COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WATER SERVICE CORPORATION OF KENTUCKY FOR AN ADJUSTMENT OF RATES	)))	CASE NO. 2013-00237

ORDER

On September 27, 2013,[1] Water Service Corporation of Kentucky ("WSKY"), a Kentucky Corporation, filed its application requesting rates that will produce additional revenues from water sales of $228,789, or approximately 10.9 percent. WSKY later revised its requested increase in annual revenues from water sales to $233,411, or approximately 11.1 percent. By this Order, the Commission establishes rates that will produce additional revenues from water sales of $84,719, or an increase of 3.95 percent. For a customer who has a 5/8- x 3/4-inch meter and uses 5,000 gallons of water monthly, these rates will result in an increase of $0.96 in the monthly bill for a customer residing in Bell County or $1.56 for a customer residing in Hickman County.

BACKGROUND

WSKY provides water service for compensation to 607 customers in Hickman County, Kentucky, and 5,900 customers in Bell County, Kentucky.[2] WSKY is a wholly owned subsidiary of Utilities, Inc. ("UI"), an Illinois corporation that indirectly owns over 70 water and wastewater systems in 15 states throughout the United States. Water

[1] Pursuant to 807 KAR 5:001, Section 8(2), WSKY gave notice on June 20, 2013, of its intent to file an application for a rate adjustment using the electronic filing procedures set forth in that regulation.

[2] Refer to WSKY's Response to the Initial Information Request submitted by the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), Item 1.

Service Corporation ("WSC"), an Illinois corporation that is also a wholly owned subsidiary of UI, provides various management, administrative, and technical services for WSKY, as well as all other UI water and wastewater systems. WSKY has no employees; all persons responsible for WSKY's provision of water service in Kentucky are employed by WSC.

PROCEDURE

The Commission established this docket and permitted the following parties to intervene in this Matter: the AG; the Hickman County Fiscal Court; and the city of Clinton. WSKY submitted tariff sheets containing a proposed effective date of October 27, 2013. By Order dated October 18, 2013, the Commission suspended the operation of the proposed rates up to and including March 26, 2014, and established a procedural schedule for this proceeding.

Following discovery, the Commission held an evidentiary hearing in this matter on April 9, 2014, in Frankfort, Kentucky. Testifying at the hearing were: Patrick L. Baryenbruch, president, Baryenbruch & Company, LLC; Dimitry Neyzelman, UI's financial planning and analysis manager;[3] Bruce T. Haas, regional director of operations for UI's Mideast Region; Helen Lupton, regional finance manager for UI's Atlantic and Midwest Region; Gary D. Shambaugh, principal and director, AUS Consultants; Steven M. Lubertozzi, UI's executive director of regulatory accounting and affairs; and Andrea

[3] Lowell Yap submitted Prefiled Direct Testimony and Rebuttal Testimony. On April 2, 2014, Mr. Yap was no longer employed by UI. Mr. Yap's supervisor, Dimitry Neyzelman, was subject to cross-examination on Mr. Yap's direct and rebuttal testimonies.

C. Crane, president, The Columbia Group. On May 9, 2014, WSKY and the AG submitted simultaneous post-hearing briefs in this matter.[4]

ANALYSIS AND DETERMINATION

Test Year

WSKY proposes to use as its historical test year the 12-month period ending December 31, 2012, as adjusted for known and measurable changes. The Commission finds the use of this period reasonable.

Income Statement

For the test year, WSKY reported actual operating revenue and expenses of $2,108,093 and $1,879,709, respectively.[5] WSKY proposed several adjustments to revenues and expenses to reflect current and anticipated operating conditions, resulting in pro forma revenues of $2,182,807 and pro forma operating expenses of $1,903,982.[6] The Commission's review of WSKY's pro forma adjustments is set forth below.

Water Revenue. WSKY reported test-year operating revenues from water sales of $2,066,451.[7] WSKY submitted a test-year billing analysis wherein test-year sales were recalculated by applying the tariffed water rates to the test-year customer meter readings.[8] Adopting the results of its billing analysis, WSKY proposed to increase test-

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[4] The city of Clinton and Hickman County Fiscal Court did not participate in discovery and did not file post-hearing briefs.

[5] Application, Exhibit 4, Schedule B, Combined Operations Test Year 12/31/2012 at 1.

[6] In its Application, WSKY's proposed pro forma revenues of $2,144,779 and pro forma operating expenses of $1,867,193. However, in its rebuttal testimony and Post-Hearing Brief, WSKY made several revisions to its original pro forma adjustments.

[7] Application, Exhibit 4, Schedule B, Combined Operations Test Year 12/31/2012 at 1.

[8] *Id.*, Schedule D, Test Year/Annualized/Proposed/Revenues.

year operating revenues from water sales by $37,362 to a pro forma level of $2,103,813. Upon review of WSKY's billing analysis, the Commission finds that the analysis will produce an accurate and reasonable result.

On December 12, 2013, Fern Lake Company, WSKY's raw water supplier for its Bell County customers, was granted a rate increase.[9] In Case No. 2014-00065,[10] WSKY requested and was granted a purchased water adjustment factor of $0.10 per 1,000 gallons for its Bell County customers. Applying the rates authorized in Case No. 2014-00065 to WSKY's billing analysis, the Commission calculates revised revenue from water sales of $2,146,473, which is $80,022 above the test-period reported level. Accordingly, the Commission has increased operating revenues from water sales by that amount.

Uncollectibles. WSKY reported a test-year uncollectible expense of $37,353 as a credit to operating revenues and proposed to decrease this amount by $675.[11] WSKY's adjustment reflects the percentage of uncollectible accounts to revenues in the test year[12] (1.81 percent) applied to WSKY's pro forma revenues.

After reviewing WSKY's uncollectible rates for the five-year period from 2008 through 2012, the AG concluded that the test-year rate of 1.81 percent is reasonable.[13] To simplify the operating ratio calculation, the AG proposed to reclassify the

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[9] Case No. 2013-00172, *Application for Alternative Rate Filing of Fern Lake Company* (Ky. PSC Dec. 12, 2013).

[10] Case No. 2014-00065, *Purchased Water Adjustment Application of Water Service Corporation of Kentucky* (Ky. PSC Apr. 7, 2014).

[11] Application, Exhibit 4, Schedule B, Combined Operations Test Year 12/31/2012 at 1.

[12] *Id.*, Exhibit 5, Direct Testimony of Lowell Yap at 5.

