

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF CUNNINGHAM)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2023-00323
PURSUANT TO 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of November 3, 2023, the attached report containing the recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's November 3, 2023, Order, Cunningham Water District (Cunningham District) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Cunningham District to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



Linda C. Bridwell, PE
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED FEB 06 2024
cc: Parties of Record

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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COMMISSION STAFF'S REPORT
ON CUNNINGHAM WATER DISTRICT

Cunningham Water District (Cunningham District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service from its well to approximately 136 residential customers and 15 commercial customers that reside in Carlisle County, Kentucky.¹

On October 10, 2023,² Cunningham District filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,³ Cunningham District used the calendar year ended December 31, 2022, as the basis for its application. Cunningham District's last base rate increase pursuant to the alternative rate filing

¹ *Report of Cunningham District to the Public Service Commission for the Calendar Year Ended December 31, 2022 (2022 Annual Report) at 39.*

² Cunningham District tendered its application on October 3, 2023. By letter dated October 5, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on October 10, 2023.

³ The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

procedure was in Case No. 2011-00455.⁴ Since that matter, Cunningham District has not adjusted its rates. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated November 3, 2023.⁵ Cunningham District responded to two discovery requests from Commission Staff.⁶

UNACCOUNTED-FOR WATER LOSS

Commission Staff notes that in its 2022 Annual Report, Cunningham District reported a water loss of 11.1824 percent.⁷ Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The table below shows that the 2022 total annual cost of water loss to Cunningham District is \$281.

Total Water Loss	Purchased Power
Pro Forma Purchases	\$ 2,513
Water Loss Percent	11.1824%
Total Water Loss	\$ 281

⁴ Case No. 2011-00455, *Alternative Rate Adjustment Filing of Cunningham Water District* (Ky. PSC May 10, 2012), final Order.

⁵ Order (Ky. PSC Nov. 3, 2023), Appendix A.

⁶ Cunningham District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Dec. 7, 2023). Cunningham District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Jan. 5, 2024).

⁷ 2022 Annual Report at 46.

DISCUSSION

Using its pro forma test-year operations, Cunningham District determined that a base rate revenue increase of \$22,292, or 49.29 percent, was necessary to achieve the revenue requirement as shown in the table below.⁸

Pro Forma Operating Expenses	\$ 59,419
Divided by: Operating Ratio	88%
Total Revenue Requirement	<u>67,521</u>
Less: Other Operating Revenue	-
Interest Income	<u>(4)</u>
Revenue Required from Rates	67,518
Less: Normalized Revenues from Water Sales	(45,226)
Required Revenue Increase	<u><u>22,292</u></u>
Percentage Increase	<u><u>49.29%</u></u>

Cunningham District's revised customer notice,⁹ provides current and proposed rates, stating that if the proposed rates are approved by the Commission, Phase 1 monthly water bill for a customer using an average of 4,000 gallons per month will increase from \$24.66 to \$30.74, which is an increase of \$6.08 or 24.7 percent. Then the Phase 2 monthly water bill for a customer using an average of 4,000 gallons per month will increase from \$30.74 to \$36.81, which is an increase of \$6.07 or 19.7 percent.

To determine the reasonableness of the rates requested by Cunningham District, Commission Staff performed a limited financial review of Cunningham District's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known

⁸ Application, 4_SAO_and_Rev_Reqmts.pdf.

⁹ Response to Deficiency, Revised_Customer_Notice.pdf.

and measurable¹⁰ changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's recommendations are summarized in this report. Noah Abner reviewed the calculation of Cunningham District's Overall Revenue Requirement, and Eddie Beavers reviewed Cunningham District's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Operating Ratio method, as used by Cunningham District, and generally accepted by the Commission, Commission Staff found that Cunningham District's required revenue from water sales is \$70,959 to meet the Overall Revenue Requirement of \$70,963, and that a \$25,733 revenue increase, or 56.9 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Based upon the revenue requirement, Cunningham District proposed to increase all of its monthly retail water service rates evenly across Cunningham District's rate design. Cunningham District did not perform a cost of service study (COSS).¹¹ The Commission has previously found that the allocation

¹⁰ Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *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); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

¹¹ Cunningham District's Response to Staff's First Request, Item 10.

of a revenue adjustment evenly across a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.

