

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING)	CASE NO.
OF KNOX COUNTY UTILITY COMMISSION)	2020-00020

ORDER

On January 22, 2020, Knox County Utility Commission (Knox County Commission) filed an application (Application) to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated March 5, 2020. On April 21, 2020, the Commission, citing the impact of COVID-19, found that additional time would be needed to review Knox County Commission's case, amending its March 5, 2020 Order to allow for additional time for Staff to complete this report. Knox County Commission responded to two requests for information from Commission Staff (Staff). In its Application, Knox County Commission requested an overall revenue requirement of \$240,568, which is a 17.59 percent increase over current revenues. The proposed rates would increase the monthly bill of a typical residential customer purchasing 4,000 gallons per month by \$7.19, from \$40.82 to \$48.01, or approximately 17.59 percent.

On July 1, 2020, Staff issued a report (Report) summarizing its findings regarding Knox County Commission's requested rate adjustment. In its Report, Staff found that Knox County Commission's adjusted test-year operations support an overall revenue requirement of \$1,611,140 and that an annual revenue increase of \$174,563, or 12.77 percent, is necessary to generate the overall revenue requirement.

On July 8, 2020, Knox County Commission filed with the Commission its comments on Staff's report, wherein it accepted Staff's findings. With its comments, Knox County Commission did not request that an informal conference or formal hearing be held.¹

BACKGROUND

Knox County Commission is a Kentucky water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 2,845 residential, commercial, and public authority customers residing in Bell, Knox, and Whitley counties and provides sewer service to approximately 16 residential, commercial, and public authority customers residing in Knox County, Kentucky.² Knox County Commission's last application for rate adjustment was approximately five years ago.³

TEST PERIOD

The calendar year ended December 31, 2018, was used as the test year to determine the reasonableness of Knox County Commission's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

Based on the Staff Report, Knox County Commission's pro forma operational revenue is as follows:⁴

¹ Knox County Utility Commission Response to Commission Staff Report.

² *Annual Report of Knox County Utility Commission to the Public Service Commission for the Calendar Year Ended December 31, 2018* (2018 Annual Report) at 12 and 49.

³ Case No. 2015-00142, *Alternative Rate Adjustment Filing of Knox County Utility Commission*, (Ky. PSC Sep. 16, 2015).

⁴ See Appendix A for a complete pro forma.

	2018 Annual Report	Rate Study Adjustments	Pro Forma Operations
Total Operating Revenues	\$ 1,412,264	\$ 16,843	\$ 1,429,107
Utility Operating Expenses	<u>1,564,416</u>	<u>(139,713)</u>	<u>1,424,703</u>
Net Utility Operating Income	\$ (152,152)	\$ 156,556	\$ 4,404
Gains (Losses) on Disposition of Property	1,325		1,325
Total Utility Operating Income	<u>(150,827)</u>	<u>156,556</u>	<u>5,729</u>

REVENUE REQUIREMENT ADJUSTMENTS

Billing Analysis Adjustment. In its Report, Staff recommended the Commission accept Knox County Commission's proposed increase of \$16,843 to test-year revenues based on its current billing analysis.⁵ The Commission finds that this adjustment is reasonable as an examination of Knox County Commission's billing register was completed by Staff and a billing analysis created based on all of the information provided. Staff's billing analysis supported Knox County's proposed sales revenue.

Other Water Revenues. In its Report, Staff recommended Knox County Commission's proposed reclassification of forfeited discounts, miscellaneous service revenue, and rental income that were incorrectly reported in Other Water Revenues.⁶ The Commission finds that these reclassification adjustments should be accepted as the

⁵ Staff Report at 6, Adjustment A.

⁶ *Id.*, Adjustment B.

adjustments meet the ratemaking criteria of being known and measurable and are reasonable.⁷

Tap-Ons. In its Report, Staff recommended that the Commission accept Knox County Commission's proposed reductions to Labor Expense and Materials and Supplies of \$4,680 and \$10,920, respectively, for costs associated with Tap-On fees. In addition, Staff proposed an adjustment to test-year depreciation to allow the expenses to be capitalized, resulting in an increase in test-year depreciation of \$367.⁸ The Commission finds that this adjustment is known and measurable and that such costs should be capitalized and the adjustment is reasonable and should be accepted.

Salaries and Wages. In its Report, Staff recommended an increase in pro forma Salaries and Wages Expense of \$5,643 to reflect an increase in the wage rate for Knox County Commission's employees as well as the removal of a former employee's salary.⁹ The Commission finds that this adjustment is a known and measurable change to salaries and wages, is reasonable, and should be accepted.

