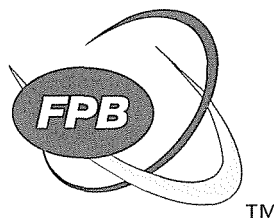


Warner J. Caines
General Manager



Frankfort Plant Board

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March 11, 2009

**PUBLIC SERVICE
COMMISSION**

Ms. Stephanie Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602

Re: Case No. 2008-00250

Dear Ms. Stumbo:

Enclosed for filing is an original and six copies of Frankfort Electric & Water Plant Board's Brief. I appreciate your assistance. If you have any questions, please contact me at (502) 352-4541 or hprice@fewpb.com.

Sincerely,

Hance Price

Hance Price
Staff Attorney

HP/mw

cc: John N. Hughes
Thomas Marshall
Donald Prather

Equal Opportunity/Affirmative Action Employer

317 West Second Street (P.O. Box 308) Frankfort, Kentucky 40602 Phone (502) 352-4372
Fax (502) 223-3887 www.fpb.cc

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF)	
THE WHOLESALE WATER SERVICE)	CASE NO. 2008-00250
RATES OF FRANKFORT ELECTRIC AND)	
WATER PLANT BOARD)	

BRIEF OF FRANKFORT ELECTRIC AND WATER PLANT BOARD

Submitted by:

Hance Price
317 West Second St.
Frankfort, KY
502 352-4372

and

John N. Hughes
124 West Todd St.
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Attorneys for FEWPB

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I. INTRODUCTION

A. CASE HISTORY

The Frankfort Electric and Water Plant Board (“FPB”) is a municipal utility providing treated water at wholesale cost to six regulated water districts - Elkhorn Water District, Peaks Mill Water District, U.S. 60 Water District, North Shelby Water District, Farmdale Water District and South Anderson Water District. FPB also provides wholesale water to one unregulated municipal utility - the City of Georgetown. Because of the Kentucky Supreme Court decision involving the Simpson County Water District, the rates charged to the regulated wholesale customers are subject to Commission jurisdiction.

FPB’s proposed tariff was filed on June 6, 2008. Four of the water districts intervened in the case objecting to the rate increase. Those intervenors are the Elkhorn Water District, Peaks Mill Water District, North Shelby Water District and U.S. 60 Water District.

The intervenors provided no reasons for their objection to the tariff. They filed no testimony, cost study or any other information to indicate the basis for their objection to the proposed rate. Commission staff and intervenors filed a series of data requests and three conferences were held before the final hearing on February 18, 2009. At the hearing, FPB presented the following witnesses: Warner Caines, General Manager, Herbbie Bannister, Assistant General Manager, David Billings, Chief Water Engineer, Shannon Taylor, Finance Director and Paul Herbert of Gannet Fleming. Intervenors neither filed testimony nor presented witnesses.

B. PROPOSED RATE

The current wholesale rate is \$1.539 and it was last increased in 2005. The rate proposed by the FPB is \$1.814 per 1,000 gallons. Notice of the increase was given to the

wholesale customers on March 31, 2008 and a proposed tariff was filed on June 6, 2008. The FPB originally proposed a rate of \$1.822, but determined an error in calculating the main footage and elimination of Factor 16. The corrected rate of \$1.814 was included in the FPB's response filed on August 27, 2008.

II. COST OF SERVICE METHODOLOGY

Intervenors have historically opposed rate increases by the FPB and regularly intervene in the Commission's review of the rates proposed by FPB. Consequently, FPB is now forced to perform cost studies and retained Gannet Fleming, Inc. to conduct a wholesale water rate study to justify the reasonableness of its regulated wholesale rate in this matter.

The cost study conforms to the method generally accepted by the AWWA's manual. American Water Works Association, M1, Principles of Water Rates, Fees, and Charges (5th edition 2000). Mr. Herbert testified that the base extra capacity method is the most widely used of two acceptable methodologies included in the AWWA Manual. (Tr. 128-29.) This is also the same methodology he used in preparing the cost of service studies for Kentucky American Water Company. (Tr. 123, 129.)

The purpose of the study was to allocate the total water cost of service, which is the total revenue requirement, to the several customer classifications. In the study, the total costs were allocated to the residential, commercial, public authorities, sales for resale non-water producers and sales for resale water producers, private fire protection and public fire protection classifications in accordance with generally accepted principles and procedures. The cost of service allocation results in indications of the relative cost responsibilities of each class of customers. The allocated cost of service is one of several criteria appropriate

for consideration in designing customer rates to produce the required revenues. (Herbert Pre-filed Testimony, 4-5.)

To complete the study, each identified classification of cost in the pro forma cost of service was allocated to the customer classifications through the use of appropriate factors. These allocations are presented in Schedule B on pages 8 through 11 of the cost study. The items of cost include: operation and maintenance expenses, taxes, debt service and capital projects and are identified in column 1 of Schedule B. The cost of each item, shown in column 3, is allocated to the several customer classifications based on allocation factors referenced in column 2. The development of the allocation factors is presented in Schedule C. (Herbert Pre-filed Testimony, 5-6.)

