

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

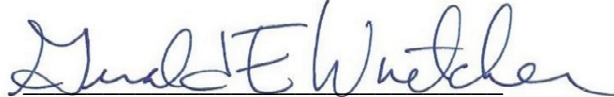
ELECTRONIC TARIFF FILING OF)	
PENDLETON COUNTY WATER DISTRICT)	CASE NO. 2020-00158
OF AN AMENDMENT TO A SPECIAL)	
CONTRACT WITH THE CITY OF BUTLER)	

**SUPPLEMENTAL RESPONSE OF PENDLETON COUNTY WATER DISTRICT
TO THE COMMISSION'S ORDER OF MAY 26, 2020**

Pendleton County Water District supplements its Response to the Commission's Order of May 26, 2020.

Dated: September 9, 2020

Respectfully submitted,



Gerald E. Wuetcher
Stoll Keenon Ogden PLLC
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Lexington, Kentucky 40507-1801
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Fax: (859) 259-3517
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Counsel for Pendleton County Water District

CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that Pendleton County Water District's electronic filing of this Supplemental Response is a true and accurate copy of the same document being filed in paper medium; that the electronic filing was transmitted to the Public Service Commission on September 9, 2020; that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding; and that within 30 days following the end of the state of emergency announced in Executive Order 2020-215 this Response in paper medium will be delivered to the Public Service Commission.



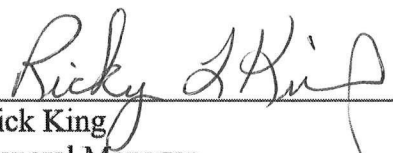
VERIFICATION

COMMONWEALTH OF KENTUCKY)

) SS:

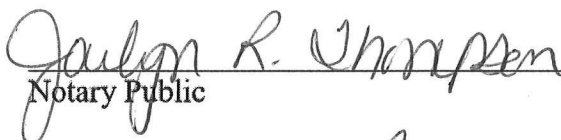
COUNTY OF PENDLETON)

The undersigned, Rick King, being duly sworn, deposes and states that he is the General Manager of Pendleton County Water District and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



Rick King
General Manager
Pendleton County Water District

Subscribed and sworn to before me, a Notary Public in and before said County and State,
this 8th day of September 2020.



Notary Public

My Commission Expires: August 26, 2023

Notary ID: 630259

PENDLETON COUNTY WATER DISTRICT

**Supplemental Response to Commission Order of May 26, 2020
Case No. 2020-00158**

Question No. 1

Responding Witnesses: Rick King/Legal Counsel

Q-1. Explain in detail each basis for Pendleton District's proposal to adjust Butler's rate as proposed in the Amended Contract.

A-1. Original Response:

Since Butler has made great strides in reducing its water usage, the District wants to adjust its rates. Pendleton County Water District and Butler have always had a good working relationship and Butler feels it is unfair to charge for water not used.

Supplemental Response:

The proposed contract revisions reflect changing circumstances in Pendleton County Water District's ("Pendleton District") operations and customer purchasing patterns and will not result in any significant reduction in Pendleton District's net revenues.

In their "Preliminary Water Purchase Contract," which was executed in March 2000, Pendleton District and the City of Butler ("Butler") agreed to the current minimum purchase requirements. At that time, Butler had elected to close and dismantle its water treatment facilities and to purchase its total water requirements from Pendleton District. To serve Butler, Pendleton District undertook a waterworks improvement project costing \$1,946,958. The project was principally funded through a \$1,000,000 Community Development Block Grant and a \$856,660 Economic Development Administration Grant. The project involved the construction of approximately 8.4 miles of 12-inch water transmission main, two master meter vaults, and a 200,000-gallon elevated water storage tank. The project connected Butler's distribution system to the Kentucky Highway 17 Point of Delivery, the location at which Northern Kentucky Water District ("NKWD") was to deliver water to Pendleton District. The Commission reviewed and issued a certificate of public convenience and necessity for the waterworks improvement project in Case No. 2000-151. (See Attachment 1.)

