

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ELKHORN)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2022-00124
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 May 3, 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 May 3, 2022 Order, Elkhorn Water District (Elkhorn 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 Elkhorn 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 AUG 12 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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ELECTRONIC APPLICATION OF ELKHORN)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2022-00124
PURSUANT TO 807 KAR 5:076)	

COMMISSION STAFF'S REPORT ON ELKHORN WATER DISTRICT

Elkhorn Water District (Elkhorn 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 592 residential customers and 8 commercial customers that reside in Franklin County, Kentucky.¹ On April 25, 2022, Elkhorn 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 2020-00113.² Elkhorn District's last base rate increase was approved in Case No. 2018-00145.³ To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated May 3, 2022. Elkhorn District responded to two requests for information from Commission Staff.

¹ *Annual Report of Elkhorn 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. 2020-00113, *Electronic Application of Elkhorn Water District for a Certificate of Public Convenience and Necessity to Replace 6600 lf of Pipeline, to Replace a Booster Pump Station, to Install a New Master Meter, and New Individual Meters, and to Refurbish an Existing Elevated Water Tank*, (Ky. PSC Nov. 20, 2022) at 13, ordering paragraph 11.

³ Case No. 2018-00145, *Application of Elkhorn Water District for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Apr. 2, 2019).

WATER LOSS

The Commission notes that in its 2020 Annual Report, Elkhorn District reported a water loss of 15.47 percent.⁴ Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The annual cost to Elkhorn District for water loss above the allowable 15 percent is \$885.⁵ The total annual cost of total water loss is \$28,981.⁶

DISCUSSION

To comply with the requirements of 807 KAR 5:076, Section 9,⁷ Elkhorn District used the calendar year ended December 31, 2020, as the basis for its application. Using its pro forma test-year operations, Elkhorn District determined that a revenue increase of \$76,516, or 23.09 percent over test-year normalized revenues of \$331,431, was

⁴ 2020 Annual Report at 57.

⁵

	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Expenses	\$ 177,189	\$ 7,751	\$ 2,398	\$ 187,338
Multiply by: Water loss in Excess of 15 Percent	0.47%	0.47%	0.47%	0.47%
Excess Cost	<u>\$ 837</u>	<u>\$ 37</u>	<u>\$ 11</u>	<u>\$ 885</u>

⁶

	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Expenses	\$ 177,189	\$ 7,751	\$ 2,398	\$ 187,338
Multiply by: Total Water loss	15.47%	15.47%	15.47%	15.47%
Excess Cost	<u>\$ 27,411</u>	<u>\$ 1,199</u>	<u>\$ 371</u>	<u>\$ 28,981</u>

⁷ The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measureable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

warranted⁸ as shown in the table below. The rates requested by Elkhorn District would increase the residential monthly bill of a typical residential customer using 5,000 gallons per month by \$8.66 from \$37.52 to \$46.18, or approximately 23.08 percent.⁹

	<u>Elkhorn Water District</u>
Pro Forma Operating Expenses	\$ 344,750
Plus: Avg. Annual Principal and Interest Payments	57,102
Additional Working Capital	<u>11,420</u>
Total Revenues Requirement	413,272
Less: Other Operating Revenue	(4,446)
Interest Income	<u>(879)</u>
Revenue Required From Water Sales	407,947
Revenue from Sales at Present Rates	<u>(331,431)</u>
Required Revenue Increase	<u>76,516</u>
Percentage Increase	<u><u>23.09%</u></u>

To determine the reasonableness of the rates requested by Elkhorn District, Commission Staff performed a limited financial review of Elkhorn 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 measurable¹⁰ changes to test-year operations were identified and adjustments made

⁸ Application, Attachment 4, Schedule of Adjusted Operations - Revenue Requirements.

⁹ Application, Attachment 1, Customer Notice.

