

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-)	CASE NO.
AMERICAN WATER COMPANY FOR AN)	2021-00434
ALTERNATIVE RATE ADJUSTMENT)	

ORDER

On December 1, 2021, Kentucky-American Water Company (Kentucky-American) filed its application to the Commission requesting to adjust its sewer rates pursuant to 807 KAR 5:076. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated December 10, 2021. On February 28, 2022, Kentucky-American filed a motion to file supplemental testimony due to an error in the billing determinants and rate design contained in Kentucky-American's original filed application. In order to adequately review the new information presented in Kentucky-American's supplemental testimony, the Commission, in an Order dated March 11, 2022, amended the procedural schedule, approved Kentucky-American's motion, allowed the filing of a supplemental request for information, and extended the issuance date of the Commission Staff's Report. In an Order dated July 6, 2022, the Commission found that Kentucky-American amended its application on February 28, 2022, and, in accordance with 807 KAR 5:076, Section 7(1), Kentucky-American could not place the proposed rates into effect until the Commission issued an Order or is six months from the date the application was amended, or August 28, 2022, whichever came first. On July 21, 2022, Kentucky-American filed proof of customer notice of the amended proposed rates. On

August 30, 2022, Kentucky-American notified the Commission that in accordance with the July 6, 2022 Order and 807 KAR 5:076, Section 7, Kentucky-American has implemented the rates set from the Commission Staff's Report for service rendered on and after August 28, 2022.¹ This matter now stands submitted for a decision based on the written record.

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, Kentucky-American is allowed to charge its customers "only 'fair, just and reasonable rates.'"² Further, Kentucky-American bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

Kentucky-American, a Kentucky corporation, owns and operates water production and distribution facilities that provide water service to 134,931 customers for compensation in Bourbon, Clark, Fayette, Franklin, Gallatin, Grant, Harrison, Jackson, Jessamine, Nicholas, Owen, Rockcastle, Scott, and Woodford counties, Kentucky.³ Its

¹ Notice of Implementation of Rates, filed Aug. 30, 2022.

² *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).

³ *Annual Report of Kentucky-American's Water Division to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report Water Division) at 11 and 54.

wastewater division owns and operates sewage collection and treatment facilities in Clark, Owen, Bourbon, and Franklin counties, Kentucky, serving 1,378 customers.⁴

Kentucky-American determined that its sewer division could justify a revenue increase of \$938,827, or 130.97 percent.⁵ However, Kentucky-American submitted a billing analysis showing that the test-year revenue from sewer rates was \$684,919, which is \$31,910 below the reported level of \$716,829, stating that Kentucky-American did not include the adjustment to minimize the proposed revenue increase.⁶ Adjusting Kentucky-American's revenue requirement calculation to reflect its billing analysis adjustment results in an actual requested increase of \$970,737, or 141.73 percent.⁷

Based on the principle of gradualism, Kentucky-American proposed a four-step rate increase, and in the fourth and final phase, Kentucky-American proposed to consolidate its current five district rate design into a single statewide unified rate design.⁸ Kentucky-American's proposed four-year rate phase-in would have ultimately increased the monthly residential sewer bill for each of its service territories as follows:⁹

⁴ *Annual Report of Kentucky-American Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report Sewer Division) at 9 and 26

⁵ Application, 5._KAWC_Case_No._2021-00434_RR-OR.pdf, Revenue Requirement Calculation – Operating Ratio Method.

⁶ Application, 6._KAWC_Case_No._2021-00434_Bill_Analysis_Attachment.pdf, at unnumbered page 28.

⁷ $\$1,655,656$ (Revenue Required from Sewer Service) - $\$684,919$ (Revenue per Billing Analysis) = $\$970,737$ (Required Revenue Increase). $\$970,737$ (Required Revenue Increase \div $\$684,919$ (Revenue per Billing Analysis) = 141.73%.

⁸ Application, 2._KAWC_Case_No._2021-00434_Reasons_for_Application.pdf, at unnumbered page 3.

⁹ Commission Staff's Report at 4.

	Average Usage	Current Rates Bill	Proposed Rates Phase 4	Dollar Inc.	Percentage Inc.
Ridgewood	Flat Rate	\$ 35.14	\$ 90.00	\$ 54.86	156.12%
Millersburg	2,702	\$ 35.14	\$ 90.00	\$ 54.86	156.12%
Owenton	2,583	\$ 31.34	\$ 91.51	\$ 60.17	191.99%
North Middletown	3,238	\$ 34.39	\$ 90.12	\$ 55.73	162.05%
Rockwell	2,932	\$ 36.52	\$ 97.77	\$ 61.25	167.72%

On April 25, 2022, Commission Staff issued its report (Commission Staff's Report) summarizing its findings. Commission Staff determined that Kentucky-American's sewer division required an Overall Revenue Requirement of \$1,643,282.¹⁰ In order to achieve Commission Staff's Overall Revenue Requirement, the sewer division would require an annual increase in revenue of \$940,985, or 137.39 percent, revenue increase to pro forma present rate revenues.¹¹

On May 9, 2022, Kentucky-American filed with the Commission its comments in response to the April 25, 2022 Commission Staff's Report. Kentucky-American accepted the \$940,985 revenue increase recommended by Commission Staff, the proposed four-year rate phase-in, the allocation to the rate classes, and the design of the proposed rates set forth in the Commission Staff's Report.¹² In its comments, Kentucky-American further stated that it would give notice to its customers of the rates the Commission approves, if the Commission so orders.

