

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|  |   |            |
|--|---|------------|
| ELECTRONIC APPLICATION OF LARUE        | ) | CASE NO.   |
| COUNTY WATER DISTRICT NO. 1 FOR A RATE | ) | 2021-00285 |
| ADJUSTMENT PURSUANT TO 807 KAR 5:076   | ) |            |

ORDER

On July 21, 2021, LaRue County Water District No. 1 (LaRue District No. 1) tendered an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. By letter dated July 22, 2021, the Commission notified LaRue District No. 1 that its application was rejected as deficient. LaRue District No. 1 cured its filing deficiencies, and its application was considered filed as of July 23, 2021. In its application, LaRue District No. 1 requested rates that would increase annual water sales revenues by \$202,422,<sup>1</sup> a 12.00 percent across-the-board increase to pro forma present rate water sales revenues.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated August 17, 2021, which, among other things, required the Commission Staff to file a report containing its findings regarding LaRue District No. 1's application.

Pursuant to the Procedural Order, on November 18, 2021, Commission Staff issued a report (Staff Report) summarizing its findings regarding LaRue District No. 1's requested

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<sup>1</sup> Application, Billing Analysis, Total Annual Water Sales at Proposed Rates – Total Annual Water Sales at Present Rates (\$1,939,537 - \$1,737,115 = \$204,422).

rate adjustment. In the Staff Report, Commission Staff found that LaRue District No. 1's adjusted test-year operations support an overall revenue requirement of \$1,898,769 and that an annual revenue increase of \$129,352, or 7.45 percent to the retail base rate, is necessary to generate the overall revenue requirement. In addition, Commission Staff noted that LaRue District No. 1 did not make any pro forma adjustments to amortize any costs attributable to the preparation of its case and indicated that in LaRue District No. 1's response to the Staff Report, it should identify any additional expenses incurred.

On December 1, 2021, LaRue District No. 1 filed with the Commission its comments on the Staff Report in which it accepted all adjustments contained in Commission Staff's Report but indicated it did not agree with the removal of certain labor expenses from nonrecurring charges, nor did it agree with the adjustment to insurance premiums sponsored by LaRue District No. 1. Attached with its comments, LaRue District No. 1 provided invoices totaling \$17,066 associated with the preparation of this case and requested the Commission to amortize these expenses over three years and include a corresponding increase to Commission Staff's recommended rates. With its comments, LaRue District No. 1 did not request that a conference or hearing be held.<sup>2</sup>

On December 21, 2021, LaRue District No. 1 filed in Case No. 2021-00464<sup>3</sup> an application requesting approval to refinance a portion of its current indebtedness with Kentucky Rural Water Finance Corporation. On January 10, 2022, the Commission issued an Order in the instant case explaining that the Commission would not issue a

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<sup>2</sup> Letter from John M. Detre, Chairman of LaRue County Water District No. 1 (filed Dec. 1, 2021).

<sup>3</sup> Case No. 2021-00464, *Electronic Application of Larue County Water District No. 1 to Issue Securities for the Purpose of Refinancing Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 AND 807 KAR 5:001* (Ky. PSC Jan. 11, 2022).

final Order in this matter until Case No. 2021-00464, an application containing a refinancing proposal, was resolved. On February 18, 2022, LaRue District No. 1 notified the Commission that it was no longer pursuing the refinancing in Case No. 2021-00464.<sup>4</sup>

### LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by 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, LaRue District No. 1 is allowed to charge its customers "only fair, just and reasonable rates."<sup>5</sup> Further, LaRue District No. 1 bears the burden of proof to show that the proposed rate increase is just a reasonable, under KRS 278.190(3).

### BACKGROUND

LaRue District No. 1 is a water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 3,767 customers in LaRue County, Kentucky.<sup>6</sup> LaRue District No. 1 does not produce any of its own water; rather, it purchases its water from the city of Campbellsville, Green-Taylor Water District, the city of Bardstown, the city of New Haven,

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<sup>4</sup> Case No. 2021-00464, *Larue County Water District No. 1* (filed Feb. 18, 2022), Letter from Tim Bartley, manager of LaRue County Water District No. 1.

<sup>5</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>6</sup> *Annual Report of Larue District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (Annual Report) at 12 and 49.

Green River Valley Water District, and the city of Hodgenville. A review of the Commission's records indicated LaRue District No. 1 has not sought an adjustment of rates either by general rate adjustment or through the alternative rate filing procedure since at least 1985.