¹⁰ Commission regulation 807 KAR 5:076, Section 9 sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25,

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. William Foley reviewed the calculation of Elkhorn District's Overall Revenue Requirement. Jason Green reviewed Elkhorn 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 Elkhorn District's required revenue from water sales is \$394,472 to meet the Overall Revenue Requirement of \$400,047 and that a \$62,828 revenue increase, or 18.94 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Elkhorn District proposed to increase its monthly retail and emergency wholesale water service rates by approximately 23.09 percent across the board. Elkhorn District has not performed a cost of service study (COSS). Elkhorn District stated that it did not complete a COSS at this time as there has been no material changes in the water system.¹¹

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

2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

¹¹ Elkhorn District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed June 27, 2022), Item 13.

the absence of a COSS. Finding no such evidence in this case, Commission Staff has followed the method previously accepted by the Commission and has allocated the \$62,828 revenue increase evenly across the board to Elkhorn District's monthly retail water service rates.

The rates set forth in Appendix A 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 \$394,472 required from rates, an approximate 18.94 percent increase. These rates will increase a typical residential customer's monthly water bill from \$37.52 to \$44.57, an increase of \$7.05 or approximately 18.79 percent.¹²

3. Nonrecurring Charges. Following the Commission's recent decisions,¹³ Commission Staff has reviewed Elkhorn District's Nonrecurring Charges. The Commission found that because 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. Elkhorn District provided the cost justification for the nonrecurring charges.¹⁴ In support of its cost justification for its returned check charge, Elkhorn District provided a detailed breakdown of its expenses

¹² The typical residential customer uses approximately 5,000 gallons per month.

¹³ 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).

¹⁴ Elkhorn District's Response to Staff's First Request (filed Jun 27, 2022), Item 8; Elkhorn District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed July 21, 2022), Item 5, attached file "EWD2_5-Cost_Justifications.pdf".

for the charge.¹⁵ After eliminating the costs associated with labor, the cost support included a charge of \$9.49 for the Returned Check Charge.¹⁶ Commission Staff rounded the charge up to \$10.00. Commission Staff reviewed the cost justification information for the remaining nonrecurring charges provided by Elkhorn District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charges</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Returned Check Charge	\$25	\$10
Service Call/ Investigation	\$65	\$11
Service Line Inspection	\$50	\$11
Service Reconnection Charge	\$50	\$14
Meter Re-read Charge	\$25	\$11
Meter Test Charge	\$75	\$22
Transfer Fee	\$25	\$11

The adjustments to the Nonrecurring Charges result in a decrease in Miscellaneous Service Revenue of \$761 as shown below.

<u>Charges</u>	<u>Number of Occurrences</u>	<u>Utility Pro Forma</u>	<u>Adjustment</u>	<u>Staff Pro Forma</u>
Returned Check Charge	5	\$ 125	\$ (75)	\$ 50
Service Reconnection Charge	7	350	(252)	98
Transfer Fee	31	775	(434)	341
Total Nonrecurring charges		<u>\$ 1,250</u>	<u>\$ (761)</u>	<u>\$ 489</u>

¹⁵ Elkhorn District's Response to Staff's Second Request, Item 5, attached file "EWD2_5-Cost_Justifications.pdf" at 2.

¹⁶ Elkhorn District's Response to Staff's Second Request, Item 5, attached file "EWD2_5-Cost_Justifications.pdf" at 2.

PRO FORMA OPERATING STATEMENT

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

	<u>Test Year</u>	<u>Adjustment</u>	<u>(Ref.)</u>	<u>Pro Forma</u>
Operating Revenues				
Total Metered Water Sales	\$ 329,429	\$ (1,641)	(A)	
		3,856	(B)	\$ 331,644
Other Water Revenues	-			
Forfeited Discounts		391	(A)	
		3,816	(C)	4,207
Misc. Service Revenues		1,250	(A)	
		(761)	(D)	489
Total Operating Revenues	329,429	6,911		336,340
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	-			-
Salaries and Wages - Officers	8,479	(7,751)	(E)	728
Employee Pensions and Benefits	-			
Purchased Water	180,062	(837)	(F)	179,225
Purchased Power	7,751	(37)	(F)	7,714
Chemicals & Lab Testing	2,398	(11)	(F)	2,387
Materials and Supplies				-
Contractual Services- Accounting	14,120			14,120
Contractual Services- Other	48,764	(4,400)	(G)	
		11,939	(H)	56,303
Rental of Bld./ Real Property	92			92
Transportation Expenses	-			-
Insurance- General Liability	4,189			4,189
Advertising	636			636
Miscellaneous Expense	28,682			28,682
Total Operation and Maintenance Expenses	295,173	(1,097)		294,076
Depreciation	12,183	23,105	(I)	
		104	(J)	35,392
Taxes Other Than Income	2,057			2,057
Utility Operating Expenses	309,413	22,112		331,525
Net Operating Income	20,016	(15,201)		4,815
Interest and Dividend Income	879			879
Income Available to Service Debt	\$ 20,895	\$ (15,201)		\$ 5,694