Prior to obtaining Commission approval for the project, NKWD and Pendleton District in October 1999 executed a Water Supply Agreement (Attachment 2) that replaced their existing water supply agreement. NKWD had previously supplied water to Pendleton District through a delivery point at the intersection of U.S. Route 27 and Old U.S. Route 27 at Grants Lick, Kentucky. The new Water Supply Agreement required the establishment of a second delivery point on Kentucky Highway 17 at the Kenton County-Pendleton County Line. NKWD agreed to extend a 12-inch or larger water main to the Kentucky Highway 17 Point of Delivery. Pendleton District agreed to construct a similar sized main

from the south to that point and to construct and to install a master meter and meter vault at the point of connection. (The water main and the meter vault were part of the waterworks improvement project approved in Case No. 2000-151.) The Water Supply Agreement required Pendleton County Water District to purchase a minimum volume of 90,000 gallons of water per day, averaged on a monthly basis, at the Kentucky Highway 17 Point of Delivery. (The Water Supply Agreement remains in effect until January 31, 2042.)

Generally, minimum purchase requirements are imposed to recover fixed costs incurred to provide service. In this case, Pendleton District did not incur any significant debt to finance the waterworks improvement project. Government grants provided virtually all of the financing for the project. Pendleton District, however, incurred a contractual liability for the water capacity provided through the Kentucky Highway 17 Point of Delivery. This cost of this capacity was fixed and would be incurred each year of the NKWD-Pendleton District Water Supply Agreement. The minimum purchase requirement set forth in the Preliminary Water Purchase Contract and in Pendleton District's filed rate schedules allocated to Butler a portion of this fixed cost and ensured that Pendleton District would have a purchaser for approximately 60.11 percent of its required purchases from NKWD through the Kentucky Highway 17 Point of Delivery. (Because Pendleton District's line loss rate was 7.37 percent when the Preliminary Water Purchase Contract, Butler was actually responsible for approximately 65.61 percent of Pendleton District's required purchases.) It is unclear how the parties determined that 55,000 gallons per day was the appropriate level for the minimum purchase requirement. In assigning a sizeable portion of the 90,000 gallon per day purchase requirement to Butler, the parties acknowledged that a primary purpose of the construction of the new water main and delivery point was to provide a water supply to replace Butler's water treatment facility.

Between 2002 and 2016, the minimum purchase requirement found Preliminary Water Purchase Contract and in Pendleton District's filed rate schedule had only limited consequences. In all but one year during the period, Butler's purchases exceeded the minimum purchase. Since 2017, however, Butler's purchases have not exceeded the minimum purchase requirements (See Attachment 3) and has been required to pay for water that it did not take. In 2018 it paid for 23,690,294 gallons of water while receiving only 16,176,800 gallons.¹ Similarly, in 2019, it paid for 20,075,004 gallons of water, while receiving only 13,453,000 gallons. Based upon Pendleton District's then-existing rate of \$3.93 per 1,000 gallons, Butler paid \$29,528 in 2018 and \$26,025 in 2019 for water it did not take.

Since the execution of the Preliminary Water Purchase Contract and the Commission's approval of a minimum volume requirement for Butler, the level of purchases by other Pendleton District customers for water through the Kentucky Highway 17 Point of Delivery has significantly increased. While Pendleton District's other customers were initially assumed to use 34.39 percent of Pendleton District's purchases from that delivery

¹ This amount is derived from the billing analysis that Pendleton County Water District submitted in Case No. 2019-00310. This analysis showed that for 10 months of the test period the City of Butler purchased below the minimum amount. It also showed that in two months the City of Butler purchased a total of 3,615,290 gallons of water in above the monthly minimum.

point, they used 64.95 percent of those purchases in 2019. In contrast, Pendleton District's sales to Butler constituted only **35.05 percent** of Pendleton District's purchases through the Kentucky Highway 17 Point of Delivery. The minimum purchase requirement contained in the Preliminary Water Purchase Contract and Pendleton District's filed rate schedule, however, made Butler financially responsible for 52.3 percent of the purchases in 2019 through the Kentucky Highway 17 Point of Delivery. Attachments 4 and 5 demonstrate the recent trend. (See Attachment 4.)

In light of these changing demands, Pendleton County Water District believed a revision in the minimum purchase requirement would be appropriate so long as it did not materially affect Pendleton District's financial integrity. The reduction in revenue resulting from the reduction in the minimum charge will be mostly offset by a reduction in purchased water costs. In Case No. 2019-00310 the Commission assumed that water sales to the City of Butler produces annual revenues of \$91,245 and resulted in purchased water expense of \$71,875, leaving a net revenue from these sales of **\$19,370**. Assuming Butler's purchases in Calendar Year 2019 are more representative of its future purchase pattern, the proposed rate will, after the cost of purchase water is subtract, produce net annual revenue of **\$19,051**. The net revenue calculations are shown on Attachment 6.

