

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH)	CASE NO.
SHELBY WATER COMPANY FOR A RATE)	2022-00317
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On September 27, 2022,¹ North Shelby Water Company (North Shelby Water) filed its application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. North Shelby Water had been ordered to file a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or in the alternative, file a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary by July 19, 2022, in Case No. 2022-00154.² In its application, North Shelby Water calculated an increase in annual revenues from water sales of \$46,784, or 1.37 percent.³ North Shelby Water stated that it did not wish to adjust its rates.⁴ North Shelby

¹ North Shelby Water Company tendered its application on September 14, 2022. By letters dated September 19, 2022 and September 22, 2022, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on September 27, 2022.

² Case No. 2022-00154, *Electronic Application of North Shelby Water Company for a Purchased Water Adjustment Pursuant to KRS 278.015* (Ky. PSC July 27, 2022), Order.

³ Commission Staff's Report at 4.

⁴ Commission Staff's Report at 4.

Water did not provide notice to customers of a potential increase stating that “no rate change is proposed.”⁵

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated October 14, 2022, that was amended by the Commission’s November 18, 2022 Order, which, among other things, required Commission Staff to file a report on or before February 15, 2023, containing its recommendations regarding North Shelby Water’s application. North Shelby Water responded to two requests for information. Commission Staff’s Report was issued on February 8, 2023, and North Shelby Water filed its written responses to Commission Staff’s Report on February 21, 2023.

In Commission Staff’s February 8, 2023 report, Commission Staff found that North Shelby Water’s adjusted test-year operations support an overall revenue requirement of \$3,852,542 and that an annual increase of \$73,756, or 2.15 percent to the base water rates, is necessary to generate the overall revenue requirement.⁶ 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.⁷

In its February 21, 2023 written comments to Commission Staff’s Report, North Shelby Water disagreed with Commission Staff’s recommendation to increase rates in general as well as its recommended adjustment to remove labor expenses from its

⁵ North Shelby Water Company Application at 6 (tendered Sept. 14, 2022).

⁶ Commission Staff’s Report at 5.

⁷ Commission Staff’s Report at 5–6.

nonrecurring charges.⁸ However, North Shelby Water stated that it did not wish to contest these recommendations in this proceeding, but reserved the right to contest similar recommendations in future proceedings.⁹ North Shelby Water agreed with the remainder of Commission Staff's recommendations.¹⁰

On April 6, 2023, the Commission found that North Shelby Water had amended its application as of February 21, 2023, and ordered it to publish a customer notice for three consecutive weeks, and provide proof of publication within 30 days.¹¹ North Shelby Water tendered proof of publication on April 13, 2023, but it was found deficient on June 15, 2023.¹² On July 17, 2023, North Shelby provided proof of publication of customer notice for three consecutive weeks. There are no intervenors. The case 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 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 278.03 and case law, North Shelby Water is

⁸ North Shelby Water's Response to Commission Staff's Report (Response to Commission Staff's Report) (filed Feb. 21, 2023) at unnumbered page 1.

⁹ Response to Commission Staff's Report at unnumbered page 1

¹⁰ North Shelby Water's Response to Commission Staff's Report at unnumbered page 1.

¹¹ Order (Ky. PSC Apr. 6, 2023) at ordering paragraphs 1, 3-4.

¹² Order (Ky. PSC June 15, 2023).

allowed to charge its customers “only fair, just and reasonable rates.”¹³ Further, North Shelby Water 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. North Shelby Water reported water loss of 16.6842 percent in its 2021 Annual Report.¹⁴ With 16.6842 percent water loss, the annual cost of water in excess of 15 percent is \$23,089 and the total cost of water loss to North Shelby Water is \$228,720, as calculated below. The Commission encourages North Shelby District to be diligent in its efforts to identify sources of water loss on its system, since North Shelby District purchases all of its water.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 1,285,163	\$ 85,713	\$ 1,370,876
Water Loss Percent	16.6842%	16.6842%	
Total	\$ 214,419	\$ 14,301	\$ 228,720

Excess Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 1,285,163	\$ 85,713	\$ 1,370,876
Disallowed Percent	1.6842%	1.6842%	
Loss in Excess of Allowed Amount	\$ 21,645	\$ 1,444	\$ 23,089

¹³ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); *Pub. Serv. Comm’n v. Com. of Kentucky v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

¹⁴ *Annual Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 57.

The Commission urges North Shelby Water to address the issue of increasing water loss before the problem worsens and more extensive and costly remedies may be required.