(A) Reclassify Other Water Revenues. In its application, Elkhorn District proposed to reduce revenue from metered water sales by \$1,854 to reflect revenue that should have been reported as other water revenues. During its review, Commission Staff discovered that \$213 of this other water revenue should have been classified as revenue from water sales. The \$213 accounts for the amount of water sales that were initially uncollected as a result of a returned check but later collected. As a result, Commission Staff has revised Elkhorn District's adjustment and decreased revenue from metered water sales by \$1,641 and reclassified this amount as other water revenues; \$391 has been reclassified as Forfeited Discounts, and \$1,250 is reclassified as Miscellaneous Service Revenues.

(B) Billing Analysis Adjustment. Elkhorn District included test-year service revenues of \$331,431. In its application, Elkhorn District proposed to increase test-year service revenue by \$3,856 to reflect its current Billing Analysis.¹⁷ As explained in Adjustment (A), \$213 of the proposed adjustment should remain as part of Metered Water Sales which results in test year revenues of \$331,644. Commission Staff agrees that the adjustment proposed by Elkhorn District is known and measurable and, after adjusting for the \$213 misclassification of water revenue, accurately reflects pro forma revenue and has included it in pro forma calculation.

(C) Other Water Revenues— Forfeited Discounts. During the test year Elkhorn District reported \$391 in late payment penalties.¹⁸ In its application, Elkhorn District proposed an adjustment increasing Other Water Revenues by \$2,592 to normalize the

¹⁷ Application, Attachment 4, Statement of Adjusted Operations, adjustment B.

¹⁸ Elkhorn District's Response to Staff's First Request, Item 7.

pro forma figure for Late Fees back to level experienced in 2019.¹⁹ In March 2020, the Commission issued a moratorium regarding the collection of late payment fees due to the pandemic.²⁰ As a result of the moratorium, the amount of forfeited discounts collected in the test period does not represent a normal operating year amount. Elkhorn District provided 2017 through 2019 late payment penalties collected.²¹ Commission Staff recalculated the late payment penalties to closer align with a normal year by averaging the years 2017 through 2019 as shown below. As discussed in Adjustment (A) above Commission Staff reclassified \$391 from Total Metered Water Sales to Other Water Revenues. As a result, Commission Staff increased Other Water Revenues by a further \$3,816 as shown below.

Year	Late Payment Penalties
2017	\$ 5,369
2018	4,269
2019	2,984
Three-year Average Collected	4,207
Reclassified Test Year Late Fees	(391)
Late Payment Penalties Adjustment	<u>\$ 3,816</u>

(D) Nonrecurring Charges. As discussed above, the adjustments to the nonrecurring Charges results in a decrease in Other Water Revenues of \$761.

¹⁹ Application, Attachment 4, Statement of Adjusted Operations, adjustment C.

²⁰ Case 2020-00085, *Emergency Docket Related to the Novel Coronavirus COVID-19*, (Ky. PSC Mar, 16, 2020), at 3.

²¹ Elkhorn District's Response to Staff's First Request, Item 3.

