

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WESTERN)	
FLEMING COUNTY WATER DISTRICT FOR A)	CASE NO.
RATE ADJUSTMENT PURSUANT TO 807 KAR)	2021-00406
5:076)	

ORDER

On November 5, 2021,¹ Western Fleming County Water District (Western Fleming District) filed its application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. In the final Order for Case No. 2019-00456,² Western Fleming District was ordered to file an application by March 30, 2021, for either a traditional adjustment in rates or for an Alternative Rate Adjustment (ARF) to ensure its revenue is sufficient to support adequate and reliable service. In its February 26, 2021 motion submitted in Case No. 2019-00456, Western Fleming District requested an extension to file its ARF application until November 1, 2021, citing Kentucky Rural Water Association’s inability to complete Western Fleming District’s AEF application by March 30, 2021. In its March 15, 2021 Order, the Commission granted Western Fleming District’s requested extension to file its ARF application.

¹ Western Fleming District tendered its application on October 28, 2021. By letter dated October 29, 2021, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on November 5, 2021.

² See Case No. 2019-00456, *Electronic Application of Western Fleming County Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC March 30, 2020).

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated December 3, 2021, which included Commission Staff's First Request for Information (Staff's First Request). In its application, Western Fleming District requested water rates that would increase its annual revenues from water sales by \$10,822, or 0.80 percent.³

On December 20, 2021, Western Fleming District submitted its partial responses to Staff's First Request and requested an extension of time until January 20, 2022, to fully respond. The Commission granted the extension of time to respond to Staff's First Request and altered the procedural schedule for the remaining discovery requests, responses to the discovery requests, and the issuance of Commission Staff's Report.⁴

On January 19, 2022, Western Fleming District filed a letter requesting the Commission allow Western Fleming District to withdraw its ARF application but allow Western Fleming District to continue to pursue its temporary \$1.46 water loss reduction surcharge.⁵ By the Commission's Order dated February 9, 2022, the Commission denied Western Fleming District's request to withdraw its ARF application, required Commission Staff to conduct a limited field review, and amended the dates in the revised procedural schedule. On March 29, 2022, the Commission, upon its own motion, extended the issuance date of the Commission Staff's Report to April 29, 2022.

LEGAL STANDARD

³ Application, Attachment 4, unnumbered page 1, Revenue Requirements.

⁴ Order (Ky. PSC Jan. 5, 2022).

⁵ Barton Letter (filed Jan. 19, 2022) at unnumbered page 1.

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, Western Fleming District is allowed to charge its customers, "only 'fair, just and reasonable rates.'"⁶ Further, Western Fleming District bears the burden of proof to show that the proposed rate increase is just and reasonable, under KRS 278.190(3).

UNACCOUNTED FOR 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 Western Fleming District reported a water loss of 23.62 percent in its 2020 Annual Report.⁷ At a 23.62 percent water loss, the annual cost of water loss in excess of 15 percent is \$26,276 and the total annual cost of water loss to Western Fleming District is \$72,001.⁸

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages Western Fleming District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Western Fleming District to make

⁶ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n of Com. of Kentucky v. Dewit Water District*, 720 S.W.2d 725 (Ky. 1986).

⁷ *Annual Report of Western Fleming County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 57.

⁸ Commission Staff's Report at 3, footnote 5.

significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

BACKGROUND

Western Fleming District, a water district organized pursuant to KRS Chapter 74, provides water service to approximately 1,502 residential and commercial customers in Fleming, Mason, Nicholas, and Robertson counties, Kentucky.⁹ A review of the Commission's records indicated Western Fleming District last sought an adjustment of rates through the ARF procedure in Case No. 2014-00148.¹⁰

Commission Staff issued its Commission Staff's Report on April 29, 2022, summarizing its findings regarding Western Fleming District's requested water rate adjustment. Using the Debt Service Coverage (DSC) method, Commission Staff found that Western Fleming District required revenue from water sales of \$1,378,295 to meet the Overall Revenue Requirement is \$1,386,517.¹¹ To meet the Overall Revenue Requirement, Commission Staff recommended a \$32,011,¹² or 2.38 percent revenue increase to Pro Forma present rate revenues.¹³ In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates.¹⁴ Commission Staff also

⁹ 2020 Annual Report at 12 and 49.

¹⁰ Case No. 2014-00148, *Application of Western Fleming County Water District for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 27, 2014).