Mr. Herbert used some of the larger cost items to illustrate the principles and considerations in the cost allocation methodology. Purchased electric power and treatment chemicals are examples of costs that tend to vary with the amount of water consumed and are thus considered base costs. They are allocated to the several customer classifications in direct proportion to the average daily consumption of those classifications through the use of Factor 1. The development of Factor 1 is shown in Schedule C on page 12.

Other source of supply, water treatment and transmission costs are associated with meeting usage requirements in excess of the average, generally to meet maximum day requirements. Costs of this nature were allocated to customer classifications in combination. First, partially as base costs, proportional to average daily consumption. Second, partially as maximum day extra capacity costs, in proportion to maximum day extra capacity. Finally, in the case of certain pumping stations and transmission mains, partially as fire protection costs, through the use of Factors 2 and 3. The development of

the allocation factors, referenced as Factors 2 and 3, is shown in Schedule C, on pages 12 through 15. (Herbert Pre-filed Testimony, 6.)

Costs associated with storage facilities and the capital costs of distribution mains were allocated partly on the basis of average consumption and partly on the basis of maximum hour extra demand, including the demand for fire protection service. This is because these facilities are designed to meet maximum hour and fire demand requirements. The development of the factors, referenced as Factors 4 and 5, used for these allocations is shown in Schedule C, on pages 16 through 19.

Factor 4, used to allocate distribution mains, is based on the same volumes used in Factors 1 through 3. Factor 5, Allocation of Storage Facilities, uses the same basic methodology as Factor 4. However, the fire demand weighting is based on the storage capacity for fire service as compared to the total storage capacity.

Fire demand costs were allocated to public and private fire protection service in proportion to the relative potential demands on the system by public fire hydrants and private service lines as presented in Schedule C on page 31.

Costs associated with pumping facilities and the operation and maintenance of mains were allocated on combined bases of maximum day and maximum hour extra capacity because these facilities serve both functions. For these costs, the relative weightings of Factor 3 (maximum day and fire) and Factor 4 (maximum hour) were based on the footage of transmission and distribution mains. For cost allocation purposes, mains larger than ten inch were classified as serving a transmission function. Mains ten inch and smaller were classified as serving a distribution function. The development of this weighted factor, referenced as Factor 6, is presented on page 20.

Costs associated with meters were allocated to customer classifications in proportion to the capacity requirements of the sizes and quantities of meters serving each classification. The development of the factor for meters, referenced as Factor 8, is presented on page 21. Factor 9, Allocation of Services, was developed in a similar manner as Factor 8, except that the relative unit cost per foot by service size was used in order to weight the number of services by classification. Costs associated with public fire hydrants were assigned directly to the public fire protection class. (Factor 7.) Costs associated with sales for resale non-water producers were assigned directly to the sales for resale non-water producers class using Factor 11. (Herbert Pre-filed Testimony, 7-8.)

Costs for customer accounting, billing and collecting were allocated on the basis of the number of customers for each classification. Costs for meter reading were allocated on the basis of metered customers. The development of these factors is referenced as Factor 12 and Factor 13. Administrative and general costs were allocated on the basis of allocated direct costs, excluding those costs such as purchased power, chemicals and waste disposal which require little administrative and general expense. The development of factors for this allocation, referenced as Factor 14, is presented on page 27.

The original cost less depreciation of utility plant in service was allocated on the basis of the function of the facilities for the purpose of developing Factors 16 and 17. Factor 17 was used to allocate items such as taxes, debt service and capital projects. The development of Factors 16 and 17 is presented on pages 32 through 35. Factors 10, 14, 15 and 18 are composite allocation factors. These factors are based on the result of allocating other costs and are computed internally in the cost allocation program.

The pro forma costs of service furnished by the FPB were the source of the totals, cost of service data and are set forth in various FPB exhibits. The source of the system

maximum day and maximum hour ratios used in the development of Factors 2, 3 and 4 are based on a review of historic FPB data. The maximum day ratio of 1.80 times the average day approximates the ratio of maximum daily send-out experienced by the FPB in the last nine years. The maximum hour ratio of 2.5 times the average hour was estimated based on the relationship of system maximum hour ratios compared to system maximum day ratios for other similar systems.

The estimated maximum day extra capacity and maximum hour extra capacity demands were based on judgment which considered field studies of actual customer class demands conducted for other utilities, field studies of similar service areas and generally-accepted customer class maximum day and maximum hour demand ratios. (Herbert Pre-filed Testimony, 7-9.)

III. INTERVENOR ISSUES

Intervenors maintain that the proposed rate is unreasonable for a variety of reasons. However, they presented no cost study, engineering data or Commission precedent to support their position.

