


COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WESTERN)	
PULASKI COUNTY WATER DISTRICT FOR A)	CASE NO.
RATE ADJUSTMENT PURSUANT TO 807 KAR)	2021-00445
5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of April 6, 2022, 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 April 6, 2022 Order, Western Pulaski County Water District (Western Pulaski District) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of this report. The Commission directs Western Pulaski 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 APR 26 2022

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
WESTERN PULASKI COUNTY WATER DISTRICT

Western Pulaski County Water District (Western Pulaski 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 9,055 residential customers and 40 commercial customers that reside in Pulaski, Russell, and Wayne counties, Kentucky.¹ On December 7, 2021, Western Pulaski District filed an application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. The application was filed pursuant to the Commission's Order in Case No. 2020-00331.² Western Pulaski District's last base rate increase was in Case No. 2006-00370.³ To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated December 17, 2021, which was subsequently amended on

¹ *Annual Report of Western Pulaski County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

² Case No. 2020-00331, *Electronic Application of the Western Pulaski County Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct a Water System Improvements Project and an Order Authorizing the Issuance of Securities Pursuant to the Provisions of KRS 278.030, KRS 278.300 and 807 KAR 5:001* (Ky. PSC Dec. 17, 2020) at 12, ordering paragraph 14.

³ Case No. 2006-00370, *The Application of the Western Pulaski County Water District for Approval of Increased Rates for Water Service* (Ky. PSC Dec. 12, 2006).

April 6, 2022. Western Pulaski District responded to two discovery requests from Commission Staff.

WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. Commission Staff notes that in Western Pulaski District's 2020 Annual Report, Western Pulaski District reported a water loss of 27.67 percent.⁴ At 27.67 percent water loss, the total annual cost to Western Pulaski District is \$400,449.⁵

DISCUSSION

To comply with the requirements of 807 KAR 5:076, Section 9,⁶ Western Pulaski District used the calendar year ended December 31, 2020, as the basis for its application. Using the Debt Service Coverage (DSC) method and its pro forma test-year operations, Western Pulaski District determined that a revenue increase of \$622,923, or 18.83 percent over test-year normalized revenues of \$3,307,875, is warranted⁷ as shown in the table below. The proposed rates requested by Western Pulaski District would increase

⁴ Annual Report at 57–58.

⁵

Purchased Water from 2020 Annual Report	\$	1,353,614
Purchased Power		<u>93,618</u>
Total Cost of Water		1,447,232
Times: Total Water Loss		<u>27.67%</u>
Total Cost of Water Loss	\$	<u>400,449</u>

⁶ 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.

⁷ Application, Attachment 4.

the residential monthly bill of a typical residential customer using 3,000 gallons per month by \$4.50, from \$23.89 to \$28.39, or approximately 18.8 percent.⁸

Pro Forma Operating Expenses	\$3,076,340
Plus: Average Annual Principal and Interest Payments	821,936
Additional Working Capital	<u>164,387</u>
Overall Revenue Requirement	4,062,663
Less: Other Operating Revenue	(96,358)
Interest Income	(19,156)
Nonutility Income	<u>(16,351)</u>
Revenue Required from Rates	3,930,798
Less: Pro Forma Present Rate Service Revenues	<u>(3,307,875)</u>
Required Revenue Increase	<u>\$ 622,923</u>
Percentage Increase	<u>18.83%</u>

To determine the reasonableness of the rates requested by Western Pulaski District, Commission Staff performed a limited financial review of Western Pulaski 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 measurable⁹ 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.

⁸ Application, Attachment 1, Customer Notice.

