

COMMONWEALTH OF KENTUCKY  
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC TARIFF FILING OF THE CITY OF	)	
AUGUSTA TO INCREASE THE WHOLESALE	)	CASE NO.
WATER RATE CHARGED TO BRACKEN	)	2024-00349
COUNTY WATER DISTRICT	)	

REBUTTAL TESTIMONY OF JOHN LAYCOCK  
MAYOR, CITY OF AUGUSTA

March 19, 2025

INTRODUCTION

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**Q1. Please state your name and business address?**

A1. My name is John Laycock and my business address is, 219 Main Street, Augusta, Kentucky 41002.

**Q2. By whom are your employed?**

A2. I am the Mayor of the City of Augusta (“Augusta”).

**Q3. Please provide the dates that you have served as Augusta’s Mayor?**

A3. January 1, 2003 – December 31, 2006; June 12, 2009 – December 31, 2014; January 1, 2023 – present.

**Q4. What is the purpose of your testimony in this matter?**

A4. The purpose of my testimony is to:

- 1) provide a brief history of events that lead Augusta’s Water Treatment Plant Department (“Augusta Treatment”) to construct the water treatment plant that currently sells wholesale water to Bracken County Water District (“Bracken District”) and Augusta’s Water Distribution Department (“Augusta Distribution”);
- 2) discuss the water sales contract between Augusta Treatment and Bracken District;
- 3) discuss the reason Kentucky Rural Water Association’s (“KRWA”) was chosen to perform the water rate study (“KRWA Study”) that is the basis for the \$2.967 per thousand gallons wholesale water rate originally proposed in this proceeding;



**Wholesale Water Contract**

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**Q6. When was the current purchased water contract executed between Augusta Treatment and Bracken District?**

A. The current purchase water contract (“2016 Contract”), attached hereto as Exhibit-JL-1, was executed on February 6, 2016, as part of the Settlement Agreement between Augusta Treatment and Bracken District that was approved by Commission Order in Case No. 2015-00039 dated April 15, 2016. The 2016 Contract was later amended on May 10, 2021, pursuant to an Agreement between Augusta Treatment and Bracken District that was approved by Commission Order in Case No. 2020-00277 dated May 27, 2021, which is attached hereto as Exhibit JL-2.

**Q7. Can you explain the process through which the 2016 Contract was created?**

A. The original contract entered into on March 4, 1993, between Augusta Treatment and Bracken District, included a formula to be used to adjust the wholesale water rates charged to Bracken District and Augusta Distribution based on Augusta’s annual audit report. Augusta’s Utility Operations Manager, Doug Padgett, calculated the rates shown below using the formula and submitted those rates on January 5, 2015, to the Commission for consideration. The rates included a total Monthly Capital Charge in the amount of \$8,120 that was split between Bracken District and Augusta Distribution based on the percentage of water each entity purchased from the plant.



1 **Q8. Explain why the 2016 Contract was later amended pursuant to Commission**  
2 **Order in Case No. 2020-00277?**

3 A. In early 2020, Mr. Padgett, calculated a new rate to be charged to Bracken District  
4 using the formula established by the 2016 Contract. The calculated rate, \$2.50 per  
5 1,000 gallons, was submitted to the Commission on July 29, 2020. The Commission  
6 suspended the rate and established Case No. 2020-00277 to perform an  
7 investigation. Negotiations ensued leading to a Stipulated Agreement that included  
8 an amendment to the 2016 Contract. By Order dated May 27, 2021, the Commission  
9 approved the Stipulated Agreement that increased the rate charged to Bracken  
10 District by \$.01 from \$2.35 per thousand gallons to \$2.36 per thousand gallons.

11 **Q9. Did the parties to Case No. 2020-00277 incur significant legal fees?**

12 A. Yes, but not as extraordinary as those in Case No. 2015-00039. Toward the end of the  
13 2020-00277 proceedings, Bracken District reported legal fees to the Commission  
14 totaling \$16,089.62<sup>1</sup> while Augusta reported fees in the amount of \$22,047.<sup>2</sup>

15 **Q10. Did the Stipulated Agreement approved by the Commission in Case No. 2020-**  
16 **00277 require an engineering review of Augusta Treatment’s plant condition and**  
17 **capital improvement needs?**

18 A. Yes, as part of the Stipulated Agreement, Augusta and Bracken District jointly  
19 selected a professional engineer to perform a study. Cann-Tech, LLC/Kenvirons

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<sup>1</sup> Bracken District’s May 10, 2021 Response to Item No. 4 of the Commission’s April 30, 2021 Request for Information.

<sup>2</sup> Augusta’s May 10, 2021 Response to Item No. 2 of the Commission’s April 30, 2021 Request for Information.

