

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF CORINTH	)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT	)	2021-00425
PURSUANT TO 807 KAR 5:076	)	

ORDER

On November 29, 2021, Corinth Water District (Corinth District) filed an application with the Commission, pursuant to 807 KAR 5:076 as required in the final Order of Case No. 2020-00083.<sup>1</sup> In Case No. 2020-00083, Corinth District filed a motion on April 21, 2021 for an extension of time to file an application for a rate adjustment that was ordered to be filed on or before March 30, 2021. The Commission denied the motion in its August 17, 2021 Order and required Corinth District to file a rate case on or before November 30, 2021.<sup>2</sup>

Pursuant to the Commission's December 29, 2022 Order, Commission Staff issued a report (Commission Staff's Report) on March 25, 2022, summarizing its findings regarding Corinth District's application. The Commission Staff's Report indicated that Corinth District's adjusted test-year operations support an overall revenue requirement of \$830,155 and that is an increase of \$78,505 or 10.98 percent is necessary to generate the overall revenue requirement.

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<sup>1</sup> Case No. 2020-00083, *Purchased Water Adjustment Filing of Corinth Water District* (Ky. PSC Mar. 30, 2020).

<sup>2</sup> Case No. 2020-00083, *Purchased Water Adjustment Filing of Corinth Water District* (Ky. PSC Aug. 17, 2021), Order at 2.

On April 7, 2022, Corinth District filed with the Commission its comments on the Commission Staff's Report.<sup>3</sup> In its response, Corinth 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. Corinth District concurred with the remaining 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, Corinth District is allowed to charge its customers "only 'fair, just and reasonable rates.'"<sup>4</sup> Further, Corinth District bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

### BACKGROUND

Corinth 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 1,165 residential customers and 31 commercial customers in Grant,

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<sup>3</sup> Corinth District's Response to Commission Staff's Report (filed Mar. 25, 2022).

<sup>4</sup> *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Pub. Serv. Comm'n v. Com. of Kentucky v. Dewit Water District*, 720 S.W.2d 725 (Ky. 1986).

Harrison, and Pendleton counties, Kentucky.<sup>5</sup> Corinth District does not produce any of its own water; rather, it purchases its water from the city of Williamstown, Kentucky. This is Corinth District's first general rate adjustment since 2011.<sup>6</sup>

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 Corinth District reported in its 2020 Annual Report, a water loss of 24.95 percent.<sup>7</sup> 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. At a 24.95 percent water loss, the annual excess cost to Corinth District is \$29,258,<sup>8</sup> while the total cost of water loss is \$73,365.<sup>9</sup>

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<sup>5</sup> *Annual Report of Corinth District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report), at 12 and 52.

<sup>6</sup> Case No. 2010-00155 *Application of Corinth Water District for Approval of Increased Rates for Water Service* (Ky. PSC Aug. 17, 2010).

<sup>7</sup> 2020 Annual Report at 60.

<sup>8</sup>

	Purchased Water	Purchased Power	Total
2020 Pro Forma Expenses	\$ 288,720	\$ 5,329	\$ 294,049
Multiplied by: Water Loss in Excess of 15 Percent	9.95%	9.95%	9.95%
 Excess Cost	\$ 28,728	\$ 530	\$ 29,258

<sup>9</sup>

	Purchased Water	Purchased Power	Total
2020 Pro Forma Expenses	\$ 288,720	\$ 5,329	\$ 294,049
Multiplied by: Total Water Loss	24.95%	24.95%	24.95%
 Excess Cost	\$ 72,036	\$ 1,330	\$ 73,365

## TEST PERIOD

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

	2020 Annual Report	Rate Study Adjustments	Staff Pro Forma Operations	Commission Adjustments	Final Pro Forma
Total Operating Revenues	\$ 768,749	\$ (17,139)	\$ 751,610	-	\$ 751,610
Utility Operating Expenses	746,799	(65,684)	681,115	-	681,115
Net Utility Operating Income	<u>\$ 21,950</u>	<u>\$ 48,545</u>	<u>\$ 70,495</u>	<u>-</u>	<u>\$ 70,495</u>

## MODIFICATIONS TO STAFF'S FINDINGS

Corinth 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 Commission Staff's Report, Commission Staff recommended the Commission accept Corinth District's proposed decrease of \$43,495 in service revenue and increase of \$252 in bulk sales based on Corinth District's current billing analysis.<sup>10</sup> Following an examination of Corinth District's billing analysis completed by Commission Staff, a normalized revenue was calculated based on the information

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<sup>10</sup> Commission Staff's Report at 8, Adjustment A.

provided that matched the adjustment proposed by Corinth District. Therefore, Commission finds that this adjustment is reasonable.

