

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MADISON	)	CASE NO.
COUNTY UTILITIES DISTRICT FOR AN	)	2021-00218
ALTERNATIVE RATE ADJUSTMENT	)	

ORDER

On May 24, 2021, Madison County Utilities District (Madison District) tendered an application, pursuant to 807 KAR 5:076, requesting to adjust its water service rates. This application was filed pursuant to the Commission’s Order in Case No. 2020-00178.<sup>1</sup> In its application, Madison District requested rates that would increase annual water sales revenues by \$1,732,437, a 35.84 percent increase to Pro Forma present rate water sales revenues. The Commission notified Madison District by letter dated June 8, 2021, that its application was rejected for failure to satisfy the minimum filing requirements set forth in certain Commission regulations. Madison District subsequently cured the filing deficiencies, and its application was deemed filed as of June 23, 2021. On October 11, 2021, the Commission granted Madison District additional time to respond to Commission Staff’s First Request for Information. Upon review of the responses and consideration of the delay to this case caused by the issues related to the installation of broadband fiber optic cable, on November 22, 2021, the Commission removed the issue of the installation of broadband fiber optic cable in the system owned by Madison District from this case

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<sup>1</sup> Case No. 2020-00221, *Electronic Purchased Water Adjustment Filing of Madison County Utilities District* (Ky. PSC Jun. 23, 2020) at 4, ordering paragraph 5.

and altered its procedural schedule to reflect a due date for the Commission staff's report of December 3, 2021.

Pursuant to the procedural Order, on December 3, 2021, Commission Staff issued a report (Staff Report) summarizing its findings regarding Madison District's requested rate adjustment. In the Staff Report, Commission Staff found that Madison District's required revenue from rates is \$5,410,540 to meet the Overall Revenue Requirement of \$5,567,094, and that a \$577,217 revenue increase, or 11.94 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

On December 20, 2021, Madison District filed with the Commission its comments on the Staff Report. Madison District stated that its board of directors unanimously accepted the Staff Report and requested that a final Order be issued setting the rates effective as soon as possible. With its comments, Madison District did not request that a conference or hearing be held.<sup>2</sup>

#### LEGAL STANDARD

The Commission's standard of review of a utility's request for a rate increase is well established. Pursuant to KRS 278.030, every utility may demand, collect, and receive fair, just and reasonable rates for the services it provides. Madison District bears the burden of proof to show that its proposed rate increase is just and reasonable.<sup>3</sup> Alternative rate adjustment proceedings are governed by 807 KAR 5:076. This administrative regulation establishes a simplified and less expensive procedure for small utilities to use to apply to the Commission for rate adjustments to benefit the utility and

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<sup>2</sup> Madison District's Response to Staff Report (filed Dec. 20, 2021).

<sup>3</sup> KRS 278.190(3).

the utility ratepayers. The Commission must decide whether the rates proposed by Madison District are fair, just and reasonable.<sup>4</sup>

### WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. As noted in the Staff Report, Madison District's test-year water loss was 9.24 percent. At 9.24 percent, the annual cost of water loss to Madison District is \$252,379.<sup>5</sup>

### BACKGROUND

Madison 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 10,712 residential customers, 672 commercial customers, 3 industrial customers, and 21 public authority customers that reside in Madison County, Kentucky.<sup>6</sup> This is Madison District's first general rate adjustment since May 11, 2001.

### TEST PERIOD

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

### SUMMARY OF REVENUE AND EXPENSES

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

<sup>5</sup> Staff Report at 3.

<sup>6</sup> *Annual Report of Madison District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

The Staff Report summarizes Madison District's Pro Forma Income Statement as follows:

	2020		
	<u>Annual Report</u>	<u>Adjustment</u>	<u>Pro Forma</u>
Total Operating Revenues	5,075,230	(142,072)	4,933,158
Utility Operating Expenses	<u>4,867,827</u>	<u>(136,618)</u>	<u>\$ 4,731,209</u>
Total Utility Operating Income	<u>207,403</u>	<u>(5,454)</u>	<u>201,949</u>

### MODIFICATIONS TO STAFF'S FINDINGS

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

Billing Analysis Adjustment. In the Staff Report, Commission Staff recommended a decrease to Madison District's test-year Billing Revenue by \$106,292<sup>7</sup> to reflect the removal of revenues associated with billing services performed on behalf of North Madison County Sewer District and Kirksville Water Association. The Commission finds that this adjustment is a known and measurable change, is reasonable, and should be accepted.

