

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF EDMONSON)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2021-00013
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On January 22, 2021, Edmonson County Water District (Edmonson District) filed an application to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076, and it was accepted as filed. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated January 29, 2021. On April 22, 2021, the Commission found that additional time would be needed to review Edmonson District's case amending its January 29, 2021 Order to allow for additional time for Commission Staff (Staff) to complete its report. Edmonson District responded to two requests for information from Staff.

In its application, Edmonson District requested rates that would increase annual water sales revenues by \$544,467, or 17.00 percent, as shown in the table below.¹ The rates requested by Edmonson District would increase the monthly bill of a typical residential customer using 3,000 gallons per month by \$3.72, from \$21.95 to \$25.67, or approximately 17.00 percent.²

¹ Application, Attachment 5, Revenue Requirements.

² *Id.*, Attachment 1, Customer Notice.

On June 1, 2021, Staff issued a report (Staff Report) summarizing its findings regarding Edmonson District's requested rate adjustment. In the Staff Report, Staff determined that Edmonson District's adjusted test-year operations support an overall revenue requirement of \$4,047,346 and that an annual revenue increase of \$529,959, or 15.97 percent, would be necessary to generate the overall revenue requirement.³

On June 10, 2021, Edmonson District filed its response (Response) to the Staff Report, wherein Edmonson District agrees with the findings presented in the Staff Report regarding water rates and requests that the Commission approve Staff's recommended rates contained in Appendix A of the report.⁴ Edmonson District waived its right to request an informal conference or a formal hearing.⁵ Although Edmonson District did not agree with Staff's removal of labor expenses from its nonrecurring charges, Edmonson District did not wish to contest that adjustment in this case.⁶ Edmonson District argues that its failure to object to Staff's findings concerning the reduction of labor costs from its Nonrecurring Charges shall not be construed as a waiver of Edmonson District's right to contest a similar finding in a future rate proceeding.⁷

³ Staff Report at 3.

⁴ Response letter to the Staff Report from the General Manager of Edmonson County Water District, Tony Sanders, to Executive Director of the Public Service Commission, Linda C. Bridwell, PE (dated June 9, 2021).

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

WATER LOSS

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. As noted in the Staff Report, Edmonson District's test-year water loss was 25.36 percent.⁸ Accordingly, Staff reduced test-year expenses by \$30,804 to account for the 10.36 percent excess water loss.⁹ The Commission notes that Edmonson District's total cost of water loss is \$75,408¹⁰ annually at the current 25.36 percent rate.

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

⁸ Staff Report at 14-15, Adjustment H.

⁹ *Id.*

	Electricity	Chemicals	Total
Allowable Purchases	\$ 237,010	\$ 60,353	\$ 297,363
Multiplied by: Water Rate per 1,000 Gallons	-10.359%	-10.359%	-10.359%
Pro Forma Purchased Water Expense	\$ (24,552)	\$ (6,252)	\$ (30,804)

¹⁰

	Electricity	Chemicals	Total
Allowable Purchases	\$ 237,010	\$ 60,353	\$ 297,363
Multiplied by: Water Rate per 1,000 Gallons	-25.359%	-25.359%	-25.359%
Pro Forma Purchased Water Expense	\$ (60,103)	\$ (15,305)	\$ (75,408)

BACKGROUND

Edmonson District, a water district organized pursuant to KRS Chapter 74, provides water service to approximately 10,654 residential customers and one wholesale customer located in Butler, Edmonson, Grayson, Hart, and Warren counties, Kentucky.¹¹ Edmonson District's sewer division owns and operates sewage facilities in Edmonson County, Kentucky, that serve approximately 57 residential customers.¹²

TEST PERIOD

The calendar year ended December 31, 2019, was used as the test year to determine the reasonableness of Edmonson District's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF THE STAFF REPORT REVENUE AND EXPENSES

The Staff Report summarizes Edmonson District's pro forma income statement as follows:¹³

