

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BIG SANDY)	
WATER DISTRICT FOR AN ADJUSTMENT OF)	CASE NO.
ITS WATER RATES PURSUANT TO 807 KAR)	2022-00044
5:076)	

ORDER

On March 25, 2022, Big Sandy Water District (Big Sandy District) filed an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. Big Sandy District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2012-00152.¹ In its application, Big Sandy District requested rates that would increase annual water sales revenues by \$215,620 an 8.18 percent across-the-board 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 May 6, 2022. Commission Staff issued its first round of formal discovery on May 17, 2022 (Staff's First Request). On May 23, 2022, Big Sandy District filed a motion to substitute and supplement exhibits in the application to correct errors that were discovered and to supplement the application with an additional exhibit to provide documentation of its rate case expenses. In accordance with 807 KAR 5:001, Section 4(5), on June 24, 2022, the Commission found that good cause existed to grant

¹ Case No. 2012-00152, *Application of Big Sandy Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Mar. 8, 2013).

the motion in order to have a more complete and accurate record. Big Sandy District filed its responses to Staff's First Request on June 8, 2022. Commission Staff issued its second round of formal discovery on June 21, 2022 (Staff's Second Request), and Big Sandy District filed its responses on July 6, 2022.

In the Commission Staff's Report, Commission Staff found that Big Sandy District's adjusted test-year operations support an overall revenue requirement of \$2,919,714 and that an annual revenue increase of \$226,154, or 8.67 percent to the retail base rates, is necessary to generate the overall revenue requirement.

On August 18, 2022, Big Sandy District filed with the Commission its comments on the Commission Staff's Report, in which it accepted all adjustments contained in Commission Staff's Report but indicated that such acceptance did not constitute agreement with them nor did it waive Big Sandy District's right to contest or dispute the findings in future proceedings. With its comments, Big Sandy District did not request that a conference or hearing be held, but requested that the Commission issue a decision no later than October 1, 2022.²

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, Big Sandy District is allowed to charge its customers "only fair, just and reasonable

² Big Sandy District's Response to Staff Report and Motion to Submit Case (filed Aug 18, 2022).

rates.”³ Further, Big Sandy District bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

WATER LOSS

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 the total water produced and purchased, excluding water consumed by a utility in its own operations. In Big Sandy District’s 2020 Annual Report, Big Sandy District reported a water loss of 44.34 percent.⁴ At 44.34 percent water loss, the annual cost to Big Sandy District of water loss above the allowable 15 percent is \$369,638⁵ while the total annual cost of water loss to Big Sandy District is \$557,922.⁶

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. In recognition

³ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm’n of Kentucky v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

⁴ *Annual Report of Big Sandy District to the Public Service Commission for the Year Ended December 31, 2020* (2020 Annual Report) at 57.

⁵

	<u>Purchased Water</u>	<u>Purchased Power</u>	<u>Total</u>
Disallowed Water Loss (gallons)	121,487,570	121,4887,570	
Cost Per 1,000 Gallons	2.802	2.802	
Cost of Water Loss	\$340,384	\$29,254	\$ 369,638

This calculation is based upon the revision to purchased water found in the Commission’s Staff Report at 20-21.

⁶

	<u>Purchased Water</u>	<u>Purchased Power*</u>	<u>Total</u>
Pro Forma Purchases	\$1,158,790	\$99,591	\$1,258,381
Water Loss Percent	44.34%	44.34%	
Total Water Loss	\$513,767	\$44,155	\$ 557,922

*Test Year \$94,226 plus Kentucky Power rate increase of \$7,856 minus \$2,491 - \$99,591

of this Big Sandy District requested to implement a water loss reduction surcharge in their application as the Commission strongly encourages utilities to pursue reasonable actions to reduce its unaccounted-for water loss.

BACKGROUND

Big Sandy 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 4,715 residential customers, 70 commercial customers, and 23 industrial customers that reside in Boyd, Carter, Johnson, and Lawrence counties, Kentucky.⁷ Big Sandy District does not produce any of its own water; rather, it purchases its water from Rattlesnake Ridge Water District, Canonsburg Water District, the city of Louisa, the city of Ashland, and the city of Kenova, West Virginia.

