COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ELKHORN)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2022-00124
PURSUANT TO 807 KAR 5:076)	

<u>ORDER</u>

On April 25, 2022, Elkhorn Water District (Elkhorn 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. 2020-00113.¹ In its application, Elkhorn District requested rates that would increase annual water sales revenues by \$76,516, a 23.09 percent increase to water sales revenues at current rates.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated May 3, 2022, which, among other things, required the Commission Staff to file a report containing its findings regarding Elkhorn District's application. Pursuant to the procedural schedule issued on May 3, 2022, Elkhorn District responded to Commission Staff's First Request for Information (Staff's First Request) on June 27, 2022. On July 21, 2022, Elkhorn District responded to Commission Staff's Second Request for Information (Staff's Second Request).

¹ Case No. 2020-00113, Electronic Application of Elkhorn Water District for a Certificate of Public Convenience and Necessity to Replace 6600 Lf of Pipeline, to Replace a Booster Pump Station, To Install a New Master Meter, and New Individual Meters, and to Refurbish an Existing Elevated Water Tank (Ky. PSC Nov. 20, 2020), at 12, and ordering paragraph 11.

Pursuant to the procedural Order, on August 12, 2022, Commission Staff issued a report (Commission Staff's Report) summarizing its findings regarding Elkhorn District's requested rate adjustment. In the Commission Staff's Report, Staff found that Elkhorn District's adjusted test-year operations support an overall revenue requirement of \$400,047 and that an annual revenue increase of \$62,828, or 18.94 percent, is necessary to generate the overall revenue requirement.

On August 16, 2022, Elkhorn District filed with the Commission its comments on the Commission Staff's Report. Although Elkhorn District did not agree with the Commission Staff's removal of certain labor expenses from nonrecurring charges, Elkhorn District stated that it would not contest the adjustment in this case.² Additionally, Elkhorn District disagreed with Commission Staff's removal of commissioner salaries from the revenue requirement computation.³ Elkhorn District provided the fiscal court minutes authorizing the salaries; therefore, Elkhorn District requested that the salaries expenses for commissioners be added back into revenue requirement.⁴ Elkhorn District waived its right to request an informal conference or hearing in this case.⁵

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

² Elkhorn District's Response to Commission Staff's Report (filed Aug. 16, 2022), Item 1.

³ Elkhorn District's Response to Commission Staff's Report, Item 2.

⁴ Elkhorn District's Response to Commission Staff's Report, Item 2.

⁵ Elkhorn District's Response to Commission Staff's Report, Item 3.

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

WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. Commission Staff's Report noted That Elkhorn District's test-year water loss was 15.47 percent. At a 15.47 percent water loss, the annual cost of water loss in excess of 15 percent is \$885 and the total annual cost of water loss to Elkhorn District is \$28,981, as calculated in the table below. Accordingly, Staff reduced test-year expenses by \$885 to account for the .47 percent excess water loss.⁷

-	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Expenses Multiplied by: Water Loss Above 15 Percent	\$177,189 .47%	\$7,751 	\$2,398 	\$187,338
Cost of Line loss Above the 15% Limit	\$837	\$37	\$11	\$885
Pro Forma Expenses Multiplied by: Total Water Loss Percentage	\$177,189 15.47%	\$7,751 15.47%	\$2,398 15.47%	\$187,338 15.47%
Total Cost of Line Loss	\$27,411	\$1,199	\$371	\$28,981

⁶ 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).

⁷ Commission Staff's Report at 2.

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

BACKGROUND

Elkhorn 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 592 residential customers and 8 commercial customers in Franklin County, Kentucky.⁸ Elkhorn District does not produce any of its own water; rather, it purchases its water from the Frankfort Plant Board.⁹ This is Elkhorn District's first general rate adjustment since April 2, 2019.¹⁰

TEST PERIOD

The calendar year ended December 31, 2020, was used as the test year to determine the reasonableness of Elkhorn District's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.¹¹

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Elkhorn District's pro forma income statement as follows:

⁸ Annual Report of Elkhorn District to the Public Service Commission for the Calendar Year Ended December 31, 2020 (2020 Annual Report), at 12 and 49.

⁹ 2020 Annual Report, at 54.

¹⁰ Case No. 2018-00145, Application of Elkhorn District for Rate Adjustment Pursuant to 807 KAR 5:076 (Ky. PSC April 2, 2019).

¹¹ Elkhorn District did not file its *Annual Report of Elkhorn District to the Public Service Commission* for the Calendar Year Ended December 31, 2021 (2021 Annual Report) until May 17, 2022.

