

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

ELECTRONIC TARIFF FILING OF THE)
CITY OF HARRODSBURG WATER DEPT.)
REVISING ITS WHOLESALE WATER) Case No. 2022-00349
SERVICE RATE)

STATEMENT REGARDING HEARING

The City of Harrodsburg (“Harrodsburg”), by counsel, hereby responds to the Commission’s Order dated January 20, 2023 regarding the necessity of a hearing in this matter.

Harrodsburg believes that there is sufficient information in the record of this case for the Commission to approve Harrodsburg’s proposed wholesale water rate and rate case expense surcharge¹ to Lake Village Water Association (“Lake Village”) and North Mercer Water District (“North Mercer”). If the Commission or its Staff seeks additional information through an evidentiary hearing, Harrodsburg will gladly participate and present witnesses in that hearing.

There are a variety of reasons why the Commission should approve Harrodsburg’s wholesale water rate and rate case expense surcharge. First and foremost, Lake Village and North Mercer have not objected to the proposed increase. The Commission commonly accepts a municipality’s wholesale rate to a utility when the utility does not object.²

¹ As discussed in more detail below, Harrodsburg acknowledges that the rate case expense surcharge should be lower than initially proposed.

² See, e.g., *Salyersville Water Works*, Case No. 2006-00499, 2006 WL 4590821 (Ky. PSC Dec. 19, 2006).

Second, the contracts between Harrodsburg and the two utilities require increases to the wholesale rate when Harrodsburg's retail rates are raised.³ Harrodsburg has raised its rates to its retail customers.⁴ Therefore, the wholesale rates should in increased.

Third, the evidence of record demonstrates that the proposed rate and surcharge are reasonable. Harrodsburg's proposed increase to its wholesale water rates is less than 11 percent.⁵ As shown in the Response to Item 2 of the Commission Staff's First Request for Information, Harrodsburg can justify an increase of 34.73 percent. This amount was calculated using an annual depreciation expense of \$1,298,897, which reflects 50% of the combined water and sewer depreciation expense.

The Commission Staff raised questions about depreciation expenses in its Third Request for Information. In response to Item 4 of the Third Request for Information, Harrodsburg identified specific assets that were related to its water system, sewer system, or both. It also noted items that were not readily determined whether the asset listed was associated with each system. After splitting that unclassified asset group equally between the water and sewer systems, the depreciation expense for the water system is \$1,290,258. Inserting this amount into the calculation of a rate increase does not materially affect the conclusion that Harrodsburg's proposed increase to its wholesale water rates of less than 11 percent is reasonable. This calculation is shown in the table below.⁶

³ See Response to Staff's First Request for Information, Item 2.

⁴ See Response to Staff's Second Request for Information, Item 1.

⁵ See Notice to wholesale customers, filed with Harrodsburg's initial tariff filing.

⁶ As explained in response to Item 2 of the First Request for Information, most of the figures in the table are derived from the FY21 Audit. The Average Annual Debt Principal and Interest is based on the amortization schedule set forth in Rows 100-102 of the Excel file submitted as "DR 1-6 Debt Schedule." This amount is reflective of a three-year average of the following debt: the 2011 (FY12) bond, F-11-17, F 13-002, F-15-31, F-16-049, and water meters. This amount does not include does not include debt for the truck lease, Silverado, or Loan Repay. It also does not include amounts for other debt associated with the sewer system.

Operating Expenses	\$ 1,888,878.00
Add: Depreciation	\$ 1,290,258.00
Add: Average Annual Debt Principal and Interest	\$ 872,169.43
Additional Working Capital	\$ 174,433.89
Overall Revenue Requirement	\$ 4,225,739.31
Less: Other Operating Revenue	\$ (137,817.00)
Interest Income	\$ (8,700.00)
Revenue Requirement - Water Rates	\$ 4,079,222.31
Revenue from Service	\$ (2,668,022.00)
Required Revenue Increase	\$ 1,411,200.31
Percentage Increase	34.59%

The Commission should also approve a rate case expense surcharge. 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.’”⁷ Likewise, it has stated that a utility is entitled “to recover all prudent and reasonable rate case costs.”⁸

Harrodsburg initially estimated rate case expense of \$50,000 to be recovered over a 36-month period.⁹ Harrodsburg’s rate case expenses have been significantly less than its initial estimate. To date, Harrodsburg has incurred \$14,181.40 in rate case expenses.¹⁰ Sharing this cost between both wholesale water customers and spreading recovery over a 36-month period results in a monthly surcharge of \$65.65.¹¹

For the foregoing reasons, Harrodsburg respectfully requests the Commission approve its proposed wholesale water rates and a rate case expense surcharge.

⁷ *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).

⁸ *Kentucky-American Water Co.*, Case No. 97-034 at 23 (Ky. PSC. Sept. 30, 1997).

⁹ Testimony of Amy Kays-Huffman at 4.

¹⁰ Supplemental Response to Staff’s Third Request for Information, Item 8 (filed March 31, 2023).

¹¹ *Id.*

Respectfully submitted,



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