

COMMONWEALTH OF KENTUCKY

BEFORE THE COMMISSION

In the Matter of:

**ELECTRONIC APPLICATION OF BRACKEN)
COUNTY WATER DISTRICT FOR A RATE) CASE NO. 2021-00301
ADJUSTMENT PURSUANT TO 807 KAR 5:076)**

**RESPONSE OF BRACKEN COUNTY WATER DISTRICT
TO COMMISSION STAFF REPORT**

Bracken County Water District (“Bracken District”) submits its Response to the Commission Staff Report on Bracken District’s application for an adjustment of its rates for water service.

Except as noted below, Bracken District accepts for purposes of this proceeding the findings and recommendations set forth in the Staff Report and does not request a hearing on those findings or a conference with Commission Staff. Acceptance of those findings and recommendations does not constitute agreement with them nor does Bracken District waive its right to contest or dispute such findings and recommendations in future proceedings. As to the findings to which it takes exception, Bracken District does not request a hearing on those findings or a conference with Commission Staff, but requests that the Public Service Commission (“Commission”) consider the argument and evidence set forth in this Response in rendering its decision on the proposed rates.

Pursuant to the Commission’s Order of February 17, 2022, Bracken District specifically accepts, subject to the exceptions noted below, the rates for general water service recommended in the Commission Staff Report and requests that they be authorized at the earliest possible date.

Exceptions to Findings

Revenue Requirement Determination. Commission Staff failed to consider Bracken District's adjusted revenues from late payment fees when calculating Revenue Required from Rates.¹ To determine Revenue Required from Rates, Commission Staff deducted Other Operating Revenue, Interest Income and Nonutility Income from Overall Revenue Requirement. In its report, Commission Staff states Other Operating Revenue as \$6,241.² Other Operating Revenue, however, consists of Forfeited Discounts (or late payment penalties), Miscellaneous Service Revenues, Rents from Water Property and Other Water Revenues.³ Although Commission Staff had found the proposed proforma level for late payment penalties of \$28,416 was reasonable,⁴ it did not include that revenue in Other Operating Revenue. If proforma late payment penalty revenue is included, Revenue Required from Rates is reduced from \$2,012,567 to \$1,984,151.

Purchased Water and Purchased Power. Commission Staff established proforma Purchased Water expense as \$373,120 and proforma Purchased Power expense as \$44,393.⁵ In its Application, Bracken District advised the Commission of its recent discovery that the Augusta Water Treatment Plant master meter through which Bracken District purchases water from the City of Augusta had been improperly calibrated during the test period and had overstated the volume of water purchased.⁶ On June 1, 2022, Bracken District and the City of Augusta reached an agreement on the volume of water for which Bracken District was incorrectly billed between August 4, 2020 and November 30, 2021 and the amount of refund resulting from the incorrect

¹ Staff Report at 16.

² *Id.* See also Staff Report at 11 (showing the determination of Pro Forma Test Year NRC Revenue).

³ See ARF Form 1 – Attachment SAO-W. Attachment SAO-W refers to “Other Water Revenues.” ARF Form 1 – Attachment RR-DR refers instead to “Other Operating Revenue.” Bracken District believes that the references to “Other Operating Revenue” in Attachment RR-DR are referring to “Other Water Revenues.”

⁴ Staff Report at 9-10.

⁵ *Id.* at 12-13.

⁶ Application, Exhibit C, References G and H.

billing. As shown in Exhibit A to this Response, the corrected level of water purchases results in a proforma Purchased Water expense of \$373,041 and a proforma Purchased Power expense of \$45,438.

Nonrecurring Charges. Bracken District disagrees with the Report's recommendation that labor costs related to the non-recurring charges listed on page 7 of the Report be removed from those charges. If the recommendation is implemented, readily identifiable costs imposed by individual users for services provided only to those users will be allocated to general service customers, forcing those customers to subsidize those services even though they receive no benefit from them. Such a result is neither fair nor just nor reasonable.

Bracken 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 customers to whom no benefits accrue from the service provided or action taken."⁷ 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."⁸ Bracken District has provided precise customer-specific costs, including the cost of labor, for each nonrecurring service. Bracken 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 Bracken District incurs to provide the service.

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

⁸ *Id.* at Section 1(6). *See also* 807 KAR 5:011, Section 1(4).

Labor costs are properly included in charges 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 Commission frequently refers, expressly states that direct and indirect labor costs should be include in the calculation of nonrecurring charges.⁹ 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.”¹⁰

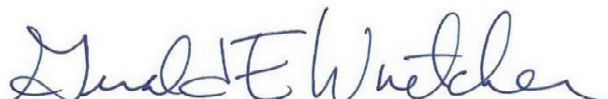
While it disagrees with the Report’s recommendation on these charges, it will not contest the recommendation in this proceeding but reserves the right to challenge the exclusion of labor costs from nonrecurring charges in future Commission proceedings.