Other Water Revenues - Nonrecurring Charges. In the Staff Report, Commission Staff discussed Madison District's Nonrecurring Charges,<sup>8</sup> in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, are removed. Commission Staff recommended a reduction to Madison District's test-year other water

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<sup>7</sup> Staff Report at 9, Adjustment A.

<sup>8</sup> *Id.* at 6 and 7.

revenues of \$35,780<sup>9</sup> to reflect the change in the nonrecurring charges. The Commission finds that this adjustment is a known and measurable change to Other Water Revenues, is reasonable, and should be accepted.

Salaries and Wages-Employees. In the Staff Report, Commission Staff recommended a decrease to Madison District's test-year Salaries and Wages - Employees Expense by \$94,035<sup>10</sup> to reflect the normalization of expenses using test year hours worked and current compensation levels. Additionally, to reflect the change in FICA Taxes as a result in the reduction of compensation Commission Staff recommended a reduction to FICA payroll taxes of \$10,373.<sup>11</sup> The Commission finds that these adjustments are a known and measurable change to Salaries and Wages–Employee expense, is reasonable, and should be accepted.

Employee Pensions and Benefits. In the Staff Report, Commission Staff recommended an increase to Madison District's Employee Pensions and Benefits of \$4,415<sup>12</sup> to reflect an increase to retirement contributions due to an increase in CERS Contribution Rate as well as normalizing Health Insurance Benefits costs to pro forma premium levels. The Commission finds that these adjustments are known and measurable changes to Employee Pensions and Benefits Expense, are reasonable, and should be accepted.

Miscellaneous Expense. In the Staff Report, Commission Staff recommended an overall increase to Madison District's Miscellaneous Expense, as inspection of their

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<sup>9</sup> *Id.* at 9, Adjustment B.

<sup>10</sup> *Id.* at 9 and 10, Adjustment C.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at 12, Adjustment D.

general ledger showed that due to a number of expense misclassifications, it was understated by \$45,913.<sup>13</sup> In addition, Commission Staff recommended several adjustments that did not affect overall revenue or expense levels, but served to more accurately reflect the nature of the expenses included in Miscellaneous Expense.<sup>14</sup> The Commission finds that these adjustments are known and measurable changes to Miscellaneous Expense, are reasonable, and should be accepted.

Depreciation Expense. The Staff Report recommended a decrease to Madison District’s test-year Depreciation Expense of \$70,931<sup>15</sup> to reflect the adjustment of the useful life of capital assets to the midpoint of the National association of Regulatory Utility Commissioners depreciation study. The Commission finds that this adjustment is a known and measurable change to Depreciation Expense, is reasonable, and should be accepted.

Based on the Commission’s findings discussed above, the following table summarizes Madison District’s adjusted Pro Forma operations:<sup>16</sup>

	Staff Report Pro Forma	Commission Adjustment	Final Pro Forma
Total Operating Revenues	\$ 4,933,158	\$ -	\$ 4,933,158
Utility Operating Expenses	4,731,209	-	4,731,209
Total Utility Operating Income	<u>\$ 201,949</u>	<u>\$ -</u>	<u>\$ 201,949</u>

## REVENUE REQUIREMENTS

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<sup>13</sup> *Id.* at 13, Adjustment E.

<sup>14</sup> *Id.* at Appendix B.

<sup>15</sup> *Id.* at 13, Adjustment F.

<sup>16</sup> See, Appendix A for a complete Pro Forma.

Based upon the Commission’s findings and determinations herein, Madison District requires an increase in revenues of \$577,217, or 11.94 percent above Pro Forma present rate revenues, as shown below:

Operating Expenses	\$	4,731,209
Add:		
Average Annual Debt Principal and Interest		696,571
Additional Working Capital		139,314
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Overall Revenue Requirement		5,567,094
Less:		
Other Operating Revenue		(99,835)
Investment Income		(56,719)
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Revenue Requirement - Water Rates		5,410,540
Less:		
Normalized Revenue from Service		(4,833,323)
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Required Revenue Increase	\$	577,217
Percentage Increase		11.94%
		<hr/> <hr/>

RATE DESIGN

Madison District proposed to increase all of its monthly retail water service rates evenly across the board by approximately 10 percent. Madison District did not perform a cost of service study (COSS) at this time, stating that there has not been any material change in the water system to warrant a COSS, and it is unknown when the last COSS for Madison District was completed.<sup>17</sup> The Commission finds that the allocation of a revenue increase evenly across the board to a utility’s rate design is appropriate in the absence of a COSS and when there is no evidence demonstrating this allocation is unreasonable. The Staff Report followed the method proposed by Madison District and allocated Commission Staff’s calculated revenue increase across the board to Madison District’s monthly retail water service rates.