¹¹ Commission Staff's Report at 21.

¹² There was a typographical error made at page 5 of the Commission Staff's Report that stated the required increase to Pro Forma present rate revenues is \$32,015. However, the correct increase is \$32,011 as calculated at page 21 of the Commission Staff's Report.

¹³ Commission Staff's Report at 21.

¹⁴ Commission Staff's Report at 5.

recommended that Western Fleming District be allowed to assess a monthly water loss reduction surcharge of \$1.46 per active meter for 48 months.¹⁵

On May 6, 2022, Western Fleming District filed with the Commission its comments in response to Commission Staff's Report.¹⁶ In its comments, Western Fleming District stated that it accepted the amount of the revenue increase recommended by Commission Staff, the allocation to the rate classes, and the design of the proposed rates set forth in the Commission Staff's Report.¹⁷

Because the water rates calculated by Commission Staff and subsequently accepted by Western Fleming District exceed the 110 percent threshold established by 807 KAR 5:076, Section 11(3)(f), the Commission, in its Order dated June 21, 2022, required Western Fleming District to publish a one-time notice, following the requirements of 807 KAR 5:076, Section 5, of its amended water rates. The June 21, 2022 Order also revised Western Fleming District's five-month suspension period to end on November 4, 2022, and revised the ten-month statutory period to end on March 3, 2023.

On July 20, 2022, Western Fleming District submitted a copy of its customer notification of its amended rates that was published in a newspaper of general circulation.¹⁸ On August 5, 2022, Western Fleming District filed an Affidavit of Proof of

¹⁵ Commission Staff's Report at 17.

¹⁶ Western Fleming District's Response to the April 29, 2022, Commission Staff's Report (filed May 6, 2022).

¹⁷ Western Fleming District's May 6, 2022, Response to the April 29, 2022, Commission Staff's Report, Commission Staff's Report

¹⁸ Western Fleming District's Customer Notice filed July 20, 2022.

Publication as proof that customer notification was published on June 29, 2022, in the Fleming Shopper.¹⁹

TEST PERIOD

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

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes Western Fleming District’s pro forma income statement as follows:²⁰

	Test-Year Operations	Commission Staff	
		Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 1,304,468	\$ 45,473	\$ 1,349,941
Operating Expenses	1,153,369	(21,963)	1,131,406
Net Utility Operating Income	\$ 151,099	\$ 67,436	\$ 218,535

REVIEW AND MODIFICATIONS TO COMMISSION STAFF’S FINDINGS

Western Fleming 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. Regarding any further modifications, the Commission has none.

REVENUE REQUIREMENTS

¹⁹ Western Fleming District’s Affidavit of the Publication of its Customer Notice Filed August 5, 2022.

²⁰ See Appendix B for a complete pro forma income statement. The Commission Staff’s Report incorrectly identified the Total Pro Forma Operating Expense adjustments as (\$22,236) the correct total is (\$21,963).

Revenue Reclassification. In the Commission Staff's Report, Commission Staff recommended that the Commission accept Western Fleming District's adjustments to reclassify Sales for Resale of \$385,213, Sales to Public Authorities of \$11,173 and tap-on fees of \$6,800 that were originally recorded in the incorrect accounts.²¹ The Commission finds that the Operating Revenue reclassification adjustments should be accepted as they meet the ratemaking criteria of being known and measurable²² and are reasonable.

Billing Analysis. In the Commission Staff's Report, Commission Staff recommended that the Commission accept Western Fleming District's adjustments to test-year Revenues from Water Sales that totaled \$63,446.²³ The Commission finds that the adjustments are reasonable as an examination of Western Fleming District's billing analysis was completed by Commission Staff and the proposed normalized revenue from water sales was based on the information Western Fleming District provided.

Employee Salaries and Wages. In the Commission Staff's Report, Commission Staff recommended the Commission accept Western Fleming District's proposed

²¹ Commission Staff's Report at 8-9, Adjustment A.

²² 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 Therefore; (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).

²³ Commission Staff's Report at 9-10, Adjustment B. The adjustment of \$64,446 = \$11,173 for Sales to Public Authorities that were misclassified as Miscellaneous Revenues and an increase of \$23,790 to Total Metered Water Sales and \$28,483 to Sales for Resale to account for the rate increase that was implemented in Case No. 2019-00456.

increase in test-year Employee Salaries and Wages expense to reflect the wage increases Western Fleming District has given its employees since 2020. Commission Staff calculated an adjustment of \$27,073 to reflect Western Fleming District's current staff level of six full-time employees, two part-time employees, the hours that each employee worked in the test year, and the 2022 employee wage rates.²⁴ The Commission finds that this adjustment meets the ratemaking criteria of being known and measurable, is reasonable, and is accepted.

