COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE WATER SERVICE RATES OF PRINCETON WATER AND WASTEWATER COMMISSION	)))	Case No. 2019-00444

POST-HEARING BRIEF

The evidence of record in this case demonstrates the reasonableness of the Princeton Water and Wastewater Commission's ("PWWC") proposed wholesale water rates to Caldwell County Water District and Lyon County Water District (collectively, the "Water Districts"). Even accepting the Water Districts' expert's methodology in calculating rates, PWWC can justify a rate of $3.03 per 100 cubic feet with a few appropriate adjustments that are all supported by evidence of record and Commission precedent. In addition, PWWC's monthly meter customer charge and proposed rate-case expense surcharge are reasonable and should be approved. With these facts in mind, PWWC submits this brief in support of its proposed rates.

I. Background

In August 2019, PWWC increased its rates to its in-city retail customers. It decided to wait to increase rates to its wholesale customers until after it had the final audited financial data.[1] After receiving this information, it was discovered that the cost to provide water was higher than the initial $3.36-per-100-cubic-feet calculation.[2] This was based on the methodology that PWWC had previously used for determining rate increases. Accordingly, PWWC agreed to set

[1] Musgove Testimony at 5:8-9.
[2] *Id*. at 5:6.

the wholesale rate at $2.97 per 100 cubic feet, which was the same as what PWWC's largest customers were paying for water above 2,000 cubic feet.[3]

PWWC's Chairman Bob Hayes, Superintendent James Noel, and Finance Director Tracy Musgove met with the Water Districts on October 22, 2019. At that meeting, PWWC "outline[d] the facts which led to the need for the increase and to allow each district ample notice so that they could plan accordingly."[4] They "presented historical data on the expenses incurred at the water treatment facility and the method used to calculate the unit cost to produce and distribute 100 cubic feet of water."[5]

On November 27, 2019, PWWC filed its notice of increase to the Commission. At that time, PWWC understood that Lyon County Water District would not object to the increase.[6] As for Caldwell County Water District, Musgove spoke with a representative of the District prior to the PWWC's filing, and the representative indicated that "her board 'thought the increase was excessive' and they were going to discuss with the PSC."[7]

Counsel for Caldwell County Water District contacted PWWC's counsel two weeks later about whether PWWC wanted to negotiate. PWWC thought its approach was reasonable because it was based on the same methodology previously accepted by the Water Districts, and it had no information from Caldwell County Water District as to why the District thought the proposal was unreasonable. Moreover, Lyon County Water District had indicated that it would

[3] *Id.* at 6:8-12.
[4] *See* Letter from Musgove to Gwen R. Pinson, Executive Director of the Commission (Nov. 20, 2019)(filed Nov. 27, 2020).
[5] *Id.*
[6] VR: 5/5/2020; 5:36:20. Musgove's testimony on May 5, 2020, is confirmed by her letter dated November 20, 2019, in which she stated, "In speaking with Mr. Cayce from Lyon County, he stated they have no plans to request an intervention."
[7] *See* Letter from Musgove to Gwen R. Pinson, Executive Director of the Commission (Nov. 20, 2019)(filed Nov. 27, 2020).

agree with the proposal and thus the Water Districts had different positions. Accordingly, PWWC declined negotiations.

The Commission initiated this proceeding by order dated December 20, 2019. PWWC has responded to three sets of information requests from the Commission and one from the Water Districts, in addition to the post-hearing data requests from both. On March 20, 2020, the Water Districts filed Alan Vilines's sparse testimony without any substantiation or workpapers, which left PWWC (and Commission Staff) in the undesirable position of asking broad questions on how Vilines came to his conclusions. When the Water Districts finally filed Vilines's analysis on April 17, 2020, merely 2 weeks before the hearing, PWWC had its first opportunity to review what his (and, by affiliation, the Water Districts') position was.

An evidentiary hearing was held on May 5, 2020, at which Princeton presented Musgove, Noel, and its engineer Ricky Oakley as witnesses, and the Water Districts presented Vilines and Caldwell County Water District's CEO Jimmy Littlefield.[8]

This matter is ripe for a decision. And the appropriate decision is clear: PWWC's proposed rates are fair, just, and reasonable. The reasonableness of those rates can be demonstrated using Vilines' own methodology with several corrections to expenses and allocations that are based on the evidence in the case and supported by Commission precedent. As explained in the discussion below and demonstrated in the Excel attachment to this brief, these appropriate adjustments to Vilines' analysis result in a volumetric wholesale rate of $3.03 per 100 cubic feet. The discussion below also explains why the $6.00 per meter customer service charge and rate-case-expense surcharge are reasonable.

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[8] PWWC's engineer Eric Broomfield, Chairman Hayes, and Lyon County Water District's Superintendent Dixie Cayce were also available to testify, but were not requested to do so.

II. Expenses

A. Depreciation Expense

Vilines proposed more than thirty adjustments to the service lives of PWWC's assets. Although PWWC may not agree with each adjustment, PWWC will accept those adjustments with two exceptions.

