

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF CUMBERLAND)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2022-00291
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On September 21, 2022, Cumberland County Water District (Cumberland District) filed its application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. In its application, Cumberland District requested an increase in annual revenues from water sales of \$260,122, or 18.21 percent.¹ Cumberland District's requested water rates would increase the monthly bill of a typical residential customer using 3,059 gallons per month by \$6.79, from \$37.25 to \$44.04, or approximately 18.23 percent.²

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated October 14, 2022, that provided for two rounds of discovery to the utility. The Commission issued an Order on January 5, 2023, that amended the procedural schedule to allow for a third round of discovery, and established February 16, 2023, as the date for Commission Staff to file a report containing recommendations regarding Cumberland District's application. The Commission Staff's Report was issued on February 14, 2023.

¹ Application at 3 and Exhibit A.

² Application, Exhibit K.

In the Commission Staff's Report, Commission Staff determined that Cumberland District's adjusted test-year operations supported an overall revenue requirement of \$1,632,120 and that an annual increase of \$178,901, or 12.53 percent, to the base water rates, is necessary to generate the overall revenue requirement.³ In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase across the board to calculate its recommended water rates.⁴ Commission Staff also recommended Cumberland District be allowed to assess a monthly water loss reduction surcharge of \$2.85 per active meter for a temporary period of 48 months, with a Commission review of the necessity to continue the surcharge before the temporary period expires.⁵ Cumberland District did not request the water loss reduction surcharge, and thus its customers did not receive notice of a new surcharge.

Cumberland District filed its written responses to Commission Staff's Report on February 28, 2023, stating that the utility had inadvertently omitted a \$5.00 "handling fee for returned deposited item assessed by its Bank for returning customers checks," on the Cost Justification Sheet submitted⁶ and requested that the Commission set the Returned Check Charge to \$8.50.⁷ In response to the utility's comments, Commission Staff reviewed the requested adjustment and concurred with Cumberland District's request that the fee should be included. Cumberland District stated that it disagreed with Commission

³ Commission Staff's Report at 4-5.

⁴ Commission Staff's Report at 5-7.

⁵ Commission Staff's Report at 8-9.

⁶ Cumberland District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Dec. 8, 2022), Item 7.

⁷ Cumberland District's Response to Commission Staff's Report (filed Feb 28, 2023) at unnumbered page 1.

Staff's recommended adjustments to remove labor expenses from its nonrecurring charges and that, while not challenging the adjustment in this proceeding, reserved the right to challenge the adjustment in future proceedings. Cumberland District agreed with the remainder of Commission Staff's recommendations, and stated that it did not contest the recommended rate adjustment in this case.⁸

Because Cumberland District did not contest implementing the water loss reduction surcharge proposed by Commission Staff, and not requested by the utility, the Commission entered an Order on May 24, 2023, finding that due process required the utility to provide its customers with notice of the rates, including the new surcharge, recommended by Commission Staff. On July 7, 2023, the Commission entered an Order amending the May 24, 2023 Order to reflect that Cumberland District amended its application on February 28, 2023 when it accepted the recommendation to implement a new water loss reduction surcharge. The July 7, 2023 Order also found that Cumberland District could not place the proposed rates into effect until the Commission entered an Order approving the rates or six months from the date the application was amended, whichever comes first.

On June 30, 2023, Cumberland District filed proof of publication of the customer notice.

This matter now stands submitted for a decision by the Commission.

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 request rate

⁸ Cumberland District's Response to Commission Staff's Report at unnumbered pages 1-2.

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, Cumberland District is allowed to charge its customers “only fair, just and reasonable rates.”⁹ Further, Cumberland District bears the burden of proof to show that the proposed rate increase is just and reasonable, under KRS 278.190(3).

UNACCOUNTED-FOR WATER LOSS

Pursuant to 807 KAR 5:076, Section 6(3), water loss is limited to 15 percent for ratemaking purposes. Cumberland District reported a water loss of 35.2088 percent in its 2021 Annual Report.¹⁰ At a 35.2088 percent water loss, the annual cost of water in excess of 15 percent is \$96,451, and the total cost of water loss to Cumberland District is \$168,042, as calculated below.

Total Water Loss	Purchased Water	Power	Total
Pro Forma Purchases	\$ 423,902	\$ 53,370	\$ 477,272
Water Loss Percent	35.2088%	35.2088%	35.2088%
Total Water Loss	\$ 149,251	\$ 18,791	\$ 168,042

Disallowed Water Loss	Purchased Water	Power	Total
Pro Forma Purchases	423,902	53,370	\$ 477,272
Water Loss in Excess of 15%	20.2088%	20.2088%	20.2088%
Disallowed Water Loss	\$ 85,666	\$ 10,785	\$ 96,451

As discussed in greater detail below, Commission Staff recommended, and the Commission approves, a water loss reduction surcharge that will collect an amount that

⁹ *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).