Allocated Costs. In its Report, Staff recommended several adjustments to expenses that are not directly allocated between Knox Utility Commission's water and

⁷ 807 KAR 5:076. Alternative rate adjustment procedure for small utilities, Section (9). See also 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).

⁸ *Id.*, Adjustment C.

⁹ Staff Report at 7, Adjustment D.

sewer divisions. The adjustments allocated these indirect costs using a combination of percentage of customers as well as percentage of revenues.¹⁰ The Commission finds that these adjustments are reasonable and should be accepted.

Employee Health Insurance. In its Report, Staff recommended a reduction to Knox County Commission's test-year Employee Health Insurance expense totaling \$29,583 to reflect Commission policy of reducing benefit expenses for utilities that pay 100 percent of its employees' health insurance coverage. The total adjustment reflects a reduction of 21 percent, the national average employee contribution rate.¹¹ This adjustment is consistent with past Commission precedent¹² in which the Commission has reduced benefits expenses for utilities that pay 100 percent of an employee's health insurance coverage, and the Commission finds that this adjustment is reasonable should be accepted.

County Employee Retirement System (CERS). In its report, Staff recommended a reduction to Employee Pension and Benefit expense of \$88,527. This adjustment incorporates an adjustment made by Knox County Commission to reflect reporting requirements associated with GASB 68 as well as the increase in Salaries and Wages expense as explained above.¹³ The Commission finds that this adjustment is reasonable and should be accepted.

¹⁰ *Id.*, Adjustment E and Appendix A.

¹¹ Staff Report at 8, Adjustment F.

¹² See, Case No. 2019-00053, Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates, (Ky. PSC June 20, 2019) at 8-12.

¹³ Staff Report at 9, Adjustment G.

Purchased Water. In its report, Staff recommended a reduction in test-year purchased water expense of \$2,747 based on purchased water invoices provided by the utility.¹⁴ The Commission finds that this adjustment is known and measurable and reasonable and should be accepted.

Purchased Power – Telephone Expense. In its report, Staff recommended a reclassification adjustment to remove the telephone service expense totaling \$4,497 that was incorrectly included in Purchased Power – Pumping. Accordingly, Staff recommended an increase to Miscellaneous Expense of \$4,497.¹⁵ The Commission finds that these adjustments are reasonable and should be accepted.

Contractual Services. In its report, Staff recommended an adjustment to reduce Knox County Commission’s test-year Contractual Services expense by \$540. Based on a financial review performed by Staff, it was discovered that the amount submitted in the annual report was overstated.¹⁶ The Commission finds that this adjustment is known and measurable and reasonable and should be accepted.

Depreciation. In its Report, Staff recommended an adjustment reducing test-year depreciation by \$2,566 in keeping with Commission precedent¹⁷ of using NARUC Study depreciable life midpoint when no evidence exists to support a specific life that is outside

¹⁴ Staff Report at 10, Adjustment H.

¹⁵ Staff Report at 11, Adjustment I.

¹⁶ *Id.*, Adjustment J.

¹⁷ See *e.g.*, Case No. 2016-00163 *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10. 2016).

the NARUC ranges.¹⁸ The Commission finds that this adjustment is reasonable and should be accepted as it is consistent with Commission precedent.

Taxes Other Than Income – Payroll Taxes. In its report, Staff recommended an increase to Knox County Commission’s test-year payroll tax expense of \$2,165 to reflect the prior adjustment to Salaries and Wages Expense discussed above.¹⁹ The Commission finds that this adjustment is reasonable and should be accepted.

REVENUE REQUIREMENT

Based upon the Commission’s findings and determinations herein, Knox County Commission requires an increase in revenues of \$174,563, or 12.77 percent above pro forma present rate revenues as shown below:

Pro Forma Operating Expenses	\$ 1,424,703
Debt Coverage Requirement	155,364
Additional Working Capital	31,073
Overall Revenue Requirement	1,611,140
Less: Other Operating Revenue	(62,320)
Gains (Losses) on Disposition of Property	(1,325)
Interest Income	(6,251)
Revenue Required from Rates	1,541,244
Less: Normalized Revenues from Sewer Sales	(1,366,681)
Required Revenue Increase	\$ 174,563
Percentage Increase	12.77%

¹⁸ *Id.*, Adjustment K.

¹⁹ Staff Report at 12, Adjustment L.

RATE DESIGN

The Commission finds that based on the results of Staff's billing analysis and 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 Knox County Commission's customers. . The Commission finds that the rates set forth in Appendix B to this report are based upon the revenue requirement, are reasonable, and will produce sufficient revenues from water sales to recover the Revenue Required from Rates. These rates will increase a typical residential customer's monthly water bill from \$40.82 to \$46.03, an increase of \$5.21, or approximately 12.76 percent.