Vilines changed the service life for the Skyline Tank Repairs and Soft Costs from 15 to 30 years.[9] As Vilines admitted, he was not aware of the breakdown of costs for that project.[10] Specifically, he was not aware that more than 80 percent of the costs associated with the Skyline Tank Repairs were related to painting, as PWWC has demonstrated in response to Item 14(c) of the Commission's First Request for Information. When presented with that information, Vilines acknowledged that he would likely recommend a difference service life.[11]

The Commission has most frequently adopted a 10-year or 15-year service life for tank paintings.[12] Notably, in one of the cases on which Vilines assisted in the preparation of a rate study, the Commission reduced the amortization period to 15 years for tank painting.[13] Accordingly, the Commission should treat PWWC similarly. The required adjustment to

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[9] This adjustment can be seen in cells C319 and C320 on the "Water" sheet of the workbook labeled Attachment_3-Copy_of_PSC_2-13(ab)_NARUC_Depreciation.

[10] VR: 5/5/2020; 15:37:30.

[11] *Id.* 6:55:00.

[12] *See, e.g.*, *West Shelby Water Dist.*, Case No. 2009-00454 at Appendix A-3 (Staff Report filed March 26, 2010) *adopted by the Commission* Case No. 2009-00454 at 2 (Ky. PSC April 9, 2010); *South Shore Water Works Co.*, Case No. 2003-00044 at 7 (Staff Report filed June 20, 2003) *adopted by the Commission* Case No. 2003-00044 at 2 (Ky. PSC July 7, 2003)(approving a 10-year amortization period for tank painting); *Sedalia Water Dist.*, Case No. 91-462 at 5 (Staff Report filed March 31, 1992) *adopted by the Commission* Case No. 91-462 at 2 (Ky. PSC May 5, 1992) ("According to the Commission's Engineering Division, this expense should be amortized over a period of 10 years."); *see also City of Falmouth*, Case No. 2006-00403 (Staff Report filed May 11, 2007)(" The 10-year period is the anticipated life of the painting and is a standard rate-making methodology."); *South Hopkins Water Dist.*, Case No. 2013-00428 (Ky. PSC June 12, 2014)(approving a 10-year service life for tank painting); *West Daviess Cnty. Water Dist.*, Case No. 1993-00103 at 6 (Staff Report filed June 12, 1993) *adopted by the Commission in* Case No. 1993-00103 at 2 (Ky. PSC Aug. 5, 1993)(approving a 7-year amortization period for tank painting).

[13] *See Webster Cnty. Water Dist.*, Case No. 2015-00065 at 10 and Appendix A (Staff Report filed May 28, 2015) *adopted by the Commission* Case No. 2015-00065 at Appendix (Ky. PSC Aug. 18, 2015).

Vilines' amended analysis for the correct amortization period for the tank painting would be an increase of $13,401.65.[14]

Vilines also changed the service life for a class of assets labeled as "Water Distribution Improvements" under the Water Treatment Plant and Pumping Equipment category from 27.5 to 62.5 years.[15] The majority of costs related to this asset group were for the purchase of a generator for the water treatment plant. Accordingly, these costs best fall within the "Water Treatment Equipment" category that provides for a 27.5-year service life under the NARUC guidelines. The required adjustment to Vilines' amended analysis for the correct depreciation rate for this asset group would be an increase of $8,144.68.[16]

B. Debt

In calculating the debt expense (specifically, principal and interest) that should be included in calculating the revenue requirement, Vilines used a three-calendar-year average despite his heading on the worksheet as including FY 2021-2023.[17] The correct three-year period, as indicated by the heading, should be the fiscal year, as opposed to the calendar year. There is approximately one month left before FY2021 begins. This requires an increase of $1,426 to the three-year average calculated by Vilines.[18]

C. Debt Service Coverage

The Commission has traditionally used the Debt Service Coverage method to allow for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In his analysis, Vilines substituted

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[14] This increase can be seen in cells S22, S47, and S48 in the 'AlocDep' tab in the Excel attachment to this Brief.
[15] This adjustment can be seen cells C204 on the "Water" tab of the workbook labeled Attachment_3-Copy_of_PSC_2-13(ab)_NARUC_Depreciation.
[16] This increase can be seen in cell D11 in the 'AlocDep' tab in the Excel attachment to this Brief.
[17] *See* "Debt" tab of his Supplemental_Response_to_PSC_1-2_-_Copy_of_Cald_Lyon_Wholesale_REVISED.xlsx.
[18] This increase can be seen in cells C11-14 through I11-14 in the 'Debt' tab in the Excel attachment to this Brief.

required reserves for debt service coverage.[19] Utilizing the Commission's accepted DSC approach with a 1.2x coverage factor, there is an increase of $15,593.[20]

D. Pension Expense

PWWC acknowledges the Commission's recent decisions addressing GASB 68.[21] GASB changes the way pension costs are incurred, moving from one of actual contributions to one which better addresses the objective of assisting financial statement users to assess whether an employer's revenues have been adequate to pay for its cost of services in a given period as compared to a funding-based approach.