⁹ 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, *The 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); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

Commission Staff's recommendations are summarized in this report. Ariel Miller reviewed the calculation of Western Pulaski District's Overall Revenue Requirement. Jason Green reviewed Western Pulaski 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 Western Pulaski District's required revenue from water sales is \$4,148,118 to meet the Overall Revenue Requirement of \$4,052,433 and that a \$744,558 revenue increase, or 22.51 percent, to pro forma present rate revenues of \$3,307,875 is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Based upon the revenue requirement, Western Pulaski District proposed to increase all of its monthly retail water service rates evenly across the board. Western Pulaski District did not perform a cost of service study (COSS). Western Pulaski 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.¹⁰

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 Western Pulaski District and allocated the \$744,558

¹⁰ Western Pulaski District's Response to Commission Staff's First Request for Information (filed Jan. 12, 2022) (Response to Commission Staff's First Request), Item 5.a.

revenue increase across the board to Western Pulaski District's monthly retail 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 \$4,052,433 Revenue Required from Water Sales, an approximate 22.51 percent increase. These rates will increase a typical residential customer's monthly water bill from \$23.89 to \$29.27, an increase of \$5.38, or approximately 22.52 percent.¹¹

3. Nonrecurring Charges. Following the Commission's recent decisions,¹² Commission Staff has reviewed Western Pulaski District's Nonrecurring Charges. The Commission found that as district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. Western Pulaski District provided updated cost justification information for the Nonrecurring Charges that are listed in its tariff.¹³ Commission Staff reviewed the cost-justification information provided by Western Pulaski District and have adjusted these charges by removing Field Labor

¹¹ The typical residential customer uses approximately 3,277 gallons per month.

¹² 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).

¹³ Western Pulaski District's Responses to Commission Staff's Second Request for Information (filed Feb. 11, 2022), Item 2, Cost_Justifications_NRC.pdf.

Costs and Office/Clerical Labor Costs. Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Service Call/Investigation (After Hours)	\$35	\$110
Meter Test Charge	\$35	\$51
Meter Re-Read Charge	\$25	\$0
Reconnection Charge	\$35	\$0
Connection/Turn-On Charge	\$25	\$0
Returned Check Charge	\$25	\$5
Pit-Cock Valve	\$150	Actual Cost
Tampering Charge	\$50	Actual Cost

The adjustments to the Nonrecurring Charges result in a decrease in Other Operating Revenue of \$36,180 as shown below. Commission Staff recommends that Western Pulaski District should adjust its Nonrecurring Charges to those found in the Appendix to this report.¹⁴

<u>Charge</u>	<u>No. of Occurrences</u>	<u>Current NRC</u>	<u>Adjusted NRC</u>	<u>Pro Forma</u>
Service Call/Investigation	0	\$35	\$0	\$0
Meter Test Charge	0	\$35	\$51	\$0
Meter Re-Read Charge	0	\$25	\$0	\$0
Reconnection Charge	181	\$35	\$0	\$0
Late Payment Charge	4,451	10%	10%	\$14,405
Connection Charge	1,145	\$25	\$0	\$0
Tampering Charge	10	\$50	Actual Cost	\$500
Returned Check Charge	61	\$25	\$5	<u>\$305</u>
Pro Forma Test Year NRC Revenue				\$15,210
Less: Test Year NRC Revenue				<u>\$51,390</u>
Adjustment				<u>-\$36,180</u>

¹⁴ Western Pulaski District indicated that there were no instances of any after-hours charges made during the test period in 2020 Nonrecurring Charges. WPCWD_Non-Recurring_Charges_2020.xls (filed Feb. 25, 2022).

4. Water Loss Surcharge. As noted above, 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes. Western Pulaski District requested a \$1.70 per customer per month surcharge to fund water loss efforts in its application.¹⁵ Commission Staff notes that the use of a surcharge is consistent with prior Commission action in cases involving water districts with excessive unaccounted-for water loss.¹⁶ In its report entitled, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* that was fully incorporated in the final Order in Case No. 2019-00041, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.¹⁷ Commission Staff believes Western Pulaski District will be unable to properly fund water loss reduction projects if it is not afforded the opportunity to recover expenses disallowed by the regulation. As such, Commission Staff recommends the Commission approve Western Pulaski District's surcharge request and further order Western Pulaski District to draft and file a qualified

¹⁵ Application, Attachment 2, Reasons for Application.

