

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF HENDERSON)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2023-00101
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On April 6, 2023,¹ Henderson County Water District (Henderson District) filed its application with the Commission requesting an adjustment to its water rates pursuant to 807 KAR 5:076. Henderson District filed this proceeding in compliance with the final Orders in Case No. 2022-00013, Case No. 2022-00034, and Case No. 2023-00041.² In those proceedings, Henderson District was ordered to file an application by February 10, 2023, for either a general adjustment in rates or for an alternative rate adjustment (ARF) to ensure its revenue is sufficient to support adequate and reliable service.³

¹ Henderson District tendered the majority of its application on April 5, 2023. However, Henderson District did not file its disclosures as required by 807 KAR 5:076, Section 4(h), until April 6, 2023. The application was therefore not considered complete and filed until April 6, 2023.

² See Case No. 2022-00013, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Feb. 10, 2022), final Order (in which Henderson District was ordered to file a rate case by February 10, 2023); Case No. 2022-00034, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Mar. 16, 2022) (in which Henderson District was again ordered to file a rate case by February 10, 2023); Case No. 2023-00041, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Mar. 2, 2023) (in which Henderson District was ordered to file a rate case as soon as possible)

³ On February 10, 2023, the date by which Henderson District had been ordered to file its application for an adjustment of rates, Henderson District instead filed a request for an extension of time to submit its application. See Case No. 2022-00034, Motion for Extension, Post Case Files (filed Feb. 10, 2023). The request was denied as moot following Henderson District's application in this case. Case No. 2022-00034, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC May 15, 2023), Order.

In its application, Henderson District requested an increase in annual revenues from water sales of \$321,150,⁴ or 10.19 percent.⁵

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated April 28, 2023, which, among other things, required the Commission Staff to file a report containing its recommendations regarding Henderson District's application. Henderson District responded to two requests for information from Commission Staff. On August 22, 2023, Commission Staff issued its report (Commission Staff's Report) summarizing its recommendations regarding Henderson District's requested rate adjustment.

In the Commission Staff's Report, Commission Staff applied the Debt Service Coverage (DSC) method, as generally accepted by the Commission.⁶ As a result of Staff's investigation, Commission Staff found that, to meet the Overall Revenue Requirement of \$3,475,790, Henderson District's required revenue from water sales was \$3,374,773. Consequently, Commission Staff found that a \$223,245 revenue increase (or 7.08 percent), to pro forma present rate revenues was necessary to generate the Overall Revenue Requirement.⁷ In the absence of a cost of service study (COSS), Commission Staff allocated the \$223,245 revenue increase evenly across the board to Henderson District's monthly retail and wholesale water service rates.⁸ Finally, to address

⁴ Application at 3, paragraph 10.

⁵ Application, attachment 1, Henderson County Water District Customer Notice.

⁶ Though not part of Staff's Report, Henderson District did not perform a COSS justifying the decision in its application by stating that there have been no material changes in the water system.

⁷ Commission Staff's Report at 5.

⁸ Commission Staff's Report at 8.

Henderson District's water loss, Commission Staff recommended instituting Henderson District's request for a water loss reduction surcharge. Henderson District requested a surcharge of \$1.30. In its calculation, Henderson District, used a water loss percent of 21.7992, which was different from its 2021 Annual Report water loss of 24.2780 percent. Commission Staff used 24.2780 percent water loss and calculated disallowed water loss expense of \$146,055. Commission Staff calculated the number of bills issued at 78,048 by multiplying the test year customer count of 6,504 by 12. Commission Staff used the number of bills of 78,048 and disallowed water loss expense of \$146,055 to reach a water loss surcharge of \$1.87 as shown in the table below. Commission Staff recommended a surcharge of \$1.87 per active meter for a temporary period of 48 months.⁹

	Henderson District	Commission Staff	Difference
Disallowed Water Loss	\$ 99,004	\$ 146,055	\$ 47,051
No. of Bills	76,009	78,048	
Monthly Surcharge	\$ 1.30	\$ 1.87	\$ 0.57

On August 24, 2023, Henderson District filed its response to Commission Staff's Report. Henderson District stated that it did not agree with Commission Staff's removal of certain labor expenses from nonrecurring charges; however, Henderson District stated that it would not contest the adjustment in this proceeding.¹⁰ Henderson District concurs with the remainder of the recommendations presented in the Commission Staff's Report. In its response, Henderson District waived its right to request an informal conference or hearing.¹¹ The case now stands submitted for a decision by the Commission.

⁹ Commission Staff's Report at 7.

¹⁰ Henderson District's Response to Commission Staff's Report.

¹¹ Henderson District's Response to Commission Staff's Report.