Kentucky-American disagreed with Commission Staff's adjustments to remove labor costs from its nonrecurring charges, stating that the labor costs assigned to its

¹⁰ Commission Staff's Report at 5-6 and 22-23.

¹¹ Commission Staff's Report at 5-6 and 22-23.

¹² Kentucky-American's May 9, 2022 written comments filed in response to the April 25, 2022, Commission Staff's Report.

nonrecurring charges should be borne by the cost causers.¹³ However, Kentucky-American does not object to the removal of a portion of its nonrecurring charges as it pertains to this case for the sewer rate adjustment.¹⁴ Kentucky-American also waived its right to request an informal conference or hearing.¹⁵

Because Kentucky-American amended its application to request Commission Staff's recommended rates which included the amended billing determinants and a revised, across-the-board rate design, in its Order dated July 6, 2022, the Commission required Kentucky-American to publish a one-time notice, following the requirements of 807 KAR 5:076, Section 5, of its amended sewer rates. The July 6, 2022 Order also found that Kentucky-American could not place the proposed rates into effect until the Commission issued an Order approving the rates or August 28, 2022, which ever occurred first. On July 21, 2022, Kentucky-American submitted a copy of the customer notification of its amended rates that was mailed to its sewer customers on July 18, 2022. In its July 21, 2022 filing, Kentucky American attached a mailing receipt and copy of the customer notification letter as proof that the customer notification was mailed on July 18, 2022.

¹³ Kentucky-American's May 9, 2022 written comments filed in response to the April 25, 2022 Commission Staff's Report.

¹⁴ Kentucky-American's May 9, 2022 written comments filed in response to the April 25, 2022 Commission Staff's Report.

¹⁵ Kentucky-American's May 9, 2022 written comments filed in response to the April 25, 2022 Commission Staff's Report.

TEST PERIOD

The calendar year ended December 31, 2020, was used as the test year to determine the reasonableness of Kentucky-American's existing and proposed sewer rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Kentucky-American's pro forma income statement as follows:¹⁶

	Test Year Actual	Staff Report Pro Forma Adjustment	Staff Report Pro Forma Operations
Total Operating Revenues	\$ 727,654	\$ (25,357)	\$ 702,297
Total Operating Expenses	1,281,838	12,613	1,294,451
Net Operating Income	(554,184)	(37,970)	(592,154)
Other Deductions - Interest Long-Term Debt	0	142,782	142,782
Net Income	<u>\$ (554,184)</u>	<u>\$ (180,752)</u>	<u>\$ (734,936)</u>

REVENUE REQUIREMENT ADJUSTMENTS

Billing Analysis. Kentucky-American provided a billing analysis listing the water usages and sewage sales revenue for the 12-month test year. The total sewage revenue reported for the test year is \$684,919. Kentucky-American choose not to decrease the test-year revenues of \$716,829 by \$31,910 to account for the current revenues reflected in the billing analysis in order to minimize the proposed revenue increase.¹⁷ In the Commission Staff's Report, Commission Staff normalized this revenue and decreased test-year sewage revenues by \$3,183 for the flat rate revenues and \$28,727 for the

¹⁶ See Appendix B for a complete pro forma income statement.

¹⁷ Application, Reasons for the Application.

measured revenues.¹⁸ Although the normalization of revenues is typical, the Commission will accept Kentucky-American's proposal to not make the adjustment and finds that the billing adjustment should not be reduced by \$31,910.

Forfeited Discounts. In the Commission Staff's Report, Commission Staff recommended an increase to Kentucky-American's Forfeited Discount revenues to account for the lift of the moratorium regarding late fee collection due to the COVID-19 pandemic. Commission Staff increased the test year Forfeited Discounts of \$3,085 by \$6,678 based upon a pro forma amount of \$9,763, which represents the three-year averaged income from late fees in the years 2017, 2018, and 2019.¹⁹ The Commission finds that this adjustment is a known and measurable change, is reasonable and is accepted.

Miscellaneous Service Revenue. In Commission Staff's Report, Commission Staff discussed Kentucky-American's Nonrecurring Charges in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, are removed. Commission Staff recommended a revised Nonrecurring Charges and a reduction to Other Operating Revenue of \$125.²⁰

In its response to Commission Staff's Report, Kentucky-American disagreed with the recommendation to remove labor costs as Kentucky-American believes the costs associated with these charges should be borne by those who caused them.²¹ The

¹⁸ Commission Staff's Report at 13, Adjustment A.

