

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF CALDWELL)	CASE NO.
COUNTY WATER DISTRICT FOR AN)	2021-00423
ALTERNATIVE RATE ADJUSTMENT)	

ORDER

On November 15, 2021, Caldwell County Water District (Caldwell District) filed an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. The application was filed pursuant to the Commission's Order in Case No. 2019-00444.¹ In its application, Caldwell District requested rates that would increase annual water sales revenues by \$117,094, an 8.79 percent increase to pro forma present rate of water sales revenues.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated November 30, 2021 that, among other things, required Commission Staff to file a report containing its findings regarding Caldwell District's application. On January 10, 2022, the Commission issued an order amending the procedural schedule to provide Caldwell District with sufficient time to prepare and file its response to Commission Staff's First Request for Information

¹ Case No. 2019-00444, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Princeton Water and Wastewater* (Ky. PSC Jun. 15, 2020) at 41, ordering paragraph 5.

Pursuant to the January 10, 2022, Order Commission Staff issued a report (Commission Staff's Report), on March 18, 2022, summarizing its findings regarding Caldwell District's requested rate adjustment. In the Commission Staff's Report, Commission Staff found, among other things, that Caldwell District's adjusted test-year operations support an overall revenue requirement of \$1,566,915 and that an annual revenue increase of \$215,034, or 16.26 percent, is necessary to generate the overall revenue requirement.

On March 22, 2022, Caldwell District filed with the Commission its comments on the Commission Staff's Report. In its Response to Commission Staff's Report, Caldwell District disagreed with the recommendation to remove certain labor expenses from nonrecurring charges. Caldwell District also did not agree with the recommendation to remove insurance premiums paid by Caldwell District for its employees, but stated that it would not contest either adjustment. Caldwell District agreed with all other adjustments in the Commission Staff's Report. Caldwell District waived its right to request a formal hearing and requested that a final Order be issued as soon as possible.²

On May 11, 2022, the Commission issued an Order to Caldwell District to publish a one-time notice within 14 days following 807 KAR 5:076, Section 5, of the water rates as reflected in Commission Staff's Report.³ On June 12, 2022, Caldwell District filed proof of the one-time notice to its customers.⁴

² Caldwell District's Response to Commission Staff's Report (filed Mar. 22, 2022).

³ Order (requiring re-notification) (Ky. PSC May 11, 2022).

⁴ Public Notice of Amended Rates (filed June 12, 2022).

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, Caldwell District is allowed to charge its customers "only 'fair, just and reasonable rates.'"⁵ Further, Caldwell District bears the burden of proof to show that the proposed rate increase is just and reasonable, under KRS 278.190(3).

BACKGROUND

Caldwell 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 2,079 residential customers, and 6 commercial customers in Caldwell County, Kentucky.⁶ This is Caldwell District's first rate case since July 21, 2016.⁷

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 Commission Staff's Report, Caldwell District's test-

⁵ *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).

⁶ *Annual Report of Caldwell District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

⁷ Case 2016-00054, *Application of Caldwell County Water District for Rate Adjustment Pursuant to 807 KAR 5:0076* (Ky. PSC Jul. 21, 2016).

year water loss was 14.88 percent. Accordingly, at a 14.88 percent water loss, the total annual cost to Caldwell District is \$49,395.⁸

RATE CASE FREQUENCY

In Case No. 2019-00041 and the resulting investigative report, the Commission discussed the problems that can occur when utilities avoid a review of their financial records.⁹ A key recommendation from that investigative report was that water districts should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.¹⁰ In light of its findings in Case No. 2019-00041, the Commission noted that in Case No. 2019-00444, “[t]he lack of insight into the Intervenor’s financial records, coupled with sustained water loss above the 15 percent threshold”¹¹ was the basis for the Commission’s requirement that Caldwell District file an application within one year of the date of filing the Order, for either a traditional adjustment in rates or for an alternative rate adjustment to ensure its revenue is sufficient to support adequate and reliable service.¹²

The Commission recommends that Caldwell District conduct internal financial reviews on an annual basis to insure that its water rates are sufficient. The Commission also recommends that Caldwell District’s Board of Commissioners consider filing periodic rate cases with the Commission every three to five years and implement a written policy

⁸ Commission Staff’s Report at 2.

⁹ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky’s Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019).

¹⁰ Case No. 2019-00041, Nov. 22, 2019 Order.

¹¹ Case No. 2019-00444, June 15, 2020 Order at 38 and 39.

