

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

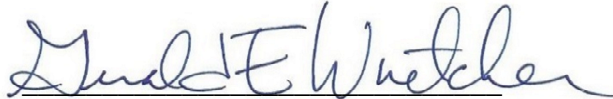
**ELECTRONIC TARIFF FILING OF)
PENDLETON COUNTY WATER DISTRICT) CASE NO. 2020-00158
OF AN AMENDMENT TO A SPECIAL)
CONTRACT WITH THE CITY OF BUTLER)**

**RESPONSE OF PENDLETON WATER DISTRICT
TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Pendleton County Water District submits its Response to Commission Staff's First Request for Information.

Dated: September 9, 2020

Respectfully submitted,

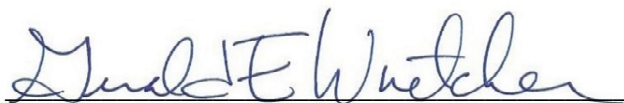


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CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that Pendleton County Water District's electronic filing of this 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.



Counsel for Pendleton County Water District

COMMONWEALTH OF KENTUCKY
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In the Matter of:

ELECTRONIC TARIFF FILING OF)	
PENDLETON COUNTY WATER DISTRICT)	CASE NO. 2020-00158
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RESPONSE OF
PENDLETON COUNTY WATER DISTRICT
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

FILED: September 9, 2020

PENDLETON COUNTY WATER DISTRICT

**Response to Commission Staff’s First Request for Information
Case No. 2020-00158**

Question No. 1

Responding Witnesses: Rick King/Legal Counsel

Q-1. Refer to the table Pendleton District filed with its “Amendment to Water Purchase Contract” indicating the rates in the proposed contract would result in an annual decrease in the City of Butler’s bill in the amount of \$10,753.60.

- a. Explain in detail how Pendleton District plans to make up for the lost revenue that will result from the rates in the proposed contract with the City of Butler.**
- b. Explain whether the retail customers will be expected to subsidize the revenue shortfall caused by the proposed contract.**
- c. If Pendleton District does not expect to make up for the lost revenue that will result from the rates in the proposed contract with the City of Butler, explain how it will meet its expenses, including its depreciation expense.**

A-1. a. 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 the City of 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**.

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**

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	= \$ 149
Total	\$79,274

Actual 2019 Purchased Water Expense:

$$\begin{aligned} \text{Total Gallons Purchased} &= \text{Total Sales} \times (1 + \text{Loss Water Percentage}) \\ &= 13,453,000 \text{ gallons} \times (1.124752) \\ &= 15,131,289 \text{ gallons} \end{aligned}$$

$$\begin{aligned} \text{Total Water Expense} &= 15,131,289 \text{ gallons} \times \$3.98 \text{ per 1,000 gallons} \\ &= \$60,223 \end{aligned}$$

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.

- b. As shown in the response to Question 1a, retail customers will not subsidize sales to the City of Butler. Moreover, the reduction in the City of Butler's water purchases must be placed in proper perspective. The current wholesale rate required the City of Butler in 2018 to pay for 23,690,294 gallons of water while it withdrew only 16,176,800 gallons.¹ Similarly, in 2019, it required the City of Butler to pay for 20,075,004 gallons of water, while receiving only 13,453,000 gallons. Based upon the then-existing rate of \$3.93 per 1,000 gallons, the City of Butler paid \$29,528 in 2018 and \$26,025 in 2019 for water it did not receive.

In its review of Pendleton County Water District's rates, the Public Service Commission has not explained why the minimum charge assessed to the City of Butler is reasonable. Pendleton District believes that the minimum bill was originally established because of the minimum take-or-pay provisions in its 1999 Water Supply Agreement with Northern Kentucky Water District. The minimum take-or-pay provision imposed upon the City of Butler ensured that some of the risk that Pendleton County Water District assumed to obtain an adequate supply of water to serve the City of Butler would be shifted to the City of Butler. Given the significant reduction in the City of Butler's purchases and the increase in the number of other Pendleton County Water District customers receiving water

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.

service through the Northern Kentucky Water District delivery points, the minimum charge should be reassessed.

- c. Based upon the calculations set forth in the Response to Question 1a, the proposed rate will not result in a significant reduction in net revenues and should not impair Pendleton County Water District's ability to meet its expenses.