Cunningham District proposed a two-year phase in of the rate increase with approximately 50 percent of the rate increase being effective on the Commission's final Order and the remaining 50 percent to become effective one year after the date that Phase 1 rates become effective. Commission Staff recommends that the Commission accept Cunningham District's proposed rate design and its proposed phase in of the rate increase over two years.

Commission Staff followed the method proposed by Cunningham District and allocated the \$25,733 revenue increase evenly across Cunningham District's monthly retail water service rates over a two year phase in. The rates set forth in the Appendix to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$70,959 Revenue Required from Water Sales, an approximate 56.9 percent increase. Phase 1 rates will increase the monthly customer bill using an average 4,000 gallons from \$24.66 to \$31.67, an increase of \$7.01 or 28.43 percent. Phase 2 rates will increase the monthly customer bill using an average 4,000 gallons from \$31.67 to \$38.69, an increase of \$7.02 or 22.17 percent.

3. Nonrecurring Charges. Cunningham District provided cost justification sheets for three nonrecurring charges, Hookup, Disconnect, and Reconnect.¹² The cost justification sheets for these charges state that they are no longer being charged because

¹² Cunningham District's Response to Staff's First Request, Item 12.

these costs are part of the operator contract with Cunningham District. Cunningham District filed an additional cost justification sheet for a Meter Test Charge.¹³ The Meter Test Charge includes costs for Shipping and the Labor for testing the meters with I.T.M., Inc. Commission Staff recommends that the Commission accept the removal of the Hookup, Disconnect, and Reconnect charges and set the Meter Test Charge at \$30.

FORMA OPERATING STATEMENT

Cunningham District's Pro Forma Operating Statement for the test year ended December 31, 2022, as determined by Commission Staff appears in the table below.

	Test Year	Cunningham District Proposed Adjustments	Commission Staff Proposed Adjustments	Total Proposed Adjustments	(Ref.)	Pro Forma
Operating Revenues						
Total Metered Sales	\$ 47,935	\$ (2,709)	\$ -	\$ (2,709)	(A)	\$ 45,226
Total Operating Revenues	47,935	(2,709)		(2,709)		45,226
Operating Expenses						
Operation and Maintenance Expenses						
Purchased Power	2,477		36	36	(B)	2,513
Chemicals	4,610		(1,019)	(1,019)	(C)	3,591
Materials and Supplies	22,767	(15,061)	(2,120)	(17,181)	(D)	5,586
Contractual Services	22,520		21,570	21,570	(E)	
			(16,375)	(16,375)	(F)	27,715
Water Testing	2,872		390	390	(G)	3,262
Insurance	1,767					1,767
Miscellaneous Expenses	5,087		(1,091)	(1,091)	(H)	3,996
Total Operation and Maintenance Expenses	62,100	(15,061)	1,391	(13,670)		48,430
Depreciation	12,170	210		210	(I)	12,380
Amortization Expense			1,638	1,638	(F)	1,638
Total Operating Expenses	74,270	(14,851)	3,029	(11,822)		62,448
Net Operating Income	(26,335)	12,142	(3,029)	9,113		(17,222)
Interest Income	4					4
Income Available to Service Debt	\$(26,331)	\$ 12,142	\$ (3,029)	\$ 9,113		\$ (17,218)

¹³ Cunningham District's Response to Staff's First Request, Item 12.

(A) Billing Analysis. In its application, Cunningham District proposed a \$2,709 decrease to Total Metered Sales for the test year of 2022.¹⁴ Cunningham District reported total metered water sales for the test year of \$47,935.¹⁵ Cunningham District provided a billing analysis to calculate a normalized revenue amount of \$45,226, based on the usage during the test year and using the rates authorized in its current tariff.¹⁶

Commission Staff recommends the Commission approve Cunningham District's proposed \$2,709 decrease Total Retail Metered Sales, because the adjustment meets the ratemaking criteria of being known and measurable.

