

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH)	CASE NO.
WOODFORD WATER DISTRICT FOR A RATE)	2022-00035
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On March 17, 2022, South Woodford Water District (South Woodford District) filed its application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. In its application, South Woodford District requested water rates that would increase its annual revenues from water sales by \$95,921, or 11.42 percent.¹ In responding to Commission Staff's First Request for Information, South Woodford District provided an updated revenue requirement calculation that eliminated an undocumented pro forma adjustment and reflected increased contract labor charges, which resulted in an increase in revenues from water sales of \$136,743, or 16.28 percent.² However, South Woodford District did not provide the Commission with written notice of its amended revenue requirement calculation as required by 807 KAR 5:076, Section 8(1)(a), nor did it publish notice of the amended rates as required by 807 KAR 5:076, Section 8(1)(b).

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated March 31, 2022, which was subsequently amended by the Commission's July 27, 2022 and August 30, 2022 Orders, which, among other

¹ Application, Attachment 4, Revenue Requirements at unnumbered page 1.

² South Woodford District's Response to Staff's First Request (filed Apr. 22, 2022), Item 4.c., Excel Workbook: 4_Rate_Study_Updated_with_New_Contractor_Rates.xlsx; Tab: Bills.

things, required the Commission Staff to file a report containing its recommendations regarding South Woodford District's application. South Woodford District responded to three requests for information from Commission Staff.³ The Commission Staff's Report was issued on September 13, 2022, summarizing its recommendations regarding South Woodford District's requested rate adjustment.

In the Commission Staff's Report, Commission Staff found that South Woodford District's adjusted test-year operations support an overall revenue requirement of \$937,282 and that an annual increase of \$73,315, or 8.73 percent to the base water rates, is necessary to generate the overall revenue requirement.⁴ In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase across the board to calculate its recommended water rates.⁵ Commission Staff also recommended South Woodford District be allowed to assess a monthly water loss reduction surcharge (as proposed in South Woodford District's application) of \$3.87 per active meter for a temporary period of 48 months, with a Commission review of the necessity to continue the surcharge before the temporary period expires.⁶

On September 23, 2022, South Woodford District filed its written responses to Commission Staff's Report. In its written comments to Commission Staff's Report, South Woodford District disagreed with Commission Staff's removal of labor expenses from its

³ South Woodford District's Response to Staff's First Request ; South Woodford District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed May 19, 2022); and South Woodford District's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed June 15, 2022).

⁴ Commission Staff's Report at 4–5.

⁵ Commission Staff's Report at 5–6.

⁶ Commission Staff's Report at 8–9.

nonrecurring charges but did not wish to contest Commission Staff's proposed adjustments in this case.⁷ South Woodford District agreed with the remainder of Commission Staff's recommendations and waived its right to request an informal conference or hearing.⁸ The case now stands submitted for a decision by the Commission.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by 807 KAR 5:076, which establishes a simplified process for small utilities to request rate adjustments, with the process designed to be less costly to the utility and to the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, South Woodford District is allowed to charge its customers only "fair, just and reasonable rates."⁹ Further, South Woodford District bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

UNACCOUNTED-FOR WATER LOSS

Pursuant to 807 KAR 5:066, Section 6(3), water loss is limited to 15 percent for ratemaking purposes. South Woodford District reported a water loss of 29.63 percent in its 2020 Annual Report.¹⁰ At a 29.63 percent water loss, the annual cost of water in

⁷ South Woodford District's written comments to the September 13, 2022 Commission Staff's Report (filed Sept. 23, 2022) at unnumbered page 1.

⁸ South Woodford District's written comments to the September 13, 2022 Commission Staff's Report at unnumbered page 1.

⁹ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Pub. Serv. Comm'n of Kentucky v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

¹⁰ *Annual Report of South Woodford District to the Public Service Commission of the calendar Year Ended December 31, 2020* (2020 Annual Report) at 57–58.

excess of 15 percent is \$76,941 and the total cost of water loss to South Woodford District is \$155,820, as calculated below.

