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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KNOTT COUNTY)
WATER AND SEWER DISTRICT FOR) CASE NO. 2019-00268
AN ALTERNATIVE RATE ADJUSTMENT)

ATTORNEY GENERAL'S COMMENTS ON STAFF REPORT

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General"), and hereby tenders his Comments to the Kentucky Public Service Commission ("Commission") in the above-styled case.

STATEMENT OF THE CASE

Knott County Water and Sewer District (hereinafter "KCWSD" or the "District") is a water district organized pursuant to KRS Chapter 74, which serves approximately 2,969 retail customers and five wholesale customers in Knott County, Kentucky.¹ KCWSD also owns and operates a sewage collection system which provides wastewater services to approximately 168 customers in Knott County, Kentucky. KCWSD filed its application for an Alternative Rate Filing under 807 KAR 5:076, requesting an increase in its water service rates with total additional revenue of \$798,873, an increase of 80.45% to retail water rates.² Additionally, KCWSD proposed to implement its increase in three phases, with the increases going into effect within the span of two years.³ Phase one would increase the monthly bill of a residential customer with average usage of

¹ Commission Staff Report ["Staff Report"], *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment*, at 2 (Ky. Commission Nov. 20, 2019).

² Staff Report at 2.

³ *Id.* at 2 (this notes the total increase of 79.96 percent over three years, but *see contra* KCWSD Response to Attorney General's Second Request for Information, Item 1 which states that "[t]he three phases are scheduled to be implemented within a two year period" and goes on to erroneously state that rates were last changed in 2011).

3,500 gallons per month by \$5.76, from \$26.70 to \$32.46, or approximately 21.57 percent.⁴ Phase two would increase the monthly bill of the same residential customer by \$7.04, from \$32.46 to \$39.50, or approximately 21.69 percent.⁵ Phase three would increase the monthly bill of that same customer by \$8.55, from \$39.50 to \$48.05, or approximately 21.65 percent.⁶ Further, KCWSD proposed to increase its wholesale water rates from \$3.00 to \$3.55 per 1,000 gallons, or an increase of approximately 18.33 percent.⁷

The Attorney General was granted intervention on August 21, 2019, while Letcher County Water and Sewer District (“LCWSD”) and the City of Hindman (“Hindman”) were granted intervention on a joint basis on September 5, 2019. Following two rounds of discovery and the delay to the procedural schedule, Commission Staff issued its report on November 20, 2019.

DISCUSSION

I. Rate Implementation

The Attorney General notes that KCWSD requested a phase-in of its proposed rates, which, as a general matter, the Attorney General agrees with. However, given the length of time since the utility last received a rate increase, and the overall magnitude of the increase requested herein, the Attorney General recommends that the phase-in period be extended to five phases from the proposed three, with a year in between phases as KCWSD proposed, to appropriately accommodate the ratepayers’ ability to pay such an increase in such a compressed timeframe.

As the District confirmed, the current rates were set in 2002, in Case No. 2002-00292, and have not changed since save for the additions of 3”, 4”, and 6” service.⁸ Regarding its reasoning

⁴ *Id.* at 2.

⁵ *Id.* at 2.

⁶ *Id.* at 2.

⁷ *Id.* at 3.

⁸ KCWSD Response to Attorney General’s Second Request for Information, Item 1.

for not seeking a rate increase since 2002, the District explained that:

Although current management is unable to speak regarding decisions that were made prior to current management coming on board, it appears that the newness of KCWSD and the political climate surrounding the decision making process may have played a large role in the decision not to file in the past.⁹

KCWSD further opined that financial statements showed that it was only capturing about 20% of its depreciation in 2016, then experienced a revenue loss in 2018 and essentially captured 0% of its depreciation for the year.¹⁰ Then, after District management reviewed the 2017 audit, and the steady decline in depreciation captured, it “expressed its concerns to the board and discussed the need for a rate increase.”¹¹ While the prior District management may have neglected its duty to seek incremental rate increases when appropriate, it is manifestly unfair to ask that ratepayers pay for that negligence with an approximately 70% increase in rates over two years, even if spread over three phases.

