

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF OHIO	)	CASE NO.
COUNTY WATER DISTRICT FOR AN	)	2020-00167
ALTERNATIVE RATE ADJUSTMENT	)	

ORDER

On June 5, 2020, Ohio County Water District (Ohio District) filed an application to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated June 18, 2020. On September 2, 2020, the Commission, citing the impact of COVID-19, found that additional time would be needed to review Ohio District's case, amending its June 18, 2020 Order to allow for additional time for Commission Staff (Staff) to complete its report. Ohio District responded to two requests for information from Staff. In its application, Ohio District requested an overall revenue requirement of \$746,989, which is a 20.6 percent increase over current revenues. The proposed rates would increase the monthly bill of a typical residential customer purchasing 4,417 gallons per month by \$8.73, from \$42.35 to \$51.08, or approximately 20.6 percent.

On September 24, 2020, Staff issued a report (Staff Report) summarizing its findings regarding Ohio District's requested rate adjustment. In its Staff Report, Staff found that Ohio District's adjusted test-year operations support an overall revenue

requirement of \$4,581,164 and that an annual revenue increase of \$798,756, or 22.11 percent, is necessary to generate the overall revenue requirement.

On September 29, 2020, Ohio District filed with the Commission its comments on the Staff Report, wherein it accepted Staff's findings. With its comments, Ohio District did not request that an informal conference or formal hearing be held.<sup>1</sup>

### WATER LOSS

The Commission notes that in its data request responses Ohio District reported a water loss of 19.29 percent.<sup>2</sup> Commission regulation 807 KAR 5:066 Section 6(3) states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Ohio District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Ohio District to make significant process towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

### BACKGROUND

Ohio District is a Kentucky water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service

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<sup>1</sup> Ohio District's Response to Commission Staff Report (filed Sept. 29, 2020).

<sup>2</sup> Supplemental Response to PSC Staff First Request for Information – Corrected Version, (filed Aug. 28, 2020).

to approximately 5,957 residential, commercial, and public authorities in Breckinridge, Daviess, Grayson, and Ohio counties.<sup>3</sup>

TEST PERIOD

The calendar year ended December 31, 2018, was used as the test year to determine the reasonableness of Ohio District’s existing and proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

Based on the Staff Report, Ohio District’s pro forma operational revenue is as follows:<sup>4</sup>

	2018 Annual Report	Rate Study Adjustments	Pro Forma Operations
Total Operating Revenues	\$ 3,748,794	\$ (93,918)	\$ 3,654,876
Utility Operating Expenses	<u>3,952,748</u>	<u>(311,821)</u>	<u>3,640,927</u>
Net Utility Operating Income	<u>(203,954)</u>	<u>217,903</u>	<u>13,949</u>
Gains (Losses) on Disposition of Property	(31,814)	31,814	-
Total Utility Operating Income	<u><u>\$ (235,768)</u></u>	<u><u>\$ 249,717</u></u>	<u><u>\$ 13,949</u></u>

REVENUE REQUIREMENT ADJUSTMENTS

Billing Analysis Adjustment. In its Staff Report, Staff recommended a proposed decrease of \$22,368 to retail water revenues and an increase of \$8,661 to wholesale water revenue based on its current billing analysis.<sup>5</sup> The Commission finds that this

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<sup>3</sup> *Annual Report of Ohio County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2019* at 12 and 49.

<sup>4</sup> See Appendix A for a complete pro forma.

<sup>5</sup> Staff Report at 8, Adjustment A.

adjustment is reasonable as an examination of Ohio District's billing register was completed by Staff and a billing analysis created based on all of the information provided is reasonable.

Nonrecurring Charges. The Commission has reviewed Ohio District's nonrecurring charges. Following the Commission's recent decision concerning special nonrecurring charges, set out in the final Order issued in Case No. 2020-00141, Hyden-Leslie County Water District's recent Alternative Rate Filing,<sup>6</sup> 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, Ohio District's rates will be more aligned with the actions that drive them. Including fixed costs that Ohio District will incur regardless of the number of nonrecurring service activities it conducts will create a mismatch between how Ohio District incurs expenses, such as salary and wage expense, and how it recovers those expenses from customers. For a publicly owned, nonprofit utility such as Ohio District that operates on thin margins, the Commission finds it is reasonable and necessary to provide appropriate rates to help ensure the health of the utility's operations. 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.