BACKGROUND

North Shelby Water Company is organized pursuant to KRS Chapter 273 and provides water service to approximately 5,398 residential, commercial, industrial, public authorities, and public fire protection agencies in Shelby, Franklin, Henry, and Oldham counties, Kentucky.¹⁵ A review of the Commission's records indicates that North Shelby Water last obtained an adjustment of rates through an alternative rate adjustment case procedure in calendar year 2010.¹⁶

TEST PERIOD

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

SUMMARY OF REVENUES AND EXPENSES

Commission Staff's Report summarizes North Shelby Water's pro forma income statement as follows:

¹⁵ 2021 Annual Report at 12 and 49.

¹⁶ See Case No. 2009-00484, *Application of North Shelby Water Company for an Alternative Rate Adjustment* (Ky. PSC April 15, 2010), Order.

	Commission Staff's Report		
	Test Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 3,780,352	\$ (12,321)	\$ 3,768,031
Operating Expenses	3,486,124	(114,112)	3,372,012
Net Utility Operating Income	<u>\$ 294,228</u>	<u>\$ 101,791</u>	<u>\$ 396,019</u>

REVIEW AND MODIFICATIONS
TO COMMISSION STAFF'S FINDINGS

North Shelby Water proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In Commission Staff's Report, Commission Staff proposed additional adjustments. For the reasons discussed below, the Commission accepts the recommendations contained in the Commission Staff's Report with a slight modification identified below.

OPERATING REVENUE AND
OPERATING EXPENSES

In Commission Staff's Report, Commission Staff proposed adjustments. The Commission accepts the recommendations contained in the Commission Staff's Report with modification. The following is the Commission Staff's complete pro forma as modified by this Order:

	Commission Staff's Report			Commission Order		
	Test Year	Adjustment	(Ref)	Pro Forma	Adjustment	Pro Forma
Operating Revenues						
Sales of Water	\$ 3,408,671	\$ 26,226	(A)	\$ 3,434,897		\$ 3,434,897
Public Fire Protection	3,210			3,210		3,210
Late Payment Penalties	35,435	6,890	(B)	42,325		42,325
Miscellaneous Service Revenues	234,423	800	(C)			
		(40,044)	(C)	195,179		195,179
Rents from Water Property	85,212			85,212		85,212
Other Water Revenues	13,401	(5,393)	(D)			
		(800)	(D)	7,208		7,208
Total Operating Revenues	3,780,352	(12,321)		3,768,031	0	3,768,031
Operating Expenses						
Operation and Maintenance Expenses						
Salaries and Wages - Employees	494,157	14,072	(E)			
		(11,000)	(F)	497,229		497,229
Salaries and Wages - Commissioners	36,400	(10,800)	(G)	25,600	600	26,200
Employee Pensions and Benefits	319,128	15,976	(H)			
		(59,831)	(H)			
		10,392	(I)	285,665		285,665
Purchased Water	1,262,161	23,002	(J)			
		(21,257)	(J)	1,263,906		1,263,906
Purchased Power for Pumping	85,713	(1,444)	(J)	84,269		84,269
Materials and Supplies	259,100			259,100		259,100
Contractual Services	71,897			71,897		71,897
Transportation Expense	52,186			52,186		52,186
Insurance	63,462			63,462		63,462
Miscellaneous Expense	40,414			40,414		40,414
Total Operation and Maintenance Expenses:	2,684,618	(40,890)		2,643,728	600	2,644,328
Taxes Other Than Income - FICA	54,324	(867)	(K)	53,457		53,457
Depreciation	747,182	(72,355)	(L)	674,827		674,827
Total Operating Expenses	3,486,124	(114,112)		3,372,012	600	3,372,612
Net Operating Income	294,228	101,791		396,019	(600)	395,419
Interest Income	0	13,965	(M)	13,965		13,965
Income Available to Service Debt	\$ 294,228	\$ 115,756		\$ 409,984	\$ (600)	\$ 409,384

Billing Analysis. North Shelby Water provided usage data by meter size, listing the water usage and water sales revenue for the 12-month test year ended December 31, 2021.

North Shelby Water proposed to increase its test-year revenues from retail water sales of \$3,408,671 by \$26,226 to reflect the two increases in rates made during the year

of 2022 due to a purchased water adjustment (PWA).¹⁷ Commission Staff made adjustments to reflect the updated rates that are currently being charged per North Shelby Water's tariff on file with the Commission.

The Commission finds that these adjustments reflect the PWA that took place since the start of the test year and should be accepted.

