

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BREATHITT)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2022-00136
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On June 6, 2023,¹ Breathitt County Water District (Breathitt District) filed its application with the Commission requesting an adjustment to its water rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,² Breathitt District used the calendar year ended December 31, 2021, as the basis for its application. Breathitt District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2017-00140.³ Since that matter, Breathitt District has only adjusted its rates pursuant to purchased water adjustments.

In its application, Breathitt District requested rates that would increase its annual water sales revenues by \$683,425, or a 56.88 percent increase to pro forma present rate water sales revenues.

¹ Breathitt District tendered its application on June 13, 2022. By letter dated June 20, 2022, the Commission rejected the application for filing deficiencies. The Commission entered an Order on July 25, 2022, holding the case in abeyance to permit Breathitt District to file an application based upon the 2021 calendar year. Breathitt tendered an amended application on March 15, 2023. The Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on June 6, 2023.

² 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.

³ Case No. 2017-00140, *Electronic Application of Breathitt County Water District for an Alternative Rate Adjustment*.

The application was filed pursuant to the Commission's Order in Case No. 2020-00218,⁴ which required Breathitt District to file an application for an adjustment in its base rates or file an alternative rate filing by November 5, 2021. On October 27, 2021, Breathitt District filed a motion for an extension of time.⁵ On November 17, 2021, the Commission denied Breathitt District's request and ordered it to file a rate case as soon as possible.⁶ To ensure an orderly review of the application, the Commission established a procedural schedule by Order dated July 12, 2023. Breathitt District responded to two discovery requests from Commission Staff.⁷

On October 27, 2023, Commission Staff issued its report (Commission Staff's Report) summarizing its recommendations regarding Breathitt District's requested rate adjustment. In the Commission Staff's Report, Commission Staff recommended that Breathitt District's adjusted test-year operations support an overall revenue requirement of \$1,953,473, and that an annual increase of \$686,894, or 57.16 percent, is necessary to generate the overall revenue requirement. In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across Breathitt District's rate design to calculate its recommended water rates.

On November 10, 2023, Breathitt District filed its response to Commission Staff's Report. Breathitt District stated it disagreed with Commission Staff's adjustment for the

⁴ Case No. 2020-00218, *Electronic Application of Breathitt County Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct a Water Improvements Project Pursuant to the Provisions of KRS 278.020 and 807 KAR 5:001* (Ky. PSC Nov. 5, 2020), Order at 8, ordering paragraph 13.

⁵ Case No. 2021-00218, Motion for Extension of Time (filed Oct. 27, 2021).

⁶ Case No. 2021-00218, Nov. 17, 2021 Order at 2, ordering paragraph 2.

⁷ Breathitt District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Aug. 17, 2023). Breathitt District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Sept. 14, 2023).

removal of certain labor expenses from nonrecurring charges but did not wish to contest the adjustment in this case. Breathitt District stated that it accepted the report's recommended revenue requirement and proposed rates for the purpose of this proceeding. Breathitt District further stated that it waived its right to request an informal conference or hearing in this case and concurred with the remainder of Commission Staff's recommendations.⁸ Additionally, Breathitt District requested approval to implement the rate increase over a four-year period.⁹

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."¹⁰ Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

Breathitt 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

⁸ Breathitt District's Response to Staff Report (filed Nov. 10, 2023) at 1.

⁹ Breathitt District's Response to Staff Report at 2.

¹⁰ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

service to approximately 2,001 residential customers that reside in Breathitt County, Kentucky.¹¹

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2021 Annual Report, Breathitt District reported a water loss of 12.0241 percent.¹² Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The table below shows that the 2021 total annual cost of water loss to Breathitt District is \$55,738.

	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 349,288	\$ 114,259	\$ 463,547
Times: Total Water loss	12.0241%	12.0241%	12.0241%
Total Water Loss	\$ 41,999	\$ 13,739	\$ 55,738

TEST PERIOD

The calendar year ended December 31, 2021, was used as the test year to determine the reasonableness of Breathitt District’s existing and proposed wastewater rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff’s Report summarizes Breathitt District’s pro forma income statement as follows:

¹¹ *Annual Report of Breathitt District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 12 and 49.

¹² 2021 Annual Report at 57.

