

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MEADE)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2023-00039
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On February 10, 2023, Meade County Water District (Meade District) filed its application with the Commission requesting an adjustment to its water rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,¹ Meade District used the calendar year ended December 31, 2021, as the basis for its application. The application was filed pursuant to the Commission's Orders in Case No. 2021-00124 and Case No. 2022-00409, which required Meade District to file an application for an adjustment of its base rates by April 13, 2024.²

In its application, Meade District requested rates that would increase its annual water sale revenues by \$84,980, or a 2.63 percent increase to pro forma present rate water sale revenues.

¹ Commission regulation 807 KAR 5:076, Section 9 states that the reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

² Case No. 2021-00124, *Electronic Application of Meade County Water District for Approval to Enter into a Lease Agreement with the Kentucky League of Cities Leasing Trust, in an Approximate Principal Amount of \$2, 260,000 for the Purpose of Refinancing Outstanding Obligations of the Meade County Water District* (Ky. PSC Apr. 13, 2021), Order at 5. Case No. 2022-00409, *Electronic Purchased Water Adjustment Filing of Meade County Water District* (Ky. PSC Dec. 20, 2022), Order at 6.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated March 2, 2023.³ Commission Staff's First Request for Information (Staff's First Request) was issued as an Appendix to the procedural schedule issued on March 2, 2023, with a response due date of April 3, 2023.⁴ Commission Staff's Second Request for Information (Staff's Second Request) was issued on April 17, 2023, with a response due date of May 1, 2023.⁵ Meade District filed its response to Staff's Second Request on May 4, 2023.⁶

Commission Staff's Report was filed on June 28, 2023, summarizing its findings and recommendations regarding Meade District's requested rate adjustment. In the Commission Staff's Report, Commission Staff recommended that Meade District's adjusted test-year operations support a total revenue requirement of \$3,486,739, and that an annual revenue increase of \$176,546, or 5.47 percent, is necessary to generate the overall revenue requirement. In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates.

On July 6, 2023, Meade District filed its response to Commission Staff's Report. Meade District, stated that it disagreed with Commission Staff's adjustment for the removal of certain labor expenses from nonrecurring charges but did not wish to contest

³ Order (Ky. PSC Mar. 2, 2023), Appendix A.

⁴ Mar. 2, 2023 Order, Appendix B.

⁵ Commission Staff's Second Request (Ky. PSC Apr. 17, 2023).

⁶ Meade District's Response to Commission Staff's Second Request (filed May 4, 2023).

the adjustment in this case.⁷ Meade District stated that it accepted the report's recommended revenue requirement and proposed rates for the purpose of this proceeding. In its response, Meade District waived its right to request an informal conference or hearing.⁸ When Meade District's accepted Commission Staff's recommended rate increase, it amended its application and was ordered to file a notice to its customers of the amended proposed rates on August 3, 2023.⁹ Meade District filed updated proof of customer notice on August 17, 2023.¹⁰ The case now stands submitted for a decision by the Commission.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, Meade District is allowed to charge its customers "only fair, just and reasonable rates."¹¹ Further, Meade District bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

⁷ Meade District's Response to Staff Report (filed July 6, 2023), Item 1.

⁸ Meade District's Response to Staff Report (filed July 6, 2023), Item 4.

⁹ Order (Ky. PSC Aug. 3, 2023).

¹⁰ Meade District's Newspaper Notice (filed Aug. 17, 2023).

¹¹ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

BACKGROUND

Meade District is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 5,128 residential customers and 240 commercial customers that reside in Meade County, Kentucky, as well as two wholesale customers, Doe Valley Water and Otter Creek Water.¹² Meade District does not produce any of its own water; rather, it purchases its water from Hardin County Water District No. 1.¹³ A review of the Commission's records indicates that Meade District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2019-00044.¹⁴

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2021 Annual Report, Meade District reported a water loss of 15.93 percent.¹⁵ Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The table below shows that the 2021 total annual cost of water loss to Meade District is \$213,670, while the annual cost of water loss in excess of 15 percent is \$12,418.

¹² *Annual Report of Meade District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 49 and 55.

¹³ 2021 Annual Report at 54.

¹⁴ Case No. 2019-00044, *Electronic Application of Meade County Water District for an Alternative Rate Adjustment*(Ky. PSC Apr. 9, 2019).