¹⁰ *Annual Report of Cumberland District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 57.

reflects the amount disallowed for excessive water loss pursuant to 807 KAR 5:066, Section 6(3). In establishing a water-loss surcharge, the Commission recognizes that the adjustments required to comply with the 15 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water district's ability to take the necessary action to focus on its leak detection and repair. Using a surcharge to fund a water utility's water loss reduction efforts allows the Commission to place strict controls governing the surcharge proceeds to ensure their effective use, public acceptance of the surcharge, and public confidence in the water utility's use of those funds.

BACKGROUND

Cumberland District, a water district organized pursuant to KRS Chapter 74, provides water service to approximately 2,910 residential, commercial, industrial, and public authorities customers in Cumberland County, Kentucky.¹¹ A review of the Commission's records indicates that Cumberland District last sought an adjustment of rates through a general rate case procedure in calendar year 2002.¹²

TEST PERIOD

The calendar year ended December 31, 2021, was used as the test-year to determine the reasonableness of Cumberland District's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

¹¹ 2021 Annual Report at 12 and 49.

¹² See Case No. 2002-00477, *Application of the Cumberland County Water District for the Approval of the Proposed Increase in Rates for Water Service* (Ky. PSC May 6, 2003).

SUMMARY OF REVENUES AND EXPENSES

The Commission Staff's Report summarizes Cumberland District's pro forma income statement as follows:¹³

	Test Year Operations	Commission Staff's Report	
		Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 1,676,625	\$ (15,226)	\$ 1,451,833
Operating Expenses	1,469,718	(182,964)	1,286,754
Net Utility Operating Income	<u>\$ (2,659)</u>	<u>\$ 167,738</u>	<u>\$ 165,079</u>

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Cumberland 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 recommendations contained in the Commission Staff's Report. Based upon Cumberland District's written comments regarding the returned check charge, the Commission finds that the adjustment to the returned check charge should be approved because it is based upon evidence in the record and corrects an inadvertent omission of an expense. The Commission has no further modifications to Commission Staff's Report.

OPERATING REVENUE AND OPERATING EXPENSES

Billing Analysis. Cumberland District provided usage data by meter size, listing the water usage and water sales revenue for the 12-month test year. Commission Staff calculated the data provided within a normalized billing analysis and determined that annual base rate revenues of \$1,428,119 for all retail customers is an accurate

¹³ See Appendix B to this Order for a detailed pro forma income statement.

representation of the normalized test-year revenue from water sales.¹⁴ In the Commission Staff's Report, Commission Staff agrees with Cumberland District's adjustment to decrease to test-year Water Sales Revenue of \$38,940.¹⁵ The Commission finds that this adjustment is reasonable because an examination of Cumberland District's billing analysis was completed by Commission Staff, and a normalized revenue was based on the information provided.

Forfeited Discounts. In its application Cumberland District stated that it had misclassified its Forfeited Discounts as General Water Sales.¹⁶ Cumberland District proposed an adjustment of \$15,829 to show the reclassification of its test year Forfeited Discounts.¹⁷ Commission Staff agreed that the Forfeited Discounts had been misclassified and that the proposed reclassification by Cumberland District was correct. The Commission finds that this adjustment to Forfeited Discounts, is reasonable and should be accepted because it corrects a misclassified expense.

Miscellaneous Service Revenues. Cumberland District reported test year Miscellaneous Service Revenues of \$24,953 and stated that some of the components would recur but did not provide specific items. Commission Staff reviewed Cumberland District's general ledger and reduced Miscellaneous Service Revenues by \$17,068 based on Commission Staff's assessment of non-recurring items.¹⁸

¹⁴ Commission Staff's Report at 7, Adjustment A.

¹⁵ Commission Staff's Report at 10, Adjustment A.

¹⁶ Application, Exhibit C at 3.

¹⁷ Commission Staff's Report at 11, Adjustment B.

¹⁸ Commission Staff's Report at 11, Adjustment C.

	Adjustments
Non-Recurring Charges Adjustment	\$ (7,680)
Customer Deposits	(9,388)
Total	<u>\$ (17,068)</u>

The Commission finds that an adjustment to reduce Miscellaneous Service Revenues as proposed by Commission Staff to remove nonrecurring revenue is reasonable and should be accepted because it removes misclassified revenue. Therefore, the Commission reduces Miscellaneous Service Revenues by \$17,068.

