

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)	

ORDER

On October 10, 2023,¹ Cunningham Water District (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 9,² Cunningham District used the calendar year ended December 31, 2022, as the basis for its application. Cunningham District's last base rate increase, also filed pursuant to the alternative rate filing procedure, was in Case No. 2011-00455.³ Since that matter, Cunningham District has not adjusted its rates.

In its application, Cunningham District requested rates that would increase its annual water sales by \$22,292 or 49.29 percent.⁴

¹ 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.

² 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.

³ Case No. 2011-00455, *Alternative Rate Adjustment Filing of Cunningham Water District* (Ky. PSC May 10, 2012), final Order.

⁴ Application, 4_SAO_and_Rev_Reqmts.pdf.

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 requests for information from Commission Staff.⁶

On February 6, 2024, Commission Staff issued its report (Commission Staff's Report) summarizing its recommendations regarding Cunningham District's requested rate adjustment. In the Commission Staff's Report, Commission Staff recommended that Cunningham District adjusted test-year operations support a total revenue requirement of \$70,964, and that an annual revenue increase of \$25,734, or 56.9 percent to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.⁷ In the absence of a cost of service study (COSS), Commission Staff allocated its revenue increase over a two-year phased in approach as outlined in Commission Staff's Report. Cunningham District proposed a phase in of the rates in its application⁸ and Commission Staff recommended that the Commission approve of the two-year phase in of Commission Staff's rates in Appendix B.

On February 9, 2024, Cunningham District filed its response to Commission Staff's Report. In its written comments, Cunningham District, concurred with the findings presented in the Commission Staff's Report.⁹ In its response, Cunningham District,

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 Commission Staff's Report at 12.

⁸ Application, Customer Notice.

⁹ Cunningham District's Response to Staff Report (filed Feb. 9, 2024), Item 1.

waived its right to request an informal conference or hearing.¹⁰ As a result of Cunningham District's acceptance of the rates recommended in Commission Staff's Report, on February 20, 2024, the Commission issued an Order¹¹ requiring Cunningham District to re-notice its customers. Cunningham District filed its proof of customer re-notice¹² on March 4, 2024. The case now stands submitted for a decision by the Commission.

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 of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."¹³ Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

Cunningham District is a water district 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

¹⁰ Cunningham District's Response to Staff Report, Item 2.

¹¹ Order (Ky. PSC Feb. 20, 2024), at 3.

¹² Affidavit and Customer Notice (filed Mar. 4, 2024).

¹³ *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).

that reside in Carlisle County, Kentucky.¹⁴ Cunningham District produces all of its own water.¹⁵

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 Cunningham District’s test-year water loss was 11.1824 percent in its 2022 Annual Report.¹⁶ At 11.1824 percent water loss, the total annual cost of water loss to Cunningham District is \$683.

Total Water Loss	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ 2,513	\$ 3,591	\$ 6,104
Water Loss Percent	11.1824%	11.1824%	
Total Water Loss	\$ 281	\$ 402	\$ 683

TEST PERIOD

The calendar year ended December 31, 2022, was used as the test year to determine the reasonableness of Cunningham 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 Cunningham District’s pro forma income statement as follows:

¹⁴ Report of Cunningham District to the Public Service Commission for the Calendar Year Ended December 31, 2022 (2022 Annual Report), at 12, 39.

¹⁵ 2022 Annual Report at 41.

¹⁶ Commission Staff’s Report at 2.

	Commission Staff's Report		
	Test-Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$47,935	(\$2,709)	\$45,266
Operating Expenses	74,270	(11,822)	62,448
Net Utility Operating Income	(26,335)	9,113	(17,222)
Interest Income	4		4
Total Utility Operating Income	<u>(\$26,331)</u>	<u>\$9,113</u>	<u>(\$17,218)</u>

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Cunningham 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:

	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)

COMMISSION STAFF'S RECOMMENDATIONS

Billing Analysis. In its application, Cunningham District proposed a \$2,709 decrease to Total Metered Sales for the test year of 2022.¹⁷ Cunningham District reported total metered water sales for the test year of \$47,935.¹⁸ 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.¹⁹

¹⁷ Application, Attachment 4, Adjustment E 4_SAO_and_Rev_Reqmts.pdf, Adjustment A.

¹⁸ 2022 Annual Report at 39.

¹⁹ Application, Attachment 5, 5_Current_Billing_Analysis.pdf.

Following a review of the billing analysis Commission Staff agreed with Cunningham District's proposed \$2,709 decrease to Total Metered Sales and that the proposed adjustment met the ratemaking criteria of being known and measurable.²⁰

The Commission finds that Cunningham District's proposed \$2,709 decrease to Total Metered Sale and the normalized revenue are known and measurable and that the adjustment to pro forma Operating Revenues is reasonable.

