

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH	)	CASE NO.
LOGAN WATER DISTRICT #1 FOR A RATE	)	2021-00286
ADJUSTMENT PURSUANT TO 807 KAR 5:076	)	

ORDER

On July 16, 2021, North Logan Water District #1 (North Logan District #1) filed an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. This application was filed pursuant to the Commission's Order in Case No. 2020-00221.<sup>1</sup> In its application, North Logan District #1 requested rates that would increase annual water sales revenues by \$41,494, an 11.31 percent 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 2, 2021, which, among other things, required the Commission Staff (Staff) to file a report containing its findings regarding North Logan District #1's application.

Pursuant to the procedural Order, on October 21, 2021, Staff issued a report (Staff Report) summarizing its findings regarding North Logan District #1's requested rate adjustment. In the Staff Report, Staff found that North Logan District #1's adjusted test-year operations support an overall revenue requirement of \$444,678 and that an annual revenue increase of \$47,567, or 12.96 percent, is necessary to generate the overall revenue requirement.

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<sup>1</sup> Case No. 2020-00221, *Electronic Purchased Water Adjustment Filing of North Logan Water District #1 Inc.* (Ky. PSC Aug. 5, 2020) at 5, ordering paragraph 5.

On October 26, 2021, North Logan District #1 filed with the Commission its comments on the Staff Report. North Logan District #1 did not agree with the Staff's removal of certain labor expenses from nonrecurring charges. However, North Logan District #1 does not wish to contest the adjustment in this case. With its comments, North Logan District #1 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. North Logan District #1 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 the utility ratepayers. The Commission must decide whether the rates proposed by North Logan District #1 are fair, just and reasonable rates.<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, North Logan District #1's test-year water loss was 21.12 percent. At 21.12 percent water loss, the annual cost to North

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<sup>2</sup> North Logan District #1's Response to Staff Report (filed Oct. 26, 2021).

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

<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. Dewit Water District*, 720 S.W.2d 725 (Ky. 1986).

Logan District #1 is \$11,355, while the total cost of water loss is \$39,175.<sup>5</sup> Accordingly, Staff reduced test-year expenses by \$11,355 to account for the 6.12 percent excess water loss.<sup>6</sup>

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages North Logan District #1 to pursue reasonable actions to reduce its water loss. Failure by North Logan District #1 to make significant progress towards reducing unaccounted water loss may cause the Commission to pursue additional action with the utility.

### BACKGROUND

North Logan District #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 554 customers in Logan County, Kentucky.<sup>7</sup> North Logan District #1 does not produce any of its own water; rather, it purchases its water from Logan/Todd Regional Water Commission. This is North Logan District #1's first general rate adjustment since May 9, 2003.

### TEST PERIOD

The calendar year ended December 31, 2020, was used as the test year to determine the reasonableness of North Logan District #1's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

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<sup>5</sup> Staff Report at 2.

<sup>6</sup> *Id.*

<sup>7</sup> *Annual Report of North Logan District #1 to the Public Service Commission for the Calendar Year Ended December 31, 2020* (Annual Report) at 12 and 49.

## SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes North Logan District #1's Pro Forma Income Statement as follows:

	<u>2020 Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Staff Report Pro Forma</u>
Total Operating Revenues	\$ 412,902	\$ (32,505)	\$380,397
Utility Operating Expenses	<u>451,227</u>	<u>(15,446)</u>	<u>435,781</u>
Net Utility Operating Income	(38,325)	(17,059)	(55,384)
Interest and Dividend Income	3,602	12,942	16,544
Nonutility Income	170		170
Interest Expense	<u>768</u>		<u>768</u>
Total Utility Operating Income	<u>\$ (33,785)</u>	<u>(\$4,117)</u>	<u>\$ (37,902)</u>

## MODIFICATIONS TO STAFF'S FINDINGS

North Logan District #1 proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In the Staff Report, Staff proposed additional adjustments. The Commission accepts the findings contained in the Staff Report.

Billing Analysis Adjustment. In the Staff Report, Staff recommended a decrease to North Logan District #1's test-year Water Sales Revenue by \$27,230<sup>8</sup> to reflect the normalization of revenues from monthly water due to a Purchase Water Adjustment (PWA) that occurred during the test year. Staff calculated a normalized billing analysis with the customer usage data at the PWA increased rates. The normalized revenue from rates was determined by staff to be \$366,975 for all retail customers. The Commission finds that this adjustment is a known and measurable change to Total Metered Water Sales, is reasonable, and should be accepted.

