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James W. Gardner
Chairman

Daniel E. Logsdon Jr.
Vice Chairman

J. Roger Thomas
Commissioner

February 19, 2016

PARTIES OF RECORD

Re: Case No. 2015-00039

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum, please do so within five days of receipt of this letter. Any questions regarding this memorandum should be directed to David Spenard, Commission Staff Attorney, at (502) 782-2580.

Sincerely,

A handwritten signature in blue ink that reads "James W. Gardner".

James W. Gardner
Acting Executive Director

DES/ph

Enclosures

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2015-00039
FROM: David Spenard, Staff Attorney
DATE: February 19, 2016
RE: Informal Conference of February 15, 2016

On February 9, 2016, the city of Augusta ("Augusta") and the Bracken County Water District ("Bracken District") filed a joint motion for Approval of Settlement Agreement ("Agreement") and Water Purchase Contract ("Contract"). The parties, on that date, also filed a joint motion for a conference with Commission Staff. Pursuant to the Commission's February 12, 2016 Order, an informal conference was held in this matter on February 15, 2016, to discuss the Agreement and Contract. The sign-in sheet for the conference, containing a list of attendees, is attached.

At the start of the conference, Mr. Spenard stated that Commission Staff would prepare minutes of the conference for the case record, that a copy of the minutes would be provided to all parties, and that all parties would be given an opportunity to submit written comments upon those minutes. Mr. Spenard also stated that the views of Commission Staff were not binding on the Commissioners. The parties distributed a fact sheet for the Agreement. (A copy of the fact sheet is attached.) Staff noted that the parties request an Order approving the Agreement and Contract no later than March 1, 2016, to be effective for service rendered on and after March 1, 2016.

Commission Staff provided a brief history of the proceeding and noted that the Commission had entered an Order on August 14, 2015, which stated that the issue before this Commission in this proceeding is the reasonableness of Augusta's proposed new rate for wholesale service to Bracken District. Staff stated that the proposed Agreement and Contract will, among other things, eliminate the Capital Cost Charge in Augusta's current tariff and replace the existing water service contract. Staff asked why the parties were seeking approval of the Contract through this proceeding rather than by Augusta filing the Contract with the Commission's Division of Filings. The parties stated that the Contract is contingent upon the Commission's approval of the Agreement and that the Contract is interconnected with this proceeding. The parties confirmed that they seek an Order that accepts the Agreement and approves the new Contract.

Staff and the parties conducted a page-by-page review of the Joint Motion, Agreement, and Contract. Staff asked whether lender approval was necessary for the new Contract. The parties stated that Rural Development ("RD") had been contacted and that approval was not necessary. Staff asked whether the increase in the initially-proposed rate of \$1.96 per 1,000 gallons to \$2.35 per 1,000 gallons is explained by the elimination of the current \$6,090 per month Capital Cost Charge. The parties stated that the Agreement is a "Black Box" settlement; nonetheless, the parties confirmed that the proposed new volumetric rate is designed to include the recovery of costs that are currently recovered through the Capital Cost Charge (which is proposed for elimination from Augusta's tariff under the Agreement and Contract).

Staff and the parties discussed the notice provisions and the minimum purchase provisions in the Contract. Counsel for Bracken District stated that the minimum purchase provisions address concerns of both Augusta and Bracken District. Bracken District wants to have the option to pursue other sources of water supply. Augusta wants to have adequate notice if Bracken District plans to leave its system.

Staff and the parties discussed the proposed Water Treatment Plant Advisory Board ("Advisory Board") and the process through which Augusta can seek to adjust rates pursuant to the Contract. The Advisory Board may, among other things, make written recommendations to Augusta regarding the operation of the water treatment plant. Counsel for Bracken District stated that, among other things, the Contract is designed, per the parties, to place a burden of proof on Augusta. Specifically, per Numbered Paragraph 17, part j of the Contract: "At any Public Service Commission proceeding involving the review of Augusta's wholesale rate, Augusta shall have the burden of demonstrating the reasonableness of any test period expense that resulted from any action that was contrary to or inconsistent with a Board recommendation."