In response to the Attorney General’s questions regarding potential load growth for customers taking service under the retail rate KCWSD stated that it projected “very little to no load growth in its service territory.”¹² Additionally, KCWSD explained that it has all AMR meters in place currently, but that recently the radios in those meters have been discontinued from production and that the District “has been required to purchase new radios moving forward that are more advanced meters” and that it had to “purchase additional vehicle units to read the meters.”¹³ While KCWSD has not yet converted to an AMI system, it stated that it “has been working with its meter supplier to gather information to aid the supplier in quoting the most cost effective fixed base system ... [and] plans on looking at the possibility of installing an AMI system

⁹ KCWSD Response to Attorney General’s First Request for Information, Item 2.

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.* Item 3.

¹³ KCWSD Response to Attorney General’s Second Request for Information, Item 5.

in the future.”¹⁴ The combination of little to no load growth and increased costs for meter reading, not to mention a possible future application for AMI, necessitates that District customers not be saddled with a the full brunt of the recommended increase over just three phases, especially after the District’s seventeen year wait to seek an increase.

II. Staff’s Recommended Pro Forma Adjustments

(A) Other Water Revenue.

The Attorney General agrees with Staff’s recommendation to accept KCWSD’s proposed adjustment to correct a reporting error in revenue allocation by decreasing Total Metered Retail Sales and increasing Sales for Resale Revenues by \$1,115,640.

(B) Other Water Revenues.

The Attorney General agrees with Staff’s recommendation to accept KCWSD’s adjustment to correct a reporting error in revenue classification by decreasing Total Metered Retail Sales and increasing Sales for Miscellaneous Service Revenue by \$2,794 and Forfeited Discounts by \$21,036.

(C) Billing Analysis Adjustment.

The Attorney General agrees with Staff’s recommendation to decrease test-year revenues by \$12,814 after applying the water service rates in effect during the test year to the water sales shown in the billing analysis.

(D) Miscellaneous Service Revenues.

The Attorney General agrees with Staff’s recommendation to decrease Miscellaneous Service Revenue by \$13,200 to reflect the proper amount of tap fees collected during the test year.

(E) Expenses Related to Meter Installations.

¹⁴ *Id.*

The Attorney General agrees with Staff's recommendation to use the District's methodology in reducing Salaries and Wages – Employees by \$3,960 and Materials and Supplies by \$9,240, for a total downward adjustment of expenses by \$13,200.

(F) Salaries and Wages – Commissioners.

The Attorney General agrees with Staff's recommendation to decrease Salaries and Wages – Commissioners by \$1,615 by reallocating costs between water and sewer customers.

(G) Employee Pensions and Benefits – Commissioners' Benefits.

The Attorney General agrees with Staff's recommendation to remove the cost of each member of the District's Board of Commissioners' health, dental, vision, and life insurance from the District's test year operations in accordance with Commission precedent, decreasing Employee Pensions and Benefits by \$50,514.

(H) Employee Pensions and Benefits.

The Attorney General agrees with Staff's recommendation to decrease employee pensions and benefits to match the amount contracted with KEHP, and decrease dental insurance benefits by the national average employee contribution rate, in accordance with Commission precedent, resulting in a net decrease of \$9,258.

(I) Retirement Expense Pursuant to GASB 68.

The Attorney General agrees with Staff's recommendation to accept the District's adjustment to decrease Employee Pensions and Benefits Expense by \$100,967.

(J) Purchased Power.

The Attorney General agrees with Staff's recommendation to correctly assign purchase power accounts between water and sewer divisions, resulting in a decrease to Purchased Power of \$7,478.

(K) Contractual Services – Purchased Power Contract.

The Attorney General agrees that an increase to water withdrawal fees subsequent to the test year was not a known and measurable change as of the date the Staff Report was filed. Further, in light of the Corps of Engineers using a percentage estimate of next year's expenses with a true-up mechanism, he agrees with Staff's recommendation to calculate a five-year average of the amounts charged from 2015 to 2019, to smooth the effect of a possible increase to be appropriate in this instance, resulting in an increase of \$7,042.

(L) Miscellaneous Expenses – Bad Debt Expense.

