

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BEECH GROVE)	CASE NO.
WATER SYSTEM, INC. FOR A RATE)	2022-00054
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On March 14, 2022, Beech Grove Water System, Inc. (Beech Grove Water) filed an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. In its application, Beech Grove Water determined that normalized revenues exceeded required revenues by \$5,263, or 1.2 percent, and that a rate increase was not needed; however, requested a water loss surcharge be implemented for 48 months at a rate of \$6.24 per customer per month.¹

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated April 7, 2022. Beech Grove Water responded to two discovery requests from Commission Staff.

In the Commission Staff's Report, Commission Staff found that Beech Grove Water's adjusted test year operations support an overall revenue requirement of \$469,031 and that an annual revenue increase of \$24,853, or 5.68 percent to the retail base rates, is necessary to generate the overall revenue requirement. Commission Staff also recommended the Commission approve Beech Grove Water's requested water loss surcharge of \$6.24 per customer for 48 months.

¹ Application, Attachment 1, Customer Notice and Attachment 4, Schedule of Adjusted Operations.

On July 21, 2022, Beech Grove Water filed with the Commission its comments on the Commission Staff's Report and on July 26, 22, Beech Grove Water filed an amended response. In the amended response, Beech Grove Water accepted all adjustments contained in Commission Staff's Report, but indicated it did not agree with the removal of certain labor expenses from nonrecurring charges. Beech Grove Water 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 Beech Grove Water's right to contest a similar finding in a future rate proceeding. Beech Grove Water also requested that the rate for the Bulk Loading Station be set at \$0.25 per thirty-five gallons due to the vending-machine-type device that only accepts one quarter at a time for a fixed quantity of water. Beech Grove Water did not request that a conference or hearing be held.²

By Order dated August 5, 2022, the Commission, pursuant to 807 KAR 5:076, Section 11(3)(f), accepted Beech Grove Water's amended application as filed as of July 21, 2022, and directed Beech Grove Water to publish a one-time notice, following the requirements of 807 KAR 5:076, Section 5, of its amended water rates, the revised nonrecurring charges, and its requested water loss reduction surcharge. On August 17, 2022, Beech Grove Water submitted the requested proof that the customer notice was published on August 13, 2022, in the Owensboro Messenger-Inquirer.

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

² Letter from Joey Tapp, Chairman of Beech Grove Water (filed July 26, 2022).

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, Beech Grove Water is allowed to charge its customers "only fair, just and reasonable rates."³ Further Beech Grove Water 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 Beech Grove Water's 2020 Annual Report, Beech Grove Water reported a water loss of 29.38 percent.⁴ At 29.38 percent water loss, the annual cost to Beech Grove Water of water above the allowable 15 percent is \$44,327⁵ while the annual cost to Beech Grove Water is \$90,556.⁶

³ *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).

⁴ *Annual Report of Beech Grove Water to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 57.

⁵	Purchased Water from 2020 Annual Report	\$ 302,818
	Purchased Power	<u>5,378</u>
	Total Cost of Water	308,196
	Times: Total Water Loss above 15%	14.38%
	Total Cost of Water Loss	<u>\$ 44,327</u>
⁶	Purchased Water from 2020 Annual Report	\$ 302,818
	Purchased Power	<u>5,378</u>

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. In recognition of this Beech Grove Water requested to implement a water loss reduction surcharge in their application as the Commission strongly encourages utilities to pursue reasonable actions to reduce its unaccounted-for water loss.

BACKGROUND

Beech Grove Water is a water utility organized pursuant to KRS Chapter 273 that owns and operates a water distribution system through which it provides retail water service to approximately 575 residential customers and 10 commercial customers that reside in McLean and Daviess counties, Kentucky.⁷ Beech Grove Water does not produce any of its own water; rather, it purchases its water from the city of Henderson, Kentucky and West Daviess County Water District. This is Beech Grove Water’s first general rate adjustment since 2010 in Case No. 2010-00309.⁸

The application was filed pursuant to the Commission’s Order in Case No. 2021-00349,⁹ which was established by the Commission on its own motion to investigate Beech Grove Water and its individual officers for allegedly failing to comply with the

Total Cost of Water	308,196
Times: Total Water Loss	29.38%
Total Cost of Water Loss	<u>\$ 90,556</u>

⁷ 2020 Annual Report at 12 and 49.

