

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH	)	CASE NO.
WOODFORD WATER DISTRICT FOR A RATE	)	2022-00035
ADJUSTMENT PURSUANT TO 807 KAR 5:076	)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of July 27, 2022, the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's July 27, 2022 Order, South Woodford Water District (South Woodford District) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of this report. The Commission directs South Woodford District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.



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

DATED SEP 13 2022

cc: Parties of Record

---

<sup>1</sup> 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).

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH	)	CASE NO.
WOODFORD WATER DISTRICT FOR A RATE	)	2022-00035
ADJUSTMENT PURSUANT TO 807 KAR 5:076	)	

COMMISSION STAFF'S REPORT ON  
SOUTH WOODFORD WATER DISTRICT

South Woodford Water District (South Woodford District), a water district organized pursuant to KRS Chapter 74, provides water service to approximately 1,673 residential customers in Woodford County, Kentucky.<sup>1</sup>

On March 17, 2022, South Woodford District filed its application to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076, and it was accepted as filed. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated March 31, 2022. On July 27, 2022, the Commission, upon its own motion, found that additional time was needed by Commission Staff to adequately review South Woodford District's revenue requirement modifications, revisions to its requested rates, and several noted discrepancies in South Woodford District's responses. Therefore, the Commission amended its March 31, 2022 Order to allow Commission Staff until August 31, 2022, to complete and to issue its report. South Woodford District responded to three requests for information from Commission Staff.

---

<sup>1</sup> *Annual Report of South Woodford District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

## WATER LOSS

Pursuant to 807 KAR 5:066 (6)(3), water loss is limited to 15 percent for ratemaking purposes. Commission Staff notes that South Woodford District reported a water loss of 29.63 percent in its 2020 Annual Report.<sup>2</sup> At a 29.63 percent water loss, the annual cost of water loss in excess of 15 percent is \$76,941 and the total annual cost of water loss to South Woodford District is \$155,820, as calculated in the table below.

	<u>Purchased Water</u>	<u>Purchased Power</u>	<u>Total</u>
Test Year Water Purchase and Pumping Costs	\$ 492,989	\$ 32,896	\$ 525,885
Multiplied by: Water Loss in excess of 15 Percent	<u>-14.63%</u>	<u>-14.63%</u>	<u>-14.63%</u>
Cost of Line loss in Excess of the 15% Limit	<u>\$ (72,122)</u>	<u>\$ (4,813)</u>	<u>\$ (76,941)</u>
Test Year Water Purchase and Pumping Costs	\$ 492,989	\$ 32,896	\$ 525,885
Multiplied by: Test Year Water Loss	<u>-29.63%</u>	<u>-29.63%</u>	<u>-29.63%</u>
Total Cost of Line Loss	<u>\$ (146,073)</u>	<u>\$ (9,747)</u>	<u>\$ (155,820)</u>

## DISCUSSION

To comply with the requirements of 807 KAR 5:076, Section 9,<sup>3</sup> South Woodford District used the calendar year ended December 31, 2020, as the basis for its application.<sup>4</sup> Using the Debt Service Coverage (DSC) method historically used by the Commission, its pro forma test-year operations and its Debt Service payments, South Woodford District determined it could justify a revenue increase of \$95,921, or 11.42 percent.<sup>5</sup> South Woodford District is requesting a water loss recovery surcharge of \$3.87 per month per

---

<sup>2</sup> 2020 Annual Report at 57 and 58.

<sup>3</sup> 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.

<sup>4</sup> Application at 3.

<sup>5</sup> Application, Attachment 4, Revenue Requirements.

customer.<sup>6</sup> The rates requested by South Woodford District, including the water loss recovery surcharge, would increase the monthly bill of a typical residential customer using 4,000 gallons per month by \$7.35, from \$30.46 to \$37.81, or approximately 24.13 percent.<sup>7</sup>

South Woodford District updated its revenue requirement calculation to eliminate an undocumented adjustment and to reflect increases in fees that occurred after the filing of the application.<sup>8</sup> Updating its DSC calculation to reflect the changes to Operating Expense results in a revenue increase of \$136,743, or 16.28 percent.<sup>9</sup> The water rates based on the updated revenue requirement would increase the monthly bill of a typical residential customer using 4,000 gallons per month by \$8.82, from \$30.46 to \$39.28, or approximately 28.95 percent.<sup>10</sup> The table below is a comparison of South Woodford District's original Revenue Requirement Calculation to its updated calculation.

---

<sup>6</sup> Application, Attachment 1, Customer Notice.

<sup>7</sup> Application, Attachment 1, Customer Notice.  $\$33.94$  (Average Bill Proposed Water Rates) +  $\$3.87$  (Water Loss Reduction Surcharge) =  $\$37.81$  (Average Bill Proposed Water Rates with Water Loss Reduction Surcharge) -  $\$30.46$  (Average Bill Current Water Rates) =  $\$7.35$  (Total Increase in Average Customer Water Bill)  $\div$   $\$30.46$  (Average Bill Current Water Rates) = 24.13%

<sup>8</sup> South Woodford District's Responses to Commission Staff's First Request for Information (Staff's First Request), filed April 21, 2022, Item 4.c.

<sup>9</sup> South Woodford District's Responses to Staff's First Request, Item 4.c, Excel Workbook: 4\_Rate\_Study\_Updated\_with\_New\_Contractor\_Rates.xlsx; Tab: SAO.