Late Payment Penalties. In Commission Staff's Report, Commission Staff recommended an increase of \$6,890 to North Shelby Water's test year Late Payment Penalties revenues of \$35,435 to normalize late payment penalties to \$42,325, based on an average of the 2021 and 2022 data.¹⁸ This adjustment was made to exclude the effects of the moratorium on the collection of late payment fees because of the COVID-19 pandemic.¹⁹

The Commission finds that Commission Staff's recommendation is reasonable and that revenues from North Shelby Water's Late Payment Penalties should be increased by \$6,890 in order to normalize late payment penalties based on the average of the 2021 and 2022 data.

Miscellaneous Service Revenue. In Commission Staff's Report, Commission Staff recommended \$800 of Other Water Revenues be reclassified to Miscellaneous Service

¹⁷ Case No. 2022-00154, *Electronic Purchased Water Adjustment Filing of North Shelby Water Company*, (Ky. PSC July 11, 2022), Order; Case No. 2022-00225, *Electronic Purchased Water Adjustment Filing of North Shelby Water Company* (Ky. PSC Aug. 22, 2022), Order.

¹⁸ Commission Staff Report at 9, Adjustment B; see also North Shelby Water's Response to Commission Staff's Second Request for Information (North Shelby Water's Response to Staff's Second Request) (filed Dec. 22, 2022), Item 4, 4_Late_Charges.xlsx. Calculation: 2021 (\$28,840) + 2022 (\$55,810) = \$84,650 ÷ 2 = \$42,325 pro forma amount minus \$35,435 test year = \$6,890.

¹⁹ Commission Staff's Report at 9, Adjustment B.

Revenues based on North Shelby Water's response where it stated that return check fee income of \$800 was incorrectly classified as Other Water Revenues.²⁰

The Commission finds that Commission Staff's recommendation is reasonable and North Shelby Water's returned check fee should be reclassified to Miscellaneous Service Revenue because it was incorrectly classified as Other Water Revenues.

Nonrecurring Charges. In Commission Staff's Report, Commission Staff discussed North Shelby Water's nonrecurring charges, identified in Appendix A of this Order, and the inclusion of estimated labor costs in those charges. Following the Commission's recent decisions, Commission Staff recommended that because North Shelby Water personnel are currently paid during normal business hours and the labor costs are recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated to avoid double recovery of the same expense. Commission Staff reviewed the cost justification information provided by North Shelby Water and adjusted these charges by removing Field Labor costs at an average cost of \$29.44 per hour and Office/Clerical Labor costs at an average cost of \$5.83 per hour from those charges which occur during normal business hours. Commission Staff recommended reducing the nonrecurring charges to reflect the removal of those labor costs, as discussed in Appendix A, which would in turn require a reduction to Other Water Revenues in the amount of \$40,044, to reflect the change in the nonrecurring charges.²¹

²⁰ North Shelby Water's Response to Staff's Second Request, Item 1b.

²¹ Commission Staff's Report at 9, Adjustment C.

The Commission finds that Commission Staff's recommendations are consistent with recent Commission decisions that labor expenses resulting from work occurring during normal business hours should not be recovered through nonrecurring charges.²² 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 revised nonrecurring charges set forth in Appendix B to this Order are fair, just and reasonable and should become effective with the base rates approved in this case, and therefore, that a decrease of \$40,044 to Miscellaneous Service Revenues is reasonable.

Other Water Revenues. As noted above Commission Staff reclassified \$800 of returned check fee income from Other Water Revenues to Miscellaneous Service Revenues. Additionally, Commission Staff identified \$5,393²³ of Other Water Revenues that is not recurring and removed it from income. The \$5,393 is made up of the following, \$4,153 for Insurance Reimbursement, \$1,148 to reclassify incorrect posting, \$82 for an Overpayment to Oxmoor Toyota and \$10 for a bank error.

²² See Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Order at 19–20.

²³ Commission Staff's Report at 7, 10, Adjustment D. As part of the recommended adjustments to nonrecurring charges, the Commission notes that Commission Staff's Report indicated that the Connection/Turn On Charge After Hours should be \$45.00 as opposed to the current \$50.00 charge. As with Commission Staff's other recommendations, the Commission agrees. However, the Commission notes that the table calculating the expected revenue from the nonrecurring charge on page 7 of Commission Staff's report incorrectly listed the After Hours charge as being \$12.20 as opposed to the \$45.00 supported and recommended elsewhere in the report. That error did not affect the decrease in revenue calculated by Commission Staff associated with the reduced nonrecurring charges, because the revenue from nonrecurring charges was calculated as if that charge were never incurred.