	<u>Test Year</u>	<u>Commission Staff Proposed Adjustment</u>	<u>Commission Staff Proposed Pro Forma</u>
Total Operating Revenues	\$1,259,912	\$ (42,815)	\$1,217,097
Utility Operating Expenses	<u>2,247,115</u>	<u>(431,436)</u>	<u>1,815,679</u>
Net Utility Operating Income	(987,203)	388,621	(598,582)
Interest and Dividend Income	182	-	182
Nonutility Income	<u>49,300</u>	<u>-</u>	<u>49,300</u>
Total Utility Operating Income	<u>\$ (937,721)</u>	<u>\$388,621</u>	<u>\$ (549,100)</u>

REVIEW AND MODIFICATION OF
COMMISSION STAFF'S RECOMMENDATIONS

Breathitt District's proposed adjustments to revenues and expenses reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. Breathitt District pays 100 percent of the cost for full-time employees' health insurance. In the Commission Staff's Report, Commission Staff reduced Employee Pensions and Benefits – Insurance premiums by 22 percent and family insurance premiums by 34 percent. The adjustment was made to bring Breathitt District's Employee Pensions and Benefits – Insurance expense into conformity with Commission precedent¹³ of limiting utilities' contribution to employee's insurance premiums to the national average for an employer's share of health insurance premiums according to the Bureau of Labor Statistics (BLS). Upon review, the

¹³ Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

Commission verified the current employee contribution rate is 21 percent for single¹⁴ and 33 percent for family.¹⁵ Correction for the difference in contribution rates results in an increase to the Revenue Requirement of \$681. The Commission finds that this correction to contribution rates is in conformity with Commission precedent of using the most current contribution rate for private industry workers according to the BLS, and therefore should be used in calculating Breathitt District's Revenue Requirement.

Subsequent to the issuance of Commission Staff's Report, it was discovered that there was an error in the calculation of the pro-forma revenues from metered water sales. Breathitt District's current rates due to its Purchased Water Adjustment (PWA) filing were not applied to the billing analysis. Therefore, Commission Staff neglected to apply an adjustment in revenue to reflect the rates due to the PWA. Applying these rates to Breathitt District's billing analysis results in an additional \$24,539 in revenue from metered water sales.¹⁶

The following is the corrected Commission Staff's complete pro forma:

¹⁴ Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

¹⁵ Bureau of Labor Statistics, Healthcare Benefits, March 2021, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

¹⁶ Case No. 2023-00216, *Electronic Purchased Water Adjustment Filing of Breathitt County Water District* (Ky. PSC July 28, 2023).

	Test Year	Total Proposed Adjustment	Commission Staff Proposed Pro Forma	Commission Proposed Adjustment	Commission Proposed Pro Forma
Operating Revenues					
Total Metered Water Sales	\$ 1,211,343	\$ (9,740)	\$ 1,201,603	\$ 24,539	\$ 1,226,142
Other Water Revenues					
Other Water Revenues	48,569	(29,386)	15,494		15,494
		(3,689)			
Total Operating Revenues	1,259,912	(42,815)	1,217,097	24,539	1,241,636
Operating Expenses					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	209,774	37,043			232,124
		(14,693)	232,124		232,124
Salaries and Wages - Officers	18,000	(18,000)	-		-
Employee Pensions	64,763	(7,144)	57,619		57,619
Employee Benefits	89,250	(27,000)			57,619
		(13,712)	48,538	681	49,219
Purchased Water	334,036	10,000			
		5,252	349,288		349,288
Purchased Power	114,259		114,259		114,259
Materials and Supplies	116,217	(14,693)	101,524		101,524
Contractual Services	33,865		33,865		33,865
Water Testing	5,205		5,205		5,205
Rents	7,200		7,200		7,200
Transportation Expenses	41,609		41,609		41,609
Insurance	21,914		21,914		21,914
Miscellaneous Expense	21,844	6,110	27,954		27,954
Total Operation and Maintenance Expenses	1,077,936	(36,837)	1,041,099	681	1,041,780
Depreciation	1,118,390	(398,835)			
		735	720,290		720,290
Taxes Other Than Income	50,789	(16,048)			
		27,000			
		(7,451)	54,290		54,290
Utility Operating Expenses	2,247,115	(431,436)	1,815,679	681	1,816,360
Net Operating Income	(987,203)	388,621	(598,582)	23,858	(574,724)
Interest and Dividend Income	182	-	182		182
Nonutility Income	49,300	-	49,300		49,300
Income Available to Service Debt	\$ (937,721)	\$ 388,621	\$ (549,100)	\$ 23,858	\$ (525,242)

Billing Analysis. Breathitt District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application. In the 2021 Annual Report, total metered water sales revenue reported for the test year is \$1,211,343.¹⁷ Breathitt District provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff to be \$1,201,603.¹⁸

¹⁷ 2021 Annual Report at 49.

¹⁸ Breathitt District's Response to Staff's First Request, Item 9, BCWD_9_Billing_Analysis.xlsx.

Subsequent to the test period, Breathitt District increased its rates due to a Purchased Water Adjustment that resulted in an additional increase to metered water sales of \$24,539. This results in a total normalized revenue from water sales of \$1,226,142 and an adjustment of \$14,799 to test-year metered water sales revenue.

The Commission finds Breathitt District's adjustment is reasonable because an examination of Breathitt District's billing analysis using current rates was completed by Commission Staff and a normalized revenue was based on the information provided.

Other Water Revenues – Water Taps. In its application, Breathitt District proposed an adjustment to reduce Other Water Revenues by \$29,386,¹⁹ to reflect the removal of tap fees.

