COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WATER SERVICE CORPORATION OF KENTUCKY FOR A GENERAL ADJUSTMENT IN EXISTING RATES	))))	CASE NO. 2020-00160

<u>O R D E R</u>

On June 1, 2020, Water Service Corporation of Kentucky (Water Service Kentucky) pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001, Section 16(1)(b)(1), filed an application requesting to increase its rates and establish a Qualified Infrastructure Program (QIP) tariff to replace aging infrastructure. Water Service Kentucky was notified that its application contained no deficiencies by letter dated June 3, 2020.

<u>BACKGROUND</u>

Water Service Kentucky, a wholly owned subsidiary of Corix Regulated Utilities (US), Inc. (Corix US),[1] is a jurisdictional utility that distributes and sells water to approximately 6,000 connections in Middlesboro, Kentucky and 600 connections in Clinton, Kentucky, located in Bell and Hickman counties Kentucky, respectively.[2] In

[1] Water Service Kentucky's Responses to Commission Staff's Initial Request for Information (Staff's Initial Request) (filed July 14, 2020), Item 2.a, Excel Workbook: entitled *"Response to Staff DR 1.2 – Organization Chart", Tab:* DR 1.02a.

[2] Application, Exhibit 5, Direct Testimony of Stephen R. Vaughn (Vaughn Testimony), at 4.

addition to water operations, Water Service Kentucky is under contract with the city of Clinton (Clinton) to operate and maintain Clinton's wastewater treatment facilities.[3]

In its application, Water Service Kentucky requested an increase in operating revenues from base water rates of $1,080,300 per year, or 38.32 percent, compared to the operating revenues for the historical test period under existing water rates.[4] There are two intervenors in this matter: the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General),[5] and Clinton.[6] The Attorney General and Clinton entered into a joint participation agreement and co-sponsored one witness.[7]

By Order entered June 26, 2020, the Commission suspended the proposed rates up to and including December 1, 2020. In its August 27, 2020 motion for leave to file after deadline, Water Service Kentucky requested an extension in which to respond to information requests and it was granted based upon Water Service Kentucky's agreement not to implement its proposed rates subject to refund earlier than December 8, 2020, as otherwise would be permitted by KRS 278.190. Following discovery, the Commission held an evidentiary hearing on November 12, 2020, in Frankfort, Kentucky. Following the hearing, the Attorney General and Water Service Kentucky submitted written briefs. This matter now stands submitted to the Commission for a decision.

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[3] Vaughn Testimony at 4.

[4] Application at 4.

[5] Order (Ky. PSC June 16, 2020).

[6] Order (Ky. PSC Aug. 7, 2020).

[7] The Attorney General and the City of Clinton Joint Filing of a Memorandum of Understanding (filed Oct. 5, 2020).

ANALYSIS AND DETERMINATION

Test Year

Water Service Kentucky proposes to use as its historical test year the 12-month period ending March 30, 2020, as adjusted for known and measurable changes.[8] The Commission finds that the use of this period reasonable.

Rate Base

Water Service Kentucky proposed a Net Investment Rate Base (Rate Base) of $6,323,972.[9] As discussed below, the Commission has determined that Water Service Kentucky's net investment rate base is $6,381,961.

	Application Pro Forma	Commission Pro Forma Adj.	Commission Pro Forma
Gross Plant In Service	$ 13,846,410	$ -	$ 13,846,410
Accumulated Depreciation	(6,864,318)	116,461	(6,747,857)
Net Plant In Service	$ 6,982,092	$ 116,461	$ 7,098,553
Cash Working Capital	369,217	(58,473)	310,744
Contributions In Aid of Construction	(259,534)	-	(259,534)
Advances in Aid of Construction	-	-	-
Accumulated Deferred Income Taxes	(710,462)	-	(710,462)
Customer Deposits	(57,340)	-	(57,340)
Total Rate Base	$ 6,323,973	$ 57,988	$ 6,381,961

Accumulated Depreciation

Water Service Kentucky included the depreciation of Project Phoenix computer assets. In past rate applications of Water Service Kentucky, the Commission has found

[8] *See*, 807 KAR 5:001, Section 16.1. (a).

[9] Notice of Filing Corrected Information (filed Sept. 28, 2020), Excel Spreadsheet entitled: Supplemental_Response_to_Staff_DR_1.3_-_Filing_Template; Tab: Sch.B-I.S.

that inclusion of Project Phoenix computer assets to be unreasonable.[10] Accordingly, the Commission has decreased Water Service Kentucky's accumulated depreciation of $6,864,318 by $116,461.

Cash Working Capital Allowance

Water Service Kentucky calculated its cash working capital allowance of $369,217 by using the 45 day or 1/8th formula methodology, after adjusting for the impacts of Water Service Kentucky's proposed adjustments to Operation and Maintenance expenses and to Taxes Other Than Income Tax expense. While the Commission finds the 1/8th approach to be a reasonable approach for Water Service Kentucky, particularly given its size and relative sophistication, and the Commission will permit its use in this matter given those factors, the Commission's cash working capital allowance of $310,744[11] reflects the pro forma Operation and Maintenance expense and Taxes Other Than Income Tax expense determined reasonable herein.

Operating Income Adjustments

[10] *See* Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9, 2009); *See* Case No. 2010-00476, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 23, 2011); and *See* Case No. 2013-00237, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC July 24, 2014).

[11]

Maintenance Expenses		$	1,392,112
General Expenses			838,960
Taxes Other Than Income			254,884
Total		$	2,485,956
Working Capital	45/360	$	310,744

For the test year, Water Service Kentucky reported actual operating revenue and expenses of $2,846,263 and $2,760,617, respectively.[12] In its application Water Service Kentucky proposed several adjustments to revenues and expenses to reflect current and anticipated operating conditions, resulting in pro forma revenues of $2,875,281 and pro forma expenses of $3,063,291.[13] On September 28, 2020, Water Service Kentucky corrected an error in the calculation of its operating revenues that resulted in revised pro forma revenues and expenses of $2,879,465 and $3,064,382, respectively.[14] The Commission's review of Water Service Kentucky's pro forma adjustments is set forth below.

<u>Forfeited Discounts</u>

Water Service Kentucky assesses customers who pay their bill after the date in which the bill is due a 10 percent late payment fee.[15] Following the Commission's recent decision concerning late fees, set out in the final Order issued in Case No. 2020-00141,[16] the Commission finds that it is unreasonable to collect the forfeited discounts, or late payment fees. Accordingly, the Commission adjusts Water Service Kentucky's Miscellaneous Revenues by the test year amount of $80 and Water Service Kentucky's assessment of late payment fees should be discontinued.[17]

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[12] Application, Exhibit 4, Schedule B, Combined Operations Test Year Ended 03/31/2020 at 1.

[13] *Id.*

[14] Notice of Filing Corrected Information (filed Sept. 28, 2020), Excel Spreadsheet entitled: Supplemental_Response_to_Staff_DR_1.3_-_Filing_Template; Tab: Sch.B-I.S.

[15] *See*, Contract for Water Service, Tariff Sheet No. 34, Item 5.

[16] Case No. 2020-00141*, Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

[17] Application, Exhibit 14.

Nonrecurring Charges

The Commission has reviewed Water Service Kentucky's nonrecurring charges. Similarly to the late payment fees and following the Commission's recent decision set out in the final Order issued in Case No. 2020-00141, the Commission finds that the calculation of nonrecurring charges should be revised and only the marginal costs related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. By reflecting only the marginal cost of the service in the nonrecurring charge, Water Service Kentucky's rates will be more aligned with the actions that drive expenses. Including fixed costs that Water Service Kentucky will incur regardless of the number of nonrecurring service activities it conducts will create a mismatch between how Water Service Kentucky incurs expenses, such as salary and wage expense, and how it recovers those expenses from customers. In Case No. 2020-00141, the Commission found that since personnel are paid during normal business hours regardless of whether they are on a field visit, labor costs included in Nonrecurring Charges that occur during regular business hours should be eliminated.

Water Service Kentucky charges the following nonrecurring charges:

New Customer Account Set Up Fee	$27.00
Service Reconnection Fee	$27.00
Non-Sufficient Funds Charge	$15.00
Meter Testing Fee	$20.00
Service Charge Fee	$27.00

The Commission has reviewed Water Service Kentucky's most recent nonrecurring cost justification[18] and has adjusted the reconnection fee by removing field

[18] Case No. 2008-00563, Application for Water Service of Kentucky for an Adjustment of Rates (Ky. PSC Nov. 11, 2009), Water Service Corporation's Response of 040309 Order filed April 17, 2009.

labor costs and office/clerical labor costs form the charges. This adjustment results in a revised reconnection fee of $2.00. Review of the 2018/2019 Kentucky Public Service Commission's Residential Disconnection Report provided by Water Service Kentucky to the Commission's Consumer Services Branch, indicates that Water Service Kentucky conducted 878 disconnections.[19] Therefore, the Commission reduces Miscellaneous Revenues by $21,950.[20] Water Service Kentucky is to file, through the electronic tariff system, new nonrecurring charges reflecting the marginal cost of these activities. Additionally, Water Service Kentucky is to file support for continuing the $27.00 New Customer Account Setup Fee.