¹⁵ 2021 Annual Report at 57.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 1,283,130	\$ 58,545	\$ 1,341,675
Water Loss Percent	15.9256%	15.9256%	
Total Water Loss	\$ 204,346	\$ 9,324	\$ 213,670

Disallowed Water Loss	Water	Power	Total
Pro Forma Purchases	\$ 1,283,130	\$ 58,545	\$ 1,341,675
Water Loss in Excess of 15%	0.9256%	0.9256%	0.9256%
Disallowed Water Loss	\$ 11,876	\$ 542	\$ 12,418

TEST PERIOD

The calendar year ended December 31, 2021 was used as the test year to determine the reasonableness of Meade District's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

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

	Meade District's Application		
	Test-Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 2,846,953	\$ 476,065	\$ 3,323,018
Operating Expenses	2,040,582	192,449	2,959,977
Total Utility Operating Income	<u>\$ 79,424</u>	<u>\$ 283,616</u>	<u>\$ 363,041</u>

REVIEW AND MODIFICATIONS TO COMMISSION STAFF'S FINDINGS AND RECOMMENDATIONS

Meade District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. The Commission accepts the

recommendations contained in the Commission Staff's Report with modification. The following is the Commission Staff's complete pro forma with modification:

	Test Year	Meade District Proposed Adjustment s	Commission Staff Adjustments	Commission Adjustments	Total Adjustments	Pro Forma
Operating Revenues						
Total Metered Retail Sales	\$ 2,411,628	\$ 375,137		\$ 7,676	\$ 382,813	\$ 2,794,441
Sales for Resale	341,398	100,928		2,231	103,159	444,557
Other Water Revenues:						
Forfeited Discounts		43,653			43,653	43,653
Other Water Revenues	93,927	(43,653)			(43,653)	
			(14,102)		(14,102)	36,172
Total Operating Revenues	2,846,953	476,065	(14,102)	9,907	471,870	3,318,823
Operating Expenses						
Operation and Maintenance Expenses						
Salaries and Wages - Employees	485,275	31,785	59,116		90,901	576,176
Salaries and Wages - Commissioners	30,000					30,000
Employee Pensions and Benefits	243,861	14,635	15,838		30,473	231,825
		(42,509)			(42,509)	
Purchased Water	909,331	373,799		15,172	388,971	1,286,426
		(11,876)			(11,876)	
Purchased Power for Pumping	58,545	(542)			(542)	58,003
Materials and Supplies	63,784					63,784
Contractual Services - Acct. & Legal	22,186					22,186
Contractual Services - Water Testing	2,610					2,610
Transportation Expenses	22,725					22,725
Insurance - Gen. Liab. & Workers Comp.	34,745					34,745
Miscellaneous Expenses	167,520					167,520
Total Operation and Maintenance Expenses	2,040,582	365,292	74,954	15,172	455,418	2,496,000
Depreciation	685,991	(175,750)			(175,750)	510,241
Taxes Other Than Income	40,956	2,907	2,509		5,416	46,372
Total Operating Expenses	2,767,529	192,449	77,463	15,172	285,084	3,052,613
Net Operating Income	79,424	283,616	(91,565)	(5,265)	186,786	266,210
Interest Income	1,277					1,277
Income Available to Service Debt	\$ 80,701	\$ 283,616	\$ (91,565)	\$ (5,265)	\$ 186,786	\$ 267,487

Billing Analysis. Meade District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application. In the 2021 Annual

Report, total metered water sales revenue reported for the test year is \$2,753,026.¹⁶ Meade District provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff to be \$3,229,091.¹⁷

Consequently, Commission Staff increased test-year water sales revenue by \$476,065 (\$375,137 retail and \$100,928 wholesale) to reflect the revenues from water rates reported in the billing analysis. Additionally, due to a Purchased Water Adjustment (PWA) in Case No. 2023-00330, an adjustment to retail sales revenue of \$7,676 and sales for resale revenue of \$2,231 was made.¹⁸

The Commission finds that this adjustment is reasonable because an examination of Meade District's billing analysis was completed by Commission Staff and a normalized revenue was based on the information provided.

Forfeited Discounts. During the test year, Meade District inadvertently reported Forfeited Discounts in its Miscellaneous Service Revenues. Meade District proposed to decrease Miscellaneous Service Revenues by \$43,653 and reclassify this amount to Forfeited Discounts to provide more clarity.¹⁹

Commission Staff agreed with the proposed adjustment and reclassified \$43,653 from Other Water Revenues to Forfeited Discounts for proper accounting and in order to comply with the terms of Meade District's tariff.

¹⁶ 2021 Annual Report at 49.

¹⁷ Meade District's Response to Staff's First Request, Item 9, MC1_9-Billing_Analyses.xlsx.

