

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MEADE)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2023-00039
ADJUSTMENT 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 March 2, 2023, the attached report containing the findings 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 March 2, 2023 Order, Meade County Water District (Meade District) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Meade 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 JUN 28 2023

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 MEADE COUNTY WATER DISTRICT

Meade County Water District (Meade District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 5,128 residential customers and 240 commercial customers that reside in Meade County, Kentucky, as well as two wholesale customers, Doe Valley Water and Otter Creek Water.¹

On February 10, 2023, Meade District filed its application with the Commission requesting an adjustment to its water rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,² Meade District used the calendar year ended December 31, 2021, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2022-00409, which required Meade District to file an application for an adjustment of its base rates by April 13, 2024.³ Meade

¹ *Annual Report of Meade District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 49 and 55.

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. 2022-00409, *Electronic Purchased Water Adjustment Filing of Meade County Water District* (Ky. PSC Dec. 20, 2022), Order at 6.

District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2019-00044.⁴ Since that matter, Meade District has only adjusted its rates pursuant to a purchased water adjustment, financing approval, or in conjunction with an application for a Certificate of Public Convenience and Necessity. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated March 2, 2023.⁵ Commission Staff's First Request for Information (Staff's First Request) was issued as an Appendix to the procedural schedule issued on March 2, 2023, with a response due date of April 3, 2023.⁶ Commission Staff's Second Request for Information (Staff's Second Request) was issued on April 17, 2023, with a response due date of May 1, 2023.⁷ Meade District filed its response to Staff's Second Request on May 4, 2023.⁸

WATER LOSS

The Commission notes that in its 2021 Annual Report, Meade District reported a water loss of 15.93 percent.⁹ 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

⁴ Case No. 2019-00044, *Electronic Alternative Rate Filing of Meade County Water District* (Ky. PSC Apr. 9, 2019).

⁵ Order (Ky. PSC Mar. 2, 2023), Appendix A.

⁶ Mar. 2, 2023 Order, Appendix B.

⁷ Commission Staff's Second Request (Ky. PSC Apr. 17, 2023).

⁸ Meade District's Response to Commission Staff's Second Request (filed May 4, 2023).

⁹ 2021 Annual Report at 57.

operations. The table below shows that the 2021 total annual cost of water loss to Meade District is \$213,670, while the annual cost of water loss in excess of 15 percent is \$12,418.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 1,283,130	\$ 58,545	\$ 1,341,675
Water Loss Percent	15.9256%	15.9256%	
Total Water Loss	\$ 204,346	\$ 9,324	\$ 213,670

Disallowed Water Loss	Water	Power	Total
Pro Forma Purchases	\$ 1,283,130	\$ 58,545	\$ 1,341,675
Water Loss in Excess of 15%	0.9256%	0.9256%	0.9256%
Disallowed Water Loss	\$ 11,876	\$ 542	\$ 12,418

DISCUSSION

Using its pro forma test-year operations, Meade District determined that a base rate revenue increase of \$84,980, or 2.63 percent, was necessary to achieve the revenue requirement as shown in the table below.¹⁰

Pro Forma Operating Expenses	\$ 2,959,977
Plus: Average Annual Principal and Interest Payments	374,415
Additional Working Capital	<u>74,883</u>
Overall Revenue Requirement	3,409,275
Less: Other Operating Revenue	(93,927)
Nonutility Expenses	0
Interest Income	<u>(1,277)</u>
Revenue Required from Rates	3,314,071
Less: Pro Forma Present Rate Service Revenues	<u>(3,229,091)</u>
Required Revenue Increase	<u>\$ 84,980</u>
Percentage Increase	<u>2.63%</u>

¹⁰ Application, Attachment 5, Revenue Requirements Using Debt Service Coverage Method.

To determine the reasonableness of the rates requested by Meade District, Commission Staff performed a limited review of Meade 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 and measurable¹¹ changes to test-year operations were identified and adjustments made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's findings are summarized in this report. Noah Abner reviewed the calculation of Meade District's Overall Revenue Requirement, and Jason Green reviewed Meade District's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff found that Meade District's required revenue from water sales is \$3,405,637 to meet the Overall Revenue Requirement of \$3,486,739 and that a \$176,546 revenue increase, or 5.47 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

¹¹ 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).

