

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BRACKEN)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2021-00415
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On January 27, 2022, Bracken County Water District (Bracken District) filed an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. The application was filed pursuant to the Commission’s Order in Case No. 2020-00271, which explained that Bracken District’s Debt Service Coverage (DSC) ratio was projected to fall below the 1.2X threshold established by its lenders.¹ Bracken District was directed to file either a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 to ensure its revenue is sufficient to support adequate and reliable service. Bracken District’s last base rate increase was in Case No. 2010-00184.²

In its application, Bracken District requested rates that would increase annual water sales revenues by \$254,349, a 15.00 percent across-the-board increase to pro

¹ Case No. 2020-00271, *Electronic Application of the Bracken County Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct a Water System Improvements Project and an Order Authorizing the Issuance of Securities Pursuant to the Provisions of KRS 278.020, KRS 278.300 and 807 KAR 5:001* (Ky. PSC Jan. 27, 2021) at 4, ordering paragraph 13.

² Case No. 2010-00184, *Application of the Bracken County Water District for an Adjustment of Water Rates* (Ky. PSC Aug. 10, 2010).

forma present rate water sales revenues and requested that this increase be phased-in over two years.³

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated February 17, 2022. Bracken District responded to one discovery request from Commission Staff. The Commission Staff's Report was issued on June 2, 2022.

In the Commission Staff's Report, Commission Staff found that Bracken District's adjusted test year operations support an overall revenue requirement of \$2,065,468 and that an annual revenue increase of \$341,659, or 20.45 percent to the retail base rates, is necessary to generate the overall revenue requirement.

On June 16, 2022, Bracken District filed with the Commission its comments in response to Commission Staff's Report that accepted the amount of the revenue increase, subject to certain exceptions regarding the revenue requirement determination and purchased water and purchased power expenses. Specifically, Bracken District argued that Commission Staff failed to include the revenue received from late payment fees when calculating the revenue required from rates, and therefore, the revenue increase determined in the Commission Staff's report was overstated. Bracken District also updated the test period purchased water and purchased power expenses in its response to Commission Staff's Report, stating that on June 1, 2022, an agreement was reached with the city of Augusta of the amount incorrectly billed and provided an updated pro forma of \$373,041 and \$45,438 for purchased water and purchased power,

³ Application, Exhibit D – Attachment RR-DC – Revenue Calculation Form – Debt Coverage and Exhibit L – Compliance with Notice Provisions of 807 KAR 5:076.

respectively.⁴ Bracken District accepted the proposed allocation to the rate classes and the design of the proposed rates set forth in the Commission Staff's Report. Finally, Bracken District indicated it did not agree with the removal of certain labor expenses from nonrecurring charges. Bracken District noted that its failure to object to Commission Staff's findings concerning the reduction of labor costs from its nonrecurring charges should not be construed as a waiver of Bracken District's right to contest a similar finding in a future rate proceeding. With its comments, Bracken District did not request that a conference or hearing be held.⁵

In its Order dated July 25, 2022, the Commission, pursuant to 807 KAR 5:076, Section 11(3)(f), accepted Bracken District's amended application as filed as of June 16, 2022, and directed Bracken District to publish a one-time notice, following the requirements of 807 KAR 5:076, Section 5, of its amended water rates and the revised nonrecurring charges.

On July 29, 2022, Bracken District filed a motion for reconsideration and clarification of this July 25, 2022 Order. In this request for rehearing, Bracken District acknowledged that it generally accepted Commission Staff's proposed rates, but disputed that it accepted the proposed rates, arguing that it noted two exceptions that lowered the proposed rates. Bracken District also argued that the July 25, 2022 Order included a notice of proposed rates that contained errors, as it was based upon calculations that Bracken District alleged were erroneous, and that the notice incorrectly stated that Bracken District accepted revisions to nonrecurring rates that Bracken District did not

⁴ Bracken District's Response to Commission Staff's Report (filed June 16, 2022) at 2-3 and Exhibit A. See also, Notice of Filing of Agreement Resolving Billing Dispute (filed Aug. 16, 2022).

