

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**ELECTRONIC PURCHASED WATER)
ADJUSTMENT OF NORTH NELSON) CASE NO. 2022-00146
WATER DISTRICT)**

MOTION FOR EXTENSION OF TIME

North Nelson Water District (“North Nelson District”), by Counsel, moves the Public Service Commission (the “Commission”) for a one-year extension of time, until June 24, 2024, in which to apply for a rate adjustment.

In support of its Motion, North Nelson District states as follows:

Background

1. On June 24, 2022, the Commission in this matter granted North Nelson District’s application for a Purchased Water Adjustment but ordered North Nelson District to apply for a rate adjustment within one year or “file a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary.”¹

2. North Nelson District has performed a detailed analysis of its revenues and expenses and has determined that no rate adjustment is needed at this time. North Nelson District anticipates, however, a rate adjustment will be necessary in 2024. It

¹ Order of June 24, 2022 at 6.

is already making plans for the Kentucky Rural Water Association (“KRWA”) to prepare a Rate Analysis and assist with the rate adjustment application immediately upon completion of North Nelson District’s PSC Annual Report for calendar year 2023.

Analysis of Rates and Revenues

3. Attached to this Motion as **Exhibit 1** is a table showing North Nelson District’s Comparative Income and Expense Summaries for the past three (3) calendar years. In each of these years, North Nelson District experienced a positive cash flow. For the year ending December 31, 2022, it had a positive cash flow in excess of \$392,000.

4. Not shown in **Exhibit 1** is the increase of over \$100,000 in “Interest Income” that North Nelson District will earn in 2023 from its unrestricted depreciation reserves. Currently, it has nearly \$2,800,000 dollars invested in Certificates of Deposit. Based on the current interest rates being earned on these Certificates of Deposit, North Nelson District will realize Interest Income of \$113,731 in 2023. In 2022, it earned Interest Income of only \$4,348. This is an increase of \$109,383.

5. As explained in the Note to Exhibit 1, North Nelson District incurred an extraordinary, one-time expenditure of \$126,928 in 2022 for emergency repairs to stabilize a slope failure near its Bullitt County Water Storage Tank. North Nelson

District' Auditor did not capitalize this expenditure but classified it as an operating expense. The Auditor determined that this expenditure would not increase the useful life of the Water Storage Tank so he elected to "expense" it rather than capitalizing it. Consequently, the entire amount of this one-time extraordinary expense is included in the Operating Expenses shown on line 2 of **Exhibit 1**. This is why Operating Expenses in 2022 are significantly higher than those in 2021. This one-time expense is highly unlikely to recur in 2023 and would likely be disallowed for ratemaking purposes in any rate adjustment proceeding.

6. Based upon the analysis shown in **Exhibit 1**, an immediate adjustment of rates is not required. North Nelson District's present rates will produce sufficient revenues to meet all operating expenses and provide for a substantial portion of depreciation expense. Maintaining rates at their present levels for an additional year will not adversely affect North Nelson District's financial condition or the quality or reliability of North Nelson District's service.

Limited Delay Requested

7. North Nelson District requests an extension of time until June 24, 2024, to apply for a general rate adjustment. While an adjustment of rates is not immediately required, North Nelson District recognizes that an adjustment of rates will be necessary in 2024. The requested extension will enable North Nelson District to use calendar year 2023, instead of calendar year 2022, as the test period for its

proposed rate adjustment. Unlike calendar year 2022, in which North Nelson District incurred extraordinary, nonrecurring expenses, calendar 2023 is likely to be more representative of North Nelson District's general operations. Accordingly, the preparation of an application for rate adjustment using that test period and the review of such application is likely to require less time, be less complicated, and cost less.

8. In light of North Nelson District's strong fiscal standing, the requested one-year extension will not pose a significant risk to the water district or its ratepayers. As December 31, 2022, it had no long-term debt, current and accrued liabilities of only \$266,957, and current and accrued assets of \$3,452,523.² Approximately \$2,800,000 of these current and accrued assets are in temporary cash investments. North Nelson District has no long-term debt that that must be serviced.

9. The proposed extension will not exacerbate or worsen any existing service problems which might merit Commission attention. For example, in its Order of June 24, 2022, the Commission expressed concern regarding declining water sales.³ However, in calendar year 2022, North Nelson District's water sales increased by 13,760,000 gallons or approximately 5.3 percent, to 273,847,000 gallons⁴ even though the number of its customers only increased by 52 from 4,961

² *Annual Report of North Nelson Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2022* ("2022 Annual Water Report") at Ref Page 7.