PENDLETON COUNTY WATER DISTRICT

**Response to Commission Staff's First Request for Information
Case No. 2020-00158**

Question No. 2

Responding Witness: Rick King

- Q-2. Refer to Pendleton District's response to the Request for Information attached as an Appendix to the Commission's May 26, 2020 Order, Item 2, in which Pendleton District stated that "[it] contends that the proposed rate will not cover its cost associated with serving Butler" and that "[it] feels that since Butler has reduced water consumption significantly that rate reduction is justified.**
- a. Explain why Pendleton District contends that the proposed rate will not cover its cost associated with serving Butler, and provide all studies and calculations, If any, that Pendleton District used or performed to arrive at this conclusion.**
 - b. Explain why it would be reasonable for the City of Butler to pay a rate that will not cover the costs incurred by Pendleton District to serve the City of Butler.**
 - c. State whether Pendleton District has ever obtained a cost of service study that addresses the costs to serve the City of Butler and, if so, provide a copy of any such study.**
- A-2.
- a. Pendleton County Water District no longer maintains this position. It believes that the proposed rate will not prevent the recovery of most, if not all, of the costs incurred to serve the City of Butler.
 - b. It would not be reasonable to charge a wholesale rate that does not recover the full cost of water. It is also unreasonable and unjust to assess a wholesale rate that recovers a significantly greater amount of revenue than the cost of service.
 - c. Pendleton County Water District has neither performed or commissioned such study.

PENDLETON COUNTY WATER DISTRICT

**Response to Commission Staff's First Request for Information
Case No. 2020-00158**

Question No. 3

Responding Witness: Rick King

- Q-3. Explain whether the City of Butler has interconnections with any other wholesale water suppliers from which it would be able to obtain wholesale water necessary to serve its customers if it did not obtain it from Pendleton District**
- A-3. The City of Butler does not have an interconnection with another wholesale water supplier. Its only available source of water is Pendleton County Water District.

PENDLETON COUNTY WATER DISTRICT

**Response to Commission Staff's First Request for Information
Case No. 2020-00158**

Question No. 4

Responding Witness: Rick King

Q-4. Explain whether the City of Butler has the ability to produce its own water.

A-4. The City of Butler does not have the ability to produce its own water. It does not own a water treatment plant. It previously owned a water treatment plant, but dismantled the plant after obtaining water service from Pendleton County Water District in 2002

PENDLETON COUNTY WATER DISTRICT

**Response to Commission Staff's First Request for Information
Case No. 2020-00158**

Question No. 5

Responding Witness: Rick King

Q-5. State whether Pendleton District contends that there has been a material decrease in its total expenses since the order was issued in Case No. 2019-00310,[footnote omitted] and if so, explain each basis for Pendleton District's response.

A-5. See response to Question 1a.

PENDLETON COUNTY WATER DISTRICT

**Response to Commission Staff's First Request for Information
Case No. 2020-00158**

Question No. 6

Responding Witness: Rick King

- Q-6. Provide a spreadsheet identifying all persons or entities to which Pendleton District provided wholesale water service in any of the last 24 months, providing the monthly water usage for each such person or entity for each of the past 24 months, and providing the amount Pendleton District charged each such person or entity for each of the past 24 months**
- A-6. Pendleton District provides wholesale service only to the City of Butler. For the requested information, see Tab labeled "Question 6" on the Excel spreadsheet embedded in this Response.

PENDLETON COUNTY WATER DISTRICT

**Response to Commission Staff's First Request for Information
Case No. 2020-00158**

Question No. 7

Responding Witness: Rick King

- Q-7. For each of the 12 months from July 2019 through June 2020, provide the rate charged by any supplier from which Pendleton District purchased water, the total gallons purchased from each such supplier in each month, and the total cost of water purchased from each supplier in each month.**
- A-7. During the 12-month period ending June 2020, Pendleton District purchased water from the City of Falmouth (\$1.98 per 1,000 gallons) and Northern Kentucky Water District. For the requested information, see Tab labeled "Question 7" on the Excel spreadsheet embedded in this Response.

PENDLETON COUNTY WATER DISTRICT

**Response to Commission Staff's First Request for Information
Case No. 2020-00158**

Question No. 8

Responding Witness: Rick King

Q-8. Complete the table below by providing the total miles of water main of each size in Pendleton District's system as a whole and the miles of main of each size in Pendleton District's system that are used to serve the City of Butler:

A-8. See table below.

Water Main Size	Miles of Main (Total System)	Miles of Main Used to Service City of Butler
16"	0.0	0.0
14"	0.0	0.0
12"	11.5	6.9
10"	0.0	0.0
8"	22.6	0.0
6"	63.0	0.1
4"	29.0	0.0
2"	6.0	0.0

PENDLETON COUNTY WATER DISTRICT

**Response to Commission Staff's First Request for Information
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Question No. 9

Responding Witness: Rick King

Q-9. Complete the table below.

A-9. See table below.

Pendleton County Water District	Gallons for 12-Month Period ending June 30, 2020
Plant use	0
Line Loss (unaccounted for)	17,358,429
Sales to Retail	117,912,958
Sales to the City of Butler	13,551,030
Sales to Other Wholesale Customers	0
Total produced and Purchased	155,279,367
Total Sold	131,463,988