

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DEXTER-ALMO HEIGHTS WATER DISTRICT FOR AN ADJUSTMENT OF RATES PURSUANT TO 807 KAR 5:076)	CASE NO.
)	2019-00354
)	
)	

ORDER

On October 14, 2019, Dexter-Almo Heights Water District (Dexter-Almo Heights District) tendered an application (Application) to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076, and it was accepted as filed. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated November 13, 2019. Commission Staff (Staff) issued a data request on January 15, 2020, to collect additional information regarding Dexter-Almo Heights District's financial records. Finding that Dexter-Almo Heights District would need additional time to respond to the data request, the Commission issued an Order on January 15, 2020, amending its November 13, 2019 Order, and allowing for additional time for Dexter-Almo Heights District to respond and to allow Staff to complete this report.

Staff performed a limited financial review of Dexter-Almo Heights District's operations and, on March 2, 2020, released its initial report containing Staff's findings. On March 12, 2020, Dexter-Almo Heights District filed its response to Staff's report accepting Staff's findings but requesting that additional legal expenses incurred since its initial filing be incorporated into the financial review. With its comments, Dexter-Almo Heights District did not request that an informal conference be held.

The report attached hereto addresses the inclusion of the legal expenses and contains amendments to Staff's original findings.

Finding that Dexter-Almo Heights District should be afforded the opportunity to respond to Staff's amendments to its original findings, the Commission HEREBY ORDERS that:

1. Dexter-Almo Heights District shall have up to 14 days from the date of this Order to file written comments with the Commission, if any, on the findings and recommendations contained in the attached Amended Staff Report and to request a hearing or an informal conference with Commission in this matter.

2. Dexter-Almo Heights District's failure to file with the Commission written objections to a finding contained in the Amended Staff Report within 14 days of this Order shall be deemed as agreement with that finding or recommendation, and a waiver of any right to object to that finding or recommendation.

3. If Dexter-Almo Heights District requests a hearing in this matter, it shall specifically identify in its written request for hearing all objections to the findings and recommendations set forth in the Amended Staff Report, and shall provide a brief summary of testimony that it expects to present at the hearing.

4. Within 14 days of the date of this Order, Dexter-Almo Heights District shall file with the Commission in writing its position on adjusting its rates to the level shown in the Appendix to the Amended Staff Report.

5. If Dexter-Almo Heights District wishes to amend its Application to request the rates shown in the Appendix to the Amended Staff Report, it should request such amendment in its response to the Amended Staff Report.

6. If Dexter-Almo Heights District amends its Application to request the rates shown in the Appendix to the Amended Staff Report, it should mail notice of its amended rate request, pursuant to 807 KAR 5:011, Section 8, and shall provide the Commission with proof of such notice.

7. If the Commission does not receive any written request for a hearing or for an informal conference within the 14 days of the date of this Order, this case shall stand submitted to the Commission for decision based upon the existing record.

8. Pursuant to the Commission's Order in Case No. 2020-00085,¹ issued March 16, 2020, if Dexter-Almo Heights District files any documents pursuant to the ordering paragraphs above, Dexter-Almo Heights District SHALL NOT FILE the original paper copy of the documents, but rather will file original paper copies within 30 days of the lifting of the current state of emergency.

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID- 19* (Ky. PSC March 16, 2020).

By the Commission

ENTERED
MAR 31 2020 TCS
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2019-00354

AMENDED STAFF REPORT
ON
DEXTER-ALMO HEIGHTS WATER DISTRICT
CASE NO. 2019-00354

On October 14, 2019, Dexter-Almo Heights District tendered an application (Application) to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076, and it was accepted as filed. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated November 13, 2019. Staff issued a data request on January 15, 2020, to collect additional information regarding Dexter-Almo Heights District's financial records. Finding that Dexter-Almo Heights District would need additional time to respond to the data request, the Commission issued an Order on January 15, 2020, amending its November 13, 2019 Order, allowing for additional time for Dexter-Almo Heights District to respond and to allow Staff to complete this report. In its Application, Dexter-Almo Heights District requested rates that would increase the monthly bill of a typical residential customer using 3,790 gallons per month by \$6.83, from \$28.25 to \$35.08, or approximately 24.18 percent.

In order to evaluate the reasonableness of Dexter-Almo Heights District's pro forma financial statements, revenue requirement calculation, and requested water rates, Staff performed a limited financial review of Dexter-Almo Heights District's test-year operations for the calendar year 2018. On March 2, 2020, Staff issued a report (Report) summarizing its findings regarding Dexter-Almo Heights District's requested rate adjustment. In its Report, Staff found that Dexter-Almo Heights District's adjusted test-year operations support an Overall Revenue Requirement of \$346,734 and that an annual

revenue increase of \$66,979, or 23.91 percent, is necessary to generate the Overall Revenue Requirement.¹ Staff determined that for Dexter-Almo Heights District to achieve this level of revenue would require implementation of the rates included in the Appendix to the Report.

