

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF JESSAMINE-)	
SOUTH ELKHORN WATER DISTRICT FOR A)	CASE NO.
RATE ADJUSTMENT PURSUANT TO 807 KAR)	2022-00050
5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of March 23, 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 March 23, 2022 Order, Jessamine-South Elkhorn Water District (Jessamine-South Elkhorn District) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of this report. The Commission directs Jessamine-South Elkhorn District to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



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

DATED JUN 29 2022

cc: Parties of Record

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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SOUTH ELKHORN WATER DISTRICT FOR A)	CASE NO.
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COMMISSION STAFF'S REPORT ON
JESSAMINE-SOUTH ELKHORN WATER DISTRICT

Jessamine-South Elkhorn Water District (Jessamine-South Elkhorn District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 3,097 residential customers and 63 commercial customers that reside in Jessamine County, Kentucky.¹ As part of the final Order of Case Number 2020-00382, Jessamine-South Elkhorn District was ordered to file for a general adjustment to rates or alternative rate filing within one year from the January 29, 2021 Order.² On February 25, 2022, Jessamine-South Elkhorn District tendered an application, pursuant to 807 KAR 5:076. Jessamine-South Elkhorn District's last rate adjustment was in Case No. 1990-00075.³

¹ *Annual Report of Jessamine-South Elkhorn District to the Public Service Commission (Annual Report) for the Calendar Year Ended December 31, 2020* at 12 and 49.

² Case No. 2020-00382 *Electronic Application of Jessamine-South Elkhorn Water District for Approval to Enter into a Lease Agreement with the Kentucky Association of Counties Leasing Trust in an Approximate Principal Amount of \$2,515,000 for the Purpose of Refinancing All Outstanding Obligations of the Jessamine-South Elkhorn Water District* (Ky. PSC Jan. 29, 2021).

³ Case No. 1990-00075, *In the Matter of the Adjustment of rates of the Commonwealth of Kentucky of Lexington South Elkhorn Water District Has Been Received* (Ky. PSC Oct. 10, 1990).

Commission Staff notes that Jessamine-South Elkhorn District's 2021 Annual Report reported a water loss of 7.38 percent.⁴ Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. At a 7.8 percent water loss, the annual cost to Jessamine-South Elkhorn District of water above the allowable 15 percent is \$0⁵ while the annual cost of total water loss is \$62,147.⁶

To comply with the requirements of 807 KAR 5:076, Section 9,⁷ Jessamine-South Elkhorn District used the calendar year ended December 31, 2020, as the basis for its application. Using its pro forma test-year operations, Jessamine-South Elkhorn District determined that a revenue increase of \$178,342, or 7.10 percent was necessary.

⁴ Annual Report at 57.

⁵

	Purchased Water
2020 Pro Forma Expenses	\$ 842,097
Multiplied by: Water Loss in Excess of 15 Percent	<u>0.00%</u>
Excess Cost	<u>\$ -</u>

⁶

	Purchased Water
2020 Pro Forma Expenses	\$ 842,097
Multiplied by: Total Water Loss	<u>7.38%</u>
Excess Cost	<u>\$ 62,147</u>

⁷ 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.

	Jessamine-South Elkhorn District
Operating Expenses	\$ 2,011,565
Add: Average Annual Debt Principal and Interest	592,802
Additional Working Capital	118,560
Overall Revenue Requirement	2,722,927
Less: Other Operating Revenue	(31,382)
Interest Income	(2,971)
Revenue Requirement - Water Rates	2,688,574
Less: Normalized Revenue from Service	(2,510,232)
Required Revenue Increase	\$ 178,342
Percentage Increase	7.10%

To determine the reasonableness of the increase proposed by Jessamine-South Elkhorn District, Commission Staff performed a limited financial review of Jessamine-South Elkhorn District's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable⁸ changes to test-year operations were identified and adjustments made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

⁸ Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *The Application of Hardin County Utilities 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 Utilities District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

Commission Staff's findings are summarized in this report. Travis Leach reviewed the calculation of Jessamine-South Elkhorn District's Overall Revenue Requirement. Jason Green reviewed Jessamine-South Elkhorn District's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff found that Jessamine-South Elkhorn District's required revenue from rates is \$2,725,176 to meet the Overall Revenue Requirement of \$2,755,681, and that a \$214,944 revenue increase, or 8.56 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Jessamine-South Elkhorn District proposed to increase its monthly retail and bulk sales water service rates by approximately 7.10 percent across the board. Jessamine-South Elkhorn District has not performed a cost of service study (COSS). Jessamine-South Elkhorn District stated that it did not complete a COSS at this time as there has been no material changes in the water system.⁹

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 has followed the method previously accepted by the Commission and has allocated the

⁹ Jessamine-South Elkhorn District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Apr. 14, 2022), Item 4.