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<sup>8</sup> Staff Report at 7 and 8, Adjustment A.

Other Water Revenues - Forfeited Discounts. In the Staff Report, Staff recommended an increase to North Logan District #1's test-year Other Water Revenues by \$7,319<sup>9</sup> to reflect the normalization of forfeited discounts to account for the moratorium regarding the collection of late payment fees from March through December 2020 due to the COVID-19 pandemic. The Commission finds that this adjustment is a known and measurable change to Other Water Revenues, is reasonable, and should be accepted.

Miscellaneous Service Revenues - Water Tap Revenues. In the Staff Report, Staff recommended a decrease to North Logan District #1's test-year Miscellaneous Service Revenues by \$11,394<sup>10</sup> to reflect the removal of water tap revenues. Water tap revenues are considered contributed capital, and it is not proper to recognize the collections of tap fees as revenue. The Commission finds that this adjustment is a known and measurable change to Miscellaneous Service Revenues, is reasonable, and should be accepted.

Other Water Revenues - Nonrecurring Charges. In the Staff Report, Staff discussed North Logan District #1's Nonrecurring Charges,<sup>11</sup> in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, are removed. In its response to the Staff Report, North Logan District #1 stated that they did not agree with the removal of certain nonrecurring charge labor expenses, but did not wish to contest the adjustments in this case.<sup>12</sup> Staff recommended a reduction to North Logan District #1's test-year other water revenues of \$1,200<sup>13</sup> to reflect the change in the

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<sup>9</sup> Staff Report at 8 and 9, Adjustment B.

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

<sup>11</sup> *Id.* at 5 and 6.

<sup>12</sup> North Logan District #1's Response to Staff Report (filed Oct. 26, 2021).

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

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, Staff recommended an increase to North Logan District #1's test-year Salaries and Wages - Employees Expense by \$35,418<sup>14</sup> to reflect an increase in employee's salaries and wages, and the hiring of a new full time employee. The Commission finds that this adjustment is a known and measurable change to Other Water Revenues, is reasonable, and should be accepted.

Employee Pensions and Benefits - Retirement Contribution. In the Staff Report, Staff recommended an increase to North Logan District #1's Employee Pensions and Benefits-Retirement Contribution of \$2,289<sup>15</sup> to reflect an increase to retirement contributions due to an increase in employee's salaries and Wages. Additionally, Staff recommended an increase to Employee Pensions and Benefits and a decrease to Interest Expense by \$2,642<sup>16</sup> to reflect the reclassification of test-year pension contributions as part of Employee Pensions. The Commission finds that these adjustments are known and measurable changes to Employee Pensions and Benefits and Interest Expense, are reasonable, and should be accepted.

Employee Pensions and Benefits - Insurance Premiums. In the Staff Report, Staff recommended an increase to North Logan District #1's Employee Pensions and Benefits of \$9,274<sup>17</sup> to reflect the adjustment of Single Health Insurance premiums paid by North

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<sup>14</sup> *Id.* at 9 and 10, Adjustment E

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

<sup>16</sup> *Id.*

<sup>17</sup> *Id.* at 11 to 12, Adjustment G.

Logan District #1 from 100 percent to 78 percent and Family Health insurance premiums from 100 percent to 66 percent. In addition, to reflect the reduction of Dental and Vision Insurance paid from 100 percent to 60 percent. The Commission finds that this adjustment is a known and measurable change to Employee Pensions and Benefits, is reasonable, and should be accepted.

Purchased Water. In the Staff Report, Staff recommended a decrease in Purchased Water Expense of \$6,398<sup>18</sup> to reflect the normalization of the increased cost of water that Logan/Todd Regional Water Commission is charging North Logan District #1. The Commission finds that this adjustment is a known and measurable change to Purchased Water, is reasonable, and should be accepted.

Expenses Attributable to Excess Water Loss. In the Staff Report, Staff recommended a decrease to North Logan District #1's test-year Purchased Water Expense of \$10,906 and Purchased Power Expense of \$449<sup>19</sup> to reflect the costs associated with the production of water in excess of 15 percent water loss. The Commission finds that this adjustment is a known and measurable change to Purchased Water Expense and Purchased Power Expense, is reasonable, and should be accepted.