¹⁸ See Case No. 2023-00330, *Electronic Purchased Water Adjustment Filing of Meade County Water District* (Ky. PSC Nov. 9, 2023), final Order.

¹⁹ Application, Attachment 5, Schedule of Adjusted Operations, Adjustment B.

The Commission finds that the reclassification of the \$43,653 to Forfeited Discounts for proper accounting and in order to comply with the terms of Meade District's tariff is reasonable and should be accepted.

Nonrecurring Charges. Meade District provided updated cost justification for all of the Nonrecurring Charges listed in its tariff.²⁰

Commission Staff reviewed the cost justification information provided by Meade District and adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. The revisions that were provided included updating and increasing the amount for transportation to \$27.51 for all Nonrecurring Charges that include transportation expense in its calculations. For the Connection/Turn-On Charge, Field Visit, Meter Re-Read Charge, Service Call/Investigation, Reconnection Charge and Meter Tampering Charge, the Field Labor Costs of \$40.21 per hour and Office/Clerical Labor Costs of \$19.05 per hour were both removed. For the Meter Test Charge the Field Labor Costs of \$40.21 per hour was removed. For the Returned Check charge the Office/Clerical Labor Costs of \$38.09 per hour was removed. For the After Hours services only the Office/Clerical Labor Costs of \$19.05 per hour was removed, as the office is closed during these hours. The After Hours expenses for labor and transportation both increased to \$53.31 per hour and \$27.51 respectively, which results in an increase to the After Hours charges. Meade District proposed an increase to its meter testing fee which included a Service Call/Investigation expense of \$85. Since Commission Staff recommends adjusting Meade District's Service Call/Investigation to \$28, Commission

²⁰ Meade District's Response to Staff's First Request, Item 8.

Staff reflected the adjusted amount in its proposal Meter Test Charge. Such adjustments result in the following revised Nonrecurring Charges:

Nonrecurring Charges

	<u>Current Charge</u>	<u>Revised Charge</u>
Connection/Turn-On Charge	\$25.00	\$28.00
Connection/Turn-on Charge (After Hours)	\$50.00	\$84.00
Field Visit	\$25.00	\$28.00
Meter Re-read Charge	\$25.00	\$28.00
Meter Re-read (After Hours)	\$50.00	\$84.00
Service Call/Investigation	\$25.00	\$28.00
Service Call/Investigation (After Hours)	\$50.00	\$84.00
Returned Check Charge	\$25.00	\$15.00
Meter Relocation Charge	Actual Cost	Actual Cost
Meter Test	\$50.00	\$28.00
Reconnection Charge	\$50.00	\$28.00
Meter Tampering Charge	\$50.00	\$28.00

Commission Staff's adjustments to Nonrecurring Charges can be seen in Appendix A to this order. The adjustments to the Nonrecurring Charges resulted in a decrease in Other Operating Revenue of \$14,102 as shown below.

Description	Occurrences	Current Charge	Total	Revised Charge	Adjustment	Pro Forma
Connection/Turn-On Charge	290	\$25.00	\$ 7,250	\$28.00	\$ 870	\$ 8,120
Connection/Turn-on Charge (After Hours)	0	\$50.00	0	\$84.00	0	0
Field Visit	0	\$25.00	0	\$28.00	0	0
Meter Re-read Charge	0	\$25.00	0	\$28.00	0	0
Meter Re-read (After Hours)	0	\$50.00	0	\$84.00	0	0
Service Call/Investigation	0	\$25.00	0	\$28.00	0	0
Service Call/Investigation (After Hours)	11	\$50.00	550	\$84.00	374	924
Returned Check Charge	43	\$25.00	1,075	\$15.00	(430)	645
Meter Relocation Charge	0	Actual Cost	0	Actual Cost	0	0
Meter Test	0	\$50.00	0	\$85.00	0	0
Reconnection Charge	671	\$50.00	33,550	\$28.00	(14,762)	18,788
Meter Tampering Charge	7	\$50.00	350	\$28.00	(154)	196
Pro Forma Test Year NRC Revenue	<u>1,022</u>		<u>\$ 42,775</u>		<u>\$ (14,102)</u>	<u>\$ 28,673</u>

The Commission finds that Commission Staff's recommendation regarding Nonrecurring Charges are reasonable and should be accepted as they are in keeping with the Commission's recent decisions.²¹ The Commission has previously found that because district personnel are currently paid during normal business hours and their salaries and wages are an expense recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges..

