

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--------------------------------------|---|------------|
| ELECTRONIC APPLICATION OF HENRY |) | |
| COUNTY WATER DISTRICT #2 FOR AN |) | CASE NO. |
| ALTERNATIVE RATE ADJUSTMENT PURSUANT |) | 2023-00090 |
| 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 15, 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 May 15, 2023, Order, Henry County Water District #2 (Henry District #2) 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 Henry District #2 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 SEP 15 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 HENRY COUNTY WATER DISTRICT #2

Henry County Water District #2 (Henry District #2) 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 6,541 residential customers, 144 commercial customers, 2 industrial customers, and 30 public authorities that reside in five counties, Carroll, Henry, Oldham, Shelby, and Trimble Kentucky.¹

On April 20, 2023,² Henry District #2 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 9,³ Henry District #2 used the calendar year ended December 31, 2021, as the basis for its application. Henry District #2's last base

¹ *Annual Report of Henry District #2 to the Public Service Commission for the Calendar Year Ended December 31, 2021 (2021 Annual Report)* at 12 and 49.

² Henry District #2 tendered its application on March 30, 2023. By letter dated April 3, 2023, the Commission rejected the application for filing deficiencies. By letter dated April 13, 2023, Henry District #2 filed its response to the filing deficiencies. By letter dated April 19, 2023, the Commission rejected Henry District #2's response for filing deficiencies. The deficiencies were subsequently cured, and the application was deemed filed on April 20, 2023.

³ 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.

rate increases pursuant to the alternative rate filing procedure was in Case No. 2016-00377.⁴ To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated May 15, 2023. Henry District #2 responded to two discovery requests from Commission Staff.⁵

WATER LOSS

The Commission notes that in its 2021 Annual Report, Henry District #2 reported a water loss of 23.5302 percent.⁶ 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 operations. Henry County District #2 produces 100 percent of its finished water. The table below shows that the 2021 total annual cost of water loss to Henry District #2 is \$109,970, while the annual cost of water loss in excess of 15 percent is \$39,866.

| Total Water Loss | Purchased Power | Chemicals | Total |
|-------------------------|--------------------|-----------------|-------------------|
| Pro Forma Purchases | \$ 436,393 | \$ 30,965 | \$ 467,358 |
| Water Loss Percent | 23.5302% | 23.5302% | |
| Total Water Loss | \$ 102,684 | \$ 7,286 | \$ 109,970 |

| Excess Water Loss | Purchased Power | Chemicals | Total |
|------------------------------|--------------------|-----------------|------------------|
| Pro Forma Purchases | \$ 436,393 | \$ 30,965 | \$ 467,358 |
| Water Loss in Excess of 15% | 8.5302% | 8.5302% | |
| Disallowed Water Loss | \$ 37,225 | \$ 2,641 | \$ 39,866 |

⁴ Case No 2016-00377, *Application of Henry County Water District #2 for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Apr. 28, 2023).

⁵ Henry District #2's Response to Commission Staff's First Request for Information (Staff's First Request) (filed June 23, 2023). Henry District #2's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed July 25, 2023).

⁶ 2021 Annual Report at 57.

DISCUSSION

Using its pro forma test-year operations, Henry District #2 determined that a base rate revenue increase of \$835,948, or 22.82 percent, was necessary to achieve the revenue requirement as shown in the table below.⁷

| | |
|--|-------------------------|
| Pro Forma Operating Expenses | \$ 3,609,423 |
| Plus: Average Annual Principal and Interest Payments | 905,566 |
| Debt Coverage Requirement | <hr/> |
| Total Revenue Requirement | 4,514,989 |
| Less: Other Operating Revenue | |
| Non-Operating Revenue | |
| Interest Income | (16,010) |
| Revenue Required from Rates | 4,498,979 |
| Less: Revenues from Sales at Present Rates | <hr/> (3,663,031) <hr/> |
| Required Revenue Increase | <hr/> \$ 835,948 <hr/> |
| Percentage Increase | <hr/> 22.82% <hr/> |

To determine the reasonableness of the rates requested by Henry District #2, Commission Staff performed a limited review of Henry District #2'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 measurable⁸ changes to test-year operations were identified, and adjustments were made

⁷ Henry District #2's Response to Deficiency Letter (filed Apr. 13, 2023).