¹⁹ Commission Staff's Report at 13, Adjustment B.

²⁰ Commission Staff's Report at 10-11, Adjustment C.

²¹ Kentucky-American's Response to Commission Staff's Report, paragraph 6.

Commission continues to follow its previous decisions regarding Nonrecurring Charges: personnel are paid during normal business hours and their salaries are recovered through rates.²² 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. This approach to ratemaking is entirely consistent with the Commission's history of ensuring that rates reflect, to a reasonable degree, the principle of cost causation while simultaneously taking into account the health of the utility and the ability of the utility to provide the adequate, efficient and reasonable provision of service. The implementation of rates that significantly deviate from the actions and expenses underlying the service provided can create material issues with a utility's ability to meet its approved revenue requirement, particularly a utility with razor thin margins. In keeping with precedent, the Commission finds this adjustment to be reasonable.

²² Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

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 (\$125) to Other Water Revenue is reasonable.

Miscellaneous Supplies and Maintenance – Capital Expenditures. In the Commission Staff’s Report, Commission Staff reduced Miscellaneous Supplies and Maintenance expense by \$9,913²³ and increased depreciation expense by \$413.²⁴ Commission Staff’s adjustments reflect removing capital expenditures from test-year operating expenses and depreciating them over their estimated useful lives.²⁵ The Commission finds Commission Staff’s adjustments to Miscellaneous Supplies and Maintenance expense and Depreciation expense are reasonable and are accepted.

Materials and Supplies – Nonrecurring Expenditures. In the Commission Staff’s Report, Commission Staff reduced Materials and Supplies expense by \$16,075 and increased amortization expense by \$1,608.²⁶ For ratemaking purposes, costs that are classified as nonrecurring are removed from a utility’s operating expenses and are amortized over their estimated useful life. Commission Staff reduced Materials and Supplies expense by \$16,075 to eliminate the cost of the gravel driveway repairs that would be classified as nonrecurring for ratemaking purposes and increased Operating

²³ On page 14 there is a typographical error. It states that Commission Staff is reducing test-year materials and supplies expense by \$9,319 when actually the correct adjustment is \$9,913.

²⁴ Commission Staff’s Report at 14-15, Adjustment D.

²⁵ Kentucky-American’s Response to Commission Staff’s Third Request for Information (Staff’s Third Request) (filed Mar. 28, 2022), Item 6.b., Excel Workbook: KAW_R_PSCDR3_NUM006_032822_Attachment.xlsx.

²⁶ Commission Staff’s Report at 15, Adjustment E.

expenses by \$1,608 to reflect amortizing the driveway repair costs over ten years. The Commission finds Commission Staff's adjustments to Materials and Supplies expense and Amortization expense are reasonable and are accepted.

Administrative and General Salaries – Management Salaries. In the Commission Staff's Report, Commission Staff allocated Kentucky-American's management salaries to the sewer division based on the ratio of salaries directly charged to the sewer division to Kentucky-American's total nonmanagement salaries.²⁷ Applying the 2020 sewer allocation factor of 2.53 percent to Kentucky-American's 2021 management salaries resulted in a management salary allocation to the sewer division of \$28,372 as shown in the table below.

Kentucky-American's Test-Year Management Salaries	\$ 1,887,154
Less: Management Salaries Capitalized	<u>(765,724)</u>
Net Management Salaries	1,121,430
Multiplied by: Allocation Factor	<u>2.53%</u>
Management Sewer Allocation	<u>\$ 28,372</u>

The Commission finds that the management salary allocation methodology employed by Commission Staff conforms to past Commission precedent,²⁸ results in a reasonable allocation of management salaries between the two divisions and is accepted.

Administrative and General Salaries – Service Company Allocation. In the Commission Staff Report, Commission Staff updated the Support Services allocation method used in Case No. 2014-00390 to reflect calendar year 2021 information, resulting

²⁷ Commission Staff's Report at 15-17, Adjustment F.

²⁸ See Case No. 2014-00390, *Application of Kentucky-American Water Company for an Adjustment of its Wastewater Rates Pursuant to 807 KAR 5:076* (Ky PSC March 31, 2013), Commission Staff's Report and July 2, 2015 final Order); and Case No. 2018-00358, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates* (Ky. PSC June 27, 2019 final Order and Nov. 12, 2019 clarification Order).

in an increase to the sewer division's Administrative and General Salaries expense of \$8,000 as calculated in the table below:²⁹

Total Water Customers as of 12/31/21	136,214
Wastewater Customers as of 12/31/21	1,364
Total Customers	137,578
Less Dual Customers	(1,277)
	136,301
Water Percentage	99.94%
Wastewater Percentage	0.06%
2021 Unaudited Total KAW Service Co. Expense	\$ 12,533,559
Sewer Allocated Service Co. Expense as of 12/31/21	\$ 8,000

The Commission finds that the support service allocation methodology employed by Commission Staff conforms to past Commission precedent, results in a reasonable allocation of management salaries between the two divisions and, therefore, should be accepted.

