

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WOOD CREEK)	CASE NO.
WATER DISTRICT FOR A GENERAL)	2022-00145
ADJUSTMENT OF RATES)	

ORDER

By Order dated December 20, 2022, the Commission granted an increase in Wood Creek Water District’s (Wood Creek District) rates for water service. On January 10, 2023, Wood Creek District filed a motion for rehearing on the Commission’s finding regarding Wood Creek’s pro forma employee health insurance expense in the Commission’s December 20, 2022 Order.

LEGAL STANDARD

KRS 278.400, which establishes the standard of review for motions for rehearing, limits rehearing to new evidence not readily discoverable at the time of the original hearings, to correct any material errors or omissions, or to correct findings that are unreasonable or unlawful. A Commission Order is deemed unreasonable only when “the evidence presented leaves no room for difference of opinion among reasonable minds.”¹ An order can only be unlawful if it violates a state or federal statute or constitutional provision.²

¹ *Energy Regulatory Comm’n v. Kentucky Power Co.*, 605 S.W.2d 46 (Ky. App. 1980).

² *Public Service Comm’n v. Conway*, 324 S.W.3d 373, 377 (Ky. 2010); *Public Service Comm’n v. Jackson County Rural Elec. Coop. Corp.*, 50 S.W.3d 764, 766 (Ky. App. 2000); *National Southwire Aluminum Co. v. Big Rivers Elec. Corp.*, 785 S.W.2d 503, 509 (Ky. App. 1990).

By limiting rehearing to correct material errors or omissions, and findings that are unreasonable or unlawful, or to weigh new evidence not readily discoverable at the time of the original hearings, KRS 278.400 is intended to provide closure to Commission proceedings. Rehearing does not present parties with the opportunity to relitigate a matter fully addressed in the original Order.

DISCUSSION AND FINDINGS

Wood Creek District stated that the Commission's use of an allocation factor based upon the number of customers to determine pro forma employee health insurance expense rather than a percentage of labor cost was not supported by specific findings, and this alleged use of the incorrect allocation factor has deprived Wood Creek District of approximately \$165,386 in annual revenues.

Wood Creek District admitted that the Commission correctly noted in the December 20, 2022 Order expenses that Wood Creek District incurred in the test period to provide contract operation and maintenance services to East Laurel Water District and West Laurel Water Association, Inc. and to operate and maintain Wood Creek District's sewer operations must be removed to prevent Wood Creek District's water service customers from subsidizing Wood Creek District's other operations. Wood Creek District further agreed that, to ensure that Wood Creek District's rates for water service recover only employee health insurance expense related to its Wood Creek District's water operations, the Commission, in its December 20, 2022 Order, sought to exclude from recovery the portion of Wood Creek District's actual test period employee health insurance expense related to its non-water operations. Wood Creek District stated it agreed in principle with the Commission's action; however, it disagreed with the method

the Commission chose to calculate the portion of employee health insurance expense to be recovered through rates.

In the December 20, 2022 Order, the Commission determined that Wood Creek District's total allowable test period employee health insurance expense was \$798,583.20 and allocated \$245,405 or 30.73 percent of total allowable test period employee health insurance expense to Wood Creek's water operations. This allocation was based upon the ratio of the number of customers served by Wood Creek's water operations to the total number of customers served by all Wood Creek operations. Wood Creek District argued the Commission should have instead allocated the total allowable test period employee health insurance expense to Wood Creek's water operations based upon the ratio of total salaries and wages expense allocated to Wood Creek's water operations to Wood Creek's total test period salaries and wages expensed. Wood Creek District stated that had this approach been used, then 51.44 percent of total allowable test period employee health insurance expense, or \$410,791, would have been allocated to Wood Creek's water operations ($\$1,203,455/\$2,339,460 = 51.44\%$).

Wood Creek District argued the December 20, 2022 Order lacks specific findings to support the use of an allocation factor based upon the number of customers. It claimed the Commission's footnote showing the calculation failed to provide reasoning for its decision for use of the allocation factor. Wood Creek District further argued the use of an allocation factor based upon the number of customers is unreasonable and will result in an inaccurate revenue requirement. Wood Creek District claimed its work order system, and the work orders provided with its application, permitted Wood Creek to determine that actual cost of labor performed for each of its operating divisions. Wood Creek District

argued that based on this evidence, its proposal to allocate its allowable pro forma health insurance expense based on the ratio of total salaries and wages expense should have been granted by the Commission.