Commission Staff reviewed the Adjusted Trial Balance and confirmed that Breathitt District reported \$29,386 in tap fees.²⁰ According to the Uniform System of Accounts for Water Districts and Associations, (USofA),²¹ amounts received from the installation of meters should not be recorded as revenue but should be recorded as Contributions in Aid of Construction²² and credited to Account 271 – Contributions in Aid of Construction. Therefore, Commission Staff decreased Miscellaneous Service Revenues by \$29,386.

The Commission finds that Commission Staff's recommendation is reasonable and Breathitt District's Miscellaneous Service Revenues should be decrease by \$29,386

¹⁹ Application, Exhibit 5, References, Adjustment B.

²⁰ Breathitt District's Response to Staff's First Request, Item 1b, BCWD_1a_General_Ledger_2021.xlsx.

²¹ <https://psc.ky.gov/Home/UtilForms>

²² Uniform System of Accounts for Class A/B Water Companies at 98, Section 334, Meters and Meter Installation, Note C.

because as stated, according to the USofA amounts received from the installation of meters should not be recorded as revenue but should be recorded as Contributions in Aid of Construction²³ and credited to Account 271 – Contributions in Aid of Construction.

Nonrecurring Charges. In the Commission Staff's Report, Commission Staff recommended the removal of estimated labor costs, previously included in determining the amount of Nonrecurring Charges, from the Nonrecurring Charges.²⁴ Breathitt District provided updated cost justification information for the Nonrecurring Charges.²⁵ Commission Staff reviewed the cost justification information provided by Breathitt District and adjusted these charges by removing the \$17.00 per hour Field Labor Costs and the \$18.50 per hour Office/Clerical Labor Costs from those charges that occur during normal business hours. The Commission continues to follow its previous decisions regarding Nonrecurring Charges: personnel are paid during normal business hours and their salaries are recovered through rates.²⁶ It is unreasonable to allocate an expense already incurred as a day-to-day cost of maintaining a system, such as the salary of a distribution operator or field technician to a nonrecurring service, such as the connection and reconnection of a meter during normal working hours. The Commission requires that charges be directly related to the actual cost incurred to provide the service. The Commission is aware of the strain placed on the daily work of small utilities when employees are diverted from other duties to reconnect service. However,

²³ Uniform System of Accounts for Class A/B Water Companies at 98, Section 334, Meters and Meter Installation, Note C.

²⁴ Commission Staff's Report at 7–8, Appendix A.

²⁵ Letcher District's Response to Staff's Second Request, Item 10.

²⁶ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

allowing a utility to recover the same labor expense twice is not fair, just and reasonable. Breathitt District’s field and office labor costs during regular working hours do not fluctuate based on the tasks its employees are performing. Therefore, estimated labor costs previously included in determining the amount of Nonrecurring Charges were eliminated from the charges, because they are already recovered in rates. This approach to ratemaking is entirely consistent with the Commission's history of ensuring that rates reflect, to a reasonable degree, the principle of cost causation while simultaneously taking into account the health of the utility, and the ability of the utility to provide the adequate, efficient, and reasonable provision of service.

The calculation of these adjustments to the Nonrecurring Charges and Commission Staff’s proposed Nonrecurring Charges are included in a Table provided in Appendix B. The Commission finds that the revised Nonrecurring Charges set out in Appendix B to be reasonable and consistent with Commission precedent.²⁷ The revised Nonrecurring Charges result in a decrease to test year Other Water Revenues and an increase to the total revenue requirement of \$3,689 as calculated below:

Description	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Connection/Turn-On Charge	120	\$25.00	\$18.00	-\$840	\$2,160
Connection/Turn-On Charge (After Hours)	0	\$50.00	\$44.00	\$0	\$0
Meter Relocation Charge	0	Actual Cost	Actual Cost	N/A	\$0
Meter Test Charge	0	\$40.00	\$40.00	\$0	\$0
Reconnection Charge	82	\$50.00	\$18.00	-\$2,624	\$1,476

²⁷ 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).

Reconnection Charge (After Hours)	0	\$65.00	\$57.00	\$0	\$0
Returned Check Charge	9	\$30.00	\$5.00	-\$225	\$45
Service Call/Investigation	0	\$25.00	\$18.00	\$0	\$0
Service Call/Investigation (After Hours)	0	\$50.00	\$57.00	\$0	\$0
Repair to Meter, Meter Lid or Setter	0	Actual Cost	Actual Cost	N/A	\$0
Pro Forma Test Year					
NRC Revenue					\$3,681
Less: Test Year NRC Revenue					<u>\$7,370</u>
Adjustment					<u><u>-\$3,689</u></u>

Salaries and Wages – Employees. In its application, Breathitt District proposed an adjustment to decrease test year Salaries and Wages - Employees by \$39 to account for employee turnover.²⁸

Commission Staff reviewed the calculation and determined that Breathitt District calculated the adjustment using 2020 hours worked instead of 2021.²⁹ Breathitt District provided its current employee list,³⁰ test-year hours worked,³¹ and current employee wages.³² Based upon the employee list, subsequent to the test-year two employees left employment, and one new employee was hired. Commission Staff normalized the test-year Salaries and Wages – Employees and calculated a Salaries and Wages – Employees amount of \$246,817. Therefore, based on the normalized test year, Commission Staff increased Salaries and Wages – Employees by \$37,043, resulting in

²⁸ Application, Attachment 5, Adjustment C.