1 completed the May 2022 study (“Cann-Tech Study”), which is attached hereto as  
2 Exhibit JL-3. The report found “that the water plant is in fair condition for a plant that  
3 is 26 years old...and that improvements are needed to meet the current standards.”<sup>3</sup>  
4 The study estimated the necessary improvements would cost \$3,250,000.<sup>4</sup>

5 **KRWA Rate Study Filed in the Current Case**

6 **Q11. Explain why Augusta contracted KRWA to perform the wholesale rate study that**  
7 **is the basis of the \$2.967 wholesale rate that was originally proposed in this**  
8 **proceeding.**

9 A. KRWA has a great amount of expertise in water utility rate design and has a long  
10 history of assisting its members with preparing rate studies. Further, since Augusta  
11 and Bracken District are both members of KRWA, it was anticipated that KRWA would  
12 provide an impartial and unbiased analysis of Augusta Treatment’s rates upon which  
13 all parties could agree without engaging in costly litigation.

14 **Q12. Did contracting with KRWA meet your expectations?**

15 A. Augusta Treatment is satisfied that KRWA performed an unbiased and impartial rate  
16 study, but KRWA’s involvement will not save the parties from the high cost of litigation.  
17 KRWA’s initial contract to prepare the study included a flat fee plus an hourly rate to  
18 be applied to the time required to perform the study. The initial estimated cost was  
19 \$8,500. Augusta Treatment considered this amount reasonable since it would be  
20 shared between Bracken District and Augusta Distribution as an amortized expense

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<sup>3</sup> Page 10, 3.1 General.

<sup>4</sup> Page 13.

1 included in the calculation of Augusta Treatment’s wholesale rate. However, the  
2 parties did not agree to a rate resulting from the study. Instead, the rate is being  
3 litigated before the Commission at Bracken District’s request.

4 At this time, Augusta Treatment estimates its total cost associated with the  
5 proposed tariff will be approximately \$20,000 including legal fees and additional  
6 KRWA fees above the original contract estimate. Also, considering Bracken District  
7 has likely incurred legal fees during these proceedings, the parties’ combined cost for  
8 the proposed tariff will exceed KRWA’s initial contract amount by a wide margin.

9 **Reasonableness of the Rate Formula that is part of the 2016 Contract**

10 **Q13. Does the formula provided in the 2016 Contract result in rates that are fair, just**  
11 **and reasonable?**

12 A. No, the rates resulting from the 2016 Contract formula are not fair, just and  
13 reasonable. I will address two components of the contract formula pertaining to this  
14 proceeding that result in unreasonable rates: 1) annual debt service costs allocable  
15 to Bracken District are limited to 64 percent of Augusta Treatment’s total annual debt  
16 service costs and 2) depreciation accruing on plant financed with long-term debt are  
17 not included in Augusta Treatment’s wholesale rate.

18 **Q14. Why do you believe it is unreasonable to limit debt service costs allocated to**  
19 **Bracken District to 64 percent?**

20 A. Pursuant to the 2016 Contract, all costs except for debt service are allocated to  
21 Bracken District based on the percentage of gallons of water Bracken District  
22 purchases from Augusta Treatment compared to Augusta Treatment’s total gallons



1 sold. As shown in the KRWA Study, Bracken District purchased 76.72 percent of the  
2 water sold by Augusta Treatment during the test year and purchased 78.45 percent  
3 during the pro forma period.

4 At the pro forma level of sales, the 64 percent debt limitation has a profound  
5 impact on the difference in Augusta Treatment's rates for service. As shown on Page  
6 18 of the KRWA Study, the rate for Bracken District is \$2.870 per thousand gallons  
7 while Augusta Distribution's rate is 15.75 percent higher at \$3.322 per thousand  
8 gallons. This is a significant difference in rates provided to two entities receiving like  
9 and contemporaneous service and in effect results in the City of Augusta subsidizing  
10 the rates of the Bracken County Water District.

11 **Q15. Why is it unreasonable to exclude depreciation accrued on plant financed with**  
12 **long-term debt from the calculation of Augusta Treatment's wholesale rate?**

13 A. Pursuant to the Commission's generally accepting rate-making practices, non-profit  
14 water utilities are authorized rate recovery of depreciation accruing on all plant in  
15 service, regardless of the plant's source original funding, to provide internal funds to  
16 pay for asset renewal and replacement. As previously discussed in my testimony, in  
17 the coming years, Augusta Treatment anticipates the need for system improvements  
18 and upgrades with an estimated cost of \$3,250,000 to properly maintain the  
19 treatment plant. It is essential for Augusta Treatment to recover full depreciation  
20 through rates to maximize the level of internal funds available to finance a portion of  
21 these improvements and upgrades. The additional internal funds will reduce Augusta

1 Treatment's reliance on outside funding sources which will reduce future interest  
2 costs.

3 **Amended Rate Request**

4 **Q16. The \$2.967 per thousand gallon unified rate calculated in the KRWA Study and**  
5 **originally proposed in this proceeding does not provide for recovery of**  
6 **depreciation accrued on debt financed plant. Will you be pursuing a different**  
7 **rate for you to present to the Commission for consideration in this proceeding**  
8 **that includes recovery of deprecation accruing on debt financed plant and do**  
9 **you propose to amend the original tariff requested in this proceeding, if so,**  
10 **please explain?**

11 A. Yes. I am requesting to amend the original \$2.967 per thousand gallons tariff  
12 proposed in this proceeding to \$3.181 per thousand gallons. The amended rate  
13 request will afford Augusta Treatment an opportunity to recover test-year  
14 depreciation in the amount of \$42,105 that accrued on all plant including plant  
15 financed with long-term debt.

