

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GRANT)	CASE NO.
COUNTY SANITARY SEWER DISTRICT FOR)	2019-00424
AN ALTERNATE RATE ADJUSTMENT)	

ORDER

On December 9, 2019, Grant County Sanitary Sewer District (Grant District), pursuant to 807 KAR 5:076, filed an application (Application) with the Commission requesting to increase its wastewater service rates. In its Application, Grant District requested rates that would increase annual sewer service revenues by \$136,527, a 19.47 percent increase to its customers.¹

BACKGROUND

Grant District is a sewer district created by an ordinance of the Grant County Fiscal Court pursuant to KRS Chapter 74 and 67. It owns and operates a wastewater distribution system through which it provides wastewater service to approximately 1,577 retail customers² in Grant County, Kentucky.³ The pending case is Grant District's first rate adjustment since it was granted a rate increase on April 12, 2006.⁴

¹ Application, Attachment 6.

² *Annual Report of Grant County Sanitary Sewer District to the Public Service Commission for the Calendar Year Ended December 31, 2018 (Annual Report)* at 25.

³ *Id.* at 9.

⁴ See Case No. 2005-00314, *Application of Grant County Sanitary Sewer District for Authority to Adjust Rates* (Ky. PSC April 12, 2006).

TEST PERIOD

The calendar year ended December 31, 2018, was used as the test year to determine the reasonableness of Grant District's existing and proposed wastewater rates, as required by 807 KAR 5:076, Section 9.

PROCEDURE

Grant District filed its Application on December 9, 2019. To ensure an orderly review of the Application, the Commission established a procedural schedule by Order dated January 2, 2020, which among other things, required Commission Staff (Staff) to file a report containing its findings regarding Grant District's Application by March 26, 2020.

On March 17, 2020, Staff issued a Staff Report finding that Grant District's adjusted test-year operations supported an overall revenue requirement of \$817,071 and that an annual revenue increase of \$73,945, or 10.35 percent, is necessary to generate the overall revenue requirement.

On March 27, 2020, Grant District, filed its written comments in response to the Staff Report. With its comments, Grant District did not request to hold a conference or a hearing.⁵

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes Grant District's pro forma income statement as follows:

⁵ Case No. 2019-00424, Grant County Sanitary Sewer District's Comments on Commission Staff's Report (filed March 27, 2020).

	2018 Annual Report	Pro Forma Adjustments	Staff Pro Forma Operations
Operating Revenues	728,155	\$ 13,100	741,255
Total Operating Expenses	646,209	6,901	653,110
Net Operating Income	81,946	6,199	88,145
Interest and Dividend Income	1,871	0	1,871
Miscellaneous Non Operating Income	15,842	(15,842)	0
Income Available for Debt Service	<u>\$ 99,659</u>	<u>\$ (9,643)</u>	<u>\$ 90,016</u>

ANALYSIS AND DISCUSSION OF ISSUES

In its March 27, 2020 response to Staff's Report, Grant District objected to Staff's recalculation of the Average Annual Principal Payments. Grant District states that the Commission should utilize a three-year calculation period.⁶ In support of its request, Grant District states that given the increasing demands for maintenance, repair and/or replacement of aging infrastructure, the financial demands for funding of these projects is vital to maintaining the district's ability to provide quality services to its customers.⁷

The Commission disagrees with Grant District's opinion in favor of utilizing a three-year method. Current Commission precedent utilizes a five-year period for Average Annual Principal and Interest Payments.⁸ As further support, Grant District's lease with BB&T has a projected payoff of 2023, and at that time principal and interest payments for the lease will not be incurred. If Grant District delays another 14 years between rate cases, the three-year method would improperly allow Grant District to recover costs that

⁶*Id.* at 2-4.

⁷ *Id.* at 4.

⁸ See Case No. 2019-00268, *Application of Knott County Water and Sewer District for Authority to Adjust Rates*. (Ky. PSC Mar. 24, 2020). Case No. 2018-00414, *Application of Crittenden-Livingston County Water District for Authority to Adjust Rates* (Ky. PSC May 23, 2019).

it no longer would incur. The three-year average, as calculated by Grant District, would result in a collection of \$1,253,054 over 11 years for which they are not incurring the expense. Although there is no statutory or regulatory requirement to seek a rate adjustment, the Commission strongly encourages utilities to apply for rate increases with greater frequency.⁹

MODIFICATIONS TO STAFF'S FINDINGS

In the Staff Report, Staff proposed to accept or reject adjustments made by Grant District in its Application and proposed additional adjustments. As discussed in the paragraphs above, Grant District filed one objection to Staff's findings. The Commission finds that it cannot approve Grant District's request to include the three-year average of its annual principal and interest payments, but rather will include the five-year average as calculated by Staff. Therefore, the Commission accepts the findings contained in the Staff Report.

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Grant District requires an increase in revenues from its wastewater service rates of \$73,945, or 10.35 percent above pro forma present service revenues, as shown below:

⁹ See case 2019-00041, *Electronic Investigation Into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities*. (Ky. PSC Nov. 22, 2019), Appendix L at 16.

