

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC TARIFF FILING OF)
THE CITY OF LANCASTER TO)
INCREASE THE WHOLESALE) CASE NO. 2023-00424
RATE CHARGED TO GARRARD)
COUNTY WATER ASSOCIATION)

RESPONSE OF
THE CITY OF LANCASTER
TO
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION
DATED FEBRUARY 19, 2024

FILED: MARCH 15, 2024

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**ELECTRONIC TARIFF FILING OF)
THE CITY OF LANCASTER TO)
INCREASE THE WHOLESALE) CASE NO. 2023-00424
RATE CHARGED TO GARRARD)
COUNTY WATER ASSOCIATION)**

**RESPONSE OF THE CITY OF LANCASTER
TO COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

Comes the City of Lancaster (the "District") for its Response to Commission Staff's Second Request for Information, and states as shown on the following pages.



Damon R. Talley
Stoll Keenon Ogden PLLC
P.O. Box 150
Hodgenville, KY 42748-0150
Telephone: (270) 358-3187
Fax: (270) 358-9560
damon.talley@skofirm.com

Felisa S. Moore
Stoll Keenon Ogden PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3039
Fax: (859) 253-1093
felisa.moore@skofirm.com
Counsel for the City of Lancaster

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 March 15, 2024; and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.



Damon R. Talley

COMMONWEALTH OF KENTUCKY
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**CERTIFICATION OF RESPONSE OF THE CITY OF LANCASTER
TO COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

This is to certify that I have supervised the preparation of the City of Lancaster's Responses to Commission Staff's Second Request for Information. The response submitted on behalf of the City of Lancaster is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Date: March 15, 2024.



Michael Gaffney, Mayor
The City of Lancaster

THE CITY OF LANCASTER

CASE NO. 2023-00424

Response to Commission Staff's Second Request for Information

Question No. 1

**Responding Witnesses: Robert K. Miller,
Kentucky Rural Water Association and
Mayor Michael Gaffney, the City of Lancaster**

- Q-1. Refer to Commission Order filed on January 5, 2024, email from Bob Miller dated December 14, 2023, at 10 of 42.**
- a. Provide an executed copy of the ordinance that Lancaster adopted in November 2023.**
 - b. Confirm that depreciation expenses were excluded from the retail rates.**
- A-1.**
- a. *See Attachment 1-a* for an executed copy of the Lancaster Water and Sewer Rate Ordinance enacted by Lancaster on November 27, 2023.
 - b. Depreciation expenses were **excluded** from the retail water and sewer rates.

ATTACHMENT 1-A

ORDINANCE AMENDING CITY ORDINANCE

No. 610.5, SECTION 4

WATER AND SEWER RATES FOR CITY OF LANCASTER

WHEREAS, City of Lancaster has determined that it is necessary to ensure that water and sewer rates are adequate to recover all costs to operate and maintain the water and sewer systems; and

WHEREAS, current rates do not provide sufficient revenues to adequately operate and maintain the water and sewer systems; and

WHEREAS, City of Lancaster has engaged Kentucky Rural Water Association to perform rate studies for the water and sewer systems; and

WHEREAS, those rate studies have been completed and recommend increases in water and sewer rates; and

WHEREAS, the Mayor and City Council concur that it would be prudent to implement the rate increases over three years;

NOW THEREFORE, BE IT ORDAINED by City of Lancaster that Ordinance No. 610.5, Section 4, be amended as follows:

EFFECTIVE JANUARY 1, 2024

RESIDENTIAL IN TOWN WATER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|--|----------|--|----------|------------|-------|
| Minimum Monthly Bill for 1,000 Gallons | \$ 14.30 | Minimum Monthly Bill for 1,000 Gallons | \$ 14.51 | \$ 0.21 | 1.47% |
| Next 1,000 Gallons | \$ 7.21 | Next 1,000 Gallons | \$ 7.32 | \$ 0.11 | 1.53% |
| Next 10,000 Gallons | \$ 6.78 | Next 10,000 Gallons | \$ 6.88 | \$ 0.10 | 1.47% |
| Next 14,000 Gallons | \$ 6.58 | Next 14,000 Gallons | \$ 6.68 | \$ 0.10 | 1.52% |
| Next 24,000 Gallons | \$ 5.82 | Next 24,000 Gallons | \$ 5.91 | \$ 0.09 | 1.55% |
| Next 1,000,000 Gallons | \$ 5.41 | Next 950,000 Gallons | \$ 5.49 | \$ 0.08 | 1.48% |
| All Over 10,000,000 Gallons | \$ 3.53 | All Over 1,000,000 Gallons | \$ 3.58 | \$ 0.05 | 1.42% |