Staff and the parties discussed a provision of the Contract through which Bracken District may withhold 10% of the total invoiced amount of water for the monthly period in which Augusta fails to provide required reports. The parties stated that the provision is designed to align the interests of Augusta and Bracken District with regard to the provision of reports by Augusta to Bracken District.

Staff and the parties discussed a refinancing provision in the Contract. The parties stated that the Contract was designed to prevent Augusta from recovering both depreciation and debt service costs from Bracken District. The parties stated that the refinancing provision had been synchronized with the other provisions in the Contract pertaining to depreciation and debt service costs.

The parties stated that they did not think that a hearing was necessary. Staff stated that the Commission would determine whether any additional proceedings (such as a hearing, request for information, etc.) are necessary. The parties asked that an

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Order approving the Contract contain a finding that the Contract is not unconscionable or unreasonable. During the conference, the parties stated that the Agreement and Contract resolve all pending issues between the parties concerning the rates to be charged and the payment of charges to date.

There being no further business, the informal conference was adjourned.

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE)
WATER SERVICE RATES OF THE CITY OF) CASE NO. 2015-00039
AUGUSTA)

SIGN IN

February 15, 2016

PERSON

REPRESENTING

David Edward Spencer

Commission Staff

Gerald Wretcher

Stull Keenan Ogden - Braden Dist.

Todd Osterloft

CITY OF AUGUSTA

Jason Green

PSC Staff

Mark Frust

PSC Staff - Financial Analyst

Diana Moran

Braden County WD

Tim Sweeney

Braden County WD

Doug PADGETT

CITY OF AUGUSTA

CYNTHIA THOMPSON

CITY OF AUGUSTA

Ariel Miller

PSC Staff

John Pask

PSC Staff

Mark Rasche

PSC Staff

**KEY FEATURES OF
CITY OF AUGUSTA-BRACKEN COUNTY WATER DISTRICT
SETTLEMENT AGREEMENT**

- Existing Water Purchase Contract Replaced with New Contract
- Bracken District surrenders any equity interest in plant in exchange for reduced plant capacity allocation and changes in vendor-purchase relationship
- Rate of \$2.35 per 1,000 gallons
 - Termination of Capital Cost Charge
 - Termination of Depreciation Fund Contribution
 - Single Charge for Water
- Practice of after-the fact rate recalculation ended
 - Resolves annual disputes over recalculation
 - Better Allocates Risk
 - Creates Incentive for Greater Efficiency in Plant Operation
- 10-Year Minimum Take Provision (6.5 MG Monthly) – Notice of Reduction Provision
- Limitations on Frequency of Wholesale Rate Adjustments
 - First Time: Augusta May seek rate adjustment any time after new contract has been in effect one year
 - Subsequent Rate Adjustments: No earlier than 2 years after the last rate adjustment
 - Emergency Rate Adjustment
- New Rate Adjustment Procedures
 - Augusta required to provide 60-day notice
 - Bracken District will have 30-day comment period/Right to Request Meeting
 - Augusta required to provide written response to comments/meet with Bracken District officials at least 10 days prior to the proposed effective date of new rates

- Contract establishes a ratemaking methodology
- Creates Water Treatment Plant Advisory Board
- Establishes Reporting Requirements/Right to Access Records
 - Monthly Reports
 - General Ledger and Check Register
 - Annual Audit Reports
 - Penalties for Failure to Make Timely Submissions
- Requires establishment of cost allocations methodology or actual records for services provided by non-Water Treatment Plant employees/other City Departments
- City agrees to seek refinancing of existing bonded debt
- Establishes Mediation Process for Non-rate related issues
- Provides for Final Payment of Withheld Depreciation Reserve Account Payments

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Attorney at Law
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