Insurance. In the Commission Staff Report, Commission Staff updated the workers' compensation insurance and general liability insurance adopted by the Commission in Case No. 2018-00358 to reflect the 2021 insurance premiums and increased Insurance expense \$423 as calculated in the table below:³⁰

Wastewater Allocation Factor	0.06%
2021 Unaudited Total KAW 55710000 - Insurance General Liability	\$ 565,930
2022 Unaudited Total KAW 55720000 - Insurance Workers Compensation	\$ 97,484
Sewer General Insurance Allocation	\$ 361
Sewer Workers Compensation Allocation	62
Total Insurance Allocation	\$ 423

²⁹ Commission Staff's Report at 17-18, Adjustment G.

³⁰ Commission Staff's Report at 18-19, Adjustment H.

The Commission finds that the Insurance allocation methodology employed by Commission Staff conforms to past Commission precedent,³¹ results in a reasonable allocation of Insurance between the two divisions and, therefore, should be accepted

Management Employee Benefit. In the Commission Staff's Report, Commission Staff increased test-year Employee Pensions and Benefits expense of \$87,328 by \$6,185.³² To calculate its adjustment of \$6,185, Commission Staff applied the 21.80 percent benefit load factor that was used in Case No. 2018-00358 to its recommended management salary allocation of \$28,372.³³ The Commission finds that the Insurance allocation methodology employed by Commission Staff conforms to past Commission precedent,³⁴ results in a reasonable allocation of Insurance between the two divisions and, therefore, should be accepted.

Rate Case Amortization. In the Commission Staff Report, Commission Staff increased Kentucky-American's test-year Operating Expenses by \$10,942 to reflect amortizing over four-years the actual legal fees of \$43,766 incurred by Kentucky-American to litigate his case.³⁵ The Commission has historically amortized rate case expense over the expected life of the rate approved in the case. In this current case since the Commission is phasing-in the approved revenue increase over a four-year period

³¹ See Case No. 2014-00390, March 31, 2013 Commission Staff's Report and July 2, 2015 final Order; and Case No. 2018-00358, June 27, 2019 final Order and Nov. 12, 2019 clarification Order.

³² Commission Staff's Report at 19, Adjustment I. $\$28,372$ (Management Salary Allocation) x 21.80% (Benefit Load Factor) = \$6,185.

³³ Commission Staff's Report at 19, Adjustment I.

³⁴ See Case No. 2014-00390, March 31, 2013 Commission Staff's Report and July 2, 2015 final Order; and Case No. 2018-00358, June 27, 2019 final Order and Nov. 12, 2019 clarification Order.

³⁵ Commission Staff's Report at 19-20, Adjustment J.

amortizing Kentucky-American's rate case expense over four-years is appropriate and reasonable. Therefore, the Commission accepts Commission Staff's \$10,942 rate case amortization adjustment.

Depreciation. In the Commission Staff Report, Commission Staff reduced by \$17,343.³⁶ In the test year, Kentucky-American used multiple depreciation rates for the same asset categories based on the service territory the asset was located.³⁷ Kentucky-American submitted a revised depreciation schedule wherein it adopted uniform depreciation lives for each asset category.³⁸ To calculate its recommended depreciation adjustment, Commission Staff used Kentucky-American's revised depreciation schedule believing that the uniform depreciation lives resulted in a reasonable annual depreciation expense.³⁹ The Commission finds that this adjustment is reasonable and should be accepted as it is consistent with Commission precedent.

Interest Synchronization. In the Commission Staff Report, Commission Staff calculated interest expense of \$142,782 by applying Kentucky-American's weighted cost-of-debt of 1.92 percent to the Commission Staff's adjusted rate base of \$7,436,562.⁴⁰ The methodology employed by Commission Staff to calculate interest expense is commonly referred to as interest synchronization and limits the recovery of interest expense to the level of debt that is actually supporting the sewer division's rate base

³⁶ Commission Staff's Report at 20-21, Adjustment K.

³⁷ Commission Staff's Report at 20-21.

³⁸ Commission Staff's Report at 20-21.

³⁹ Commission Staff's Report at 20-21.

⁴⁰ Commission Staff's Report at 21-22, Adjustment L.

investment.⁴¹ The Commission finds that interest synchronization is reasonable methodology and has historically been used by the Commission to calculate Kentucky-American's interest expense,⁴² and therefore is accepted.