RESIDENTIAL OUTSIDE TOWN WATER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|--|----------|--|----------|------------|-------|
| Minimum Monthly Bill for 1,000 Gallons | \$ 21.32 | Minimum Monthly Bill for 1,000 Gallons | \$ 21.64 | \$ 0.32 | 1.50% |
| Next 1,000 Gallons | \$ 10.79 | Next 1,000 Gallons | \$ 10.95 | \$ 0.16 | 1.48% |
| Next 10,000 Gallons | \$ 10.17 | Next 10,000 Gallons | \$ 10.32 | \$ 0.15 | 1.47% |
| Next 14,000 Gallons | \$ 9.86 | Next 14,000 Gallons | \$ 10.01 | \$ 0.15 | 1.52% |
| Next 24,000 Gallons | \$ 8.72 | Next 24,000 Gallons | \$ 8.85 | \$ 0.13 | 1.49% |
| Next 1,000,000 Gallons | \$ 8.10 | Next 950,000 Gallons | \$ 8.22 | \$ 0.12 | 1.48% |
| All Over 10,000,000 Gallons | \$ 5.30 | All Over 1,000,000 Gallons | \$ 5.38 | \$ 0.08 | 1.51% |

COMMERCIAL WATER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|--|----------|--|----------|------------|-------|
| Minimum Monthly Bill for 1,000 Gallons | \$ 14.12 | Minimum Monthly Bill for 1,000 Gallons | \$ 14.51 | \$ 0.39 | 2.76% |
| Next 1,000 Gallons | \$ 7.12 | Next 1,000 Gallons | \$ 7.32 | \$ 0.20 | 2.81% |
| Next 10,000 Gallons | \$ 6.70 | Next 10,000 Gallons | \$ 6.88 | \$ 0.18 | 2.69% |
| Next 14,000 Gallons | \$ 6.50 | Next 14,000 Gallons | \$ 6.68 | \$ 0.18 | 2.77% |
| Next 24,000 Gallons | \$ 5.75 | Next 24,000 Gallons | \$ 5.91 | \$ 0.16 | 2.78% |
| Next 1,000,000 Gallons | \$ 5.34 | Next 950,000 Gallons | \$ 5.49 | \$ 0.15 | 2.81% |
| All Over 10,000,000 Gallons | \$ 3.49 | All Over 1,000,000 Gallons | \$ 3.58 | \$ 0.09 | 2.58% |

WHOLESALE WATER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|--|---------|--|---------|------------|--------|
| First 325,000,000 Gallons Minimum Annual Purchase | \$ 2.49 | First 325,000,000 Gallons Minimum Annual Purchase | \$ 2.91 | \$ 0.42 | 16.87% |
| All Over 325,000,000 Gallons Annual Purchase | \$ 1.40 | All Over 325,000,000 Gallons Annual Purchase | \$ 1.64 | \$ 0.24 | 17.14% |

SEWER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|-----------|----------|-----------|----------|------------|--------|
| All Usage | \$ 10.31 | All Usage | \$ 11.39 | \$ 1.08 | 10.48% |

EFFECTIVE JANUARY 1, 2025

RESIDENTIAL IN TOWN WATER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|--|----------|--|----------|------------|-------|
| Minimum Monthly Bill for 1,000 Gallons | \$ 14.51 | Minimum Monthly Bill for 1,000 Gallons | \$ 14.73 | \$ 0.22 | 1.52% |
| Next 1,000 Gallons | \$ 7.32 | Next 1,000 Gallons | \$ 7.43 | \$ 0.11 | 1.50% |
| Next 10,000 Gallons | \$ 6.88 | Next 10,000 Gallons | \$ 6.98 | \$ 0.10 | 1.45% |
| Next 14,000 Gallons | \$ 6.68 | Next 14,000 Gallons | \$ 6.78 | \$ 0.10 | 1.50% |
| Next 24,000 Gallons | \$ 5.91 | Next 24,000 Gallons | \$ 6.00 | \$ 0.09 | 1.52% |
| Next 950,000 Gallons | \$ 5.49 | Next 950,000 Gallons | \$ 5.57 | \$ 0.08 | 1.46% |
| All Over 1,000,000 Gallons | \$ 3.58 | All Over 1,000,000 Gallons | \$ 3.63 | \$ 0.05 | 1.40% |