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

1. The recommendations contained in the Staff Report are supported by the evidence of record, are reasonable, and as noted above are adopted.
2. The water service rates proposed by Knox County Commission would produce revenues in excess of the amount found reasonable herein and are be denied.
3. The water service rates set forth in the Appendix B to this Order are fair, just, and reasonable and are approved for service rendered on and after the date of this Order.

IT IS THEREFORE ORDERED that:

1. The adjustments and recommendations contained in this order are adopted.
2. The water service rates proposed by Knox County Commission are denied.
3. The rates set forth in the Appendix B to this Order are approved for services rendered by Knox County Commission on and after the date of this Order.

4. Within 20 days of the date of this Order, Knox County Commission 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. This case is closed and removed from the Commission's docket.

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By the Commission

ENTERED
JUL 22 2020
KENTUCKY PUBLIC SERVICE COMMISSION ^{bsb}

ATTEST:



Acting Executive Director

Case No. 2020-00020

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00020 DATED JUL 22 2020

	2018 Annual Report	Pro Forma Adjustments	(Ref.)	Pro Forma Operations
Operating Revenues:				
Revenues from Water Sales:				
Metered Water Sales:	\$ 1,349,838	16,843	(A)	\$ 1,366,681
Unmetered Revenue	106			106
Other Water Revenues:				
Forfeited Discounts		39,180	(B)	39,180
Misc. Service Revenue		15,925	(B)	15,925
Rental Income		1,200	(B)	1,200
Other Water Revenues	<u>62,320</u>	<u>(56,305)</u>	(B)	<u>6,015</u>
Total Other Water Revenues	<u>62,320</u>	<u>0</u>		<u>62,320</u>
Total Operating Revenues	<u>1,412,264</u>	<u>16,843</u>		<u>1,429,107</u>
Operating Expenses:				
Operation & Maintenance:				
Salaries & Wages - Employees	347,281	(4,680)	(C)	346,294
		5,643	(D)	
		(1,950)	(E)	
Salaries & Wages - Officers	14,400	(81)	(E)	14,319
Employee Pension and Benefits	319,181	(29,583)	(F)	199,945
		(88,527)	(G)	
		(1,126)	(E)	
Purchased Water	224,486	(2,747)	(H)	221,739
Purchased Power - Pumping	64,466	(4,497)	(I)	59,969
Purchased Power - Office	644	(4)	(E)	640
Chemicals	89,330			89,330
Contractual Services	27,315	(540)	(J)	26,625
		(150)	(E)	
Tranportation Expense	31,918			31,918
Insurance - General Liability and Other	17,849	(341)	(E)	17,508
Insurance - Vehicle	8,043			8,043
Insurance - Workers Comp	16,421	(92)	(E)	16,329
Bad Debt Expense	19,381			19,381
Miscellaneous Expense	137,189	4,497	(I)	130,515
		(10,920)	(C)	
		(251)	(E)	
Total Operation & Maintenance	<u>1,317,904</u>	<u>(135,349)</u>		<u>1,182,555</u>
Depreciation	216,760	367	(C)	214,561
		(2,566)	(K)	
Taxes Other Than Income	<u>29,752</u>	<u>(2,165)</u>	(L)	<u>27,587</u>
Utility Operating Expenses	<u>\$ 1,564,416</u>	<u>(139,713)</u>		<u>1,424,703</u>
Net Utility Operating Income	<u>\$ (152,152)</u>	<u>\$ 156,556</u>		<u>\$ 4,404</u>
Gains (Losses) on Disposition of Property	1,325			1,325
Total Utility Operating Income	<u>(150,827)</u>	<u>156,556</u>		<u>5,729</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00020 DATED JUL 22 2020

The following rates and charges are prescribed for the customers in the area served by Knox County Utility Commission. 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

5/8- x 3/4-Inch Meter

First	1,000	Gallons	\$ 21.07	Minimum bill
All Over	1,000	Gallons	8.32	per 1,000 Gallons

1-Inch Meter

First	5,000	Gallons	\$ 54.36	Minimum bill
All Over	5,000	Gallons	8.32	per 1,000 Gallons

2-Inch Meter

First	20,000	Gallons	\$ 179.19	Minimum bill
All Over	20,000	Gallons	8.32	per 1,000 Gallons

3-Inch Meter

First	30,000	Gallons	\$ 262.42	Minimum bill
All Over	30,000	Gallons	8.32	per 1,000 Gallons

4-Inch Meter

First	50,000	Gallons	\$ 428.86	Minimum bill
All Over	50,000	Gallons	8.32	per 1,000 Gallons

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