Salaries and Wages.

Water Service Kentucky proposed to increase its test-year Salaries and Wages expense of $917,309 by $148,272 for a pro forma level of $1,065,581.[21] In calculating its $148,272 adjustment, Water Service Kentucky utilized the employee's 2020 known-and-measurable pay rates.[22] In addition, Water Service Kentucky's pro forma Salary and Wage expense reflected the allocation of the following new positions: Vice President of

[19] *See* Appendix A. Water Service Kentucky provides this report annually pursuant to 807 KAR 5:006 Section 4.

[20] Current charge: $27.00 and labor costs total $25.00. $25.00 * 878 = $21,950.

[21] Notice of Filing Corrected Information (filed Sept. 28, 2020), Excel Spreadsheet entitled: Supplemental_Response_to_Staff_DR_1.3_-_Filing_Template; Tab: Sch.B-I.S.

	Test-Year Actual	Pro Forma Adjustment	Pro Forma Adjusted
Maintenance Exp. - Salaries and Wages	$ 751,780	$ 124,329	$ 876,109
General Exp. Salaries and Wages	165,529	23,943	189,473
Totals	$ 917,309	$ 148,272	$ 1,065,581

[22] Application, Exhibit 5, Direct Testimony of Robert Guttormsen (Guttormsen Testimony) at 16.

Regulatory Affairs & Business Development; Business Development Manager; Director of Engineering & Asset Management; and Midwest Project Manager.[23]

Water Service Kentucky explained that in February 2020 the Business Development Manager and Director of Engineering and Asset Management positions had been filled.[24] The two remaining positions are vacant, however Water Service Kentucky noted that it expects to fill the vacant positions by the end of the year.[25] In arguing that its pro forma Salary and Wage expense is reasonable Water Service Kentucky presented a salary analysis identical to the analysis that was presented in Case No. 2018-00208.[26] In its analysis, Water Service Kentucky compared the per customer salary expense to the per customer salary expense of similarly-sized water utility's in Kentucky.[27] Water Service Kentucky provided a comparison of its salary levels to market cost of services available by service providers outside the utility industry.[28] According to Water Service Kentucky its analysis demonstrates that Water Service Kentucky's salaries are reasonable, and therefore, should be recovered in rates.[29]

The Attorney General argued that there is a flaw in Water Service Kentucky's salary and wage analysis in that it failed to compare its salary and benefit levels to the local wage and benefit information for the geographic area where Water Service Kentucky

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[23] *Id.* at 17.

[24] Initial Brief of Water Service Kentucky at 13.

[25] *Id.*

[26] *Id.*

[27] *Id.*

[28] *Id.*

[29] *Id.*

operates.[30] Another problem noted by the Attorney General is that Water Service Kentucky appeared to have given its employees unreasonable pay raises in both 2017 and 2018.[31] According to the Attorney General, the average employee wage increase in 2017 was 12.78 percent and in 2018 was 7.50 percent.[32] The Attorney General also argued that Water Service Kentucky's post-test year adjustments to reflect the costs of the vacant positions does not meet the ratemaking criteria of being known and measureable noting that, at this time, these costs are not sufficiently known and measurable, but merely speculative, and there is no guarantee that the positions will be filled.[33] The Attorney General proposed that the Commission remove all costs associated with the two new vacant positions from the requested rate increase and for the Commission to review Water Service Kentucky's pro forma salary and wage expense for reasonableness.[34]

Although the salary analysis and comparison provided by Water Service Kentucky does not address the reasonableness of each individual employee wage rate it does adequately demonstrate that Water Service Kentucky's pro forma Salary and Wage expense falls within the range of Salary and Wage expenses being reported by comparable water utilities. Further, Water Service Kentucky explained that the high level of the average wage increases in prior periods was due to employee promotions in those

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[30] Attorney General Post-Hearing Brief at 15.

[31] *Id.*

[32] *Id.*

[33] *Id.* at 14.

[34] *Id.* at 14-15.

years.[35] The Commission has been emphasizing the evaluation of salary and benefits as they relate to competiveness in a broad marketplace as opposed to studies limited to the utility industry. Therefore, future rate applications filed by Water Service Kentucky will be required to include a formal study that provides local wage and benefit information from the geographic area where Water Service Kentucky operates and must include state data where available.

The Commission may limit how far outside the test year it will allow post-test-year expense adjustments, especially if such adjustments are made in isolation from similar adjustments to revenues, rate base and capitalization[36] and are based upon budgetary projections that are not known and measurable.[37] Therefore, the Commission is in agreement with the Attorney General's position that the cost of the two vacant positions are speculative and that Water Service Kentucky has not provided adequate documentation to show that the positions will be filled by the projected date.

In a prior decisions, the Commission found that business development expenses allocated to the utility from its Service Company would be considered reasonable and appropriate for rate recovery only in those instances in which the utility was able to

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[35] Hearing Video Transcript (HVT) of the Nov. 12, 2020 Hearing, 13:41:35–13:41:53.

[36] Case No. 1994-336, *Application of East Kentucky Power Cooperative, Inc. to Adjust Electric Rates* (Ky. PSC July 25, 1995) Order at 2-3.

[37] *See*, 807 KAR 5:001, Section 16.1.(a).; Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary*; and *(C) Issuance of Bonds* (Ky. PSC June 25, 2003);Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

"appropriately document and separate forecasted management fees between those that are directly assignable and those that are allocated."[38] The only business services that were provided by the Business Development Manager to Water Service Kentucky is a failed acquisition attempt of a water utility in eastern Kentucky.[39] Upon review of the salary information submitted by Water Service Kentucky, the Commission notes that the business development manager's salary is not directly billed to Water Service Kentucky.[40] Water Service Kentucky was unable to provide the Commission with a detailed listing and description of business development costs that would support allowing rate recovery. As with the Commission's previous decisions, it is the Commission's belief that business development costs enhance shareholder value but do not materially benefit the ratepayers, and therefore should not be costs borne by ratepayers.[41] In light of its failure to identify or describe the business development services that the Service Company directly bills and provides to Water Service Kentucky, the Commission finds that Water Service Kentucky has failed to meet its burden to demonstrate the reasonableness of the costs.

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[38] Case No. 2004-00103, *Adjustment of Rates of Kentucky-American Water Company* (Ky. PSC Feb. 28, 2005) at 53. Placing this burden upon Kentucky-American is consistent with Kentucky-American's statutory duty as an applicant to demonstrate that its proposed rates are reasonable. *See* KRS 278.190(2).

[39] Water Service Kentucky's Responses to Commission Staff's Second Request (Staff's Second Request) (filed Aug. 7. 2020), Item 26.b.

[40] Water Service Kentucky's Responses to the Commission's June 26, 2020 Order (Staff's Initial Request) (filed July 14 2020), Item 3, Excel Spreadsheet Entitled Response_to_Staff_DR_1.3_-_Salaries.

[41] *See* Case No. 2018-00358, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates* (Ky. PSC June 27, 2019) Order at 40-41.

Accordingly the Commission finds that pro forma operating expenses should be decreased by a total of $84,435[42] to remove the salaries, employee benefits and payroll taxes related to the elimination of the Vice President of Regulatory Affairs & Business Development, the Business Development Manager, and the Midwest Project Manager positions.

Deferred Maintenance

Water Service Kentucky proposed to increase its test-year Maintenance and Repair expense of $182,342 by $107,650 for deferred maintenance projects and $10,407 for the balance relating to deferred assets.[43] These adjustments result in an increase of $118,057 to a pro forma level of $300,399.[44]

In its responses to the Attorney General's Interrogatories[45] and at the evidentiary hearing,[46] Water Service Kentucky acknowledged that it had duplicated the annual costs of its hydrant maintenance program by including both the calendar years 2019 and 2020 in test year Maintenance and Repair expense. Although both Water Service Kentucky[47]

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[42] $68,659 (Maintenance - Salaries and Wages expense) + $9,574 (Pensions and Other Benefits expense) + $6,202 (Payroll Taxes) = $84,435.

[43] Notice of Filing Corrected Information (filed Sept. 28, 2020), Tab: wp-j(2)-Prev Maint.

[44] *Id.,* Tab: Sch.B-I.S.

[45] Water Service Kentucky's Responses to the Attorney General's First Request for Information (Attorney General's First Request) (filed Aug. 26, 2020), Item 34; Water Service Kentucky's Response to the Attorney General's Second Request for Information (Attorney General's Second Request) (filed Sept. 28, 2020), Item 39.

[46] HVT of the Nov. 12, 2020 Hearing at 11:19:30–11:20:35. .

[47] Initial Brief of Water Service of Kentucky at 15.

and the Attorney General[48] agree that an adjustment to remove the duplicated cost is justifiable they disagree on the amount of the adjustment.