Accordingly, a reduction in the minimum purchase requirement to 1,372,500 gallons per month, does not significantly reduce Pendleton District's net annual revenue from sales to Butler. The increased demand from other Pendleton District customers has eliminated the risk that Pendleton District will be unable to meet the minimum purchase requirements imposed upon it by the NKWD-Pendleton District Water Supply Agreement. It will not result in other Pendleton District customers subsidizing Butler. Based upon 2019 usage and line loss rate, the proposed minimum volume requirement reduces Butler's responsibility for purchases through the Kentucky Highway 17 Point of Delivery from 52.3 percent of total purchases to approximately **42.9 percent** of total purchases. This percentage more closely reflects current customer usage of the water that Pendleton District purchases from that delivery point, .²

² 1,372,500 gallons per month x 12 months = 16,470,000 gallons per year.
16,470,000 x 1.124725 (line loss factor) = 18,524,665 gallons (purchases at delivery point to meet minimum).
18,524,665 gallons ÷ 43,174,335 gallons (2019 purchases from Ky Hwy 17 delivery point) = 42.9%.

ATTACHMENT 1

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF PENDLETON COUNTY)	
WATER DISTRICT FOR A CERTIFICATE OF)	
PUBLIC CONVENIENCE AND NECESSITY TO)	CASE NO.
CONSTRUCT AND FINANCE AND)	2000-151
IMPROVEMENTS PROJECT)	

O R D E R

On April 25, 2000, Pendleton County Water District ("Pendleton District") applied for a Certificate of Public Convenience and Necessity to construct a \$1,946,958 waterworks improvement project and for approval of its plan for financing the project. The proposed project will provide a source of water for the City of Butler and will serve approximately 50 new customers. Project funding is a \$1,000,000 Community Development Block Grant, an \$856,660 Economic Development Administration Grant, a \$75,238 loan from the Farmers National Bank located in Butler, Kentucky at 6.56% for 20 years and a \$15,015 contribution from the Applicant.

The proposed project includes the construction of approximately 8.4 miles of 12-inch water transmission main, two master meter vaults, and a 200,000-gallon elevated water storage tank. Plans and specifications for the proposed improvements prepared by PDR Engineers, Inc. of Lexington, Kentucky, have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

The Commission, having reviewed the evidence of record and being otherwise sufficiently advised, finds that:

1. Public convenience and necessity require that the construction proposed be performed and that a Certificate of Public Convenience and Necessity be granted.

2. The proposed construction consists of approximately 8.4 miles of 12-inch water transmission main, two master meter vaults, and a 200,000-gallon elevated water storage tank.

3. Pendleton District should obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

4. Any deviation from the construction approved should be undertaken only with the prior approval of the Commission.

5. Pendleton District should furnish documentation of the total costs of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

6. Pendleton District shall require construction to be inspected under the general supervision of a professional engineer with Kentucky licensure competent to practice civil or mechanical engineering to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

7. Pendleton District shall file a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the

contract plans and specifications within 60 days of the substantial completion of the construction certificated herein.

8. The proposed loan of \$75,238 from Farmers National Bank is for lawful objects within the corporate purposes of Pendleton District's utility operation, is necessary and appropriate for and consistent with the proper performance of the utility's service to the public, and will not impair its ability for such purpose.

IT IS THEREFORE ORDERED that:

1. Pendleton District is granted a Certificate of Public Convenience and Necessity to proceed with the proposed construction project consisting of approximately 8.4 miles of 12-inch water transmission main, two master meter vaults, and a 200,000-gallon elevated water storage tank.

2. Pendleton District is authorized to borrow \$75,238 from Farmers National Bank for 20 years at an interest rate not to exceed 6.56 percent per annum.

3. Pendleton District shall use the proceeds of its proposed loan from Farmers National Bank only for the lawful purposes specified in its application.

4. Pendleton District shall comply with the requirements contained in Findings 3 through 7 as if the same were individually so ordered.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the loan approved herein.

Done at Frankfort, Kentucky, this 16th day of May, 2000.

By the Commission

ATTEST:


Executive Director

ATTACHMENT 2

WATER SUPPLY AGREEMENT

This **Water Supply Agreement** ("Agreement"), dated as of the 14th day of September, 1999 is made and entered by and between the **Pendleton County Water District**, R.R. 5, Box 232, Falmouth, Kentucky ("Pendleton") and the **Northern Kentucky Water Service District**, 100 Aqua Drive, Cold Spring, Kentucky ("Northern"). Pendleton and Northern shall be collectively referred to herein as the "Parties."