	2020 Test Year	Pro Forma Adjustments	Commission Staff's Report Pro Forma
Total Operating Revenues Utility Operating Expenses	\$329,429	\$6,911	\$336,340
	309,413	22,112	331,525
Net Utility Operating Income	20,016	(15,201)	4,815
Interest and Dividend Income	879		879
Total Utility Operating Income	\$20,895	(\$15,201)	\$5,694

REVIEW AND MODIFICATIONS TO COMMISSION STAFF'S FINDINGS

Elkhorn 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 except as modified herein.

Reclassify Other Water Revenues. In the Commission Staff's Report, Commission Staff recommended a decrease to Elkhorn District's test-year Total Metered Water Sales by \$1,641; \$391 reclassified as Forfeited Discounts, and \$1,250 as Miscellaneous Service Revenues. The Commission finds that this adjustment is a known and measurable to Total Metered Water Sales, is reasonable, and should be accepted.

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

¹³ 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).

<u>Billing Analysis Adjustment.</u> In Commission Staff's Report, Commission Staff recommended the Commission accept Elkhorn District's proposed increase of \$3,856¹⁴ to reflect Elkhorn District's current billing analysis. The Commission finds that this adjustment is reasonable and should be accepted because an examination of Elkhorn District's billing analysis was completed by Commission Staff and a normalized revenue was based on the information provided.

<u>Late Payment Fees.</u> In Commission Staff's Report, Commission Staff recommended an increase to Elkhorn District's test year Other Water Revenues by \$3,816¹⁵ to reflect the normalization of Late Payment Fees to account for the moratorium regarding the collection of late payment fees 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 change to Other Water Revenues, is reasonable, and should be accepted.

Nonrecurring Charges. In the Commission Staff's Report, Commission Staff noted that contrary to Commission precedent estimated labor expense incurred for work during normal business hours was included in the estimates used to determine the amount Elkhorn District's nonrecurring charges. Commission Staff recommended reducing Elkhorn District's nonrecurring charges to reflect the removal of that estimated labor expense and a corresponding reduction to Other Operating Revenues of \$761 to reflect the changes in the nonrecurring charges. In its response to Commission Staff's Report,

¹⁴ Commission Staff's Report at 7-8, Adjustment B.

¹⁵ Commission Staff's Report at 8-9, Adjustment C.

¹⁶ Commission Staff's Report at 5-6.

¹⁷ Commission Staff's Report at 9, Adjustment D.

Elkhorn District disagreed with the removal of the labor expense from its nonrecurring charges but it indicated it did not wish to contest those adjustments in this case.¹⁸

The Commission agrees with the Commission Staff's Report, which is consistent with recent Commission decisions, that labor expenses paid for work during normal business hours should not be recovered through nonrecurring charges. 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. Only the marginal costs related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. Therefore, the Commission finds that estimated labor expenses previously included in determining the amount of nonrecurring charges should be eliminated from the charges as proposed by Commission Staff and a corresponding reduction to Other Operating Revenues of \$761 should be made to reflect the changes in the nonrecurring charges.

<u>Salaries and Wages – Officers</u>. In the Commission Staff's Report, Commission Staff recommended a decrease to Elkhorn District's Salaries and Wages – Officers of \$7,751²⁰ to account for removal of Commissioner's Salaries and the corresponding payroll taxes. However, in its response to Commission Staff's Report, Elkhorn District provided the Franklin County Fiscal Court minutes in which the current salary level for

¹⁸ Elkhorn District's Responses to the Commission Staff's Report at paragraph 1.

¹⁹ Case No.2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment*, (Ky. PSC Nov. 6, 2020), at 19-20.

²⁰ Commission Staff's Report at 10, Adjustment E.

Elkhorn District's commissioners was established.²¹ In the Fiscal Court minutes, the compensation for commissioners was increased from \$100 to \$200 per month to become effective January 2011.²² Since there is now evidence in the case record approving the Compensation for commissioners, the Commission finds that the adjustment to Salaries and Wages – Officers should be adjusted accordingly, and therefore, the Revenue Requirement recommended by Commission Staff should be increased by \$7,751.

	Pro Forma
Commissioners	Salaries
Abner Lipps	\$2,400
Steve Mika	2,400
Brad Gregory	2,400
Total Pro Forma Salaries	7,200
Multiplied by: 7.65 percent FICA Rate	551
Total Revenue Requirement Adjustment	\$7,751

Expenses Attributable to Excess Water Loss. In the Commission Staff's Report, Commission Staff recommended a decrease to Elkhorn District's Purchased Water Expense of \$837, Purchased Power Expense of \$37, and Chemical Expense of \$11²³ to reflect the costs associated with the production of water in excess of 15 percent water loss. The Commission finds that this adjustment is a known and measurable change to Purchased Water Expense and Purchased Power Expense, is reasonable, and should be accepted.

