

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH)	
EASTERN WATER ASSOCIATION, INC. FOR)	CASE NO.
A RATE ADJUSTMENT PURSUANT TO 807)	2021-00126
KAR 5:076)	

ORDER

On March 15, 2021, South Eastern Water Association (South Eastern Water) filed an application with 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 March 22, 2021. Staff issued two rounds of discovery to collect additional information regarding South Eastern Water's financial records.

Using its pro forma test-year operations, South Eastern Water determined that a required revenue increase of \$228,386, or 5.54 percent, over test-year normalized revenues of \$4,120,296 is warranted.¹ The rates requested by South Eastern Water would increase the monthly bill of a typical residential customer purchasing 3,000 gallons per month by \$2.05, from \$37.08 to \$39.13, or approximately 5.5 percent.²

Commission Staff (Staff) performed a limited financial review of South Eastern Water's operations and, on June 14, 2021, released a report containing Staff's findings (Staff Report). In the Staff Report, Staff found that South Eastern Water's adjusted test-

¹ Application, Attachment 5.

² *Id.*, Attachment 1.

year operations support an overall revenue requirement of \$4,526,392 and that an annual revenue increase of \$243,751, or 5.92 percent,³ is necessary to generate the overall revenue requirement.

On June 25, 2021, South Eastern Water filed with the Commission its comments on Staff's report, wherein it accepted Staff's findings with an exception to Staff's method of calculating Employee's Salaries and Wages. With its comments, South Eastern Water did not request that an informal conference or formal hearing be held.⁴

WATER LOSS

The Commission notes that in South Eastern Water's 2019 Annual Report, South Eastern Water reported a water loss of 18.7928 percent.⁵ 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 South Eastern Water to pursue reasonable actions to reduce its unaccounted-for water loss. At an 18.79 percent water loss, the total annual cost to South

³ Staff Report at 19.

⁴ Response letter to the Staff Report from the President of South Eastern Water, Joe Crawford, to Executive Director of the Public Service Commission, Linda C. Bridwell, PE (dated June 25, 2021).

⁵ *Annual Report of South Eastern Water Association to the Public Service Commission for the Calendar Year Ended December 31, 2019* (2019 Annual Report) at 57.

Eastern is \$289,221.⁶ Failure by South Eastern Water to make significant process towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

SYSTEM USE

The Commission notes that in South Eastern Water’s 2019 Annual Report, Total Other Water Used is reported to be 160,984,000 gallons.⁷ This equates to 27.61 percent of the water purchased by South Eastern Water used by the system in the provision of water to its customers.⁸ The 27.61 percent represents approximately \$424,917⁹ of purchased water expense, one of South Eastern Water’s larger operational expenses. Reduction of the amount of system use would be significant cost savings to the utility. The Commission also takes notice of South Eastern Water’s previous years’ system use.

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	<u>Purchased Water</u>	<u>Purchased Power</u>
Adjusted Purchased Water & Power Times: Water loss Above 15 Percent	\$ 1,457,738 18.7928%	\$ 81,260 18.79282%
Excess Water Loss Reductions	<u>\$ 273,950</u>	<u>\$ 15,271</u>
Total		<u><u>\$ 289,221</u></u>

⁷ 2019 Annual Report at 57, line 22.

⁸ 2019 Annual Report at 57, line 22 divided by line 4.

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	<u>Purchased Water</u>	<u>Purchased Power</u>
Adjusted Purchased Water & Power Times: Total Other Water Used	\$ 1,457,738 27.61%	\$ 81,260 27.61%
Total Other Water used Expense	<u>\$ 402,481</u>	<u>\$ 22,436</u>
Total		<u><u>\$ 424,917</u></u>

In 2018, South Eastern Water reported Other Water Used as 36.0609 percent,¹⁰ and in 2017, 33.7665 percent.¹¹

The Commission strongly encourages South Eastern Water to pursue reasonable actions to reduce its system use. Failure by South Eastern Water to make improvements toward its operations and reducing water use may cause the Commission to pursue additional action with the utility. The Commission finds that South Eastern Water should provide additional information describing its Other Water Used, especially its high level of flushing.