(E) Salaries and Wages— Officers. In the test year, Elkhorn District reported Salaries and Wages — Officers expense of \$8,479.²² Elkhorn District currently has three board members²³ who are paid \$2,400 annually.²⁴ Elkhorn District also paid Paychex \$728 in order to process payroll expenses.²⁵ In response to Commission Staff's request for the fiscal court minutes approving Elkhorn District's commission compensation, Elkhorn District stated that it had not been able to find Fiscal Court minutes that approve each commissioner's compensation.²⁶ As a result, there is no evidence on record authorizing commissioner compensation. Therefore, Commission Staff decreased Salaries and Wages — Officers expense by \$7,751, which is the \$7,200 actual payroll and \$551 for payroll taxes. Additionally, Commission Staff recommends that Elkhorn District seek fiscal court approval for the commissioner's Salaries at the next session back to the date it began to pay current commissioners' salaries.

(F) Expenses Attributable to Water Loss. In its application, Elkhorn District proposed a net adjustment of \$888 decrease to Purchase Water and Purchased Power to account for excess water loss.²⁷ This adjustment is in accordance with Commission precedent of not allowing recovery of expenses for water loss in excess of 15 percent. Commission Staff agrees with Elkhorn District's methodology but disagrees with Elkhorn

²² Application, Attachment 4, Statement of Adjusted Operations.

²³ Elkhorn District's Response to Staff's First Request, Item 1d.

²⁴ Elkhorn District's Response to Staff's First Request, Item 1d.

²⁵ Elkhorn District's Response to Staff's First Request, Item 1a, EWD1_1.a_-_General_Ledger_2020.xlsx.

²⁶ Elkhorn District's Response to Staff's Second Request, item 4.

²⁷ Application, Attachment 4, Statement of Adjusted Operations, Adjustment D.

District’s proposed adjustments because Elkhorn District’s adjustment did not incorporate chemical expense into the calculation. Additionally, when adjustment (F) is included in the purchased water calculation, it results in a decrease to Purchased Water Expense by \$837, Purchased Power Expense by \$37, and Chemical Expense by \$11. The adjustments result in a net decrease to Revenue Requirement of \$885 as shown in the table below.

	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Expenses	\$ 177,189	\$ 7,751	\$ 2,398	\$187,338
Multiply by: Water loss in Excess of 15 Percent	0.47%	0.47%	0.47%	0.47%
Excess Cost	<u>\$ 837</u>	<u>\$ 37</u>	<u>\$ 11</u>	<u>\$ 885</u>

(G) Expenses Related to Meter Installations. During the test year, Elkhorn District proposed an adjustment decreasing Contractual Services — Other by \$4,400²⁸ to reflect the reduction of the capital costs for the installation of four new water connections.²⁹ Elkhorn District recorded payments to contractors and the district’s cost of materials for the installation of new meter. The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.³⁰ Therefore, Commission Staff agrees with Elkhorn District’s proposed adjustment. In addition, Commission Staff has capitalized the costs and made a corresponding adjustment to test-year depreciation as shown in Adjustment (J).

²⁸ Application, Schedule of Adjusted Operations, Adjustment E.

²⁹ Elkhorn District’s Response to Staff’s First Request, Item 11.

³⁰ USoA, Accounting Instruction 19 and 33.

(H) Contractual Services — Other. In its application, Elkhorn District proposed to increase its test year Contractual Services by \$17,520.³¹ The adjustment is comprised of two separate calculations: the first is a proposed increase of \$10,621; which is the change from the 2020 test year to the unadjusted 2021 total for Professional Services — Maintenance and Account #5012: Repairs and Maintenance.³² Subsequent to the Test year, the charges from the district’s operations contractor, Gatewood Water Service (GWS), have increased substantially;³³ therefore, Elkhorn District proposed to include the increase in contracted labor expense in the Contractual Services Expense. Commission Staff agrees with Elkhorn District’s proposal to include the increased cost for contracted labor in the Contractual Services- Other calculation. However, Elkhorn District’s proposed adjustment does not include the 2021 Independent Auditor’s year end adjusting entries in its calculation. Commission Staff reviewed the 2020 and 2021 General Ledgers³⁴ and increased Contractual Services — Other by \$5,039 as shown below.