<sup>10</sup> South Woodford District's Responses to Commission Staff's First Request, Item 4.c, Excel Workbook: 4\_Rate\_Study\_Updated\_with\_New\_Contractor\_Rates.xlsx; Tab: Bills. South Woodford District provided the impact its updated revenue requirement would have on its requested water rates originally listed in the application; however, it did not provide notice to the Commission that it was amending its application and did not provide notice to the public as required to amend its application in 807 KAR 5:076, Section 8.

	<u>South Woodford District</u>	
	<u>Application</u>	<u>Revised</u>
Pro Forma Operating Expenses	\$ 846,020	\$ 886,842
Plus: Average Annual Debt Service	83,626	83,626
Debt Service Coverage Requirement	<u>16,725</u>	<u>16,725</u>
Overall Revenue Requirement	946,372	987,194
Less: Other Operating Revenue	(10,302)	(10,302)
Interest Income	<u>(351)</u>	<u>(351)</u>
Revenue Required from Water Sales	935,719	976,541
Less: Normalized Revenues from Water Sales	<u>(839,798)</u>	<u>(839,798)</u>
Required Revenue Increase/(Decrease)	<u>\$ 95,921</u>	<u>\$ 136,743</u>
Percentage Increase	<u>11.42%</u>	<u>16.28%</u>

To determine the reasonableness of South Woodford District's updated revenue requirement calculation, Commission Staff performed a limited financial review of South Woodford 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 measurable changes to test-year operations were identified and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's findings are summarized in this report. Mark Frost reviewed South Woodford District's Pro Forma Operating Expenses and its Overall Revenue Requirement. Elizabeth Stefanski reviewed South Woodford District's reported revenues and rate design.

### SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the DSC method, as generally accepted by the Commission, Commission Staff found that South Woodford District's required revenue from water sales is \$913,113 to

meet the Overall Revenue Requirement is \$937,282. To meet the Overall Revenue Requirement, South Woodford District requires a \$73,315, or 8.73 percent revenue increase to Pro Forma present rate revenues.

2. Monthly Water Service Rates. In the application, South Woodford District proposed to increase all of its monthly retail water service rates, evenly across the board by approximately 16.28 percent.<sup>11</sup> South Woodford District has not performed a cost of service study (COSS). South Woodford District stated that it did not consider filing a COSS with the current rate application as there were no material changes in its system and that South Woodford District would consider preparing a new COSS if material changes in customer usage patterns were to occur.<sup>12</sup>

The Commission has previously found that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff followed the method proposed by South Woodford District and allocated the \$73,315 revenue increase across the board to South Woodford District's monthly retail water service rates.

The rates set forth in the Appendix to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$913,113 Revenue Required from Rates, an approximate 8.73 percent increase. These rates, including the water loss recovery surcharge, will

---

<sup>11</sup> South Woodford District's Responses to Staff's First Request, Item 4.c, Excel Workbook: 4\_Rate\_Study\_Updated\_with\_New\_Contractor\_Rates.xlsx; Tab: SAO.

<sup>12</sup> South Woodford District's Responses to Staff's First Request, Item 10.

increase a typical residential customer's monthly water bill from \$30.46 to \$36.98, an increase of \$6.52, or approximately 21.41 percent.<sup>13</sup> The increase in a typical customer's monthly water bill before the water loss recovery surcharge is added, is from \$30.46 to \$33.11, an increase of \$2.65 or 8.70 percent.

3. Nonrecurring Charges. Following the Commission's recent decisions,<sup>14</sup> Commission Staff has reviewed South Woodford District's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. South Woodford District provided the cost justification information for the nonrecurring charges and updated the information with a filing on May 31, 2022.<sup>15</sup> South Woodford District also provided a cost justification sheet<sup>16</sup> for a Pull Meter for Non-Payment charge, and requested that it be included as an additional tariff item.<sup>17</sup> Commission Staff reviewed the cost justification information provided by South Woodford District and have adjusted the charges

---

<sup>13</sup>  $\$36.97 [\$33.10 \text{ (Average Bill New Water Rates)} + \$3.87 \text{ (Water Loss Reduction Surcharge)}] - \$30.46 \text{ (Average Bill Current Water Rates)} = \$6.51 \text{ (Total Difference in Customer Bill)} \div \$30.46 \text{ (Average Bill Current Water Rates)} = 21.37\%$

<sup>14</sup> 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).

<sup>15</sup> South Woodford District's Responses to Staff's First Request, Item 13, and updated filing of May 31, 2022.

<sup>16</sup> South Woodford District's Responses to Staff's First Request, Item 13.

<sup>17</sup> South Woodford District's Responses to Commission Staff's Third Request for Information (Staff's Third Request) (filed June 15, 2022), Item 1c.

performed by utility personnel, by removing Field Labor Costs and Office/Clerical Labor Costs from those charges that occur during normal business hours. The Reconnection Fee/Service Charge and the Meter Test Request Charges are performed by Contract Labor and have been adjusted based on updated cost justification information.<sup>18</sup> Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Late Payment Charge	10%	10%
Reconnection Fee/Service Charge	20.00	60.00
Meter Test Request	15.00	25.00
Returned Check Charge	5.00	8.00
Pull Meter for Non Payment	n/a	80.00

South Woodford District provided additional information regarding the 2020 Test Year Total Returned Check charge revenue, which totaled \$200 for 12 occurrences. South Woodford District applied various nontariffed rates for the Return Checks.<sup>19</sup> South Woodford District offered an explanation<sup>20</sup> for the test-year application of nonrecurring charges, in that a previous manager applied the Returned Check Charge on an inconsistent basis.<sup>21</sup> The adjustments to the nonrecurring charges result in a decrease in Other Operating Revenue of (\$104) as shown below. Commission Staff recommends that the Commission order South Woodford District to adjust its nonrecurring charges to

---

<sup>18</sup> South Woodford District's Responses to Staff's First Request, Item 13.