A. Mains

1. Ten inch and smaller lines are properly allocated to the water district class.

The intervenors did not question the use of the base extra capacity methodology, but did question certain inputs to the study. They maintain that the inclusion of water mains smaller than ten inches in the allocation of costs to the water district class is improper. However, the allocation of lines smaller than ten inches to the water district class is consistent with AWWA standards, Commission precedent and the actual operation of FPB's system.

First, Mr. Herbert testified that according to established AWWA methodology the allocation of all mains that are used to serve a customer class is appropriately included in the cost allocation. (Tr. 121.) The AWWA Manual provides that each water system must be evaluated to determine the appropriate size mains to be allocated in the study. (Tr. 121.) There is no AWWA requirement or directive to exclude any main size from the cost study. (Tr. 121.)

Using this approach, Mr. Herbert testified that he reviewed the facilities of the FPB and the system map to determine the facilities used by the wholesale class and determined that the smaller mains contribute to the wholesale service. (Tr. 120-21.) As an example, he noted that several districts are directly served only by mains smaller than ten inches. (Tr. 139.) If those small mains were excluded from the wholesale class allocation, then there would be no cost associated with mains for those districts served by such mains. (Tr. 132-33.)

Second, there is no legal or regulatory basis to exclude those mains from the cost allocation to the wholesale class. The Commission has never provided notice of a rule requiring the exclusion of mains smaller than ten inches. In fact, the Commission has accepted the wholesale allocations of mains smaller than ten inches in the Kentucky American Water Company and Commission Staff cost studies.

Mr. Herbert testified that he prepared the cost of service studies for Kentucky American Water Company in 2000 and 2007. (Herbert Pre-filed Testimony, 4; Tr. 138.) In each of those studies he allocated all mains, including those smaller than ten inches, to the wholesale class and the Commission did not question that allocation. (Tr. 138.)

Likewise, Commission Staff have also allocated mains smaller than ten inches to wholesale customers in two cases. In Case No. 2002-00395, the Commission Staff

performed a cost study for a small water district. In that study, the staff allocated mains smaller than ten inches to the wholesale class. It did the same in Case No. 2005-00477. Applying a standard in this case which has not been uniformly adopted and applied by the Commission is arbitrary.

There is nothing in the Commission's regulations that requires or even suggests that small mains are not properly allocable to wholesale customers. The Commission apparently relies on an Order issued in Case No. 2002-00105 dated April 30, 2003, involving Northern Kentucky Water District. The Order in that case includes a statement that mains smaller than ten inches are not used to serve Northern's wholesale customers and as a result should not be included in the cost allocation.

That case involved only Northern Kentucky Water District. It was not an administrative proceeding related to general rulemaking. Its applicability is to that case only. The "ten inch" rule has never been noticed as being universally applicable and is not included in any Commission regulation.

Finally, while the intervenors want to exclude all of the small mains, the hydraulic study provides uncontradicted proof that smaller mains are actually used to serve and benefit the wholesale class. Mr. Herbert testified that he did not use the hydraulic model to determine his cost allocations. (Tr. 126-27.) Nevertheless, the hydraulic study performed by Mr. Billings, FPB's Chief Water Engineer, confirms that the allocation of all mains to the wholesale class by Mr. Herbert is consistent with the operation of the FPB distribution system.

The study results shown on the map¹ identify all mains necessary to provide the level of service required by the wholesale customers and provide water flow to those

¹ North Shelby-U.S. 60 Hearing Exhibit 1; also filed as Exhibit 5, Item 3 of the February 2, 2009 data responses.

customers. (Tr. 48.) To arrive at that result, Mr. Billings determined the peak demand of the wholesale class and eliminated all other demands on the system. The red lines on the map are those that have water flowing through them when there is only demand from the wholesale customers. (Tr. 81.) There are a number of mains smaller than ten inches that are necessary for the level of service required to serve the wholesale class.

2. Any water district payment for mains is irrelevant to the cost study.

There were also some questions about the proportionate payment for some of the mains used to serve the wholesale class. The payments by the water districts for a portion of the cost of some mains are not relevant as explained in Response to Item 7 of the February 2, 2009 data request. This is because only the FPB's portion of the debt service is allocated since FPB would not borrow to fund items already funded by another source.

Further, the FPB does not maintain expenses or rate base related to distribution and transmission mains. It is not the cost of those mains that is allocated in the study. Rather, it is the wholesale customers' proportionate share of expenses based on usage and peaking factors. (Response to PSC Data Request of February 2, 2009, Item 4.) The cost study uses allocations based on customer usage and other factors.

B. STORAGE

Allocation of storage to the water district class is proper since it is required to serve the districts. The intervenors suggested that because each district has its own water storage, their storage should diminish the cost of service by the FPB to the wholesale class. That is incorrect for two reasons. First, the districts' storage is reflected in their demand characteristics. Second, FPB storage is necessary at all times to provide service to the districts.