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, Henderson District is allowed to charge its customers "only fair, just and reasonable rates."¹² Further, Henderson District bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

Henderson District is a water utility organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 6,237 residential customers 267 commercial customers residing in Henderson and Webster counties, Kentucky.¹³ A review of the Commission's records indicates that this is Henderson District's first rate adjustment proceeding, other than purchased water adjustments, since an alternative rate adjustment case was concluded in November 2013.¹⁴

¹² *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

¹³ *Annual Report of Henderson District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 49.

¹⁴ Case No. 2013-00154, *Application of Henderson County Water District for an Alternative Rate Filing Adjustment* (Ky. PSC Nov. 14, 2013).

UNACCOUNTED-FOR WATER LOSS

Commission regulation 807 KAR 5:066, Section (6)3, states that “for ratemaking purposes, a utility’s water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water consumed by a utility in its own operations.” The Commission Staff’s Report noted that Henderson District’s test-year water loss was 24.2780 percent in its 2021 Annual Report. At a 24.2780 percent water loss, the total annual cost of water loss to Henderson District is \$382,185, and the annual cost of water in excess of 15 percent is \$146,055 as calculated below.

<u>Total Water Loss</u>	<u>Purchased Water</u>	<u>Purchased Power</u>	<u>Total</u>
Purchases	\$ 1,517,322	\$ 68,706	\$ 1,586,028
Less Office Power ()		(11,824)	(11,824)
Pro Forma Purchases	\$ 1,517,322	\$ 56,882	\$ 1,574,204
Water Loss Percent	24.2780%	24.2780%	
Total Water Loss	<u>\$ 368,375</u>	<u>\$ 13,810</u>	<u>\$ 382,185</u>

<u>Disallowed Water Loss</u>	<u>Water</u>	<u>Power</u>	<u>Total</u>
Pro Forma Purchases	\$ 1,517,322	\$ 56,882	\$ 1,574,204
Water Loss in Excess of 15%	9.2780%	9.2780%	9.2780%
Disallowed Water Loss	<u>\$ 140,777</u>	<u>\$ 5,278</u>	<u>\$ 146,055</u>

TEST PERIOD

The calendar year ending on December 31, 2021, was used as the test year to determine the reasonableness of Henderson District’s existing and proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff’s Report summarizes Henderson District’s pro forma income statement as follows:

	Commission Staff's Report		
	Test-Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 3,261,079	\$ (18,342)	\$ 3,242,737
Operating Expenses	3,017,502	10,965	3,028,467
Net Utility Operating Income	243,577	(29,307)	214,270
Interest Income	9,808	0	9,808
Total Utility Operating Income	<u>\$ 253,385</u>	<u>\$(29,307)</u>	<u>\$ 224,078</u>

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Henderson District proposed adjustments to its 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. The following is the Commission Staff's complete pro forma:

	Henderson County Water District			Commission Staff	Total	(Ref.)	Pro Forma
	Test Year	Adjustments	Adjustment	Adjustment			
Operating Revenues							
Total Metered Retail Sales	3,163,386	(11,858)			(11,858)	(A)	3,151,528
Private Fire Protection	0				0		0
Sales for Resale	0				0		0
Other Water Revenues:							
Forfeited Discounts	0		76,590		76,590	(B)	76,590
Misc. Service Revenues	21,103		(15,745)		(15,745)	(B)	
			9,261		9,261	(B)	14,619
Other Water Revenues	76,590		(76,590)		(76,590)	(B)	0
Total Operating Revenues	3,261,079	(11,858)	(6,484)		(18,342)		3,242,737
Operating Expenses							
Operation and Maintenance Expenses							
Salaries and Wages - Employees	436,307	96,686			96,686	(C)	532,993
Salaries and Wages - Officers	8,400		600		600	(D)	9,000
Employee Pensions (CERS)	248,134	32,196	(7,095)		25,101	(E)	
			(152,233)		(152,233)	(E)	121,002
Employee Benefits (Medical, Life)	126,358	(21,928)			(21,928)	(F)	
			(28,516)		(28,516)	(F)	75,914
Purchased Water	1,387,417	(94,333)	(46,444)		(140,777)	(G)	
			129,905		129,905	(G)	1,376,545
Purchased Power	68,706	(4,671)	(607)		(5,278)	(H)	63,428
Chemicals	0				0		0
Materials and Supplies	194,179				0		194,179
Contractual Services - Accounting	14,915				0		14,915
Contractual Services - Mangement	0				0		0
Contractual Services - Other	3,238				0		3,238
Rental of Building/Real Property	0				0		0
Transportation Expense	31,481				0		31,481
Insurance - General Liability	25,818				0		25,818
Insurance - Other	13,090				0		13,090
Bad Debt Expense	11,454				0		11,454
Miscellaneous Expense	11,790				0		11,790
Total Operation and Maintenance Expenses	2,581,287	7,950	(104,390)		(96,440)		2,484,847
Depreciation Expense	398,042	98,609			98,609	(I)	496,651
Taxes Other Than Income	38,173	8,796			8,796	(J)	46,969
Total Operating Expenses	3,017,502	115,355	(104,390)		10,965		3,028,467
Net Operating Income	243,577	(127,213)	97,906		(29,307)		214,270
Interest Income	9,808				0		9,808
Income Available to Service Debt	253,385	(127,213)	97,906		(29,307)		224,078