Based on the Commission's findings discussed above, the following table summarizes Christian District's adjusted Pro Forma operations:⁴³

	Staff Report Pro Forma Operations	Commission Pro Forma Adjustment	Commission Pro Forma Operations
Total Operating Revenues	\$ 702,297	\$ 31,910	\$ 734,207
Total Operating Expenses	1,294,451	0	1,294,451
Net Operating Income	(592,154)	31,910	(560,244)
Other Deductions - Interest Long-Term Debt	142,782	0	142,782
Net Income	<u>\$ (734,936)</u>	<u>\$ 31,910</u>	<u>\$ (703,026)</u>

REVENUE REQUIREMENT

Based upon the Commission's findings and determinations herein, Kentucky-American requires an increase in revenues of \$909,075, or 126.82 percent above pro forma present rate revenues as shown below. This increase is required for Kentucky-American to remain operational and financially sound and have an opportunity to provide adequate, efficient, and reasonable service to its customers.⁴⁴

⁴¹ Commission Staff's Report at 21-22.

⁴² See Case No. 2014-00390, March 31, 2013 Commission Staff's Report and July 2, 2015 final Order; Case No.2012-00520, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Oct. 25, 2013); and Case No. 2018-00358, June 27, 2019 final Order and Nov. 12, 2019 clarification Order).

⁴³ See Appendix B for a complete pro forma income statement.

⁴⁴ KRS 278.030(2).

	Kentucky-American Sewer	Commission Staff Report	Difference	Commission Order
Pro Forma Operating Expenses before Income Taxes	\$ 1,314,076	\$ 1,294,451	\$ -	\$ 1,294,451
Divide by: Operating Ratio	88%	88%	88%	88%
Sub-Total	1,493,268	1,470,967	0	1,470,967
Less: Pro Forma Operating Expenses before Income Taxes	(1,314,076)	(1,294,451)	0	(1,294,451)
Net Operating Income Allowable	179,192	176,516	0	176,516
Add: Provision for State and Federal Income Taxes	30,421	29,533	0	29,533
Interest Expense	142,792	142,782	0	142,782
Pro Forma Operating Expenses before Income Taxes	1,314,076	1,294,451	0	1,294,451
Total Revenue Requirement	1,666,481	1,643,282	0	1,643,282
Less: Other Operating Revenues	(10,825)	(17,378)	0	(17,378)
Interest Income				
Revenue Required from Water Sales	1,655,656	1,625,904	0	1,625,904
Less: Normalized Revenue - Sewer	(716,829)	(684,919)	(31,910)	(716,829)
Required Revenue Increase	\$ 938,827	\$ 940,985	\$ (31,910)	\$ 909,075
Percentage Increase	130.97%	137.39%		126.82%

RATE DESIGN

In its application, Kentucky-American proposed to unify and consolidate its monthly wastewater service rates into a single-priced rate design that contains both monthly service charges as well as volumetric charges.⁴⁵ The only exception is Kentucky-American's Ridgewood service area, which was kept at a monthly flat rate because Kentucky-American does not have customer usage or meter information that would allow the rate to be revised to a declining block rate structure.⁴⁶ Kentucky-American stated that it plans to have discussions with Ridgewood's water provider to obtain the information that would allow Kentucky-American to charge a rate with a volumetric component.⁴⁷ Kentucky-American did not perform a cost of service study (COSS).⁴⁸ Kentucky-

⁴⁵ Application, Reasons for Application.

⁴⁶ Direct Testimony of Tricia Sinopole (Sinopole Testimony) at 9.

⁴⁷ Sinopole Testimony at 9 and Kentucky-American's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Jan. 24, 2022), Item 22.

⁴⁸ Application, Reasons for Application.

American stated that it did not complete a COSS at this time, as these studies are generally not used in wastewater service rate design.⁴⁹

Kentucky-American stated that the unified rate design structure was modeled after its North Middletown service area because this rate design is the most representative structure of the five existing rate designs.⁵⁰ Kentucky-American added that the North Middletown service area rates contained both monthly service charges as well as volumetric charges, including a volumetric rate for usage above 2,000 gallons per month, and had a more manageable number of volumetric rate steps.⁵¹ Kentucky-American's other service areas either did not have both monthly service and volumetric charges, rate for usage over 2,000 gallons per month, or a large number of volumetric rate steps.⁵²

Kentucky-American asserted that several benefits of a unified rate structure are improved affordability for customers, lower administrative and regulatory costs, and incentives to purchase smaller, underperforming sewer utilities.⁵³ Kentucky-American stated that it did not apply the increase across the board, as traditionally done in the absence of a COSS, because such a rate design is applied to increases by customer class, not by rate district or jurisdiction.⁵⁴

⁴⁹ Kentucky-American's Response to Staff's First Request, Item 21c.

⁵⁰ Kentucky-American's Response to Staff's First Request, Item 21a.

⁵¹ Kentucky-American's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Feb. 28, 2022), Item 11a.

