

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MARION)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2021-00394
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On October 27, 2021, Marion County Water District (Marion District) filed an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. In its application, Marion District requested rates that would increase annual water sales revenues by \$783,405, a 25.32 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 November 17, 2021, which, among other things, required the Commission Staff to file a report containing its findings regarding Marion District's application. On its own motion, the Commission revised the due date in the procedural schedule for Commission Staff's report to March 3, 2022.¹

Marion District responded to two Requests for Information from Commission Staff² and on March 2, 2022, Commission Staff issued a Commission Staff's Report summarizing its findings regarding Marion District's requested rate adjustment. In the Commission

¹ See Order (Ky. PSC Feb. 17, 2022).

² Marion District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Dec. 17, 2021); Marion District's Response to Commission Staff's Second Request for Information (filed Jan. 20, 2022)

Staff's Report, Commission Staff found that Marion District's adjusted test-year operations support an overall revenue requirement of \$3,819,587 and that an annual revenue increase of \$582,584, or 18.83 percent to the retail base rate, is necessary to generate the overall revenue requirement. In addition, Commission Staff noted that Marion District did not make any pro forma adjustments to amortize any costs attributable to the preparation of its case and indicated that, in Marion District's response to the Commission Staff's Report, it should identify any additional expenses incurred.

On March 17, 2022, Marion District filed with the Commission its comments on the Commission Staff's 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. Marion District also stated that it had not yet incurred any expenses in the preparation of this case, but that an invoice from Monarch Engineering for services performed in the preparation of this case for \$4,000 was forthcoming. With its comments, Marion District did not request that a conference or hearing be held.³

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, Marion District is allowed to charge its customers "only fair, just and reasonable

³ Letter from Toby Spalding, General Manager of Marino County Water District (filed Mar. 17, 2022).

rates.”⁴ Further, Marion District bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

Marion District 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 6,172 customers in Marion and Nelson counties, Kentucky.⁵ Marion District does not produce any of its own water; rather, it purchases its water from the Lebanon Water Works and Campbellsville Water. A review of the Commission’s records indicated Marion District last sought an adjustment of rates through the alternative rate filing procedure in Case No. 2016-00163.⁶

TEST PERIOD

The calendar year ended December 31, 2020, was used as the test year to determine the reasonableness of Marion 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 Marion District’s pro forma income statement as follows:⁷

⁴ *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).

⁵ *Annual Report of Marion County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2020 (Annual Report)* at 12 and 49.

⁶ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016).

⁷ The Pro Forma Adjustments column in the Commission Staff Report contained an error and did not correctly add the adjustments to Total Operating Expenses of \$(117,188). The error had no effect on the Commission Staff’s Report Pro Forma column, and therefore no adjustment to the revenue requirement is necessary.

	<u>2020 Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Staff Report Pro Forma</u>
Operating Revenues	\$ 3,022,266	\$ 157,981	\$ 3,180,247
Operating Expenses	<u>3,523,669</u>	<u>(117,188)</u>	<u>3,406,481</u>
Net Operating Income	(501,403)	275,169	(226,234)
Interest Income	13,278		13,278
Nonutility Income	<u>43,478</u>		<u>43,478</u>
Income Available for Debt Service	<u>\$ (444,647)</u>	<u>\$ 275,169</u>	<u>\$ (169,478)</u>

MODIFICATIONS TO STAFF'S FINDINGS

Marion District's proposed adjustments to 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 findings contained in the Commission Staff's Report.

Billing Analysis Adjustment. Marion District provided usage data by meter size listing the water usage and water sales revenue for the 12-month test year.⁸ The test period included a Purchase Water Adjustment (PWA) increase to rates which was included in the normalized billing analysis.⁹ Commission Staff calculated the data provided within a normalized billing analysis, which determined that \$3,093,614 for all retail customers is an accurate representation of the normalized test-year revenue from water sales. In the Commission Staff's Report, Commission Staff recommended accepting Marion District's proposal to increase test-year Water Sales Revenue by

⁸ Marion District's Response to Staff's First Request, Item 9.

⁹ Commission Staff's Report at 7.

\$114,719¹⁰ to reflect the normalization of an increase in Marion District's service rates through the PWA. The Commission finds that this adjustment is a known and measurable change to Total Metered Sales, is reasonable, and should be accepted.

Late Payment Charges. In the Commission Staff's Report, Commission Staff recommended accepting Marion District's proposed increase to Forfeited Discount revenues to account for the lifting of the moratorium regarding late fee collection due to the COVID-19 pandemic. The amount of \$54,907 was normalized based on a three-year average of reported income from late fees in the years 2017, 2018, and 2019 as the test-year of 2020 was not a reasonable proxy.¹¹ The Commission finds that this adjustment is a known and measurable change to Other Water Revenues, is reasonable, and should be accepted

Nonrecurring Charges. In the Commission Staff's Report, Commission Staff discussed Marion District's Nonrecurring Charges,¹² 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.¹³ Commission Staff recommended a decrease of \$11,645¹⁴ to Marion District's Total Operating Revenue to reflect the change in the nonrecurring charges. In its response to the Commission Staff's Report, Marion District stated that it

¹⁰ Commission Staff's Report at 7, Adjustment A.

