

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BUFFALO	)	
TRAIL WATER ASSOCIATION, INC. FOR A	)	CASE NO.
RATE ADJUSTMENT PURSUANT TO 807 KAR	)	2021-00205
5:076	)	

ORDER

On May 14, 2021, Buffalo Trail Water Association (Buffalo Trail Water) filed an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service.

On August 26, 2021, the Commission issued an Order amending the date of the Commission Staff (Staff) report (Staff Report). Pursuant to the August 26, 2021, adjusted procedural Order schedule, on September 10, 2021, Staff issued the Staff Report summarizing its findings regarding Buffalo Trail Water’s requested rate adjustment. In the Staff Report, Staff found that Buffalo Trail Water’s adjusted test-year operations support an overall revenue requirement of \$842,357 and that an annual revenue increase of \$94,437, or 12.86 percent, is necessary to generate the overall revenue requirement.

On September 13, 2021, Buffalo Trail Water filed with the Commission its comments on the Staff Report.<sup>1</sup> In its response, Buffalo Trail Water did not agree with Staff’s removal of certain labor expenses from nonrecurring charges, but did not wish to contest that adjustment in this case. Buffalo Trail Water concurred with the findings

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<sup>1</sup> Buffalo Trail Water’s Response to Staff Report (filed Sept. 13, 2021) (Response to Staff Report).

presented in the Staff Report regarding water rates and requested that the Commission approve the rates in the Appendix of the report as soon as possible. Buffalo Trail Water did not request that a conference or hearing be held.

On October 27, 2021, the Commission issued an Order to Buffalo Trail Water to issue a one-time notice within 14 days following 807 KAR 5:076, Section 5, of the water rates as reflected in Staff's Report.<sup>2</sup> On November 8, 2021, Buffalo Trail Water filed proof of the one-time notice to their customers.<sup>3</sup>

### LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by 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 to the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, Buffalo Trail Water is allowed to charge its customers "only 'fair, just and reasonable rates.'"<sup>4</sup> Further, Buffalo Trail Water bears the burden of proof to show that the proposed rate increase is just and reasonable, under KRS 278.190(3).

### WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. The Commission notes that in its 2020 Annual Report Buffalo Trail

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<sup>2</sup> Order (requiring re-notification) (Ky. PSC Oct. 27, 2021).

<sup>3</sup> Public Notice tear sheet and affidavit (filed Nov. 8, 2021).

<sup>4</sup> *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Pub. Serv. Comm'n v. Com. Of Kentucky v. Dewit Water District*, 720 S.W.2d 725 (Ky. 1986).

Water reported a water loss of 9.68 percent.<sup>5</sup> Accordingly, at a 9.68 percent water loss, the annual cost to Buffalo Trail Water is \$26,346.<sup>6</sup>

BACKGROUND

Buffalo Trail Water is a water association organized pursuant to KRS Chapter 273. It owns and operates a water distribution system through which it provides water service to approximately 1,571 residential customers and seven commercial customers in Bracken, Harrison, Mason, Nicolas, Pendleton, and Robertson counties, Kentucky.<sup>7</sup> Buffalo Trail Water does not produce any of its own water; rather, it purchases its water from Western Fleming Water District and the Maysville Utility Commission. This is Buffalo Trail Water’s first general rate adjustment filed with the Commission.

TEST PERIOD

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

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<sup>5</sup> *Annual Report of Buffalo Trail Water Association to the Public Service Commission for the Calendar Year Ended December 31, 2020* (Annual Report), at 57.

<sup>6</sup>

	Purchased Water	Purchased Power
Pro Forma Expenses	\$ 263,509	\$ 8,537
Times: Total Water loss	9.68%	9.68%
 Excess Water Loss Reductions	 \$ 25,519	 \$ 827
 Total		 \$ 26,346

<sup>7</sup> Annual Report at 12 and 49.

## SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes Buffalo Trail Water's pro forma income statement as follows:

	<u>2020 Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Staff Report Pro Forma</u>
Operating Revenues	\$ 803,527	\$ (64,681)	\$ 738,846
Operating Expenses	<u>832,608</u>	<u>(59,015)</u>	<u>773,593</u>
Net Operating Income	(29,081)	(5,666)	(34,747)
Interest Income	<u>-</u>	<u>9,074</u>	<u>9,074</u>
Income Available for Debt Service	<u>\$ (29,081)</u>	<u>\$ 3,408</u>	<u>\$ (25,673)</u>

## MODIFICATIONS TO STAFF'S FINDINGS

Buffalo Trail Water proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In the Staff Report, Staff proposed additional adjustments. The Commission accepts the findings contained in the Staff Report.