	<u>Test Year Operations</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 3,163,343	\$ 251,125	\$ 3,414,468
Operating Expenses	<u>2,907,912</u>	<u>156,374</u>	<u>3,042,218</u>
Net Utility Operating Income	255,431	94,751	372,250
Other Income and Deductions	<u>148,632</u>	<u>(45,713)</u>	<u>102,919</u>
Net Available for Debt Service	<u>\$ 404,063</u>	<u>\$ 49,038</u>	<u>\$ 475,169</u>

¹¹ *Annual Report of Edmonson County Water District Water Division to the Public Service Commission for the Calendar Year Ended December 31, 2019* at 12 and 63.

¹² *Annual Report of Edmonson County Water District Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2019* at 9 and 25.

¹³ See Appendix B for a detailed Pro Forma Income Statement.

REVENUE REQUIREMENT ADJUSTMENTS

Billing Analysis Adjustment. In the Staff Report, Staff recommended the Commission accept Edmonson District's proposed increase of \$278,990 to test-year revenues based on its current billing analysis.¹⁴ The Commission finds that this adjustment is reasonable as an examination of Edmonson District's billing register was completed by Staff and a billing analysis created based on all of the information provided. Staff's billing analysis supported Edmonson District's proposed sales revenue.

Other Water Revenue. In the Staff Report, Staff recommended the Commission decrease Nonrecurring Charges by \$27,865 to reflect recent Commission decisions regarding labor costs during normal business hours that were previously included in the calculation of a utility's nonrecurring charge.¹⁵ The Commission finds that this adjustment accurately reflects recent Commission precedent on this issue and should be accepted.

Misclassified Operating Expenses. Staff determined that Edmonson District had misclassified the payment of the commissioner fees of \$18,000 in its Employee Salaries and Wages expense account. In the Staff Report, Staff corrected Edmonson District's expense classification error.¹⁶ The Commission finds that the operating expense

¹⁴ Staff Report at 5–6, Adjustment A. Test-year revenues from retail customers was increased by \$270,478 and Sales for resale by \$8,512.

¹⁵ *Id.* at 6, Adjustment B.

¹⁶ *Id.*, Adjustment C.

reclassification adjustment should be accepted as it meets the ratemaking criteria of being known and measurable¹⁷ and is reasonable.

Employee Salaries and Wages. In the Staff Report, Staff recommended the Commission increase pro forma salaries and wages by \$50,695 to reflect Edmonson District's current staff level of 24 full-time employees, the hours that each employee worked in the test year,¹⁸ and the 2021 employee wage rates.¹⁹ The Commission finds that the Staff's adjustment meets the ratemaking criteria of being known and measurable, is reasonable, and should be accepted.

Employee Insurance Benefits. In the Staff Report, Staff reduced Edmonson District's test-year Employee Pension and Benefit expense by \$26,168 to bring employer contributions for employee dental and health insurance premiums in line with the Bureau of Labor Statistic's national average for single coverage based on recent Commission decisions on this issue.²⁰ The Commission finds that the adjustment proposed by Staff meets the criteria formerly set by the Commission, is known and measurable, and should be accepted.

¹⁷ 807 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).

¹⁸ Employee regular hours worked in the test-year is limited to 2,080 hours. The three employees hired in 2020 are assumed to work 2,080 annual regular hours.

¹⁹ Staff Report at 7–9, Adjustment D.

²⁰ *Id.* at 9–11, Adjustment E.

Retirement. In the Staff Report, Staff recommended the Commission increase Employee Pensions and Benefits expense by \$7,213 to reflect applying the 8 percent employer 401(a) contribution rate to the pro forma employee salaries and wages expense for full-time employees of \$886,480.²¹ The Commission finds, based on the evidence of record, the adjustment proposed by Staff accurately reflects the level of retirement expense that will increase as a result of the pro forma Employee Salary and Wage expense the Commission found reasonable herein and is accepted.