Expenses Related to Meter Installation. In the Commission Staff's Report,

Commission Staff agreed with Elkhorn District's proposed decrease to test-year

²¹ Elkhorn District's Response to Commission Staff's Report, Item 2.

²² Elkhorn District's Response to Commission Staff's Report, Item 2.

²³ Commission Staff's Report at 10-11, Adjustment F.

Contractual Services – Other by \$4,400 to reflect the reduction of the capital costs for the installation of four new water connections. ²⁴ The Commission finds that this adjustment is a known and measurable change to Contractual Services, is reasonable, and should be accepted.

Contractual Services – Other. In the Commission Staff's Report, Commission Staff recommended an increase to Elkhorn District's Contractual Services- Other Expense of \$11,939²⁵ to reflect two adjustments for Contractual Services. The first adjustment is to reflect a post test-year substantial increase for charges from Elkhorn's operations contractor, Gatewood Water Service (GWS). The second adjustment reflects an increase to the monthly basic services fee charges by GWS effective May 2022 invoice period. The Commission finds that this adjustment is a known and measurable change to Contractual Services, is reasonable, and should be accepted.

<u>Depreciation Expense</u>. In its application, Elkhorn District proposed to increase its test-year Depreciation Expense of \$12,183 by \$23,104 to recover total annual depreciation of \$35,288.²⁶ In the Commission Staff's Report, Commission Staff recommended that the Commission accept the increase Elkhorn District proposed to its Depreciation Expense of \$23,105 to reflect the adjustment of the useful life of capital assets to the midpoint of the National Association of Regulatory Utility Commissioners (NARUC) depreciation study.²⁷ The Commission finds that this adjustment to

²⁴ Commission Staff's Report at 11, Adjustment G.

²⁵ Commission Staff's Report at 12- 13, adjustment H.

²⁶ Application, Schedule of Adjusted Operations, Adjustment G.

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

Depreciation Expense is reasonable and should be accepted, because it is based on the midpoint useful lives of assets from the NARUC study historically used by the Commission to evaluate depreciation rates for small water utilities and there is no evidence supporting a deviation from that study.²⁸

<u>Capitalization of Test-Year Water Taps</u>. In Commission Staff's Report, Commission Staff recommended an additional increase to Elkhorn District's test-year Depreciation Expense of \$104²⁹ to reflect the capitalization of the materials and supplies associated with the installation of new water connections. The Commission finds that this adjustment is a known and measureable change to Depreciation Expense, is reasonable, and should be accepted.

Based on the Commission's findings discussed above, the following table summarizes Elkhorn District's adjusted pro forma operations:³⁰

	Commission Staff's Report Pro Forma	Commission Adjustments	Final Pro Forma
Total Operating Revenues Utility Operating Expenses	\$336,340 331,525	\$7,751	\$336,340 339,276
Utility Operating Income Interest and Dividend Income	4,815 879	(7,751)	(2,936) 879
Income Available for Debt Service	\$5,694	\$ (7,751)	\$(2,057)

²⁸ See Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020) (indicating that the Commission has historically relied upon the NARUC report published in 1979 titled *Depreciation Practices for Small Water Utilities* to set useful lives and depreciation rates for small water utilities absent more specific evidence as to the useful lives of assets).

²⁹ Commission Staff's Report at 14, Adjustment J.

³⁰ See Appendix A to this Order for a complete pro forma.

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Elkhorn District requires an increase in revenues of \$70,579, or 21.07 percent above pro forma present rate revenues, as shown below. This increase is required for Elkhorn District to remain operational and financially sound and have an opportunity to provide adequate, efficient, and reasonable service to its customers.

Pro Forma Operating Expenses	\$339,276
Plus: Average Annual Principal and Interest Payments	57,102
Additional Working Capital	11,420
Total Revenue Requirement	407,798
Less: Other Operating Revenue	(4,696)
Interest Income	(879)
Revenue Required From Water Sales	402,223
Revenue from Sales at Present Rates	(331,644)
Required Revenue Increase	\$70,579
Percentage Increase	21.28%

RATE DESIGN

Elkhorn District proposed to increase its monthly retail water service rates evenly across the board by approximately 23.09 percent. Elkhorn District has not performed a cost of service study (COSS). Elkhorn District stated that it did not complete a COSS because there had not been any material change in the water system to warrant a COSS.³¹

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

³¹ Elkhorn District's Response to Staff's First Request, Item 13.

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

The rates set forth in Appendix B are based upon the revenue requirement the Commission has found to be fair, just, and reasonable, as calculated by Commission Staff, and will produce revenues from water sales to recover the \$402,223. Revenue Required from Rates, an approximate 21.28 percent increase. The monthly bill of a typical residential customer using 5,000 gallons of water will increase from \$37.52 to \$45.45, an increase of \$7.93, or 21.14 percent.

