

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH)	CASE NO.
HOPKINS WATER DISTRICT FOR AN)	2022-00122
ALTERNATIVE RATE ADJUSTMENT)	

ORDER

On April 29, 2022,¹ South Hopkins Water District (South Hopkins District) filed its application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. In its application, South Hopkins District requested an increase in annual revenues from water sales of \$143,828, or 8.74 percent.² South Hopkins District did not request water rates that reflect the full revenue requirement. It requested water rates that would increase the monthly bill of a typical residential customer using 4,000 gallons per month by \$2.24, from \$33.90 to \$36.14, or approximately 6.50 percent.³

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated May 19, 2022, that was amended by Commission's August 12, 2022 Order, which, among other things, required the Commission Staff to file a report containing its recommendations regarding South Hopkins District's application. South Hopkins District responded to one request for information and Commission Staff

¹ South Hopkins District tendered its application on April 26, 2022. By letter dated April 26, 2022, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on April 29, 2022.

² Commission Staff's Report at 3.

³ Commission Staff's Report at 3–4.

conducted a limited financial field review at South Hopkins District's office on August 9, 2022. The Commission Staff's Report was issued on September 23, 2022, and South Hopkins District filed its written responses to Commission Staff's Report on October 3, 2022.

In the September 23, 2022 Commission Staff's Report, Commission Staff found that South Hopkins District's adjusted test-year operations support an overall revenue requirement of \$1,732,484 and that an annual increase of \$74,843, or 4.63 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 Hopkins District be allowed to assess a monthly water loss reduction surcharge of \$3.50 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

In its October 3, 2022 written comments to Commission Staff's Report, South Hopkins District disagreed with Commission Staff's recommended adjustments: to remove labor expenses from its nonrecurring charges; reduce employee salaries; and to require South Hopkins District's employees to contribute towards their insurance benefit premiums.⁷ South Hopkins District agreed with the remainder of Commission Staff's

⁴ Commission Staff's Report at 4–5.

⁵ Commission Staff's Report at 5–6.

⁶ Commission Staff's Report at 8–9.

⁷ South Hopkins District's Response to Commission Staff's Report (filed Oct. 3, 2022) at unnumbered page 1.

recommendations, but even though it thought Commission Staff's recommended rate increase is minimal, South Hopkins District did not wish to contest the recommended rate adjustment in this case.⁸

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 278.03 and case law, South Hopkins District is allowed to charge its customers "only fair, just, and reasonable rates."⁹ Further, South Hopkins 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 5:076, Section 6(3), water loss is limited to 15 percent for ratemaking purposes. South Hopkins District reported a water loss of 28.99 percent in its 2020 Annual Report.¹⁰ At a 28.99 percent water loss, the annual cost of water in excess of 15 percent is \$125,345 and the total cost of water loss to South Hopkins District is \$259,734, as calculated below.

⁸ South Hopkins District's Response to 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 v. Com. of Kentucky v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

¹⁰ *Annual Report of South Hopkins District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 59.

	Purchased Water	Purchased Power	Total
Test-Year Purchased Water and Purchased Power exp.	\$ 822,528	\$ 73,416	\$ 895,944
Multiplied by: Water Loss in Excess of 15%	13.99%	13.99%	13.99%
Cost of Water Loss in Excess of the 15% Limitation	<u>\$ 115,073</u>	<u>\$ 10,272</u>	<u>\$ 125,345</u>
Test-Year Purchased Water and Purchased Power exp.	\$ 822,528	\$ 73,416	\$ 895,944
Multiplied by: Test-Year Water Loss	28.99%	28.99%	28.99%
Total Cost of Water Loss	<u>\$ 238,451</u>	<u>\$ 21,283</u>	<u>\$ 259,734</u>

BACKGROUND

South Hopkins District, a water district organized pursuant to KRS Chapter 74, provides water service to approximately 3,009 residential, commercial, industrial, and public authorities customers in Caldwell and Hopkins counties, Kentucky.¹¹ South Hopkins District also provides wholesale water service to the city of Mortons Gap, the city of Earlington, and to Caldwell County Water District.¹² A review of the Commission's records indicates that South Hopkins District last sought an adjustment of rates through an ARF rate case procedure in calendar year 2018.¹³

TEST PERIOD

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

¹¹ 2020 Annual Report at 12 and 51.