WITNESSETH:

WHEREAS, Pendleton entered a Water Purchase Contract with the Campbell County Kentucky Water District ("Campbell") dated July 24, 1972, in which Pendleton agreed to purchase water furnished by Campbell pursuant to certain terms and conditions for a period of twenty years; and

WHEREAS, Pendleton and Campbell agreed to extend the length of the Water Purchase Contract for an additional twenty-five years by a Modification dated May 23, 1977; and

WHEREAS, Pendleton and Campbell agreed to further extend the length of the Water Purchase Contract to the year 2041 by a Modification dated November 30, 1995; and

WHEREAS, Northern is the successor to Campbell as the result of the merger of Campbell with Kenton County Water District No. 1 on or about January 1, 1997; and

WHEREAS, Pendleton and Northern are duly organized water districts pursuant to Chapter 74 of the Kentucky Revised Statutes and other applicable law; and

WHEREAS, Pendleton and Northern desire to terminate the Water Purchase Contract dated July 24, 1972, as amended by the Modification dated May 23, 1977 and the Modification dated November 30, 1995, and to set forth a new agreement for the continuing purchase and sale of water by and between Pendleton and Northern;



NOW THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are expressly acknowledged, the Parties hereby agree as follows:

ARTICLE I

NATURE OF AGREEMENT

This Agreement is a water supply agreement in which Northern agrees to supply water to Pendleton and Pendleton agrees to purchase water from Northern pursuant to the terms and conditions set forth herein.

ARTICLE II

EFFECTIVE DATE AND TERM

This Agreement shall take effect when the rates and service set forth herein are approved by the Public Service Commission of the Commonwealth of Kentucky ("PSC") or when the PSC determines that it lacks jurisdiction over the rates and service set forth herein, whichever occurs first; provided that such approval or determination by the PSC is given or made on or before January 1, 2000. Once it takes effect, this Agreement shall continue in full force and effect until January 31, 2042.

ARTICLE III

CONSTRUCTION

Northern shall construct and install a 12" minimum diameter water main extending along Kentucky Route 17 from Piner, Kentucky to the Kenton County/Pendleton County line (the "Northern Water Main"). Such water main shall be installed at Northern's expense or with funding acquired by Northern and



shall be fully completed and operational no later than two hundred and seventy (270) days after the execution of this Agreement.

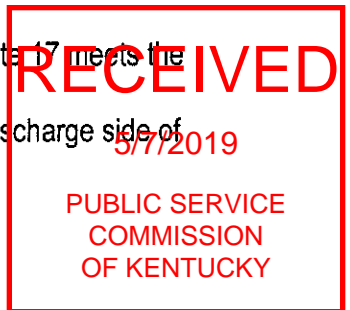
Simultaneous with the construction and installation of the Northern Water Main, Pendleton shall, at no cost to Northern, construct and install a water main to receive water from the Northern Water Main at the Kenton County/Pendleton County line (the "Pendleton Water Main"). Within one hundred and eighty (180) days of the Northern Water Main being fully completed and operational, but no sooner than January 1, 2001, Pendleton, at no cost to Northern, shall install a master meter and meter pit at the point where the Northern Water Main terminates at the Kenton County/Pendleton County line and shall complete a connection between the Northern Water Main and the Pendleton Water Main. Pendleton shall install the master meter and construct the meter pit in accordance with Northern's specifications and Rates, Rules and Regulations.

After the master meter and the meter pit are installed and constructed, they shall become the property of Northern as soon as they are accepted by Northern. The ownership of the master meter and the meter pit shall be transferred from Pendleton to Northern at no cost or charge to Northern. Northern shall allow Pendleton reasonable access to the meter pit for the purpose of monitoring water flow and for the purpose of installing and maintaining telemetry equipment and valving.

ARTICLE IV

POINTS OF DELIVERY

Northern shall provide water to Pendleton at the following two points of delivery: 1) the discharge side of the master meter to be installed at or near a point where Kentucky Route 17 meets the Kenton County/Pendleton County line (the "Kentucky 17 Point of Delivery"); and 2) the discharge side of



the existing master meter located at the intersection of U.S. Route 27 and Old U.S. Route 27 at Grants Lick, Kentucky (the "U.S. 27 Point of Delivery").

ARTICLE V

VOLUME OF WATER

As soon as the construction set forth in Article III above is completed, Northern shall supply to Pendleton, and Pendleton shall accept and receive from Northern, a minimum volume of ninety thousand (90,000) gallons per day of water, averaged on a monthly basis, at the Kentucky 17 Point of Delivery. Northern shall not be required to supply to Pendleton a volume of more than four hundred (400) gallons per minute of water at the Kentucky 17 Point of Delivery.