TEST PERIOD

The calendar year ended December 31, 2020, was used as the test year to determine the reasonableness of Big Sandy District’s existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff’s Report summarized Big Sandy District’s pro forma income statement as follows:

	2020 Test Year	Pro Forma Adjustments	Staff Report Pro Forma
Operating Revenues	\$ 2,689,330	\$ 3,479	\$ 2,692,809
Operating Expenses	<u>3,021,571</u>	<u>(502,092)</u>	<u>2,519,479</u>
Net Operating Income	(332,241)	505,571	173,330
Interest Income	<u>751</u>	=	<u>751</u>

⁷ 2020 Annual Report at 12 and 49.

Income available for Debt Service \$ (331,490) \$ 505,571 \$ 174,081

REVIEW AND MODIFICATIONS TO COMMISSION STAFF'S FINDINGS

Big Sandy District's proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. The Commission accepts the findings contained in the Commission Staff's Report. Regarding any further modifications, the Commission has none.

REVENUE REQUIREMENTS

Billing Analysis Adjustment. In the Commission Staff Report, Commission Staff recommended the Commission accept Big Sandy District's proposed decrease of \$28,970 to Total Metered Water Sales,⁸ to reflect errors in the billing analysis in the application, specifically, errors in the 3-inch meter, 4-inch meter, and the omission of the Wholesale Customer revenue for the test year. The Commission finds that this adjustment is reasonable as an examination of Big Sandy District's billing analysis was completed by Commission Staff and a normalized revenue was based on the information provided.

Late Payment Penalties. In the Commission Staff's Report, Commission Staff recommended accepting Big Sandy District's proposal to normalize late payment penalties to \$57,654, or the three-year average between 2017-2019, to account for the moratorium regarding the collection of late payment fees due to the COVID-19

⁸ Commission Staff's Report at 10, Adjustment A.

pandemic.⁹ Additionally, Commission Staff recommended accepting Big Sandy District's proposal to remove \$12,172 of test year late payment penalties that were misclassified as Other Water Revenues.¹⁰ The Commission finds that this adjustment to normalize the late fee penalties follows Commission precedent,¹¹ is a known and measurable change¹² to Other Water Revenues, is reasonable, and should be accepted. The Commission also finds that the removal of the late payment penalties from Other Water Revenues is reasonable and is accepted.

Other Water Revenues. In the Commission Staff's Report, Commission Staff discussed Big Sandy District's Nonrecurring Charges, in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, are removed. The Commission continues to follow its previous decisions regarding Nonrecurring Charges: personnel are paid during normal business hours and their salaries are recovered through rates.¹³ Allowing a utility to recover the same labor expense twice is not fair, just and reasonable. Therefore, estimated labor costs previously included in

⁹ Commission Staff's Report at 10, Adjustment B.

¹⁰ Commission Staff's Report at 10, Adjustment B.

¹¹ Case No. 2021-00475, *Electronic Application of Carroll County Water District No. 1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

¹² See 807 KAR 5:001, Section 16.1.(a); Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue Its Evidence of Indebtedness Therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

¹³ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

determining the amount of Nonrecurring Charges shall be eliminated from the charges. The Commission finds that the calculation of Nonrecurring Charges shall be revised and only the marginal costs related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. The Commission requires that charges be directly related to the actual cost incurred to provide the service. It is unreasonable to allocate an expense already incurred as a day-to-day cost of maintaining a system, such as the salary of a distribution operator, to a nonrecurring service such as the connection and reconnection of a meter during normal working hours. The perceived unfairness from removal of these costs does not outweigh the mismatch of costs and revenues. This approach to ratemaking is entirely consistent with the Commission's history of ensuring that rates reflect, to a reasonable degree, the principle of cost causation while simultaneously taking into account the health of the utility, and the ability of the utility to provide the adequate, efficient, and reasonable provision of service. The implementation of rates that significantly deviate from the actions and expenses underlying the service provided can create material issues with a utility's ability to meet its approved revenue requirement, particularly a utility with razor thin margins. In keeping with precedent, the Commission finds this adjustment to be reasonable.

The nonrecurring charges shall each be reduced by the estimated labor costs stated in the cost justification sheets. The Commission finds the revised nonrecurring charges set out in Appendix B and the adjustment of (\$3,651) to Other Water Revenue is reasonable.

Commission Staff also recommended accepting Big Sandy District's proposal to normalize the reconnection fees similarly to the late fee penalties to the three-year

average noting that the test year was not representative of a normal year. The Commission finds that this adjustment to normalize reconnection fees is similar to how late fee penalties are normalized and should be accepted.

