

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GRAYSON)
COUNTY WATER DISTRICT FOR A RATE) CASE NO. 2021-00191
ADJUSTMENT PURSUANT TO 807 KAR 5:076)

FIRST SUPPLEMENTAL RESPONSE OF GRAYSON COUNTY WATER DISTRICT
TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

FILED: September 21, 2021

GRAYSON COUNTY WATER DISTRICT

Response to Commission Staff's First Request for Information Case No. 2021-00191

Question No. 7

Responding Witnesses: Kevin Shaw/Legal Counsel

Q-7. Provide cost justification for all nonrecurring charges.

A-7. Original Response:

In April 2019 Grayson County Water District (“Grayson District”) gave notice of revisions to its nonrecurring charges and provided cost justification to support these revisions. See TFS 2019-00208. The Commission, after review of this evidence, permitted these revisions to become effective on May 4, 2019. The cost justification submitted in support of these revisions remains valid and is attached as Attachment 7 to this Response. Grayson District’s nonrecurring charges for nonrecurring services performed during business hours include the cost of labor necessary to perform these services.

Grayson District’s nonrecurring charges are consistent with 807 KAR 5:006, Section 9, which provides that a utility may “make special nonrecurring charges to recover *customer-specific costs* incurred that would otherwise result in monetary loss to the utility or increased rates to other customers to whom no benefits accrue from the service provided or action taken.”¹ The regulation does not limit a utility’s recovery to the marginal or incremental costs associated with an activity but rather defines a nonrecurring charge as a fee or charge “assessed to a customer to recover the specific cost of an activity.”² The information at Attachment 7 details the precise customer-specific costs, including the cost of labor, to provide each nonrecurring service. Grayson District’s current charges for nonrecurring services reflect the actual customer-specific costs to provide those services. A customer receiving a nonrecurring service pays no more than the cost that Grayson District incurs to provide the service.

Grayson District has properly included in its nonrecurring charges the labor costs to provide nonrecurring services. The American Water Works Association’s *Principles of Water Rates, Fees, and Charges* (7th ed. 2017), a source to which the Kentucky Public Service Commission frequently refers, expressly states that direct and indirect labor costs should be include in the calculation of nonrecurring charges.³ It notes that when developing nonrecurring charges “it is critical to accurately estimate *the true and full cost of labor* that goes into service delivery.”⁴

¹ 807 KAR 5:006, Section 9(1) (italics and bolding added).

² *Id.* at Section 1(6). See also 807 KAR 5:011, Section 1(4).

³ *Principles of Water Rates, Fees, and Charges* at 258-261.

⁴ *Id.* at 259 (italics and bolding added).

The inclusion of labor costs in these fees does not result in the double recovery of those costs. When establishing rates for water service, the cost of labor related to the provision of nonrecurring services is included in Grayson District's test period proforma operating expenses. These proforma operating expenses are added to Grayson District's average annual debt service requirement and its debt coverage requirement to determine Grayson District's annual total revenue requirement. Grayson District's miscellaneous revenues, including revenues from nonrecurring charges, are deducted from the annual total revenue requirement to determine the *total revenue requirement from rates*. From this amount, Grayson District's rates for water service are determined. Because revenues from the nonrecurring charges have been deducted and are not included in *the total revenue requirement from rates*, none of the costs recovered through nonrecurring charges – including labor costs, are recovered through Grayson District's rates for water service. See Application, Exhibit D.

The Commission has expressed concerns that water utilities may unduly rely upon the revenue from nonrecurring charges and be prone to suffer revenue shortfalls when the demand for nonrecurring services declines.⁵ To limit these risks, the Commission has for some utilities elected to exclude labor costs from nonrecurring charges for nonrecurring services provided during business hours. That risk is not present in Grayson District's case. For the adjusted test period, revenues from non-recurring services represent less than 1.8 percent of total adjusted test period revenues (\$67,800 out of total operating revenues of \$3,832,691). If the proposed rates are approved, revenues from nonrecurring services will represent less than 1.7 percent of total utility revenues. Moreover, the proposed rates reflect the declining number of nonrecurring charges assessed in the period from 2015-2020. Simply put, Grayson District does not significantly rely upon revenue from non-recurring services. It does, however, believe that “any practice that matches a customer's rate with the cost to serve that customer enhances equity” and that, by charging the actual cost for a service, it will be better positioned to manage the demand for that service.⁶

Supplemental Response:

In its April 2019 filing, Grayson District did not propose to amend its return check fee. Accordingly, that filing did not contain any cost justification for the charge. Cost justification for the returned check fee is attached to this supplemental response.

⁵ See, e.g., *Electronic Application of Ohio County Water District for An Alternative Rate Adjustment*, Case No. 2020-00167 (Ky. PSC Dec. 3, 2020) at 4 (“Including fixed costs that Ohio District will incur regardless of the number of nonrecurring service activities it conducts will create a mismatch between how Ohio District incurs expenses, such as salary and wage expense, and how it recovers those expenses from customers. For a publicly owned, nonprofit utility such as Ohio District that operates on thin margins, the Commission finds it is reasonable and necessary to provide appropriate rates to help ensure the health of the utility's operations.”).

⁶ *Principles of Water Rates, Fees, and Charges* at 253.

NONRECURRING CHARGE COST JUSTIFICATION

Type of Charge: Returned Check Fee

1. Field Expense:

A. Materials (Itemize)

<hr/>	\$ <hr/>
<hr/>	<hr/>
<hr/>	<hr/>

B. Labor (Time and Wage)

<hr/>	<hr/>
-------	-------

Total Field Expense \$ 0

2. Clerical and Office Expense

A. Supplies \$

B. Labor \$14.95 (.42 hours @ \$35.59/hour)

Total Clerical and Office Expense \$ 14.95

3. Miscellaneous Expense

A. Transportation \$ 0

B. Other (Itemize)

<u>Bank Fee</u>	<u>10.00</u>
<hr/>	<hr/>
<hr/>	<hr/>

Total Miscellaneous Expense \$ 10.00

Total Nonrecurring Charge Expense \$ 24.95 (rounded to \$25.00)