¹¹ Commission Staff's Report at 7, Adjustment B.

¹² Commission Staff's Report at 7–8, Adjustment C.

¹³ Commission Staff's Report at 5.

¹⁴ Commission Staff's Report at 7–8, Adjustment C.

did not agree with the removal of certain nonrecurring charge labor expenses but accepted the recommended adjustments.¹⁵

The Commission notes that labor expense as an element of nonrecurring charges is not “incurred to provide the service,” rather, the labor expense is allocated from a portion of the labor costs of the district. The concept of incurred expenses requires that the costs arise due to the action that is performed. As such, those costs that are incurred are the marginal costs that arise in the provision of that service. Conversely, labor costs should not be included as part of the nonrecurring charge as they are not created directly from performing the service. The Commission finds that Commission Staff’s proposed adjustment is a known and measurable change to Other Water Revenues, is reasonable in consideration of the discussion above, and should be accepted.

Salaries and Wages – Employees. In the Commission Staff’s Report, Commission Staff recommended that the Commission accept Marion District’s proposal to increase Salaries and Wages by \$33,951 and a corresponding increase to Taxes Other Than Income of \$2,597 for payroll taxes.¹⁶ The Commission finds that the adjustments are a known and measurable change to payroll expense, are reasonable, and are accepted.

Employee Pensions and Benefits. In the Commission Staff’s Report, Commission Staff recommended that the Commission accept Marion District’s proposal to decrease Employee Pensions and Benefits by \$9,529 to reflect the net effect of an increase to insurance premiums subsequent to the test period and reduce employer sponsored

¹⁵ Marion District’s Response to Commission Staff’s Report (filed Mar. 17, 2022), paragraph 3.

¹⁶ Commission Staff’s Report at 8–9, Adjustment D.

premiums for single coverage.¹⁷ 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.

Governmental Accounting Standards Board Statement No. 68 and 75. In the Commission Staff's Report, Commission Staff recommended that the Commission accept Marion District's proposal to reduce Employee Pensions and Benefits by \$137,716 to normalize expenses related to Marion District's contributions to the County Employees' Retirement System.¹⁸ The Commission finds that this adjustment is a known and measurable change to test year operations, is reasonable, and is accepted.

Purchased Water Adjustment. In the Commission Staff's Report, Commission Staff recommended that the Commission accept Marion District's proposed increase of \$79,333 to reflect a purchased water adjustment approved in Case No. 2020-00295.¹⁹ The Commission finds that this adjustment is a known and measurable change to Purchased Water, is reasonable, and is accepted.

Water Loss. In the Commission Staff's Report, Commission Staff recommended that the Commission accept Marion District's proposed reduction of Purchased Water expense by \$93,299 to reflect the limitations stated in Commission regulation 807 KAR 5:066, Section 6(3), which limits water loss to 15 percent for ratemaking purposes.²⁰ The

¹⁷ Commission Staff's Report at 9, Adjustment E.

¹⁸ Commission Staff's Report at 9–10, Adjustment F.

¹⁹ Commission Staff's Report at 10–11, Adjustment G.

²⁰ Commission Staff's Report at 11, Adjustment H.

Commission finds that this adjustment is a known and measurable change to Purchased Water, is reasonable, and is accepted.

Contractual Services. In the Commission Staff's Report, Commission Staff recommended that the Commission accept Marion District's proposed increase to Contractual Services of \$9,000 to reflect the normalization of its contract with United Systems for its billing software effective July 1, 2020.²¹ The Commission finds that this is a known and measurable change to the test period, is reasonable, and is accepted.

Rate Case Expense. Marion District did not request to amortize any costs expended in the preparation of this case. Commission Staff did not make an adjustment in the Commission Staff's Report but did request that if any costs were incurred, to provide them in the comments to the Commission Staff's Report. Marion District stated that it had not yet incurred any expenses in the preparation of this case, but that an invoice from Monarch Engineering for services performed in the preparation of this case for \$4,000 was forthcoming. 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 Commission Staff's Report by \$1,333.

Based on the Commission's findings discussed above, the following table summarizes Marion District's adjusted pro forma operations:²²

²¹ Commission Staff's Report at 11–12, Adjustment I.

²² See Appendix A for a complete pro forma.

