

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE)	
WATER SERVICE RATES OF CENTRAL CITY)	CASE NO.
MUNICIPAL WATER & SEWER)	2019-00260

ORDER

On June 24, 2019, Central City Municipal Water & Sewer (Central City) filed with the Commission a revised tariff sheet setting forth proposed adjustments to its existing rates for wholesale water service to Muhlenberg County Water District (Muhlenberg District) and Muhlenberg County Water District #3 (Muhlenberg District #3) effective on July 31, 2019. Central City's current monthly wholesale water rate to each of these wholesale purchasers is \$2.63 per 1,000 gallons.¹ Central City proposes to increase the monthly wholesale rate charged to each by \$0.68 per 1,000 gallons, from \$2.63 to \$3.31, or 25.9 percent.

Central City states that the proposed rates are based on a requirement by the U.S. Department of Agriculture, acting through Rural Development (RD) in connection with a loan by RD in the principal amount of \$1,000,000, which includes \$150,000 in grant funding. The grant funding will only be provided if Central City Water meets certain conditions including implementing the proposed rates, as set forth in a Letter of Conditions dated March 23, 2018, from RD to Central City Water.²

¹ *City of Central City, Kentucky*, P.S.C. KY. NO. 1, 2nd Revised Sheet No. 1, effective March 17, 2013.

² The RD Letter of Conditions was filed by Central City in support of its proposed tariff.

Central City cites to Case No. 2003-00358 in which the city of Harlan (Harlan) indicated that its proposed rates were specified by RD in its Letter of Conditions to qualify for funding to be used for improvements to Harlan's water treatment plant.³ In that case, the Commission found that, if the Commission ordered Harlan to charge rates less than those specified by RD, Harlan would fail to meet the RD conditions and their ability to receive funding would be impaired. The Commission, therefore, declined to impair or impede Harlan's ability to receive funding. The Commission also stated that it believed that, while KRS 278.023 does not explicitly apply to cities, its decision in that case complied with the policy of the General Assembly as expressed in that statute.⁴

On July 22, 2019, Muhlenberg District and Muhlenberg District #3 each submitted a letter protesting the proposed rate adjustment and requesting that the Commission open a formal proceeding to investigate the reasonableness of the proposed rate, establish a procedural schedule that allows for discovery, and ensure that the proposed rate is not placed into effect until after the Commission investigates the reasonableness of the proposed rate. Muhlenberg District and Muhlenberg District #3 also request that the Commission, pursuant to 807 KAR 5:001, Section 8, direct the use of electronic filing procedures for such a proceeding.

Muhlenberg District and Muhlenberg District #3 set forth several grounds in their protest letters upon which the Commission could justify initiating a formal proceeding to evaluate the reasonableness of the proposed increase. They are: (1) Central City failed

³ Case No. 2003-00358, *Proposed Adjustment of the Wholesale Water Service Rates of Harlan Municipal Water Works* (Ky. PSC Oct. 24, 2003).

⁴ KRS 278.023 requires the Commission to accept an agreement between certain water utilities and federal agencies on the basis that imposition by the Commission of different terms could delay or jeopardize construction projects.

to provide sufficient information for the proposed wholesale rate increase showing that the proposed adjustment is consistent with the methodology set forth in paragraph 13 of the Water Purchase Contracts with Muhlenberg District and Muhlenberg District #3 (Water Purchase Contracts); (2) Central City ignored the notice requirements contained in paragraph 14 of its Water Purchase Contracts; (3) Muhlenberg District and Muhlenberg District #3 are unsure whether the Central City City Council has formally adopted the new wholesale rate in accordance with paragraph 15 of the Water Purchase Contracts; (4) Central City failed to state the reason for the proposed wholesale rate increase or for what purpose the funds from RD will be used; (5) KRS 278.023 does not apply to municipal utilities; (6) it is unknown whether the proposed RD project is related to Central City's ability to provide wholesale water service; and (7) Central City has not provided any information to indicate that it is actively pursuing the proposed RD project.

Based on a review of the proposed tariff filing and the protest letters and being otherwise sufficiently advised, the Commission finds that the facts as presented here are dissimilar to those in Case No. 2003-00358. In that case, the project to be constructed by Harlan with the RD funds was known, and there was no issue as to whether the project would provide any benefit to the wholesale customer or whether the filing of increased rates complied with the terms of the wholesale water contracts. Here, the wholesale customers assert that it is unknown whether the proposed project is related to providing them water service, and the procedures adopted by Central City for increasing its rates are contrary to the provisions of their wholesale water contracts. The wholesale water contracts with Central City include specific provisions regarding rate increases and the

signed concurrences of RD, but it is unclear from the record as developed to date whether Central City has complied with those contract provisions.