Other Water Revenues. In the Commission Staff's Report, Commission Staff discussed Cumberland District's misclassification of \$33,112 of nonrecurring revenue as General Water Sales. Cumberland District received Compensation in Aid of Construction Funds of \$24,240 and Miscellaneous Revenues of \$8,872 and stated these items are not expected to recur.¹⁹ The Commission finds that the removal of \$33,112 from Other Water Revenues is reasonable and should be accepted because it is not fair, just nor reasonable to include nonrecurring revenue in the calculation of base rates.

Salaries and Wages – Employees. Cumberland District proposed to increase Salaries and Wages – Employees by \$39,738²⁰ to reflect the net effect of vacancies, new hires, and authorized wage increases after the test year. In the Commission Staff's Report, Commission Staff reviewed the evidence of record and deemed this adjustment as an accurate reflection of an annual labor expense. The Commission finds that the adjustment proposed by the utility is a known and measurable change to Salaries and

¹⁹ Commission Staff's Report at 11, Adjustment D.

²⁰ Commission Staff's Report at 12, Adjustment E.

Wages – Employees, is reasonable and should be accepted because it is based upon evidence in the case record.

Capitalization of Cost of Customer Taps. In the Commission Staff's Report, Commission Staff recommended a reduction in Salaries and Wages Expense, Materials and Supplies Expense by \$14,865 and \$44,593, respectively for 78 meter connections that were not capitalized by Cumberland District during the test year.²¹ The Commission finds that the adjustments are reasonable and should be accepted to reflect the decrease in Salaries and Wages – Employees and Materials and Supplies. The adjustment reflects capitalization of customer tap costs; customer taps have a depreciable life of 15 years. The Commission also finds that Cumberland District should establish a written policy to be used by its accounting personnel for capitalization of customer tap costs, and file it as a post case correspondence referencing this case number within six months.

Salaries and Wages – Commissioners. In the Commission Staff's Report, Commission Staff did not recommend a change to Cumberland District's proposed pro forma amount for Salaries and Wages – Commissioners of \$8,850.²² However, Commission Staff recommended that Cumberland District seek to have the salaries of its board of commissioners formally approved by the Cumberland County Fiscal Court and that such approval be reflected in the minutes of that body and kept in Cumberland District's official records. The Commission accepts Cumberland District's proposed pro forma adjustment for Salaries and Wages – Commissioners because it is based on known and measurable changes.

²¹ Commission Staff's Report at 12, Adjustment F.

²² Commission Staff's Report at 13-14, Adjustment G.

KRS 74.020(6) requires water district commissioners' salaries to be fixed by the county judge/executive with approval of Fiscal Court. For that reason, the Commission concurs with Commission Staff and directs Cumberland District to provide evidence that its commissioners' salaries were fixed by the Cumberland County Judge/Executive and approved by Cumberland Fiscal Court. Cumberland District shall file proof of the appropriate Fiscal Court action by filing the minutes and resolution in post case correspondence referencing this case number within six months.

Benefits – Employees. In Commission Staff's Report, Commission Staff recommended an increase to Cumberland District's Employee Pensions and Benefits of \$14,157²³ to reflect the adjustments calculated by Commission Staff for Cumberland District's Employee Pensions and Benefits in the table below. Commission Staff was not able to reconcile Cumberland District's proposed increase of \$933.60 in health insurance premiums and recalculated the adjustment based on invoices provided, employee count, and a validation of costs through postings to the general ledger.

Description	Test Year	Adjustments	Pro Forma
Medical Premiums	\$ 57,931	\$ 17,210	\$ 75,141
Employee Contributions ()	(11,585)	(3,443)	(15,028)
Life Insurance	976	(200)	776
Anthem Supplemental	3,433	0	3,433
Other Net	1,048	590	1,638
Total	<u>\$ 51,803</u>	<u>\$ 14,157</u>	<u>\$ 65,960</u>

The Commission finds that this adjustment to Employee Pensions and Benefits, is reasonable and should be accepted.

²³ Commission Staff's Report at 14-18, Adjustment H.

Commission Staff noted an entry in Cumberland District’s May 9, 2022 Board of Commissioners’ minutes that stated, “Discussed Health Insurance for Board Members”. Commission Staff also identified an invoice for employee medical insurance that included coverage for one commissioner. The invoice was highlighted with a note that indicated that the cost was reimbursed by the board member, however, Commission Staff could not validate a reimbursement transaction.²⁴

In Case No. 2019-00268 ²⁵ the Commission found that:

Since water district commissioners are vested with all relevant powers to manage and oversee water districts,²⁶ except for the power to fix their salary authorized by KRS 74.020(6), which is assigned to the county judge executive and fiscal court,²⁷ a water district would be unable to provide its commissioners health insurance and other similar benefits without an official action by the water district commissioners.²⁸ Thus, by prohibiting water district commissions from participating in official actions that directly benefit themselves financially, the General Assembly effectively prohibited water districts from receiving additional benefits to compensate them for their work on the board, which further indicates the General Assembly’s intent to limit the total compensation of water district commissions to amounts specifically authorized

²⁴ Commission Staff’s Report at 16-18.