\$213,593 revenue increase evenly across the board to Jessamine-South Elkhorn District's monthly retail water service rates.

The rates set forth in Appendix A to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$2,725,129 revenue required from rates, an approximate 8.56 percent increase. These rates will increase a typical residential customer's monthly water bill from \$59.64 to \$64.64, an increase of \$5.00 or approximately 8.38 percent.¹⁰

3. Nonrecurring Charges. Following the Commission's recent decisions,¹¹ Commission Staff has reviewed Jessamine-South Elkhorn District's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. This is because labor costs incurred during normal business hours are already recovered in the utility's rates; allowing such labor costs to be included in Nonrecurring Charges results in a double recovery for the same expense. Commission Staff reviewed the cost justification information provided by Jessamine-South Elkhorn District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs from those

¹⁰ The typical residential customer uses approximately 6,000 gallons per month.

¹¹ 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).

charges that occur during normal business hours.¹² Such adjustments result in the following revised nonrecurring charges:

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Reconnection Fee	\$35	\$13
Returned Check Charge	\$35	\$12

The adjustments to the nonrecurring charges result in a decrease to the charges and an increase to the total revenue requirement of \$5,918 as shown below. Staff recommends that Jessamine-South Elkhorn District should adjust its nonrecurring charges to those found in Appendix A to this report.

<u>Charge</u>	<u>No. of Occurrences</u>	<u>Current NRC</u>	<u>Adjusted NRC</u>	<u>Pro Forma</u>
Reconnection Fees	222	\$35	\$13	\$2,886
Returned Check	47	\$35	\$12	<u>\$564</u>
Pro Forma Test Year NRC Revenue				\$3,450
Less: Test Year NRC Revenue				<u>\$9,415</u>
Adjustment				<u>-\$5,965</u>

Jessamine-South Elkhorn District also proposed to increase its 5/8-inch and 1-inch meter tap-fees and provided updated cost justification sheets. Commission Staff reviewed the cost justification information that was provided by Jessamine-South Elkhorn District and agreed with its proposed charges of \$1,500 for its 5/8-inch meter tap-fee and \$1,850 for its 1-inch meter tap-fee.¹³

¹² Jessamine-South Elkhorn District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed April. 18, 2022), Item 7 and Response to Commission Staff's Second Request for Information (Staff's Second Request), Item 1.

¹³ Jessamine-South Elkhorn District's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed April. 18, 2022), Item 2.

PRO FORMA OPERATING STATEMENT

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

	<u>Test Year</u>	<u>Adjustment</u>	<u>Reference</u>	<u>Pro Forma</u>
Operating Revenues				
Retail Sales of Water	\$ 2,552,344	\$ (42,112)	A	\$ 2,510,232
Other Water Revenues				
Forfeited Discounts	-	20,920	B	20,920
Misc Service Revenues	65,865	(52,150)	C	6,614
		(1,136)	D	
		(5,965)	E	
Total Operating Revenues	<u>2,618,209</u>	<u>(80,443)</u>		<u>2,537,766</u>
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	220,911	8,086	F	228,997
Salaries and Wages - Officers	23,281	(1,155)	G	22,126
Employee Pensions and Benefits	47,405	(8,447)	H	38,958
Purchased Water	842,097			842,097
Materials and Supplies	31,458			31,458
Contractual Services	114,075	625	G	114,700
Rental of Building/Real Property	510			510
Transportation Expenses	10,677	(541)	G	9,034
		(1,102)	G	
Insurance	32,741	(2,439)	G	30,302
Bad Debt	3,986			3,986
Miscellaneous Expenses	270,671	43,278	G	
		(393)	G	
		(880)	G	
		7,184	G	
		(1,566)	G	
		(4,607)	G	
Total Operation and Maintenance Expenses	<u>1,597,812</u>	<u>38,043</u>		<u>1,635,855</u>
Depreciation Expense	560,087	(172,139)	I	
		1,304	C	389,252
Taxes Other Than Income	17,854	1,357	F	19,211
Total Operating Expenses	<u>2,175,753</u>	<u>(132,739)</u>		<u>2,044,318</u>
Utility Operating Income(Loss)	<u>\$ 442,456</u>	<u>\$ 52,296</u>		<u>\$ 494,752</u>