Purchased Power. In its application, Cunningham District did not propose an adjustment to Purchased Power expense of \$2,477. In Cunningham District's response to Staff's Second Request, Cunningham District provided a revised general ledger for the test year 2022.²¹ Commission Staff reviewed the revised general ledger and noted that the Purchased Power expense recorded in the revised general ledger, in Account 675 Miscellaneous Expenses, was \$2,513. Commission Staff recommended an increase to Purchased Power expense of \$36 to accurately reflect the Purchased Power expense during the test year.²²

The Commission finds that Commission Staff's recommended \$36 increase to Purchased Power expense is reasonable because it accurately reflects the Purchased Power expense recorded during the test year.

Chemicals. In its application, Cunningham District did not propose an adjustment to Chemicals expense of \$4,610. As discussed above Cunningham District provided a

²⁰ Commission Staff's Report at 7.

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

²² Commission Staff's Report at 7.

revised general ledger for the test year 2022.²³ Commission Staff, in its review, noted that the Chemicals expense recorded in the revised general ledger, in account 618 Chemicals, is \$3,591. Commission Staff recommended a decrease to Chemicals expense of \$1,019 to accurately reflect the Chemicals expense during the test year.²⁴

The Commission finds that Commission Staff's recommended \$1,019 decrease to Chemicals expense is reasonable because it accurately reflects the Chemicals expense recorded during the test year.

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.²⁵

As discussed above, Cunningham District provided a revised general ledger for the test year 2022.²⁶ Commission Staff, in its review, noted 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. Commission Staff recommended a decrease to Materials and Supplies expense of an additional \$2,120 to accurately reflect the Materials and Supplies expense during the test year.²⁷

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

²⁴ Commission Staff's Report at 8.

²⁵ Application, Attachment 4, Adjustment E 4_SAO_and_Rev_Reqmts.pdf, Adjustment B.

²⁶ Cunningham District's Response Staff's Second Request, CWD_Revised_2022_General_Ledger.xlsx.

²⁷ Commission Staff's Report at 8–9.

The Commission finds that Commission Staff's recommended additional \$2,120 decrease to Materials and Supplies expense is reasonable because it accurately reflects the Materials and Supplies expense recorded during the test year.

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 2022.²⁸ Commission Staff, in its review, noted 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 recommended an increase to Contractual Services expense of \$21,570 to accurately reflect the Contractual Services expense during the test year.²⁹

The Commission finds that Commission Staff's recommended \$21,570 increase to Contractual Services expense is reasonable because it accurately reflects the Contractual Services expense recorded during the test year.

Major Pump Repair. As discussed above, Cunningham District requested to amortize \$16,735 of expenses associated with a major pump repair that is expected to recur every ten years.³⁰ 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."³¹ Commission Staff recommended \$16,735 of Contractual

²⁸ Cunningham District's Response Staff's Second Request, CWD_Revised_2022_General_Ledger.xlsx.

²⁹ Commission Staff's Report at 9.

³⁰ Application, Attachment 4, Adjustment E 4_SAO_and_Rev_Reqmts.pdf, Adjustment B.

³¹ Application, Attachment 4, Adjustment E 4_SAO_and_Rev_Reqmts.pdf, Adjustment B.

Services expense be removed and then recommended an increase to Amortization expense of \$1,638 to reflect the \$16,735 over ten years.³²

The Commission finds that Commission Staff's recommended \$16,735 decrease to Contractual Services expense and \$1,638 increase to Amortization expense is reasonable because it permits Cunningham District to recover the \$16,735 pump repair over the estimated life of the expenditure.

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 2022.³³ Commission Staff, in its review, noted that the Water Testing expense recorded in the revised general ledger, in Account 635 Water Testing, is \$3,262. Commission Staff recommended an increase Water Testing expense of \$390 to accurately reflect the Water Testing expense during the test year.³⁴

The Commission finds that Commission Staff's recommended \$390 increase to Water Testing expense is reasonable because it accurately reflects the Water Testing expense recorded during the test year.

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 2022.³⁵ Commission Staff, in its review, noted that the Miscellaneous Expenses documented in the revised general

³² Commission Staff's Report at 9–10.

³³ Cunningham District's Response Staff's Second Request, CWD_Revised_2022_General_Ledger.xlsx.

³⁴ Commission Staff's Report at 10.

³⁵ Cunningham District's Response Staff's Second Request, CWD_Revised_2022_General_Ledger.xlsx.

ledger, found in Account 675 Miscellaneous Expenses, is \$3,996 following the removal of \$2,513 of Purchased Power Expense that was included in this account. Commission Staff recommended a decrease to Miscellaneous Expenses of \$1,091 as shown in the table below.³⁶

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>

The Commission finds that Commission Staff's recommended \$1,091 decrease to Miscellaneous Expenses is reasonable because it accurately reflects the Miscellaneous Expenses recorded during the test year.

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).³⁷

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 Cunningham District's adjustment to increase pro forma Depreciation Expense by \$210.³⁸ To evaluate the reasonableness of the depreciation practices of

³⁶ Commission Staff's Report at 10–11.

³⁷ Application, Attachment 4, 4_SAO_and_Rev_Reqmts.pdf, Adjustment C.