⁸ 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).

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 Henry District #2's Overall Revenue Requirement, and Elizabeth Stefanski reviewed Henry District #2'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 Henry District #2's required revenue from water sales is \$4,494,819 to meet the Overall Revenue Requirement of \$4,612,539 and that a \$865,996 revenue increase, or 23.86 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Based upon its application, Henry District #2 proposed to increase all its monthly retail water service rates evenly across the board by approximately 22.82 percent. Henry District #2 did not perform a cost-of-service study (COSS).⁹ Henry District #2 stated that the last COSS occurred in April 2017 for the installation of a new tap-on service.¹⁰ Material changes warranting a new COSS were provided by Henry District #2 which included several system improvements such as the installation of a new million-gallon tank and the complete refurbishment of the stripper tanks at the Treatment Plant location.¹¹ Commission Staff recommends that Henry

⁹ Henry District #2's Response to Staff's First Request, Item 21.

¹⁰ Henry District #2's Response to Staff's First Request, Item 21.

¹¹ Henry District #2's Response to Staff's First Request, Item 22.

District #2 prepare a COSS before it submits any future applications for a rate adjustment to the Commission given the material changes that impact the cost to service customers.

The Commission previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when no evidence has been 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 Henry District #2 and allocated the \$865,996 revenue increase across the board to Henry District #2'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 \$4,494,819 Revenue Required from Water Sales, an approximate 23.86 percent increase. These rates will increase the monthly water bill of a typical residential customer using 4,000 gallons from \$33.92 to \$41.95, an increase of \$8.03, or approximately 23.67 percent.¹²

3. Nonrecurring Charges. Following the Commission's recent decisions,¹³ Commission Staff has reviewed Henry District #2'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

¹² $\$41.95$ (Average Bill New Water Rates) - $\$33.92$ (Average Bill Current Water Rates) = $\$8.03$
(Total Difference in Customer Bill) \div $\$33.92$ (Average Bill Current Water Rates) = 23.67%.

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).

Nonrecurring Charges should be eliminated from the charges. Henry District #2 provided updated cost justification information for the Nonrecurring Charges.¹⁴ Commission Staff reviewed the cost justification information provided by Henry District #2 and have adjusted these charges by removing the \$20 to \$40 per hour Field Labor Costs and the \$20 per hour Office/Clerical Labor Costs from those charges that occur during normal business hours. Commission Staff also disallowed the mileage charge of \$19.50 from Returned Check Charge because it is unrelated to the processing of a returned check. The calculation of these adjustments to the Nonrecurring Charges are included in a Table provided in Appendix A. The Commission Staff's proposed nonrecurring charges are listed below.

| | |
|--|---------------------------|
| Late Payment Penalty | 10% |
| Connection Fee | \$22.00 |
| Meter Relocation Charge | \$345.00 |
| Meter Test Charge | \$15.00 |
| Meter Reading | \$15.00 |
| Returned Check Charge | \$11.00 |
| At Door Collection Fee | \$20.00 |
| 5/8 x 3/4 Inch Water Tap On All Larger Meters | \$1,400.00 Actual Cost |

The revised nonrecurring charges result in a decrease to test year Other Water Revenues and an increase to the total revenue requirement of \$12,508 as explained in adjustment (C) below:¹⁵

¹⁴ Henry District #2's Response to Staff's First Request, Item_17_0001.pdf; and Henry District #2's Response to Staff's Second Request, Item_3_Non_recurring_charges.pdf.