²⁹ Breathitt District's Response to Staff's First Request, Item 1h, BCWD_1h_SAO_ADJ.xlsx.

³⁰ Breathitt District's Response to Staff's First Request, Item 1d, BCWD_1d_Employee_list_Job_Titles_Current.pdf.

³¹ Breathitt District's Response to Staff's First Request, Item 1d, BCWD_1d_2021_hours_worked.xlsx.

³² Breathitt District's Response to Staff's First Request, Item 1d, BCWD_1d_Employee_list_Job_Titles_Current.pdf.

a Salaries and Wages – Employees expense of \$246,817, which is \$37,082 more than the amount proposed by Breathitt District as shown below.

Employee Position	Total Hours	Test Year hours with Current Wages						
		Test Year Normalized Hours	Current Wages Rates	Pro Forma Normal Wages	Test Year Overtime Hours	Current Overtime Wage Rates	Pro Forma Overtime Wages	Total Pro Forma Wages
Office Clerk	2,160	2,080	\$ 10.00	\$ 20,800	80	\$ 15.00	\$ 1,200	\$ 22,000
Office Manager	2,170	2,080	18.50	38,480	90	27.75	2,498	40,978
Superintendent	2,766	2,080	25.00	52,000	686	37.50	25,725	77,725
Maintenance Worker	2,399	2,080	15.00	31,200	319	22.50	7,178	38,378
Maintenance Worker	2,534	2,080	17.00	35,360	454	25.50	11,577	46,937
Maintenance Worker	2,080	2,080	10.00	20,800	-	15.00	-	20,800
				<u>\$ 198,640</u>			<u>\$ 48,177</u>	
				Pro Forma Wages				246,817
				Less: Test Year Wages				<u>(209,774)</u>
				Pro Forma Adjustment				37,043
				Less: Breathitt District's Proposed Adjustment				<u>39</u>
				Commission Staff Proposed Adjustment				<u>\$ 37,082</u>

The Commission finds that the Commission Staff's adjustment is reasonable and Breathitt District's Salaries and Wages – Employees is increased by \$37,043 because Breathitt District provided sufficient evidence that its employee salaries increased during and subsequent to the test year and the calculations are based upon test year hours worked and the current wage rates, and therefore should be accepted.

Expenses Related to Meter Installations. In its application, Breathitt District proposed an adjustment to decrease test-year Materials and Supplies by \$14,693 and Salaries and Wages – Employees by \$14,693 to account for the costs for new taps that were included as part of these expenses.³³ Breathitt District reported it collected \$29,386 in Tap fees during the test year.³⁴

³³ Application, Attachment 5, Adjustment C.

³⁴ Application, Attachment 5, Adjustment C.

USofA requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.³⁵ Commission Staff agrees with Breathitt District’s proposed adjustment, and decreased Materials and Supplies expense by \$14,693 and Salaries and Wages – Employees by \$14,693 as shown below. Additionally, Commission Staff capitalized the meter installation costs and made a corresponding adjustment to test-year depreciation.

	Salaries and Wages Employees	Materials and Supplies
Tap Fees	\$ 29,386	\$ 29,386
Times Allocation percent:	50%	50%
Total Proposed Adjustment	(14,693)	\$ (14,693)
Less: Breathitt District Proposed Adjustment	14,693	14,693
Commission Staff Proposed Adjustment	\$ -	\$ -

The Commission finds that Breathitt District’s adjustment to the test year expenses is reasonable as an accounting correction. Breathitt District’s Materials and Supplies expense should be decreased by \$14,693 and Salaries and Wages – Employees should be decreased by \$14,693 because the USofA requires that these costs be capitalized as utility plant in service and depreciated over their estimated useful lives and should be accepted.

Salaries and Wages – Officers. In the test year, Breathitt District reported Salaries and Wages — Officers expense of \$18,000.³⁶ Breathitt District currently has five board members³⁷ who are each paid \$3,600 annually.³⁸ Commission Staff

³⁵ USofA, Accounting Instruction 19 and 33.

³⁶ Application, Attachment 5, Statement of Adjusted Operations.

³⁷ Breathitt District’s Response to Staff’s First Request, Item 1f.

