

**CITY OF AUGUSTA
CASE NO. 2024-00349
COMMISSION STAFF FIRST REQUEST FOR INFORMATION**

Witness: Doug Padgett and Jack Scott Lawless

1. Refer to October 29, 2024, Augusta tariff filing beginning at page 5 of 114.
 - a. State whether the contract between Augusta and Bracken County Water District (Bracken District) was revised for the change in depreciation allocation method.
 - b. State whether Augusta and Bracken District agreed to the departure from the contract methodology for the rate calculation. If the parties did not agree, explain whether it was discussed and each parties' position on the issue.

Response:

- a. The 2016 Contract approved by the Kentucky Public Service Commission ("Commission") by Order dated April 15, 2016, in Case No. 2015-00039 between Augusta and Bracken District has not been revised regarding depreciation.
- b. The rate calculations shown in the August 5, 2024 Wholesale Water Rate Study ("2024 Study") prepared by Kentucky Rural Water Association on behalf of Augusta that was filed as a part of Augusta's tariff filing in this proceeding complies with the 2016 Contract provisions for rate recovery of depreciation expense. Provision 16. g. of the 2016 Contract provides that:

"Depreciation expense shall be included in the calculation of the Water Treatment Plant's operating costs, but on such depreciation expense on the plant and facilities whose cost is not financed through the issuance of debt and that are in service at the time of the proposed rate adjustment. (For example, depreciation expense related to Water Treatment Plant facilities and equipment that were financed with the proceeds of Augusta's Water System Revenue Bonds 1995 Series A and B would not be included in the calculation of test period operating expenses).

Calculation of depreciation for which rate recovery is sought in this proceeding is shown on Page 16 of the 2024 Study. As required by the 2016 Contract, all plant shown on Page 16 is in service at this time and the original amount of loan proceeds used to finance the cost of plant is removed from the calculation following the formula set out in the example included in the contract.

Augusta's Utility Operation's Manager presented the 2024 Study to the Water Treatment Plant Advisory Board ("Advisory Board") during the Advisory Board's meeting held on September 18, 2024, at 1 pm. The Advisory Board voted 2 to 1 in favor of presenting the 2024 Study to Augusta's City Council ("City Council") with the recommendation that the City

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Council approve the Unified Wholesale Water Rate calculated in the 2024 Study. The vote against the 2024 Study was cast by the Advisory Board Member representing Bracken District stating general opposition to the results of the 2024 Study. The 2024 Study and the Advisory Board's recommendation was presented to the City Council on September 18, 2024 at 6:30 pm. The Council voted unanimously to authorize the Unified Tariff and instructed that the Unified Tariff be submitted to the Commission for approval.

The Advisory Board was formed pursuant to Provision 17 of the 2016 Contract and includes one member from each of the Water Treatment Plant's three Participating Entities: Augusta, the City of Brooksville, and Bracken District. The Advisory Board was created to provide comments and recommendations regarding the Water Treatment Plant's operations and to provide for independent review of the Water Treatment Plant's operations. Augusta has not discussed the proposed tariff with representatives of Bracken District outside of the September 18, 2024 Advisory Board meeting. Augusta is not aware of Bracken District's position on depreciation other than the position stated in Bracken District's request to intervene in this proceeding filed with the Commission on November 27, 2024.

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Witness: Doug Padgett and Jack Scott Lawless

2. Provide a calculation of the wholesale rate to Bracken District if the allocation of debt service was calculated in compliance with the 2016 contract. Include in the response any workpapers to support the calculation in Excel spreadsheet format with all formulas, rows, and columns unprotected and fully accessible.

Response:

When allocation of Augusta Treatment's total Debt Service to Bracken District is limited to 64 percent, Bracken District's wholesale rate is calculated to be \$2.87 per thousand gallons and Augusta Distribution's wholesale rate is calculated to be \$3.322 per thousand gallons. Calculation of these rates is included in the 2024 Study submitted by Augusta as part of its tariff filing in this proceeding. The electronic workpapers created to prepare the 2024 Study are submitted as a part of Augusta's electronic response to the Commission Staff's request for information.