On March 12, 2020, Dexter-Almo Heights District filed its response to Staff's report accepting Staff's findings but requesting that additional legal expenses incurred since Dexter-Almo Heights District's initial filing be incorporated into the financial review. Based on Dexter-Almo Heights District's request, Staff is amending its original findings.

SUMMARY OF FINDINGS

In the prior report, Staff's calculation of total Pro Forma Adjustments to Amortization Expense for rate case expenses included only \$2,061,² for a pro forma total of \$2,061. After recalculation, Staff determined the correct total Pro Forma Adjustments to Amortization Expense is (\$2,616).³

¹ Staff Report at 3.

² \$6,184 (Rate Case Expense) ÷ 3 years = \$2,061 (Total Pro Forma Amortization Expense Adjustment).

³ \$7,849 (Rate Case Expense) ÷ 3 years = \$2,616 (Total Pro Forma Amortization Expense Adjustment).

AMENDED PRO FORMA OPERATING STATEMENT

The Amended Pro Forma Operating Statement for the test year ended December 31, 2018, as determined by Commission Staff, appears below.

	<u>2018 Annual Report</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues:			
Revenues from Water Sales:			
Metered Water Sales:	\$ 275,034	4,827	\$ 279,861
Other Water Revenues:			
Other Water Revenues	<u>0</u>	<u>2,025</u>	<u>2,025</u>
Total Other Water Revenues	<u>0</u>	<u>2,025</u>	<u>2,025</u>
Total Operating Revenues	<u>275,034</u>	<u>6,852</u>	<u>281,886</u>
Operating Expenses:			
Operation & Maintenance:			
Salaries & Wages - Employees	55,042	1,157	56,199
Salaries & Wages - Commissioners	7,200		7,200
Employee Pension and Benefits	1,059		1,059
Purchased Water	130,138	7,534	135,593
		(2,079)	
Purchased Power	1,557	69	1,626
Materials and Supplies	31,532	(3,095)	28,437
Contractual Services	25,968	(3,000)	
		627	23,595
Water Testing	1,570	(627)	1,400
		457	
Tranportation Expense	6,300		6,300
Insurance	4,606	66	4,672
Miscellaneous Expense	<u>6,176</u>		<u>6,176</u>
Total Operation & Maintenance	271,148	1,109	272,257
Depreciation	25,913	(202)	25,711
Amortization Expense	0	2,616	2,616
Taxes Other Than Income	5,629	86	5,097
		(619)	
Utility Operating Expenses	<u>302,690</u>	<u>2,991</u>	<u>305,681</u>
Net Utility Operating Income	<u>\$ (27,656)</u>	<u>\$ 3,861</u>	<u>\$ (23,795)</u>

CALCULATION OF OVERALL REVENUE REQUIREMENT
AND REQUIRED REVENUE INCREASE

Staff originally determined that Dexter-Almo Heights District required an Overall Revenue Requirement of \$346,734, which required a \$66,979 revenue increase, or an increase of 23.93 percent. Staff has determined that, with the amendment to Net Utility Income, Dexter-Almo Heights District requires an Overall Revenue Requirement of \$347,471, which requires a \$67,610 revenue increase, or an increase of 24.16 percent. A comparison of the calculations is shown below.

	Staff	Amended
Operating Expenses	\$ 305,126	\$ 305,681
Divided by: Operating Ratio	88%	88%
Overall Revenue Requirement	346,734	347,365
Add: Interest Expense	2,526	2,526
Less: Other Operating Revenue	(2,025)	(2,025)
Non-operating Revenue	(359)	(359)
Interest Income	(36)	(36)
Revenue Requirement - Water Rates	346,840	347,471
Less: Normalized Revenue from Water Service	(279,861)	(279,861)
Required Revenue Increase	\$ 66,979	\$ 67,610
Percentage Increase	23.93%	24.16%

RATE CALCULATED BY COMMISSION STAFF

Using Dexter-Almo Heights District's revised revenue requirement of \$347,471, Staff calculates current rates will increase a typical residential customer's bill from \$28.25 to \$35.08, an increase of \$6.83, or approximately 24.18 percent.⁴ Shown in the Appendix to this Amended Staff Report are the monthly water service rates as calculated by Staff.

⁴ The typical residential customer uses approximately 3,790 gallons per month.

Signatures:

Travis Leach by MBP

Prepared by: Travis Leach
Revenue Requirements Branch
Division of Financial Analysis

Jason Green by MBP

Prepared by: Jason Green
Rate Design Branch
Division of Financial Analysis

APPENDIX

APPENDIX TO AN AMENDED STAFF REPORT OF THE KENTUCKY PUBLIC
SERVICE COMMISSION IN CASE NO. 2019-00354 DATED MAR 31 2020

Monthly Water Rates

First 2,000 Gallons	\$20.56 Minimum Bill
Next 3,000 Gallons	8.11 Per 1,000 Gallons
Next 5,000 Gallons	7.18 Per 1,000 Gallons
Next 10,000 Gallons	6.77 Per 1,000 Gallons
Over 20,000 Gallons	5.44 Per 1,000 Gallons

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