

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**ELECTRONIC TARIFF FILING OF NORTH)
NELSON WATER DISTRICT OF A)
WHOLESALE WATER PURCHASE)
AGREEMENT WITH THE CITY OF)
BARDSTOWN AND A TARIFF TO)
ESTABLISH A WHOLESALE RATE TO)
THE CITY OF BARDSTOWN)**

Case No.
2024-00336

RESPONSE OF
NORTH NELSON WATER DISTRICT
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
DATED NOVEMBER 18, 2024

Filed: December 2, 2024


COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC TARIFF FILING OF)	
NORTH NELSON WATER DISTRICT OF)	
A WHOLESALE WATER PURCHASE)	
AGREEMENT WITH THE CITY OF)	CASE NO.
BARDSTOWN AND A TARIFF TO)	2024-00336
ESTABLISH A WHOLESALE RATE TO)	
THE CITY OF BARDSTOWN)	

**RESPONSE OF NORTH NELSON WATER DISTRICT TO
COMMISSION STAFF’S FIRST REQUEST FOR INFORMATION**

North Nelson Water District (the “District”) submits its Response to
Commission Staff’s First Request for Information.



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

Tina C. Frederick
Stoll Keenon Ogden PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3951
Fax: (859) 259-3597
Tina.frederick@skofirm.com

Counsel for North Nelson Water District

CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, and the Public Service Commission's Order of July 22, 2021 in Case No. 2020-00085, I certify that this document was transmitted to the Public Service Commission on December 2, 2024 and that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding

A handwritten signature in blue ink that reads "Damon P. Talley". The signature is written in a cursive style with a horizontal line underneath it.

Counsel for North Nelson Water District

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**ELECTRONIC TARIFF FILING OF NORTH)
NELSON WATER DISTRICT OF A)
WHOLESALE WATER PURCHASE)
AGREEMENT WITH THE CITY OF)
BARDSTOWN AND A TARIFF TO)
ESTABLISH A WHOLESALE RATE TO)
THE CITY OF BARDSTOWN)**

Case No.
2024-00336

**CERTIFICATION OF RESPONSE OF
NORTH NELSON WATER DISTRICT
TO COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION**

This is to certify that I have supervised the preparation of North Nelson Water District's Response to Commission Staff's First Request for Information as required by 807 KAR 5:001, Section 4(12)(d)(2)(b). The Response submitted on behalf of North Nelson Water District is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Date: December 2, 2024



Colin S. Cissell, General Manager
North Nelson Water District

SWORN CERTIFICATION AND VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF NELSON)

The undersigned, Colin S. Cissell, being duly sworn, deposes and states that he, as General Manager for North Nelson Water District has personal knowledge of the matters set forth in the responses for which he is identified as the witness in Kentucky Public Service Commission Case No. 2024-00336, and the answers contained therein are true and correct to the best of his information, knowledge, and belief.



Colin S. Cissell
General Manager
North Nelson Water District

Subscribed, sworn to, and acknowledged before me, a Notary Public in and for said county and state, this 2ND day of December 2024.


Notary Public

My Commission Expires: 05/23/2026

Notary ID: KYNP52228

NORTH NELSON WATER DISTRICT

Case No. 2024-00336

Response to Commission Staff's First Request for Information

Question No. 1-1

Responding Witness: Colin S. Cissell, General Manager

Q 1-1. Refer to October 25, 2024 Order beginning at unnumbered page 16 of 44 (unnumbered page 5 of 32 of Appendix B to the Order). Response 2 states that Louisville Water Company (Louisville Water) will pump water directly to the city of Bardstown (Bardstown) through North Nelson District's transmission main and that it will not flow through any of North Nelson District's existing infrastructure. It further states that the depreciation expense allocated to Bardstown will be recovered through a transmission fee until a new wholesale rate is ultimately calculated and that the sale of water to Bardstown will not have any negative impact on North Nelson District's financial condition. Explain who will be responsible for any maintenance or leaks to the new transmission line that North Nelson District will be constructing.