⁵² Kentucky-American's Response to Staff's Second Request, Item 11a.

⁵³ Kentucky-American's Response to Staff's First Request, Item 17; and Sinopole Testimony at 6.

⁵⁴ Kentucky-American's Response to Staff's First Request, Item 21c.

The Commission has supported unified rates for Kentucky-American's water operations, but in each of these cases, Kentucky-American has provided a COSS in support of its rate design.⁵⁵ Further, although Kentucky-American stated that there are benefits in the long-run associated with consolidated pricing, Kentucky-American did not provide any support for these assertions.⁵⁶ Therefore, in the absence of a COSS and another other support as well as no evidence entered into the record demonstrating that an across-the-board method is unreasonable, the Commission finds that the allocation of a revenue adjustment evenly across the board to a utility's rate design to be appropriate and will allocate the \$909,075 revenue increase across the board to Kentucky-American's monthly wastewater service rates for all service areas.

Kentucky-American requested a four-year rate phase-in of its proposed rate increase based on the principle of gradualism. Its proposed rates would become effective June 1, 2022, followed by increases on June 1, 2023, and June 1, 2024, and a final increase on June 1, 2025.⁵⁷ Each of the yearly increases was calculated to keep the monthly increase for an average user the same percentage for each year. Due to the magnitude of the increase, the Commission agrees that a phase-in approach is warranted and an annual increase of approximately 24 percent to be reasonable.

The rates set forth in Appendix A to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable and will produce

⁵⁵ See Case No. 2005-00206, *The Verified Joint Application of the City of Owenton and Kentucky-American Water Company for Approval of the Transfer of Ownership of the Assets of the City of Owenton to Kentucky-American Water Company* (Ky. PSC July 25, 2005), final Order at 6.

⁵⁶ Kentucky-American's Response to Staff's First Request, Item 20e.

⁵⁷ Application, Reasons for Application.

sufficient revenues to recover the \$1,625,904 Revenue Required from Sewer Service, an approximate 126.82 percent increase over normalized test-year sewage sales of \$716,829. The Commission further finds a four-year phase-in shall be applied to each service territory so that the approximately 126.82 percent increase in rates will occur over four years.⁵⁸ These rates will increase a typical residential customer's monthly sewer bill as follows:

	<u>Current</u>	<u>Phase 1</u>	<u>Phase 2</u>	<u>Phase 3</u>	<u>Phase 4</u>
<u>Ridgewood</u> ⁵⁹					
Avg. Bill	\$35.14	\$43.25	\$53.38	\$66.01	\$81.78
Increase		\$8.11	\$10.13	\$12.63	\$15.77
% Increase		23.08%	23.42%	23.66%	23.89%
Overall % Inc.		23.08%	51.91%	87.85%	132.73%
<u>Millersburg</u> ⁶⁰					
Avg. Bill	\$31.34	\$38.58	\$47.61	\$58.88	\$72.94
Increase		\$7.24	\$9.03	\$11.27	\$14.06
% Increase		23.10%	23.41%	23.67%	23.88%
Overall % Inc.		23.10%	51.91%	87.87%	132.74%
<u>Owenton</u> ⁶¹					
Avg. Bill	\$34.39	\$42.33	\$52.24	\$64.61	\$80.04
Increase		\$7.94	\$9.91	\$12.37	\$15.43
% Increase		23.09%	23.41%	23.68%	23.88%
Overall % Inc.		23.09%	51.90%	87.87%	132.74%
<u>North Middleton</u> ⁶²					
Avg. Bill	\$36.52	\$44.96	\$55.47	\$68.60	\$84.99
Increase		\$8.44	\$10.51	\$13.13	\$16.39
% Increase		23.11%	23.38%	23.67%	23.89%
Overall % Inc.		23.11%	51.89%	87.84%	132.72%

⁵⁸ Due to the removal of the \$31,910 in the billing analysis, the percentage impact on the average bill differs from the overall percentage increase.

⁵⁹ Ridgewood customers have a flat rate per month.

⁶⁰ The typical residential customer for Millersburg uses approximately 2,702 gallons per month.

⁶¹ The typical residential customer for Owenton uses approximately 2,583 gallons per month.

⁶² The typical residential customer for North Middleton uses approximately 3,238 gallons per month.

Rockwell⁶³

Avg. Bill	\$32.67	\$40.21	\$49.62	\$61.37	\$76.03
Increase		\$7.54	\$9.41	\$11.75	\$14.66
% Increase		23.08%	23.40%	23.68%	23.89%
Overall % Inc.		23.08%	51.88%	87.85%	132.72%

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. Historically the Commission has used an 88.00 percent Operating Ratio to calculate the revenue requirement for utilities with very little or no outstanding long-term debt. Applying an Operating Ratio of 88.00 percent to Kentucky-American's pro forma total operating expenses of \$1,294,451 and adjusting for the effects of state and federal income taxes produces a total revenue requirement from sewer sales of \$1,625,904 or \$909,075 more than the annual revenue from water sales than Kentucky-American's current sewage service rates produce. The sewage service rates proposed by Kentucky-American should be denied. The sewage service rates set forth in Appendix A to this Order are fair, just and reasonable and should be approved.