Since July 2016, entries to properly record pension costs have increased Princeton's assets by $506,402.58; increased liabilities by $2,504,569.87; and decreased capital accounts by $1,998,167.29. Of the almost $2 million decrease to capital/equity, $297,569 in decreases have flowed through the income statement as increases in annual pension costs. In 2019, the added increase to pension costs totaled $64,498. If GASB's intent by this approach was to show users of the financial statements that entities have adequate revenues to pay these increased expenses and are not differentiating the expense in any way, utilities should be able to recoup the entire amount as an actual expense or the expenses should be treated as a required reserve that will be drawn upon at some time in the future, but one that should be funded.

In light of the Commission's treatment of GASB 68 issues, PWWC has not changed Vilines' reduction of pension expense in the attached analysis that shows PWWC's proposed rate is reasonable. Even with recovery of a reduced amount of pension expense, the rate justified still exceeds PWWC's proposed rate.

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[19] *See* Cells J9-14 of the "Debt" tab of his Supplemental_Response_to_PSC_1-2_-_Copy_of_Cald_Lyon_ Wholesale_REVISED.xlsx.
[20] This increase can be seen in cells J11-14 in the 'Debt' tab in the Excel attachment to this Brief.
[21] *See, e.g.*, *South Hopkins Water Dist.*, Case No. 2018-00387 at 6-7 (Staff Report filed Mar. 5, 2019).

E. Health Insurance Premiums

PWWC acknowledges that the Commission has not permitted utilities to recover the entire amount of health-insurance premiums if those packages exceed a national-average percentage for employer-paid premiums. PWWC submits that it has provided concrete evidence in this case why the Commission can change its position in this case only. Specifically, PWWC has explained that two of its employees have left employment at PWWC for a higher salary, only to return to PWWC because of the benefits it provided.[22] The aging water-utility workforce is well documented, and it is becoming harder and harder for water utilities to attract and maintain talent. If benefit packages encourage employees to remain in service with a particular water utility, the customers benefit from that expense. Such expense, therefore, should be recovered from the customers.

Even if the Commission disagrees with PWWC's position that 100% of benefits should be recovered in rates, it must make an adjustment to Vilines's analysis. He calculated a reduction of insurance expense based on a national average for employers of 1-99 employees, indicating that those employers required employee contributions of 21 percent towards single coverage and 38 percent towards family coverage. The Commission, however, should use the "All workers" category because, if the Commission is encouraging utilities to be "market competitive" on a national level, it does not matter how many employees the employer has.

Based on the Water Districts' Hearing Exhibit 4, the average employee share for single coverage is 20 percent and the average employee share for family coverage is 33 percent. This would reduce the composite factor calculated by Vilines from 31.9 to 28.3 percent.[23] This

[22] *See* PWWC Response to PSC 2-9(c).
[23] This calculation is revealed in cell X19 in the 'Ins. Cont.' tab in the Excel attachment to this Brief.

change must be tracked through to cells G12, G36, and G63 in the 'Proforma' tab in the Excel attachment to this brief.

F. Salary Expense

At the hearing, counsel for the Water Districts asked questions about salary increases. But the Water Districts' primary witness did not present any testimony or analysis criticizing the pro forma expenses PWWC identified. Quite the contrary, in fact, as Vilines included the pro forma salary expenses proposed by PWWC in his analysis.

The Commission has recently explained that an intervenor cannot challenge an issue in a case without providing testimony. In Case No. 2018-00358, the Commission noted that intervenors did not provide testimony or introduce evidence into the record on a variety of issues, including a customer charge, capital projects, and acquisition adjustments.[24] Without the Intervenors submitting such testimony or evidence, the Commission held that it could not accept such proposed adjustments because the argument was "without any basis, much less sufficient evidence, to justify an adjustment."[25] When the issue was raised on rehearing, the Commission reaffirmed its position, stating: "The Commission further finds that a party's position is based upon the evidence sponsored and introduced into the record by that party, including, but not limited to, expert opinion, testimony, and discovery responses."[26]

In this case, the Water Districts have not sponsored or introduced any evidence into the record related to salaries. Accordingly, the Commission cannot accept any argument presented by the Water Districts on this issue.

With respect to salary expense, the information filed into the record of this case demonstrates that PWWC's salaries are reasonable. As shown by the table below, the salary

[24] *Kentucky-American Water Co.*, Case No 2018-00358 at 51, 69, 86 (Ky. PSC June 27, 2019).
[25] *Id.*
[26] *See Kentucky-American Water Co.,* Case No 2018-00358 at 3-4, 14 (Aug. 8, 2019).

information provided by PWWC in response to Item 10 of the Commission Staff's third request for information, the overall salaries for PWWC employees are well below the average salary of other water utilities in Kentucky, based on the KRWA salary survey.[27] In fact, the vast majority of employees have salaries included in PWWC's pro forma statement below the average salary for all water utilities and for the municipality and private utility group.