TEST PERIOD

The calendar year ended December 31, 2020, was used as the test year to determine the reasonableness of LaRue District No. 1's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes LaRue District No. 1's pro forma income statement as follows:

|                                   | <u>2020<br/>Test Year</u> | <u>Pro Forma<br/>Adjustments</u> | <u>Staff Report<br/>Pro Forma</u> |
|-----------------------------------|---------------------------|----------------------------------|-----------------------------------|
| Operating Revenues                | \$ 1,652,900              | \$ 90,408                        | \$ 1,743,308                      |
| Operating Expenses                | <u>1,564,585</u>          | <u>(13,017)</u>                  | <u>1,551,568</u>                  |
| Net Operating Income              | 88,315                    | 103,425                          | 191,740                           |
| Interest Income                   | <u>26,109</u>             | <u>                    </u>      | <u>26,109</u>                     |
| Income Available for Debt Service | <u>\$ 114,424</u>         | <u>\$ 103,425</u>                | <u>\$ 217,849</u>                 |

MODIFICATIONS TO STAFF'S FINDINGS

LaRue District No. 1's 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 an increase to LaRue District No. 1's test-year Water Sales Revenue by \$95,439<sup>7</sup> to reflect the normalization of revenues from monthly water due to a Purchase Water Adjustment (PWA) that occurred during the test year. The Commission finds that this adjustment is a known and measurable change to Total Metered Sales, is reasonable, and is accepted.

Other Operating Revenue. In the Staff Report, Commission Staff discussed LaRue District No. 1's Nonrecurring Charges<sup>8</sup> in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, are removed. The revised Nonrecurring Charges also included an updated mileage rate allowed by the Internal Revenue Service.<sup>9</sup> Commission Staff recommended a reduction to LaRue District No. 1's test-year Other Water Revenues of \$5,031.<sup>10</sup> In its response to the Staff Report, LaRue District No. 1 stated that it did not agree with the removal of certain nonrecurring charge labor expenses, but did not wish to contest the adjustments in this case.<sup>11</sup> The Commission finds that this adjustment is a known and measurable change to Other Water Revenues, is reasonable, and is accepted.

Retirement Expense. In the Staff Report, Commission Staff recommended an increase to LaRue District No. 1's test-year Employee Pensions and Benefits expense by

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<sup>7</sup> Staff Report at 5, Adjustment A.

<sup>8</sup> *Id.* at 5–6.

<sup>9</sup> Staff Report at 6.

<sup>10</sup> *Id.* at 5–7, Adjustment B.

<sup>11</sup> LaRue District No. 1's Response to Staff Report.

\$11,861<sup>12</sup> to reflect an increase to the County Employee Retirement System's contribution rate of 24.06 percent to 26.95 percent, which became effective July 1, 2021. The Commission finds this adjustment is a known and measurable change to test year operations, is reasonable, and is accepted.

Employer Sponsored Insurance Benefits. In the Staff Report, Commission Staff recommended a decrease to LaRue District No. 1's test-year Employee Pensions and Benefits expense by \$3,630 to reduce employer sponsored health insurance premiums by 22 percent.<sup>13</sup> The Commission finds that this adjustment is a known and measurable change to Employee Pensions and Benefits, is consistent with established Commission precedent, and is accepted.

Purchased Water Adjustment. In the Staff Report, Commission Staff recommended the Commission accept LaRue District No. 1's proposed increase of \$53,108 to Purchased Water expense to reflect purchased water adjustments factors approved in Case Nos. 2020-00194 and 2021-00221.<sup>14</sup> The Commission finds that this adjustment is a known and measurable change to Purchased Water, is reasonable, and is accepted.

Billing Software Upgrade. In the Staff Report, Commission Staff recommended an adjustment to decrease Materials and Supplies expense by \$14,925<sup>15</sup> to remove and amortize expenses associated with a billing software upgrade purchased in 2020. The

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<sup>12</sup> Staff Report at 7, Adjustment C.

<sup>13</sup> *Id.* at 7–9, Adjustment D.

<sup>14</sup> *Id.* at 9, Adjustment E. Case No. 2020-00194, *Electronic Purchased Water Adjustment Filing of LaRue County Water District No. 1* (Ky. PSC July 2, 2020); Case No. 2021-00221, *Electronic Purchased Water Adjustment Filing of LaRue County Water District No. 1* (Ky. PSC June 18, 2021).

<sup>15</sup> *Id.* at 10-11, Adjustment F.

Commission finds this adjustment is a known and measurable change to Materials and Supplies, is consistent with the guidance provided in the Financial Accounting Standards Board's ASC 350-40, is reasonable, and is accepted.

Depreciation Expense. In the Staff Report, Commission Staff recommended a decrease to LaRue District No. 1's test-year Depreciation Expense by \$59,432<sup>16</sup> to reflect the adjustment of the useful life of capital assets to the midpoint of the National Association of Regulatory Utility Commissioners report published in 1979 titled *Depreciation Practices for Small Water Utilities* (NARUC Study). The Commission finds that this adjustment is a known and measurable change to Depreciation Expense, is consistent with Commission precedent regarding the NARUC Study, is reasonable, and is accepted.