The Commission finds that Commission Staff's recommendation is reasonable and that North Shelby Water's Other Water Revenues should be reduced by \$5,393 because the items noted above are nonrecurring and therefore, should be removed from Other Water Revenues. The Commission also agrees with that Commission's Staff's recommendation that the returned check fee should be reclassified as a Miscellaneous Service Revenue because it is nonrecurring and therefore, should be removed from Other Water Revenues.

Employee Salaries and Wages. In its application, North Shelby Water proposed an increase of \$111,637 to Salaries and Wages – Employees expense to reflect increases in wage rates since 2021.²⁴ In Commission Staff's Report, Commission Staff reviewed North Shelby Water's adjustment and noted that North Shelby Water classified a portion of 2021 labor costs to a number of non-salary line-item expenses. However, it did not incorporate these components into its analysis when adjusting salaries for inflation and turnover. Commission Staff recommended that the Commission increase test-year Employee Salaries and Wages expense by \$14,072 based on Commission Staff's calculation below.

²⁴ Application, Item 4, 4_SAO_w_Attachments.pdf.

	2_2021_Payroll (11-22-2022)	7_Rate_Study_2 021.xlsx]Wages (11-22-2022)
Primary	565,143.42	579,215.00
Director Fees - Bryan Franklin	7,800.00	0.00
Director Fees - John McGinnis	2,600.00	0.00
Christmas Bonus	11,000.00	11,000.00
Length of Service Bonus	13,252.00	13,252.00
Total for Comparative Reference	599,795.42	603,467.00
Less: Director Fees Included Above	(10,400.00)	0.00
Less: Christmas Bonus	(11,000.00)	(11,000.00)
Adjusted Salaries	578,395.42	592,467.00
Increase		14,071.58

Commission Staff's adjustment accounts for the net effect of turnover throughout the year as well as employee wage increases.²⁵ Additionally, Commission Staff removed \$11,000 in bonus payments to eleven full-time employees which have historically been excluded from pro forma wages.²⁶

The Commission finds that Commission Staff's proposed \$14,072 adjustment to Employee Salaries and Wages expense to reflect current wage rates as well as the removal of bonus payments is reasonable, and should be accepted.

Salary and Wages - Officers. North Shelby Water reported \$36,400 for Salaries and Wages – Officers and did not propose any adjustments. North Shelby Water provided annual compensation for each officer of \$25,600, which is \$10,800 less than the test

²⁵ Commission Staff's Report at 11, Adjustment E.

²⁶ Commission Staff's Report at 11, Adjustment F.

year.²⁷ Commission Staff reduced officers' salaries by \$10,800 to account for the salary difference in the test year amounts.²⁸

The Commission finds that Commission Staff's proposed \$10,800 adjustment to Employee Salaries and Wages expense to reflect the current salary and wages of North Shelby Water's Directors is appropriate and should be accepted.

In Commission Staff's Report, Commission Staff recommended a \$600 reduction to Salary and Wages – Officers expense to reflect an officer who has not received training and received pay that exceeds permitted annual compensation according to KRS 74.020(6).²⁹

After reviewing Commission Staff's adjustment, the Commission added back the \$600 to Salary and Wages – Officers expense to pro forma operating expense because KRS 74.020(6) applies only to water districts and not water associations or water companies.

Employee Benefits. In Commission Staff's Report, Commission Staff proposed two adjustments to North Shelby Water's employee benefit costs. First, based on its analysis of information provided by North Shelby Water, Commission Staff proposed an increase of \$15,976 to employee medical costs for the net effects of inflation and

²⁷ North Shelby Water's Response to Staff's Second Request, Item 3, Directors Compensation and Expiration.xlsx.

²⁸ Commission Staff's Report at 13, Adjustment G.

²⁹ See KRS 74.020(6) ("Each commissioner shall receive an annual salary of not more than thirty-six hundred dollars (\$3,600), which shall be paid out of the water district fund, except that beginning January 1, 1999, and subject to subsection (9) of this section, each commissioner who completes during an educational year a minimum of six (6) instructional hours of water district management training approved by the Public Service Commission may receive an annual salary of not more than six thousand dollars (\$6,000) to be paid out of the water district fund.").