¹⁵ Henry District #2's Response to Staff's First Request, Item_1_General_Ledger_2021_xlsx.

| Nonrecurring Charges | Current | | | Revised | | Pro Forma |
|-------------------------|-------------|-------|-----------------|----------|-------------------|-----------------|
| | Tariff Rate | Items | Total | Rate | Adjustment | |
| Connection Fee | \$35.00 | 732 | \$25,620 | \$22.00 | (\$9,516) | \$16,104 |
| Meter Relocation Charge | \$575.00 | 2 | 1,150 | \$345.00 | (460) | 690 |
| Meter Test Charge | \$20.00 | 0 | 0 | \$15.00 | 0 | 0 |
| Meter Reading | \$25.00 | 0 | 0 | \$15.00 | 0 | |
| Returned Check Charge | \$25.00 | 138 | 3,450 | \$11.00 | (1,932) | 1,518 |
| At Door Collection Fee | \$25.00 | 120 | 3,000 | \$20.00 | (600) | 2,400 |
| | | | <u>\$33,220</u> | | <u>(\$12,508)</u> | <u>\$20,712</u> |

PRO FORMA OPERATING STATEMENT

Henry District #2'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 | Henry District #2 Proposed Adjustments | Commission Staff Adjustments | Total Adjustments (Ref.) | Pro Forma |
|--|-------------------|--|------------------------------|--------------------------|-------------------|
| <u>Operating Revenues</u> | | | | | |
| Sales of Water | | | | | |
| Metered Water Sales | \$ 3,246,684 | | \$ 119,335 | \$ 119,335 (A) | \$ 3,366,019 |
| Sales for Resale | 262,804 | | | | 262,804 |
| Total Sales of Water | <u>3,509,488</u> | <u>0</u> | <u>119,335</u> | <u>119,335</u> | <u>3,628,823</u> |
| Other Water Revenues | | | | | |
| Forfeited Discounts | 75,003 | | | 0 | 75,003 |
| Miscellaneous Service Revenues | 25,620 | | (12,508) | (12,508) (B) | 13,112 |
| Other Water Revenues | 52,920 | | (39,325) | (39,325) (C) | 13,595 |
| Total Other Water Revenues | <u>153,543</u> | <u>0</u> | <u>(51,833)</u> | <u>(51,833)</u> | <u>101,710</u> |
| Total Operating Revenues | <u>3,663,031</u> | <u>0</u> | <u>67,502</u> | <u>67,502</u> | <u>3,730,533</u> |
| <u>Operating Expenses</u> | | | | | |
| Operation and Maintenance Expenses | | | | | |
| Salaries and Wages - Employees | 951,196 | | | | 951,196 |
| Salaries and Wages - Commissioners | 30,000 | | | | 30,000 |
| Employee Pensions and Benefits | 478,143 | | | | 478,143 |
| Purchased Power | 436,393 | 130,000 | 1,761 | 131,761 (D) | 528,288 |
| Chemicals | 30,965 | | (37,225) | (39,866) (D) | 28,324 |
| Materials and Supplies | 360,984 | | (2,641) | (2,641) (E) | 360,984 |
| Contractual Services | 127,308 | | | | 127,308 |
| Water Testing | 18,122 | | | | 18,122 |
| Transportation Expense | 12,349 | | | | 12,349 |
| Insurance | 59,507 | | | | 59,507 |
| Bad Debt Expense | 1,630 | | | | 1,630 |
| Miscellaneous Expense | 64,606 | | | | 64,606 |
| Total Operation and Maintenance Expenses | <u>2,571,203</u> | <u>130,000</u> | <u>(38,105)</u> | <u>89,254</u> | <u>2,660,457</u> |
| Depreciation Expense | 822,176 | | | | 822,176 |
| Taxes Other Than Income | 86,044 | | | | 86,044 |
| Total Operating Expenses | <u>3,479,423</u> | <u>130,000</u> | <u>(38,105)</u> | <u>89,254</u> | <u>3,568,677</u> |
| Net Operating Income | 183,608 | (130,000) | 105,607 | (21,752) | 161,856 |
| Interest Income | 16,010 | | | | 16,010 |
| Income Available to Service Debt | <u>\$ 199,618</u> | <u>\$ (130,000)</u> | <u>\$ 105,607</u> | <u>\$ (21,752)</u> | <u>\$ 177,866</u> |