Salaries and Wages – Employees. In its application, Meade District proposed an increase of \$31,785 to Salaries and Wages – Employees expense to reflect increases in wage rates since 2021.²² Meade District provided board minutes to support the wage increase of its employees.²³

²¹ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

²² Application, Attachment 5, Schedule of Adjusted Operations, Adjustment C.

²³ Meade District's Response to Staff's First Request, Item 1f, MC1_1.i-2022_Board_Minutes.pdf.

Commission Staff identified a calculation error in Meade District’s pro forma wages in which one employee’s wage rate was multiplied by 52 hours rather than the employee’s pro forma regular hours of 2,080 hours, resulting in an understatement of wages by \$59,116.²⁴ Commission Staff calculated an increase of \$90,901 to Salaries and Wages – Employees expense as shown in the table below.²⁵

	Meade District	Commission Staff	Difference
Hourly Rate	\$ 29.15	\$ 29.15	
Multiplier	52	2,080	
Calculated Wages	\$ 1,516	\$ 60,632	\$ 59,116
Meade District’s Calculated Adjustment			31,785
Pro Forma Adjustment			\$ 90,901

In its application, Meade District proposed an increase of \$2,907 to Taxes Other Than Income expense to reflect increases in wage rates since 2021.²⁶ Using the pro forma wages from above, Commission Staff calculated an increase of \$5,416.

	Meade District	Commission Staff
Pro Forma Salaries & Wages Expense	\$ 517,060	\$ 576,176
Plus: Salaries and Wages - Comm.	30,000	30,000
Total Profoma Wages Expense	\$ 547,060	\$ 606,176
Times: 7.65 Percent FICA Rate	7.65%	7.65%
Pro Forma Payroll Taxes	41,850	46,372
Less: Test Year Payroll Taxes	(38,943)	(40,956)
Payroll Tax Adjustment	\$ 2,907	\$ 5,416

²⁴ Meade District’s Response to Staff’s First Request, Item 2a, MC1_2.a-Adjustments.xlsx.

²⁵ Meade District’s Response to Staff’s First Request, Item 2a, MC1_2.a-Adjustments.xlsx.

²⁶ Application, Attachment 5, Schedule of Adjusted Operations, Adjustment C.

The Commission finds Commission Staff's proposed increase of \$90,901 to Salaries and Wages – Employees expense and increase of \$5,416 to Taxes Other Than Income expense are reasonable because they accurately reflect the current wages of Meade District employees as approved by its board and the related tax expense.

Employee Pensions and Benefits. In its application, Meade District proposed two adjustments to Employee Pensions and Benefits expense.²⁷ First, Meade District proposed to increase its contributions to the County Employees Retirement System (CERS) program by \$14,635 to reflect its calculated increase in employee payroll expense.²⁸

Commission Staff, using the adjusted pro forma wages from above of \$576,176 calculated the increase as \$30,473 as shown below.

	Meade District	Commission Staff
Wages applicable to CERS payments	\$ 517,060	\$ 576,176
Times: Percent Pension Contribution	26.79%	26.79%
Total Pro Forma Pension Contribution	138,520	154,358
Less: Test Year Pension Contribution	(123,885)	(123,885)
Pension & Benefits Adj - Retirement	<u>\$ 14,635</u>	<u>\$ 30,473</u>

The second adjustment Meade District proposed is a decrease of \$42,509 to Employee Pensions and Benefits expense to reflect the allowable health insurance premium based on the Bureau of Labor Statistics' (BLS) national average for an employer's share of health insurance premiums.²⁹

²⁷ Application, Attachment 5, Schedule of Adjusted Operations.

²⁸ Application, Attachment 5, Schedule of Adjusted Operations, Adjustment D.

²⁹ Application, Attachment 5, Schedule of Adjusted Operations, Adjustment E.

The Commission finds that Commission Staff's proposed increase of \$30,473 to Employee Pensions and Benefits expense is reasonable because it reflects the current wages of Meade District employees as approved by its board and the current CERS contribution rate. The Commission also finds that Meade District's proposed decrease of \$42,509 to Employee Pensions and Benefits expense is reasonable as it is consistent with Commission precedent on allowable health insurance premium expenses.³⁰

Purchased Water. In its application Meade District proposed an increase of \$373,799 to Purchased Water expense to reflect Hardin County Water District No. 1 increasing its wholesale water rates.³¹

Commission Staff reviewed Meade District's calculations and evidence³² provided and agreed that the proposed adjustment meets the ratemaking criteria of being known and measurable and Commission Staff included the increase in its pro forma operating expenses. Commission Staff verified Meade District's Purchased Water expense calculation.