There is a contradiction in the record regarding the correct adjustment amount. In its response to the first interrogatory, Water Service Kentucky stated that the hydrant repair adjustment should be $21,503,[49] but in a follow-up response, Water Service Kentucky explained that an adjustment of $26,585 is required to correct its error.[50] At the evidentiary hearing a Water Service Kentucky witness testified that the $26,585 adjustment is correct.[51] Accordingly, the Commission is reducing test year Repair and Maintenance expense by $26,585 to remove the duplicative cost of the hydrant repair program.

Water Service Kentucky has two 1,250,000 gallon-ground storage tanks (Tank #1 and Tank #2) at its Middlesboro water treatment plant.[52] Tank #1 was constructed in 1997[53] and was last reconditioned in 2005.[54] Tank #2 was constructed in 1979[55] and was last reconditioned in 2004.[56] The Middlesboro water system has a 15,000-gallon

[48] Attorney General Post Hearing Brief at 7.

[49] Water Service Kentucky's Responses to the Attorney General's First Request,(filed Aug. 16, 2020), Item 39.c.

[50] Water Service Kentucky's Responses to the Attorney General's Second Request, (filed Sept. 28, 2020), Item 39.b.

[51] HVT of the Nov. 12, 2020 Hearing, 11:19:30–11:20:35.

[52] Vaughn Testimony at 9.

[53] Water Service Kentucky's Responses to Staff's Second Request (filed Sept. 28, 2020), Item 28.a.

[54] Vaughn Testimony at 9.

[55] Water Service Kentucky's Responses to Staff's Second Request (filed Sept. 28, 2020), Item 28.a.

[56] Vaughn Testimony at 9.

standpipe at the Beans Fork Road service area that was constructed in 2008 and has not previously been reconditioned.[57] Water Service Kentucky obtained the services of Dixon Engineering (Dixon), a professional engineering firm specializing in tank inspections, to inspect each of the three Middlesboro tanks.[58] Dixon's Engineer's estimated cost to recondition Tank #1, Tank #2, and the standpipe were $400,000, $424,000, and $47,000, respectively.[59] This would result in a total estimated cost for the refurbishing of the Middlesboro tanks of $871,000.

In the Clinton service area there is a 200,000 gallon standpipe (Grubbs Tank) that was placed in service 2008 and a 30,000-gallon ground storage tank (Reservoir) that was placed in service 2005.[60] In April 2020, the Company engaged Dixon to prepare specifications for reconditioning of the two Clinton tanks.[61] Dixon estimated that it would cost $144,000 to recondition the Grubbs tank and $20,000 to recondition the Reservoir for a total estimated cost of $164,000.[62]

Water Service Kentucky proposed to amortize its total estimated cost to recondition the five tanks of $1,231,122[63] over a ten-year amortization period for a

[57] *Id.* at 9-10.

[58] *Id.* at 10.

[59] *Id.* at 11.

[60] Water Service Kentucky's Responses to Staff's Second Request (filed Sept. 28, 2020), Item 28.a.

[61] Vaughn Testimony at 12.

[62] *Id. 12.*

[63] In the Vaughn Testimony the estimated costs of the tank renovations is $1,035,000 ($871,000 + $164,000). However on Tab: wp-j-Def Maint of the Excel Spreadsheet entitled: Supplemental_Response_to_Staff_DR_1.3_-_Filing_Template the total project cost being amortized is $1,231,122.

combined adjustment to test-year Repair and Maintenance expense of $123,112. On March 5, 2020, Water Service Kentucky received 11 bids for the Middlesboro Tank projects with the lowest bid being $703,062.[64] Pending Commission approval, Water Service Kentucky plans to commence the Middlesboro Tank projects in March 2021.[65] The bid received for the Clinton tank rehabilitation projects is $171,740. The combined cost for all of the proposed tank rehabilitation projects is $874,802.

Water Service Kentucky stated that it has entered into contracts for the tank rehabilitation projects.[66] According to Water Service Kentucky, pro forma adjustments are appropriate when the utility submits negotiated contractor bids that secure the cost and timing of such major repairs.[67] Water Service Kentucky proposed to recover the actual costs of the tank rehabilitation projects over a 10-year amortization period. [68] The Attorney General agreed with Water Service Kentucky's position.[69]

The Commission agrees with Water Service Kentucky's position that the proposed adjustment to amortize the contracted amounts to recondition the Middlesboro and Clinton tanks would meet the ratemaking criteria of being known and measurable, given the facts at hand. However, Water Service Kentucky has not adequately provided justification for its proposal to use a 10-year amortization for the projects. The only

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[64] Supplemental Testimony of Stephen R. Vaughn (filed Sept. 28. 2020) at 2-3.

[65] *Id.* at 4.

[66] Initial Brief of Water Service Kentucky at 14.

[67] *Id.* at 14-15.

[68] *Id.* at 15.

[69] Attorney General Post Hearing Brief at 9-10.

evidence presented by Water Service Kentucky is that it has been approximately 15 years since either Tank 1 or Tank 2 has been refurbished, which in turn supports a 15-year amortization period not a 10-year amortization period. Accordingly, the Commission finds that it is reasonable to amortize the actual cost of the tank rehabilitation projects of $874,802 over 15 years for a reduction of $47,969 to Repairs and Maintenance expense.[70] The total adjustment to Repairs and Maintenance expense to reflect eliminating the double recovery of the hydrant maintenance program and the 15-year amortization of the tank rehabilitation projects is a reduction of $74,554.[71]

Corix Corporate Services (CCS)

Water Service Kentucky explained that it is allocated costs from two separate affiliates, CCS and WSC Shared Services (WSC).[72] CCS and WSC provide the following services: accounting, executive, engineering, finance, operating, legal, billing, customer care and billing, customer relations, construction, human resources, information technology, cybersecurity, governance, and corporate communications.[73] Water Service Kentucky is seeking recovery of costs and services provided to it by WSC and CCS. In prior rate applications, the Commission has only evaluated cost allocation from WSC,

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Actual Cost of Tank Rehabilitation Projects	$ 874,802
Divide by Amortization Period	15
Tank Rehabilitation Amortization	58,320
Less: Tank Rehabilitation Amort.. App.	(106,289)
Commission Adjustment	$ (47,969)

71 $26,585 (Hydrant Maintenance Program) + $47,969 (Tank Maintenance) = $74,554.

72 Application, Exhibit 5, Direct Testimony of Steven M. Lubertozzi at 6.

73 *Id.* at 6-7.

hence this is the first opportunity given to the Commission to evaluate the CCS cost allocations for prudency.[74] Water Service Kentucky is seeking approval from the Commission to recover approximately $118,000 in incremental costs which are allocated through a two-tier process described in the Water Service Kentucky's Cost Allocation Manual (CAM).[75]

Water Service Kentucky explained that historically, its parent Corix Infrastructures (Corix) had taken a conservative approach by not requesting recovery of the allocated CCS expenses.[76] Corix recently completed a strategic transformation, whereby it shed two other business lines (water products and water services) becoming more focused on regulated and quasi regulated businesses.[77] Water Service Kentucky's position is that the services now provided by Corix exclusively benefit its operations.[78]

In its analysis comparing the actual operating expenses reported by Water Service Kentucky for the calendar year ending December 31, 2017, to the actual expenses reported for the 12-month period ending March 31, 2020, the Commission found that the expenses recorded in expense category Outside Services – Other increased from $39,770 to $143,941, or 361.93 percent. Water Service Kentucky attributed the increase

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[74] *Id.* at 7.

[75] *Id.*

[76] Initial Brief of Water Service Kentucky at 12.

[77] *Id.*

[78] *Id.*

in this expense category to the corporate costs being allocated from the Water Service Kentucky's parent Corix.[79]

When responding to an Interrogatory that requested for more specific information that identified the vendor that previously provided the service to Water Service Kentucky and a detailed cost comparison between the costs previously incurred to the costs allocated by CCS in the test year, Water Service Kentucky stated that a complete response to this question is not possible, as it would require significant time and research regarding historical ownership of Corix Regulated Utilities (US) Inc. (formerly known as Utilities, Inc.).[80] Water Service Kentucky added that the interrogatory was overly burdensome, difficult and time consuming to assess services provided when Utilities, Inc. was owned by a foreign publicly traded company and then by an investment fund managed by AIG (e.g., Hydrostar).[81]

According to Water Service Kentucky there is neither overlap nor redundancy in the service provided or the costs allocated by CCS and WSC. However, Water Service Kentucky did not provide evidentiary evidence to support its statement, but merely provided a list of costs by expense category.[82] It is unreasonable to give Corix recovery of its cost allocations absent evidence to show a need of the services provided, a benefit to customers of Water Service Kentucky, or a reasonable basis for cost allocations.

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[79] Water Service Kentucky's Responses to Staff's Second Request (filed Aug. 7, 2020), Item 38.e.

[80] Water Service Kentucky's Responses to Commission Staff's Third Request for Information (Staff's Third Request) (filed Sept. 28, 2020), Item 2.

[81] *Id.*

[82] Water Service Kentucky's Responses to Commission Staff Post Hearing Data Request (filed Nov. 20, 2020), Item 1.