(A) Billing Analysis. Henry District #2 provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application, with total metered water sales revenue of \$3,781,863.80. In the 2021 Annual Report, total metered sales revenue reported for the test year is \$3,246,683.¹⁶ Henry District #2 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 \$3,781,864.¹⁷ Despite the difference in the calculated normalized revenue amount of \$3,781,864¹⁸, and the reported revenue amount of \$3,246,683, Henry District #2 did not propose an adjustment¹⁹ to Retail Water Revenue in the application or in any of its responses to Staff's First Requests or Second Requests. In response to Staff's First Request, Henry District #2 provided usage breakdown reports,²⁰ additional detailed information about its test year revenue²¹ and additional usage data.²² Commission Staff reviewed the billing analysis data²³ provided by Henry District #2, and calculated a normalized revenue amount of \$3,628,823, as shown in the table below. Commission Staff subtracted the

¹⁶ 2021 Annual Report at 49.

¹⁷ Application at 18.

¹⁸ Application at 18.

¹⁹ Henry District #2's Response to Staff's First Request, Item 25 RESPONSE_TO_25.pdf.

²⁰ Henry District #2's Response to Staff's First Request, Item_23_Response_to_Reconcile.pdf.

²¹ Henry District #2's Response to Staff's First Request, Item_24_0001.pdf.

²² Henry District #2's Response to Staff's First Request, Item_26_Usage_Breakdown__00-19-2023.pdf.

²³ Henry District #2's Response to Staff's First Request, Item_26_Usage_Breakdown__00-19-2023.pdf.

reported test year revenue amount of \$3,246,684 from the normalized revenue amount for an adjustment amount to Metered Water Sales of \$119,335.

| Meter Size | Bills | Gallons Sold | Revenue |
|-----------------------------------|-------|--------------|---------------|
| All | 80589 | 402,008,328 | \$3,365,987 |
| BULK | 86 | 96,622,310 | 262,836 |
| Normalized Revenue | | | \$3,628,823 |
| Less: Reported Test Year Revenue | | | (\$3,246,684) |
| Adjustment to Metered Water Sales | | | \$119,335 |

(B) Miscellaneous Service Revenue. In 2021, Henry District #2 reported \$75,003 in Forfeited Discounts and \$25,620 in Miscellaneous Service Revenues.²⁴ Henry District #2 provided detailed information about the forfeited discount revenue and occurrences for the 2021 test year in response to Staff's First Request.²⁵ Commission Staff noted a discrepancy between the 2021 forfeited discount amount of \$81,867.84²⁶ provided in the response, and the amount of \$75,003, provided in the application²⁷ and in the 2021 Annual Report. In its response to Staff's Second Request, Henry District #2 indicated that the amount of \$81,867.64 was a result of district personnel's misunderstanding of what information was needed.²⁸ Henry District #2 provided additional detailed information about the test year Forfeited Discount revenue, showing

²⁴ 2021 Annual Report at 49.

²⁵ Henry District #2's Response to Staff's First Request, Item_15_Rate_Increase.xlsx and Item_16_Rate_Increase.xlsx.

²⁶ Henry District #2's Response to Staff's First Request, Item_16_Rate_Increase.xlsx.

²⁷ Application, Schedule of Adjusted Operations, Forfeited Discounts.

²⁸ Henry District #2's Response to Staff's Second Request, Item 2.

that the correct amount is \$75,003, as listed in the application.²⁹ Commission Staff reviewed the additional information provided in the response, as well as the general ledger data provided by Henry District #2,³⁰ and found evidence in the test year general ledger matching the test year amount presented in the application for Forfeited Discount revenue accurate. Henry District #2 provided detailed information about test year Miscellaneous Service Revenues of \$25,620,³¹ in its response to Staff's First Request. Henry District #2 provided additional detailed information about the number of nonrecurring charges used to calculate the miscellaneous service revenue,³² and Commission Staff calculated a reduction to Miscellaneous Service Revenue of \$12,508, removing Labor costs from nonrecurring charges as discussed earlier.

