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COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SYMSONIA)
WATER AND SEWER DISTRICT) CASE NO.: 2017-00371
FOR RATE ADJUSTMENT)
PUSUANT TO 807 KAR 5:076)

ATTORNEY GENERAL’S COMMENTS ON 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 Orders on October 10 and December 7, 2017, hereby tenders his Comments in the above-styled matter.

STATEMENT OF THE CASE

Symsonia Water District (the “District” or “Symsonia”) is a water district organized pursuant to KRS Chapter 74, and serves approximately 318 water customers and 261 sewer customers in Graves County.¹ On September 7, 2017, the District tendered an application with the Kentucky Public Service Commission (the “Commission” or “PSC”), requesting \$56,599.00 in additional revenue for its water division, and would increase the bill of a residential water customer using an average of 4,000 gallons of water per month by \$14.40, from \$23.11 to \$37.51, or approximately 62.3% percent.² The District also requested a revenue increase of \$40,397 for its retail sewer customers, which would increase the bill of a residential sewer customer using an average of 4,000 gallons of water per month by \$12.49, from \$28.21 to \$40.70, or approximately 44.3%.³

¹ *Symsonia Water District 2016 Annual Report*, at 12.

² *Staff Report*, Case No. 2017-00371, at 3 (Ky. P.S.C. January 3, 2018); *Symsonia Water District Application*, Attachment 1.a (September 7, 2017).

³ *Staff Report*, Case No. 2017-00371, at 3–4 (Ky. P.S.C. January 3, 2018); *Symsonia Water District Application*, Attachment 1.b (September 7, 2017).

The Commission granted the Attorney General's request for intervention on December 5, 2017.⁴ Commission Staff filed its Report on January 3, 2018.⁵ Symsonia filed its Comments on the Staff Report on January 16, 2018.⁶ Symsonia accepted the findings of the Staff Report, and requested that the Commission authorize the higher rates for the Sewer Division which were recommended by Staff.⁷ Symsonia also waived its right to request a formal hearing in this matter.⁸

COMMENTS

The Attorney General agrees with Staff's recommendation that the Commission require Symsonia to revise its accounting procedures and internal controls in order to properly assign and allocate revenue and expenses, and further agrees with the recommendation that the Commission require Symsonia to submit its agreement to this provision and to file its revised accounting procedures and internal controls by a deadline set by the Commission.⁹

The Attorney General agrees with Staff's recommendation that Symsonia depreciate the \$4,800 capital expenditure on a new office heat pump rather than expensing this outlay, as well as reducing the portion allocated to the water division from the materials and supplies expense in the amount of \$2,635.¹⁰

The Attorney General agrees with Staff's finding that Symsonia's calculation of depreciation expense for its new treatment plant is reasonable, as Symsonia used the NARUC mid-point in its depreciation calculation.¹¹

⁴ *PSC Order*, Case No. 2017-00371 (Ky. P.S.C. December 5, 2017).

⁵ *Staff Report*, Case No. 2017-00371 (Ky. P.S.C. January 3, 2018).

⁶ *Symsonia Water District Waiver of Rights to Request Hearing and Comments on Staff Report*, Case No. 2017-00371 (Ky. P.S.C. January 16, 2018).

⁷ *Id.*

⁸ *Id.*

⁹ *Staff Report*, Case No. 2017-00371, at 8 (Ky. P.S.C. January 3, 2018).

¹⁰ *Id.* at 10.

¹¹ *Id.* at 10–11.

The Attorney General agrees with Staff's finding to accept Symsonia's proposal to decrease the water division's other water revenue by \$1,863, in order to correct an error where Symsonia mistakenly reported the sewer division's non-utility income of \$1,863 as an operating revenue for the water division.¹² Accordingly, the Attorney General also agrees with Staff's finding that Symsonia's proposed adjustment to increase the sewer division's miscellaneous service revenue by \$1,863 due to previously recording it in error as an operating revenue under the water division.¹³

The Attorney General agrees with Staff's reduction of the sewer division's materials and supplies expense by \$12,067 in order to remove the capital and nonrecurring expenditures.¹⁴

The Attorney General agrees with Staff's removal of the \$3,500 fine paid to the Division of Water for violation of effluent limitations from the sewer division's test-year operations, as well as the reasoning that an expense resulting from a violation of statute or regulation should not properly be included in the determination of a system's revenue requirements.¹⁵

Rate Design

The Attorney General has concerns regarding the rate design in Symsonia's Application, and the potential impact to residential customers. In particular, he is concerned with the increasing reliance on fixed charges to recover the costs of the system's operation coupled with a volumetric rate to be charged after a certain usage threshold is met. Symsonia already had a minimum bill mechanism in place for the water division, but now also proposes to move the sewer division from a flat monthly rate to a rate consisting of a minimum bill for the first 2,000 gallons, with a volumetric charge per 1,000 gallons afterward.