Tap-on Fees. In the Commission Staff's Report, Commission Staff recommended the Commission accept Western Fleming District's adjustments to remove the cost of meters that were installed in the test year.²⁵ By substituting the tap-on fees for the actual cost to install the meters, Western Fleming District proposed to reduce Salaries and Wages - Employees expense by 30 percent of the collected tap-on fees or \$2,040 and the remaining 70 percent of the collected tap-on fees or \$4,760 from Materials and Supplies expense.²⁶ The Commission finds that Western Fleming District's proposed adjustments meet the ratemaking criteria of being known and measurable, are reasonable, and are accepted.

Commissioners Salaries and Wages. In the Commission Staff's Report, Commission Staff recommended the Commission accept Western Fleming District's proposed adjustment to increase test-year Commissioner Salaries and Wages expense

²⁴ Commission Staff's Report at 10-11, Adjustment C.

²⁵ Commission Staff's Report at 11, Adjustment D.

²⁶ Commission Staff's Report at 11.

by \$1,200 to account for the commissioner vacancy that was later filled.²⁷ Western Fleming District's proposed adjustment is based on the payment of each of the current five active Board Members a fee of \$400 per month or \$4,800 annually.²⁸ The Commission finds that Western Fleming District's proposed Commissioner fee adjustment meets the ratemaking criteria of being known and measurable, is reasonable, and is accepted.

County Employee Retirement System (CERS). In the Commission Staff's Report, Commission Staff recommended that Employee Pensions and Benefits expense of \$56,751 be increased by \$15,602 to reflect application of the 26.95 percent employer CERS contribution rate to the pro forma employee salaries and wages expense for full-time employees of \$268,473.²⁹ The Commission finds, based on the evidence of record, that Commission Staff's adjustment is reasonable and is accepted.

Employee Benefits. In the Commission Staff's Report, Commission Staff recommended a decrease to Western Fleming District's Employee Pensions and Benefits expense of \$10,434.³⁰ Commission Staff's recommended adjustment reflects reducing the employee insurance premiums paid by Western Fleming District from 100 percent to 79 percent³¹ for single health insurance coverage and from 100 percent to 60 percent for

²⁷ Commission Staff's Report at 11-12, Adjustment E.

²⁸ Commission Staff's Report at 11-12.

²⁹ Commission Staff's Report 12-15, Adjustment F.

³⁰ Commission Staff's Report at 13-15, Adjustment G.

³¹ The Commission Staff's Report stated that the reduction to single health insurance premiums was 22 percent, but the calculation in the schedule on page 15 of the Commission Staff's Report reduced the health insurance premiums by 21 percent.

dental insurance coverage.³² The Commission finds that the adjustment proposed by Commission Staff meets the criteria formerly set by the Commission, is known and measurable, and is accepted.

Excess Water Loss. In the Commission Staff's Report, Commission Staff recommended the Commission accept Western Fleming District's proposed adjustments to reduce Purchased Water expense by \$8,104, Purchased Power expense by \$7,654, and Chemical expense by \$10,522, to eliminate the costs attributable to Western Fleming District's excessive water loss pursuant to 807 KAR 5:066 Section 6(3).(6.³³ The Commission finds the adjustments proposed by Western Fleming District and recommended by Commission Staff properly reflects the limitations imposed by the regulation and are accepted.

Bad Debt. In the Commission Staff's Report, Commission Staff recommended the Commission accept Western Fleming District's proposed adjustment to decrease test-year Bad Debt expense by \$88.³⁴ Western Fleming District's adjustment corrects a reporting error that was made in preparing the 2020 Annual Report that overstated Bad Debt expense by \$88.³⁵ The Commission finds that the adjustment to Bad Debt expense to correct the reporting error made in the 2020 Annual Report shall be accepted as it meets the ratemaking criteria of being known and measurable and is reasonable.

³² Commission Staff's Report at 13-15.

³³ Commission Staff's Report at 15-17, H.

³⁴ Commission Staff's Report at 18, Adjustment I.

³⁵ Commission Staff's Report at 18.

