

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC TARIFF FILING OF)
MUHLENBERG COUNTY WATER)
DISTRICT #3 OF A WATER) CASE NO. 2023-00366
PURCHASE AGREEMENT WITH)
THE CITY OF SACRAMENTO)

RESPONSE OF
MUHLENBERG COUNTY WATER DISTRICT #3
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
DATED DECEMBER 4, 2023

FILED: DECEMBER 21, 2023

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TO COMMISSION STAFF’S FIRST REQUEST FOR INFORMATION**

Comes Muhlenberg County Water District #3 (the “District”) for its Response to Commission Staff’s First Request for Information, and states as shown on the following pages.



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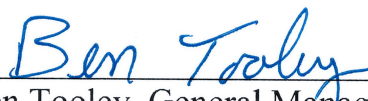
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**CERTIFICATION OF RESPONSE OF MUHLENBERG COUNTY
WATER DISTRICT #3 TO COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION**

This is to certify that I have supervised the preparation of Muhlenberg County Water District #3's Response to Commission Staff's First Request for Information. The response submitted on behalf of Muhlenberg County Water District #3 is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Date: December 21, 2023



Ben Tooley, General Manager
Muhlenberg County Water District #3

CERTIFICATE OF SERVICE

In accordance with the Commission's Order of July 22, 2021 in Case No. 2020-00085 (Electronic Emergency Docket Related to the Novel Coronavirus COVID-19), this is to certify that the electronic filing has been transmitted to the Commission on December 21, 2023; and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.



Damon R. Talley

MUHLENBERG COUNTY WATER DISTRICT #3

CASE NO. 2023-00366

Response to Commission Staff's First Request for Information

Question No. 1

Responding Witness: Ben Tooley, General Manager

Q-1. Refer to the Water Purchase Agreement, paragraph 8, Initial Rate entered into the case record on November 13, 2023.

- a. Explain how the initial rate of \$4.48 per 1,000 gallons was developed.**
- b. Provide in Excel spreadsheet format with all formulas, rows, and columns unprotected and fully accessible any calculations used to develop the \$4.48 per 1,000 gallons.**
- c. Explain the underlying decision to enter into the agreement with the city of Sacramento (Sacramento) recognizing Sacramento's prior decision to discontinue purchases from Muhlenberg District #3.**
- d. State the rationale for a one year agreement versus a long-term agreement.**

A-1.

- a. The development of the initial wholesale rate of \$4.48 per 1,000 gallons was two-fold.**

First, Alan Vilines, working as a rate consultant for the Kentucky Rural Water Association ("KRWA"), prepared a comprehensive rate study

and a Cost-of-Service Study (“COSS”) for the District to support its Alternative Rate Adjustment (“ARF”) application in Case No. 2018-00346 and determined that the District’s wholesale rate should be **\$3.86**.¹ The COSS was included in the ARF Application as Attachment 6. To facilitate the Commission’s review of the COSS, it has been included in this Response as **Exhibit 1-1a**. It should be noted, however, that the Commission never took any action concerning the wholesale rate proposed by the District in its ARF proceeding. Sacramento was no longer purchasing water from the District and the Commission Staff declined to make a finding in their Staff Report as to the reasonableness of the proposed wholesale rate.² In its April 8, 2019 Order, the Commission accepted the findings contained in the Staff Report.³

Second, after the wholesale rate was calculated, Central City increased its wholesale rate to the District in 2022, and the District applied to the Public Service Commission (“Commission”) for a Purchased Water Adjustment to offset this increased cost in Case No. 2022-00231.⁴ In

¹ *Application of Muhlenberg County Water District #3 for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076*, Case No. 2018-00346, Application at Attachment 6 (filed Oct. 9, 2018).

² Case No. 2018-00346, Staff Report at 3 (Ky. PSC Jan. 22, 2019).

³ Case No. 2018-00346, Order at 5-6 (Ky. PSC Apr. 8, 2019).

⁴ *Electronic Purchased Water Adjustment Filing of Muhlenberg County Water District No. 3*, Case No. 2022-00231, Amended Application (filed Aug. 7, 2022).

its September 2, 2022 Order in Case No. 2022-00231, the Commission approved a Purchased Water Adjustment Factor of **\$0.62** per 1,000 gallons.⁵ The District took this number (\$0.62) and added it to the wholesale rate determined by KRWA to get the initial wholesale rate to charge Sacramento.