Billing Analysis Adjustment. In the Staff Report, Staff recommended an increase to Buffalo Trail Water's test-year Water Sales Revenue by \$17,271<sup>8</sup> to reflect the normalization of revenues from monthly water due to a Purchase Water Adjustment (PWA) that occurred during the test year. Buffalo Trail Water provided usage data by meter size, listing the water usage and water sales revenue for the 12-month test year in response to Commission Staff's First Request for Information.<sup>9</sup> Staff calculated a normalized billing analysis with the customer usage data at the PWA increased rates.

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<sup>8</sup> Staff Report at 8–9, Adjustment A.

<sup>9</sup> Buffalo Trail Water's Response to Staff's First Request (filed July 2, 2021), Combined\_Statistics.xlsx.

The normalized revenue from rates was determined by staff to be \$734,218 for all retail customers. The Commission finds that this adjustment is a known and measurable change to Total Metered Sales, is reasonable, and should be accepted.

Water Tap Revenues. In the Staff Report, Staff recommended a decrease to Buffalo Trail Water's test-year Miscellaneous Service Revenues by \$19,650<sup>10</sup> to reflect the removal of water tap revenues. Water tap revenues are considered contributed capital, and it is not proper to recognize the collections of tap fees as revenue. The Commission finds that this adjustment is a known and measurable change to Miscellaneous Service Revenues, is reasonable, and should be accepted.

Interest Income. In the Staff Report, Staff recommended a decrease to Buffalo Trail Water's test-year Miscellaneous Service Revenue and an increase to Interest Income by \$9,074<sup>11</sup> to reflect the reclassification of Interest Income from an Operating Revenue to an Other Income. The Commission finds that this adjustment is a known and measurable change to Miscellaneous Service Revenue and Interest Income, is reasonable, and should be accepted.

Other Water Revenues-Nonrecurring Charges. In the Staff Report, Staff discussed Buffalo Trail Water's Nonrecurring Charges,<sup>12</sup> in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, are removed. In its response to the Staff Report, Buffalo Trail Water stated that it did not agree with the removal of certain nonrecurring charge labor expenses, but did not wish to contest the

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<sup>10</sup> Staff Report at 9–10, Adjustment B.

<sup>11</sup> *Id.* at 10, Adjustment C.

<sup>12</sup> *Id.* at 5–7.

adjustments in this case.<sup>13</sup> The revised Nonrecurring Charges also included an updated mileage rate allowed by the Internal Revenue Service.<sup>14</sup> Staff recommended a reduction to Buffalo Trail's test-year Other Water Revenues of \$2,438<sup>15</sup> to reflect the change in the nonrecurring charges. The Commission finds that this adjustment is a known and measurable change to Other Water Revenues, is reasonable, and should be accepted.

Other Water Revenues. In the Staff Report, Staff recommended a decrease to Buffalo Trail Water's test-year Other Water Revenues of \$50,790<sup>16</sup> to reflect a reimbursement for relocating a water line for Robertson County School. The Commission finds that this adjustment is a known and measurable change to Other Water Revenues, is a one-time revenue stream, and therefore, is reasonable, and should be accepted.

Expenses Related to Meter Installations. In the Staff Report, Staff recommended a decrease to Buffalo Trail Water's test-year Salaries and Wages-Employees of \$13,675, and Material and Supplies of \$14,756<sup>17</sup> to reflect the expenses related to the installation of 29 new water connections. The Commission finds that this adjustment is a known and measurable change to Salaries and Wages-Employees and Materials and Supplies, is reasonable, and should be accepted.

Taxes Other Than Income-Reconciliation. In the Staff Report, Staff recommended a decrease to Buffalo Trail Water's test-year Salaries and Wages-Employees and an

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<sup>13</sup> Response to Staff Report.

<sup>14</sup> Staff Report at 6.

<sup>15</sup> *Id.* at 6 and 10, Adjustment D.

<sup>16</sup> *Id.* at 10, Adjustment E.

<sup>17</sup> *Id.* at 10-11, Adjustment F.

increase to Taxes other than Income expense of \$10,664<sup>18</sup> to reflect the reclassification of accounts 60300 FICA/Medicare Tax Expense and 60400 Unemployment Expenses. The Commission finds that this adjustment is a known and measurable change to Salaries and Wages—Employees and Taxes Other Than Income, is reasonable, and should be accepted.