¹² 2020 Annual Report at 58.

¹³ See Case No. 2018-00387, *Application of South Hopkins Water District for an Alternative Rate Adjustment* (Ky. PSC Apr. 16, 2019).

SUMMARY OF REVENUES AND EXPENSES

The Commission Staff's Report summarizes South Hopkins District's pro forma income statement as follows:¹⁴

	Test Year Operations	Commission Staff's Report	
		Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 1,676,625	\$ (18,984)	\$ 1,657,641
Operating Expenses	1,738,579	(232,431)	1,506,148
Net Utility Operating Income	<u>\$ (61,954)</u>	<u>\$ 213,447</u>	<u>\$ 151,493</u>

REVIEW AND MODIFICATIONS TO COMMISSION STAFF'S FINDINGS

South Hopkins District 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 recommendations contained in the Commission Staff's Report. Regarding any further modifications, the Commission has none.

OPERATING REVENUE AND OPERATING EXPENSES

Billing Analysis. South Hopkins District provided usage data by meter size, listing the water usage and water sales revenue for the 12-month test year ended December 31, 2020,¹⁵ as well as billing adjustments and leak adjustments. Commission Staff calculated the data provided within a normalized billing analysis, which determined that \$1,617,039 for all retail customers is an accurate representation of the normalized test-

¹⁴ See Appendix B for a detailed pro forma income statement.

¹⁵ South Hopkins District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Apr. 21, 2022), Items 17 and 18.

year revenue from water sales.¹⁶ In the Commission Staff's Report, Commission Staff recommended a decrease of \$28,645 to South Hopkins District's test-year Water Sales Revenue.¹⁷ The Commission finds that this adjustment is a known and measurable¹⁸ change to Total Metered Water Sales, is reasonable, and should be accepted.

Forfeited Discounts. In the Commission Staff's Report, Commission Staff recommended an increase of \$19,772 to South Hopkins District's test year Forfeited Discount revenues of \$5,838 to normalize late payment penalties to \$25,610, 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.¹⁹ The Commission finds that this adjustment meets the ratemaking criteria of being known and measurable, is reasonable and should be accepted.

Miscellaneous Service Revenues. In the Commission Staff's Report, Commission Staff discussed South Hopkins District's nonrecurring charges and the inclusion of estimated labor costs in those charges. Commission Staff recommended reducing the nonrecurring charges to reflect the removal of those labor costs, as discussed in more detail below, which would in turn require a reduction to Other Water Revenues in the

¹⁶ Commission Staff's Report at 11.

¹⁷ Commission Staff's Report at 11, Adjustment A.

¹⁸ See, 807 KAR 5:001E, 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 Therefore; (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).

¹⁹ Commission Staff's Report at 12, Adjustment B.

amount of \$10,111, to reflect the change in the nonrecurring charges.²⁰ In its response to Commission's Staff Report, South Hopkins District stated that it did not agree with the removal of the labor expenses from the nonrecurring charges but did not wish to contest the recommended adjustments.²¹

As discussed in more detail below in the section regarding nonrecurring charges, the Commission agrees with the Commission Staff's Report, which is consistent with recent Commission decisions, that labor costs paid for work during normal business hours should not be recovered through nonrecurring charges.²² The Commission reduces the nonrecurring charges in this Order below to reflect the removal of the estimated labor costs stated in the cost justification sheets as proposed by Commission Staff. Thus, the Commission finds that the corresponding adjustment of \$10,111 to Other Water Revenue is reasonable and should be accepted to reflect the reduction in revenue generated by the nonrecurring charges.