[13] Direct Testimony of Andrea Crane at 12.

uncollectible expense from a decrease to operating revenues, as proposed by WSKY, to an operating expense.[14] WSKY does not object to the AG's proposal to reclassify its uncollectible expense.[15]

The Commission agrees that uncollectibles are an operating expense that should not be reported as a credit to operating revenues. Using WSKY's uncollectible rate of 1.81 percent and pro forma operating revenues from water sales of $2,146,473, the Commission calculates a pro forma uncollectible expense of $38,801. Accordingly, to reclassify uncollectibles from revenue to expenses, we have increased operating revenues by $37,353 and operating expenses by $38,801.

<u>Salaries and Wages</u>. WSKY proposed to increase its test-year salaries and wages expense by $3,098 to a pro forma level of $692,747.[16] In describing its adjustment, WSKY stated that the pro forma salaries were annualized to include an estimated 3 percent wage increase that became effective April 1, 2013,[17] but the actual wage increases varied from 1 percent to 14.04 percent.[18] During the proceeding, WSKY discovered that in its proposed adjustment it had erroneously increased a

[14] *Id.* at 12-13.

[15] Rebuttal Testimony of Lowell Yap at 1.

[16] WSKY has no employees. The wages and salaries at issue are those of employees of WSC who perform services for WSKY. WSC allocates employee salaries to WSKY based on different Equivalent Residential Connection ratios. There are 11 maintenance employees working exclusively in Kentucky. WSC charges WSKY the total amount of these persons' salaries. Additionally, there are four WSC employees outside Kentucky who supervise the maintenance employees. WSC allocates 21.68% of the Midwest Regional Directors' salary and 6.98% of the Atlantic/Midwest Regional supervisor salaries to WSKY. WSC allocates 2.78% of the corporate and customer service representative salaries to WSKY.

[17] WSKY's Response to the Commission Staff's First Request for Information ("Staff's First Request"), Item 3, w/p[b], Calculation of Salary and Benefits 12/31/2012.

[18] WSKY's Response to the AG's Initial Request for Information, Item 50. 11.04% (CSR Employee Switched from Hourly to Salary) + 3% (April 1, 2013 Wage Increase) = 14.04%.

maintenance employee salary by $1,133[19] and proposed to reduce pro forma salaries and wages expense by that amount for a revised level of $691,614.

The AG maintains that WSKY has distorted the test-year concept by selectively choosing one component of its revenue requirement (wages and salaries) to adjust for a post-test-year event. When evaluating the test year, the AG describes the importance of maintaining the relationship between the revenue requirement components (i.e., revenues, expenses, investment) to properly match test-year operations with the resources used to generate those results. According to the AG, WSKY has not gone past the end of the test year to adjust water sales revenues or other expense categories.[20]

The AG also contends that WSKY failed to address the Commission's concerns expressed in the Order in Case No. 2010-00426 by not producing a study or analysis on the prevailing wages in the Clinton region, the Middlesboro Region, or in the state of Kentucky. Furthermore, the AG claims that the only evidence presented by WSKY was in Mr. Shambaugh's testimony that provided data on the overall labor costs without addressing the reasonableness of the underlying salaries or wage levels. According to the AG, when requested to document the reasonableness of the 2013 wage increases, WSKY responded only in general terms regarding the necessity to maintain a skilled and competent workforce or information from sources such as <u>Human Resources Kit for Dummies</u>.[21]

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[19] WSKY's April 4, 2014 filing of Corrected Rebuttal Schedules, Appendix A, Schedule LY-R1 Revised, Revenue Requirement and Schedule LY-R2, Salaries and Wages.

[20] Direct Testimony of Andrea Crane at 14.

[21] *Id.* at 16.

Given that WSKY has not presented any new evidence in this case to justify the post-test-year salary and wage increases, the AG proposed to eliminate WSKY's post-test-year employee wage increases. The AG is increasing salaries and wages expense by $14,213[22] to a pro forma level of $675,444, which is $16,170 below WSKY's pro forma level of $691,614.

WSKY claims that the AG's "position is inconsistent with general ratemaking principals that allow utilities to make pro forma adjustments for known and measurable changes to the test-year operations.[23] According to WSKY, it identified the actual salary increases granted in 2013 to demonstrate that its adjustment meets the requirements of known and measurable.[24]

The Commission finds that WSKY's post-test-year adjustment to reflect its April 1, 2013 wage increases does meet the ratemaking criteria of being known and measurable. The only question remaining is, are WSKY's employee's 2013 wage rates reasonable?

WSKY reviewed similarly sized water utilities in Kentucky to demonstrate that WSC's salary expenses that were allocated to WSKY were lower on a per customer basis than the sample group.[25] WSKY analyzed 11 similarly sized Kentucky water

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[22] The increase to test-year actual results from the normalization adjustment for the April 1, 2012 employee wage increases.

[23] Rebuttal Testimony of Lowell Yap at 3.

[24] *Id.*

[25] *Id.* at 5.

utilities finding WSKY's salaries and wages of $7.06[26] per customer was below the average per customer cost for the sample group of $7.32.[27] WSKY argues that the best way to evaluate salary reasonableness is by analyzing total salaries, because it more accurately reflects efficiencies in the workforce.

The only common characteristic of the 11 water utilities analyzed by WSKY is the number of customers served. WSKY gave no consideration to the geographic location of the utilities when selecting the water utilities to be analyzed. However, using the United States Department of Labor, Bureau of Labor Statistics web page,[28] the Commission, as shown in Table I, determined that WSKY's sample group of water utilities is representative of the entire Commonwealth.

Table I: Sample Water Utilities

Muhlenberg County Water District	Western Kentucky Nonmetropolitan
McCreary County Water District	South Central Kentucky Nonmetropolitan
Henderson County Water District	Evansville, IN-KY Metropolitan
Henry County Water District	Louisville-Jefferson Metropolitan
Southeast Daviess County Water District	Owensboro Metropolitan
Bullock Pen Water District	Cincinnati Metropolitan
Green River Valley Water District	South Central Kentucky Nonmetropolitan
Rowan Water, Inc.	West Central Kentucky Nonmetropolitan
South Eastern Water Association	South Central Kentucky Nonmetropolitan
Oldham County Water District	Louisville-Jefferson Metropolitan
Western Pulaski County Water District	South Central Kentucky Nonmetropolitan

[26] Application, Exhibit 5, Direct Testimony of Gary Shambaugh, Exhibit D at 3, Comparison of Annual Salaries & Wages – Combined Reporting of Costs for Similar Sized Kentucky Water Utilities. $551,341 (WSKY) ÷ 6,507 (Customer Count) = $84.73 ÷ 12 (Months) = $7.06.