	<u>Staff Report Pro Forma</u>	<u>Commission Adjustments</u>	<u>Final Pro Forma</u>
Operating Revenues	\$ 3,180,247		\$ 3,180,247
Operating Expenses	<u>3,406,481</u>	<u>\$ 1,333</u>	<u>3,407,814</u>
Net Operating Income	(226,234)	(1,333)	(227,567)
Interest Income	13,278		13,278
Nonutility Income	<u>43,478</u>		<u>43,478</u>
Income Available for Debt Service	<u>\$ (169,478)</u>	<u>\$ (1,333)</u>	<u>\$ (170,811)</u>

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Marion District requires an increase in revenues of \$583,917, or 18.87 percent above pro forma present rate revenues, as shown below. This increase is required for Marion District to remain operational and financially sound and have an opportunity to provide adequate, efficient, and reasonable service to its customers.²³

Pro Forma Operating Expenses	\$ 3,407,814
Plus: Average Annual Principal and Interest Payments	344,255
Additional Working Capital	<u>68,851</u>
Overall Revenue Requirement	3,820,920
Less: Other Operating Revenue	(86,633)
Interest Income	(13,278)
Nonutility Income	<u>(43,478)</u>
Revenue Required from Rates	\$ 3,677,531
Less: Pro Forma Present Rate Service Revenues	<u>(3,093,614)</u>
Required Revenue Increase	<u>\$ 583,917</u>
Percentage Increase	<u>18.87%</u>

²³ See Appendix A for a complete pro forma income statement.

RATE DESIGN

Marion District proposed to increase all of its monthly retail water service rates evenly across the board by approximately 25.31 percent. Marion District had not performed a cost of service study (COSS). Marion District stated that it did not complete a COSS, as there were no material changes in the distribution of customer usage, and an across-the-board increase is the most equitable means of passing the increased costs to customers. In the Commission Staff's Report, Commission Staff followed the method proposed by Marion District and allocated Commission Staff's calculated revenue increase across-the-board to Marion District's monthly retail water service rates. Marion District accepted Staff's findings and requested approval of the recommended rates and charges.²⁴

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 \$3,677,531 Revenue Required from Water Sales, an approximate 18.87 percent increase over normalized test-year water sales of \$3,093,614. These rates will increase the monthly bill of a typical residential customer using 4,154 gallons a month from \$36.03 to \$42.83, an increase of \$6.80, or approximately 18.87 percent.

SUMMARY

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

²⁴ Response to Commission Staff's Report, paragraph 2.

1. The findings contained in the Commission Staff's 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 Marion District's pro forma operations results in an Overall Revenue Requirement of \$3,820,920. A revenue increase of \$583,917 from water service rates is necessary to generate the overall revenue requirement.

3. The water service rates proposed by Marion District is denied.

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

IT IS THEREFORE ORDERED that:

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

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

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

4. Within 20 days of the date of entry of this Order, Marion 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. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION



Chairman

Vice Chairman

Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00394 DATED MAY 23 2022

	Test Year	Staff Report Adjustment	Commission Adjustments	Final Pro Forma
Operating Revenues				
Sales of Water	\$2,978,895	114,719		\$3,093,614
Other Water Revenues	43,371	54,907		
		(11,645)		86,633
Total Operating Revenues	<u>3,022,266</u>	<u>157,981</u>		<u>3,180,247</u>
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	360,443	33,951		394,394
Salaries and Wages - Commissioners	55,803			55,803
Employee Pensions and Benefits	306,291	(9,529)		
		(137,716)		159,046
Purchased Water	1,918,514	79,333		
		(93,299)		1,904,548
Purchased Power for Pumping	35,242	(1,525)		33,717
Materials and Supplies	186,203			186,203
Contractual Services	33,154	9,000		42,154
Transportation Expense	20,995			20,995
Insurance	33,953			33,953
Regulatory Commission Expense				-
Bad Debt Expense	3,178			3,178
Miscellaneous Expense	33,605		1,333	34,938
Total Operation and Maintenance Expenses	<u>2,987,381</u>	<u>(119,785)</u>	<u>1,333</u>	<u>2,868,929</u>
Taxes Other Than Income	39,480	2,597		42,077
Depreciation	<u>496,808</u>			<u>496,808</u>
Total Operating Expenses	<u>3,523,669</u>	<u>(117,188)</u>	<u>1,333</u>	<u>3,407,814</u>
Net Operating Income	(501,403)	275,169	(1,333)	(227,567)
Interest Income	13,278			13,278
Nonutility Income	<u>43,478</u>			<u>43,478</u>
Income Available to Service Debt	<u>\$ (444,647)</u>	<u>\$ 275,169</u>	<u>\$ (1,333)</u>	<u>\$ (170,811)</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00394 DATED MAY 23 2022

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

<u>5/8- x 3/4-Inch Meter</u>	\$ 8.85 Minimum Bill
<u>1-inch Meter</u>	\$ 19.26 Minimum Bill
<u>2-inch Meter</u>	\$ 30.53 Minimum Bill
<u>3-inch Meter</u>	\$ 48.42 Minimum Bill
<u>4-inch Meter</u>	\$ 76.80 Minimum Bill
<u>6-inch Meter</u>	\$193.28 Minimum Bill
<u>Water Charge</u> All usage	\$ 0.00818 Per Gallon

Nonrecurring Charges

5/8- x 3/4-Inch Meter Connection Charge	\$ 967.00
Connection/Turn-on	19.00
Connection/Turn-on After Hours	121.00
Reconnection	16.00
Reconnection After Hours	121.00
Field Collection	19.00
Meter Reading Recheck	19.00
Meter Test Request	19.00
Returned Check	3.00
Broken Meter Lock	53.00
Meter Valve Replacement	59.00
Service Call/Investigation	19.00
Service Call/Investigation After Hours	121.00

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