

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GARRISON-)	
QUINCY-KY-O-HEIGHTS WATER DISTRICT FOR)	CASE NO.
AN ALTERNATIVE RATE FILING PURSUANT TO)	2023-00408
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 January 10, 2024, and as amended by Order on February 1, 2024, the attached report containing the recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed into the record of the above-styled proceeding. Pursuant to the Commission's February 1, 2024 Order, Garrison-Quincy-KY-O-Heights Water District (Garrison-Quincy-KY-O-Heights District) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Garrison-Quincy-KY-O-Heights District to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.

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).



For

Linda C. Bridwell, PE
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED APR 30 2024

cc: Parties of Record

Case No. 2023-00408

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COMMISSION STAFF'S REPORT
ON GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT

Garrison-Quincy-KY-O-Heights Water District (Garrison-Quincy-KY-O-Heights District) is a water and sewer utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 1,038 residential customers, 39 commercial customers, 1 industrial customers and one public authority that reside in Lewis County, Kentucky.¹ Garrison-Quincy-KY-O-Heights District's sewer division owns and operates sewage facilities in Lewis County, Kentucky, that serve approximately 283 residential customers and 18 commercial customers.²

On December 19, 2023,³ Garrison-Quincy-KY-O-Heights District filed its application with the Commission requesting an adjustment to its water service rates

¹ *Annual Report of Garrison-Quincy-KY-O-Heights District Water Division to the Public Service Commission for the Calendar Year Ended December 31, 2022 (2022 Water Division Annual Report)*, at 12 and 49.

² *Annual Report of Garrison-Quincy-KY-O-Heights District Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2022 (2022 Sewer Division Annual Report)*, at 25 and 27.

³ Garrison-Quincy-KY-O-Heights District tendered its application on December 11, 2023. By letter dated December 19, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on December 19, 2023.

pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,⁴ Garrison-Quincy-KY-O-Heights District used the calendar year ended December 31, 2022, as the basis for its application. Garrison-Quincy-KY-O-Heights District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2021-00094.⁵ To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated January 10, 2024,⁶ which was subsequently amended by Order dated February 1, 2024.⁷ Garrison-Quincy-KY-O-Heights District responded to two information requests from Commission Staff.⁸

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2022 Water Division Annual Report, Garrison-Quincy-KY-O-Heights District reported a water loss of 26.2105 percent.⁹ Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Garrison-Quincy-KY-O-Heights District both purchases and produced its own water.¹⁰ Garrison-Quincy-KY-O-Heights District

⁴ 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.

⁵ Case No. 2021-00094, *Electronic Application of Garrison-Quincy-KY-O-Heights Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*.

⁶ Case No. 2023-00408, *Electronic Application of Garrison-Quincy-KY-O-Heights Water District for an Alternative Rate Adjustment Rate Filing Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 10, 2024), Order.

⁷ Case No. 2023-00408, Feb. 1, 2024 Order.

⁸ Garrison-Quincy-KY-O-Heights District's response to Commission Staff's First Request for Information (Staff's First Request) (filed Feb. 16, 2024). Garrison-Quincy-KY-O-Heights District's response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Mar. 15, 2024).

⁹ 2022 Water Division Annual Report at 57.

¹⁰ 2022 Water Division Annual Report at 57.

currently produces approximately 80 percent¹¹ of its water needs and purchases the remaining 20 percent¹² from Vanceburg Electric Plant Board.¹³ The table below shows that the 2022 total annual cost of water loss to Garrison-Quincy-KY-O-Heights District is \$21,881, while the annual cost of water loss in excess of 15 percent is \$9,359.

Total Water Loss	Purchased Water	Purchased Power	Chemicals & Lab Testing	Total
Pro Forma Expenses	\$ 31,951	\$ 37,230	\$ 14,299	\$ 83,480
Water Loss Percent	26.2105%	26.2105%	26.2105%	26.2105%
Total Water Loss Expenses	<u>\$ 8,375</u>	<u>\$ 9,758</u>	<u>\$ 3,748</u>	<u>\$ 21,881</u>

Disallowed Water Loss	Purchased Water	Purchased Power	Chemicals & Lab Testing	Total
Pro Forma Expenses	\$ 31,951	\$ 37,230	\$ 14,299	\$ 83,480
Water Loss in Excess of 15 Percent	11.2105%	11.2105%	11.2105%	11.2105%
Disallowed Water Loss	<u>\$ 3,582</u>	<u>\$ 4,174</u>	<u>\$ 1,603</u>	<u>\$ 9,359</u>

DISCUSSION

Using its pro forma test-year operations, Garrison-Quincy-KY-O-Heights District determined that a base rate revenue increase of \$141,239, or 31.59 percent, was necessary to achieve the revenue requirement as shown in the table below.¹⁴ Garrison-Quincy-KY-O-Heights District proposed utilizing the Debt Service Coverage (DSC) method to determine the revenue requirement, which is discussed later in the report. The rates requested by Garrison-Quincy-KY-O-Heights District would increase the residential

¹¹ Water Produced 77,540,000 gallons divided by total Produced and Purchased 96,558,560 = 80.3 percent.

¹² Water Purchased 19,018,560 gallons divided by total Produced and Purchased 96,558,560 = 19.7 percent.

¹³ 2022 Water Division Annual Report at 54.

¹⁴ Application, Schedule of Adjusted Operations Table, Water Division, at 10. Commission Staff corrected table for rounding and to extend percentage increase to two decimals.

monthly bill of a typical residential customer using 3,000 gallons per month by \$10.18, from \$32.20 to \$42.38, or approximately 31.62 percent.¹⁵

Description	Garrison-Quincy- KY-O-Heights Water District
Pro Forma Operating Expenses	\$ 535,024
Plus: Avg. Annual Principal and Interest Payments	92,003
Additional Working Capital	18,401
Total Revenues Requirement	<u>645,428</u>
Less: Other Operating Revenue ()	(28,019)
Other Income - Phase II & III Surcharges ()	(24,239)
Nonutility Income ()	(4,820)
Interest and Dividend Income ()	(38)
Revenue Required From Water Sales	<u>588,312</u>
Less: Revenue from Sales at Present Rates ()	(447,073)
Required Revenue Increase	<u><u>\$ 141,239</u></u>
Percentage Increase	<u><u>31.59%</u></u>

To determine the reasonableness of the rates requested by Garrison-Quincy-KY-O-Heights District, Commission Staff performed a limited review of Garrison-Quincy-KY-O-Heights 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 measurable¹⁶ changes to test-year operations were

¹⁵ Application, Customer Notice at 7.

¹⁶ 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,

identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's recommendations are summarized in this report. William Foley reviewed the calculation of Garrison-Quincy-KY-O-Heights District's Overall Revenue Requirement, and Jason Green reviewed Garrison-Quincy-KY-O-Heights 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 determined that Garrison-Quincy-KY-O-Heights District's required revenue from water sales is \$633,332 to meet the Total Revenue Requirement of \$690,564 and that a \$186,259 revenue increase, or 41.66 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Based upon the revenue requirement, Garrison-Quincy-KY-O-Heights District proposed to increase all of its monthly retail water service rates evenly across the board. Garrison-Quincy-KY-O Heights District stated that it did not complete a cost of service study (COSS) at this time, considering there has not been any material change in its water system to warrant a COSS.¹⁷

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

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

¹⁷ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 17.