[27] *Id.*

[28] http://www.bls.gov/home.htm

WSKY's analysis is flawed because it did not provide the information that the Commission found lacking in Case No. 2010-00476:[29] a comparison of the employee wages with local, regional or state trends; the necessity of the 2013 wage increases; and the reasonableness of the wages. The Commission performed its own analysis of the 2012 Annual Reports for the 11 sample water utilities. The Commission determined that the average hourly wage rate WSC paid to its operational and CSR employees of $19.66[30] falls within the range of the average wages paid to the employees of the sample group, which is $10.39 to $22.56. Based upon its analysis, the Commission finds that WSC's wage rates are reasonable, and therefore, the Commission has increased salaries and wage expense by $185 to a pro forma level of $689,842.[31]

<u>Transportation Expense</u>. WSC determined that its annual cost (fuel of $33,781; and tires/repairs of $12,722) to operate 11 vehicles for the Kentucky maintenance staff and four vehicles for the regional supervisors is $46,502.[32] WSC divided its total transportation cost of $46,502 by the 15 vehicles to arrive at a per-vehicle operational cost of $3,100.[33] Allocating 21.68 percent of the Midwest regional directors' vehicle

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[29] Case No. 2010-00476, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 23, 2011).

[30] $435,241 (Maintenance Employee in Kentucky) + $513,001 (Regional Supervisors) + $1,341,288 (CSR) = $2,289,530 ÷ 56 (Number of Employees) = $40,884 (Average Employee Salary) ÷ 2,080 (Annual Work Hours) = $19.66 (Average Hourly Wage Rate)

[31] There is a difference between WSKY's and the Commission's pro forma salaries and wage expense. This difference is due to an error in WSKY's calculation of the pro forma nonoperation salaries and wage.

[32] WSKY's Response to Staff's First Request, Item 3, w/p [p-2a], Transportation Expense.

[33] *Id.*

costs and 100 percent of the costs of Kentucky-base vehicles to WSKY, WSC arrived at a pro forma transportation cost of $34,774, a reduction of $12,014 to WSKY's test-year transportation expense.[34] Having reviewed WSKY's supporting workpapers, the Commission finds that the calculations and assumptions are reasonable, and has decreased test-year transportation expense by $12,014.

Operating Expenses Charged to Plant. WSKY capitalized or charged to plant in service ($132,210) of its test-year operating expenses.[35] It proposed to increase the operating expenses charged to utility plant by ($31,659) to reflect the impact increased employee salaries, payroll taxes, and employee benefits would have on the test-year capitalized level.[36] Having reviewed WSKY's supporting workpapers, the Commission finds that the calculations and assumptions are reasonable, and has increased test-year operating expenses charged to plant by ($31,659).

Rate-Case Amortization. WSKY proposed to decrease its test-year rate-case amortization expense of $99,563 by $25,903[37] to reflect the amortization over three years of the estimated cost of this current case of $193,477 and the unamortized rate-case expense from its prior rate proceeding of $27,505. WSKY revised its pro forma

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[34] *Id.*

[35] Application, Exhibit 4, Schedule B, Combined Operations Test Year 12/31/2012 at 1.

[36] *Id.*, Exhibit 5, Direct Testimony of Lowell Yap at 6.

[37] $193,477 (Estimated Cost Current Proceeding) + $27,505 (Unamortized Cost of Case No. 2010-00476) = $220,982 ÷ 3 (years) = $73,660 - $99,563 (Test-Year Rate-Case Amortization) = ($25,903).

adjustment to a reduction of $13,198[38] by substituting the actual cost of this current case of $231,591 for the cost estimate of $193,477.[39]

The AG states that, WSKY "did not issue any Requests for Proposal for services associated with this rate case."[40] The AG points out that WSKY only has a written agreement with one outside consultant, AUS Consulting, and that there are no written agreements with either Mr. Baryenbruch or with the law firm Sturgill, Turner, Barker, and Moloney.[41] The AG argues that the estimated cost of this case is significantly higher than the actual cost that was incurred by WSKY in its last three rate-case proceedings.[42] The AG explains that WSKY's 2005 rate case was settled, and therefore, its cost was significantly less than the 2008 or 2010 fully litigated rate cases.[43]

According to the AG, the last two fully litigated rate cases are a better proxy for the costs that will be incurred in this case, and therefore, proposed to use an average cost of $143,506 for the cost of the current case.[44] Amortizing over three years the average rate-case cost of $143,506 and the unamortized cost of WSKY's last rate case of $27,505, the AG calculates a pro forma rate-case amortization expense of $57,004.

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[38] $231,591 (Actual Cost Current Proceeding) + $27,505 (Unamortized Cost of Case No 2010-00476) = $259,096 ÷ 3 (years) = $86,365 - $99,563 (Test-Year Rate-Case Amortization) = ($13,198).

[39] WSKY's Post-Hearing Brief at 28.

[40] Direct Testimony of Andrea Crane at 19.

[41] *Id.*

[42] *Id.*

[43] *Id.* at 20.

[44] *Id.* $141,408 (2010 Rate Case) + $145,604 (2008 Rate Case) = $287,012 ÷ 2 = $143,506 (Average Rate-Case Cost).

Accordingly, the AG proposed to reduce test-year rate-case amortization expense by $42,559.

The Commission finds no merit in the AG's proposal. The Commission's historical practice has been to use actual costs incurred by a utility when calculating rate-case amortization. It finds that using actual cost ensures a greater accuracy than the averaging method being proposed by the AG. The averaging method assumes that all rate cases are equivalent by ignoring any of the following intricacies: (1) the number and complexity of issues; (2) the intensity of discovery; and (3) the number of parties involved in a proceeding. All of these aforementioned factors will impact the cost incurred by a utility for a fully litigated rate case. The averaging method proposed by the AG involves historical costs that do not take into account inflationary increases in legal fees, accounting, and other costs that a utility incurs in preparing and litigating a rate case.

For the above reasons, we decline to follow the AG's suggested course of action. Based upon our review of the record, the Commission finds that WSKY's proposed adjustment to decrease rate-case amortization expense by $13,198 is reasonable and should be accepted.