Mr. Herbert testified that he considered the districts' storage. (Tr. 124.) The presence of the districts' storage affects the average and peak demands that the wholesale customers place on the FPB system. The cost of service study he performed takes into consideration the average and peak demands of the customer classes and consequently the storage capacity of the wholesale customers is reflected in the allocations.

The FPB storage is integrally required for the pressure and quantity of water provided to the districts by the FPB. (Tr. 124.) The intervenors fail to understand that their storage is reflected in the amount, pressure and timing of water deliveries by the FPB. That storage may diminish the amount of water required at any given time, or may reduce the pressure required at any given time, but those factors are reflected in the demand characteristics of the water purchases of those customers. As such, the size of the wholesale customers' systems, the amount of water they take, when they take it and the pressure needed, are all factored into the calculation of the wholesale class demand. (Tr. 125.)

The intervenors' argument also fails to recognize the purpose of the FPB storage and its necessity to provide wholesale service. The FPB storage does not replace or even supplant the districts' storage. Rather, it provides the FPB with the necessary facilities to provide the quantity of water needed by the districts, at the time they need it and at the pressure required.

The hydraulic study performed by Mr. Billings, FPB's Water Engineer, indicated that the FPB's storage is necessary at all times to serve the water districts. The hydraulic study shows that the pumps operate in response to demand, which causes the pumps to cycle on and off in response to that demand. The storage tanks are filled and drain based on demand. (Tr. 59-60; 86-88.) Mr. Billings testified that without storage, the FPB could not

meet the wholesale class demands. (Tr. 73.) He also testified that those FPB storage tanks provide pressure that assists the water districts' booster pumps to get water into their storage tanks. (Tr. 73.)

Finally, there were some questions by the intervenors about the loss of all pumps at the same time. Apparently, the intent of the questions is to suggest that because the pumps are always available to meet system demand, FPB's storage does not benefit the districts. However, that assumption was dispelled by Mr. Billings. (Tr. 73.) It is the actual water usage and the time of the usage of the wholesale class, not the amount of storage each member of that class has, that determines the allocation. (Tr. 143-44; 149-50.) The benefit to the wholesale class of their storage is correctly and adequately included in the allocations.

C. LOOP LINES

1. Loop lines are required to serve the districts and are properly allocated.

Loop lines are properly allocated to the wholesale class in accordance with Commission precedent. The intervenors want to exclude "loops" in the distribution system. However, Mr. Billings testified that those loops are necessary and in fact provide additional reliability and pressure to the system and ultimately to the wholesale class. (Tr. 37-38.)

In Case No. 2002-00022, the Commission reached this same conclusion and noted: "We have also accepted Pikeville's proposal to include all loop lines in the inch-mile calculation. We agree that the mains completing a loop add pressure to a system and provide additional reliability." Case No. 2002-00022, Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville, Kentucky (Ky. PSC Oct. 18, 2002) at 35.

Loops, both in general, and in places where the FPB has upgraded loops from six to eight inches, improve service to all customers. (Tr. 39, 44.) The intervenors cannot simply point to certain mains on a map and say that those mains are the only ones necessary to serve them. The intervenors want service to and ultimately rates for each of them to be independently calculated based on the facilities each actually uses. That cannot be done since the system is dynamic. (Tr. 82.) It works as a unit, not as separate pieces. It is not possible to trace one main from the treatment plant and assume that all water to a particular customer can be provided through that main and not a series of loops. The system is not designed to serve individual customers, it is designed to serve all customers and it operates to serve all customers at all times. (Tr. 127-28.)

The intervenors maintain that loops must be excluded and only the mains directly connected to their master meters should be included in the allocations. That claim cannot withstand scrutiny. Mr. Herbert explained that the FPB's water system is unified to provide the overall level of service required for the wholesale class. (Tr. 132-33.)

Service and the related facilities are designed to meet the needs of all customers, not individual customers. He referred to the intervenors' effort as "cherry-picking." (Tr. 127.) In other words, the water districts want to pick selected parts of the FPB water system that generally are not capable of providing the level of service required by the water districts, and have only those selected portions of the facilities allocated to the wholesale class. To do so would "compromise" the value of the study. (Tr. 140.) If selected mains are excluded for one class, then the same type of selectivity must be applied to all classes of customers. That is, rates are based on classes of customers, not individual customers. It is impossible to correctly perform such a study. (Tr. 127.)

As an example, Mr. Herbert discussed the removal of the South Anderson main from the allocation because it appears to only serve that one wholesale customer. (Tr. 141.) Mr. Herbert pointed out that only 22% of the FPB portion of the cost of that main is allocated to the wholesale class. (Tr. 142-43.) However, the remaining 77.77% of the cost is allocated to all other customers who, using the water district's assumption, get no benefit from that main. (Tr. 142-43.)

If each main was allocated based on its usefulness to each customer, the total cost of mains would not be fully allocated and the FPB would not recover all of its costs associated with service to all of its customers. (Tr. 133.) The only conclusion to be drawn from Mr. Herbert's testimony is that selecting particular sections of main for allocation is not a true cost of service allocation study, it is merely an arbitrary assignment of costs. (Tr. 127.)