After reclassifying the late payment penalties of \$12,172 as described above, applying the adjustment of (\$3,651) that results from the appropriate nonrecurring charge calculation, the normalization of reconnection fees, the reclassification of Rents from Water Property, and other reconciliation adjustments,¹⁴ Commission Staff determined that the pro forma Other Water Revenues to be \$26,754. The Commission also finds that the normalization of Other Water Revenues, as calculated by Commission Staff is reasonable, and should be accepted.

Salaries and Wages – Employees. In the Commission Staff’s Report, Commission Staff recommended accepting Big Sandy District’s proposal to increase Salaries and Wages \$18,737 to reflect the net effect of vacancies, new hires, and authorized wage increases after the test year.¹⁵ The Commission finds that this adjustment is a known and measurable change to Salaries and Wages, is reasonable, and is accepted.

Capitalization of Cost of Customer Taps. In the Commission Staff’s Report, Commission Staff recommended that the Commission accept Big Sandy District’s proposed reduction of expenses associated with the installation of customer taps and installed meters.¹⁶ Specifically, the adjustments were a decrease to test year Salaries and Wages – Employees of \$12,445, a decrease to Employee Pensions and Benefits of

¹⁴ See Commission Staff’s Report, footnote 32.

¹⁵ Commission Staff’s Report at 12-13, Adjustment D.

¹⁶ Commission Staff’s Report at 13-14, Adjustment E.

\$7,904, and a decrease of \$99,192 to Materials and Supplies for a total pro forma expense decrease of \$119,541. The Commission finds that the adjustments are known and measurable changes, are reasonable, and are accepted.

Salaries and Wages – Bonus Payment. In the Commission Staff's Report, Commission Staff recommended excluding bonus payments and corresponding payroll taxes and benefits totaling \$3,635, noting that items that are considered a fringe benefit should be removed.¹⁷ Commission Staff also noted the Attorney General of the Commonwealth of Kentucky's statement that a water district may only make expenditures that are consistent with its statutory purpose to furnish a water supply.¹⁸ The Commission agrees that fringe benefits such as bonus payments are not a direct expenditure for the water district's purpose to furnish a water supply and finds that expenses related to fringe benefits should be removed, and the adjustment should be accepted.

Salaries and Wages – Officers. In the Commission Staff's Report, Commission Staff recommended accepting Big Sandy District's proposed increase to Salaries and Wages – Officers of \$2,000 to reflect an increase in compensation for a newer commissioner who had completed the mandatory training subsequent to the test year.¹⁹ The Commission finds that this adjustment is a known and measurable change, is reasonable, and is accepted.

Employee Benefits. In the application, Big Sandy District proposed an adjustment of \$20,024 to reflect the current number of employees and the current employer

¹⁷ Commission Staff's Report at 14-15, Adjustment F.

¹⁸ OAG 92-43 (Mar. 19, 1992) and 1956 OAG 36.219.

¹⁹ Commission Staff's Report at 15-16, Adjustment G.

sponsored share of health, dental and life insurance, and to adjust the employer sponsored portion of dental insurance premiums. Commission Staff recommended that the Commission accept this proposed adjustment as it meets Commission precedent regarding premiums paid for health and dental benefits.²⁰ It was also noted that Big Sandy District's proposed adjustment removed \$1,485 of dental insurance premiums that were paid on behalf of three of Big Sandy District's commissioners. The Commission finds that this adjustment to Employee Benefits is a known and measurable change, is reasonable, and is accepted.

The Commission has previously found that members of a water district's board of commissioners are not entitled to receive any compensation other than that specifically authorized under KRS chapter 74.²¹ Specifically, KRS 74.020(6) provides that each water district commissioner may receive an annual salary that shall not exceed \$3,600, "which shall be paid out of the water district fund," except that each commissioner who completes six instructional hours of water district management training in each calendar year may receive up to \$6,000 in that calendar year.²² Further, KRS 74.050, which imposes additional duties on the commissioner who is elected treasurer of a water district's board, states that "[i]n addition to the compensation for commissioners as set out in KRS 74.020, as compensation for his or her services the treasurer shall receive an amount not to exceed two hundred dollars (\$200) per year." As the Commission articulated in its final Order in Case No. 2019-00268, by specifically authorizing and limiting the "salar[ies]" and

²⁰ Commission Staff's Report at 16-19, Adjustment H.

²¹ Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020).

