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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR RATE ADJUSTMENT) CASE NO.
OF NEBO WATER DISTRICT) 2016-00435

ATTORNEY GENERAL'S COMMENTS
ON COMMISSION STAFF REPORT

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and pursuant to the Commission's January 13, 2017 Order tenders the following comments in the above-styled matter. The Attorney General does not believe a hearing will be necessary in this case and submits the case to the Commission for a decision on the record.

Statement of Case

Nebo Water District ("Nebo District") is a water district organized pursuant to KRS Chapter 74 and serves approximately 1,557 customers in Hopkins County, Kentucky.¹ On December 15, 2016, Nebo District tendered an application with the Public Service Commission of Kentucky ("the Commission") requesting a revenue increase of 19.2 percent, which would produce an increase of \$153,495, which would increase average residential bills by \$6.92 per month.² Commission Staff performed a limited financial review of Nebo District's test-year operations, using the calendar year ending December 31, 2015.³ Commission Staff applied the Debt Service

¹ *Application for Rate Adjustment of Nebo Water District*, Case No. 2016-00435 (Ky. PSC Dec. 15, 2016); ARF Form-1 July 2014, at 3.

² Application, Customer Notice; Application, ARF Form-1 July 2014, at 3.

³ Case No. 2016-00435, Commission's Staff Report on Nebo Water District, at 1-2 (March 28, 2017 Ky. PSC) (hereinafter, "Staff Report").

Coverage (“DSC”) method to calculate Nebo District’s Overall Revenue Requirement and found that Nebo District’s application supports a \$109,430 revenue increase, or 13.65 percent.⁴ Since Nebo District had not performed a cost-of-service study, Commission Staff recommended an across-the-board increase as the appropriate method to allocate the increased revenue.⁵ The new rates increase the average residential customer’s monthly bill by \$4.91, or approximately 13.64 percent.⁶

The Attorney General, by and through his Office of Rate Intervention, sought and was granted intervention by Order of the Commission on January 31, 2017.⁷ The Attorney General wishes to highlight specific findings in the Staff Report to support the recommended reduction of proposed revenue increase and ensure that the rates implemented are fair, just, and reasonable.

Comments

First, the Attorney General wishes to address the ratemaking treatment of meter installation expense and revenues. Nebo District requested, and the Commission approved, a change in meter connection fixed charges that took effect on July 1, 2016.⁸ The new tariff allows the District to collect \$1100 for 5/8 x 3/4 inch meters and the actual cost of installing all other meters.⁹ In the District’s Application for Tariff Revisions, Nebo District estimated installation labor expense of \$497.81 to justify the \$1100 cost for 5/8 x 3/4 inch meter connection.¹⁰ Since the actual cost of meter installations during the test year is unknown, Staff estimated the installation costs to be \$6600.¹¹ The District reported the entire cost of the installations as an expense and failed to remove

⁴ *Id.* at 2-3.

⁵ *Id.* at 3.

⁶ *Id.*

⁷ Case No. 2016-00435, Order (Jan. 31, 2017).

⁸ Tariff, Meter Connection/Tap-on Fees, Nebo Water District (Ky. PSC July 1, 2016).

⁹ *Id.*

¹⁰ TFS2016-00335, “Average Meter Connection Expense Cost Justification” (Ky. PSC May 25, 2016).

¹¹ Staff Report at 6.

the expense in its application.¹² To correct the error, the Staff Report decreased wages expense and materials and supplies expense by \$3300 each, which reflects one-half of the total estimated cost.¹³ Staff adjusted depreciation expense to reflect the capitalization of the meter connection fees accordingly.¹⁴ The Attorney General agrees with the Staff Report's removal of the meter connection expenses from Nebo District's expense accounts to ensure that the District does not recover wages and material expenses for meter connections in both base rates and the fixed meter connection charges.

Second, the Attorney General supports the reduction of Nebo District's purchased water expense.¹⁵ The resulting \$64,969 decrease in expenses helps offset the corresponding \$90,041 reduction in revenues caused by a reduction in water sales to coal industry customers.¹⁶ With the decline of the coal industry in the area, the Attorney General appreciates the effect that lost revenue will have on the District. In addition to accurately reflecting those changes in expenses as well as revenue, the Attorney General encourages the District to continue finding ways to control expenses to mitigate the impact that declining industrial revenues will have on residential customers. Although the Staff Report anticipates the life of the rates approved in this proceeding to be five years, the Attorney General would urge the District to return ahead of that time should changes in operations at the coal industry result in significant changes in revenue.¹⁷

Finally, the Attorney General agrees with the Staff Report's decision to exclude incentive pay for ratemaking purposes.¹⁸ Employees have received regular raises that should reflect positive

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

¹⁵ Staff Report at 7-8.

¹⁶ Staff Report at 4.

¹⁷ Staff Report at 15.

¹⁸ Staff Report at 8.


job performance.¹⁹ In addition, the District covers all costs for employee health and dental insurance at no cost to employees.²⁰ The District has not established any basis for including yearly bonuses as an additional expense on top of this other compensation.

Conclusion

WHEREFORE, the Attorney General defers to the Commission, based upon the evidentiary record, to set a fair, just, and reasonable rate for the customers of Nebo District. The Attorney General concurs with the Staff Report's recommendation to lower the proposed revenue increase and encourages the District to continue managing expenses in light of the recent decline in revenue from the local coal industry. The Attorney General does not believe a hearing will be necessary in this case.

Respectfully submitted,

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¹⁹ Nebo District's Response to AG-1, Exhibit B-C.

²⁰ Nebo District's Response to AG-1, Exhibit E.

Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Dr. Talina Mathews, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail to:

Lonnie Neal
Office Manager
Nebo Water District
45 North Bernard Street
Nebo, KY 42441

this 11th day of April 2017.



Assistant Attorney General