<sup>19</sup> South Woodford District's Responses to Staff's Third Request, Item 1b.

<sup>20</sup> South Woodford District's additional response to Staff's Third Request (filed Aug. 26, 2022), Item 1b.

<sup>21</sup> South Woodford District's additional response to Staff's Third Request for (filed Aug. 26, 2022), Item 1b.

those found in the Appendix to this report and to establish policies regarding the application of the nonrecurring charges in order to avoid inconsistencies.

	No. of Occurrences	Current NRC	Other Water Revenue	Adjusted NRC	Pro Forma	Adjustment
Returned Check Charge <sup>22</sup>	12	\$5	\$200	\$8	\$96	(\$104)

4. Request for Surcharge. South Woodford District requested the Commission authorize a water loss reduction surcharge of \$3.87 per customer per month to assist in lowering system water loss to more acceptable levels.<sup>23</sup> South Woodford District’s requested surcharge of \$3.87 per customer was calculated by dividing the \$76,941 proposed adjustment to eliminate the excess water loss over 15 percent by the number of test-year bills of 19,889.<sup>24</sup> No formal plan or explanation was given by South Woodford District that indicated any specific future use of the surcharge funds. Commission Staff recalculated the monthly per customer impact of the water loss adjustment described in Adjustment (I) below and believes the \$3.87 surcharge proposed by South Woodford District is a materially accurate representation of the per customer impact on the actual annual cost of water loss above 15 percent.

The use of a surcharge is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for water loss in excess of

---

<sup>22</sup> South Woodford District’s Response to Commission Staff’s Third Request for Information, Item 1b.

<sup>23</sup> Application, Attachment 2, Reasons for Application.

<sup>24</sup> South Woodford District’s Responses to Staff’s First Request, Item 4.c, Excel Workbook: 4\_Rate\_Study\_Updated\_with\_New\_Contractor\_Rates.xlsx; Tab: Water Loss.

30 percent.<sup>25</sup> The Commission has also ordered surcharges even when a utility has not specifically requested a surcharge.<sup>26</sup> Recently, the Commission has allowed water utilities with reported water loss above the 15 percent threshold to assess water loss reduction surcharges.<sup>27</sup> Recognizing prior Commission precedent to allow the use of surcharges to assist utilities in obtaining the proper funding needed to combat water loss, Commission Staff recommends the Commission approve South Woodford District's request and authorize the surcharge for a temporary period of 48 months, with a review of the necessity to continue the surcharge before the temporary period expires. Commission Staff also recommends the Commission establish a separate proceeding to monitor the surcharge and place strict controls over the use of the funds that will be collected from the surcharge. Further, Commission Staff recommends the Commission require South Woodford District to develop a long-term plan to address its aging infrastructure and combat water loss within six months of the final order in this proceeding.

5. Contract Labor. The members of South Woodford District's board of commissioners (Board) are relatively new,<sup>28</sup> so they were unfamiliar with how a water

---

<sup>25</sup> See Case No. 96-126, *An Investigation into the Operations and Management of South Woodford Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges*, (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); and Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2010); Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Order at 11-13.

<sup>26</sup> Case No. 2020-00311, *Electronic Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC Apr. 8, 2021), Order at 3.

<sup>27</sup> See 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).

<sup>28</sup> *Annual Report of Woodford County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 15. Two of South Woodford District's

district operated or who else in the community would be capable of providing the services to ensure continuity of water service to its customers, Therefore, the Board limited negotiations to their current maintenance provider. By using contract maintenance, South Woodford District reduces its capital costs because the utility does not need to purchase trucks or equipment (i.e., an excavator). The table below is a comparison of the test-year contract maintenance rates to the renegotiated maintenance rates.

Contract Maintenance	Test-Year Rates	Current Rates	Inc. in Contract Maintenance Rates	
			Dollar	Percentage
Service Calls/Meter Reading and Verification	\$ 40.00	\$ 60.00	\$ 20.00	50.00%
Service Calls/Meter Changeout and Turning Valves	40.00	80.00	40.00	100.00%
Two Men and Truck First Hour	150.00	200.00	50.00	33.33%
Two Men and Truck Subsequent Hours	100.00	150.00	50.00	50.00%
Two Men, Truck, and Excavator First Hour	200.00	300.00	100.00	50.00%
Two Men, Truck, and Excavator Subsequent Hours	150.00	250.00	100.00	66.67%

Based on the significant increases in the rates between the test-year actual and the pro forma renegotiated rates, the Commission Staff recommends that the Commission direct South Woodford District to obtain the services of an independent consultant to assist in the process of preparing a request for proposals (RFP) to be sent to potential bidders who may be interested in providing contract distribution system maintenance to South Woodford District. Once the responses to the RFP have been received, the independent consultants should provide South Woodford District with assistance in analyzing the maintenance bids and in awarding the contract.

Commission Staff further recommends that South Woodford District should be directed to submit a written report to the Commission describing the RFP process used by South Woodford District, including the procedures used to analyze the bids, explaining in detail all relevant factors considered (e.g., costs and bidder's qualifications, etc.) and

---

Commissioner terms began in 2017, one Commissioner's term began in 2018, and the remaining three Commissioner terms began in 2021.

an explanation of how the winning bidder is selected. Also, South Woodford District should submit a revised Tariff Filing requesting new tap-on fees using the new maintenance contract rates.

