

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF EDMONSON)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2023-00037
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On February 13, 2023, Edmonson County Water District (Edmonson District) filed its application with the Commission requesting an adjustment to its wastewater rates pursuant to 807 KAR 5:076. Edmonson District filed this proceeding in compliance with the final Order in Case No. 2021-00463.¹ In that proceeding, Edmonson District was ordered to file an application by February 14, 2023, for either a general adjustment in rates or for an alternative rate adjustment (ARF) to ensure its revenue is sufficient to support adequate and reliable service.

In its application, Edmonson District requested rates that would increase its annual wastewater sale revenues by \$23,345, or a 144.68 percent increase to pro forma present rate wastewater sale revenues.²

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated March 2, 2023, which, among other things, required the Commission Staff to file a report containing its recommendations regarding

¹ Case No. 2021-00463, *Electronic Application of Edmonson County Water District to Issue Securities for the Purpose of Refinancing Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Feb 3, 2022), final Order at 10, ordering paragraph 7.

² Application, Attachment 4, 04_SAO_andRev_Reqmt.pdf.

Edmonson District's application. Edmonson District responded to two requests for information from Commission Staff.

Commission Staff issued its report (Commission Staff's Report) on June 5, 2023, summarizing its findings and recommendations regarding Edmonson District's requested rate adjustment. In the Commission Staff's Report, Commission Staff found that Edmonson District's adjusted test-year operations support a total overall revenue requirement of \$64,240, and that an annual revenue increase of \$44,996, or 256.86 percent, is necessary to generate the overall revenue requirement. In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended wastewater rates.

On June 17, 2023, Edmonson District filed its response to Commission Staff's Report. Edmonson District stated that it did not agree with Commission Staff's removal of certain labor expenses from Nonrecurring Charges. However, Edmonson District stated that it would not contest the adjustment in this case.³ In addition, Edmonson District requested that the Commission approve new rates using half the depreciation shown on page 21 of the Commission Staff's Report.⁴ With its response, Edmonson District waived its right to request an informal conference or hearing be held.⁵ The case now stands submitted for a decision by the Commission.

³ Edmonson District's Response to Commission Staff's Report (filed Jun. 17, 2023), Item 1.

⁴ Edmonson District's Response to Commission Staff's Report, Item 2.

⁵ Edmonson District's Response to Commission Staff's Report, Item 3.

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, Edmonson District is allowed to charge its customers "only fair, just and reasonable rates."⁶ Further, Edmonson District bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

Edmonson District is a water district organized pursuant to KRS Chapter 74. It owns and operates a wastewater distribution system through which it provides wastewater service to approximately 57 residential customers that reside in Edmonson County, Kentucky.⁷ A review of the Commission's records indicates this is Edmonson District's first alternative rate adjustment since 2014.⁸

⁶ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

⁷ Application, 00a_Read_1st.pdf, Cover Letter.

⁸ Case No. 2014-00175, *Application of Edmonson County Water District, Edmonson, Warren, Grayson and Hart Counties, Kentucky for a Certificate of Public Convenience and Necessity Authorizing Construction of Major Additions and Improvements to its Water System and Seeking Approval of the Issuance of Certain Securities* (Ky. PSC. June 27, 2014).

TEST PERIOD

The calendar year ended December 31, 2021, was used as the test year to determine the reasonableness of Edmonson District's existing and proposed wastewater rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

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

	<u>Commission Staff's Report</u>		
	<u>Test-Year Operations</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 17,737	\$ 230	\$ 17,967
Operating Expenses	76,230	(18,259)	57,971
Net Utility Operating Income	(58,493)	18,489	(40,004)
Interest and Dividend Income	<u>1,277</u>	<u>-</u>	<u>1,277</u>
Total Utility Operating Income	<u>\$ (57,216)</u>	<u>\$ 18,489</u>	<u>\$ (38,727)</u>

REVIEW AND MODIFICATIONS TO COMMISSION
STAFF'S RECOMMENDATIONS

Edmonson District proposed adjustments to its 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 and recommendations contained in the Commission Staff's Report with one modification to Depreciation Expense. The following is the complete pro forma:

