

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DEXTER-)	CASE NO.
ALMO HEIGHTS WATER DISTRICT FOR)	2019-00354
ALTERNATIVE RATE ADJUSTMENT)	

ORDER

On October 14, 2019, Dexter-Almo Heights District tendered an application (Application) to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076, and it was accepted as filed. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated November 13, 2019. Staff issued a data request on January 15, 2020, to collect additional information regarding Dexter-Almo Heights District's financial records. Finding the Dexter-Almo Heights District would need additional time to respond to the data request, the Commission issued an Order on January 15, 2020, amending its November 13, 2019 Order, and allowing for additional time for Dexter-Almo Heights District to respond and to allow Staff to complete this report. In its Application, Dexter-Almo Heights District requested an overall revenue requirement of \$374,471, which is a 24.16 percent increase over current revenues. The proposed rates would increase the monthly bill of a typical residential customer purchasing 3,790 gallons per month by \$6.83, from \$28.25 to \$35.08, or approximately 24.18 percent.

Pursuant to the procedural Order, on March 2, 2020, Commission Staff (Staff) issued a report (Report) summarizing its findings regarding Dexter-Almo Heights District's

requested rate adjustment. In its Report, Staff found that Dexter-Almo Heights District's adjusted test-year operations support an overall revenue requirement of \$346,734 and that an annual revenue increase of \$66,979, or 23.93 percent, is necessary to generate the overall revenue requirement.

On December 3, 2019, Dexter-Almo Heights District filed with the Commission its comments on Staff's report, wherein it accepted Staff's findings but requested that Staff incorporate additional legal expenses incurred since the filing of its application. With its comments, Dexter-Almo Heights District did not request that an informal conference or formal hearing be held.¹

Subsequent to Dexter-Almo Heights District filing its comments on Staff's report, on March 31, 2020, an amended Staff Report was issued finding that Dexter-Almo Heights District's adjusted test-year operations support an overall revenue requirement of \$347,365, and that an annual revenue increase of \$67,610, or 24.16 percent, is necessary to generate the overall revenue requirement.

On April 1, 2020, Dexter-Almo Heights District filed its comments to the amended Staff Report, accepting Staff's new findings.² Pursuant to the March 31, 2020 Order issuing the amended Staff Report report, Dexter-Almo was to renotify its customers if it were to accept the higher rate. On May 1, 2020, Dexter-Almo Heights District filed additional comments declining the amended rates calculated by Staff and requesting to place the rates originally proposed in its Application into effect on the grounds that the

¹ Dexter-Almo Heights District Response to Commission Staff Report.

² *Id.*

cost of renoticing customers would outweigh the slightly higher revenue from Staff's calculated rates.³

WATER LOSS

The Commission notes that in its 2018 Annual Report, Dexter-Almo Heights District reported a water loss of 16.51 percent. Commission Regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Accordingly, Staff reduced test-year purchased water expense by \$2,079, shown below.

Account	Test Year	Times: Excess Water Loss	Pro Forma Adjustment
Purchased Water	\$ 137,672	-1.51%	\$ (2,079)

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Dexter-Almo Heights District to pursue reasonable actions to reduce its unaccounted-for water loss.⁴ Failure by Dexter-Almo Heights District to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

³ Dexter-Almo Heights District Response to Order of 3/31/2020.

⁴ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Mar. 12, 2019) (investigating jurisdictional water utilities that report over 35 percent water loss in their annual reports on file with the Commission).