### PRO FORMA OPERATING STATEMENT

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

	Test Year Operations	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues:				
Total Metered Sales	\$ 846,168	\$ (6,370)	A	\$ 839,798
Other Water Revenues:				
Forfeited Discounts	2,982	10,010	C	12,992
Misc. Service Revenues	7,320	(224)	D	
		3,730	B	10,826
Total Other Water Revenues	10,302	13,516		23,818
Total Operating Revenues	856,470	7,146		863,616
Operating Expenses:				
Operation and Maintenance:				
Salaries and Wages - Employees	39,055			39,055
Salaries and Wages - Officers	10,800			10,800
Employee Pensions and Benefits		344	E	344
Purchased Water	492,989	(72,122)	F	420,867
Purchased Power	32,896	(4,813)	F	28,083
Materials and Supplies	94,199	(44,346)	G	49,853
Contractual Services - Accounting	8,560			8,560
Contractual Services - Management	54,000	(3,600)	H	50,400
Contractual Services - Other	30,004	(19,006)	G	
		39,449	I	
		5,080	J	
		36,010	L	91,537
Rent - Building/Real Prop.	12,000			12,000
Insurance - Gen. Liab.	21,030	(1,105)	E	19,925
Miscellaneous Expenses	11,370			11,370
Total Operation and Maint. Expenses	806,903	(64,109)		742,794
Depreciation Expense	100,346	(5,448)	L	94,898
Taxes Other Than Income	5,581	(1,767)	M	3,814
Total Operating Expenses	912,830	(71,324)		841,506
Net Utility Operating Income	\$ (56,360)	\$ 78,470		\$ 22,110

(A) Billing Analysis. In its application, South Woodford District made an adjustment of (\$6,370) to Metered Water Sales and 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 reported as \$839,798.<sup>29</sup> According to South Woodford District's 2020 Annual Report, the total metered water sales revenue reported for the test year is \$846,168.<sup>30</sup> South Woodford District provided usage data,<sup>31</sup> and billing adjustment information,<sup>32</sup> and a revised billing analysis which included the revenue from a \$2.00 surcharge related to waterworks improvements.<sup>33</sup> Commission Staff calculated a normalized revenue amount based on the statistics compiled in the table below, which include net billing adjustments of (\$4,576),<sup>34</sup> and the reclassification of surcharge revenue of \$3,730 equaling a normalized revenue of \$839,798. Accordingly, Commission Staff decreased test year water sales by \$2,640 to reflect the net billing adjustment for a total adjustment of (\$6,370).

<u>Meter Size</u>	<u>Bills</u>	<u>Gallons Sold</u>	<u>Revenue</u>
Residential/Commercial	19,889	128,097,900	\$ 844,374
Less: Billing Adjustments			<u>(4,576)</u>
NET RETAIL			839,798

<sup>29</sup> Application, Attachment 5, 2020 Current Billing Analysis.

<sup>30</sup> 2020 Annual Report at 49.

<sup>31</sup> South Woodford District's Responses to Staff's First Request, Items 16b and 16d.

<sup>32</sup> South Woodford District's Responses to Staff's First Request, Items 17 and 18.

<sup>33</sup> Current\_Billing\_Analysis\_Adjusted\_for\_Surcharge.pdf (filed Aug. 23, 2022).

<sup>34</sup> South Woodford District's Response to Staff's First Request, Item 16c. Leak Adjustments of \$3,097 and Misread Meter Adjustments of \$1,478 totaling \$4,576.

PSC ANNUAL REPORT-Water Sales less Surcharge total	<u>\$842,438</u>
Billing Adjustment	<u>(2,640)</u>
Total Adjustment	<u>\$(3,730)</u>

(B) Misclassified Surcharge Revenues. South Woodford District charges a \$2.00 per month surcharge to all of its Rate C customers. The surcharge is related to debt incurred by South Woodford District's Phase III waterworks improvement project.<sup>35</sup> South Woodford District included the revenue from the surcharge in its rate analysis.<sup>36</sup> Surcharge collections are more appropriately classified as Miscellaneous Service Revenue. Therefore, Commission Staff is decreasing revenue from water sales and increasing Miscellaneous Service Revenue by \$3,730.

(C) Forfeited Discounts. During the test year, South Woodford District recorded \$2,282 in Forfeited Discounts. Given that the test year occurred during the moratorium regarding the collection of late payment fees due to the COVID-19 pandemic, Commission Staff normalized the revenue from Forfeited Discounts using a three-year average of the reported income from late fees in the years 2017, 2018, and 2019.<sup>37</sup> Based upon a three-year average of \$12,991, Commission Staff increased Miscellaneous Service Revenues by \$10,010.

---

<sup>35</sup> Case No. 1999-00036, *In the Matter of the Application of South Woodford County Water District, Woodford County, Kentucky, (1) For a Certificate Of Public Convenience and Necessity Authorizing Construction of Major Water Service Improvements and Additions to its Water Distribution System, and (2) Seeking Approval of the Issuance of Certain Securities* (Ky. PSC Mar. 5, 1999), final Order.

<sup>36</sup> South Woodford District's Additional Response to Staff's First Request (filed Aug. 23, 2022), Item 16.

<sup>37</sup> South Woodford District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed May 19, 2022), Item 14.