As soon as this Agreement becomes effective as set forth in Article II, Northern shall supply to Pendleton, and Pendleton shall accept and receive from Northern, a minimum volume of sixty thousand (60,000) gallons per day of water, averaged on a monthly basis, at the U.S. 27 Point of Delivery. Northern shall not be required to supply to Pendleton a volume of more than three hundred (300) gallons per minute of water at the U.S. 27 Point of Delivery.

By a written addendum duly executed by the Parties and referencing this Agreement, the Parties may agree to increase the minimum and maximum volumes of water to be sold and purchased at either or both the Kentucky 17 Point of Delivery and the U.S. 27 Point of Delivery. In no event shall Northern be required to supply water at either point of delivery in excess of the maximum volumes set forth in this Article or in any duly executed addendum.

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ARTICLE VI

PRESSURE AND QUALITY OF WATER

Northern does not guarantee any specific water pressure at either the Kentucky 17 Point of Delivery or the U.S. 27 Point of Delivery but it intends to provide, absent unusual or unforeseen circumstances, a minimum hydraulic gradient of 1036 under Northern's maximum day demand conditions at the Kentucky 17 Point of Delivery at a maximum flow of 400 gallons per minute and a minimum hydraulic gradient of 930 under Northern's maximum day demand conditions at the U.S. 27 Point of Delivery at a maximum flow of 300 gallons per minute. Northern covenants to use reasonable care and diligence in the operation and maintenance of its water system to prevent and avoid abnormal interruptions and fluctuations of supply and pressure. Pendleton covenants to use reasonable care and diligence in the maintenance of its system to prevent and avoid abnormal interruptions and fluctuations in its acceptance of water under this Agreement.

All water supplied by Northern under this Agreement shall be potable, treated water meeting all applicable quality and purity standards of all appropriate state and federal regulatory agencies. The water shall be of the same quality as that furnished to Northern's retail customers.

ARTICLE VII

WATER RATES

The initial water rates to be paid to Northern for water supplied under this Agreement shall be \$1.44 per one thousand (1000) gallons for water supplied at the Kentucky 17 Point of Delivery and \$1.93 per one thousand (1000) gallons for water supplied at the U.S. 27 Point of Delivery.

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OF KENTUCKY

Pendleton shall pay Northern for the minimum volumes set forth in Article V above or in any duly executed addendum if Pendleton's actual consumption does not reach such minimum volumes. With respect to the Kentucky 17 Point of Delivery, Pendleton's obligation to pay for the minimum volume shall commence one hundred and eighty (180) days after the Northern Water Main is fully completed and operational, but no sooner than January 1, 2001, regardless of whether Pendleton has completed the installation and construction of the master meter, the meter pit and the Pendleton Water Main. With respect to the U.S. 27 Point of Delivery, Pendleton's obligation to pay for the minimum volume shall commence on the effective date described in Article II above.

The Parties understand and agree that the rate of \$1.93 per one thousand (1000) gallons is the rate currently in effect for the sale and purchase of water at the U.S. 27 Point of Delivery and that by entering this Agreement Northern is agreeing to provide Pendleton a lower initial rate for water to be supplied at the Kentucky 17 Point of Delivery. The Parties further understand and agree that Northern intends to make application to the PSC for an adjustment in its retail and wholesale rates within three (3) years of the execution of this Agreement and that the rates for the Kentucky 17 Point of Delivery and the U.S. 27 Point of Delivery should be adjusted at that time.

The Parties further understand and agree that Northern may, from time to time, increase the water rates it charges Pendleton under this Agreement but that, as long as the PSC has jurisdiction over the rates Northern charges Pendleton, no rate increase shall take effect unless and until it has been reviewed and approved by the PSC.

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ARTICLE VIII

PAYMENT OF SURCHARGES

In addition to paying to Northern the water rates described in Article VII above, Pendleton shall pay to Northern an amount equal to ten (10) surcharges for Northern's Subdistrict C expansion project until the expiration of the forty (40) year surcharge term. The Parties understand and agree that the amount of each surcharge may vary over time but shall not exceed \$30.00 per month. The Parties further understand and agree that Pendleton's obligation under this Article may vary over time but shall not exceed \$300.00 per month.

Pendleton's obligation under this Article shall commence thirty (30) days after the Northern Water Main is fully completed and operational, regardless of whether Pendleton has completed the installation and construction of the master meter, meter pit and the Pendleton Water Main.