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 proposed allocation methodology by Garrison-Quincy-KY-O-Heights District and allocated Commission Staff's revenue increase of \$186,259 across the board to Garrison-Quincy-KY-O-Heights District's monthly retail water service rates.

The rates set forth in Appendix B 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 \$633,332 Revenue Required from Water Sales, an approximate 41.66 percent increase. These rates will increase a typical residential customer's monthly water bill from \$32.20 to \$45.63, an increase of \$13.43, or approximately 41.70 percent.¹⁸

3. Nonrecurring Charges. Following the Commission's recent decisions,¹⁹ Commission Staff has reviewed Garrison-Quincy-KY-O-Heights 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 the Nonrecurring Charges should be eliminated from the charges. Garrison-Quincy-KY-O-Heights District provided the cost justification for the nonrecurring charges.²⁰ Commission Staff reviewed the cost justification information provided by

¹⁸ The typical residential customer uses approximately 3,000 gallons per month.

¹⁹ 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).

²⁰ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 22, [Item_22_Water.pdf](#).

Garrison-Quincy-KY-O-Heights District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. The breakdown of cost for each nonrecurring charge and any Commission Staff adjustment can be found in Appendix A.

The adjustments to the Nonrecurring Charges results in an increase in Other Operating Revenue of \$392 as shown below.

Description	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Connection Charge	100	\$11.00	\$12.00	\$100	\$1,200
Connection Charge (After Hours)	0	\$41.00	\$48.00	0	0
Field Collection Charge	56	\$11.00	\$12.00	56	672
Meter Test Charge	0	\$36.00	\$45.00	0	0
Reconnection Charge	142	\$22.00	\$24.00	284	3,408
Reconnection Charge (After Hours)	0	\$52.00	\$60.00	0	0
Returned Check Charge	6	\$23.00	\$15.00	(48)	90
Service Call	0	\$11.00	\$12.00	0	0
Service Call (After Hours)	0	\$41.00	\$58.00	0	0
Seasonal Reconnect	0	\$11.00	\$12.00	0	0
Pro Forma Test Year NRC Revenue				<u>\$392</u>	\$5,370
Test Year NRC Revenue ()					<u>(4,978)</u>
Adjustment					<u>\$392</u>

In addition to its nonrecurring charges, Garrison-Quincy-KY-O-Heights District proposed to increase its Meter Tap-On Fees for all meters sizes from \$1,325 to \$1,420. Commission Staff reviewed the cost justification sheets²¹ provided by Garrison-Quincy-KY-O-Heights District and agrees with the proposed Meter Tap-On Fee increase.

Garrison-Quincy-KY-O-Heights District proposed to decrease its Meter Tap-On Fees for all meters sizes within the Sewer Division from \$4,725 to \$4,688. Commission

²¹ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 22, Item_22_Water.pdf.

Staff reviewed the cost justification sheets²² provided by Garrison-Quincy-KY-O-Heights District and agrees with the proposed Meter Tap-On Fee decrease.

4. Water Loss Surcharge. In the application, Garrison-Quincy-KY-O-Heights District proposed to reduce the current water loss surcharge from \$1.73 to \$0.73.²³ The \$1.73 surcharge was established in Garrison-Quincy-KY-O-Heights District's last rate case²⁴ and an ongoing monitoring case was established to monitor revenues generated from the surcharge in November 2021.²⁵ Commission Staff recommends the requested surcharge modification to \$0.73 per bill be denied current rate of \$1.73 remain in effect until the previously ordered term of 48 months has passed to ensure Garrison-Quincy-KY-O-Heights District receives the full benefits of the water loss surcharge as originally ordered. If Garrison-Quincy-KY-O-Heights District wishes to continue to collect a water loss surcharge at the end of the 48 months, Commission Staff recommends that Garrison-Quincy-KY-O-Heights District file a motion in the current water loss surcharge monitoring case and that the Commission review it at that time.

PRO FORMA OPERATING STATEMENT

Garrison-Quincy-KY-O-Heights District's Pro Forma Operating Statement for the test year ended December 31, 2022, as determined by Commission Staff, appears in the table below:

²² Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 23, Item_23_Water.pdf.

²³ Application, Garrison-Quincy-KY-O-Heights Water District Customer Notice, Appendix B Current and proposed monthly rates, Proposed Rate Schedule.

²⁴ Case No. 2021-00094, *Electronic Application of Garrison-Quincy-KY-O-Heights Water District for a Rate Adjustment Pursuant to 807 KAR 5:076 (Ky. PSC Nov. 24, 2021)* at 20 and 21.

²⁵ Case No. 2021-00419, *Electronic Garrison-Quincy-KY-O-Heights Water District's Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring.*

Description	2022 Test Year	Garrison-Quincy-KY- O-Heights Water District Proposed Adjustment	Commission Staff Proposed Adjustment	Total Proposed Adjustment	(Ref.)	Pro Forma
Operating Revenues						
Metered Sales to Retail Customers	\$ 572,507	\$ (76,679)	\$ -	\$ (76,679)	(A)	
		(7,950)	-	(7,950)	(B)	
		(960)	-	(960)	(C)	
		(88,505)	-	(88,505)	(D)	398,413
Sales for Resale		48,660	-	48,660	(A)	48,660
Total Metered Water Sales	572,507	(125,434)	-	(125,434)		447,073
Other Water Revenues						
Forfeited Discounts		23,429	-	23,429	(A)	23,429
Misc. Service Revenues		4,590	-	4,590	(A)	
		-	780	780	(E)	5,370
Total Other Water Revenues	-	28,019	780	28,799		28,799
Total Operating Revenues	572,507	(97,415)	780	(96,635)		475,872
Operating Expenses						
Operation and Maintenance Expenses						
Salaries and Wages - Employees	189,192	(3,975)	-	(3,975)	(F)	
			27,031	27,031	(G)	212,248
Salaries and Wages - Officers	8,139		305	305	(H)	8,444
Employee Pensions (CERS)	36,181		(8,704)	(8,704)	(I)	
			22,062	22,062	(J)	49,539
Medical Insurance Stipend			19,991	19,991	(K)	19,991
Purchased Water	32,351		(400)	(400)	(L)	
		(3,627)	45	(3,582)	(N)	28,369
Purchased Power	37,230	(4,174)		(4,174)	(N)	33,056
Chemicals	13,258		1,041	1,041	(M)	
		(1,486)	(117)	(1,603)	(N)	12,696
Materials and Supplies	25,980	(3,975)	-	(3,975)	(F)	22,005
Contractual Services	10,396			-		10,396
Transportation Expenses	10,812			-		10,812
Insurance - General Liability	11,264			-		11,264
Insurance - Other	17,794		(17,794)	(17,794)		-
Advertising Expenses	79			-		79
Miscellaneous Expense	32,007			-		32,007
Total Operation and Maintenance Expenses	424,683	(17,237)	43,460	26,223		450,906
Depreciation	101,505	9,854	6,229	16,083	(O)	
		-	121	121	(P)	117,709
Taxes Other Than Income	17,542	(3,864)	-	(3,864)	(Q)	
		-	3,205	3,205	(R)	16,883
Utility Operating Expenses	543,730	(11,247)	53,015	41,768		585,498
Net Operating Income	28,777	(86,168)	(52,235)	(138,403)		(109,626)
Other Income - Phase II & III Surcharge	23,575			-		23,575
Interest and Dividend Income	38			-		38
Nonutility Income	4,820			-		4,820
Income Available to Service Debt	\$ 57,210	\$ (86,168)	\$ (52,235)	\$ (138,403)		\$ (81,193)