²² KRS 74.020(6).

“compensation” commissioners are entitled to receive, KRS 74.020(6) and KRS 74.050 appear to indicate that the Legislature intended to limit the total compensation for water district commissioners to the amounts specified by statute.²³

The case record reflects that Big Sandy District’s commissioners are paid the maximum amount allowable under KRS 74.020(6).²⁴ In addition to paying each of its commissioners \$6,000 per year, Big Sandy District also provided three of its commissioners with dental insurance benefits at an additional cost of \$1,485. Since the three commissioners receiving the dental insurance were also paid the statutory maximum allowable salary that a water district may lawfully pay a commissioner, the dental insurance benefit was in excess of what is permitted under KRS 74.020(6). Therefore, the Commission finds that Big Sandy District shall discontinue providing their water district commissioners any additional compensation other than that permitted by KRS 74.020(6) and KRS 74.050. The total compensation paid to any Big Sandy District commissioner who satisfies the training requirement of KRS 74.020(7) shall not exceed the statutory maximum \$6,000, as provided by KRS 74.020(6).²⁵

County Employees’ Retirement System. In the Commission Staff’s Report, Commission Staff recommended that the Commission accept Big Sandy District’s proposal to decrease the contributions to employee pensions and benefits by \$39,914 to normalize expenses related to Big Sandy District’s contributions to the County

²³ Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020) Order at 22.

²⁴ Application, Exhibit T-2.

²⁵ Pursuant to KRS 74.050, Big Sandy District may provide its treasurer with a maximum salary of \$6,200, if the treasurer meets the training requirement.

Employees' Retirement System.²⁶ The Commission finds that this adjustment is a known and measurable change to test year operations, is reasonable, and is accepted.

Water Loss. Big Sandy District's test year water loss was 44.34 percent.²⁷ Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes, unless the Commission finds an alternative level is reasonable. In the application, Big Sandy District proposed a decrease to Purchased Water and Purchased Power to reflect the cost of excess water loss. In the Commission Staff's Report, Commission Staff recommended a revision to Big Sandy District's proposed adjustments based upon an audit adjustment that impacted the amount of reported expense on the 2020 Annual Report. Based upon the revised calculation, Commission Staff recommended to decrease Purchased Water and Purchased Power expense by \$287,112 and \$21,398, respectively.²⁸ The Commission finds that these adjustments are a known and measurable change to Purchased Water and Purchased Power, are reasonable, and are accepted.

Capital Expenditures. In the Commission Staff's Report, Commission Staff recommended a reduction of \$95,196 for two capital expenditures that were charged to Materials and Supplies and one that was charged to Contractual Services that should have been capitalized.²⁹ The Commission finds that this adjustment is known and measurable change to Capital Expenditures, is reasonable, and is accepted.

²⁶ Commission Staff's Report at 19-20, Adjustment I.

²⁷ 2020 Annual Report at 57.

²⁸ Commission Staff's Report at 20-21, Adjustment J.

²⁹ Commission Staff's Report at 21, Adjustment K.

Contractual Services. In the Commission Staff's Report, Commission Staff recommended accepting Big Sandy District's proposed decrease of \$10,000 for consulting services as the agreement had expired and was not continuing.³⁰ The Commission finds that this adjustment is a known and measurable change to Contractual Services, is reasonable, and is accepted.

Insurance. In the Commission Staff's Report, Commission Staff recommended accepting Big Sandy District's proposed increase of \$5,554 to reflect increased premiums for general liability and workers compensation.³¹ The Commission finds that this adjustment is a known and measurable change to Insurance, is reasonable, and is accepted.

Regulatory Commission Expense. In the Commission Staff's Report, Commission Staff recommended accepting Big Sandy District's proposal to reclassify test year Regulatory Commission Expense of \$4,967 from Miscellaneous Expenses to Taxes Other Than Income. Additionally, Commission Staff recommended accepting Big Sandy District's proposal to further adjust Regulatory Commission Expense so that it represents pro forma rate service revenues. Based upon Commission Staff's required revenue increase, as calculated in the Commission Staff's Report, Commission Staff recommended an increase of \$5,956 to Regulatory Commission Expense to reflect the misclassification and Commission Staff's revenue increase.³² The Commission finds that

³⁰ Commission Staff's Report at 21, Adjustment L.

³¹ Commission Staff's Report at 21-22, Adjustment M.