The Attorney General agrees with Staff's recommendation to accept the District's proposed adjustment to remove the prior year's bad debt from the test year due to accounts being deemed uncollectible, decreasing Miscellaneous Expense and adjusted pro forma expenses by \$52,875.

(M) Depreciation Expense.

The Attorney General agrees with Staff's recommendation to accept the District's proposal to adjust the lives of assets that were outside the NARUC ranges to the mid-point of the depreciable life ranges, decreasing Depreciation Expense by \$128,250.

(N) Gains on Disposition of Property.

The Attorney General agrees with Staff's recommendation to accept the District's proposal to decrease Gains on the Disposition of Property and reduce pro forma income by \$7,248.

(O) Administrative Expense Allocation.

The Attorney General agrees with Staff's recommendation to allocate administrative expenses proportionally based upon the number of customer allocations in Item F instead of using the District's methodology, resulting in a decrease to Operating Expenses by \$28,511.

Finally, the Attorney General does not necessarily agree with Staff's recommendation regarding any issue present in the Staff Report that he did not address in the preceding Comments.

CONCLUSION

The Commission has previously acknowledged its long history of relying on the principle of gradualism in rate making in order to mitigate the financial impact of rate increases on customers and Kentucky families.¹⁵ The Commission should continue to rely on that principle here, and should further consider affordability, especially in the case of the District here, where an increase of such magnitude, even when implemented over multiple years, will have a significant impact on its ratepayers. It is in adherence to this precedent that the Commission should consider extending the phasing in of the rates to five phases instead of three. Staff's recommended revenue increase still amounts to 70.31 percent, and implementing it in three parts translates to just under a 20 percent increase each phase for the average retail customer using 3,500 gallons of water per month.¹⁶ A five phase implementation of Staff's recommended increase eases the annual increase to 14 percent per phase on average for that same average retail customer. Furthermore, extending the phase-in period comports with the Commission's commitment to gradualism in rate setting and helps to mitigate the rate shock for consumers who must bear the cost of this increase.

WHEREFORE, the Attorney General requests that the Commission, based upon the evidentiary record, set a fair, just, and reasonable rate for the customers of Knott County Water

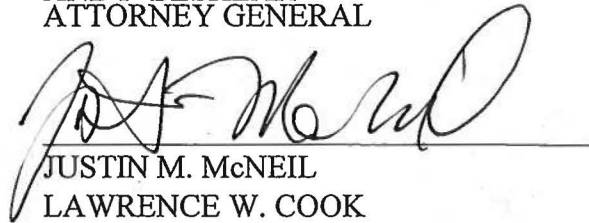
¹⁵ Case No. 2014-00396, *In the Matter of Application of Kentucky Power Company for: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2014 Environmental Compliance Plan; (2) An Order Approving its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief*, Order (Ky. Commission June 22, 2014) ("the Commission has long employed the principle of gradualism"); *See also*, Case No. 2000-080, *In the Matter of: The Application of Louisville Gas & Electric Company to Adjust its Gas Rates and to Increase its Charges for Disconnecting Service, Reconnecting Service and Returned Checks*, Order (Ky. Commission September 27, 2000) ("the Commission is adhering to the rate-making concepts of continuity and gradualism in order to lessen the impact of these increases on the customers that incur these charges.").

¹⁶ Staff Report at 5.

and Sewer District. The Attorney General submits that a hearing will not be necessary in this matter, and that the case should be submitted on the record.

Respectfully submitted,

ANDY BESHEAR
ATTORNEY GENERAL

A handwritten signature in black ink, appearing to read "Justin M. McNeil", is written over a horizontal line.

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Certificate of Service and Filing

Counsel certifies that an original and ten (10) photocopies of the foregoing were served and filed by hand delivery to Gwen R. Pinson, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, KY 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail to:

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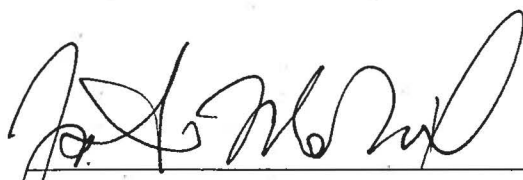
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This 4th day of December 2019.



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