Employee Health Insurance Trust Fund. In the Staff Report, Staff reduced Employee Pensions and Benefit expense by \$23,004 to (1) to eliminate Edmonson District's error in recording the Retiree Health Account Trust (Grantor Trust) employee payment as an expense and (2) to reflect the ten-year average of Edmonson District's deposits into the Grantor Trust.²² The Commission finds that the adjustment proposed by Staff follows prior Commission decisions that it is unreasonable to establish an ongoing expense level for ratemaking purposes based on the activity of a single year in instances when there is a great degree of fluctuation in an expense account between years.²³ Accordingly, the Commission further finds Staff's adjustment to be reasonable and should be accepted.

Excess Water Loss. In the Staff Report, Staff recommended the Commission accept Edmonson District's proposed adjustments to reduce Purchased Power expense

²¹ *Id.* at 11–12, Adjustment F.

²² *Id.* at 12–14, Adjustment G.

²³ See Case No. 2007-00354, *Application of Apache Gas Transmission Company, Inc. for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2007) at 3.

by \$24,552 and Purchased Water expense by \$6,252 to eliminate the costs attributable to excessive water loss pursuant to 807 KAR 5:066, Section 6(3).²⁴ The Commission finds the adjustments proposed by Edmonson District and further recommended by Staff properly reflects the limitations imposed by the regulation and should be accepted.

Depreciation. In the Staff Report, Staff recommended an adjustment increasing test-year Depreciation expense of \$892,174 by \$162,469 in keeping with Commission precedent²⁵ of using NARUC Study depreciable life midpoint when no evidence exists to support a specific life that is outside the NARUC ranges.²⁶ The Commission finds that this adjustment is reasonable and should be accepted as it is consistent with Commission precedent.²⁷

Taxes Other Than Income–Payroll Taxes. In the Staff Report, Staff recommended that Edmonson District’s test-year Payroll Tax expense of \$78,649 be decreased by \$6,095 to reflect Staff’s adjustments to Salaries and Wages Expense.²⁸ The Commission finds, based on the evidence of record, the adjustment proposed by Staff accurately reflects the level of payroll tax expense that will decrease as a result of the pro forma Employee Salary and Wage expense the Commission found reasonable herein and is accepted.

²⁴ Staff Report at 14–15, Adjustment H.

²⁵ See Case No. 2016-00163 *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016).

²⁶ Staff Report at 15–16, Adjustment I.

²⁷ See Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016); Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); and Case No. 2020-00311, *Electronic Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC Apr. 8, 2021).

²⁸ *Id.* at 16, Adjustment J.

Nonutility Income. In the Staff Report, Staff recommended the Commission accept Edmonson District’s proposed adjustment to reduce Nonutility Income by \$45,713 to remove a prior period adjustment pertaining to the retiree health insurance Grantor trust account.²⁹ The Commission finds that the adjustment to remove a prior period adjustment should be accepted as it meets the ratemaking criteria of being known and measurable and is reasonable.

REVENUE REQUIREMENT

Based upon the Commission’s findings and determinations herein, Edmonson District requires an increase in revenues of \$529,959, or 15.97 percent above pro forma present rate revenues as shown below. This increase is required for Edmonson District to remain operational and financially sound and have an opportunity to provide adequate, efficient, and reasonable service to its customers.³⁰

Pro Forma Operating Expenses	\$ 3,042,218
Plus: Average Annual Debt Service	839,357
Debt Service Coverage Requirement	167,871
Amortization of Debt Discount	<u>(2,100)</u>
Overall Revenue Requirement	4,047,346
Less: Other Operating Revenue	(95,588)
Non-operating Income	(9,048)
Interest Income	<u>(93,871)</u>
Revenue Required from Water Sales	3,848,839
Less: Normalized Revenues from Water Sales	<u>(3,318,880)</u>
Required Revenue Increase/(Decrease)	<u>\$ 529,959</u>
Percentage Increase	<u>15.97%</u>

²⁹ *Id.*, Adjustment K.

³⁰ KRS 278.030(2).