			FY2021 Rate	FY2021 Wages	KRWA All Utilities	KRWA Municipalities	KRWA Equivalent Position
	Employee #						
ADMINISTRATION							
	193	Director of Finance	$ 34.34	$ 4,292	$ 76,181	$ 76,809	Finance Director
	175	Superintendent	$ 35.01	$ 72,815	$ 73,504	$ 78,368	Manager/Superintendent
	186	Office Manager	$ 20.81	$ 41,998	$ 45,142	$ 43,971	Office Manager
	198	Accts Payable	$ 18.78	$ 39,057	$ 46,085	$ 51,256	Bookkeeper
	210	Customer Service	$ 14.46	$ 39,057	$ 36,183	$ 39,219	Customer Service Rep
		Part-time Clerical	$ 14.21	$ 10,913	17.71 hr	17.07 hr.	Asst. City Clerk
				$ 208,133	**$ 290,696**	**$ 302,732.00**	
WATER							
	191	WTP Operator	$ 19.72	$ 41,021	$ 39,780	$ 41,332	Water Plant Operator
	209	WTP Operator	$ 16.23	$ 33,764	$ 39,780	$ 41,332	Water Plant Operator
	181	WTP Asst Chief Operator	$ 20.60	$ 47,651	$ 56,345	$ 49,382	Water Plant Foreman
	115	WTP Chief Operator	$ 20.70	$ 43,056	$ 56,345	$ 49,382	Water Plant Superinten.
				$ 165,491	**$ 192,250**	**$ 181,428**	
MAINTENANCE							
	188	Maint / Distribution	$ 19.72	$ 41,021	$ 45,536	$ 48,912	Water Dist. Oper.
	206	Maint / Distribution	$ 16.49	$ 34,291	$ 45,536	$ 48,912	Water Dist. Oper.
	189	Maint / Distribution	$ 19.43	$ 40,408	$ 45,536	$ 48,912	Water Dist. Oper.
	192	Maint / Distribution	$ 19.72	$ 41,021	$ 45,536	$ 48,912	Water Dist. Oper.
	173	Dist Chief Operator	$ 21.57	$ 44,863	$ 54,346	$ 60,103	Dist. Supervisor
	208	Maint / Distribution	$ 19.72	$ 41,021	$ 45,536	$ 48,912	Water Dist. Oper.
		Maint / Distribution	$ 18	$ 37,440	$ 45,536	$ 48,912	Water Dist. Oper.
				$ 242,625	**$ 327,562**	**$ 353,575**	

[27] This is particularly true because the KRWA data is from 2019 and PWWC's salaries are for FY 2021. The KRWA salary survey was produced by PWWC in response to PSC 2-9(a). Additional information for this table was collected from PWWC's Response to PSC 1-7 and PSC PHDR 4.

G. Water Usage for Wastewater Operations

PWWC acknowledges that it may be appropriate to credit water operations for the water usage by the wastewater operations.[28] The Commission recently made a similar adjustment in Case No. 2019-00268, whereby it added the purchased power expense and chemical expense, divided that sum by total water produced, and multiplied that dividend by the amount of water used by the sewer operations to determine the appropriate adjustment. This calculation results in a decrease to PWWC's maintenance expense by $2,997, which is split between purchased power and chemical expenses proportionally.[29]

H. CERS Contribution Rate

PWWC acknowledges that the General Assembly has frozen the CERS contribution rate at 24.06%, instead of the previously anticipated contribution rate of 26.95 percent. Accordingly, it is appropriate to adjust pro forma expenses to reflect this lower contribution rate.[30]

Vilines calculation of the retirement-funding expense does not appear to be correct. The expense identified in Vilines's analysis is not linked to salaries. In applying 24.06% to the salary expense, the retirement-funding expense should be $51,359 for administration, $41,171 for water treatment plant, and $79,312 for maintenance.[31]

I. Maintenance Employees

PWWC has operated its maintenance department with seven employees. One of those employees recently resigned.[32] One of the factors in PWWC's decision to fill that position is the

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[28] *See* VR: 5/5/2020; 5:25:00.
[29] This calculation can be seen in cells C42 and C46 of the Proforma tab in the Excel attachment to this Brief.
[30] This calculation can be seen in cells H15, H39, and H66 of the Proforma tab in the Excel attachment to this Brief.
[31] *See* cells H15, H39, and H66 of the Proforma tab in the Excel attachment to this Brief.
[32] *See* PWWC Response to PSC 3-10(a).

outcome of this rate case[33] and, specifically, whether there will be sufficient revenue to fill that position.

The Commission has traditionally allowed utilities to recoup salary expense for vacancies of necessary positions. For example, in a recent case, the Commission allowed recovery of salary expense for vacant positions and explained the rationale: "If vacant employee positions exist, work will either be shifted to other employees and thus result in an increase in overtime costs, or [the utility] will hire additional temporary/contract labor."[34]

PWWC faces the same concerns. If an employee is not hired to fill that vacant position, PWWC employees will need to work overtime to perform necessary tasks. This overtime will come at a cost. Therefore, it is logical to include salary expense for a seventh maintenance employee. The salary expense for maintenance should be increased by $41,990 from $287,655 to $329,645.[35]