²⁵ Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020).

²⁶ KRS 74.020(1) (“A water district shall be administered by a board of commissioners which shall control and manage the affairs of the district.”); KRS 74.070 (“All corporate powers of the water district shall be exercised by, or under the authority of, its commission.”) See also KRS 65A.080(1) (requiring the governing body of each “special purpose government entity” to adopt a budget and prohibiting any “special purpose government entity” from expending funds in a manner inconsistent with their budget and any amendment thereto.).

²⁷ KRS 74.020(6).

²⁸ KRS 74.020(6) presumably gives the county judge executive and fiscal court the authority to fix the salary of the water district commissioners to avoid just this issue. Further, while KRS 74.050 authorizes the water district board to establish the additional compensation, if any, to be paid to the treasurer of the board, the treasurer could avoid violating the prohibition against taking official actions that benefit him financially by properly recusing himself from such an action. Conversely, there would be no viable way for water district commissioners to provide themselves insurance benefits without involving themselves in the decision to do so.

by statute. The Commission finds that the General Assembly intended to limit the water districts' total compensation to commissioners for their service on a water district's board to amounts specifically authorized by KRS Chapter 74. Therefore, the Commission finds that Knott District may not offer benefits to the Commissioners on the Knott District Board of Commissioners pursuant to KRS Chapter 74 and should cease doing so immediately.

As noted in KRS 74.020(6) and as stated above by the Commission, a commissioner's benefits are limited to what is specifically authorized by the General Assembly. Any compensation must comply with KRS 74.020 and be approved by the Cumberland County Fiscal Court. Cumberland District should cease any benefit payments or reimbursements for any commissioners.

Purchased Water. In Commission Staff's Report, Commission Staff recommended an increase to Cumberland District's Purchased Water Expense of \$20,887²⁹ to reflect an understatement in total purchased water expense that Commission Staff discovered in its review of the general ledger. The Commission finds that this adjustment to Purchased Water is reasonable and should be accepted because it reflects actual purchased water expense and is based on evidence in the case record.

Excess Water Loss. Cumberland District's test year water loss was 35.21 percent. Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes, unless the Commission finds an alternative level is reasonable. In Commission Staff's Report, Commission Staff recommended a decrease to Cumberland's Purchased Water Expense of \$85,666 and Purchased Power Expense of

²⁹ Commission Staff's Report at 19, Adjustment I.

\$10,785³⁰ to reflect the costs associated with the production of water in excess of 15 percent water loss. The Commission finds that this adjustment to Purchased Water Expense and Purchased Power Expense, is reasonable and should be accepted because it is based upon evidence in the record regarding the excess expense due to unaccounted for water loss above the regulatory limit of 15 percent.

Regulatory Commission Expense. In the Commission Staff's Report, Commission Staff recommended that \$51,174³¹ should be reclassified to Miscellaneous Expense from Regulatory Commission Expense based on its review of Cumberland District's general ledger. The Commission finds that this adjustment to Miscellaneous Expense and Regulatory Commission Expense is reasonable and should be accepted because it corrects a misclassified expense.

Depreciation. In the Commission Staff's Report, Commission Staff recommended a decrease to Cumberland District's Depreciation Expense of \$106,631³² to reflect the adjustment of the useful life of assets classified as Transmission and Distribution to the midpoint of the National Association of Regulatory Utility Commissioners (NARUC) depreciation study. The Commission finds that this adjustment to Depreciation Expense, is reasonable and should be accepted because the Commission has historically relied upon the midpoint of the NARUC ranges to depreciate utility plant when, as in this case, the utility did not file evidence to support a specific life that it outside the NARUC ranges.

³⁰ Commission Staff's Report at 19-20, Adjustment J.

³¹ Commission Staff's Report at 20, Adjustment K.

³² Commission Staff's Report at 20-21, Adjustment L.

Depreciation – Adjustment for Full Year Depreciation and Capitalized Asset Adjustments. In the Commission Staff's Report, Commission Staff recommended an increase to Cumberland District's Depreciation Expense of \$4,794³³ to reflect 78 meter connections that were not capitalized by Cumberland District during the test year. The Commission finds that this adjustment to Depreciation Expense is reasonable and should be accepted because it reflects capitalization of customer tap costs; customer taps have a depreciable life of 15 years.

³³ Commission Staff's Report at 21, Adjustment M.