⁸ Case No. 2010-00309, *Application of Beech Grove Water System, Inc. for an Adjustment of Water Rates* (Ky. PSC Oct 13, 2010).

⁹ Case No. 2021-00349, *Electronic Alleged Failure of Beech Grove Water System, Inc. and Its Offers, Nathan Ward, Chad McMahon, Greg Cheatham, Greg Dant, and Its Manager, Sheila Murphy, to Comply with a Commission Oder, KRS 278.990*, (Ky. PSC Mar. 29, 2022).

Commission's June 9, 2020 Order in Case No. 2020-00156.¹⁰ In Case No. 2020-00156, Beech Grove Water was ordered to file a general rate case or alternative rate filing within one year of the date of that Order, June 9, 2021. The Order initiating Case No. 2021-00349 noted that, in Case No. 2020-00156, the Commission based its Order to file a general rate case or alternative filing on the fact that Beech Grove Water had not filed a base rate case since 2010. On October 22, 2021, Beech Grove Water filed a response to the opening Order in Case No. 2021-00349 stating that its manager had overlooked the requirement to file a rate case and the individual offers relied upon the manager to advise them of the requirement to file a rate case. Beech Grove Water also stated that a rate consultant had been contacted and anticipated the rate consultant's proposal be approved at the November 2021 board meeting.

By Order entered on December 10, 2021, the Commission incorporated by reference the case record of Case No. 2021-00349 into this proceeding and closed Case No. 2021-00349. In the December 10, 2021 Order, the Commission directed Beech Grove Water to prioritize filing an application for an ARF to ensure that Beech Grove Water's revenue is sufficient to support adequate and reliable service at the earliest possible date.¹¹

TEST PERIOD

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

¹⁰ Case No. 2020-00156, *Electronic Purchased Water Adjustment Filing of Beech Grove Water System, Inc.*, (Ky. PSC June 9, 2020).

¹¹ Case No. 2021-00349, December 10, 2021 Order at 2.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Beech Grove Water's pro forma income statement as follows:

	2020 Test Year	Pro Forma Adjustments	Staff Report Pro Forma
Operating Revenues	\$ 347,096	\$ 97,308	\$ 437,391
Operating Expenses	<u>402,337</u>	<u>10,410</u>	<u>412,747</u>
Net Operating Income	(55,241)	86,898	31,657
Interest Income	<u>720</u>		<u>720</u>
Income available for Debt Service	<u>\$ (54,521)</u>	<u>\$ 86,898</u>	<u>\$ 32,377</u>

REVIEW MODIFICATIONS TO COMMISSION STAFF'S FINDINGS

Beech Grove Water'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. The Commission accepts the findings contained in the Commission Staff's Report, with one modification regarding the rate for the Bulk Loading Station, which is discussed below.

REVENUE REQUIREMENTS

Billing Analysis Adjustment. In the Commission Staff's Report, Commission Staff recommended the Commission accept Beech Grove Water's proposed increase of \$93,373 to reflect the Purchased Water Adjustment increase in rates made during the test year.¹² The Commission finds that this adjustment is an accurate representation of

¹² Commission Staff's Report at 10, Adjustment A.

revenues, is a known and measurable change¹³ to Sales of Water, is reasonable, and therefore is accepted.

Nonrecurring Charges. In the Commission Staff's Report, Commission Staff discussed Beech Grove Water'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 of \$876.¹⁴ In response to the Commission Staff Report, Beech Grove Water did not agree with the removal of labor expenses from certain nonrecurring charges, but did not wish to contest the adjustment at this time.¹⁵

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.¹⁶ 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.

¹³ 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).

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

¹⁵ Letter from Joey Tapp, Chairman of Beech Grove Water (filed July 26, 2022).

¹⁶ 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.

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 (\$876) to Other Water Revenue is reasonable.

Late Payment Charges. In the Commission Staff's Report, Commission Staff recommended an increase to the test year's Other Water Revenues by \$4,811 to reflect the normalization of Forfeited Discounts to the three year average of \$7,013 to account

for the moratorium regarding the collection of late payment fees from March through December 2020 due to the COVID-19 pandemic.¹⁷ The Commission finds that Commission Staff's adjustment is the most accurate account of late payment fees, is a known and measurable change to Other Water Revenues, is reasonable, and should be accepted.