Overhead Allocation

As Jessamine-South Elkhorn District consists of both a water distributions and wastewater collection division, several expenses include allocated overhead amounts. In discussion with the district bookkeeper, Commission Staff was informed that the district allocates overhead based on customer count for its water, sewer, and drip collection customers. Shown below is Commission Staff's calculation of appropriate allocation percentages based on Jessamine-South Elkhorn District's customer count as of January 1, 2022. Accordingly, several of the adjustments made by Commission Staff reflect the updated customer count and allocation percentage.

Water Customer	3,190
Sewer Customers	1,110
Drip Customers	<u>54</u>
Total Customers	<u>4,354</u>
Total Sewer and Drip Customers	1,164
Divide by: Total Customers	<u>4,354</u>
Sewer Allocation Percentage	26.73%
Water Allocation Percentage	73.27%

A. Billing Analysis. Jessamine-South Elkhorn District included test-year service revenues of \$2,552,344. In its application, Jessamine-South Elkhorn District proposed to decrease test-year service revenue by \$42,114 to reflect its current Billing Analysis. Commission Staff agrees that the adjustment proposed by Jessamine-South Elkhorn District is known and measurable and accurately reflects pro forma revenue and has included it in pro forma calculation.

B. Late Fees. In its application, Jessamine-South Elkhorn District proposed an adjustment to test-year forfeited discounts resulting in an increase of \$18,803 to account for the moratorium regarding the collection of late fees for past due accounts due to the COVID-19 Pandemic. Because the moratorium is now lifted, Jessamine-South Elkhorn District calculated an adjustment to return late fee revenue to the average level of years 2017 through 2019. While Commission Staff agrees that an adjustment to normalize test year late fee amounts is necessary, Commission precedent is to use a three-year average in calculating pro forma operations.¹⁴ Applying the three-year average results in an increase to test year late fee revenue of \$20,920 that Commission Staff has included in pro forma calculation.¹⁵

C. Tap-On Fees. In its application, Jessamine-South Elkhorn District proposed an adjustment to test year miscellaneous service revenue resulting in a decrease of \$52,150 to remove revenues associated with tap-on fees collected from customers. Commission Staff agrees that the adjustment proposed by Jessamine-South Elkhorn District is known and measurable and accurately reflects pro forma revenue and has included it in pro forma calculation. In addition, Commission Staff recommends that an adjustment be made to capitalize tap-on fees which results in an increase to depreciation expense of \$1,304.¹⁶

¹⁴ Case No. 2021-00455, *Electronic Application of Nicholas County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Dec. 15, 2021).

¹⁵ \$15,496.10 (2017); \$23,395.42 (2018); \$23,867.19 (2019); divided by 3 equals \$20,920.

¹⁶

Tap On Fees	\$ 52,150
Divide by: 40 Years	<u>40.00</u>
Adjustment to Depreciation	<u>\$ 1,304</u>

D. Incorrectly Recorded Penalty Revenue. In its application, Jessamine-South Elkhorn District proposed an adjustment to test year miscellaneous service revenue resulting in a decrease of \$1,136 to remove penalties that were incorrectly reported in the test year. Commission Staff agrees that the adjustment proposed by Jessamine-South Elkhorn District is known and measurable and accurately reflects pro forma revenue and has included it in pro forma calculation.

E. Nonrecurring Charges. As shown above, the adjustment to the Nonrecurring Charges results in a decrease in Other Water Revenue of \$5,965.

F. Salaries and Wages – Employees & FICA. In the test-year, Jessamine-South Elkhorn District included \$220,911 of Salaries and Wages – Employees Expense. In its application, Jessamine-South Elkhorn District proposed an adjustment decreasing test-year Salaries and Wages – Employees Expense by \$37,940 citing the changes in salary levels since 2020. Upon calculating pro forma salary levels, Commission Staff determined that Salaries and Wages – Employees Expense should be increased by \$8,806 as shown below.

