

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION INTO THE)	
OPERATION AND MANAGEMENT OF WESTERN)	CASE NO.
LEWIS-RECTORVILLE WATER AND GAS)	2019-00028
DISTRICT PURSUANT TO KRS 74 AND KRS 278)	

ORDER

On January 23, 2019, the Commission established this proceeding to investigate the operation and management of Western Lewis-Rectorville Water and Gas District (Western Lewis-Rectorville District).

There are no intervenors in this proceeding. Western Lewis-Rectorville District responded to three rounds of discovery. Based upon those responses, the Commission found that a hearing was not required and canceled the hearing scheduled for May 7, 2019. This case stands submitted for a decision based on the written record.

DISCUSSION

This matter arose from certain operational and managerial issues that Commission Staff (Staff) identified while processing Western Lewis-Rectorville District's application for a rate adjustment for its water service pursuant to 807 KAR 5:076, the alternative rate filing for small utilities (ARF Rate Case).¹

1. Allocation and Assignment of Costs Between Divisions

Western Lewis-Rectorville District operates two divisions: water and gas. In prior proceedings, the Commission adopted Staff's recommendation that Western Lewis-

¹ Case No. 2018-00321, *Application of Western Lewis-Rectorville Water and Gas District for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076* (filed Sept. 24, 2018).

Rectorville District uses an allocation methodology for shared costs between the two divisions that was based upon a customer allocation factor. In the ARF Rate Case, Western Lewis-Rectorville District applied the appropriate allocation methodology with two exceptions: (1) purchased power and chemical costs incurred only by the water division; and (2) operating revenue.²

In responses to discovery, Western Lewis-Rectorville District explained that it agreed that the purchased power and chemical costs should have been allocated only to the water division and that it corrected the error in the ARF Rate Case. The Commission encourages Western Lewis-Rectorville District to review its allocation accounting practices carefully to avoid repeat occurrences of improper allocation of expenses attributed to only one division.

Concerning the allocation of revenue, the Commission agrees that Western Lewis-Rectorville District correctly applied the standard set forth in two previous cases that required Western Lewis-Rectorville District to “revise its accounting procedures and internal controls so that proper assignment and allocations of **revenues** and expenses are recorded in the original books of entry in all future reporting periods.”³ (emphasis added). Because allocation is appropriate only for revenues or expenses attributed to both divisions, the Commission finds that applying the allocation methodology to revenue is incongruous because revenue can be attributed to a specific division. For this reason, the Commission finds that, effective as of the date of entry of this Order,

² *Id.* at 5.

³ Case No. 2014-00266, *Application of Western Lewis-Rectorville Water & Gas District for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076* (Ky. PSC Nov. 7, 2014) at 3–4; Case No. 2017-00074, *Application of Western Lewis Rectorville Water and Gas District for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076* (Ky. PSC. July 17, 2017) at 5.

Western Lewis-Rectorville District should revise its accounting procedures and internal controls so that proper assignment and allocations of shared **expenses** are recorded in the original books of entry in all future reporting periods. Western Lewis-Rectorville District should record revenue according to the division to which it is attributed. The Commission further finds that Western Lewis-Rectorville District should submit in writing its agreement to this requirement within 20 days of entry of this Order.

2. Accuracy of AMR Reporting and Billing

Western Lewis-Rectorville District operates with an automated meter reading (AMR) system, which can record precise water usage data. Western Lewis-Rectorville District confirmed that it had the capability of measuring water usage in more precise increments and could revise the meter reading and billing software to modify the rounding function.⁴ Despite this capability, Western Lewis-Rectorville District rounds down customer billing to the nearest 1,000-gallon increment. For example, a ratepayer who used 2,600 gallons in a month would be billed for only 2,000 gallons.

Despite Western Lewis-Rectorville District's contention otherwise, even if the unbilled water usage is rolled into the next month's billing, actual water usage is not properly billed or collected. Setting aside that the true up would not occur unless the account is closed, Western Lewis-Rectorville charges declining block rates, in which each succeeding block of usage is charged a lower unit rate than the previous block. Under this rate design, customers will pay more or less than the tariffed rates because a portion of one month's usage is rolled into the next month's usage, which artificially inflates or reduces actual usage, and thus the amount billed.

⁴ Response to Commission Staff's Second Request for Information (filed March 20, 2019) at Item 6.

The Commission finds that Western Lewis-Rectorville District should measure and bill customers for usage in increments of 100 gallons of water, rather than in increments of 1,000 gallons of water, in order to accurately record and bill usage consistent with its tariffs. Western Lewis-Rectorville District implied that modifying the measuring increments from 1,000 gallons to 100 gallons required a change in approved rates. However, complying with this order does not require Western Lewis-Rectorville District to revise its approved rates. Currently, Western Lewis-Rectorville District calculates bills with one billing unit equaling 1,000 gallons of water. Western Lewis-Rectorville District should, similar to other water utilities, apply billing units that comport with measured increments, so that one billing unit equaled 100 gallons of water, with the declining block rates applied as multipliers of the number of billing units.