Depreciation. In the Commission Staff's Report, Commission Staff recommended the Commission accept Western Fleming District's proposed adjustment to decrease test-year Depreciation expense of \$244,018 by \$22,235.³⁶ Western Fleming District's adjustment is consistent with Commission precedent of using the depreciation life ranges contained in the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study) to evaluate the depreciation lives used by the water utilities under its jurisdiction.³⁷ When no evidence exists to support a specific life that is inside or outside of the NARUC Study ranges, the Commission has historically used the mid-point of the NARUC Study depreciation ranges to depreciate water assets.³⁸

The Commission finds that Western Fleming District's proposed depreciation adjustment is reasonable and should be accepted as it is consistent with Commission precedent. The Commission further finds that Western Fleming District shall use the mid-point of the depreciable lives of the NARUC Study ranges to depreciate water plant assets for accounting purposes in all future reporting periods. Western Fleming District shall not make an adjustment to accumulated depreciation or retained earnings to account for this change in the accounting estimate.

³⁶ Commission Staff's Report at 18-19, Adjustment J.

³⁷ See Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016); Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); and Case No. 2020-00311, *Electronic Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC Apr. 8, 2021).

³⁸ See Case No. 2020-00290 *Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Rates and Approval of Construction* (Ky. PSC Sept. 2, 2021).

Payroll Taxes. In the Commission Staff's Report, Commission Staff recommended that Western Fleming District's test-year Payroll Tax expense of \$21,375 be decreased by \$1.³⁹ The Commission finds, based on the evidence of record, the adjustment proposed by Commission Staff accurately reflects the level of Western Fleming District's payroll tax expense calculated using the pro forma Employee Salary and Wage expense the Commission found reasonable and is accepted.

Based on the Commission's findings discussed above, the following table summarizes Western Fleming District's adjusted Pro Forma operations:⁴⁰

	Commission Staff's Pro Forma Operations	Order Pro Forma Adjustments	Order Pro Forma Operations
Operating Revenues	\$ 1,349,941		\$ 1,349,941
Operating Expenses	1,131,406		1,131,406
Net Operating Income	<u>\$ 218,535</u>		<u>\$ 218,535</u>

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations made in this Order, Western Fleming District requires an increase in revenues of \$32,011, or 2.38 percent above the pro forma present rate revenues, as calculated below. This increase is required for Western Fleming District to remain operational and financially sound and have an opportunity to provide adequate, efficient, and reasonable service to its customers.

³⁹ Commission Staff's Report at 19–20, Adjustment K.

⁴⁰ See Appendix B for a complete pro forma income statement.

Pro Forma Operating Expenses	\$ 1,131,406
Plus: Average Annual Debt Service	212,592
Debt Service Coverage Requirement	42,518
Overall Revenue Requirement	<u>1,386,517</u>
Less: Other Operating Revenue	(3,657)
Interest Income	(4,565)
Revenue Required from Water Sales	<u>1,378,295</u>
Less: Normalized Revenues from Water Sales	(1,346,284)
Required Revenue Increase	<u>\$ 32,011</u>
Percentage Increase	<u>2.38%</u>

WATER LOSS REDUCTION SURCHARGE

In the Commission Staff's Report, Commission Staff recommended that the Commission approve Western Fleming District's requested Water Loss Reduction Surcharge of \$1.46 per active meter per month for 48 months to help lower system losses to more acceptable levels.⁴¹ The surcharge would produce \$26,280 per year for total collections over the four-year collection period of \$105,120.⁴² The annual surcharge collection reflects the amount disallowed for excessive water loss pursuant to 807 KAR 5:066, Section 6(3).

The use of a surcharge is consistent with prior Commission action in cases involving water districts with excessive unaccounted-for water loss.⁴³ In establishing

⁴¹ Commission Staff's Report at 15-17, Adjustment H.

⁴² \$1.46 (Monthly Water Loss Reduction Surcharge) x 18,000 (Annual Number of Bills) = \$26,280 (Annual Water Loss Reduction Surcharge Collections) x 4 (Four Year Collection Period) = \$105,120.