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<sup>6</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

The Commission has reviewed Ohio District's most recent nonrecurring cost justification<sup>7</sup> and has adjusted charges by removing field labor costs and office/clerical labor costs from the charges. For nonrecurring charges that occur after normal business hours, the office/clerical labor costs were removed, as the Commission reasonably assumes that the office/clerical labor will be performed during normal business hours. Additionally, the mileage rate has been adjusted to the current level allowable by the Internal Revenue Service (IRS) of \$0.575 per mile.<sup>8</sup> These adjustments result in the following revised nonrecurring charges Ohio District should charge:

<u>Non Recurring Revenue Sources</u>	<u>Charge</u>
Meter Connection 5/8" meter	\$ 25.21
Meter Connection- Larger size	25.21
Meter Reread	25.21
Meter Test 5/8" X 3/4"	45.43
Reconnect	45.43
Service Call Investigation	25.21
Service Call Investigation- (After Hours)	52.99

The adjustments result in a net decrease to Other Water Revenues and a corresponding increase to the Revenue Requirement of \$8,905.

Late Payment Fee. During the test year, Ohio District assessed customers who pay their bill after the date on which the bill is due a 10 percent late payment fee. After reviewing Ohio District's tariff on file with the Commission, the Commission has determined that Ohio District does not currently have a late fee in its tariff. It appears that, according to Commission records, Ohio District has not had a late fee in its tariff for

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<sup>7</sup> TFS2005-02023 (filed Dec. 8, 2005); the tariff was accepted for filing by the Commission by letter dated December 14, 2005.

<sup>8</sup> <https://www.irs.gov/tax-professionals/standard-mileage-rates>

the past 15 years. It is settled law that a utility may not charge a rate not contained in its tariff.<sup>9</sup> Based on this evidence, the Commission will initiate a separate investigation to determine if a violation of Commission statutes and regulations has occurred. Because Ohio District does not have a late payment fee in its tariff, the Commission finds the test year amount attributed to Ohio District's illegal assessment of late payment penalties, \$71,306, must be removed from Other Water Revenues. Furthermore, the Commission notes an error on sheets 13 and 16 of the tariff. The references made to 807 KAR 5:006 Section 8(3)(h) are incorrect citations and should be removed from the tariff.

The combined adjustments to nonrecurring charges and late payment fees results in a net decrease to Other Water Revenues and a corresponding increase to the Revenue Requirement of \$80,211 as shown below.

Charges	Proforma	Adjustment	proforma
Late Penalties	\$ 71,306	\$ (71,306)	\$ -
Meter Connection 5/8" meter	1,960	(548)	1,412
Meter Connection- Larger size	70	(20)	50
Meter Reread	-	-	-
Meter Test 5/8" X 3/4"	130	(39)	91
Meter Test 1"	-	-	-
Reconnect	27,560	(8,298)	19,262
Return Check	1,675	-	1,675
Service Call Investigation	-	-	-
Service Call Investigation (After Hours)	1,575	280	1,855
Totals	<u>\$ 102,701</u>	<u>\$ (80,211)</u>	<u>\$ 22,490</u>

Salaries and Wages. In its Staff Report, Staff recommended an increase in pro forma Salaries and Wages Expense of \$55,078 to reflect a 3 percent increase in the wage

<sup>9</sup> See KRS 278.160. See also *Cincinnati Bell Telephone Co. v. Kentucky Public Service Com'n*, 223 S.W.3d 829, 837 (Ky. App. 2007).

rate for Ohio District's employees.<sup>10</sup> The Commission finds that this adjustment is a known and measurable change to salaries and wages, is reasonable, and should be accepted.

County Employee Retirement System (CERS). In its Staff Report, Staff recommended a reduction to Employee Pension and Benefit expense of \$291,167. This adjustment incorporates an adjustment made by Ohio District to reflect reporting requirements associated with GASB 68 as well as the increase in Salaries and Wages expense as explained above.<sup>11</sup> The Commission finds that this adjustment is reasonable and should be accepted.

Employee Health Insurance. In its Staff Report, Staff recommended a reduction to Ohio District's test-year Employee Health Insurance expense totaling \$5,288 to reflect Commission policy of reducing benefit expenses for utilities that pay 100 percent of its employees' health insurance coverage. The total adjustment reflects a reduction of 21 percent, the national average employee contribution rate.<sup>12</sup> This adjustment is consistent with past Commission precedent<sup>13</sup> in which the Commission has reduced benefits expenses for utilities that pay 100 percent of an employee's health insurance coverage, and the Commission finds that this adjustment is reasonable should be accepted.

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<sup>10</sup> Staff Report at 8, Adjustment B.

<sup>11</sup> *Id.* at 9, Adjustment C.

<sup>12</sup> *Id.* at 11, Adjustment D.

<sup>13</sup> Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates* (Ky. PSC June 20, 2019) at 8–12.

Purchased Water – Excess Water Loss. In its Staff Report, Staff recommended a reduction in test-year purchased water expense of \$18,710 based on water loss in excess of 15 percent.<sup>14</sup> The Commission finds that this adjustment is known and measurable and reasonable and should be accepted.