Late Fees. In the Commission Staff's Report, Commission Staff recommended the Commission accept Corinth District's proposed increase in test-year forfeited discounts of \$26,250 to reflect the normalization of the expense due to the moratorium placed on late fees in the test year due to the COVID-19 Pandemic.<sup>11</sup> Corinth District calculated the adjustment using the average level of forfeited discounts from years 2017 through 2019. The Commission finds that this adjustment represents known and measurable levels of expense and is accepted.

Other Water Revenues – Nonrecurring Charges (NRC). In the Commission Staff's Report, Commission Staff discussed Corinth District's NRCs,<sup>12</sup> in which estimated labor costs, previously included in determining the amount of NRCs, were removed. In its response to the Commission Staff's Report, Corinth District disagreed with the removal of labor expenses from its NRCs but did not wish to contest the adjustments in this case.<sup>13</sup> Commission Staff recommended a reduction to Corinth District's test-year Miscellaneous Service Revenues of \$646. The Commission finds that this adjustment is known and measurable,<sup>14</sup> is reasonable, and is accepted.

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<sup>11</sup> Commission Staff's Report at 8, Adjustment B.

<sup>12</sup> Commission Staff's Report at 8, Adjustment C.

<sup>13</sup> Corinth District's Responses to the Commission Staff's Report.

<sup>14</sup> 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*

Salaries and Wages – Employees & Federal Insurance Contributions Act (FICA).

In the Commission Staff's Report, Commission Staff recommended a decrease to Corinth District's test-year Salaries and Wages Employees Expense of \$6,786 as well as an associated decrease to Taxes Other Than Income to account for the adjusted payroll tax costs of \$1,524 in order to reflect current employee compensation and FICA taxes levels.<sup>15</sup> 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 Corinth District's test-year Employee Pension and Benefit Expense of \$1,476 to annualize the allowable health insurance premiums as well as adjust CERS contributions for the rate authorized as of July 1, 2021.<sup>16</sup> The Commission finds that this adjustment is known and measurable and is accepted.

Wholesale Supplier Rate Increase. In the Commission Staff's Report, Commission Staff recommended accepting the adjustment proposed by Corinth District to increase Pro Forma Purchased Water Expense by \$10,582 to reflect the increase in the wholesale water service rate by the city of Williamstown.<sup>17</sup> 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 Corinth District's Purchased Water and Power expenses of \$28,728 and

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*Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District (Ky. PSC Dec. 19, 2019).*

<sup>15</sup> Commission Staff's Report at 8–9, Adjustment D.

<sup>16</sup> Commission Staff's Report at 9–11, Adjustment E.

<sup>17</sup> Commission Staff's Report at 11, Adjustment F.

\$530, respectively, to reflect Corinth District’s water loss in excess of 15 percent.<sup>18</sup> The Commission finds that these adjustments are known and measurable and are accepted.

Depreciation Expense. In the Commission Staff’s Report, Commission Staff recommended accepting the adjustment proposed by Corinth District to reduce test-year Depreciation Expense by \$37,221, calculated by adjusting the useful lives of the Corinth District’s assets to the midpoint of the National Association of Regulatory Utility Commissioners Depreciation Study.<sup>19</sup> 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 Corinth District’s adjusted pro forma operations.<sup>20</sup>

	Staff Pro Forma Operations	Commission Adjustments	Final Pro Forma
Total Operating Revenues	\$ 751,610	-	\$ 751,610
Utility Operating Expenses	681,115	-	681,115
Net Utility Operating Income	<u>\$ 70,495</u>	<u>-</u>	<u>\$ 70,495</u>

#### UNAUTHORIZED DEBTS

Corinth District currently has two unauthorized debt instruments outstanding. The first is a \$2,020,000 lease agreement with Kentucky Bond Corporation for the purpose of refinancing several of Corinth’s outstanding debts. Corinth District stated that the lease

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<sup>18</sup> Commission Staff’s Report at 11, Adjustment G.

<sup>19</sup> Commission Staff’s Report at 11–12, Adjustment H.

<sup>20</sup> See Appendix A for a complete Pro Forma.

was executed prior to Commission approval.<sup>21</sup> The second is a loan issued through Huntington Bank for the purchase of a truck for \$23,636 with a term of 75 months. On March 16, 2022, the Commission entered an Order in Case No. 2021-00465 denying retroactive confirmation of authority to enter into the lease agreement.<sup>22</sup> The March 16, 2022 Order instructed that an investigation be opened into the board of commissioners and possible violations of KRS 278.300.<sup>23</sup>

While KRS 278.300(1) states that no utility shall issue any form of indebtedness unless it has been authorized to do so by an Order of the Commission, the Commission finds that the exclusion of the debt service related to the Lease and loan discussed above would cause great harm to the financial health of Corinth District and has therefore included both in the calculation of Corinth District's revenue requirement. This inclusion does not serve to condone the actions taken by Corinth District or its board of commissioners.

### REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Corinth District requires an increase in revenues of \$78,505, or 10.98 percent above pro forma present rate revenues, as shown below.