The Commission further finds that, in accordance with 807 KAR 5:076, Section 7(3), Kentucky-American shall refund amounts over collected as a result of placing rates into effect that are higher than those approved by the Commission in Appendix A to this Order.

⁶³ The typical residential customer for Rockwell uses approximately 2,932 gallons per month.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Commission Staff's Report, as modified, are adopted and incorporated by reference into this Order as if fully set out herein.
2. The sewage service rates proposed by Kentucky-American are denied.
3. The sewage service rates for Phase 1 in Appendix A to this order are approved for sewer service on and after the date of this Order.
4. The sewage service rates for Phase 2 in Appendix A to this order are approved for sewer service one year after the date of this Order.
5. The sewage service rates for Phase 3 in Appendix A to this order are approved for sewer service two years after the date of this Order.
6. The sewage service rates for Phase 4 in Appendix A to this order are approved for sewer service three years after the date of this Order.
7. One week prior to the effective date of the Phase 2 sewage service rates, Kentucky-American shall publish notice following the requirements of 807 KAR 5:075, Section 5. The customer notice shall contain only the rate comparison being implemented for the rate phase.
8. One week prior to the effective date of the Phase 3 sewage service rates, Kentucky-American shall publish notice following the requirements of 807 KAR 5:075, Section 5. The customer notice shall contain only the rate comparison being implemented for the rate phase.
9. One week prior to the effective date of the Phase 4 sewage service rates, Kentucky-American shall publish notice following the requirements of 807 KAR 5:075,

Section 5. The customer notice shall contain only the rate comparison being implemented for the rate phase.

10. Within 45 days of publishing the notice required in ordering paragraphs 7, 8, and 9, Kentucky-American shall file proof of notice as required pursuant to 807 KAR 5:076, Section 5(3).

11. Within 20 days of the date of service of this Order, Kentucky–American 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.

12. Within 20 days of the date of service of this Order, Kentucky-American shall file with the Commission written notice describing how Kentucky-American intends to determine the amounts to be refunded and to whom any refund is due.

13. Any document filed in the future pursuant to ordering paragraph 10 shall reference this case number and shall be retained in the post-case correspondence file.

14. 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. 2021-00434 DATED SEP 02 2022

The following rates and charges are prescribed for the customers in the area served by Kentucky-American Water Company. 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 Sewage Rates

PHASE 1

Ridgewood
Subdivision

Monthly Rate \$ 43.25

Millersburg

Monthly Rate \$ 0.01428 Per Gallon

Owenton

First 2,000 Gallons \$ 33.47 Minimum Bill
Next 1,000 Gallons 0.01520 Per Gallon
Next 2,000 Gallons 0.01196 Per Gallon
Next 5,000 Gallons 0.01083 Per Gallon
Next 10,000 Gallons 0.00969 Per Gallon
Next 20,000 Gallons 0.00854 Per Gallon
All Over 40,000 Gallons 0.00815 Per Gallon

North Middletown

First 2,000 Gallons \$ 29.53 Minimum Bill
Next 3,000 Gallons 0.01246 Per Gallon
Next 5,000 Gallons 0.01080 Per Gallon
Over 10,000 Gallons 0.00896 Per Gallon

Rockwell

First 10,000 Gallons \$ 40.21 Minimum Bill
Over 10,000 Gallons 0.00335 Per Gallon

PHASE 2
To be implemented one year after Phase 1

<u>Ridgewood Subdivision</u>			
Monthly Rate	\$	53.38	
 <u>Millersburg</u>			
Monthly Rate	\$	0.01762	Per Gallon
 <u>Owenton</u>			
First 2,000 Gallons	\$	41.30	Minimum Bill
Next 1,000 Gallons		0.01876	Per Gallon
Next 2,000 Gallons		0.01476	Per Gallon
Next 5,000 Gallons		0.01337	Per Gallon
Next 10,000 Gallons		0.01195	Per Gallon
Next 20,000 Gallons		0.01054	Per Gallon
All Over 40,000 Gallons		0.01006	Per Gallon
 <u>North Middletown</u>			
First 2,000 Gallons	\$	36.44	Minimum Bill
Next 3,000 Gallons		0.01537	Per Gallon
Next 5,000 Gallons		0.01332	Per Gallon
Over 10,000 Gallons		0.01106	Per Gallon
 <u>Rockwell</u>			
First 10,000 Gallons	\$	49.62	Minimum Bill
Over 10,000 Gallons		0.00413	Per Gallon