Salaries and Wages. In the Commission Staff's Report, Commission Staff recommended accepting Beech Grove Water's proposed reclassification adjustments to remove pension contributions, employer payroll taxes, and Unemployment Compensation Insurance from Salaries and Wages and include them in the proper expense categories on its pro forma income statement.¹⁸ 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.

Salaries and Wages – Correction to Wages. In the Commission Staff's Report, Commission Staff recommended accepting Beech Grove Water's proposed increase to salaries and wages of \$52 to correct the amounts included in the 2020 annual report.¹⁹ The Commission finds that this adjustment is a known and measurable change to Salaries and Wages, is reasonable, and is accepted.

Salaries and Wages – Wage Adjustment. In the Commission Staff's Report, Commission Staff increased Salaries and Wages Expense by \$3,370 to normalize pro forma wages to reflect an increase of \$0.81 per hour for Beech Grove Water's two full-

¹⁷ Commission Staff's Report at 10, Adjustment C.

¹⁸ Commission Staff's Report at 11, Adjustment D.

¹⁹ Commission Staff's Report at 11, Adjustment E.

time employees.²⁰ Further, due to Beech Grove Water contributing three percent of employee wages to a 401(k) plan, Commission Staff made a corresponding increase of \$101 to Employee Pensions and Benefits and also increased Taxes Other than Income by \$258 to reflect the resulting increase in payroll taxes.²¹ The Commission finds that this adjustment is a known and measurable change to Salaries and Wages, Employee Pensions and Benefits, and Taxes Other than Income, is reasonable, and is accepted.

Capitalization of Cost of Customer Taps. Because Beech Grove Water does not capitalize the costs incurred to perform new meter installations, Commission Staff recommended a reduction of \$3,325 to Salaries and Wages expense and \$3,375 to Materials and Supplies expenses.²² These reductions were estimated by Commission Staff and are based upon the revised Tap Fee and number of taps installed in 2020 and then split evenly between the two expense categories as Beech Grove Water does not keep a record of the costs associated with the installation of new customer taps. Commission Staff expressed its concern that if Beech Grove Water does not keep sufficient documentation to calculate the expenses to install a customer tap, it is unlikely that Beech Grove Water is able to properly bill customers for meter sizes larger than the standard meter tap for which the fee is currently set. Therefore, the Commission finds that Beech Grove Water is to begin retaining sufficient information in its utility records to properly calculate the costs required to install its meter taps. Further, the Commission

²⁰ Commission Staff's Report at 11-12, Adjustment F.

²¹ Commission Staff's Report at 12, Adjustment F.

²² Commission Staff's Report at 13-14, Adjustment G.

finds that Commission Staff's recommended adjustments represent a reasonable estimate and is accepted.

Purchased Water. In the Commission Staff's Report, Commission Staff recommended an increase to purchased water expense of \$87,769²³ to reflect current purchased water rates approved in Case No. 2021-00196.²⁴ The Commission finds that this adjustment is a known and measurable change to Purchased Water, is reasonable, and is accepted.

Water Loss. Beech Grove Water's test year water loss was 29.38 percent. 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 Commission Staff's calculation of the Purchased Water and Purchased Power expense where the calculation of the disallowed water loss was based upon the pro forma Purchased Water as well as the increased purchased water cost from Case No. 2021-00196. Based upon that calculation, Commission Staff recommended decreasing Purchased Water and Purchased Power expense by \$43,553 and \$773, respectively.²⁵ The Commission finds that this adjustment is a known and measurable change to Purchased Water and Purchased Power for Pumping, is reasonable, and is accepted.

Capital Expenditures. In the Commission Staff's Report, Commission Staff identified the purchase of a dump trailer and water line locator that should have been

²³ Commission Staff's Report at 14, Adjustment H.

²⁴ Case No. 2021-000196, *Electronic Purchased Water Adjustment Filing of Daviess County Water District* (Ky. PSC June 2, 2021).