Conclusion

WHEREFORE, Bracken District requests that the Commission carefully consider the arguments presented in this Response and proceed in an expeditious manner to issue a decision on Bracken District’s application. Bracken District waives its right to a hearing in this matter and to request a conference with Commission Staff.

Dated: June 16, 2022

Respectfully submitted,



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⁹ *Principles of Water Rates, Fees, and Charges* at 258-261.

¹⁰ *Id.* at 259 (italics and bolding added).

CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, and the Commission's Order of July 22, 2021 in Case No. 2020-00085, I certify that this document was transmitted to the Commission on June 16, 2022 and that there is currently no party that the Commission has excused from participation by electronic means in this proceeding.


Counsel for Bracken County Water District

EXHIBIT A

**CALCULATION OF REVISED PURCHASED WATER EXPENSE
AND PURCHASE POWER EXPENSE**

Purchased Water Expense

In its Application, Bracken District reported purchasing 160,141,234 gallons of water from the City of Augusta and 4,478,800 gallons from Western Mason Water District. Based upon these purchase levels and each supplier’s test period wholesale rate, total purchased water expense for the test period report as \$384,528.10. Bracken District later discovered that during the period from August 4, 2020 to November 30, 2021, the meter through which water was purchased from the City of Augusta was not properly registering. During the period from August 4, 2020 to December 31, 2020, the meter was registering eight percent faster than actual volumes. As shown in the table below, Bracken District was billed \$11,516 for 3,945,065 gallons of water during this period that was not actually delivered.

Invoice Date	Volume Billed	Actual Volume¹	Overbilled Volume	Overbilled Amount²
09/01/2020	14,399,981	13,333,316	1,066,665	\$ 2,506.66
09/30/2020	13,196,281	12,218,779	977,502	\$ 2,297.13
11/04/2020	12,902,074	11,946,365	955,709	\$ 2,245.92
12/01/2020	12,793,050	11,845,417	947,633	\$ 2,226.94
12/31/2020	12,869,084	11,915,819	953,265	\$ 2,240.17
Total	66,160,470	61,259,696	4,900,774	\$ 11,516.82

¹Actual volume for invoices calculated by dividing Volume Billed by 1.08. Master meter was erroneously adjusted to read eight percent faster.

²Overbilled Amount based upon the invoice price multiplied by Overbilled Volume.

Revised Total Purchases from Augusta = 160,141,234 gals – 4,900,770 gals = 155,240,464 gals.

Revised Total Purchases: 155,240,464 gals + 4,478,800 gals = 159,719,264 gals.

Revised Actual Cost of Water Purchases = \$384,528.10 - \$11,516.82 = \$373,011.28.

On May 27, 2021, the Commission in Case No. 2020-00277 authorized an increase in Augusta’s wholesale water rate to Bracken District from \$2.35 per 1,000 gallons to \$2.36 per 1,000 gallons. Based upon the revised volume of gallons of water purchased from the City of Augusta during the test period, Bracken District’s purchased water expense should be increased by \$1,597.19. (159,719,264 gallons x \$0.01 per 1,000 gallons).

Adjusted Cost of Water Purchases (Prior to Disallowance for unaccounted-for water loss) = \$373,011.28 + \$1,597.19 = \$374,608.47.

Number of gallons of water permitted recovery= Total Gallons Sold + Total Other Water Used) x 1.15= (135,354,000+2,951,000) x 1.15=159,050,750 gallons.

Water purchases disallowed = 159,719,264 gals – 159,050,750 gals = 668,514 gals.

Average cost of purchased water = \$374,608.47 ÷ 159,719,264 gals = \$2.345 per 1,000 gallons

Disallowed Purchased Water Expense = 668,514 gals x 2.345 per 1,000 gallons = \$1,567.67.

Proforma Purchased Water Expense = \$374,608.47 - \$1,567.67 = \$373,040.80

Purchased Power Expense

In its Application, Bracken District reported actual Purchased Power expense of \$45,883, which included the correction of a \$28 reporting error.)

Consistent with Commission practice, this amount is adjusted to remove electric costs related to pumping of unaccounted-for water loss that exceeds 15 percent. Total purchased power cost is \$45,883. Of this amount, \$1,835 was for electricity to serve Bracken District's offices and was not related to the pumping of water.

Electric Power Costs for Pumping Water: \$45,883.55 - \$1,835.17 = \$44,048.38

Electricity Cost per 1,000 gallons to Pump Water = \$44,048.38 ÷ 159,719,264 gals = \$0.0002758 per gal.

Number of gallons of water permitted recovery= Total Gallons Sold + Total Other Water Used) x 1.15 = (135,354,000+2,951,000) x 1.15=159,050,750 gallons.

159,050,750 gallons x \$0.0002758 = \$43,866.20 (Allowable cost for pumping water)

Revised Proforma Purchased Power Expense = \$1,835 + \$43,866.20 = \$45,701.20