Year	Amount
2017	\$ 13,417
2018	12,803
2019	12,755
Three-Year Average	12,992
Less: Test-Year Forfeited Discounts	(2,982)
Pro Forma Adjustment	<u>\$ 10,010</u>

(D) Miscellaneous Service Revenue. In its application, South Woodford District listed test-year Other Water revenues of \$10,302, which included \$2,982<sup>38</sup> of Late Payment Penalties, \$120<sup>39</sup> from Disconnect Charges, and \$7,200 from a lease agreement with Blue Zoom Ventures, LLC.<sup>40</sup> South Woodford District made no adjustments for nonrecurring charges in its application. The current personnel of South Woodford District is unable to provide supporting documentation for the Disconnect Charges equaling \$120. Therefore, Commission Staff reduced Miscellaneous Service revenue by \$120 to eliminate the unsupported revenue. South Woodford District provided information about the nonrecurring charges revenue,<sup>41</sup> and Commission Staff calculated an adjustment to Other Water Revenue, removing labor costs as discussed above. The adjustment to Nonrecurring Charges results in a decrease to Miscellaneous Service revenues of \$104 from Returned Check Charges as discussed above. The net impact of both adjustments is a decrease of \$224 to Miscellaneous Service revenues.

(E) Employee Benefits. South Woodford District pays 100 percent of its employees' dental insurance premiums.<sup>42</sup> However, South Woodford District incorrectly

---

<sup>38</sup> South Woodford District's Response to Staff's Second Request, Item 13.

<sup>39</sup> South Woodford District's Response to Staff's Second Request, Item 13.

<sup>40</sup> South Woodford District's Response to Staff's Third Request, Item 2.

<sup>41</sup> South Woodford District's Response to Staff's First Request, Item 12.

<sup>42</sup> Application, Attachment 4, Reference B and References, Reference B.

recorded the cost of the dental insurance premiums of \$1,105 in Insurance – General Liability expenses.<sup>43</sup> South Woodford District proposed to reduce Insurance – General Liability expenses by \$1,105 to remove the misclassified employee dental premiums and to increase Employee Pension and Benefits expense by \$344 to both reflect the reclassification of the dental insurance premiums and to reflect the Commission’s current 60 percent limitation on the employers contribution for dental insurance coverage.<sup>44</sup>

Commission Staff notes that the Commission has consistently made ratemaking adjustments to reduce the cost of employee benefit packages paid by some utilities when certain aspects of those benefit packages were found to be unreasonable based on a review of total salaries and fringe benefits. The Commission continues to place greater emphasis on evaluating employees’ total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. It has found that in most cases, 100 percent of employer-funded health care does not meet those criteria.

South Woodford District’s proposed adjustments are reasonable and are consistent with past Commission precedent.<sup>45</sup> Therefore, Commission Staff accepts

---

<sup>43</sup> Application, Attachment 4, Schedule of Adjusted Operations, Reference B and References, Reference B.

<sup>44</sup> Application, Attachment 4, References, Reference B.

<sup>45</sup> 807 KAR 5:001, Section 16(1)(a); Case No. 2001-00211, The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds (Ky. PSC June 25, 2003); Case No. 2017-00417, Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works (Ky. PSC July 12, 2018); and Case No. 2019-00080, Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to South Woodford Water District (Ky. PSC Dec. 19, 2019).

South Woodford District's proposed adjustments to increase Employee Pension and Benefits expense by \$344 and to decrease Insurance – General Liability expenses by \$1,105.

(F) Excess Water Loss. Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes unless the Commission finds an alternative level is reasonable. South Woodford District reported a test-year water loss of 29.63 percent, or 14.63 percent above the 15 percent allowable limit. To eliminate the cost to purchase, produce, and pump water over the 15 percent allowable limit, South Woodford District proposed to decrease Purchased Water expense and Purchased Power expense by \$72,122 and \$4,813, respectively.<sup>46</sup> South Woodford District's proposed adjustments to eliminate the costs associated with excessive water loss conforms to the Commission's current practice, and therefore Commission Staff included South Woodford District's adjustments to Purchased Water expense and Purchased Power expense.

(G) Tap-on Fees. During the test year, South Woodford District collected tap-on fees of \$22,200 and correctly recorded its tap-on fees in Account No. 432, Proceeds from Capital Contributions.<sup>47</sup> South Woodford District explained that new meters were installed by contractors and the installation costs were recorded in the accounts Contractual Services – Other expenses and Materials and Supplies expenses at the time the meters were installed.<sup>48</sup> Substituting the tap-on fees for the actual costs it incurred to

---

<sup>46</sup> South Woodford District's Response to Staff's First Request, Item 7.b.

<sup>47</sup> South Woodford District's Response to Staff's First Request, Item 7.b.

<sup>48</sup> Application, Attachment 4, References, Reference D.

install the meters, South Woodford District proposed to deduct 30 percent of the collected tap-on fees, or \$6,660, from Contractual Services – Other expense, and the remaining 70 percent, or \$15,540, from the Materials and Supplies expense.<sup>49</sup>

South Woodford District submitted new cost justification sheets for its 3/4-Inch and 1-Inch tap-on charges to reflect the increased contract labor rates.<sup>50</sup> Applying the increased tap-on charges to the test-year meter installations results in pro forma tap-on collections of \$63,352.<sup>51</sup> Using the pro forma tap-on collections of \$63,352, Commission Staff reduced Contractual Services – Other expense by 30 percent, or \$19,006, and further reduced Materials and Supplies expense by the remaining 70 percent, or \$44,346.