Employee Pensions and Benefits. In the Staff Report, Staff recommended a decrease to Buffalo Trail Water’s Employee Pensions and Benefits of \$1,056<sup>19</sup> to reflect the adjustment of Single Health Insurance premiums paid by Buffalo Trail Water from 100 percent to 78 percent. The Commission finds that this adjustment is a known and measurable change to Employee Pensions and Benefits, is reasonable, and should be accepted.

Salaries and Wages-Officers. In the Staff Report, Staff recommended an increase to Buffalo Trail Water’s test-year Wages and Salaries-Officers expense of \$14,000<sup>20</sup> to reflect the reclassification of salaries and wages paid to board members from Salaries and Wages—Employees to Salaries and Wages—Officers. The Commission finds that this adjustment is a known and measurable change to Salaries and Wages—Employees and Salaries and Wages Officers, is reasonable, and should be accepted.

Purchased Water. In the Staff Report, Staff recommended an increase in Purchased Water Expense of \$18,059<sup>21</sup> to reflect the normalization of the increased cost

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<sup>18</sup> *Id.* at 11, Adjustment G.

<sup>19</sup> *Id.* at 11–13, Adjustment H.

<sup>20</sup> *Id.* at 13–14, Adjustment I.

<sup>21</sup> *Id.* at 14–15, Adjustment J.

of water that Western Fleming is charging Buffalo Trail Water. The Commission finds that this adjustment is a known and measurable change to Purchased Water, is reasonable, and should be accepted.

Depreciation Expense. In the Staff Report, Staff recommended a decrease to Buffalo Trail Water's test-year Depreciation Expense of \$48,256<sup>22</sup> to reflect the adjustment of the useful life of capital assets to the midpoint of the National association of Regulatory Utility Commissioners depreciation study. The Commission finds that this adjustment is a known and measurable change to Depreciation Expense, is reasonable, and should be accepted.

Capitalization of Test-Year Water Taps. In the Staff Report, Staff recommended an increase to Buffalo Trail Water's test-year Depreciation Expense of \$669<sup>23</sup> to reflect the capitalization of the labor expenses and materials and supplies associated with the installation of new water connections. The Commission finds that this adjustment is a known and measurable change to Depreciation Expense, is reasonable, and should be accepted.

Based on the Commission's findings discussed above, the following table summarizes Buffalo Trail Water's adjusted pro forma operations:<sup>24</sup>

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<sup>22</sup> *Id.* at 15–16, Adjustment K.

<sup>23</sup> *Id.* at 16, Adjustment L.

<sup>24</sup> See Appendix A for a complete pro forma.

	<u>Staff Report Pro Forma</u>	<u>Commission Adjustments</u>	<u>Final Pro Forma</u>
Total Operating Revenues	\$ 738,846	\$ -	\$738,846
Utility Operating Expenses	<u>773,593</u>	<u>-</u>	<u>773,593</u>
Net Operating Income	(34,747)	-	(34,747)
Interest Income	<u>9,074</u>	<u>-</u>	<u>9,074</u>
Income Available for Debt Service	<u>\$ (25,673)</u>	<u>\$ -</u>	<u>\$ (25,673)</u>

### REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Buffalo Trail Water requires an increase in revenues of \$94,437, or 12.86 percent above pro forma present rate revenues, as shown below:

Pro Forma Operating Expenses	\$ 773,593
Plus: Avg. Annual Principal and Interest Payments	57,303
Additional Working Capital	<u>11,461</u>
Total Revenues Requirement	842,357
Less: Other Operating Revenue	(4,628)
Interest Income	-
Misc. Income	<u>(9,074)</u>
Revenue Required From Water Sales	\$ 828,655
Revenue from Sales at Present Rates	<u>\$ (734,218)</u>
Required Revenue Increase	<u>94,437</u>
Percentage Increase	<u>12.86%</u>

### RATE DESIGN

Buffalo Trail Water proposed an across-the-board 6.22 percent increase to its monthly water rates. Buffalo Trail Water did not perform a cost of service study (COSS).

Buffalo Trail Water stated that it did not complete a COSS at this time, as there has not been any material change in the water system to warrant a COSS.<sup>25</sup>

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 Staff Report, Staff followed the method proposed by Buffalo Trail Water and allocated the revenue increase of \$94,437 across the board to Buffalo Trail Water's monthly retail water service rates. Buffalo Trail Water concurred with Staff's findings as to water rates<sup>26</sup> and requested approval of the rates listed in the Staff Report Appendix.

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 \$828,655 Revenue Required from Water Sales, an approximate 12.86 percent increase over normalized test-year water sales of \$734,218. These rates will increase the monthly bill of a typical residential customer using 4,221 gallons a month from \$37.63 to \$42.49, an increase of \$4.86, or approximately 12.91 percent.