⁵ Bracken District's Response to Commission Staff's Report (filed June 16, 2022) at 3.

request. Bracken District further argued that it did not amend its application and noted that it may begin charging the rates proposed in its initial filing, subject to refund, on August 11, 2022.

On August 10, 2022, Bracken District notified the Commission, pursuant to KRS 278.190(2) and 807 KAR 5:076, Section 7, of its intent to place into effect the Phase 1 rates set forth in its application effective for service rendered on and after August 11, 2022, subject to refund.

On August 12, 2022, the Commission issued an Order denying Bracken District's motion for rehearing. In response, on August 15, 2022, Bracken District notified the Commission that due to the Commission Order denying Bracken District's motion for rehearing, it will not place into effect the Phase 1 rates. Bracken District further notified the Commission that it had not billed or assessed a rate that differs from that currently on file with the Commission. On August 22, 2022, Bracken District submitted the requested proof that the customer notice was published on August 18, 2022, in the Bracken County News. On September 19, 2022, Bracken District filed a motion to close the record and submit the case for a decision.

This case now stands submitted for a decision by the Commission.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case

law, Bracken District is allowed to charge its customers “only fair, just and reasonable rates.”⁶ Further, Bracken District bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

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 the total water produced and purchased, excluding water consumed by a utility in its own operations. In Bracken District’s 2020 Annual Report, Bracken District reported a water loss of 15.99 percent.⁷ At 15.99 percent water loss, the annual cost to Bracken District of water above the allowable 15 percent is \$14,272⁸ while the annual cost to Bracken District is \$68,513.⁹

BACKGROUND

Bracken District is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 2,626 residential customers, 18 commercial customers, and 3 wholesale customers that reside in Bracken, Mason, Pendleton, and Robertson counties,

⁶ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Pub. Serv. Comm’n v. Com. of Kentucky v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

⁷ *Annual Report of Bracken County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 57-58.

⁸ Application, Exhibit C, Statement of Adjusted Operations, Adjustment Operations, Adjustment G and H. See *also*, Commission Staff’s Report at 12-13.

⁹	Gallons Purchased in 2020	164,620,033
	Less: Gallons Sold in 2020	(135,354,000)
	Other Water Used	<u>(2,951,000)</u>
	Total Water Loss	26,315,033
	Times: \$2.336 per 1,000 gallons	\$ 61,472
	Times: \$0.00026758	<u>\$ 7041</u>
	Total Water Loss	<u><u>\$ 68,513</u></u>

Kentucky.¹⁰ Bracken does not produce any of its own water; rather, it purchases its water from the city of Augusta, Kentucky and Western Mason Water District. This is Bracken District's first general rate adjustment since August, 10, 2010, in Case No. 2010-00184.

TEST PERIOD

The calendar year ended December 31, 2020, was used as the test year to determine the reasonableness of Bracken District's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Bracken District's pro forma income statement as follows:

	2020 Test Year	Pro Forma Adjustments	Staff Report Pro Forma
Operating Revenues	\$ 1,748,423	\$ (42,858)	\$ 1,705,565
Operating Expenses	<u>1,306,577</u>	<u>30,158</u>	<u>1,336,735</u>
Net Operating Income	441,846	(73,016)	368,830
Interest Income	39,194		39,194
Nonutility Income	<u>7,466</u>		<u>7,466</u>
Income available for Debt Service	<u>\$ 488,506</u>	<u>\$ (73,016)</u>	<u>\$ 415,490</u>

REVIEW MODIFICATIONS TO COMMISSION STAFF'S FINDINGS

Bracken District's proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. As follows, the Commission modifies the findings contained in the Commission Staff's Report.

¹⁰ 2020 Annual Report at 12 and 49.

REVENUE REQUIREMENTS

Billing Analysis Adjustment. In the Commission Staff's Report, Commission Staff recommended the Commission accept a decrease to test-year water sales revenue of \$22,191 to reflect the revenues from water rates generated by the billing analysis.¹¹ This adjustment also reflects the increased rates that resulted from an increase from Bracken District's water supplier¹² and the difference between metered water sales revenue shown in the 2020 Annual Report and the metered water sales revenue generated from the billing analysis. The Commission finds that this adjustment is reasonable as an examination of Bracken District's billing analysis, was completed by Commission Staff, and a normalized revenue was based on the information provided.