2. Monthly Water Service Rates. Based upon the revenue requirement, Meade District proposed to increase all of its monthly retail water service rates evenly across the board. Meade District did not perform a cost of service study (COSS).¹² Meade District stated that it did not complete a COSS at this time, as there has not been any material change in the water system to warrant a COSS.¹³

The Commission has previously found that the allocation of a revenue adjustment 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. Finding no such evidence in this case, Commission Staff followed the method proposed by Meade District and allocated the \$176,546 revenue increase across the board to Meade District's monthly retail and wholesale water service rates.

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 \$3,405,637 Revenue Required from Water Sales, an approximate 5.47 percent increase. These rates will increase a typical retail residential customer's monthly water bill from \$45.81 to \$48.32, an increase of \$2.51, or approximately 5.47 percent.¹⁴ These rates will increase Doe Valley Water's monthly wholesale bill from \$34,867.80 to \$36,775.07, an increase of \$1,907.27, or approximately

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

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

¹⁴ Application, Attachment 1, Retail Customer Notice, typical residential customer uses approximately 4,000 gallons per month.

5.47 percent.¹⁵ These rates will increase Otter Creek Water's monthly wholesale bill from \$1,945.60 to \$2,052.02, an increase of \$106.42, or approximately 5.47 percent.¹⁶

3. Nonrecurring Charges. Following the Commission's recent decisions,¹⁷ Commission Staff reviewed Meade District's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours and their salaries and wages are an expense recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges to avoid double recovery of the same expense. Meade District provided updated cost justification for all of the Nonrecurring Charges listed in its tariff.¹⁸ Commission Staff reviewed the cost justification information provided by Meade District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. The revisions that were provided included updating and increasing the amount for transportation to \$27.51 for all Nonrecurring Charges that include transportation expense in its calculations. For the Connection/Turn-On Charge, Field Visit, Meter Re-Read Charge, Service Call/Investigation, Reconnection Charge and Meter Tampering Charge, the Field Labor Costs of \$40.21 per hour and Office/Clerical

¹⁵ Application, Attachment 2, Wholesale Customer Notice, Doe Valley Water uses approximately 5,870,000 gallons per month.

¹⁶ Application, Attachment 2, Wholesale Customer Notice, Otter Creek Water uses approximately 320,000 gallons per month.

¹⁷ 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).

¹⁸ Meade District's Response to Staff's First Request, Item 8.

Labor Costs of \$19.05 per hour were both removed. For the Meter Test Charge the Field Labor Costs of \$40.21 per hour was removed. For the Returned Check charge the Office/Clerical Labor Costs of \$38.09 per hour was removed. For the After Hours services only the Office/Clerical Labor Costs of \$19.05 per hour was removed, as the office is closed during these hours. The After Hours expenses for labor and transportation both increased to \$53.31 per hour and \$27.51 respectively, which results in an increase to the After Hours charges. Meade District proposed an increase to its meter testing fee which included a Service Call/Investigation expense of \$85. Since Commission Staff recommends adjusting Meade District's Service Call/Investigation to \$28, Commission Staff reflected the adjusted amount in its proposal Meter Test Charge. Such adjustments result in the following revised Nonrecurring Charges:

Nonrecurring Charges

	<u>Current Charge</u>	<u>Revised Charge</u>
Connection/Turn-On Charge	\$25.00	\$28.00
Connection/Turn-on Charge (After Hours)	\$50.00	\$84.00
Field Visit	\$25.00	\$28.00
Meter Re-read Charge	\$25.00	\$28.00
Meter Re-read (After Hours)	\$50.00	\$84.00
Service Call/Investigation	\$25.00	\$28.00
Service Call/Investigation (After Hours)	\$50.00	\$84.00
Returned Check Charge	\$25.00	\$15.00
Meter Relocation Charge	Actual Cost	Actual Cost
Meter Test	\$50.00	\$28.00
Reconnection Charge	\$50.00	\$28.00
Meter Tampering Charge	\$50.00	\$28.00

The adjustments to the Nonrecurring Charges results in a decrease in Other Operating Revenue of \$14,102 as shown below.