BACKGROUND

South Eastern Water is a Kentucky water utility organized pursuant to KRS Chapter 273. It owns and operates a water distribution system through which it provides water service to approximately 7,065 retail customers, and 74 commercial customers in Pulaski County, Kentucky.¹²

TEST PERIOD

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

¹⁰ *Annual Report of South Eastern Water Association to the Public Service Commission for the Calendar Year Ended December 31, 2018* at 57.

¹¹ *Annual Report of South Eastern Water Association to the Public Service Commission for the Calendar Year Ended December 31, 2017* at 57.

¹² 2019 Annual Report at 12 and 49.

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes South Eastern Water’s pro forma income statement as follows:¹³

	<u>2019 Annual Report</u>	<u>Pro Forma Adjustments</u>	<u>Staff Report Pro Forma</u>
Operating Revenues	\$ 4,305,176	\$ (89,868) ¹⁴	\$ 4,215,308
Operating Expenses	<u>4,037,346</u>	<u>(394,587)¹⁵</u>	<u>3,642,759</u>
Net Operating Income	267,830	304,719	572,549
Miscellaneous Income	<u>28,202</u>	<u>(28,068)</u>	<u>134</u>
Income Available for Debt Service	<u>\$ 296,032</u>	<u>\$ 276,651¹⁶</u>	<u>\$ 572,683</u>

REVENUE REQUIREMENT ADJUSTMENTS

Late Fees. In the Staff Report, Staff recommended that the Commission accept South Eastern Water’s proposal to decrease its test-year revenues from water sales of \$4,197,989 by \$90,182.¹⁷ This adjustment is to categorize Late Fees that were

¹³ See Appendix A for a complete pro forma.

¹⁴ In the Staff Report’s Statement of Adjusted Operations Pro Forma Adjustments, the sum of the Operating Revenue adjustments of \$(89,868) was mistakenly left off the table, but did not affect Staff’s recommended Revenue Requirement. This revision and Appendix A revises the total Operating Revenues, but did not impact Staff’s recommended Revenue Requirement.

¹⁵ In the Staff Report Statement of Adjusted Operations Pro Forma Adjustments, the sum of the Total Operation and Maintenance Expenses of \$11,001 was mistakenly left off the table and out of the Utility Operating Expenses calculation. This revision and Appendix A revises the total Utility Operating Expenses, but did not impact Staff’s recommended Revenue Requirement.

¹⁶ Interest income was excluded in Staff Report Pro Forma Statement of Adjusted operations. This revision and Appendix A includes interest income. The addition does not impact the Staff’s recommended Revenue Requirement.

¹⁷ Staff Report at 6, Adjustment A.

miscategorized. The Commission finds that this adjustment is reasonable and should be accepted.

Sales for Resale. In the Staff Report, Staff recommended the Commission accept South Eastern Water's proposal to decrease metered water sales by \$27,218.¹⁸ This adjustment is to categorize Sales for Resale to its own category. The Commission finds that South Eastern Water's adjustment is reasonable and should be accepted.

Billing Analysis. In the Staff Report, Staff recommended the Commission accept South Eastern Water's proposed increase of \$12,489 to test-year revenues based on its current billing analysis.¹⁹ The Commission finds that this adjustment is reasonable as an examination of South Eastern Water's billing analysis was completed by Staff and a normalized revenue was based on the information provided.

Miscellaneous Service Revenue. In the Staff Report, Staff recommended a reduction to South Eastern Water's miscellaneous service revenue of \$96,925²⁰ Staff agreed with South Eastern Water's proposed decrease of \$61,789 to align revenues to the test-year adjusted trial balance. In addition, Staff decreased miscellaneous service revenues by \$35,136 because South Eastern Water did not provide cost justification for the Nonrecurring Charges.

In response to the Staff Report, South Eastern Water provided Cost Justification forms for its Nonrecurring Charges.²¹ However, the cost support provided do not reflect

¹⁸ *Id.* at 6, Adjustment B.

¹⁹ *Id.* at 6, Adjustment C.

²⁰ *Id.* at 6 and 7, Adjustment D.