turnover.³⁰ Second, Commission Staff proposed an adjustment to decrease North Shelby Water's Employee Pensions and Benefits expense by \$59,831 consistent with recent Commission precedent regarding employee benefit packages.³¹ Commission Staff's recommended adjustment reflects a reduction in the employee insurance premiums paid by North Shelby Water from 100 percent to 79 percent for single health insurance coverage and from 100 percent to 60 percent for dental insurance coverage based on contribution rates reported by the Bureau of Labor Statistics and The Willis Benchmarking Survey, respectively.³²

The Commission originally adopted its approach referred to in the Commission Staff's Report in an attempt to reign in employee benefit expenses by requiring all utility employees to pay an established portion of their premiums.³³ The Commission found that utilities subject to its regulatory oversight should limit their contributions to its employees' health plans to percentages that were more in line with those of other businesses in order to reduce its expenses.³⁴

³⁰ Commission Staff's Report at 13, Adjustment H.

³¹ Commission Staff's Report at 15–16, Adjustment F; *see also* Case No. 2019-00109, *Electronic Application of CitiPower, LLC for (1) An Adjustment of Rates Pursuant to 807 KAR 5:076; (2) Approval for a Certificate of Public Convenience and Necessity to Purchase Pipeline and Other Related Assets; and (3) Approval of Financing* (Ky. PSC Mar. 25, 2020), Order at 9 (“The Commission has placed greater emphasis on evaluating employee total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure fair rate development and has determined that in most cases, 100 percent employer-funded health and dental care does not meet that criteria.”).

³² Commission Staff's Report at 14.

³³ Case No. 2016-00174, *Electronic Application of Licking Valley Rural Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC Mar. 1, 2017) at 10.

³⁴ Case No. 2016-00174, *Electronic Application of Licking Valley Rural Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC Mar. 1, 2017) at 10.

Since Case No. 2016-00174, the Commission has consistently made ratemaking adjustments to reduce the cost of employee benefit packages paid by utilities when certain aspects of those benefit packages were found to be unreasonable based on a review of total salaries and fringe benefits.³⁵ The Commission evaluates the employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate.³⁶

The Commission finds that Commission Staff's proposed \$15,976 increase and \$59,831 decrease to Employee Pensions and Benefits expense is reasonable and should be accepted because Commission precedent has been to set employer contributions to health and dental insurance premiums to the national average.

County Employees' Retirement System. In its application, North Shelby Water proposed to increase Employee Pensions and Benefits by \$14,826 to normalize expenses related to County Employee's Retirement System contributions to the amount actually paid by North Shelby Water in the test period and to remove the effects of the journal entries made to conform to the requirements of GASB 68 and 75.³⁷ In the Commission Staff's Report, Commission Staff recalculated the pension contribution

³⁵ See Case No. 2021-00241, *Electronic Application of Christian County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Feb 24, 2022), Order at 7–8; Case No. 2021-00369, *Electronic Application of Christian County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 17, 2022), Order at 11–12; and Case No. 2021-00406, *Electronic Application of South Hopkins County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 19, 2022), Order at 9–10.

³⁶ See Case No. 2019-00109, Mar. 25, 2020 Order at 10–12.

³⁷ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment D.

based on adjusted salaries and determined the increase should be \$10,392 as presented in the benefits adjustment table below.³⁸

Adjustment Descriptions	North Shelby		Commission	Difference
	Water	Staff		
Increased Pension Cost on Wage Increase	\$ 14,826	\$ 10,392	\$	(4,434)
Remove Non-Cash Pension (1)	(129,887)	0		129,887
Bureau of Labor Statistics Adjustment	(45,757)	(59,831)		(14,074)
Medical Inflation		15,976		15,976
Total Adjustments	<u>\$ (160,818)</u>	<u>\$ (33,463)</u>	<u>\$</u>	<u>127,355</u>
Pro Forma Balance	<u>\$ 158,310</u>	<u>\$ 285,665</u>	<u>\$</u>	<u>127,355</u>

(1) North Shelby Water reduced expense for non-cash pension which was not included in their test year amount.

The Commission finds that Commission Staff's proposed \$10,392 adjustment to Employee Pensions and Benefits expense is reasonable and is accepted because it reflects the current contribution amount to County Employee's Retirement System by North Shelby Water.

Excess Water Loss. North Shelby Water's test year water loss was 16.6842 percent.³⁹ 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 its application, North Shelby Water proposed a decrease to Purchased Water Expense of \$21,257 to account for the association's water loss in excess of 15 percent.⁴⁰ In addition, North Shelby Water proposed a net decrease of \$1,444 to Purchased Power to reflect the disallowance of Purchase Power Expense attributable to

³⁸ Commission Staff's Report at 15-16, Adjustment I.