¹² Case No. 2019-00444, June 15, 2020 Order at 41, ordering paragraph 5.

to that effect to maintain a regular review of the utility’s finances. If Caldwell District needs assistance in conducting its annual internal rate reviews to ensure the sufficiency of its rates, Caldwell District can request the Commission to allow its Financial Analysis Staff to provide its assistance with the annual rate analysis.

TEST PERIOD

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

	<u>2020 Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Commission Staff Report Pro Forma</u>
Total Operating Revenues	\$1,342,982	\$ 7,711	\$1,350,693
Utility Operating Expenses	<u>1,130,351</u>	<u>192,326</u>	<u>1,322,677</u>
Net Utility Operating Income	212,631	(184,615)	28,016
Interest and Dividend Income	<u>1,188</u>	<u>-</u>	<u>1,188</u>
Total Utility Operating Income	<u>\$ 213,819</u>	<u>(\$184,615)</u>	<u>\$ 29,204</u>

MODIFICATIONS TO COMMISSION STAFF’S FINDINGS

Caldwell 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. In the Commission Staff's Report, Commission Staff recommended the Commission accept Caldwell District's proposed decrease of \$8,820 to Total Metered Water Sales, based on Caldwell District's current billing analysis.¹³ The Commission finds that this adjustment is reasonable as an examination of Caldwell District's billing analysis was completed by Commission Staff and a normalized revenue was based on the information provided.

Late Payment Fees. In the Commission Staff's Report, Commission Staff recommended an increase to Caldwell District's test year Other Water Revenues by \$18,021¹⁴ to reflect the normalization of Late Payment Fees 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, which is the average of the previous three years' late payment fees, is a known and measurable change¹⁵ to Other Water Revenues, is reasonable, and should be accepted.

Nonrecurring Charges. In the Commission Staff's Report, Commission Staff discussed Caldwell District's Nonrecurring Charges¹⁶ in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, are removed.

¹³ Commission Staff's Report at 7–8, Adjustment A.

¹⁴ Commission Staff's Report at 8, Adjustment B.

¹⁵ 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).

¹⁶ Commission Staff's Report at 9, Adjustment C.

Commission Staff recommended a revised Nonrecurring Charges and a reduction to Other Operating Revenues of \$1,490. 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.¹⁷ 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 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 the connection and reconnection of a meter during normal working hours. The perceived unfairness from removal of these costs does not outweigh the mismatch of costs and revenues.

The nonrecurring charges shall each be reduced by the estimated labor costs stated in the cost justification sheets. The Commission finds the revised nonrecurring charges set out in Appendix B and the adjustment of (\$1,490) to Other Water Revenue to be reasonable

Salaries and Wages - Employees. In the Commission Staff's Report Commission Staff recommended an increase to Caldwell District's Salaries and Wages - Officers of

¹⁷ Case No.2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment*, (Ky. PSC Nov. 6, 2020).

\$80,976¹⁸ to reflect the increase in the number of full- and part-time employees. The Commission finds that this adjustment is a known and measurable change to Salaries and Wages – Employees and should be accepted.

Salaries and Wages- Officers. In the Commission Staff's Report Commission Staff recommended an increase to Caldwell District's Salaries and Wages - Officers of \$99¹⁹ to account for the normalization of the test year Commissioner's Wages. The Commission finds that this adjustment, which is the total of test year Commissioner Salaries, is a known and measurable change to Salaries and Wages - Officers Expense, is reasonable and should be accepted.

Employee Pensions and Benefits- Retirement. In the Commission Staff's Report, Commission Staff recommended an increase to Caldwell District's Employee Pension and Benefits Expense of \$82,328²⁰ to reflect the increase in Salaries and wages as well as the increase in the CERS contribution rate subsequent to the test year. The Commission finds that this adjustment, is a known and measurable change to Employee Pensions and Benefits is reasonable and should be accepted.

Employee Pensions and Benefits- Insurance Premiums. In the Commission Staff's Report, Commission Staff recommended a decrease to Caldwell District's Employee Pension and Benefits Expense of \$24,826²¹ to reflect the Commission policy of reducing benefit expenses for utilities that pay 100 percent of its employees' health insurance

¹⁸ Commission Staff's Report, at 9, Adjustment D.