Previously, CCS did not allocate any expenses to Water Service Kentucky, and upon losing more than half of its corporate revenues when Corix sold its two unregulated business lines, CCS retained the majority of its overhead costs.[83] The Commission finds that Water Service Kentucky has not met its burden of proof for full recovery of the allocated CCS costs in its base rates and, therefore, the Commission is reducing operating expenses by $118,256 to eliminate the CCS cost allocations.

Incentive Compensation

In its test-year operating expenses, Water Service Kentucky included $42,864 for its Employee Incentive Plan (EIP) and $9,601 for its Long Term Incentive Plan (LTIP), which are performance pay incentive compensation plans.[84] Water Service Kentucky explained that 100 percent of the LTIP is based on meeting predetermined financial driven goals.[85] The EIP performance measures are weighted based on claimed 50 percent financial measures and 50 percent nonfinancial operational measures.[86]

The Attorney General argues that the Commission has consistently disallowed recovery of the cost of employee incentive compensation plans that are tied to financial measures because such plans benefit shareholders while ratepayers receive little to no benefit.[87] The Attorney General added that Water Service Kentucky's customers should

[83] *Id.,* Item 9.

[84] Water Service Kentucky's Responses to the Attorney General's First Request, (filed Aug. 26, 2020), Item 20.h.

[85] Water Service Kentucky's Responses to the Attorney General's Second Request, (filed Sept. 28, 2020), Item 27.b.

[86] *Id.*

[87] Attorney General Post Hearing Brief at 15.

not be forced to pay for incentive compensation that is directly tied to financial metrics, but instead these costs should be borne by the shareholders.[88] The Attorney General requested that the Commission exclude from rate recovery all incentive compensation that is exclusively tied to financial performance.[89]

The Commission agrees with the position of the Attorney General on the ratemaking treatment of Water Service Kentucky's incentive compensation plans. The Commission has consistently disallowed recovery of the cost of employee incentive compensation plans that are tied to financial measures because such plans benefit shareholders while ratepayers receive little benefit.[90] Although Water Service Kentucky provided the total amount of EIP that was paid to its employees in the test-year Water Service Kentucky could not identify the portion of the total EIP tied to financial performance measures. Therefore, the Commission finds that Water Service Kentucky has not met its burden of proof to recover any of the incentive pay plans.

Accordingly, the Commission is decreasing operating expenses by $52,465 to eliminate 100 percent of the costs of EIP and LTIP.

Regulatory Commission Expense

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[88] *Id.*

[89] *Id.* at 15-16.

[90] *See* Case No. 2014-00396, *Application of Kentucky Power Company for: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2014 Environmental Compliance Plan; (3) An Order Approving its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief* (Ky. PSC June 22, 2015).

Water Service Kentucky estimated its rate case expense to be $244,321[91] and proposed to amortize this expense over two and one-half years.[92] Water Service Kentucky's most recent update, indicated that its total rate case expense to be $164,274.[93] The Commission finds this amount reasonable but finds that a three-year amortization period is more appropriate. Because Water Service Kentucky incurred fewer expenses than expected, a three-year amortization of these expenses will result in a decrease in its operating expenses of $42,970.

<u>Depreciation</u>

Water Service Kentucky proposed to increase its test-year depreciation expense of $418,692 by $56,692 to a pro forma level of $475,384.[94] According to Water Service Kentucky, depreciation expense was annualized based on gross depreciable plant at the end of the test year plus pro forma additions and the depreciation rates Water Service Kentucky utilized are equal to those recommended in the Commission's Final Order on in Case No. 2018-00208.[95]

Through discovery, Water Service Kentucky admitted that it had inadvertently included vehicles in the depreciation expense calculation that had already been fully depreciated and the updated revenue requirement should reflect an annual vehicle depreciation expense of

[91] $186,893 (Current Rate Case) + $57,427 (Unamortized Rate Case Cost) = $244,321.

[92] Notice of Filing Corrected Information (filed Sept. 28, 2020), Excel Spreadsheet entitled: Supplemental_Response_to_Staff_DR_1.3_-_Filing_Template; Tab: wp-d-rc.exp.

[93] Water Service Kentucky's Responses to Commission Staff's Post-Hearing Request for Information, (filed Nov. 20, 2020), Item 3. $102,745 (Current Rate Case) + $61,529 (Unamortized Rate Case Cost) = $164,274.

[94] Notice of Filing Corrected Information (filed Sept. 28, 2020), Excel Spreadsheet entitled: Supplemental_Response_to_Staff_DR_1.3_-_Filing_Template; Tab: Sch.B-I.S

[95] Guttormsen Testimony at 26.

$13,542.[96] The Attorney General requested to remove all monetary amounts from Water Service Kentucky's proposed depreciation expense associated with the improper inclusion of fully depreciated vehicles.[97] To remove the fully depreciated vehicles, the Commission has decreased depreciation expense by $83,661.[98]

Water Service Kentucky's proposed pro forma depreciation expense includes $23,674 of depreciation of the accounting and financial systems that Utilities Inc.[99] placed into service as a result of its Project Phoenix. The Attorney General noted that the Commission has repeatedly denied recovery of expenses associated with Project Phoenix in the prior rate cases due to Water Service Kentucky inability to demonstrate that the software system benefitted its ratepayers.[100] The Attorney General requested all costs related to Project Phoenix be removed from the Water Service Kentucky's revenue requirement.[101]

The J.D. Edwards financial software system and the Oracle Customer Care and Billing[102] System were fully depreciated in December 2015 and June 2016, respectfully.[103] Allowing rate recovery for depreciation of assets that have been fully recovered from the revenue in prior periods would constitute retro-active ratemaking by allowing the utility to

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[96] Initial Brief of Water Service Kentucky at 15.

[97] Attorney General Post Hearing Brief at 8. Note: The Brief states $13,452, but upon calculation based upon the September 28, 2020 updated Excel spreadsheet, the annual vehicle depreciation should be $13.542.

[98] $13,542 (Correct Depreciation expense) - $97,203 (Original Vehicle Depreciation) = $(83,661).

[99] Former Parent of Water Service Kentucky. Due to a reorganization the direct parent is Corix.

[100] Attorney General Post Hearing at 8.

[101] *Id.*

[102] Combined the J.D. Edwards financial software system and the Oracle Customer Care system are Project Phoenix.

[103] Water Service Kentucky's Responses to Staff's Third Request (filed Sept. 28, 2020), Item 1.

recover expenses it is no longer incurring. Further, the Commission's review of the record in this proceeding and the final Orders in Water Service Kentucky's previous rate proceedings indicates that Water Service Kentucky has not presented new evidence that requires us to alter our earlier findings regarding the allowance of depreciation on the Project Phoenix computer systems. Accordingly, we accept the Attorney General recommendation by reducing depreciation expense by $23,674.

In reviewing Water Service Kentucky's calculation of its pro forma computer depreciation, the Commission notes that the majority of the computers had been fully depreciated in a prior period. Water Service Kentucky restated the accumulated depreciation for each computer asset to claim depreciation in the proceeding.[104] As with the Project Phoenix computer systems allowing rate recovery for depreciation of assets that have been fully recovered from the revenue in prior periods would constitute retroactive ratemaking. Accordingly, the Commission is reducing depreciation expense by an additional $9,126 to eliminate depreciation on computer assets that were fully depreciated in a prior period.

Interest Synchronization Expense

Water Service Kentucky proposed to adjust test-year interest expense of $160,572 to $166,983, an increase of $6,411, based on Water Service Corporation's capital structure, the weighted cost of debt and Water Service Kentucky's Rate Base.[105] As shown in the table below, the Commission has recalculated this expense to be $168,609 based on the rate base determined reasonable herein resulting in a $1,626 reduction.

[104] Notice of Filing Corrected Information (filed Sept. 28, 2020), Excel Spreadsheet entitled: Supplemental_Response_to_Staff_DR_1.3_-_Filing_Template; Tab: wp-I-Computers.

[105] Notice of Filing Corrected Information (filed Sept. 28, 2020), Excel Spreadsheet entitled: Supplemental_Response_to_Staff_DR_1.3_-_Filing_Template; Tab: wp.h-cap.struc.