Contractual Services – Rochester Dam Regional Water Commission. In its Staff Report, Staff recommended an increase to Ohio District’s Contractual Services expense by \$7,505 to annualize payments to Rochester Dam Regional Water Commission.<sup>15</sup> The Commission finds that this adjustment is reasonable and should be accepted.

Contractual Services – Rate Case Expense. In its Staff Report, Staff recommended an adjustment to increase Ohio District’s test-year Contractual Services expense by \$4,825.<sup>16</sup> The Commission finds that this adjustment is known and measurable and reasonable and should be accepted.

Depreciation. In its Staff Report, Staff recommended an adjustment reducing test-year depreciation by \$120,726 in keeping with Commission precedent<sup>17</sup> of using NARUC Study depreciable life midpoint when no evidence exists to support a specific life that is outside the NARUC ranges.<sup>18</sup> The Commission finds that this adjustment is reasonable and should be accepted, as it is consistent with Commission precedent.

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<sup>14</sup> Staff Report at 12, Adjustment E.

<sup>15</sup> *Id.* at 13, Adjustment F.

<sup>16</sup> *Id.* Adjustment G.

<sup>17</sup> See Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10. 2016).

<sup>18</sup> Staff Report at 13, Adjustment H.



Taxes Other Than Income – Payroll Taxes. In its Staff Report, Staff recommended an increase to Ohio District’s test-year payroll tax expense of \$4,213 to reflect the prior adjustment to Salaries and Wages Expense discussed above.<sup>19</sup> The Commission finds that this adjustment is reasonable and should be accepted.

Losses on Disposition of Property. In its Staff Report, Staff recommended an increase to Ohio District’s test-year Gains (Losses) on the disposition of Property of \$31,814 to reflect the effects of the extraordinary item.<sup>20</sup> The Commission agrees with the Staff that an extraordinary item is not a routine transaction in the normal course of business, and therefore finds the removal from the test year is reasonable.

#### REVENUE REQUIREMENT

Based upon the Commission’s findings and determinations herein, Ohio District requires an increase in revenues of \$867,967, or 24.33 percent above pro forma present rate revenues as shown below. The Commission is aware that Ohio District asked for a lower revenue increase than what was calculated; however, Ohio District has reviewed Staff’s amount and agreed with the findings.<sup>21</sup> Ultimately, the Commission has the obligation and responsibility to ensure rates are fair, just, and reasonable.

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<sup>19</sup> Staff Report at 14, Adjustment I.

<sup>20</sup> *Id.*, Adjustment J.

<sup>21</sup> Response to Commission Staff Report (filed Sept. 29, 2020) at paragraph 1.

Pro Forma Operating Expenses	\$ 3,640,927
Plus: Average Annual Principal and Interest Payments	783,531
Additional Working Capital	<u>156,706</u>
Overall Revenue Requirement	4,581,164
Less: Other Operating Revenue	(41,861)
Interest Income	(42,823)
Net nonutility Income	<u>(4,498)</u>
Revenue Required from Rates	4,491,982
Less: Pro Forma Present Rate Service Revenues	<u>(3,613,015)</u>
Required Revenue Increase	<u>\$ 878,967</u>
Percentage Increase	<u>24.33%</u>

### RATE DESIGN

The Commission notes that Ohio District retained the services of a reputable rate consultant, Alan Vilines with Kentucky Rural Water Association for assistance with the application. Mr. Vilines performed a cost of service study (COSS) utilizing the inch-miles method.<sup>22</sup> Ohio District stated that the unique characteristics of its distribution system necessitated the need to transport water long distances from its water treatment plant, causing the results of the COSS to unduly impose more costs on wholesale customers.<sup>23</sup> Ohio District therefore chose not to follow the COSS, but proposed to increase its current monthly water service rates evenly across the board by the percentage increase in revenue requirement.

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<sup>22</sup> Response of Ohio County Water District to Commission Staff's E-Mail Request for Information (filed Aug. 18, 2020), Item 1.

<sup>23</sup> Response of Ohio County Water District to Commission Staff's First Request for Information (filed July 27, 2020) (Response to Staff's First Request), Item 3.b.

The inch-miles COSS method uses water line diameter size and length to establish allocation factors. These factors allocate the operation and maintenance expenses between the retail and wholesale customers. Ohio District's water lines are sized to provide greater water flows than Ohio District current customers require to be served, hence the allocation factors overstate wholesale customer expenses and understate expenses for retail customers.<sup>24</sup>

The Commission finds that Ohio District's facilities prevent the reasonable allocation of costs using the inch-miles COSS method, and, in the absence of a reliable cost-of-service study, the across-the-board method as proposed by Ohio District is an appropriate and equitable method to allocate the increased cost to Ohio District's customers. The Commission finds that the rates set forth in Appendix B are reasonable, and will produce sufficient revenue from water sales to recover the Revenue Required from Rates. These rates will increase an average residential customer's monthly water bill using 4,417 gallons<sup>25</sup> of water from \$42.35 to \$52.66, an increase of \$10.31, or approximately 24.34 percent.