To summarize this calculation:

KRWA Calculated Wholesale Rate:	\$3.86
Purchased Water Adjustment Factor:	<u>\$0.62</u>
Total:	\$4.48 per 1,000 gallons

- b. See the response to Question 1(a). No Excel spreadsheet was created to develop the wholesale rate used in the Water Purchase Agreement with Sacramento.
- c. The District wanted to be a “good neighbor” and assist Sacramento. Several years ago, Sacramento helped create the McLean County Regional Water Commission (the “Regional Commission”) and agreed to purchase water from the Regional Commission when it became available for Sacramento. It then ceased purchasing water from the

⁵ Case No. 2022-00231, Order at 5 (Ky. PSC Sept. 2, 2022).

District a few years ago and starting purchasing all its water from the Regional Commission. Several months ago, the Superintendent of the Sacramento Public Works approached the District and requested assistance from the District because it was in a dilemma. Sacramento needed to rehabilitate its water storage tank, but would need to take the water storage tank “off-line” for a few months during the rehabilitation. Sacramento could not do so as long as it was purchasing water from the Regional Commission. Because the Regional Commission has to use a booster pumping station to pump water to Sacramento, it cannot supply water to Sacramento unless Sacramento’s water storage tank is in service.

On the other hand, the District operates on a higher pressure plane than Sacramento. Thus, it can gravity flow water from its system into Sacramento’s water distribution system without having to pump the water. Hence, if the District would agree to sell water to Sacramento, Sacramento’s problem would be solved. Sacramento could temporarily cease purchasing water from the Regional Commission; it could then take its water storage tank “off-line” and out of service; and its contractor could perform the tank rehabilitation work. Problem solved!

- d. Because the District's proposed wholesale rate (\$4.48) was higher than the Regional Commission's wholesale rate (\$3.77), Sacramento was not initially interested in a long-term contract. On the other hand, the District was concerned about water quality issues and did not want to commit to selling water to Sacramento "on the spur of the moment." The District needed a binding commitment from Sacramento that it would purchase a minimum amount of water each month during the term of the Agreement. Also, it was unknown when Sacramento's contractor could commence the tank rehabilitation work and whether the contractor would "drag-out" the work over several months or finish it in a timely manner over a couple of months. The parties compromised and agreed to a one-year term.

Both parties are now interested in a continuing contractual relationship. This would enable Sacramento to have the luxury of not only a supplemental supply from the District, but also the ability to purchase all its water needs from the District in the event the Regional Commission has a major water transmission line break, pump failure, or other emergency which interrupts its supply to Sacramento. It is anticipated that the parties will negotiate in good faith to reach a new agreement which will automatically renew each year unless either party

decides to “opt out” by giving sufficient notice prior to the anniversary date of the new agreement.

Current ARF Case. The District has recently filed a new ARF case seeking to increase its retail rates and to increase its wholesale rate for Sacramento.⁶ The proposed wholesale rate for Sacramento is **\$5.35**.

⁶ *Electronic Application of Muhlenberg County Water District #3 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076, Case No. 2023-00400, Application (filed Dec. 12, 2023).*

Exhibit 1-1a

Calculation of Sacramento
Wholesale Rate by KRWA
in 2018

WHOLESALE RATE COMPUTATION
Muhlenberg County Water District #3

	<u>Total</u>	<u>Allocation Factor</u>	<u>Wholesale Allocation</u>
Salaries & Wages			
Customer Accts.	104,079		0
Supply & Exp.	10,408	0.2089	2,174
Trans./Distribution	106,681	0.0559	5,961
Admin & General	39,029	0.0559	2,181
Employee Benefits + FICA + Amort.			
Customer Accts.	31,634		0
Supply & Exp.	3,163	0.2089	661
Trans./Distribution	32,426	0.0559	1,812
Admin & General	11,863	0.0559	663
Salaries - Officers	18,000	0.2089	3,760
Purchased Water	698,908	0.2089	146,009
Purchased Power			
Customer Accts.	0		0
Supply & Exp.	21,613	0.2089	4,515
Trans./Distribution	1,133	0.0559	63
Admin & General	6,539	0.0559	365
Materials & Supplies			
Customer Accts.	19,062		0
Supply & Exp.	3,011	0.2089	629
Trans./Distribution	11,510	0.0559	643
Admin & General	8,462	0.2405	2,035
Contr. Services - Acctg & Legal	18,293	0.2089	3,822
Contr. Services - Water Testing	26,627	0.2089	5,563
Transportation Expense			
Customer Accts.	3,964		0
Supply & Exp.	1,378	0.2089	288
Trans./Distribution	2,822	0.0559	158
Admin & General	3,573	0.0559	200
Insurance - Gen Liability	18,181	0.2089	3,798
Insurance - Workers Comp			
Customer Accts.			0
Supply & Exp.	936	0.2089	196
Trans. / Distribution	2,072	0.0559	116
Admin & General			0
Advertising	453		0
Misc. Expense			
Trans. / Distribution	735	0.2089	154
Customer Accts.	701	0.0559	39
Admin & General	37,313	0.2405	8,975
Regulatory Commission Expense	2,692		0
Bad Debt Expense	3,497		0
Total Operating Expenses	1,250,760		194,778
Depreciation			
Supply & Exp.	3,160	0.2089	660
Trans. / Distribution	75,596	0.0559	4,224
Admin & General	13,537	0.2405	3,256
Customer	25,310		
Taxes Other than Income			
Customer Accts.	7,962		0
Supply & Exp.	796	0.2089	166
Trans./Distribution	8,161	0.0559	456
Admin & General	2,986	0.0559	167
Total Revenue Required	1,388,268		203,708
Wholesale Gallons Sold (x 1,000)			52,723
Wholesale Rate per 1,000 Gallons			\$3.86