	Purchased Water	Purchased Power	Total
Test Year Water Purchase and Pumping Costs	\$ 492,989	\$ 32,896	\$ 525,885
Multiplied by: Water Loss in excess of 15 Percent	14.63%	14.63%	14.63%
Cost of Line loss in Excess of the 15% Limit	<u>\$ 72,122</u>	<u>\$ 4,813</u>	<u>\$ 76,941</u>
Test Year Water Purchase and Pumping Costs	\$ 492,989	\$ 32,896	\$ 525,885
Multiplied by: Test Year Water Loss	29.63%	29.63%	29.63%
Total Cost of Line Loss	<u>\$ 146,073</u>	<u>\$ 9,747</u>	<u>\$ 155,820</u>

BACKGROUND

South Woodford District, a water district organized pursuant to KRS Chapter 74, provides water service to approximately 1,673 residential customers in Woodford County, Kentucky.¹¹ South Woodford District does not produce any of its own water; rather, it purchases its water from city of Versailles. A review of the Commission's records indicates that since 1986, South Woodford District has not sought an adjustment of water rates through a general base rate case procedure. The only rate cases that were filed by South Woodford District during that period were purchased water pass through cases or rate applications filed pursuant to KRS 278.023.

TEST PERIOD

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

¹¹ 2020 Annual Report at 12 and 49.

SUMMARY OF REVENUES AND EXPENSES

The Commission Staff's Report summarizes South Woodford District's pro forma income statement as follows:¹²

	Commission Staff's Report		
	Test Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 856,470	\$ 7,146	\$ 863,616
Operating Expenses	912,830	(71,324)	841,506
Net Utility Operating Income	\$ (56,360)	\$ 78,470	\$ 22,110

REVIEW AND MODIFICATIONS TO COMMISSION STAFF'S RECOMMENDATIONS

South Woodford District proposed adjustments to its operating revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. The Commission accepts the recommendations contained in the Commission Staff's Report. The Commission has no further modifications.

REVENUE REQUIREMENTS

Billing Analysis. South Woodford District provided usage data by meter size, listing the water usage and water sales revenue for the 12-month test year ended December 31, 2020,¹³ as well as billing adjustments and leak adjustments. Commission Staff calculated the data provided within a normalized billing analysis, which determined that \$839,798 for all retail customers is an accurate representation of the normalized test-year revenue from water sales.¹⁴ In the Commission Staff's Report, Commission Staff recommended

¹² See Appendix B for a detailed pro forma income statement.

¹³ South Woodford District's Response to Staff's First Request, Items 17 and 18.

¹⁴ Commission Staff's Report at 12-13.

a decrease of (\$2,640) to South Woodford District's test-year Water Sales Revenue.¹⁵ The Commission finds that this adjustment is reasonable because an examination of South Woodford District's billing analysis was completed by Commission Staff and a normalized revenue was based on the information provided.

Misclassified Surcharge Revenues. In the Commission Staff's Report, surcharge revenue was included in the Retail Water Sales total. The surcharge is related to debt incurred by South Woodford District's Phase III waterworks improvement project.¹⁶ South Woodford District incorrectly included the revenue from the surcharge in its rate analysis, and as discussed in the Commission Staff's Report, the surcharge revenue was reclassified by decreasing revenue from water sales and increasing Miscellaneous Service Revenue by \$3,730.¹⁷ The Commission finds that this adjustment should be accepted.

Forfeited Discounts. In the Commission Staff's Report, Commission Staff recommended an increase of \$10,010 to South Woodford District's test-year Forfeited Discount revenues of \$2,282 to normalize late payment penalties to \$12,992, or the three-year average from 2017, 2018, and 2019 to account for the moratorium regarding the collection of late payment fees due to the COVID-19 pandemic.¹⁸ The Commission finds

¹⁵ Commission Staff's Report at 13, Adjustment A.

¹⁶ Case No. 1999-00036, *In the Matter of the Application of South Woodford County Water District, Woodford County, Kentucky, (1) For a Certificate Of Public Convenience and Necessity Authorizing Construction of Major Water Service Improvements and Additions to its Water Distribution System, and (2) Seeking Approval of the Issuance of Certain Securities* (Ky. PSC Mar. 5, 1999), final Order.

¹⁷ Commission Staff's Report at 13, Adjustment B.

¹⁸ Commission Staff's Report at 13, Adjustment C.

that this adjustment meets the ratemaking criteria of being known and measurable,¹⁹ is reasonable and should be accepted.