Description	Occurrences	Current Charge	Total	Revised Charge	Adjustment	Pro Forma
Connection/Turn-On Charge	290	\$25.00	\$ 7,250	\$28.00	\$ 870	\$ 8,120
Connection/Turn-on Charge (After Hours)	0	\$50.00	0	\$84.00	0	0
Field Visit	0	\$25.00	0	\$28.00	0	0
Meter Re-read Charge	0	\$25.00	0	\$28.00	0	0
Meter Re-read (After Hours)	0	\$50.00	0	\$84.00	0	0
Service Call/Investigation	0	\$25.00	0	\$28.00	0	0
Service Call/Investigation (After Hours)	11	\$50.00	550	\$84.00	374	924
Returned Check Charge	43	\$25.00	1,075	\$15.00	(430)	645
Meter Relocation Charge	0	Actual Cost	0	Actual Cost	0	0
Meter Test	0	\$50.00	0	\$85.00	0	0
Reconnection Charge	671	\$50.00	33,550	\$28.00	(14,762)	18,788
Meter Tampering Charge	7	\$50.00	350	\$28.00	(154)	196
Pro Forma Test Year NRC Revenue	<u>1,022</u>		<u>\$ 42,775</u>		<u>\$ (14,102)</u>	<u>\$ 28,673</u>

PRO FORMA OPERATING STATEMENT

Meade District's Pro Forma Operating Statement for the test year ended December 31, 2021, as determined by Commission Staff, appears in the table below.

	Test Year	Meade District Proposed	Commission Staff Adjustments	Total Adjustments (Ref.)	Pro Forma
Operating Revenues					
Total Metered Retail Sales	\$ 2,411,628	\$ 375,137		\$ 375,137 (A)	\$ 2,786,765
Sales for Resale	341,398	100,928		100,928 (A)	442,326
Other Water Revenues:					
Forfeited Discounts		43,653		43,653 (B)	43,653
Other Water Revenues	93,927	(43,653)		(43,653) (B)	
			(14,102)	(14,102) (C)	36,172
Total Operating Revenues	2,846,953	476,065	(14,102)	461,963	3,308,916
Operating Expenses					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	485,275	31,785	59,116	90,901 (D)	576,176
Salaries and Wages - Commissioners	30,000			0	30,000
Employee Pensions and Benefits	243,861	14,635	15,838	30,473 (E)	231,825
		(42,509)		(42,509) (E)	
Purchased Water	909,331	373,799		373,799 (F)	1,271,254
		(11,876)		(11,876) (G)	
Purchased Power for Pumping	58,545	(542)		(542) (G)	58,003
Materials and Supplies	63,784			0	63,784
Contractual Services - Acct. & Legal	22,186			0	22,186
Contractual Services - Water Testing	2,610			0	2,610
Transportation Expenses	22,725			0	22,725
Insurance - Gen. Liab. & Workers Comp.	34,745			0	34,745
Miscellaneous Expenses	167,520			0	167,520
Total Operation and Maintenance Expenses	2,040,582	365,292	74,954	440,246	2,480,828
Depreciation	685,991	(175,750)		(175,750) (H)	510,241
Taxes Other Than Income	40,956	2,907	2,509	5,416 (D)	46,372
Total Operating Expenses	2,767,529	192,449	77,463	269,912	3,037,441
Net Operating Income	79,424	283,616	(91,565)	192,051	271,475
Interest Income	1,277			0	1,277
Income Available to Service Debt	\$ 80,701	\$ 283,616	\$ (91,565)	\$ 192,051	\$ 272,752

(A) Billing Analysis Adjustment. Meade District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application. In the 2021 Annual Report, total metered water sales revenue reported for the test year is \$2,753,026.¹⁹ Meade District provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff to be \$3,229,091.²⁰ Consequently, Commission Staff increased test-year water sales

¹⁹ 2021 Annual Report at 49.

²⁰ Meade District's Response to Staff's First Request, Item 9, MC1_9-Billing_Analyses.xlsx.

revenue by \$476,065 (\$375,137 retail and \$100,928 wholesale) to reflect the revenues from water rates reported in the billing analysis.

(B) Forfeited Discounts. During the test year, Meade District inadvertently reported Forfeited Discounts in its Miscellaneous Service Revenues. Meade District proposed to decrease Miscellaneous Service Revenues by \$43,653 and reclassify this amount to Forfeited Discounts to provide more clarity.²¹ Commission Staff agrees with the proposed adjustment and reclassified \$43,653 from Other Water Revenues to Forfeited Discounts.

(C) Other Water Revenue. As discussed in the Nonrecurring Charges section above, the adjustments to the nonrecurring charges result in a decrease in Other Water Revenues of \$14,102.