¹⁶ See Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges* (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); and Case No. 2019-00019, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2020).

¹⁷ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* at 24–25.

infrastructure improvement plan, and be authorized to use funds from the collection of the surcharge to contract with a professional engineer to draft such a plan.

PRO FORMA OPERATING STATEMENT

Western Pulaski District's Pro Forma Operating Statement for the test year ended December 31, 2020, as determined by Commission Staff, appears below.

	Test Year	Adjustment (Ref.)	Pro Forma
Operating Revenues			
Sales of Water	\$ 3,301,133	\$ 6,742 (A)	\$ 3,307,875
Other Water Revenues	58,257	38,101 (B)	
		(36,180) (C)	60,178
Total Operating Revenues	3,359,390	8,663	3,368,053
Operating Expenses			
Operation and Maintenance Expenses			
Salaries and Wages - Employees	443,097	(D)	
		77,767 (E)	520,864
Salaries and Wages - Commissioners	11,550		11,550
Employee Pensions and Benefits	198,248	34,068 (F)	
		(24,385) (G)	207,931
Purchased Water	1,353,614	(171,494) (H)	1,182,120
Purchased Power for Pumping	93,618	(10,149) (H)	83,469
Materials and Supplies	140,247	(D)	140,247
Contractual Services	178,895		178,895
Transportation Expense	25,507		25,507
Insurance	59,026		59,026
Bad Debt Expense	15,679		15,679
Miscellaneous Expense	148,022	(117,594) (I)	30,428
Total Operation and Maintenance Expenses	2,667,503	(211,787)	2,455,716
Taxes Other Than Income	44,666	1,951 (E)	46,617
Depreciation	501,394	158,068 (J)	659,462
Total Operating Expenses	3,213,563	(51,768)	3,161,795
Net Operating Income	145,827	60,431	206,258
Interest Income	19,156		19,156
Nonutility Income	16,351		16,351
Income Available to Service Debt	\$ 181,334	\$ 60,431	\$ 241,765

(A) Billing Analysis Adjustment. Western Pulaski District included test-year service revenues of \$3,301,133. In its application, Western Pulaski District proposed to increase test-year service revenue by \$6,742 to reflect its current Billing Analysis. Commission Staff agrees that the adjustment proposed by Western Pulaski District is known and measurable and accurately reflects pro forma revenue and has included it in pro forma calculation.

(B) Late Payment Charges. In its application, Western Pulaski District made an adjustment of \$38,101 to Forfeited Discounts to account for the moratorium regarding the collection of late payment penalties due to the COVID-19 pandemic.¹⁸ Western Pulaski District proposed to normalize the revenue from Forfeited Discounts using the amounts collected in 2019. Commission Staff believes that it is reasonable to anticipate the level of revenue achieved from Late Payment Charges is not sufficient in the test period due to the moratorium that occurred in 2020. Commission Staff notes that Western Pulaski District does not properly separate Forfeited Discounts from its Other Water Revenues on its annual reporting to the Commission, and as a result, Commission Staff is unable to determine from the annual reports a historical level of Late Payment Charges. Commission Staff accepted Western Pulaski District's proposed adjustment and increased Other Operating Revenue \$38,101 but notes that Western Pulaski District should provide in its comments to the Commission Staff Report its annual Late Payment Charge revenues for the calendar years 2017 through 2021.

(C) Nonrecurring Charges. As shown above, the adjustments to the Nonrecurring Charges result in a decrease to Other Water Revenues of \$36,180.

¹⁸ Application, Attachment 4, Adjustment C.

(D) Tap Fees. In its application, Western Pulaski District proposed to decrease pro forma Wages and Materials and Supplies expense totaling \$85,456 to remove labor and materials expended towards new meter installations.¹⁹ Western Pulaski District stated that it does not keep detailed records of the dollar amounts of labor and materials used to install new customer taps.²⁰ Commission Staff reviewed Western Pulaski District's 2020 adjusting journal entries that were supplied by the auditor and notes that \$288,768 in expenses related to meter installations was already capitalized on Western Pulaski District's depreciation schedule for 2020.²¹ Therefore, Commission Staff believes no further adjustment to pro forma expenses is necessary and did not reflect Western Pulaski District's proposed adjustment in pro forma operations.

