

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. 2021-00316
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 sewer 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.

2. 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. During development of the Alternative Rate Filing, Adair District felt that phasing in the depreciation expense was a reasonable way to pass on such a large rate increase to its customers. The rate adjustment proposed in the Report is quite large and the Adair District still feels that a phase-in is warranted to help its customers. Adair District has operated very well since its inception without the “working capital” including depreciation would provide. By phasing depreciation in, Adair District would still have

more working capital annually 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 will have difficulty handling such a large increase at one time, especially the low-income sewer customers who are also water customers.

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 sewer 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 sewer rates over at least a three-year period.

3. 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.

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 21, 2021

Respectfully submitted:



Lennon Stone
Manager
Columbia/Adair Utilities District