The Commission notes that Meade District has filed a PWA application (Case No. 2023-00330)³³ since the Staff Report was filed in which its supplier, Hardin County Water District No. 1, increased its wholesale purchase rate. In order to include the new wholesale purchased water rate for Meade District, the Commission increased Meade

³⁰ See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), at 9–10, and Bureau of Labor Statistics.

³¹ See Case No. 2022-00409, *Electronic Purchased Water Adjustment Filing of Meade County Water District pursuant to KRS 278.012 and 807 KAR 5:068* (Ky. PSC Mar. 21, 2022).

³² Meade District's Response to Staff's First Request, Item 2a, MC1_2.a-Adjustments.xlsx.

³³ See Case No. 2023-00330 *Electronic Purchased Water Adjustment Filing of Meade County Water District* (Ky. PSC Nov. 9, 2023) final Order.

District’s proposed \$373,799 adjustment by \$15,172 to \$388,971 using the table below. The Commission finds that Meade District’s adjustment as modified by the Commission is known and measurable because it reflects the current wholesale purchase water rate approved for Meade District.

	Hardin County WD #1		Total
Gallons	379,296		379,296
Current Purchase Rate	\$ 3.370	\$	3.4229
Yearly Meter Charge	20,074		
Pro Forma Cost	<u>\$ 1,298,302</u>	\$	1,298,302
Test Year Purchase Cost			909,331
Increase in Purchase Cost		<u>\$</u>	<u>388,971</u>

Water Loss. In its application Meade District proposed a decrease of \$11,876 to Purchased Water expense to account for Meade District’s water loss in excess of 15 percent. In addition, Meade District proposed a \$542 decrease to Purchased Power expense to account for the Meade District’s water loss in excess of 15 percent.³⁴

Commission Staff reviewed Meade District’s calculations and evidence³⁵ provided and agreed that the proposed adjustments meet the ratemaking criteria, and Commission Staff included the increase in its pro forma operating expenses. Using the table below Commission Staff verified Meade District’s adjustments.

³⁴ Application, Attachment 5, Schedule of Adjusted Operations, adjustment G.

³⁵ Meade District’s Response to Staff’s First Request, Item 2a, MC1_2.a-Adjustments.xlsx.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 1,283,130	\$ 58,545	\$ 1,341,675
Water Loss Percent	15.9256%	15.9256%	
Total Water Loss	\$ 204,346	\$ 9,324	\$ 213,670

Disallowed Water Loss	Water	Power	Total
Pro Forma Purchases	\$ 1,283,130	\$ 58,545	\$ 1,341,675
Water Loss in Excess of 15%	0.9256%	0.9256%	0.9256%
Disallowed Water Loss	\$ 11,876	\$ 542	\$ 12,418

Commission Staff also agreed that Meade District's adjustments are appropriate based on Commission regulation 807 KAR 5:066, Section 6(3), and Commission Staff included the adjustments in pro forma operating expenses.

The Commission finds that Meade District's proposed decrease of \$11,876 to Purchased Water expense and proposed \$542 decrease to Purchased Power expense is reasonable and should be accepted because it reflects the maximum allowable water loss expense collected for rating making purposes of 15 percent based on Commission regulation 807 KAR 5:066, Section 6(3).

Depreciation. In its application, Meade District reported test-year Depreciation expense of \$685,991.³⁶ Meade District proposed a decrease to its test-year depreciation of \$175,750 to reflect adjustments of asset service lives to the midpoint of service life range set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled *Depreciation Practices for Small Water Utilities* (NARUC Study).³⁷

³⁶ Application, Attachment 5, Schedule of Adjusted Operations.

³⁷ Application, Attachment 5, Schedule of Adjusted Operations, adjustment H.

To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the NARUC Study. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff agreed with Meade District’s proposed adjustment and decreased pro forma Depreciation Expense \$175,750 accordingly.

The Commission finds that the proposed \$175,750 decrease to Depreciation expense is reasonable given that there is no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges.

Based upon the Commission’s findings discussed above, the following table summarizes Meade District’s adjusted pro forma:³⁸

	Meade Pro Forma	Commission Adjustments	Pro Forma
Total Operating Revenues	\$ 3,323,018	\$ (4,185)	\$ 3,318,823
Utility Operating Expenses	<u>2,959,977</u>	<u>92,635</u>	<u>3,052,613</u>
Net Utility Operating Income	363,041	(96,830)	266,210
Interest and Dividend Income	<u>1,277</u>	<u></u>	<u>1,277</u>
Total Utility Operating Income	<u>\$ (242,832)</u>	<u>\$ (96,830)</u>	<u>\$ 267,487</u>

OVERALL REVENUE REQUIREMENT

Commission Staff’s Report recommended using the Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) full recovery of depreciation

expense, a non-cash item, to provide working capital; (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense and generally required in bond covenants.

Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Meade District had one Kentucky Rural Water Association (KRWA) loan, two Kentucky Infrastructure Authority (KIA) loans, two United States Department of Agriculture Rural Development (RD) loans, one Kentucky League of Cities (KLC) loan, and one bond.³⁹ Meade District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2023 through 2027.⁴⁰ Commission Staff agreed with Meade District's average annual principal and interest of \$374,415 for use in the revenue requirement given the information above using the calculation table below to verify the increase.

Table B											
<u>DEBT SERVICE SCHEDULE</u>											
Meade County Water District											
CY 2023 - 2027											
	CY 2023		CY 2024		CY 2025		CY 2026		CY 2027		TOTALS
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
KRWA	\$ 49,000	\$ 1,468	\$ 4,000	\$ 103	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,571
KIA F03-05	25,064	1,452	25,822	631	-	-	-	-	-	-	52,968
KIA F08-02	41,222	9,940	42,468	8,590	43,751	7,200	45,074	5,767	46,436	4,291	254,739
RD 91-06	34,000	51,040	35,000	50,091	36,000	49,115	37,000	48,111	38,000	47,080	425,438
RD 91-07	43,500	45,786	44,000	44,966	45,000	44,131	46,000	43,278	47,000	42,406	446,067
KLC 2021B	60,000	60,150	65,000	58,275	65,000	56,325	70,000	54,300	70,000	52,200	611,250
Bond Premium	5,408		5,408		5,408		5,408		5,408		27,040
TOTALS	258,194	169,835	221,697	162,656	195,159	156,771	203,482	151,457	206,844	145,978	\$ 1,872,073
Average Annual Principal & Interest											\$ 374,415
Average Annual Coverage											\$ 74,883

³⁹ Application, Attachment 5, Schedule of Adjusted Operations, Table B, Debt Service Schedule.

⁴⁰ Application, Attachment 5, Schedule of Adjusted Operations, Table B, Debt Service Schedule.

The Commission finds that including recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal and interest and fee payments for the years 2023 through 2027 of \$374,415 is reasonable, is a practice historically upheld by the Commission, and that it should therefore be approved.

Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. Meade District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its long-term debt at the time of its application. RD requires that Meade District charge rates that produce net revenues that are at least 120 percent of its average annual debt payments.⁴¹ Following the Commission's historic practice of including additional working capital, \$74,883 is included in the revenue requirement.

The Commission finds that including additional working capital of \$74,883 is reasonable given that RD requires that Meade District charge rates that produce net revenues that are at least 120 percent of its average annual debt payments and that this is a practice historically upheld by the Commission.

⁴¹ Application, Attachment 5, Schedule of Adjusted Operations, Table B, Debt Service Schedule.

Pro Forma Operating Expenses	\$ 3,052,613
Plus: Average Annual Principal and Interest Payments	374,415
Additional Working Capital	74,883
Overall Revenue Requirement	<u>3,501,911</u>
Less: Other Operating Revenue	(79,825)
Interest Income	<u>(1,277)</u>
Revenue Required from Rates	3,420,809
Less: Revenue from Sales at Present Rates	<u>(3,238,998)</u>
Required Revenue Increase	<u><u>\$ 181,811</u></u>
 Percentage Increase	 <u><u>5.61%</u></u>

By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, the Commission found that Meade District's required revenue from water sales needs to be \$3,420,809 to meet the Overall Revenue Requirement of \$3,501,911 and that a \$181,811 revenue increase, or 5.61 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

RATE DESIGN

Meade District proposed to increase all its monthly retail water service rates evenly across the board by approximately 2.63 percent. Meade District has not performed a cost of service study (COSS). Meade District stated that it did not consider filing a COSS because there have not been any material changes in customer usage patterns to warrant it.

In the Commission Staff's Report, Commission Staff followed the method proposed by Meade District and allocated Commission Staff's calculated revenue increase across the board to Meade District's monthly retail water service rates. The Commission finds that in the absence of a COSS, the proposed across-the-board method is an appropriate and equitable method to allocate the increased cost to Meade District's customers.

The rates set forth in Appendix B to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenues to recover the required revenue of \$3,420,809 from water sales, an approximate 5.61 percent over normalized test-year water sales of \$3,238,998.