Miscellaneous Service Revenues. In the Commission Staff's Report, Commission Staff discussed South Woodford 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 reduction to Other Water Revenues in the amount of \$224, to reflect the change in the nonrecurring charges,²⁰ and the disallowance of unsupported Miscellaneous Service Revenue.

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.²¹ 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. 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

¹⁹ 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).

²⁰ Commission Staff's Report at 14, Adjustment D.

²¹ Case No.2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

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.

For the reason discussed above, the nonrecurring charges shall be reduced by the estimated labor costs stated in the cost justification sheets. The Commission finds the revised nonrecurring charges recommended by Commission Staff as set out in Appendix A to this Order and the corresponding decrease of \$224 to Other Water Revenue to be reasonable and should be accepted.

Employee Benefits. In the application, South Woodford District proposed to reduce Insurance - General Liability expense by \$1,105 to remove the misclassified employee dental insurance premiums and to increase Employee Pension and Benefits expense by \$344 to both reclassify the employee dental insurance premiums and to reflect the Commission's current 60 percent limitation on the employers contribution for employee dental insurance coverage.²² Commission Staff recommended the Commission accept South Woodford's proposed adjustments because they are reasonable and consistent with past Commission precedent.²³ The Commission finds that these adjustments to Insurance - General Liability expense and to Employee Pension and Benefits expense

²² Commission Staff's Report at 14-16, Adjustment E.

²³ Commission Staff's Report at 14-16.

are known and measurable, are consistent with past Commission precedent,²⁴ are reasonable, and should be accepted.

Excess Water Loss. South Woodford District's test-year water loss was 29.63 percent.²⁵ Commission regulation 807 KAR 5:066 Section 6(3), limits water loss to 15 percent for ratemaking purposes unless the Commission finds an alternative level is reasonable. In the Commission Staff's Report, Commission Staff recommended that the Commission accept South Woodford District's proposed adjustments to reduce Purchased Water expense by \$72,122 and Purchased Power expense by \$4,813 to eliminate the cost of water loss in excess of the 15 percent limitation.²⁶ The Commission finds the proposed adjustments are known and measurable changes to Purchased Water expense and to Purchased Power Expense, are reasonable, and should be accepted.

Tap-on Fees. South Woodford District correctly recorded its test-year tap-on fee collections of \$22,200 in Account 432, Proceeds from Capital Contributions, but incorrectly expensed costs of its meter installations.²⁷ By substituting the tap-on fees collected in 2020 for the actual meter installation costs incurred, South Woodford District proposed to deduct 30 percent of the collected tap-on fees, or \$6,660, from Contractual Services – Other expense, and the remaining 70 percent, or \$15,540, from the Materials and Supplies expense.²⁸

²⁴ See Case No. 2016-00169, *Application of Cumberland Valley Electric, Inc. for a General Adjustment of Rates* (Ky. PSC Feb. 6, 2017).

²⁵ Commission Staff's Report at 16, Adjustment F.

²⁶ Commission Staff's Report at 16.

²⁷ Commission Staff's Report at 16–17, Adjustment G.

²⁸ Commission Staff's Report at 16–17.

South Woodford District submitted revised cost justification sheets for its 3/4-Inch and 1-Inch tap-on charges that resulted in pro forma tap-on collections of \$63,352.²⁹ Commission Staff proposed to reduce Contractual Services – Other expense by 30 percent of the \$63,352 pro forma tap-on collections or \$19,006 and to deduct the remaining 70 percent or \$44,346 from the Materials and Supplies expense.³⁰ The Commission finds that Commission Staff’s proposed tap-on fee adjustments meet the ratemaking criteria of being known and measurable, are reasonable, and should be accepted.

Contract Management. On February 8, 2022, South Woodford District hired a new contract manager.³¹ In the Commission Staff’s Report, Commission Staff recommended the Commission accept South Woodford District’s proposed adjustment to decrease Contractual Services – Management expense by \$3,600 to reflect the new lower annual contract fee.³² The Commission finds that South Woodford District’s proposed adjustment to reduce the test-year contract management fee by \$3,600 meets the ratemaking criteria of being known and measurable, is reasonable, and should be accepted.

Meter Reading. In the Commission Staff’s Report, Commission Staff recommended the Commission increase Contractual Services - Other expense by \$39,449 to reflect South Woodford District’s increased customer billing and meter reading

²⁹ Commission Staff’s Report at 16–17.