¹⁹ Commission Staff's Report at 9–10, Adjustment E

²⁰ Commission Staff's Report at 10–11, Adjustment F

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

coverage. This adjustment is consistent with Commission precedent²² in which the Commission has reduced benefits expenses for utilities that pay 100 percent of an employee’s health insurance coverage. In its response to the Commission Staff’s Report, Caldwell District stated that it did not agree with the adjustment to the insurance premiums paid by Caldwell District for its employees but did not wish to contest these adjustments in this case.²³

The adjustment to the dental insurance that appeared in the Commission Staff’s Report incorrectly applied a 40 percent reduction and not the standard 60 percent.²⁴ Using the correct percentage results in a further reduction to Insurance-Other of \$276 resulting in a total decrease of \$25,102. Accordingly, the Commission finds that it is necessary to decrease the Revenue Requirement by a further \$276.

Type of Premium	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	\$ 4,916	22%	\$ (1,081)	\$ 3,835
Dental and Vision Insurance	113	60%	(68)	45
Total Pro Forma Monthly Premium				3,880
Times: 12 Months				12
Total Annual Pro Forma Premium				46,560
Less: Test Year				(71,662)
Employee Pension and Benefits Adjustment				(25,102)
Less: Commission Staff Recommended Adjustment				(24,826)
Final Pro Forma Employee Pensions and Benefits adjustment				\$ (276)

²² See Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates*, (Ky. PSC June 20, 2019) at 8–12.

²³ Caldwell District’s Response to Commission Staff’s Report (filed Mar. 22, 2022).

²⁴ See Case 2016-00169, *Application of Cumberland Valley Electric, Inc. for a General Adjustment Of Rates* (Ky. PSC Jun 6, 2019) at 12.

Purchased Water. In the Commission Staff's Report, Commission Staff recommended an increase to Caldwell District's Purchased Water Expense of \$9,653²⁵ to reflect the normalization of Purchased water expense to account for a purchased water adjustment in Case 2020-00225.²⁶ The Commission finds that this adjustment, which is the calculation of test year gallons purchased multiplied by the current per gallon cost, is a known and measurable change to Purchased Water Expense, is reasonable, and is accepted.

Taxes other than Income- FICA. In the Commission Staff's Report, Commission Staff recommended a decrease to Caldwell Districts Test Year Miscellaneous Expense by \$16,347 and an increase to Taxes other than Income of \$22,542²⁷ to account for reclassification and increase in Taxes other than Income. The Commission finds that this adjustment, which is the removal of Payroll tax expense from Miscellaneous expense and reclassification to Taxes other than Income; additionally, the increased contribution amount of pro forma wage adjustment multiplied by the FICA percentage rate of 7.6 percent, is a known and measurable change to Taxes other than Income, is reasonable, and is accepted.

Depreciation Expense. In the Commission Staff's Report, Commission Staff recommended an increase to Caldwell District's Depreciation Expense of \$37,901.²⁸ To reflect the adjustment of the useful life of capital assets to the midpoint of the National

²⁵ Commission Staff's Report at 13, Adjustment H.

²⁶ Case 2020-00225, *Electronic Purchased Water Adjustment Filing of Caldwell County Water District*, (KY. PSC July 29, 2020).

²⁷ Commission Staff's Report at 13–14, Adjustment I.

²⁸ Commission Staff's Report at 14–15, Adjustment J.

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 is accepted.

Based on the Commission's findings discussed above, the following table summarizes Grayson District's adjusted pro forma operations:²⁹

	<u>Commission Staff Report Pro Forma</u>	<u>Commission Adjustments</u>	<u>Final Pro Forma</u>
Total Operating Revenues	\$1,350,693	\$ -	\$1,350,693
Utility Operating Expenses	<u>1,322,677</u>	<u>(276)</u>	<u>1,322,401</u>
Utility Operating Income	28,016	276	28,292
Interest and Dividend Income	<u>1,188</u>	<u>-</u>	<u>1,188</u>
Income Available for Debt Service	<u>\$ 29,204</u>	<u>\$ 276</u>	<u>\$ 29,480</u>

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Caldwell District requires an increase in revenues of \$214,758, or 16.24 percent above pro forma present rate revenues, as shown below:

²⁹ See Appendix A to this Order for a complete pro forma.