	Test Year	Adjustment	(Ref)	Pro Forma
Operating Revenues				
Sales of Water	\$ 1,467,059	\$ (38,940)	(A)	\$ 1,428,119
Late Payment Penalties		15,829	(B)	15,829
Miscellaneous Service Revenues		24,953	(C)	
		(17,068)	(C)	7,885
Other Water Revenues		33,112	(D)	
		(33,112)	(D)	0
Total Operating Revenues	1,467,059	(15,226)		1,451,833
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	311,763	39,738	(E)	
		(14,865)	(F)	336,636
Salaries and Wages - Commissioners	8,850	0	(G)	8,850
Employee Pensions and Benefits	51,803	14,157	(H)	65,960
Purchased Water	403,015	20,887	(I)	
		(85,666)	(J)	338,236
Purchased Power for Pumping	53,370	(10,785)	(J)	42,585
Materials and Supplies	121,822	(44,593)	(F)	77,229
Contractual Services	26,961			26,961
Transportation Expense	52,106			52,106
Insurance	21,389			21,389
Regulatory Commission Expense	53,982	(51,174)	(K)	2,808
Miscellaneous Expense	11,239	51,174	(K)	62,413
Total Operation and Maintenance Expenses	1,116,300	(81,127)		1,035,173
Taxes Other Than Income - FICA	28,401			28,401
Depreciation	325,017	(106,631)	(L)	
		4,794	(M)	223,180
Total Operating Expenses	1,469,718	(182,964)		1,286,754
Net Operating Income	(2,659)	167,738		165,079
Interest Income	1,386			1,386
Income Available to Service Debt	\$ (1,273)	\$ 167,738		\$ 166,465

OVERALL REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of cash-related pro forma operating expenses; recovery

of depreciation expense, a non-cash item, to provide working capital;³⁴ the average annual principal and interest payments on all long-term debts; and working capital that is in addition to depreciation expense.

Based upon the Commission findings and determinations made in this Order, the Commission finds that Cumberland District requires an increase in revenues from water sales of \$178,901, or 12.53 percent above the pro forma present water rate revenues as calculated below. This level of increase is required for Cumberland District to remain operationally and financially sound in order to provide adequate, efficient and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 1,286,754
Plus: Average Annual Principal and Interest Payments	287,805
Additional Working Capital	57,561
Overall Revenue Requirement	<u>1,632,120</u>
Less: Other Operating Revenue	(23,714)
Interest Income	(1,386)
Revenue Required from Rates	<u>1,607,020</u>
Less: Pro Forma Present Rate Service Revenues	(1,428,119)
Required Revenue Increase	<u><u>\$ 178,901</u></u>
Percentage Increase	<u><u>12.53%</u></u>

³⁴ The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

WATER LOSS SURCHARGE

In the Commission Staff's Report, Commission Staff recommended the Commission approve a Water Loss Reduction Surcharge of \$2.85 per active meter per month for 48 months to help lower system losses to levels closer to or within the regulatory standard for unaccounted for water loss. The Commission approves the surcharge in accordance with the subsequent discussion. The surcharge would produce approximately \$96,615 annually, and \$386,460 in total collections over the 4-year period.³⁵ The Commission will review the surcharge to determine whether it should be continued as part of the monitoring discussed below.

The annual surcharge collection reflects the amount disallowed for excessive water loss pursuant to 807 KAR 5:066, Section 6(3). The use of a surcharge is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for water loss.³⁶ In establishing water-loss surcharge, the Commission recognizes that the adjustments required to comply with the 15 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water district's ability to take the necessary action to focus on its leak detection and repair. Using a surcharge to fund a water utility's water loss reduction efforts allows the Commission to place strict controls governing the surcharge proceeds to ensure their

³⁵ Commission Staff's Report at 8-9

³⁶ See Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges* (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); and Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2020).

effective use, public acceptance of the surcharge and public confidence in the water utility's use of those funds. In its report titled *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* that was fully incorporated in the final Order in Case No. 2019-00041, Appendix L, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.³⁷

Therefore, the Commission finds that a monthly surcharge is a reasonable means for Cumberland District to recover the cost for its water leak detection efforts and repairs in order to reduce the increased expense and lost revenue from unaccounted-for water loss. The Commission will open a separate surcharge monitoring case. The Commission finds that a monthly water loss reduction surcharge of \$2.85 per active meter per month for 48 months, or until \$386,460 has been assessed, whichever occurs first, should be approved subject to the below conditions:

1. Within 120 days of the date of this Order, Cumberland District should file with the Commission a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss, and provide a detailed spending plan for the proceeds of a surcharge.

³⁷ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* at 24–25.