Employee	Employee Title	Pro Forma Hours Worked	Pro Forma Overtime Hours	Pro Form Wage Rate	Pro Forma Wages
Alisha Karpuleon	Office Administrator	N/A	N/A	\$1,171.74/Semi-Monthly	\$ 28,122
Daniel Hogue	Meter Reader	535	0	10.40/Hour	5,564
James Miller	Meter Reader	1576	0	12.40/Hour	19,542
Josh Trainer	Meter Reader	1576	0	12.40/Hour	19,542
Kimberly Miller	Bookkeeper	N/A	N/A	2,730.00/Semi-Monthly	65,520
Melissa Henderson	Office Administrator	N/A	N/A	1,397.08/Semi-Monthly	33,530
Morgan Henderson	Operator	N/A	N/A	2,473.49/Semi-Monthly	59,364
Richard Decker	Superintendent	N/A	N/A	3,389.75/Semi-Monthly	81,354
Total Pro Forma Salaries and Wages					312,538
Multiply By: Water Allocation Percentage					73.27%
Pro Forma Salaries and Wages - Water					228,997
Less: Test Year Expense					<u>220,911</u>
Increase(Decrease) to Test Year					<u>\$ 8,086</u>

As a result of Commission Staff’s increase to Salaries and Wages – Employees, Commission Staff has made an adjustment to reduce FICA Tax Expenses to reflect the adjusted payroll tax costs, as shown below.

Pro Forma FICA Applicable Salaries and Wages	\$ 342,738
Multiply by: FICA Rate	<u>7.65%</u>
Pro Forma FICA Taxes	26,219
Multiply By: Water Allocation Percentage	73.27%
Pro Forma Fica Taxes - Water	19,211
Less: Test Year Payroll Taxess	<u>(17,854)</u>
Adjustment	<u>\$ 1,357</u>

G. Allocated Overhead. In its application, Jessamine-South Elkhorn District proposed two adjustments to test year miscellaneous expense to reflect errors in the test year allocation of overhead expenses between the water and sewer districts that increased miscellaneous expense by \$16,071 and \$32,989. Commission Staff recommends that the Commission not accept the proposed adjustments because Commission Staff made several adjustments revising the allocation of overhead expenses based on pro forma allocation percentages. The total adjustments result in a decrease of \$1,155 in Salaries and Wages – Officers, an increase of \$625 to Contractual Services, a decrease of \$1,643 to Transportation Expenses, a decrease of \$2,439 to Insurance and an increase of \$43,016 to Miscellaneous Expenses.¹⁷

H. Employee Pensions and Benefits. Jessamine-South Elkhorn District included \$47,405 in its test-year Employee Benefits Expense related to insurance and

¹⁷ See Appendix B for a detailed analysis of these adjustments.

retirement benefits. As part of its employee compensation, Jessamine-South Elkhorn District pays 100 percent its employees' health and dental insurance premiums as well as contributes six percent of each employee's gross pay to their retirement account.

Commission Staff notes that the Commission has consistently made ratemaking adjustments to reduce the cost of employer-sponsored healthcare 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.¹⁸

As Jessamine-South Elkhorn District's employees currently pay zero percent of their health insurance premiums, Commission Staff has calculated the total pro forma allowable premiums, shown below.

	District Contribution	BLS Contribution Rate	Reduction Adjustment	Pro Forma Contributions
Employee 1 - Health (Single)	\$ 12,192	21%	\$ (2,560)	\$ 9,632
Employee 2 - Health (Single)	12,192	21%	(2,560)	9,632
Employee 3 - Health (Family)	6,480	34%	(2,203)	4,277
Employee 4 - Health (Family)	6,384	34%	(2,171)	4,213
Employee 1 - Dental	384	60%	(230)	154
Employee 2 - Dental	384	60%	(230)	154
Employee 3 - Dental	384	60%	(230)	154
Employee 4 - Dental	384	60%	(230)	154
Pro Forma Allowable Premiums				\$ 28,368
Multiply By: Water Allocation Percentage				73.27%
Pro Forma Allowable Premiums - Water				20,785
Less: Test-year Premiums				<u>(27,553)</u>
Pro Forma Adjustment				<u>\$ (6,768)</u>

¹⁸ Case 2020-00167, *Electronic Application of Ohio County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Dec. 2, 2020). Case No. 2020-00296, *Electronic Application of Allen County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

In addition, Jessamine-South Elkhorn District contributes six percent of its employees gross pay into their retirement account. In order to reflect adjustment to Wages and Salaries discussed above, Commission Staff has calculated pro forma pension contributions, shown below.

