

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GRAVES COUNTY WATER)	CASE NO.
DISTRICT FOR AN ALTERNATIVE RATE)	2018-00429
ADJUSTMENT)	

ORDER

On December 27, 2018, Graves County Water District (Graves District) tendered an application (Application) with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. On December 28, 2018, Graves District was notified that its Application was rejected as deficient. Graves District corrected its filing deficiencies, and the Application was deemed filed on January 3, 2019. In its Application, Graves District requested rates that would increase annual water sales revenues by \$303,023, a 20.00 percent increase to pro forma present rate water sales revenues.

To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated January 23, 2019, which, among other things, required the Commission Staff (Staff) to file a report containing its findings regarding Graves District's Application. Subsequent to the initial procedural schedule, an amended procedural schedule was issued on May 5, 2019, requiring Staff to file a report no later than June 12, 2019. There are no intervenors in this proceeding.

Pursuant to the amended procedural Order, on June 10, 2019, Staff issued a report (Report) summarizing its findings regarding Graves District's requested rate

adjustment. In its Report, Staff found that Graves District's adjusted test-year operations support an Overall Revenue Requirement of \$1,969,075 and that an annual revenue increase of \$233,647, or 14.17 percent, is necessary to generate the Overall Revenue Requirement. The Report also recommended that the expenses anticipated to be incurred by Graves District for water loss detection and repair be recovered through a \$3.20 per customer monthly surcharge rather than being recovered through base rates as proposed by Graves District.

On June 21, 2019, Graves District filed with the Commission its comments on Staff's Report. Graves District accepted the findings and recommendations contained in Staff's Report, including the recommended 14.17 percent increase. Additionally, Graves District requested to implement the water loss surcharge in two phases by charging a monthly surcharge of \$2.00 per customer for the first 12-months and then charging a monthly surcharge of \$3.20 per customer as recommended in Staff's report. Graves District waived its right to a formal hearing and requested that the Commission issue an Order approving the Staff Report and rate increase as soon as possible. With its comments, Graves District did not request that an informal conference be held.¹

On July 31, 2019, Graves District filed a motion requesting to implement the rates, but not the water loss surcharge, recommended in the Staff Report. By Order entered August 6, 2019, the Commission approved Graves District to implement the rates recommended in the Staff Report, subject to refund.

A formal hearing was held on August 6, 2019, to develop the record regarding Graves District's comprehensive water loss detection and repair plan. From the bench,

¹ Letter from Graves District (filed June 21, 2019).

the Commission granted Graves District request for a deviation from the hearing notice requirements in 807 KAR 5:076, Section 12. Graves District provided testimony on its comprehensive plan, which has an estimated cost higher than the plan included in the Application. From the bench, the Commission granted Graves District's request to supplement its proposal for the water loss surcharge with a more detailed plan with a higher cost to be recovered over a longer period. On August 19, 2019, Graves District filed a supplemental proposal for a water loss detection and repair surcharge (Supplemental Proposal).

BACKGROUND

Graves District is a water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 4,759 customers in Carlisle County and Graves County, Kentucky.²

TEST PERIOD

The calendar year ended December 31, 2017, was used as the test year to determine the reasonableness of Graves District's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. As noted in the Staff Report, Graves District's test-year water loss was 28.5252 percent. Accordingly, Staff reduced test-year expenses by \$46,371 to account for the 13.5252 percent excess water loss.³

² *Annual Report of Graves District to the Public Service Commission for the Calendar Year Ended December 31, 2017 (Annual Report)* at 12 and 48.

³ Staff Report at 10.

WATER LOSS DETECTION AND REPAIR SURCHARGE

Graves District initially requested an increase of \$136,952 for labor, transportation costs, and materials to establish a two-person crew dedicated to searching for and repairing water leaks.⁴ The Staff Report recommended that a \$3.20 monthly surcharge be established that would produce annual revenues of \$183,323 to recover the cost of the proposed water leak detection and repair program.⁵ During the August 6, 2019 hearing, Graves District provided testimony that the water leak detection and repair program as initially proposed was limited in scope and that the scope needed to be expanded to fully address and resolve water leaks. Therefore, the Commission authorized Graves District to file the Supplemental Proposal that detailed the expanded scope and higher costs of its water loss detection and repair program compared to the program included in its rate application.