REVENUE REQUIREMENTS

Billing Analysis. Henderson District provided usage data by meter size, listing the water usage and water sales revenue for the 12-month test year ended December 31, 2021. In its application, Henderson District proposed a reduction of \$11,858 to its test-

year revenues of \$3,163,386, for an adjusted test-year normalized revenues of \$3,151,528.

Following a review of the billing analysis and list of water sales adjustments,¹⁵ Commission Staff agreed with Henderson District that the proposed adjustments met the ratemaking criteria of being known and measurable.

Commission Staff agreed with Henderson District that the billing analysis and adjustments resulted in a normalized revenue based on the evidence provided.

The Commission finds these adjustments and the normalized revenue are reasonable and approves the adjustment.

Miscellaneous Service Revenue and Forfeited Discounts. Henderson District did not propose any adjustments to its Miscellaneous Service Revenues and Other Water Revenues categories, which totaled \$21,103.¹⁶

Following its review of Henderson District's 2021 General Ledger,¹⁷ Commission Staff determined that Henderson District misclassified Forfeited Discounts as Other Water Revenues in its application.¹⁸ Consequently, Commission Staff reclassified \$76,590 from Other Water Revenues to Forfeited Discounts which required a reduction to Other Water Revenues of \$76,590 and an increase to Forfeited Discounts of \$76,590.

¹⁵ Henderson District's Response to Staff's First Request, Item 7(b).

¹⁶ Application, Attachment 4 at 2.

¹⁷ Henderson District's Response to Staff's First Request, Item 8, 8_General_Ledger.xlsx.

¹⁸ Application, Attachment 4, Schedule of Adjusted Operations (SAO).

The Commission finds this reclassification and the resulting adjustment of \$76,590 to be reasonable because it corrects an error, and conforms to general accounting principles.

Salaries and Wages – Employees. In its application, Henderson District proposed a \$96,686 increase to Salaries and Wages – Employees to ostensibly reflect an increase in wage rates since 2021.¹⁹ Henderson District provided Board minutes approving increase in wage rates.²⁰

Following its review of Henderson District's calculations and evidence, Commission Staff, in its Report, agreed with Henderson District that the proposed adjustment met the ratemaking criteria of being known and measurable based upon the evidence provided. Commission Staff included the increase in its pro forma operating expenses.

The Commission finds this adjustment is reasonable because it is a known and measurable change to Salaries and Wages – Employees and therefore accepts the adjustment.

Salaries and Wages – Officers. In its application, Henderson District proposed no adjustment to Salaries and Wages – Officer's expense.²¹ Henderson District reported its test year Salaries and Wages – Officers expense as \$8,400.

In the Commission Staff Report, Commission Staff noted that Henderson District has five board members with a monthly salary of \$150 according to Fiscal Court minutes

¹⁹ Application, Attachment 4, SAO, Adjustment B.

²⁰ Henderson District's Response to Staff's First Request, Item 21, 21_Board_Minutes_2022.pdf.

²¹ Application, Attachment 4, SAO.

that Henderson District provided,²² which results in an annual expense of \$9,000. Based upon this information, Commission Staff included an increase of \$600 to Salaries and Wages - Officers.

The Commission finds this adjustment is reasonable because the change to Salaries and Wages – Officers reflects the current wages of the five board members according to the evidence of record and accepts the adjustment.

Employee Pensions. In its application, Henderson District proposed a \$32,196 increase to Employee Pensions and Benefits expense to reflect an increase in County Employees Retirement System (CERS) contributions due to increase in wage rates.²³ As discussed above Henderson District provided Board minutes approving increase in wage rates.²⁴

In the Commission Staff Report, Commission Staff noted that the CERS contribution rate changed from 26.95 percent to 23.34 percent effective July 1, 2023.²⁵ Additionally, Commission Staff noted that while Henderson Districts used a test year pension amount of \$107,522 for the basis of its adjustment, following Commission Staff's review of Henderson District's 2021 general ledger, the appropriate pension expense amount was \$248,134 using the correct contribution rate of 23.34 percent.²⁶ Furthermore, Commission Staff noted in its report that Henderson District did not make Governmental

²² Henderson District's Response to Staff's First Request, Item 15, 15_Fiscal_Court_Minutes.pdf.