SUMMARY

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 Elkhorn District's pro forma operations results in an Overall Revenue Requirement of \$407,798. A revenue increase of \$70,579 from water service rates is necessary to generate the overall revenue requirement.

Based on the above, the Commission finds that the water service rates proposed by Elkhorn District should be denied. The Commission finds that the water service rates and nonrecurring charges set forth in Appendix B to this Order are fair, just and reasonable and approved for services rendered after the date of this Order.

IT IS THEREFORE ORDERED that:

- 1. The findings contained in the Commission Staff's Report are adopted as modified in this Order and incorporated by reference as if fully set out in this Order.
 - 2. The general service rates proposed by Elkhorn District are denied.
- 3. The rates set forth in Appendix B to this Order are approved for services rendered by Elkhorn District on and after the date of this Order.
- 4. Within 20 days of the date of service of this Order, Elkhorn 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. Elkhorn District shall use the midpoint of the depreciable lives of the NARUC ranges, as proposed in the application and agreed upon by 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.
 - This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ENTERED

OCT 24 2022

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KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00124 DATED OCT 24 2022

	Test Year	Commission Staff's Proposed Adjustment	Commissioner Pro Forma Adjustment	Pro Forma
Operating Revenues				
Total Metered Water Sales	\$ 329,429	\$ (1,641) 3,856		\$ 331,644
Other Water Revenues	-	0,000		Ψ 001,011
Forfeited Discounts		391		
		3,816		4,207
Misc. Service Revenues		1,250		
		(761)		489
Total Operating Revenues	329,429	6,911		336,340
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	-			-
Salaries and Wages - Officers	8,479	(7,751)	7,751	8,479
Employee Pensions and Benefits	-			
Purchased Water	180,062	(837)		179,225
Purchased Power	7,751	(37)		7,714
Chemicals & Lab Testing	2,398	(11)		2,387
Materials and Supplies				-
Contractual Services- Accounting	14,120			14,120
Contractual Services- Other	48,764	(4,400)		
		11,939		56,303
Rental of Bld./ Real Property	92			92
Transportation Expenses	-			-
Insurance- General Liability	4,189			4,189
Advertising	636			636
Miscellaneous Expense	28,682			28,682
Total Operation and Maintenance Expenses	295,173	(1,097)	7,751	301,827
Depreciation	12,183	23,105		
•		104		35,392
Taxes Other Than Income	2,057			2,057
Utility Operating Expenses	309,413	22,112	7,751	339,276
Net Operating Income	20,016	(15,201)	(7,751)	(2,936)
Interest and Dividend Income	879			879
Income Available to Service Debt	\$ 20,895	\$ (15,201)	\$ (7,751)	\$ (2,057)

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00124 DATED OCT 24 2022

The following rates and charges are prescribed for the customers in the area served by Elkhorn 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	2,000 Gallons	\$ 20.76	Minimum Bill
Next	3,000 Gallons	0.00823	Per Gallon
Next	5,000 Gallons	0.00747	Per Gallon
Over	10,000 Gallons	0.00587	Per Gallon
1-Inch Met	<u>er</u>		
First	5,000 Gallons	\$ 45.50	Minimum Bill
Next	5,000 Gallons	0.00747	Per Gallon
Over	10,000 Gallons	0.00587	Per Gallon
1 1/2-Inch	Meter		
First	10,000 Gallons	\$ 82.91	Minimum Bill
Over	10,000 Gallons	0.00587	Per Gallon
Ovei	10,000 Gallons	0.00367	rei Gallon
<u>Southcreel</u>	k Mobile Home Park		
First	15,000 Gallons	\$155.72	Minimum Bill
Over	15,000 Gallons	0.00587	Per Gallon
Elkhorn M	obile Home Park		
First	76,000 Gallons	\$789.04	Minimum Bill
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Over	76,000 Gallons	0.00587	Per Gallon
Capital Mo	bile Home Park		
First	125,000 Gallons	\$1,297.76	Minimum Bill
Over	125,000 Gallons	0.00587	Per Gallon
Emergency	y Wholesale Rate	\$ 0.00587	Per Gallon
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Non-Recurring Charges

Returned Check Charge	\$10.00
Service Call/Investigation	\$11.00
Service Line Inspection	\$11.00
Service Reconnection Charge	\$14.00
Meter Re-read Charge	\$11.00
Meter Test Charge	\$22.00
Service Transfer Fee	\$11.00

*Alan Vilines Kentucky Rural Water Association Post Office Box 1424 1151 Old Porter Pike Bowling Green, KENTUCKY 42102-1424

*Elkhorn Water District 7165 US 127 North P. O. Box 67 Frankfort, KY 40602

*Nancy Sherrow Elkhorn Water District 7165 US 127 North P. O. Box 67 Frankfort, KY 40602