	2021 Test Year	Commission Staff's Pro Forma Adjustment	Commission Pro Forma Adjustment	Pro Forma
<u>Operating Revenues</u>				
Total Sewer Sales	\$ 17,288	\$ 230	\$ -	\$ 17,518
Other Sewer Revenues	449			449
Total Operating Revenues	17,737	230	-	17,967
<u>Operating Expenses</u>				
Operating Expenses				
Collection- Labor, Materials and Expenses	38	1,473		1,511
Pumping- Labor, Materials and Expenses	10,551	(10,551)		-
Power for Pumping and Treatment	1,299			1,299
Miscellaneous Supplies and Expenses	335			335
Treatment & Disposal	-	10,551		10,551
Customer Account Expenses				
Customer Records & Collection Exp- Labor	-	847		847
Misc. Customer Accounts Expense	201			201
Administrative and General Expenses				
Administrative and General Salaries	-	773		
		151		924
Office Supplies and Other Expenses	522	47		569
Employee Pensions and Benefits	-	203		
		250		453
Transportation Expense	-	171		171
Total Operation and Maintenance Expenses	12,946	3,914	-	16,860
Depreciation Expenses	63,281	(22,421)	(10,215)	30,645
Taxes other than Income	3	248		251
Total Operating Expenses	76,230	(18,259)	(10,215)	47,756
Utility Operating Income	(58,493)	18,489	10,215	(29,789)
Interest and Dividend Income	1,277			1,277
Net Income Before Contributions	\$ (57,216)	\$ 18,489	\$ 10,215	\$ (28,512)

Billing Analysis. Edmonson District provided usage data by meter size, listing the water usage and wastewater sales revenue for the 12-month test year ended December 31, 2021. Commission Staff calculated the data provided within a normalized billing analysis, which determined that \$17,967 for all retail customers is an accurate representation of the normalized test-year revenue from wastewater sales. In the

Commission Staff's Report, Commission Staff recommended an increase to Edmonson District's test-year Wastewater Sales Revenue of \$230.⁹ The Commission finds that this adjustment is reasonable because an examination of Edmonson District's billing analysis was completed by Commission Staff and a normalized revenue was based on the information provided.

Collection – Labor, Materials and Expenses. In the Commission Staff's Report, Commission Staff recommended an increase to Edmonson District's Salaries and Wages – Employees by \$1,473¹⁰ to reflect utilizing the 2022 hours worked for the Collection – Labor, materials and expenses. The adjustment was due to Edmonson not properly recording labor for the wastewater division. The Commission finds that this adjustment to Collection – Labor, Materials and Expenses, is reasonable, and should be accepted.

Pumping – Labor, Materials and Expenses – Reclassify Disposal Payments. In the Application, Edmonson District proposed to reclassify \$9,727 from Pumping – Labor, Materials, and Expenses to Treatment and Disposal to reflect the payments to Brownsville Water System for wastewater disposal.¹¹ However, In the Commission Staff's Report, Commission Staff, after a review of the Test Year General Ledger,¹² proposed to reclassify \$10,551.¹³ The Commission finds that this adjustment to Collection – Labor,

⁹ Commission Staff's Report at 7–8, Adjustment A.

¹⁰ Commission Staff's Report, at 8–9, Adjustment B.

¹¹ Application, Attachment 4, 04_SAO_andRev_Reqmt.pdf, Adjustment C.

¹² Edmonson District's Response to Staff's First Request, Item 1e, EC1_1.a2021_Sewer_General_Ledger.xls, Account #70130-00.

¹³ Commission Staff's Report at 9–10, Adjustment C.

Materials and Expenses and to Treatment and Disposal is reasonable, and should be accepted.

Salaries and Wages – Customer Records & Collection Expense – Labor Reallocation. In the Commission Staff's Report, Commission Staff recommended agreeing with Edmonson District's proposal to increase Salaries and Wages – Customer Records & Collection Expense by \$847¹⁴ to reflect the reallocation of a percentage of labor to the sewer division. Commission Staff agreed with the allocation methodology, which allocated 0.502 percent of Salaries and Wages – Customer Accounts to the sewer division. The Commission finds that this adjustment is a known and measurable change to Salaries and Wages – Customer Records & Collection Expense, is reasonable, and should be accepted.