III. Allocation Factors

A. Inch-Miles of Main Serving PWWC's Wholesale Customers

The largest factor in Vilines's analysis affecting PWWC's wholesale rate is the amount of jointly used mains used to serve the wholesale customers. Vilines reduced the amount of jointly-used inch-miles of main from 496.30 to 362.56. Vilines, however, is not familiar enough with PWWC's system to make those adjustments. He explained that, when assisting utilities in developing rates, he would communicate with the staff and accountants of the utility, which would usually require "a lot of back and forth" in order to obtain the information he needed.[36] But with respect to his analysis on PWWC rates, he did none of those things. He admitted that

[33] *See* VR: 5/5/2020; 14:48:11 (6:05:08).
[34] *Kentucky-American Water Co.*, Case No 2018-00358 at 39 (Ky. PSC June 27, 2019).
[35] This total can be seen in
[36] VR: 5/5/2020; 15:12:35-15:14:30.

he did not meet with or speak to anyone at PWWC.[37] Moreover, the Preliminary Engineering Study that Vilines partly relied on was prepared in 2013, and would not reflect changes in the system.

In contrast, PWWC's engineers at Hethcoat & Davis calculated the accurate amount of miles of varying sized mains.[38] They have the experience and knowledge specifically related to make that determination. In 2008, Hethcoat & Davis prepared a hydraulic model of PWWC's system, which has been updated since its initial development to reflect changes made in the distribution system.[39] They were able to use the hydraulic model to determine the accurate amount of miles of particular main that are currently used to provide service to the wholesale customers.

When faced with competing testimony, the Commission must determine which is the most reliable. This case presents a stark contrast between the two sources of testimony and a clear answer. One "witness" is a set of engineers from a firm that has institutional knowledge of PWWC's system having worked with PWWC for more than a decade. It has developed and maintained a hydraulic model that can accurately determine the amount of mains that currently serve PWWC's wholesale customers. The other witness based his opinions on limited information and has not talked to anyone with PWWC about its system. Accordingly, the Commission must accept the reliable information provided by Hethcoat & Davis in response to Item 17 of the Commission's First Request for Information. If the Commission uses an inch-mile methodology as proposed by Vilines, it should include 496.30 inch-miles of main that serve PWWC's wholesale customer. This one change to Vilines' methodology adds approximately

[37] *Id.* at 15:14:40-15:14:50.
[38] *See* Response to PSC 1-17 (identifying the engineers who computed the inch-miles of PWWC's system and those used by the wholesale customers).
[39] *See* Preliminary Engineering Report at 7, filed in response to PSC 2-8.

$0.33 to the proposed rate and more than $70,000 to the revenue requirement from the wholesale customers.

B. Allocation of Administration Expenses between Customer Accounts and A&G

In his analysis, Vilines allocated most of PWWC's Administration expenses between Customer Accounts and Administration & General (A&G) based on an 85/15 split. He based his allocation factor on an interview with the City of Dawson Springs, not PWWC. When he attempted to calculate a ratio based on information filed in the record by PWWC, he calculated a ratio of 83/17 between Customer Accounts and A&G.[40] At the very least, the information in the record that is specifically related to PWWC—and not another municipal system—requires that the 83/17 factor be used, rather than the 85/15. Accordingly, that adjustment to Vilines's analysis is necessary.[41]

C. Allocation of Maintenance Expenses between Water and Wastewater Operations

When initially calculating rates, PWWC utilized a 45/55 allocation for maintenance expenses to be split between water and wastewater operations. This ratio was established by PWWC in 2012 when there were several sewer projects that were ongoing at that time.[42] PWWC acknowledges[43] that this allocation factor is no longer appropriate based on current work performed by the maintenance department.[44]

In his analysis, Vilines utilized an approximate 54/46 allocation for maintenance expenses between water and wastewater operations. This is based on the number of water and

[40] VR: 5/5/2020; 6:37:16.
[41] This adjustment can be seen in cells I11 and I20-I31 in the mtrx tab in the Excel attachment to this Brief.
[42] *See* VR: 5/5/2020; 5:28:15-5:28:40.
[43] *See* VR: 5/5/2020; 5:29:48.
[44] Musg-cove testified to a number of these changes at VR: 5/5/2020; 5:29:00-5:29:40.

wastewater customers PWWC has.[45] But Vilines explains the basis on which he thinks these costs should be allocated:

> For the maintenance group the type of work performed by each employee should be recorded on time sheets or work orders for specific tasks. Then expenses could be accumulated and tracked for each division and categories of work within each division. If this information is not available, the allocation between divisions may be made by applying the percentage of customers served by each division.[46]

For whatever reason, Vilines used an allocation factor based on percentage of customers served by each division, despite the fact that PWWC provided the type of information he mentions.

PWWC provided descriptions of work orders for FY2018 and FY 2019. In FY2018, approximately 3% of PWWC's work orders related to sewer. In the following year, approximately 3.6% of the work orders related to sewer.[47] This would suggest that a 97/3 allocation factor may be appropriate.

PWWC also provided details on the inventory that was used for those two years. In FY2018, more than 91% of the items in inventory used by the maintenance department were for the water system. In FY2019, approximately 61.3% of items were used for the water system.