2. Additional subdivisions do not increase the cost of loop lines to the districts.

There was a discussion about the addition of new subdivisions in the areas of some of the water districts' facilities. That discussion is irrelevant to the case and the allocation of loop lines because developers pay for the subdivision lines and none of the costs of those facilities are included in the cost study. (Tr. 64.)

D. SUBSIDIZATION

The intervenors raised a question regarding "subsidization" of the retail customers by the wholesale customers. No evidence was offered to support that allegation. Alluding to unspecified comments from prior rate studies, the intervenors believe that the current retail rates are lower than they should be and as a result the wholesale rate is higher than it should be. Nothing could be more unfounded.

The test years, allocations and other adjustments from prior cases are not comparable to the current case. Circumstances, costs, operations and other factors have changed making reference to the prior studies an irrelevant exercise. More importantly, there is nothing in the “R.W. Beck 2006 Cost of Service Study”, which was the basis for the proposed adjustment of wholesale rates in Case No. 2006-00444, to suggest any subsidization. The issue of subsidy was directly addressed in the testimony of Michael Lane, who prepared that cost study:

Q8. Were you told to adjust the results so that there was a subsidy from one class to another?

A. No, there was no adjustment to any of the revenue or expense factors so as to cause a shifting from one class to another. The study reflects the cost of providing service to each class and no subsidies by one class in favor of another were included in our methodology.

The key issue is whether the current proposed rate for the wholesale class is being subsidized by any other class. Mr. Herbert specifically addressed this issue by saying that the wholesale class is recovering its revenue requirement and that there is no subsidy. (Tr. 119-20.) It is only that class which is regulated by the Commission. Its rate is calculated to recover the wholesale revenue requirement and it does. Any suggestion of subsidization is unsupportable.

Finally, because the FPB retail rates are not regulated by the Commission, any review of those rates is beyond the scope of this proceeding. The wholesale rates have been adjusted based on accepted cost of service principles. The retail rates in effect now are of no consequence to the wholesale customers and certainly the retail rates of years past are equally inconsequential.

E. CLUBHOUSE EXPENSE

The clubhouse expense allocated to the wholesale class is only \$310.00 which is insignificant to the rate calculation and indicative of the lack of substantive issues raised by the wholesale intervenors. A portion of the cost of the operation of the clubhouse was allocated to the wholesale customers because the clubhouse is part of the operations of the FPB. While the clubhouse is available for rent to the public, it is also used for FPB board meetings, staff training and other related purposes. (Tr. 34.)

Offsetting the expense is the revenue associated with its rental, which is also allocated to the wholesale class. The revenue more than offsets the expense associated with the facility. If any adjustment to the expense allocation is made, the same adjustment must be made to the revenue allocation.

F. DEPRECIATION

The Commission staff inquired as to why the FPB did not include depreciation expense in the revenue requirements for the cost of service study. (Tr. 130-31.) The FPB decided to exclude depreciation expense because municipal utilities typically use the cash basis to determine the level of revenue requirements. (Tr. 130.) The cash basis includes capital project expense as an alternative which was based on an average of actual capital projects over the last three years. The amount of capital projects included in the cost of service of \$1,136,245 is similar to the amount of test year depreciation expense of \$1,065,582 and therefore should not have a significant impact on the results of the cost of service study. Furthermore, the capital project expense was allocated based on the FPB rate base, which would be a similar allocation to that used for depreciation expense.

G. GEORGETOWN EXCLUSION

At the hearing, intervenors requested a hydraulic analysis without consideration of Georgetown's demand. The results are provided with Item 4 of FPB's responses dated February 27, 2009. The results indicate insignificant differences in pressures at each of the wholesale customers' meters.

H. RATE CASE EXPENSES

1. Allocations

There was discussion at the hearing regarding allocation of the entire rate case expense to the wholesale customers. Rate case expenses should be allocated solely to the wholesale class. The only reason for the cost study and this case is to satisfy the wholesale customers' objection to the rate adjustment.

The allocation of the expense for the cost study exclusively to the wholesale class was the result of Mr. Herbert's determination that the study was exclusively for the wholesale class and his experience in allocating study expenses to the classes of customers necessitating the study. (Tr. 122.) This is not a study to set retail rates. (Tr. 122-23.) Except for the Commission's regulation of the wholesale rate, the FPB would not need a cost of service study. In contrast, he allocated all of the rate case expenses in the Kentucky American Water Company cases to all customer classes because all classes are regulated. (Tr. 121, 123-24.) He was not directed by anyone at the FPB to allocate the expense only to the wholesale class, but did so to correctly assign that cost to the class of customers responsible for the cost. (Tr. 126, 155-56.)

The apparent basis for the objection is the inclusion of references to retail rates in the study. Mr. Herbert explained that the retail rates are merely a part of the determination of the appropriate allocation of revenues and expenses to the wholesale class and have no

impact on the scope or cost of the study. The retail rates are merely a by-product of the determination of the wholesale rates. (Tr. 122.) A cost study is not necessary to raise city rates. (Tr. 122, 147.)