<u>Accounts</u>	<u>Jan- Dec 20</u>	<u>Adjustment</u>	<u>Jan-Dec 21</u>
Professional Services-Maintenance	\$ 40,119	\$ 5,584	\$ 45,703
5012- Repairs & Maintenance	<u>8,645</u>	<u>(545)</u>	<u>8,100</u>
Total	<u>\$ 48,764</u>	<u>\$ 5,039</u>	<u>\$ 53,803</u>

³¹ Application, Schedule of Adjusted Operations, Adjustment F.

³² Elkhorn District’s Response to Staff’s First Request, Item 1a General Ledger_2020.xlsx, and General Ledger_2021.xlsx.

³³ Application, Schedule of Adjusted Operations, Adjustment F.

³⁴ Elkhorn District’s Response to Staff’s First Request, Item 1a General Ledger_2020.xlsx, and General Ledger_2021.xlsx.

The second component of the proposed adjustment is an increase to the monthly basic services fee charged by GWS of \$6,900. In the contract with GWS, effective for the May 2022 invoice period, the basic monthly service fee increased from \$2,300 to \$2,875³⁵ this results in a normalized annual increase of \$6,900, as shown below.

<u>Contractual Services-Gatewood Base Rate</u>	
Test Year Basic Monthly Services Fee	\$ 2,300
Current Basic Monthly Services Fee	<u>2,875</u>
Basic Monthly Services Fee increase	575
Multiplied by: 12 Months	<u>12</u>
Employee Pension and Benefits Adjustment	<u><u>\$ 6,900</u></u>

Therefore, Commission Staff increased Elkhorn District’s Contractual Services — Other by a net of \$11,939.

(l) Depreciation Expense. In its application, Elkhorn District proposed to increase its test year Depreciation Expense of \$12,183 by \$23,104.³⁶ 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) titled Depreciation Practices for Small Water Utilities (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. Upon examination, Commission Staff agrees with Elkhorn District’s methodology to adjust Depreciation expense, Commission Staff

³⁵ Elkhorn District’s Response to Staff’s Second Request, Item 3, Operations and Maintenance Agreement, at 1 & 2.

³⁶ Application, Schedule of Adjusted Operations, Adjustment G.

calculated the depreciation expense of \$35,288. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff increased Elkhorn District's Expense by \$23,105 to \$35,288 as shown below.

Catagories	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
PUMPS, LINES, METERS	\$ 4,785	\$ (192)	\$ 4,593
TANKS	5,834	-	5,834
METERS & METER INSTALLATIONS	1,564	(95)	1,469
OFFICE EQUIPMENT	-	-	-
KIA FUNDED CONSTRUCTION PROJECT	-	23,392	23,392
Total	\$ 12,183	\$ 23,105	\$ 35,288

(J) Capitalization of Test-Year Water Taps. As explained in Adjustment (H) above, the expenses related to the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives. Elkhorn District confirmed that the expenses associated with new meters installed was not included in the depreciation calculation.³⁷ Therefore, Commission Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$104 as shown below.

Test Year Water Connections Expenses	\$ 4,400
Divided by: Useful Life of 42.5 Years	42.5
Pro Forma Depreciation Adjustment	\$ 104

³⁷ Elkhorn District's Response to Staff's Second Request, Item 2.

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;³⁸ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

	Elkhorn Water District	Staff
Pro Forma Operating Expenses	\$ 344,750	\$ 331,525
Plus: Avg. Annual Principal and Interest Payments	57,102	57,102 (1)
Additional Working Capital	11,420	11,420 (2)
Total Revenues Requirement	413,272	400,047
Less: Other Operating Revenue	(4,446)	(4,696)
Interest Income	(879)	(879)
Revenue Required From Water Sales	407,947	394,472
Revenue from Sales at Present Rates	(331,431)	(331,644)
Required Revenue Increase	\$ 76,516	\$ 62,828
Percentage Increase	23.09%	18.94%

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Elkhorn District had one outstanding Bond from the United

³⁸ 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).

States Department of Agriculture, Rural Development (RD),³⁹ and one loan from the Kentucky Infrastructure Authority (KIA).⁴⁰ In its application, Elkhorn 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 2027.⁴¹ Commission Staff agrees with the methodology of Elkhorn District's calculation. As shown below, Commission Staff calculated an Average Principal and Interest of \$57,102.