Late Payment Penalties. In the Commission Staff's Report, Commission Staff recommended accepting Bracken District's proposal to reclassify \$4,559 of late payment penalties from Other Water Revenues into its own category.¹³ Additionally, Commission Staff recommended accepting Bracken District's proposal to increase late payment penalties by an additional \$23,857 to normalize late payment penalties to \$28,416, or the three-year average from 2017-2019 to account for the moratorium regarding the collection of late payment fees due to the COVID-19 pandemic.¹⁴ The Commission finds that this adjustment to normalize the late fee penalties follows Commission precedent,¹⁵ is a

¹¹ Commission Staff's Report at 9, Adjustment A.

¹² Case No. 2021-00228, *Electronic Purchased Water Adjustment Filing of Bracken County Water District* (Ky. PSC June 8, 2021).

¹³ Commission Staff's Report at 9-10, Adjustment B.

¹⁴ Commission Staff's Report at 9-10, Adjustment B.

¹⁵ Case No. 2021-00475, *Electronic Application of Carroll County Water District No. 1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

known and measurable change¹⁶ to Late Payment Penalties, is reasonable, and, for these reasons, is accepted. The Commission also finds that the removal of the late payment penalties from Other Water Revenues to its own category is reasonable and is accepted.

Nonrecurring Charges. In Commission Staff's Report, Commission Staff recommended that the Commission not accept Bracken District's proposal to increase Other Water Revenues by \$2,547.¹⁷ Bracken District stated that this increase was proposed to normalized reconnection revenues since the test year occurred during the COVID-19 moratorium. Commission Staff stated that, unlike late penalty payments, since reconnection fees are not separated from other revenues in this category and do not necessarily create a typical revenue stream, the proposal should not be accepted. The Commission agrees with Commission Staff's analysis and does not believe it is appropriate for a utility to rely on revenues from nonrecurring sources and does not accept Bracken District's proposed increase.

In the Commission Staff's Report, Commission Staff also discussed Bracken District's Nonrecurring Charges, in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, are removed. Commission Staff recommended revised Nonrecurring Charges and a decrease to Other Operating

¹⁶ 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).

¹⁷ Commission Staff's Report at 10.

Revenues of \$6,952.¹⁸ In response to the Commission Staff's Report, Bracken District did not agree with the removal of labor expenses from certain nonrecurring charges.¹⁹ Bracken District argued that if Commission Staff's recommendation is implemented, subsidization of the services related to nonrecurring charges will be incurred by customers not receiving benefits from the charges.²⁰ Bracken District further argued that the nonrecurring charges are consistent with 807 KAR 5:006, Section 9 and that the regulation does not limit a utility's recovery to the marginal or incremental costs associated with an activity but defines a nonrecurring charge as a fee assessed to cost causers.²¹ However, Bracken District noted that while it disagrees with the recommendation, it did not wish to contest the adjustment at this time.²²

The Commission continues to follow its previous decisions regarding Nonrecurring Charges: personnel are paid during normal business hours and their salaries are recovered through rates.²³ Allowing a utility to recover the same labor expense twice is not fair, just and reasonable. Therefore, estimated labor costs previously included in determining the amount of Nonrecurring Charges shall be eliminated from the charges.

¹⁸ Commission Staff's Report at 10-11, Adjustment C.

¹⁹ Response to Commission Staff's Report by Bracken County Water District (filed June 16, 2022) at 3.

²⁰ Response to Commission Staff's Report by Bracken County Water District (filed June 16, 2022) at 3.

²¹ Response to Commission Staff's Report by Bracken County Water District (filed June 16, 2022) at 3.

²² Response to Commission Staff's Report by Bracken County Water District (filed June 16, 2022) at 4.

