

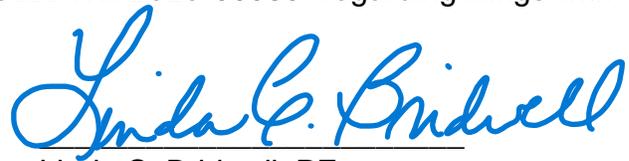
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF JESSAMINE-)	
SOUTH ELKHORN WATER DISTRICT FOR A)	CASE NO.
SEWER RATE ADJUSTMENT PURSUANT TO)	2022-00053
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 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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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 sewer collection system through which it provides retail sewer service to approximately 751 residential customers and 108 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. Commission records indicate that this is the first rate adjustment sought by Jessamine-South Elkhorn District for sewer rates.

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).

To comply with the requirements of 807 KAR 5:076, Section 9,³ 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 \$285,021, or 27.77 percent was necessary.

	Jessamine-South Elkhorn District
Operating Expenses	\$ 1,249,031
Add: Average Annual Debt Principal and Interest	71,307
Additional Working Capital	14,261
Overall Revenue Requirement	1,334,599
Less: Other Operating Revenue	(23,091)
Interest Income	(261)
Revenue Requirement - Sewer Rates	1,311,247
Less: Normalized Revenue from Service	(1,026,226)
Required Revenue Increase	<u>\$ 285,021</u>
Percentage Increase	<u>27.77%</u>

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 measurable⁴ changes to test-year

³ The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

⁴ 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*

operations were identified and adjustments 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. 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 \$1,273,328 to meet the Overall Revenue Requirement of \$1,292,375, and that a \$270,193 revenue increase, or 26.93 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Sewer Service Rates. Jessamine-South Elkhorn District proposed to increase its monthly retail sewer service rates by approximately 27.77 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 sewer system.⁵

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).

⁵ Jessamine-South Elkhorn District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed April 18, 2022), Item 4.

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 \$271,040 revenue increase evenly across the board to Jessamine-South Elkhorn District's monthly retail and wholesale sewer 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 sewer sales to recover the \$1,274,175 revenue required from rates, an approximate 27.02 percent increase. These rates will increase a typical residential customer's monthly sewer bill from \$80.52 to \$101.05, an increase of \$20.53, or approximately 25.50 percent.⁶

3. Nonrecurring Charges. Following the Commission's recent decisions,⁷ 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

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

⁷ 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).

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 charges that occur during normal business hours.⁸ 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
Grease Trap Inspection Charge	\$73	\$15
Service Line Inspection Charge	\$67	\$15

The adjustments to the nonrecurring charges result in a decrease to the charges and a decrease to the total revenue requirement of \$656 as shown below. Commission 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	33	\$35	\$13	<u>\$429</u>
Pro Forma Test Year NRC Revenue				\$429
Less: Test Year NRC Revenue				<u>\$1,085</u>
Adjustment				<u>-\$656</u>

⁸ 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.

⁹ In Jessamine-South Elkhorn District's Responses to Staff's First Request, Item 6, they stated they collected \$1,085 in nonrecurring charges while billing a total of \$1,155.

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				
Total Sewer Sales	\$ 983,137	\$ 19,998	A	\$ 1,003,135
Other Sewer Revenues				
Forfeited Discounts		13,101	B	13,101
Misc Service Revenues	15,728	(1,988)	C	5,685
		(7,399)	D	
		(656)	E	
Total Operating Revenues	<u>998,865</u>	<u>23,056</u>		<u>1,021,921</u>
Operating Expenses				
Operation Expenses				
Engineering Fee	29,931			29,931
Sewer Usage	602,511			602,511
Maintenance Expenses				
Maintenance of Collection Sewer System	133,514	(43,277)	F	90,237
Customer Expenses				
Meter Reading	5,420			5,420
Bad Debt	15,809			15,809
Administrative and General Expenses				
Salaries	163,161	(65,831)	G	98,485.15
		1,155	F	
Office Supplies and Other Expenses	9,341	1,567	F	10,908
Outside Services Employed	11,783	(625)	F	11,158
Insurance	8,618	2,439	F	11,057
Employee Pensions and Benefits	20,185	(7,590)	H	12,595
Transportation Expense	1,652	542	F	3,296
		1,102	F	
Miscellaneous Expense	23,833	393	F	
		880	F	
		(7,184)	F	
		4,609	F	22,531
Total Operation and Maintenance Expenses	<u>1,025,758</u>	<u>(111,820)</u>		<u>913,938</u>
Depreciation Expense	282,732	3,079	I	
		50	C	285,861
Taxes Other Than Income	<u>-</u>	<u>7,008</u>	G	<u>7,008</u>
Total Operating Expenses	<u>1,308,490</u>	<u>(101,732)</u>		<u>1,206,807</u>
Utility Operating Income(Loss)	<u>\$ (309,625)</u>	<u>\$ 124,788</u>		<u>\$ (184,837)</u>