³⁸ Breathitt District’s Response to Staff’s First Request, Item 1f.

requested the fiscal court minutes approving Breathitt District's commissioner compensation. Breathitt District stated that it was unable to locate the fiscal court minutes that approve each commissioner's compensation.³⁹ As a result, there is no evidence in the record that authorizes commissioner compensation. Commission Staff decreased Salaries and Wages — Officers expense by \$18,000 based on Commission precedent.⁴⁰ Additionally, Commission Staff recommends that Breathitt District seek fiscal court approval for the commissioner's salaries dating back to the date Breathitt District began to pay current commissioners' salaries, at the next meeting of the fiscal court.

The Commission finds that Commission Staff's recommendation is reasonable and Breathitt District's Salaries and Wages – Officers should be decreased by \$18,000 because there is no evidence on record that authorizes the salaries and wages.

Employee Pensions – County Employee Retirement System (CERS). Breathitt District proposed an adjustment to decrease Employee Pensions and Benefits by \$59,741 to reflect a decrease in CERS contributions due to a change in Salaries and Wages and a reduction in the contribution percentage.⁴¹

Commission Staff separated Employee Pensions and Benefits into two categories, Employee Pension and Employee Benefits to allow easier analysis of the separate components. In the application, Commission Staff notes that Breathitt District

³⁹ Breathitt District's Response to Staff's First Request, Item 1g.

⁴⁰ Case No. 2022-00124, Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076 (Ky. PSC Oct. 24, 2022) at 7–8. Case No. 2022-00221, Electronic Application of Northeast Woodford County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076 (Ky. PSC Jan. 20, 2023) at 8.

⁴¹ Application, Attachment 4, Adjustment E.

used a 25.065 percent contribution rate for CERS.⁴² Effective July 1, 2023, the contribution rate for nonhazardous employees is 23.34 percent.⁴³ Further, Commission Staff notes that Breathitt District made the Governmental Accounting Standards Board (GASB) adjustments in the end of year adjustments to its test year CERS contributions. Commission Staff calculated two adjustments. The first adjustment is a \$15,791 decrease to account for the decrease in the CERS contribution percentage. The second adjustment is an increase of \$8,647 to account for the increase in Breathitt District's Salaries and Wages – Employees. The two adjustments result in a net total decrease of \$7,144 as shown below.

Test Year Salaries and Wages	\$ 209,774
Current Contribution percentage	<u>23.35%</u>
CERS Retirement- Employer Contribution	48,972
Less: Test Year Pension/ OPEB Expense	<u>(64,763)</u>
Adjustment for change in contribution	<u>(15,791)</u>
Difference between Pro Forma and test year wages	37,043
Current Contribution percentage	<u>23.35%</u>
Adjustment for change in wages	<u>8,647</u>
Net Adjustment	<u>\$ (7,144)</u>

Commission Staff determined a total adjustment of \$7,144 to Employee Pensions (CERS) expense to reflect the change CERS, which is \$52,597 less than proposed by Breathitt District.

⁴² Breathitt District's Response to Staff's First Request, Item 1h, NMWD_Rate_Study.xlsx.

⁴³ Kentucky Public Pensions Authority, CERS Employer Contribution Rates, Contribution Rates - Kentucky Public Pensions Authority (<https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>).

	Commission Staff Proposed
Salaries and Wages - Employees	\$ 246,817
Multiplied by: Current CERS Contribution Rate	<u>23.35%</u>
CERS Retirement- Employer Contribution	57,619
Less: Test Year Pension/ OPEB Expense	<u>(64,763)</u>
Employee Pensions and Benefits Adjustment	(7,144)
Less: North Marshall District Proposed Adjustment	<u>59,741</u>
Commission Staff Proposed Adjustment	<u>\$ 52,597</u>

The Commission finds that Commission Staff's recommended adjustment is appropriate and Breathitt District's Employee Pensions – CERS should be decreased by \$7,144 because the adjustment used the evidence provided to adjust the contribution expense to account for both the normalization of Salaries and Wages and the update to the required contribution percent by CERS.

Employee Benefits – Reclassify Payroll Taxes. In its application, Breathitt District reported Employee Pensions and Benefits of \$154,013.⁴⁴

Commission Staff separated Employee Pensions and Benefits into two categories, Employee Pension and Employee Benefits, to allow easier analysis of the separate components. Commission Staff reviewed the accounts that compose the amount and determined that both Federal and State payroll taxes were included in the category. Therefore, Commission Staff made adjustments to reduce Employee

⁴⁴ Application, Attachment 5, Statement of Adjusted Operations.

Pensions and Benefits by \$27,000⁴⁵ and to increase Taxes Other Than Income by \$27,000.

The Commission finds that Commission Staff's recommendation is reasonable, and Breathitt District's Employee Pensions and Benefits should be decreased by \$27,000 and Taxes Other Than Income should be increased by \$27,000 to reflect the payroll taxes reclassified as Taxes Other Than Income.