RESIDENTIAL OUTSIDE TOWN WATER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|--|----------|--|----------|------------|-------|
| Minimum Monthly Bill for 1,000 Gallons | \$ 21.64 | Minimum Monthly Bill for 1,000 Gallons | \$ 21.96 | \$ 0.32 | 1.48% |
| Next 1,000 Gallons | \$ 10.95 | Next 1,000 Gallons | \$ 11.11 | \$ 0.16 | 1.46% |
| Next 10,000 Gallons | \$ 10.32 | Next 10,000 Gallons | \$ 10.47 | \$ 0.15 | 1.45% |
| Next 14,000 Gallons | \$ 10.01 | Next 14,000 Gallons | \$ 10.16 | \$ 0.15 | 1.50% |
| Next 24,000 Gallons | \$ 8.85 | Next 24,000 Gallons | \$ 8.98 | \$ 0.13 | 1.47% |
| Next 950,000 Gallons | \$ 8.22 | Next 950,000 Gallons | \$ 8.34 | \$ 0.12 | 1.46% |
| All Over 1,000,000 Gallons | \$ 5.38 | All Over 1,000,000 Gallons | \$ 5.46 | \$ 0.08 | 1.49% |

COMMERCIAL WATER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|--|----------|--|----------|------------|-------|
| Minimum Monthly Bill for 1,000 Gallons | \$ 14.51 | Minimum Monthly Bill for 1,000 Gallons | \$ 14.73 | \$ 0.22 | 1.52% |
| Next 1,000 Gallons | \$ 7.32 | Next 1,000 Gallons | \$ 7.43 | \$ 0.11 | 1.50% |
| Next 10,000 Gallons | \$ 6.88 | Next 10,000 Gallons | \$ 6.98 | \$ 0.10 | 1.45% |
| Next 14,000 Gallons | \$ 6.68 | Next 14,000 Gallons | \$ 6.78 | \$ 0.10 | 1.50% |
| Next 24,000 Gallons | \$ 5.91 | Next 24,000 Gallons | \$ 6.00 | \$ 0.09 | 1.52% |
| Next 950,000 Gallons | \$ 5.49 | Next 950,000 Gallons | \$ 5.57 | \$ 0.08 | 1.46% |
| All Over 1,000,000 Gallons | \$ 3.58 | All Over 1,000,000 Gallons | \$ 3.63 | \$ 0.05 | 1.40% |

WHOLESALE WATER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|---|---------|---|---------|------------|--------|
| First 325,000,000 Gallons Minimum Annual Purchase | \$ 2.91 | First 325,000,000 Gallons Minimum Annual Purchase | \$ 3.40 | \$ 0.49 | 16.84% |
| All Over 325,000,000 Gallons Annual Purchase | \$ 1.64 | All Over 325,000,000 Gallons Annual Purchase | \$ 1.92 | \$ 0.28 | 17.07% |

SEWER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|-----------|----------|-----------|----------|------------|--------|
| All Usage | \$ 11.39 | All Usage | \$ 12.58 | \$ 1.19 | 10.45% |

EFFECTIVE JANUARY 1, 2026

RESIDENTIAL IN TOWN WATER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|--|----------|--|----------|------------|-------|
| Minimum Monthly Bill for 1,000 Gallons | \$ 14.73 | Minimum Monthly Bill for 1,000 Gallons | \$ 14.95 | \$ 0.22 | 1.49% |
| Next 1,000 Gallons | \$ 7.43 | Next 1,000 Gallons | \$ 7.54 | \$ 0.11 | 1.48% |
| Next 10,000 Gallons | \$ 6.98 | Next 10,000 Gallons | \$ 7.08 | \$ 0.10 | 1.43% |
| Next 14,000 Gallons | \$ 6.78 | Next 14,000 Gallons | \$ 6.88 | \$ 0.10 | 1.47% |
| Next 24,000 Gallons | \$ 6.00 | Next 24,000 Gallons | \$ 6.09 | \$ 0.09 | 1.50% |
| Next 950,000 Gallons | \$ 5.57 | Next 950,000 Gallons | \$ 5.65 | \$ 0.08 | 1.44% |
| All Over 1,000,000 Gallons | \$ 3.63 | All Over 1,000,000 Gallons | \$ 3.68 | \$ 0.05 | 1.38% |

