

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GALLATIN)	CASE NO.
COUNTY WATER DISTRICT FOR AN)	2021-00396
ALTERNATIVE RATE ADJUSTMENT)	

ORDER

On October 22, 2021, Gallatin County Water District (Gallatin District) filed an application with the Commission, pursuant to 807 KAR 5:076 and as directed to by the final Order in Case No. 2019-00460.¹ Pursuant to the Commission’s January 7, 2022 Procedural Order, Commission Staff issued a report (Commission Staff’s Report) on March 2, 2022, summarizing its findings regarding Gallatin District’s application. The Commission Staff’s Report indicated that Gallatin District’s adjusted test-year operations support an overall revenue requirement of \$1,167,179 and that no revenue increase is necessary to generate the overall revenue requirement.

On March 14, 2022, Gallatin District filed with the Commission its comments on the Commission Staff’s Report.² In its response, Gallatin District did not agree with Commission Staff’s removal of certain labor expenses from nonrecurring charges but did not wish to contest that adjustment in this case. Gallatin District did concur with the

¹ Case No. 2019-00460, *Electronic Application of Gallatin County Water District to Issue Securities in the Approximate Principal Amount of \$1,633,000 for the Purpose of Refunding Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 And 807 KAR 5:001* (Ky. PSC Feb. 28, 2020).

² Gallatin District’s Response to Commission Staff’s Report (filed Mar. 14, 2022).

findings presented in the Commission Staff's Report and did not request that a conference or hearing be held.

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 to the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, Gallatin District is allowed to charge its customers "only 'fair, just and reasonable rates.'"³

BACKGROUND

Gallatin District is a water district organized pursuant to KRS Chapter 273. It owns and operates a water distribution system through which it provides water service to approximately 1,986 residential customers and 35 commercial customers in Boone, Gallatin, and Grant counties, Kentucky.⁴ Gallatin District produces its own water as well as purchases water from the City of Warsaw, Kentucky. This is Gallatin District's first general rate adjustment since 2011.⁵

WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. The Commission notes that Gallatin District reported in its 2019

³ *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).

⁴ *Annual Report of Gallatin District to the Public Service Commission for the Calendar Year Ended December 31, 2019* (Annual Report), at 12 and 49.

⁵ Case No. 2011-00378 *Application of Gallatin County Water District for the Approval of Increased Monthly Rates and for Approval of an Increase in its Meter Connection Fee* (Ky. PSC Apr. 16, 2012).

Annual Report, a water loss of 30.85 percent.⁶ Commission Regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Water loss in excess of 15 percent results in an annual cost to Gallatin District of \$11,577,⁷ while the total cost of water loss is \$22,533.⁸ The Commission notes that while the level of water loss in 2019 was historically high due to an increase in leaks,⁹ Gallatin District has consistently incurred an annual water loss well over 15 percent.

The Commission finds that Gallatin District should continue to monitor water loss and adhere to the practices detailed in their response to Staff's first data request.¹⁰ Given its consistently high water loss, Gallatin District should consider seeking authorization of a surcharge to finance a defined plan of improvements to its system in order to reduce

⁶ Annual Report of Gallatin District to the Public Service Commission for the Calendar Year Ended December 31, 2019 (Annual Report), at 57.

7

	Purchased Water	Purchased Power	Purchased Chemical	Total
2020 Pro Forma Expenses	\$ 7,857	\$ 58,637	\$ 6,547	\$ 73,041
Multiplied by: Water Loss in Excess of 15 Percent	15.85%	15.85%	15.85%	15.85%
Excess Cost	\$ 1,245	\$ 9,294	\$ 1,038	\$ 11,577

8

	Purchased Water	Purchased Power	Total	
2020 Pro Forma Expenses	\$ 7,857	\$ 58,637	\$ 6,547	\$ 73,041
Multiplied by: Total Water Loss	30.85%	30.85%	30.85%	30.85%
Excess Cost	\$ 2,424	\$ 18,090	\$ 2,020	\$ 22,533

9

Year	2016	2017	2018	2019	2020
Water Loss	22.74%	24.34%	25.46%	30.85%	24.93%

¹⁰ Gallatin County Water District's Response to Commission Staff's First Request for Information, Item 3, contains a detailed list of procedures that the District utilizes to combat leaks and proactively reduce water loss.

water loss. Commission Staff can assist Gallatin District in the creation of such a surcharge or provide direction in preparing a holistic plan to systematically reduce water loss.