RATE DESIGN

Edmonson District proposed to increase its monthly retail water service rates by performing a cost of service study (COSS). In the Staff Report, Staff accepted Edmonson District's proposed COSS and modified it using Staff's adjustments to its pro forma operating expenses.³¹ The rates set forth in Appendix A to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable and will produce sufficient revenues from water sales to recover the \$3,848,839 Revenue Required from Rates, an approximate 15.97 percent increase. These rates will increase the monthly bill of a retail customer who uses 3,000 gallons of water per month from \$21.95 to \$25.61, an increase of \$3.66, or 16.67 percent. Edmonson District's wholesale rate to the city of Brownsville will decrease from \$0.00313 per gallon to \$0.00310 per gallon.

SUMMARY

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

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.
2. The water service rates proposed by Edmonson District in its application should be denied.
3. The water service rates set forth in Appendix A to this Order are fair, just and reasonable and should be approved.

³¹ Staff Report at 4.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The rates originally proposed by Edmonson District are denied.
3. The rates set forth in Appendix A to this Order are approved for services rendered by Edmonson District on and after the date of this Order.
4. Within 20 days of the date of entry of this Order, Edmonson 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.
5. This case is closed and removed from the Commission's docket.

By the Commission

ENTERED
AUG 04 2021
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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

 for
Executive Director

Case No. 2021-00013

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00013 DATED AUG 04 2021

The following rates and charges are prescribed for the customers in the area served by Edmonson 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

All Meter Sizes

First	1,500 gallons	\$ 16.40	Minimum bill
All Over	1,500 gallons	0.00614	per gallon

Wholesale Water Rate	\$0.00310 per gallon
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Nonrecurring Charges

Meter Test Charge	\$10.00
Service Call/Investigation	\$ 5.00
Returned Check Charge	\$ 0.00
Returned Bank Draft Charge	\$ 0.00
Reconnection Fee	\$10.00

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00013 DATED AUG 04 2021

Detailed Pro Forma Income Statement

	Test Year Operations	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues:				
Total Metered Sales	\$ 2,936,011	\$ 270,478	A.	\$ 3,206,489
Sales for Resale	103,879	8,512	A.	112,391
	<u>3,039,890</u>	<u>278,990</u>		<u>3,318,880</u>
Other Water Revenues:				
Forfeited Discounts	57,807			57,807
Misc. Service Revenues	65,646	(27,865)	B.	37,781
	<u>3,163,343</u>	<u>251,125</u>		<u>3,414,468</u>
Total Operating Revenues				
Operating Expenses:				
Operation and Maintenance:				
Employee Salaries and Wages	915,724	(18,000)	C.	
		50,695	D.	948,419
Commissioner Salaries and Wages		18,000	C.	18,000
Employee Pensions and Benefits	256,866	(26,168)	E.	
		7,213	F.	
		(23,004)	G.	214,907
Purchased Power	237,010	(24,552)	H.	212,458
Chemicals	60,353	(6,252)	H.	54,101
Materials and Supplies	139,177			139,177
Contractual Services	155,463			155,463
Transportation Expenses	56,397			56,397
Insurance	64,945			64,945
Advertising	2,834			2,834
Bad Debt Expense	10,213			10,213
Miscellaneous Expenses	38,107			38,107
	<u>1,937,089</u>	<u>(22,068)</u>		<u>1,915,021</u>
Total Operation and Mnt. Expenses				
Depreciation Expense	892,174	162,469	I.	1,054,643
Taxes Other Than Income	78,649	(6,095)	J.	72,554
	<u>2,907,912</u>	<u>156,374</u>		<u>3,042,218</u>
Total Operating Expenses				
Net Utility Operating Income	255,431	94,751		372,250
Interest Income	93,871			93,871
Nonutility Income and Expenses	54,761	(45,713)	K.	9,048
	<u>\$ 404,063</u>	<u>\$ 49,038</u>		<u>\$ 475,169</u>
Net Available for Debt Service				

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