Employee Pensions and Other Benefits. WSKY proposed to increase employee pensions and other benefit expense by $38,574 to reflect the impact the April 1, 2013 wage increases had on WSKY's contributions to the employee 401(k) retirement accounts and for the 2013 increase in employee insurance premiums. WSKY decreased its pro forma salaries and wages expense by $1,133, which resulted in a $79[45] reduction to the 401(k) employee retirement account contribution.

The AG proposed to eliminate the effects the April 1, 2013 wage increase had on the 401(k) employee retirement account contribution, a decrease of $1,134 to the employee pensions and other benefit expense. Given that we have accepted WSKY's salaries and wages expense adjustment, the Commission denies the AG's proposed adjustment and accepts WSKY's adjustment to increase employee pensions and benefits by $38,495.

Service Company – Allocated Expenses. WSC manages the operation of all of UI's water and wastewater systems, including WSKY. WSC directly assigns its costs to each operating subsidiary, when applicable. Costs that WSC cannot directly assign to an operating subsidiary are allocated based upon the Equivalent Residential Connections ("ERC's"). According to WSKY, WSC does not charge employee costs "directly" to any operating subsidiary, but rather charges employee time (capitalized time for rate case) to a capital or deferred asset that is related to a specific operating subsidiary.[46] WSKY reduced pro forma operating expenses by $12,945 to eliminate non-labor WSC allocated corporate expenses that were deemed inappropriate.[47]

The AG explains that WSKY does not receive an invoice from WSC, but rather that the charges are automatically booked through UI's financial accounting system. According to the AG, there is no independent management of WSKY, because Lisa

[45] $1,133 (Salary and Wage Expense Adjustment) x 7% (WSKY's 401K Contribution) = $79.

[46] Refer to WSKY's Response to the AG's Second Request for Information, Item 16.

[47] WSKY's Response to Staff's First Request, Item 3, w/p [r], Expense Report Summary.

Sparrow, UI's President and CEO, and John Stove, UI's Vice President and Secretary, are also the directors and officers of all UI operating subsidiaries, including WSKY. The existence of common directors and officers, the AG contends, creates potential conflicts of interest when affiliated transactions are involved and UI's corporate structure does not allow local control of WSKY.[48]

WSKY's consultant performed an analysis of recent Commission rate-case decisions to find comparable information on management and office salaries for water utilities of similar size to WSKY. Mr. Shambaugh concluded that WSKY's costs for officers and office staff is reasonable (WSKY's cost per customer is $1.75; the range per customer is $1.92 to $3.29). In its application, WSKY removed $12,945 of WSC's non-labor allocated cost. The AG is proposing to remove an additional $22,407; However, WSKY explains that $9,004 of that amount was included in its original adjustment. WSKY agrees to remove the remaining items with a total cost of $13,404.

The AG contends that WSKY's cost analysis of comparable Kentucky water utilities is flawed and that it does not provide sufficient evidence that economies of scale exist within UI that provide value to WSKY. According to the AG, WSKY compared several "cherry-picked expenses" from the sample water districts without the use of a comparative objective-baseline. The AG went on to say that WSKY incorrectly compared the per-customer cost of the sample utilities to the per-ERC costs of WSKY. The AG contends that "this is a covert apples-to-oranges comparison **at best**"[49] and calls into question the credibility of the testimony and the analysis. The credibility of the

[48] Direct Testimony of Andrea Crane at 22.

[49] AG's Post-Hearing Brief at 10.

analysis is further at risk, the AG claims, because WSKY's witness did not verify the data he used from the sample Water Districts.[50]

The AG states that the UI corporate structure does not allow its subsidiary companies to contest, refute, or even review WSC's cost allocations.[51] The AG concludes that WSKY did not carry its burden of proof to show that the indirect cost allocations from WSC are reasonable, are directly related to providing water service, or benefit the ratepayers of WSKY.[52] The AG proposed to reduce test-year operating expenses by $159,659 to eliminate allocations of WSC's corporate salaries and non-labor costs.[53]

According to WSKY there is a review process that requires corporate management review of any purchase order with a value greater than $250 to ensure that all expenses are prudent when they are incurred. WSKY explained that there are other oversight provisions in its agreement with WSC to ensure that WSKY and the Commission are able to review and question any expenses that are being charged by related subsidiaries.

In this proceeding, WSKY is requesting recovery of $167,131 in allocated expenses related to WSC's corporate salaries (i.e., salary, payroll taxes, and employee benefits). WSKY explained that each service being provided by WSC is necessary to

[50] AG's Post-Hearing Brief at 9-10.

[51] *Id.* at 12.

[52] *Id.* at 12-13.

[53] Direct Testimony of Andrea Crane at 27, Appendix B, Schedule ACC-6, Service Company Allocated Expenses and Appendix B, Schedule ACC-7, Miscellaneous Adjustments.

the provision of safe and reliable water service to WSKY's customers. WSKY gave the following examples:

> 1. If WSKY did not have the ability to pay its vendors through WSC's Accounts Payable Department, WSKY's vendors would ultimately stop providing service for non-payment. Additionally, if WSKY were required to hire an Accounts Payable clerk it would lose the benefits of the economies of scale and its cost would be greater than the allocated cost of $11,075 for WSC's Accounts Payable Department.
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> 2. WSKY's customer billing is performed by WSC at an allocated cost of $4,352. If the customers do not receive a bill, they do not know how much they owe or where to mail payment. Without its affiliation with WSC, WSKY would be required to employ a customer-billing staff at a cost that is greater than $4,352.

WSKY claims that it receives services from WSC at a cost less than it would pay if it became a stand-alone company and that WSC services are essential to its existence as a utility.[54]

In Case No. 2010-00476,[55] the Commission stated that management decisions are generally presumed reasonable, but for a cost that is not the product of an arms-length transaction, that presumption does not follow. The Commission concluded that the case record did not demonstrate that the costs for WSC's indirect services were

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[54] Rebuttal Testimony of Steven Lubertozzi at 3-4.

[55] Case No. 2010-00476, *Water Service of Kentucky*, Final Order (Ky. PSC Nov. 23, 2011) at 11.

reasonable and that there continued to be a lack of independent allocation review by WSKY's management.

Upon its review of the services that are being provided by WSC, the Commission agrees that the majority of those services are directly related to WSKY's ability to provide safe and reliable water service to its customers. The other WSC services would have an indirect impact on WSKY's ability to provide water service to its customers (i.e., the regulatory department ensures that WSKY has the funds required to provide adequate customer service).