Employee Benefits – Insurance Premiums. In its application, Breathitt District proposed an adjustment to decrease Employee Pensions and Benefits by \$13,712 to account for the Commission's practice of limiting employer contributions to insurance premiums to BLS averages.⁴⁶ All of Breathitt District's Employees receive health and life insurance.⁴⁷ Breathitt District currently pays 100 percent for full-time employee's health insurance plan, retirement through CERS, and life insurance. Breathitt District proposed to reduce its single health insurance premiums by 22 percent⁴⁸ and family insurance premiums by 34 percent.⁴⁹

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

⁴⁵ Breathitt District's Response to Staff's First Request, Item 3, BCWD_3_insurance_invoice.pdf.

⁴⁶ Application, Attachment 5, Adjustment D.

⁴⁷ Breathitt District's Response to Staff's First Request, Item 1e.

⁴⁸ Bureau of Labor Statistics, Healthcare Benefits, March 2021, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁴⁹ Bureau of Labor Statistics, Healthcare Benefits, March 2021, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

reasonable rate. The Commission found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.⁵⁰

Commission Staff reviewed Breathitt District’s proposed adjustment and agrees with its methodology. Breathitt District provided the most recent total monthly premiums per employee for each benefit⁵¹ and the test-year amount reported for insurance premiums.⁵² Accordingly, utilizing the most recent invoice amounts, and the test-year amount from the general ledger, Commission Staff calculated the proposed adjustment and agrees with Breathitt District’s proposed increase of \$13,712, as shown below.

Type of Premium	Number of Employees	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	3	\$ 2,501	22%	\$ (550)	\$ 1,951
Family Health Insurance	2	3,166	34%	(1,076)	2,090
Total Pro Forma Monthly Premium	5	5,667		(1,627)	4,040
Times: 12 Months		12		12	12
Total Annual Pro Forma Premium		\$ 68,002		\$ (19,519)	48,483
Less: Test Year					(62,195)
Employee Pension and Benefits Adjustment					(13,712)
Less: Breathitt District’s Proposed Adjustment					13,712
Commission Staff’s Proposed Adjustment					\$ -

The Commission finds that Commission Staff’s recommendation should be modified, since Commission Staff used the 2022 contribution percentage of 22 percent for single insurance and 34 percent for family insurance premium instead of the 2023 contribution rate of 21 percent and 33 percent. Accounting for the current contribution

⁵⁰ Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

⁵¹ Breathitt District’s Response to Staff’s First Request, Item 3, BCWD_3_insurance_invoice.pdf.

⁵² Breathitt District’s Response to Staff’s First Request, Item 1b, 1b_BCWD_TB_2021.pdf, Account 790.00 – Insurance – Health \$62,195.

percentages means Breathitt District’s Employee Pensions and Benefits – Insurance should only be decreased by \$13,031 which is \$681 less than Commission Staff recommended, as shown below.

Type of Premium	Number of Employees	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	3	\$ 2,501	21%	\$ (525)	\$ 1,976
Family Health Insurance	2	3,166	33%	(1,045)	2,121
Total Pro Forma Monthly Premium	<u>5</u>	5,667		(1,570)	4,097
Times: 12 Months		<u>12</u>		<u>12</u>	<u>12</u>
Total Annual Pro Forma Premium		<u>\$ 68,002</u>		<u>\$ (18,840)</u>	49,164
Less: Test Year					<u>(62,195)</u>
Employee Pension and Benefits Adjustment					(13,031)
Less: Commission Staff Recommended Adjustment					<u>(13,712)</u>
Revenue Requirement adjustment					<u>\$ 681</u>

The adjustment results in an increase to the Revenue Requirement of \$681 and is consistent with past Commission precedent regarding premiums paid for health insurance.

Purchased Water In its application Breathitt District reported \$334,036 for the test-year Purchased Water Expense.⁵³ Commission Staff reviewed the adjusted trial balance account for Purchased Water and determined the actual test-year amount should have been \$344,036.⁵⁴ Therefore, to reconcile the application with the adjusted trial balance, Commission Staff made an adjustment to increase the Purchased Water Expense by \$10,000.

The Commission finds that Commission Staff’s recommendation is reasonable and Breathitt District’s Purchased Water should be increased by \$10,000 because the

⁵³ Application, Attachment 5, Statement of Adjusted Operations.

⁵⁴ Breathitt District’s Response to Staff’s First Request, Item 1b, BCWD_1b_TB_2021.pdf.

evidence provided in the adjusted trial balance shows that Breathitt District's test-year purchased water expense was understated by \$10,000. Therefore, in order to match the adjusted trial balance, the application's test year needed to be increased by \$10,000.