(E) Salaries and Wages. In its application, Western Pulaski District proposed to increase Salaries and Wages of \$77,767 and Taxes Other than Income of \$1,951 to reflect increases in wages and the conversion of two part-time employees to full-time employment.²² Commission Staff has reviewed the corresponding attachment that was provided with Western Pulaski District's adjustment and agrees that the proposed increases fairly represent total Salaries and Wages expense and Taxes Other Than Income going forward.²³ Accordingly, Commission Staff increased pro forma Salaries and Wages of \$77,767 and corresponding Taxes Other than Income of \$1,951 for payroll taxes.

¹⁹ Application, Attachment 4, Adjustment D.

²⁰ Western Pulaski District's Response to Commission Staff's First Request, Item 6.a.

²¹ Western Pulaski District's Response to Commission Staff's First Request, Item 2.

²² Application, Attachment 4, Adjustment E.

²³ Western Pulaski District's Response to Commission Staff's First Request, Item 3.

(F) Retirement Expense. As a participating member of the County Employees' Retirement System (CERS), Western Pulaski District is required to contribute a percentage of its employee wages to CERS. In its application, Western Pulaski District proposed to increase Employee Pensions and Benefits \$34,068, to account for an increase in the employer's contribution rate charged by the CERS and to reflect the wage increases discussed in Item (E) above.²⁴ Commission Staff has examined the workpapers provided by Western Pulaski District and agrees with the calculation as proposed by Western Pulaski District.²⁵ Accordingly, Commission Staff increased Employee Pensions and Benefits by \$34,068 in the Pro Forma calculation.

(G) Employee Pensions and Benefits. In its application, Western Pulaski District proposed to decrease Employee Pensions and Benefits by \$24,385 based on the net result of decrease to health insurance premiums experienced subsequent to the test period and to reduce premiums paid by Western Pulaski District by the Bureau of Labor Statistics national average for single health coverage and dental coverage based on recent Commission decisions regarding this issue.²⁶ Commission Staff has examined the workpapers provided by Western Pulaski District and agrees with the calculation as proposed by Western Pulaski District.²⁷ Accordingly, Commission Staff decreased Employee Pensions and Benefits by \$24,385 in the Pro Forma calculation.

²⁴ Application, Attachment 4, Adjustment F.

²⁵ Western Pulaski District's Response to Commission Staff's First Request, Item 3.

²⁶ Application, Attachment 4, Adjustment G.

²⁷ Western Pulaski District's Response to Commission Staff's First Request, Item 3.

(H) Water Loss. Western Pulaski District's test year water loss was 27.67 percent.²⁸ Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes unless the Commission finds an alternative level is reasonable. In its application, Western Pulaski District proposed to reduce Purchased Water and Purchased Power expenses by \$181,643 to reflect the limitation stated in the regulation.²⁹ Commission Staff agrees that the regulation has been properly applied by Western Pulaski District in its proposal and reduced pro forma Purchased Water by \$171,494 and Purchased Power by \$10,149 accordingly.

(I) Governmental Accounting Standards Board Statement No. 68 and No 75 (GASB 68 and 75). In its application, Western Pulaski District proposed to decrease Miscellaneous Expense \$117,594 to remove the effects of journal entries made by Western Pulaski District's audit to conform to the requirements of the GASB 68 and 75.³⁰

In Case No. 2016-000163,³¹ Commission Staff discussed in great detail how reporting requirements for GASB 68 and 75 would affect a utility's income statement and balance sheet. In that proceeding, Commission Staff found that the annual pension expense should be equal to the amount of a district's contribution to CERS, which historically have been very constant.³² Consistent with Commission Staff's previous

²⁸ Application, Attachment 4, Adjustment H.

²⁹ Application, Attachment 4, Adjustment H.

³⁰ Application, Attachment 4, Adjustment I.