²³ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

The Commission finds that the calculation of Nonrecurring Charges shall 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. The Commission requires that charges be directly related to the actual cost incurred to provide the service. It is unreasonable to allocate an expense already incurred as a day-to-day cost of maintaining a system, such as the salary of a distribution operator, to a nonrecurring service such as the connection and reconnection of a meter during normal working hours. The perceived unfairness from removal of these costs does not outweigh the mismatch of costs and revenues. This approach to ratemaking is entirely consistent with the Commission's history of ensuring that rates 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.

For the reasons discussed above, the nonrecurring charges shall each be reduced by the estimated labor costs stated in the cost justification sheets. The Commission finds the revised nonrecurring charges set out in Appendix B and the adjustment of (\$6,952) to Other Water Revenue is reasonable.

Tap Fees. In Commission Staff's Report, Commission Staff recommended accepting Bracken District's proposal to decrease Other Water Revenues by \$37,572 to reflect Tap Fees that were assessed during the test period that should properly have been

recorded as contributed capital.²⁴ The Commission finds that this adjustment is a known and measurable change to Other Water Revenue, is reasonable, and is accepted.

Salaries and Wages - Employees. In the Commission Staff's Report, Commission Staff recommended accepting Bracken District's proposed increase to Salaries and Wages of \$8,058 and a corresponding increase to Taxes Other than Income of \$1,353 for payroll taxes.²⁵ This adjustment reflects changes in personnel and increases in pay rates after the test year. The Commission finds that this adjustment is a known and measurable change to Salaries and Wages and Taxes Other than Income, is reasonable, and is accepted.

Employee Pensions and Benefits. In the Commission Staff's Report, Commission Staff recommended accepting Bracken District's proposed decrease to Employee Pensions and Benefits by \$6,943.²⁶ This decrease was based upon the net result of the current health insurance premiums being charged to Bracken District and to reduce premiums paid by Bracken District by the Bureau of Labor Statistics national average for single coverage. The Commission finds that this adjustment meets prior precedent regarding employee pensions and benefits,²⁷ is a known and measurable change to Employee Pensions and Benefits, is reasonable, and is accepted.

Water Loss. Bracken District's test year water loss was 15.99 percent. Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for

²⁴ Commission Staff's Report at 11, Adjustment D.

²⁵ Commission Staff's Report at 11-12, Adjustment E.

²⁶ Commission Staff's Report at 12, Adjustment F.

²⁷ See, Case No. 2016-00169, *Application of Cumberland Valley Electric, Ins. For a General Adjustment of Rates* (Ky. PSC Feb. 6, 2017).

ratemaking purposes unless the Commission finds an alternative level is reasonable. In the Commission Staff's Report, Commission Staff recommended that the Commission accept Bracken District's proposed adjustments to Purchased Water and Purchased Power expense. These adjustments include an increase of \$33,801 to account for an error in the reporting of the purchased water expense in the test period and a reduction to Purchased Water expense of \$13,010 and Purchased Power expense of \$1,462 to reflect the limitation stated in the regulation. Based upon these, Commission Staff recommended decreasing Purchased Water and Purchased Power expense by \$46,611 and \$1,462, respectively.²⁸ The Commission finds that this adjustment is a known and measurable change to Purchased Water and Purchased Power, is reasonable, and is accepted.

Insurance Expense. In the Commission Staff's Report, Commission Staff recommended accepting Bracken District's proposed decrease to insurance expense of \$465 to reflect decreased premiums for property and crime insurance, liability insurance, and workers compensations and employer's liability insurance in 2021.²⁹ The Commission finds that this adjustment is a known and measurable change to Insurance expense, is reasonable, and is accepted.

Regulatory Commission Assessment. In its application, Bracken District proposed to increase Regulatory Commission Assessment fees to reflect the increase in the PSC Assessment dues to the adjustment of test-period revenues. In the Commission Staff's Report, Commission Staff agreed that the PSC Assessment will change proportionally

²⁸ Commission Staff's Report at 12-13, Adjustment G.