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<sup>21</sup> Case No. 2021-00465, *Corinth Water District* (filed Jan. 18, 2022), Application at 1–2.

<sup>22</sup> Case No. 2021-00465, *Corinth Water District* (Ky. PSC Mar. 16, 2022), Order.

<sup>23</sup> Case No. 2021-00465, *Corinth Water District* (Ky. PSC Mar. 16, 2022), Order at 7.

Operating Expenses	\$	681,115
Add:		
Average Annual Debt Principal and Interest		124,200
Additional Working Capital		24,840
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Overall Revenue Requirement		830,155
Less:		
Other Operating Revenue		(36,685)
Interest Income		(40)
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Revenue Requirement - Water Rates		793,430
Less:		
Normalized Revenue from Service		(714,925)
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Required Revenue Increase	\$	78,505
Percentage Increase		10.98%
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### RATE DESIGN

Corinth District proposed to increase all of its monthly retail water service rates evenly across the board by approximately 11.35 percent. Corinth District had not performed a cost of service study (COSS). Corinth District stated that it did not complete a COSS, as there have not been changes in the distribution of customer usage in many years, and an across-the-board increase is the most equitable means of passing the increased costs to customers.<sup>24</sup> In the Commission Staff's Report, Commission Staff followed the method proposed by Corinth District and allocated Commission Staff's calculated revenue increase across the board to Corinth District's monthly retail water service rates.

In response to the Commission Staff's Report, Corinth District concurred with Commission Staff's recommendations as to water rates calculated in the Commission Staff's Report. Commission Staff determined that a 10.98 percent increase is warranted.

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<sup>24</sup> Corinth District's Response to Commission Staff's First Request for Information (filed Feb. 3, 2022), Item 4.

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 \$793,430 Revenue Required from Water Sales, an approximate 10.98 percent over normalized test-year water sales of \$714,925. These rates will increase the monthly bill of a typical residential customer using 4,000 gallons a month from \$46.28 to \$51.37, an increase of \$5.09, or approximately 11.00 percent.

### 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 Corinth District's pro forma operations results in an Overall Revenue Requirement of \$830,155. A revenue increase of \$78,505 from water service rates is necessary to generate the overall revenue requirement.
3. The water service rates proposed by Corinth District are denied.
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 and incorporated by reference into this Order as if fully set out herein.
2. The general service rates proposed by Corinth District are denied.
3. The rates set forth in Appendix B to this Order are approved for services rendered by Corinth District on and after the date of this Order.
4. Within 20 days of the date of entry of this Order, Corinth 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. Corinth 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



Chairman

Vice Chairman

Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00425 DATED MAY 25 2022

	Test Year	Staff Report Adjustment	Commission Adjustment	Pro Forma
Operating Revenues				
Retail Sales of Water	\$ 721,705	\$ (43,495)		\$ 678,210
Bulk Sales	36,463	252		36,715
Other Water Revenues				
Forfeited Discounts	4,938	26,750		31,688
Misc Service Revenues	5,643	(646)		4,997
Total Operating Revenues	<u>768,749</u>	<u>(17,139)</u>	<u>-</u>	<u>751,610</u>
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	103,334	(6,786)		96,548
Salaries and Wages - Officers	13,946			13,946
Employee Pensions and Benefits	47,436	(1,476)		45,960
Purchased Water	278,138	10,582		259,992
		(28,728)		
Purchased Power	5,329	(530)		4,799
Materials and Supplies	33,773			33,773
Contractual Services	61,604			61,604
Transportation Expenses	7,783			7,783
Insurance	9,704			9,704
Bad Debt	9,566			9,566
Miscellaenous Expenses	160			160
Total Operation and Mainenance Expenses	<u>570,773</u>	<u>(26,939)</u>	<u>-</u>	<u>543,834</u>
Depreciation Expense	165,494	(37,221)		128,273
Taxes Other Than Income	10,532	(1,524)		9,008
Total Operating Expenses	<u>746,799</u>	<u>(65,684)</u>	<u>-</u>	<u>681,115</u>
Utility Operating Income(Loss)	<u>\$ 21,950</u>	<u>\$ 48,545</u>	<u>\$ -</u>	<u>\$ 70,495</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00425 DATED MAY 25 2022

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

First	1,000 Gallons	\$20.71	Minimum Bill
Next	4,000 Gallons	\$0.01533	Per Gallon
Next	5,000 Gallons	\$0.01375	Per Gallon
Over	10,000 Gallons	\$0.01218	Per Gallon
Bulk Sales		\$0.00840	Per Gallon

Nonrecurring Charges

Disconnect/Reconnect Charge	\$6.00
Disconnect/Reconnect Charge After Hours	\$50.00
Meter Test Request Charge	12.00
Return Check Charge	10.00
Service Call/Investigation Charge	5.00
Service Call/Investigation Charge, After Hours	49.00

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