### SUMMARY

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

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.

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<sup>25</sup> Response to Staff's First Request for Information (filed July. 2, 2021), Item 10.a.

<sup>26</sup> Response to Staff Report.

2. The Commission has historically used a DSC method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Application of the Commission's DSC method to Buffalo Trail Water's pro forma operations results in an Overall Revenue Requirement of \$842,357. A revenue increase of \$94,437 from water service rates is necessary to generate the overall revenue requirement.

3. The water service rates proposed by Buffalo Trail Water should be denied.

4. The water service rates set forth in the Appendix B to this Order are fair, just and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The general service rates proposed by Buffalo Trail Water are denied.

3. The rates set forth in the Appendix B to this Order are approved for services rendered by Buffalo Trail Water on and after the date of this Order.

4. Within 20 days of the date of entry of this Order, Buffalo Trail Water 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. Buffalo Trail Water 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 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.

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

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By the Commission

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KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2021-00205

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00205 DATED DEC 10 2021

	<u>Test Year</u>	<u>Staff Report Adjustment</u>	<u>Commission Adjustments</u>	<u>Final Pro- Forma</u>
Operating Revenues				
Total Metered Sales	\$ 716,947	\$ 17,271		\$ 734,218
Other Water Revenues				
Misc. Service Revenues	28,724	(19,650)		
		(9,074)		-
Other Water Revenues	57,856	(2,438)		
		(50,790)		4,628
Total Operating Revenues	<u>\$ 803,527</u>	<u>\$ (64,681)</u>	<u>\$ -</u>	<u>\$ 738,846</u>
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	148,284	(13,675)		
		(10,664)		
		(1,056)		
		(14,000)		108,889
Salaries and Wages - Officers		14,000		14,000
Employee Pensions and Benefits				
Purchased Water	245,450	18,059		263,509
Purchased Power				
Materials and Supplies	11,269	(14,756)		(3,487)
Contractual Services	155,193			155,193
Insurance	7,995			7,995
Commission Expense	1,403			1,403
Bad Debt	24,168			24,168
Miscellaneous Expense	30,838			30,838
Total Operation and Maintenance Expenses	624,600	(22,092)	-	602,508
Depreciation	176,712	(48,256)		
		669		129,125
Amortization	31,296	-		31,296
Taxes Other Than Income	-	10,664		10,664
Utility Operating Expenses	<u>832,608</u>	<u>(59,015)</u>	<u>-</u>	<u>773,593</u>
Utility Operating Income	(29,081)	(5,666)	-	(34,747)
Interest Income		9074		9,074
Income Available to Service Debt	<u>\$ (29,081)</u>	<u>\$ 3,408</u>	<u>\$ -</u>	<u>\$ (25,673)</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00205 DATED DEC 10 2021

The following rates and charges are prescribed for the customers in the area served by Buffalo Trail Water. 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

5/8- x 3/4-Inch Meter

First 1,000 Gallons	\$ 17.43	Minimum Bill
Next 4,000 Gallons	0.00778	Per gallon
Next 5,000 Gallons	0.00575	Per gallon
Over 10,000 Gallons	0.00524	Per gallon

3/4-Inch Meter

First 5,000 Gallons	\$ 48.53	Minimum Bill
Next 5,000 Gallons	0.00575	Per gallon
Over 10,000 Gallons	0.00524	Per gallon

1-Inch Meter

First 10,000 Gallons	\$ 77.26	Minimum Bill
Over 10,000 Gallons	0.00524	Per gallon

1 1/2-Inch Meter

First 15,000 Gallons	\$ 103.44	Minimum Bill
Over 15,000 Gallons	0.00524	Per gallon

2-Inch Meter

First 20,000 Gallons	\$ 129.62	Minimum Bill
Over 20,000 Gallons	0.00524	Per gallon

4-Inch Meter

First 40,000 Gallons	\$ 252.30	Minimum Bill
Over 40,000 Gallons	0.00524	Per gallon

Wholesale Rates

Mt. Olivet Water Company	0.00304	Per gallon
Nicholas County Water District	0.00372	Per gallon

Nonrecurring Charges

Meter Connection/Tap-On Charge	\$ 1,176.00
Meter Turn-On Charge	16.80
Meter Test Charge	74.80
Meter Re-read Charge	16.80
Service Call/ Investigation Charge	16.80
Service Reconnection Charge	21.00
Returned Check Charge	9.00
Lock Removal	22.00

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