²⁵ Commission Staff Report, at 15, Adjustment I.

capitalized and depreciated. Additionally, Commission Staff identified two rentals of excavation equipment for line extensions included in Contractual Services rather than being capitalized and depreciated. Based upon these capital expenditures, Commission Staff reduced Materials and Supplies and Contractual Services by \$5,546 and \$4,075, respectively.²⁶ The Commission finds that this adjustment is a known and measurable change to Materials and Supplies and Contractual Services, is reasonable, and is accepted.

Depreciation Expense. In Commission Staff's Report, Commission Staff agreed with Beech Grove Water's decrease to Depreciation Expense of \$21,812 to reflect the adjustment of the useful life of capital assets to the midpoint of the National Association of Regulatory Utility Commissioners (NARUC) depreciation study.²⁷ The Commission finds that this adjustment is a known and measurable change to Depreciation expense, is reasonable, and is accepted.

Depreciation on Capitalized Expenses. Due to the identification of the capital items described above, Commission Staff recommended an increase of depreciation of \$1,269.²⁸ The Commission finds that this adjustment is a known and measurable change to Depreciation expense, is reasonable, and is accepted.

Based on the Commission's findings discussed above, the following table summarizes Beech Grove Water's adjusted pro forma operations.²⁹

²⁶ Commission Staff Report, at 15-16, Adjustment J.

²⁷ Commission Staff Report, at 16, Adjustment K.

²⁸ Commission Staff Report at 16, Adjustment L.

²⁹ See, Appendix A for a complete pro forma income statement.

	Staff Report Pro Forma	Commission Adjustments	Final Pro Forma
Operating Revenues	\$ 444,404	N/A	\$ 444,404
Operating Expenses	<u>412,747</u>	<u>N/A</u>	<u>412,747</u>
Net Operating Income	31,657	N/A	31,657
Interest Income	720	N/A	720
Income available for Debt Service	<u>\$ 32,377</u>	<u>N/A</u>	<u>\$ 32,377</u>

REVENUE REQUIREMENTS

In the Commission Staff's Report, Commission Staff disagreed with Beech Grove Water's application of the Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement. Commission Staff recommended to apply the operating ratio methodology in lieu of the DSC method and recommended an operating ratio of 88 percent. In support of this recommendation, Commission Staff stated that historically the Commission has used the operating ratio methodology when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long term debt and noted that for Beech Grove Water, the only indebtedness is a ten-year note payable to the National Rural Water Association with an original principal balance of \$100,000.³⁰ The Commission finds that since Beech Grove Water has little outstanding long term debt, the operating ratio methodology of 88 percent is reasonable and will provide sufficient revenues to cover Beech Grove Water's operating expenses and provide for equity growth.

Based upon the Commission's findings and determinations herein, Beech Grove Water requires an increase in revenues of \$24,853, or 5.68 percent above pro forma

³⁰ Commission Staff Report at 17.

present rate revenues, as shown below. This increase is required for Beech Grove Water to remain operational and financially sound and have an opportunity to provide adequate, efficient, and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 412,747
Divide by: 88 Percent Operating Ratio	<u>88%</u>
Overall Revenue Requirement	469,031
Add: Average Interest Expense	946
Less: Other Operating Revenue	(7,013)
Interest Income	(720)
Nonutility Income	<u>(16,351)</u>
Revenue Required from Rates	462,244
Less: Pro Forma Present Rate Service Revenues	<u>(437,391)</u>
Required Revenue Increase	<u>\$ 24,853</u>
Percentage Increase	5.68%

RATE DESIGN

Beech Grove Water did not propose to increase its monthly retail and bulk water service rates since, in its application, it determined that normalized revenues exceeded required revenues by \$5,263, or 1.2 percent, and that a rate increase was not needed. Furthermore, Beech Grove Water did not perform a cost-of-service study (COSS). Beech Grove Water stated that it did not complete a COSS because there has not been any material change in the water system to warrant a COSS.³¹

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

³¹ Beech Grove Water's Responses to Commission Staff's First Request for Information (filed May 11, 2022) (Staff's First Request), Item 5.

COSS. In the Commission Staff's Report, Commission Staff allocated Commission Staff's calculated revenue increase across the board to Beech Grove Water's monthly retail water service rates.