(A) Reclassify Other Water Revenues from Metered Water Sales. In its application, Garrison-Quincy-KY-O-Heights District proposed to reduce Metered Sales to

Retail Customers by \$76,679 to reclassify revenues to their proper accounts.²⁶ Of the \$76,679, \$48,660 was reclassified as revenues from sales for resale, \$23,429 was reclassified as forfeited discounts, and \$4,590 was reclassified as miscellaneous service revenues.²⁷ Commission Staff agrees with these adjustments as these revenues were incorrectly reported as metered water sales and should be reported as revenues from the appropriate other water revenues categories.

(B) Remove Meter Tap Revenues. In its application, Garrison-Quincy-KY-O-Heights District proposed to decrease metered Water Sales by \$7,950 to reflect the removal of meter tap fees,²⁸ During the test year, Garrison-Quincy-KY-O-Heights District reported \$7,950 as revenues from water sales²⁹ that, according to the Uniformed System of Accounting, should be recorded as Contributions in Aid of Construction and credited to Account 271 – Contributions in Aid of Construction.³⁰ and not included in Metered Water Sales. Therefore, Commission Staff agrees with this adjustment as it should not have been reported as revenue from water sales.

(C) Remove Sewer Connection Fees. In its application, Garrison-Quincy-KY-O-Heights District proposed an adjustment to decrease Metered Sales to Retail

²⁶ Application, Garrison-Quincy-KY-O-Heights Water District, Schedule of Adjusted Operations Water Division, Reference A.

²⁷ Application, Garrison-Quincy-KY-O-Heights Water District, Schedule of Adjusted Operations Water Division, Reference A.

²⁸ Application, Garrison-Quincy-KY-O-Heights Water District, Schedule of Adjusted Operations Water Division, Reference B.

²⁹ Application, Garrison-Quincy-KY-O-Heights Water District, Schedule of Adjusted Operations Water Division, Reference B.

³⁰ Uniform System of Accounts for Class A/B Water Companies, at 98, Section 334 Meters and Meter Installation, Note C.

Customers by \$960³¹ to reflect the reclassification of improperly recorded sewer connections fees.³² Commission Staff agrees with this adjustment as the amount was incorrectly reported as revenue from water sales when it should have been reported as revenue from sewer connections.

(D) Billing Analysis Adjustment. Garrison-Quincy-KY-O-Heights District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application.³³ In the 2022 Water Division Annual Report, total metered water sales revenue reported for the test year is \$572,507.³⁴ Reclassification of the revenues described in Adjustments A, B, and C results in revenue from water sales of \$535,578. Garrison-Quincy-KY-O-Heights District provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff to be \$447,073. Subsequently, Garrison-Quincy-KY-O-Heights District proposed to decrease test-year water sales revenue by \$88,505 to reflect the revenues from water rates generated by the billing analysis.³⁵ Commission Staff agrees with this proposed adjustment as the rates authorized by Garrison-Quincy-KY-O-Heights District's current tariff, when applied to its billing analysis, results in a proforma revenue from Metered Water Sales of \$447,073, therefore requiring an additional decrease of \$88,660.

³¹ Application, Schedule of Adjusted Operations Water Division, Water Division, Adjustment D.

³² Application, Adjusted Operations, References, Adjustment D.

³³ Application, Garrison-Quincy-KY-O-Heights Water District, Current Billing Analysis.

³⁴ 2022 Water Division Annual Report at 49, Total Metered Sales \$1,342,982.

³⁵ Application, Garrison-Quincy-KY-O-Heights Water District, Schedule of Adjusted Operations Water Division, Reference C.

(E) Miscellaneous Service Revenues – Nonrecurring Charges. Garrison-Quincy-KY-O-Heights District provided the number of instances each nonrecurring charge was performed during the test period.³⁶ Using this information as well as the current nonrecurring charge amount listed in its current tariff, Commission Staff calculated test-period adjustment to revenue from Nonrecurring Charges of \$388. This results in an increase in the adjustment to miscellaneous service revenues of \$780 in addition to the proposed increase of \$4,590 discussed in Adjustment (A). An additional adjustment to Nonrecurring Charges as discussed in the Nonrecurring Charges section above results in an increase to Miscellaneous Service Revenues of \$392. Therefore, Commission Staff recommends a total adjustment of \$780³⁷ to Miscellaneous Service Revenues for a final pro forma Miscellaneous Service Revenues of \$5,370.³⁸

(F) Expenses Related to Meter Installations. In its application, Garrison-Quincy-KY-O-Heights District proposed an adjustment to decrease Salaries and Wages – Employees by \$3,975, and Materials and Supplies by \$3,975,³⁹ to account for tap fee expenses that were included as part of these expenses during the test year.⁴⁰ During the test year, Garrison-Quincy-KY-O-Heights District installed six new water connections.⁴¹ The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these

³⁶ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 21, Item_21_Water.pdf.

³⁷ $\$388 + \$392 = \$780$.

³⁸ Adjustment (A) $\$4,590 + \$780 = \$5,370$.

³⁹ Application, Schedule of Adjusted Operations Water Division, Adjustment E.

⁴⁰ Application, Adjusted Operations, References, Adjustment E.

⁴¹ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 15a.

costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.⁴² Commission Staff agrees with Garrison-Quincy-KY-O-Heights District’s proposed adjustment. Therefore, Commission Staff decreased Salaries and Wages – Employee by \$3,975 and Materials and Supplies by \$3,975. Additionally, Garrison-Quincy-KY-O-Heights District confirmed that it has not capitalized the water tap labor, and has only capitalized the cost of the new meter.⁴³ Therefore, Commission Staff capitalized the full labor costs and remaining materials expense, and made a corresponding adjustment to test-year depreciation as shown in Adjustment (O).