2. Cumberland District should deposit surcharge collection in a separate interest bearing account.

3. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Cumberland District should file with the Commission a monthly activity report that includes a statement of monthly surcharge billings and collections using the format in the Surcharge Reporting form,³⁸ a monthly surcharge bank statement, a list of each payment from the account, its payee, and a description of the purpose, and invoice supporting each payment.

4. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Cumberland District should file a monthly water-loss reports with the Commission.³⁹

5. Cumberland District should not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expense without prior Commission authorization.

6. Cumberland District should file requests to use surcharge proceeds into the record of this proceeding. The request should include a complete description of the equipment, project, or service for which approval is sought; bids, invoices, or price quotes as applicable; and a statement describing how the proposed purchase, project, or service is related to the qualified infrastructure improvement plan and the goal of reducing unaccounted-for water loss.

³⁸ The Surcharge Reporting form can be found at <https://psc.ky.gov/Home/UtilForms> under the Water tab.

³⁹ The report format is found at <https://psc.ky.gov/Home/UtilForms> under "Water Use & Loss Calculations (Excel format)".

7. Cumberland District should consider all surcharge collections as contributions and shall account for them in the manner that a Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

8. Cumberland District should debit monthly billings for the surcharge to customers' accounts receivable and credit the contribution account.

9. When Cumberland District collects the surcharge from the customers, it should debit special funds and credit the customer account.

10. For the purpose of evaluating whether adjustments in the surcharge are required, Cumberland District should file an annual report of surcharge activity and water loss improvement progress no later than April 30 of each year. The report should be based on the preceding year ended December 31 with reported surcharge billings and expenditures reflecting the amounts reported for surcharge activity in the financial and statistical Annual Report filed with the Commission and Cumberland District's audited financial statements.

11. Cumberland District should respond to any requests for information propounded by Commission Staff according to the date set forth in the request.

12. Cumberland District's failure to comply with any conditions attached to its assessment of the surcharge will result in termination of the surcharge and the refund of all surcharge proceeds previously collected.

RATE DESIGN

Cumberland District proposed to increase all of its monthly retail water service rates evenly across the board by approximately 18.21 percent. Cumberland District has not performed a cost-of-service study (COSS). Cumberland District stated that it did not

consider filing a COSS because there have not been any material changes in customer usage patterns to warrant it.

In the Commission Staff's Report, Commission Staff followed the method proposed by Cumberland District and allocated Commission Staff's calculated revenue increase across the board to Cumberland District's monthly retail water service rates. The Commission finds that, in the absence of a COSS, the proposed across-the-board method is an appropriate and equitable method to allocate the increased cost to Cumberland District's customers.

The rates set forth in Appendix A to this Order are based upon the revenue requirement the Commission finds is fair, just and reasonable, and will produce sufficient revenues to recover the required revenue of \$1,607,020 from water sales, which is an approximate 12.53 percent over normalized test-year water sales of \$1,428,119. The monthly bill of a typical residential customer using 3,059 gallons of water will increase from \$37.25 to \$44.77, an increase of \$7.52 or approximately 20.18 percent. The monthly bill of a typical residential customer using 3,059 gallons of water with the inclusion of the Water Loss Surcharge will increase from \$37.25 to \$47.62, an increase of \$10.37 or approximately 27.84 percent.

NONRECURRING CHARGES

In Commission Staff's Report, Commission Staff proposed a reduction to the nonrecurring charges in the amount of \$7,680⁴⁰ based upon calculations of revised rates that removed labor expenses as discussed below. As noted above, in its response to Commission's Staff Report, Cumberland District stated that it did not agree with the

⁴⁰ Commission Staff's Report at 7.

removal of the labor expenses from the nonrecurring charges but did not wish to contest the recommended adjustments.⁴¹ Cumberland District further stated that it inadvertently omitted a \$5 handling fee for returned checks assessed by the utility's bank, and requested that the Commission set the Returned Check Charge to \$8.50.⁴² In response to the utility's comments, Commission Staff reviewed the requested adjustment and concurred with Cumberland District's request that it should be included.

The Commission finds that, consistent with recent Commission decisions, labor costs paid for work during normal business hours should not be recovered through nonrecurring charges.⁴³ This is because personnel are paid during normal business hours, and their salaries should be and are recovered through base rates.⁴⁴ Further, 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. Thus, the Commission finds that the labor costs should be removed from the nonrecurring charges as proposed by Commission Staff, with the exception of the Returned Check Charge, which should be adjusted to reflect the bank fee.

The adjustments to the Nonrecurring Charges results in a decrease to the charges and an increase to the total revenue requirement of \$7,680 as shown below:

⁴¹ Cumberland District's Response to Commission Staff's Report at unnumbered page 1-2.

⁴² Cumberland District's Response to Commission Staff's Report at unnumbered page 1.

⁴³ 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.

