
2 customers, respectively, represent the total revenue requirement from each of these two
3 customer classes. The wholesale rate is simply the total wholesale revenue requirement
4 divided by total sales quantity to wholesale customers. A separate customer charge is not
5 computed because allocated administrative expenses are included in the uniform rate
6 described above.

7 **III. PRINCETON'S APPLICATION**

8 **Q. WHAT CASE INFORMATION HAVE YOU REVIEWED IN THE COURSE OF**
9 **PREPARING YOUR ANALYSIS AND THE OPINIONS EXPRESSED IN THIS**
10 **TESTIMONY?**

11 A. I have reviewed all case filings made by PWW including the testimony of Beth Musgove,
12 all case filings made by CCWD and LCWD, all orders entered by the Commission to date,
13 PWW's responses to two rounds of Requests for Information issued by Commission Staff,
14 and PWW's responses to Requests for Information issued by CCWD and LCWD.

15 **Q. DID PWW PERFORM A COST OF SERVICE STUDY TO SUPPORT THE RATE**
16 **INCREASE REQUESTED IN THIS CASE?**

17 A. No, PWW did not perform a cost of service study.

18 **Q. SINCE PWW DID NOT PERFORM A COST OF SERVICE STUDY WHAT IS**
19 **YOUR UNDERSTANDING OF THE METHODOLOGY PWW EMPLOYED TO**
20 **ARRIVE AT THE REVENUE REQUIREMENT SUPPORTING ITS RATE**
21 **INCREASE REQUEST IN THIS CASE?**

22 A. PWW used a unit cost approach in which the total operating, maintenance, and debt service
23 expenses it attributed to the water division (less certain administrative expenses) were
24 divided by an estimate of the total number of units sold. The estimate of units sold was

1 based on 15 percent system water loss. However, PWW proposes charging a rate to
2 wholesale customers that is about 21 percent lower than the calculated unit cost, with this
3 lower rate being the same rate it charges its lowest retail rate block. PWW also computed
4 a customer service charge by dividing the sum of the administrative expenses not included
5 in the unit cost by the total number of water meters. The proposed customer service charge
6 is slightly less than the amount computed.

7 **Q. DO YOU HAVE AN OPINION WHETHER PWW'S CHOSEN METHODOLOGY**
8 **IS ACCURATE AND RELIABLE FOR THE PURPOSES OF SETTING FAIR,**
9 **JUST AND REASONABLE WHOLESALE WATER RATES?**

10 A. Yes, in my professional opinion the method used by PWW upon which its requested
11 wholesale water rate increase is based is inappropriate and inaccurate for a number of
12 reasons.

13 **Q. PLEASE LIST EXAMPLES OF THOSE AREAS OF PRINCETON'S CHOSEN**
14 **METHODOLOGY WHICH IN YOUR OPINION ARE INAPPROPRIATE AND**
15 **INACCURATE.**

16 A. PWW acknowledged that it currently pays 100 percent of employee and family health
17 insurance premiums. Under a long line of recent cases, rate computations that include 100
18 percent employer-funded employee and family health insurance premiums are generally
19 disallowed by the Commission. These payments should have been adjusted consistent with
20 the Bureau of Labor Statistics' national average for an employee's share of health insurance
21 premiums.

22 The PWW financial statements recognize CERS and OPEB retirement liability expenses.
23 However, these do not represent actual payments made by PWW and should not be
24 included as part of the revenue requirement. The allocation of expenses to the water and

1 sewer divisions from the Administration and Maintenance groups should have been made
2 using more rational and detailed methods. All operation & maintenance, depreciation, and
3 debt service expenses should have been separated into water production, transmission &
4 distribution, administration and customer accounts categories so that those respective
5 category totals can be further allocated based on the percentage of each function that is
6 used by each class of customer. Many of the activities of the Administration and
7 Maintenance groups are related solely to retail customers and facilities serving retail
8 customers, so those expenses should be allocated to customer accounts and not shared by
9 wholesale customers.

10 In summary, the unit price approach employed by PWW failed to make necessary
11 adjustments to certain expenses, it did not fairly allocate costs, and it is generally too
12 simplistic to be used for the setting of fair, just and reasonable wholesale water rates.

13 **Q. PLEASE PROVIDE AN EXPLANATION OF HOW THOSE AREAS OF**
14 **INACCURACY IMPACT PWW'S RATE REQUEST.**

15 A. By including inapplicable expenses and failing to allocate other expenses correctly,
16 PWW's resulting wholesale revenue requirement is inflated resulting in a proposed
17 wholesale water rate request that is also inflated.

18 **Q. CONSIDERING THESE AREAS OF CONCERN AND RECOMMENDED**
19 **ADJUSTMENTS WHAT IS YOUR OPINION REGARDING AN ACCURATE AND**
20 **RELIABLE WHOLESALE REVENUE REQUIREMENT FOR PWW BASED**
21 **UPON KNOWN AND MEASURABLE INFORMATION?**

22 A. Based on the information available, an estimate of the total wholesale revenue requirement
23 is approximately \$569,900. This results in a wholesale rate of \$2.59 per 100 cubic feet,
24 rather than the \$2.97 per 100 cubic feet increase requested by PWW, and translates to an

1 increase over the existing wholesale rate of 13 percent rather than the almost 30 percent
2 requested by PWW. However, this analysis could be further refined with additional
3 detailed information regarding current staffing levels at PWW; labor, equipment and
4 material charges for capital improvements; and activities of the Maintenance and
5 Administration groups.

6 **V. CONCLUSION**

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes.

CURRICULUM VITAE

ALAN H. VILINES

EDUCATION

1982, University of Tennessee, Knoxville, TN, Master of Science in Engineering Administration.

1974, Western Kentucky University, Bowling Green, KY, Bachelor of Science in Civil Engineering Technology.

REGISTRATION

Professional Engineer - Commonwealth of Kentucky.

EXPERIENCE

2014 - Present

Kentucky Rural Water Assoc., Bowling Green, KY. Consultant. Works with association members across Kentucky. Performs water and sewer rate studies and financial analyses. Assists utilities with applications to the Public Service Commission. Assists with PSC tariff filings. Advises utilities on operations and management issues.

1980 - 2013

Warren County Water District, Bowling Green, KY. Manager of Engineering, Assistant General Manager and began serving as General Manager in 2005. Engineering work included design and contract administration of major water and sewer construction projects. Developed capital improvement plans, performed management studies, hydraulic analyses, financial and rate studies. Worked extensively with various groups, agencies, elected officials and other leaders in the community. As General Manager was responsible for all aspects of the Water District's activities including operations, engineering, finance & administration, and customer & public relations. Through joint operations agreements the above work was also performed for Butler County Water System and Simpson County Water District.

1975 - 1980

Robert S. Miller Co., Inc., Nashville, TN. Engineer. Performed design work on sewage collection systems, sewage treatment plants, water transmission and distribution projects, and water treatment plants. Also designed streets, curbs and gutters, storm drainage, retaining walls, and other general municipal projects.

1974 - 1975

Kenco Associates, Inc., Ashland, KY.
Associate Engineer. Responsible for field and office work
on industrial sites, property, and sewer system surveys.
Assisted in design of water and sewer systems.

Exhibit 1