These rates will increase a typical retail residential customer's monthly water bill from \$45.93 to \$48.52, an increase of \$2.59, or approximately 5.65 percent.⁴² These rates will increase Doe Valley Water's monthly wholesale bill from \$35,043.90 to \$37,009.86, an increase of \$1,965.96 or approximately 5.64 percent.⁴³ These rates will increase Otter Creek Water's monthly wholesale bill from \$1,955.20 to \$2,064.89, an increase of \$109.69 or approximately 5.64 percent.⁴⁴

RATE CASE FREQUENCY

In Case No. 2019-00041 and the resulting investigative report, the Commission discussed the problems that can occur when utilities avoid a review of their financial records.⁴⁵ A key recommendation from that investigative report was that water utilities should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁴⁶ In light of its findings in Case No. 2019-00041, and to encourage Meade District to regularly review its rate sufficiency, the

⁴² The typical residential customer uses approximately 4,000 gallons per month.

⁴³ Doe Valley Water uses approximately 5,870,000 gallons per month.

⁴⁴ Otter Creek Water uses approximately 320,000 gallons per month.

⁴⁵ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019), Order.

⁴⁶ Case No. 2019-00041, Nov. 22, 2019 Order.

Commission, in its final Order in Case No. 2021-00124,⁴⁷ ordered Meade District to file an application for an adjustment to its rates by April 13, 2024. This directive was repeated in Case No. 2022-00409.⁴⁸

The Commission recommends that Meade District conduct internal financial reviews on an annual basis to ensure that its water rates are sufficient. The Commission also recommends that Meade District's board of commissioners consider filing periodic rate cases with the Commission every three to five years and implement a written policy to that effect to maintain a regular review of the utility's finances. These are good practices to ensure that there is not an excessively long gap between base rate cases in the future.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report as modified by the Commission are supported by the evidence of record and are reasonable. The Commission has historically used a DSC method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Therefore, applying the DSC method to Meade District's pro forma operations results in an Overall Revenue Requirement of \$3,501,911, a required revenue from water sales of \$3,420,809, and an increase in revenue from water sales of \$181,811, or 5.61 percent.

⁴⁷ Case No. 2021-00124, *Electronic Application of Meade County Water District for Approval to Enter into a Lease Agreement with the Kentucky League of Cities Leasing Trust, in an Approximate Principal Amount of \$2, 260,000 for the Purpose of Refinancing Outstanding Obligations of the Meade County Water District*, (Ky. PSC Apr. 13, 2021)

⁴⁸ Case No. 2022-00409, *Electronic Purchased Water Adjustment Filing of Meade County Water District* (Ky. PSC Dec. 20, 2022).

The Commission finds that allocating the calculated revenue increase across the board to Meade District's monthly water service rates to be fair, just and reasonable.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report as modified by this order are adopted and incorporated by reference into this Order as if fully set out herein.

2. The water service rates proposed by Meade District are denied.

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

4. The Nonrecurring Charges set forth in Appendix B to this Order are approved for service rendered by Meade District on and after the date of service of this Order.

5. Within 20 days of the date of service of this Order, Meade District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

6. Meade District shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.

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

PUBLIC SERVICE COMMISSION



Chairman



Vice Chairman



Commissioner

ENTERED
JAN 05 2024
rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00039 DATED JAN 05 2024

* Denotes Rounding

Nonrecurring Charges Adjustments

	Connection/Turn-On Charge	Utility Revised Charge	Staff Revised Charge
Field Materials			
Field Labor (\$40.21 at 1 hours)	\$	40.21	
Office Supplies			
Office Labor (\$19.05)	\$	19.05	
Transportation	\$	27.51	\$ 27.51
Misc.			
Total Revised Charge*	\$	86.77	\$ 28.00
	\$		
Current Rate	25.00		

	Connection/Turn-On Charge (After Hours)	Utility Revised Charge	Staff Revised Charge
Field Materials			
Field Labor (\$56.31 at 1 hours)	\$	56.31	\$ 56.31
Office Supplies			
Office Labor (\$19.05)	\$	19.05	
Transportation	\$	27.51	\$ 27.51
Misc.			
Total Revised Charge*	\$	102.87	\$ 84.00
	\$		
Current Rate	50.00		

	Field Visit	Utility Revised Charge	Staff Revised Charge
Field Materials			
Field Labor (\$40.21 at 1 hours)	\$	40.21	
Office Supplies			
Office Labor (\$19.05)	\$	19.05	
Transportation	\$	27.51	\$ 27.51
Misc.			