For all of these reasons, the Commission finds that further proceedings are necessary to determine whether Central City is in compliance with its wholesale water contracts and whether its proposed tariff is reasonable. These proceedings cannot be completed prior to the effective date of the proposed tariff, and the proposed tariff should be suspended pursuant to KRS 278.190(2).

The Commission further finds that Muhlenberg District and Muhlenberg District #3 are likely to present issues or to develop facts that will assist the Commission in fully considering this matter and should be made parties to this proceeding.

We find that the Commission may, per 807 KAR 5:001, Section 8, order the use of electronic filing procedures. Central City should indicate its position on the use of electronic filing procedures and whether it has any objection to their use in this proceeding. The Commission will defer a decision on whether to order the use of electronic filing procedures until Central City files its response to the use of electronic procedures.

IT IS THEREFORE ORDERED that:

1. This proceeding is established to investigate the reasonableness of Central City's proposed wholesale rate increase to Muhlenberg District and Muhlenberg District #3.
2. Central City's proposed wholesale rate is suspended for five months from July 31, 2019, up to and including December 30, 2019.

3. Muhlenberg District and Muhlenberg District #3 are made parties to this case.

4. Within ten days of the date of this Order, Central City shall state its position on the use of electronic filing procedures and whether it has any objection to their use in this proceeding.

5. Central City shall file responses to the information request set forth in Appendix A no later than August 14, 2019.

6. The procedural schedule set forth in Appendix B to this Order shall be followed.

7. a. Responses to requests for information shall be appropriately bound, tabbed, and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record, and the original and ten copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or an association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. A party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

e. Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

f. Any party filing a paper containing personal information shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that the personal information cannot be read.

8. As set forth in 807 KAR 5:001, Section 4(11)(a), a person requesting permissive intervention in a Commission proceeding is required to demonstrate either (1) a special interest in the proceeding which is not adequately represented in the case, or (2) that the person requesting permissive intervention is likely to present issues or develop facts that will assist the Commission in fully considering the matter without unduly complicating or disrupting the proceedings. Further, KRS 278.040(2) required that a person seeking intervention must have an interest in the rates or service of a utility, as those are the only matters that are subject to the Commission's jurisdiction. Therefore, any person requesting to intervene in a Commission proceeding must state with specificity the person's special interest that is not otherwise adequately represented, or the issues and facts that the person will present that will assist the Commission in fully considering the matter. A mere recitation of the quantity of utility service consumed by the movant or a general statement regarding a potential impact of possible modification

of rates will not be deemed sufficient to establish a special interest. In addition, any motion to intervene filed after August 14, 2019, shall also show good cause for being untimely. If the untimely motion is granted, the movant shall accept and abide by the existing procedural schedule.

9. Central City shall give notice of the hearing in accordance with the provisions set forth in 807 KAR 5:001, Section 9(2). In addition, the notice of the hearing shall include the following statement: "This hearing will be streamed live and may be viewed on the PSC website, psc.ky.gov." At the time publication is requested, Central City shall forward a duplicate of the notice and request to the Commission.

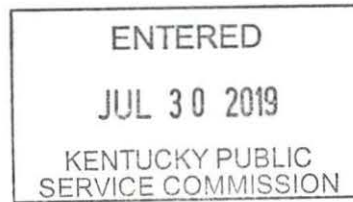
10. At any public hearing in this matter, neither opening statements nor summarization of direct testimonies shall be permitted.

11. Pursuant to KRS 278.360 and 807 KAR 5:001, Section 9(9), a digital video recording shall be made of the hearing.

12. The Commission does not look favorably upon motions of continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

13. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2019-00260 DATED JUL 30 2019

1. Provide in written verified form the direct testimony of each witness that Central City intends to rely on in this matter.

2. Provide the independent auditor's reports for Central City for the fiscal years ending in 2016, 2017, and 2018.

3. Provide the 12-month test period upon which Central City bases its proposed rate adjustment and explain why this test period was chosen.

4. Explain whether Central City is using a historical or forecasted test year.

a. If historical, provide Central City's general ledgers for the proposed test period and the most recently concluded fiscal year. These general ledgers shall include all check registers and spreadsheets used to record and track financial transactions. If available, provide a copy of the requested general ledgers in Excel spreadsheet format with all rows and columns unprotected and accessible.

b. If forecasted, provide Central City's general ledger for the most recently concluded fiscal year, all support documents for the base year and for assumptions and inputs used in the forecast. These support documents will include all check registers and spreadsheets used to record and track financial transactions. If available, provide a copy of the requested general ledger in Excel spreadsheet format with all rows and columns unprotected and accessible.