RESIDENTIAL OUTSIDE TOWN WATER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|--|----------|--|----------|------------|-------|
| Minimum Monthly Bill for 1,000 Gallons | \$ 21.96 | Minimum Monthly Bill for 1,000 Gallons | \$ 22.29 | \$ 0.33 | 1.50% |
| Next 1,000 Gallons | \$ 11.11 | Next 1,000 Gallons | \$ 11.28 | \$ 0.17 | 1.53% |
| Next 10,000 Gallons | \$ 10.47 | Next 10,000 Gallons | \$ 10.63 | \$ 0.16 | 1.53% |
| Next 14,000 Gallons | \$ 10.16 | Next 14,000 Gallons | \$ 10.31 | \$ 0.15 | 1.48% |
| Next 24,000 Gallons | \$ 8.98 | Next 24,000 Gallons | \$ 9.11 | \$ 0.13 | 1.45% |
| Next 950,000 Gallons | \$ 8.34 | Next 950,000 Gallons | \$ 8.47 | \$ 0.13 | 1.56% |
| All Over 1,000,000 Gallons | \$ 5.46 | All Over 1,000,000 Gallons | \$ 5.54 | \$ 0.08 | 1.47% |

COMMERCIAL WATER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|--|----------|--|----------|------------|-------|
| Minimum Monthly Bill for 1,000 Gallons | \$ 14.73 | Minimum Monthly Bill for 1,000 Gallons | \$ 14.95 | \$ 0.22 | 1.49% |
| Next 1,000 Gallons | \$ 7.43 | Next 1,000 Gallons | \$ 7.54 | \$ 0.11 | 1.48% |
| Next 10,000 Gallons | \$ 6.98 | Next 10,000 Gallons | \$ 7.08 | \$ 0.10 | 1.43% |
| Next 14,000 Gallons | \$ 6.78 | Next 14,000 Gallons | \$ 6.88 | \$ 0.10 | 1.47% |
| Next 24,000 Gallons | \$ 6.00 | Next 24,000 Gallons | \$ 6.09 | \$ 0.09 | 1.50% |
| Next 950,000 Gallons | \$ 5.57 | Next 950,000 Gallons | \$ 5.65 | \$ 0.08 | 1.44% |
| All Over 1,000,000 Gallons | \$ 3.63 | All Over 1,000,000 Gallons | \$ 3.68 | \$ 0.05 | 1.38% |

WHOLESALE WATER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|---|---------|---|---------|------------|--------|
| First 325,000,000 Gallons Minimum Annual Purchase | \$ 3.40 | First 325,000,000 Gallons Minimum Annual Purchase | \$ 3.97 | \$ 0.57 | 16.76% |
| All Over 325,000,000 Gallons Annual Purchase | \$ 1.92 | All Over 325,000,000 Gallons Annual Purchase | \$ 2.24 | \$ 0.32 | 16.67% |

SEWER RATES IN THOUSAND GALLONS

| Previous | | New | | Difference | |
|-----------|----------|-----------|----------|------------|--------|
| All Usage | \$ 12.58 | All Usage | \$ 13.89 | \$ 1.31 | 10.41% |


AND BE IT FURTHER ORDAINED that water and sewer rates will be increased by 1.5% per year on January 1 of each subsequent year beginning January 1, 2027.

This ordinance shall take effect after its passage and upon publication.

Enacted this the 7 day of December, 2023.


Michael Gaffney, Mayor
City of Lancaster

Attest:


Teresa Cheek,
Lancaster City Clerk

First Reading: 11-6-2023

Second Reading: 11-27-2023

Signed by Mayor: 

Published: 12-7-2023

THE CITY OF LANCASTER

CASE NO. 2023-00424

Response to Commission Staff's Second Request for Information

Question No. 2(a)

**Responding Witness: Robert K. Miller,
Kentucky Rural Water Association**

Q-2(a). Refer to tariff filing on December 21, 2023, City-of Lancaster_2023_Water_Wholesale_Rate_Model. Also refer to Lancaster's response to Commission Staff's First Request for Information filed on January 19, 2024, Exhibit 1 – Water Retail Rate Model.