However, even if the Commission improperly allocates some of the expense associated with the cost of service study to the non-regulated customers of the FPB, only those costs directly related to the cost study should be allocated. Costs exclusively related to the Commission proceeding should be allocated solely to the wholesale class. That is, all expenses subsequent to the completion of the cost study are exclusively related to the filing of the wholesale tariff with the Commission and defending that rate increase against the opposition from the intervenors. The unregulated customers should not have to underwrite the regulated wholesale customers and pay any portion of the expenses that were incurred to prepare the wholesale tariff and all subsequent expenses related to the Commission's review of that rate.

2. Cost to date

FPB's costs to date include:

Cost of service study	\$25,726.61	Exhibit 1
Rate Case Expense		
Outside Counsel	\$17,937.48	(Item 7, Response to 2/18/09 Data Request)
Gannett Fleming	\$25,621.54	Exhibit 1 (excludes inclined block presentation)
FPB Staff Time	\$ 6,831.19	Exhibit 2, Work Order
Misc. (Printing, etc.)	\$ 2,288.32	Exhibit 2, Work Order
Total (rate case)	\$52,678.53	
Grand Total	\$78,405.14	

Assuming that any of the cost should be subsidized by the non-regulated retail customers, only a portion of the cost of service study expense should be allocated to the non-regulated class.

An updated schedule of rate case expenses is attached.

IV. CONCLUSION

Intervenors have produced nothing in support of their objections to FPB's proposed rate. FPB's cost study is consistent with the accepted AWWA methodology, Commission precedent and the proposed rate is reasonable.

WHEREFORE, for the foregoing reasons, FPB respectfully requests that the Commission approve the proposed rate of \$1.814 per 1,000 gallons and award FPB its costs in the amount of \$78,405.14.

Respectfully Submitted,

Hance Price
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317 West Second St.
Frankfort, KY
502 352-4372

and

John N. Hughes / s/ Hance Price
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124 West Todd St.
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502 227-7270

Attorneys for FEWPB

This the 11th day of March, 2009

CERTIFICATE OF SERVICE

I, Hance Price, certify that on the 11th day of March 2009 a copy of this Brief of Frankfort Electric and Water Plant Board was served by mail to Honorable Thomas A. Marshall, Attorney at Law, 212 Washington Street, P.O. Box 223, Frankfort, KY 40602, Honorable Donald T. Prather, Mathis, Riggs & Prather, P.S.C. Attorneys at Law, 500 Main Street, Suite 5, Shelbyville, KY 40065 and an original and six copies by hand delivery to Ms. Stephanie Stumbo, Executive Director, Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, KY 40602-0615.

Hance Price

Frankfort Electric and Water Plant Board

Cost of Service Billing

<u>Invoice Period</u>	<u>Bill Date</u>	<u>Amount</u>	<u>Service</u>
10/27-11/23/2007	12/1/2007	3,210.00	Prepare Cost of Service Study
11/23-12/28/2007	1/16/2008	10,666.07	Prepare Cost of Service Study
12/28/07-2/1/2008	2/20/2008	4,750.00	Prepare Cost of Service Study
2/2-2/28/2008	3/11/2008	6,757.20	Prepare Cost of Service Study
3/1-3/28/2008	4/18/2008	343.34	Prepare Cost of Service Study
Total for Preparation of Cost of Service Study		25,726.61	
7/5-8/1/2008	8/19/2008	1,975.00	Rate Case Expense
8/2-8/29/2008	9/17/2008	2,541.06	Rate Case Expense
8/30-9/26/2008	10/8/2008	4,255.00	Rate Case Expense
10/25-11/21/2008	12/11/2008	95.00	Rate Case Expense
11/22/2008-1/2/2009	1/19/2009	1,885.00	Rate Case Expense
1/3-1/30/2009	2/18/2009	2,512.50	Rate Case Expense
2/1-2/27/2009 (Estimated)	NA	12,856.78	Rate Case Expense
Total for Wholesale Intervention		26,120.34	
Total Cost of Service		51,846.95	
Cost for Inclining Block Rate Presentation			
2/1-2/27/2009		750.00	Inclining Block Rate Presentation
February Bill - Estimated		13,606.78	

INVOICE

Project: 048884

Date: March 9, 2009

Frankfort Plant Board
Attn: Hance Price, Esq, Staff Attorney
317 West Second Street
P.O. Box 308
Frankfort, KY 40602

GANNETT FLEMING, INC. VALUATION AND RATE DIVISION

Send check payments to:

Gannett Fleming Companies
P.O. Box 829160
Philadelphia, PA 19182-9160

P.O. BOX 67100
HARRISBURG, PA 17106-7100
(717) 763-7211

Send ACH/EFT payments to:

ABA: 031312738
Acct. No: 5003165655
Acct. Name: Gannett Fleming Companies

Federal E.I.N. 251613591



Invoice: 048884*90265

Invoice Period: January 31, 2009 through February 27, 2009

Water Cost of Service Study

Summary of Current Charges

Part A – WATER COST OF SERVICE STUDY	\$	13,107.98
Total Charges		<u>\$ 13,107.98</u>
Total Due This Invoice		\$13,107.98

GANNETT FLEMING, INC.
VALUATION AND RATE DIVISION

Invoice Date: March 9, 2009

Invoice No: 048884*90265

Project: 048884 Frankfort Plant Board

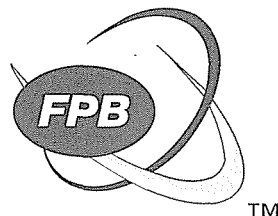
Part A -- WATER COST OF SERVICE STUDY

Labor Costs

Labor Classification

	<u>Hours</u>	<u>Rate</u>	<u>Amount</u>	
Analysts/Engineers	33.00	\$ 125.00	\$ 4,125.00	
Paul R. Herbert	38.00	205.00	7,790.00	
Support Staff	3.00	80.00	240.00	
		Total Labor Costs		\$ 12,155.00
Meals and Lodging			\$ 318.60	
Other Transportation			634.38	
		Total Expenses		952.98
		Current Charges for Part A		\$ 13,107.98

Warner J. Caines
General Manager



Water
Cable
Electric
Security
Local Phone
Digital Cable
Long Distance
Community TV
Ethernet/Internet
Cable Modem/ISP
Cable Advertising

Frankfort Plant Board

INVOICE – CASE NUMBER 2008-00250

Cost of service study	\$25,726.61	Exhibit 1
Rate Case Expense		
Outside Counsel	\$17,937.48	(Item 7, Response to 2/18/09 Data Request)
Gannett Fleming	\$25,621.54	Exhibit 1 (excludes inclined block presentation)
FPB Staff Time	\$ 6,831.19	Exhibit 2, Work Order
Misc. (Printing, etc.)	\$ 2,288.32	Exhibit 2, Work Order
Total (rate case)	\$52,678.53	
Grand Total	\$78,405.14	

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Warner J. Caines", is written over a horizontal line.

Warner J. Caines
General Manager

Exhibit 2, Sheet 1 of 5
Equal Opportunity/Affirmative Action Employer

Frankfort Plant Board Work Order Detail For 10525

Labor(Eng.)

PoEmplt	Description	Qty	Date	Amount
170		3	25-Aug-08	\$160.62
170		2	27-Aug-08	\$107.08
170		2	26-Aug-08	\$107.08
170		3	21-Aug-08	\$160.62
170	#170	8	16-Feb-09	\$428.32
170	#170	8	18-Feb-09	\$428.32
	170	Total:	26	\$1,392.04
171		2	15-Jul-08	\$52.00
171		1	16-Jul-08	\$26.00
171		1	23-Jul-08	\$26.00
	171	Total:	4	\$104.00
2060		2	18-Jul-08	\$87.08
2060		1	22-Jul-08	\$43.54
2060		4	23-Jul-08	\$174.16
2060		1	17-Jul-08	\$43.54
2060	#2060	8	18-Feb-09	\$348.32
2060	#2060	8	16-Feb-09	\$348.32
	2060	Total:	24	\$1,044.96
2130		1	28-Jul-08	\$27.82
2130		4	23-Jul-08	\$111.28
2130		1.5	22-Jul-08	\$41.73
2130		2	18-Jul-08	\$55.64
2130		1	27-Jan-09	\$27.82
2130		1	28-Jan-09	\$27.82
2130		0.5	30-Jan-09	\$13.91
2130		4	17-Jul-08	\$111.28
2130		3	19-Feb-09	\$83.46
2130		3	20-Feb-09	\$83.46
2130		4	21-Jul-08	\$111.28
2130	#2130	8	18-Feb-09	\$222.56
	2130	Total:	33	\$918.06
	Labor(Eng.)	Total:	87	\$3,459.06

Labor(Const.)

PoEmplt	Description	Qty	Date	Amount
101		8	04-Aug-08	\$185.76
101		2	05-Aug-08	\$46.44
101		1	25-Jul-08	\$23.22
101		2	30-Jul-08	\$46.44
101		1	31-Jul-08	\$23.22
101		8	01-Aug-08	\$185.76