(H) Contract Management. South Woodford District hired a new contract manager on February 8, 2022.<sup>52</sup> South Woodford District proposed to decrease Contractual Services-Management expense by \$3,600 to reflect the new lower annual contract cost.<sup>53</sup> An adjustment to reflect the new contract manager fee would meet the ratemaking criteria of being known and measurable, and Commission Staff believes the new contract management fee is reasonable. Accordingly, Commission Staff decreased Contractual Services-Management expense by \$3,600.

---

<sup>49</sup> Application, Attachment 4, Schedule of Adjusted Operations, Reference D and References, Reference D.

<sup>50</sup> South Woodford District’s Response to Staff’s First Request Item 7.f.

<sup>51</sup>

Tap-on for 3/4-Inch Meter's	2	\$	2,339	\$	4,678
Tap-on for 1-Inch Meter's	21	\$	2,794		<u>58,674</u>
Pro Forma Tap-on Fees - New Contract Labor Costs				\$	<u>63,352</u>

<sup>52</sup> South Woodford District’s Response to Staff’s Second Request, Item 2.c.

<sup>53</sup> Application, Attachment 4, Schedule of Adjusted Operations, Reference E and References, Adjustment E.

(l) Meter Reading. South Woodford District proposed to increase Contractual Services – Other expense by \$42,732 to reflect increasing the cost of customer billing by \$3,000 per month plus an increase in the meter reading fee of \$0.33 per account per month.<sup>54</sup> South Woodford District later explained that the \$3,000 per month cost was estimated using the per meter customer billing fee of \$1.69.

South Woodford District stated that the customer billing service started on June 2, 2022, and that the service would be provided by United Systems (UPM) of Benton, Kentucky.<sup>55</sup> Some of the noted services included in the UPM contract are customer billing using the Alliance Utility Billing Software, meter reading interfaces to allow files to be exported from and imported into the billing software, counter receipts to assist in managing customers and billing accounts/services, payment processing and receipt management, and assistance with the management of work orders out in the field.<sup>56</sup>

An adjustment to reflect the new meter-reading and customer-billing fees would meet the ratemaking criteria of being known and measurable, and considering the services provided by UPM, the new fee is reasonable. In calculating its recommended pro forma adjustment, Commission Staff used the per bill costs provided by South Woodford District and the number of bills listed in the billing analysis. Multiplying the combined fee of \$3.49 per meter by the number of bills in Commission Staff's billing analysis results in an increase to Contractual Services – Other expense of \$39,449 as calculated below.

---

<sup>54</sup> Application, Attachment 4, Schedule of Adjusted Operations, Reference L and References, Reference L.

<sup>55</sup> South Woodford District's Response to Staff's Second Request, Item 5.b.

<sup>56</sup> South Woodford District's Response to Staff's Second Request, Item 5.a.

Meter-Reading Fee per Meter	\$ 1.80
UPM Fee per Meter	1.69
Cost per Meter	<u>3.49</u>
Multiplied by: Number of Bills – Billing Analysis	19,889
Pro Forma Meter Reading/Customer Billing	<u>69,413</u>
Less: Test-year Reported Cost	<u>(29,964)</u>
Pro Forma Adjustment	<u>\$ 39,449</u>

(J) Water-Testing Fees. After filing its application, South Woodford District was notified that the cost of its water testing would increase by \$5,080.<sup>57</sup> An adjustment to reflect the water testing fees would meet the ratemaking criteria of being known and measurable, and therefore the increased fees are reasonable. Accordingly, Commission Staff increased Contractual Services – Other expense by \$5,080 to reflect the increase in water-testing fees.

(K) Contract Labor. Subsequent to the filing of its application, South Woodford District proposed to increase Contractual Services – Other expense by \$36,010 to reflect increased distribution system maintenance expenses that its Board approved after the original rate study was prepared.<sup>58</sup> The table below is a comparison of the test-year distribution system maintenance costs to the pro forma costs. Given the circumstances that limited negotiations to the current maintenance contract provider, the Commission Staff recommends that South Woodford District’s adjustment to increase Contractual Services – Other expense by \$36,010 be accepted. Commission Staff notes that the

---

<sup>57</sup> Cover Letter dated April 21, 2022, that was attached to South Woodford District’s Response to Staff’s First Request, Item 1.i.

<sup>58</sup> Cover Letter dated April 21, 2022, that was attached to South Woodford District’s Response to Staff’s First Request, Item 1.iii.

\$36,010 increase in labor and equipment charges is partially offset by the increased tap-on fees.<sup>59</sup>

Maintenance	Test-Year			Pro Forma			
	Hours	Rates	Total	Rates	Total	Adjustment	% Incc.
Service Calls/Meter Reading and Verification	102	\$ 40.00	\$ 4,080	\$ 60.00	\$ 6,120	\$ 2,040	50.00%
Service Calls/Meter Changeout and Turning V	198	\$ 40.00	7,920	\$ 80.00	15,840	7,920	100.00%
Two Men and Truck First Hour	43	\$ 150.00	6,450	\$ 200.00	8,600	2,150	33.33%
Two Men and Truck Subsequent Hours	64	\$ 100.00	6,400	\$ 150.00	9,600	3,200	50.00%
Two Men, Truck, and Excavator First Hour	65	\$ 200.00	13,000	\$ 300.00	19,500	6,500	50.00%
Two Men, Truck, and Excavator Subsequent H	142	\$ 150.00	21,300	\$ 250.00	35,500	14,200	66.67%
			<u>\$ 59,150</u>		<u>\$ 95,160</u>	<u>\$ 36,010</u>	<u>60.88%</u>

(L) Depreciation. South Woodford District proposed to decrease its test-year Depreciation expense of \$100,346 by \$5,448 for a pro forma Depreciation expense of \$94,898.<sup>60</sup> South Woodford District explained that the Commission typically requires a water utility to adjust its depreciation expense when its depreciation lives fall outside of the ranges recommended in the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study).<sup>61</sup> According to South Woodford District, its adjustment brings the depreciable lives of its assets to or near the midpoint of NARUC’s recommended ranges.<sup>62</sup>

To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the NARUC Study. When no evidence exists to support a specific life that is inside or outside the NARUC Study ranges,

<sup>59</sup> \$19,006 (Labor Revised Tap-on Fees) - \$6,660 (Labor Test-Year Tap-on Fees) = \$12,346.