In response to the Commission Staff's Report, Beech Grove Water requested that for the Bulk Water Rate, that the rate not be increased across the board, but be set at \$0.25 per thirty-five gallons as the current vending-machine device for bulk water only accepts one quarter at a time and dispenses a fixed amount of water for that quarter.³² The Commission finds that Beech Grove Water's request regarding the Bulk Water Rate is reasonable and is accepted.

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 \$462,244 Revenue Required from Rates, an approximate 5.68 percent increase.

WATER LOSS SURCHARGE

In the Commission Staff Report, Commission Staff recommended the Commission approve Beech Grove Water's requested \$6.24 per customer per month surcharge and apply the resulting funds towards water loss reduction efforts for 48 months.³³ The surcharge would produce \$43,879 per year for total collections over the four years of \$175,519.³⁴ Beech Grove Water explained that it needed the surcharge to enable it to

³² Letter from Joey Tapp, Chairman of Beech Grove Water (filed July 26, 2022).

³³ Commission Staff Report at 7-9.

³⁴ \$6.24 * 586 customers * 12 months = \$4,546 * 4 years = \$175,519. This is internally generated as Beech Grove Water did not include any calculations or explain how it determined the reasonableness of its requested surcharge.

reduce water losses to an acceptable level and to enhance its financial capacity so it can continue to operate its system in compliance with the federal Safe Drinking Water Act, as amended in 1996, and KRS Chapter 151.³⁵ No formal plan or explanation was given by Beech Grove Water that indicated any specific future use of the surcharge funds.

The use of a surcharge is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for water loss.³⁶ In establishing water-loss surcharges, the Commission recognized that the adjustments required 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. Using a surcharge to fund a water utility's water loss reduction efforts 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. In its report entitled, *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, the Commission recommended more frequent

³⁵ Application, Attachment 2, Reasons for Application.

³⁶ 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 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).

rate cases and pursuing qualified infrastructure improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.³⁷

Therefore, the Commission finds that a monthly surcharge is a reasonable means for Beech Grove Water to recover the cost of its efforts in water leak detection and repair in order to reduce the increased expense and lost revenue from unaccounted-for water loss. However, the Commission finds that the surcharge should be updated to reflect the updated purchased water and purchased power costs, as approved above. Therefore, the Commission finds that a surcharge of \$6.30³⁸ to be reasonable as it will produce an annual collection of \$44,326 and a total collection of \$177,304 over 48 months. Beech Grove Water should be restricted to expending any funds collected under the surcharge subject to authorization by the Commission. Beech Grove Water should file a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities, a time schedule for eliminating each source of unaccounted-for water loss, and provides a detailed spending plan for the proceeds of the requested surcharge. The proceeds from the surcharge shall be kept in a separate, interest-bearing account.

³⁷ 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.

³⁸	Disallowed Purchased Water	\$ 43,553
	Disallowed Purchased Power	\$ 773
	Total	\$ 44,326
	Number of customers	586
	Number of customers annualized	7,032
	Surcharge (\$44,326 / 7,032)	\$ 6.30

In an effort to avoid a significant hardship on Beech Grove Water's customers, the Commission finds that phase-in approach is appropriate whereby for the first year, only the surcharge will be assessed and the increase necessitated by the rates will follow one year later. Although applying this phase-in will not allow for depreciation reserves to be fully funded, it will allow for adequate revenues to cover expenses and debt service. The rates in Phase 1 will increase a typical residential customer's monthly water bill from \$33.86 to \$40.16, an increase of \$6.30, or approximately 18.61 percent.³⁹ The rates in Phase 2 will increase a typical residential customer's monthly water bill from the Phase 1 rates from \$40.16 to \$42.09, an increase of \$1.93, or approximately 4.81 percent.

CASE NO. 2021-00349

As discussed above, this application was filed pursuant to the Commission's Order in Case No. 2021-00349, which was established by the Commission on its own motion to investigate Beech Grove Water and its individual officers for allegedly failing to comply with the Commission's June 9, 2020 Order in Case No. 2020-00156 to file a general rate case or alternative rate filing within one year of the date of that Order, June 9, 2021. Because Beech Grove Water stated that a rate consultant had been contacted and anticipated the rate consultant's proposal be approved at the November 2021 board meeting, on December 10, 2021 the Commission closed Case No. 2021-00349. In the December 10, 2021 Order, the Commission emphasized Beech Grove Water's need for a rate case noting the 2020 Annual Report showed a negative Cash Basis Income and that water loss had nearly doubled in a year from 15.50 percent in 2019 to 29.40 percent in 2020. The Commission found that Beech Groove Water should prioritize filing an

³⁹ The typical residential customer uses approximately 4,000 gallons per month.

application for an alternative rate adjustment to ensure its revenue is sufficient to support adequate and reliable service at the earliest date possible.