2023-2027 Five-Year Average of Debt Payments						
Year	RD Bond		KIA Loan			Total
	Principal	Interest	Principal	Interest	Fees	
2023	\$ 7,700	\$5,394	\$25,182	\$17,419	\$1,267	\$56,962
2024	8,200	4,976	25,879	16,722	1,216	56,993
2025	8,800	4,529	26,596	16,005	1,164	57,094
2026	9,400	4,052	27,332	15,269	1,110	57,163
2027	10,100	3,541	28,089	14,512	1,055	57,297
Total						285,509
Divide by: 5 years						<u>5</u>
Average Annual Interest Payment						<u><u>\$57,102</u></u>

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

³⁹ Case 1993-00141, *In the Matter of the Application of Elkhorn Water District of Franklin County, Kentucky, for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to KRS 278.023 Has Been Received*, (Ky. PSC Apr. 28, 1993).

⁴⁰Case 2020-00113, *Electronic Application of Elkhorn Water District for a Certificate of Public Convenience and Necessity to Replace 6600 Lf of Pipeline, to Replace a Booster Pump Station, to Install a New Master Meter, and New Individual Meters, and to Refurbish an Existing Elevated Water Tank*, (Ky. PSC Nov. 20, 2020).

⁴¹ Application, Statement of Adjusted Operations, Table B Debt Service Schedule.

minimum net revenues required by a district's lenders that are above its average annual debt payments. In its application, Elkhorn District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its loan payable to KIA at the time of its application.

RD requires that Elkhorn 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, Commission Staff agrees with Elkhorn District's methodology. Therefore as shown below, \$11,420 is included it in the revenue requirement.

Average Annual Principal and Interest	\$ 57,102
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	68,522
Less: Average Annual Principal and Interest Payments	<u>(57,102)</u>
Additional Working Capital	<u>\$ 11,420</u>

Signatures

/s/ William Foley

Prepared by: William Foley
Revenue Requirement Branch
Division of Financial Analysis

/s/ Jason Green

Prepared by: Jason Green
Rate Design Branch
Division of Financial Analysis

APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00124 DATED AUG 12 2022

The following rates and charges are prescribed for the customers in the area served by Elkhorn 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	\$ 20.36	Minimum Bill
Next	3,000 Gallons	0.00807	Per Gallon
Next	5,000 Gallons	0.00733	Per Gallon
Over	10,000 Gallons	0.00576	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$ 44.63	Minimum Bill
Next	5,000 Gallons	0.00733	Per Gallon
Over	10,000 Gallons	0.00576	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$ 81.31	Minimum Bill
Over	10,000 Gallons	0.00576	Per Gallon

Southcreek Mobile Home Park

First	15,000 Gallons	\$152.72	Minimum Bill
Over	15,000 Gallons	0.00576	Per Gallon

Elkhorn Mobile Home Park

First	76,000 Gallons	\$773.81	Minimum Bill
Over	76,000 Gallons	0.00576	Per Gallon

Capital Mobile Home Park

First	125,000 Gallons	\$1,272.72	Minimum Bill
Over	125,000 Gallons	0.00576	Per Gallon

Emergency Wholesale Rate

\$	0.00576	Per Gallon
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Non-Recurring Charges

Returned Check Charge	\$10.00
Service Call/Investigation	\$11.00
Service Line Inspection	\$11.00
Service Reconnection Charge	\$14.00
Meter Re-read Charge	\$11.00
Meter Test Charge	\$22.00
Service Transfer Fee	\$11.00

*Alan Vilines
Kentucky Rural Water Association
Post Office Box 1424
1151 Old Porter Pike
Bowling Green, KENTUCKY 42102-1424

*Elkhorn Water District
7165 US 127 North
P. O. Box 67
Frankfort, KY 40602

*Nancy Sherrow
Elkhorn Water District
7165 US 127 North
P. O. Box 67
Frankfort, KY 40602