16 This amended rate will allow Augusta Treatment an opportunity to maximize  
17 access to the internal working capital that will be essential to funding the \$3,250,000  
18 plant improvement projects identified in the Cann-Tech Study. The amended rate was  
19 calculated using the formula generally accepted by the Commission when  
20 determining rates for other Municipalities, Water Associations and Water Districts.

1 For example, it is the same formula recently used by Bracken District in Case No.  
2 2021-00415.<sup>5</sup>

3 **Q17. Can you explain why Augusta Treatment did not request the \$3.181 wholesale**  
4 **rate in its original tariff filed in this proceeding?**

5 A. Upon initial review of the KRWA Study, there was strong consideration given to  
6 requesting the \$3.181 unified tariff to recover full depreciation. However, requesting  
7 a rate higher than calculated in the KRWA study would have increased the likelihood  
8 of the long, expensive litigation we were trying to avoid by hiring KRWA. After it was  
9 evident that litigation could not be avoided, the amended \$3.181 rate will be  
10 requested.

11 **Amended Rate Request to Recover Additional Rate Case Expenses**

12 **Q18. KRWA's original cost estimate of \$8,500 to prepare the study was amortized over**  
13 **three years in the original proposed unified tariff. Does Augusta Treatment**  
14 **request that the Commission adjust the rate authorized in this proceeding to**  
15 **allow for recovery of additional rate case expenses.**

16 A. Yes. As previously discussed, Augusta Treatment made a good faith effort to reduce  
17 rate case expenses in this proceeding by contracting KRWA to perform the rate study  
18 and selecting a unified rate calculated in the study that excludes full recovery of  
19 depreciation.

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<sup>5</sup> See Bracken District's March 12, 2024 Response to Augusta's February 27, 2025 Initial Request for Information, Item 3.

1 As a result of the Commission’s investigation into this matter, Augusta  
 2 Treatment estimates that its rate case expenses, including legal fees, will total  
 3 approximately \$20,000. This is an increase of \$11,500 above the original \$8,500  
 4 estimate, which was amortized in the KRWA Study over a three-year period allowing  
 5 for a \$2,500 annual recovery. At this time, Augusta Treatment requests that the  
 6 Commission allow annual recovery of an additional \$3,833 (\$11,500 Additional Rate  
 7 Case Expense / 3 years). This will increase the unified tariff by \$0.019 (\$3,833 /  
 8 196,923,000 Adjusted Test-Year Gallons Sold).

9 **Q19. Please show the calculation of the unified rate you now request the Commission**  
 10 **to approve in this proceeding.**

11 A. The requested unified rate is \$3.20 calculated as follows:

Original Revenue Requirement of Unified Tariff	\$	584,359
Add: Depreciation on Debt Financed Plant		42,105
Additional Rate Case Expense (\$11,500 / 3 Years)		<u>3,833</u>
Amended Revenue Requirement of Unified Tariff	\$	630,298
Divide by: Adjusted Test-Year Gallons Sold (000 omitted)		<u>196,923</u>
Rate Per Thousand Gallons	\$	<u><u>3.20</u></u>

12  
 13 **Costs Not Included in the Calculation of the Unified Tariff**

14 **Q20. Are you aware of any costs associated with Augusta Treatment’s operations that**  
 15 **are excluded from the KRWA Study?**

16 A. Yes. While the KRWA Study includes an allocated portion of wages and wage  
 17 overhead costs paid to Augusta’s City Clerk and an allocated portion of the cost of  
 18 the Clerk’s copier, it does not include an allocated portion of the Clerk’s other office

1 expenses such as the cost of office space, office utilities, and materials and supplies,  
2 etc. Further, the KRWA Study does not include an allocation of any costs incurred by  
3 the Mayor's office or the City Council's offices to oversee and direct Augusta  
4 Treatment's operations.

5 **Q21. Does Augusta Treatment request to amend the unified rate proposed in this**  
6 **proceeding to include rate recovery of any of the aforementioned costs that are**  
7 **omitted from the KRWA Study.**

8 A. No, not at this time.

9 **Q22. Does this conclude your testimony?**

10 A. Yes.



Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing was served by electronic mail this 19th day of March, 2024, to the parties of record listed below.

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