(D) Salaries and Wages - Employees. In its application, Meade District proposed an increase of \$31,785 to Salaries and Wages – Employees expense to reflect increases in wage rates since 2021.²² Commission Staff identified a calculation error in Meade District’s pro forma wages where one employee’s wage rate was multiplied by 52 hours rather than the employee’s pro forma regular hours of 2,080 hours, resulting in an understatement of wages by \$59,116.²³ Commission Staff calculated an increase of \$90,901 to Salaries and Wages – Employees expense as shown in the table below.²⁴

²¹ Application, Attachment 5, Schedule of Adjusted Operations, adjustment B.

²² Application, Attachment 5, Schedule of Adjusted Operations, adjustment C.

²³ Meade District’s Response to Staff’s First Request, Item 2a, MC1_2.a-Adjustments.xlsx.

²⁴ Meade District’s Response to Staff’s First Request, Item 2a, MC1_2.a-Adjustments.xlsx.

	Meade District	Commission Staff	Difference
Hourly Rate	\$ 29.15	\$ 29.15	
Multiplier	52	2,080	
Calculated Wages	<u>\$ 1,516</u>	<u>\$ 60,632</u>	\$ 59,116
Meade District's Calculated Adjustment			31,785
Pro Forma Adjustment			<u>\$ 90,901</u>

In its application, Meade District proposed an increase of \$2,907 to Taxes Other Than Income expense to reflect increases in wage rates since 2021.²⁵ Using the pro forma wages from above, Commission Staff calculated an increase of \$5,416.

	Meade District	Commission Staff
Pro Forma Salaries & Wages Expense	\$ 517,060	\$ 576,176
Plus: Salaries and Wages - Comm.	30,000	30,000
Total Profoma Wages Expense	<u>\$ 547,060</u>	<u>\$ 606,176</u>
Times: 7.65 Percent FICA Rate	7.65%	7.65%
Pro Forma Payroll Taxes	41,850	46,372
Less: Test Year Payroll Taxes	(38,943)	(40,956)
Payroll Tax Adjustment	<u>\$ 2,907</u>	<u>\$ 5,416</u>

Meade District's increase, as corrected by Commission Staff, meet the ratemaking criteria of being known and measurable, and Commission Staff included the adjustment in pro forma operating expenses.

(E) Employee Pensions and Benefits. In its application, Meade District proposed two adjustments to Employee Pensions and Benefits expense.²⁶ First, Meade District proposed to increase its contributions to the County Employees Retirement System (CERS) program by \$14,635 to reflect its calculated increase in employee payroll

²⁵ Application, Attachment 5, Schedule of Adjusted Operations, adjustment C.

²⁶ Application, Attachment 5, Schedule of Adjusted Operations.

expense.²⁷ Commission Staff, using the adjusted pro forma wages from above of \$576,176 calculated the increase as \$30,473 as shown below.

	Meade District	Commission Staff
Wages applicable to CERS payments	\$ 517,060	\$ 576,176
Times: Percent Pension Contribution	26.79%	26.79%
Total Pro Forma Pension Contribution	138,520	154,358
Less: Test Year Pension Contribution	(123,885)	(123,885)
Pension & Benefits Adj - Retirement	<u>\$ 14,635</u>	<u>\$ 30,473</u>

The second adjustment Meade District proposed is a decrease of \$42,509 to Employee Pensions and Benefits expense to reflect the allowable health insurance premium based on the Bureau of Labor Statistics' (BLS) national average for an employer's share of health insurance premiums.²⁸

Commission Staff's calculated CERS increase of \$30,473 and Meade District's decrease of \$42,509 to Employee Pensions and Benefits expense meet the ratemaking criteria of being known and measurable as well as appropriate based on previous Commission decisions, and Commission Staff included the adjustments in pro forma operating expenses.

(F) Purchased Water. In its application Meade District proposed an increase of \$373,799 to Purchased Water expense to reflect Hardin County Water District No. 1 increasing their wholesale water rates.²⁹ Meade District's adjustment meets the

²⁷ Application, Attachment 5, Schedule of Adjusted Operations, adjustment D.

²⁸ Application, Attachment 5, Schedule of Adjusted Operations, adjustment E.

²⁹ See Case No. 2022-00409, *Electronic Purchased Water Adjustment Filing of Meade County Water District pursuant to KRS 278.012 and 807 KAR 5:068* (Ky. PSC Mar. 21, 2022).

ratemaking criteria of being known and measurable, and Commission Staff included the adjustments in pro forma operating expenses.