⁴⁴ Case No.2020-00141, Nov. 6, 2020 Order.

	Num	Current Rate	Total Collected	Revised Rate	Inc / (Dec)	Pro Forma
<i>Miscellaneous Service Revenues</i>						
After Hours Charge	2	\$50.00	\$100	\$50.00	\$0	\$100
Field Collection Charge	87	\$35.00	3,045	\$18.00	(1,479)	1,566
Meter Re-read Charge	0	\$35.00	0	\$18.00	0	0
Meter Test Charge	0	\$65.00	0	\$18.00	0	0
New Service Charge	254	\$35.00	8,890	\$18.00	(4,318)	4,572
Re-Connection Charge	43	\$70.00	3,010	\$36.00	(1,462)	1,548
Returned Check Charge	18	\$25.00	450	\$3.50	(387)	63
Service Charge	2	\$35.00	70	\$18.00	(34)	36
Total			<u>\$15,565</u>		<u>(\$7,680)</u>	<u>\$7,885</u>

Based upon the above discussion, the nonrecurring charges reflected in Appendix A to this Order are reasonable and should be accepted.

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, as modified in this Order, are supported by the evidence of record and are reasonable. The Commission has historically used a DSC method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Therefore, applying the DSC method to Cumberland District's pro forma operations results in an Overall Revenue Requirement of \$1,632,120, a required revenue from water sales of \$1,607,020, and an increase in revenue from water sales of \$178,901, or 12.53 percent.

The Commission finds that allocating the calculated revenue increase across the board to Cumberland District's monthly water service rates, is just and reasonable.

IT IS THEREFORE ORDERED that:

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

2. The water service rates proposed by Cumberland District are denied.

3. The rates forth in Appendix A to this Order are approved for service rendered by Cumberland District on and after the date of this Order.

4. The Nonrecurring Charges set forth in Appendix A to this Order are approved for service rendered by Cumberland District on and after the date of this Order.

5. Within 20 days of the date of service of this Order, Cumberland District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved by this Order and their effective date, and also stating that the rates and charges were authorized by this Order.

6. Cumberland District shall use the midpoint of the depreciable lives of the NARUC Study ranges, as recommended by Commission Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. Cumberland District shall not make adjustments to accumulated depreciation or retained earnings to account for this change in the accounting estimate.

7. Within six months of the date of this Order, Cumberland District shall file with the Commission evidence that its commissioners' salaries were fixed by the Cumberland County Judge/Executive and approved by Cumberland Fiscal Court.

8. Within six months of the date of this Order, Cumberland District shall file with the Commission any evidence of benefits approved for the Commissioners by the Cumberland County Fiscal Court, if any such action is taken.

9. Any documents filed in the future pursuant to ordering paragraph 7 and paragraph 8 shall reference this case number and shall be retained in the post-case correspondence file.

10. Cumberland District is authorized to assess a monthly Water Loss Reduction Surcharge of \$2.85 per meter per month for 48 months, or until \$386,460 has been assessed, whichever occurs first, to fund its unaccounted-for water loss reduction efforts as set forth in the Commission Staff's Report, subject to the conditions set forth in ordering paragraph 10.

11. The Commission shall open a separate proceeding, Case No. 2023-00228 to monitor the surcharge proceeds collection and expenses, subject to the following conditions:

a. Within 120 days of the date of service of this Order, Cumberland District shall file with the Commission a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. Cumberland District shall deposit surcharge collections in a separate interest-bearing account.

c. On the 15th day of each month for 48 months from the date of this Order or until all surcharge proceeds are expended, Cumberland District shall file with the

Commission a monthly activity report that includes a statement of monthly surcharge billings and collections;⁴⁵ a monthly surcharge bank statement; a list of each payment from the account, its payee, a description of the purpose; and invoices supporting each payment.

d. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Cumberland District shall file a monthly water loss report with the Commission.⁴⁶

e. Cumberland District shall not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

f. Cumberland District shall file all requests to use surcharge proceeds in the record of this proceeding. A request shall include a complete description of the equipment, project, or service for which approval is sought; bids, invoices, or price quotes as applicable; and a statement describing how the proposed purchase, project, or service is related to the qualified infrastructure improvement plan and the goal of reducing unaccounted-for water loss.

g. Cumberland District shall consider all surcharge collections as contributions and shall account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

⁴⁵ The report format is found at <https://psc.ky.gov/Home/UtilForms> under "Surcharge Reporting (Excel format.)"