Pro Forma Present Rate Base	$	6,381,961
Debt Ratio		51.40%
Embedded Cost of Debt		5.14%
Pro Forma Interest Expense		168,609
Less: Pro Forma Interest Water Service Kentucky		(166,983)
Interest Syncronization	$	1,626

Income Tax Expense

Based upon its pro forma operating revenues and expenses, Water Service Kentucky originally calculated a negative pro forma income tax expense of ($112,103), a decrease of $87,069 from the test year amount of ($25,035). Using the pro forma operating revenues and expenses determined reasonable herein, the Commission arrives at its pro forma income tax expense of $382, an increase of $112,485 above Water Service Kentucky's pro forma level. The table below is the Commission's calculation of pro forma income tax expense:

Total Revenue	$	2,857,435
Pro Forma Operating Expenses		2,687,344
Interest Expense		168,609
Taxable Income		1,482
State Tax Rate		6.00%
Pro Forma State Income Tax		89
Federal Taxes		
Taxable Income before taxes		1,482
Less: State I/T		89
Federal Taxable Income		1,393
Federal Tax Rate		21.00%
Total Federal Taxes		293
Total Pro Forma Income Tax Expense	$	382

Summary of Adjustments to Operating Expense and Revenue

The following schedule is a summary of Water Service Kentucky's test-year operating revenues and expenses, including appropriate adjustments found reasonable herein. The chart in Appendix B, attached to this Order, is a detailed pro forma Income Statement that shows the effect of the Commission's adjustments along with the proposed and accepted adjustments of Water Service Kentucky:

	Application Pro Forma	Commission Pro Forma Adj.	Commission Pro Forma
Operating Revenues	$ 2,879,465	$ (22,030)	$ 2,857,435
Operating Expenses	3,064,382	(376,657)	2,687,725
Net Operating Income	(184,917)	354,627	169,710
interest Expense	160,667	1,626	162,293
Net Income	$ (345,584)	$ 353,001	$ 7,417

OPERATING RATIO

Water Service Kentucky is proposing to use an 88.00 percent operating ratio to calculate its requested revenue requirement.[106] The use of the operating ratio method was first introduced to Water Service Kentucky in Case No. 2008-00563[107] where the Commission found that the use of an operating ratio is preferred to the return on equity (ROE) approach for a utility of Water Service Kentucky's size and given the specific circumstances and facts presented in that matter. Hence, Water Service Kentucky's

[106] Application, Schedule D.

[107] Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9. 2009).

subsequent rate case filings, Case Nos 2010-00476,[108] 2013-00237,[109] 2015-00382,[110] and 2018-00208,[111] all were filed utilizing the operating ratio method.

The Attorney General's witness, Lane Kollen, provided testimony regarding Water Service Kentucky's request to apply the operating ratio approach and argued that for the calculation of the return component of invested capital included in the base revenue requirement, a ROE approach should be applied.[112] Mr. Kollen noted that based upon the proposed application, a ROE of 14.10 percent would result, and that such a ROE is comparatively excessive to other ROE awards granted by this Commission and other state Commissions.[113] Mr. Kollen suggested that the Commission calculate the ROE component of invested capital using Water Service Kentucky's proposed equity ratio applied to rate base and a maximum ROE of 9.25 percent.[114]

Mr. Kollen cited specific circumstances and reasons for applying an operating ratio method such as: (1) the very small size of the utility; (2) the records of the utility are insufficiently detailed to determine the net investment or capitalization; (3) the investment of the owner is greater than the allowed rate base investment; and (4) the resulting

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

[109] Case No. 2013-00237, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC July 24, 2014).

[110] Case No. 2015-00382, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC May 31, 2016).

[111] Case No. 2018-00208, *Electronic Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC June 18, 2019).

[112] Direct Testimony of Lane Kollen (Kollen Testimony) (filed Oct. 5 2020) at 7.

[113] Kollen Testimony at 4 and Attorney General's Post Hearing Brief at 5.

[114] Kollen Testimony at 4 and Attorney General's Post Hearing Brief at 5.

revenues are sufficient to recover its reasonable operating expense, service its debt, and provide a reasonable return to its owner.[115] Mr. Kollen argued that these reasons are not applicable to Water Service Kentucky as it is not privately owned or a small utility, but is an investor owned utility and operating subsidiary of a large holding company, has highly detailed records, does not seek a return on capital invested in excess of the allowed rate base investment, and the use of the operating ratio method is not necessary to provide recovery of reasonable operating expenses and a return on invested capital as an ROE component can be determined and applied.[116]

Mr. Kollen further noted that the operating ratio method is driven by the level of operating expenses, not rate base or invested capital, which provides Water Service Kentucky with an incentive to increase operating expenses in order to increase its return regardless if the return is justified based on its rate base or invested capital.[117] Mr. Kollen continued, stating that such a design incentivizes a company such as Water Service Kentucky to structure its spending so that costs are recorded as expenses for ratemaking recovery rather than as plant eligible, and such incentives drive up rates which in turn enhances Water Service Kentucky's ROE.[118]

Mr. Kollen provided a comparison of operating ratios to the resulting ROEs. Operating ratios range from 88.00 percent to 91.78 percent with corresponding ROEs of 14.10 percent down to 9.25 percent.[119] Mr. Kollen suggested that the Commission

[115] Kollen Testimony at 9.

[116] Kollen Testimony at 10–11.

[117] Kollen Testimony at 12 and Attorney General's Post Hearing Brief at 4.

[118] Kollen Testimony at 12 and Attorney General's Post Hearing Brief at 4.

[119] Kollen Testimony at 13.

determine a reasonable ROE and calculate the corresponding operating ratio in calculating Water Service Kentucky's revenue requirement.[120] Mr. Kollen contended that Water Service Kentucky did not provide any substantive evidentiary support of the proposed 88.00 percent operating ratio other than citing prior cases and that it is not reasonable in this case.[121]

Water Service Kentucky supported the calculation of the revenue requirement based on an operating ratio method stating that it was encouraged by the Commission in Case No. 2008-00563 and subsequently approved by the Commission in the nonsettled rate cases that followed.[122] Water Service Kentucky further stated that the Commission has routinely determined that an 88.00 percent operating ratio is an appropriate methodology in calculating a utility's revenue requirement and has used this approach for more than 40 years.[123] Water Service Kentucky noted that although the Attorney General's witness Lane Kollen recommended that the Commission reject the continued use of the operating ratio method, he did not argue that the operating ratio method is unreasonable *per se*, but that the resulting ROE is unreasonable.[124]

Water Service Kentucky maintained that there is no evidence in this case from which one can determine a reasonable ROE. Water Service Kentucky further noted that there is no expert analysis related to this instant case to cite and reliance on prior

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[120] *Id.*

[121] *Id.*

[122] Water Service Kentucky's Response to Attorney General's Post Hearing Brief at 3.

[123] *Id.* at 5–6.

[124] Initial Brief of Water Service Kentucky at 6.

Commission decisions is not sufficient in determining an appropriate ROE.[125] Water Service Kentucky dismissed Mr. Kollen's suggestion to base the operating ratio upon what the Commission determines to be an appropriate ROE, reiterating that it was not permitted to produce evidence in this case as to support an appropriate ROE.[126] Finally Water Service Kentucky contended that the savings on rate case expense for an ROE expert was one of the primary advantages to applying the operating ratio method.[127]

In its post hearing brief, the Attorney General noted that in the 2008 rate case the awarded ROE was 10.6 percent and that Water Service Kentucky's president, Mr. Lubertozzi, acknowledged that more than a decade had passed since the initial recommendation for Water Service Kentucky to use an operating ratio methodology and that over that decade, ROEs have decreased.[128] The Attorney General continued pointing to the ROE award of 14.10 percent based on the 88.00 percent operating ratio as compared to the 10.6 percent in 2008 and emphasized how the operating ratio is no longer leading to fair, just, and reasonable rates.[129] The Attorney General further noted that lowering the awarded ROE to Mr. Kollen's recommend 9.25 percent translates to an annual savings of over $200,000 for Water Service Kentucky's customers, an amount that is significantly more than Water Service Kentucky's estimated ROE expert testimony expense of $50,000.[130]

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[125] *Id.*

[126] *Id.* at 7.

[127] *Id.* at 7.

[128] Attorney General's Post Hearing Brief at 6.

[129] Attorney General's Post Hearing Brief at 6.

[130] *Id.* at 7.

In reply, Water Service Kentucky again emphasized that there is no evidence in this case from which Mr. Kollen or anyone else can infer a reasonable ROE.[131] Water Service did note, as President Lubertozzi indicated at the hearing, Water Service Kentucky does not object to moving to a rate base/rate of return methodology in future rate cases.[132]

As for the calculation of the revenue requirement in the instant case, the Cost Allocation and Rate Design for Water Utilities by the Natural Regulatory Research Institute (NRRI Report) notes that although rate base and rate of return is the primary method for determining revenue requirements, other methods such as the operating ratio can be used.[133] The NRRI Report states that the operating ratio method simplifies the regulatory process, particularly with small water utilities that have little or no capital investment or rate base, and allows for an adequate margin of revenues over expenses rather than an adequate return on capital invested.[134] The NRRI Report provides, in relevant part, that:

> Using the operating ratio technique for rate base regulation does not eliminate the need for commission regulation. Regulators must set eligibility requirements for use of the method, determine appropriate operating ratios, and closely monitor the operating data for the utilities to which the method is applied. This method also may provide an incentive to inflate expenses, more so than rate-of-return regulation where expenses are passed through. Finally, as they mature, the investment profile of some water systems will change enough

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[131] Water Service Kentucky's Post-Hearing Reply Brief at 3.

[132] *Id.* at 4.

[133] Hearing Exhibit 7 at 43.

[134] Hearing Exhibit 7 at 43–44.