Administrative and General Salaries – Reallocation. In the Commission Staff's Report, Commission Staff recommended an increase to Edmonson District's Administrative and General Salaries of \$773¹⁵ to reflect the allocation of 0.502 percent of the total \$154,020 of Administrative and General Salaries from the water division to the Sewer Division. The Commission finds that this adjustment, as corrected by Commission Staff, is a known and measurable change to Administrative and General Salaries, is reasonable, and should be accepted.

Administrative and General Salaries – Commissioner Salaries. In the Commission Staff's Report, Commission Staff recommended an increase to Edmonson District's

¹⁴ Commission Staff's Report at 10–11, Adjustment D.

¹⁵ Commission Staff's Report at 11–12, Adjustment E.

Administrative and General Salaries of \$151¹⁶ to reflect both the normalization of the test-year commissioner's salaries, and the allocation of 0.502 percent of the total \$30,000 Commissioner's Salaries from the water division to the sewer division. The Commission finds that this adjustment, as corrected by Commission Staff, is a known and measurable change to Administrative and General Salaries, is reasonable, and should be accepted.

Office Supplies and Other Expenses. In the Commission Staff's Report, Commission Staff recommended an increase to Edmonson District's Office Supplies and Other Expenses of \$47¹⁷ to reflect the inclusion of Account 92180-00 Office Supplies /Admin & Gen; which was mistakenly left out of the calculation for office supplies and other expenses. The Commission finds that this adjustment, as corrected by Commission Staff, is a known and measurable change to Office Supplies and other expenses, is reasonable, and should be accepted.

Employee Pensions and Benefits – Insurance. In the Commission Staff's Report, Commission Staff recommended an increase to Edmonson District's Employee Pensions and Benefits of \$203¹⁸ to reflect both the adjustment of single insurance premiums paid by Edmonson District from 100 percent to 78 percent to be consistent Commission precedent regarding premiums paid for health benefits; and the allocation of .300 percent of the annual pro forma premiums from the water division to the sewer division. The Commission finds that this adjustment to Employee Pensions and Benefits, is reasonable, and should be accepted.

¹⁶ Commission Staff's Report at 12, Adjustment F.

¹⁷ Commission Staff's Report at 13, Adjustment G.

¹⁸ Commission Staff's Report at 13–15, Adjustment H.

Employee Pensions and Benefits – Retirement. In the Commission Staff's Report, Commission Staff recommended an increase to Edmonson District's Employee Pensions and Benefits of \$250¹⁹ to reflect the increase to retirement expenses due to the increases in Collection – Labor, Materials and Expenses; Customer Records & Collection Expense – Labor, and Administrative and General Salaries. The three labor expenses totaled \$3,131 multiplied by the contribution rate of 8 percent. The Commission finds that this adjustment, as corrected by Commission Staff, is a known and measurable change to Employee Pensions and Benefits, is reasonable, and should be accepted.

Transportation Expense. In the Commission Staff's Report, Commission Staff recommended an increase to Edmonson District's Employee Pensions and Benefits of \$171²⁰ to reflect the allocation of 0.30 percent of the total Transportation expense of \$56,949 from the water division to the sewer division. The Commission finds that this adjustment, as corrected by Commission Staff, is a known and measurable change to Transportation Expense, is reasonable, and should be accepted.

Depreciation. In the Commission Staff's Report, Commission Staff recommended the Commission accept Edmonson District's proposed adjustment to decrease test-year depreciation expense of \$63,280 by \$22,421 to a pro forma amount of \$40,859.²¹ Edmonson District's proposed adjustment is consistent with Commission precedent of using the depreciation life ranges contained in the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices*

¹⁹ Commission Staff's Report at 13–15, Adjustment I.

²⁰ Commission Staff's Report at 16–17, Adjustment J.