³² Commission Staff's Report at 22, Adjustment N.

this adjustment is a known and measurable change to Regulatory Commission Expense, is reasonable, and is accepted.

Bad Debt Expense. Due to the COVID-19 pandemic, no bad debt expense was recorded in the test year. Therefore, Big Sandy District proposed an adjustment to reflect the annual average bad debt expense for the years 2017–2021. Commission Staff recommended that the Commission accept a modification to this proposed adjustment and adjust Bad Debt Expense based upon the average for the years 2017–2019 and 2021. Based upon the calculation, Commission Staff recommended an increase of \$19,271.³³ The Commission finds that excluding 2020 from the average and that this adjustment is a known and measurable change to Bad Debt Expense, is reasonable, and is accepted.

Taxes Other than Income – FICA. In the Commission Staff’s Report, Commission Staff recommended to increase Taxes Other than Income by \$1,586 to reflect the FICA taxes based upon Commission Staff’s pro forma wage calculation and the increase of commissioner salaries.³⁴ The Commission finds that this adjustment is a known and measurable change to Taxes Other than Income – FICA, is reasonable, and is accepted.

Amortization. In the Commission Staff’s Report, Commission Staff recommended accepting Big Sandy District’s proposal to amortize rate case expenses over five years. Based upon the actual rate case expense of \$27,239, Commission Staff recommended an adjustment to Amortization expense of \$5,448.³⁵ The Commission finds that this

³³ Commission Staff’s Report at 22, Adjustment O.

³⁴ Commission Staff’s Report at 23, Adjustment P.

³⁵ Commission Staff’s Report at 23, Adjustment Q.

adjustment is a known and measurable change to Amortization, is reasonable, and is accepted.

Depreciation Expense. In Commission Staff's Report, Commission Staff agreed with Big Sandy District's increase to Depreciation Expense of \$859 to reflect the adjustment of the useful life of capital assets to the midpoint of the National Association of Regulatory Utility Commissioners (NARUC) depreciation study.³⁶ The Commission finds that this adjustment is a known and measurable change to Depreciation Expense, is reasonable, and is accepted.

Deprecation – Adjustment for Capitalized Adjustments. In the Commission Staff Report, several capital items, as described above, were identified by Commission Staff; and, as a result, Commission Staff recommended an increase to Depreciation of \$1,953. The Commission finds that this adjustment is a known and measurable change to Deprecation Expense, is reasonable, and is accepted.

Based on the Commission's findings discussed above, the following table summarizes Big Sandy District's adjusted pro forma operations.³⁷

	Staff Report Pro Forma	Commission Adjustments	Final Pro Forma
Operating Revenues	\$ 2,692,809	N/A	\$ 2,692,809
Operating Expenses	<u>2,519,479</u>	<u>N/A</u>	<u>2,519,479</u>
Net Operating Income	173,330	N/A	173,330
Interest Income	<u>751</u>	N/A	<u>751</u>
Income available for Debt Service	\$ <u>174,081</u>	<u>N/A</u>	\$ <u>174,081</u>

³⁶ Commission Staff's Report at 24, Adjustment R.

³⁷ See Appendix A for a complete pro forma income statement.

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Big Sandy District requires an increase in revenues of \$226,154, or 8.67 percent above pro forma present rate revenues, as shown below. This increase is required for Big Sandy District to remain operational and financially sound and have an opportunity to provide adequate, efficient, and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 2,519,479
Plus: Average Annual Principal and Interest Payments	333,529
Additional Working Capital	<u>66,706</u>
Overall Revenue Requirement	2,919,714
Less: Other Operating Revenue	(84,408)
Interest Income	(751)
Revenue Required from Rates	2,834,555
Less: Pro Forma Present Rate Service Revenues	<u>(2,608,401)</u>
Required Revenue Increase	<u>\$ 226,154</u>
Percentage Increase	8.67%

RATE DESIGN

Big Sandy District proposed to increase its monthly retail water service rates evenly across the board by approximately 8.18 percent. Big Sandy District has not performed a cost-of-service study (COSS). Big Sandy District stated that it did not complete a COSS because there has not been any material change in the water system to warrant a COSS.³⁸

³⁸ Big Sandy District's Response to Staff's First Request, Item 7.

The Commission finds that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. In the Commission Staff's Report, Commission Staff followed the method proposed by Big Sandy District and allocated Commission Staff's calculated revenue increase across the board to Big Sandy District's monthly retail water service rates.