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Witness: Mayor John Laycock, Doug Padgett and Jack Scott Lawless

3. Explain why Augusta would propose a rate that is not calculated in compliance with its contract with Bracken District.

Response:

Provision 16. d. of the 2016 Contract limiting the assignment of debt costs to Bracken District discriminates against Augusta and is therefore in violation of KRS 278.170. Augusta seeks rates that are fair, just and reasonable as allowed by KRS 278.030.

The City of Augusta's Proprietary Funds include these four distinct and separate utility operating units: Water Distribution ("Augusta Distribution"), Water Treatment ("Augusta Treatment"), Natural Gas and Sewer. Each unit reports Assets, Liabilities, Revenues and Expenses individually and separately from the other units. Financial transactions between the units are accounted for and reported in the same manner as if each transaction had occurred with an unrelated party. Accordingly, Augusta Treatment bills, collects and reports revenue from wholesale water service provided to Augusta Distribution in the same manner that it bills, collects and reports revenue for wholesale water service provided to Bracken District.

All water produced by Augusta Treatment is delivered to either Augusta Distribution or Bracken District through water meters located immediately adjacent to the Water Treatment Plant facilities. Augusta Distribution receives service through a 6-inch meter connected to a 6-inch transmission main whereas Bracken District receives service through a 8-inch meter connected to an 8-inch transmission main. Augusta Treatment does not transmit or distribute water to any entity beyond the location of those metering points. Augusta Treatment's service to Bracken District is like and contemporaneous to the service provided to Augusta Distribution.

KRS 278.170 (1) states: "No utility shall, as to rates or service, give any unreasonable preference or advantage to any person or subject any person to any unreasonably prejudice or disadvantage, or establish or maintain any unreasonable difference between localities or between classes of service for doing a like and contemporaneous service under the same or substantially the same conditions."

In accordance with KRS 278.170 (1), the Commission has historically required water treatment plant costs to be allocated to wholesale customers based on the "Production Allocation Factor" that is derived from the percentage of gallons delivered to the wholesale customer compared to the plant's total water produced.

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Provisions 16. d. and 16. e. of the 2016 Contract specifies the methodology to be used to assign Augusta Treatment's costs to Bracken District. Provision 16. e. follows the Commission's historic application of the "Production Allocation Factor" by requiring that "The Water Treatment Plant's operating costs shall be allocated based upon the total annual volume of finished treated water delivered to Bracken District and to Augusta's distribution system at their respective delivery points located immediately adjacent to the Water Treatment Plant." However, Provision 16. d. deviates from the Production Allocation Factor by limiting the amount of debt costs assignable to Bracken District to 64 percent of Augusta Treatment's total Debt Costs.

As demonstrated in the 2024 Study, application of Provision 16. d. of the 2016 Contract results in wholesale rates to be charged to Augusta Distribution and Bracken District in the amounts of \$3.32 and \$2.87, respectively, per thousand gallons. Augusta Distribution's rate is \$.45, or 15.67 percent, higher than Bracken District's rate even though service provided to each entity is like and contemporaneous. Thus, the contract clearly provides a preference and an advantage to Bracken District that is in direct violation of KRS 278.170 (1).

Recognizing that a contract does not limit the Commission's authority to review and adjust a rate contained in that contract and that a contract between two utilities does not prohibit or restrict the Commission's authority to establish rates that are fair, just and reasonable,¹ the City of Augusta's elected officials in office at this time agree that the Commission should rule that Provision 16. d. of the 2016 Contract results in rates that are neither fair, just nor reasonable and that the Commission approve the unified rate calculated in the 2024 Study that is calculated in accordance with Kentucky Revised Statutes using the proper Production Allocation Factor.

¹ Case No. 2012-00152, Application of Big Sandy Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities.