COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WATER SERVICE CORPORATION OF KENTUCKY FOR A GENERAL ADJUSTMENT IN EXISTING RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO DEPLOY ADVANCED METERING INFRASTRUCTURE	))))))	CASE NO. 2022-00147

O R D E R

On June 13, 2022, Water Service Corporation of Kentucky (Water Service Kentucky) pursuant to KRS 278.180, KRS 278.190, 807 KAR 5:001, Section 16(1)(b)(1), and KRS 278.020, filed an application requesting to increase its rates and for a Certificate of Public Convenience and Necessity (CPCN) to deploy advanced metering infrastructure (AMI).[1]

In its application, Water Service Kentucky requested an increase in operating revenues from base water rates of $1,047,688 per year for the forecasted test period, or 32.12 percent, compared to the operating revenues for the forecasted test period under existing water rates.[2] There are two intervenors in this matter: the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney

[1] Water Service Kentucky tendered the application on May 31, 2022. By Order dated June 8, 2022, the Commission rejected the application for filing due to filing deficiencies. Water Service Kentucky subsequently cured the filing deficiencies, and the application was deemed filed as of June 13, 2022.

[2] Application at 3 and Exhibit 29, Pro Forma Income Statement. $1,047,688 (Proposed Increase) ÷ $3,261,891 (Forecast Period Revenue at Existing Water Rates) = 32.12%.

General),[3] and the city of Clinton (Clinton) (jointly, Intervenors).[4] The Intervenors entered into a joint participation agreement and co-sponsored two witnesses.[5]

By Order entered June 23, 2022, and as later amended on July 1, 2022, the Commission suspended the proposed rates up to and including January 13, 2023. Following discovery, the Commission held an evidentiary hearing on November 30, 2022, in Frankfort, Kentucky. Following the hearing, the Intervenors and Water Service Kentucky submitted written briefs. This matter now stands submitted to the Commission for a decision.

BACKGROUND

Water Service Kentucky, a wholly owned subsidiary of Corix Regulated Utilities (US), Inc. (Corix US),[6] is a jurisdictional utility that distributes and sells water to approximately 6,147 customers in Bell, Clinton, and Hickman counties.[7] Water Service Kentucky was previously under contract with the city of Clinton (Clinton) to operate and maintain Clinton's wastewater treatment facilities, but Water Service Kentucky terminated those services as of December 31, 2021.[8] Water Service Kentucky last applied for a rate adjustment using a historical test year in 2020.[9]

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[3] Order (Ky. PSC June 14, 2022).

[4] Order (Ky. PSC Aug. 5, 2022).

[5] The Attorney General and Clinton's Joint Filing of a Memorandum of Understanding (filed Oct. 13, 2022).

[6] Application at 1.

[7] Application at 2.

[8] Application, Exhibit 9.1, Direct Testimony of Seth Whitney at 13.

[9] Case No. 2020-00160, *Electronic Application of Water Service Corporation of Kentucky for a General Adjustment in Existing Rates* (Ky. PSC Dec. 8, 2020).

LEGAL STANDARD

Water Service Kentucky filed its application for an adjustment of rates pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001. The Commission's standard of review for a utility's request for a rate increase is whether the proposed rates are "fair, just and reasonable."[10] Water Service Kentucky bears the burden of proof to show that the proposed rate is just and reasonable under the requirements of KRS 278.190(3).

Water Service Kentucky has also requested approval for a CPCN to deploy AMI. The Commission's standard of review regarding a CPCN is well settled. Under KRS 278.020(1), no utility may construct or acquire any facility to be used in providing utility service to the public until it has obtained a CPCN from this Commission. To obtain a CPCN, the utility must demonstrate a need for such facilities and an absence of wasteful duplication.[11]

"Need" requires:

> [A] showing of a substantial inadequacy of existing service, involving a consumer market sufficiently large to make it economically feasible for the new system or facility to be constructed or operated.
>
> [T]he inadequacy must be due either to a substantial deficiency of service facilities, beyond what could be supplied by normal improvements in the ordinary course of business; or to indifference, poor management or disregard of the rights of consumers, persisting over such a period of time as to establish an inability or unwillingness to render adequate service.[12]

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[10] KRS 278.030; *Pub. Serv. Comm'n v. Com. ex rel. Conway*, 324 S.W.3d 373, 377 (Ky. 2010).

[11] *Kentucky Utilities Co. v. Pub. Serv. Comm'n,* 252 S.W.2d 885 (KY. 1952).

[12] *Kentucky Utilities Co. v. Pub. Serv. Comm'n* at 890.

"Wasteful duplication" is defined as "an excess of capacity over need" and "an excessive investment in relation to productivity or efficiency, and an unnecessary multiplicity of physical properties."[13] To demonstrate that a proposed facility does not result in wasteful duplication, the Commission has held that the applicant must demonstrate that a thorough review of all reasonable alternatives has been performed.[14] Selection of a proposal that ultimately costs more than an alternative does not necessarily result in wasteful duplication.[15] All relevant factors must be balanced.[16]

TEST PERIOD

Water Service Kentucky used as its forecasted test period the 12-month period ended December 31, 2023. Its base period is the 12-month period ending September 30, 2022.

VALUATION

Rate Base

Water Service Kentucky proposed a forecasted net investment rate base (rate base) of $7,730,703.[17] In its Base Period Update, Water Service Kentucky decreased

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[13] *Kentucky Utilities Co. v. Pub. Serv. Comm'n* at 890.

[14] Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin Counties, Kentucky* (Ky. PSC Sept. 8, 2005).

[15] *See Kentucky Utilities Co. v. Pub. Serv. Comm'n, 390 S.W.2d 168, 175 (Ky. 1965). See also* Case No. 2005-00089*, The Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity to Construct a 138 kV Electric Transmission Line in Rowan County, Kentucky* (Ky. PSC Aug. 19, 2005).

[16] Case No. 2005-00089, Aug. 19, 2005 final Order at 6.

[17] Application, Exhibit 28, Water Operations Rate Base and Rate of Return.

the forecasted rate base to $7,724,733.[18] The Intervenors proposed to reduce Water Service Kentucky's rate base to $6,383,443.[19] The Intervenors proposed to (1) deny the CPCN for the proposed AMI project; (2) eliminate Project Phoenix Computer Assets; (3) remove J.D. Edwards and Oracle Customer Care and Billing Computer Assets; (4) deny rate base recovery of unamortized Rate Case Expenses; (5) deny the request for a project Fusion Regulatory Asset; (6) remove the Allocated Share of Reserve for Chicago Office Rent; (7) adjust the forecasted New Vehicle purchases to reflect actual costs; (8) remove Asset ADIT for the Bad Debt Reserve; and (9) eliminate the requested Cash Working Capital allowance from Rate Base.[20]

Having reviewed the evidence of record in this proceeding, the Commission accepts Water Service Kentucky's forecasted rate base with the following exceptions:

<u>Utility Plant In-Service (UPIS)</u>.

Water Service Kentucky's base period UPIS of $13,633,676 reflects an adjustment of the UPIS balances at the beginning of its Base Period by the additions and retirements from actuals and forecasts through the Base Period. This process was continued on a monthly basis through the end of the Forecast Period, and the Forecast Period monthly balances were averaged to compute the 13-month average balances resulting in a UPIS forecasted balance of $14,184,951.

[18] Base Period Update (filed 10/31/2022) Excel Workbook: Exhibit_27-28-29_and_Subparts_-_Rev_Req_2022_WSCKY_Base_Period_Update.xlsm; Tab: Rate Base.

[19] Attorney General/Clinton Direct Testimony (filed Oct 13, 2022), Excel Workbook: Water_Service_Kentucky_Rev_Req_-_AG_and_Clinton_Recommendation.xlsx; Tab: Rate Base.

[20] Attorney General/Clinton Direct Testimony (filed Oct 13, 2022), Excel Workbook: Water_Service_Kentucky_Rev_Req_-_AG_and_Clinton_Recommendation.xlsx; Tab: Rate Base.

(1) AMI

Given the Commission's decision to deny Water Service Kentucky its requested CPCN to deploy the AMI system, with that discussion to follow below, the Commission finds that forecasted UPIS should be reduced by $246,503, which is Water Service Kentucky's forecasted 13-month average of the AMI system that was to be deployed in the Clinton service territory and a portion of the Middlesboro service territory.

(2) Project Phoenix Computer Assets

In 2006, Water Service Kentucky's parent company[21] evaluated its accounting and billing software and computer system, which it referred to as Project Phoenix.[22] Project Phoenix resulted in the installation of the J.D. Edwards financial software system (J.D. Edwards) on December 3, 2007 and the Oracle Customer Care and Billing system (Oracle) on June 2, 2008.[23] Water Service Kentucky's parent company allocated $546,213 of the total Project Phoenix computer asset costs to Water Service Kentucky using an allocation factor based upon the equivalent residential connections.[24]

In Case No. 2008-00563, the Commission denied recovery of the Project Phoenix allocated costs finding that Water Service Kentucky failed to meet its burden by not filing a benefit analysis to document that the cost of Project Phoenix was reasonable and to identify any benefits that the computer software would have provided to the ratepayers of

[21] At that time, Water Service Kentucky was a wholly owned subsidiary of Utilities, Inc.

[22] Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9, 2009), Order at 3–4.

[23] Case No. 2008-00563, Nov. 9, 2009 Order at 4.

[24] Case No. 2008-00563, Nov. 9, 2009 Order at 4.

Water Service Kentucky.[25] Since issuing its original decision in 2008, the Commission has consistently denied Water Service Kentucky base rate recovery of any cost that was related to Project Phoenix.[26]

Consistent with the Commission's prior decisions to deny Water Service Kentucky recovery of the Project Phoenix costs, the Intervenors recommended that the Commission remove the costs of Project Phoenix from Water Service Kentucky's forecasted rate base.[27] Water Service Kentucky claimed that it inadvertently included the Project Phoenix costs in its forecasted rate base and agrees with the Intervenors' proposed adjustment.[28] Based upon its review of the case record, the Commission is in agreement with the positions of all parties and it has reduced forecasted UPIS by $520,385 to eliminate the Project Phoenix computer asset costs, which represents the amount included in the forecasted rate base.

(3) J.D. Edwards and Oracle

Water Service Kentucky has included the cost to enhance its J.D. Edwards and Oracle systems that were incurred after the implementation of Project Phoenix.[29] The

[25] Case No. 2008-00563, Nov. 9, 2009 Order at 6.

[26] *See Case No. 2008-00563,* Nov. 9, 2009 Order at 6; Case No. 2010-00476, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 23, 2011), Order at 12–13 and 15; Case No. 2013-00237, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Sep. 27, 2013), Order at 18–22 and 25.

[27] Attorney General/Clinton Direct Testimony (filed Oct 13, 2022), Direct Testimony of Randy D. Futral (Futral Direct Testimony) at 18.

[28] Water Service Kentucky's Initial Brief (filed Dec. 16, 2022) at 17.

[29] Water Service Kentucky's Initial Brief at 13.

J.D. Edwards and Oracle enhancement costs included in Water Service Kentucky's forecasted rate base is $44,157.[30]

The Intervenors claimed that the Commission has repeatedly disallowed Water Service Kentucky recovery of any expenses associated with Project Phoenix.[31] According to the Intervenors, in prior rate cases, Water Service Kentucky failed to demonstrate that the costs associated with the software systems were reasonable or provided a benefit to its ratepayers.[32] The Intervenors contended that they have consistently objected to the inclusion of Project Phoenix costs in the rates since these costs were initially proposed in the 2008 rate case.[33]

The Intervenors argued that in Case No. 2020-00160[34] they specifically requested that all costs related to Project Phoenix be removed from Water Service Kentucky's revenue requirement due to Water Service Kentucky's continued inability to demonstrate the rate payer benefit derived from the software systems.[35] Therefore, the Intervenors

[30] Water Service Kentucky's Responses to the Attorney General/Clinton's First Request for Information (Attorney General/Clinton's First Request) (filed July 28, 2022), Item 33.

	JD Edwards	Oracle	Total
UPIS - Total Utility	$ 933,760	$ 1,002,964	$ 1,936,724
Multiplied by: Allocation Factor	2.28%	2.28%	2.28%
Rates Base Impact	$ 21,290	$ 22,868	$ 44,157

[31] Attorney General and Clinton's Post-Hearing Brief (filed Dec. 16, 2022) at 11.

[32] Attorney General and Clinton's Post-Hearing Brief at 11.

[33] Attorney General and Clinton's Post-Hearing Brief at 11.

[34] Case No. 2020-00160, Dec. 8, 2020 Order.

[35] Attorney General and Clinton's Post-Hearing Brief at 12.

requested that the Commission deny rate recovery of all Project Phoenix costs, implementation costs and enhancement costs[36]

According to Water Service Kentucky, it has requested rate case recovery of the Project Phoenix enhancement costs, not implementation costs, in its last three rate cases.[37]

Water Service Kentucky added that the Attorney General did not specifically object to the inclusion of the Project Phoenix enhancement costs in Case No. 2020-00160, and the rate recovery of those enhancement costs were not disallowed by the Commission on the basis of linkage to Project Phoenix.[38] Water Service Kentucky argued that its Project Phoenix enhancements benefited its customers by allowing access to existing platforms and customer interfaces, the creation of the "myUtilityConnect" portal to allow access to customer water consumption and billing data. Accordingly, Water Service Kentucky argued that "in keeping with the 'spirit' of Commission precedent, the Commission should grant continued recovery for the enhancement costs for these software programs."[39]

In reviewing the case record in this proceeding, the Commission finds that Water Service Kentucky has not submitted an analysis to support that its Project Phoenix installation costs and enhancement costs are reasonable or that they provide a direct benefit to the ratepayers of Water Service Kentucky. Merely reciting Water Service

[36] Attorney General and Clinton's Post-Hearing Brief at 12.

[37] Water Service Kentucky's Initial Brief at 14.

[38] Water Service Kentucky's Initial Brief at 14.

[39] Water Service Kentucky's Initial Brief at 14.

Kentucky's perceived customer benefits does not adequately support the inclusion of those costs in forecasted rate base. Consistent with its treatment of initial Project Phoenix costs here and in other matters, the Commission has determined that recovery of the "enhancement" expenses would not result in fair, just or reasonable rates. In sum, with the evidence provided in this matter, it is now clear to the Commission that the "enhancement" costs go hand in hand with the initial costs of Project Phoenix. Since items related to Project Phoenix were initially created contrary to Commission precedent, subsequent costs flowing from that project should also not be collected from customers. Accordingly, the Commission is reducing forecasted rate base by $44,157 to remove Water Service Kentucky's allocated Project Phoenix enhancement costs.

(4) Allocated Reserve Chicago Office Rent. The Intervenors proposed to reduce forecasted rate base by $72,110, the rent reserve balance for the Chicago office lease.[40] Water Service Kentucky agreed to accept the Intervenors' proposed adjustment.[41] Based upon its review of the case record, the Commission is in agreement with the positions of all parties, and it has reduced forecasted UPIS by $72,110 to eliminate the rent reserve balance for the Chicago office lease.

(5) Forecasted Truck Purchases. Water Service Kentucky proposed to purchase two new trucks in 2022 and 2023.[42] According to Water Service Kentucky, the new trucks will replace existing trucks that have high mileage and will help eliminate 2-

[40] The Attorney General and Clinton's Post-Hearing Brief at 6, refers to the revenue requirement impact of $7,063. Intervenor's adjustment to rate base of $72,110 is in Excel Workbook: Water_Service_Kentucky_Rev_Req_-_AG_and_Clinton_Recommendation.xlsx; Tab: Rate Base.

[41] Water Service Kentucky's Rebuttal Testimony of Dante DeStefano (DeStefano Rebuttal Testimony) (filed Nov. 23, 2022) at 9.

[42] Application, Exhibit 9.7, Direct Testimony of Colby Wilson (Wilson Direct Testimony) at 8.

wheel drive vehicles that are currently in service.[43] Water Service Kentucky's estimated cost of its truck purchases is $41,600 in 2022 and $43,264 in 2023.[44]

Water Service Kentucky placed an order for the purchase of a new 2022 Colorado Truck on July 15, 2022 for $29,259.[45] Using the same assumption Water Service Kentucky used to estimate the cost of truck it would purchase in 2023, the Intervenors estimated that 2023 truck will cost $30,429. The Intervenors proposed to decrease forecasted rate base by $21,227 to reflect the revised truck costs.[46] Water Service Kentucky agreed to accept the Intervenors' proposed adjustment.[47] Based upon its review of the case record, the Commission is in agreement with the positions of all parties, and it has reduced forecasted UPIS by $21,227 to reflect the revised cost of the new trucks.

Accumulated Depreciation.

Water Service Kentucky forecasted the accumulated depreciation to be $6,775,936 based on a 13-month average of its accumulated depreciation balances from the end of the base period to the end of the forecasted test year.[48] Water Service Kentucky computed the monthly depreciation by applying the depreciation rates in Exhibit 24 of the application to the monthly forecasted UPIS balances.[49] The Commission finds

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[43] Wilson Direct Testimony at 8.

[44] Wilson Direct Testimony at 8.

[45] Attorney General and Clinton's Direct Testimony (filed Oct 13, 2022) Direct Testimony of at Randy Futral (Futral Direct Testimony) at 28.

[46] DeStefano Rebuttal Testimony at 8.

[47] DeStefano Rebuttal Testimony at 8.

[48] Application, Exhibit 9.2, Direct Testimony of James Kilbane (Kilbane Direct Testimony) at 23.

[49] Kilbane Direct Testimony at 23.

that the forecasted accumulated depreciation should be adjusted to reflect the UPIS adjustments discussed above, which results in a decrease to Accumulated Depreciation of and a corresponding increase to forecasted rate base.

Regulatory Asset.

(1) Fusion Costs. Water Service Kentucky requested regulatory asset treatment for implementation and support costs for its Fusion project.[50] Water Service Kentucky included $22,803 in the Deferred Charges Base Period balance.[51] According to the Intervenors, Water Service Kentucky included a 13-month average of $19,002 as an increase to its forecasted rate base.[52] The Intervenors claimed that Water Service Kentucky expensed its Fusion implementation costs as they were incurred in calendar years 2019 and 2020, but later chose to defer the costs as an additional rate case expense.[53]

The Intervenors proposed to reduce forecasted rate base by $19,002 to eliminate the Fusion regulatory asset, citing Water Service Kentucky's failure to obtain prior Commission authorization to defer the 2019 and 2020 Fusion implementation expenses on its accounting books, and the costs should have remained as expensed in the years incurred.[54] Water Service Kentucky agreed to withdraw its request for a regulatory Fusion asset and related rate recovery.[55] Based upon its review of the case record, the

[50] Kilbane Direct Testimony at 25.

[51] Kilbane Direct Testimony at 25.

[52] Futral Direct Testimony at 24.

[53] Futral Direct Testimony at 25.

[54] Futral Direct Testimony at 25.

[55] Water Service Kentucky's Initial Brief at 18.

Commission is in agreement with the positions of all parties, and it has reduced forecasted UPIS by $19,002 to eliminate the Fusion regulatory asset.

(2) Unamortized Balance Rate Case Expense. Water Service Kentucky included $404,475 in deferred rate case expense in its forecasted rate base, with $382,764 relating to this instant case, and $21,711 relating to the remaining unamortized deferred balance associated with Case No. 2020-00160.[56] The Intervenors' position is for the Commission to eliminate the regulatory asset for deferred rate case expense from the forecasted rate base based on the premise that these expenses were incurred to benefit Water Service Kentucky's ultimate parent company and its shareholders, and that they provide no benefit to the customers of Water Service Kentucky.[57] To support its position, the Intervenors cited prior Commission decisions wherein the Commission has rejected utilities' requests to include a regulatory asset for deferred rate case expenses in rate base.[58]

Water Service Kentucky argued that a regulator must allow a utility to maintain rates to finance its operations and attract investment, which requires a utility to generate a reasonable return on stockholder investment.[59] According to Water Service Kentucky, rate case expense does provide a benefit to the ratepayer by allowing a reasonable return to investors, thereby attracting continued capital investment, and allows Water Service Kentucky to provide higher quality service to its ratepayers.[60]

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[56] Futral Direct Testimony at 12.

[57] Futral Direct Testimony at 13.

[58] Futral Direct Testimony at 13.

[59] Water Service Kentucky's Initial Brief at 14–15.

[60] Water Service Kentucky's Initial at 15.

The Commission agrees with the Intervenors' position that unamortized balance of rate case expense should be excluded from rate base, as that would allow a return on the unamortized balance of the expense. The Commission's past precedent has been to deny utilities' requests to recover, as a regulatory asset, its unamortized rate case cost in rate base.[61] This results in a sharing of the cost of rate proceedings between the stockholders and the utility's ratepayers.[62] The Commission is accordingly reducing rate base by $404,475 to eliminate the unamortized rate case cost.

<u>Accumulated Deferred Income Taxes (ADIT)</u>.

The Intervenors explained that Water Service Kentucky included two asset ADIT balances related to its bad debt reserve in the forecasted test year rate base, but failed to subtract the related temporary difference (the liability bad debt reserve balance) from rate base.[63] According to the Intervenors, the bad debt reserve liability is the temporary difference between book and tax deduction timing that results in the ADIT, with the balance representing the difference between the cumulative amounts of bad debt expense recorded each month and the actual accounts receivable balances written off.[64] The Intervenors added that the tax deduction for bad debt expense is only allowed when the actual accounts receivable have been written off.[65]

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[61] Case No. 2019-00271, *Electronic Application of Duke Energy Kentucky, Inc. for 1) An Adjustment of the Electric Rates; 2) Approval of New Tariffs; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All Other Required Approvals and Relief (Ky. PSC Apr. 27, 2020), Order at 7-8;* Case No. 2021-00214*, Electronic Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 19, 2022), Order at 17–18.

[62] Case No. 2019-00214, May 19, 2022 Order at 17–18.

[63] Attorney General and Clinton's Post-Hearing Brief at 14.

[64] Attorney General and Clinton's Post-Hearing Brief at 14–15.

[65] Attorney General and Clinton's Post-Hearing Brief at 15.

The Intervenors argued that the bad debt expense and liability are interrelated and inseparable and must be matched to properly reflect Water Service Kentucky's costs.[66] For this reason, the Intervenors recommended the Commission reject the inclusion of ADIT asset in rate base, resulting in a $84,217 reduction.[67]

Water Service Kentucky disagreed with the Intervenors' position that, when accounting for bad debt expense, it must denote the incurrence of the bad debt expense—a debit—on its books and increase the accounts receivable reserve to denote a reserve for uncollectible receivables—a credit—which is not a liability because no party is due payment.[68] According to Water Service Kentucky, the recovery of bad debt expense in the revenue requirement does not represent an offsetting cash inflow, as it argued the bad debt expense merely allows a gross up to the revenue requirement to account for the portion of revenues that are estimated to be uncollectible—no cash is actually received to "recover" the bad debt expense amount.[69]

Bad debt is similar to a noncash item such as depreciation; no cash is actually paid for the reported bad debt expense, but it creates a form of cost free capital to the utility. Therefore, the Commission accepts the Intervenors' recommendation to reduce rate base by $84,217 to eliminate the ADIT Asset.

In its application, Water Service Kentucky deducted $887,828 of ADIT from its forecasted rate base.[70] The Commission finds that the forecasted ADIT should be

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[66] Attorney General and Clinton's Post-Hearing Brief at 16–17.

[67] Attorney General and Clinton's Post-Hearing Brief at 17.

[68] Water Service Kentucky's Initial Brief at 16.

[69] Water Service Kentucky's Initial Brief at 16.

[70] Futral Direct Testimony at 21.

adjusted to reflect the removal of the ADIT asset and the impact to the rate base adjustments discussed above, which results in an increase to ADIT of $48,220[71] and a corresponding increase to forecasted rate base.

Cash Working Capital.

Water Service Kentucky calculated its forecasted cash working capital of $340,061 by applying a one-eighth factor to its forecasted Operation and Maintenance expenses and Taxes Other than Income Tax expense.[72]

The Intervenors claimed that the one-eighth methodology is inaccurate in that it fails to measure the timing of cash receipts or disbursements for revenues and expenses, and it does not reflect the leads and lags in the Water Service Kentucky's operating cash flows.[73] The Intervenors explained that the Commission has consistently found that a lead-lag study is the most accurate method to calculate a utility's required working capital.[74] The Intervenors noted that in a recent decision the Commission placed all utilities under its jurisdiction on notice that in future rate case filings a lead-lag study will be performed and that the study will exclude noncash items and balance sheet adjustments.[75]

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AMI Project	$	90
Unamort. Balance Rate Case Exp.		29,091
Reg Asset Fusion Costs		6,816
Bad Debt Reserve - ADIT		(84,217)
pro Forma adjustment	$	(48,220)

72 Kilbane Direct Testimony at 23–24.

73 Futral Direct Testimony at 17.

74 Futral Direct Testimony at 17.

75 Futral Direct Testimony at 18.

The Intervenors' position is that the Commission's lead-lag directive applied to all utilities and not just large, sophisticated utilities.[76] The Intervenors pointed out that Water Service Kentucky is a small company, but it is wholly-owned by a much larger and sophisticated corporation, so the argument that argument that Water Service Kentucky should be an exception to the rule falls flat.[77]

Due to Water Service Kentucky's failure to comply with the Commission's explicit instructions to perform a lead-lag study, the Intervenors proposed to reduce forecasted rate base by $340,700 to remove Water Service Kentucky's requested cash working capital.[78] The Intervenors also requested that the Commission direct Water Service Kentucky to perform a lead-lag study that excludes noncash items and balance sheet adjustments in all future rate cases.[79]

Water Service Kentucky agreed with the Intervenors' position that a lead-lag study is a superior method to calculate a utility's cash working capital requirement but stated the Intervenors failed to consider Commission precedent specific to Water Service Kentucky.[80] Water Service Kentucky pointed to the Commission's decision in Case No. 2020-00160 that allowed Water Service Kentucky to use the one-eighth formula and finding that this method is a reasonable approach for a small unsophisticated utility.[81] According to Water Service, the Intervenors admitted that there have been no known

[76] Futral Direct Testimony at 18.

[77] Futral Direct Testimony at 18.

[78] Futral Direct Testimony at 18.

[79] Futral Direct Testimony at 18.

[80] Water Service Kentucky's Initial Brief at 17.

[81] Water Service Kentucky's Initial Brief at 17, citing Case No. 2020-00160 Dec. 8, 2020 Order at 4.

changes to Water Service Kentucky that would alter the Commission's prior conclusion to its "size and relative sophistication."[82] Water Service Kentucky concluded that it should be allowed to recover its requested cash working capital allowance because it was calculated using a methodology approved by this Commission.[83]

There has been no evidence presented in this case to show that Water Service Kentucky requires a cash working capital allowance of $344,700. A lead-lag study that excludes non-cash items would properly document if a utility requires a cash allowance to fund its operations. It has been shown that the use of a one-eighth formula method will produce a cash working capital in all situations, even if the utility does not require funds from its stockholders to fund the allowance. For a significant number of years, the Commission has routinely determined a utility's cash working capital needs, assuming the use of rate base to determine the revenue requirement, using the lead-lag methodology, or in the absence of a correctly completed lead-lag study, set cash working capital to $0. Additionally, the ability of Water Service Kentucky to file a rate case using a forecasted test period, which is far more complicated than a rate case using an historic test period, causes the applicant's arguments surrounding its "sophistication" to fall flat. Accordingly, the Commission accepts the Intervenors' proposed adjustment to reduce forecasted rate base by $344,700 to eliminate forecasted cash working capital. Further, the Commission directs Water Service Kentucky to conduct a lead-lag study in its next rate case application that excludes any noncash items and balance sheet adjustments.

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[82] Water Service Kentucky's Initial Brief at 17.

[83] Water Service Kentucky's Initial Brief at 17.

Summary of Rate Base Adjustments.

Based on the adjustments discussed above, the Commission has determined that for ratemaking purposes Water Service Kentucky's net investment rate base is $6,379,127.

	Application 13-Month Average Forecasted' Rate Base	Commission Adjustments	Commission 13-Month Average Forecasted' Rate Base
UPIS	$ 14,205,984	$ (904,382)	$ 13,301,602
Less: Accumulated Depreciation	(6,775,936)	369,203	(6,406,733)
Net UPIS	$ 7,430,048	$ (535,179)	$ 6,894,869
Cash Working Capital	344,700	(344,700)	
Contributions In Aid of Construction	(243,012)		(243,012)
Accumulated Deferred Income Taxes	(887,728)	(48,220)	(935,948)
Net Plant Acquisition Adjustment	(107,985)		(107,985)
Oracle Fusion Asset	143,831		143,831
Deferred Charges	1,050,849	(423,477)	627,372
Total Rate Base	$ 7,730,703	$ (1,351,576)	$ 6,379,127

REVENUE REQUIREMENT

For the base period, Water Service Kentucky reported operating revenues and expenses of $3,126,929 and $3,120,341, respectively.[84] In its Base Period Update, Water Service Kentucky updated these to $3,176,942 in revenue and $3,204,530 in expenses.[85] Water Service Kentucky proposed several adjustments to revenues and expenses to reflect the anticipated operating conditions during the forecasted period,

[84] Application, Exhibit 29, Water Operations Pro-Forma Income State at 1.

[85] Base Period Update (filed October 31, 2022) Base_Period_Update.pdf, Exhibit 29, Water Operations Pro-Forma Income State at unnumbered page 4.

resulting in forecasted operating revenues and expenses for the Forecasted Period of $3,134,063 and $3,297,715, respectively. The Intervenors proposed adjustments to reduce Water Service Kentucky's forecasted pro forma net operating income by $396,708.[86] After a review of the evidence of record in this proceeding, the Commission accepts Water Service Kentucky's forecasted operating revenues with the following adjustments:[87]

Transportation.

Water Service Kentucky's vehicle fuel expense for the base period reflect actual activity through March 31, 2022 and a three-year average of fuel volumes multiplied by the fuel price as of May 5, 2022.[88] According to Water Service Kentucky the forecasted fuel expense for the test-year of $33,438,[89] the 6-month forecasted fuel expense annualized.[90]

The Intervenors proposed to decrease forecasted fuel expense by $5,067 to reflect the most current price per gallon.[91] Mr. Kilbane testified at the hearing that he agreed with Mr. Futral's proposed adjustment to reflect the most current price of gasoline at local

[86] Excel Workbook: Water_Service_Kentucky_Rev_Req_-_AG_and_Clinton_Recommendation .xlsx; Tab: Sum Rev Req.

[87] See Appendix B.

[88] Kilbane Direct Testimony at 13.

[89] Water Service Kentucky's responses to Staff's First Request, Item 49, Redacted Excel Workbook: PSC_DR_1-49_Exhibit_18-32-29_-_Schedule_B_-_SW-PR_Taxes-Benefits_REDACTED_ UPDATED_8.16.2022.xlsx; Tab: Transportation.

[90] Kilbane Direct Testimony at 13.

[91] Futral Direct Testimony at 59.

gas stations that are used by Water Service Kentucky.[92] Based upon its review of the case record, the Commission is in agreement with the positions of all parties, and it has reduced forecasted Transportation expense by $5,067 to reflect the most current price of gasoline at the stations actually used by Water Service Kentucky employees.

<u>Capitalized Salaries and Wages</u>.

Water Service Kentucky's Base Period capitalized salaries and wages amount reflects the average hours capitalized in calendar years 2020 and 2021.[93] The forecast period capitalized salaries and wages of $138,212[94] reflects base period baseline capitalized and includes estimated capitalized time for Main and the AMI projects.[95]

The Commission is reducing capitalized salaries and wages by $79,676 to eliminate the capitalized employee time for the AMI system project.

<u>Clinton Contract Operational Costs</u>.

The Intervenors explained that Water Service Kentucky and the city of Clinton mutually agreed to terminate the service contract effective December 31, 2021, since the wastewater service contract was set to expire on March 3, 2022.[96] According to the Intervenors, Water Service Kentucky's forecasted operation and maintenance expenses included three nonrecurring maintenance and repair expenses incurred to operate

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[92] Hearing Video Transcript of the Nov. 30, 2022 Hearing (HVT) at 02:41:15–02:41:30 and 02:45:25–02:45:43.

[93] Kilbane Direct Testimony at 11.

[94] Water Service Kentucky's responses to Staff's First Request, Item 49, Redacted Excel Workbook: PSC_DR_1-49_Exhibit_18-32-29_-_Schedule_B_-_SW-PR_Taxes-Benefits_REDACTED_UPDATED_8.16.2022.xlsx; Tab: Salary Captime.

[95] Kilbane Direct Testimony at 11.

[96] Futral Direct Testimony at 56.

Clinton's sewer system.[97] The Intervenors proposed to reduce forecasted operation and maintenance expense to eliminate the nonrecurring contract costs of $11,541.[98] Water Service Kentucky agreed to the Intervenors' proposed adjustment.[99] Based upon its review of the case record, the Commission is in agreement with the positions of all parties, and it has reduced forecasted operation and maintenance expense by $11,541 to eliminate expenses related to the termination of the Clinton wastewater contract,

Outside Services – Legal Fees.

Water Service Kentucky calculated its forecasted legal fees of $18,071 by using a two year average, including 2020 legal fees of $9,642 and 2021 legal fees of $27,461.[100] According to the Intervenors, the legal fees in the two years reflected in Water Service Kentucky's average were abnormally high due to a personal injury lawsuit and the termination of the Clinton wastewater contract.[101] As means of comparison, the Intervenors stated that the legal fee expense was only $3,453 in 2017, $251 in 2018, and $2,615 in 2019.[102] The Attorney General proposed to remove the expenses associated with the two non-recurring cases and then to average Water Service Kentucky's legal fees from 2017 through 2021 to arrive at their proposed forecasted legal fees of $2,298 for a reduction to forecasted legal fees of $15,773.[103]

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[97] Futral Direct Testimony at 57.

[98] Futral Direct Testimony at 57.

[99] Rebuttal Testimony of James Kilbane at 5.

[100] Water Service Kentucky's Responses to the Attorney General/Clinton's First Request, Item 84.

[101] Attorney General and Clinton's Post-Hearing Brief at 22.

[102] Attorney General and Clinton's Post-Hearing Brief at 22.

[103] Attorney General and Clinton's Post-Hearing Brief at 22–23.

Water Service Kentucky claimed that the Intervenors' legal fee recommendation is unsound.[104] According to Water Service Kentucky, it is impossible to predict when litigation may occur that could impact the level of legal fees.[105] A flaw pointed out by Water Service Kentucky in the Intervenors' method is that it fails to take into account the possibility of recurring issues such as easements, employment, and revisions to Kentucky law and regulations.[106]

Water Service Kentucky is correct that future legal litigation is uncertain and for that reason future legal fees are virtually impossible to predict with any certainty. An acceptable method to determine an appropriate test year level of expenses for ratemaking purposes is to look at historical legal fees incurred by a utility that is adjusted to remove abnormal occurrences. Therefore, the methodology employed by the Intervenors is sound for ratemaking purposes and is accepted by the Commission. The Commission is accordingly reducing forecasted legal fee expense by $15,883 to reflect the six-year average of Water Service Kentucky's legal fees incurred from 2017 through 2022, adjusted to remove the two cited nonrecurring occurrences.

Rate Case Expense – Amortization.

Water Service Kentucky proposed to amortize its estimated rate case cost of $459,316 over a 36-month period, for an annual amortization expense of $153,105.[107] Following the evidentiary hearing, on December 13, 2022, Water Service Kentucky filed

[104] Water Service Kentucky's Initial Brief at 30.

[105] Water Service Kentucky's Initial Brief at 30.

[106] Water Service Kentucky's Initial Brief at 30.

[107] Futral Direct Testimony at 15. $459,316 (Estimated Rate Case Cost ÷ 36 (Months) = $153,105.

a motion for leave to file updated evidence of rate case expense, after it received an additional invoice from third-party consultants for rate case expenses related to the testimony associated with return on equity and the wage and salary study.[108] Water Service Kentucky had previously provided rate case expense in response to Staff's First Request, and regular monthly updates through November, 2022. Given that Water Service Kentucky made regular filings and updates regarding rate case expense prior to the evidentiary hearing and the fact that all parties had a chance to address this additional evidence in post-hearing briefing, the Commission finds the motion should granted and the evidence in question was included in the Commission's deliberation regarding rate case amortization.

According to the Intervenors, Water Service Kentucky hired a Kentucky-based law firm that normally handles its rates cases at an estimated cost of $158,875 and hired a second law firm located outside of Kentucky at an estimated cost of $200,000.[109] The Intervenors pointed to the fact that the law firm located outside of Kentucky did not enter an appearance of record or represent Water Service Kentucky in this pending case.[110]

The Intervenors argued that Water Service Kentucky made the unreasonable decision to hire a second law firm to assist with this instant case, and therefore, should be required to bear the full responsibility for the costs of the second firm.[111] The Intervenors therefore requested the Commission to remove the full amount of the costs

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[108] Water Service Kentucky's Motion for Leave to File Updated Evidence on Rate Case Expense (filed Dec. 13, 2022).

[109] Attorney General and Clinton's Post-Hearing Brief at 22–23.

[110] Attorney General and Clinton's Post-Hearing Brief at 23.

[111] Attorney General and Clinton's Post-Hearing Brief at 24.

attributable to the hiring of the second law firm to only allow Water Service Kentucky to recover the actual cost incurred to process this instant case.[112]

Water Service Kentucky contended that its forecasted rate case is significantly more complicated than its past two rate cases on which the Intervenors attempted to make a comparison.[113] In addition to the complexities of a forecasted rate filing, Water Service Kentucky explained that the Commission required it to base its revenue requirement on a Return on Equity calculation as compared to the operating-margin method previously used and also required a wage and salary study.[114] According to Water Service Kentucky, the actual rate case expense incurred illustrates that the consulting fees that were required to comply with the Commission's directives account for much of the increase in rate case expense.[115]

Water Service Kentucky explained the two law firms worked collaboratively to assist Water Service Kentucky in preparing and presenting this case.[116] Water Service Kentucky further claimed that, due to Ice Miller's involvement in other Corix US matters, it is better suited to provide legal advice and information regarding the corporate structure Corix US, and Sturgill Turner is better suited to provide legal advice and information on Kentucky-specific requirements and background.[117]

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[112] Attorney General and Clinton's Post-Hearing Brief at 24.

[113] Water Service Kentucky's Initial Brief at 33.

[114] Water Service Kentucky's Initial Brief at 33.

[115] Water Service Kentucky's Initial Brief at 33.

[116] Water Service Kentucky's Initial Brief at 34.

[117] Water Service Kentucky's Initial Brief at 34–35.

In its review of the limited number of Ice Miller invoices submitted into the case record by Water Service Kentucky, the Commission is unable to determine how Ice Miller's familiarity with Corix US and its corporate structure assisted in the processing of this rate case. Water Service Kentucky has not adequately documented the need for a second law firm or why the legal services provided by Ice Miller could not have been performed by Sturgill Turner at its lower hourly rate.

For the above reasons, the Commission is allowing Water Service Kentucky to recover a different amount than the original forecasted costs. As for legal expenses, the Commission is limiting the Ice Miller hours billed to the rate charged by Sturgill Turner. This is due to the Commission's concern around the use of two law firms, one of which did not enter an appearance in the matter and which performed tasks the Commission understands from past practice that attorneys at Sturgill Turner can perform. The Commission balances this concern against the understanding that this case is more complicated than past Water Service Kentucky rate cases. However, the Commission would note that a utility is not entitled to rate case expense, or any expense, merely because it was incurred, and therefore puts Water Service Kentucky on notice that in future cases that rate case expense not adequately supported will not be recovered through rates. The Commission is accordingly reducing forecasted Rate Case Expense – Amortization by $ 57,689 to reflect amortizing allowable, actual, rate case expense of $286,248 over 36-months, as calculated in the table below.

Ice Miller - Rate Case Billable Hours		146.4
Multiplied by: Strugel Turner Hourly Rate	$	275
Allowable Ice Miller Costs	$	40,260
Rate Case Expense - Actual	$	311,992
Remove Ice Miller		(66,004)
Add: Recalculated Ice Miller		40,260
Allowable Rate Case Exp.		286,248
Divide by: 3-Years		3
Rate Case Amortization		95,416
Less: Forecasted Amort.		(153,105)
Pro Forma Adjustment	$	(57,689)

Salaries and Wages.

(1) Vacant Employee Position.

The Intervenors proposed to reduce forecasted salaries and wages expense by $18,810 to remove the allocated salary for the vacant Director of Engineering and Asset Management position.[118] Water Service Kentucky accepted for ratemaking purposes the Intervenors' proposal to remove the forecasted allocation for this vacant position.[119] The Commission is in agreement with the positions of all parties, and finds the forecasted salaries and wages expense should be decreased by $18,810 to eliminate allocated salary for the vacant Director of Engineering and Asset Management position.

(2) Employee Merit Increase.

According to the Intervenors, the annualized forecasted salaries and wages expense for the test year of $936,694 represents an 8.8 percent increase over the annualized base year amount.[120] The 8.8 percent increase is the result of Water Service

[118] Attorney General and Clinton's Post-Hearing Brief at 6.

[119] Water Service Kentucky's Initial Brief at 27.

[120] Attorney General and Clinton's Post-Hearing Brief at 19.

Kentucky's market pay adjustments that will be implemented in 2023, with the average wage increase for non-salaried employees to be 11.2 percent.[121]

The Intervenors pointed to a ScottMadden, Inc. wage and benefit study that concluded Water Service Kentucky's wages and benefits are competitive and comparable to local, state, and regional averages.[122] According to the Intervenors, a revised ScottMadden, Inc. wage and benefit study found that although Water Service Kentucky's 2022 employee base pay was 8 percent below market midpoint, the total 2022 employee compensation package, including salary as well as health and retirement benefits costs, was actually 8 percent above the market midpoint.[123]

The Intervenors recommended the Commission review Water Service Kentucky's compensation and benefit plan and only allow recovery of the level that is found reasonable. Intervenors further recommended limiting test year merit wage increases to an average of only 3 percent, to result in the Intervenors' proposed $49,716 adjustment.[124]

Water Service Kentucky explained that the reasonableness of its forecasted payroll expense is verified through Quentin Watkin's Wage and Salary Study (Quentin Study).[125] According to Water Service Kentucky, the Quentin Study specifically found that 2022 base pay for 19 direct and allocated employees was 8 percent below the market

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[121] Attorney General and Clinton's Post-Hearing Brief at 19.

[122] Attorney General and Clinton's Post-Hearing Brief at 19.

[123] Attorney General and Clinton's Post-Hearing Brief at 19.

[124] Attorney General and Clinton's Post-Hearing Brief at 20.

[125] Water Service Kentucky's Initial Brief at 24.

midpoint.[126] Water Service Kentucky argued that, after the projected higher than average increases for the 13 Kentucky-based employees during the Forecast Period, its projected base compensation for 2023 will be 2 percent below the market averages.[127]

A fallacy of Water Service Kentucky's argument is that it limited its discussion to employee base pay only and did not consider if the total employee compensation package was above or below the market midpoints. Further, Water Service Kentucky did not produce evidence to show how the level of its base employee pay impacts employee retention. Accordingly, the Commission agrees with the Intervenors and finds the forecasted salary and wage expense should be reduced by $49,716 to limit the test year employee merit increases to 3 percent.

(3) Incentive Compensation.

The Intervenors proposed to remove the incentive compensation cost of $6,698 that was paid to the Senior Vice President.[128] According to the Intervenors, the Commission's long-standing precedent is to disallow rate recovery of the cost of employee incentive compensation plans that are tied to financial metrics because they benefit shareholders while providing limited ratepayer benefit.[129] Therefore, the Intervenors requested the Commission follow its long-standing precedent to exclude Water Service Kentucky's incentive compensation tied to financial metrics.[130]

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[126] Water Service Kentucky's Initial Brief at 24.

[127] Water Service Kentucky's Initial Brief at 24.

[128] Attorney General and Clinton's Post-Hearing Brief at 20.

[129] Attorney General and Clinton's Post-Hearing Brief at 20–21.

[130] Attorney General and Clinton's Post-Hearing Brief at 21.

Water Service Kentucky argued that Supreme Court precedent recognizes that utilities must be entitled to rates that allow a reasonable return on stockholder investment.[131] Water Service Kentucky explained its Employee Incentive Plan (EIP) is a part of its overall compensation package that allows it to attract and retain qualified employees in a competitive market.[132] According to Water Service Kentucky, the financial and non-financial metrics of the EIP work together to incentivize achievement of broad operational goals that incentivize prudent financial management of ongoing operations, which benefits customers.[133]

Water Service Kentucky has not presented any new evidence or arguments in this proceeding that would persuade the Commission to reverse its prior findings to disallow rate recovery of employee incentive compensation plans that are tied solely to financial metrics.[134] Additionally, the general legal precedent cited by Water Service Kentucky is unrelated to the issue at hand, and thus not applicable to the process used by a retail regulator to determine fair, just and reasonable rates. Denial of inappropriate and unreasonable compensation is not an unconstitutional taking. Accordingly, the Commission accepts the Intervenors' adjustment to disallow for rate recovery the employee incentive pay that is based upon Water Service Kentucky achieving

[131] Water Service Kentucky's Initial Brief at 26.

[132] Water Service Kentucky's Initial Brief at 26.

[133] Water Service Kentucky's Initial Brief at 26.

[134] See Case No. 2020-00160 *Water Service Corporation of Kentucky* (Ky. PSC Dec, 8, 2020); *See also* Case No. 2014-00396, *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; (3) An Order Approving its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief* (Ky. PSC June 22, 2015).

predetermined financial metrics and finds the employee salaries and wages expense should be reduced by $6,698.

Employee Health Insurance.

Water Service Kentucky contributes 80 percent of the health insurance premiums for single-only coverage and 79 percent of the health insurance premiums for all other coverage options, including family coverage.[135] According to the Intervenors, the Commission limits the recoverable portion of the company-paid health insurance premiums to the most current Bureau of Labor Statistics (BLS) averages, which is currently 78 percent for single coverage and 66 percent for family coverages.[136] The Intervenors requested that the Commission reduce the recoverable health insurance expense by $12,343 to a more reasonable level based on the BLS data.[137]

Water Service Kentucky claimed that it is aware of the recent Commission decision that limits an employer's contribution to employee health insurance coverage to the BLS averages.[138] Water Service Kentucky argued that requiring the employees to increase their contribution to their health insurance coverage would effectively reduce employee take-home pay without proposing any related increase in base pay to offset this increase in cost to employees.[139]

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[135] Water Service Kentucky's Response to the Attorney General's Second Request for Information, (filed Sept. 29, 2022), Item 65.

[136] Attorney General and Clinton's Post-Hearing Brief at 21.

[137] Attorney General and Clinton's Post-Hearing Brief at 22.

[138] Water Service Kentucky's Initial Brief at 28.

[139] Water Service Kentucky's Initial Brief at 28.

The Commission originally adopted its approach in an attempt to reign in employee benefit expenses by requiring all utility employees to pay an established portion of their premiums.[140] The Commission found that utilities subject to its regulatory oversight should limit their contributions to its employees' health plans to percentages that were more in line with those of other businesses in order to reduce its expenses.[141]

Since Case No. 2016-00174, the Commission has consistently made ratemaking adjustments to reduce the cost of employee benefit packages paid by utilities when certain aspects of those benefit packages were found to be unreasonable based on a review of total salaries and fringe benefits.[142] The Commission evaluates the employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. In this instance, Water Service Kentucky requires its employee to contribute towards their health insurance benefits. For this reason, the Commission finds the Intervenors' proposed adjustment based on the BLS should be denied and Water Service Kentucky's test year amounts are reasonable for ratemaking purposes.

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[140] *See* Case No. 2016-00174, *Electronic Application of Licking Valley Rural Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC Mar. 1, 2017) at 10.

[141] *See* Case No. 2016-00174, Mar. 1, 2017 Order at 10.

[142] *See* Case No. 2021-00241, *Electronic Application of Christian County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Feb. 24, 2022) at 7–8; Case No. 2021-00369, *Electronic Application of Christian County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 17, 2022) at 11–12; and Case No. 2021-00406, *Electronic Application of Western Fleming County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 19, 2022) at 9–10.

Uncollectible Accounts.

Water Service Kentucky included bad debt expense of $169,278 that is associated with uncollectible accounts in the forecasted test year.[143] Forecasted bad debt expense was computed by applying an unrounded factor of approximately 3.93 percent to forecasted revenues from water sales of $4,309,579.[144] Water Service Kentucky calculated its bad debt percentage by averaging the ratio of bad debt expense to service revenues for the years 2019, 2020, and 2021.[145]

The Intervenors argued Water Service Kentucky's forecasted bad debt expense is unreasonable because two out of the three years that the bad debt percentage is based on were heavily impacted by the COVID-19 pandemic.[146] According to the Intervenors, a more reasonable approach would be to average the bad debt percentages for years 2017, 2018, 2019, and 2022, since the years 2020 and 2021 were such strong outliers due to the pandemic.[147] The Intervenors recommended a bad debt factor of 2.12 percent, which results in a forecasted bad debt expense of $91,363.[148]

According to Water Service Kentucky, the activity from January through September 2022 reveals a bad debt factor of 3.7 percent, demonstrating that its uncollectibles are still being impacted by fallout from the pandemic.[149] Water Service

[143] Application, Exhibit 29.2, line 10.

[144] Futral Direct Testimony at 63.

[145] Futral Direct Testimony at 63.

[146] Brief o the Attorney General/Clinton 25–26.

[147] Brief o the Attorney General/Clinton 26.

[148] Brief o the Attorney General/Clinton 26. $4,309,579 (Forecasted Revenue Water Sales) x 2.12% (Attorney General/Clinton Bad Debt Rate) = $91,363.

[149] Water Service Kentucky’s Initial Brief at 36.

Kentucky agreed that the 6.21 percent 2021 bad debt factor is abnormally high and should not be used in forecasting bad debt expense, but the 2022 factor of 3.7 percent is far closer to the 3.93 percent factor calculated by Water Service Kentucky than the factor recommended by the Intervenors of 2.12 percent.[150]

The Commission agrees with the Intervenors in that the calendar years impacted by the COVID-pandemic and the Commission's moratorium on customer disconnections are abnormally high and should be excluded from the calculation of the uncollectible factor used to forecast bad debt expense. Therefore, by excluding calendar years 2020 and 2021 from Water Service Kentucky's calculation of the uncollectible factor will result in a level of bad debt that is reasonable. The Commission finds it appropriate to update the Intervenors' recommended uncollectible factor to include January through September 2022, which results in a factor of 2.40 percent, a bad debt expense of $78,244 and a reduction to forecasted bad debt of $49,882.

Depreciation Expense.

Water Service Kentucky calculated its forecasted depreciation expense of $474,205 using the forecasted 13-month average UPIS account balances and the depreciation rates authorized in the Commission's Final Order on Reconsideration in Case No. 2018-00208.[151] According to the Intervenors, Water Service Kentucky discovered a formula error in its workpaper used to calculate depreciation expense, which resulted in an expense reduction of $50,838.[152]

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[150] Water Service Kentucky's Initial Brief at 36–37.

[151] Kilbane Direct Testimony at 21.

[152] Testimony of at Randy Futral at 62–63.

The Intervenors proposed to decrease forecasted depreciation expense by $50,838 to correct the formula error.[153] Water Service Kentucky agreed that the Intervenors' recommendation on this issue is reasonable.[154]

Based upon its review of the case record, the Commission is in agreement with the positions of all parties and finds the forecasted depreciation expenses should be reduced by $50,838. Based upon the impact its UPIS adjustments has on forecasted depreciation, the Commission finds further the expense level should be reduced by an additional $20,521 for a total decrease to forecasted depreciation expense of $71,359.[155]

Taxes Other than Income Tax.

Based upon the impact its salary and wage adjustment has on forecasted payroll tax expense, the Commission finds taxes other than income tax expense should be reduced by $5,272.[156]

Interest Synchronization Expense.

Water Service Kentucky proposed a forecasted interest expense of $183,199 based on its forecasted rate base and the weighted cost of debt.[157] As shown in the table

[153] Testimony of at Randy Futral at 63.

[154] Water Service Kentucky's Initial Brief at 36.

[155]

Depreciation - Calculation Error	$	50,838
Remove Project Phoenix Depreciation		16,312
Depreciation JD Edwards and Oracle		1,384
Depreciation - Reduced Truck Purchase Cost		2,825
Pro Forma Adjustment	$	71,359

[156]

Vacant Position Dir. Eng. & Asset Mgt	$	(1,467)
Employee Merit Increase 3%		(3,805)
Pro Forma Adjustment	$	(5,272)

[157] Water Service Kentucky's Responses to Staff's First Request, Item 49, Redacted Excel Workbook: PSC_DR_1-49_Exhibit_18-32-29_-_Schedule_B_-_SW-PR_Taxes-Benefits_REDACTED_UPDATED_8.16.2022.xlsx; Tab: Income Taxes.

below, the Commission finds it is appropriate to recalculate this expense to be $145,706 based on the rate base and weighted cost rates found reasonable resulting in a decrease of $37,493.

Commission Rate Base	$	6,379,127
Multiplied by: Weighted Cost of Long-Term Debt		2.2841%
Interest Synchronization		145,706
Less: Water Service Kentucky Interest		(183,199)
Commission Adjustment	$	(37,493)

Income Tax Expense.

Water Service Kentucky included a forecasted state income tax of ($23,108) and a forecasted federal income tax of ($92,201).[158] The Commission finds that it is reasonable to make an adjustment to Water Service Kentucky's state income tax expense of $13,394 for an adjusted current state income tax expense amount of ($9,714). The Commission further finds an adjustment to Water Service Kentucky's federal income tax expense of $53,443 to an adjusted level of ($38,758) is reasonable. The calculations of the Commission's adjustments is in the table below.

Description	Commission State Income Tax	Commission Fed. Income Tax
Forecasted Total Revenue	$ 3,262,188	$ 3,262,188
Maintenance Expense	536,010	536,010
General Expense	2,195,958	2,195,958
Depreciation & Amortization	388,829	388,829
Taxes Other Than Income	189,960	189,960
Interest Expense	145,706	145,706
State Income Tax		(9,714)
Total Before Income Tax Exp.	3,456,463	3,446,749
Federal Taxable Income	(194,275)	(184,561)
Multiplied by: Current Income Tax Rate	5%	21%

[158] Water Service Kentucky's Responses to Staff's First Request, Item 49, Redacted Excel Workbook: PSC_DR_1-49_Exhibit_18-32-29_-_Schedule_B_-_SW-PR_Taxes-Benefits_REDACTED_UPDATED_8.16.2022.xlsx; Tab: Income Taxes.

Federal Income Tax	(9,714)	(38,758)
Less: Water Service Ky. Income Tax	23,108	92,201
Income Tax Adjustments	$ 13,394	$ 53,443

Summary of Income Statement Adjustments .

Based on the adjustments discussed above, the Commission has determined that Water Service Kentucky's net operating income is ($97).

Description	Application 13-Month Average Forecasted Income Statement	Commission Adjustments	Commission 13-Month Average Forecasted Income Statement
Operating Revenues:			
Service Revenues - Water	$ 3,261,891		$ 3,261,891
Miscellaneous Revenues	297		297
Total Operating Revenues	3,262,188	0	3,262,188
Maintenance Expenses:			
Purchased Power	114,865		114,865
Purchase Water/Sewer	123,204		123,204
Maintenance and Repair	176,218		176,218
Maintenance Testing	25,028		25,028
Chemicals	103,885		103,885
Transportation	48,835	(5,067)	43,768
Operating Exp. Charged to Plant	(138,212)	79,676	(58,536)
Outside Services - Other	23,411	(15,833)	7,578
General Expenses			
Salaries and Wages	936,694	(75,249)	861,445
Office Supplies & Other Office Exp.	51,492		51,492
Regulatory Commission Exp.	160,706	(57,689)	103,017
Pension & Other Benefits	309,783	(18,177)	291,606
Rent	20,025		20,025
Insurance	113,401		113,401
Office Utilities	20,708		20,708
Uncollectible Accounts	128,126	(49,882)	78,244
Miscellaneous	667,561	(11,541)	656,020
Depreciation	474,205	(71,359)	402,846
Amortization of PAA	(3,660)		(3,660)
Payroll Taxes	71,972	(5,272)	66,700
Property Taxes	116,621		116,621
Utility/Commission Tax	6,638		6,638
Income Taxes - Federal	(92,201)	53,443	(38,758)
Income Taxes - State	(23,108)	13,394	(9,714)
Amortization of CIAC	(10,356)		(10,356)
Total Operating Expenses	3,425,841	(163,556)	3,262,285
Net Operating Income	$ (163,653)	$ 163,556	$ (97)

RATE OF RETURN

Water Service Kentucky does not maintain its own capital structure that supports its operations, but rather is funded by debt and equity from its parent, Corix US.[159] Therefore, Water Service Kentucky proposed to use Corix US's capital structure for the forecasted test year.[160] The projected 13-month average balances for the forecasted test period and the costs assigned to each capital component is shown in the table below.

Capital Structure	Capital Amount	Ratio	Rate	Weighted Cost of Cap.
Long-Term Debt	$ 3,888,057	50.29%	4.71%	2.3698%
Common Equity	3,842,646	49.71%	10.60%	5.2689%
Totals	$ 7,730,703	100.00%		

Water Service Kentucky updated its forecasted capital structure and debt rates as of August 31, 2022.[161] Water Service Kentucky's revised forecasted capital structure and debt rate are shown in the table below.

Capital Structure	Capital Amount	Ratio	Rate	Weighted Cost of Cap.
Long-Term Debt	$ 3,965,664	49.91%	4.58%	2.2841%
Common Equity	3,979,629	50.09%	10.60%	5.3093%
Totals	$ 7,945,293	100.00%		

Upon review of the record, the Commission finds that Water Service Kentucky's revised capital structure accurately projects the test-year capitalization requirements and debt rates. The Commission's forecasted capital structure and assigned cost rates are shown in the table below.

[159] Kilbane Direct Testimony at 27.

[160] Kilbane Direct Testimony at 27.

[161] Water Service Kentucky's Responses to Attorney General/Clinton's Second Request for Information, Item 66.

Capital Structure	Capital Amount	Ratio	Rates	Weighted Cost of Cap.
Long-Term Debt	$ 3,965,664	49.91%	4.58%	2.2841%
Common Equity	3,979,629	50.09%	9. 55%	4.7834%
Totals	$ 7,945,293	100.00%		

Return On Equity

In its application, Water Service Kentucky's witness, Mr. D'Ascendis, used several cost of equity models to develop his return on equity (ROE) recommendation, including: the Discounted Cash Flow (DCF) model, the Risk Premium Model (RPM) and the Capital Asset Pricing Model (CAPM).[162] These models were applied to 31 companies divided into two groups: seven water distribution utilities and twenty four domestic, non-price regulated companies of comparable risk.[163] The DCF, RPM and CAPM analyses were applied to the utility proxy group. The DCF ROE analysis utilized an adjusted average dividend yield added to an average projected 5-year earnings per share growth rate.[164] The RPM ROE analyses are based upon the predictive risk premium model (PRPM) and an adjusted total market approach.[165] The total market approach sums an adjusted prospective yield on 20-year corporate bonds to an estimated equity risk premium. The estimated total market equity risk premium is the average of an equity risk premium

[162] Application, Exhibit 9.5, Direct Testimony of Dylan W. D'Ascendis (D'Ascendis Direct Testimony) at 3–4, 18, and 35.

[163] D'Ascendis Direct Testimony at 4 and 39.

[164] D'Ascendis Direct Testimony at 16–18 and Exhibit DWD-3 at 1. The EPS growth rates were obtained from Value Line Investment Survey (Value Line), Zack's and Yahoo! Finance.

[165] D'Ascendis Direct Testimony at 18 and Exhibit DWD-4 at 3, 7, 8, and 12. Note that Mr. D'Ascendis acknowledged that the Commission has rejected the use of the predictive risk premium model for estimating ROEs previously in Case No. 2021-00214. See D'Ascendis Testimony at 23 and Case No. 2021-00214, *Electronic Application Of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC June 24, 2022).

derived from a beta adjusted total market equity risk premium and an equity risk premium based on the Standard & Poor's (S&P) Utilities Index.[166]

The CAPM analysis utilized an average forecast risk free rate based upon the 30-year treasury rate, and an average of Value Line and Bloomberg adjusted beta coefficients.[167] The estimated market risk premium is the result of six different estimation methods -utilizing historical and forward-looking data from three sources: Ibbotson, Value Line and Bloomberg. The following table presents a summary of Water Service Kentucky's ROE analyses.[168]

Discounted Cash Flow Model	9.63%
Risk Premium Model	11.72%
Capital Asset Pricing Model	11.52%
Market Models Applied to Comparable Risk, Non- Price Regulated Companies	11.43%
Indicated Range of Common Equity Cost Rates Before Adjustments for Company-Specific Risk	9.63% - 11.72%
Size Adjustment	1.00%
Indicated Range of Common Equity Cost Rates after Adjustment	10.63% – 12.72%
Recommended Cost of Common Equity	10.60%

Based upon the results of the analyses, Water Service Kentucky recommended an ROE of 10.60 percent based upon a range of 10.63 percent to 12.72 percent which included a specific additional 1.00 percent adjustment for company size.[169]

[166] D'Ascendis Direct Testimony at 24 and Exhibit DWD-4 at 3, 7, 8, and 12. Note that the beta values are an average of Value Line 5-year adjusted betas and Bloomberg Professional Services (Bloomberg) 2-year adjusted betas. The S&P Utilities derived risk premium is the average of historical and forward-looking data from Value Line and Bloomberg.

[167] D'Ascendis Direct Testimony at 36 and Exhibit DWD-5. The final estimated CAPM ROE is an average of both the traditional CAPM and the empirical CAPM methods.

[168] D'Ascendis Direct Testimony, Table 2 at 4.

[169] D'Ascendis Direct Testimony at 4.

The Intervenors' witness Richard A. Baudino provided ROE estimates using both the DCF and CAPM and applied these models to six water distribution utility companies.[170]

Mr. Baudino began his analysis with Water Service Kentucky's seven water utility proxy group and subsequently excluded The York Water Company, as Value Line stopped provided detailed reports on the company.[171] Building upon Water Service Kentucky's DCF analysis, Mr. Baudino calculated the average of recent current dividend yields using the six month period April through September 2022.[172] Also, his DCF analysis included forecasted growth rates for both dividend per share (DPS) and earnings per share (EPS).[173] Mr. Baudino argued that the DPS growth rates should be included since the DCF model calls for forecasted cash flows and only Value Line provides forecasted DPS.[174] Both the median and average DPS and EPS growth rates were calculated and used to obtain forecasted dividend yields.[175] The estimated ROEs are obtained by summing the forecast dividend yield and the average and the median growth rates.

For the CAPM analyses, Mr. Baudino cautioned that there is controversy surrounding the CAPM model for estimating ROEs. The Beta measure may not be the

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[170] Attorney General and Clinton's Direct testimony (filed Oct. 13, 2022) Direct Testimony of Richard A. Baudino (Baudino Direct Testimony) at 3.

[171] Baudino Direct Testimony at 15.

[172] Baudino Direct Testimony at 16 and Exhibit RAB-2.

[173] See Baudino Direct Testimony at 18 and Exhibit RAB-3. Zacks does not list forecasted EPS growth rates for American States Water Company, California Water Service Group, Middlesex Water Company and SJW Group. Mr. Baudino used the EKPS growth rates from Yahoo! Finance as proxies.

[174] Baudino Direct Testimony at 18.

[175] Baudino Direct Testimony at 19 and Exhibit RAB-3.

primary factor for determining the risk of a security. In addition, there is substantial judgement involved in estimating the required market return and the market risk premium (MRP).[176] Even though the market return is often estimated using the S&P 500, this is a limited source of information with respect to estimating the investors required return for all investments.[177] Further, the analyst's application of judgement can significantly influence the CAPM results.[178] Mr. Baudino used three approaches to estimate the market return and the MRP in the CAPM equation: a forward looking expected market return, an approach using two historical MRPs based upon stock and bond returns over the period 1926-2021 and estimated MRP from other published sources.[179]

For the forecast CAPM analysis, Mr. Baudino obtained forecasted average and median total annual return from Value Line. Utilizing an average of the 30-year treasury rate and an average proxy group Beta value, the forecast CAPM ROE is 14.69 percent.[180] However, Mr. Baudino argued that 14.69 percent was an extreme outlier and recommended that the Commission not rely upon it. Consequently, Mr. Baudino's other CAPM ROE calculations ranged from 8.13 percent to 9.66 percent were generally below the DCF ROE calculations.[181]

Mr. Baudino relied on the DCF results only to support his recommended ROE, arguing that a considerable amount of judgement must be employed to determine the

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[176] Baudino Direct Testimony at 21–22.

[177] Baudino Direct Testimony at 23.

[178] Baudino Direct Testimony at 23.

[179] Baudino Direct Testimony at 23.

[180] Baudino Direct Testimony at 24, 26, 27 and Exhibit RAB-4.

[181] Baudino Direct Testimony at 29–30.

market return and expected risk premium elements in CAPM, which can significantly influence the results.[182] In addition, the CAPM requires a wide variety of data to estimated investor required returns, which lead to wide-ranging results.[183] The Attorney General recommended an ROE of 9.25 percent based upon a range of 9.0 percent to 9.50 percent.[184] The following table presents the recommended ROEs from Water Service Kentucky and the Intervenors and the methods used to support each parties' recommendations:

Discounted Cash Flow Model	
Average Growth Rates	
High	9.23%
Low	9.02%
Average	9.14%
Median Growth Rates	
High	9.50%
Low	7.93%
Average	8.92%
CAPM Methodology	
Forward-looking Market Return	14.69%
Historical Risk Premium	
Arithmetic Mean	9.66%
Supply Side MRP	8.72%
Kroll MRP	8.15%
Damodaran MRP	8.13%

Mr. Baudino took issue with multiple assumptions used in Water Service Kentucky's ROE calculations and recommendation. Overall, he argued that Water

[182] Baudino Direct Testimony at 23.

[183] Baudino Direct Testimony at 23. In addition, Mr. Baudino argued that the forward-looking CAPM ROE estimate of 14.69 percent was an extreme outlier and recommended that the Commission not rely upon it. As a consequence, the Attorney general's CAPM historical analyses were generally lower than the DCF results. Id. at 29-30.

[184] Baudino Direct Testimony at 29.

Service Kentucky's ROE was excessive and inconsistent with current financial markets, including the steep increases in interest rates.[185] He argued that it was not clear how Water Service Kentucky arrived at its recommended ROE, how the size adjustment amount was calculated and that the Commission should not rely upon an unsupported size premium.[186]

Mr. Baudino argued that Water Service Kentucky should have included the Value Line dividend growth forecast in addition to the EPS growth forecasts in the DCF model.[187] Mr. Baudino argued that the RPM model was imprecise and could only provide a very general guidance on current authorized ROE estimates for regulated utilities.[188] More specifically, he argued that the PRPM model produces unreasonable results and was not widely accepted by regulatory commissions and should be rejected.[189] The total market risk premium analysis produced unsustainably high market returns and growth rates relative to forecasted nominal growth in the economy.[190] Finally, the regression based risk premium is flawed and should be rejected.[191]

Mr. Baudino argued that the CAPM analysis, which included the ECAPM method, produced results that were so grossly overstated, that they should be rejected out of

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[185] Baudino Direct Testimony at 30–31.

[186] Baudino Direct Testimony at 31–34.

[187] Baudino Direct Testimony at 35.

[188] Baudino Direct Testimony at 36.

[189] Baudino Direct Testimony at 38.

[190] Baudino Direct Testimony at 38–41.

[191] Baudino Direct Testimony at 41–42.

hand.[192] The same overstated market returns and growth rates used in the RPM analyses were used in the CAPM analyses and should be rejected. Mr. Baudino argued that the ECAPM adjustment be rejected and that the use of the method suggests a lack of accuracy in the CAPM model and with the beta in particular.[193] Finally, he argued the use of an unregulated non-utility company proxy group is inappropriate for evaluating the fair rate of return for Water Service and should be rejected.[194]

In the Rebuttal Testimony of Mr. D'Ascendis, he provided updated ROE analysis to reflect current data as well as provided responses to Mr. Baudino's testimony. In the updated ROE analysis, Mr. D'Ascendis provided an updated ROE range of 10.67 percent to 13.06 percent (adjusted)[195] but continued to support his 10.60 percent recommendation. Mr. D'Ascendis provided the following Table showing the updated analysis:[196]

Discounted Cash Flow Model	9.67%
Risk Premium Model	11.97%
Capital Asset Pricing Model	12.02%
Cost of Equity Models Applied to Comparable Risk, Non-Price Regulated Companies	12.06%
Indicated Range	9.67% - 12.06%
Size Adjustment	1.00%
Recommended Range	10.67% – 13.06%
Recommended Cost of Common Equity	10.60%

[192] Baudino Direct Testimony at 43.

[193] Baudino Direct Testimony at 45–46.

[194] Baudino Direct Testimony at 46–47.

[195] Water Service Kentucky's Rebuttal Testimony (filed Nov. 23, 2022) Rebuttal Testimony of Dylan W. D'Ascendis (D'Ascendis Rebuttal Testimony) at 5.

[196] D'Ascendis Rebuttal Testimony at 5.

Mr. D’Ascendis argued that Mr. Baudino’s sole reliance on the DCF is incorrect because the use of multiple models adds reliability to the estimation of the ROE.[197] Additionally, Mr. D’Ascendis argued that Mr. Baudino’s calculations and considerations for the MRP and the lack of use from not using the ECAPM is concerning. Lastly, Mr. Baudino argued that there is no consensus regarding the use of a size adjustment for utilities and that Water Service Kentucky is part of Corix US and it should not be allowed a size premium.[198] Mr. D’Ascendis however, argued that the exclusion of a size adjustment is incorrect and Water Service Kentucky’s operations should be considered a stand-alone company. Mr. D'Ascendis stated that capital market conditions are riskier now than they were in 2021 when Mr. Baudino issued his previous ROE.[199]

In Water Service Kentucky’s Initial Brief, it stated that the Commission should allow an ROE of 10.60 percent based on the four cost of equity valuation models that Mr. D’Ascendis provided. Water Service Kentucky also stated that the lowest plausible ROE that could be used would be a 9.6 percent.[200] In the Intervenors’ Brief, they state that Mr. D’Ascendis proposed an inflated and unreasonable recommendation, and that Mr. Baudino’s 9.25 percent recommendation is a more reasonable ROE based on DCF analysis.[201] While Mr. Baudino calculated the CAPM using both historical and forward-looking data, he did not rely on these results due to the results being less reliable.

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[197] D’Ascendis Rebuttal Testimony at 14.

[198] Baudino Direct Testimony at 30.

[199] D’Ascendis Rebuttal Testimony at 6.

[200] Water Service of Kentucky’s Initial Brief at 19.

[201] Attorney General and Clinton’s Post-Hearing Brief at 27.

In recent cases including Case Nos. 2019-00271,[202] 2020-00174[203] and 2020-00349/350,[204] the Commission has discussed that it believes it appropriate for utilities to present, and for the Commission to evaluate multiple methodologies to estimate ROEs, and each approach has its own strengths. As demonstrated in the respective ROE Testimonies in this proceeding, there is considerable variation in both data and application within each modeling approach, which can lead to very different results. The Commission's role is to conduct a balanced analysis of all presented models, while giving weight to current economic conditions and trends.

The Commission again cautions all parties against unreasonably removing or ignoring "outlier" data due to a subjective perception of being "too high" or "too low". As demonstrated in the Testimonies, there are a number of actions that can and were taken to account for "outlier" or "unreasonable" data. Result oriented exclusions of data that are not beyond the realm of reasonableness are inappropriate. Results based upon excluded data without adequate support will be given less weight in Commission determinations.

Even though the Commission supports the use and presentation of multiple modeling approaches, the Commission finds that Water Service Kentucky's use of the

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[202] See generally Case No. 2019-00271, *Electronic Application of Duke Energy Kentucky, Inc. for 1) An Adjustment of the Electric Rates; 2) Approval of New Tariffs; 3) Approval of Accounting Assets and Liabilities; and 4) All Other Required Approvals and Relief,* (Ky PSC Apr 27, 2020).

[203] See generally Case No. 2020-00174 *Electronic Application of Kentucky Power Company for (1) A General Adjustment of its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of a Certificate of Public Convenience and Necessity; and (5) All Other Required Approvals and Relief*, (Ky PSC Jan 13, 2021).

[204] See generally Case No. 2020-00350 *Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates, A Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit,* (Ky PSC Jun 30, 2021).

PRPM should be rejected. The PRPM model has only been addressed by three regulatory commissions thus far and is not universally accepted.[205] Furthermore, the Commission maintains a concern over the "blackbox" aspects of the PRPM.

The Commission further reiterates that it continues to reject the use of flotation cost adjustments, financial risk adjustments and explicit size adjustments in the ROE analyses.[206] The Commission will accord most weight to DCF and CAPM analyses based upon regulated company proxy groups. Both the DCF and CAPM are both long standing and well accepted models.

Even though the use of a size adjustment is rejected in this case, the Commission takes note of several factors in determining an appropriate ROE for Water Service, including Water Service Kentucky tariffs contain no cost recovery trackers, its small customer base, and the recent multiple increases in interest rates affecting financing costs.[207] All of these factors increase the relative risk of Water Service Kentucky. After consideration of the evidence, the Commission finds that an ROE of 9.55 percent for Water Service Kentucky's base rates is fair, just, and reasonable for ratemaking purposes in this matter.

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[205] See Water Service's Response to Staff's Second Request (filed July 14, 2021), Item 24.

[206] See Case No. 2008-00563, *Application of Water Service Corporation Of Kentucky For An Adjustment Of Rates* (Ky PSC Nov. 9, 2009) at 23–24. In this specific case, the Commission accepted a 35 basis point size adjustment.

[207] There was considerable discussion of the appropriateness of and the determinants of size adjustments. See D'Ascendis Direct Testimony at 42–47, D'Ascendis Rebuttal Testimony at 36–40, Water Service Initial Brief at 20–21, Water Service Response Brief (filed Dec. 27, 2022) at 8, Baudino Direct Testimony at 33–34, and Attorney General and Clinton's Post-Hearing Brief at 29–32,

Weighted Cost of Capital

Applying the cost rates of 4.58 percent for long-term debt, and 9.55 percent for common equity to the Commission's capital structure percentages consisting of 49.91 percent, and 50.9 percent, respectively, produces an overall cost of capital of 7.0675 percent.

Authorized Increase

The Commission finds that Water Service Kentucky's net operating income for rate-making purposes is $450,845. The Commission further finds that this level of net operating income requires an increase in forecasted present rate revenues of $616,566 as calculated in the table below.

Net Investment Rate Base - Forecasted	$ 6,379,127
Multiplied by: WCC	7.0675%
Operating Income Requirement	450,845
Less: Present Rate Revenue	(97)
Operating Income Deficiency	450,942
Multiplied by Gross-up Factor	1.367284
Revenue Requirement	$ 616,566
Percentage Increase/Decrease	18.90%

PRICING AND TARIFF ISSUES

Cost of Service Study / Rate Design

For general water service, Water Service Kentucky charges a monthly service charge and a volumetric rate structure for its entire service area. Water Service Kentucky proposed to increase its monthly retail water service rates evenly across the board by approximately 32.12 percent. Water Service Kentucky has not performed a cost of service study (COSS). Water Service Kentucky stated that it did not complete a COSS because there has not been any material change in the water system to warrant a new COSS.[208]

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. The Commission followed the method proposed by Water Service Kentucky and allocated the Commission's calculated revenue increase across the board to Water Service Kentucky's monthly retail water service rates.

The rates will increase a typical residential customer's monthly water bill from $33.09 to $38.37, an increase of $5.28, or approximately 15.96 percent.[209]

<u>Nonrecurring Charges</u>

The Commission reviewed Water Service Kentucky's current nonrecurring charges as well as the cost justification forms used to justify each charge. Water Service Kentucky provided the most recent cost justification form for each nonrecurring charge currently in its tariff.[210] As Water Service Kentucky does not include labor costs in its current nonrecurring charges, the Commission did not find it necessary to adjust these charges.

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[208] Water Service Kentucky's Response to Commission Staff's Second Request (filed July 28, 2022), Item 15.

[209] The typical residential customer uses approximately 3,438 gallons per month.

[210] Water Service Kentucky's Response to Commission Staff's Second Request (filed July 28, 2022), Item 32.

REQUEST FOR CPCN TO DEPLOY AMI

Parties' Positions:

Water Service Kentucky:

Water Service Kentucky proposed to deploy AMI to one-third of its water system every two years, and to complete the project over a five-year period.[211] The proposed AMI system would include Neptune AMI meters, Gateway data collectors, an MRX920 mobile data collector, and retrofitting materials.[212] The Company anticipated that the total capital costs of the AMI project will be $1,696,462 and that deployment will begin in January 2023.[213] Water Service Kentucky projected that it will invest $504,458 in 2023, $589,504 in 2025, and $602,500 in 2027 to deploy the AMI, and the annualized revenue requirement will be $68,199 in 2023, $66,199 in 2024, $134,159 in 2025, $129,820 in 2026, and $196,985 in 2027.[214] Water Service Kentucky also projected operating costs of $7,975 per year for the AMI infrastructure annual training and subscriptions required to utilize the AMI equipment.[215]

Water Service Kentucky claimed it has demonstrated a need for the AMI system, to remedy a substantial inadequacy in its existing water service to its customers through the modernization of its meter systems that will result in increased efficiency that would

[211] Application at 14–15.

[212] Wilson Direct Testimony at 11–12.

[213] Application at 14–15.

[214] Kilbane Direct Testimony at 27.

[215] Water Service Kentucky's Response to the Attorney General's First Request, Item 100(a) and (b).

not otherwise be possible on the existing, aging water systems.[216] Water Service Kentucky claimed there are many benefits to AMI, including availability of real-time consumption data, higher accuracy of readings in comparison to manual read meters, a reduction of re-readings, and an advanced ability to quickly identify unusual water usage patterns indicative of potential water leaks. In addition, it claimed customers will have constant access to their water usage.[217]

Water Service Kentucky also claimed it has demonstrated the AMI system will not result in wasteful duplication. Water Service Kentucky stated AMI will increase the efficacy and efficiency of water service to its customers in Clinton and Middlesboro.[218] Water Service Kentucky's parent, Corix US, evaluated various vendors and programs in selecting the Neptune AMI metering system for the project, and Water Service Kentucky claimed the Neptune AMI program is the least cost option for its customers.[219] Water Service prepared a cost-benefit analysis regarding the AMI system during the course of this proceeding.[220]

Intervenors:

Intervenors argued that the Commission should deny Water Service Kentucky's request for a CPCN for its proposed AMI meters because they believe Water Service

[216] Application at 6.

[217] Application at 7–8.

[218] Application at 8–9.

[219] Application at 9.

[220] Water Service Kentucky's Response to Staff's Second Request, Item 19(a); Water Service Kentucky's Response to Commission Staff's Third Request for Information (filed Sept. 1, 2022) at 6; Futral Direct Testimony at 11–15.

Kentucky failed to meet the burden of proof as required by KRS 278.020(1) of demonstrating a need for such facilities and an absence of wasteful duplication.[221]

Intervenors stated that the "need" component of KRS 278.020(1) requires a showing of a substantial inadequacy of existing service, involving a consumer market sufficiently large to make it economically feasible for the new system or facility to be constructed or operated.[222] Intervenors argued that, while Water Service Kentucky stated that the proposed AMI system is beneficial because it would allow the Company to gather real-time consumption data, provide technological benefits to its customers, and eliminate the need to send field technicians for manual meter reads, none of these alleged benefits demonstrate that there is an inadequacy of existing service, let alone the required substantial inadequacy of existing service.[223] Intervenors further argued there is no evidence in the record to indicate the current meters are not providing reliable service to the customers.[224]

Intervenors also pointed out that, as of June 30, 2022, there is still a remaining net book value of $251,420 for the Company's existing meters, and if the AMI project is approved, customers will not only be forced to pay for the new AMI meters, but will also still be paying for the existing meters through rates as well.[225] Additionally, Intervenors argued that the project is not economically feasible, because 6,000 customers should not be considered a consumer market large enough to pay for the approximately $1.7 million

[221] Attorney General and Clinton's Post-Hearing Brief at 8.

[222] Attorney General and Clinton's Post-Hearing Brief at 8.

[223] Attorney General and Clinton's Post-Hearing Brief at 8.

[224] Attorney General and Clinton's Post-Hearing Brief at 8.

[225] Attorney General and Clinton's Post-Hearing Brief at 8–9.

dollar AMI project. Intervenors also took issue with the failure by Water Service Kentucky to include any potential ongoing savings attributable to the proposed AMI project in the proposed revenue requirement in the pending case.[226]

Intervenors further argued Water Service Kentucky's proposed AMI system fails to meet the standard requiring an absence of wasteful duplication. Intervenors argued that Water Service Kentucky failed to demonstrate that a thorough review of all reasonable alternatives has been performed and Water Service Kentucky has not provided any documentary evidence that it reviewed any reasonable alternatives, such as conducting a cost-benefit analysis of manual read meters or Automated Meter Reading (AMR) meters as opposed to the proposed AMI system.[227] Intervenors further argued that Water Service Kentucky performed an after-the-fact cost-benefit analysis of the proposed AMI system in response to Commission Staff's Second Request for Information (Staff's Second Request), months after the initial application had been filed, and therefore, Water Service Kentucky did not rely on that economic analysis to justify its decision to implement the AMI project.

<u>Discussion:</u>

<u>Need:</u>

Pursuant to KRS 278.020(1), "Need" for the AMI proposal requires a showing of substantial inadequacy of existing service.

Water Service generally claimed that it demonstrated need for the AMI system to remedy a substantial inadequacy through modernization of its aging meter systems that

[226] Attorney General and Clinton's Post-Hearing Brief at 9.

[227] Attorney General and Clinton's Post-Hearing Brief at 9–10.

that will result in increased efficiency.[228] Water Service Kentucky pointed to an upward trend in unaccounted-for water and the decreased capability of its aging meters to detect and prevent this problem.[229] It stated that meters that are already beyond their useful life fail to capture water consumption, which causes both an operational and financial burden through unaccounted-for water and the resulting lost revenue.[230] Water Service Kentucky claimed the enhanced efficiency of the AMI meters will allow it to identify leaks and monitor trouble areas remotely and constantly, which will reduce the unaccounted-for water and impediments to the provision of high-quality water service.[231] However, Water Service Kentucky also acknowledged that it has maintained compliance with Kentucky Division of Water (DOW) and has received minimal customer complaints about water quality.[232] Water Service Kentucky further confirmed that, if the Commission does not approve the proposed AMI, it will simply continue to replace meters with manual read meters.[233]

In support of its AMI proposal, Water Service Kentucky has cited to cases in which the Commission has approved CPCNs for advanced metering systems for other utilities.[234] However, there are major distinctions between the cases cited and the AMI

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[228] Application at 6.

[229] Application at 6.

[230] Application at 6.

[231] Application at 7.

[232] Application at 7.

[233] Application at 7.

[234] Water Service Kentucky's Initial Brief at 12, citing to Case No. 2021-00207, *Electronic Application of Estill County Water Dist. No. 1 for a Certificate of Public Convenience and Necessity for the Purchase and Installation of Metering Equipment and Authorization to Use Loan Proceeds for Proposed Purchase* (Ky. PSC June 25, 2021); Case No. 2021-00095, *Electronic Application of Northern Kentucky Water District for a Certificate of Public Convenience and Necessity to Replace its Existing Automated*

proposal here. First, the utilities in those cases provided substantial evidence that the existing meters were either no longer available or supported or in the near future would no longer be available or supported. In this proceeding, Water Service Kentucky has admitted it can continue to replace aging meters with the current manual read meters.[235] Second, in the cases cited by the Water Service Kentucky, the utilities provided substantial evidence that they could not provide reliable, adequate service with the existing meters. Water Service Kentucky has acknowledged its ability to provide reliable, adequate service with its current meters.[236]

Water Service Kentucky also argued that the proposed AMI would "provide many benefits to its customers," including the ability for customers to monitor their consumption and resulting billing by providing them constant usage data.[237] However, based on the evidentiary record, Water Service Kentucky did not propose any additional rate structures that are made possible with AMI, such as prepay metering or real-time pricing, and thus limited the usefulness of any usage data to customers. Therefore, the Commission is not convinced that customers will benefit substantially from the usage data as proposed by

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Metering Reading (AMR) Meters with Advanced Metering Infrastructure (AMI) and Issuance of a Bond Anticipation Note (Ky. PSC Sept. 22, 2021); Case No. 2020-00113, *Electronic Application of Elkhorn Water District for a Certificate of Public Convenience and Necessity to Replace 6600 LF of Pipeline, to Replace a Booster Pump Station, to Install a New Master Meter, and New Individual Meters, and to Refurbish an Existing Elevated Water Tank* (Ky. PSC Nov. 20, 2020); Case No. 2018-00038, *Electronic Application of McCreary County Water District for Authorization to Execute Lease-Purchase Agreement and Related Relief* (Ky. PSC June 28, 2018); Case No. 2016-00255, *Application of Beech Grove Water System, Inc. for a Certificate of Public Convenience and Necessity to Incur Indebtedness of $100,000 for the Purchase of Metering System* (Ky. PSC Mar. 9, 2017); Case No. 2011-00390, *Application of Graves County Water District for Authority to Enter into a Loan with the Kentucky Infrastructure Authority* (Ky. PSC Nov. 3, 2011).

[235] Application at 7.

[236] Application at 7 (Water Service Kentucky acknowledges it maintains compliance with DOW and receives minimal complaints regarding water quality).

[237] Application at 15; Wilson Direct Testimony at 4

Water Service Kentucky or that the failure to provide that data to all customers would result in inadequate service.

Water Service Kentucky also argued that AMI would benefit customers by the ability to identify leaks and monitor trouble areas remotely and constantly, which will reduce the aforementioned unaccounted-for water.[238] Water Service Kentucky currently relies on routine testing and replacement of its meters, and monitoring of locations where frequent leaks or other issues occur to identify and respond to system failures.[239] However, there was no evidence presented in the record that would justify finding that the Water Service Kentucky's current method for identifying leaks results in a substantial inadequacy in service to customers. Rather, the evidence in the record indicated that Water Service Kentucky is generally providing adequate service with its existing meters and that it would continue to do so.[240]

The Commission concludes that Water Service Kentucky failed to present sufficient evidence in the record to demonstrate that there is a substantial inadequacy of existing service. Water Service Kentucky has admitted that it is able to provide reliable, adequate service with the existing meters.[241] Water Service Kentucky has also confirmed that, while the infrastructure of the current system is aging, it is not obsolete, as it will continue to replace meters with manual read meters should the Commission deny a

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[238] Water Service Kentucky Initial Brief at 6–7

[239] Water Service Kentucky's Initial Brief at 6, citing Vaughn Melton Cost Benefit Assessment at 6, located at Response to Staff's Second Request, Item 19.

[240] Application at 7

[241] Application at 7 (Water Service Kentucky acknowledges it maintains compliance with DOW and receives minimal complaints regarding water quality. It also confirms it will continue to replace aging meters with manual read meters if the requested CPCN is not approved).

CPCN for the proposed AMI.[242] For the reasons set forth above, the Commission finds that Water Service Kentucky has not presented sufficient evidence on the record that established a substantial inadequacy of service at this time and, therefore, it has not established a need for the proposed AMI.

Wasteful Duplication:

Pursuant to KRS 278.020(1), a utility must, among other things, prove an absence of wasteful duplication, and demonstrate a thorough review of all reasonable alternatives has been performed.[243]

In its application, Water Service Kentucky asserted that a market analysis and request for proposals was performed by its parent, Corix US, which resulted in the selection of the Neptune meters.[244] Water Service Kentucky stated that Corix US was able to negotiate a discount on nationwide pricing, providing value and annual price certainty.[245] While Water Service did submit a cost-benefit analysis during the course of this proceeding in response to Staff's Second Request, it lacks a thorough comparison regarding the installation of all potential types of meters. Water Service Kentucky admitted that, while the cost-benefit analysis identified potential savings, due to the phase-in process of the AMI rollout and widely varying impacts that may accrue for each customer, it has not yet quantified cost savings.[246] Water Service Kentucky also

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[242] Application at 7.

[243] Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin Counties, Kentucky* (Ky. PSC Sept. 8, 2005).

[244] Application at 15.

[245] Application at 15.

[246] Water Service Kentucky's Response to Staff's Second Request, Item 19.

confirmed that it did not update its proposed revenue requirement based on the alleged revenue increases and cost savings benefits presented in the study and stated that it agreed that the AMI implementation may not generate changes such as increased revenues or decreased meter reading costs.[247]

In further support of the AMI proposal, Water Service Kentucky noted Commission precedent that states "selection of a proposal that ultimately costs more than an alternative does not necessarily result in wasteful duplication."[248] However, the underlying case cited by Water Service Kentucky differs greatly to this situation – in that case, not only did the utility present a cost-benefit analysis that showed the cost for all viable alternative systems, it also demonstrated an absolute need to replace meters in its systems that would become totally obsolete and leave customers without sufficient metering equipment.[249]

As previously mentioned, Water Service Kentucky cited to previous cases in which the Commission approved CPCN's for advanced-metering projects, in support of its argument that it meets the statutory requirements for a CPCN with its AMI proposal.[250]

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[247] HVT at 06:26:00–06:31:03

[248] Water Service Kentucky's Initial Brief at 12, citing Case No. 2021-00095, *Electronic Application of Northern Kentucky Water District for a Certificate of Public Convenience and Necessity to Replace its Existing Automated Meter Reading (AMR) Meters with Advanced Metering Infrastructure (AMI) and Issuance of a Bond Anticipation Note* (Ky. PSC Sept. 22, 2021) at 4.

[249] Case No. 2021-00095, Sept. 22, 2021 Order.

[250] Application at 15, citing to Case No. 2021-00222, *Electronic Application of South Eastern Water Association, Inc. for Approval Pursuant to 807 KAR 5:001 and KRS 278.020 for a Certificate of Public Convenience and Necessity to Deploy an Advanced Metering Infrastructure (AMI) System* (Ky. PSC Aug. 8, 2021); Water Service Kentucky's Initial Brief at 12, citing to Case No. 2021-00207, *Electronic Application of Estill County Water Dist. No. 1 for a Certificate of Public Convenience and Necessity for the Purchase and Installation of Metering Equipment and Authorization to Use Loan Proceeds for Proposed Purchase* (Ky. PSC June 25, 2021); Case No. 2021-00095, *Electronic Application of Northern Kentucky Water District for a Certificate of Public Convenience and Necessity to Replace its Existing Automated Metering Reading (AMR) Meters with Advanced Metering Infrastructure (AMI) and Issuance of a Bond Anticipation Note* (Ky. PSC Sept. 22, 2021); Case No. 2020-00113, *Electronic Application of Elkhorn Water District for a Certificate*

However, there are substantial differences between those cases and Water Service Kentucky's AMI proposal. In the cases cited by Water Service Company, the Commission was satisfied that the utilities provided evidence to support a lack of wasteful duplication, including a review of reasonable alternatives, and substantial evidence that the proposed AMI system was the least-cost alternative. [251] Water Service Kentucky has failed to present an acceptable review of all reasonable alternatives, nor proof that its AMI proposal is the least-cost alternative. The Commission would also note it has consistently denied CPCN's for advanced-metering projects that failed to present evidence that the utility's proposed system was the least-cost alternative.[252]

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of Public Convenience and Necessity to Replace 6600 LF of Pipeline, to Replace a Booster Pump Station, to Install a New Master Meter, and New Individual Meters, and to Refurbish an Existing Elevated Water Tank (Ky. PSC Nov. 20, 2020); Case No. 2018-00038, *Electronic Application of McCreary County Water District for Authorization to Execute Lease-Purchase Agreement and Related Relief* (Ky. PSC June 28, 2018); Case No. 2016-00255, *Application of Beech Grove Water System, Inc. for a Certificate of Public Convenience and Necessity to Incur Indebtedness of $100,000 for the Purchase of Metering System* (Ky. PSC Mar. 9, 2017); and Case No. 2011-00390, *Application of Graves County Water District for Authority to Enter into a Loan with the Kentucky Infrastructure Authority* (Ky. PSC Nov. 3, 2011).

[251] *Application at 15,* citing to Case No. 2021-00222*, Electronic Application of South Eastern Water Association, Inc. for Approval Pursuant to 807 KAR 5:001 and KRS 278.020 for a Certificate of Public Convenience and Necessity to Deploy an Advanced Metering Infrastructure (AMI) System* (Ky. PSC Aug. 8, 2021)*; Water Service Kentucky's Initial Brief at 12,* citing to Case No. 2021-00207, *Electronic Application of Estill County Water Dist. No. 1 for a Certificate of Public Convenience and Necessity for the Purchase and Installation of Metering Equipment and Authorization to Use Loan Proceeds for Proposed Purchase* (Ky. PSC June 25, 2021)*;* Case No. 2021-00095*, Electronic Application of Northern Kentucky Water District for a Certificate of Public Convenience and Necessity to Replace its Existing Automated Metering Reading (AMR) Meters with Advanced Metering Infrastructure (AMI) and Issuance of a Bond Anticipation Note* (Ky. PSC Sept. 22, 2021); Case No. 2020-00113*, Electronic Application of Elkhorn Water District for a Certificate of Public Convenience and Necessity to Replace 6600 LF of Pipeline, to Replace a Booster Pump Station, to Install a New Master Meter, and New Individual Meters, and to Refurbish an Existing Elevated Water Tank* (Ky. PSC Nov. 20, 2020)*;* Case No. 2018-00038*, Electronic Application of McCreary County Water District for Authorization to Execute Lease-Purchase Agreement and Related Relief* (Ky. PSC June 28, 2018)*;* Case No. 2016-00255*, Application of Beech Grove Water System, Inc. for a Certificate of Public Convenience and Necessity to Incur Indebtedness of $100,000 for the Purchase of Metering System* (Ky. PSC Mar. 9, 2017); *and* Case No. 2011-00390, *Application of Graves County Water District for Authority to Enter into a Loan with the Kentucky Infrastructure Authority* (Ky. PSC Nov. 3, 2011).

[252] *See* Case No. 2018-00005, *Electronic Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for Full Deployment of Advanced Metering Systems* (Ky. PSC Aug. 30, 2018); Case No. 2020-00174, *Electronic Application of Kentucky Power Company for (1) a General Adjustment of its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4)*

In this proceeding, the Commission is not persuaded by the evidentiary record that the AMI proposal by Water Service Kentucky is the reasonable, least-cost alternative. Therefore, the Commission finds that Water Service Kentucky failed to satisfy the "wasteful duplication" component of KRS 278.020(1).

Conclusion:

The Commission sees benefits in advanced metering, generally. However, Water Service Kentucky failed to provide sufficient evidence the AMI proposal satisfies the requirements of KRS 278.020(1) by demonstrating a substantial inadequacy of existing service or that its proposal is the least-cost alternative.

The Commission finds that Water Service Kentucky's request for a CPCN should be denied, and the Commission will consider any future application for advanced metering to determine whether it satisfies the legal requirements for a CPCN.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Water Service Kentucky are denied.

2. The general service rates set forth in the Appendix to the Order are fair, just and reasonable, and are approved for service rendered on and after the date of this Order.

3. Water Service Kentucky's proposed CPCN is denied.

4. Water Service Kentucky's December 13, 2022 Motion for Leave to File Updated Evidence on Rate Case Expense is granted.

5. Within 20 days of service of this Order, Water Service Kentucky shall file with the Commission, using the Commission's Electronic Tariff Filing System, new tariff

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Approval of a Certificate of Public Convenience and Necessity; and (5) All Other Required Approvals and Relief (Ky. PSC May 14, 2021).

sheets setting forth the rates and charges and the revisions approved herein and reflecting their respective effective dates and that they were authorized by this Order.

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

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PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ENTERED

APR 12 2023

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KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00147 DATED APR 12 2023

The following rates and charges are prescribed for the customers in the area served by Water Service Corporation of Kentucky. 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.

Service Charge Rates
For All Service Areas

Meter Size		
5/8-Inch	$ 15.39	per month
3/4-Inch	15.39	per month
1-Inch	38.47	per month
1 1/2-Inch	76.93	per month
2-Inch	123.08	per month
3-Inch	230.77	per month
4-Inch	384.62	per month
6-Inch	769.23	per month

Volumetric Rates

First	100,000 Gallons	$ 0.006684	per gallon
Over	100,000 Gallons	$ 0.004612	per gallon

Monthly Fire Protection Charges
For All Service Areas

Fire Protection Charges		
Municipally Owned Hydrants	$ 9.95	per hydrant
Private Hydrants or Sprinkler Systems	45.01	per hydrant or sprinkler
Ambleside Private Fire Surcharge*	4.48	per customer

*Surcharge is only applicable to those customers residing in the Ambleside subdivision in Middlesboro, Kentucky.

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