Treated Sewage Rate Increase Correspondence

On June 17, 2022, Jessamine-South Elkhorn District filed a letter of inquiry regarding a pending treated sewage rate increase from their sewer supplier Lexington-Fayette Urban County Government (LFUCG). In the letter, the district requested input

from the Commission on how the rate increase would affect the pendency of the instant case and stated its intent to file a Treated Sewage Adjustment with the Commission to pass through the increase in treated sewage rate.

Commission Staff notes that while the treated sewage rate increase would affect expenses used to calculate pro forma rates, it cannot incorporate the adjustment as known and measurable until the rates are in effect. On June 24, 2022, the Commission opened Case No. 2022-00186 to investigate the reasonableness of LFUCG's proposed increase in sewer rates and suspending their implementation for 5 months. In the event that an Order is issued in the instant case prior to the final Order in Case No. 2022-00186, Jessamine-South Elkhorn's filing of a treated sewage adjustment will not affect the findings discussed in this report. If an order is not issued in the instant case prior to the end of the suspension period, and the district wishes to address the increase in treated sewage rate prior to increasing its base rates in this case, it may withdraw its ARF application and refile once LFUCG's proposed rates are placed into effect.

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 Staff below 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 \$983,137. In its application, Jessamine-South Elkhorn District proposed to increase test-year service revenue by \$19,998 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 \$16,749 to account for the moratorium regarding the collection of late fees for past due accounts due to the COVID-19 Pandemic. As the Order is now lifted, Jessamine-South Elkhorn District calculated an adjustment to return late fee revenue to the average level of 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.¹⁰ Applying three-year average results in an increase to test year late fee revenue of \$13,101 that Commission Staff has included in pro forma calculation.¹¹

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 \$1,988 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 the tap-on fees, which results in an increase to depreciation expense of \$50.¹²

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 \$7,399 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.

¹⁰ 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).

¹¹ \$12,528.85 (2017); \$13,248.06 (2018); \$13,524.63; divided by 3 equals \$13,101.

¹²

Tap On Fees	\$	1,988
Divide by: 40 Years		<u>40</u>
Adjustment to Depreciation	\$	<u>50</u>

E. Nonrecurring Charges. As shown above, the adjustment to the Nonrecurring Charges results in a decrease in Other Water Revenue of \$656.

F. 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 decreased miscellaneous expense by \$16,071 and \$32,989. Commission Staff recommends that the Commission not accept the proposed adjustments as Commission Staff made several adjustments that reflect allocating overhead expenses based on pro forma allocation percentages. The total adjustment results in a decrease to Maintenance Expense of \$43,277, an increase to Salaries Expense of \$1,155, an increase to Office Supplies Expense of \$1,567, a decrease to Outside Services Expense of \$625, an increase to Insurance Expense of \$2,439, and increase to Transportation Expense of \$1,644, and a net decrease to Miscellaneous Expense of \$1,302.¹³

G. Salaries and Wages – Employees & FICA. In the test-year, Jessamine-South Elkhorn District included \$163,161 of Salaries and Wages Expense. In its application, Jessamine-South Elkhorn District proposed an adjustment decreasing test-year Salaries and Wages – Employees Expense by \$12,438 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 decreased by \$65,831 as shown below.

¹³ See Appendix B for a detailed analysis of these adjustments.

Employee Title	Pro Forma Hours Worked	Pro Forma Overtime Hours	Pro Form Wage Rate	Pro Forma Wages
Office Administrator	N/A	N/A	\$1,171.74/Semi-Monthly	\$ 28,122
Meter Reader	535	0	10.40/Hour	5,564
Meter Reader	1576	0	12.40/Hour	19,542
Meter Reader	1576	0	12.40/Hour	19,542
Bookkeeper	N/A	N/A	2,730.00/Semi-Monthly	65,520
Office Administrator	N/A	N/A	1,397.08/Semi-Monthly	33,530
Operator	N/A	N/A	2,473.49/Semi-Monthly	59,364
Superintendent	N/A	N/A	3,389.75/Semi-Monthly	81,354
Total Pro Forma Salaries and Wages				312,538
Multiply By: Sewer Allocation Percentage				26.73%
Pro Forma Salaries and Wages - Sewer				83,541
Less: Test Year Employee Salary and Wages Expense				<u>149,372</u>
Increase(Decrease) to Test Year				<u>\$ (65,831)</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: Sewer Allocation Percentage	26.73%
Pro Forma Fica Taxes - Sewer	7,008
Less: Test Year Payroll Taxes	<u>-</u>
Adjustment	<u>\$ 7,008</u>