<sup>60</sup> Application, Attachment 4, Schedule of Adjusted Operations, Reference H and References, Adjustment H.

<sup>61</sup> Application, Attachment 4, Schedule of Adjusted Operations, Reference H and References, Adjustment H.

<sup>62</sup> Application, Attachment 4, Schedule of Adjusted Operations, Reference J and References, Adjustment J.

the Commission has historically used the midpoint of the NARUC Study ranges to depreciate a utility plant.

Upon its review of South Woodford District's depreciation schedule, Commission Staff determined that South Woodford District's adjusted depreciation lives are at the midpoint of the NARUC Study range for each asset category. Commission Staff agrees that South Woodford District's proposed depreciation adjustment is reasonable and decreased Depreciation expense by \$5,448.

(M) Payroll Taxes. South Woodford District explained that its payroll taxes as computed for the application are lower than the taxes that were reported in the 2020 Annual Report, which resulted in the proposed \$826 adjustment to decrease Payroll Tax Expense.<sup>63</sup> Using the test-year Salaries and Wages – Employees expense of \$39,055, the Salaries and Wages – Commissioners expense of \$10,800 and the current FICA Tax Rate of 7.65 percent, Commission Staff calculated a pro forma FICA expense of \$3,814, for a decrease to South Woodford District's Payroll Tax expense by \$1,767.<sup>64</sup>

#### OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

Historically, the Commission has applied a DSC method to calculate the revenue requirement of water districts and water associations.<sup>65</sup> This method allows for recovery

---

<sup>63</sup> Application, Attachment 4, Schedule of Adjusted Operations, Reference D and References, Reference D. South Woodford District's Response to Staff's First Request, Item 4.c, Excel Workbook: 4\_Rate\_Study\_Updated\_with\_New\_Contractor\_Rates.xlsx; Tab: Wages.

<sup>64</sup> \$39,055 (Salaries and Wages – Employees) + \$10,800 (Salaries and Wages – Commissioners) = \$49,855 (Salaries and Wages – Employees and Commissioners) x 7.65% (FICA Tax Rate) = \$3,814 (Pro Forma FICA Tax expense) - \$5,581 (Test-Year FICA Tax expense) = (\$1,767).

<sup>65</sup> See Case No. 2019-00424, *Electronic Application of Grant County Sanitary Sewer District for an Alternate Rate Adjustment* (Ky. PSC May 6, 2020), and Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Jan. 31, 2020).

of (1) cash-related pro forma operating expenses; (2) depreciation expense, a noncash item, to provide working capital; (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

A comparison of South Woodford District's and Commission Staff's calculations of the revenue requirement and required revenue increase using the DSC method is shown below:

	South Woodford District		Commission Staff
	Application	Revised 1st DR	
Pro Forma Operating Expenses	\$ 846,020	\$ 886,842	\$ 841,506
Plus: Average Annual Debt Service	83,626	83,626	79,813
Debt Service Coverage Requirement	16,725	16,725	15,963
Overall Revenue Requirement	946,371	987,193	937,282
Less: Other Operating Revenue	(10,302)	(10,302)	(23,818)
Interest Income	(351)	(351)	(351)
Revenue Required from Water Sales	935,718	976,540	913,113
Less: Normalized Revenues from Water Sales	(839,798)	(839,798)	(839,798)
Required Revenue Increase/(Decrease)	\$ 95,920	\$ 136,742	\$ 73,315
Percentage Increase	11.42%	16.28%	8.73%

Average Annual Principal Payments, Interest Payments, and Debt Service Coverage Requirement. At the time of Commission Staff's review, South Woodford District had one outstanding loan from the Kentucky Rural Water Finance Corporation (KRWFC)<sup>66</sup> and two bond issuances from the U.S. Department of Agriculture's Rural Development (RD).<sup>67</sup> South Woodford District explained that its RD Bond resolutions

<sup>66</sup> See Case No. 2007-00033, *Application of The South Woodford Water District for a Certificate of Public Convenience and Necessity to Construct and Finance a Water Improvements Project Pursuant to KRS 278.020 and 278.300* (Ky. PSC Mar. 23, 2007), Order, KRWFC Series 2007A.