Pro Forma Operating Expenses	\$1,322,401
Plus: Avg. Annual Principal and Interest Payments	203,532
Additional Working Capital	<u>40,706</u>
Total Revenues Requirement	1,566,639
Less: Other Operating Revenue	(28,115)
Interest Income	<u>(1,188)</u>
Revenue Required From Water Sales	1,537,336
Revenue from Sales at Present Rates	<u>(1,322,578)</u>
Required Revenue Increase	<u>214,758</u>
Percentage Increase	<u>16.24%</u>

RATE DESIGN

Caldwell District proposed to increase its monthly retail water service rates evenly across the board by approximately 8.79 percent. Caldwell District has not performed a cost of service study (COSS). Caldwell District stated that it did not complete a COSS because there has not been any material change in the water system to warrant a COSS.³⁰

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 Commission Staff's Report, Commission Staff followed the method proposed by Caldwell District and allocated Commission Staff's calculated revenue increase across the board to Caldwell District's monthly retail water service rates.

³⁰ Caldwell District's Response to Staff's First Request (filed Jan. 28, 2022), Item 14.b.

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 \$1,537,336 Revenue Required from Rates, an approximate 16.24 percent increase. These rates will increase a typical residential customer's monthly water bill from \$55.75 to \$64.80, an increase of \$9.05, or approximately 16.23 percent.³¹

FINDINGS

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the findings contained in the Commission Staff's Report, as modified in this Order, are supported by the evidence of record and are reasonable. 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 Caldwell District's pro forma operations results in an Overall Revenue Requirement of \$1,537,336. A revenue increase of \$214,758 from water service rates is necessary to generate the overall revenue requirement.

The Commission further finds that the water service rates proposed by Caldwell District would produce inadequate revenues and should be denied. The Commission finds that the water service rates set forth in Appendix B to this Order are fair, just and reasonable and are approved for service rendered on or after the service of this Order.

³¹ The typical residential customer uses approximately 3,277 gallons per month.

IT IS THEREFORE ORDERED that:

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

2. The general service rates proposed by Caldwell District are denied.

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

4. Within 20 days of the date of service of this Order, Caldwell 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. Caldwell 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.

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

PUBLIC SERVICE COMMISSION

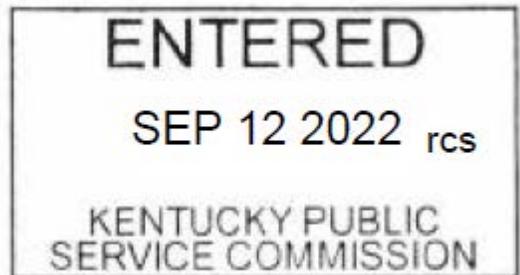
Kurt Clark

Chairman

Vice Chairman

Mary Pat Reyer

Commissioner



ATTEST:

Linda C. Bidwell

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00423 DATED SEP 12 2022

	<u>Test Year</u>	<u>Staff Report Adjustment</u>	<u>Commission Adjustments</u>	<u>Final Pro Forma</u>
Operating Revenues				
Total Metered Water Sales	\$ 1,331,398	\$ (8,820)		\$ 1,322,578
Other Water Revenues	11,584	18,021		28,115
		(1,490)		
Total Operating Revenues	1,342,982	7,711	-	1,350,693
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	209,869	80,976		290,845
Salaries and Wages - Officers	8,277	99		8,376
Employee Pensions and Benefits	67,717	82,328		124,943
		(24,826)	(276)	
Purchased Water	335,148	9,653		344,801
Chemicals	2,698			2,698
Materials and Supplies	33,747			33,747
Contractual Services	112,492			112,492
Water Testing	5,253			5,253
Transportation Expenses	8,341			8,341
Insurance	19,814			19,814
Bad Debt Expense	(120)			(120)
Miscellaneous Expense	92,578	(16,347)		76,231
Total Operation and Maintenance Expense	895,814	131,884	(276)	1,027,422
Depreciation	234,537	37,901		272,438
Taxes Other Than Income	-	22,542		22,542
Utility Operating Expenses	1,130,351	192,326	(276)	1,322,401
Net Operating Income	212,631	(184,615)	276	28,292
Interest and Dividend Income	1,188			1,188
Income Available to Service Debt	\$ 213,819	\$ (184,615)	\$ 276	\$ 29,480

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00423 DATED SEP 12 2022

Monthly Water Rates

First 1,000 Gallons	\$29.57 Minimum Bill
Next 3,000 Gallons	0.01547 Per Gallon
Next 6,000 Gallons	0.01264 Per Gallon
Next 20,000 Gallons	0.00982 Per Gallon
Over 30,000 Gallons	0.00863 Per Gallon

Nonrecurring Charges

Field Collection Charge	\$20.00
Connection/Turn-on Charge	\$20.00
Meter Re-read Charge	\$20.00
Meter Read Charge	\$20.00
Service Call/Investigation	\$20.00
Re-Connection Charge	\$20.00

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