Although the work orders could support a higher allocation to the water division, a 61.3% allocation to the water division is more accurate than one based on perecentage of customers because it accounts for actual work performed. This adjustment would increase water-operations expenses from the maintenance department by $48,943.[48]

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[45] *See* calculations in cells D61 to D86 showing reference to the percentage of customers identified in cell P7 of the "mtrx" tab of his Supplemental_Response_to_PSC_1-2_-_Copy_of_Cald_Lyon_ Wholesale_REVISED.xlsx.
[46] *See* Water Districts' Response to Item 8 of PWWC's Request for Information.
[47] *See* PWWC's Response to PSC 2-11 and affiliated Excel exhibits.
[48] *See* calculations in cells D61 to D86 in the mtrx tab in the Excel attachment to this Brief. The expense calculation is based on the difference between $688,459 and $639,516 shown in cells B87 of 'mtrx' tab in both the Excel attachment to this Brief and

D. Allocation of Maintenance Expenses between Customer Accounts and A&G

In his analysis, Vilines allocated PWWC's water-related maintenance expense between Transmission and Distribution (T&D) and Customer Accounts. He concluded that there should be a 65/35 split between the two categories, based on his estimation of the time maintenance workers performed responsibilities for each group of duties.[49]

In addition to the group of duties listed by PWWC, Vilines added a meter reading category, and estimated that 10% of all maintenance duties are related to meter reading.[50] This estimation grossly misstates how much time PWWC employees spend on meter reading. As stated in PWWC's Response to Item 11b of the Commission Staff's Third Request for Information, it takes approximately one PWWC employee two days to read retail meters and two PWWC employees approximately half a day to read the wholesale meters. In other words, approximately 16-man hours are spent reading retail meters and 8-man hours are spent reading wholesale customer meters.

A simple calculation demonstrates that an estimate of 10% of maintenance duties being spent on meter reading is too high. Seven maintenance employees would have 14,560 work hours in a year.[51] PWWC's meter reading takes approximately 288 of those hours.[52] Accordingly, PWWC's maintenance employees spend approximately 2 percent of their time reading meters.[53]

If PWWC's maintenance employees spend approximately 2% of their time reading meters, Vilines's estimation of 10% must be corrected. That 2% should be divided between

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[49] *See generally* VR: 5/5/2020; 6:43:00-6:52:55.
[50] *See* Cell Q84 of the "mtrx" tab of his Supplemental_Response_to_PSC_1-2_-_Copy_of_Cald_Lyon_ Wholesale_REVISED.xlsx.
[51] 2,080 hrs. X 7 employees = 14,560
[52] 24 hrs. per month X 12 months = 288
[53] 288/14,560=.01978

T&D and Customer Accounts based on a 1:2 ratio, which is equivalent to the 8 and 16 hours spent on reading meters for wholesale and retail customers.[54] After assigning the 2% to meter reading, there would be a remainder of 8% to redistribute between the T&D and Customer Accounts. It would be appropriate to split that 8 percent based on the remaining 65/25 split[55] of other duties, which would result in 5.8% assigned to T&D and 2.2% assigned to Customer Accounts.[56]

The resulting total ratio for PWWC's water-related maintenance expense between T&D and Customer Accounts would be 71.4% and 28.6%, respectively.[57] Those percentages would be applied to the maintenance water-operations expense, instead of the 65% and 35% proposed by Vilines.[58]

IV. Volumetric Rate

PWWC's proposed volumetric rate of $2.97 per 100 cubic feet is reasonable. This is demonstrated by using Vilines's methodology and making several appropriate adjustments that are supported in the record. In the Excel attachment to this brief, the following appropriate and reasonable adjustments have been made as discussed above.

- Increase to Depreciation for the Skyline Tank project and the WTP generator
- Increase to Debt to reflect fiscal year and not calendar year data
- Base working capital on Debt Service Coverage instead of "Required Reserves"
- Correction of employees' contribution rates for insurance
- Decrease to maintenance expense for water use by wastewater operations
- Corrected use of 24.06% for CERS contribution
- Inclusion of maintenance salary expense for all seven positions
- Utilizing accurate inch-miles of main used by wholesale customers
- Using an 83/17 ratio for Administration expenses to be allocated to Customer Accounts and G&A (instead of 85/15)

[54] This adjustment can be seen in cells P84 and Q84 in the mtrx tab in the Excel attachment to this Brief.
[55] Using the 65/25 ratio is appropriate because it is being used to reallocate most of the 10 percent (out of 35 percent) previously allocated to Customer Accounts.
[56] This adjustment can be seen in cells P83 and Q83 in the mtrx tab in the Excel attachment to this Brief.
[57] These sums can be seen in cells P85 and Q85 in the mtrx tab in the Excel attachment to this Brief.
[58] These adjustments can be seen in cells H61 to H86 in the mtrx tab in the Excel attachment to this Brief.

- Using a 63.3% allocation factor for most maintenance expenses to be allocated to water operations (instead of 54.05%)
- Using a 71/29 ratio to allocate maintenance water expenses to T&D and Customer Accounts (as opposed to 65/35)

Utilizing Vilines' own methodology and making these modest adjustments that are supported by evidence in the record, the reasonable rate that PWWC could charge its wholesale customers is $3.03 per 100 cubic feet. Because this $3.03 rate is higher than PWWC's proposed rate of $2.97 per 100 cubic feet, the Commission should find PWWC's proposed volumetric wholesale rate fair, just, and reasonable.