³⁰ Commission Staff’s Report at 16–17.

³¹ Commission Staff’s Report at 17, Adjustment H.

³² Commission Staff’s Report at 17.

costs.³³ On January 1, 2022, the meter reading fee being paid by South Woodford increased from \$1.47 to \$1.80 per meter.³⁴ South Woodford District entered into a contract with United Systems (UPM) of Benton, Kentucky, wherein South Woodford District agreed to pay UPM a \$1.69 fee per meter for customer billing services that would begin on June 2, 2022.³⁵ The Commission finds that Commission Staff's proposed adjustment to reflect the increase in the fees paid by South Woodford District for meter reading and customer billing meets the ratemaking criteria of being known and measurable, is reasonable, and should be accepted.

Water-Testing Fees. In the Commission Staff's Report, Commission Staff recommended the Commission increase Contractual Services - Other expense by \$5,080 to reflect the increase in South Woodford District's water-testing fees.³⁶ After filing its rate case application, South Woodford was notified that the cost of its water-testing would increase by \$5,080.³⁷ The Commission finds that Commission Staff's proposed adjustment to reflect the increase in the fee paid by South Woodford District for water-testing meets the ratemaking criteria of being known and measurable, is reasonable, and should be accepted.

Contract Labor. In Commission Staff's Report, Commission Staff recommended the Commission accept South Woodford District's proposed adjustment to increase

³³ Commission Staff's Report at 18–19, Adjustment I.

³⁴ South Woodford District's Response to Staff's Second Request, Item 6.a. and Item 6.d.

³⁵ Commission Staff's Report at 18–19 and to South Woodford District's Response to Staff's First Request, Item 5.d.

³⁶ Commission Staff's Report at 19, Adjustment J.

³⁷ Commission Staff's Report at 19.

Contractual Services – Other expense by \$36,010.³⁸ South Woodford District's adjustment reflects the impact of the increased fees being charged by South Woodford District's contract maintenance provider.³⁹ The Commission finds that South Woodford District's proposed adjustment to reflect the increased fees paid by South Woodford District to its contract maintenance provider meets the ratemaking criteria of being known and measurable, is reasonable, and should be accepted.

Depreciation. In the Commission Staff's Report, Commission Staff recommended the Commission accept South Woodford District's proposed adjustment to decrease test-year depreciation expense of \$100,346 by \$5,448 to a pro forma level of \$94,898.⁴⁰ South Woodford District's proposed adjustment is consistent with Commission precedent of using the depreciation life ranges contained in the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study) to evaluate the depreciation lives used by the water utilities under its jurisdiction.⁴¹ When no evidence exists to support a specific life that is inside or outside of the NARUC Study ranges, the Commission has historically used the midpoint of the NARUC Study depreciation ranges to depreciate water assets.⁴²

³⁸ Commission Staff's Report at 19–20, Adjustment K.

³⁹ Commission Staff's Report at 19–20.

⁴⁰ Commission Staff's Report at 20–21, Adjustment L.

⁴¹ 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).

⁴² See Case No. 2020-00290, *Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Rates and Approval of Construction* (Ky. PSC Sept. 2, 2021).

The Commission finds that South Woodford District's proposed depreciation adjustment is reasonable, is consistent with Commission precedent, and should be accepted. The Commission further finds that South Woodford District shall use the midpoint of the depreciable lives of the NARUC Study ranges to depreciate water plant assets for accounting purposes in all future reporting periods. South Woodford District shall not make an adjustment to accumulated depreciation or retained earnings to account for this change in the accounting estimate.

Payroll Taxes. In the Commission Staff's Report, Commission Staff recommended that the Commission accept its proposed adjustment to decrease Payroll Tax expense by \$1,767.⁴³ The Commission finds, based on the evidence of record, that Commission Staff's proposed payroll tax adjustment, using the pro forma Employee Salaries and Wages expense and the test-year Commissioner Salaries and Wages expense, accurately reflects the level of South Woodford District's payroll tax expense, to be reasonable and should be accepted.

Based upon the Commission's findings discussed above, the following table summarizes South Woodford District's adjusted Pro Forma operations.⁴⁴

	Commission Staff's Report	Commission Order	
	Test Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 863,616	\$ -	\$ 863,616
Operating Expenses	841,506	-	841,506
Net Utility Operating Income	\$ 22,110	\$ -	\$ 22,110

⁴³ Commission Staff's Report at 21, Adjustment M.