In its last rate-case proceeding, WSKY presented a study comparing WSC's allocated service costs to those of a comparison group composed of electric utilities. In that preceding, the Commission declined to give WSKY's study any weight, finding that it failed to involve utilities of similar type and size. Heeding the Commission's past critique of its electric utility study, WSKY commissioned a new study using a sample group of Kentucky water utilities that are of comparable size to WSKY. Although, as pointed out by the AG, WSKY's current analysis has flaws, it does adequately show that the allocated WSC corporate salaries are as reasonable as those being incurred by comparably sized water utilities operating in Kentucky.

The Commission also conducted its own review of the services provided by WSC and the cost allocations and concludes that the services appear necessary and that the costs incurred in the test year appear reasonable. Allowing WSKY to recover WSC's allocated costs is consistent with the Commission's ratemaking treatment of allocated service-company costs of other investor-owned utilities. However, the Commission is of the opinion that WSKY did not adequately address the absence of an independent review process that would allow a WSKY employee residing in Kentucky to question the reasonableness of a cost before it is passed on to the Kentucky ratepayers.

The Commission is allowing recovery of WSC's allocated corporate salaries for ratemaking purposes in this case because WSKY demonstrated the reasonableness of the allocated WSC expenses by comparing the allocated costs to a sample group of Kentucky water districts, and because of the independent Commission analysis. Furthermore, the Commission is accepting WSKY's proposed adjustment to remove $26,349[56] of WSC's non-labor allocated costs. To ensure future recovery of WSC's allocated corporate salaries and expenses, the Commission finds that WSC should, before WSKY's next rate case, implement a system of invoicing WSKY for the monthly expenses and a review of the expenses by a WSC employee residing in Kentucky.

Depreciation. WSKY proposes to decrease depreciation expense by $34,242[57] to reflect gross depreciable plant balance at the end of the test year multiplied by the appropriate depreciation rates.[58] WSKY's proposed pro forma depreciation expense Includes $76,687 of depreciation of the accounting and financial systems that UI placed into service as a result of its Project Phoenix.[59]

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[56] $12,904 (Service Company – Allocated Expenses) + $13,445 (Miscellaneous) = $26,349.

[57] Application, Exhibit 4, Schedule B, Combined Operations Test Year 12/31/2012 at 1.

[58] *Id.*, Exhibit 5, Direct Testimony of Lowell Yap at 5.

[59] In 2006 UI began Project Phoenix, an internal and external evaluation of its accounting and billing software system. Deloitte Consulting LLP ("Deloitte Consulting") was retained to review the then-existing state of UI's financial application and customer-information systems. After evaluating the potential solutions, UI selected J.D. Edwards Enterprise One as the financial system and Oracle's Customer Care and Billing System as the customer-information system. On December 3, 2007, UI placed the J.D. Edwards system into service at a total cost of $13,955,789. It placed the Oracle System into operation on June 2, 2008, at a total cost of $7,126,679. Using the ERC allocation factor, WSKY determined that UI allocated $388,432 of the total J.D. Edward system costs and $197,790 of the Oracle cost to WSKY.

The AG contends that "[e]xpenses, even those having a minimal effect on operating income, must be borne by investors unless such expenses are proven beneficial to ratepayers in furnishing utility service."[60] The AG points to previous decisions in which the Commission found that the interests of both the shareholders and customers should be balanced and that the mere inclusion of an expense in a utility's application does not create a presumption of benefit. In fact, the AG argues that WSKY has failed here and in its previous two rate cases to produce evidence showing that UI examined the potential benefits of Project Phoenix to WSKY or to its customers. The AG further argues this lack of evidence was cited by the Commission in its Orders in Case No. 2008-00563 and Case No. 2010-00476.[61]

The AG states that his argument made in Case No. 2010-00476 still rings true today that "[t]here has not been a demonstration that a reasonable utility of comparable size would spend in excess of a half-million dollars on software similar to that contained in Project Phoenix."[62] The AG contends that the only new pieces of evidence presented by WSKY are the two management audits performed in South Carolina and Indiana that were attached to Mr. Baryenbruch's rebuttal testimony. The AG explains that during cross-examination, Mr. Baryenbruch testified that neither of the audits was conducted for the benefit of Kentucky ratepayers and did not specifically look at the potential benefits of Project Phoenix. The AG points to the Commission's previous two Orders that require WSKY to present evidence that Project Phoenix benefits the Kentucky

[60] AG's Post-Hearing Brief at 6.

[61] *Id.*

[62] *Id.* at 7.

ratepayers before WSKY is allowed rate recovery of the associated depreciation.[63] The AG concludes that WSKY has failed to deliver this evidence and that depreciation for Project Phoenix should be denied, resulting in a total decrease to test-year depreciation expense of $110,929.[64]

WSKY cites a 2007 Schumaker & Company, Inc. ("Schumaker") management audit conducted in South Carolina that calls UI's billing and accounting system antiquated and recommends UI address its IT problems. In a 2012 management audit conducted by Schumaker in Indiana, WSKY states that Schumaker reiterated its earlier comments regarding the IT challenges faced by UI prior to Project Phoenix, and commended the technological strides that had been made.[65]

WSKY determined that its $90 per-customer cost of Project Phoenix is $10 below the $100 per-customer cost of Kentucky-American Water Company's (Kentucky-American") Business Transformation Project ("BT Project").[66] According to WSKY, the Commission's findings regarding Kentucky-American's need for the BT Project are the same as the reasons for UI implementation of Project Phoenix. UI conducted the same review process AWWC conducted for its BT Project. UI retained Deloitte Consulting to evaluate the vendors, review their bids, and assist in implementing the system internally. According to WSKY, a variety of UI employees, including Customer Service, were involved in the four phases of implementation. WSKY states that the Commission

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[63] *Id*. at 8-9.

[64] $34,242 (WSKY's proposed depreciation Adjustment) + $76,687 (Depreciation of Project Phoenix) = $110,929.

[65] WSKY's Post-Hearing Brief at 17.

[66] *Id*. at 20.

correctly found that the benefits of the BT Project spanned all of AWWC's operating subsidiaries and that same finding should be made for Project Phoenix.[67]

Our review of the record in this proceeding and in WSKY's previous two rate proceedings indicates that WSKY has not presented new evidence that requires us to alter our earlier findings. The Commission has previously found that UI had not performed an analysis of the benefits that Project Phoenix provides to WSKY's ratepayers.