²⁹ Commission Staff's Report at 13, Adjustment H.

with the increase/decrease in revenues and recommended an increase of \$682 to reflect Commission Staff's recommended increase. As detailed below, the rate revenue increase has been modified which, in turn, alters the PSC Assessment. Based upon the overall revenue requirement the Commission finds to be reasonable, an increase of \$628 is appropriate.³⁰ Therefore, the Commission makes an adjustment of (\$54).

Amortization of Rate Case Expense. In the Commission Staff's Report, Commission Staff recommended that the Commission amortize Bracken District's rate case expenses of \$17,683 over three years for a pro forma Amortization expense of \$5,894.³¹ The Commission finds that a three-year amortization of rate case expense follows Commission precedent³² and is reasonable and that this adjustment is a known and measurable change to Rate Case expense, is reasonable, and is accepted.

Depreciation. In the Commission Staff's Report, Commission Staff recommended accepting Bracken District's proposed increase to depreciation expense of \$69,852 to reflect additional depreciation expense for a completed Water Systems Improvement Project approved for a certificate of public convenience and necessity in Case No. 2018-00352³³ and was placed into service in March 2021.³⁴ The Commission finds that this

³⁰ Required Revenue Increase of \$314,154 x Regulatory Assessment Fees \$0.002 = \$628.

³¹ Commission Staff's Report at 14, Adjustment J.

³² See, Case No. 2021-00407, *Electronic Application of South Kentucky Rural Electric Cooperative Corporation for a General Adjustment of Rates, Approval of Depreciation Study, and Other General Relief* (Ky. PSC June 30, 2022) at 8.

³³ Case No. 2018-00352, *Application of Bracken County Water District for a Certificate of Public Convenience and Necessity to Construct a Water Improvements Project and an Order Authorizing the Issuance of Securities and Increase Rates Pursuant to KRS 278.023* (Ky. PSC No. 7, 2018).

³⁴ Commission Staff's Report at 14-15, Adjustment K.

adjustment is a known and measurable change to Insurance expense, is reasonable, and is accepted.

Modification to Purchased Water and Purchased Power Expenses. In its application, Bracken District noted its discovery that the master meter through which Bracken District purchases water from the city of Augusta had been improperly calibrated during the test period, which resulted in an overstatement of the volume of water purchased.³⁵ Bracken District stated in the application that the impact of this overstatement had yet to be determined, but when it is determined the water district would notify Commission Staff. In Bracken District's response to Commission Staff's Report, Bracken District stated that on June 1, 2022, an agreement was reached with the city of Augusta of the amount incorrectly billed and provided an updated pro forma of \$373,041 and \$45,438 for purchased water and purchased power, respectively.³⁶ The Commission notes that Bracken District and the city of Augusta reached their agreement one day before Commission Staff's Report was issued, but did not file reference to this agreement until two weeks after Commission Staff's Report was issued and did not file a copy of the settlement agreement until August 16, 2022, more than two months after Commission Staff's Report was issued.

Based upon the application purchased water and purchased power expenses of \$373,120 and \$44,393, and Bracken District's subsequent filing of the settlement agreement with an updated pro forma for purchased water and purchased power the Commission finds that it is reasonable to modify Commission Staff's Report to include the

³⁵ Application, Exhibit C, References G and H.

³⁶ Bracken District's Response to Commission Staff's Report (filed June 16, 2022) at 2-3 and Exhibit A. See also, Filing of Agreement Resolving Billing Dispute (filed Aug. 16, 2022).

known and measurable adjustment to these expenses, which is supported by evidence in the record that was filed after the Commission Staff's Report was issued. For this reason, the Commission finds that a decrease of \$79 to purchased water expense and an increase of \$1,045 to purchased power expense is reasonable.

Based on the Commission's findings discussed above, the following table summarizes Bracken District's adjusted pro forma operations.³⁷

	Staff Report Pro Forma	Commission Adjustments	Final Pro Forma
Operating Revenues	\$ 1,705,565	-	\$ 1,705,565
Operating Expenses	<u>1,336,735</u>	<u>\$ 912</u>	<u>1,337,647</u>
Net Operating Income	368,830	-	367,918
Interest Income	39,194	-	39,194
Nonutility Income	<u>7,466</u>	-	<u>7,466</u>
Income available for Debt Service	<u>\$ 415,490</u>	<u>(\$ 912)</u>	<u>\$ 414,578</u>

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Bracken District requires an increase in revenues of \$314,154, or 18.80 percent above pro forma present rate revenues, as shown below. This increase is required for Bracken District to remain operational and financially sound and have an opportunity to provide adequate, efficient, and reasonable service to its customers.³⁸

³⁷ See, Appendix A for a complete pro forma income statement.