Employee Salaries and Wages. In the Commission Staff's Report, Commission Staff recommended that the Commission decrease test-year Employee Salaries and Wages expense by \$16,967.²³ Commission Staff's adjustment is based upon South Hopkins District's current staff level of seven full-time employees, 2,080 regular annual work hours, the actual test-year overtime worked, and the 2022 employee wage rates.²⁴

²⁰ Commission Staff's Report at 13, Adjustment C.

²¹ South Hopkin's Response to Commission Staff's Report (filed Oct. 3, 2022), paragraph 1.

²² Case No.2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment*, (Ky. PSC Nov. 6, 2020), at 19-20.

²³ Commission Staff's Report at 13–14, Adjustment D.

²⁴ Commission Staff's Report at 13–14.

In its response to the Commission Staff's Report, South Hopkins District explained that due to its low starting employee salaries, it had experienced a high level of employee turnover.²⁵ According to South Hopkins District, it increased its employee salaries so that they would be comparable to the salaries being paid by other companies in the local market.²⁶ South Hopkins District claims that reducing the employee salaries, as recommended by Commission Staff, would force its employees to seek higher paying entry level positions, causing an even higher employee turnover rate.²⁷

In reviewing the Commission Staff's proposed adjustment to Employee Salaries and Wages expense, the Commission discovered that Commission Staff did not reduce individual employee salaries, but rather reduced the reported expense level to reflect the salaries being paid by South Hopkins District to a younger, less-experienced staff. In the test-year, South Hopkins District reported that it had four Laborer positions, but in calendar year 2022, there are only three employees classified by South Hopkins District as Laborers. Furthermore, in the test-year the employee identified as the lead laborer was paid an hourly wage rate of \$18.95, but the current three laborers on South Hopkins District's staff are paid hourly wage rates ranging from \$15 to \$16.

The Commission finds that Commission Staff's proposed adjustment to Employee Salaries and Wages expense meets the ratemaking criteria of being known and measurable, is reasonable, and should be accepted.

²⁵ South Hopkins District's Response to Commission Staff's Report at unnumbered page 1, paragraph 2.

²⁶ South Hopkins District's Response to Commission Staff's Report at unnumbered page 1, paragraph 2.

²⁷ South Hopkins District's Response to Commission Staff's Report at unnumbered page 1, paragraph 2.

County Employment Retirement System (CERS). In the Commission Staff's Report, Commission Staff proposed an adjustment to decrease Employee Pensions and Benefits expense by \$42,522 to reflect application of the 26.79 percent employer CERS contribution rate to the pro forma employee salaries and wages expense for full-time employees of \$272,852.²⁸ The Commission finds, based on the evidence of record, that Commission Staff's adjustment is reasonable and should be accepted.

Employee Benefits. In the Commission Staff's Report, Commission Staff proposed an adjustment to decrease South Hopkins District's Employee Pensions and Benefits expense by \$45,595 consistent with recent Commission precedent regarding employee benefit packages.²⁹ Commission Staff's recommended adjustment reflects a reduction in the employee insurance premiums paid by South Hopkins District from 100 percent to 79 percent for single health insurance coverage and from 100 percent to 60 percent for dental insurance coverage based on contribution rates reported by the Bureau of Labor Statistics and The Willis Benchmarking Survey, respectively.³⁰

In its response to the Commission Staff's Report, South Hopkins District disagreed with the proposed adjustment to require South Hopkins District's employees to contribute

²⁸ Commission Staff's Report at 14–15, Adjustment E.

²⁹ Commission Staff's Report at 15–16, Adjustment F; *see also* Case No. 2019-00109, *Electronic Application of CitiPower, LLC for (1) An Adjustment of Rates Pursuant to 807 KAR 5:076; (2) Approval for a Certificate of Public Convenience and Necessity to Purchase Pipeline and Other Related Assets; and (3) Approval of Financing* (Ky. PSC Mar. 25, 2020), Order at 9 (“The Commission has placed greater emphasis on evaluating employee total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure fair rate development and has determined that in most cases, 100 percent employer-funded health and dental care does not meet that criteria.”).