(B) Purchased Power. In its application, Cunningham District proposed no adjustment to Purchased Power expense of \$2,477. In Cunningham District's response to Commission Staff's second request for information the District provided a revised general ledger for the test year 2022.¹⁷ Commission Staff reviewed the revised general ledger and notes that the Purchased Power expense recorded in the revised general ledger, in account 675 Miscellaneous Expenses, is \$2,513. Commission Staff increased Purchased Power expense by \$36 to accurately reflect the Purchased Power expense during the test year.

Commission Staff recommends the Commission approve Commission Staff's proposed \$36 increase to Purchased Power expense to reflect the actual Purchased Power expense during the test year.

¹⁴ Application, Attachment 4, Adjustment E 4_SAO_and_Rev_Reqmts.pdf, Adjustment A.

¹⁵ 2022 Annual Report at 39.

¹⁶ Application, Attachment 5, 5_Current_Billing_Analysis.pdf.

¹⁷ Cunningham District's Response Staff's Second Request, CWD_Revised_2022_General_Ledger.xlsx.

(C) Chemicals. In its application, Cunningham District proposed no adjustment to Chemicals expense of \$4,160. As discussed above Cunningham District provided a revised general ledger for the test year 2022.¹⁸ Commission Staff notes that the Chemicals expense recorded in the revised general ledger, in account 618 Chemicals, is \$3,591. Commission Staff decreased Chemicals expense by \$1,019 to accurately reflect the Chemicals expense during the test year.

Commission Staff recommends the Commission approve Commission Staff's proposed \$1,019 decrease to Chemicals expense to reflect the actual Chemicals expense during the test year.

(D) Materials and Supplies. In its application, Cunningham District proposed a \$15,061 decrease to Materials and Supplies expense to amortize the expense of a \$16,735 major pump repair that took place during the test year over ten years or \$1,674 a year.¹⁹ Cunningham District, in its explanation for the adjustment, stated that, "Operating personnel indicate that this type of repair is required no more often than once every 10 years." As discussed above Cunningham District provided a revised general ledger for the test year 2022.²⁰ Commission Staff notes that the Materials and Supplies expense recorded in the revised general ledger, in account 620 Materials/Supplies, is \$5,586 and did not include the expenses associated with the major pump repair.

¹⁸ Cunningham District's Response Staff's Second Request, CWD_Revised_2022_General_Ledger.xlsx.

¹⁹ Application, Attachment 4, Adjustment E 4_SAO_and_Rev_Reqmts.pdf, Adjustment B.

²⁰ Cunningham District's Response Staff's Second Request, CWD_Revised_2022_General_Ledger.xlsx.

Commission Staff decreased Materials and Supplies expense by an additional \$2,120 to accurately reflect the Materials and Supplies expense during the test year.

Commission Staff recommends the Commission approve Cunningham District proposed \$15,061 decrease and Commission Staff's proposed \$2,120 decrease for total decrease of \$17,181 to Materials and Supplies expense to reflect the actual Materials and Supplies expense during the test year.

(E) Contractual Services. In its application, Cunningham District proposed no adjustment to Contractual Services expense of \$22,520. As discussed above Cunningham District provided a revised general ledger for the test year 2022.²¹ Commission Staff notes that the Contractual Services expense recorded in the revised general ledger, in account 630 Contractual Services, is \$44,090 and included \$16,735 of expenses associated with the major pump repair discussed above. Commission Staff increased Contractual Services expense by \$21,570 to accurately reflect the Contractual Services expense during the test year.

Commission Staff recommends the Commission approve Commission Staff's proposed \$21,570 increase to Contractual Services expense to reflect the actual Contractual Services expense during the test year.

(F) Major Pump Repair. As discussed above Cunningham District request to amortize \$16,735 of expenses associated with a major pump repair that is expected to recur every ten years. Commission Staff removed \$16,735 from Contractual Services

²¹ Cunningham District's Response Staff's Second Request, CWD_Revised_2022_General_Ledger.xlsx.

expense and then increased Amortization expense by \$1,638 to reflect the \$16,735 over ten years.

Commission Staff recommends the Commission approve the removal of the \$16,735 from Contractual Services expense and increase of \$1,638 to Amortization expense to reflect the correct amortization of the major pump repair expense.