³⁸ In Bracken District's Response to Commission Staff's Report, it was noted that Commission Staff failed to include the revenue received from late payment fees when calculating the revenue required from rates. In the Commission Staff's Report, it was found that the proposed pro forma level for late payment penalties to be \$28,416, but this amount was excluded in the revenue determination. Including this revenue increases other operating revenue from \$6,241 to \$34,657.

Pro Forma Operating Expenses	\$ 1,337,647
Plus: Average Annual Principal and Interest Payments	607,277
Additional Working Capital	<u>121,455</u>
Overall Revenue Requirement	2,066,379
Less: Other Operating Revenue	(34,667)
Interest Income	(29,194)
Nonutility Income	<u>(7,466)</u>
Revenue Required from Rates	1,985,062
Less: Pro Forma Present Rate Service Revenues	<u>(1,670,908)</u>
Required Revenue Increase	<u>\$ 314,154</u>
Percentage Increase	18.80%

RATE DESIGN

Bracken District proposed to increase its monthly retail water service rates evenly across the board. Bracken District did not perform a cost-of-service study (COSS). Bracken District stated that it did not complete a COSS because there has not been any material change in the water system to warrant a COSS.³⁹

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. In the Commission Staff's Report, Commission Staff followed the method proposed by Bracken District and allocated Commission Staff's calculated revenue increase across the board to Bracken District's monthly retail water service rates.

Bracken District requested a two-year phase-in of its proposed rate increase. In an effort to avoid a significant hardship on Bracken District's customers, the Commission

³⁹ Bracken District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Feb. 24, 2022), Item 1.b.

agrees that a two-year phase-in approach is appropriate. Although applying a two-year phase-in will not allow for depreciation reserves to be fully funded in the first year, it will allow for adequate revenues to cover expenses and debt service and a portion of the depreciation reserves. The rates set forth in Appendix B 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 \$1,985,062 Revenue Required from Rates, an approximate 18.80 percent increase. The rates in Phase 1 will increase a typical residential customer's monthly water bill from \$46.74 to \$51.13, an increase of \$4.39, or approximately 9.39 percent.⁴⁰ The rates in Phase 2 will increase a typical residential customer's monthly water bill from the Phase 1 rates from \$51.13 to \$55.53, an increase of \$4.40, or approximately 8.61 percent over the Phase 1 rate. For the wholesale water rate, Phase 1 rates will increase the wholesale customer's average monthly bill from \$2,609.16 to \$2,854.42, an increase of \$245.26, or approximately 9.40 percent.⁴¹ Phase 2 rates will increase the wholesale customer's average monthly bill from \$2,854.42 to \$3,099.68, an increase of \$245.26, or approximately 8.59 percent over the Phase 1 rate.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the modified findings contained in the Commission Staff's Report and discussed above are supported by the evidence of record and are reasonable. The Commission has historically used a DSC method to calculate the

⁴⁰ The typical residential customer uses approximately 3,770 gallons per month.

⁴¹ Average wholesale usage is 642,650 gallons per month.

revenue requirement for water districts or associations with outstanding long-term debt. Therefore, applying the DSC method to Bracken District's pro forma operations results in an Overall Revenue Requirement of \$2,066,379 and, based upon pro forma present rate service revenues of \$1,670,908, a revenue increase of \$314,154 from water service rates is necessary to generate the overall revenue requirement. The Commission finds that allocating the calculated revenue increase across-the-board to Bracken District's monthly retail water service rates and to phase this increase over two years to be fair, just and reasonable. Finally, the Commission finds that Bracken District's motion to submit the case for a decision is moot, and therefore denied.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Commission Staff's Report as modified and are incorporated by reference into this Order.
2. The water service rates proposed by Bracken District are denied.
3. Phase 1 rates set forth in Appendix B to this Order are approved for services rendered by Bracken District on and after the date of this Order.
4. Phase 2 rates set forth in Appendix B to this Order are approved for services rendered by Bracken District one year following the date of this Order.
5. One month prior to the effective date of the Phase 2 rates, Bracken District shall notify its customers of the implementation of the Phase 2 rates by publishing one-time notice of the increase in a newspaper of general circulation in its territory or placing an insert in bills rendered to its customers.