⁴³ See Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges* (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); and Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2020).

water-loss surcharges, the Commission recognized that the adjustments required to be made to comply with the 15 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water district's ability to take the necessary action to focus on its leak detection and repair.⁴⁴ Using a surcharge to fund a water district's water loss reduction project allows the Commission to place strict controls governing the surcharge proceeds to ensure their effective use, public acceptance of the surcharge, and public confidence in the water district's use of those funds.⁴⁵ In its report entitled, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* that was fully incorporated in the final Order in Case No. 2019-00041, Appendix L, the Commission recommended more frequent rate cases and pursuing qualified infrastructure⁴⁶improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.

Therefore, the Commission finds that a monthly surcharge is a reasonable means for Western Fleming District to recover the cost of its efforts in water leak detection and repair in order to reduce the increased expense and lost revenue from unaccounted-for

⁴⁴ See Case No. 2018-00311 *Electronic Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC April 8, 2021) at 3.

⁴⁵ See Case No. 2018-00429 *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sep. 30, 2019) at 3.

⁴⁶ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* at 24–25.

water loss. ⁴⁷The Commission finds that a monthly water loss reduction surcharge of \$1.46 per active meter over 48 months should be approved. Western Fleming District should be restricted to expending any funds collected under the surcharge subject to authorization by the Commission. Western Fleming District should file a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities, a time schedule for eliminating each source of unaccounted-for water loss, and provides a detailed spending plan for the proceeds of the requested surcharge. The proceeds from the surcharge shall be kept in a separate, interest-bearing account.

The proceeds of Western Fleming District 's Water Loss Reduction Surcharge should be used solely to fund Western Fleming District's unaccounted-for water loss reduction efforts as set forth in the Commission Staff's Report.

RATE DESIGN

Western Fleming District proposed to increase its monthly retail and wholesale water service rates by approximately 0.80 percent across the board. Western Fleming District did not file a cost of service study (COSS). Western Fleming District also did not state why a COSS was not filed.

The Commission has previously found 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

⁴⁷ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report* by the Kentucky Public Service Commission November 2019 at 24–25.

the absence of a COSS. Finding no such evidence in this case, the Commission finds that allocating the \$32,011 increase in revenues evenly across the to be reasonable.

Western Fleming District has several customers connected on a single meter. Multiple customers on a single meter are either those that are grandfathered in prior to February 22, 2022, have a special contract, or otherwise approved by Western Fleming District.⁴⁸ The Commission finds that the manner that Western Fleming District charges for the multiple customers connected on a single meter is reasonable. The Commission strongly encourages Western Fleming District to continue making efforts to eliminate this practice.

The Commission finds that the rates set forth in Appendix A are reasonable and will produce sufficient revenue from water sales to recover the Revenue Required from Water Rates and should be approved. The rates will increase the monthly bill of a typical residential customer's monthly water bill from \$49.47 to \$52.12, an increase of \$2.65, or approximately 5.36 percent.⁴⁹

NONRECURRING CHARGES

In the Commission Staff's Report, Commission staff discussed Western Fleming District's Nonrecurring Charges in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, are removed. Commission Staff recommended revising Nonrecurring Charges.

⁴⁸ See, Western Fleming District Tariff PSC Ky. No. 1 Original Sheet No. 14, Rules and Regulations, Section C(f).

⁴⁹ The typical residential customer uses approximately 4,000 gallons per month. This calculation includes the \$1.46 surcharge.

Commission Staff was unable to determine an appropriate adjustment and therefore has not made an adjustment to the nonrecurring charges revenue. The lack of an adjustment is due to Western Fleming District inability to provide any information concerning the nonrecurring charges and or occurrences that occurred throughout the test year.⁵⁰

The Commission continues to follow its previous decisions regarding Nonrecurring Charges, personnel are paid during normal business hours and their salaries are recovered through rates. Allowing a utility to recover the same labor expense twice is not fair, just and reasonable. Therefore, estimated labor costs previously included in determining the amount of Nonrecurring Charges shall be eliminated from the charges.

The Commission finds that the calculation of Western Fleming District's Nonrecurring Charges shall be revised and only the marginal costs related to the service should be recovered through a special Nonrecurring Charge for service provided during normal working hours. The Commission requires that charges be directly related to the actual cost incurred to provide the service. It is unreasonable to allocate an expense already incurred as a day-to-day cost of maintaining a system, such as the salary of a distribution operator, to a nonrecurring service such as connection and reconnection of a meter during normal working hours.

Therefore, the Commission finds that the authorized Nonrecurring Charges shall each be reduced by the estimated labor costs stated in the cost justification sheets contained in the case record. The Commission finds the revised Nonrecurring Charges set out in Appendix A of this Order are reasonable and are approved.