⁴⁴ See Appendix B for a detailed pro forma income statement.

OVERALL REVENUE REQUIREMENT AND
REQUIRED REVENUE INCREASE

Based upon the Commission findings and determinations made in this Order, South Woodford District requires an increase in revenues from water sales of \$73,315, or 8.73 percent above the pro forma present water rate revenues, as calculated below. This level of increase is required for South Woodford District to remain operationally and financially sound and have an opportunity to provide adequate, efficient and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 841,506
Plus: Average Annual Debt Service	79,813
Debt Service Coverage Requirement	15,963
Overall Revenue Requirement	<u>937,282</u>
Less: Other Operating Revenue	(23,818)
Interest Income	(351)
Revenue Required from Water Sales	<u>913,113</u>
Less: Normalized Revenues from Water Sales	(839,798)
Required Revenue Increase/(Decrease)	<u>\$ 73,315</u>
Percentage Increase	<u>8.73%</u>

CONTRACT LABOR

In the calendar year 2022, South Woodford District's board of commissioners (Board) negotiated new contract maintenance rates (labor and equipment).⁴⁵ Members of the Board were relatively new and were unfamiliar with how a water district operated or who else in the community would be capable of providing the services required to ensure continuity of water service to its customers.⁴⁶ Therefore, the Board did not seek bids from other maintenance providers but limited its negotiations to its current

⁴⁵ Commission Staff's Report at 9–10.

⁴⁶ Commission Staff's Report at 9–10.

maintenance provider.⁴⁷ The new contract maintenance rates resulted in an increase in South Woodford District's contract maintenance costs of \$36,010, or an increase of 60.88 percent.⁴⁸

Commission Staff recommended the Commission require South Woodford District to obtain the services of an independent consultant to assist in identifying potential bidders interested in providing distribution system maintenance; drafting a request for proposals (RFP); analyzing the responses to the RFP; and awarding the maintenance contract.⁴⁹ Commission Staff further recommended the Commission require South Woodford District to submit a written report to the Commission describing the RFP process used, including the procedures used to analyze the bids, explaining in detail all relevant factors considered (e.g., costs and bidder's qualifications, etc.), and explaining how the winning bidder was selected.⁵⁰ Commission Staff also recommended that after signing a new contract for maintenance labor, South Woodford District should submit a revised Tariff Filing requesting new tap-on fees using the new maintenance contract rates.⁵¹

Based on the significant increase in South Woodford District's contract maintenance costs and the Board's failure to follow due diligence protocol by not seeking bids from multiple providers, the Commission agrees with Commission Staff's recommendation that South Woodford District obtain the services of an independent

⁴⁷ Commission Staff's Report at 9–10.

⁴⁸ Commission Staff's Report at 20, Comparative Contract Labor Cost Table.

⁴⁹ Commission Staff's Report at 9–10.

⁵⁰ Commission Staff's Report at 9–10.

⁵¹ Commission Staff's Report at 9–10.

consultant to assist in the RFP process. The independent consultant should work with South Woodford District to identify potential firms interested in providing distribution system maintenance to South Woodford District; assist in drafting an RFP; and assist in issuing the RFP soliciting bids from the identified firms. Once the RFP is developed and issued, the independent consultant will assist South Woodford District with the analysis of the bids received and in the awarding of the maintenance contract. A written report will be prepared by South Woodford District to document the procedures used to analyze the bids received, which should be reviewed based on all relevant factors, including costs and bidder's qualifications and an explanation of how the winning bidder was selected.

COST-SAVING INVESTIGATION

While the rates calculated by Commission Staff represents a fair recovery of expenses incurred by South Woodford District in providing water service, the Commission notes it is concerned with the long-term sustainability of the level of its residential water rates. For example, total contract operational expenses increased from the test-year actual of \$84,004⁵² to the proforma level of \$141,937,⁵³ an increase of \$57,933, or 68.97 percent.⁵⁴ South Woodford District is encouraged to investigate options to reduce its cost of operations, and therefore cost of service to its customers. Merger between nearby utilities or the city of Versailles may offer some financial support in operations as well as

⁵² Commission Staff's Report at 11, Pro Forma Operating Statement, Test Year Operations Column. \$54,000 (Contractual Services – Management) + \$30,004 (Contractual Services – Other) = \$84,004.