³⁰ Commission Staff's Report at 15–16.

towards the premiums for their insurance benefits.³¹ South Hopkins District argued that it would lose valuable employees and would be forced to incur additional training costs for their replacements if its current employees are required to make a contribution towards their health insurance premiums.³² Also, South Hopkins District believes that requiring its employees to contribute 21 percent for their health insurance coverage and 60 percent for their dental coverage is unrealistic.³³

The Commission originally adopted its approach referred to in the Commission Staff's Report in an attempt to reign in employee benefit expenses by requiring all utility employees to pay an established portion of their premiums.³⁴ The Commission found that utilities subject to its regulatory oversight should limit their contributions to its employees' health plans to percentages that were more in line with those of other businesses in order to reduce its expenses.³⁵

Since Case No. 2016-00174, the Commission has consistently made ratemaking adjustments to reduce the cost of employee benefit packages paid by utilities when certain aspects of those benefit packages were found to be unreasonable based on a

³¹ South Hopkins District's Response to Commission Staff's Report at unnumbered page 1, paragraph 3.

³² South Hopkins District's Response to Commission Staff's Report at unnumbered page 1, paragraph 3.

³³ South Hopkins District's Response to Commission Staff's Report at unnumbered page 1, paragraph 3.

³⁴ Case No. 2016-00174 *Electronic Application of Licking Valley Rural Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC Mar. 1, 2017) at 10.

³⁵ Case No. 2016-00174 *Electronic Application of Licking Valley Rural Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC Mar. 1, 2017) at 10.

review of total salaries and fringe benefits.³⁶ The Commission evaluates the employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate.³⁷

Nothing presented by South Hopkins District convinces the Commission that South Hopkins District's policy of providing 100 percent of their employer-funded health benefits meets the established ratemaking criteria. Accordingly, the Commission finds that Commission Staff's recommendation to adjust test-year employee benefits expense to limit the insurance benefits provided to all South Hopkins District's employees based on the national average employee contribution rates is reasonable and should be accepted. However, the Commission emphasizes that the pro forma adjustment to employee benefit contributions is for ratemaking purposes only, meaning that the disallowed costs will not be directly recovered by South Hopkins District through their base water rates. The Commission Staff's recommended water rates provides South Hopkins District with adequate working capital to allow South Hopkins District to continue its current policy of funding 100 percent of its employee benefits package.

Total Revenue Requirement	\$ 1,732,484
Less: Pro Forma Operating Expenses	(1,506,148)
Less: Water Loss Adj. - 15% Limitation	(125,345)
Less: 5-Year Average Debt Service	(69,665)
Add: Depreciation expense	112,314
Working Capital	<u>\$ 143,640</u>

³⁶ See Case No. 2021-00241, *Electronic Application of Christian County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Feb 24, 2022) at 7–8; Case No. 2021-00369, *Electronic Application of Christian County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 17, 2022) at 11–12; and Case No. 2021-00406, *Electronic Application of South Hopkins County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 19, 2022) at 9–10.

³⁷ See Case No. 2019-00109, *CitiPower, LLC*, Order at 10–12.

Excess Water Loss. South Hopkins District's test year water loss was 28.99 percent.³⁸ 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 proposed adjustments to reduce Purchased Water expense by \$115,073 and Purchased Power expense by \$10,272 to eliminate the cost of water loss in excess of the 15 percent limitation.³⁹ 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. However, the Commission believes that it is in the customers' interest for South Hopkins District to correct its water loss, and therefore, is permitting a mechanism to allow it to do so as discussed in detail below.

Payroll Taxes. In the Commission Staff's Report, Commission Staff recommended that the Commission accept its proposed adjustment to decrease Payroll Tax expense by \$2,002.⁴⁰ The Commission finds, based on the evidence of record, Commission Staff's proposed payroll tax adjustment accurately reflects the level of South Hopkins District's payroll tax expense using the pro forma Employee Salaries and Wages expense and the test-year Commissioner Salaries and Wages expense, is reasonable and is accepted.