³ Order of June 24, 2022 at 3.

⁴ *2022 Annual Water Report* at Ref Page 30.

to 5,013, or one percent.⁵ Unlike some water utilities that have a significant water loss, North Nelson District's water loss for calendar year 2022 was 6.73 percent,⁶ which is below its five-year average of 7.1107 percent and well below the 15 percent standard set forth in 807 KAR 5:061, Section 6(3).

10. The requested extension will not adversely affect the Commission's ability to monitor and review North Nelson District's operations. While North Nelson District has not applied for a general rate adjustment pursuant to 807 KAR 5:001 or 807 KAR 5:076 since 1997,⁷ it has not avoided comprehensive review of its finances or operations by the Commission during that period. It has timely file annual financial and statistical reports and audit reports with the Commission that provided significant amounts of information regarding North Nelson District's finances and management. During the same period, the Commission's Staff periodically conducted detailed inspections of North Nelson District's operations. North Nelson District has made its records and personnel readily available for

⁵ *Id.* at Ref Page 27.

⁶ *Id.* at Ref Page 30.

⁷ *The Application of the North Nelson Water District (1) For A Certificate of Public Convenience and Necessity Authorizing Construction of Major Additions and Improvements To Its Water Distribution System; (2) Seeking Approval of Revised Water Service Rates and Charges; and (3) Seeking Approval of the Issuance of Certain Securities, Pursuant To the Issuance of Certain Securities, Pursuant To the Provisions of KRS 278.020, KRS 278.300, and KAR 5:001, Case No. 97-255 (Ky. PSC filed June 20, 1997).* In its Order of June 24, 2022, the Commission incorrectly stated that North Nelson District had not applied for a general rate since 1988. Order of June 24, 2022 at 2.

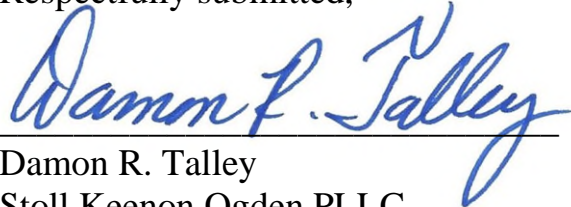
examination by the Commission, local government officials, and the general public. North Nelson District will continue these practices.

11. This request is made in good faith and not for purposes of delay.

Wherefore, North Nelson District requests that the Order of June 24, 2022 be amended to grant North Nelson District an extension of time until June 24, 2024 to apply to the Commission pursuant to KRS 278.180 and 807 KAR 5:076 for a general adjustment of rates.

Dated: June 23, 2023

Respectfully submitted,



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CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that this document was submitted electronically to the Public Service Commission on June 23, 2023, and that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding.



Damon R. Talley

EXHIBIT 1

COMPARATIVE INCOME AND EXPENSE SUMMARIES NORTH NELSON WATER DISTRICT

| | Category | 2020 | 2021 | 2022 |
|-----|--|-------------------|-------------------|-------------------|
| 1. | Operating Revenue | \$ 1,623,867 | \$ 1,666,301 | \$ 1,758,112 |
| 2. | (Operating Expenses) Excluding Dep. | (1,241,382) | (1,253,867) | (1,547,664) |
| 3. | Operating Income (Before Depreciation) | 382,485 | 412,434 | 210,448 |
| 4. | (Depreciation Expense) | (299,782) | (317,783) | (321,444) |
| 5. | Operating Income (Loss) | 82,703 | 94,651 | (110,996) |
| 6. | Interest Income | 51,659 | 22,806 | 4,348 |
| 7. | Miscellaneous - Other Income | 25,462 | 39,344 | 50,348 |
| 8. | Net Income | 159,824 | 156,801 | (56,300) |
| 9. | Add Back Depreciation | 299,782 | 317,783 | 321,444 |
| 10. | Add Back Extraordinary Expense | -0- | -0- | 126,928 |
| 11. | Available Funds | \$ 459,606 | \$ 474,584 | \$ 392,072 |

Note: During 2022, the District incurred an extraordinary, one-time expense in the amount of \$126,928 to repair and stabilize the slope failure at the Bullitt County Water Storage Tank site. These repairs did not extend the useful life of the tank so the Auditor did not capitalize this repair expense. Since this extraordinary expense is included in the Operating Expenses amount shown on Line 2, it is being added back to show the true amount of the Available Funds going forward.

Source: Audit Reports & PSC Annual Reports