Purchased Water Normalization. Including the adjustment above, in its test year, Breathitt District reported a purchased water expense of \$344,036.⁵⁵ Subsequent to the test year, Breathitt District filed two purchased water adjustment applications in Case Nos. 2022-00194⁵⁶ and 2023-00216⁵⁷ in which the Commission approved an increase in retail water rates. Breathitt District provided the total number of gallons⁵⁸ and the current purchased rate for water purchased during the test year.⁵⁹

To normalize the purchased water cost, Commission Staff calculated a revised pro forma purchased water expense using the test-year gallons purchased and the new rates. This results in a purchased water expense of \$349,288. Therefore, Commission Staff increased purchased water expense by \$5,252 after correcting for the adjustment to match the trial balance, as shown in Appendix A to this Order.

⁵⁵ Application, Attachment 5, Schedule of Adjusted Operations.

⁵⁶ Case No. 2022-00194, *Electronic Purchased Water Adjustment Filing of Breathitt County Water District* (Ky. PSC July 18, 2022).

⁵⁷ Case No. 2023-00216, *Electronic Purchased Water Adjustment Filing of Breathitt County Water District* (Ky. PSC July 28, 2023).

⁵⁸ Breathitt District's Response to Staff's First Request , Item 5, BCWD_5_Camptonn_Bills.pdf, BCWD_5_HWY_15_South.pdf, BCWD_5_HWY_30_East.pdf, BCWD_5_HWY_476.pdf, BCWD_5_HWY_52.pdf, BCWD_5_Panbowl.pdf.

⁵⁹ Breathitt District's Response to Staff's First Request, Item 6, BCWD_6_Current_Rate_Charges.pdf.

The Commission finds that Commission Staff's recommendation is reasonable and Breathitt District's Purchased Water expense should be increased by \$5,252 for known and measurable changes.

Miscellaneous Expense

In its application, Breathitt District reported a net Miscellaneous Expense of \$21,844.⁶⁰ Commission Staff reviewed the 2021 Adjusted Trial Balance and determined actual Miscellaneous Expense should be \$27,954.⁶¹ Therefore, as shown in the table below, in order to reconcile the application and the adjusted trial balance, Commission Staff increased Miscellaneous Expense by \$6,110.

⁶⁰ Application, Attachment 5, Statement of Adjusted Operations.

⁶¹ Breathitt District's Response to Staff's First Request, Item 1b, BCWD_1b_TB_2021.pdf.

Miscellaneous Expenses	
766-Bank service charge	\$ 65
779-Dues and subscriptions	80
782-Equipment rental	886
802-Legal and accounting	5,210
803-License and permits	1,782
819-Postage	63
819-Postage:UPS Shipping	265
819-Postage:USPS Stamps	7,690
830-Software Support	1,582
855-Telephone	8,820
857-Uniforms:Estill McIntosh	200
857-Uniforms:Roscoe Noble	200
857-Uniforms:Snapper Strong	176
857-Uniforms:Taheton Stacy	60
861-Equipment	876
	<hr/>
Total Corrected Miscellaneous Expenses	27,954
Less: Miscellaneous Expense reported by Breathitt District	<u>(21,844)</u>
	<hr/>
Pro Forma Miscellaneous Expense Adjustment	<u>\$ 6,110</u>

The Commission finds that Commission Staff's recommendation is reasonable and Breathitt District's Miscellaneous Expense should be increased by \$6,110 because the evidence provided in the adjusted trial balance shows that Breathitt District's test-year miscellaneous expense was understated by \$6,110. Therefore, in order to match the adjusted trial balance, the application's test year needed to be increased by \$6,110.

Depreciation Expense. In its application, Breathitt District proposed a decrease in Depreciation Expense by \$397,393 to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation*

Practices for Small Water Utilities (NARUC Study).⁶² To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC Study published in 1979. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant.

Upon examination, Commission Staff agrees with Breathitt District’s methodology to adjust depreciation expense; however, Commission Staff calculated a depreciation expense amount of \$719,555. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff decreased Breathitt District’s Depreciation Expense to \$719,555, a difference of \$398,835, which is \$1,442 more than the amount proposed by Breathitt District, as shown below.

<u>Catagories</u>	<u>NARUC Service Lives</u>	<u>Test Year Depreciation</u>	<u>Depreciation Adjustment</u>	<u>Pro Forma Depreciation</u>
Group: Meters	30 - 50	4,192	(2,041)	2,151
Group: Office Equipment	20 -25	696	(204.30)	491
Group: Power Operated Equipment	10 - 15	3,556	(1,450.80)	2,106
Group: Vehicle	7	6,610	2,106.44	8,716
Group: Water Lines	<u>50 -75</u>	<u>1,103,336</u>	<u>(397,245)</u>	<u>706,091</u>
Total Depreciation		<u>\$ 1,118,390</u>	<u>(398,835)</u>	<u>\$ 719,555</u>
Less: Breathit District Proposed Adjustment			<u>397,393</u>	
Commission Staff Proposed Adjustment			<u>\$ (1,442)</u>	

The Commission finds that Commission Staff’s recommended adjustment is reasonable, and Breathitt District’s Depreciation should be decreased to \$719,555, a

⁶² Breathitt District’s Response to Staff’s First Request, Item 1h, BCWD_1h_SAO_ADJ.xlsx, ADJ_G tab, cell S195.

difference of \$398,835, in order to align Breathitt District’s capital assets’ useful lives with the NARUC recommended useful lives.