³⁹ Commission Staff's Report at 2-3.

⁴⁰ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment F.

water loss above 15 percent.⁴¹ In Commission Staff's Report, Commission Staff agreed with North Shelby Water's proposed adjustments.

The Commission finds North Shelby Water's proposed \$21,257 decrease to Purchased Water expense and \$1,444 decrease to Purchased Power, is known and measurable, and should be accepted because the adjustments accurately calculate Commission regulation 807 KAR 5:066, Section 6(3), limits on water loss.

Purchased Water. In Commission Staff's Report, Commission Staff identified two PWAs that were approved during 2022 that were not reflected in North Shelby Water's Schedule of Adjusted Operations.⁴² Commission Staff increased purchased water cost by \$23,002 to reflect the cost effect of the PWAs.⁴³

The Commission finds Commission Staff's proposed \$23,002 adjustment to Purchased Water expense is reasonable and is accepted because it reflects the current purchase rate of water for North Shelby Water.

Payroll Taxes. In its application, North Shelby Water proposed to decrease Taxes Other than Income by \$867. In Commission Staff's Report, Commission Staff recommended that the Commission accept North Shelby Water's proposed adjustment to decrease Payroll Tax expense by \$867.⁴⁴

⁴¹ Application, Attachment 4, Statement of Adjusted Operations, References, Adjustment F.

⁴² Case No. 2022-0054, *Electronic Purchased Water Adjustment Filing Of North Shelby Water Company* (Ky. PSC July 1, 2022); and Case No. 2022-00225, *Electronic Purchased Water Adjustment Filing of North Shelby Water Company* (Ky. PSC July 19, 2022).

⁴³ Test Year Purchased Power Expense \$1,158,790 / Gallons Purchased in Test Period 413,582.2 = Average Cost per 1,000 gallons \$2.80.

⁴⁴ Commission Staff's Report at 17, Adjustment K.

The Commission finds, based on the evidence of record, that North Shelby Water's proposed payroll tax adjustment accurately reflects the level of North Shelby Water's payroll tax expense using the pro forma Employee Salaries and Wages expense and that the test-year Commissioner Salaries and Wages expense, is reasonable and is accepted.

Depreciation Expense. In its application, North Shelby Water reported test year Depreciation Expense of \$747,182.⁴⁵ North Shelby Water decreased its test year depreciation by \$72,355 to reflect adjustments of asset service lives to the midpoint of service life range set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled, *Depreciation Practices for Small Water Utilities* (NARUC Study). In Commission Staff's Report, Commission Staff agreed with North Shelby Water's decrease to depreciation expense of \$72,355 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.⁴⁶

The Commission finds that this adjustment to Depreciation Expense is reasonable and should be accepted because the Commission has historically relied upon the NARUC Study to evaluate the reasonableness of the depreciation practices of small water utilities.

Interest Income. North Shelby Water did not report interest income in its application. In its response to Commission Staff's First Request for Information (Staff's First Request), North Shelby Water stated that \$13,965 of interest income was erroneously not included from its Schedule of Adjusted Operations or its Revenue

⁴⁵ Application, ARF-SAO.pdf.

⁴⁶ Commission Staff's Report at 17–18, Adjustment L.

Requirements Schedule.⁴⁷ In the Commission Staff's Report, Commission Staff increased interest income by \$13,965 to match what North Shelby Water submitted in its 2021 annual report.⁴⁸

The Commission finds that Commission Staff's proposed \$13,965 adjustment to Interest Income to reflect the actual test year Interest Income is reasonable and is accepted.

REVENUE REQUIREMENT

Commission Staff's Report recommended using the Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital; (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense. The Commission agrees with using the DCS methodology since North Shelby Water has significant long term debt payments associated with seven outstanding loans.⁴⁹ Commission Staff calculated recovery of the average annual principal and interest payments on its indebtedness on a five-year average for the years 2022 through 2026. Additionally, Commission Staff calculated 20 percent of average annual debt payments to provide additional working capital.

Based upon the Commission's findings and determinations made in this Order, North Shelby Water requires an increase in revenues of \$74,956, or 2.18 percent above

⁴⁷ North Shelby Water's Updated Response to Staff's First Request (filed Nov. 22, 2022), Item 7c.

⁴⁸ Commission Staff's Report at 18, Adjustment M.