Pro Forma Salaries & Wages	\$ 228,997
Multiply by: Pension Contribution Rate	<u>6.0%</u>
Pro Forma Pension Contribution	<u><u>\$ 13,740</u></u>

Considering both adjustments discussed above, Commission Staff calculates a pro forma for Employee Benefits Expense should be a decrease of \$8,447 as shown below.¹⁹

Pro Forma Health & Dental Insurance Benefits	\$ 20,785
Pro Forma Pension Contributions	<u>13,740</u>
Pro Forma Health, Dental, and Pension Benefits	34,525
Less: Test Year Pensions and Benefits	<u>(42,972)</u>
Adjustment	<u><u>(8,447)</u></u>

I. Depreciation Expense. In its application, Jessamine-South Elkhorn District included \$560,087 in Depreciation Expense and proposed to reduce test-year Depreciation Expense by \$172,139 citing Commission precedent of evaluating the reasonableness of the depreciation practices of small water utilities using the National Association of Regulatory Utility Commissioners' (NARUC) report titled *Depreciation Practices for Small Utilities* (NARUC Study) published in 1979. When no evidence exists

¹⁹ This calculation adjusts only the health and dental portions of pro forma Pensions and Benefits and does not adjust life insurance provided to the Jessamine-South Elkhorn District's employees.

to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant.

Upon examination, Commission Staff agrees that the adjustment proposed by Jessamine-South Elkhorn District is known and measurable and accurately reflects adjusting Jessamine-South Elkhorn District's assets' useful life to the midpoint of the life's found in the NARUC Study and has included it in pro forma operations.

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Commission has historically applied a DSC method to calculate the Overall Revenue Requirement of Utilities Districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a noncash item, to provide working capital;²⁰ (3) the average annual principal and interest payments on all long-term debts, and (4) working capital that is in addition to depreciation expense.

²⁰ The Kentucky Supreme Court has held that the Commission must permit a Utilities 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 Utilities 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 Utilities 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).

	Jessamine-South Elkhorn District	Commission Staff
Operating Expenses	\$ 2,011,565	\$ 2,044,318
Add: Average Annual Debt Principal and Interest	592,802	592,802
Additional Working Capital	118,560	118,560
Overall Revenue Requirement	2,722,927	2,755,681
Less: Other Operating Revenue	(31,382)	(27,534)
Interest Income	(2,971)	(2,971)
Revenue Requirement - Water Rates	2,688,574	2,725,176
Less: Normalized Revenue from Service	(2,510,232)	(2,510,232)
Required Revenue Increase	\$ 178,342	\$ 214,944
Percentage Increase	7.10%	8.56%

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Jessamine-South Elkhorn District had three bond obligations held by Kentucky Rural Water Finance Corporation (KRWFC), two loan obligations held by Kentucky Infrastructure Authority (KIA), and two bank loans held by Central Bank. In its application, Jessamine-South Elkhorn District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2022 through 2026.²¹ Commission Staff agrees with the methodology Jessamine-South Elkhorn District proposes. As shown below, Commission Staff calculated an Average Principal and Interest Payment of \$592,802.

²¹ Application, Attachment 4, Revenue Requirement Calculation.

Year	Principal	Interest	Total
2022	\$ 339,742	\$ 206,732	\$ 546,474
2023	348,542	195,563	544,105
2024	714,341	180,175	894,516
2025	335,584	156,690	492,274
2026	342,914	143,729	486,643
5-Year Total			2,964,012
Divide By: 5 Years			<u>5</u>
Average Debt Service Coverage			<u>\$ 592,802</u>

Commission Staff notes that in its review it found that Jessamine-South Elkhorn District did not receive Commission approval for both KIA Loans and both Central Bank loans. While unapproved, it is Commission Staff's historical practice for the purpose of ratemaking to include the loan interest and principal for unapproved loans that were taken on in instances in which the Commission would have likely approved the financing if requested and has done so in this case. It is Commission Staff's recommendation that the Commission open an investigation into Jessamine-South Elkhorn District and its Commissioners in the matter of its unauthorized debts.