Description	Salaries and Wages Employees	Materials and Supplies
Tap Fees Collected	\$ 7,950	\$ 7,950
Allocation Percent	50%	50%
Proposed Adjustment ()	(3,975)	(3,975)
Less: Garrison-Quincy-O-Heights District Proposed Adjustments ()	3,975	3,975
Commission Staff’s Proposed Adjustment	<u>\$ -</u>	<u>\$ -</u>

(G) Salaries and Wages – Employees. In the test year, Garrison-Quincy-KY-O-Heights District reported a test year Salaries and Wages – Employees of \$189,192.⁴⁴ As discussed above, Commission Staff recommended accepting Garrison-Quincy-KY-O-Heights District’s adjustment to reduce Salaries and Wages – Employees by \$3,975 to account for the removal of Meter Installation labor as seen in the table above. Garrison-

⁴² USoA, Accounting Instruction 19 and 33.

⁴³ Garrison-Quincy-KY-O-Heights District’s Response to Staff’s First Request, Item 15b and 15c.

⁴⁴ Application, Schedule of Adjusted Operations Water Division.

Quincy-KY-O-Heights District provided its test-year and current employee list,⁴⁵ test year hours worked, employee wage rates,⁴⁶ and current staff levels.⁴⁷ Subsequent to the test year, employees' salaries were increased.⁴⁸ During the test year, employee position 6 left employment; two replacements were hired and subsequently left during the test year before a third employee was hired who is still with Garrison-Quincy-KY-O-Heights District.⁴⁹ Commission Staff calculated the pro forma Salaries and Wages – Employee amount utilizing the current number of employees, the test-year hours worked and the current wage rates⁵⁰ and determined a total salaries and wages of \$212,248. Therefore, Commission Staff made an adjustment to increase Salaries and Wages – Employees by \$27,031, as shown in the following table:

⁴⁵ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 5, Item_5_2022_Water.xlsx. And Item_5_20213_Water.xlsx.

⁴⁶ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 5, Item_5_2022_Water.xlsx, column F.

⁴⁷ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 5, Item_5_2023_Water.xlsx.

⁴⁸ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 5, Item_5_2023_Water.xlsx, column H and I.

⁴⁹ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 5, Item_5_2022_Water.xlsx, Row 22.

⁵⁰ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 5, Item_5_2023_Water.xlsx.

Pro Forma Wage Calculation (Test Year Hours with Current Wages)								
Employee / Position #	Total Hours	Test Year Allocated Hours	Current Wages Rates	Pro Forma Normal Wages	Test Year Overtime Hours	Current Overtime Wage Rates	Pro Forma Overtime Wages	Total Pro Forma Wages
Office Employees								
1 Manager	1,735	1,735	\$ 33.32	\$ 57,810	-	\$ 49.98	\$ -	\$ 57,810
2 Accounting	1,739	1,739	21.00	36,519	-	31.50	-	36,519
3 Billing	1,711	1,711	15.75	26,940	-	23.63	-	26,940
Field Employees								
4 Operator	1,741	1,741	18.90	32,905	-	28.35	-	32,905
5 Operator	1,766	1,766	18.85	33,289	-	28.28	-	33,289
6 Operator	1,686	1,686	14.70	24,784	-	22.05	-	24,784
Total Salaries & Wages - Employees				<u>\$ 212,248</u>			<u>\$ -</u>	\$ 212,248
Less: Adjusted Test Year Salaries and Wages - Employees								(185,217)
Total Salaries & Wages Adjustment								27,031
Less: Garrison-Quincy-KY-O-Heights District's Proposed Adjustment								-
Commission Staff's Proposed Salaries & Wages Adjustment								<u>\$ 27,031</u>

(H) Salaries and Wages – Officers. In the test year, Garrison-Quincy-KY-O-Heights District reported Salaries and Wages – Officers expense as \$8,139.⁵¹ Garrison-Quincy-KY-O-Heights District’s board of director’s consists of three members. Garrison-Quincy-KY-O-Heights District submitted the Lewis County Fiscal Court minutes evidencing the members were approved, and their salaries were established.⁵² The Lewis County Fiscal Court approved each member to receive \$300 per month for an annual salary of \$3,600 that totals \$10,800 for the three Commissioners.

Garrison-Quincy-KY-O-Heights District allocates Commission salaries’ expense between water and sewer based upon the number of customers,⁵³ Commission Staff calculated the allocations below which result in a proposed increase of Commission Staff increased Salaries and Wages – Officers by \$305 as shown in the following table.

⁵¹ Application, Schedule of Adjusted Operations, Water Division.

⁵² Garrison-Quincy-KY-O-Heights District’s Response to Staff’s First Request, Item 12a, 12b and 12c.

⁵³ Garrison-Quincy-KY-O-Heights District’s Response to Staff’s First Request, Item 14.

Description	Number of Customers	Percentage	Commissioner Pay
Water Division	1,079	78.19%	\$ 8,444
Sewer Division	301	21.81%	2,356
Total	1,380	100%	\$ 10,800
Remove Sewer Allocation ()			(2,356)
Test Year Pay ()			(8,139)
Commission Staff Adjustment			\$ 305

(I) Employee Pensions - County Employee Retirement System (CERS).

Garrison-Quincy-KY-O-Heights District participates in the CERS, which is administered by the Kentucky Public Pension Authority (KPPA). The KPPA fiscal year (July to June) 2024 contribution rate is 23.34 percent.⁵⁴ Garrison-Quincy-KY-O-Heights District reported retirement expense of \$58,243,⁵⁵ which is comprised of employer contributions of \$58,243 and a reduction of expense of \$22,062 for certain accounting adjustments described in item “J” below.⁵⁶ It did not propose any adjustments. As discussed in Adjustment (F), Commission Staff calculated a pro forma Salaries and Wages expense of \$212,248. Commission Staff recalculated the CERS contribution amount based on pro forma wages and the current contribution rate as shown in the table below.

⁵⁴ Kentucky Public Pensions Authority, GASB Contribution Rates (<https://www.kyret.ky.gov/Employers/GASB/Pages/Contribution-Rates.aspx>).

⁵⁵ Application, Schedule of Adjusted Operations, Water Division.

⁵⁶ Garrison-Quincy-KY-O-Heights District’s Response to Staff’s First Request, Item 19, Rate_Study_Garrison_Quincy.xlsx, 1c Reconciliation AR to TB tab, cells H24 and H25.

Description	Commission Staff Adjustment
Salaries and Wages - Employees	\$ 212,248
Current CERS Contribution Rate	23.34%
CERS Retirement- Employer Contribution	49,539
Test Year Contribution ()	(58,243)
Employee Pensions and Benefits Adjustment	(8,704)
Garrison-Quincy-KY-O-Heights District's Proposed Adjustment ()	0
Commission Staff Proposed Adjustment	<u>\$ (8,704)</u>

(J) Employee Pensions – Governmental Accounting Standards Board (GASB) 68 and 75. In the application, Garrison-Quincy-KY-O-Heights District included in its calculation of Employee Pensions a decrease to Employee Pensions and Benefits expense by \$22,062 to conform to GASB 68 and 75 Standards.⁵⁷ In Case No. 2016-00163,⁵⁸ Commission Staff discussed in detail how reporting requirements for GASB 68 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 contributions to CERS, which historically have been fairly constant. Consistent with Commission Staff's previous practice,⁵⁹ Commission Staff removed the \$22,062 adjustment related to GASB 68 and 75.