In approving recovery of the cost of Kentucky-American's BT Project, the Commission found that "[a]s Kentucky-American has demonstrated BT Program's benefits and costs, our decision in this case is easily distinguishable from other proceedings in which applicants failed to make such showing. *See, e.g.,* Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9, 2009)."[68] One characteristic distinguishable between UI and American Water Works Corporation ("AWWC") is that AWWC applied the following cost-control measures: (1) competitive bidding; (2) ongoing project feedback from key business stakeholders (AWWC employees); (3) ongoing budget management; and (4) a defined fixed fee "not to exceed" threshold.[69]

UI's vendor evaluation was conducted by Deloitte Consulting and was overseen by a steering committee made up of UI executives and UI's senior management team.

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[67] *Id.*

[68] *See* Case No. 2012-00520, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year,* Final Order (Ky. PSC Oct. 25, 2013) at 12, footnote 47.

[69] Case No. 2012-00520, *Kentucky-American Water Company*, Rebuttal Testimony of Gary VerDouw at 2-3 (filed May 15, 2013).

The only involvement UI's employees, other than executives and senior management, had in the process was in the four phases of implementation. In contrast, Kentucky-American's employees were active participants in the BT Project from the initial advisory councils in 2010 up to and including the project implementation.[70] Kentucky-American explained that its employees "must be involved in the BT program to ensure Company business needs are properly served by the program at all stages of the program."[71]

Thus, we find that WSKY has not adequately addressed the Commission's findings from the previous two rate-case proceedings and have decreased depreciation expense by an additional $76,687 to eliminate the depreciation expense associated with Project Phoenix. Additionally, we find WSKY's actual depreciation calculations to be reasonable and we accept WSKY's proposed adjustment to decrease depreciation expense by $34,242. The Commission's total adjustment to depreciation expense is a reduction of $110,929.

Amortization of Contributions In Aid of Construction ("CIAC"). WSKY proposed to increase the amortization of CIAC and Customer Advances of ($1,918) by ($2,311) to reflect amortizing the end-of-year CIAC balance of $181,680 over the composite depreciation rate of 2 percent.[72] In reviewing the depreciation workpaper, the Commission discovered that WSKY had not included the amortization of customer advances in its pro forma adjustment. The Commission is increasing WSKY's pro forma adjustment by ($2,307) to reflect amortizing customer advances.

[70] *Id.*, Kentucky-American's Response to the Commission Staff's Third Request for Information, Witness Gary VerDouw, Item 24 (filed Mar. 20, 2013).

[71] *Id.*, Direct Testimony of Gary VerDouw at 43.

[72] WSKY's Response to Staff's First Request, Item 3, w/p [f], Depreciation Expense.

Plant Acquisition Adjustment ("PAA"). WSKY proposed to increase pro forma operating expenses by $3,660 to eliminate the amortization of PAA. Based upon our review of WSKY's calculations and workpapers, we find that the proposed adjustment is reasonable and we accept it.

General Taxes. WSKY proposed to increase test-year general tax expense of $135,765 by $8,298 to annualize payroll taxes and utility commission taxes. WSKY decreased its pro forma salaries and wages expense by $1,133, resulting in a reduction of $87[73] to the payroll tax expense. The AG proposed to eliminate the effects of the April 1, 2013 wage increase had on payroll taxes, a decrease of $1,237.

Given that we have accepted WSKY's salaries and wages expense adjustment, the Commission denies the AG's proposed adjustment to general taxes. The Commission has increased WSKY's pro forma revenue from water sales by $42,350 to reflect the impact of the purchased water adjustment. Accordingly, the Commission has increased general taxes by $7,814 to reflect the impact the PWA had on the PSC assessment and the payroll taxes calculated using the salaries and wages determined reasonable herein.

Expense Reduction – City of Clinton Sewer. The adjustment to the city of Clinton sewer ("Clinton") allocation was to reflect the reductions in WSKY's pro forma expenses.[74] In the test period, UI invoiced Clinton $153,335, of which $121,631 was for

[73] $1,133 (Salary and Wage Expense Adjustment) x 7.65% (FICA Rate) = $87.

[74] Application, Exhibit 5, Direct Testimony of Lowell Yap at 6.

expense reimbursement and the remaining $31,704 was identified as the management fee.[75]

According to WSKY, expenses charged to Clinton related to the sewer operation are consistent with the Service Agreement between UI and the city of Clinton. WSKY states that Article VI, Section 9(a) of the Service Agreement requires "[p]ayments for expenses actually incurred in operating and maintaining the System," including "the salary or wages of the person . . . having immediate day-to-day responsibility for all phases of operation and maintenance, the salary and wages of proper service, repair, billing and collecting personnel; the cost of materials and supplies actually consumed from time to time; premiums on surety bonds and policies of hazard insurance; and office rental and office utilities . . . ."[76]

To ensure that a utility's regulated customers do not subsidize a nonregulated activity that it provides or that is provided by an affiliate, KRS 278.2201 requires the utility to keep separate accounts and to allocate all identifiable costs. Further, a utility engaging in a nonregulated activity is to identify all of the costs incurred by the nonregulated activity and to report those nonregulated activity costs in accordance with the guidelines of the Uniform System of Accounts.[77] However, Article VI, Section 9(a) of the Service Agreement specifically excludes allocating depreciation of property or for payment of salaries of the officers or employees of UI.

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[75] WSKY's Responses to Hearing Data Requests, Item 6.

[76] WSKY's Post-Hearing Brief at 30.

[77] KRS 278.2203, Section 1.

Upon review of the services being provided by WSC, the Commission finds that they provide a benefit to the city of Clinton sewer customers. Failure to allocate any of the WSC costs to the city of Clinton can be construed as a violation of KRS 278.2201. Including the total amount billed to the city of Clinton as an offsetting expense credit ensures that there is no cross-subsidization between WSKY's regulated and nonregulated activities.[78] In support of this position, the Commission points to Section 9(c) of the WSC agreement, which states that the management fee is to compensate for management services. Therefore, the Commission denies WSKY's pro forma adjustment to remove the management fee from the offsetting operating expense credit.

Interest Expense. WSKY proposed to decrease test-year interest expense of $180,121 to $171,809, a decrease of $8,312, to reflect WSC's debt-to-equity ratio of 52.44 percent to 47.56 percent and a 6.6 percent debt cost.[79] The AG reduced interest expense by an additional $7,621 to eliminate the interest expense associated with the debt WSC incurred to finance Project Phoenix. Given that the Commission has denied recovery of the Project Phoenix depreciation expense, we have reduced interest expense by $15,933.