In an effort to avoid a significant hardship on Big Sandy District's customers, the Commission finds that a two-year phase-in approach is appropriate. Although applying a two-year phase-in will not allow for depreciation reserves to be fully funded in the first year, it will allow for adequate revenues to cover expenses and debt service and a portion of the depreciation reserves. The rates set forth in Appendix B to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable and will produce sufficient revenues from water sales to recover the \$2,834,555 Revenue Required from Rates, an approximate 8.67 percent increase. The rates in Phase 1 will increase a typical residential customer's monthly water bill from \$46.45 to \$48.47, an increase of \$2.02, or approximately 4.35 percent.³⁹ The rates in Phase 2 will increase a typical residential customer's monthly water bill from the Phase 1 rates from \$48.47 to \$50.49, an increase of \$2.02, or approximately 4.17 percent.

WATER LOSS SURCHARGE

In the Commission Staff's Report, Commission Staff recommended the Commission approve Big Sandy District's requested \$6.15 per customer per month

³⁹ The typical residential customer uses approximately 4,000 gallons per month.

surcharge and apply the resulting funds towards water loss reduction efforts.⁴⁰ The surcharge would produce annual revenues of \$354,000 for five years.⁴¹ The annual surcharge collection reflects the amount disallowed for excessive water loss pursuant to 807 KAR 5:066, Section 6(3). The use of a surcharge is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for water loss.⁴² In establishing water-loss surcharges, the Commission recognized that the adjustments required comply with the 15.00 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water district's ability to take the necessary action to focus on its leak detection and repair. Using a surcharge to fund a water utility's water loss reduction efforts allows the Commission to place strict controls governing the surcharge proceeds to ensure their effective use, public acceptance of the surcharge, and public confidence in the water district's use of those funds. In its report entitled, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* that was fully incorporated in the final Order in Case No. 2019-00041, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges,

⁴⁰ Commission Staff's Report, at 7–8.

⁴¹ Application, paragraph 14.

⁴² See Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges* (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); and Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2020).

the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.⁴³

Therefore, the Commission finds that a monthly surcharge is a reasonable means for Big Sandy District to recover the cost of its efforts in water leak detection and repair in order to reduce the increased expense and lost revenue from unaccounted-for water loss. The Commission finds that a monthly water loss reduction surcharge should be revised to reflect the revised water loss calculation, as noted above of \$369,639. Based upon 4,800 customers,⁴⁴ a monthly surcharge of \$6.42 per active meter over 60 months should be approved.⁴⁵ Big Sandy District should be restricted to expending any funds collected under the surcharge subject to authorization by the Commission. Big Sandy District should file a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities, a time schedule for eliminating each source of unaccounted-for water loss, and provides a detailed spending plan for the proceeds of the requested surcharge. The proceeds from the surcharge shall be kept in a separate, interest-bearing account.

Including the surcharge, the rates in Phase 1 will increase a typical residential customer's monthly water bill from \$46.45 to \$54.89, an increase of \$8.44, or approximately 18.17 percent. For Phase 2, inclusion of the surcharge will increase a

⁴³ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019 at 24–25.

⁴⁴ Application, paragraph 14 states that Big Sandy District had 4,800 customer at the date of this filing.

⁴⁵ Water Loss above 15% cost divided by number of customers per month, or $\$369,639/4,800/12 = \6.42 .

typical residential customer's monthly water bill from the Phase 1 rates from \$54.89 to \$56.91, an increase of \$2.02, or approximately 3.68 percent.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the findings contained in the Commission Staff's Report and discussed above are supported by the evidence of record and are reasonable. The Commission has historically used a Debt Service Coverage (DSC) method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Therefore, applying the DSC method to Big Sandy District's pro forma operations results in an Overall Revenue Requirement of \$2,919,714 and, based upon pro forma present rate service revenues of \$2,608,401, a revenue increase of \$226,154 from water service rates is necessary to generate the overall revenue requirement. The Commission finds that allocating the calculated revenue increase across-the-board to Big Sandy District's monthly retail water service rates and to phase this increase over two years to be fair, just and reasonable.

The Commission further finds that Big Sandy District should be authorized to assess a monthly water surcharge of \$6.42 per meter for 60 months to fund its unaccounted-for water loss reduction efforts. The Commission shall open a separate case to monitor the surcharge collection and expenses with the following conditions:

1. Within 120 days of the date of this Order, Big Sandy District shall file with the Commission a qualified infrastructure improvement plan, including 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 provided a detailed spending plan for the proceeds of a surcharge.

