

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC TREATED SEWAGE)	CASE NO.
ADJUSTMENT FILING OF WOOD CREEK)	2023-00110
WATER DISTRICT)	

ORDER

On March 30, 2023, Wood Creek Water District-Wastewater Division (Wood Creek District) applied for approval to adjust its rates pursuant to the treated sewer adjustment procedure set forth in KRS 278.015 and 807 KAR 5:075.

LEGAL STANDARD

In accordance with KRS 278.015 and 807 KAR 5:075, which govern treated sewage adjustment filings, a jurisdictional utility may increase its rates to pass through a wholesale supplier's rate increase. Commission regulation 807 KAR 5:075 authorizes a water district to file a treated sewage adjustment no earlier than 30 days prior to the proposed effective date of a wholesale supplier's changed rate or no later than 20 days after the wholesale supplier changes its rate. KRS 278.015 requires the Commission to approve a treated sewage adjustment no later than 30 days after a district files notice of a rate increase from its wholesale supplier and the volume of sewage treated used to calculate the increase in rates.

DISCUSSION AND FINDINGS

Wood Creek District purchases sewage treatment services from London Utility Commission (London). London notified Wood Creek District that its wholesale rate would

increase from \$2.94 per 1,000 gallons to \$3.98 per 1,000 gallons, effective February 1, 2023.¹ Wood Creek District proposes to increase its rates to its customers effective May 1, 2023, to reflect the increased cost of sewer treatment from London.

Financial Condition and Rates

Based on a review of Commission records, Wood Creek District-Wastewater Division has not had a rate adjustment since 2013.² In Case No. 2019-00041, the Commission discussed the problems that can occur when utilities intentionally avoid a review of their financial records by relying solely on financing cases to increase rates.³ A key recommendation from that proceeding was that water districts should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁴

As documented in its annual audit reports filed with the Commission, the wastewater division of Wood Creek District reported positive cash flow in each year from 2017 through 2021,⁵ although Wood Creek District did not fully fund depreciation in any

¹ Case No. 2023-00126, *Electronic Tariff Filing of the Utility Commission of the City of London Revising Its Wholesale Wastewater Service Rates* (Ky. PSC Dec. 8, 2022).

² Case No. 2013-00170, *Alternative Rate Adjustment for Wood Creek County Water District* (Ky. PSC Nov. 12, 2013).

³ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

⁴ See Case No. 2019-00041, Nov. 22, 2019, final Order.

⁵ See *Annual Report of Wood Creek Water District-Wastewater Division to the Public Service Commission for the Calendar Year Ended December 31, 2017*; *Annual Report of Wood Creek Water District-Wastewater Division to the Public Service Commission for the Calendar Year Ended December 31, 2018*; *Annual Report of Wood Creek Water District-Wastewater Division to the Public Service Commission for the Calendar Year Ended December 31, 2019*; *Annual Report of Wood Creek Water District-Wastewater Division to the Public Service Commission for the Calendar Year Ended December 31, 2020*; *Annual Report of Wood Creek Water District-Wastewater Division to the Public Service Commission for the Calendar Year Ended December 31, 2021*.

of those years. In addition, Wood Creek District included Tap Fees as revenue in its audited financial statements filed with the Commission. For cash flow purposes, Tap Fees are considered a capital contribution rather than revenue, and therefore the Commission excluded these fees from revenues as noted in the analysis below.

Description / Year	Audited 2017	Audited 2018	Audited 2019	Audited 2020	Audited 2021
<i>Adjusted Net Income</i>					
Net Income / (Loss) before Contributions	\$ (527)	\$ 70,487	\$ 22,731	\$ 49,199	\$ 87,260
Tap Fees	\$ (44,725)	\$ (103,750)	\$ (137,500)	\$ (145,000)	\$ (140,000)
Adjusted Net Income / (Loss) before Contributions	\$ (45,252)	\$ (33,263)	\$ (114,769)	\$ (95,801)	\$ (52,740)
Subtract: Principal Payments ()	0	0	(12,500)	(13,000)	(13,500)
Rate Based Income	\$ (45,252)	\$ (33,263)	\$ (127,269)	\$ (108,801)	\$ (66,240)
Add: Depreciation Expense	294,898	272,957	264,532	281,852	280,521
Cash Basis Income	\$ 249,646	\$ 239,694	\$ 137,263	\$ 173,051	\$ 214,281
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 99,520	\$ 285,707	\$ 259,662	\$ 291,039	\$ 68,357
Net Increase (Decrease) in Cash		\$ 186,187	\$ (26,045)	\$ 31,377	\$ (222,682)
<i>Statistical Information</i>					
Customer Count	Annual Report 1,271	Annual Report 1,271	Annual Report 1,271	Annual Report 1,430	Annual Report 1,449

Wood Creek District's negative net income, and inability to fully fund depreciation for its Wastewater Division, leads the Commission to conclude that Wood Creek District-Wastewater Division must file an application for a general base rate adjustment or an alternative rate adjustment by July 31, 2024, to ensure that its revenues are sufficient to support adequate and reliable service, or in the alternative, file a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary.