(K) Employee Benefits – Health Insurance Stipend. Garrison-Quincy-KY-O-Heights District does not provide medical insurance to employees. Instead, it provides

⁵⁷ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 19, Rate_Study_Garrison_Quincy.xlsx, 1c Reconciliation AR to TB tab, cell H25.

⁵⁸ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Aug 11, 2016), Order at 4–7.

⁵⁹ Case No. 2022-00044, *Electronic Application of Big Sandy Water District for an Adjustment of its Water Rates Pursuant to 807 KAR 5:076* Order (Ky. PSC Sept. 13, 2022), Order at 11–12.

employees a \$350 per month reimbursement for health insurance.⁶⁰ In its Application, Garrison-Quincy-KY-O-Heights District reported the reimbursement as Insurance – Other expense.⁶¹ Since health insurance is considered an employee benefit, Commission Staff reclassified it from Insurance – Other to Medical Instance Stipend.

Commission Staff calculated the annual reimbursement expense by multiplying the \$350 per month by six full-time employees, resulting in a total stipend amount of \$25,200.⁶² Then, Commission Staff calculated the water division allocation. The allocation factor was determined used was based on the amounts directly charged to water and sewer division during the test year;⁶³ therefore, 79.33 percent of the total reimbursement is allocated to the water division and 20.67 percent to the sewer division, as shown in the following table:

Description	Test Year Amount	Allocation Percentage
Test Year Water Division Stipend	\$ 17,794	79.33%
Test Year Sewer Division Stipend	4,636	20.67%
Total	\$ 22,430	100%

Using the 79.33 percentage allocation factor, Commission Staff calculated \$19,991 to be allocated to the water division. Therefore, Commission Staff increased Medical Insurance Stipend by \$19,991. Commission Staff also reduced Insurance –

⁶⁰ Garrison-Quincy-KY-O-Heights District’s Response to Staff’s Second Request, Item 13

⁶¹ Garrison-Quincy-KY-O-Heights District’s Response to Staff’s First Request, Item 19, Rate_Study_Garrison_Quincy.xlsx, 1c Reconciliation AR to TB tab, Rows 41 thru 43.

⁶² \$350 Stipend per employee 6 employees = \$25,200 total annual stipend.

⁶³ Garrison-Quincy-KY-O-Heights District’s Response to Staff’s First Request, Item 19, Rate_Study_Garrison_Quincy.xlsx, 1c Reconciliation AR to TB tab, cells H43 and H106.

Other by the test year amount of \$17,794, in order to properly categorize the stipend as an employee benefit, as shown in the following table:

Description	Number of Employees	Pro Forma Amount
Health Insurance Stipend (\$350 per month per employee) Times: 12 Months	6	\$ 2,100 12
Total Annual Pro Forma Premium		25,200
Water Division Allocation Percentage		79.33%
Water Division's Allocated Health Insurance Stipend		<u>\$ 19,991</u>

(L) Purchased Water Expense. During the test year, Garrison-Quincy-KY-O-Heights District reported a Purchased Water expense of \$32,351.⁶⁴ Commission Staff calculated Purchased Water expense using the test year gallons purchased of 19,018,560,⁶⁵ at the current wholesale tariff rate of \$1.68 per 1,000 gallons,⁶⁶ which results in a \$400 decrease to Purchased Water Expense as shown in the table below. Commission Staff recommends the Commission approve the adjustment.

Description	Gallons Purchased	Dollars per Gallon	Total
Pro Forma Cost	19,018,560	\$ 0.00168	\$ 31,951
Test Year ()			(32,351)
Commission Staff Adjustment			<u>\$ (400)</u>

(M) Chemical Expense Normalization. During the test year, Garrison-Quincy-KY-O-Heights District reported a Chemical Expense of \$13,258.⁶⁷ In order to normalize

⁶⁴ Application, Schedule of Adjusted Operations, Water Division.

⁶⁵ 2022 Water Division Annual Report at 57, line 3.

⁶⁶ Garrison-Quincy-KY-O-Heights District's Tariff at 9, Sheet 8, Item E.

⁶⁷ Application, Schedule of Adjusted Operations, Water Division.

the Chemical costs, Commission Staff calculated a revised pro forma Chemical Expense using the test year volumes purchased,⁶⁸ then multiplied those volumes by the current unit price paid for each chemical.⁶⁹ This results in a chemical expense of \$14,227. Therefore, Commission Staff increased Chemical Expense by \$1,041, as shown in the following table:

Chemical	Potassium Permanganate	Sodium Floride	Phosphate	Gas Chlorine	Sodium Thiosulfate	
Period / Unit Price	Test Year Pails	Test Year Bags	Test Year Pails	Test Year Cylinders	Test Year Drums	Total
Jan-22	2				2	
Feb-22	2	4				
Mar-22		2	6			
Apr-22						
May-22	2				2	
Jun-22	1		6			
Jul-22						
Aug-22	2	4			2	1
Sep-22			6			
Oct-22	2					
Nov-22	1	1				
Dec-22						
Total	12	11	18	6	1	
Unit Price	\$350	\$175	\$ 350	\$ 247	\$ 392	
Total Cost	\$ 4,200	\$ 1,925	\$ 6,300	\$ 1,482	\$ 392	\$ 14,299
Test Year ()						(13,258)
Commission Staff's Proposed Adjustment						\$ 1,041

(N) Excess Water Loss. In its application, Garrison-Quincy-KY-O-Heights District proposed adjustments to decrease Purchased Water expense by \$3,627, Purchased Power expense by \$4,174, and Chemicals expense by \$1,486.⁷⁰ The adjustments are to reflect the expense for water loss in excess of 15 percent.⁷¹ During

⁶⁸ Garrison-Quincy-KY-O-Heights District's Response to Staff's Telephone request for supplemental information on Question #1 of Request for Information #2 (filed Mar. 18, 2024).

⁶⁹ Garrison-Quincy-KY-O-Heights District's Response to Staff's Second Request, Item 2, 2_Current_Rate_for_Chemicals.xlsx.

⁷⁰ Application, Adjusted Operations, References, Adjustment F.

⁷¹ Application, Schedule of Adjusted Operations Water Division, Adjustment F.

the test year, Garrison-Quincy-KY-O-Heights District reported water loss of 26.2105 percent.⁷² As noted earlier in the report, Commission regulations prohibit the recovery of expenses for water loss in excess of 15 percent. Commission Staff calculated a net decrease of \$3,582 to Purchased Water expense, which is \$45 less than proposed by Garrison-Quincy-KY-O-Heights District. Garrison-Quincy-KY-O-Heights District reduced Purchased Power Expense by \$4,174 and Commission Staff agreed with the adjustment. Chemical Expense is reduced by \$1,603, which is \$117 more than proposed by Garrison-Quincy-KY-O-Heights District, as shown in following table:

Description	Purchased Water	Purchased Power	Chemicals & Lab Testing	Total
Pro Forma Expenses	\$ 31,951	\$ 37,230	\$ 14,299	\$ 83,480
Water loss in Excess of 15 Percent	11.21%	11.21%	11.21%	11.21%
Excess Cost	(3,582)	(4,174)	(1,603)	(9,359)
Proposed Adjustment ()	3,627	4,174	1,486	9,287
Commission Staff Adjustment	\$ 45	\$ -	\$ (117)	\$ (72)

(O) Depreciation Expense. Garrison-Quincy-KY-O-Heights District proposed an increase in Depreciation Expense by \$9,854⁷³ to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study).⁷⁴ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC Study published in 1979. 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

⁷² 2022 Water Division Annual Report at 57.