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, Jessamine-South Elkhorn District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its long-term debt with the KIA at the time of its application.

Following the Commission's historic practice, \$118,560 is included in the revenue requirement.

Annual Debt Service Payments		592,802
Multitplied by:	20%	<u>1.20</u>
Required Net Revenues		711,363
Less: Annual Debt Service		<u>(592,802)</u>
Allowance for Working Capital		<u>\$ 118,560</u>

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Signatures

_____/s/Travis Leach_____
Prepared by: Travis Leach
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. 2022-00050 DATED JUN 29 2022

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

Monthly Water Rates

5/8- X 3/4-Inch Meter

First	2,000 Gallons	\$29.82	Minimum Bill
Next	2,000 Gallons	0.00876	Per Gallon
Next	2,000 Gallons	0.00865	Per Gallon
Next	10,000 Gallons	0.00854	Per Gallon
Next	8,000 Gallons	0.00844	Per Gallon
Over	24,000 Gallons	0.00834	Per Gallon

1-Inch Meter

First	10,000 Gallons	\$98.80	Minimum Bill
Next	6,000 Gallons	0.00854	Per Gallon
Next	8,000 Gallons	0.00844	Per Gallon
Over	24,000 Gallons	0.00834	Per Gallon

1 1/2-Inch Meter

First	24,000 Gallons	\$217.57	Minimum Bill
Over	24,000 Gallons	0.00834	Per Gallon

Connection Fees

5/8-Inch x 3/4-Inch Meter	\$1,500 per connection
1-Inch Meter	\$1,850 per connection

Non-Recurring Charges

Reconnection Fee	\$13.00
Returned Check Charge	\$12.00

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00050 DATED JUN 29 2022

Water Customer	3,190
Sewer Customers	1,110
Drip Customers	54

Total Customers	<u>4,354</u>
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Total Sewer and Drip Customers	1,164
Divide by: Total Customers	<u>4,354</u>

Sewer Allocation Percentage	26.73%
Water Allocation Percentage	73.27%

	Pro Forma	Test Year	Adjustment
Commissioner Salaries	\$ 30,200		
Sewer	8,074	6,919	1,155
Water	22,126	23,281	(1,155)

	Pro Forma	Test Year	Adjustment
Contractual Services - Accounting	\$ 9,250		
Sewer	2,473	3,098	(625)
Water	6,777	6,152	625

	Pro Forma	Test Year	Adjustment
Contractual Services - Maintenance	\$ 337,535		
Sewer	90,237	133,514	(43,277)
Water	247,298	204,020	43,278

	Pro Forma	Test Year	Adjustment
Travel Expenses	\$ 2,027		
Sewer	542	-	542
Water	1,485	2,026	(541)

	Pro Forma	Test Year	Adjustment
Insurance - Gen Liability	\$ 41,359		
Sewer	11,057	8,618	2,439
Water	30,302	32,741	(2,439)

	Pro Forma	Test Year	Adjustment
Telephone Expense	\$ 4,070		
Sewer	1,088	695	393
Water	2,982	3,375	(393)

	Pro Forma	Test Year	Adjustment
Postage Expense	\$ 16,763		
Sewer	4,481	3,601	880
Water	12,282	13,162	(880)

	Pro Forma	Test Year	Adjustment
Utilities Expense	\$ 31,738		
Sewer	8,485	15,669	(7,184)
Water	23,253	16,069	7,184

	Pro Forma	Test Year	Adjustment
Office Expense	\$ 40,798		
Sewer	10,907	9,340	1,567
Water	29,891	31,457	(1,566)

	Pro Forma	Test Year	Adjustment
Office Maintenance Expense	\$ 31,705		
Sewer	8,476	3,867	4,609
Water	23,229	27,836	(4,607)

	Pro Forma	Test Year	Adjustment
Truck Fuel Expense	\$ 10,302		
Sewer	2,754	1,652	1,102
Water	7,548	8,650	(1,102)

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