Rate Case Expense. LaRue District No. 1 requested to amortize \$17,066 expended in the preparation of this case over three years. Commission Staff did not make an adjustment but did request that if any additional costs were incurred, to update the requested rate case expenses. LaRue District No. 1 did not request any changes in their response to the Staff Report. The Commission finds that this is a known and measurable change to the test period, is reasonable, and further adjusts the operating expenses calculated in the Staff Report by \$5,689.

Based on the Commission's findings discussed above, the following table summarizes LaRue District's adjusted pro forma operations:<sup>17</sup>

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<sup>16</sup> *Id.* at 11, Adjustment G.

<sup>17</sup> See Appendix A for a complete pro forma.

|                                   | <u>Staff Report<br/>Pro Forma</u> | <u>Commission<br/>Adjustments</u> | <u>Final<br/>Pro Forma</u> |
|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Operating Revenues                | \$ 1,743,308                      |                                   | \$ 1,743,308               |
| Operating Expenses                | <u>1,551,568</u>                  | <u>\$ 5,689</u>                   | <u>1,557,257</u>           |
| Net Operating Income              | 191,740                           | (5,689)                           | 186,051                    |
| Interest Income                   | <u>26,109</u>                     |                                   | <u>26,109</u>              |
| Income Available for Debt Service | <u>\$ 217,849</u>                 | <u>\$ (5,689)</u>                 | <u>\$ 212,160</u>          |

### REVENUE REQUIREMENTS

Based upon the Commission’s findings and determinations herein, LaRue District No. 1 requires an increase in revenues of \$141,234, or 8.13 percent above pro forma present rate revenues, as shown below:

|  |                    |
|--|--------------------|
| Pro Forma Operating Expenses                       | \$ 1,557,257       |
| Plus: Average Annual Principal and Interest Paymen | 289,334            |
| Additional Working Capital                         | <u>57,867</u>      |
| Overall Revenue Requirement                        | 1,904,458          |
| Less: Interest Income                              | <u>(26,109)</u>    |
| Revenue Required from Rates                        | \$ 1,878,349       |
| Less: Pro Forma Present Rate Service Revenues      | <u>(1,737,115)</u> |
| Required Revenue Increase                          | <u>\$ 141,234</u>  |
| Percentage Increase                                | <u>8.13%</u>       |

### RATE DESIGN

LaRue District No. 1 proposed an across-the-board 12.0 percent increase to its monthly water rates. LaRue District No. 1 did not perform a cost of service study (COSS).

LaRue District No. 1 stated that the across-the-board increase is the fairest method for its customers to increase rates.<sup>18</sup>

The Commission finds that in the absence of a COSS, a proposed across-the-board method is an appropriate and equitable method to allocate the increased cost to LaRue District No. 1's customers. The monthly bill of a typical residential customer using 3,700 gallons of water will increase from \$38.64 to \$41.79, an increase of \$3.15, or 8.15 percent.

### 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 Debt Service Coverage (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 LaRue District No. 1's pro forma operations results in an Overall Revenue Requirement of \$1,904,458. A revenue increase of \$141,234 from water service rates is necessary to generate the overall revenue requirement.
3. The water service rates proposed by LaRue District No. 1 are denied.
4. The water service rates set forth in Appendix B to this Order are fair, just, and reasonable and are approved.

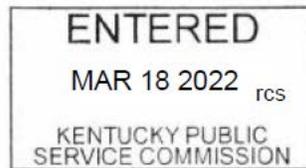
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<sup>18</sup> LaRue District No. 1's Response to Staff's First Request for Information (filed Sept. 14, 2021), Item 6.a.

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.
2. The water service rates proposed by LaRue District No. 1 are denied.
3. The rates set forth in Appendix B to this Order are approved for services rendered by LaRue District No. 1 on and after the date of this Order.
4. Within 20 days of the date of entry of this Order, LaRue District No. 1 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. LaRue District No. 1 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



ATTEST:

*Nancy Vinsell for*

Executive Director

Case No. 2021-00285

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00285 DATED MAR 18 2022

|  | Test Year         | Staff Report<br>Adjustment | Commission<br>Adjustments | Final<br>Pro Forma |
|--|-------------------|----------------------------|---------------------------|--------------------|
| Operating Revenues                       |                   |                            |                           |                    |
| Sales of Water                           | \$ 1,641,676      | \$ 95,439                  |                           | \$ 1,737,115       |
| Other Water Revenues                     | 11,224            | (5,031)                    |                           | 6,193              |
|  | <u>1,652,900</u>  | <u>90,408</u>              | <u>-</u>                  | <u>1,743,308</u>   |
| Total Operating Revenues                 |                   |                            |                           |                    |
| Operating Expenses                       |                   |                            |                           |                    |
| Operation and Maintenance Expenses       |                   |                            |                           |                    |
| Salaries and Wages - Employees           | 312,302           |                            |                           | 312,302            |
| Salaries and Wages - Commissioners       | 10,800            |                            |                           | 10,800             |
| Employee Pensions and Benefits           | 100,042           | 11,861                     |                           |                    |
|  |                   | (3,630)                    |                           | 108,273            |
| Purchased Water                          | 469,310           | 53,108                     |                           | 522,418            |
| Purchased Power for Pumping              | 27,299            |                            |                           | 27,299             |
| Chemicals                                |                   |                            |                           | -                  |
| Materials and Supplies                   | 102,581           | (14,925)                   |                           | 87,656             |
| Contractual Services                     | 19,790            |                            |                           | 19,790             |
| Rent                                     |                   |                            |                           | -                  |
| Transportation Expense                   | 22,851            |                            |                           | 22,851             |
| Insurance                                | 38,456            |                            |                           | 38,456             |
| Regulatory Commission Expense            | 5,760             |                            |                           | 5,760              |
| Bad Debt Expense                         | 4,136             |                            |                           | 4,136              |
| Miscellaneous Expense                    | 54,751            |                            | 5,689                     | 60,440             |
|  | <u>1,168,078</u>  | <u>46,414</u>              | <u>5,689</u>              | <u>1,220,181</u>   |
| Total Operation and Maintenance Expenses |                   |                            |                           |                    |
| Depreciation                             | 396,507           | (59,432)                   | -                         | 337,075            |
|  | <u>1,564,585</u>  | <u>(13,017)</u>            | <u>5,689</u>              | <u>1,557,257</u>   |
| Total Operating Expenses                 |                   |                            |                           |                    |
| Net Operating Income                     | 88,315            | 103,425                    | (5,689)                   | 186,051            |
| Interest Income                          | 26,109            |                            |                           | 26,109             |
|  | <u>\$ 114,424</u> | <u>\$ 103,425</u>          | <u>\$ (5,689)</u>         | <u>\$ 212,160</u>  |
| Income Available to Service Debt         |                   |                            |                           |                    |

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00285 DATED MAR 18 2022

The following rates and charges are prescribed for the customers in the area served by LaRue County Water District No. 1. 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

5/8- x 3/4-Inch Meter

|          |        |         |    |         |              |
|----------|--------|---------|----|---------|--------------|
| First    | 1,000  | Gallons | \$ | 18.57   | Minimum bill |
| Next     | 4,000  | Gallons |    | 0.00860 | per Gallon   |
| Next     | 5,000  | Gallons |    | 0.00768 | per Gallon   |
| All Over | 10,000 | Gallons |    | 0.00627 | per Gallon   |

3/4-Inch Meter

|          |        |         |    |         |              |
|----------|--------|---------|----|---------|--------------|
| First    | 3,000  | Gallons | \$ | 35.72   | Minimum bill |
| Next     | 2,000  | Gallons |    | 0.00860 | per Gallon   |
| Next     | 5,000  | Gallons |    | 0.00768 | per Gallon   |
| All Over | 10,000 | Gallons |    | 0.00627 | per Gallon   |

1-Inch Meter

|          |        |         |    |         |              |
|----------|--------|---------|----|---------|--------------|
| First    | 5,000  | Gallons | \$ | 52.88   | Minimum bill |
| Next     | 5,000  | Gallons |    | 0.00768 | per Gallon   |
| All Over | 10,000 | Gallons |    | 0.00627 | per Gallon   |

1 1/2-Inch Meter

|          |        |         |    |         |              |
|----------|--------|---------|----|---------|--------------|
| First    | 10,000 | Gallons | \$ | 91.19   | Minimum bill |
| All Over | 10,000 | Gallons |    | 0.00627 | per Gallon   |

2-Inch Meter

|          |        |         |    |         |              |
|----------|--------|---------|----|---------|--------------|
| First    | 20,000 | Gallons | \$ | 153.78  | Minimum bill |
| All Over | 20,000 | Gallons |    | 0.00627 | per Gallon   |

NONRECURRING CHARGES

|  |       |
|--|-------|
| Disconnection Charge                             | 10.08 |
| Reconnection Charge                              | 10.08 |
| Reconnection Charge (After Hours)                | 90.00 |
| Return Payment Charge                            | 15.00 |
| Service Call/ Investigation Charge               | 10.08 |
| Service Call/ Investigation Charge (After Hours) | 90.00 |
| Meter Test                                       | 57.48 |

\*Adam Scott

\*Larue County Water District #1  
6215 L & N Turnpike  
Buffalo, KY 42716

\*Tim Bartley  
General Manager  
Larue County Water District #1  
6215 L & N Turnpike  
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