²¹ Response letter to the Staff Report from the President of South Eastern Water, Joe Crawford, to Executive Director of the Public Service Commission, Linda C. Bridwell, PE (filed June 25, 2021).

the Commission's recent decisions.²² The Commission finds that as personnel are paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. South Eastern Water's proposed Nonrecurring Charges should be revised to reflect the Commission's precedent. Therefore, the office/clerical labor costs should be removed from After Hours Nonrecurring Charges because office/clerical labor expenses are not incurred after hours for after-hours activities, but instead those in-office activities are performed during ordinary business hours.

By reflecting only the marginal costs incurred in special Nonrecurring service charges, South Eastern Water's rates will be more in line with the principle of cost causation. Merely allocating a fixed expense of ordinary labor costs in special Nonrecurring Charges, like disconnect or reconnect fees, creates a mismatch between how a utility incurs expenses and how it recovers those expenses from customers. Instead of reflecting fixed costs in special Nonrecurring Charges that a utility incurs regardless of the number or timing of those Nonrecurring services, including those fixed costs in rates for water service more closely aligns those expenses with the actions that drive them. For a publicly owned, nonprofit utility such as South Eastern Water 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. This approach to ratemaking is entirely consistent with the Commission's history of ensuring that rates

²² Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020). See also Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

reflect, to a reasonable degree, the principle of cost causation while simultaneously taking into account the health of the utility and the ability of the utility to provide the adequate, efficient and reasonable provision of service. The implementation of rates that significantly deviate from the actions and expenses underlying the service provided can create material issues with a utility’s ability to meet its approved revenue requirement, particularly a utility with razor-thin margins. In keeping with precedent, the Commission finds this adjustment to be reasonable. The table below shows the adjusted Nonrecurring Charges and the revenue generated from them based on the test year occurrences.²³

	<u>Charge</u>	<u>Test Year Occurances</u>	<u>Revenue</u>
Return Payment Charge	-	-	-
Meter Test Charge	\$ 16.80	-	-
Reconnection Charge	16.80	415	\$ 6,972
Service Call Charge	16.80	908	15,254
Service Call Charge (After Hours)	<u>58.45</u>	<u>-</u>	<u>-</u>
Total			<u>\$ 22,226</u>

Other Service Revenues- Bad Debt Collection. In the Staff Report, Staff recommended a reduction to both Other Water Revenues and Bad Debt Expense of \$6,352²⁴ to reflect the collection of previously written off bad debts. The Commission finds that this adjustment is a known and measurable²⁵ change to Other Service Revenues and Bad Debt Expense, is reasonable, and should be accepted.

²³ South Eastern Water’s Response to Commission Staff’s Second Request of Information (Staff’s Second Request) (filed May 12, 2021), Item 8.

²⁴ *Id.* at 7 and 8, Adjustment E.

²⁵ 807 KAR 5:076, Section 9, provides that known and measurable changes may be made.

Other Service Revenues-Reconciliation. In the Staff Report, Staff recommended an increase to Other Water Revenues of \$920²⁶ to reflect an increase in the amount of membership fees reported from \$3,910 to \$4,830. The Commission finds that this adjustment is a known and measurable change Other Service Revenues, is reasonable, and should be accepted.

Salaries and Wages-Employees. In the Staff Report, Staff recommended an increase in pro forma Salaries and Wages Expense of \$68,079²⁷ to reflect an increase in the wage rate for South Eastern Water's employees, and the hiring of a new employee. In response to Staff's report South Eastern Water requested the Commission recalculate the Salaries and Wages Expense to include Holiday pay, Personal time, and Vacation time in the calculation. However, South Eastern Water stated it does not have a written policy for the pay out of accrual hours and that the payout of unused vacation time is a practice established many years ago with consent and knowledge of the Board of Directors.²⁸ Given this information, Staff contacted South East Water on September 3, 2021, to clarify the number of hours each employee worked during the test year. During that conversation, it became apparent to Staff that South Eastern Water's Response to Staff's Second Request, item 1, had multiple discrepancies in each employee's hours worked, vacation time, personal time, and holiday time. In light of the inaccuracies in the information, the Commission has determined that an adjustment to Salaries and Wages expense is necessary. In the absence of accurate time-reporting data, the Commission

²⁶ *Id.* at 8, Adjustment F.