In the Supplemental Proposal, Graves District calculated a monthly surcharge of \$5.00 for a term of 72 months. The surcharge would produce total revenues of \$1,721,160 and could only be used for the water loss detection and repair items identified in the Supplemental Proposal. Graves District's Supplemental Proposal would: (1) purchase equipment to create 35 District Metered Areas (DMAs) that would permit water leaks to be isolated and resolved; a leak detection listening device; and a hydro-excavator truck, which allows for better damage and safety control, and reduces the response time to repair leaks. Graves District also proposed that certain conditions be imposed for the monthly surcharge.

⁴ Application at Exhibit 4d.

⁵ Staff Report at 12.

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes Graves District's pro forma income statement as follows:

	<u>2017 Annual Report</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 1,604,051	\$ 133,303	\$ 1,737,354
Operating Expenses	<u>1,852,378</u>	<u>(43,881)</u>	<u>1,808,497</u>
Net Operating Income	<u>\$ (248,327)</u>	<u>\$ 177,184</u>	<u>\$ (71,143)</u>

MODIFICATIONS TO STAFF'S FINDINGS

Graves District proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In its Report, Staff proposed additional adjustments. The Commission accepts the findings contained in the Staff Report except with respect to the water loss detection and repair plan and the surcharge to recover those expenses.

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Graves District requires an increase in revenues of \$233,647, or 14.17 percent above pro forma present rate revenues, as shown below:

Pro Forma Operating Expenses	\$ 1,808,497
Plus: Average Annual Principal and Interest Payments	133,814
Additional Working Capital	<u>26,763</u>
Overall Revenue Requirement	1,969,075
Less: Other Operating Revenue	(88,937)
Interest & Nonutility Income	<u>1,926</u>
Revenue Required from Rates	1,882,064
Less: Pro Forma Present Rate Service Revenues	<u>(1,648,417)</u>
Required Revenue Increase	<u>\$ 233,647</u>
Percentage Increase	<u>14.17%</u>

RATE DESIGN

Graves District's current tariff includes three rate structures as a result of mergers with Hickory Water District and Sedalia Water District. Graves District proposed a unified general service rate structure for all of its retail customers in this application. A unified general service rate structure will result in similarly situated customers being charged the same rate. The Commission finds that a unified general service rate structure is appropriate for the merged Graves District. The unified general service rates will not impact the merged Graves District retail customers equally because all customers are not currently paying the same rates.

The unified general service rates will increase the average monthly residential bill for 4,000 gallons of water as shown below.

Monthly Bill	Staff			Percentage Increase
	Current Rates	Proposed Rates	Increase	
Graves Co.	\$ 24.09	\$ 27.51	\$ 3.42	14.20%
Sedalia	\$ 22.98	\$ 27.51	\$ 4.53	19.71%
Hickory	\$ 20.67	\$ 27.51	\$ 6.84	33.09%

In addition to approving the unified general service rates, the Commission also approves the recommendation in the Staff Report for a debt surcharge of \$1.56 per month for the customers served in the Hickory area until June 2021. This debt surcharge is necessary to ensure that the bonded indebtedness issued by the Hickory Water District prior to its merger with Graves District is retired from revenues collected from the Hickory area as required by KRS 74.363(4). All of the debt surcharge collections should be deposited into a separate interest-bearing account from which disbursements will only be made for the purpose of retiring the existing Hickory indebtedness. In the event that the balance in the surcharge account is insufficient to pay the entire indebtedness, the surcharge may be extended beyond June 2021 by a tariff filing. Similarly, if the balance is in excess of the indebtedness, a tariff filing should be made to discontinue the surcharge prior to June 2021. Graves District should include as a part of its Annual Report filed with the Commission a surcharge summary report that includes the amount of surcharge billings and collections for each month; a list of loan payments made during the year that show principal and interest payments separately; and copies of monthly bank statements for the surcharge account.

TARIFF

The Commission finds that Graves District provides temporary service to customers through a 3-inch meter and bills customers based on the monthly 3-inch meter rate in Graves District's tariff. Graves District's tariff does not fully set out the policy and procedures for the provision of temporary service. The monthly 3-inch meter rate in the tariff does not coincide with Graves District general service rate structure. Currently, Graves District has no general service customers that are served with a 3-

inch meter. Graves District should revise its tariff to fully establish the criteria concerning the temporary service provided to its customers. Graves District should revise the monthly general service rate for 3-inch meter customers in its tariff to coincide with the rest of Graves District's rate structure.

UNAUTHORIZED DEBT

As discussed in the Staff Report, during the processing of this case Staff discovered that Graves District has an outstanding \$100,000 loan payable to FNB Bank that was not authorized by the Commission. The loan was entered into on October 17, 2016, and the maturity date is October 17, 2026. The loan proceeds were used to fund capital projects and purchase capital assets. KRS 278.300(1) states that no utility shall issue any securities or evidence of indebtedness until it has been authorized to do so by order of the Commission. The Commission finds that a separate action should be commenced for the purpose of requiring Graves District's Board of Commissioners to show cause why they should not be subject to the penalties in KRS 278.990 for violating KRS 278.300(1).