⁴⁹ Commission Staff's Report at 19, Average Annual Principal and Interest Payments.

the pro forma present rate revenues, as calculated below. This increase is required for North Shelby Water to remain operational and financially sound and have an opportunity to provide adequate, efficient and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 3,372,612
Plus: Average Annual Principal and Interest Payments	400,942
Additional Working Capital	80,188
	3,853,742
Overall Revenue Requirement	3,853,742
Less: Other Operating Revenue	(329,924)
Other Operating Income	0
Interest Income	(13,965)
	3,509,853
Revenue Required from Rates	3,509,853
Less: Pro Forma Present Rate Service Revenues	(3,434,897)
	74,956
Required Revenue Increase	\$ 74,956
Percentage Increase	2.18%

RATE DESIGN

North Shelby Water stated that it did not wish to increase its rates.⁵⁰ Since the Commission’s investigation in Case No. 2019-00041,⁵¹ the Commission has focused greater attention on financial review of water districts and associations to ensure these utilities have adequate resources to provide adequate, efficient and reasonable water service as required by KRS 278.030(2). North Shelby Water has not performed a COSS. North Shelby Water stated that it did not complete a COSS as there were no material changes in the water system. In the Commission Staff’s Report, Commission Staff followed the method proposed by North Shelby Water and allocated Commission Staff’s calculated revenue increase across the board to North Shelby Water’s monthly retail

⁵⁰ Application, Attachment 2, Reasons for Application.

⁵¹ Case No. 2019-00041, *Investigation into Excessive Water Loss by Kentucky’s Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

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 North Shelby Water's customers.

During the pendency of this case, North Shelby Water filed Case No. 2023-00205⁵², a PWA application to increase its rates. The Commission issued a final Order in that case on July 20, 2023, setting a PWA factor of \$0.09 per 1,000 gallons.⁵³ As such, the proposed rates provided in Commission Staff Report have been adjusted to include the impact of the approved PWA factor.

The rates set forth in Appendix B to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenues from water sales to recover the \$3,509,853 Revenue Requirement from rates, an approximate 2.18 percent over the normalized test-year water sales of \$3,434,897. The monthly bill of a typical residential customer using 5,140 gallons, including the water loss recovery surcharge, will increase from \$48.01 to \$49.05, an increase of \$1.04, or approximately 2.17 percent.⁵⁴

North Shelby Water stated that the most appropriate effective date for any increase in monthly or nonrecurring charges should be effective on the 20th of the Month.⁵⁵ The Commission finds that North Shelby Water's request is reasonable and therefore the rates

⁵² Case No. 2023-00205, *Electronic Purchased Water Adjustment Filing of North Shelby Water Company*, (Ky. PSC, July 7, 2023), Order.

⁵³ Case No. 2023-00205, July 7, 2023 Order.

⁵⁴ To determine the typical residential customer's usage, the Commission used the 5/8" x 3/4" usage from the Application, Exhibit 5. 323,841,600 gallons divided by 62,990 bills = the typical residential customer usage of approximately 5,140 gallons per month.

⁵⁵ North Shelby Water's Updated Response to Staff's First Request, Item 17.

set forth in Appendix B to this Order are approved for services rendered by North Shelby Water on and after December 20, 2023.

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, with minor modifications discussed above, are supported by the evidence of record and are reasonable. The Commission further finds that allocating the calculated revenue increase across the board to North Shelby Water's monthly water service rates to be fair, just and reasonable. Thus, the Commission finds that the North Shelby Water's proposal to not adjust rates should be denied and that the water service rates, and nonrecurring charges set forth in Appendix B to this Order are fair, just and reasonable and should be approved for service rendered by North Shelby Water on December 20, 2023.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report are adopted as modified in this Order and incorporated by reference into this Order.
2. The water service rates proposed by North Shelby Water are denied.
3. The water service rates set forth in Appendix B to this Order are approved for services rendered by North Shelby Water on December 20, 2023.
4. The nonrecurring charges set forth in Appendix B to this Order are approved for services rendered by North Shelby Water on December 20, 2023.
5. North Shelby Water 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. North Shelby Water shall not make adjustments to accumulated depreciation or retained earnings to account for this change in the accounting estimate.

6. Within 20 days of the date of service of this Order, North Shelby Water 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 stating that the rates and charges were authorized by this Order.