<sup>67</sup> Case No. 1996-00253-00445, *In the Matter of the Application of South Woodford County Water District, Woodford County, Kentucky (1) for a Certificate of Public Convenience and Necessity Authorizing Construction of Major Water Service Improvements and Additions to its Water Distribution System, (2) Seeking Approval of Revised Water Service Rates and Charges and (3) Seeking Approval of the Issuance of Certain Securities*, (Ky. PSC July 10, 1996), Order, RD Loan 1996A and RD Loan 1996B; and Case No. 1999-00036, *In the Matter of the Application of South Woodford County Water District, Woodford County, Kentucky, (1) for a Certificate of Public Convenience and Necessity Authorizing Construction of Major Water Service Improvements and Additions to its Water Distribution System, and (2) Seeking Approval of the Issuance of Certain Securities* (Ky. PSC March 5, 1999), Order, RD Loan 1999A and RD Loan 1999B.

require it to maintain a balance of \$106,800 in its depreciation reserve fund.<sup>68</sup> South Woodford District included the payment to its depreciation reserve fund in its average annual debt service of \$83,626.<sup>69</sup> Using its \$83,626 average annual debt service and a debt service coverage rate of 0.20, South Woodford calculated an allowance for additional working capital of \$16,725.<sup>70</sup> South Woodford District's calculation of its average debt service and working capital is in the table below.

	2022	2023	2024	2025	2026	Totals
RD04 Loan Series 1996 A	\$ 22,011	\$ 22,031	\$ 22,002	\$ 22,023	\$ 21,989	\$ 110,056
RD05 Loan Series 1996B	8,269	8,209	8,233	8,535	0	33,246
RD06 Loan Series 1999A	15,970	15,946	15,910	15,960	15,992	79,778
RD07 Loan Series 1999B	2,900	2,900	2,900	2,900	2,900	14,500
KRWFC Series 2007A	32,218	32,049	32,406	32,421	32,392	161,487
Replenish Depreciation Fund	10,680	8,384				19,064
Totals	<u>\$ 92,048</u>	<u>\$ 89,519</u>	<u>\$ 81,451</u>	<u>\$ 81,839</u>	<u>\$ 73,273</u>	<u>\$ 418,131</u>
5-Year Average Debt Service						<u>\$ 83,626</u>
5-Year Average Debt Service						\$ 83,626
Multiplied by: 0.20 Debt Service Coverage rate						<u>0.2</u>
Additional Working Capital						<u>\$ 16,725</u>

Commission Staff notes that the payment to the depreciation reserve fund should not be included in the calculation of a utility's annual debt service. Eliminating the depreciation reserve fund payment from South Woodford District's average debt service calculation results in Commission Staff's recommended average annual debt service of \$79,813 and a 0.20 allowance for additional working capital of \$15,963 as calculated in the table below.

<sup>68</sup> South Woodford District's Response to Staff's Second Request, Item 12.

<sup>69</sup> Application, Attachment 4, Revenue Requirements.

<sup>70</sup> Application, Attachment 4, Revenue Requirements.

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Totals</u>
RD04 Loan Series 1996 A	\$ 22,011	\$ 22,031	\$ 22,002	\$ 22,023	\$ 21,989	\$ 110,056
RD05 Loan Series 1996B	8,269	8,209	8,233	8,535	0	33,246
RD06 Loan Series 1999A	15,970	15,946	15,910	15,960	15,992	79,778
RD07 Loan Series 1999B	2,900	2,900	2,900	2,900	2,900	14,500
KRWFC Series 2007A	32,218	32,049	32,406	32,421	32,392	161,487
Replenish Depreciation Fund						
Totals	<u>\$ 81,368</u>	<u>\$ 81,135</u>	<u>\$ 81,451</u>	<u>\$ 81,839</u>	<u>\$ 73,273</u>	<u>\$ 399,067</u>
5-Year Average Debt Service						<u>\$ 79,813</u>
5-Year Average Debt Service						\$ 79,813
Multiplied by: 0.20 Debt Service Coverage rate						<u>0.2</u>
Additional Working Capital						<u>\$ 15,963</u>

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Signatures

/S/ Mark Frost

Prepared by: Mark Frost  
Revenue Requirement Branch  
Division of Financial Analysis

/s/ Elizabeth Stefanski

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

APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00035 DATED SEP 13 2022

The following rates and charges are prescribed for the customers in the area served by South Woodford County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000	Gallons	\$22.25	Minimum Bill
Next	2,000	Gallons	0.00543	Per Gallon
Next	6,000	Gallons	0.00519	Per Gallon
Next	90,000	Gallons	0.00484	Per Gallon
Over	100,000	Gallons	0.00441	Per Gallon

Water Loss Recovery Charge     \$3.87 per month limited to a 48-month period

In addition to the monthly water rates set forth above and all other charges not specifically mentioned herein, all customers served by the South Woodford County Water District Phase III Project (Kentucky Public Service Commission Case No. 1999-00036<sup>1</sup>) shall pay \$2.00 per month.

Nonrecurring Charges

5/8- x 3/4-Inch Water Tap On	\$	2,338.27
1-Inch Water Tap On		2,794.10
Late Payment Charge		10%
Reconnection Fee/Service Charge		60.00
Meter Test Request		25.00
Returned Check Charge		8.00
Pull Meter for Nonpayment		80.00

---

<sup>1</sup> Case No. 1999-00036, *In the Matter of the Application of South Woodford County Water District, Woodford County, Kentucky, (1) for a Certificate of Public Convenience and Necessity Authorizing Construction of Major Water Service Improvements and Additions to its Water Distribution System, and (2) Seeking Approval of the Issuance of Certain Securities* (Ky. PSC Mar. 5, 1999).

\*Robert K. Miller  
Straightline Kentucky LLC  
113 North Birchwood Ave.  
Louisville, KENTUCKY 40206

\*South Woodford Water District  
117-D Crossfield Drive  
Versailles, KY 40383

\*Barry Dury  
South Woodford Water District  
117-D Crossfield Drive  
Versailles, KY 40383