- a. Describe in detail the benefits of utilizing two independent rate calculation models for wholesale and retail rates rather than a consolidated model.**

A-2(a). The wholesale water cost-of-service rate model was developed for Garrard County Water Association only. Once the wholesale rate for Garrard County Water Association was computed, that same wholesale rate was assigned to City of Crab Orchard. The benefits of using two independent rate calculation models are relatively straightforward:

- By preparing a standalone wholesale cost-of-service rate model, it assures that the Garrard County Water Association was allocated only a percentage of those costs which benefit it.

- By using separate models, inadvertent changes to the wholesale cost-of-service rate model while developing the retail rate model are avoided.
- By preparing a separate retail rate model, it allows for the portion of revenue requirements allocated to retail customers to be funded by a combination of retail rates and taxes when appropriate.

THE CITY OF LANCASTER

CASE NO. 2023-00424

Response to Commission Staff's Second Request for Information

Question No. 2(b)

**Responding Witness: Robert K. Miller,
Kentucky Rural Water Association**

Q-2(b). Refer to tariff filing on December 21, 2023, City-of Lancaster_2023_Water_Wholesale_Rate_Model. Also refer to Lancaster's response to Commission Staff's First Request for Information filed on January 19, 2024, Exhibit 1 – Water Retail Rate Model.

b. Describe in detail how Lancaster ensures that cost allocations are neither duplicated or are not 100 percent allocated between customer categories.

A-2(b). Operating expenses, debt service and coverage, and depreciation that are not allocated to wholesale customers are allocated to retail customers. This is accomplished simply by reducing the retail revenue requirement by the projected amount of wholesale revenues.

THE CITY OF LANCASTER

CASE NO. 2023-00424

Response to Commission Staff's Second Request for Information

Question No. 3

**Responding Witness: Robert K. Miller,
Kentucky Rural Water Association**

Q-3. Calculate the wholesale rate excluding depreciation and reconcile the proposed wholesale rate to the calculated amount.

A-3. The wholesale rate model has been updated to compute the rate **excluding** depreciation.

The Excel file: Water_Wholesale_Rate_Model_excluding_Depreciation is filed as **Exhibit 3** to this Response.

Proposed Wholesale Rates for Minimum Purchase

| If Implemented In One Year | If Implemented Over Three Years | | |
|----------------------------|---------------------------------|-----------|-----------|
| 2024 Rate | 2024 Rate | 2025 Rate | 2026 Rate |
| \$3.75 | \$2.91 | \$3.40 | \$3.97 |

Proposed Wholesale Rates Above Minimum Purchase

| If Implemented In One Year | If Implemented Over Three Years | | |
|----------------------------|---------------------------------|-----------|-----------|
| 2024 Rate | 2024 Rate | 2025 Rate | 2026 Rate |
| \$2.11 | \$1.64 | \$1.92 | \$2.24 |

Wholesale Rates for Minimum Purchase Calculated to Exclude Depreciation

| If Implemented In One Year | If Implemented Over Three Years | | |
|----------------------------|---------------------------------|-----------|-----------|
| 2024 Rate | 2024 Rate | 2025 Rate | 2026 Rate |
| \$2.91 | \$2.63 | \$2.78 | \$2.94 |

Wholesale Rates Above Minimum Purchase Calculated to Exclude Depreciation

| If Implemented In One Year | If Implemented Over Three Years | | |
|----------------------------|---------------------------------|-----------|-----------|
| 2024 Rate | 2024 Rate | 2025 Rate | 2026 Rate |
| \$1.64 | \$1.48 | \$1.56 | \$1.65 |

The reconciliation of the rate if implemented in one year is shown in **Exhibit 3**.

See tabs Revenue Required incl Depreciat and Revenue Required excl Depreciat.

The reconciliation of the rate if implemented over three years is shown on

See file Water_Wholesale_Rate_Model_excluding_Depreciation,

tabs Monthly Bill Comparison in Depr and Monthly Bill Comparison ex Depr.