

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF COLUMBIA/ADAIR)
UTILITIES DISTRICT FOR A RATE ADJUSTMENT) CASE NO. 2021-00315
PURSUANT TO 807 KAR 5:076)

RESPONSE TO COMMISSION STAFF REPORT

Pursuant to the Commission’s Order of September 23, 2021, Columbia/Adair Utilities District aka Adair County Water District (“Adair District”) responds to the Commission Staff Report (“Report”) as follows:

1. The Adair District reserves its right to contest specific recommendations listed in the Report in future Commission proceedings, but accepts for purposes of this proceeding the Report’s recommended revenue requirement and proposed rates; if the Commission will phase in the proposed rates over at least a **three-year period**. Provided that the Report’s recommended water service rates are accepted without change, Adair District does not request a conference with Commission staff and waives its right to a hearing in this matter.

Adair District acknowledges that the Report’s recommended rates will result in rates higher than Adair District’s proposed rates initially primarily because the Commission Staff Report did not agree with the request to phase in the inclusion of depreciation into the revenue calculations. Adair District feels that phasing in the depreciation expense is a fair way to pass on a large rate increase to its customers. Adair District has operated very well since its inception without the “working capital” including depreciation would provide. By phasing it in, Adair District would still have more working capital than it has had in the past. The median household income for Columbia is 66 percent of the Kentucky state median household income and for Adair County it is 72 percent of the state median

household income. Funding sources use these benchmarks to determine interest rates and grant eligibility. Based on the median household incomes Adair District qualifies for the lowest interest rate with the Kentucky Infrastructure Authority and Rural Development. The median household income levels also qualify it for grant funding from Rural Development. These factors demonstrate why Adair District has concerns about not phasing in the depreciation expense. Many of its customers, especially those that are also sewer customers will have difficulty handling such a large increase at one time.

The Commission has approved phasing in of rates in the past and as recent as November 2021. In case no. 2021-094, the Commission wrote ***“The record contains no evidence that permitting Garrison District to assess sewer rates at a level lower than could be supported would result in any degradation or reduction in the quality of service that Garrison District currently provides. A utility may assess rates that fail to produce a level of revenues that accepted ratemaking methodologies would regard as sufficient or adequate. Absent evidence that the quality of the utility’s service will decline or be degraded as a result of this level of revenue, the rate phase-in plan should be approved.”***

Adair District urges the Commission to give it the same consideration given Garrison District regarding phasing in water rates. Adair District feels strongly about phasing in the depreciation expense, yet it realizes that if it requested a conference and/or a hearing with the Commission, it would cost Adair District even more in attorney fees and staff time. That would only add to the hardship on its customers. For the forgoing reasons, Adair District respectfully request the Commission to phase in the water rates over at least a three-year period.

2. While Adair District accepts for purposes of this proceeding the Report’s recommended revenue requirement and proposed rates, it does not agree with Commission Staff’s recommended disallowance of employee health and dental insurance expenses. Commission Staff has not considered the value of total compensation package provided to Adair District employees, the individual elements of the health and dental insurance

coverage provided to Adair District employees, labor market conditions, or the level of benefits generally provided to employees in the utility sector or among Kentucky's water utilities. It has ignored the Bureau of Labor Statistics' findings regarding the portion of employee health insurance expense provided by government entities and instead chose to use the private employer contribution rate even though Adair District is a government entity and political subdivision.

3. While Adair District accepts for purposes of this proceeding the Report's recommended revenue requirement and proposed rates, it does not agree with the Report's recommendation that labor costs related to the non-recurring charges listed in Appendix A of the Report be removed from those charges.
 - a. Adair District's current 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 customer 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 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 Adair District has provided customer specific costs including the cost of labor to provide each nonrecurring service. Adair 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 Adair District incurs to provide the service.

807 KAR 5:006, Section 9(1)
Id at Section 1(6). See also 807 KAR 5:011, Section 1(4)

- b. 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 Adair District's test period proforma operating expenses. These proforma operating expenses are added to Adair District's average annual debt service requirement and its debt coverage requirement to determine Adair District's annual total revenue requirement. Adair 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, Adair District's rates for water service are determined.

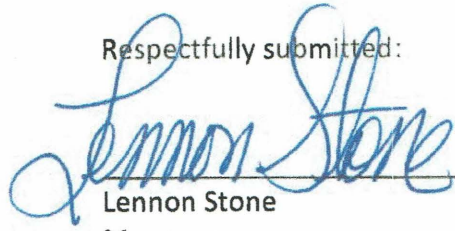
Because revenues from the nonrecurring changes have been deducted and are not included in *the total revenue requirement from rates*, none of the costs recovered through nonrecurring charges – including labor costs, are recovered through Adair District's rates for water service.

4. Adair District does not object to Commission Staff's recommendations regarding the useful lives of various asset types but reserves the right to contest such recommendations in future rate proceedings. Adair District takes no position on whether the Commission should require the Commission Staff-recommended useful lives be implemented for accounting purposes.

WHEREFORE, Adair District requests that the Commission issue an Order approving the rates recommended in the Commission Staff Report.

DATED: December 27, 2021

Respectfully submitted:



Lennon Stone
Manager
Columbia/Adair Utilities District