(G) Water Testing. In its application, Cunningham District proposed no adjustment to Water Testing Expense of \$2,872. As discussed above Cunningham District provided a revised general ledger for the test year 2022.²² Commission Staff notes that the Water Testing expense recorded in the revised general ledger, in account 635 Water Testing, is \$3,262. Commission Staff increased Water Testing expense by \$390 to accurately reflect the Water Testing expense during the test year.

Commission Staff recommends the Commission approve Commission Staff's proposed \$390 increase to Water Testing expense to reflect the actual Water Testing expense during the test year.

(H) Miscellaneous Expenses. In its application, Cunningham District proposed no adjustment to Miscellaneous Expenses of \$5,087. As discussed above Cunningham District provided a revised general ledger for the test year 2022.²³ Commission Staff notes that the Miscellaneous Expenses documented in the revised general ledger, found in account 675 Miscellaneous Expenses, is \$3,996 with the removal of \$2,513 of

²² Cunningham District's Response Staff's Second Request, CWD_Revised_2022_General_Ledger.xlsx.

²³ Cunningham District's Response Staff's Second Request, CWD_Revised_2022_General_Ledger.xlsx.

Purchased Power Expense that was included in this account. Commission Staff decreased Miscellaneous Expenses by \$1,091 as shown in the table below.

Description	Amount
General Ledger Amount	\$ 6,509
Amount Included In Power ()	(2,513)
Adjusted Misc Expense	3,996
Less Test Year ()	(5,087)
Adjustment	<u>\$ (1,091)</u>

Commission Staff recommends the Commission approve Commission Staff's proposed \$1,091 decrease to Miscellaneous Expenses to reflect the actual Miscellaneous Expenses during the test year.

(l) Depreciation Expense. In its application, Cunningham District proposed a \$210 increase to Depreciation Expense to reflect adjustments of asset service lives to the midpoint of the service life ranges set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled, *Depreciation Practices for Small Water Utilities* (NARUC Study).²⁴ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the NARUC Study. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges.

Therefore, Commission Staff recommends that the Commission accept Cunningham District's proposed \$210 increase to Depreciation Expense to reflect the midpoint of the service life ranges set forth in the NARUC Study.

²⁴ Application, Attachment 4, Adjustment E 4_SAO_and_Rev_Reqmts.pdf, Adjustment C.

OVERALL REVENUE REQUIREMENT

The operating ratio methodology is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. Cunningham District has no outstanding long-term debt.²⁵ Commission Staff is of the opinion that an operating ratio of 88 percent will allow Cunningham District sufficient revenues to cover its operating expenses and provide for reasonable equity growth.

By applying the operating ratio method, Commission Staff determined Cunningham District's Overall Revenue Requirement to be \$70,963. Commission Staff calculated a revenue increase of \$25,733, or 56.9 percent, is necessary to generate the Overall Revenue Requirement. Commission Staff's calculation of the Overall Revenue Requirement and the Required Revenue Increase using the operating ratio method is shown below.

	Cunningham District	Commission Staff
Pro Forma Operating Expenses	\$ 59,419	\$ 62,448
Divided by: Operating Ratio	88%	88%
Total Revenue Requirement	67,521	70,964
Less: Other Operating Revenue	-	-
Interest Income	(4)	(4)
Revenue Required from Rates	67,518	70,960
Less: Normalized Revenues from Water Sales	(45,226)	(45,226)
Required Revenue Increase	22,292	25,734
Percentage Increase	49.29%	56.90%

²⁵ 2022 Annual Report at 16.

Signatures

/s/Noah Abner
Prepared by: Noah Abner
Revenue Requirement Branch
Division of Financial Analysis

/s/ Eddie Beavers
Prepared by: Eddie Beavers
Rate Design Branch
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APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00323 DATED FEB 06 2024

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

		Phase 1	
First	2 ,000 Gallons	\$20.19	Minimum Bill
Next	3 ,000 Gallons	0.00574	Per Gallon
Over	5 ,000 Gallons	0.00401	Per Gallon

		Phase 2	
First	2 ,000 Gallons	\$24.67	Minimum Bill
Next	3 ,000 Gallons	0.00701	Per Gallon
Over	5 ,000 Gallons	0.00490	Per Gallon

		Nonrecurring Charges
Meter Test Charge		\$30.00
Tap Fee		\$860.00

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