Expenses Related to Meter Installations. In the Staff Report, Staff agreed with North Logan District #1's decrease to test-year Material and Supplies of \$11,394<sup>20</sup> to reflect the expenses related to the installation of 13 new water connections. The

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<sup>18</sup> *Id.* at 13, Adjustment H.

<sup>19</sup> *Id.* at 13 and 14, Adjustment I.

<sup>20</sup> *Id.* at 14 and 15, Adjustment J.

Commission finds that this adjustment is a known and measurable change to Materials and Supplies, is reasonable, and should be accepted.

Depreciation Expense. In the Staff Report, Staff recommended a decrease to North Logan District #1's test-year Depreciation Expense of \$38,363<sup>21</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.

Capitalization of Test-Year Water Taps. In the Staff Report, Staff recommended an increase to North Logan District #1's test-year Depreciation Expense of \$268<sup>22</sup> to reflect the capitalization of the materials and supplies associated with the installation of new water connections. The Commission finds that this adjustment is a known and measurable change to Depreciation Expense, is reasonable, and should be accepted.

Taxes other than Income - FICA. In the Staff Report, Staff recommended an increase to North Logan District #1's test-year Taxes other than Income - FICA Expense of \$2,709<sup>23</sup> to reflect an increase to payroll taxes due to an increase to salaries and wages. The Commission finds that this adjustment is a known and measurable change to Taxes other than Income - FICA, is reasonable, and should be accepted.

Unrecognized Losses. In the Staff Report, Staff recommended an increase to North Logan District #1's test-year Interest and Dividend Income of \$10,300<sup>24</sup> to reflect

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<sup>21</sup> *Id.* at 15, Adjustment K.

<sup>22</sup> *Id.* at 16, Adjustment L.

<sup>23</sup> *Id.* at 16, Adjustment M.

<sup>24</sup> *Id.* at 16 and 17, Adjustment N.

the removal of Unrecognized Losses. The recognition of unrecognized gains or losses is a non-cash item, and is made to adjust the proper balance to the asset account on the balance sheet and is neither an expense nor a revenue to North Logan District #1. The Commission finds that this adjustment is a known and measurable change to Interest and Dividend Income, is reasonable, and should be accepted.

Based on the Commission’s findings discussed above, the following table summarizes North Logan District #1’s adjusted Pro Forma operations:<sup>25</sup>

	<u>Staff Report Pro Forma</u>	<u>Commission Adjustments</u>	<u>Final Pro Forma</u>
Total Operating Revenues	\$ 380,397	\$ -	\$380,397
Utility Operating Expenses	<u>435,781</u>	<u>-</u>	<u>435,781</u>
Net Utility Operating Income	(55,384)	-	(55,384)
Interest and Dividend Income	16,544	-	16,544
Nonutility Income	170	-	170
Interest Expense	<u>768</u>	<u>-</u>	<u>768</u>
	<u>\$ (37,902)</u>	<u>\$ -</u>	<u>\$ (37,902)</u>

### REVENUE REQUIREMENTS

Based upon the Commission’s findings and determinations herein, North Logan District #1 requires an increase in revenues of \$47,567, or 12.96 percent above Pro Forma present rate revenues, as shown below:

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<sup>25</sup> See Appendix A for a complete Pro Forma.

Pro Forma Operating Expenses	\$435,781
Plus: Avg. Annual Principal and Interest Payments	7,414
Additional Working Capital	<u>1,483</u>
Total Revenues Requirement	444,678
Less: Other Operating Revenue	(13,422)
Interest Income	(16,544)
Misc. Income	<u>(170)</u>
Revenue Required From Water Sales	414,542
Revenue from Sales at Present Rates	<u>(366,975)</u>
Required Revenue Increase	<u>47,567</u>
Percentage Increase	<u>12.96%</u>

### RATE DESIGN

North Logan District #1 proposed to increase all of its monthly retail water service rates evenly across the board by approximately 11.31 percent. North Logan District #1 has not performed a cost of service study (COSS) at this time, as there has not been any material change in the water system to warrant a COSS, and it is unknown when the last COSS for North Logan District #1 was completed.<sup>26</sup> The Commission finds that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. In the Staff Report, Staff followed the method proposed by North Logan District #1 and allocated Staff's calculated revenue increase across the board to North Logan District #1's monthly retail water service rates.