TEST PERIOD

The calendar year ended December 31, 2019, was used as the test year to determine the reasonableness of Gallatin 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 Gallatin District’s pro forma income statement as follows:

	<u>2019</u> <u>Annual Report</u>	<u>Rate Study</u> <u>Adjustments</u>	<u>Staff Pro Forma</u> <u>Operations</u>	<u>Commission</u> <u>Adjustments</u>	<u>Final</u> <u>Pro Forma</u>
Total Operating Revenues	\$ 1,159,527	\$ (4,834)	\$ 1,154,693	\$ -	\$ 1,154,693
Utility Operating Expenses	1,049,135	(135,992)	913,143	-	913,143
Net Utility Operating Income	<u>110,392</u>	<u>131,158</u>	<u>241,550</u>	<u>-</u>	<u>241,550</u>

MODIFICATIONS TO STAFF’S FINDINGS

Gallatin District 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. In the Staff Report, Commission Staff recommended the Commission accept Gallatin District’s proposed increase of \$12,124 based on Gallatin District’s current billing analysis.¹¹ The Commission finds that this adjustment is

¹¹ Commission Staff’s Report at 8, Adjustment A.

reasonable as an examination of Gallatin District's billing analysis was completed by Commission Staff and a normalized revenue was based on the information provided.

Other Water Revenues-Nonrecurring Charges (NRC). In the Staff Report, Commission Staff discussed Gallatin District's NRCs,¹² in which estimated labor costs, previously included in determining the amount of NRCs, were removed. In its response to the Staff Report, Gallatin District disagreed with the removal of labor expenses from its NRCs but did not wish to contest the adjustments in this case.¹³ Commission Staff recommended a reduction to Gallatin District's test-year Miscellaneous Service Revenues of \$14,794 and Other Water Revenues of \$208, to reflect the change in the NRC's. The Commission finds that this adjustment is known and measurable,¹⁴ is reasonable, and is accepted.

Other Income. In the Commission Staff's Report, Commission Staff recommended a decrease to Gallatin District's test-year Other Income of \$1,956 to reduce the total amount to reflect only allowable sources of income, specifically money paid for disconnections performed for a local sewer utility as well as revenue tied to disconnection fees. The Commission finds that this adjustment is known and measurable and is accepted.

¹² Commission Staff's Report at 8, Adjustment B.

¹³ Gallatin District's Responses to the Commission Staff's Report.

¹⁴ See 807 KAR 5:001, Section 16.1.(a); Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue Its Evidence of Indebtedness Therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

Salaries and Wages – Employees & FICA. In the Commission Staff's Report, Commission Staff recommended an increase to Gallatin District's test-year Salaries and Wages Employees Expense of \$1,217 as well as an associated decrease to Taxes Other Than Income to account for an increase in FICA Taxes of \$2,486 in order to reflect current employee compensation and FICA taxes levels. The Commission finds that this adjustment is known and measurable and is accepted.

Salaries and Wages – Officers. In the Commission Staff's Report, Commission Staff recommended an increase to Gallatin District's test-year Salaries and Wages Officers Expense of \$400 to account for a full year of the current compensation for the members of Gallatin District's board. The Commission finds that this adjustment is known and measurable and is accepted.

Employee Pensions and Benefits. In the Commission Staff's Report, Commission Staff recommended a decrease to Gallatin District's test-year Employee Pension and Benefit Expense of \$92,784 to annualize the allowable health insurance premiums as well as adjust CERS contributions for the rate authorized as of July 1, 2021. The Commission finds that this adjustment is known and measurable and is accepted.

Water Loss. In the Commission Staff's Report, Commission Staff recommended a decrease to Gallatin District's Purchased Water, Power, and Chemicals expenses of \$1,245, \$9,294, and \$1,038, respectively, to reflect Gallatin District's water loss in excess of 15 percent. The Commission finds that these adjustments are known and measurable and is accepted.

Copper & Lead Testing. In the Commission Staff's Report, Commission Staff recommended accepting the adjustment proposed by Gallatin District to increase Pro

Forma Testing Expense by \$2,833 to reflect the cost of lead and copper tests throughout its system that are performed every three years. The Commission finds that these adjustments are known and measurable and is accepted.

Depreciation Expense. In the Commission Staff's Report, Commission Staff recommended accepting the adjustment proposed by Gallatin District to reduce test-year Depreciation Expense by \$33,595, calculated by adjusting the useful lives of the Gallatin District's assets to the midpoint of the National Association of Regulatory Utility Commissioners Depreciation Study. The Commission finds that the adjustment keeps with Commission precedent and is a known and measurable change to test-year Depreciation Expense and is accepted.