H. Employee Pensions and Benefits. Jessamine-South Elkhorn District included \$20,185 in its test-year Employee Benefits Expense related to insurance and 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.¹⁴

As Jessamine-South Elkhorn District's employees currently pay 0 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: Sewer Allocation Percentage				26.73%
Pro Forma Allowable Premiums - Sewer				7,583
Less: Test-year Premiums				(8,691)
Pro Forma Adjustment				<u>\$ (1,108)</u>

In addition, Jessamine-South Elkhorn District contributes 6 percent of its employees' gross pay into their retirement account. In order to reflect adjustment to

¹⁴ 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).

Wages and Salaries discussed above, Commission Staff has calculated pro forma pension contributions, shown below.

Pro Forma Salaries & Wages	\$ 83,541
Multiply by: Pension Contribution Rate	<u>6.0%</u>
Pro Forma Pension Contribution	<u><u>\$ 5,012</u></u>

Considering both adjustments discussed above, Commission Staff calculates a pro forma for Employee Benefits Expense should be a decrease of \$7,590 as shown below.¹⁵

Pro Forma Health & Dental Insurance Benefits	\$ 7,583
Pro Forma Pension Contributions	<u>5,012</u>
Pro Forma Health, Dental, and Pension Benefits	12,595
Less: Test Year Pensions and Benefits	<u>(20,185)</u>
Adjustment	<u><u>(7,590)</u></u>

I. Depreciation Expense. In its application, Jessamine-South Elkhorn District included \$282,732 in Depreciation Expense and proposed to increase test-year Depreciation Expense by \$3,079 citing Commission precedent of evaluating the reasonableness of the depreciation practices of small sewer utilities using the Commission on Rural Water report titled *Average Service Lifetimes, Major Systems Components – Wastewater Systems*. When no evidence exists to support a specific life that is outside the ranges in the report, the Commission has historically used the midpoint of the report’s ranges to depreciate the utility plant.

¹⁵ Pro Forma total only includes health and dental insurance premiums

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 Commission on Rural Water's 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;¹⁶ (3) the average annual principal and interest payments on all long-term debts, and (4) working capital that is in addition to depreciation expense.

¹⁶ 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	\$ 1,249,031	\$ 1,206,807
Add: Average Annual Debt Principal and Interest	71,307	71,307
Additional Working Capital	14,261	14,261
Overall Revenue Requirement	1,334,599	1,292,375
Less: Other Operating Revenue	(23,091)	(18,786)
Interest Income	(261)	(261)
Revenue Requirement - Sewer Rates	1,311,247	1,273,328
Less: Normalized Revenue from Service	(1,026,226)	(1,003,135)
Required Revenue Increase	<u>\$ 285,021</u>	<u>\$ 270,193</u>
Percentage Increase	<u>27.77%</u>	<u>26.93%</u>

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Jessamine-South Elkhorn District had one bond obligation held by the US Department of Agriculture acting through Rural Development (RD) and one bond obligation held by the Kentucky Association of Counties Finance. 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 2026.¹⁷ Commission Staff agrees with the methodology Jessamine-South Elkhorn District proposes. As shown below, Commission Staff calculated an Average Principal and Interest Payment of \$71,307.

¹⁷ Application, Attachment 4, Revenue Requirement Calculation.

Year	Principal	Interest	Total
2022	\$ 34,425	\$ 36,311	\$ 70,736
2023	34,825	36,289	71,114
2024	35,300	35,718	71,018
2025	38,760	33,617	72,377
2026	39,300	31,988	71,288
5-Year Total			356,533
Divide By: 5 Years			<u>5</u>
Average Debt Service Coverage			<u>\$ 71,307</u>

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the 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, \$14,261 is included in the revenue requirement.

Annual Debt Service Payments		71,307
Multitplied by:	20%	<u>1.20</u>
Required Net Revenues		85,568
Less: Annual Debt Service		<u>(71,307)</u>
Allowance for Working Capital		<u>\$ 14,261</u>

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. 2022-00053 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 Sewer Rates

First	2,000 Gallons	\$33.85	Minimum Bill
Over	2,000 Gallons	0.01680	Per Gallon

Nonrecurring Charges

Reconnection Fee	\$13.00
Returned Check Charge	\$12.00
Grease Trap Inspection Charge	\$15.00
Service Line Inspection Charge	\$15.00

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00053 DATED JUN 29 2022

Water Customer	3,190
Sewer Customers	1,110
Drip Customers	54
	<hr/>
Total Customers	4,354

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

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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