²¹ Commission Staff's Report at 17–18, Adjustment K.

for *Small Water Utilities* (NARUC Study) to evaluate the depreciation lives used by the water utilities under its jurisdiction.²² When no evidence exists to support a specific life that is inside or outside of the NARUC Study ranges, the Commission has historically used the midpoint of the NARUC Study depreciation ranges to depreciate water assets.²³ The Commission finds that this adjustment to Depreciation Expense, is reasonable, and should be accepted.

Depreciation Phase-in. In the Commission Staff's Report, Commission Staff proposed to reject an adjustment to reduce Depreciation Expense by \$20,430²⁴ to reflect the inclusion of only half of the test-year depreciation expense in the Revenue Requirement calculation. Therefore, Commission Staff proposed to include the full \$40,860 Depreciation Expense.

In its response to Commission Staff's Report, Edmonson District stated that over the past five years, it spends on average \$1,380 annually for system improvements and replacements. Therefore, the \$21,400 for half depreciation is more than enough for future repairs and replacements. In addition, Edmonson District stated that their cash balance currently totals approximately \$190,000, which is available for use for any required system maintenance. The sewer system only services 57 customers and has had no customer growth since the system was placed in service with no growth expected in the

²² See Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016); Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); and Case No. 2020-00311, *Electronic Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC Apr. 8, 2021).

²³ See Case No. 2020-00290, *Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Rates and Approval of Construction* (Ky. PSC Sept. 2, 2021).

²⁴ Commission Staff's Report at 18–19, Adjustment L.

future. Edmonson District stated using full depreciation would place an undue hardship on ratepayers.²⁵

Based upon a review of the case record and being otherwise sufficiently advised, the Commission concluded that Edmonson District provided sufficient evidence to warrant a reduction in the Depreciation Expense and therefore decided to include only three-quarters of the test year Depreciation Expense, reducing the Depreciation Expense by one-quarter. Therefore, as shown below, the Commission finds that it is necessary to decrease the Revenue Requirement by an additional \$10,215.

Taxes Other than Income – FICA. In Commission Staff's Report, Commission Staff recommended an increase to Edmonson District's Taxes Other than Income Expense by \$248²⁶ to account for the increased contribution amount of pro forma Collection – Labor, Materials and Expenses of \$1,511, Customer Records & Collection Exp. – Labor of \$847, and Administrative and General Salaries of \$924 multiplied by the FICA percentage rate of 7.65 percent. The Commission finds that this adjustment, as corrected by Commission Staff, is a known and measurable change to Taxes Other than Income, is reasonable, and should be accepted.

Based upon the Commission's findings discussed above, the following table summarizes Edmonson District's adjusted pro forma:

²⁵ Edmonson District's Response to Commission Staff's Report, Item 2.

²⁶ Commission Staff's Report at 19–20, Adjustment M.

	<u>Pro Forma</u>	<u>Commission Adjustments</u>	<u>Final Pro Forma</u>
Total Operating Revenues	\$ 17,967	\$ -	\$ 17,967
Utility Operating Expenses	57,971	(10,215)	47,756
Net Utility Operating Income	(40,004)	10,215	
Interest and Dividend Income	1,277	-	1,277
Total Utility Operating Income	<u>\$ (38,727)</u>	<u>\$ 10,215</u>	<u>\$(28,512)</u>

OVERALL REVENUE REQUIREMENT

Based upon the Commission's findings and determinations herein, Edmonson District requires an increase in revenues from wastewater sales of \$34,781 or 198.55 percent above the present pro forma wastewater revenues as shown below. This increase is required for Edmonson District to remain operationally and financially sound while providing adequate, efficient and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 47,756
Plus: Avg. Annual Principal and Interest Payments	5,224
Additional Working Capital	<u>1,045</u>
Total Revenues Requirement	54,025
Less: Other Operating Revenue	(449)
Interest and Dividend Income	<u>(1,277)</u>
Revenue Required From Sewer Sales	52,299
Less: Revenue from Sales at Present Rates	<u>(17,518)</u>
Required Revenue Increase	<u>\$ 34,781</u>
Percentage Increase	<u>198.55%</u>

RATE DESIGN

Edmonson District proposed to increase all its monthly retail sewer service rates evenly across the board by approximately 144.68 percent in its application. Edmonson District has not performed a cost of service study (COSS). Edmonson District stated that

it did not complete a COSS because there have not been any material changes in customer usage patterns to warrant a COSS. The Commission has previously found 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 previously accepted by Edmonson District and allocated Commission Staff's calculated revenue increase across the board to Edmonson District's monthly retail sewer service rates in two phases.