²⁷ *Id.* at 8 and 9, Adjustment G.

²⁸ South Eastern Water's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed July 28, 2021), Item 1.

has recalculated Salaries and Wages Expense based on regular hours of 2,080 to reflect typical full-time employees' hours and the overtime hours as presented by South Eastern Water. The results of the recalculation are shown below:

Employee Number	Total Hours	Test Year Normal Hours	Current Wages Rates	Pro Forma Normal Wages	Test Year Overtime Hours	Current Overtime Wage Rates	Pro Forma Overtime Wages	Total Pro Forma Wages
138	2,085	2,080	\$ 18.50	\$38,480	5	\$ 27.75	\$ 125	\$ 38,604.88
228	2,080	2,080	26.44	55,000	-	39.66	-	55,000.40
2316	2,147	2,080	19.50	40,560	67	29.25	1,960	42,519.75
4901	2,200	2,200	38.46	84,616	-	57.69	-	84,615.85
4920	2,081	2,080	18.50	38,480	1	27.75	28	38,507.75
5309	2,140	2,080	19.00	39,520	60	28.50	1,703	41,222.88
5347	2,080	2,080	18.00	37,440	-	27.00	-	37,440.00
6465	2,152	2,080	19.00	39,520	72	28.50	2,052	41,572.00
6784	2,281	2,080	19.00	39,520	201	28.50	5,729	45,248.50
6913	2,390	2,080	20.00	41,600	310	30.00	9,285	50,885.00
7666	2,209	2,080	19.00	39,520	129	28.50	3,677	43,196.50
8600	2,091	2,080	17.50	36,400	11	26.25	289	36,688.75
Pro Forma Wages								\$ 555,502
Total Pro Forma Wages								555,502
Less: Staff Recommended Wages								<u>(517,599)</u>
Pro Forma Adjustment								<u>\$ 37,904</u>

Accordingly, the Commission finds that it is necessary to increase the Revenue Requirement by an additional \$37,904.

In addition, the Commission is concerned about the potential inaccuracies South Eastern Water supplied in response to Commission Staff's requests for information. The Commission has the expectation that when a utility, members of its staff, or a consultant responds to a request that the information provided is accurate so the Commission can make an informed decision. The Commission directs South Eastern Water to review its processes and policies regarding its time reporting and payroll processing and expects that future submittals to the Commission contain information that has been verified to be accurate.

Employee Pensions and Benefits. In the Staff Report, Staff recommended an increase to Employee Pension and Benefit expense of \$1,584.²⁹ This adjustment incorporated the employees who contribute to the 457(b) retirement account and the increase in Salaries and Wages expense. Because the Commission found an adjustment to Salaries and Wages Expense was necessary as discussed above, Employee Pensions and Benefits requires an additional adjustment as shown below. The Commission finds that an adjustment increasing Employee Pension and Benefits a further \$1,134, to make a total adjustment to Employee Pensions and Benefits of \$2,721, is reasonable and should be accepted. Accordingly, the Commission finds that it is necessary to increase the Revenue Requirement by an additional \$1,137.

<u>Employee Pensions and Benefits</u>	
Pro Forma Salaries and Wages- Employees	\$ 555,502
Times: 3.00% Pension Contribution Rate	<u>3.00%</u>
Pro Forma Employee Pension Contribution	16,665
Less: Test Year Employee Pensions and Benefits	<u>(13,944)</u>
Employee Pensions and Benefits Adjustment	2,721
Less: Staff's Recommended Adjustment	<u>(1,584)</u>
Commission Adjustment	<u>\$ 1,137</u>

Wages and Salaries-Officers. In the Staff Report, Staff recommended an increase to South Eastern Water's test-year Wages and Salaries-Officers expense totaling \$6,500.³⁰ This adjustment is a recalculation of Annualized Wages and Salaries for South

²⁹ *Id.* at 9 and 10, Adjustment H .

³⁰ *Id.* at 10, Adjustment I.

Eastern Water’s Officers. The Commission finds that this adjustment is a known and measurable change to salaries and wages, is reasonable, and should be accepted.