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

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PUBLIC SERVICE COMMISSION



Chairman



Vice Chairman



Commissioner

ENTERED
DEC 15 2023
KENTUCKY PUBLIC SERVICE COMMISSION
rcs

ATTEST:

 *For*

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00317 DATED DEC 15 2023

* Denotes Rounding

Nonrecurring Charges Adjustments

Turn-on/InspServLine/Recon/ReReading/ServInsp/MeterInv			
	Utility Revised Charge	Staff Revised Charge	
Field Labor (\$22.55 at 1 hours)	\$ 22.55	\$ -	
Office Supplies	\$ 1.00	\$ 1.00	
Office Labor (\$21.00 at .25 hours)	\$ 5.25	\$ -	
Transportation	\$ 11.20	\$ 11.20	
Total Revised Charge	<u>\$ 40.00</u>	<u>\$ 12.20</u>	
Current Rate	\$ 40.00		
After Hours			
	Utility Revised Charge	Staff Revised Charge	
Field Labor (\$32.55 at 1 hours)	\$ 32.55	\$ 32.55	
Office Supplies	\$ 1.00	\$ 1.00	
Office Labor (\$21.00 at .25 hours)	\$ 5.25	\$ -	
Transportation	\$ 11.20	\$ 11.20	
Total Revised Charge	<u>\$ 50.00</u>	<u>\$ 45.00</u>	
Current Rate	\$ 50.00		
Membership Fee			
	Utility Revised Charge	Staff Revised Charge	
Office Supplies	\$ 5.50	\$ 5.50	
Office Labor (\$21.00 at .5 hours)	\$ 10.50	\$ -	
Total Revised Charge	<u>\$ 16.00</u>	<u>\$ 5.50</u>	
Current Rate	\$ 16.00		
Meter Test Charge			
	Utility Revised Charge	Staff Revised Charge	
Field Materials			
Field Labor (\$22.55 at 3 hours)	\$ 67.65	\$ -	
Office Supplies	\$ 1.00	\$ 1.00	
Office Labor (\$21.00 at .25 hours)	\$ 5.25	\$ -	
Transportation	\$ 11.20	\$ 11.20	
*Total Revised Charge	<u>\$ 85.00</u>	<u>\$ 12.20</u>	
Current Rate	\$ 85.00		
Return Check			
	Utility Revised Charge	Staff Revised Charge	
Bank Charge	\$ 15.00	\$ 15.00	
Total Revised Charge	<u>\$ 15.00</u>	<u>\$ 15.00</u>	
Current Rate	\$ 15.00	\$ 15.00	

	Num	Current Rate	Total	Revised Rate	Adj	Pro Forma
<i>Miscellaneous Service Revenues</i>						
After Hours	0	\$50.00	0	\$45.00	0	-
Membership Fee	481	\$16.00	7,696	\$5.50	(5,051)	2,646
Meter Test Charge	3	\$85.00	255	\$12.20	(218)	37
Returned Check Charge	52	\$15.00	800	\$15.00	(20)	780
Turn-on, Insp Serv Line, Recon Re-reading, Serv Insp, Meter Inv	1,147	\$40.00	48,749	\$12.20	(34,755)	13,994
Total Miscellaneous Service Revenues			<u>\$57,500</u>		<u>(\$40,044)</u>	<u>\$17,456</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00317 DATED DEC 15 2023

The following rates and charges are prescribed for the customers in the area served by North Shelby 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 Water Rates

5/8- x 3/4-Inch Meter

First	2,000 Gallons	\$	23.71	Minimum Bill
Next	3,000 Gallons		0.00807	Per Gallon
Next	5,000 Gallons		0.00665	Per Gallon
Next	40,000 Gallons		0.00596	Per Gallon
Over	50,000 Gallons		0.00526	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$	47.92	Minimum Bill
Next	5,000 Gallons		0.00665	Per Gallon
Next	40,000 Gallons		0.00596	Per Gallon
Over	50,000 Gallons		0.00526	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$	81.22	Minimum Bill
Next	40,000 Gallons		0.00596	Per Gallon
Over	50,000 Gallons		0.00526	Per Gallon

2-Inch Meter

First	15,000 Gallons	\$	111.02	Minimum Bill
Next	35,000 Gallons		0.00596	Per Gallon
Over	50,000 Gallons		0.00526	Per Gallon

3-Inch Meter

First	35,000 Gallons	\$	230.22	Minimum Bill
Next	15,000 Gallons		0.00596	Per Gallon
Over	50,000 Gallons		0.00526	Per Gallon

Nonrecurring Charges

Connection/Turn On Charge	\$12.20
Connection/Turn On Charge After Hours	\$45.00
Inspection of Service Line	\$12.20
Membership Fee	\$5.50
Meter Test Charge	\$12.20
Reconnection Fee	\$12.20
Reconnection Fee After Hours	\$45.00
Returned Check Charge	\$15.00
Service Investigation Charge	\$12.20

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