

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|                                      |   |            |
|--------------------------------------|---|------------|
| APPLICATION OF NIXUTIL SANITATION    | ) | CASE NO.   |
| ASSOCIATION, INC. FOR AN ALTERNATIVE | ) | 2019-00024 |
| RATE ADJUSTMENT                      | ) |            |

ORDER

On January 14, 2019, Nixutil Sanitation Association, Inc. (Nixutil Association) tendered an application requesting to adjust its monthly sewage service rates, pursuant to the procedures set forth in 807 KAR 5:076, and to place its proposed rates in effect immediately. Nixutil Association's application was marked as deficient by a letter dated January 30, 2019, because it did not contain a depreciation schedule of all the utility plant in service or a detailed analysis of its customers' bills. On February 4, 2019, Nixutil Association requested that it be excused from those filing requirements. The Commission granted Nixutil Association's request based on its size and plant in service. Nixutil Association's application was accepted as filed on February 4, 2019. Pursuant to 807 KAR 5:076, Section 7, Nixutil Association's proposed rates were suspended until August 3, 2019, and an emergency interim monthly rate of \$61.73 was placed into effect.

In the application, Nixutil Association proposed to change its rate design from a rate based on the number of bathrooms to a flat rate based on a residential equivalent representing a maximum of 12,000 gallons per month. The Commission has previously

found that a rate design based on residential equivalents is an appropriate and equitable method of cost allocation for wastewater systems.<sup>1</sup>

Pursuant to the procedural Order, on July 29, 2019, Commission Staff (Staff) issued a report (Report) summarizing its findings regarding Nixutil Association's requested rate adjustment. In its Report, Staff found that Nixutil Association's adjusted test-year operations support an Overall Revenue Requirement of \$28,250 and that an annual revenue increase of \$8,170, or 40.68 percent, is necessary to generate the Overall Revenue Requirement.

On October 10, 2019, Nixutil Association filed with the Commission its response to the Staff Report. Nixutil Association provided proof that it had given its customers sufficient notice and did not request that an informal conference or formal hearing be held.<sup>2</sup>

### BACKGROUND

Nixutil Association is a sewer association that provides sewer service to approximately 34 customers,<sup>3</sup> residing in Kenton County, Kentucky.

### TEST PERIOD

To comply with the requirements of 807 KAR 5:076, Section 9,<sup>4</sup> Nixutil Association based its requested rates on a historic test period that coincides with the reporting period

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<sup>1</sup> See Case No. 2018-00339, *Application of P. R. Wastewater Management, Inc. For an Alternative Rate Adjustment* (Ky. PSC Apr. 12, 2019).

<sup>2</sup> Nixutil Sanitation Association, Inc. Response to Commission Staff Report.

<sup>3</sup> Application at 16.

<sup>4</sup> The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes that coincide with the reporting period of the applicant's annual report for the immediate past year.

shown in its most recent Annual Report on file with the Commission, the calendar year ended December 31, 2017.

SUMMARY OF REVENUE AND EXPENSES

Based on the findings of the Staff Report, Nixutil Association’s pro forma operational revenue is as follows:

|                              | 2017<br>Annual Report | Rate Study<br>Adjustments | Pro Forma<br>Operations |
|------------------------------|-----------------------|---------------------------|-------------------------|
| Total Operating Revenues     | \$ 21,705             | \$ (1,625)                | \$ 20,080               |
| Total Operating Expenses     | 27,564                | (2,704)                   | 24,860                  |
| Net Utility Operating Income | \$ (5,859)            | \$ 1,079                  | \$ (4,780)              |

STAFF'S FINDINGS

In its Report, Staff proposed adjustments to both revenues and expenses. The Commission accepts the findings contained in Staff’s Report.

REVENUE REQUIREMENTS

Based upon the Commission’s findings and determinations herein, Nixutil Association requires an increase in revenues of \$8,170, or 40.68 percent above pro forma present rate revenues, as shown below:

|  |           |
|--|-----------|
| Operating Expenses                               | \$ 24,860 |
| Divided by: Operating Ratio                      | 88%       |
| Overall Revenue Requirement                      | 28,250    |
| Add: Interest Expense                            | 0         |
| Less: Other Operating Revenue                    | 0         |
|  | 0         |
| Revenue Requirement - Wastewater                 | 28,250    |
| Less: Normalized Revenue from Wastewater Service | (20,080)  |
| Required Revenue Increase                        | \$ 8,170  |
| Percentage Increase                              | 40.68%    |

## RATE DESIGN

The Commission has previously found that a rate design based on residential equivalents is an appropriate and equitable method of cost allocation for wastewater systems.<sup>5</sup> Staff followed the method proposed in Nixutil Association's application and allocated the \$28,250 revenue requirement based on the 33 residential customers using one residential equivalent unit each and the one commercial customer using 2.5 residential equivalent units.<sup>6</sup> Shown in the Appendix to this report are the monthly wastewater service rates as calculated by Staff. The rates in the Appendix attached to this Order will produce water rate revenues of approximately \$28,250. The revenue required is determined to be reasonable by the Commission herein.

The Commission notes that Nixutil Association should reevaluate the residential equivalent usage by commercial customers at the end of each calendar year, and adjust the commercial customer's future bills based on its average monthly usage for the prior calendar year.

In addition, Nixutil Association proposed a \$5.00 late fee. The Commission finds the necessity of a late fee reasonable. Nixutil should provide language in its tariff for how the fee will be applied.

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

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<sup>5</sup> See Case No. 2018-00339, *Application of P. R. Wastewater Management, Inc. For an Alternative Rate Adjustment* (Ky. PSC Apr. 12, 2019).

<sup>6</sup> Based on usage information provided by Nixutil Association's water supplier, the association's single commercial customer uses approximately 2.5 residential equivalents of 12,000 gallons per month.

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.

2. By applying the Operating Ratio Method, as generally accepted by the Commission, Nixutil Association's Overall Revenue Requirement is \$28,250 and that an \$8,170 revenue increase, or 40.68 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

3. The water service rates proposed by Nixutil Association should be denied.

4. The water service rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved.

5. Nixutil should provide Tariff language reflecting how the proposed late fee will be applied.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The general service rates proposed by Nixutil Association are denied.

3. The rates set forth in the Appendix to this Order are approved for services rendered by Nixutil Association on and after the date of this Order.

4. Within 20 days of the date of this Order, Nixutil Association shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

5. Nixutil shall include in the new tariff sheets language reflecting how the approved late fee will be applied.

6. The revenues collected pursuant to the interim rate established by the April 1, 2019 Order in this matter are no longer subject to refund.

7. No refund of the interim rate is due because the rates approved in this order are higher than the interim rates.

8. Nixutil is relieved of the obligation in the April 1, 2019 Order that it maintains records of the interim rates to determine the amounts to be refunded and to whom any refund of the interim rate is due.

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

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By the Commission

ENTERED  
DEC 02 2019  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2019-00024 DATED **DEC 02 2019**

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

Monthly Wastewater Rates

|                                    |   |
|------------------------------------|---|
| Residential Monthly Service Charge | \$66.31   |
| Commercial Monthly Service Charge  | \$66.31 Per Residential Equivalent of<br>12,000 Gallons |
| Late Fee                           | \$5.00  |



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