Discretionary Pension Contributions. In the Staff Report, Staff recommended a Discretionary Pension Contributions amount of \$10,352.³¹ This adjustment incorporated South Eastern Water’s discretionary contributions to the Employees’ pension plan. The contribution is two percent of the Employees’ Salaries and Wages. Because, as discussed above, the Commission found an adjustment to Salaries and Wages Expense was necessary, the Discretionary Pensions contribution amount requires an additional adjustment. As shown below, the Commission made an additional adjustment that increases Employee Pensions and Benefits \$758 for a total adjustment of \$11,110.

Discretionary Contribution		
Pro Forma Salaries and Wages-Employees	\$	555,502
Times 2% contribution Rate		2.00%
Discretionary Contribution Amount	\$	11,110
Less: Staff’s Recommended Adjustment		(10,352)
Commission Adjustment	\$	758

Purchased Water. In the Staff Report, Staff recommended an increase in Purchased Water Expense of \$5,044³² to reflect the reconciliation between South Eastern Water’s Adjusted Trail Balance and Staff’s calculation of Purchased Water. The Commission finds that this adjustment is known, measurable, and reasonable and should be accepted.

³¹ *Id.* at 11, Adjustment J.

³² *Id.* at 11 and 12, Adjustment K.

Purchased Water and Power- Water Loss. In the Staff Report, Staff recommended a reduction in test-year Purchased Water Expense of \$55,289 and Purchased Power Expense of \$3,082 for a total adjustment of \$58,371³³ to reflect the disallowed expense based on water loss in excess of 15 percent. The Commission finds that this adjustment is known, measurable, and reasonable and should be accepted.

Employee Health Insurance. In the Staff Report, Staff recommended a reduction to South Eastern Water's test-year Employee Health Insurance expense totaling \$95,752³⁴ to reflect Commission policy of reducing benefit expenses for utilities that pay 100 percent of its employees' health insurance coverage, as well as South Eastern Water's change of Insurance Provider. The total adjustment reflects a reduction of 21 percent, the national average employee contribution rate. This adjustment is consistent with Commission precedent³⁵ in which the Commission has reduced benefits expenses for utilities that pay 100 percent of an employee's health insurance coverage.

However, since Staff's report was issued, Staff realized that the adjustment was using out-of-date percentages and updated the calculation to include current percentages³⁶ as shown below. Using the updated percentages results in a further reduction to Insurance-Other of \$852 resulting in a Total decrease of \$96,604. Accordingly, the Commission finds that it is necessary to decrease the Revenue Requirement by a further \$852.

³³ *Id.* at 12 and 13, Adjustment L.

³⁴ *Id.* at 13 and 14, Adjustment M.

³⁵ See 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.

³⁶ <https://www.bls.gov/news.release/pdf/ebs2.pdf> at 11 (last accessed on Sept. 9, 2021).

Type of Premium	Employer Contributions	Adjusted Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	\$ 4,350	22%	\$ (957)	\$ 3,393
Family Health Insurance	2,833	34%	(963)	1,870
Life Insurance	102			102
Total Pro Forma Monthly Premium				5,366
Times: 12 Months				<u>12</u>
Adjusted Annual Premium				64,392
Less: Staff's Recommended Pro Forma Insurance				<u>(65,244)</u>
Commission Adjustment				<u>\$ (852)</u>

Miscellaneous Expense. In the Staff Report, Staff recommended an adjustment increasing Miscellaneous Expense by \$80,188 to reflect the reconciliation between the test year and the adjusted trial balance. The Commission finds that this adjustment is reasonable and should be accepted.

Depreciation. In the Staff Report, Staff agreed with South Eastern Water's adjustment reducing test-year depreciation by \$276,050³⁷ in keeping with Commission precedent³⁸ of using the NARUC Study depreciable life midpoint when no evidence exists to support a specific life that is outside the NARUC ranges. The Commission finds that this adjustment is reasonable and should be accepted, as it is consistent with Commission precedent.

Taxes Other Than Income- FICA. In the Staff Report, Staff recommended an increase to South Eastern Water's test-year payroll tax expense of \$5,208³⁹ to reflect

³⁷ *Id.* at 16 and 17, Adjustment O.