> so that the operating ratio method may be an inappropriate tool for determining revenue requirements.[135]

The Commission recognizes that Water Service Kentucky was following the Commission's recommendation in Case No 2008-00536. However, what Water Service Kentucky has effectively ignored is that the utility's financial position has materially changed over the past decade, which has a corresponding impact on the appropriate calculation of its revenue requirements. Since the 2010 rate case when the operating ratio method was first applied, Water Service Kentucky's expenses have increased 67.15 percent from $1,832,663[136] to $3,063,291,[137] and the utility has been acquired by a large holding company, and rate base has increased from $5,820,653[138] to $6,323,972,[139] or only 8.65 percent. In addition, not only has Water Service of Kentucky materially changed financially since the final Order in Case No. 2008-00536, but financial markets have also shifted due to declining interest rates and shifts in Federal Reserve policies and as a result, ROE awards have also shifted. The Commission, based on the above, finds that such changes to both the utility and the financial landscape support the need for Water Service Kentucky to shift back to a rate base/rate of return methodology in its next application for a rate increase.

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[135] Hearing Exhibit 7 at 44.

[136] *See*, Case No. 2010-00476, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates*, Application, Exhibit 4, Schedule B.

[137] Application, Exhibit 4 Schedule D.

[138] *See*, Case No. 2010-00476, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates*, Application, Exhibit 4, Schedule C.

[139] Application, Exhibit 4, Schedule C.

The operating ratio approach is a calculation of revenue requirements which are determined by dividing operating expenses by a target operating ratio. Regulatory accounting literature does not provide what the target operating ratio should be but states that it should be what is deemed necessary to produce revenues adequate to cover operating expenses plus depreciation, taxes, and capital costs.[140] Further, as stated above, the NRRI Report does not state what the target operating ratio should be but states that "[R]egulators must set eligibility requirements for use of the method, determine appropriate operating ratios, and closely monitor the operating data for the utilities to which the method is applied."[141] Although the Commission has traditionally applied an operating ratio of 88.00 percent, it is evident that 88.00 percent results in a revenue requirement that produces excessive margins and capital returns, especially in the current economic environment. It is the Commission's obligation to only permit utilities to charge rates that are fair, just and reasonable, and therefore, the Commission finds that an operating ratio of 88.00 is not appropriate. The Commission finds that an operating ratio of 89.00 percent allows for a reasonable margin as it produces adequate revenues to cover operating expenses plus depreciation, taxes, and capital costs. The Commission believes this will result in fair and just rates to customers and allows Water Service Kentucky the ability to attract capital and allow a fair return to shareholders.

AUTHORIZED INCREASE

The Commission finds that Water Service Kentucky's net operating income after taxes for ratemaking purposes is $332,144. We further find that this level of net operating

[140] Hearing Exhibit 6, Accounting for Public Utilities Exhibit, at 3-4.

[141] Hearing Exhibit 7 at 44.

income and an 89.00 percent operating ratio require an increase in present rate revenues of $448,721, as shown below:

Item		Rev. Requirement
Total Pro Forma Operating Expenses	$	2,687,725
Less: Federal & State Income Taxes		(382)
Operating Expenses Net of Income Taxes	$	2,687,343
Divide by: Operating Ratio		89.00%
Revenue to Cover Operating Ratio	$	3,019,487
Less: Operating Expenses Net of Income Taxes	$	(2,687,343)
Net Operating Income After Income Taxes	$	332,144
Less: Pro Forma Net Income		(7,417)
Net Operating Income Adjustment	$	324,727
Multiplied by Gross-up Factor		1.38184
Revenue Requirement	$	448,721
Percentage Increase/Decrease		15.89%
Normalized Revenue - Water Sales	$	2,823,327
Add: Revenue Increase		448,721
Total Revenue Requirement	$	3,272,048

RATE DESIGN

For general water service, Water Service Kentucky currently charges a monthly service charge and two volumetric rate structures for its service areas of Clinton and Middlesboro. The service charge is based, in part, on the customer's meter size and is intended to recover the cost of customer facilities such as meters and services, the cost of customer accounting, including billing and collecting and meter reading, as well as other fixed costs including but not limited to, distribution mains by which each customer is served.

In its application, Water Service Kentucky proposed to maintain the same fixed revenue recovery that it has historically experienced and achieved this by increasing its customer charges evenly across-the-board.[142] The remainder of the revenue requirement is recovered from the Tier 1 and Tier 2 volumetric rates. In order to mitigate rate shock and to maintain the current revenue allocation, Water Service Kentucky proposed to maintain the 69.00 percent ratio that the Tier 2 rate has to the Tier 1 rate.[143] Water Service Kentucky also proposed an across the board increase to fire protection service rates. Water Service Kentucky did not perform a cost of service study (COSS), but rather referred to the COSS filed in their previous rate case.[144]

Based upon the proposed revenue allocation and filed revenue requirement, Water Service Kentucky proposed a monthly customer charge of $15.84. The Attorney General argued that Water Service Kentucky's proposed customer charge is unreasonable and that the 38.34 percentage increase will pose a financial hardship on customers who are already struggling to pay their bill.[145] The Attorney General further argued that if the Commission should decide to approve Water Service Kentucky's 38.34 across-the-board percentage increase to its customer charge that the Commission should implement a 2-year phase in approach in order to reduce rate shock.[146]

In Case No. 2018-00407, the Commission found that an electric distributive cooperative's COSS must be less than five years old.[147] Although Water Service

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[142] Application, Exhibit 5, Direct Testimony of Andrew Dickson (Dickson Testimony), at 4.

[143], Dickson Testimony, at 5.

[144] *See,* Case No. 2018-00208, *Electronic Application of Water Service Corporation of Kentucky for a General Adjustment In Existing Rates* (Ky. PSC June 28, 2019.), Direct Testimony of Constance E. Heppenstall, Exhibit CEH-1.

[145] Attorney General Post-Hearing Brief at 3.

[146] Attorney General Post-Hearing Brief at 4.

[147] Case No. 2018-00407, *A Review of Rate Case Procedure for Electric Distribution Cooperatives* (Ky. PSC Dec. 20, 2019), Appendix A, page 1 of 8.

Kentucky does not have the same corporate structure as an electric distributive cooperative, there are some similarities in overall size and customer make up; therefore, the Commission finds that, in this case, the prior COSS is a suitable proxy to use as a guide for rate allocation and rate design. The Commission also finds that the proposed allocation of its revenue increase to be an appropriate and equitable method of cost allocation. The Commission is approving an overall increase in revenues of approximately 15.09 percent, and in keeping with the across-the-board rate design, the customer charge will increase proportionally by the same amount to $13.27. This increase to the monthly service charges is still within the COSS monthly charges of $13.29, and therefore is reasonable and a two year phase-in approach is not necessary.[148] Furthermore, keeping the Tier 2 rate within 69 percent of the Tier 1 rate proportionally increases the rate without altering any subsidization. The Commission also approves the across the board increase to the fire protection service rates. Based upon the Commission approved revenue requirement, a typical residential customer's monthly bill will increase $4.45 from $28.68 to $33.13, or approximately 15.52 percent.[149]

Wholesale Rate

Water Service Kentucky has also proposed a new wholesale rate of $2.214 due to an interconnect with the city of Pineville, Kentucky. Water Service Kentucky stated that the interconnect has only be used once to sell water to Pineville in the past five years.[150]

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[148] Case No. 2018-00208, *Electronic Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Feb. 11, 2019) final Order at 21.

[149] Based upon an average monthly usage of 3445 gallons.

[150] Water Service Kentucky's Responses to Post Hearing Data Request (filed Nov. 20, 2020) at 6. Total amount sol was 604,848 gallons on April 16, 2020.

This interconnect is used only if Pineville needs an emergency supply of water, and currently, there is no anticipation that it would be used again.[151] Because this interconnect is not expected to be used, the proposed rate has no impact on Water Service Kentucky's revenue requirement or recovery. In order to calculate the proposed rate, Water Service Kentucky calculated the marginal cost of each kilo gallon of water by documenting the electric costs, purchased water costs, and chemical costs as well as operator salaries incurred in a given year.[152] The Attorney General argues that the wholesale rate proposed by Water Service Kentucky should be at least $2.214 in order to prevent any subsidy from other retail customers, and in order to fully recover the cost to produce and transport the water.[153] The Commission finds that the proposed wholesale rate to be reasonable and cost based and accordingly grosses up the rate by the approved operating ratio for a wholesale rate of $2.489 per 1,000 gallons is reasonable and should be approved.[154]

Low-Income Rate Proposal

Water Service Kentucky proposed a separate rate for low-income customers. For this proposal, the Tier 1 volumetric rate is discounted 21.49 percent discount for usage up to 3,000 gallons for residential customers whose annual income is equal to or below the federal poverty line. Water Service Kentucky stated that approximately 36.00 percent of its customers are assumed to live below the poverty line and that the low-income rate

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[151] Initial Brief of Water Service Kentucky at 11 and 12.

[152] Dickson Testimony at 6.

[153] Attorney General's Post Hearing Brief at 10.