⁵⁰ Commission Staff's Report at 7.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report and discussed above are supported by the evidence of record and are reasonable. The Commission has historically used a DSC method to calculate the revenue requirement for water districts and associations with outstanding long-term debt. Therefore, applying the DSC method to Western Fleming District's pro forma operations results in an Overall Revenue Requirement of \$1,386,517, a required revenue from water sales of \$1,378,295, and increase in revenue from water sales of a \$32,011⁵¹ or 2.38 percent. The Commission further finds that allocating the calculated revenue increase across-the-board to Western Fleming District's monthly water service rates to be fair, just, and reasonable.

Western Fleming District should be authorized to assess a Water Loss Reduction Surcharge of \$1.46 per active meter per month for 48 months, or until \$105,120 has been assessed, whichever occurs first. The Commission shall open a separate case to monitor the surcharge collection and expenses with the following conditions:

1. Within 120 days of the date of service of this Order, Western Fleming District shall file with the Commission a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provided a detailed spending plan for the proceeds of a surcharge.

⁵¹ There was a typographical made at 5 of the Commission Staff's Report that stated the required increase to Pro Forma present rate revenues is \$32,015. However, the correct increase is \$32,011 as calculated at 21 of the Commission Staff's Report.

2. Western Fleming District shall deposit surcharge collection in a separate inter-bearing account.

3. Western Fleming District shall file monthly activity reports with the Commission that include a statement of monthly surcharge billings and collections, a monthly surcharge bank statement, a list of each payment from the account, its payee, and a description of the purpose, and invoice supporting each payment.

4. Western Fleming District shall file monthly water loss reports with the Commission.

5. Surcharge proceeds shall not be used to reimburse Western Fleming District for unaccounted-for water loss reduction expense incurred prior to the date of this Order.

6. Western Fleming District's surcharge and water loss detection and repair program is subject to annual Commission reviews that will examine the progress of the water loss detection and repair program and expenditures made with surcharge proceeds and consider adjustments to the program and the surcharge amount.

7. Western Fleming District's failure to comply with any conditions attached to the assessment of the surcharge will result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of the expenses and projects approved by the Commission.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Commission Staff's Report, are adopted, and are incorporated by reference into this Order.

2. The water service rates proposed by Western Fleming District are denied.

3. The water service rates set forth in Appendix A to this Order are approved for services rendered by Western Fleming District on and after the date of service of this Order.

4. Within 20 days of the date of service of this Order, Western Fleming District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved by this Order and their effective date and stating that the rates and charges were authorized by this Order.

5. Western Fleming District shall use the midpoint of the depreciable lives of the NARUC Study ranges, as recommended by Commission Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. Western Fleming District shall not make adjustments to accumulated depreciation or retained earnings to account for this change in the accounting estimate.

6. Western Fleming District is authorized to assess a monthly Water Loss Reduction Surcharge of \$1.46 per meter per month for 48 months, or until \$105,120 has been assessed, whichever occurs first, to fund its unaccounted-for water loss reduction efforts as set forth in the Commission Staff's Report, subject to the conditions set forth in ordering paragraph 7.

7. The Commission shall open a separate proceeding, Case No. 2022-00305⁵² to monitor the surcharge proceeds collection and expenses, subject to the following conditions:

⁵² Case No. 2022-00305, *Electronic Western Fleming County Water District's Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring*.

a. Within 120 days of the date of service of this Order, Western Fleming District shall file with the Commission a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. Western Fleming District shall deposit surcharge collections in a separate interest-bearing account. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Western Fleming District shall file with the Commission a monthly activity report that includes a statement of monthly surcharge billings and collections; a monthly surcharge bank statement; a list of each payment from the account, its payee, a description of the purpose; and invoices supporting each payment.

c. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Western Fleming District shall file a monthly water loss report with the Commission.⁵³

d. Western Fleming District shall not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

e. Western Fleming District shall consider all surcharge collections as contributions and shall account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

⁵³ The report format is found at <https://psc.ky.gov/Home/UtilForms> under "Water Use & Loss Calculations (Excel format)."

f. Western Fleming District shall debit monthly billings for the surcharge to customers' accounts receivable and credit the contribution account.

g. When Western Fleming District collects the surcharge from the customers, it shall debit special funds and credit the customer account.

h. One year after the date of service of this Order and annually thereafter, Western Fleming District shall file in Case No. 2021-00305 a schedule of the estimated and actual progress of the water loss detection and repair program, and estimated and actual expenditures made with surcharge proceeds, for the purpose of evaluating whether adjustments to the program or to the surcharge amount are required.