(C) Other Water Revenues. In its application Henry District #2 did not propose an adjustment to Other Water Revenues. After a review of Henry District #2's 2021 general ledger,³³ Commission Staff identified \$39,325 that will not recur annually. These include restitution checks, a payment for parts, and an adjustment for a well pump malfunction.³⁴ Commission Staff decreased Other Water Revenues by \$39,325 to remove expenses that will not recur annually, which leaves a Pro Forma Other Water Revenues balance of \$13,595.

²⁹ Henry District #2's Response to Staff's Second Request, Item 2.

³⁰ Henry District #2's Response to Staff's First Request, Item_1_General_Ledger_2021_xlsx.

³¹ Henry District #2's Response to Staff's First Request, Item_1_General_Ledger_2021_xlsx.

³² Henry District #2's Response to Staff's First Request, Item_16_Rate_Increase.xlsx.

³³ Henry District #2's Response to Staff's First Request, Item_1_General_Ledger_2021_xlsx.

³⁴ Henry District #2's Response to Staff's Second Request, Item 5, Item_5_Layne_Invoice_Explain.pdf.

(D) Purchased Power. In its application, Henry District #2 proposed an increase of \$130,000 to Purchased Power expense to reflect increased rates by energy providers.³⁵ To support its adjustment Henry District #2 provided evidence to support a Purchased Power amount of \$568,154 for the twelve-month period from February 2022 to January 2023.³⁶ Commission Staff reviewed Henry District #2's general ledgers for 2021, 2022, and 2023. Commission Staff also reviewed the Commission's case history for Henry District #2's electric providers, Shelby Energy Cooperative, Inc. and Kentucky Utilities Company, and confirmed that electric rates have increased since the test year.³⁷ Commission Staff calculated an increase of \$1,761 in addition to Henry District #2's proposed \$130,000 adjustment as shown below.

| | | |
|---------------------------------|----|--------------|
| Purchases Feb 2022 - Jan 2023 | \$ | 568,154 |
| Test Year () | | (436,393) |
| Difference | \$ | 131,761 |
| Utility Proposed Adjustment () | | (130,000) |
| Staff Adjustment | \$ | <u>1,761</u> |

Commission Staff also calculated a \$37,225 decrease to Purchased Power to account for Henry District #2's water loss in excess of 15 percent as calculated below.

³⁵ Henry District #2's Response to Deficiency Letter, Attachment 2, A Completed Statement of Adjusted Operations.

³⁶ Henry District #2's Response to Staff's First Request, Item 14, Response_to_Question_14.xlsx.

³⁷ Case No. 2020-00349 *Electronic Application of Kentucky Utilities Company for an Adjustment of its Electric Rates* (Ky. PSC Sept. 9, 2021). Case No. 2021-00117 *Electronic Application of Shelby Energy Cooperative, Inc. for Pass-Through of East Kentucky Power Cooperative, Inc. Wholesale Rate Adjustment* (Ky. PSC Sept. 30, 2021).

| Purchased Power | Total Water Loss | Excess Water Loss Adjustment |
|---------------------|---------------------|------------------------------------|
| Pro Forma Purchases | \$ 436,393 | \$ 436,393 |
| Water Loss Percent | 23.5302% | 8.5302% |
| Totals | <u>\$ 102,684</u> | <u>\$ 37,225</u> |

(E) Chemicals. Henry District #2 did not propose an adjustment to Chemicals expense. Commission Staff calculated a \$2,641 decrease to Chemicals expense representing costs associated with water loss in excess of 15 percent as calculated below.

| Chemicals | Total Water Loss | Excess Water Loss Adjustment |
|-----------------------------|---------------------|------------------------------------|
| Pro Forma Purchases | \$ 30,965 | \$ 30,965 |
| Water Loss in Excess of 15% | 23.5302% | 8.5302% |
| Totals | <u>\$ 7,286</u> | <u>\$ 2,641</u> |

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 noncash item, to provide working capital;³⁸ (3) the

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. *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).