Total Revised Charge*	\$	86.77	\$	28.00
Current Rate	\$	25.00		

	Meter Re-read Charge		Staff Revised Charge	
		Utility Revised Charge		
Field Materials				
Field Labor (\$40.21 at 1 hours)	\$	40.21		
Office Supplies				
Office Labor (\$19.05)	\$	19.05		
Transportation	\$	27.51	\$	27.51
Misc.				
Total Revised Charge*	\$	86.77	\$	28.00
Current Rate	\$	25.00		

	Meter Re-read Charge (After Hours)		Staff Revised Charge	
		Utility Revised Charge		
Field Materials				
Field Labor (\$56.31 at 1 hours)	\$	56.31	\$	56.31
Office Supplies				
Office Labor (\$19.05)	\$	19.05		
Transportation	\$	27.51	\$	27.51
Misc.				
Total Revised Charge*	\$	102.87	\$	84.00
Current Rate	\$	50.00		

	Service Call/Investigation		Staff Revised Charge	
		Utility Revised Charge		
Field Materials				
Field Labor (\$40.21 at 1 hours)	\$	40.21		
Office Supplies				
Office Labor (\$19.05)	\$	19.05		
Transportation	\$	27.51	\$	27.51
Misc.				

Total Revised Charge*	\$	86.77	\$	28.00
Current Rate	\$	25.00		

Service Call/Investigation (After Hours)				
		Utility Revised Charge		Staff Revised Charge
Field Materials				
Field Labor (\$56.31 at 1 hours)	\$	56.31	\$	56.31
Office Supplies				
Office Labor (\$19.05)	\$	19.05		
Transportation	\$	27.51	\$	27.51
Misc.				
Total Revised Charge*	\$	102.87	\$	84.00
Current Rate	\$	50.00		

Returned Check Charge				
		Utility Revised Charge		Staff Revised Charge
Field Materials				
Field Labor				
Office Supplies				
Office Labor (\$38.09)	\$	38.09		
Transportation				
Misc.	\$	15.00	\$	15.00
Total Revised Charge	\$	53.09	\$	15.00
Current Rate	\$	25.00		

Meter Relocation Charge				
		Utility Revised Charge		Staff Revised Charge
Field Materials				
Field Labor				
Office Supplies				
Office Labor				
Transportation				
Misc.				
Total Revised Charge		Actual Cost		Actual Cost
Current Rate		Actual Cost		

Meter Test				
		Utility Revised Charge		Staff Revised Charge
Field Materials				
Field Labor (\$40.21 at 1 hours)	\$	40.21		

Office Supplies				
Office Labor				
Transportation	\$	27.51	\$	27.51
Misc.				
Total Revised Charge*	\$	67.72	\$	28.00
Current Rate	\$	50.00		

	Reconnection Charge			
	Utility Revised Charge		Staff Revised Charge	
Field Materials				
Field Labor (\$40.21 at 1 hours)	\$	40.21		
Office Supplies				
Office Labor (\$19.05)	\$	19.05		
Transportation	\$	27.51	\$	27.51
Misc.				
Total Revised Charge*	\$	86.77	\$	28.00
Current Rate	\$	50.00		

	Meter Tampering Charge			
	Utility Revised Charge		Staff Revised Charge	
Field Materials				
Field Labor (\$40.21 at 1 hours)	\$	40.21		
Office Supplies				
Office Labor (\$19.05)	\$	19.05		
Transportation	\$	27.51	\$	27.51
Misc.				
Total Revised Charge*	\$	86.77	\$	28.00
Current Rate	\$	50.00		

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00039 DATED JAN 05 2024

The following rates and charges are prescribed for the customers in the area served by Meade County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

All Meter Sizes

First	2,000	Gallons	\$24.61 Minimum Bill
Next	5,000	Gallons	0.01196 Per Gallon
Next	10,000	Gallons	0.01156 Per Gallon
Next	20,000	Gallons	0.01066 Per Gallon
Over	37,000	Gallons	0.00939 Per Gallon
Bulk Sales Rate			0.00880 Per Gallon

Wholesale

Doe Valley Water	\$0.00630 Per Gallon
Otter Creek Water	\$0.00645 Per Gallon

Nonrecurring Charges

Connection/Turn-On Charge	\$28.00
Connection/Turn-on Charge (After Hours)	\$84.00
Field Visit	\$28.00
Meter Re-read Charge	\$28.00
Meter Re-read (After Hours)	\$84.00
Service Call/Investigation	\$28.00
Service Call/Investigation (After Hours)	\$84.00
Returned Check Charge	\$15.00

	Actual Cost
Meter Relocation Charge	
Meter Test	\$28.00
Reconnection Charge	\$28.00
Meter Tampering Charge	\$28.00

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