A 1-1 North Nelson District will own, operate, and maintain the new water transmission line and will also be responsible for repairing any leaks.

An experienced resident inspector employed by the Kentucky Engineering Group, PLLC ("KEG") will be on site each day that construction work is being done to ensure that the new water transmission line will be constructed in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project. Furthermore, the construction

will also be inspected under the general supervision of a licensed professional engineer with a Kentucky registration in civil or mechanical engineering employed by KEG. Under the contract documents, the contractor shall be responsible for making any repairs, replacing any lines, gaskets, etc., and repairing any leaks that occur within one year of substantial completion of the project. Historically, if there is a problem with a leaking joint, valve, or other major issue, it will occur within the first year.

NORTH NELSON WATER DISTRICT

Case No. 2024-00336

Response to Commission Staff's First Request for Information

Question No. 1-2

Responding Witness: Colin S. Cissell, General Manager

Q 1-2. Refer to the October 25, 2024 Order beginning at unnumbered page 17 of 44 (unnumbered page 6 of 32 of Appendix B to the Order). Response 4 states that depreciation is calculated based on a 75-year life. Describe the reasoning for using a 75-year life depreciation life given that the Commission established that it uses the mid-point of NARUC life estimates which, in this situation would be 62.5 years.

A 1-2. The new water transmission line will be constructed with ductile iron pipe, which has a useful service life of at least 75 to 100 years, and in many instances, over 100 years. North Nelson District is being conservative and will use a 75-year useful life when calculating the annual depreciation expense.

Based upon the recommendation of its consulting engineers, North Nelson District is taking extra precautions to ensure that the ductile iron pipe will have a useful service life in excess of 75 years. For example, contract specifications require the pipe: (a) to be bedded in rocky areas with fine gravel, and (b) to be double-wrapped with polyethylene wrap to prevent corrosion to the pipe if any of the soil conditions are corrosive. In addition,

the project will be constructed with an experienced resident inspector present and under the general supervision of a licensed professional engineer (see the response to Question 1-1 for more details).

The Commission has historically relied upon the National Association of Regulatory Utility Commissioners (“NARUC”) study titled *Depreciation Practices for Small Water Utilities* (“NARUC Study”) to evaluate the reasonableness of depreciation practices of small water utilities. The Commission has adopted using the midpoint of the ranges in the NARUC Study when no evidence exists to support a specific life that is outside of the NARUC ranges. The NARUC range for water supply mains is 50-75 years. Although, the mid-point is 62.5 years, the useful life proposed by North Nelson District is *within* the range set forth in the NARUC Study, not outside of it. The NARUC study categorizes water supply mains constructed of ductile iron and PVC piping together, although ductile iron has been in use longer than PVC and therefore more is known about its performance. It is reasonable to conclude that ductile iron pipe will have a useful life that exceeds the mid-point of 62.5 years because ductile iron has been known to last in excess of 100 years. Here, evidence does exist to support a useful life of 75 years. Engineers recognize that ductile iron pipe has a useful life of 75-100 years and North Nelson District’s consulting

engineers have indicated a 75-year useful life is appropriate for depreciation purposes.

NORTH NELSON WATER DISTRICT

Case No. 2024-00336

Response to Commission Staff's First Request for Information

Question No. 1-3

Responding Witness: Colin S. Cissell, General Manager

Q 1-3. Refer to the October 25, 2024 Order beginning at unnumbered page 18 of 44 (unnumbered page 7 of 32 of Appendix B to the Order). Response 5 indicates that 60 percent of depreciation is allocated to Bardstown in the calculated transmission fee. However, North Nelson District previously stated that 100 percent of the water that passes through the line would be for the benefit of Bardstown and that North Nelson was simply wheeling the water.