Based on the Commission's findings discussed above, the following table summarizes Gallatin District's adjusted pro forma operations.¹⁵

	<u>Staff Pro Forma Operations</u>	<u>Commission Adjustments</u>	<u>Final Pro Forma</u>
Total Operating Revenues	\$ 1,154,693	\$ -	\$ 1,154,693
Utility Operating Expenses	<u>913,143</u>	<u>-</u>	<u>913,143</u>
Net Utility Operating Income	<u>241,550</u>	<u>-</u>	<u>241,550</u>

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Gallatin District does not require an increase in rates, shown below.

¹⁵ See Appendix A for a complete Pro Forma.

Operating Expenses	\$ 913,143
Add: Average Annual Debt Principal and Interest	211,696
Additional Working Capital	<u>42,339</u>
Overall Revenue Requirement	1,167,179
Less: Other Operating Revenue	(35,574)
Interest Income	<u>(21,799)</u>
Revenue Requirement - Water Rates	1,109,806
Less: Normalized Revenue from Service	<u>(1,119,119)</u>
Required Revenue Increase	<u>\$ (9,313)</u>
Percentage Increase	<u><u>-0.83%</u></u>

RATE DESIGN

Gallatin District did not propose an increase of its monthly retail water service rates due to the revenue surplus the district currently has. The Commission finds that an increase in rates is not needed at this time.

SUMMARY

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

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 Gallatin District's pro forma operations results in an Overall Revenue Requirement of \$1,167,179. No revenue increase in water service rates is necessary to generate the overall revenue requirement.

3. Gallatin District should continue to monitor water loss and adhere to the practices detailed in their response to Staff's first data request. Gallatin District should consider seeking authorization of a surcharge to finance a defined plan of improvements to its system in order to reduce water loss.

4. The nonrecurring charges 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 with modifications and incorporated by reference into this Order as if fully set out herein.

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

3. Within 20 days of the date of entry of this Order, Gallatin 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.

4. Gallatin 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 Commission 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.

5. Gallatin District shall continue to monitor water loss and adhere to the practices detailed in their response to Staff's first data request. In the event that yearly

water loss continues to increase, Gallatin District should seek the authorization of a surcharge to finance improvements to its system to reduce water loss.

6. This case is closed and removed from the Commission's docket.

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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. 2021-00396 DATED AUG 18 2022

	Test Year	Staff Report Adjustment	Commission Adjustment	Pro Forma
Operating Revenues				
Retail Sales of Water	\$ 1,093,070	\$ 12,124		\$ 1,105,194
Bulk Sales	13,925			13,925
Other Water Revenues				
Forfeited Discounts	29,740			29,740
Misc Service Revenues	19,670	(14,794)		4,876
Other Water Revenues	3,122	(208)		
		(1,956)		958
Total Operating Revenues	<u>1,159,527</u>	<u>(4,834)</u>	<u>-</u>	<u>1,154,693</u>
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	258,005	1,217		259,222
Salaries and Wages - Officers	15,200	400		15,600
Employee Pensions and Benefits	207,605	(92,784)		114,821
Purchased Water	7,857	(1,245)		6,612
Purchased Power	61,726	(9,294)		52,432
Purchased Chemical	6,547	(1,038)		5,509
Materials and Supplies	59,705			59,705
Contractual Services	73,326	2,833		76,159
Transportation Expenses	21,376			21,376
Insurance - Gen Liability & Other	22,144			22,144
Insurance - Worker's Comp	4,561			4,561
Advertising Expense	788			788
Bad Debt	9,628			9,628
Miscellaenous Expenses	23,409			23,409
Total Operation and Mainenance Expenses	<u>771,877</u>	<u>(99,911)</u>	<u>-</u>	<u>671,966</u>
Depreciation Expense	254,942	(33,595)		221,347
Taxes Other Than Income	22,316	(2,486)		19,830
Total Operating Expenses	<u>1,049,135</u>	<u>(135,992)</u>	<u>-</u>	<u>913,143</u>
Utility Operating Income(Loss)	<u>\$ 110,392</u>	<u>\$ 131,158</u>	<u>\$ -</u>	<u>\$ 241,550</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00396 DATED AUG 18 2022

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

Nonrecurring Charges

Connection/Turn-on Charge	\$9.00
Connection / Turn-on Charge (After Hours)	105.00
Disconnect/Reconnect Charge	9.00
Disconnect/Reconnect Charge (After Hours)	105.00
Field Collection Charge	9.00
Field Collection Charge (After Hours)	105.00
Meter Re-Read Charge	9.00
Meter Test Charge	58.00
Returned Check Charge	12.00
Service Line Inspection	9.00

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