

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WESTERN)	
PULASKI COUNTY WATER DISTRICT FOR A)	CASE NO.
RATE ADJUSTMENT PURSUANT TO 807 KAR)	2021-00445
5:076)	

ORDER

On December 7, 2021, Western Pulaski County Water District (Western Pulaski District) filed an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. The application was filed pursuant to the Commission’s Order in Case No. 2020-00331, which explained that Western Pulaski District Debt Service Coverage (DSC) ratio was projected to fall below the 1.2X threshold established by its lenders.¹ Western Pulaski District was directed to file either a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 to ensure its revenue is sufficient to support adequate and reliable service. Western Pulaski District’s last base rate increase was in Case No. 2006-00370.² In its application, Western Pulaski District

¹ Case No. 2020-00331, *Electronic Application of the Western Pulaski County Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct a Water System Improvements Project and an Order Authorizing the Issuance of Securities Pursuant to the Provisions of KRS 278.030, KRS 278.300 and 807 KAR 5:001* (Ky. PSC Dec. 17, 2020), Order at 5 and 12, ordering paragraph 14.

² Case No. 2006-00370, *The Application of the Western Pulaski County Water District for Approval of Increased Rates for Water Service* (Ky. PSC Dec. 12, 2006).

requested rates that would increase annual water sales revenues by \$622,923, an 18.83 percent across-the-board increase to pro forma present rate water sales revenues.³

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated December 17, 2022. Western Pulaski District responded to two discovery requests from Commission Staff. On April 6, 2022, the Commission amended the procedural schedule and set a new procedural date of April 26, 2022, for the issuance of the Commission Staff's Report.

In the Commission Staff's Report, Commission Staff determined that Western Pulaski District's adjusted test-year operations support an overall revenue requirement of \$4,052,433 and that an annual revenue increase of \$744,558, or 22.51 percent to the retail base rates, is necessary to generate the overall revenue requirement. Commission Staff also recommended the Commission approve Western Pulaski District's requested water loss surcharge of \$1.70 per customer for 48 months.

On May 6, 2022, Western Pulaski District filed with the Commission its comments on the Commission Staff's Report in which it accepted all adjustments contained in Commission Staff's report but indicated it did not agree with the removal of certain labor expenses from nonrecurring charges. Western Pulaski District noted that its failure to object to Commission Staff's findings concerning the reduction of labor costs from its nonrecurring charges should not be construed as a waiver of Western Pulaski District's right to contest a similar finding in a future rate proceeding. With its comments, Western Pulaski District did not request that a conference or hearing be held.⁴

³ Application, ARF Form 1 at 2.

⁴ Letter from Don Calder, Chairman of Western Pulaski County Water District (filed May 6, 2022).

In its Order dated July 25, 2022, the Commission directed Western Pulaski District to publish a one-time notice, following the requirements of 807 KAR 5:076, Section 5, of its amended water rates, the revised nonrecurring charges, and its requested water loss reduction surcharge. On August 12, 2022, Western Pulaski District submitted the requested proof that the customer notice was published on August 6, 2022, in the Commonwealth Journal newspaper.

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, Western Pulaski District is allowed to charge its customers "only fair, just and reasonable rates."⁵ Further, Western Pulaski District bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

WATER LOSS

Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of the total water produced and purchased, excluding water consumed by a utility in its own operations. In Western Pulaski District's 2020 Annual Report, Western Pulaski District

⁵ *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).

reported a water loss of 27.67 percent.⁶ At 27.67 percent water loss, the annual cost to Western Pulaski Water District of water above the allowable 15 percent is \$183,364⁷ while the annual cost to Western Pulaski District is \$400,449.⁸

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. In recognition of this Western Pulaski District requested to implement a water loss reduction surcharge in their application as the Commission strongly encourages utilities to pursue reasonable actions to reduce its unaccounted-for water loss.

BACKGROUND

Western Pulaski District is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 9,055 residential customers and 40 commercial customers that reside in Pulaski, Russell, and Wayne counties, Kentucky.⁹ Western Pulaski District does not produce any of its own water; rather, it purchases its water from the city of Somerset,

⁶ *Annual Report of Western Pulaski County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2020 (2020 Annual Report) at 57-58.*

⁷	Purchased Water from 2020 Annual Report	\$1,353,614
	Purchased Power	<u>93,618</u>
	Total Cost of Water	1,447,232
	Times: Total Water Loss above 15%	12.67%
	Total Cost of Water Loss	<u>\$ 183,364</u>

⁸	Purchased Water from 2020 Annual Report	\$1,353,614
	Purchased Power	<u>93,618</u>
	Total Cost of Water	1,447,232
	Times: Total Water Loss	27.67%
	Total Cost of Water Loss	<u>\$ 400,449</u>

⁹ 2020 Annual Report at 12 and 49.

Kentucky. This is Western Pulaski District's first general rate adjustment since December 12, 2006.

TEST PERIOD

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

SUMMARY OF REVENUE AND EXPENSES

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

	2020 Test Year	Pro Forma Adjustments	Staff Report Pro Forma
Operating Revenues	\$ 3,359,390	\$ 8,663	\$ 3,368,053
Operating Expenses	<u>3,213,563</u>	<u>(51,768)</u>	<u>3,161,795</u>
Net Operating Income	145,827	60,431	206,258
Interest Income	19,156		19,156
Nonutility Income	<u>16,351</u>		<u>16,351</u>
Income available for Debt Service	<u>\$ 181,334</u>	<u>\$ 60,431</u>	<u>\$ 241,765</u>

REVIEW MODIFICATIONS TO COMMISSION STAFF'S RECOMMENDATIONS

Western Pulaski District's proposed adjustments to 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 recommendations contained in the Commission Staff's Report. Regarding any further modifications, the Commission has none.

REVENUE REQUIREMENTS

Billing Analysis Adjustment. In the Commission Staff's Report, Commission Staff recommended the Commission accept Western Pulaski District's proposed increase of \$6,742 to Total Metered Water Sales, based on Western Pulaski District's current billing analysis.¹⁰ The Commission finds that this adjustment is reasonable as an examination of Western Pulaski District's billing analysis was completed by Commission Staff and a normalized revenue was based on the information provided.

Late Payment Charges. In the Commission Staff's Report, Commission Staff recommended accepting Western Pulaski District's proposed increase to the test year's Other Water Revenues by \$38,101 to reflect the normalization of Forfeited Discounts to account for the moratorium regarding the collection of late payment fees from March through December 2020 due to the COVID-19 pandemic.¹¹ This amount was based on the revenue received from Forfeited Discounts in 2019. Due to Western Pulaski District not properly separating Forfeited Discounts from Other Water Revenues on its annual reporting to the Commission, Commission Staff was unable to follow recent Commission precedent in normalizing late payment fees based upon the 2017-2019 three-year average.¹² In the Commission Staff's Report, Commission Staff requested that in its comments to the Commission Staff's Report, Western Pulaski District provide its annual Late Payment Charge revenues for the calendar years 2017 through 2021. Western

¹⁰ Commission Staff's Report at 9, Adjustment A.

¹¹ Commission Staff's Report at 9, Adjustment B.

¹² See Case No. 2021-00425, *Electronic Application of Corinth Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 25, 2022), final Order at 5.

Pulaski District did not respond to the request. Therefore, the Commission finds that Commission Staff's adjustment is the most accurate account of late payment fees, is a known and measurable change¹³ to Other Water Revenues, is reasonable, and should be accepted. The Commission urges Western Pulaski District to thoroughly review all Commission related documents and respond to any requests made in the future.

Nonrecurring Charges. In the Commission Staff's Report, Commission Staff discussed Western Pulaski District's Nonrecurring Charges, in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, are removed. Commission Staff recommended revised Nonrecurring Charges and a reduction to Other Operating Revenues of \$36,180.¹⁴ In response to the Commission Staff's Report, Western Pulaski District did not agree with the removal of labor expenses from certain nonrecurring charges but did not wish to contest the adjustment at this time.¹⁵

The Commission continues to follow its previous decisions regarding Nonrecurring Charges: personnel are paid during normal business hours and their salaries are

¹³ See, 807 KAR 5:001, Section 16.1.(a); 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).

¹⁴ Commission Staff's Report at 9, Adjustment C.

¹⁵ Letter from Don Calder, Chairman of Western Pulaski County Water District (filed May 6, 2022).

recovered through rates.¹⁶ Allowing a utility to recover the same labor expense twice is not fair, just and reasonable. Therefore, estimated labor costs previously included in determining the amount of Nonrecurring Charges shall be eliminated from the charges. The Commission finds that the calculation of Nonrecurring Charges shall be revised and only the marginal costs related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. The Commission requires that charges be directly related to the actual cost incurred to provide the service. It is unreasonable to allocate an expense already incurred as a day-to-day cost of maintaining a system, such as the salary of a distribution operator, to a nonrecurring service such as the connection and reconnection of a meter during normal working hours. The perceived unfairness from removal of these costs does not outweigh the mismatch of costs and revenues. This approach to ratemaking is entirely consistent with the Commission's history of ensuring that rates reflect, to a reasonable degree, the principle of cost causation while simultaneously taking into account the health of the utility and the ability of the utility to provide the adequate, efficient and reasonable provision of service. The implementation of rates that significantly deviate from the actions and expenses underlying the service provided can create material issues with a utility's ability to meet its approved revenue requirement, particularly a utility with razor thin margins. In keeping with precedent, the Commission finds this adjustment to be reasonable.

The nonrecurring charges shall each be reduced by the estimated labor costs stated in the cost justification sheets. The Commission finds the revised nonrecurring

¹⁶ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

charges set out in Appendix B and the adjustment of (\$36,180) to Other Water Revenue is reasonable.

Tap Fees. In its application, Western Pulaski District proposed to decrease pro forma Wages and Materials and Supplies expense by \$85,456 to remove labor and materials expended towards new meter installations. Commission Staff reviewed Western Pulaski District's 2020 adjusting journal entries that were supplied by the auditor and noted that \$288,768 in expenses related to meter installations was already capitalized on Western Pulaski District's depreciation schedule for 2020. Therefore, Commission Staff made no further adjustment to pro forma expenses stating it was unnecessary and did not reflect Western Pulaski District's proposed adjustment in pro forma operations.¹⁷ The Commission agrees with Commission Staff and finds that no adjustment to pro forma expenses is reasonable and is accepted.

Salaries and Wages. In the Commission Staff's Report, Commission Staff recommended an increase to Western Pulaski District's Salaries and Wages of \$77,767 and a corresponding increase to Taxes Other than Income of \$1,951 for payroll taxes.¹⁸ This adjustment reflects increases in wages for the conversion of two part-time employees to full-time employment. The Commission finds that this adjustment is a known and measurable change to Salaries and Wages and Taxes Other than Income, is reasonable, and is accepted.

Retirement Expense. In the Commission Staff's Report, Commission Staff recommended that the Commission accept Western Pulaski District's proposal to

¹⁷ Commission Staff's Report at 10, Adjustment D.

¹⁸ Commission Staff's Report at 10, Adjustment E.

increase Employee Pensions and Benefits by \$34,068 to normalize expenses related to Western Pulaski District's contributions to the County Employees' Retirement System.¹⁹ The Commission finds that this adjustment is a known and measurable change to test year operations, is reasonable, and is accepted.

Employee Pensions and Benefits. In Commission Staff's Report, Commission Staff recommended that the Commission accept Western Pulaski District's proposed decrease to Employee Pensions and Benefits by \$24,385 to reflect the net result of decreases to health insurance premiums experienced subsequent to the test period and to reduce premiums paid by Western Pulaski District to the Bureau of Labor Statistics national average for single health coverage and dental coverage.²⁰ The Commission finds that this adjustment is a known and measurable change to test year operations, is reasonable, and is accepted.

Water Loss. Western Pulaski District's test year water loss was 27.67 percent.²¹ Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes unless the Commission finds an alternative level is reasonable. In the Commission Staff's Report, Commission Staff recommended that the Commission accept the calculation of the Purchased Water and Purchased Power expense where the calculation of the disallowed water loss was based upon the pro forma Purchased Water. Based upon that calculation, Commission Staff recommended accepting Western Pulaski

¹⁹ Commission Staff's Report at 11, Adjustment F.

²⁰ Commission Staff's Report at 11, Adjustment G.

²¹ Application, Attachment 4, Adjustment H.

District's water loss adjustment and decrease Purchased Water and Purchased Power expense by \$171,494 and \$10,149, respectively.²² The Commission finds that this adjustment is a known and measurable change to Purchased Water, is reasonable, and is accepted.

Governmental Accounting Standards Board Statement No. 68 and No 75 (GASB 68 and 75). In the Commission Staff's Report, Commission Staff recommended that the Commission accept Western Pulaski District's proposal to reduce Miscellaneous Expense by \$117,594 to conform to the requirements of the GASB 68 and 75.30.²³ The Commission finds that this adjustment is a known and measurable change to test year operations, is reasonable, and is accepted.

Depreciation Expense. In Commission Staff's Report, Commission Staff agreed with Western Pulaski District's increase to Depreciation Expense of \$158,068 to reflect the adjustment of the useful life of capital assets to the midpoint of the National Association of Regulatory Utility Commissioners (NARUC) depreciation study.²⁴ The Commission finds that this adjustment is a known and measurable change to Depreciation expense, is reasonable, and is accepted.

Based on the Commission's findings discussed above, the following table summarizes Western Pulaski District's adjusted pro forma operations.²⁵

²² Commission Staff's Report, at 12, Adjustment H.

²³ Commission Staff's Report, at 12-13, Adjustment I.

²⁴ Commission Staff's Report, at 13, Adjustment J.

²⁵ See, Appendix A for a complete pro forma income statement.

	Staff Report Pro Forma	Commission Adjustments	Final Pro Forma
Operating Revenues	\$ 3,368,053	N/A	\$ 3,368,053
Operating Expenses	<u>3,161,795</u>	<u>N/A</u>	<u>3,161,795</u>
Net Operating Income	206,258	N/A	206,258
Interest Income	19,156	N/A	19,156
Nonutility Income	<u>16,351</u>	<u>N/A</u>	<u>16,351</u>
Income available for Debt Service	<u>\$ 241,765</u>	<u>N/A</u>	<u>\$ 241,765</u>

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Western Pulaski District requires an increase in revenues of \$744,558, or 22.51 percent above pro forma present rate revenues, as shown below. This increase is required for Western Pulaski District to remain operationally and financially sound while providing adequate, efficient and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 3,161,795
Plus: Average Annual Principal and Interest Payments	821,936
Additional Working Capital	<u>164,387</u>
Overall Revenue Requirement	4,414,818
Less: Other Operating Revenue	(60,178)
Interest Income	(19,156)
Nonutility Income	<u>(16,351)</u>
Revenue Required from Rates	4,052,433
Less: Pro Forma Present Rate Service Revenues	<u>(3,307,875)</u>
Required Revenue Increase	<u>\$ 744,558</u>
Percentage Increase	22.51%

RATE DESIGN

Western Pulaski District proposed to increase its monthly retail water service rates evenly across the board by approximately 18.83 percent. Western Pulaski District has

not performed a cost-of-service study (COSS). Western Pulaski District stated that it did not complete a COSS because there has not been any material change in the water system to warrant a COSS.²⁶

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 Commission Staff's Report, Commission Staff followed the method proposed by Western Pulaski District and allocated Commission Staff's calculated revenue increase across the board to Western Pulaski District's monthly retail water service rates.

In an effort to avoid a significant hardship on Western Pulaski District's customers, the Commission finds that a three-year phase-in approach is appropriate. Although applying a three-year phase-in will not allow for depreciation reserves to be fully funded in the first and second years, it will allow for adequate revenues to cover expenses and debt service and a portion of the depreciation reserves. 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 \$4,052,433 Revenue Required from Rates, an approximate 22.51 percent increase. The rates in Phase 1 will increase a typical residential customer's monthly water bill from \$36.51 to \$39.24, an increase of \$2.73, or approximately 7.48 percent.²⁷ The rates in Phase 2 will increase a typical residential customer's monthly water bill from the Phase 1

²⁶ Western Pulaski District's Response to Commission Staff's First Request for Information (filed Jan. 12, 2022) (Response to Commission Staff's First Request), Item 5.a.

²⁷ The typical residential customer uses approximately 4,000 gallons per month.

rates from \$39.24 to \$41.96, an increase of \$2.72, or approximately 6.93 percent. The rates in Phase 3 will increase a typical residential customer's monthly water bill from the Phase 2 rates from \$41.96 to \$44.69, an increase of \$2.73, or approximately 6.51 percent.

WATER LOSS SURCHARGE

In the Commission Staff's Report, Commission Staff recommended the Commission approve Western Pulaski District's requested \$1.70 per customer per month surcharge and apply the resulting funds towards water loss reduction efforts.²⁸ The surcharge would produce \$155,750 per year for total collections over the four years of \$623,000.²⁹ The annual surcharge collection reflects the amount disallowed for excessive water loss pursuant to 807 KAR 5:066, Section 6(3). The use of a surcharge is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for water loss.³⁰ In establishing water-loss surcharges, the Commission recognized that the adjustments required comply with the 15 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water district's ability to take the necessary action to focus on its leak detection and repair. Using a surcharge to fund a water utility's water loss reduction efforts allows the

²⁸ Commission Staff's Report, at 7-8.

²⁹ Application, Attachment No. 2, Reason for Application.

³⁰ See Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges* (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); and Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2020).

Commission to place strict controls governing the surcharge proceeds to ensure their effective use, public acceptance of the surcharge and public confidence in the water district's use of those funds. In its report entitled, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* that was fully incorporated in the final Order in Case No. 2019-00041, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.³¹

Therefore, the Commission finds that a monthly surcharge is a reasonable means for Western Pulaski District to recover the cost of its efforts in water leak detection and repair in order to reduce the increased expense and lost revenue from unaccounted-for water loss. The Commission finds that a monthly water loss reduction surcharge of \$1.70 per customer over 48 months should be approved. Western Pulaski District should be restricted to expending any funds collected under the surcharge subject to authorization by the Commission. Western Pulaski District should file a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities, a time schedule for eliminating each source of unaccounted-for water loss, and provides a detailed spending plan for the proceeds of the requested surcharge. The proceeds from the surcharge shall be kept in a separate, interest-bearing account. Including the surcharge, the rates in Phase 1 will increase a typical residential

³¹ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* at 24–25.

customer's monthly water bill from \$36.51 to \$40.94, an increase of \$4.43, or approximately 12.13 percent. The rates in Phase 2 will increase a typical residential customer's monthly water bill from the Phase 1 rates from \$40.94 to \$43.66, an increase of \$2.72, or approximately 6.64 percent. The rates in Phase 3 will increase a typical residential customer's monthly water bill from the Phase 2 rates from \$43.66 to \$46.39, an increase of \$2.73, or approximately 6.25 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 and discussed above 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 Western Pulaski District's pro forma operations results in an Overall Revenue Requirement of \$4,052,433 and, based upon pro forma present rate service revenues of \$3,037,875, a revenue increase of \$744,558 from water service rates is necessary to generate the overall revenue requirement. The Commission finds that allocating the calculated revenue increase across the board to Western Pulaski District's monthly retail water service rates and to phase this increase over three years to be fair, just and reasonable.

The Commission further finds that Western Pulaski should be authorized to assess a monthly water surcharge of \$1.70 per customer for 48 months, or until \$623,000 has been assessed, whichever occurs first, to fund its unaccounted-for water loss reduction

efforts. The Commission shall open a separate case to monitor the surcharge collection and expenses with the following conditions:

1. Within 120 days of the date of this Order, Western Pulaski District shall file with the Commission a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provided a detailed spending plan for the proceeds of a surcharge;

2. Western Pulaski District shall deposit surcharge collection in a separate inter-bearing account;

3. Western Pulaski District shall file monthly activity reports with the Commission that include a statement of monthly surcharge billings and collections, a monthly surcharge bank statement, a list of each payment from the account, its payee, and a description of the purpose, and invoice supporting each payment;

4. Western Pulaski District shall file monthly water loss reports with the Commission;

5. Surcharge proceeds shall not be used to reimburse Western Pulaski District for unaccounted-for water loss reduction expense incurred prior to the date of this Order;

6. Western Pulaski Districts surcharge and water loss detection and repair program is subject to annual Commission reviews that will examine the progress of the water loss detection and repair program and expenditures made with surcharge proceeds and consider adjustments to the program and the surcharge amount; and

7. Western Pulaski District's failure to comply with any conditions attached to the assessment of the surcharge will result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of the expenses and projects approved by the Commission.

IT IS THEREFORE ORDERED that:

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

2. The water service rates proposed by Western Pulaski District are denied.

3. Phase 1 rates set forth in Appendix B to this Order are approved for services rendered by Western Pulaski District on and after the date of service of this Order.

4. Phase 2 rates set forth in Appendix B to this Order are approved for services rendered by Western Pulaski District one year following the date of service of this Order.

5. Phase 3 rates set forth in Appendix B to this Order are approved for services rendered by Western Pulaski District one year following the date of service of this Order.

6. One month prior to the effective date of the Phase 2 rates, Western Pulaski District shall notify its customers of the implementation of the Phase 2 rates by publishing one-time notice of the increase in a newspaper of general circulation in its territory or placing an insert in bills rendered to its customers.

7. One month prior to the effective date of the Phase 3 rates, Western Pulaski District shall notify its customers of the implementation of the Phase 3 rates by publishing one-time notice of the increase in a newspaper of general circulation in its territory or placing an insert in bills rendered to its customers.

8. Within 45 days of publishing notice required in ordering paragraphs 6 and 7, Western Pulaski District shall file proof of publication of the notice to the Commission as required pursuant to 807 KAR 5:076, Section 5(3).

9. Within 20 days of the date of service of this Order, Western Pulaski 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.

10. Western Pulaski District is authorized to assess a monthly water surcharge of \$1.70 per customer for 48 months, or until \$683,000 has been assessed, whichever occurs first, to fund its unaccounted-for water loss reduction efforts to the conditions set forth in ordering paragraph 11.

11. The Commission shall open a separate proceeding, Case No. 2022-00312 to monitor the surcharge proceeds collection and expenses, subject to the following conditions:

a. Within 120 days of the date of service of this Order, Western Pulaski District shall file with the Commission a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. Western Pulaski District shall deposit surcharge collections in a separate interest-bearing account. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Western Pulaski District shall file with the Commission a monthly activity report that includes a

statement of monthly surcharge billings and collections; a monthly surcharge bank statement; a list of each payment from the account, its payee, a description of the purpose; and invoices supporting each payment.

c. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Western Pulaski District shall file a monthly water loss report with the Commission.³²

d. Western Pulaski District shall not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

e. Western Pulaski District shall consider all surcharge collections as contributions and shall account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

f. Western Pulaski District shall debit monthly billings for the surcharge to customers' accounts receivable and credit the contribution account.

g. When Western Pulaski District collects the surcharge from the customers, it shall debit special funds and credit the customer account.

h. One year after the date of service of this Order and annually thereafter, Western Pulaski District shall file, in Case No. 2022-00312, a schedule of the estimated and actual progress of the water loss detection and repair program and estimated and actual expenditures made with surcharge proceeds for the purpose of evaluating whether adjustments to the program or to the surcharge amount are required.

³² The report format is found at <https://psc.ky.gov/Home/UtilForms> under "Water Use & Loss Calculations (Excel format)."

12. Western Pulaski District's failure to comply with any of the conditions set forth in ordering paragraph 11 shall result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

13. Western Pulaski District shall use the midpoint of the depreciable lives of the NARUC ranges, as proposed in the application and agreed upon by Commission 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.

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

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PUBLIC SERVICE COMMISSION



Chairman

Vice Chairman



Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00455 DATED SEP 27 2022

	Test Year	Staff Report Adjustment	Commission Adjustments	Final Pro Forma
Operating Revenues				
Sales of Water	\$ 3,301,133	\$ 6,742		\$ 3,307,875
Other Water Revenues	58,257	38,101		
	<u> </u>	<u>(36,180)</u>		<u>60,178</u>
 Total Operating Revenues	 <u>3,359,390</u>	 <u>8,663</u>		 <u>3,368,053</u>
 Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	443,097			
		77,767		520,864
Salaries and Wages - Commissioners	11,550			11,550
Employee Pensions and Benefits	198,248	34,068		
		(24,385)		207,931
Purchased Water	1,353,614	(171,494)		1,182,120
Purchased Power for Pumping	93,618	(10,149)		83,469
Materials and Supplies	140,247			140,247
Contractual Services	178,895			178,895
Transportation Expense	25,507			25,507
Insurance	59,026			59,026
Bad Debt Expense	15,679			15,679
Miscellaneous Expense	148,022	(117,594)		30,428
	<u> </u>	<u> </u>		<u> </u>
Total Operation and Maintenance Expenses	2,667,503	(211,787)		2,455,716
Taxes Other Than Income	44,666	1,951		46,617
Depreciation	501,394	158,068		659,462
	<u> </u>	<u> </u>		<u> </u>
 Total Operating Expenses	 <u>3,213,563</u>	 <u>(51,768)</u>		 <u>3,161,795</u>
 Net Operating Income	 145,827	 60,431		 206,258
Interest Income	19,156			19,156
Nonutility Income	16,351			16,351
	<u> </u>	<u> </u>		<u> </u>
 Income Available to Service Debt	 <u>\$ 181,334</u>	 <u>\$ 60,431</u>		 <u>\$ 241,765</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00445 DATED SEP 27 2022

The following rates and charges are prescribed for the customers in the area served by Western Pulaski 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 Water Rates
Phase 1

<u>5/8- x 3/4-Inch Meter</u>		
First 2,000 Gallons	\$ 18.90	Minimum Bill
Over 2,000 Gallons	0.00678	per gallon
<u>1-Inch Meter</u>		
First 10,000 Gallons	\$ 72.91	Minimum Bill
Over 10,000 Gallons	0.00678	per gallon
<u>1 1/2-Inch Meter</u>		
First 15,000 Gallons	\$106.66	Minimum Bill
Over 15,000 Gallons	0.00678	per gallon
<u>2-Inch Meter</u>		
First 20,000 Gallons	\$140.32	Minimum Bill
Over 20,000 Gallons	0.00678	per gallon
<u>3-Inch Meter</u>		
First 30,000 Gallons	\$207.93	Minimum Bill
Over 30,000 Gallons	0.00678	per gallon
Leak Adjustment	\$ 0.00432	per gallon
Water Loss Reduction Surcharge	\$ 1.70	per customer

Monthly Water Rates
Phase 2

To be implemented one year following Phase 1

<u>5/8- x 3/4-Inch Meter</u>		
First 2,000 Gallons	\$ 20.21	Minimum Bill

Over 2,000 Gallons	0.00725	per gallon
<u>1-Inch Meter</u>		
First 10,000 Gallons	\$ 78.00	Minimum Bill
Over 10,000 Gallons	0.00725	per gallon
<u>1 ½-Inch Meter</u>		
First 15,000 Gallons	\$114.11	Minimum Bill
Over 15,000 Gallons	0.00725	per gallon
<u>2-Inch Meter</u>		
First 20,000 Gallons	\$150.23	Minimum Bill
Over 20,000 Gallons	0.00725	per gallon
<u>3-Inch Meter</u>		
First 30,000 Gallons	\$222.45	Minimum Bill
Over 30,000 Gallons	0.00725	per gallon
Leak Adjustment	\$ 0.00462	per gallon
Water Loss Reduction Surcharge	\$ 1.70	per customer

Monthly Water Rates

Phase 3

To be implemented one year following Phase 2

<u>5/8- x ¾-Inch Meter</u>		
First 2,000 Gallons	\$ 21.53	Minimum Bill
Over 2,000 Gallons	0.00772	per gallon
<u>1-Inch Meter</u>		
First 10,000 Gallons	\$ 83.09	Minimum Bill
Over 10,000 Gallons	0.00772	per gallon
<u>1 ½-Inch Meter</u>		
First 15,000 Gallons	\$121.55	Minimum Bill
Over 15,000 Gallons	0.00772	per gallon
<u>2-Inch Meter</u>		
First 20,000 Gallons	\$160.02	Minimum Bill
Over 20,000 Gallons	0.00772	per gallon
<u>3-Inch Meter</u>		
First 30,000 Gallons	\$236.96	Minimum Bill
Over 30,000 Gallons	0.00772	per gallon

Leak Adjustment	\$ 0.00492	per gallon
Water Loss Reduction Surcharge	\$ 1.70	per customer

Nonrecurring Charges

Service Call/Investigation	\$ 0.00
Meter Test Charge	\$ 51.00
Meter Re-Read Charge	\$ 0.00
Reconnection Charge	\$ 0.00
Connection Charge	\$ 0.00
Tampering Charge	Actual Cost
Returned Check Charge	\$ 5.00

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