Treated Sewage Adjustment Factor

In its application, Wood Creek District proposed a treated sewage adjustment factor of \$1.074 per 1,000 gallons. During the 12-month period ending on December 31, 2022, Wood Creek District purchased 119,072,800 gallons of water from London and sold 115,287,680 gallons of water to its customers. The increase in the cost of treated sewage from London is \$123,835.71, resulting in a treated sewage adjustment factor of

\$1.074 per 1,000 gallons. However, Commission Staff's review of Wood Creek District's application found several mathematical errors within Exhibit C, Public Notice of the Monthly Sewer Rates⁶ and the corresponding proposed tariff sheet. Specifically, the Proposed Rate column for the 5/8 x 3/4 minimum bill, the 1-inch minimum bill, and the 6-inch minimum bill were not calculated correctly and underrepresent the proposed rate increase. Therefore, those proposed rates are denied. The recalculated rates are included in Appendix B. Wood Creek District shall notify its customers of the corrected rates calculated in Appendix B within 14 days of the date of service of this Order.

The treated sewage adjustment factor of \$1.074 per 1,000 gallons, as calculated in Appendix A, and the rates set forth in Appendix B to this Order are fair, just and reasonable, because the rates are supported by evidence of the increase in rates from Wood Creek District's wholesale sewage treatment provider and the volume of treated sewage used to calculate the rates in accordance with KRS 278.015. Therefore, the rates are approved for water service rendered by Wood Creek District on and after May 29, 2023.

On or before July 31, 2024, Wood Creek District-Wastewater Division must file an application for a general rate adjustment pursuant to 807 KAR 5:001E, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or in the alternative, file a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary.

⁶ Application, Exhibit C, Public Notice, Proposed Rate columns at unnumbered pages 1-2.

IT IS THEREFORE ORDERED that:

1. The treated sewage adjustment factor of \$1.074 per 1,000 gallons is approved.
2. The rates proposed by Wood Creek District are denied.
3. Within 14 days of the date of service of this Order, Wood Creek District shall issue a re-notification to its customers. The customer notice shall contain the information set forth in Appendix B to this Order.
4. The rates as set forth in Appendix B to this Order are approved for water service rendered by Wood Creek District on and after May 29, 2023.
5. Within 20 days of the date of service of this Order, Wood Creek District shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.
6. On or before July 31, 2024, Wood Creek District-Wastewater Division shall file an application for a general rate adjustment pursuant to 807 KAR 5:001E, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or in the alternative, file a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Wood Creek District-Wastewater Division from this requirement.
7. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner



ENTERED
APR 28 2023 bsb
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00110 DATED APR 28 2023

	Base Rate	New Rate	Increased Cost
Wood Creek Water District Wastewater Treatment in Gallons			
London	119,072,800	119,072,800	
Volumetric Rate	<u>\$ 2.94/1,000</u>	<u>\$ 3.98/1,000</u>	
	\$ 350,074.03	\$473,909.74	\$123,835.71
Increased treatment cost		\$123,835.71	
Divided by Gallons sold/1,000		<u>115,287,680</u>	
Treated Sewage adjustment factor		\$ 1.0741 per 1,000 Gallons	
		or \$ 1.074 per 1,000 Gallons	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00110 DATED APR 28 2023

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

Monthly Sewer Rates for All Areas

5/8 X 3/4-Inch Meter

First	2,000 Gallons	\$28.01	Minimum Bill
Next	1,500 Gallons	0.01044	Per Gallon
Next	1,500 Gallons	0.00976	Per Gallon
Next	2,500 Gallons	0.00885	Per Gallon
Over	7,500 Gallons	0.00786	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$58.33	Minimum Bill
Next	2,500 Gallons	0.00885	Per Gallon
Over	7,500 Gallons	0.00786	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$178.76	Minimum Bill
Over	20,000 Gallons	0.00786	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$257.37	Minimum Bill
Over	30,000 Gallons	0.00786	Per Gallon

6-Inch Meter

First	100,000 Gallons	\$807.68	Minimum Bill
Over	100,000 Gallons	0.00786	Per Gallon

*Brenden R. Welch
P.E.
Kenvirons, Inc.
452 Versailles Road
Frankfort, KENTUCKY 40602

*Wood Creek Water District Wastewater Division
1670 Hal Rogers Parkway
P. O. Box 726
London, KY 40743

*Dewayne Lewis
Wood Creek Water District
P. O. Box 726
London, KY 40743