⁷³ Application, Schedule of Adjusted Operations, Water Division, Adjustment G.

⁷⁴ Application, Adjusted Operations, References, Water Division, Adjustment G.

examination, Commission Staff agrees with Garrison-Quincy-KY-O-Heights District's methodology to adjust depreciation expense. However, Commission Staff calculated a depreciation expense of \$117,588. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff increased Garrison-Quincy-KY-O-Heights District's Depreciation Expense by \$16,083, which is \$6,229 more than proposed by Garrison-Quincy-KY-O-Heights District, as shown in the following table:

Categories	Service Life Range	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Land & Easements - Water	N/A	\$ -	\$ -	\$ -
Structure and Improvements	35 - 40	8,793	1,668	10,461
Power Operated Equipment	10 - 15	2,862	(2,175)	687
Communication Equipments	10	892	1,596	2,488
Wells & Springs	25 - 35	21,301	10,652	31,952
Reservoirs and Tanks	30 - 60	946	-	946
Pumping Equipment	20	2,629	816	3,445
Transmission & Distribution	50 - 75	65,008	2,600	67,608
Total		<u>\$ 102,431</u>	<u>\$ 15,157</u>	\$ 117,588
Less: Garrison-Quincy-KY-O-Heights District's Application Depreciation ()				(101,505)
Commission Staff's Proposed adjustment				16,083
Less: Garrison-Quincy-KY-O-Heights District's Proposed Adjustment ()				(9,854)
Total Depreciation Expense Adjustment				<u>\$ 6,229</u>

(P) Capitalization of Tap Labor expenses. As explained in Adjustment (F) 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. Garrison-Quincy-KY-O-Heights District confirmed that it already capitalized \$444 for the cost of the new meters,⁷⁵ but did not capitalize the labor costs or the remaining materials used.⁷⁶ Therefore, \$2,663 is already capitalized as part

⁷⁵ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 15c.

⁷⁶ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 15b.

of Pumping Equipment.⁷⁷ Garrison-Quincy-KY-O-Heights District confirmed that it did not include the amount capitalized for either labor or materials in the proposed adjustment to Depreciation Expense.⁷⁸ Therefore, Commission Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$88 to account for the Tap Fee Labor Expense and \$33 for the remaining Tap Fee Material Expense, for a total increase of \$121 as shown below:

Description	Labor Expense Amount	Materials and Supplies
Test Year Water Connections Labor Expense	\$ 3,975	\$ 3,975
Less: Expense Already Capitalized ()	-	(2,663)
Total Amount Capitalized	3,975	1,312
Divided by: NARUCE Proposed Service Lives	45	40
Pro Forma Depreciation Adjustment	\$ 88	33
Total Capitalized Expense increase		\$ 121

(Q) Taxes Other Than Income – Reclassification of Sewer. Garrison-Quincy-KY-O-Heights District proposed an adjustment to decrease Taxes Other Than Income by \$3,864⁷⁹ to account for the reclassification of Payroll Taxes attributable to salaries paid for the sewer division.⁸⁰ Commission Staff agrees the sewer division’s expenses need to be included in the sewer expenses instead of the water division expenses. Garrison-Quincy-KY-O-Heights District calculated the amount of Payroll taxes incurred during the

⁷⁷ \$444 Capitalized meter Cost * 6 New Meter Taps installed = \$2,663.

⁷⁸ Garrison-Quincy-KY-O-Heights District’s Response to Staff’s Second Request, Item 4.

⁷⁹ Application, Schedule of Adjusted Operations, Water Division, Adjustment H.

⁸⁰ Application, Adjusted Operations, Adjusted Operations, References, Adjustment H.

test year⁸¹ by the sewer division and proposed to remove from the total Taxes Other Than Income. Therefore, Commission Staff agrees with Garrison-Quincy-KY-O-Heights District's proposed adjustment and decreased Taxes Other Than Income by \$3,864.

(R) Taxes Other Than Income- FICA. In the application, Garrison-Quincy-KY-O-Heights District reported \$20,083 for Taxes Other Than Income but revised it to \$17,542.⁸² As discussed above, Commission Staff reduced Taxes Other Than Income by \$3,864. Commission Staff recalculated the payroll taxes, accounting for Adjustments (E), (F), and (G) above, Commission Staff calculated pro forma salaries and wages – employees of \$212,248 and allocated officers \$8,444. Therefore, Commission Staff calculated a pro forma Taxes Other Than Income of \$16,883, which is an increase of \$3,205, as shown in the following table:

Description	Commission Staff Adjustment
Salaries and Wages - Employees	\$ 212,248
Allocated Salaries and Wages - Officers	8,444
Total Pro Forma Salaries	<u>220,692</u>
Times: 7.65 Percent FICA Rate	7.65%
Total Pro Forma Taxes Other Than Income	<u>16,883</u>
Adjusted Test Year Taxes Other Than Income ()	<u>(13,678)</u>
Payroll Tax Adjustment	3,205
Garrison-Quincy-KY-O-Heights District's Proposed Adjustment ()	-
Commission Staff's Proposed Adjustment	<u><u>\$ 3,205</u></u>

⁸¹ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 19, Rate_Study_Garrison_Quincy.xlsx, Allocation Tab, Cell C7.

⁸² Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 19, Rate_Study_Garrison_Quincy.xlsx, SAOW Tab, Cell D35.