¹² *Id.* at 9.

¹³ *Id.* at 12.

¹⁴ *Id.* at 12.

¹⁵ *Id.* at 13.

Staff found that “[t]he inclusion of 2,000 gallons of usage in the monthly minimum bill promotes revenue stability for the system.”¹⁶ Staff further found that although “Symsonia’s method of calculation of the amount to be charged differs from that of past Commission practice ... the proposed rate calculation and rate design [are] appropriate for providing sewer service to Symsonia’s customers.”¹⁷ While revenue stability for the Symsonia system is a worthwhile goal, such stability should not come at the expense of its customers.

Symsonia stated in its Application that the “consumption based rate schedule” proposed for the sewer division, in conjunction with the proposed water rate schedule, will 1) help it to pay its annual principal payments on long-term debt from water revenues rather than from depreciation reserves; 2) enable it to meet the requirements set forth in its existing debt instrument; 3) restore it to a sound financial condition by charging rates that recover its cost of providing service; and 4) enable it to enhance its financial capacity so it can continue to operate its system in compliance with the Federal Safe Drinking Water Act, as amended in 1996, and KRS Chapter 151.¹⁸ However, the minimum bill rate belies the myth that this is purely a consumption based rate schedule.

The proposed increase for each division and the switch to minimum billing for sewer customers would drastically reduce any remaining incentive for these customers to conserve water, since they are already disincentivized by minimum billing for water service. A pricing structure comprised of higher fixed charges, with high minimum bill rates as proposed in this matter, does not allow for much variability of customer price in relation to customer consumption of water. In order to promote proper degrees of resource conservation and efficiency, the pricing structure should rely less on fixed charges and more on volumetric based charges.

¹⁶ *Id.* at 7.

¹⁷ *Id.* at 7.

¹⁸ *Symsonia Water District Application*, Attachment 2 (September 7, 2017).

Furthermore, the District is requesting discrete rates that would simultaneously raise the average water bill by 62.3% *and* the average sewer bill by 44.3%.¹⁹ For those customers who take under both services from Symsonia, this will compound the impact of the rate increase even further and lead to obscenely high bills. A rate increase request for one service, while leaving the other service rate intact for a number of years would have been a more prudent and customer-centric approach.

The Attorney General would urge the Commission to consider decreasing the minimum bill rate for both water and sewer customers in this matter and instituting a reasonable increase to the volumetric charge for both customer classes. The Commission should also consider gradually implementing a reasonable rate increase over a period of years—*e.g.*, 3 years, in order to mitigate the impact of rate shock to the District’s customers.

Finally, the Attorney General does not necessarily agree with Staff’s recommendation regarding any issue present in the Staff Report that he did not address in the preceding Comments.

CONCLUSION

The Commission has previously acknowledged its long history of relying on the principle of gradualism in rate making in order to mitigate the financial impact of rate increases on customers.²⁰ The Commission should continue to rely on that principle here. If the Commission finds that a rate increase is reasonable and grants Symsonia’s requested revenue increase or the

¹⁹ *Staff Report*, Case No. 2017-00371, at 3–4 (Ky. P.S.C. January 3, 2018); *Symsonia Water District Application*, Attachments 1.a, 1.b (September 7, 2017).

²⁰ Case No. 2014-00396, *In the Matter of Application of Kentucky Power Company for: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2014 Environmental Compliance Plan; (2) An Order Approving its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief*, Order (Ky. PSC June 22, 2014) (“...the Commission has long employed the principle of gradualism....”); *See also*, Case No. 2000-080, *In the Matter of: The Application of Louisville Gas & Electric Company to Adjust its Gas Rates and to Increase its Charges for Disconnecting Service, Reconnecting Service and Returned Checks*, Order (Ky. PSC September 27, 2000) (“... the Commission is adhering to the rate-making concepts of continuity and gradualism in order to lessen the impact of these increases on the customers that incur these charges.”).

increase recommended by Staff, in the absence of a cost-of-service study, the Attorney General agrees with Commission Staff that any increase in rates should be applied evenly across the board.²¹

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 Symsonia Water District. The Attorney General does not believe a hearing will be necessary in this case.

Respectfully submitted,

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²¹ *Staff Report*, Case No. 2017-00371, at 5 (Ky. P.S.C. January 3, 2018).

Certificate of Service and Filing

Counsel certifies that an original and ten (10) photocopies of the foregoing were served and filed by hand delivery to Gwen R. Pinson, 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, postage pre-paid, to:

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This 17th day of January, 2018


Assistant Attorney General