The Commission is concerned that neither the manager nor the board of commissioners reviewed the final Order in Case No. 2020-00156 thoroughly. As officers representing the utility and their customers, adequate review and attention should be given to Commission directives as well as laws governing the management of a utility. In order to ensure the utility maintains compliance in the future, the Commission encourages Beech Grove Water retain an attorney to assist and counsel the utility.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the 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 revenue requirement for water districts or associations with outstanding long-term debt. Given that Beech Grove Water does not have significant long-term debt, the Commission finds that applying an operating ratio of 88 percent to be appropriate. Therefore, by applying an 88 percent operating ratio to the pro forma operations results in an Overall Revenue Requirement of \$462,244 and, based upon pro forma present rate service revenues of \$437,391, a revenue increase of \$24,853 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 Beech Grove Water's monthly retail water service rates and to place this increase one year following the date of this Order to be fair, just and reasonable.

The Commission further finds that Beech Grove Water should be authorized to assess a monthly water surcharge of \$6.30 per customer for 48 months to fund its unaccounted-for water loss reduction efforts. The Commission shall open a separate case to monitor the surcharge collection and expenses with the following conditions:

(1) Within 120 days of the date of this Order, Beech Grove Water shall file with the Commission a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provided a detailed spending plan for the proceeds of a surcharge;

(2) Beech Grove Water shall deposit surcharge collection in a separate inter-bearing account;

(3) Beech Grove Water shall file monthly activity reports with the Commission that include a statement of monthly surcharge billings and collections, a monthly surcharge bank statement, a list of each payment from the account, its payee, and a description of the purpose, and invoice supporting each payment;

(4) Beech Grove Water shall file monthly water loss reports with the Commission;

(5) Surcharge proceeds shall not be used to reimburse Beech Grove Water for unaccounted-for water loss reduction expense incurred prior to the date of this Order;

(6) Beech Grove Water surcharge and water loss detection and repair program is subject to annual Commission reviews that will examine the progress of the water loss detection and repair program and expenditures made with surcharge proceeds and consider adjustments to the program and the surcharge amount; and

(7) Beech Grove Water's failure to comply with any conditions attached to the assessment of the surcharge will result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of the expenses and projects approved by the Commission.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Commission Staff's Report are adopted and are incorporated by reference into this Order.
2. The water service rates proposed by Beech Grove Water are denied.
3. Phase 1 rates set forth in Appendix B to this Order are approved for services rendered by Beech Grove Water 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 Beech Grove Water one year following the date of this Order.
5. One month prior to the effective date of the Phase 2 rates, Beech Grove Water 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, Beech Grove Water 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, Beech Grove Water shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth 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. Beech Grove Water is authorized to assess a monthly water surcharge of \$6.30 per customer for 48 months to fund its unaccounted-for water loss reduction efforts to the conditions set forth in ordering paragraph 7.

9. The Commission shall open a separate proceeding, Case No. 2022-00318 to monitor the surcharge proceeds collection and expenses, subject to the following conditions:

a. Within 120 days of the date of this Order, Beech Grove Water shall file with the Commission a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. Beech Grove Water shall deposit surcharge collections in a separate interest-bearing account. On the 15th day of each month for 48 months from the date of this Order or until all surcharge proceeds are expended, Beech Grove Water shall file with the Commission a monthly activity report that includes a statement of monthly surcharge billings and collections; a monthly surcharge bank statement; a list of each payment from the account, its payee, a description of the purpose; and invoices supporting each payment.

c. On the 15th day of each month for 48 months from the date of this Order or until all surcharge proceeds are expended, Beech Grove Water shall file a monthly water loss report with the Commission.⁴⁰

d. Beech Grove Water shall not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

e. Beech Grove Water shall consider all surcharge collections as contributions and shall account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

f. Beech Grove Water shall debit monthly billings for the surcharge to customers' accounts receivable and credit the contribution account.

g. When Beech Grove Water collects the surcharge from the customers, it shall debit special funds and credit the customer account.

h. One year after the date of entry of this Order and annually thereafter, Beech Grove Water shall file, in Case No. 2022-00318, a schedule of the estimated and actual progress of the water loss detection and repair program, and estimated and actual expenditures made with surcharge proceeds, for the purpose of evaluating whether adjustments to the program or to the surcharge amount are required.