5. For each outstanding revenue bond issuance related to Central City's operations, provide:

a. The bond ordinance or resolution authorizing its issuance;

- b. An amortization schedule;
- c. A detailed explanation of why the debt was incurred; and
- d. A calculation of the annual debt service payment, including all required payments to debt service reserve accounts or funds, for each of the next three years.

6. List all persons on Central City's payroll during the proposed test period. For each employee, state their job duties, total wages paid during the fiscal year, current salary or wage rate, and the percentage of work hours spent performing duties for each city division (e.g., water, sewer, police department, public works) during the fiscal year. If Central City's records do not permit the allocation of an employee's work hours among city divisions, provide an estimate for each employee and explain how Central City derived the estimate.

7. For each employee listed in Item 6 above, describe how Central City allocated their payroll and payroll overhead charges to each city division for the proposed test period. This response shall include a detailed explanation of all allocation procedures. Payroll overhead charges include payroll taxes, health insurance premiums, pension costs, and any other employee benefit costs.

8. a. List all joint or shared costs that Central City incurred during the proposed test period. For each cost, list the vendor, total expense amount, amounts allocated per division, and the basis for allocation.

b. Describe the procedures to allocate joint and shared costs among divisions for the proposed test period.

c. Provide all internal memorandums, policy statements, correspondence, and documents related to the allocation of joint and shared costs.

9. Provide depreciation schedules for the water divisions. A separate schedule shall be provided for each division.

10. Provide an adjusted trial balance and audit adjustments for the proposed test year and the most recently completed fiscal year. The trial balance shall be traced and referenced directly to the general ledgers requested in Item 4.a and 4.b.

11. Provide the "Enterprise Funds Uniform Financial Information Report" that Central City submitted to the Kentucky Department of Local Government for the fiscal years ending in 2016, 2017, and 2018.

12. a. Identify all persons or entities to which Central City provides wholesale water service.

b. For each customer listed above, provide for each of the previous 24 months the customer's monthly water usage and the amount that Central City charged the customer for service.

13. a. Complete the table below:

Water Main Size	Total Miles of Line	Miles of Line Used by Central City to Serve Its Wholesale Customers
16"		
14"		
12"		
10"		
8"		
6"		
4"		
2"		

b. Explain who pays for the water main(s) that Central City uses to deliver water to Central City's wholesale customer(s).

14. a. Provide the maximum capacity of Central City's water treatment plant.

b. For each of the customers listed in response to Item 12(a), state:

(1) The amount of Central City's total water treatment plant capacity currently reserved for that customer; and

(2) The minimum and maximum quantity of water (in gallons) that the customer may purchase in a month under the terms of its present water purchase contract with Central City.

c. Describe the changes, if any, that Central City expects within the next three years in the level of water treatment capacity reserved for each of the customers listed in Item 12(a), and state the reason(s) for Central City's expectations.

15. a. State who owns the master meter(s) through which Central City provides water to the customers listed in Item 12(a).

b. How many master meters does Central City use to provide water service to each of the customers listed in Item 12(a)?

c. State who is responsible for maintaining these master meters.

16. Provide a system map showing all Central City's facilities that are used to serve the customers listed in Item 12(a). This map shall show, at a minimum, all master meters, pumping stations, storage tanks, water transmission mains, and water distribution mains used to serve the customers listed in Item 12(a). The size of all mains shall be clearly indicated on this map.

17. Provide the portion, if any, of Central City's water main(s) that serve the customers listed in Item 12(a) and are gravity fed.

18. a. List Central City's water sales (in gallons) for each month of the previous 36 months for each of its wholesale customers and for its retail customers.

b. List the total amount billed by Central City for water service for each month of the previous 36 months to each of its wholesale customers and to its retail customers.

19. Provide Central City's current rate schedule for its retail customers and each of its wholesale customers.

20. Complete the table below:

Central City	Gallons for Test Period	Gallons for Fiscal Year Ending June 30, 2018
Plant Use		
Line Loss (Unaccounted for)		
Sales to Retail		
Sales to Muhlenberg District		
Sales to Muhlenberg District #3		
Sales to Other Wholesale Customers		
Total Produced and Purchased		
Total Sold		

21. a. State whether Central City provides unmetered water service to any entities (e.g., service to municipal buildings, fire departments, or protection services).

b. If unmetered service is provided, then for each type of service, estimate the percentage of the total unmetered amount.