Pro Forma Operating Expenses	\$ 653,110
Plus: Average Annual Debt Principal & Interest Payments	149,055
KIA Loans & Capital Lease	<u>14,906</u>
 Total Revenue Requirement	 817,071
Less: Other Operating Revenue	(26,971)
Miscellaneous Nonoperating Income	0
Interest Income	<u>(1,871)</u>
 Revenue Required from Rates	 788,229
Less: Revenue from Sales at Present Rates	<u>(714,284)</u>
 Required Increase in Revenue	 <u>\$ 73,945</u>
Percentage Increase	<u>10.35%</u>

RATE DESIGN

Grant District proposed to increase all of its monthly retail wastewater service rates evenly across the board. The Commission finds that, in the absence of a cost-of-service study, the proposed across the board method is an appropriate and equitable method to allocate the increased cost to Grant District's retail customers. The rates in the Appendix attached to this Order will produce wastewater rate revenues from Grant District's retail customers sufficient to recover the revenue required from rates of \$788,229, which has been determined to be reasonable by the Commission herein. The monthly wastewater bill of an average residential customer using 3,713 gallons of water will increase from \$35.19 to \$38.85, an increase of \$3.66, or approximately 10.40 percent.

Grant District charges rates for sewer usage based on the water consumption of its customers. The rate structure is a tiered schedule based on water meter size. Grant District's Billing Analysis in its Application included rates for commercial customers that were not in the current tariff. Grant District submitted a supplement to the application on February 5, 2020, stating that it would charge the Monthly Sewer Rates as contained in

Appendix A of the final Order in Case 2005-00314.¹⁰ Grant District stated in its response to the Staff Report, that it will resubmit bills to commercial customers that were under billed and submit credit statements to those commercial customers overbilled in accordance with KRS 278.160 and KRS 413.120.¹¹ The Commission notes that, pursuant to KRS 278.160(2), a utility must demand and collect no more and no less than the rates prescribed in its tariff. Therefore, the Commission finds that to the extent that Grant District underbilled commercial customers, Grant District should bill those customers for the difference in the rate Grant District charged and the rate Grant District was authorized to charge, subject to the two-year limitation found in KRS 278.225. To the extent that Grant District overbilled commercial customers, Grant District should refund those customers for the difference in the rate Grant District charged and the rate Grant District was authorized to charge, subject to the five-year limitation found in KRS 413.120.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.
2. The Commission has historically used a Debt Service Coverage (DSC) method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Application of the Commission's DSC method to Grant

¹⁰ Case No. 2019-00424, Supplemental Application of Grant County Sanitary Sewer District (filed February 5, 2020).

¹¹ Case No. 2019-00424, Grant County Sanitary Sewer District's Comments on Commission Staff's Report (filed March 27, 2020).

District's pro forma operations results in an Overall Revenue Requirement of \$817.071. A revenue increase of \$73,945 from wastewater service rates is necessary to generate the Overall Revenue Requirement.

3. The wastewater service rates proposed by Grant District should be denied.

4. The wastewater service rates set forth in the Appendices to this Order are fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

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

2. To the extent that Grant District underbilled commercial customers, Grant District shall bill those customers for the difference in the rate Grant District charged and the rate Grant District was authorized to charge, subject to the two-year limitation found in KRS 278.225.

3. To the extent that Grant District overbilled commercial customers, Grant District shall refund those customers for the difference in the rate Grant District charged and the rate Grant District was authorized to charge, subject to the five-year limitation found in KRS 413.120.

4. The general service rates proposed by Grant District are denied.

5. The rates set forth in the Appendix to this Order are approved for service rendered by Grant District on and after the date of this Order.

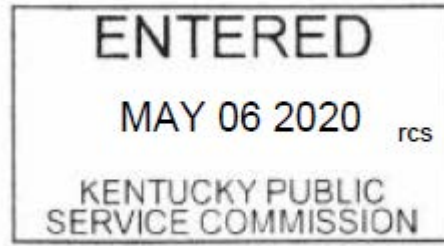
6. Within 20 days of the date of entry of this Order, Grant District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets

setting forth the rates and charges approved herein and their effective date and stating that the rates and charges were authorized by this Order.

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

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By the Commission



ATTEST:

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Executive Director

Case No. 2019-00424

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2019-00424 DATED MAY 06 2020

The following rates and charges are prescribed for the customers in the area served by Grant County Sanitary Sewer 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 Wastewater Rates

5/8 x 3/4 Meter

First 2,000 Gallons	\$23.24	Minimum Bill
Next 3,000 Gallons	9.11	per 1,000 Gallons
Next 5,000 Gallons	7.46	per 1,000 Gallons
Over 10,000 Gallons	5.86	per 1,000 Gallons

1-inch Meter

First 5,000 Gallons	\$50.57	Minimum Bill
Next 5,000 Gallons	7.46	per 1,000 Gallons
Over 10,000 Gallons	5.86	per 1,000 Gallons

1 1/2-inch Meter

First 10,000 Gallons	\$87.87	Minimum Bill
Over 10,000 Gallons	5.86	per 1,000 Gallons

2-inch Meter

First 20,000 Gallons	\$146.47	Minimum Bill
Over 20,000 Gallons	5.86	per 1,000 Gallons

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