V. Customer Charge

PWWC has proposed to increase its monthly per-meter Customer Charge from $4.00 to $6.00 for its wholesale customers, just as it did for its retail customers. These monthly charges are designed to recover some of the fixed costs associated with billing and accounting.[59] This would increase the Water Districts' collective payments by a mere $360 annually

The Water Districts' primary witness Vilines acknowledged that wholesale customers need their supplier to provide these services. Specifically, he agreed that wholesale customers may call their suppliers' offices, benefit from employees repairing transmission and distribution mains, get billed, pay bills, need their meters read, and have suppliers address issues in the field.[60] In Response to Item 1 of the Commission Staff's Request for Information, Vilines stated that some of the expenses associated with these functions would be built into a customer charge.

Using Vilines' methodology and the adjustments to his analysis identified above, the total expenses for Customer Accounts would be $224,986. If that amount is divided by the number of meters in the system and by 12 months, the cost would be $5.54, a mere 46 cents off of the requested $6.00 amount. The $6.00 monthly meter fee is particularly reasonable because

[59] *See generally* PWWC Response to PSC 2-26.
[60] VR: 5/5/2020; 6:41:00-6:41:45.

PWWC would be under-recovering revenue by charging $2.97, instead of the fully justified volumetric rate of $3.03 per 100 cubic feet.

Accordingly, the Commission should approve the $6.00 monthly customer service charge.

VI. Rate Case Expense Surcharge

PWWC seeks approval of a surcharge to recover reasonable rate-case expense. In its initial filing, PWWC proposed a surcharge for rate-case expenses incurred in this case to be collected from the wholesale customers over a 36-month period. PWWC projected that this would result in a monthly surcharge in the amount of $2,750 to each wholesale customer.

PWWC has identified $103,824 in rate case expense, broken down as follows:[61]

Legal Fees	$ 64,541
Engineering	$ 10,718
Director of Finance	$ 28,565
Total	**$ 103,824**

PWWC's legal and engineering fees associated with this case are supported by invoices and time sheets. It has also provided the Director of Finance's accounting of hours spent related to this case.[62] The amount of $28,565 accounts for PWWC's salary and benefit expense for that position from January through mid-May.

PWWC's proposal to recover these expenses over a 36-month period is consistent with the Commission's decision in more than 30 cases, in which it found that a 36-month or 3-year amortization was appropriate.[63]

[61] *See* PWWC's Monthly Supplement to PSC 2-3 (filed May 15, 2010).
[62] *See* 'Finance Time Accounting' tab of PSC_2-3_Rate_Case_Expense_-_May_15_Supplement.
[63] *See, e.g.*, *Kentucky-American Water Co.*, Case No. 2018-00358 (Ky. PSC June 27, 2019); *Jackson Purchase Energy Corp.*, Case No. 2019-00053 (Ky. PSC June 20, 2019); *Grayson RECC*, Case No. 2018-00272 (Ky. PSC Mar. 28, 2019); *Water Serv. Corp. of Kentucky*, Case No. 2018-00208 (Ky. PSC Feb. 11, 2019); *Inter-County Energy Coop. Corp.*, Case No. 2018-00129 (Jan. 25, 2019); *City of Lebanon*, Case No. 2017-00417 (Ky. PSC July

The Commission has acknowledged that "[i]t 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.'"[64] Likewise, it has stated that a utility is entitled "to recover all prudent and reasonable rate case costs."[65]

The Supreme Court of the United States has also supported recovery of rate case expense. In *Driscoll v. Edison Light & Power Co.*, 307 U.S. 104, 120 (1939), a regulatory agency refused to allow rate case expense to be recovered on the grounds that the utility was defending "obviously excessive" rates. The Court rejected the agency's decision, stating: "Even where the rates in effect are excessive, on a proceeding by a commission to determine reasonableness, we are of the view that the utility should be allowed its fair and proper expenses for presenting its side to the commission." *Id.* at 120-121.

The Water Districts have not introduced any evidence on rate case expense. In fact, their primary witness explicitly stated that he had not taken a position on the reasonableness of the rate-case-expense surcharge.[66] Based on the Commission's finding "that a party's position is based upon the evidence sponsored and introduced into the record by that party, including, but