⁵³ Commission Staff's Report at 11, Pro Forma Operating Statement, Pro Forma Operations Column. \$50,400 (Contractual Services – Management) + \$91,537 (Contractual Services – Other) = \$141,937.

⁵⁴ \$141,937 (Pro Forma Operational Contract Costs) - \$84,004 (Test Year Operational Contract Costs) = \$57,933 (Difference between Pro Forma and Test Year Operational Contract Costs) ÷ \$84,004 (Test Year Operational Contract Costs) = 68.97%.

cost-reduction goals. Acknowledging the known difficulties presented when municipalities merge with a jurisdictional utility, South Woodford District should consider, if not merging in total, sharing resources, positions, professional consultants, or equipment costs. The utilities have established relationships, and the ratepayers should be aware of the cost savings possible if the utilities work together. At the very least, the Board of South Woodford District should review the possibilities of merger or regionalization as part of a larger inquiry into a cost-reduction plan.

WATER LOSS REDUCTION SURCHARGE

In the Commission Staff's Report, Commission Staff recommended that the Commission approve a Water Loss Reduction Surcharge of \$3.87 per active meter per month for 48 months to help lower system losses to more acceptable levels.⁵⁵ The surcharge would produce approximately \$76,970⁵⁶ annually, and \$307,880 in total collections over the four-year period.⁵⁷

The annual surcharge collection reflects the amount disallowed for excessive water loss pursuant to 807 KAR 5:066, Section 6(3). The use of a surcharge is consistent with prior Commission action in cases involving water districts with excessive unaccounted-for water loss.⁵⁸ In establishing water-loss surcharges, the Commission

⁵⁵ Commission Staff's Report at 6–7.

⁵⁶ The difference between the calculated annual surcharge collections of \$76,970 and the annual cost of line loss in excess of 15 percent of \$76,941 is due to rounding the monthly surcharge to two decimal places.

⁵⁷ \$3.87 (Monthly Water Loss Reduction Surcharge) x 19,889 (Annual Number of Bills) = \$76,970 (Annual Water Loss Reduction Surcharge Collections) x 4 (Four Year Collection Period) = \$307,880.

⁵⁸ See Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges* (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for*

recognized that the adjustments required to comply with the 15 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water district's ability to take the necessary action to focus on its leak detection and repair.⁵⁹ Using a surcharge to fund a water district's water loss reduction project allows the Commission to place strict controls governing the surcharge proceeds to ensure their effective use, public acceptance of the surcharge, and public confidence in the water district's use of those funds.⁶⁰ In its report titled *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* that was fully incorporated in the final Order in Case No. 2019-00041, Appendix L, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.⁶¹

At its February 8, 2022 meeting, South Woodford District's Board hired Matthew Coyle as its new contract manager.⁶² South Woodford provided an unsigned copy of the draft management contract with Mr. Coyle and a Statement of Work that was scheduled

an Alternative Rate Adjustment (Ky. PSC Sept. 30, 2019); and Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2020).

⁵⁹ See Case No. 2018-00311, *Electronic Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC April 8, 2021) at 3.

⁶⁰ See Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sep. 30, 2019) at 3.

⁶¹ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* at 24–25.

⁶² South Woodford District's Response to Staff's Second Request, Item 2.d.

to be presented to the Board at its June 14, 2022 meeting.⁶³ The only reference to South Woodford District's chronic water-loss problem in the Statement of Work is that Mr. Coyle will monitor and will address water loss.⁶⁴ The Commission finds that Mr. Coyle's Statement of Work should include a detailed list of the steps that will be implemented to address South Woodford District's water loss, a realistic water loss goal, a timeframe for meeting the established goal, and either incentives or disincentives if South Woodford District's water loss goals are not met.

A monthly surcharge is a reasonable means for South Woodford District to recover the cost of its water leak detection efforts and repairs in order to reduce the increased expense and lost revenue from unaccounted-for water loss⁶⁵ and a monthly water loss reduction surcharge of \$3.87 per active meter over 48 months is reasonable. However, the Commission will not address the Commission Staff's recommended Water Loss Reduction surcharge until South Woodford District submits a signed revised contract with its manager, Mr. Coyle and a revised Statement of Work that includes a detailed list of the steps the contract manager will take to address South Woodford District's water loss; a realistic water loss goal for the contract manager to meet; a time frame for meeting the established goal; and some type of incentive or disincentive if South Woodford District's

⁶³ South Woodford District's Response to Staff's Second Request, Item 2.f., 2f_Management_Contract_Draft.pdf and 2f_Statement_of_Work_Draft.pdf.