²³ Application, Attachment 4, SAO, Adjustment C.

²⁴ Henderson District's Response to Staff's First Request, Item 21, 21_Board_Minutes_2022.pdf.

²⁵ Kentucky Public Pensions Authority, CERS Employer Contribution Rates, Contribution Rates - Kentucky Public Pensions Authority. (<https://www.kyret.ky.gov/Employers/Pages/ContributionRates.aspx>).

²⁶ Commission Staff's Report at 15.

Accounting Standards Board (GASB) adjustments 68 and 74 to its test year CERS contribution.²⁷ Based on these findings Commission Staff made two adjustments. The first adjustment was a \$7,095 decrease to Henderson District's proposed adjustment for a total adjustment of \$25,101 to Employee Pensions (CERS) expense to reflect the correct CERS contribution percent of 23.345. The second adjustment was a \$152,233 decrease to Employee Pensions (CERS) expense to reflect a GASB 68 and 74 adjustment to the test year amount of Pension expense.

The Commission finds that the recommended adjustments are reasonable and should be accepted because they reflect the current CERS contribution rate and correct GASB pension adjustments to Henderson District's Employee Pensions and Benefits expense as documented by evidence in the record.

Employee Benefits (Medical, Life). In its application, Henderson District proposed to decrease its Employee Pensions and Benefits expense by \$21,928 to reflect the allowable health insurance premium based on the Bureau of Labor Statistics (BLS), which is consistent with Commission precedent.

While Commission Staff agreed with a calculated decrease, two adjustments were made in the Staff Report.²⁸ The first adjustment was to Henderson District's test year medical expense of \$111,614, which also did not include life insurance. By reviewing the 2021 general ledger, Commission Staff determined that the appropriate test-year medical expense was \$141,752 and that the appropriate life insurance sum was \$1,646. For the second adjustment, Commission Staff calculated a \$28,516 decrease to Employee

²⁷ Commission Staff's Report at 15.

²⁸ Commission Staff's Report at 16.

Benefits expense to correct Henderson District's test-year medical and life expense to its 2021 general ledger amount.

The Commission finds these adjustments are reasonable as they are consistent with Commission precedent on allowable health insurance premium expenses²⁹ and reflect the difference in test-year medical expenses and what Henderson District filed in its Standard of Adjusted Operations.

Taxes Other Than Income – FICA. In its application, Henderson District proposed to increase its Taxes Other Than Income expense by 8,796 to reflect in the increase in wage rates since the test year. As discussed above Henderson District provided Board minutes approving increase in wage rates.³⁰

In Commission Staff's Report, Commission Staff accepted Henderson District's proposed \$8,796 increase to Taxes Other Than Income because it reflects the increases in wage rates since 2021 as documented in the case record.³¹

The Commission finds this proposed increase to Taxes Other Than Income to be reasonable as it is a known and measurable change and supported by evidence in the record.

Purchased Water Expense. As stated above, Henderson District's test-year water loss was 24.2780 percent, based on the 2021 Annual Report and more than the amount stated in the application. Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes, unless the Commission finds an

²⁹ See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), at 9-10, and Bureau of Labor Statistics.

³⁰ Henderson District's Response to Staff's First Request, Item 21, 21_Board_Minutes_2022.pdf.

³¹ Commission Staff's Report at 20.

alternative level is reasonable. In its application, Henderson District proposed reducing the Purchased Water expense by \$94,333 to reflect the maximum allowable water loss expense collectable, for ratemaking purposes, of 15 percent.

However, following Commission Staff’s review of Henderson District’s calculation Commission Staff noted that Henderson District used a water loss percentage of 21.7992 in its adjustment calculation instead of the 24.2780 percent water loss.³² Based on the 24.2780 percent water loss, Commission Staff calculated a total decrease to Purchased Water expense of \$140,777, which required an adjustment of \$46,444.

	Henderson District	Commission Staff	Difference
Pro Forma Purchased Water	\$ 1,387,417	\$ 1,517,322	\$ 129,905
Water Loss Percent	21.7992%	24.2780%	2.4788%
Water Loss Percent in Excess of 15%	6.7992%	9.2780%	2.4788%
Adjustment	\$ 94,333	\$ 140,777	\$ 46,444

Additionally, Commission Staff identified a purchased water adjustment approved during 2023 but not reflected in Henderson District’s pro forma Purchased Water expense.³³ Consequently, in the Commission Staff’s Report, Commission Staff calculated a \$129,905 increase to Purchased Water expense to reflect the expense increase from the approved water adjustment, as shown in the following table.