Based on the Commission's findings discussed above, the following table summarizes South Hopkins District's adjusted pro forma operations.⁴¹

³⁸ Commission Staff's Report at 17, Adjustment G.

³⁹ Commission Staff's Report at 17.

⁴⁰ Commission Staff's Report at 17–18, Adjustment H.

⁴¹ See Appendix B for a complete pro forma income statement.

	Commission Staff Pro Forma Operations	<u>Commission Order</u>	
		<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 1,657,641	\$ -	\$ 1,657,641
Operating Expenses	1,506,148		1,506,148
Net Utility Operating Income	<u>\$ 151,493</u>	<u>\$ -</u>	<u>\$ 151,493</u>

REVENUE REQUIREMENT

South Hopkins District calculated its revenue requirement and required increase using the operating ratio method. The Commission Staff's Report noted that 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.⁴² However, Commission Staff noted that the Commission has used the operating ratio method when there is no basis for a rate of return determination, the cost of the utility has been fully or largely funded through contributions, or there is little or no outstanding long-term debt.⁴³ Commission Staff also indicated that South Hopkins District's limited debt service payment fails to produce a revenue requirement sufficient to support South Hopkins District's financial operations or to provide for an adequate level of working capital, and therefore, recommended use of the operating ratio method as proposed by South Hopkins District.⁴⁴ The Commission agrees with Commission Staff that calculating South Hopkins District's revenue requirement with the operating ratio method is reasonable and that it should be used in this case.

⁴² Commission Staff's Report at 18.

⁴³ Commission Staff's Report at 18.

⁴⁴ Commission Staff's Report at 18–19.

Based upon the Commission’s findings and determinations made in this Order, South Hopkins District requires an increase in revenues of \$74,843, or 4.63 percent above the pro forma present rate revenues, as calculated below. This increase is required for South Hopkins District to remain operational and financially sound and have an opportunity to provide adequate, efficient, and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 1,506,148
Divide By: Operating Ratio	88%
Subtotal	<u>1,711,532</u>
Add: Average Annual Interest Expense	<u>20,952</u>
Total Revenue Requirement	1,732,484
Less: Other Operating Revenue	<u>(40,602)</u>
Revenue Required from Rates	1,691,882
Less: Normalized Revenues - Water Sales	<u>(1,617,039)</u>
Required Revenue Increase	<u>\$ 74,843</u>
Percentage Increase	<u>4.63%</u>

COST-SAVING INVESTIGATION

While the rates calculated by Commission Staff represent a fair recovery of expenses incurred by South Hopkins District in providing water service, the Commission notes it is concerned with the long-term sustainability of the level of its residential water rates. South Hopkins 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 city of Dawson Springs may offer some financial support in operations as well as cost-reduction goals. Acknowledging the known difficulties presented when municipalities merge with a jurisdictional utility, South Hopkins 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

Hopkins District should review the possibilities of merger or regionalization as part of a larger inquiry into a cost-reduction plan.

WATER LOSS REDUCTION SURCHARGE

For the calendar years 2018 through 2021, South Hopkins District’s reported water loss consistently exceeded the 15 percent limitation established in 807 KAR 5:066, Section (6)(3) as shown in the table below.⁴⁵

Year	Reported Percentage Water Loss	Purchased Water and Power	Cost of Water Loss in Excess of 15%	Total Cost of Water Loss
2017	17.68%	\$ 768,662	\$ 20,600	\$ 135,899
2018	25.94%	866,989	94,849	224,897
2019	36.11%	944,494	199,383	341,057
2020	28.99%	895,944	125,345	259,734
2021	37.77%	896,078	204,037	338,449

Although South Hopkins District did not specifically request a surcharge to fund its efforts to correct its chronic water loss problem, Commission Staff noted that the use of a surcharge is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for water loss⁴⁶ and that the Commission has ordered

⁴⁵ See *Annual Report of South Hopkins District to the Public Service Commission for the Calendar Year Ended December 31, 2017* at 51 and 58; *Annual Report of South Hopkins District to the Public Service Commission for the Calendar Year Ended December 31, 2018* at 52 and 59; *Annual Report of South Hopkins District to the Public Service Commission for the Calendar Year Ended December 31, 2019* at 52 and 59; *2020 Annual Report* at 52 and 59; and *Annual Report of South Hopkins District to the Public Service Commission for the Calendar Year Ended December 31, 2021* at 52 and 59.