³¹ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Aug 11, 2016), Commission Staff's Report on Marion County Water District at 11–27.

³² Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Aug 11, 2016), Commission Staff's Report on Marion County Water District at 26.

practice, Commission Staff agrees with the proposal to reduce expenses related to GASB 68 and 75 and reduced Miscellaneous Expense by \$117,594.

(J) Depreciation. In its application, Western Pulaski District reported a test-year Depreciation expense of \$501,394. To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) entitled, *Depreciation Practices for Small Water Utilities* (NARUC Study). When no evidence exists to support a specific life that is outside the NARUC Study ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate water utility plant.

In its application, Western Pulaski District proposed to increase Depreciation Expense \$158,068 to adjust the lives of assets on its depreciation schedule to bring them to the midpoint of the NARUC recommended ranges. Western Pulaski District adjustment also proposed in its adjustment to include depreciation expense on new assets expected to be constructed by 2022. Commission Staff agrees with Western Pulaski District's proposed adjustments and increase pro forma Depreciation Expense by \$158,068 accordingly.

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Commission has historically applied a 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.

	Western Pulaski		
	District	Staff	
Pro Forma Operating Expenses	\$3,076,340	\$ 3,161,795	
Plus: Average Annual Principal and Interest Payments	821,936	821,936	(1)
Additional Working Capital	<u>164,387</u>	<u>164,387</u>	(2)
Overall Revenue Requirement	4,062,663	4,148,118	
Less: Other Operating Revenue	(96,358)	(60,178)	
Interest Income	(19,156)	(19,156)	
Nonutility Income	<u>(16,351)</u>	<u>(16,351)</u>	
Revenue Required from Rates	3,930,798	4,052,433	
Less: Pro Forma Present Rate Service Revenues	<u>(3,307,875)</u>	<u>(3,307,875)</u>	
Required Revenue Increase	<u>\$ 622,923</u>	<u>\$ 744,558</u>	
Percentage Increase	<u>18.83%</u>	<u>22.51%</u>	

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Western Pulaski District had six bonds payable to the United States Department of Agriculture Rural Development (RD), two loans payable to the Kentucky Infrastructure Authority, and one loan payable to the Kentucky Rural Water

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).

Finance Corporation. In its application, Western Pulaski 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 2022 through 2026. Commission Staff agrees with the methodology and calculation that Western Pulaski District proposed and therefore included principal and interest payments of \$821,936 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. In its application, Western Pulaski District 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 with the RD at the time of its application. RD requires that Western Pulaski District charge rates that produce net revenues that are at least 120 percent of its average annual debt payments. Following the Commission's historic practice, \$164,387 is included in the revenue requirement.

Signatures

/s/Ariel Miller

Prepared by: Ariel Miller
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/s/Jason Green

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APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00445 DATED APR 26 2022

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

5/8- x 3/4-Inch Meter

First 2,000 Gallons	\$21.54 Minimum Bill
Over 2,000 Gallons	0.00773 per gallon

1-Inch Meter

First 10,000 Gallons	\$83.09 Minimum Bill
Over 10,000 Gallons	0.00773 per gallon

1 ½-Inch Meter

First 15,000 Gallons	\$121.55 Minimum Bill
Over 15,000 Gallons	0.00773 per gallon

2-Inch Meter

First 20,000 Gallons	\$160.02 Minimum Bill
Over 20,000 Gallons	0.00773 per gallon

3-Inch Meter

First 30,000 Gallons	\$236.96 Minimum Bill
Over 30,000 Gallons	0.00773 per gallon

Leak Adjustment

Usage Above Average	\$0.00492 per gallon
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Water Loss Reduction Surcharge

	\$1.70 per customer
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Nonrecurring Charges

Service Call/Investigation	\$0.00
Meter Test Charge	\$51.00
Meter Re-Read Charge	\$0.00
Reconnection Charge	\$0.00
Connection Charge	\$0.00
Tampering Charge	Actual Cost
Returned Check Charge	\$5.00

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