³⁸ See, e.g., Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016).

³⁹ *Id.* at 17, Adjustment P.

changes in payroll taxes due to the adjustment to Salaries and Wages Expense. Because the Commission found an adjustment to Salaries and Wages expense was necessary as discussed above, Taxes Other Than Income requires a further adjustment of \$2,900 to account for the change in Salaries and Wages. The net adjustment to Taxes Other Than Income is \$8,108 as shown below. Accordingly, the Commission finds that it is necessary to increase the Revenue Requirement by a further \$2,900.

Taxes other than Income- FICA	
Commission Wage Adjustment	\$ 37,904
Times: 7.65 Percent FICA Rate	7.65%
Commission FICA Adjustment	\$ 2,900

Taxes Other than Income Sales and School Taxes. In the Staff Report, Staff agreed with South Eastern Water’s proposal to decrease Taxes Other Than Income of \$135,016⁴⁰ to reflect the removal of South Eastern Water’s collection of sales and school taxes collected on behalf of others. The Commission finds that this adjustment is reasonable and should be accepted.

Miscellaneous Income. In the Staff Report, Staff recommended a decrease to Miscellaneous Income of \$28,068.⁴¹ The total adjustment reflects both \$25,951 in non-realized income to balance long-term debt accounts and interest expense for the test period and a \$2,117 insurance payout South Eastern Water received during the test year. The Commission finds that this adjustment is reasonable and should be accepted.

⁴⁰ *Id.* at 17 and 18, Adjustment Q.

⁴¹ *Id.* at 18, Adjustment R.

Based on the Commission's findings discussed above, the following table summarizes South Eastern Water's adjusted pro forma operations:⁴²

	<u>Staff Report Pro Forma</u>	<u>Commission Adjustments</u>	<u>Final Pro Forma</u>
Total Operating Revenues	\$ 4,215,308	\$ 22,226	\$4,237,534
Utility Operating Expenses	<u>3,642,759</u>	<u>41,847</u>	<u>3,684,606</u>
Net Operating Income	572,549	(19,621)	552,928
Interest Income	67,199		67,199
Miscellaneous income	<u>134</u>		<u>134</u>
Income Available for Debt Service	<u>\$ 639,882</u>	<u>(\$19,621)</u>	<u>\$ 620,262</u>

REVENUE REQUIREMENT

Based upon the Commission's findings and determinations herein, South Eastern Water requires an increase in revenues of \$263,372, or 6.39 percent, above pro forma present rate revenues as shown below.

Pro Forma Operating Expenses	\$ 3,684,606
Plus: Avg. Annual Principal and Interest Payments	736,361
Additional Working Capital	<u>147,272</u>
Total Revenues Requirement	4,568,239
Less: Other Operating Revenue	(117,238)
Interest Income	(67,199)
Misc. Income	<u>(134)</u>
Revenue Required From Water Sales	\$ 4,383,668
Revenue from Sales at Present Rates	<u>\$ (4,120,296)</u>
Required Revenue Increase	<u>263,372</u>
Percentage Increase	<u>6.39%</u>

⁴² See Appendix A for a complete pro forma.

RATE DESIGN

South Eastern Water proposed to increase all of its monthly retail water service rates evenly across the board by approximately 5.54 percent. South Eastern Water has not performed a cost of service study (COSS). South Eastern Water stated that it did not complete a COSS at this time, as there has not been changes in the distribution of customer usage in many years and the across the board increase is the most equitable means of passing the increased costs to customers.⁴³

The Commission finds that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.

The rates set forth in the Appendix 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 \$4,383,668 Revenue Required from Water Sales, an approximate 6.39 percent increase over normalized test-year water sales of \$4,120,296. These rates will increase a typical residential customer's monthly water bill from \$37.08 to \$39.43, an increase of \$2.35, or approximately 6.34 percent.⁴⁴

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

⁴³ South Eastern Water's Response to Commission Staff's First Request for Information (filed Apr. 19, 2020), Item 3.

⁴⁴ Application, Exhibit 1, Public Notice. The typical residential customer monthly bill using 3,000 gallons per month.