ARTICLE IX

FLOW MEASUREMENT

Northern shall own, operate and maintain the water meters at the Kentucky 17 Point of Delivery and the U.S. 27 Point of Delivery. Northern shall make annual tests and inspections of the meters and such other tests and inspections as Northern may deem necessary. No correction shall be made in the billing to Pendleton unless a test or inspection shows that the metering is more than two percent (2%) slow or fast. If any test or inspection shows that the metering is inaccurate by more than two percent (2%) slow or fast, correction shall be made in the billing to Pendleton for the period during which Northern and Pendleton agree that the inaccuracy existed. If no such agreement is reached, it shall be assumed that



the error developed progressively from the date of the last meter test and an appropriate adjustment to billings shall be made.

ARTICLE X

BILLING AND PAYMENT

Once each month, Northern shall submit to Pendleton an invoice for the amount due to Northern under the terms of this Agreement for the prior month. All such invoices shall be due and payable by Pendleton to Northern within twenty-one (21) days of receipt. A 10% penalty shall be added to each invoice that is not paid within twenty-one (21) days of its receipt by Pendleton.

ARTICLE XI

AUDITS

Northern shall cause its accounts to be audited by a firm of certified public accountants on an annual basis. A copy of the certified public accountants' audit report shall be supplied to Pendleton upon Pendleton's request. Pendleton may cause the accuracy of any cost charged to it to be verified, at Pendleton's own expense, by an examination of the accounts and records kept by Northern, and Northern shall make its accounts and records available to Pendleton at reasonable times and locations for such purposes.

ARTICLE XII

FORCE MAJEURE

Except for the payments required of Pendleton under Articles VII and VIII above, either Party may suspend its performance under this Agreement if such Party's performance is prevented or



delayed by a cause or causes beyond the reasonable control of such party which could not have been avoided by the exercise of reasonable diligence by such Party. Such causes may include, but shall not be limited to, acts of God, acts of war, riot, fire, explosion, lockouts or other labor disturbances, breakage or damage to machinery or pipelines, or partial or entire failure of water system. The performance of Northern may also be suspended if circumstances cause Northern's system-wide demand to exceed Northern's production and distribution capability. The Party asserting a right to suspend performance must, within a reasonable time of acquiring knowledge of the cause requiring the suspension, notify the other Party in writing of the cause of suspension, the performance suspended, and the anticipated duration of the suspension. Performance shall be suspended only during the time that it is prevented or delayed by the type of cause or causes described in this Article, and the Party whose performance is prevented or delayed shall endeavor to remove or overcome the cause or causes with all reasonable dispatch.

In the event of a system-wide shortage of water in Northern's system, Pendleton's supply of water under this Agreement shall be reduced in the same ratio or proportion that the supply to Northern's retail customers is reduced. Northern will endeavor to include a provision similar to the one immediately above in the other wholesale water supply agreements it is currently negotiating.

ARTICLE XIII

RESPONSIBILITY AND INDEMNIFICATION

Northern and Pendleton shall be solely responsible for the construction, operation and maintenance of their respective water systems. Northern and Pendleton, to the extent permitted by law, expressly agree to defend, indemnify and save harmless the other against all claims, demands, costs, or

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expenses asserted by third parties and proximately caused by their negligence or willful misconduct in connection with the construction, operation and maintenance of their respective water systems.

ARTICLE XIV

APPROVAL OF AGREEMENT

The Parties understand and agree that the rates and service set forth in this Agreement must be submitted to and approved by the PSC.

ARTICLE XV

TERMINATION OF PRIOR CONTRACT

Northern and Pendleton agree that the Water Purchase Contract between Pendleton and Campbell dated July 24, 1972, as amended by the Modification dated May 23, 1977 and the Modification dated November 30, 1995, shall be terminated and cease to be in effect when this Agreement becomes effective as set forth in Article II above.

ARTICLE XVI

NOTICES

Any notices allowed or required under this Agreement shall be in writing and shall be hand-delivered or mailed by certified mail, return receipt requested. Notice shall be effective upon receipt. Notices shall be given to the Parties at the following addresses or such other addresses as may be designated by the Parties:



As to Northern:

General Manager
Northern Kentucky Water Service District
100 Aqua Drive
P.O. Box 220
Cold Spring, KY 41076

As to Pendleton:

General Manager
Pendleton County Water District
R. 5, Box 14
P.O. Box 232
Falmouth, KY 41040

ARTICLE XVII

ENTIRE AGREEMENT

This Agreement constitutes the entire understanding and agreement between the Parties and supersedes all other understandings and agreements between the Parties with respect to the subject matter of this Agreement. There are no understandings, representations, or warranties of any kind, express or implied, not expressly set forth in this Agreement. No modification of this Agreement shall be effective unless in writing and signed by both Parties.