³² Henderson District’s Response to Staff’s First Request, Item 22, 22_Rate_Study.xlsx.

³³ Case No. 2023-00041, *Electronic Purchased Water Adjustment Filing for Henderson County Water District* (Ky. PSC Mar. 2, 2023).

	Henderson Water Utility North	Henderson Water Utility South	Total
Gallons ('000 omitted)	433,747	28,577	462,324
Current Purchase Rate	\$ 3.304	\$ 2.955	\$ 3.2819
Pro Forma Cost	\$ 1,432,883	\$ 84,439	1,517,322
Test Year Purchase Cost ()			(1,387,417)
Increase in Purchase Cost			\$ 129,905

The Commission finds that Commission Staff's adjustments to Purchased Water Expense are reasonable because they reflect the current wholesale purchase water rate for Henderson District and the actual test-year water loss.

Purchased Power Expense. In its application, Henderson District proposed a decrease of \$4,671 to Purchased Power expense to reflect the maximum allowable water loss expense collected for ratemaking purposes of 15 percent.³⁴

As noted above, Commission Staff found that Henderson District used a different water loss percent in its calculation than what was in its 2021 annual report.³⁵ Commission Staff also noted Henderson District included Telephone/Office expense in its calculation of its test year Purchased Power expense. As shown in the table below, applying the 2021 water loss of 24.2780 percent for Henderson District, and removing the Telephone/Office expense, Commission Staff calculated a \$607 reduction to Henderson

³⁴ Commission Staff's Report at 19.

³⁵ 2021 Annual Report at 57.

District's adjustment for a total decrease to Purchased Power expense of \$5,278.

	Henderson District	Commission Staff	Difference
Test Year Purchased Power	\$ 68,706	\$ 68,706	\$ -
Less: Test Year Office Utilities		(11,824)	(11,824)
Adjusted Test Year Purchased Power	68,706	56,882	(11,824)
Water Loss Percent	21.7992%	24.2780%	2.4788%
Water Loss Percent in Excess of 15% Adjustment	6.7992%	9.2780%	2.4788%
	\$ 4,671	\$ 5,278	\$ 607

The Commission finds Commission Staff's adjustments to Purchased Power expense are reasonable as they reflect the actual test-year water loss and corrected an expense amount, as well as reflecting the maximum allowable water loss expense collected for ratemaking purposes of 15 percent.

Depreciation. In its application, Henderson District proposed a \$98,609 increase to Depreciation expense ³⁶ 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 titled *Depreciation Practices for Small Water Utilities* (NARUC Study).

In the Commission Staff's Report, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges and agreed with Henderson District's adjustment to increase pro forma Depreciation Expense by \$98,609. To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC Study. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has used the midpoint of the NARUC ranges to depreciate the utility plant.

³⁶ Commission Staff's Report at 19-20.

The Commission finds that this adjustment is a known and measurable change to Depreciation Expense, is in conformity with past Commission practice, is reasonable, and should be accepted.

OVERALL REVENUE REQUIREMENTS

Commission Staff's Report recommended using the Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) full recovery of depreciation expense, a non-cash item, to provide working capital; (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense and generally required in bond covenants. The Commission finds that use of the DSC methodology is reasonable since Henderson District has four long-term debt obligations.³⁷

Based upon the Commission's determinations contained in this Order, the Commission finds that Henderson District requires an increase in revenues from water sales of \$223,245, or 7.08 percent above pro forma present water rate revenues as shown below. This increase is required for Henderson District to remain operationally and financially sound while providing adequate, efficient and reasonable service to its customers.

³⁷ Case 2016-00133, *Application of Henderson County Water District to Issue Securities in the Approximate Principal Amount of \$3,225,000 for the Purpose of Reamortizing a Certain Outstanding Loan of the District.*

Pro Forma Operating Expenses	\$ 3,028,467
Plus: Average Annual Principal and Interest Payments	372,769
Additional Working Capital	74,554
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Total Revenue Requirement	3,475,790
Less: Miscellaneous Service Revenues	(14,619)
Other Water Revenues	(76,590)
Interest Income	(9,808)
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Revenue Required from Sales of Water	3,374,773
Less: Pro Forma Present Rate Service Revenues	(3,151,528)
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Required Revenue Increase	\$ 223,245
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Percentage Increase	7.08%
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Water Loss Reduction Surcharge. In the Commission Staff's Report, Commission Staff stated that Henderson District requested to implement a water loss reduction surcharge.³⁸ Commission Staff calculated a water loss reduction surcharge using Henderson District's 2021 annual report water loss of 24.2780 percent.³⁹ Commission Staff used the 24.2780 percent water loss from the 2021 annual report and calculated disallowed water loss expense of \$146,055. As discussed at the beginning of this Order Commission Staff calculated the number of bills at 78,048.⁴⁰ Commission Staff calculated a water loss surcharge of \$1.87 as shown in Appendix B. Commission Staff recommended the Commission allow a monthly water loss surcharge of \$1.87 for 48 months or \$584,220 for the life of the surcharge.