6. Within 45 days of publishing notice required in ordering paragraph 5, Bracken District shall file proof of publication of the notice to the Commission as required pursuant to 807 KAR 5:076, Section 5(3).

7. Within 20 days of the date of service of this Order, Bracken District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth out the Phase 1 rates, Phase 2 rates, and the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

8. Bracken District shall use the midpoint of the depreciable lives of the NARUC ranges, as proposed in the application and agreed upon by Commission Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.

9. Any documents filed in the future pursuant to ordering paragraph 6 shall reference this case number and shall be retained in the post-case correspondence file.

10. Bracken District's motion to submit the case for a decision on the record is denied as moot.

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

PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00415 DATED SEP 27 2022

Water Division	Commission Staff Pro Forma	Modifications	Revised Pro Forma
Operating Revenues			
Sales of Water	\$ 1,670,908		\$ 1,670,908
Late Payment Penalties	28,416		28,416
Other Water Revenues	<u>6,241</u>		<u>6,241</u>
Total Operating Revenues	<u>1,705,565</u>		<u>\$ 1,705,565</u>
Operating Expenses			
Operation and Maintenance Expenses			
Salaries and Wages - Employees	218,757		218,757
Salaries and Wages - Commissioners	18,200		18,200
Employee Pensions and Benefits	37,976		37,976
Purchased Water	373,120	(79)	373,041
Purchased Power for Pumping	44,393	1,045	45,438
Water Testing	4,147		4,147
Materials and Supplies	94,790		94,790
Contractual Services	93,503		93,503
Transportation Expense	11,525		11,525
Insurance	32,071		32,071
Regulatory Commission Expense	4,228	(54)	4,174
Miscellaneous Expense	299		299
Total Operation and Maintenance Expenses	933,009	912	933,921
Taxes Other Than Income	18,112		18,112
Amortization	5,894		5,894
Depreciation	<u>379,720</u>		<u>379,720</u>
Total Operating Expenses	<u>1,336,735</u>	912	<u>1,337,647</u>
Net Operating Income	368,830	(912)	367,918
Interest Income	39,194		39,194
Nonutility Income	<u>7,466</u>		<u>7,466</u>
Income Available to Service Debt	<u>\$ 415,490</u>	<u>\$ (912)</u>	<u>414,578</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00415 DATED SEP 27 2022

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

PHASE 1

First	2,000 Gallons	\$30.51 Minimum Bill
Next	38,000 Gallons	0.01165 per gallon
Over	40,000 Gallons	0.00924 per gallon
Wholesale Rate		0.00444 per gallon
Bulk Sales Loading Station		0.01050 per gallon

PHASE 2

For Service Rendered One Year After Phase 1 Rates

First	2,000 Gallons	\$33.13 Minimum Bill
Next	38,000 Gallons	0.01265 per gallon
Over	40,000 Gallons	0.01004 per gallon
Wholesale Rate		0.00482 per gallon
Bulk Sales Loading Station		0.01150 per gallon

Nonrecurring Charges

5/8- x 3/4-Inch Water Tap On	\$ 1,380.00
Field Charge	\$ 19.00
Service Termination Charge	\$ 19.00
Turn-On Charge	\$ 19.00
Reconnection Charge	\$ 19.00
Reconnection Charge (After Hours)	\$ 95.00
Meter Test Charge	\$ 57.00
Returned Check Charge	\$ 9.00
Meter Reading Charge	\$ 19.00
Meter Resetting Charge	\$ 19.00
Service Investigation	\$ 19.00

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