OVERALL REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations.⁸³ 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;⁸⁴ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

Description	Garrison-Quincy- KY-O-Heights Water District	Commission Staff	
Pro Forma Operating Expenses	\$ 535,024	\$ 585,498	
Plus: Avg. Annual Principal and Interest Payments	92,003	87,555	(1)
Additional Working Capital	18,401	17,511	(2)
Total Revenues Requirement	645,428	690,564	
Less: Other Operating Revenue ()	(28,019)	(28,799)	
Other Income - Phase II & III Surcharges ()	(24,239)	(23,575)	
Nonutility Income ()	(4,820)	(4,820)	
Interest and Dividend Income ()	(38)	(38)	
Revenue Required From Water Sales	588,312	633,332	
Less: Revenue from Sales at Present Rates ()	(447,073)	(447,073)	
Required Revenue Increase	<u>\$ 141,239</u>	<u>\$ 186,259</u>	
Percentage Increase	<u>31.59%</u>	<u>41.66%</u>	

⁸³ Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2022). Case No. 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

⁸⁴ The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Garrison-Quincy-KY-O-Heights District had four U.S. Department of Agriculture's Rural Development (RD) Bonds⁸⁵ and one Kentucky Infrastructure Authority (KIA) loan.⁸⁶ In its application, Garrison-Quincy-KY-O-Heights District requested recovery of the average annual principal and interest on its indebtedness based on an average of the annual principal, and interest and fee payments for the five years following the test year, which is 2023 through 2027.⁸⁷ However, because the statutory date for a final Order to be issued in this proceeding is October 19, 2024, the 2023 debt service payments will be recovered through Garrison-Quincy-KY-O-Heights District's existing rates. Therefore, only the debt service payments that will be made after the new rates are placed into effect should be considered in determining Garrison-Quincy-KY-O-Heights District's Annual Principal and Interest Expense. Commission Staff notes that a three-year calculation is not materially different but would better align when Garrison-Quincy-KY-O-Heights District files for an additional rate adjustment. Commission Staff calculated the average annual principal and interest on a five-year average for the years 2024 through 2028. As shown below, Commission Staff calculated an Average Principal and Interest expense of \$87,555.

⁸⁵ Case No. 19009658, *The Application of the Garrison-Quincy-Ky-O-Heights Water District of Lewis County, Kentucky for Approval of Construction, Financing and Increased Water Rates* (Ky. PSC Apr. 2, 1987). Case No. 1996-285, *The Application of Garrison-Quincy-Ky-O- Heights Water District of Lewis County Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to the Provisions of KRS 278.023*, (Ky. PSC Aug. 16, 1996). Case No. 2002-00181, *The Application Of Garrison-Quincy-Ky-O Heights Water District of Lewis County, Kentucky, for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Jun. 25, 2002)

⁸⁶ Case No. 2015-00052, *Application of Garrison-Quincy-Ky-O-Heights Water District for Approval of a Certificate of Public Convenience and Necessity and Approval of Financing* (Ky. PSC Apr. 2, 2015).

⁸⁷ Application, Revenue Requirements Calculation, Table B, Debt Service Schedule.

Debt Issuance	2024		2025		2026		2027		2028		Total
	Principal	Interest									
Series 2002	\$ 9,000	\$10,913	\$ 9,000	\$10,508	\$ 9,000	\$10,103	\$10,000	\$ 9,675	\$10,000	\$ 9,225	\$ 97,423
Series 1987A	15,000	3,793	16,000	2,805	17,000	1,753	19,000	606	-	-	75,957
Series 1987B	2,600	605	2,800	447	3,000	276	3,200	94	-	-	13,022
Series 1996	9,500	6,964	9,500	6,536	10,000	6,098	10,500	5,636	11,000	5,153	80,886
KIA Loan 2015	30,215	4,035	30,442	3,732	30,671	3,427	30,901	3,120	31,134	2,810	170,486
Total	\$66,315	\$26,309	\$67,742	\$24,027	\$69,671	\$21,656	\$73,601	\$19,131	\$52,134	\$17,188	437,773
Divide by: 5 years											5
Average Annual Principal and Interest Payments											\$ 87,555

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, Garrison-Quincy-KY-O-Heights District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its Bonds at the time of its application for a total of \$18,401.⁸⁸

Following the Commission's historic practice,⁸⁹ Commission Staff agrees with Garrison-Quincy-KY-O-Heights District's methodology. Therefore, when the change from 2023 through 2027 to 2024 through 2028 is taken into account, \$17,511 is included in the revenue requirement as shown in the following table:

Average Annual Principal and Interest	\$ 87,555
Times: DSC Coverage Ratio	120%
Total Net Revenues Required	105,066
Less: Average Annual Principal and Interest Payments	(87,555)
Additional Working Capital	\$ 17,511

⁸⁸ Garrison-Quincy-KY-O-Heights District's Response to Staff's First Request, Item 19, Rate_Study_Garrison_Quincy.xlsx, Debt Service Tab, Cell M21.

⁸⁹ Case No. 2022-00431, *Electronic Application of Letcher County Water and Sewer District for a Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Nov. 17, 2023). Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For An Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024). Case No. 2023-00182, *Electronic Application of Western Mason County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 4, 2024).

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 A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00408 DATED APR 30 2024

* Denotes Rounding

Nonrecurring Charges Adjustments (Water)

	Meter Test Charge Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor	\$0.00	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation	\$0.00	\$0.00
Misc.	\$45.00	\$45.00
Total Revised Charge*	\$45.00	\$45.00
Current Rate	\$36.00	

	Field Collection Charge Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1hr at \$18/hr.)	\$18.00	\$0.00
Office Supplies	\$0.60	\$0.60
Office Labor	\$3.25	\$0.00
Transportation	\$2.89	\$2.89
Misc. (Mileage Roundtrip)	\$9.17	\$9.17
Total Revised Charge*	\$33.91	\$12.00
Current Rate	\$11.00	

	Connection Charges (After Hours) Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (2hrs min at \$18/hr.)	\$36.00	\$36.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation	\$2.89	\$2.89
Misc. (Mileage)	\$9.17	\$9.17
Total Revised Charge	\$48.06	\$48.00
Current Rate	\$41.00	

	Returned Checks Charge Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor	\$0.00	\$0.00
Office Supplies	\$2.75	\$2.75
Office Labor	\$3.25	\$0.00
Transportation	\$0.00	\$0.00
Misc. (Bank service charge)	\$12.00	\$12.00
Total Revised Charge	<u>\$18.00</u>	<u>\$15.00</u>
Current Rate	\$23.00	

	Connection Charges Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (30 min at \$18/hr.)	\$9.00	\$0.00
Office Supplies	\$0.10	\$0.10
Office Labor	\$3.25	\$0.00
Transportation	\$2.89	\$2.89
Misc. (Mileage Roundtrip)	\$9.17	\$9.17
Total Revised Charge	<u>\$24.41</u>	<u>\$12.00</u>
Current Rate	\$11.00	

	Reconnection Charge Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1hr at \$18/hr.)	\$18.00	\$0.00
Office Supplies	\$0.10	\$0.10
Office Labor	\$3.25	\$0.00
Transportation	\$5.78	\$5.78
Misc. (Mileage)	\$18.34	\$18.34
Total Revised Charge*	<u>\$45.47</u>	<u>\$24.00</u>
Current Rate	\$22.00	

	Reconnection Charge (After Hours) Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (2hr min at \$18/hr.)	\$36.00	\$36.00
Office Supplies	\$0.10	\$0.10
Office Labor	\$3.25	\$0.00

Transportation	\$5.78	\$5.78
Misc. (Mileage)	\$18.34	\$18.34
Total Revised Charge*	<u>\$63.47</u>	<u>\$60.00</u>
Current Rate	\$52.00	

	Seasonal Reconnect Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (30min at \$18/hr.)	\$9.00	\$0.00
Office Supplies	\$0.10	\$0.10
Office Labor	\$3.25	\$0.00
Transportation	\$2.89	\$2.89
Misc. (Mileage)	\$9.17	\$9.17
Total Revised Charge*	<u>\$24.41</u>	<u>\$12.00</u>
Current Rate	\$11.00	