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

| | Henry District #2 | Commission Staff | |
|--|----------------------|---------------------|-----|
| Pro Forma Operating Expenses | \$ 3,609,423 | \$ 3,568,677 | |
| Plus: Average Annual Principal and Interest Payments | 905,566 | 869,885 | (1) |
| Debt Coverage Requirement | | 173,977 | (2) |
| Total Revenue Requirement | 4,514,989 | 4,612,539 | |
| Less: Other Operating Revenue | | (101,710) | |
| Non-Operating Revenue | | 0 | |
| Interest Income | (16,010) | (16,010) | |
| Revenue Required from Rates | 4,498,979 | 4,494,819 | |
| Less: Revenues from Sales at Present Rates | (3,663,031) | (3,628,823) | |
| Required Revenue Increase | \$ 835,948 | \$ 865,996 | |
| Percentage Increase | 22.82% | 23.86% | |

1. Average Annual Principal and Interest Payments. In its application, Henry District #2 reported two loans from Kentucky Rural Water and two loans from Kentucky Infrastructure Authority.³⁹ Henry District #2 requested recovery of the average annual principal and interest on its indebtedness based on a three-year average of the annual principal, and interest and fee payments for the years 2022 through 2024.⁴⁰ Because the statutory date for a final Order to be issued in this proceeding is February 20, 2024, the 2022 and 2023 payments were recovered through Henry District #2's existing rates. Only debt service payments that will be made after the new rates are placed into effect should be considered in determining Henry District #2's annual principal and interest expense. Commission Staff recalculated the average annual principal and interest on a three-year

³⁹ Application, Long Term Debt.

⁴⁰ Henry District #2's Response to Deficiency Letter, Attachment 2, A Completed Revenue Requirement Calculation Form.

average for the years 2024 through 2026 and recommends an average debt service amount of \$869,885 as shown below.

| | Notes Payable | Notes Payable Interest | Service Fee | Bonds | Bond Interest | Trustee Fees | Total Principal, Interest, Trustee Fee and Servicing Fee |
|----------------------|---------------|------------------------|-------------|-------------|---------------|--------------|--|
| 2024 | \$ 210,465 | \$ 50,102 | \$ 7,158 | \$ 543,000 | \$ 97,600 | \$ 900 | \$ 909,225 |
| 2025 | 214,164 | 46,403 | 6,629 | 507,000 | 76,289 | 900 | 851,385 |
| 2026 | 217,928 | 42,637 | 6,091 | 525,000 | 56,490 | 900 | 849,046 |
| Totals | \$ 642,557 | \$ 139,142 | \$ 19,878 | \$1,575,000 | \$ 230,379 | \$2,700 | \$ 2,609,656 |
| Years | | | | | | | 3 |
| Average Debt Service | | | | | | | \$ 869,885 |

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 Henry District #2 did not request recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments.⁴¹ Following the Commission's historic practice of including additional working capital, \$173,977 is included in the revenue requirement.

⁴¹ Henry District #2's Response to Deficiency Letter, Attachment 2, A Completed Revenue Requirement Calculation Form.

Signatures

/s/ Noah Abner

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

/s/Elizabeth Stefanski

Prepared by: Elizabeth Stefanski
Rate Design Branch
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00090 DATED SEP 15 2023

* Denotes Rounding

Nonrecurring Charges Adjustments

| <u>Connection Fee</u> | <u>Utility Revised Charge</u> | <u>Staff Revised Charge</u> |
|-----------------------------------|-------------------------------|-----------------------------|
| Field Materials | \$2.00 | \$2.00 |
| Field Labor (\$20.00 at 1 hours) | \$20.00 | \$0.00 |
| Transportation (30 miles @ 0.655) | \$19.50 | \$19.50 |
| Total Revised Charge | \$42.00* | \$22.00* |