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12, 2018); *Atmos Energy Corp.*, Case No. 2017-00349 (Ky. PSC May 3, 2018); *Big Sandy RECC*, Case No. 2017-00374 (Ky. PSC Apr. 26, 2018); PR Wastewater Mgmt., Inc., Case No. 2018-00337 (Ky. PSC Apr. 12, 2018 and Mar. 22, 2018); *Monroe Cnty. Water Dist.*, Case No. 2017-00070 (Ky. PSC Jan. 12, 2018); *Kentucky Frontier Gas*, Case No. 2017-00263 (Ky. PSC Dec. 22. 2017); *CitiPower, LLC*, Case No. 2017-00160 (Ky. PSC Nov. 14, 2017); *Nolan RECC*, Case No. 2016-00367 (Ky. PSC June 21, 2017); *Farmers RECC*, Case No. 2016-00365 (Ky. PSC May 12, 2017); *Martin Gas, Inc.*, Case No. 2016-00332 (Ky. PSC Apr. 6, 2017); *Licking Valley RECC*, Case No. 2016-00174 (Ky. PSC Mar. 1, 2017); *Cumberland Valley Elec. Inc.*, Case No. 2016-00169 (Ky. PSC Feb. 6, 2017); *Kenergy Corp.*, Case No. 2015-00312 (Ky. PSC Sept. 15, 2016); *Oldham Woods Sanitation, Inc*. Case No. 2016-00131 (Ky. PSC Nov. 16, 2017 and July 7, 2016); *Big Rivers RECC*, Case No. 2012-00535 (Ky. PSC Oct. 29, 2013); *Delta Natural Gas Co.*, Case No. 2010-00116 (Ky. PSC Oct. 21, 2010); *Kentucky-American Water Co.*, Case No. 2010-00036 (Ky. PSC Sept. 3, 2010); *Kenergy Corporation*, Case No. 2003-00165 (Ky. PSC Apr. 22, 2004); *Fleming Mason Water Dist.*, Case No. 2001-00244 (Ky. PSC Aug. 7, 2002); *Union Heat and Light*, Case No. 2001-00092 (Jan. 31, 2002); *Louisville Gas and Elec. Co.*, Case No. 2000-00080 (Ky. PSC Sept. 27, 2000); *City of Owenton*, Case No. 98-283, (KY. PSC Feb. 22, 1999); *Goshen Utilities, Inc*., Case No. 93-482 (KY. PSC June 17, 1994); *Cedarbrook Treatment Plant*, Case No. 93-327 (Ky. PSC June 1, 1993); *West Oldham Utilities, Inc*.. Case No. 89-136, (Ky. PSC Feb. 16, 1990).

[64] *Kentucky-American Water Co.*, Case No. 2010-00036 (Ky. PSC. Dec. 14, 2010)(quoting *Ohio Gas Co. v. Pub. Utils. Comm'n of Ohio*, 294 U.S. 63, 73 (1935).

[65] *Kentucky-American Water Co.*, Case No. 97-034 at 23 (Ky. PSC. Sept. 30, 1997).

[66] *See* VR: 5/5/2020; 6:59:27.

not limited to, expert opinion, testimony, and discovery responses,"[67] the Water Districts should not be permitted to challenge rate case expense at this stage.

Questions arose at the evidentiary hearing as to whether and to what extent the parties engaged in settlement negotiations prior to the hearing. PWWC initiated discussions about the proposed rate at an October 22, 2019, meeting. When counsel for Caldwell County Water District contacted counsel for PWWC on December 11, 2019—nearly two months after the initial meeting—about whether PWWC would engage in negotiations with Caldwell County Water District (no mention of Lyon County Water District was contained in the letter), PWWC had already made the initial filing with the Commission on November 27, 2019. PWWC based its analysis on methodology that was acceptable in the past and presented a rate significantly lower that what that analysis suggested that it could show. Neither Water District presented any substantive information on adjustments they proposed to PWWC's wholesale rate analysis until April 17, 2020—six months after the initial meeting and two weeks before the evidentiary hearing.[68]

Simply put, PWWC had no information from the Water Districts on which to base negotiations until a month ago. And once there was time to digest that information and ask questions about it, it appears that PWWC is in the same situation as it was in December—having the ability to justify a higher volumetric rate than what was proposed. Accordingly, the lack of settlement negotiations should not be a factor in determining the reasonableness of the rate case expense incurred.

[67] *See Kentucky-American Water Co.*, Case No 2018-00358 at 3-4, 14 (Aug. 8, 2019).

[68] Although the Water Districts filed Vilines' testimony on March 20, 2020, there were virtually no details on how he concluded that the rate should be $2.59 per 100 cubic feet. This left PWWC (and Commission Staff) without the ability to evaluate his analysis until a month later.

Because PWWC has incurred $103,824 in rate-case expense, PWWC proposes to recover $1,442 from each Water District for 36 months.

VII. Conclusion

PWWC has demonstrated the reasonableness of its proposed rate, even using the allocation methodology of the intervening Water Districts' expert. By making several adjustments that are fully supported by evidence in the record and Commission precedent, the record demonstrates that PWWC could charge the wholesale customers as much as $3.03 per 100 cubic feet. Accordingly, the proposed rate of $2.97 per 100 cubic feet should be approved, as should the $6.00 per meter monthly customer service charge and the $1,442 monthly surcharge for rate case expense.

Respectfully submitted,

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ATTORNEYS FOR PRINCETON WATER AND WASTEWATER COMMISSION

CERTIFICATE OF COMPLIANCE

In accordance with 807 KAR 5:001, Section 8(7), this is to certify that PWWC's May 22, 2020, 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 May 22, 2020; and that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding. Paper copies of the foregoing shall be filed in the Commission's offices within 30 days after the state of emergency is lifted, which is consistent with the findings in Case No. 2020-00085.

Counsel for PWWC