Income Tax. Based upon its pro forma operating revenues and expenses, WSKY originally calculated a pro forma income tax expense of $65,482, an increase of $21,119 above test-year level of $44,363. Using the pro forma operating revenues and

[78] KRS 278,2203, Section 4(a) and Section 4(b), allows a utility to report revenues from a nonregulated activity as operating revenue if total nonregulated revenue does not exceed the lesser of 2 percent of total revenue or $1,000,000; and the nonregulated activity is reasonably related to the utility's regulated activity.

[79] Application, Exhibit 5, Direct Testimony of Lowell Yap at 6.

expenses determined reasonable herein, the Commission arrives at its pro forma income tax expense of $114,281 as shown in the Table II below.

Table II: Income Tax

	State	Federal
Operating Revenues	$ 2,225,468	$ 2,225,468
Operating Expenses:		
Maintenance and General Expense	1,574,640	1,574,640
Depreciation & Amortization	205,141	205,141
Amortization CIAC & AIAC	(9,850)	(9,850)
Taxes Other Than Income	143,579	143,579
Income from Management Services	(153,285)	(153,285)
State Income Tax		18,063
Operating Expenses	1,760,225	1,778,288
Taxable Income before Interest Expense	465,243	447,180
Less: Interest Expense	(164,188)	(164,188)
Taxable Income	301,056	282,993
Multiplied by: Income Tax Rate	6%	34%
Income Tax Expense	$ 18,063	$ 96,218

Summary. As shown in Table III below, the Commission finds that WSKY's pro forma net income at present rates is $188,505.

Table III: Income Statement Comparison

Account Titles	Test-Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues:			
Service Revenues - Water	$ 2,066,451	$ 80,022	$ 2,146,473
Miscellaneous Revenues	78,995	0	78,995
Uncollectible Accounts	(37,353)	37,353	0
Total Operating Revenues	2,108,093	117,375	2,225,468
Operating Expenses:			
Maintenance Expenses:			
Salaries & Wages	460,338	57,627	517,965
Purchased Power	95,111		95,111
Purchased Water	85,200	38,004	123,204
Maintenance & Repair	98,163		98,163
Maintenance Testing	34,092		34,092
Chemicals	145,421		145,421
Transportation	46,788	(12,014)	34,774
Operating Exp. Charged to Plant	(132,210)	(31,659)	(163,869)
Outside Services - Other	30,001		30,001
General Expenses:			
Salaries & Wages	229,319	(57,442)	171,877
Office Supplies & Other Exp.	79,610		79,610
Regulatory Commission Exp.	99,563	(13,198)	86,365
Pension & Other Benefits	122,141	38,495	160,636
Rent	6,254		6,254
Insurance	63,192		63,192
Office Utilities	54,273		54,273
Bad Debt Expense		38,801	38,801
Service Company - Allocated Expenses		(12,904)	(12,904)
Miscellaneous	25,119	(13,445)	11,674
Total Maintenance & General Expenses	1,542,375	32,265	1,574,640
Depreciation	316,070	(110,929)	205,141
Amortization PAA	(3,660)	3,660	0
General Taxes	135,765	7,814	143,579
Exp Reduction - Clinton Sewer	(153,285)		(153,285)
Amortization CIAC & AIAC	(1,918)	(7,932)	(9,850)
Income Tax Expense	44,363	69,918	114,281
Total Operating Expenses	1,879,710	(5,205)	1,874,505
Net Operating Income	228,383	122,580	350,963
Other Income & Expenses:			
AFUDC	(1,730)		(1,730)
Interest Expense - Long-Term Debt	180,121	(15,933)	164,188
Net Income	$ 49,992	$ 138,513	$ 188,505

OPERATING RATIO

WSKY is proposing to use an 88 percent operating ratio to calculate its requested revenue requirement. In Case No. 2008-00563[80] we stated that the use of an operating ratio is preferred to the return-on-equity approach for a utility of WSKY's size. The Commission explained that it has historically used an operating ratio approach for privately owned utilities when no basis exists for a rate-of-return determination or the cost of the utility has fully or largely been funded through contributions. For these reasons the Commission used the operating ratio method to calculate WSKY's revenue requirement in Case No. 2010-00476,[81] finding that an 88 percent ratio would allow WSKY "sufficient revenues to cover its reasonable operating expenses and to provide for reasonable equity growth." The AG adopted an 88 percent operating ratio when calculating his recommended revenue requirement for WSKY. Commission Staff recommends that the Commission use an 88 percent operating ratio to calculate WSKY's revenue requirement.

AUTHORIZED INCREASE

The Commission finds that WSKY's net operating income for ratemaking purposes is $188,505. We further find that this level of net operating income and an 88 percent operating ratio require an increase in present rate revenues of $84,719, as shown in Table IV below.

[80] Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates*, Final Order (Ky. PSC Nov. 9, 2009) at 23-24.

[81] Case No. 2010-00476, *Water Service of Kentucky*, Final Order (Ky. PSC Nov. 23, 2011) at 18.

Table IV: Revenue Requirement

Operating Expenses	$ 1,874,505
Less: Federal & State Income Tax	(114,281)
Operating Expenses Net of Income Taxes	1,760,225
Divide by: Operating Ratio	88.00%
Revenue to Cover Operating Ratio	2,000,255
Less: Operating Expenses Net of Income Taxes	(1,760,225)
Net Operating Income After Income Taxes	240,030
Pro Form Net Operating Income After Income Tax	(188,505)
Net Operating Income Adjustment	51,525
Multiplied by Gross-up Factor	1.6442265
Revenue Requirement Increase/(Decrease)	$ 84,719
Percentage Increase/(Decrease)	3.947%

RATE DETERMINATION

WSKY has requested that its monthly water service rates be increased across the board by approximately 10.875 percent. The Commission has generally accepted the across-the-board method for allocating required revenue increases. Nothing in the record of this proceeding indicates that such methodology would be inappropriate in the current case. The revenue requirement determined reasonable herein is an approximate 3.95 percent increase over WSKY's normalized operating revenues. The Commission uses this percentage increase to calculate WSKY's monthly water service rates.