8. Western Fleming District's failure to comply with the conditions set forth in ordering paragraph 7 shall result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

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

PUBLIC SERVICE COMMISSION

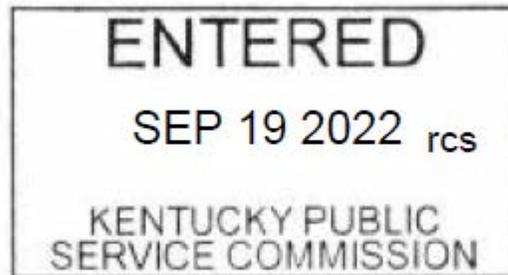


Chairman

Vice Chairman



Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00406 DATED SEP 19 2022

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

5/8- x 3/4-Inch Meter

First	1,000 Gallons	\$ 19.07	Minimum Bill
Next	6,000 Gallons	0.01053	Per Gallon
Next	3,000 Gallons	0.00866	Per Gallon
Over	10,000 Gallons	0.00693	Per Gallon

Multiple Connections

1 Connection	1,000 Gallons	\$ 19.07	Minimum Bill
2 Connections	2,000 Gallons	38.14	Minimum Bill
3 Connections	3,000 Gallons	57.21	Minimum Bill
5 Connections	5,000 Gallons	95.35	Minimum Bill
6 Connections	6,000 Gallons	114.42	Minimum Bill

Water Loss Reduction Surcharge \$1.46 Per Customer

Wholesale Rates \$ 0.00219 Per Gallon

Nonrecurring Charges

Connection/Turn On Charge	\$20.00
Reconnection Charge	\$30.00
Reconnection Charge, After Hours	\$75.00
Return Check Charge	\$3.00
Service Call Charge	\$20.00
Service Call Charge, After Hours	\$50.00
Service Line Inspection	\$30.00

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00406 DATED SEP 19 2022

Detailed Pro Forma Income Statement

	Test Year Operations	Commission Staff Report		Order	
		Pro Forma Adjustments	Pro Forma Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues:					
Total Metered Sales	\$ 1,282,838	\$ (385,213)			
		11,173			
		23,790	\$ 932,588		\$ 932,588
Sales for Resale		385,213			
		28,483	413,696		413,696
<hr/>					
Total Revenue - Water Sales	1,282,838	63,446	1,346,284		1,346,284
Other Water Revenues:					
Misc. Service Revenues	21,630	(11,173)			
		(6,800)	3,657		3,657
<hr/>					
Total Operating Revenues	1,304,468	45,473	1,349,941		1,349,941
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Operating Expenses:					
Operation and Maintenance:					
Salaries and Wages - Employees	252,332	27,073			
		(2,040)	277,365		277,365
Salaries and Wages - Officers	22,800	1,200	24,000		24,000
Employee Pensions and Benefits	88,347	15,602			
		(10,434)	93,515		93,515
Purchased Water	94,002	(8,104)	85,898		85,898
Purchased Power	88,784	(7,654)	81,130		81,130
Chemicals	122,045	(10,522)	111,523		111,523
Materials and Supplies	44,355	(4,760)	39,595		39,595
Contractual Services	91,825		91,825		91,825
Insurance - Gen. Liab. & Workers Comp.	20,993		20,993		20,993
Bad Debt	30,188	(88)	30,100		30,100
Miscellaneous Expenses	32,305		32,305		32,305
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Total Operation and Maint. Expenses	887,976	273	888,249		888,249
Depreciation Expense	244,018	(22,235)	221,783		221,783
Taxes Other Than Income	21,375	(1)	21,374		21,374
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Total Operating Expenses	1,153,369	(21,963)	1,131,406		1,131,406
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Net Utility Operating Income	\$ 151,099	\$ 67,436	\$ 218,535		\$ 218,535

*Robert K. Miller
Straightline Kentucky LLC
113 North Birchwood Ave.
Louisville, KENTUCKY 40206

*Western Fleming County Water District
1500 Ewing Road
P. O. Box 16
Ewing, KY 41039

*Vernon Barton
Chairman
Western Fleming County Water District
1500 Ewing Road
P. O. Box 16
Ewing, KY 41039