⁴⁶ 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).

surcharges even when a utility has not specifically requested a surcharge.⁴⁷ Accordingly, Commission Staff recommended that the Commission authorize South Hopkins District's to charge a Water Loss Reduction Surcharge of \$3.50 per active meter per month for 48 months, to help lower system losses to more acceptable levels.⁴⁸ Commission Staff also recommended the Commission review the necessity to continue collecting the surcharge before the 48-month period expires.⁴⁹ The Water Loss Reduction Surcharge will produce \$125,167 per year for total collections over the four-year collection period of \$500,668.⁵⁰ The annual surcharge collection reflects the amount disallowed for excessive water loss pursuant to 807 KAR 5:066, Section 6(3).⁵¹

In establishing water-loss surcharges, the Commission recognized that the adjustments required to be made 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.⁵² Using a surcharge to fund a water district's water loss reduction project allows the

⁴⁷ See Case No. 2020-00311, *Electronic Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC Apr. 8, 2021), Order at 3.

⁴⁸ Commission Staff's Report at 8–9.

Excessive Water Loss Cost	\$ 125,345
Divide by: Number of Test-Year Bills	<u>35,762</u>
Water Loss Surcharge	<u><u>\$ 3.50</u></u>

⁴⁹ Commission Staff's Report at 8–9.

⁵⁰ \$3.50 (Monthly Water Loss Reduction Surcharge) x 35,762 (Annual Number of Bills) = \$125,167 (Annual Water Loss Reduction Surcharge Collections) x 4 (Four Year Collection Period) = \$500,668.

⁵¹ Commission Staff's Report at 17, Adjustment G.

⁵² See Case No. 2018-00311 *Electronic Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC Apr. 8, 2021) at 3.

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.⁵³ 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, Appendix L, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges,⁵⁴ the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.

Therefore, the Commission finds that a monthly surcharge is a reasonable means for South Hopkins District 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.⁵⁵ The Commission finds that a monthly Water Loss Reduction Surcharge of \$3.50 per active meter should be approved for 48 months, or until \$500,668 has been assessed, whichever occurs first, and that a review of the necessity to continue the surcharge beyond the 48-month period should be conducted before its expiration.

South Hopkins District should be restricted to expending any funds collected under the surcharge subject to authorization by the Commission. South Hopkins District should

⁵³ See Case No. 2018-00429 *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019) at 3.

⁵⁴ 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.

⁵⁵ 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.

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. The proceeds of South Hopkins District's Water Loss Reduction Surcharge should be used solely to fund South Hopkins District's unaccounted-for water loss reduction efforts as recommended in the Commission Staff's Report.

RATE DESIGN

South Hopkins District proposed to increase all of its monthly retail water service rates evenly across the board by approximately 6.65 percent. South Hopkins District has not performed a cost of service study (COSS). South Hopkins District stated that it did not consider filing a COSS as there were no material changes in the water system to warrant a COSS. In the Commission Staff's Report, Commission Staff followed the method proposed by South Hopkins District and allocated Commission Staff's calculated revenue increase across-the-board to South Hopkins 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 Hopkins 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 from water sales to recover the \$1,691,882 Revenue Requirement from rates, an approximate 4.63 percent over the normalized test-year water sales of

\$1,617,039. The monthly bill of a typical residential customer using 4,000 gallons, including the water loss recovery surcharge, will increase from \$33.90 to \$38.97, an increase of \$5.07, or approximately 14.96 percent.⁵⁶

NONRECURRING CHARGES

The Commission continues to follow its previous decisions regarding nonrecurring charges: Personnel are paid during normal business hours and their salaries should be recovered through base rates.⁵⁷ 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. Thus, as discussed above, the Commission finds that the labor costs should be removed from the nonrecurring charges as proposed by Commission Staff, and therefore, that the nonrecurring charges reflected in Appendix A to this Order are reasonable and should be accepted.