⁶⁴ South Woodford District's Response to Staff's Second Request, Item 2.f., 2f_Statement_of_Work_Draft.pdf, Item 15.

⁶⁵ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report* by the Kentucky Public Service Commission November 2019 at 24–25.

water loss goals are not met. This case will remain open until South Woodford addresses the Commission's concerns with the management contract.

RATE DESIGN

South Woodford District proposed to increase all of its monthly retail water service rates, evenly across the board by approximately 16.28 percent. South Woodford District has not performed a cost of service study (COSS). South Woodford District stated that it did not consider filing a COSS because there were no material changes in the water system to warrant it. In the Commission Staff's Report, Commission Staff followed the method proposed by South Woodford District and allocated Commission Staff's calculated revenue increase across-the-board to South Woodford District's monthly retail water service rates. The Commission finds that in the absence of a cost of service study the proposed across-the-board method is an appropriate and equitable method to allocate the increased cost to South Woodford District's customers.

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 to recover the required revenue of \$913,113 from water sales—an approximate 8.73 percent over the normalized test-year water sales of \$839,798.

The monthly bill of a typical residential customer, including the water loss recovery surcharge, will increase from \$30.46 to \$36.98, an increase of \$6.52, or approximately 21.41 percent. The monthly bill of a typical residential customer, excluding the water loss recovery surcharge, will increase from \$30.46 to \$33.11, an increase of \$2.65 or approximately 8.70 percent.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations 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 Debt Service Coverage (DSC) method to calculate the revenue requirement for water districts and associations with outstanding long-term debt. Therefore, applying the DSC method to South Woodford District's pro forma operations results in an Overall Revenue Requirement of \$937,282, a required revenue from water sales of \$913,113, and an increase in revenue from water sales of a \$73,315, or 8.73 percent. The Commission further finds that allocating the calculated revenue increase across the board to South Woodford District's monthly water service rates and to phase this increase over two years to be fair, just and reasonable.

The Commission further finds that within three months from the date of service of this Order, South Woodford District shall obtain the services of an outside independent consultant to assist in preparing and issuing the RFP to potential firms interested in providing distribution system maintenance to South Woodford District; analyzing the bids received; identifying the top responses to the RFP; and documenting the consultant's analysis. Within six months from the date of service of this Order, South Woodford District will submit to the Commission a written report that discusses the results of the RFP solicitation for the contract distribution maintenance. The report shall include a detailed analysis supporting the decision.

This case will remain open until South Woodford District submits its revised, executed management contract and the Commission issues an order addressing South Woodford District's requested Water Loss Reduction Surcharge.

IT IS THEREFORE ORDERED that:

1. The findings contained the Commission Staff's Report are adopted and are incorporated by reference into this Order.

2. The water service rates proposed by South Woodford District are denied.

3. The water service rates set forth in Appendix A to this Order are approved for services rendered by South Woodford District on and after the date of service of this Order.

4. Within 20 days of the date of service of this Order, South Woodford District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved by this Order and their effective date and stating that the rates and charges were authorized by this Order.

5. South Woodford District shall use the midpoint of the depreciable lives of the NARUC Study ranges, as recommended by Commission Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. South Woodford District shall not make adjustments to accumulated depreciation or retained earnings to account for this change in the accounting estimate.

6. Within three months from the date of service of this Order, South Woodford District shall obtain the services of an outside independent consultant to identify potential firms interested in providing distribution system maintenance to South Woodford District; assist in preparing an RFP; issue the RFPs to solicit bids from identified firms; and

analyze the bids received (i.e.; costs and bidder's qualifications); identify the top responses to the RFPs; and document the consultant's analysis.

7. Within six months from the date of service this Order, South Woodford District shall submit to the Commission a written report that discusses the results of the RFP solicitation for the contract distribution maintenance. The report shall include a detailed analysis supporting the decision.