While the Commission used a different allocation factor than proposed by Wood Creek District in its application, the calculation provided in the Order was not “inaccurate,” but rather, represents a difference in approach. The Commission has precedent allocating forms of compensation expense using an allocation based on both the number of customers³ as well as a percentage based on allowable salaries,⁴ as proposed by Wood Creek District. While the Commission’s previous calculation was reasonable, it did not adequately support its determination. Regardless of the adequacy of its previous calculations, due to the Commission’s failure to explain its determination, coupled with Wood Creek’s sufficient evidence in support of an alternative allocation, the Commission grants rehearing in this instance. The Commission finds that the work orders provided by Wood Creek District sufficiently separate expenses from its non-water operations and identifies actual cost of labor performed for each of its operating divisions, resulting in a reasonable and cost-reflective allocation of costs.

The Commission finds that using the ratio of allowable salaries and wages proposed and supported by Wood Creek District results in a pro forma Health Insurance

³ Case No. 2013-00170 *Alternative Rate Adjustment Filing of Wood Creek Water District* (Ky. PSC Dec. 3, 2013).

⁴ Case No. 2021-00094 *Electronic Application of Garrison-Quincy-Ky-O-Heights Water District for a Rate Adjustment Pursuant to 807 Kar 5:076* (Ky. PSC Nov. 24, 2021)

Premiums expense of \$410,791.⁵ The increase in Wood Creek District's expense results in an overall revenue requirement of \$6,455,998 with an increase to present revenues of \$489,042, or 8.33 percent as shown below.

Operating Expenses	\$ 5,270,224
Add: Average Annual Debt Principal and Interest	988,145
Additional Working Capital	<u>197,629</u>
Overall Revenue Requirement	6,455,998
Less: Other Operating Revenue	(90,551)
Interest Income	<u>(2,839)</u>
Revenue Requirement - Water Rates	6,362,608
Less: Normalized Revenue from Service	<u>(5,873,566)</u>
Required Revenue Increase	<u>\$ 489,042</u>
Percentage Increase	<u>8.33%</u>

IT IS THEREFORE ORDERED that:

1. The amended rates and charges set forth in Appendix A of this Order are approved for the water service that Wood Creek District renders on and after the date of this Order.

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	District Contribution	BLS Contribution Rate	Reduction Adjustment	Pro Forma Contributions
Health (Employee)	\$ 9,415	21%	\$ (1,977)	\$ 7,437
Health (Family)	62,647	34%	(21,300)	41,347
Health (Employee + Spouse)	23,548	34%	(8,006)	15,541
Health (Employee + Children)	3,368	34%	(1,145)	2,223
Pro Forma Allowable Monthly Premiums				\$ 66,549
Multiply by: 12 Months				<u>12</u>
Pro Forma Allowable Premiums				\$ 798,583
Multiply By: Allocation Percentage				<u>51.44%</u>
Allowable Allocated Test-year Premiums				<u>410,791</u>

2. Within 20 days of the date of entry of this Order, Wood Creek District shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rate approved herein and reflecting that it was approved pursuant to this Order.

3. All other provisions of the Commission's December 20, 2022 Order shall remain in effect.

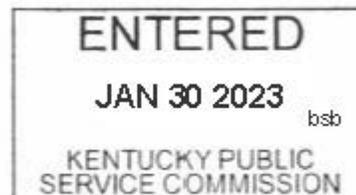
4. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00145 DATED JAN 30 2023

Monthly Water Rates

5/8- X 3/4-Inch Meter

First	2,000 Gallons	\$24.65 Minimum Bill
Next	8,000 Gallons	8.40 Per 1,000 Gallons
Next	65,000 Gallons	6.48 Per 1,000 Gallons
Over	75,500 Gallons	4.74 Per 1,000 Gallons

1-Inch Meter

First	5,000 Gallons	\$51.25 Minimum Bill
Next	5,000 Gallons	8.40 Per 1,000 Gallons
Next	65,000 Gallons	6.48 Per 1,000 Gallons
Over	75,500 Gallons	4.74 Per 1,000 Gallons

1 1/2-Inch Meter

First	10,000 Gallons	\$94.71 Minimum Bill
Next	65,000 Gallons	6.48 Per 1,000 Gallons
Over	75,500 Gallons	4.74 Per 1,000 Gallons

2-Inch Meter

First	20,000 Gallons	\$163.50 Minimum Bill
Next	55,000 Gallons	6.48 Per 1,000 Gallons
Over	75,500 Gallons	4.74 Per 1,000 Gallons

3-Inch Meter

First	30,000 Gallons	\$257.75 Minimum Bill
Next	45,000 Gallons	6.48 Per 1,000 Gallons
Over	75,500 Gallons	4.74 Per 1,000 Gallons

6-Inch Meter

First	100,000 Gallons	\$704.20 Minimum Bill
Over	100,000 Gallons	4.74 Per 1,000 Gallons

Wholesale

All Wholesale Customers	\$3.53 Per 1,000 Gallons
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