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 South Eastern Water would produce inadequate revenues and should be denied.

3. The water service rates set forth in the 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.

IT IS THEREFORE ORDERED that:

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

2. The water service rates proposed by South Eastern Water are denied.

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

4. Within 20 days of the date of this Order, South Eastern Water 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. Within 20 days of the date of this Order, South Eastern Water shall provide a detailed written explanation of its flushing practices and other uses of water for use in its system.

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

By the Commission



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00126 DATED SEP 17 2021

	<u>Test Year</u>	<u>Staff Report Adjustments</u>	<u>Commission Adjustments</u>	<u>Final Pro Forma</u>
Operating Revenues				
Total Metered Sales	\$ 4,197,989	(90,182)		
		(27,218)		
		12,489		\$ 4,093,078
Sales for Resale		27,218		27,218
Other Water Revenues				
Forfeited Discounts		90,182		90,182
Misc. Service Revenues	96,925	(96,925)	22,226	22,226
Other Water Revenues	10,262	(6,352)		
		920		4,830
Total Operating Revenues	\$ 4,305,176	\$ (89,868)	22,226	\$ 4,237,534
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	449,520	68,079	37,904	555,502
Salaries and Wages - Officers	41,500	6,500		48,000
Employee Pensions and Benefits	13,944	1,584	1,137	
		10,352	758	27,775
Purchased Water	1,452,694	5,044		
		(55,289)		1,402,449
Purchased Power	81,260	(3,082)		78,178
Materials and Supplies	200,776			200,776
Contractual Services	66,201			66,201
Rental of Bldg./Real Property	3,463			3,463
Transportation Expenses	48,632			48,632
Insurance- General Liability & Other	102,673			102,673
Insurance- Other	160,996	(95,752)	(852)	64,392
Advertising	2,385			2,385
Commission Expense	16,535			16,535
Bad Debt	18,065	(6,352)		11,713
Miscellaneous Expense	210,193	80,188		290,381
Total Operation and Maintenance Expenses	2,868,837	11,271	38,947	2,919,055
Depreciation	983,514	(276,050)		707,464
Amortization	2,724			2,724
Taxes Other Than Income	182,271	5,208	2,900	
		(135,016)		55,363
Utility Operating Expenses	4,037,346	(394,587)	41,847	3,684,606
Net Operating Income	267,830	304,719	(19,621)	552,928
Interest Income	67,199			67,199
Miscellaneous Income	28,202	(28,068)		134
Income Available to Service Debt	\$ 363,231	\$ 276,651	\$ (19,621)	\$ 620,261

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00126 DATED SEP 17 2021

The following rates and charges are prescribed for the customers in the area served by South Eastern Water Association. 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

<u>5/8- x 3/4-Inch Meter</u>					
First	2,000	Gallons	\$	27.50	Minimum bill
All Over	2,000	Gallons		0.01193	per Gallon
<u>1-Inch Meter</u>					
First	5,000	Gallons	\$	63.29	Minimum bill
All Over	5,000	Gallons		0.01193	per Gallon
<u>1 1/2-Inch Meter</u>					
First	10,000	Gallons	\$	122.94	Minimum bill
All Over	10,000	Gallons		0.01193	per Gallon
<u>2-Inch Meter</u>					
First	20,000	Gallons	\$	242.24	Minimum bill
All Over	20,000	Gallons		0.01193	per Gallon
<u>3-Inch Meter</u>					
First	30,000	Gallons	\$	361.54	Minimum bill
All Over	30,000	Gallons		0.01193	per Gallon
<u>4-Inch Meter</u>					
First	50,000	Gallons	\$	600.14	Minimum bill
All Over	50,000	Gallons		0.01193	per Gallon
<u>6-Inch Meter</u>					
First	100,000	Gallons	\$	1,196.64	Minimum bill
All Over	100,000	Gallons		0.01193	per Gallon
<u>Wholesale Rate</u>					
				0.00393	per Gallon

Nonrecurring Charges

Returned Check Fee	.00
Meter Test Request Charge	16.80
Reconnection Charge	16.80
Service Call Charge	16.80
Service Call Charge After Hours	58.45

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