| <u>Meter Relocation Charge</u> | <u>Utility Revised Charge</u> | <u>Staff Revised Charge</u> |
|----------------------------------|-------------------------------|-----------------------------|
| Field Materials | \$325.00 | \$325.00 |
| Field Labor (\$40.00 at 4 hours) | \$160.00 | \$0.00 |
| Transportation | \$19.50 | \$19.50 |
| Total Revised Charge | \$505.00* | \$345.00* |

| <u>Meter Test Charge</u> | <u>Utility Revised Charge</u> | <u>Staff Revised Charge</u> |
|----------------------------------|-------------------------------|-----------------------------|
| Field Materials | | |
| Field Labor (\$20.00 at 1 hours) | \$20.00 | \$0.00 |
| Transportation | \$15.00 | \$15.00 |
| Total Revised Charge | \$35.00 | \$15.00 |

| <u>Meter Reading</u> | <u>Utility Revised Charge</u> | <u>Staff Revised Charge</u> |
|-----------------------------------|-------------------------------|-----------------------------|
| Field Materials | | |
| Field Labor (\$20.00 at .5 hours) | \$10.00 | \$0.00 |
| Transportation | \$15.00 | \$15.00 |
| Total Revised Charge | \$35.00 | \$15.00 |

| <u>Returned Check Charge</u> | <u>Utility Revised Charge</u> | <u>Staff Revised Charge</u> |
|-----------------------------------|-------------------------------|-----------------------------|
| Field Materials | \$19.50 | \$0.00 |
| Field Labor (\$20.00 at .5 hours) | \$10.00 | \$0.00 |

| | | |
|------------------------------------|----------------|-----------------|
| Office Supplies | \$3.50 | \$3.50 |
| Office Labor (\$20.00 at .5 hours) | \$10.00 | \$0.00 |
| Transportation | | |
| Bank Charge | \$7.00 | \$7.00 |
| Total Revised Charge | <u>\$50.00</u> | <u>\$11.00*</u> |

At Door Collection Fee

| | <u>Utility Revised Charge</u> | <u>Staff Revised Charge</u> |
|-----------------------------------|-------------------------------|-----------------------------|
| Field Materials | \$0.15 | \$0.15 |
| Field Labor (\$20.00 at .5 hours) | \$10.00 | \$0.00 |
| Transportation | \$19.50 | \$19.50 |
| Total Revised Charge | <u>\$30.00*</u> | <u>\$20.00*</u> |

| | |
|-------------------------|----------|
| Connection Fee | \$22.00 |
| Meter Relocation Charge | \$345.00 |
| Meter Test Charge | \$15.00 |
| Meter Reading | \$15.00 |
| Returned Check Charge | \$11.00 |
| At Door Collection Fee | \$20.00 |

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00090 DATED SEP 15 2023

The following rates and charges are prescribed for the customers in the area served by Henry County Water District #2. 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

| | | | |
|-----------|----------------|---------|--------------|
| First | 1,500 Gallons | \$24.43 | Minimum Bill |
| Next | 3,500 Gallons | 0.00876 | Per Gallon |
| Next | 5,000 Gallons | 0.00800 | Per Gallon |
| Next | 10,000 Gallons | 0.00648 | Per Gallon |
| Next | 30,000 Gallons | 0.00495 | Per Gallon |
| Over | 50,000 Gallons | 0.00335 | Per Gallon |
| Wholesale | | 0.00335 | Per Gallon |

Nonrecurring Charges

| | |
|--|---------------------------|
| Late Payment Penalty | 10% |
| Connection Fee | \$22.00 |
| Meter Relocation Charge | \$345.00 |
| Meter Test Charge | \$15.00 |
| Meter Reading | \$15.00 |
| Returned Check Charge | \$11.00 |
| At Door Collection Fee | \$20.00 |
| 5/8 x 3/4 Inch Water Tap On All Larger Meters | \$1,400.00 Actual Cost |

*Henry County Water District #2
8955 Main Street
P. O. Box 219
Campbellsburg, KY 40011

*Keith Morris
Henry County Water District #2
8955 Main Street
P. O. Box 219
Campbellsburg, KY 40011