2. Big Sandy District shall deposit surcharge collections in a separate interest-bearing account.

3. Big Sandy District shall 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 invoice supporting each payment.

4. Big Sandy District shall file monthly water loss reports with the Commission.

5. Surcharge proceeds shall not be used to reimburse Big Sandy District for unaccounted-for water loss reduction expense incurred prior to the date of this Order.

6. Big Sandy 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.

7. Big Sandy District's failure to comply with any conditions attached to the 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 the expenses and projects approved by the Commission.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Commission Staff's Report are adopted and are incorporated by reference into this Order.

2. The water service rates proposed by Big Sandy District are denied.

3. Phase 1 rates set forth in Appendix B to this Order are approved for services rendered by Big Sandy District on and after the date of this Order.

4. Phase 2 rates set forth in Appendix B to this Order are approved for services rendered by Big Sandy District one year following the date of this Order.

5. Big Sandy District shall discontinue providing their water district commissioners any additional compensation beyond what is permitted in KRS 74.020(6) and KRS 74.050.

6. Within 20 days of the date of service of this Order, Big Sandy 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.

7. Big Sandy District is authorized to assess a monthly water surcharge of \$6.42 per meter for 60 months, to fund its unaccounted-for water loss reduction efforts to the conditions set forth in ordering paragraph 7.

8. The Commission shall open a separate proceeding, Case No. 2022-00301 to monitor the surcharge proceeds collection and expenses, subject to the following conditions:

a. Within 120 days of the date of service of this Order, Big Sandy District shall file with the Commission a qualified infrastructure improvement plan, including 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 the surcharge.

b. Big Sandy District shall deposit the surcharge collections in a separate interest-bearing account. On the 15th day of each month for 60 months from the date of service of this Order or until all surcharge proceeds are expended, Big Sandy 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, a description of the purpose; and invoices supporting each payment.

c. On the 15th day of each month for 60 months from the date of service of this Order or until all surcharge proceeds are expended, Big Sandy District shall file a monthly water loss report with the Commission.⁴⁶

d. Big Sandy District shall not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

e. Big Sandy 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.

f. Big Sandy District shall debit monthly billings for the surcharge to customers' accounts receivable and credit the contribution account.

g. When Big Sandy District collects the surcharge from the customers, it shall debit special funds and credit the customer account.

⁴⁶ The report format is found at <https://psc.ky.gov/Home/UtilForms> under "Water Use & Loss Calculations (Excel format)."

h. One year after the date of entry of this Order and annually thereafter, Big Sandy District shall file in Case No. 2022-00301 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.

9. Big Sandy District's failure to comply with the conditions set forth in ordering paragraph 7 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.

10. Big Sandy District shall use the midpoint of the depreciable lives of the NARUC 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.

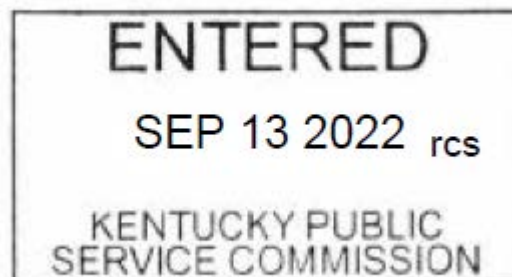
11. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00044 DATED SEP 13 2022

	Test Year	Staff Report Adjustment	Commission Adjustment	Final Pro Forma
Operating Revenues				
Sales of Water	\$2,637,371	\$ (28,970)		\$2,608,401
Late Payment Penalties	-	57,654		57,654
Other Water Revenues	41,494	(12,172)		
		10,465		
		(3,651)		
		(9,382)		26,754
Rents from Water Property	10,465	(10,465)		-
Total Operating Revenues	2,689,330	3,479		2,692,809
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	431,241	18,737		
		(12,445)		
		(2,700)		434,833
Salaries and Wages - Commissioners	28,000	2,000		30,000
Employee Pensions and Benefits	241,808	20,024		
		(39,914)		
		(7,904)		
		(728)		213,286
Purchased Water	1,105,518	(287,112)		818,406
Purchased Power for Pumping	94,226	(21,398)		72,828
Chemicals				0
Materials and Supplies	305,855	(99,192)		
		(22,962)		183,701
Contractual Services	166,634	(10,000)		
		(72,234)		84,400
Water Testing	14,158			14,158
Transportation Expense	36,425			36,425
Insurance	27,505	5,554		33,059
Regulatory Commission Expense	-	5,956		5,956
Bad Debt Expense	-	19,271		19,271
Miscellaneous Expense	52,464	(4,967)		47,497
Total Operation and Maintenance Expenses	2,503,834	(510,014)		1,993,820
Taxes Other Than Income - FICA	42,716	1,586		
		(207)		44,096
Amortization	497	5,448		5,945
Depreciation	474,524	(859)		
		1,953		475,618
Total Operating Expenses	3,021,571	(502,092)		2,519,479
Net Operating Income	(332,241)	505,571		173,330
Interest Income	751			751
Income Available to Service Debt	\$ (331,490)	\$ 505,571		\$ 174,081