BACKGROUND

Dexter-Almo Heights 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 818 customers in Calloway County, Kentucky.⁵ Dexter-Almo Heights District’s last application for rate adjustment was approximately three years ago in Case No. 2017-00191.⁶

TEST PERIOD

The calendar year ended December 31, 2018, was used as the test year to determine the reasonableness of Dexter-Almo Height District’s existing and proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

Based on the findings of the amended Staff Report, Dexter-Almo Heights District’s pro forma operational revenue is as follows:

	<u>2016 Annual Report</u>	<u>Rate Study Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues: Total Operating Revenues	\$ 275,034	\$ 6,852	\$ 281,886
Operating Expenses: Utility Operating Expenses	<u>302,690</u>	<u>2,991</u>	<u>305,681</u>
Net Utility Operating Income	<u>\$ (27,656)</u>	<u>\$ 3,861</u>	<u>\$ (23,795)</u>

STAFF’S FINDINGS

In its Application, Dexter-Almo Heights District proposed several adjustments to its test-year operations. In its Report, Staff proposed adjustments to both revenues and expenses. The Commission accepts the findings contained in Staff’s amended Report.

⁵ *Annual Report of Dexter-Almo Heights Water District to the Public Service Commission for the Calendar Year Ended December 31, 2018 (Annual Report)* at 12 and 48.

⁶ Case No. 2019-00191, *Electronic Application of Dexter-Almo Heights Water District for Alternative Rate Adjustment*, (Ky. PSC Nov. 21, 2017).

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Dexter-Almo Heights District requires an increase in revenues of \$67,610, or 24.16 percent above pro forma present rate revenues as shown below:

Operating Expenses	\$ 305,681
Divided by: Operating Ratio	<u>88%</u>
Overall Revenue Requirement	347,365
Add: Interest Expense	2,526
Less: Other Operating Revenue	(2,025)
Non-operating Revenue	(359)
Interest Income	<u>(36)</u>
Revenue Requirement - Water Rates	347,471
Less: Normalized Revenue from Water Service	<u>(279,861)</u>
Required Revenue Increase	<u>\$ 67,610</u>
Percentage Increase	<u>24.16%</u>

DEXTER-ALMO HEIGHTS DISTRICT REQUEST

On May 1, 2020 Dexter-Almo Heights District filed an additional response to the Commission's March 31, 2020 amended Staff Report rescinding its acceptance of Staff's recalculated rates and requesting authorization to implement the rates originally set forth in their application citing that the additional revenue would not outweigh the expense to renotify their customers. Staff found that the rates proposed in the amended Staff report would generate an additional \$45 in revenues annually based on the billing analysis provided in Dexter-Almo Heights District's Application.⁷ The Commission finds Dexter-Almo Heights District's request reasonable but notes that such a request should have

⁷ \$347,415.83 - \$347,370.31 = \$45.52.

been filed as the initial response to the Commission's March 31, 2020 amended Staff Report, not 30 days later.

RATE DESIGN

The Commission finds that in the absence of a cost-of-service study the across-the-board method as proposed by Staff is an appropriate and equitable method to allocate the increased cost to Dexter-Almo Heights District's customers. The rates in the Appendix attached to this Order will produce water rate revenues of approximately \$347,471. The revenue required is determined to be reasonable by the Commission herein. The monthly bill of a typical residential customer using 3,790 gallons will increase from \$28.25 to \$35.08, an increase of \$6.83, or approximately 24.18 percent.

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

1. The water service rates proposed by Dexter-Almo Heights District should be approved.
2. The water service rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

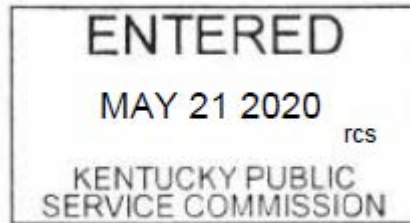
1. The general service rates proposed by Dexter-Almo Heights District are approved.
2. The rates set forth in the Appendix to this Order are approved for services rendered by Dexter-Almo Heights District on and after the date of this Order.
3. Within 20 days of the date of this Order, Dexter-Almo Heights 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.

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

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By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2019-00354 DATED MAY 21 2020

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

Monthly Water Rates

First 2,000 Gallons	\$20.56	Minimum bill
Next 3,000 Gallons	8.11	per 1,000 Gallons
Next 5,000 Gallons	7.17	per 1,000 Gallons
Next 10,000 Gallons	6.77	per 1,000 Gallons
Over 20,000 Gallons	5.44	per 1,000 Gallons

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