	Service Call Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1hr at \$18/hr.)	\$18.00	\$0.00
Office Supplies	\$0.10	\$0.10
Office Labor	\$3.25	\$0.00
Transportation	\$2.89	\$2.89
Misc. (Mileage)	\$9.17	\$9.17
Total Revised Charge*	<u>\$33.41</u>	<u>\$12.00</u>
Current Rate	\$11.00	

	Service Call After Hours Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (2hr min at \$18/hr.)	\$36.00	\$36.00
Office Supplies	\$0.10	\$10.00
Office Labor	\$3.25	\$0.00
Transportation	\$2.89	\$2.89
Misc. (Mileage)	\$9.17	\$9.17
Total Revised Charge*	<u>\$51.41</u>	<u>\$58.00</u>
Current Rate	\$41.00	

* Denotes Rounding

Nonrecurring Charges Adjustments (Sewer)

Connection Charges		
	Utility Revised Charge	Staff Revised Charge
Field Materials (Tests - Electrical)	\$2.00	\$2.00
Field Labor (30min at \$18/hr.)	\$9.00	\$0.00
Office Supplies	\$0.10	\$0.10
Office Labor	\$3.25	\$0.00
Transportation	\$2.89	\$2.89
Misc. (Mileage)	\$2.62	\$2.62
Total Revised Charge*	\$19.86	\$8.00
Current Rate	\$7.00	

Connection Charges After Hours		
	Utility Revised Charge	Staff Revised Charge
Field Materials (Electrical Tester)	\$2.00	\$2.00
Field Labor (2hr min at \$18/hr.)	\$36.00	\$36.00
Office Supplies	\$0.10	\$0.10
Office Labor	\$3.25	\$0.00
Transportation	\$2.89	\$2.89
Misc. (Milage)	\$2.62	\$2.62
Total Revised Charge	\$46.86	\$44.00
Current Rate	\$38.00	

Field Collection Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials (door hanger)	\$0.50	\$0.50
Field Labor (1hr at \$18/hr.)	\$18.00	\$0.00
Office Supplies	\$0.10	\$0.10
Office Labor	\$3.25	\$0.00
Transportation	\$2.89	\$2.89
Misc. (Mileage)	\$2.62	\$2.62
Total Revised Charge*	\$27.36	\$6.00
Current Rate	\$6.00	

Reconnection Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00

Field Labor (1hr at \$18/hr.)	\$18.00	\$0.00
Office Supplies	\$0.10	\$0.10
Office Labor	\$3.25	\$0.00
Transportation	\$5.78	\$5.78
Misc. (Mileage)	\$5.24	\$5.24
Total Revised Charge	<u>\$32.37</u>	<u>\$11.00</u>
Current Rate	\$10.00	

Reconnection Charge After Hours

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (2hr min at \$18/hr.)	\$36.00	\$36.00
Office Supplies	\$0.10	\$0.10
Office Labor	\$3.25	\$0.00
Transportation	\$5.78	\$2.89
Misc. (Mileage Roundtrip)	\$5.24	\$5.24
Total Revised Charge	<u>\$50.37</u>	<u>\$44.00</u>
Current Rate	\$41.00	

Returned Checks Charge

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor	\$0.00	\$0.00
Office Supplies	\$2.75	\$2.75
Office Labor	\$7.50	\$0.00
Transportation	\$0.00	\$0.00
Misc. (Bank service charge)	\$12.00	\$12.00
Total Revised Charge*	<u>\$22.25</u>	<u>\$15.00</u>
Current Rate	\$23.00	

Service Call Charge

	Utility Revised Charge	Staff Revised Charge
Field Materials (Electrical tests)	\$2.00	\$2.00
Field Labor (1hr at \$18/hr.)	\$18.00	\$0.00
Office Supplies	\$0.10	\$0.10
Office Labor	\$3.25	\$0.00
Transportation	\$2.89	\$2.89
Misc. (Mileage)	\$2.62	\$2.62
Total Revised Charge*	<u>\$28.86</u>	<u>\$8.00</u>
Current Rate	\$7.00	

	Service Call Charge After Hours Utility Revised Charge	Staff Revised Charge
Field Materials (Electrical tests)	\$2.00	\$2.00
Field Labor (2hr min at \$18/hr.)	\$36.00	\$36.00
Office Supplies	\$0.10	\$0.10
Office Labor	\$3.25	\$0.00
Transportation	\$2.89	\$2.89
Misc. (Mileage)	\$2.62	\$2.62
Total Revised Charge*	\$46.86	\$44.00
Current Rate	\$38.00	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00408 DATED APR 30 2024

The following rates and charges are recommended by Commission Staff based on the adjustments in Commission Staff's Report for the customers in the area served by Garrison-Quincy-O-Heights 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 Retail Rates

5/8-Inch x 3/4-Inch Meter

First	2,000 Gallons	\$	32.76	Minimum Bill
Next	3,000 Gallons		0.01286	per Gallon
Next	5,000 Gallons		0.01075	per Gallon
Over	10,000 Gallons		0.00850	per Gallon

1-Inch Meter

First	10,000 Gallons	\$	125.14	Minimum Bill
Over	10,000 Gallons	\$	0.00850	per Gallon

2-Inch Meter

First	50,000 Gallons	\$	465.12	Minimum Bill
Over	50,000 Gallons	\$	0.00850	per Gallon

Wholesale – City of South Shore

First	1,000,000 Gallons	\$	2,833.40	Minimum Bill
Next	2,000,000 Gallons	\$	0.00283	per Gallon
Over	3,000,000 Gallons	\$	0.00312	per Gallon

Bulk Water

All Purchases		\$	0.01387	per Gallon
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Tap-On Fee (Water)

5/8-Inch x 3/4-Inch Meter		\$	1,420.00	
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Tap-On Fee (Sewer)
5/8-Inch x 3/4-Inch Meter \$ 4,688.00

Nonrecurring Charges (Water)

Meter Test Charge	\$ 45.00
Field Collection Charge	12.00
Connection Charge	12.00
Connection Charge (After Hours)	48.00
Reconnection Charge	24.00
Reconnection Charge (After Hours)	60.00
Seasonal Reconnection Charge	12.00
Service Call	12.00
Service Call (After Hours)	58.00
Returned Check Charge	15.00

Nonrecurring Charges (Sewer)

Connection Charge	\$ 8.00
Connection Charge (After Hours)	44.00
Field Collection Charge	6.00
Reconnection Charge	11.00
Reconnection Charge (After Hours)	44.00
Returned Check Charge	15.00
Service Call	8.00
Service Call (After Hours)	44.00

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Kentucky Rural Water Association
Post Office Box 1424
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Bowling Green, KENTUCKY 42102-1424

*Robert K. Miller
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*Trent Underwood
Garrison-Quincy-Ky-O-Heights Water District
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