22. Provide a copy of the cost-of-service study (COSS), if any, upon which the proposed rate is based in Excel spreadsheet format with all columns and rows accessible and all formulas unhidden.

23. a. Identify the person who prepared the COSS, if any, upon which the proposed rate is based.

b. Provide the preparer's *curriculum vitae*.

c. List all cases before the Commission in which the preparer has submitted a COSS.

d. List all utilities (municipal or public) for which the preparer has prepared a COSS. For each utility, identify the type of utility service (water or sewer) for which the report was prepared.

24. If the proposed rate is not based upon a COSS, describe how Central City determined the proposed wholesale rate, state who participated in the determination, and provide all supporting documentation for the proposed rate.

25. Provide the ordinance or resolution of the city council or similar governing body in which the proposed rate adjustment was approved.

26. Provide the minutes of each city council meeting in 2018 and 2019 in which a proposed rate adjustment to Central City's wholesale customers was discussed.

27. Provide a copy of all correspondence, electronic mail messages, or other written communications between Central City and its wholesale customers since January 1, 2018, regarding revisions to Central City's wholesale rate.

28. Provide all contracts, if any, for water service between Central City, Muhlenberg District, or Muhlenberg District #3 that have not been filed with the Commission.

29. a. State the annual effect of the proposed rate adjustment on Central City's revenues from wholesale water service to each of its wholesale water service customers.

b. Show all calculations made and state all assumptions used to derive the response to Item 29(a). Provide this in Excel spreadsheet format with all rows and columns accessible and formulas unhidden.

30. Provide the following information concerning the costs for the preparation of this case:

a. A detailed schedule of expenses incurred to date for the following categories:

- (1) Accounting;
- (2) Engineering;
- (3) Legal;
- (4) Consultants; and
- (5) Other Expenses (Identify separately).

b. For each category, the schedule should include the date of each transaction, check number or other document references, the vendor, the hours worked, the rates per hour, amount, a description of the services performed, and the account number in which the expenditure was recorded. Provide copies of contracts or other documentation that support charges incurred in the preparation of this case. Identify any costs incurred for this case that occurred during the base period.

c. An itemized estimate of the total cost to be incurred for this case. Expenses should be broken down into the same categories as identified in (a) above, with an

estimate of the hours to be worked and the rates per hour. Include a detailed explanation of how the estimate was determined, along with all supporting workpapers and calculations.

d. In the manner requested in (a) above, provide the monthly updates of the actual costs incurred in conjunction with this rate case.

31. Refer to the protest letters of Muhlenberg District and Muhlenberg District #3 (protest letters), Item 1. Also, refer to the Water Purchase Contracts, paragraph 13. Explain how the proposed rate modification complies with paragraph 13 of the Water Purchase Contracts.

32. Refer to the protest letters, Item 2. Also, refer to the Water Purchase Contracts, paragraph 14. Explain whether Central City has complied with paragraph 14 of the Water Purchase Contracts.

33. Refer to the protest letters, Item 3. Also, refer to the Water Purchase Contracts, paragraph 15. Explain how the proposed effective date complies with paragraph 15 of the Water Purchase Contracts.

34. Refer to the protest letters, Item 4. Also, refer to the Water Purchase Contract, paragraph 16. Explain whether the Joint Planning Committee (Committee) established by paragraph 16 of the Water Purchase Contracts is still active. If so, explain why the Committee has not met in over 18 months.

35. Refer to the protest letters, Item 6. Provide a description of the construction project the RD funds will be used to construct and explain in detail how the project is related to Central City's ability to provide wholesale water service.

36. Refer to the protest letters, Item 7. Explain whether Central City is actively pursuing the proposed RD project.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2019-00260 DATED **JUL 30 2019**

Requests for intervention shall be filed no later than08/14/2019

Initial requests for information to Central City
shall be filed no later than.....08/21/2019

Central City shall file responses to
initial requests for information no later than.....09/04/2019

Supplemental requests for information to
Central City shall be filed no later than09/13/2019

Central City shall file responses to
supplemental requests for information no later than.....09/23/2019

Intervenor Testimony, if any, in verified prepared
form shall be filed no later than.....09/30/2019

All requests for information to Intervenors shall
be filed no later than..... 10/10/2019

Intervenors shall file responses to requests for
information no later than..... 10/17/2019

Central City shall file, in verified form, its rebuttal
testimony no later than..... 10/24/2019

Central City or any Intervenor shall request either a
hearing or that the case be submitted for decision
based on the record no later than 10/31/2019

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