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 utilities with excessive

³⁸ Commission Staff's Report at 6.

³⁹ Commission Staff's Report at 6.

⁴⁰ Commission Staff's Report at 6

unaccounted-for water loss.⁴¹ In establishing water-loss surcharges, the Commission 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. 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 utility's use of those funds. 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.⁴²

Therefore, the Commission finds that a monthly surcharge is a reasonable means for Henderson District to recover the cost for its water leak detection efforts and repairs in order to reduce the increased expense and lost revenue from unaccounted-for water

⁴¹ 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).

⁴² 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

loss. The Commission finds that a monthly water loss reduction surcharge of \$1.87 per customer over 48 months should be approved.

The proceeds of Henderson District's Water Loss Reduction Surcharge should be used solely to fund Henderson District's unaccounted-for water loss reduction efforts as set forth in the Commission Staff's Report. Henderson District should be restricted to expending any funds collected under the surcharge subject to authorization by the Commission. Henderson District 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 should be kept in a separate, interest-bearing account. Henderson District should file an annual report of surcharge activity and water loss improvement progress no later than April 30 of each year. The report should be based on the preceding year ended December 31 with reported surcharge billings and expenditures reflecting the amounts reported for surcharge activity in the financial and statistical Annual Report filed with the Commission and Henderson District's audited financial statements.

RATE DESIGN

The rates and surcharge requested by Henderson District would increase the customer's monthly bill of a typical residential customer using 4,000 gallons per month by \$4.98, from \$36.14 to \$41.12, or approximately 13.78 percent, of which \$1.30 or 3.60 percent is due to the water loss surcharge. Henderson District proposed to increase all of its monthly retail water service rates evenly across the board by approximately 10.19

percent. Henderson District has not performed a cost of service study (COSS). Henderson District stated that it did not complete a COSS because there have not been any material changes in customer usage patterns to warrant a COSS.

In the Commission Staff's Report, Commission Staff followed the method proposed by Henderson District and allocated Commission Staff's calculated revenue increase across the board of Henderson District's rate design. The Commission finds that in the absence of a COSS study, the proposed across-the-board method is an appropriate and equitable method to allocate the increased cost to Henderson 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 \$3,374,773 Revenue Required from Water Sales, an approximate 7.08 percent over normalized test-year water sales of \$3,151,528. The monthly bill of a typical residential customer using 4,000 gallons of water will increase from \$36.14 to \$40.57, an increase of \$4.43, or approximately 12.26 percent, of which \$1.87 or 5.17 percent is due to the water loss surcharge.

Henderson District responded to Commission Staff's First Request for Information (Staff's First Request) that the most appropriate effective date for any increase in monthly or nonrecurring charges should be effective on the 1st of the month. The Commission finds that Henderson District's request is reasonable and therefore the effective date for the monthly water service rates and the nonrecurring charges will be January 1, 2024.⁴³

Nonrecurring Charges. Following its review, and in the Commission Staff Report, Commission Staff eliminated Field Labor costs from the non-after-hours charges and

⁴³ Henderson District's Response to Staff's First Request, Item 5(b).

removed the Office/Clerical Labor costs from the after-hours charges. These revised nonrecurring charges resulted in a decrease to test-year Other Water Revenues and increase to the total revenue requirement of \$15,745.⁴⁴

The Commission finds that the Commission Staff's Report is consistent with recent Commission decisions, that labor expenses resulting from work during normal business hours should not be recovered through nonrecurring charges.⁴⁵ 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 and recover in customer rates 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. Only the marginal cost related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. For the reasons discussed above, the estimated labor expenses previously included in determining the amount of nonrecurring charges should be eliminated from the charges as proposed by Commission Staff and a corresponding reduction to Other Operating Revenues should be made to reflect the changes in the nonrecurring charges. Thus, the Commission finds the revised nonrecurring charges described in Appendix B and which result in a decrease to test year Other Water Revenues and an increase to the total revenue requirement of \$15,745 to be reasonable.

⁴⁴ Commission Staff's Report at 10.