⁴⁶ The report format is found at <https://psc.ky.gov/Home/UtilForms> under "Water Use & Loss Calculations (Excel format)."

h. Cumberland District shall debit monthly billings for the surcharge to customers' accounts received and credit the contribution account.

i. When Cumberland District collects the surcharge from the customers, it shall debit special funds and credit the customer account.

j. No later than April 30 of each year, Cumberland District shall file in Case No. 2023-00228 a report of surcharge activity and water loss improvement progress based on the preceding year ended December 31 with reported annual surcharge billings and expenditures reflecting the amounts reported for surcharge activity in the financial and statistical Annual Report filed with the Commission and Cumberland District's audited financial statements. Cumulative surcharge billings and expenditures shall also be reported. A schedule of the estimated and actual progress of the water loss detection and repair program, actual expenditures made with surcharge proceeds, and encumbered amounts of future surcharge proceeds for the purpose of evaluating whether adjustments to the program or to the surcharge amount shall be provided.

k. Cumberland District shall respond to any requests for information propounded by Commission Staff as provided in those requests.

l. Cumberland District's failure to comply with any conditions attached to its assessment of the surcharge shall result in termination of the surcharge and the refund of all surcharge proceeds previously collected.

12. Cumberland District's failure to comply with the conditions set forth in ordering paragraph 10 shall result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

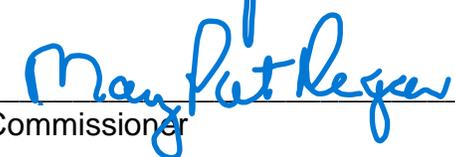
13. This case is closed and removed from the Commission's docket.

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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. 2022-00291 DATED OCT 05 2023

The following rates and charges are prescribed for the customers in the area served by Cumberland County 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	\$	32.75 Minimum Bill
Next	3,000 Gallons		0.00866 Per Gallon
Next	5,000 Gallons		0.00755 Per Gallon
Over	10,000 Gallons		0.00641 Per Gallon

1-Inch Meter

First	5,000 Gallons	\$	59.08 Minimum Bill
Next	5,000 Gallons		0.00755 Per Gallon
Over	10,000 Gallons		0.00641 Per Gallon

1 1/2-Inch Meter

First	12,500 Gallons	\$	112.47 Minimum Bill
Over	12,500 Gallons		0.00641 Per Gallon

2-Inch Meter

First	25,000 Gallons	\$	192.65 Minimum Bill
Over	25,000 Gallons		0.00641 Per Gallon

Dale Hollow State Park

First	300,000 Gallons	\$	1,956.56 Minimum Bill
Over	300,000 Gallons		0.00641 Per Gallon

Water Loss Reduction Surcharge

To be collected for 48 months or until a total amount of \$386,460 is collected for water loss reduction.	\$	2.85 Per Active Meter
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Nonrecurring Charges

After Hours Charge	\$50.00
Field Collection Charge	\$18.00
Meter Reread Charge	\$18.00
Meter Test Charge	\$18.00
New Service Charge	\$18.00
Re-Connection Charge	\$36.00
Returned Check Charge	\$8.50
Service Charge	\$18.00

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00291 DATED OCT 05 2023

The following is Commission Staff's detailed pro forma income statement for
Cumberland County Water District from Commission Staff's Report.

	Test Year	Adjustment	(Ref)	Pro Forma
Operating Revenues				
Sales of Water	\$ 1,467,059	\$ (38,940)	(A)	\$ 1,428,119
Late Payment Penalties		15,829	(B)	15,829
Miscellaneous Service Revenues		24,953	(C)	
		(17,068)	(C)	7,885
Other Water Revenues		33,112	(D)	
		(33,112)	(D)	0
Total Operating Revenues	1,467,059	(15,226)		1,451,833
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	311,763	39,738	(E)	
		(14,865)	(F)	336,636
Salaries and Wages - Commissioners	8,850	0	(G)	8,850
Employee Pensions and Benefits	51,803	14,157	(H)	65,960
Purchased Water	403,015	20,887	(I)	
		(85,666)	(J)	338,236
Purchased Power for Pumping	53,370	(10,785)	(J)	42,585
Materials and Supplies	121,822	(44,593)	(F)	77,229
Contractual Services	26,961			26,961
Transportation Expense	52,106			52,106
Insurance	21,389			21,389
Regulatory Commission Expense	53,982	(51,174)	(K)	2,808
Miscellaneous Expense	11,239	51,174	(K)	62,413
Total Operation and Maintenance Expenses	1,116,300	(81,127)		1,035,173
Taxes Other Than Income - FICA	28,401			28,401
Depreciation	325,017	(106,631)	(L)	
		4,794	(M)	223,180
Total Operating Expenses	1,469,718	(182,964)		1,286,754
Net Operating Income	(2,659)	167,738		165,079
Interest Income	1,386			1,386
Income Available to Service Debt	\$ (1,273)	\$ 167,738		\$ 166,465

*Cumberland County Water District
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