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<sup>26</sup> North Logan District #1's Response to Staff's First Request (filed Sept. 10, 2021), Item 11.

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 from water sales to recover the \$414,542 Revenue Required from Rates, an approximate 12.96 percent increase. These rates will increase a typical residential customer's monthly water bill from \$33.62 to \$37.98, an increase of \$4.36, or approximately 12.97 percent.<sup>27</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 North Logan District #1's Pro Forma operations results in an Overall Revenue Requirement of \$444,678. A revenue increase of \$47,567 from water service rates is necessary to generate the overall revenue requirement.
4. The water service rates proposed by North Logan District #1 should be approved.
5. The water service rates set forth in Appendix B to this Order are fair, just and reasonable and should be approved.

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<sup>27</sup> The typical residential customer uses approximately 3,000 gallons per month.

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 general service rates proposed by North Logan District #1 are approved.
3. The rates set forth in Appendix B to this Order are approved for services rendered by North Logan District #1 on and after the date of this Order.
4. Within 20 days of the date of entry of this Order, North Logan District #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. North Logan District #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:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00286 DATED DEC 14 2021

	Test Year	Staff Report Adjustment	Commission Adjustments	Final Pro Forma
<b>Operating Revenues</b>				
Total Metered Water Sales	\$ 394,205	\$ (27,230)		\$ 366,975
Other Water Revenues				-
Forfeited Discounts	1,181	7,319		8,500
Misc. Service Revenues	17,516	(11,394)		
		(1,200)		4,922
<b>Total Operating Revenues</b>	<b>\$ 412,902</b>	<b>\$ (32,505)</b>	<b>\$ -</b>	<b>\$ 380,397</b>
<b>Operating Expenses</b>				
<b>Operation and Maintenance Expenses</b>				
Salaries and Wages - Employees	46,762	35,418		82,180
Salaries and Wages - Officers	18,000			18,000
Employee Pensions and Benefits	3,914	2,289		
		2,642		
		9,274		18,119
Purchased Water	184,533	(6,398)		
		(10,906)		167,229
Purchased Power	7,332	(449)		6,883
Materials and Supplies	50,634	(11,394)		39,240
Contractual Services-Acct	19,992			19,992
Contractual Services - Management Fees	12,525			12,525
Contractual Services- Water Testing	3,014			3,014
Transportation Expenses	12,897			12,897
Insurance- General Liability & Other	4,422			4,422
Insurance- Workers Comp	1,865			1,865
Advertising	911			911
<b>Total Operation and Maintenance Expenses</b>	<b>366,801</b>	<b>20,476</b>	<b>-</b>	<b>387,277</b>
Depreciation	79,267	(38,363)		40,636
		(268)		
Taxes Other Than Income	5,159	2,709		7,868
<b>Utility Operating Expenses</b>	<b>451,227</b>	<b>(15,446)</b>	<b>-</b>	<b>435,781</b>
<b>Net Operating Income</b>	<b>(38,325)</b>	<b>(17,059)</b>		<b>(55,384)</b>
Interest and Dividend Income	3,602	10,300		16,544
		2,642		
Nonutility Income	170			170
Interest Expense	768			768
<b>Income Available to Service Debt</b>	<b>\$ (33,785)</b>	<b>\$ (4,117)</b>	<b>\$ -</b>	<b>\$ (37,902)</b>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00286 DATED DEC 14 2021

The following rates and charges are prescribed for the customers in the area served by North Logan Water District #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

First 2,000 Gallons	\$26.07 Minimum Bill
Next 2,000 Gallons	0.01191 Per Gallon
Next 6,000 Gallons	0.00760 Per Gallon
Next 15,000 Gallons	0.00721 Per Gallon
Over 25,000 Gallons	0.00681 Per Gallon

Nonrecurring Charges

Returned Check Charge	\$5.00
Reconnection Fee	\$10.00
Reconnection Fee (After Hours)	\$95.00
Connection/Turn-On Charge	\$5.00
Connection/Turn-On Charge (After Hours)	\$45.00
Service Call/Investigation	\$5.00
Service Call/Investigation (After Hours)	\$45.00

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