8. This case shall remain open until South Woodford District submits its revised, executed management contract and the Commission issues an Order addressing South Woodford District's requested Water Loss Reduction Surcharge.

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PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner

ENTERED
JAN 17 2023
rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00035 DATED JAN 17 2023

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

5/8 X 3/4-Inch Meter

First	2,000	Gallons	\$ 22.25	Minimum Bill
Next	2,000	Gallons	0.00543	Per Gallon
Next	6,000	Gallons	0.00519	Per Gallon
Next	90,000	Gallons	0.00484	Per Gallon
Over	100,000	Gallons	0.00441	Per Gallon

Water Loss Recovery Surcharge The Water Loss Recovery Surcharge of \$3.87 per month limited to a 48-month period is in abeyance until revised manager contract has been submitted and approved by the Commission.

In addition to the monthly water rates set forth above and all other charges not specifically mentioned herein, all customers served by the South Woodford Water District Phase III Project (Kentucky Public Service Commission Case No. 1999-00036¹) shall pay \$2.00 per month.

Nonrecurring Charges

5/8- x 3/4-Inch Water Tap On	\$	2,338.27
1-Inch Water Tap On		2,794.10
Late Payment Charge		10%
Reconnection Fee/Service Charge		60.00
Meter Test Request		25.00
Returned Check Charge		8.00
Pull Meter for Nonpayment		80.00

¹ Case No. 1999-00036, *In the Matter of the Application of South Woodford County Water District, Woodford County, Kentucky, (1) for a Certificate of Public Convenience and Necessity Authorizing Construction of Major Water Service Improvements and Additions to its Water Distribution System, and (2) Seeking Approval of the Issuance of Certain Securities* (Ky. PSC Mar. 5, 1999).

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00035 DATED JAN 17 2023

Detailed Pro Form Income Statement

	Commission Staff's Report			Commission Order	
	Test Year Operations	Pro Forma Adjustments	Pro Forma Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues:					
Total Metered Sales	\$ 846,168	\$ (6,370)	\$ 839,798		\$ 839,798
Other Water Revenues:					
Forfeited Discounts	2,982	10,010	12,992		12,992
Misc. Service Revenues	7,320	(224)			
	<u>0</u>	<u>3,730</u>	<u>10,826</u>		<u>10,826</u>
Total Other Water Revenues	<u>10,302</u>	<u>13,516</u>	<u>23,818</u>	<u>0</u>	<u>23,818</u>
Total Operating Revenues	<u>856,470</u>	<u>7,146</u>	<u>863,616</u>	<u>0</u>	<u>863,616</u>
Operating Expenses:					
Operation and Maintenance:					
Salaries and Wages - Employees	39,055		39,055		39,055
Salaries and Wages - Officers	10,800		10,800		10,800
Employee Pensions and Benefits		344	344		344
Purchased Water	492,989	(72,122)	420,867		420,867
Purchased Power	32,896	(4,813)	28,083		28,083
Materials and Supplies	94,199	(44,346)	49,853		49,853
Contractual Services - Accounting	8,560		8,560		8,560
Contractual Services - Management	54,000	(3,600)	50,400		50,400
Contractual Services - Other	30,004	(19,006)			
		39,449			
		5,080			
		36,010	91,537		91,537
Rent - Building/Real Prop.	12,000		12,000		12,000
Insurance - Gen. Liab.	21,030	(1,105)	19,925		19,925
Miscellaneous Expenses	11,370		11,370		11,370
Total Operation and Maint. Expenses	<u>806,903</u>	<u>(64,109)</u>	<u>742,794</u>	<u>0</u>	<u>742,794</u>
Depreciation Expense	100,346	(5,448)	94,898		94,898
Taxes Other Than Income	5,581	(1,767)	3,814		3,814
Total Operating Expenses	<u>912,830</u>	<u>(71,324)</u>	<u>841,506</u>	<u>0</u>	<u>841,506</u>
Net Utility Operating Income	<u>\$ (56,360)</u>	<u>\$ 78,470</u>	<u>\$ 22,110</u>	<u>\$ -</u>	<u>\$ 22,110</u>

*Robert K. Miller
Straightline Kentucky LLC
113 North Birchwood Ave.
Louisville, KENTUCKY 40206

*South Woodford Water District
117-D Crossfield Drive
Versailles, KY 40383

*Barry Dury
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