PHASE 3
To be implemented one year after Phase 2

<u>Ridgewood Subdivision</u>			
Monthly Rate	\$	66.01	
 <u>Millersburg</u>			
Monthly Rate	\$	0.02179	Per Gallon
 <u>Owenton</u>			
First 2,000 Gallons	\$	51.08	Minimum Bill
Next 1,000 Gallons		0.02320	Per Gallon
Next 2,000 Gallons		0.01826	Per Gallon
Next 5,000 Gallons		0.01653	Per Gallon
Next 10,000 Gallons		0.01478	Per Gallon
Next 20,000 Gallons		0.01304	Per Gallon

All Over 40,000 Gallons 0.01244 Per Gallon

North Middletown

First 2,000 Gallons	\$	45.07	Minimum Bill
Next 3,000 Gallons		0.01901	Per Gallon
Next 5,000 Gallons		0.01648	Per Gallon
Over 10,000 Gallons		0.01368	Per Gallon

Rockwell

First 10,000 Gallons	\$	61.37	Minimum Bill
Over 10,000 Gallons		0.00511	Per Gallon

PHASE 4

To be implemented one year after Phase 3

Ridgewood Subdivision

Monthly Rate	\$	81.78	
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Millersburg

Monthly Rate	\$	0.02700	Per Gallon
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Owenton

First 2,000 Gallons	\$	63.28	Minimum Bill
Next 1,000 Gallons		0.02874	Per Gallon
Next 2,000 Gallons		0.02262	Per Gallon
Next 5,000 Gallons		0.02048	Per Gallon
Next 10,000 Gallons		0.01832	Per Gallon
Next 20,000 Gallons		0.01615	Per Gallon
All Over 40,000 Gallons		0.01541	Per Gallon

North Middletown

First 2,000 Gallons	\$	55.83	Minimum Bill
Next 3,000 Gallons		0.02355	Per Gallon
Next 5,000 Gallons		0.02041	Per Gallon
Over 10,000 Gallons		0.01694	Per Gallon

Rockwell

First 10,000 Gallons	\$	76.03	Minimum Bill
Over 10,000 Gallons		0.00633	Per Gallon

Nonrecurring Charges

Reconnection Fee	\$ 6.00
Nonsufficient Funds Charge	\$12.00
Activation Fee	\$ 3.00

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00434 DATED SEP 02 2022

	Test Year Actual	Staff Report		Commission Order	
		Pro Forma Adjustment	Pro Forma Operations	Pro Forma Adjustment	Pro Forma Operations
Operating Revenues					
Sewage Service Revenues:					
Flat Rate Revenues	\$ 41,556	\$ (3,183)	\$ 38,373	\$ 3,183	\$ 41,556
Measured Revenues	675,273	(28,727)	646,546	28,727	675,273
Toil Sewage Service Revenues	716,829	(31,910)	684,919	31,910	716,829
Other Operating Revenues:					
Forfeited Discounts	3,085	6,678	\$ 9,763		\$ 9,763
Misc.. Operating Revenues	7,740	(125)	7,615		7,615
Total Other Operating Revenues	10,825	6,553	17,378		17,378
Total Operating Revenues	727,654	(25,357)	702,297	31,910	734,207
Operating Expenses					
Operation and Maintenance Expenses					
Labor and Expenses:					
Pumping - Labor, Materials & Expenses	157,915		157,915		157,915
Treatment Systema:					
Sludge Hauling	54,936		54,936		54,936
Other-Labor, Materials, and Exp.	102,006		102,006		102,006
Purchased Power for Pumping	130,102		130,102		130,102
Chemicals	23,814		23,814		23,814
Misc. Supplies and Maintenance	268,179	(9,913)	242,191		242,191
Customer Accounts Exp:					
Miscellaneous Customer Accounts	167		167		167
Administrative and General Exp:					
Administrative and General Salaries	7,335	28,372	43,707		43,707
Office Supplies and Other Exp.	233	8,000	233		233
Insurance Expenses	2,850	423	3,273		3,273
Employee Pensions and Benefits	87,328	6,185	93,513		93,513
Regulatory Commission Expense		10,942	10,942		10,942
Transportation Expenses	15,731		15,731		15,731
Miscellaneous General Exp.	5,001		5,001		5,001
Total Operation and Maintenance Expenses	855,597	27,934	883,531		883,531
Depreciation	467,299	(17,343)	450,369		450,369
Amortization	(60,437)	1,608	(58,829)		(58,829)
Taxes Other Than Income	19,379		19,379		19,379
Total Operating Expenses	1,281,838	12,613	1,294,451		1,294,451
Net Operating Income	(554,184)	(37,970)	(592,154)	31,910	(560,244)
Other Deductions - Interest Long-Term Debt	0	142,782	142,782		142,782
Net Income	\$ (554,184)	\$ (180,752)	\$ (734,936)	\$ 31,910	\$ (703,026)

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