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00044 DATED SEP 13 2022

The following rates and charges are prescribed for the customers in the area served by Big Sandy 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

Phase 1

5/8- x 3/4-Inch Meter

First	1,000 Gallons	\$19.04	Minimum Bill
Next	9,000 Gallons	0.00981	Per Gallon
Next	10,000 Gallons	0.00668	Per Gallon
Next	20,000 Gallons	0.00621	Per Gallon
Over	40,000 Gallons	0.00595	Per Gallon

1-Inch Meter

First	10,000 Gallons	\$107.31	Minimum Bill
Next	10,000 Gallons	0.00668	Per Gallon
Next	20,000 Gallons	0.00621	Per Gallon
Over	40,000 Gallons	0.00595	Per Gallon

1 1/2-Inch Meter

First	20,000 Gallons	\$174.08	Minimum Bill
Next	20,000 Gallons	0.00621	Per Gallon
Over	40,000 Gallons	0.00595	Per Gallon

2-Inch Meter

First	40,000 Gallons	\$296.24	Minimum Bill
Over	40,000 Gallons	0.00595	Per Gallon

3-Inch Meter

First	100,000 Gallons	\$655.07	Minimum Bill
Over	100,000 Gallons	0.00595	Per Gallon

4-Inch Meter

First	200,000 Gallons	\$1,249.78	Minimum Bill
Over	200,000 Gallons	0.00595	Per Gallon

Wholesale Customers \$0.00595 Per Gallon

Water Loss Reduction Surcharge \$6.42 Per Customer
(To be collected per Customer per month not to exceed 60 months)

Phase 2
(To begin one year from the date of this Order)

5/8- x 3/4-Inch Meter

First	1,000 Gallons	\$19.83	Minimum Bill
Next	9,000 Gallons	0.01022	Per Gallon
Next	10,000 Gallons	0.00696	Per Gallon
Next	20,000 Gallons	0.00647	Per Gallon
Over	40,000 Gallons	0.00619	Per Gallon

1-Inch Meter

First	10,000 Gallons	\$111.77	Minimum Bill
Next	10,000 Gallons	0.00696	Per Gallon
Next	20,000 Gallons	0.00647	Per Gallon
Over	40,000 Gallons	0.00619	Per Gallon

1 1/2-Inch Meter

First	20,000 Gallons	\$181.32	Minimum Bill
Next	20,000 Gallons	0.00647	Per Gallon
Over	40,000 Gallons	0.00619	Per Gallon

2-Inch Meter

First	40,000 Gallons	\$310.63	Minimum Bill
Over	40,000 Gallons	0.00619	Per Gallon

3-Inch Meter

First	100,000 Gallons	\$682.29	Minimum Bill
Over	100,000 Gallons	0.00619	Per Gallon

4-Inch Meter

First	200,000 Gallons	\$1,301.70	Minimum Bill
Over	200,000 Gallons	0.00619	Per Gallon

Wholesale Customers \$0.00619 Per Gallon

Nonrecurring Charges

Connection/Turn On Charge	\$23
Connection/Turn On Charge After Hours	\$68
Field Collection Charge	\$19
Meter Re-Read Charge	\$19
Meter Test Charge	\$19
Reconnection Charge	\$19
Reconnection Charge After Hours	\$65
Returned Check Charge	\$13
Service Call/Investigation	\$19
Service Call/Investigation After Hours	\$65
Service Line Inspection	\$19
5/8-Inch Service Connection Fee/Tap Fee	\$1,590
5/8-Inch Second Tap Service Connection Fee	\$970

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