OTHER ISSUES

The AG, in his Post-Hearing Brief, raised issues about WSKY's not having met annually with its ratepayers in the cities of Clinton and Middlesboro, Kentucky. In ordering paragraph 20 of the Final Order in Case No. 2012-00133,[82] the Commission required WSKY to host annual public meetings with its ratepayers in the cities of Clinton and Middlesboro, Kentucky. WSKY had not held any annual meetings as of the date of the April 9, 2014 evidentiary hearing in this case. The Commission will address the AG's concerns in a separate proceeding.

SUMMARY

Having considered the evidence of record and being sufficiently advised, the Commission finds that:

1. The 12-month period ending December 31, 2012, should be used as the test year to determine the reasonableness of WSKY's current and proposed rates.

2. Based upon pro forma test-year operations, WSKY's pro forma total operating expenses, after adjusting for known and measurable changes, are $1,874,505.

3. The use of an operating ratio is the most appropriate means to determine WSKY's total revenue requirement.

4. An operating ratio of 0.88 will permit WSKY to meet its reasonable operating expenses and provide a fair and reasonable return and should be used to determine WSKY's total revenue requirements.

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[82] Case No. 2012-00133, *Joint Application of Corix Utilities (Illinois) LLC; Hydro Star, LLC; Utilities, Inc.; and Water Service Corporation of Kentucky for the Transfer and Acquisition of Control Pursuant to KRS 278.020* (Ky. PSC Aug. 13, 2012).

5. Applying an operating ratio of 0.88 to WSKY's pro forma total operating expenses of $1,874,505 and adjusting for the effects of state and federal income taxes produces a total revenue requirement from water sales of $2,231,192, or $84,719 more than the annual revenue from water sales that WSKY's current rates produce.

6. WSKY's proposed rates would produce revenue from water sales in excess of $2,231,192 and should be denied.

7. The rates set forth in the Appendix to this Order will produce revenue from water sales of $2,231,192.

IT IS THEREFORE ORDERED that:

1. WSKY's proposed rates are denied.

2. The rates set forth in the Appendix to this Order are approved for service rendered on and after the date of this Order.

3. Within 20 days of the date of this Order, WSKY shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.

By the Commission

ENTERED
JUL 24 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2013-00237 DATED JUL 24 2014

The following rates and charges are prescribed for the customers in the area served by Water Service Corporation of Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

Middlesboro

5/8- X 3/4-Inch Meters

First	1,000 Gallons	$	9.42 Minimum Bill
Next	9,000 Gallons		3.86 per 1,000 Gallons
Next	15,000 Gallons		3.53 per 1,000 Gallons
Next	25,000 Gallons		3.35 per 1,000 Gallons
Next	50,000 Gallons		3.01 per 1,000 Gallons
Over	100,000 Gallons		2.76 per 1,000 Gallons

1-Inch Meters

First	6,000 Gallons	$	28.67 Minimum Bill
Next	4,000 Gallons		3.86 per 1,000 Gallons
Next	15,000 Gallons		3.53 per 1,000 Gallons
Next	25,000 Gallons		3.35 per 1,000 Gallons
Next	50,000 Gallons		3.01 per 1,000 Gallons
Over	100,000 Gallons		2.76 per 1,000 Gallons

1 1/2-Inch Meters

First	13,000 Gallons	$	54.62 Minimum Bill
Next	12,000 Gallons		3.53 per 1,000 Gallons
Next	25,000 Gallons		3.35 per 1,000 Gallons
Next	50,000 Gallons		3.01 per 1,000 Gallons
Over	100,000 Gallons		2.76 per 1,000 Gallons

2-Inch Meters

First	21,400 Gallons	$	84.18 Minimum Bill
Next	3,600 Gallons		3.53 per 1,000 Gallons
Next	25,000 Gallons		3.35 per 1,000 Gallons
Next	50,000 Gallons		3.01 per 1,000 Gallons
Over	100,000 Gallons		2.76 per 1,000 Gallons

<u>3-Inch Meters</u>	
First 68,400 Gallons	$ 235.96 Minimum Bill
Next 31,600 Gallons	3.01 per 1,000 Gallons
Over 100,000 Gallons	2.76 per 1,000 Gallons
<u>4-Inch Meters</u>	
First 127,500 Gallons	$ 406.82 Minimum Bill
Over 127,500 Gallons	2.76 per 1,000 Gallons
<u>6-Inch Meters</u>	
First 281,500 Gallons	$ 831.52 Minimum Bill
Over 281,500 Gallons	2.76 per 1,000 Gallons
Middlesboro Municipally Owned Hydrants	$ 4.61 per hydrant
Private Hydrants or Sprinkler Systems	$ 20.73 per hydrant or sprinkler

Clinton

<u>5/8- X 3/4-Inch Meters</u>	
First 1,000 Gallons	$ 12.47 Minimum Bill
Next 9,000 Gallons	7.06 per 1,000 Gallons
Next 15,000 Gallons	6.48 per 1,000 Gallons
Next 25,000 Gallons	5.91 per 1,000 Gallons
Next 50,000 Gallons	5.24 per 1,000 Gallons
Over 100,000 Gallons	4.58 per 1,000 Gallons
<u>1-Inch Meters</u>	
First 5,300 Gallons	$ 42.84 Minimum Bill
Next 3,700 Gallons	7.06 per 1,000 Gallons
Next 15,000 Gallons	6.48 per 1,000 Gallons
Next 25,000 Gallons	5.91 per 1,000 Gallons
Next 50,000 Gallons	5.24 per 1,000 Gallons
Over 100,000 Gallons	4.58 per 1,000 Gallons
<u>1 1/2-Inch Meters</u>	
First 11,200 Gallons	$ 83.81 Minimum Bill
Next 13,800 Gallons	6.48 per 1,000 Gallons
Next 25,000 Gallons	5.91 per 1,000 Gallons
Next 50,000 Gallons	5.24 per 1,000 Gallons
Over 100,000 Gallons	4.58 per 1,000 Gallons
<u>2-Inch Meters</u>	

First 17,600 Gallons	$ 125.30 Minimum Bill
Next 7,400 Gallons	6.48 per 1,000 Gallons
Next 25,000 Gallons	5.91 per 1,000 Gallons
Next 50,000 Gallons	5.24 per 1,000 Gallons
Over 100,000 Gallons	4.58 per 1,000 Gallons

<u>6-Inch Meters</u>

First 250,500 Gallons	$1,271.31 Minimum Bill
Over 250,500 Gallons	4.58 per 1,000 Gallons

Clinton Municipally Owned Hydrants	$ 4.61 per hydrant
Private Hydrants or Sprinkler Systems.	$ 20.73 per hydrant or sprinkler