[154] Variable Expenses $867,078 / 0.89 = $974,245 / Sales (391,546,078*1,000) = $2.489

has been proposed in order to increase the affordability of water service for its customers.[155] The low-income rate of 21.49 percent was calculated by contrasting the poverty line for a three person household with the median household income.[156]

Water Service Kentucky stated that it will seek the assistance of a third party income verifier to confirm the eligibility of customers for the low-income rate. After 12 months customers would have to re-apply for the low-income rate with another income verification. Water Service Kentucky further stated that they will cover the cost of the income verification outside of the revenue requirement thereby not placing the burden of this cost on the ratepayers.[157] At the hearing, Water Service Kentucky expert witness Andrew Dickson stated that the low-income rate proposal will not have an impact on the revenue requirement as the customers who do not qualify for the low-income rate will be subsidizing those that do qualify by paying a higher rate.[158]

In its brief, the Attorney General stated that it has two issues with the low-income rate proposal: (1) the low-income proposal is in violation of KRS 278.170(1) which prohibits a utility from providing a rate with any unreasonable preference or advantage to any person, or to establish an unreasonable difference between classes or service for doing a like and contemporaneous service; and (2) that it will harm customers who fall just outside of the range of eligibility for the low-income rate but are still struggling financially as such customers will be further burdened by having to pay a higher rate in

[155] Dickson Testimony at 5.

[156] *Id*.

[157] *Id*.

[158] HVT of the Nov. 12, 2020 Hearing 13:09–13:10 and 13:14.

order to subsidize the low-income rate.[159] The Attorney General asserts that the Commission should examine the low-income rate to ensure that it leads to a fair, just and reasonable rate.[160]

The Commission finds that the discounted rate should be denied as a matter of law. KRS 278.030(3) allows a utility to employ suitable and reasonable classifications of rates that may take into account "the nature of the use, the quality used, the time when used, the purpose for which used, and any other reasonable consideration." KRS 278.030 statute does not explicitly permit the establishment of a customer classification based upon income level, and, thus, the Commission is not authorized to create a separate rate class for low-income residential customers apart from the general residential customer class. Furthermore, KRS 278.170(1) prohibits the establishment of rates that "maintain any unreasonable difference between localities or between classes of service for doing a like and contemporaneous service under the same or substantially the same conditions." As the Commission is a creature of statute,[161] we are without the power to approve Water Service Kentucky's proposed reduced rate.[162]

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[159] Attorney General Post-Hearing Brief at 11.

[160] Attorney General Post-Hearing Brief at 12.

[161] "[T]he Commission is a creature of statute and its powers are purely statutory, having only such powers as conferred expressly, by necessity, or by fair implication." *Kentucky Industrial Utility Customers, Inc. v. Kentucky Public Service Commission*, 504 S.W.3d 695, 705 (Ky. App. 2016).

[162] The Commission has routinely found that it cannot establish different residential rates based upon a customer's income level. *See, e.g.,* Case No. 1998-00474, *The Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of its Rates and Service*, (Ky. PSC Jan 7, 2000), q*uoting* Case No. 1991-00066, *Application for Adjustment of Electric Rates of Kentucky Power Company*, (Ky. PSC Oct. 31, 1991) Order at 7. ("If income alone were to be recognized as a reasonable consideration for establishing customer classifications and rates, not only low income, but also middle and high incomes would need to be recognized. If it is appropriate to provide utility service to low income customers at reduced rates, service to high income customers should be at premium rates.") *See also* Case No. 1991-00066, *citing Gainesville Utilities Dept. v. Florida Power Corp.,* 402 U.S. 515, 528 (1971). ("But focus on the willingness or ability of the purchaser to pay for a service is the concern of the monopolist,

Leak Adjustment Policy

Water Service Kentucky proposes to remove a statement in its tariff that provides no relief for any hidden leaks and add a Hidden Leak Adjustment Policy. Water Service Kentucky's proposed leak adjustment policy would apply to its entire service territory and be available to all customers. The proposed policy is to bill the customer a rate equal to 25 percent of the customer's applicable rate for any water usage identified as a hidden underground leak and will apply to leaks between the meter and the customer premises. The reason that Water Service Kentucky is proposing the leak adjustment policy is out of concern for the financial burden that an abnormally large bill from a potential hidden leak would cause to the customer.[163] Water Service Kentucky followed a similar leak adjustment policy which the Commission approved for Kentucky-American Water Company in Case No. 1995-00554.[164] There, the Commission found that "the ability to identify leaks in a more timely manner and lower customer payments for hidden leaks result in better utility-customer relations."[165] The leak adjustment policy proposed by Water Service Kentucky is based upon similar reasoning. The Commission finds the proposal to be reasonable and should be approved.

QIP

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not of a governmental agency charged both with assuring the industry a fair return and with assuring the public reliable and efficient service, at a reasonable price.").

[163] Guttormsen Testimony at 74 and Dickson Testimony at 111-112.

[164] Case No. 1995-00554, *Application of Kentucky-American Water Company to Increase its Rates* (Ky. PSC Sept. 11, 1996).

[165] *Id.* at 27.

Water Service Kentucky proposed to establish a tariff rate adjustment mechanism, the QIP tariff, to make capital improvements to replace its aging water system infrastructure.[166] According to Water Service Kentucky its water infrastructure is nearing the end of its useful life requiring Water Service Kentucky to continually assess the condition of its infrastructure and to take a proactive approach to any noted problems.[167] Water Service Kentucky claimed that implementation of the QIP rider will better position itself to invest in the ongoing infrastructure improvements necessary to continued safe, adequate, and reliable water service to its customers.[168] A Water Service Kentucky witness testified that there are mains in its system that are more than 100 years old that have outlived their service lives and should be replaced.[169]

If implemented, the QIP surcharge would be applied to all customer classifications for qualified infrastructure investments.[170] The surcharge would be calculated annually based on qualified infrastructure costs and applied to each customer's monthly bill. The surcharge would then be updated annually until the next rate case, at which time the investment costs would be incorporated into rate base and the surcharge would be reset to zero.[171] Water Service Kentucky proposed to recover the QIP through a flat monthly charge in an effort to match revenue and cost streams.[172]

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[166] Guttormsen Testimony at 31.

[167] *Id.*

[168] *Id.* at 31-32.

[169] Initial Brief of Water Service Kentucky at 9.

[170] Application, Exhibit 3

[171] *Id.*

[172] Guttormsen Testimony at 31.

Water Service Kentucky pointed to the finding in the comprehensive investigative report on water utilities that was issued last year by the Commission that: "Each water district and association should be required to develop a comprehensive Qualified Infrastructure Improvement Plan that must be filed with and approved by the Commission."[173] Consistent with that guidance, Water Service Kentucky proposed a QIP surcharge mechanism based on the Commission-approved QIP that was established for Kentucky-American.[174] According to Water Service Kentucky the primary difference between the two plans is that Kentucky-American's plan is based on a rate base/rate of return approach while Water Service Kentucky's tariff rider is based on an operating ratio approach.[175]

The Attorney General noted that Water Service Kentucky has reasonably low water loss percentages, indicating that its water system is in good working order.[176] The Attorney General explained that normally a utility would use a pipeline replacement program when seeking to accelerate the replacement of its pipeline due to excessive water loss.[177] However, since Water Service Kentucky only anticipates replacing one mile of pipeline every calendar year, the Attorney General argued there is a lack of urgency to replace the aging mains in its system.[178]

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[173] Initial Brief of Water Service Kentucky at 9.

[174] *Id.*

[175] *Id.*

[176] Attorney General Post-Hearing Brief at 13.

[177] *Id.*

[178] *Id.*

The Attorney General's position is that if Water Service Kentucky only anticipates that it will only replace one mile of pipeline per year using a QIP tariff rider, there is no rational reason to segregate those costs into a separate QIP surcharge, but instead Water Service Kentucky should continue to recover its main replacement costs in base rates.[179] The Attorney General recommended that the Commission deny Water Service Kentucky's request for a QIP surcharge.[180]

It is well established that KRS 278.030 and KRS 278.040 expressly grant the Commission plenary ratemaking authority to regulate and investigate utilities and to establish fair, just, and reasonable rates.[181] In the absence of any statute that requires a particular procedure to determine whether rates are fair, just, and reasonable, the Commission has the authority to consider and decide ratemaking issues such as the infrastructure replacement surcharge proposed by Water Service Kentucky.[182]

In Case No. 2018-00358, the Commission acknowledged that aging water system infrastructure is a national issue that requires prudent and timely replacement in order to provide safe, adequate, and reliable water to customers. In that proceeding Kentucky-American provided a study demonstrating that at its current rate of main replacement it would take 57.4 years to replace the remaining cast iron main in the distribution system and approximately 377 years to replace the entire main in the system.[183] If its proposed

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[179] *Id.*

[180] *Id.*

[181] *Public Serv. Comm'n v. Commonwealth ex. rel. Jack Conway*, 324 S.W.3d 373, 383 (Ky. 2010).

[182] *Id.*

[183] Case No. 2018-00358, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates,* O'Neill Direct Testimony at 28.