ARTICLE XVIII

WAIVERS

The failure of any Party at any time to enforce any provision of this Agreement, to exercise its rights under any provision, or to require a certain performance of any provision, shall in no way be construed as a waiver of such provision, nor in any way affect the validity of this Agreement or the right of the Party thereafter to enforce each and every provision.



ARTICLE XIX

ASSIGNMENT

This Agreement shall not be assigned by either Party without the written consent of the other Party.

IN WITNESS WHEREOF, the Parties hereto, acting under the authority of their respective governing bodies, have caused this Agreement to be duly executed in duplicate, each of which shall constitute an original.

PENDLETON COUNTY WATER DISTRICT

By: Louis McClanahan

Printed Name: Louis McClanahan

Title: Treasurer

NORTHERN KENTUCKY WATER SERVICE DISTRICT

By: Patricia J. Sommerkamp

Printed Name: PATRICIA J. SOMMERKAMP

Title: Chair

water supply agr



ATTACHMENT 3

ATTACHMENT 3
CITY OF BUTLER PURCHASES

Year	Purchases (Gallons)	Exceeds Minimum (Gallons)
2002	24,440,000	4,364,996
2003	27,016,000	6,940,996
2004	22,700,000	2,624,996
2005	25,348,000	5,272,996
2006	24,971,000	4,895,996
2007	30,284,000	10,208,996
2008	25,536,000	5,460,996
2009	19,827,000	(248,004)
2010	22,709,000	2,633,996
2011	20,851,000	775,996
2012	23,124,000	3,048,996
2013	23,124,000	3,048,996
2014	23,581,000	3,505,996
2015	22,333,000	2,257,996
2016	23,402,000	3,326,996
2017	18,771,000	(1,304,004)
2018	16,177,000	(3,898,004)
2019	13,453,000	(6,622,004)

Pendleton County Water District's current rate schedule requires the City of Butler to take or pay for 1,672,917 gallons monthly. This monthly purchase requirement equates to 20,075,004 gallons annually.

ATTACHMENT 4

ATTACHMENT 4

**PENDLETON COUNTY WATER DISTRICT
PURCHASES THROUGH KENTUCKY HIGHWAY 17 POINT OF DELIVERY**

	2017	2018	2019	2020
January	4,003,296	4,121,480	3,073,532	3,440,800
February	4,401,232	4,207,500	3,265,020	4,147,660
March	3,643,508	3,091,484	2,742,916	3,815,548
April	3,861,176	3,534,300	2,962,080	4,054,160
May	3,344,308	2,808,740	3,074,280	3,602,368
June	4,042,192	3,640,516	4,070,616	4,721,376
July	3,426,588	3,775,156	3,738,504	3,986,840
August	4,264,348	4,302,496	4,278,560	5,029,552
September	3,246,320	3,166,284	4,221,712	
October	3,009,952	2,758,624	3,772,912	
November	3,401,904	3,244,824	3,896,332	
December	3,308,404	2,885,036	4,075,852	

The Water Supply Agreement requires Pendleton County Water District to purchase a minimum of 90,000 gallons daily through the Kentucky Highway 17 Point of Delivery. This daily purchase requirement equates to approximately 2,700,000 gallons monthly.

ATTACHMENT 5

ATTACHMENT 5

CITY OF BUTLER PURCHASES V. OTHER PENDLETON DISTRICT USERS' PURCHASES

Year	Total Gallons Purchased Ky Highway 17 (B)	Minimum Purchase Required (C)	Minimum Purchase % (D)	Water Loss % (E)	Minimum Purchase Required With Line Loss (F)	Minimum Purchase With Line Loss % (G)	Butler Sales (H)	Butler Sales % (I)	Other Usage % (J)	Butler Sales + Loss (K)	Butler Sales + Loss % (L)	Other Usage % (M)
2017	43,955,245	20,075,000	45.67	11.9593	22,475,829	51.13	18,771,000	42.70	57.30	21,015,880	47.81	52.19
2018	41,538,458	20,075,000	48.33	11.6335	22,410,425	53.95	16,177,000	38.94	61.06	18,058,951	43.48	56.52
2019	43,174,335	20,075,000	46.50	12.4752	22,579,396	52.30	13,453,000	31.16	68.84	15,131,289	35.05	64.95