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 further finds that allocating the calculated revenue increase across the board to South Hopkins District's monthly water service rates to be fair, just

⁵⁶ The monthly water loss recovery surcharge is \$3.50. The monthly bill increase of a typical customer before the water loss recovery surcharge is from \$33.90 to \$35.47, an increase of \$1.57 or approximately 4.63 percent.

⁵⁷ Case No.2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment*, (Ky. PSC Nov. 6, 2020).

and reasonable. Thus, the Commission finds that the water service rates proposed by South Hopkins District should be denied and that the water service rates and nonrecurring charges set forth in Appendix A to this Order are fair, just and reasonable and should be approved for service rendered on or after the date of this Order.

South Hopkins District should also be authorized to assess a Water Loss Reduction Surcharge of \$3.50 per active meter per month for 48 months, or until \$500,668 has been assessed, whichever occurs first. Before the end of the collection period for Water Loss Reduction Surcharge, a review of the necessity to continue the surcharge beyond the 48-month period should be conducted. The Commission will 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, South Hopkins District 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. South Hopkins District shall deposit surcharge collection in a separate inter-bearing account;

3. South Hopkins District 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, the payee, and a description of the purpose, and invoice supporting each payment;

4. South Hopkins District shall file monthly water loss reports with the Commission;

5. Surcharge proceeds shall not be used to reimburse South Hopkins District for unaccounted-for water loss reduction expense incurred prior to the date of this Order;

6. South Hopkins District's 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. South Hopkins District'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 South Hopkins District are denied.

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

4. The nonrecurring charges set forth in Appendix A to this Order are approved for services rendered by South Hopkins District on and after the date of service of this Order.

5. South Hopkins 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 Hopkins District shall

not make adjustments to accumulated depreciation or retained earnings to account for this change in the accounting estimate.

6. South Hopkins District is authorized to assess a monthly Water Loss Reduction Surcharge of \$3.50 per meter per month for 48 months, or until \$500,668 has been assessed, whichever occurs first, to fund its unaccounted-for water loss reduction efforts as set forth in the Commission Staff's Report, subject to the conditions set forth in ordering paragraph 7. Before the end of the collection period of the Water Loss Reduction Surcharge, a review of the necessity to continue the surcharge beyond the 48-month period shall be conducted.

7. The Commission shall open a separate proceeding, Case No. 2023-00018⁵⁸ to monitor the surcharge proceeds collection and expenses, subject to the following conditions:

a. Within 120 days of the date of service of this Order, South Hopkins District 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. South Hopkins District 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, South Hopkins District shall file with the Commission a monthly activity report that includes a statement of

⁵⁸ Case No. 2023-00018, *Electronic South Hopkins Water District Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring*.

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 service of this Order or until all surcharge proceeds are expended, South Hopkins District shall file a monthly water loss report with the Commission.⁵⁹

d. South Hopkins District shall not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

e. South Hopkins District 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. South Hopkins District shall debit monthly billings for the surcharge to customers' accounts receivable and credit the contribution account.

g. When South Hopkins District collects the surcharge from the customers, it shall debit special funds and credit the customer account.

h. One year after the date of service of this Order and annually thereafter, South Hopkins District shall file in Case No. 2023-00018 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.

⁵⁹ The report format is found at <https://psc.ky.gov/Home/UtilForms> under "Water Use & Loss Calculations (Excel format)."

8. South Hopkins District's failure to comply with the conditions set forth in ordering paragraph 7 shall result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

9. Within 20 days of the date of service of this Order, South Hopkins 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.