3. Billing Analysis

In the ARF Rate Case, Staff found a \$30,425 discrepancy between the expected revenues from water sales based on water usage billed, \$864,706, and the actual revenue collected from water sales, \$834,281. In the ARF Rate Case, Western Lewis-Rectorville attributed the discrepancy to truncating bills rounding to the nearest 1,000 gallons. Because the Commission's billing analysis was based upon billed water usage, this explanation was lacking, and the Commission approved an adjustment that increased test-year normalized revenues. In this proceeding, Western Lewis-Rectorville District attributed the discrepancy to timing differences, late payments, payments less than the amount billed, unpaid bills, and its use of cash basis accounting that must be converted to accrual basis accounting.

Western Lewis-Rectorville District failed to provide evidence to support its contentions, and the Commission made appropriate adjustments as a result. The Commission puts Western Lewis-Rectorville District on notice that it must provide adequate documentary support for its assertions. Staff will insist that Western Lewis-Rectorville District provide documentation such as leak adjustment logs, misread meter logs, and late payment penalty reports, in order to avoid similar adjustments in future rate cases.

4. System Flushing

In the ARF Rate Case, Western Lewis-Rectorville District could not explain the methodology it used to estimate the amount of water claimed for system flushing. Therefore, the Commission approved an adjustment that removed the amount attributed to system flushing because using an estimate without a supporting basis is arbitrary and does not meet the ratemaking criteria of known and measurable.⁵ In this proceeding, Western Lewis-Rectorville District provided an explanation that, for unmetered lines, it applies a formula to determine the amount of water used for system flushing.

The Commission finds that this issue is best addressed in the next periodic inspection conducted by our Division of Inspections. Further, in future rate cases, Western Lewis-Rectorville District must provide documentation to support its calculations for system flushing in order to avoid similar adjustments that were made in this ARF Rate Case.

5. General Manager Salary

The Commission continues to have concerns regarding the amount of the General Manager, Chad Clark's, salary, which appears to be overly generous in light of

⁵ Case No. 2018-00321, Staff Report at 13.

the number of part-time hours reportedly worked and the positions he holds at other utilities. Western Lewis-Rectorville District hired Mr. Clark at a set weekly salary but never established a set number of part-time hours that Mr. Clark would work each week.

Western Lewis-Rectorville District provided time records for Mr. Clark, who did not keep written time records until 2018. Despite his assertion that he averages 32 hours per week, Mr. Clark's time records indicate that he averages 22 hours per week. Despite his assertion that he does not receive paid time off, the time records indicate that Mr. Clark receives the same weekly salary no matter how few hours he works.

Mr. Clark earned an annual salary of \$57,410 in 2015; \$54,080 in 2016 and 2017, respectively; \$52,040 in 2018; and will earn \$59,800 in 2019. Mr. Clark provided a 2015 Kentucky Rural Water Association study that reported full-time general managers of a utility the size of Western Lewis-Rectorville District earned an annual salary of approximately \$65,000, exclusive of benefits, and that nearby utilities paid full-time general managers an annual salary of approximately \$75,000.

Despite the Commission's significant concerns, the issue of Mr. Clark's salary is best addressed in a rate case. Therefore, we will reserve this issue to be addressed in Western Lewis-Rectorville District's next rate case.

SUMMARY OF FINDINGS

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. Western Lewis-Rectorville District should revise its accounting procedures and internal controls so that proper assignment and allocations of shared expenses are recorded in the original books of entry in all future reporting periods.

2. Western Lewis-Rectorville District should record revenue according to the division to which it is attributed.

3. Western Lewis-Rectorville District should submit in writing its agreement to revise its accounting procedures as set forth in finding paragraphs 1 and 2 within 20 days of entry of this Order.

4. Western Lewis-Rectorville District should measure and bill customers for usage in increments of 100 gallons of water, effective with the next billing cycle after the date of entry of this Order.

5. The Commission's Division of Inspections will address Western Lewis-Rectorville District's methodology for calculating water used in system flushing in the next periodic inspection.

6. The Commission will address Western Lewis-Rectorville District's General Manager's salary and work hours in Western Lewis-Rectorville District's next rate case.

IT IS THEREFORE ORDERED that:

1. Within 20 days of the date of entry of this Order, Western Lewis-Rectorville District shall submit a written statement that it agrees to implement the revisions to its accounting procedures and internal controls set forth in finding paragraphs 1 and 2.

2. Effective with the next billing cycle after the date of entry of this Order, Western Lewis-Rectorville District shall measure and bill customers for usage in increments of 100 gallons of water.

3. This case is closed and removed from the Commission's docket.

By the Commission

ENTERED
MAY 28 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2019-00028

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