⁴⁵ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020- 00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

RATE CASE FREQUENCY

In Case No. 2019-00041 and the resulting investigative report, the Commission discussed the problems that can occur when utilities avoid a review of their financial records.⁴⁶ A key recommendation from that investigative report was that water utilities should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁴⁷ In light of its findings in Case No. 2019-00041, the Commission noted in Case No. 2022-00034⁴⁸ that Henderson District had not sought a base rate adjustment since 2013.⁴⁹ Because it had been more than ten years since the Commission last reviewed Henderson District's rate sufficiency and financial records, the Commission ordered Henderson District to file an application for general or an alternative rate adjustment within 1 year of the date of filing of the Order in Case No. 2022-00013.⁵⁰

The Commission recommends that Henderson District conduct internal financial reviews on an annual basis to ensure that its water rates are sufficient. The Commission also recommends that Henderson District's board of commissioners consider filing periodic rate cases with the Commission every three to five years and implement a written policy to that effect to maintain a regular review of Henderson District's finances. These

⁴⁶ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019), Order.

⁴⁷ Case No. 2019-00041, Nov. 22, 2019, Order.

⁴⁸ Case No. 2022-00013, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Feb. 10, 2022), final Order.

⁴⁹ Case No. 2022-00013, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Feb. 10, 2022), final Order.

⁵⁰ Case No. 2022-00013, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Feb. 10, 2022), final Order.

are good practices to ensure that there is not another ten-year gap between base rate cases in the future.

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 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. Therefore, applying the DSC method to Henderson District's pro forma operations results in an Overall Revenue Requirement of \$3,475,790, a required revenue from water sales of \$3,374,773, and an increase in revenue from water sales of \$223,245, or 7.08 percent.

The Commission finds that allocating the calculated revenue increase across the board to Henderson District's monthly water service rates fair, just and reasonable.

The Commission further finds that Henderson District should be authorized to assess a Water Loss Reduction Surcharge of \$1.87 per active meter per month for 48 months, or until \$584,220 has been assessed, whichever occurs first. 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, Henderson District should 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 provide a detailed spending plan for the proceeds of a surcharge.

2. Henderson District should deposit surcharge collection in a separate interest-bearing account.

3. 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, Henderson District should file a monthly activity report with the Commission that includes a monthly activity report that includes a statement of monthly surcharge billings and collections using the format in the Surcharge Reporting form,⁵¹ a monthly surcharge bank statement, a list of each payment from the account, its payee, and a description of the purpose, and invoices supporting each payment.

4. 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, Henderson District should file with the Commission, a monthly water loss report with the Commission.⁵²

5. Henderson District should not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

6. Henderson District's surcharge and water loss detection and repair program should be 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.

⁵¹ The Surcharge Reporting form can be found at <https://psc.ky.gov/Home/UtilForms> under the Water tab.

⁵² The Water Use & Loss Calculations form can be found at <https://psc.ky.gov/Home/UtilForms> under the Water tab.

7. Henderson 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 all surcharge proceeds previously collected.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The water service rates proposed by Henderson District are denied.

3. The rates set forth in the Appendix to this Order are approved for services rendered by Henderson District on or after January 1, 2024.

4. The Nonrecurring Charges set forth in the Appendix to this Order are approved for service rendered by Henderson District on or after January 1, 2024.

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

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

7. Henderson District is authorized to assess a monthly Water Loss Reduction Surcharge of \$1.87 per meter per month for 48 months, or until \$584,220 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 8.

8. The Commission shall open a separate proceeding, Case No. 2023-00333, 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, Henderson 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. Henderson District shall deposit surcharge collections in a separate interest-bearing account.

c. On the 15th day of each month for 48 months from the date of this Order or until all surcharge proceeds are expended, Henderson District shall file with the Commission a monthly activity report that includes a statement of monthly surcharge billings and collections using the format in the Surcharge Reporting form⁵³; a monthly surcharge bank statement; a list of each payment from the account, its payee, and a description of the purpose, and invoices supporting each payment.

d. 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, Henderson District shall file a monthly water loss report, using the format in the Water Use & Loss Calculations form, with the Commission.

⁵³ The Surcharge Reporting form can be found at <https://psc.ky.gov/Home/UtilForms> under the Water tab.

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

f. Henderson 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.

g. Henderson District shall debit monthly billings for the surcharge to customers' accounts received and credit the contribution account.

h. When Henderson District collects the surcharge from the customers, it shall debit special funds and credit the customer account.

i. No later than April 30 of each year, Henderson District shall file in Case No. 2023-00333 a report of surcharge activity and water loss improvement progress based on the preceding year ended December 31 with reported annual surcharge billings collections, and deposits, as well as expenditures reflecting the amounts reported for surcharge activity in the financial and statistical Annual Report filed with the Commission and Henderson District's audited financial statements. Cumulative surcharge billings and expenditures over the life of the surcharge shall also be included, as well as a schedule of the estimated and actual progress of the water loss detection and repair program. This report shall include encumbered amounts of future surcharge proceeds for the purpose of evaluating whether adjustments to the program or to the surcharge amount shall be provided.