10. Beech Grove Water's failure to comply with any of the conditions set forth in ordering paragraph 7 shall result in termination of the surcharge and the refund of

⁴⁰ The report format is found at <https://psc.ky.gov/Home/UtilForms> under "Water Use & Loss Calculations (Excel format)."

collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

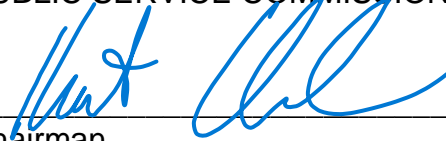
11. Beech Grove Water shall use the midpoint of the depreciable lives of the NARUC ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings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

12. Beech Grove Water is to begin retaining sufficient information in its utility records to properly calculate the costs required to install its meter taps.

13. 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.

14. 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. 2022-00054 DATED SEP 27 2022

	Test Year	Staff Report Adjustment	Commissin Adjustments	Final Pro Forma
Operating Revenues				
Sales of Water	\$ 344,018	\$ 93,373		\$ 437,391
Other Water Revenues	3,078	(876)		
		4,811		7,013
Total Operating Revenues	347,096	97,308		444,404
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	80,909	(2,183)		
		(5,566)		
		(454)		
		52		
		3,370		
		(3,325)		72,803
Salaries and Wages - Commissioners	0	0		0
Employee Pensions and Benefits		2,183		
		101		2,284
Purchased Water	215,049	87,769		
		(43,553)		259,265
Purchased Power for Pumping	5,378	(773)		4,605
Materials and Supplies	31,972	(5,546)		
		(3,325)		23,101
Contractual Services	11,621	(4,075)		7,546
Transportation Expense	5,501			5,501
Insurance	5,407			5,407
Regulatory Commission Expense	0	0		0
Bad Debt Expense	0			0
Miscellaneous Expense	8,761	454		9,215
Total Operation and Maintenance Expenses	364,598	25,129		389,727
Taxes Other Than Income		5,566		
		258		5,824
Depreciation	37,739	(21,812)		
		1,269		17,196
Total Operating Expenses	402,337	10,410		412,747
Net Operating Income	(55,241)	86,898		31,657
Interest Income	720			720
Income Available to Service Debt	\$ (54,521)	\$ 86,898		\$ 32,377

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00054 DATED SEP 27 2022

The following rates and charges are prescribed for the customers in the area served by Beech Grove Water, Inc. 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

Water Loss Reduction Surcharge* \$ 6.30 per customer

*To be collected over 48 months or until approximately \$177,304 has been collected.

Monthly Water Rates
Phase 2

To be implemented one year following Phase 1

5/8- x 3/4-Inch Meter

First	2,000 Gallons	\$ 21.25	Minimum Bill
Next	98,000 Gallons	0.00727	per gallon
Over	100,000 Gallons	0.00631	per gallon

Bulk Loading Station \$ 0.25 per 35 gallons

Water Loss Reduction Surcharge* \$ 6.30 per customer

*To be collected over 48 months or until approximately \$177,308 has been collected.

Nonrecurring Charges

Meter Resetting Charge	\$ 9.00
Meter Resetting Charge After Hours	\$ 40.00
Meter Test Request Charge	\$ 9.00
Meter Test Request Charge After Hours	\$ 40.00
Reconnection Charge	\$ 9.00

Reconnection Charge After Hours	\$ 40.00
Termination Charge	\$ 9.00
Termination Charge After Hours	\$ 40.00
Turn On Charge	\$ 9.00
Turn On Charge After Hours	\$ 40.00
Tap On Fee, 5/8- x 3/4-inch Meter	\$ 950.00

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