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The findings contained in the Staff Report, except with respect to the water loss detection and repair expenses and the surcharge to recover those expenses, are supported by the evidence of record and are reasonable.
2. The Commission has historically used a DSC method to calculate the revenue requirement for water districts or associations with outstanding long-term debt.

Application of the Commission's DSC method to Graves District's pro forma operations results in an Overall Revenue Requirement of \$1,969,075. A revenue increase of \$233,647 from water service rates is necessary to generate the Overall Revenue Requirement.

3. The water service rates proposed by Graves District should be denied.

4. The water service rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved.

5. The use of a monthly surcharge assessed over 72-months is a reasonable means of funding Graves District's unaccounted for water loss reduction efforts.

6. Graves District's water loss detection and repair plan as set forth in the Supplemental Proposal contains reasonable provisions that are incorporated in this Order and some provisions that are unreasonable. The Commission finds that the Supplemental Proposal is reasonable, with the exception of the condition that the surcharge be subject to a biennial review or that Graves District may use the surcharge proceeds for other purposes related to water loss detection and repair upon providing the Commission 30 days prior notice and the Commission issuing a written objection within the 30-day notice period, which are rejected as unreasonable.

7. Graves District should be authorized to assess a monthly surcharge of \$5.00 per customer for 72 months, or until \$1,721,160.00 has been assessed, whichever occurs first, to fund its unaccounted-for water loss reduction efforts as set forth in its Supplemental Proposal filed on August 19, 2019, subject to the conditions set forth in finding paragraph 8.

8. The Commission should open a separate case to monitor the surcharge proceeds collection and expenses, with the following conditions.

a. Within 90 days of the date of this Order, Graves District should file with the Commission a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. Graves District should deposit surcharge collections in a separate interest-bearing account.

c. Graves District should file monthly activity reports with the Commission that include a statement of monthly surcharge billings and collections; a monthly surcharge bank statement; a list of each payment from the account, its payee, and a description of the purpose; and invoices supporting each payment.

d. Graves District should file monthly water-loss reports with the Commission.

e. Surcharge proceeds should not be used to reimburse Graves District for unaccounted-for water loss reduction expenses incurred prior to the date of this Order.

f. Graves District's surcharge and water loss detection and repair program is subject to annual Commission reviews that will examine the progress of the water loss detection and repair program and expenditures made with surcharge proceeds and consider adjustments to the program and the surcharge amount.

g. Graves District's failure to comply with any conditions attached to its assessment of the surcharge will result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

IT IS THEREFORE ORDERED that:

1. Except where they contradict or conflict with the findings contained in this Order, the findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The general service rates proposed by Graves District are denied.

3. The rates set forth in the Appendix to this Order are approved for services rendered by Graves District on and after the date of this Order.

4. Collections of the debt surcharge for the existing Hickory indebtedness shall be deposited into a separate interest-bearing account and disbursements will only be made for the purpose of retiring the existing Hickory indebtedness.

5. If the balance in the Hickory debt surcharge account is insufficient to pay the entire indebtedness, Graves District shall file a tariff for the purpose of extending the surcharge beyond June 2021.

6. If the Hickory debt surcharge collections balance exceeds the amount of indebtedness prior to June 2021, Graves District shall file a tariff filing to discontinue the surcharge.

7. Graves District shall include as a part of its Annual Report filed with the Commission a surcharge summary report that includes: the amount of surcharge billings and collections for each month; a list of loan payments made during the year that show

principal and interest payments separately; and copies of monthly bank statements for the surcharge account.

8. Graves District's water loss detection and repair plan as set forth in its filing on August 19, 2019 is approved, with the exception of the condition that the surcharge be subject to a biennial review or that Graves District may use the surcharge proceeds for other purposes related to water loss detection and repair upon providing the Commission 30 days prior notice and the Commission issuing a written objection within the 30-day notice period, which are denied.

9. Graves District is authorized to assess a monthly surcharge of \$5.00 per customer for service rendered on and after October 1, 2019, and continuing for 72 months or until the total amount of the surcharge assessed equals \$1,721,600.00, whichever occurs first, subject to the conditions set forth in ordering paragraph 10

10. The Commission shall open a separate proceeding, Case No. 2019-00347,⁶ to monitor the surcharge proceeds collection and expenses, subject to the following conditions:

a. Within 90 days of the date of this Order, Graves District shall file with the Commission a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. Graves District shall deposit surcharge collections in a separate interest-bearing account.