(G) Water Loss. In its application Meade District proposed a decrease of \$11,876 to Purchased Water expense to account for the Meade District's water loss in excess of 15 percent. In addition, Meade District proposed a \$542 decrease to Purchased Power expense to account for the Meade District's water loss in excess of 15 percent.³⁰ Meade District's adjustments are appropriate based allowed water loss under Commission regulation 807 KAR 5:066, Section 6(3), and Commission Staff included the adjustments in pro forma operating expenses.

(H) Depreciation. In its application, Meade District reported test year Depreciation expense of \$685,991.³¹ Meade District proposed a decrease to its test year depreciation of \$175,750 to reflect adjustments of asset service lives to the midpoint of service life range set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled, Depreciation Practices for Small Water Utilities (NARUC Study).³² 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.

³⁰ Application, Attachment 5, Schedule of Adjusted Operations, adjustment G.

³¹ Application, Attachment 5, Schedule of Adjusted Operations.

³² Application, Attachment 5, Schedule of Adjusted Operations, adjustment H.

Therefore, Commission Staff agrees with Meade District’s proposed adjustment and decreased pro forma Depreciation Expense \$175,750 accordingly.

OVERALL REVENUE REQUIREMENT AND
REQUIRED REVENUE INCREASE

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;³³ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

	Meade District	Commission Staff
Pro Forma Operating Expenses	\$ 2,959,977	\$ 3,037,441
Plus: Average Annual Principal and Interest Payments	374,415	374,415
Additional Working Capital	74,883	74,883
Overall Revenue Requirement	<u>3,409,275</u>	<u>3,486,739</u>
Less: Other Operating Revenue	(93,927)	(79,825)
Interest Income	<u>(1,277)</u>	<u>(1,277)</u>
Revenue Required from Rates	3,314,071	3,405,637
Less: Revenue from Sales at Present Rates	(3,229,091)	(3,229,091)
Required Revenue Increase	<u>\$ 84,980</u>	<u>\$ 176,546</u>
Percentage Increase	<u>2.63%</u>	<u>5.47%</u>

³³ The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm’n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district’s lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account’s balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district’s general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Meade District had one Kentucky Rural Water Association (KRWA) loan, two Kentucky Infrastructure Authority (KIA) loans, two United States Department of Agriculture Rural Development (RD) loans, one Kentucky League of Cities (KLC) loan, and one bond.³⁴ Meade District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2023 through 2027.³⁵ Commission Staff agrees with the methodology Meade District proposed and included \$374,415 in the calculation of the revenue requirement.

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. Meade requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its long-term debt at the time of its application. RD requires that Meade District charge rates that produce net revenues that are at least 120 percent of its average annual debt payments.³⁶ Following the Commission's historic practice of including additional working capital, \$74,883 is included in the revenue requirement.

³⁴ Application, Attachment 5, Schedule of Adjusted Operations, Table B, Debt Service Schedule.

³⁵ Application, Attachment 5, Schedule of Adjusted Operations, Table B, Debt Service Schedule.

³⁶ Application, Attachment 5, Schedule of Adjusted Operations, Table B, Debt Service Schedule.

Signatures

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

/s/ Jason Green
Prepared by: Jason Green
Rate Design Branch
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APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00039 DATED JUN 28 2023

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

All Meter Sizes

First	2,000	Gallons	\$24.50 Minimum Bill
Next	5,000	Gallons	0.01191 Per Gallon
Next	10,000	Gallons	0.01152 Per Gallon
Next	20,000	Gallons	0.01061 Per Gallon
Over	37,000	Gallons	0.00934 Per Gallon
Bulk Sales Rate			0.00934 Per Gallon

Wholesale

Doe Valley Water	\$0.00626 Per Gallon
Otter Creek Water	\$0.00641 Per Gallon

Nonrecurring Charges

Connection/Turn-On Charge	\$28.00
Connection/Turn-on Charge (After Hours)	\$84.00
Field Visit	\$28.00
Meter Re-read Charge	\$28.00
Meter Re-read (After Hours)	\$84.00
Service Call/Investigation	\$28.00
Service Call/Investigation (After Hours)	\$84.00
Returned Check Charge	\$15.00

	Actual Cost
Meter Relocation Charge	
Meter Test	\$85.00
Reconnection Charge	\$28.00
Meter Tampering Charge	\$28.00

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