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<sup>17</sup> Madison District’s Response to Staff’s First Request (filed Sept. 13, 2021), Item 11.

The rates set forth in Appendix B to this Order are based upon the revenue requirement determined by the Commission and will produce sufficient revenues from water sales to recover the \$577,217 Revenue Required from Rates, an approximate 11.94 percent increase. These rates will increase a typical residential customer's monthly water bill from \$30.69 to \$34.35, an increase of \$3.66, or approximately 11.91 percent.<sup>18</sup>

#### SUMMARY

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

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

2. The Commission has historically used a DSC method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Application of the Commission's DSC method to Madison District's Pro Forma operations results in an Overall Revenue Requirement of \$5,567,094. A revenue increase of \$577,217 from water service rates is necessary to generate the overall revenue requirement.

4. The water service rates proposed by Madison District should be denied.

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

IT IS THEREFORE ORDERED that:

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

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<sup>18</sup> The typical residential customer uses approximately 3,000 gallons per month.

2. The general service rates proposed by Madison District are denied.
3. The rates set forth in Appendix B to this Order are approved for services rendered by Madison District on and after the date of this Order.
4. Within 20 days of the date of entry of this Order, Madison 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.
5. Madison 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.
6. This case is closed and removed from the Commission's docket.

By the Commission

ENTERED  
JAN 05 2022 rcs  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2021-00218

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00218 DATED JAN 05 2022

	2020 Annual Report	Staff Report Adjustment	Commission Adjustment	Final Pro Forma
Operating Revenues				
Retail Sales of Water	\$ 4,833,323			\$ 4,833,323
Other Water Revenues				
Late Fees	66,989			66,989
Billing	106,292	(106,292)		-
Other	68,626	(35,780)		32,846
Total Other Operating Revenues	241,907	(142,072)		99,835
Total Operating Revenues	5,075,230	(142,072)	-	4,933,158
Operating Expenses				
Operation and Maintenance Expenses				
Salaries & Wages - Employees	630,771	(94,035)		536,736
Salaries & Wages - Officers	18,000			18,000
Employee Pensions and Benefits	469,154	4,415		473,569
Purchased Water	2,706,627			2,706,627
Purchased Power	52,742			52,742
Contractual Services Engineering	20,783			20,783
Contractual Services - Accounting	34,801			34,801
Contractual Services - Other	743	9,642		10,385
Transportation Expenses	44,153			44,153
Insurance - General Liability	39,347			39,347
Insurance - Worker's Compensation	9,714			9,714
Advertising Expense	89			89
Maintenance & Repairs	-	78,507		78,507
Materials & Supplies	-	4,228		4,228
Office Expense	-	140,225		140,225
Dues, Fees, Taxes & Licenses	-	26,170		26,170
Miscellaneous Expenses	286,010	45,913		331,923
		(11,607)		
		(9,642)		
		(26,170)		
		(140,225)		
		(48,010)		
		(4,228)		
		(78,507)		13,534
Total Operation and Maintenance Expenses	4,312,934	(103,324)	-	4,209,610
Depreciation Expense	554,893	(70,931)		483,962
Taxes Other Than Income	-	48,010		48,010
		(10,373)		37,637
Total Operating Expenses	4,867,827	(136,618)	-	4,731,209
Utility Operating Income	\$ 207,403	\$ (5,454)	-	\$ 201,949

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00218 DATED JAN 05 2022

The following rates and charges are prescribed for the customers in the area served by Madison 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

First	280 Cubic Feet	\$19.23	Minimum Bill
Next	720 Cubic Feet	0.0612	Per Cubic Foot
Next	3,000 Cubic Feet	0.0588	Per Cubic Foot
Next	8,000 Cubic Feet	0.0566	Per Cubic Foot
Next	88,000 Cubic Feet	0.0545	Per Cubic Foot
Over	100,000 Cubic Feet	0.0510	Per Cubic Foot

Nonrecurring Charges

Meter Re-read Check Charge	\$22.00
Meter Test Charge	\$61.00
Meter Drop Charge	\$151.00
Reconnection Charge	\$20.00
Reconnection Charge (After Hours)	\$51.00
Returned Check/Bank Draft Charge	\$17.00
Service Call Charge	\$20.00
Service Call Charge (After Hours)	\$51.00

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