Table B
ALLOCATION OF DEPRECIATION EXPENSE FOR WHOLESALE RATE
Muhlenberg County Water District #3

	<u>Totals</u>	<u>Supply & Exp.</u>	<u>Trans. & Distribution</u>	<u>General & Admin.</u>	<u>Customer</u>
Structures & Improvements	5,139		1,085	4,054	
Pumping Equipment	2,112		2,112		
Distribution Res. & Standpipes	14,842		14,842		
Trans. & Distribution Mains	31,105		31,105		
Meters & Installations	20,950				20,950
Hydrants	686		686		
Other Plant & Misc. Equipment	27		27		
Office Furniture & Equipment	2,265			2,265	
Transportation Equipment	12,909	1,516	3,104	3,930	4,360
Tools, Shop and Garage Equip	428		428		
Power Operated Equipment	10,378		10,378		
Communication Equipment	16,446	1,645	11,512	3,289	
Misc. Equipment	316		316		
2017 Pro Forma Totals	117,603	3,160	75,596	13,537	25,310

Table C
SYSTEM INFORMATION
Muhlenberg County Water District #3

Schedule of All Mains and Jointly Used Mains

<u>Main Size</u>	<u>Total System</u>			<u>Joint Use</u>	
	<u>Length (feet)</u>	<u>Miles of Mains</u>	<u>Inch - Miles</u>	<u>Miles of Mains</u>	<u>Inch - Miles</u>
8	64,056	12.13	97.04	5.77	46.20
6	190,741	36.13	216.78	14.24	85.46
4	191,215	36.21	144.84		
3	116,635	22.09	66.27		
2	107,193	20.30	40.60		
1.50	4,426	0.84	1.26		
Totals	674,266	127.70	566.79	20.02	131.66

Water Purchased, Sold and Used

	<u>Gallons x 1,000</u>	<u>Percent</u>
Water Purchased	262,667.0	
Retail Sales	166,468.0	
Wholesale Sales	52,723.0	
Total Water Sold	219,191.0	
System Flushing	1,415.0	0.54%
Line Losses	41,848.0	15.93%
Fire Dept. & Other	213.0	

Table D
WHOLESALE ALLOCATION FACTORS
Muhlenberg County Water District #3

			<u>FACTOR</u>	
Line Loss Percentage			0.1593	
System Use Percentage			0.0054	
Line Loss + System Use			0.1647	
Joint Use Inch-miles			131.7	
Total Inch-Miles			566.8	
Water Sold - Wholesale			52,723.0	
Water Sold - Total			219,191.0	
Production Multiplier	$\frac{1}{1 - 0.1647}$	=	1.1972	
Joint Use Pipeline Ratio	$\frac{131.66}{566.79}$	=	0.2323	
Wholesale Share of System Loss & Use	0.1647 x	0.2323	=	0.0383
Wholesale Production Multiplier	$\frac{1}{1 - 0.0383}$	=	1.0398	
Production Allocation Factor	$\frac{1.0398}{1.1972} \times$	$\frac{52,723.0}{219,191.0}$	=	0.2089
Pipeline Transmission Factor	$\frac{52,723.0}{219,191.0} \times$	0.2323	=	0.0559
Use Factor		$\frac{52,723.0}{219,191.0}$	=	0.2405