Frankfort Plant Board Work Order Detail for 10525

Labor (Eng.)				
PoEmplt	Description	Qty	Date	Amount
	101 Total	36		\$835.92
2081		1	22-Oct-07	\$32.21
2081		.5	29-Oct-07	\$16.11
2081		1	05-Nov-07	\$32.21
2081		.5	25-Nov-07	\$16.11
2081		2.5	27-Nov-07	\$80.53
2081		.5	30-Nov-07	\$16.11
2081		.5	19-Dec-07	\$16.11
2081		2	04-Jan-08	\$64.42
2081		3	07-Jan-08	\$96.63
2081		.75	23-Jan-08	\$24.16
2081		1	31-Jan-08	\$32.21
2081		4	30-Jul-08	\$135.32
2081		.75	21-Aug-08	\$25.37
2081		1	16-Sep-08	\$33.83
2081		.5	18-Sep-08	\$16.92
2081		2	17-Dec-08	\$67.66
2081		1	13-Jan-09	\$33.83
2081		8	18-Feb-09	\$270.64
2081		1	26-Feb-09	\$33.83
2081				
	2081 Total	31.5		\$1,044.21
2088		.5	22-Oct-07	\$18.65
2088		.5	24-Oct-07	\$18.65
2088		.5	5-Nov-07	\$18.65
2088		1.5	27-Nov-07	\$55.95
2088		2	23-Jan-08	\$74.60
2088		.5	13-Jul-08	\$18.65
2088		2	10-Jul-08	\$74.60
2088		1	11-Jul-08	\$37.30
2088		.5	11-Jul-08	\$18.65
2088		1.5	14-Jul-08	\$55.95
2088		.5	23-Jul-08	\$18.65
2088		1	28-Jul-08	\$37.30
2088		2	31-Jul-08	\$74.60
2088		2	21-Aug-08	\$74.60
2088		.5	2-Sep-08	\$18.65
2088		1.5	10-Sep-08	\$55.95
2088		2.2	10-Sep-08	\$82.06
2088		3.5	18-Sep-08	\$130.55
2088		.5	10-Dec-08	\$18.65
2088		1.3	10-Dec-08	\$48.49
2088		1.5	20-Dec-08	\$55.95
2088		1.3	10-Dec-08	\$48.49
2088		1.2	18-Dec-08	\$44.76
2088		1	27-Jan-09	\$37.30
2088		1	29-Jan-09	\$37.30
2088		1	30-Jan-09	\$37.30
2088		1	12-Feb-09	\$37.30

Frankfort Plant Board Work Order Detail for 10525

2088		1	17-Feb-09	\$37.30
2088		5	18-Feb-09	\$186.50
2088		.5	9-Mar-09	\$18.65
	2088 Total	40		\$1,492.00
	Labor(Const.) Total:	107.5		\$3,372.13
	Misc			
	PoEmplt			
	Description	Qty	Date	Amount
	Adm Lunch at Serafini's Visa	0	31-Dec-07	\$74.00
	Water Cost Study/Gannett	0	29-Apr-08	\$343.34
	Dec 07 Consulting Fee Gannett Fleming	0	31-Jul-08	\$10,666.07
	Jan 08 Consulting Fee Gannett Fleming	0	31-Jul-08	\$4,750.00
	Feb 08 Consulting Fee Gannett Fleming	0	31-Jul-08	\$6,757.20
	Nov 07 Consulting Fee Gannett Fleming	0	31-Jul-08	\$3,210.00
	PO 94202 Lynn Imaging	0	05-Aug-08	\$1,618.56
	Labels for PSC Books	0	4-Sep-08	\$38.15
	Invoice Paid Twice	0	4-Sep-08	(\$1,618.56)
	Water Cost of Serv Study Parta	0	19-Sep-08	\$2,541.06
	Water Cost of Service Study	0	15-Oct-08	\$4,255.00
	Water Cost of Service Study	0	23-Dec-08	\$95.00
	Prof Services/Leg/John H. Hughes	0	5-Jan-09	\$729.16
	Water Cost of Service Study	0	23-Jan-09	\$1,885.00
	Postage Water Dist. Letter	0	29-Jan-09	\$37.92
	July 08 Consulting Fee Gannett Fleming	0	27-Feb-09	\$1,975.00
	Prof Services/Leg/John H. Hughes	0		\$1,687.50
	Consulting Fee Gannett Fleming	0		\$2,512.50
	Consulting Fee Gannett Fleming	0		\$12,357.98
	Prof. Services/Leg/John H. Hughes	0		\$15,520.82
	Transcript	0		\$384.00
	Total	0		\$69,819.70
94202	PSC Printing and Binding	1	15-Aug-08	\$1,618.56
	94202 Total:	1		\$1,618.56
94700	Binding	1	23-Sep-08	\$135.69
	94700 Total	1		\$135.69
	Misc. Total	2		\$71,573.95
	Grand Total	0		78,405.14
	Totals to Gannett Fleming			
	Study	0		\$25,726.61
	Intervention	0		\$25,621.54
	Grand Total to Gannett Fleming	0		\$51,348.15

Frankfort Plant Board Work Order Detail for 10525

	Cost of Service Study	0		\$25,726.61
	Rate Case Expense			
	Outside Counsel	0		\$17,937.48
	Consultants	0		\$25,621.54
	FPB Staff Time	0		\$6,831.19
	Miscellaneous	0		\$2,288.32
				\$52,678.53
				\$78,405.14