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

1. The recommendations contained in the Staff Report are supported by the evidence of record, are reasonable, and as revised above are adopted.
2. The water service rates proposed by Ohio District would produce inadequate revenues and should be denied.

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<sup>24</sup> Staff Report at 5.

<sup>25</sup> Application, Exhibit K at 2.

3. The water service rates set forth in Appendix B to this Order are fair, just, and reasonable and should be approved for service rendered on and after the date of this Order.

4. Ohio District does not have a late payment fee on file with the Commission.

5. The references made to 807 KAR 5:006, Section 8(3)(h), in Ohio District's tariffs is an incorrect citation and should be removed.

IT IS THEREFORE ORDERED that:

1. The adjustments and recommendations contained in this Order are adopted.

2. The water service rates proposed by Ohio District are denied.

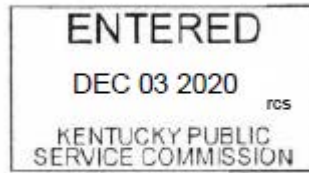
3. The rates set forth in the Appendix B to this Order are approved for services rendered by Ohio District on and after the date of this Order.

4. Ohio District shall remove the references made to 807 KAR 5:006, Section 8(3)(h), from its tariff.

5. Within 20 days of the date of this Order, Ohio District 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.

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

By the Commission



ATTEST:



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Deputy Executive Director

Case No. 2020-00167

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2020-00167 DATED DEC 03 2020

	2018 Annual Report	Pro Forma Adjustments	Pro Forma Operations
<b>Operating Revenues</b>			
Total Retail Meter Sales	\$ 3,124,638	\$ (22,368)	\$ 3,102,270
Sales for Resale	502,084	\$ 8,661	510,745
<b>Other Water Revenues</b>			
Forfeited Discounts	71,306	(71,306)	-
Misc. Service Revenues	30,575		30,575
Other Water Revenues	20,191	(8,905)	11,286
<b>Total Operating Revenues</b>	<b>\$ 3,748,794</b>	<b>\$ (93,918)</b>	<b>\$ 3,654,876</b>
<b>Operating Expenses</b>			
<b>Operation and Maintenance Expenses</b>			
Salaries and Wages - Employees	904,397	55,078	959,475
Salaries and Wages - Officers	24,000		24,000
Employee Pensions and Benefits	678,238	(291,167)	
		52,449	
		(5,288)	434,232
Purchased Power	358,746	(15,384)	343,362
Chemicals	77,554	(3,326)	74,228
Materials and Supplies	40,869		40,869
Contractual Services - Acct. & Legal	39,147		39,147
Contractual Services- Water Testing	9,673		9,673
Contractual Services- Other	365,018	7,505	
		4,825	377,348
Rental of Bldg/Property & Equipment	4,466		4,466
Transportation Expense	8,705		8,705
Insurance- Vehicle, Gen. Liability & Other	60,157		60,157
Insurance- Workers Comp.	18,927		18,927
Advertising	1,123		1,123
Bad Debt Expense	18,000		18,000
Miscellaneous Expense	112,607		112,607
<b>Total Operation and Maintenance Expenses</b>	<b>2,721,627</b>	<b>(195,308)</b>	<b>2,526,319</b>
Depreciation	1,147,618	(120,726)	1,026,892
Taxes Other Than Income	83,503	4,213	87,716
<b>Total Operating Expenses</b>	<b>3,952,748</b>	<b>(311,821)</b>	<b>3,640,927</b>
Net Utility Operating Income	(203,954)	217,903	13,949
(Losses) on Disposition of Utility Property	(31,814)	31,814	-
<b>Total Utility Operating Income</b>	<b>\$ (235,768)</b>	<b>\$ 249,717</b>	<b>\$ 13,949</b>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2020-00167 DATED DEC 03 2020

The following rates and charges are prescribed for the customers in the area served by Ohio County Water District. 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 Water Rates\*

First 2,000 Gallons	\$26.27 Minimum Bill
Next 18,000 Gallons	0.01092 Per Gallon
Next 30,000 Gallons	0.00944 Per Gallon
Next 50,000 Gallons	0.00794 Per Gallon
Over 100,000 Gallons	0.00647 Per Gallon
Wholesale Service	0.00333 Per Gallon
Leak Adjustment Rate	0.00333 Per Gallon
Meter Connection/Turn-on Charge	25.21
Meter Re-read Charge	25.21
Meter Test Charge (5/8-Inch Meter)	45.43
Re-Connect Charge	45.43
Service Call/Investigation	25.21
Service Call/Investigation (After Hours)	52.99

\*water rates stated on a per gallon basis

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