In its response to the Commission Staff Report, Edmonson District requested that the Commission calculate new rates based on a revenue requirement with one-half depreciation and a two-year phase-in.²⁷ The rates set forth in Phase 1 are based on a revenue requirement calculated at 1/2 depreciation to be applied for two years from the date of service of this Order. The rates set forth in Phase 2 are based on a revenue requirement calculated at 3/4 depreciation to begin after Phase 1 has concluded.

The rates for Phase 1 set forth in the Appendix 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 sewer services to recover the \$42,084 Revenue Required from Sewer Services, an approximate 140.23 percent increase over normalized test-year sewer services of \$24,566. The monthly bill of a typical residential customer using 2,500 gallons of water will increase from \$17.90 to \$43.01, an increase of \$25.11, or approximately 140.28 percent.

²⁷ Edmonson District's Response to Commission Staff Report (filed June 17, 2023), Item 2.

The rates for Phase 2 set forth in the Appendix 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 sewer sales to recover the \$52,299 Revenue Required from Sewer Sales, an approximate 198.55 percent increase over normalized test-year sewer sales of \$35,781. The monthly bill of a typical residential customer using 2,500 gallons of water will increase from the Phase 1 amount of \$43.01 to \$53.45, an increase of \$10.44, or approximately 24.27 percent.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report as modified in this Order are supported by the evidence of record and are reasonable. The Commission has historically used a DSC method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Therefore, applying the DSC method to Edmonson District's pro forma operations results in an Overall Revenue Requirement of \$54,025, a required revenue from wastewater sales of \$52,299, and an increase in revenue from wastewater sales of \$34,781, or 198.55 percent.

The Commission finds that allocating the calculated revenue increase across the board to Edmonson District's monthly wastewater service rates and phasing the increase in over three years to be fair, just and reasonable.

IT IS THEREFORE ORDERED that:

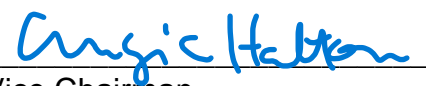
1. The recommendations contained in the Commission Staff's Report are adopted as modified in this order and incorporated by reference into this Order.

2. The wastewater service rates proposed by Edmonson District are denied.
3. The rates set forth in the Appendix to this Order are approved for services rendered by Edmonson District on and after the date of service of this Order.
4. Within 20 days of the date of service of this Order, Edmonson 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.
5. Edmonson District shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Commission Staff, to depreciate wastewater 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.
6. Edmonson District shall file an application for an adjustment in base rates for its sewer division within five years of the date of service of this Order to ensure that its rates are sufficient, or in the alternative, file a formal motion with a detailed analysis of its rates and revenues and a statement explaining the reasons why no modifications are necessary.
7. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman

*MOR
signing
w/parents*


Vice Chairman


Commissioner

ENTERED
AUG 08 2023 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00037 DATED AUG 08 2023

The following rates and charges are prescribed for the customers in the area served by Edmonson 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 Sewer Rates

PHASE 1 effective for two years as of the date of this Order

Residential

First	1,500	Gallons	\$31.23	Minimum Bill
Over	1,500	Gallons	\$0.01178	Per Gallon

Commercial

First	1,500	Gallons	\$46.85	Minimum Bill
Over	1,500	Gallons	\$0.01766	Per Gallon

PHASE 2 effective two years after date of this Order

Residential

First	1,500	Gallons	\$38.82	Minimum Bill
Over	1,500	Gallons	\$0.01463	Per Gallon

Commercial

First	1,500	Gallons	\$58.22	Minimum Bill
Over	1,500	Gallons	\$0.02195	Per Gallon

Nonrecurring Charges

Reconnection Charge	\$3.00
Meter Test Fee	\$3.00

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