Notes:

- (B) – Source: Attachment 4
- (C) – Minimum Purchase = 1,672,917 gallons per month x 12 months
- (D) – Column C divided by Column B
- (E) – Line Loss for Year as reported in Annual Report
- (F) – Reflects that amount of water that Pendleton District must purchase to supply Butler with minimum requirement if line loss is considered (Column C x (1 + Line Loss))
- (G) – Represents as a percentage of total purchases from Kentucky Highway 17 Point of Delivery the amount of water that Pendleton District must purchase to supply Butler with minimum requirement if line loss is considered (Column F divided by Column B)
- (H) – Total Sales to Butler as reported in Annual Report
- (I) – Butler Sales as a percentage of Pendleton District’s total purchases from Kentucky Highway 17 Point of Delivery (Column H divided by Column B)
- (J) – Percentage of Pendleton District’s total purchases from Kentucky Highway 17 Point of Delivery used by other Pendleton District customers
- (K) – Reflects the amount of water that Pendleton District had to purchase to supply Butler’s purchases when line loss is considered (Column I x (1 + Line Loss))
- (L) – Reflects amount of water that Pendleton District had to purchase to supply Butler’s purchases when line loss is considered as a percentage of Pendleton District’s total purchases from Kentucky Highway 17 Point of Delivery
- (M) – Percentage of Pendleton District’s total purchases from Kentucky Highway 17 Point of Delivery used by other Pendleton District customers after considering purchases necessary to supply Butler (including line loss)

ATTACHMENT 6

ATTACHMENT 6

NET REVENUE CALCULATIONS

Adjusted Test Year Net Revenue Projection

Adjusted Test Year Revenues:

12 months @ Monthly Minimum Charge (\$7,503.15)	= \$90,038
269,456 gallons @ \$4.48 per 1,000 gallons	= <u>\$ 1,207</u>
Total Revenue	\$91,245

Adjusted Test Year Purchased Water Expense:

Total Gallons Purchased = Total Sales x (1 + Loss Water Percentage)
= 16,177,000 gallons x (1.116335)
= 18,058,951 gallons

Total Water Expense	= 18,058,951 gallons x \$3.98 per 1,000 gallons
	= \$71,875

Remaining Revenue after Water Expense: **\$19,370**

Net Revenue Projection Based Upon 2019 Actual

Actual 2019 Revenues (Using the Proposed Rate):

12 months @ Monthly Minimum Charge (\$6,593.76)	= \$79,125
31,000 gallons @ \$4.82 per 1,000 gallons	= <u>\$ 149</u>
Total	\$79,274

Actual 2019 Purchased Water Expense:

Total Gallons Purchased = Total Sales x (1 + Loss Water Percentage)
= 13,453,000 gallons x (1.124752)
= 15,131,289 gallons

Total Water Expense	= 15,131,289 gallons x \$3.98 per 1,000 gallons
	= \$60,223

Remaining Revenue after Water Expense: **\$19,051**

The purchased water cost of \$3.98 per 1,000 gallons was used as the cost of water as the City of Butler is supplied through purchases from Northern Kentucky Water District at Kentucky Highway 17 Point of Delivery only.

PENDLETON COUNTY WATER DISTRICT

**Supplemental Response to Commission Order of May 26, 2020
Case No. 2020-00158**

Question No. 2

Responding Witness: Rick King/Legal Counsel

Q-2. State whether Pendleton District contends that the proposed rate will cover its costs associated with serving Butler, and explain each basis for Pendleton District's response. If Pendleton District does not contend that the proposed rate will cover its costs associated with serving Butler, explain why Pendleton District contends that the rate is justified despite not covering the costs associated with serving Butler.

A-2. Original Response:

The proposed rate will not cover its cost associated with serving Butler. Pendleton County Water District feels that since Butler has reduced water consumption significantly that the rate reduction is justified.

Supplemental Response:

Based upon the calculations shown in Attachment 5 of the Supplemental Response to the Commission's Order of May 26, 2020, Question 1, the proposed rate will result in a slight loss of net revenue but appears to cover the cost of serving the City of Butler ("Butler"). As no cost of service study has been performed to determine the precise cost of serving Butler, Pendleton County Water District cannot state with certainty the proposed rate will cover the cost of serving the City of Butler. Since no cost of service study in Case No. 2019-00310, however, it also cannot state with certainty that the existing rate assessed to the City of Butler covers the cost of service.