QIP surcharge rider were to be approved, Kentucky-American committed to investing between $6,000,000 and $10,000,000 in annual incremental capital spending.[184]

Water Service Kentucky's proposed QIP surcharge is similar to the surcharge originally approved for Kentucky-American in Case No. 2018-00358. Each were designed to recover investment in replacement of existing distribution and water treatment infrastructure that are non-revenue producing and non-expense reducing. However, in Case No. 2020-00027, the Commission explained that the primary reason the Commission approved the QIP for Kentucky-American was to replace aging water main that has or will be reaching the end of its service life and contributes to unaccounted-for water loss. In that proceeding the Commission limited Kentucky-American's QIP tariff rider to the replacement of aging water mains.

In this proceeding Water Service Kentucky has not presented any study or analysis showing that it has an existing water main replacement program or how a QIP surcharge would benefit its customers through an accelerated replacement of mains. Unlike Kentucky-American, Water Service has not submitted a detailed five year plan of the projects that it will fund with the QIP surcharge nor have the shareholders committed to increase its investment in main replacement if the QIP surcharge is authorized. Further, as pointed out by the Attorney General, the only commitment given by Water Service Kentucky is to replace one mile of main per year.[185]

The Commission agrees with the Attorney General and finds that Water Service Kentucky's proposed QIP tariff rider should be denied.

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[184] *Id.,* O'Neill Testimony at 36; HVT of May 13, 2019 Hearing, 9:24:15.

[185] Post-Hearing Brief of the Attorney General at 13.

SUMMARY

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

1. The 12-month period ending March 30, 2020, should be used as the test year to determine the reasonableness of Water Service Kentucky's current and proposed rates.

2. Based upon pro forma test-year operations, Water Service Kentucky's pro forma total operating expenses, after adjusting for known and measurable changes, are $2,687,726.

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

4. An operating ratio of 89.00 percent will permit Water Service Kentucky to meet its reasonable operating expenses and provide a fair and reasonable return and should be used to determine Water Service Kentucky's total revenue requirements.

5. Applying an operating ratio of 89.00 percent to Water Service Kentucky's pro forma total operating expenses of $2,687,726 and adjusting for the effects of state and federal income taxes produces a total revenue requirement from water sales of $3,272,048 or $448,721 more than the annual revenue from water sales than Water Service Kentucky's current rates produce.

6. The rates proposed by Water Service Kentucky would produce revenue in excess of that found to be reasonable herein and should be denied.

7. The rates set forth in Appendix C to this Order are the fair, just, and reasonable rates for Water Service Kentucky to charge for service rendered on and after the date of this Order and should be approved.

8. Water Service Kentucky should file new nonrecurring charges reflecting the marginal cost of each nonrecurring service. Additionally, Water Service Kentucky is to file support for continuing the $27.00 New Customer Account Setup Fee.

IT IS THEREFORE ORDERED that:

1. Water Service Kentucky's application for an adjustment of its rates is denied as proposed.

2. The rates and charges set forth in Appendix C of this Order are approved for the water service that Water Service Kentucky renders on and after the date of this Order.

3. Water Service Kentucky's proposed QIP tariff rider is denied.

4. Within 20 days of the date of entry of this Order, Water Service Kentucky shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rate approved herein and reflecting that it was approved pursuant to this Order.

5. Within 20 days of the date of entry of this Order, Water Service Kentucky shall file with the Commission a revised contract of service agreement with the late fee language revised to discontinue late fees according to the terms of this Order.

6. Within 20 day of the date of entry of this Order, Water Service Kentucky shall file through the Commission's Electronic Tariff Filing system new nonrecurring

charges reflecting the marginal cost of each nonrecurring service. Additionally, Water Service Kentucky is to file support for continuing the $27.00 New Customer Account Setup Fee.

7. Water Service Kentucky shall file testimony regarding the ROE applied to a rate base/rate of return methodology in its next application for a rate increase.

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

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By the Commission

ENTERED

DEC 08 2020

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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

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Deputy Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00160 DATED DEC 08 2020

ConDis35R

Kentucky Public Service Commission

Residential Disconnections for FY 2019

12/8/2020

Utility Type/Utility	Jul-2018	Aug-2018	Sep-2018	Oct-2018	Nov-2018	Dec-2018	Jan-2019	Feb-2019	Mar-2019	Apr-2019	May-2019	Jue-2019	FY-2019
Investor-Owned Water Companie													
WATER SERVICE CORPORATION OF KENTUCKY				(ID-	6000800)	(Number of	Customers	7,199)		(# of Res.	Customers	7,199)	
Number of Accounts Disconnected	103	139	79	152	141	101	195	43	161	119	198	55	1,486
OUTSTANDING BILL													
HIGH	380.62	405.46	318.69	352.85	1,940.17	627.07	428.12	263.45	1,644.62	553.81	198.46	144.79	1,940.17
LOW	25.24	26.03	26.35	25.11	25.16	26.28	25.49	25.15	27.00	25.23	26.26	29.79	25.11
MEDIAN	59.49	55.77	49.96	57.04	53.20	55.86	56.07	54.26	62.73	56.92	50.02	48.62	
AVERAGE	83.10	63.72	63.73	68.72	78.01	72.87	66.51	70.84	94.56	73.73	56.82	52.26	70.41
Number Reinstated	61	90	45	99	87	70	85	36	93	61	113	38	878

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00160 DATED DEC 08 2020

Line No.		Application Pro Forma	Commission Pro Forma Adj.	Commission Pro Forma
1.	Operating Revenues			
2.	Service Revenues - Water	$ 2,823,327	$ -	$ 2,823,327
4.	Miscellaneous Revenues	56,138	(22,030)	34,108
5.				
6.	Total Operating Revenues	$ 2,879,465	$ (22,030)	$ 2,857,435
7.				
8.	Maintenance Expenses			
9.	Salaries and Wages	$ 876,109	$ (68,659)	$ 807,450
10.	Purchase Water/Sewer	124,772	-	124,772
11.	Purchased Power	121,782	-	121,782
12.	Maintenance and Repair	300,399	(74,554)	225,845
13.	Maintenance Testing	37,939	-	37,939
14.	Meter Reading	-	-	-
15.	Chemicals	113,330	-	113,330
16.	Transportation	38,064	-	38,064
17.	Operating Exp. Charged to Plant	(65,701)	-	(65,701)
18.	Incentive Pay - EIP and LTIP	-	(52,465)	(52,465)
19.	Outside Services - Other	159,352	(118,256)	41,096
20.				
21.	Total Maintenance Expenses	$ 1,706,046	$ (313,934)	$ 1,392,112
22.				
23.	General Expenses			
24.	Salaries and Wages	$ 189,473	$ -	$ 189,473
25.	Office Supplies & Other Office Exp.	96,095	-	96,095
26.	Regulatory Commission Exp.	97,728	(42,970)	54,758
27.	Pension & Other Benefits	250,172	(9,574)	240,598
28.	Rent	35,517	-	35,517
29.	Insurance	77,049	-	77,049
30.	Office Utilities	41,678	-	41,678
31.	Uncollectible Accounts	66,445	-	66,445
32.	Miscellaneous	37,347	-	37,347
33.				
34.	Total General Expenses	$ 891,504	$ (52,544)	$ 838,960
35.				
36.	Depreciation	$ 475,384	$ (116,461)	$ 358,923
37.	Amortization of PAA	-	-	-
38.	Taxes Other Than Income	261,086	(6,202)	254,884
39.	Expense Reduction Related to Clinton Sewer Operations	(147,351)	-	(147,351)
40.	Income Taxe Expense - Federal	(112,103)	112,485	382
42.	Amortization of CIAC	(10,184)	-	(10,184)
43.				
44.	Total Other Expenses	$ 466,832	$ (10,178)	$ 456,654
45.				
46.	Total Operating Expenses	$ 3,064,382	$ (376,656)	$ 2,687,726
47.				
48.	Net Operating Income	$ (184,917)	$ 354,626	$ 169,709
49.				
	Interest Expense:			
51.	Interest During Construction	(6,316)	-	(6,316)
52.	Interest on Debt	166,983	1,626	168,609
53.				
54.	Net Income	$ (345,584)	$ 353,000	$ 7,416

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00160 DATED DEC 08 2020

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 the authority of the Commission prior to the effective date of this Order.

Service Charge Rates
For All Service Areas

Meter Size		
5/8-Inch	$ 13.27	per month
3/4-Inch	13.27	per month
1-Inch	33.18	per month
1 1/2-Inch	66.35	per month
2-Inch	106.16	per month
3-Inch	199.04	per month
4-Inch	331.74	per month
6-Inch	663.47	per month

Volumetric Rates

First	100,000 Gallons	$ 0.005765	per gallon
Over	100,000 Gallons	$ 0.003978	per gallon

Monthly Fire Protection Charges
For All Service Areas

Fire Protection Charges		
Municipally Owned Hydrants	$ 8.58	per hydrant
Private Hydrants or Sprinkler Systems	38.82	per hydrant or sprinkler
Ambleside Private Fire Surcharge*	3.86	per customer

Wholesale Rate	$ 0.002489	per gallon
Reconnection Fee	$ 2.00	

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