⁶ Case No. 2019-00347, *Graves County Water District's Unaccounted-For Water Loss Reduction Plan, Surcharge, and Monitoring* (Ky. PSC Sept. 30, 2019).

c. On the fifteenth day of each month for 72 months from the date of this Order or until all surcharge proceeds are expended, Graves District shall file with the commission a monthly activity report that includes a statement of monthly surcharge billings and collections; a monthly surcharge bank statement; a list of each payment from the account, its payee, and a description of the purpose; and invoices supporting each payment.

d. On the fifteenth day of each month for 72 months from the date of this Order or until all surcharge proceeds are expended, Graves District shall file a monthly water-loss report with the Commission.⁷

e. Graves District shall not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses incurred prior to the date of Order.

f. Graves District shall consider all surcharge collections as contributions and shall account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

g. Graves District shall debit monthly billings for the surcharge to customers accounts receivable and credit the contribution account.

h. When Graves District collects the surcharge from the customers, it shall debit special funds and credit the customer account.

i. Graves District shall not spend any funds beyond those authorized herein from the separate interest-bearing surcharge account until further Orders of this Commission.

⁷ The report format is found at <https://psc.ky.gov/Home/UtilForms> under "Water Use & Loss Calculations (Excel format)."

j. One year after the date of entry of this Order, and annually thereafter, Graves District shall file a schedule of the estimated and actual progress of the water loss detection and repair program, and estimated and actual expenditures made with surcharge proceeds, for the purpose of evaluating whether adjustments to the program or to the surcharge amount are required.

k. Graves District's failure to comply with the conditions set forth in ordering paragraph 10 shall result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

11. Within 20 days of the date of this Order, Graves District shall file with this Commission, using the Commission's Electronic Tariff Filing System, revised tariff sheets fully setting out the criteria concerning the provision of a temporary service and establishing a general service rate for customers that receive monthly service through a three-inch meter that corresponds to Graves District's current rate design.

12. Within 20 days of the date of entry of this Order, Graves District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

13. Graves District shall use the mid-point of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the Application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or

retained earnings should be made to account for this change in the accounting estimate.


14. This case is closed and removed from the Commission's docket.

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By the Commission

ENTERED
SEP 30 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director
for Brent R. Pinson

Case No. 2018-00429

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
 COMMISSION IN CASE NO. 2018-00429 DATED **SEP 30 2019**

The following rates and charges are prescribed for the customers in the area served by Graves County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

			<u>5/8 x 3/4-Inch Meter</u>	
First	2,000	Gallons	\$ 15.45	Minimum bill
Next	8,000	Gallons	6.03	per 1,000 Gallons
Next	10,000	Gallons	5.40	per 1,000 Gallons
Next	30,000	Gallons	4.77	per 1,000 Gallons
All Over	50,000	Gallons	4.14	per 1,000 Gallons

1-Inch Meter

First	5,000	Gallons	\$ 33.53	Minimum bill
Next	5,000	Gallons	6.03	per 1,000 Gallons
Next	10,000	Gallons	5.40	per 1,000 Gallons
Next	30,000	Gallons	4.77	per 1,000 Gallons
All Over	50,000	Gallons	4.14	per 1,000 Gallons

1.5-Inch Meter

First	7,500	Gallons	\$ 48.62	Minimum bill
Next	2,500	Gallons	6.03	per 1,000 Gallons
Next	10,000	Gallons	5.40	per 1,000 Gallons
Next	30,000	Gallons	4.77	per 1,000 Gallons
All Over	50,000	Gallons	4.14	per 1,000 Gallons

2-Inch Meter

First	20,000	Gallons	\$117.68	Minimum bill
Next	30,000	Gallons	4.77	per 1,000 Gallons
All Over	50,000	Gallons	4.14	per 1,000 Gallons

3-Inch Meter

First	30,000	Gallons	\$260.79	Minimum bill
Next	20,000	Gallons	4.77	per 1,000 Gallons
All Over	50,000	Gallons	4.14	per 1,000 Gallons

4-Inch Meter

First	50,000	Gallons	\$260.85	Minimum bill
All Over	50,000	Gallons	4.14	per 1,000 Gallons

Wholesale Rate \$ 3.07 per 1,000 Gallons

Monthly Surcharge for former Hickory area \$ 1.56 per customer

Monthly Surcharge for Water Loss Detection Program \$ 5.00 per customer

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