- a. Describe why 60 percent of the depreciation cost is allocated to Bardstown if Bardstown is receiving 100 percent of the water that flows through the line.**
- b. If 100 percent of the depreciation cost is not being recovered, explain how there will not be a negative impact to North Nelson District's financial condition or eventually to other users' rates.**

A 1-3a. Perhaps, North Nelson District's response to question 5 of the Commission's October 4, 2024 Request for Information did not make it clear that the 60 percent depreciation allocation to Bardstown **only applies to the Phase 1 portion** of the Project, which has already been constructed and is ready to be placed into service, and it **only applies to the temporary (initial) wholesale rate**. The temporary rate will end on December 31, 2026. Thus, it will only be in effect for approximately two (2) years.

Once Phase 2 of the Project has been completed, then 100% of the water flowing through the entire length of the new 24-inch diameter water transmission main (Phase 1 and Phase 2) will be sold to Bardstown. As stated in response to question 2 of the Commission's October 4, 2024 Request for Information, North Nelson District will engage the services of a qualified rate consultant to perform a comprehensive Cost-of-Service Study ("COSS") to calculate the actual wholesale rate to be charged to Bardstown after December 31, 2026. The consultant will complete the COSS while Phase 2 is being constructed. The wholesale rate will be a "cost-based" rate. These "costs" will include the annual depreciate expense associated with the entire length of the new water transmission main. Once the actual cost of the Project is known, the consultant will simply need to compute the wholesale rate based upon the actual construction cost. One of the major costs will be the depreciation expense associated with the approximately \$16.6 million Project. Without prejudging the outcome of the COSS, one would assume that 100% of the depreciation expense will be allocated to Bardstown and included in the wholesale rate to be paid by Bardstown. Of course, North Nelson District will file the proposed wholesale rate and the COSS with the Commission. The Commission will

make the ultimate decision concerning the wholesale rate to be paid by Bardstown.

A 1-3b. North Nelson District expects to recover 100% of the depreciation cost from Bardstown, See the response to Question 1-3(a) shown above.

NORTH NELSON WATER DISTRICT

Case No. 2024-00336

Response to Commission Staff's First Request for Information

Question No. 1-4

Responding Witness: Colin S. Cissell, General Manager

Q 1-4. Explain whether any consideration was given to the current Bardstown wholesale tariff rate to North Nelson District as part of this Agreement. If so, explain why no change was made, especially in light of the transmission fee and increased rate to Bardstown as well as the new rate being charged to North Nelson District. If not, explain why not.

A 1-4. Bardstown never mentioned increasing its wholesale rate to North Nelson District at any time throughout the lengthy negotiations between the parties which lasted more than one year. North Nelson District did **not** give any consideration to requesting Bardstown to change Bardstown's wholesale tariff rate to North Nelson District when negotiating the Agreement, which is under review by the Commission.

As background, it should be noted that North Nelson District, at the request of Bardstown, has been reducing the amount of water it purchases from Bardstown over the past few years to enable Bardstown to provide adequate and reliable service to its increasing customer demand. Presently, only a small portion of North Nelson District's service area receives water from Bardstown. Because of hydraulic and pressure

issues, North Nelson District needs to continue purchasing water from Bardstown to serve this area. North Nelson District would need to invest tens of millions of dollars to build the necessary infrastructure, including several miles of water lines, pump stations, and one or more water storage tanks to serve this area with water from Louisville Water Company rather than with Bardstown water.

North Nelson District currently purchases, and will for the foreseeable future, purchase approximately 67,000 to 100,000 gallons of water per day from Bardstown. Bardstown's current average daily water sales total approximately 4.2 million gallons per day. Bardstown's sales will increase to approximately 6 million gallons per day within five (5) years.¹ North Nelson District currently purchases less than **2.4 percent** of Bardstown's daily sales (100,000 divided by 4,200,000 gallons = 0.024 or 2.4 percent). Within five (5) years this amount will fall to less than **1.7 percent** of Bardstown's daily sales (100,000 divided by 6,000,000 gallons = 0.017 or 1.7 percent). Consequently, the amount of water which Bardstown sells to North Nelson District represents a relatively insignificant amount of Bardstown's total water sales.

¹ See Affidavit of Jessica Filiatreau, P. E. dated November 8, 2024, paragraph 7, and filed in this proceeding on November 11, 2024.