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

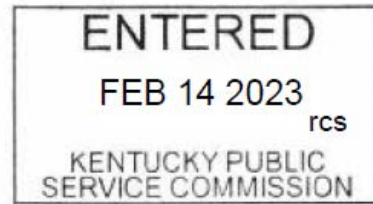
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PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00122 DATED FEB 14 2023

The following rates and charges are prescribed for the customers in the area served by South Hopkins 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	1,000 Gallons	\$13.36	Minimum Bill
Next	9,000 Gallons	0.00737	Per Gallon
Next	10,000 Gallons	0.00688	Per Gallon
Next	30,000 Gallons	0.00639	Per Gallon
Over	50,000 Gallons	0.00548	Per Gallon

1-Inch Meter

First	10,000 Gallons	\$79.66	Minimum Bill
Next	10,000 Gallons	0.00688	Per Gallon
Next	30,000 Gallons	0.00639	Per Gallon
Over	50,000 Gallons	0.00548	Per Gallon

2-Inch Meter

First	10,000 Gallons	\$148.38	Minimum Bill
Next	30,000 Gallons	0.00639	Per Gallon
Over	50,000 Gallons	0.00548	Per Gallon

3-Inch Meter

First	60,000 Gallons	\$340.13	Minimum Bill
Over	50,000 Gallons	0.00548	Per Gallon

Wholesale Rates

All	0.00330	Per Gallon
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Monthly Water Loss Reduction Surcharge \$3.50 per customer
To be collected over 48 months or
until \$500,668 has been assessed,
whichever occurs first.

Nonrecurring Charges

Late Payment Charge	10%
Connection Turn-On Charge	\$ 13.00
Reconnection Charge	\$ 13.00
Reconnection Charge After-Hours	\$ 96.00
Returned Payment Charge	\$ 0.00
Service Call / Investigation	\$ 13.00
Service Call / Investigation After-Hours	\$ 96.00
Meter Test Request	\$ 13.00

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00122 DATED FEB 14 2023

Detailed Pro Forma Income Statement

	Test Year Operations	Commission Staff's Report		Commission Order	
		Pro Forma Adjustments	Pro Forma Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues:					
Operating Revenues- Water Sales	\$ 1,645,684	\$ (28,645)	\$ 1,617,039		\$ 1,617,039
Other Water Revenues:					
Forfeited Discounts	5,838	19,772	25,610		25,610
Misc. Service Revenues	25,029	(10,111)	14,918		14,918
Other Water Revenue	74		74		74
Total Other Water Revenues	30,941	9,661	40,602	0	40,602
Total Operating Revenues	1,676,625	(18,984)	1,657,641	0	1,657,641
Operating Expenses:					
Operation and Maintenance:					
Salaries and Wages - Employees	289,819	(16,967)	272,852		272,852
Salaries and Wages - Officers	18,200		18,200		18,200
Employee Pensions and Benefits	226,107	(42,522)	137,990		137,990
Purchased Water	822,528	(115,073)	707,455		707,455
Purchased Power	73,416	(10,272)	63,144		63,144
Materials and Supplies	79,299		79,299		79,299
Contractual Services	11,100		11,100		11,100
Water Testing	10,022		10,022		10,022
Transportation Expenses	21,570		21,570		21,570
Insurance - Gen. Liab. & Workers Comp.	24,908		24,908		24,908
Bad Debt	5,112		5,112		5,112
Miscellaneous Expenses	19,917		19,917		19,917
Total Operation and Maint.. Expenses	1,601,998	(230,429)	1,371,569	0	1,371,569
Depreciation Expense	112,314		112,314		112,314
Taxes Other Than Income	24,267	(2,002)	22,265		22,265
Total Operating Expenses	1,738,579	(232,431)	1,506,148	0	1,506,148
Net Utility Operating Income	\$ (61,954)	\$ 213,447	\$ 151,493	\$ -	\$ 151,493

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