9. Henderson District's failure to comply with the conditions set forth in ordering paragraph 8 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.

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

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PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ENTERED
DEC 13 2023
rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00101 DATED DEC 13 2023

The following rates and charges are prescribed for the customers in the area served by Henderson County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 Gallons	\$22.23	Minimum Bill
Next	8,000 Gallons	0.00823	Per Gallon
Next	20,000 Gallons	0.00767	Per Gallon
Over	30,000 Gallons	0.00710	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$46.93	Minimum Bill
Next	5,000 Gallons	0.00823	Per Gallon
Next	20,000 Gallons	0.00767	Per Gallon
Over	30,000 Gallons	0.00710	Per Gallon

2-Inch Meter

First	16,000 Gallons	\$134.10	Minimum Bill
Next	14,000 Gallons	0.00767	Per Gallon
Over	30,000 Gallons	0.00710	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$241.44	Minimum Bill
Over	30,000 Gallons	0.00710	Per Gallon

4-Inch Meter

First	50,000 Gallons	\$383.42	Minimum Bill
Over	50,000 Gallons	0.00710	Per Gallon

6-Inch Meter

First	100,000 Gallons	\$738.37	Minimum Bill
Over	100,000 Gallons	0.00710	Per Gallon

Volunteer Fire Department (Metered Services)		\$22.23	Minimum Bill
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Water Loss Surcharge \$1.87 Per Meter
To be collected per meter per month for 48 months or until \$584,220 is collected.

Nonrecurring Charges

Connection Charge	\$13.50
Connection Charge AH	\$29.00
Field Collection Charge	\$13.50
Meter Reread	\$13.50
Meter Test Charge	\$42.00
Reconnection Charge	\$23.60
Reconnection Charge AH	\$28.70
Returned Check Charge	\$13.50
Service Call/Investigation Charge	\$13.50
Service Call/Investigation Charge AH	\$50.50
3/4-Inch Tap Fee	\$1,366.00
1-Inch Tap Fee	\$1,607.00
1 1/2-Inch and 2-Inch Tap Fee	Actual Cost

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00101 DATED DEC 13 2023

Nonrecurring Charge Adjustments		
Connection/Turn-On/Field Collection/Meter Reread/Reconnection/ Return Check/Service Call/Service Line Inspection Charge		
	District Revised Charge	Staff Revised Charge
Field Labor \$20.25 at 0.5 hour	\$10.13	\$ 0.00
Office Labor \$22.14 at 0.25 hour	\$ 5.54	\$ 0.00
Transportation	\$13.50	\$13.50
Total Revised Charge	\$29.17	\$13.50

Current Rate \$25.00

Connection/Turn-On After Hours Charge		
	District Revised Charge	Staff Revised Charge
Field Labor \$30.38 at 0.5 hour	\$15.19	\$15.19
Office Labor \$22.14 at 0.25 hour	\$ 5.54	\$ 0.00
Transportation	\$13.50	\$13.50
Total Revised Charge	\$34.23	*\$28.70

Current Rate \$40.00

Reconnection After Hours Charge		
	District Revised Charge	Staff Revised Charge
Field Labor \$30.38 at 0.5 hour	\$15.19	\$15.19
Office Labor Portion of hours per average cutoff meter	\$11.73	\$ 0.00
Transportation	\$13.50	\$13.50
Total Revised Charge	\$40.42	*\$28.70

Current Rate \$65.00

Service Call After Hours Charge		
	District Revised Charge	Staff Revised Charge
Field Labor \$37.02 at 1.0 hour	\$37.02	\$37.02
Office Labor \$22.14 at 0.5 hour	\$11.07	\$ 0.00
Transportation	\$13.50	\$13.50
Total Revised Charge	\$61.59	*\$50.50

Current Rate \$40.00

Meter Test Charge		
	District Revised Charge	Staff Revised Charge
Field Labor \$20.25 at 1.0 hour	\$20.25	\$ 0.00
Office Labor \$22.14 at 0.25 hour	\$11.07	\$ 0.00
Transportation	\$13.50	\$13.50
Meter Test (1 hour)	\$28.17	\$28.17
Total Revised Charge	<u>\$72.99</u>	<u>*\$42.00</u>
Current Rate	\$50.00	

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