³⁸ Commission Staff's Report at 11–12.

small water utilities, the Commission has historically relied upon the NARUC Study.³⁹ 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. The Commission finds that the proposed a \$210 increase to Depreciation Expense adjustment is appropriate and should be accepted.

REVENUE REQUIREMENT

The Commission has historically used an Operating Ratio method to calculate the revenue requirement for water districts or associations with little or no outstanding long-term debt. Cunningham District has no outstanding long-term debt.⁴⁰ The Commission finds that the Operating Ratio method is appropriate for Cunningham District. An Operating Ratio of 88 percent will allow Cunningham District sufficient revenues to cover its operating expenses and provide for reasonable equity growth. Based upon the Commission's findings and determinations herein, Cunningham District requires an increase in revenues from water sales of \$25,734, or 56.9 percent above pro forma present water rate revenues as shown below:

³⁹ Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21, 2007), at 3-4; Case No. 2013-00485, *Alternative Rate Adjustment Filing of Farmdale Water District* (Ky. PSC July 23, 2014), at 7; Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018), at 15; and Case No. 2021-00369, *Electronic Application of Christian County Water District for a Rate Adjustment pursuant to 807 KAR 5:076* (Ky. PSC Mar. 22, 2022), at 10.

⁴⁰ 2022 Annual Report at 16.

Pro Forma Operating Expenses	\$ 62,448
Divided by: Operating Ratio	88%
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Total Revenue Requirement	70,964
Less: Other Operating Revenue	-
Interest Income	(4)
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Revenue Required from Rates	70,960
Less: Normalized Revenues from Water Sales	(45,226)
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Required Revenue Increase	<u>25,734</u>
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Percentage Increase	<u>56.90%</u>

RATE DESIGN

Cunningham District proposed to increase all its monthly retail water service rates evenly across the board by approximately 49.29 percent in its application.⁴¹ Cunningham District did not perform a cost of service study (COSS).⁴² The Commission has previously found that the allocation of a revenue increase evenly across the board to a utility’s rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.⁴³

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.⁴⁴ Similarly, Commission Staff allocated its revenue increase using a two-year phased in approach in its report.

⁴¹ Application, Attachment 3, 3_Current_and_Proposed_Rates.pdf.

⁴² Cunningham District’s Response to Staff’s First Request, Item 10.

⁴³ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

⁴⁴ Application, Attachment 3, 3_Current_and_Proposed_Rates.pdf.

The Commission accepts Cunningham District's proposed rate design and its proposed phase in of the rate increase over two years. The rates set forth in the Appendix 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 services to recover the \$70,960 required revenue from Water Sales in Phase 2 an approximate 56.9 percent increase over the test-year water services of \$45,226.

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.

Cunningham District provided cost justification sheets for three nonrecurring charges, Hookup, Disconnect, and Reconnect.⁴⁵ The cost justification sheets for these charges state that Cunningham District are no longer offering these charges because these costs are part of the operator contract with Cunningham District.⁴⁶ Cunningham District filed an additional cost justification sheet for a Meter Test Charge.⁴⁷ The Meter Test Charge includes costs for Shipping and the Labor for testing the meters with I.T.M., Inc. The Commission accepts the removal of Cunningham District's Hookup, Disconnect, and Reconnect charges and sets Cunningham District's Meter Test Charge at \$30.

⁴⁵ Cunningham District's Response to Staff's First Request, Item 12.

⁴⁶ Cunningham District's Response to Staff's Second Request, Item 1.

⁴⁷ Cunningham District's Response to Staff's First Request, Item 12.

Cunningham District responded to Commission Staff's First Request that the 25th day of the month would be the preferable effective date for any rates the Commission approves in an Order.⁴⁸

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 the record and are reasonable. Applying the Operating Ratio method to Cunningham District's pro forma operations results in an Overall Revenue Requirement of \$70,964, a required revenue from water sales of \$70,960, and an increase in revenue from water sales of \$25,734 or 56.9 percent.

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 Cunningham District are denied.
3. The Phase 1 water service rates set forth in the Appendix to this Order are approved for service rendered by Cunningham District on and after June 25, 2024.
4. The Phase 2 water service rates set forth in the Appendix to this Order are approved for service rendered by Cunningham District on and after June 25, 2025.
5. The Nonrecurring Charges set forth in the Appendix to this Order are approved for service rendered by Cunningham District on and after June 25, 2024.
6. Cunningham District shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the

⁴⁸ Cunningham District's Response to Staff's First Request, Item 14 b.


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. Within 20 days of the date of service of this Order, Cunningham 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.

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

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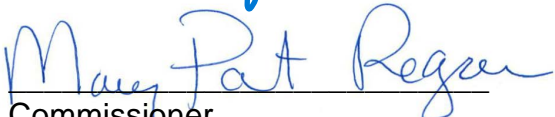
PUBLIC SERVICE COMMISSION



Chairman



Vice Chairman



Commissioner

ENTERED
JUN 11 2024
rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00323 DATED JUN 11 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

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

		<u>Phase 2</u>	
		Effective one year after Phase 1	
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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