Capitalization of Test-Year Water Connections. In its application, as part of the proposed adjustment for depreciation, Breathitt District proposed an increase in depreciation expense of \$470 to account for the inclusion of new taps depreciated over a 62.5-year service life.⁶³ As explained in above, the expenses related to the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives. Therefore, Commission Staff agrees with the methodology proposed. However, Commission Staff proposed to depreciate the new water connections over a 40-year service life to align with the NARUC study for the service lives of meters. Therefore, Commission Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$735, which is \$265 more than proposed by Breathitt District as shown below.

Test Year Water Tap Fees	\$ 29,386
Divided by: Useful Life of 40.0 Years	<u>40.0</u>
Pro Forma Depreciation Adjustment	735
Less: Breathitt District Proposed Adjustment	<u>(470)</u>
Commission Staff Proposed Adjustment	<u><u>\$ 265</u></u>

The Commission finds that Commission Staff’s recommendation is reasonable and Breathitt District’s depreciation expensed should be increased by \$735 because as stated above, the USofA requires the assets to be depreciated over their estimated useful lives.

⁶³ Breathitt District’s Response to Staff’s First Request, Item 1h, BCWD_1h_SAO_ADJ.xlsx, ADJ_G tab, cell S197.

Taxes Other Than Income. In its application, Breathitt District reported Taxes Other Than Income of \$50,789.⁶⁴ Commission Staff reviewed the 2021 adjusted trial balance and determined that actual taxes other than income is \$34,741.⁶⁵ Therefore, to reconcile the application and the adjusted trial balance Commission Staff reduce Taxes Other Than Income by \$16,048.

The Commission finds that Commission Staff's recommendation is reasonable, and Breathitt District's Taxes Other Than Income should be decreased by \$16,048, because the evidence provided in the adjusted trial balance shows that Breathitt District's actual test-year Taxes other than Income expense was overstated by \$16,048.

Taxes Other Than Income – FICA. In its application, Breathitt District proposed an adjustment to decrease Taxes Other Than Income by \$3 to account for the decrease in payroll taxes due to the proposed decrease in Salaries and Wages Expense.⁶⁶

However, as explained above, Commission Staff calculated pro forma Salaries and Wages – Employees of \$246,817 and Officers' Salaries of \$0. Therefore, Commission Staff calculated a decrease to Taxes Other Than Income of \$7,451 as shown below.

⁶⁴ Application, Attachment 5, Statement of Adjusted Operations.

⁶⁵ Breathitt District's Response to Staff's First Request, Item 1b, BCWD_1b_TB_2021.pdf, Account 848 – School Tax (URGLT) of \$32,236, 849 – Sales Tax of 216, and 850 PSC Tax of 2,289.

⁶⁶ Application, Attachment 5, Adjustment C.

	Staff Pro Forma
Proforma Salaries & Wages - Employees	\$ 246,817
Proforma Salaries & Wages - Officers	<u>-</u>
Total Salaries and Wages	246,817
Times: 7.65 Percent FICA Rate	<u>7.65%</u>
Total FICA Taxes	18,882
Plus: Taxes:846-State Unemployment Tax	668
Plus: Taxes:848-School Tax (URGLT)	32,236
Plus: Taxes:849-Sales Tax	215
Plus: 850-PSC-Tax	<u>2,289</u>
Total Taxes Other Than Income	54,290
Less: Test Year Taxes other Than Income	<u>(61,741)</u>
Taxes Other Than Income Adjustment	(7,451)
Less: Breathitt District's Proposed Adjustment	<u>3</u>
Commission Staff's Proposed Adjustment	<u>\$ (7,448)</u>

The Commission finds that Commission Staff's recommendation is reasonable and Breathitt District's Taxes Other Than Income - FICA should be decreased by \$7,451 because the evidence provided shows that the change is a direct result to changes to Salaries and Wages - Employees.

Based upon the Commission's findings discussed above, the following table summarizes Breathitt District's adjusted pro forma:

	<u>Commission Staff Report Pro Forma</u>	<u>Commission Proposed Adjustment</u>	<u>Commission Proposed Pro Forma</u>
Total Operating Revenues	\$1,217,097	\$ -	\$1,217,097
Utility Operating Expenses	<u>1,815,679</u>	<u>681</u>	<u>1,816,360</u>
Utility Operating Income	(598,582)	(681)	(599,263)
Interest and Dividend Income	182	-	182
Nonutility Income	<u>49,300</u>	<u>-</u>	<u>49,300</u>
Income Available for Debt Service	<u>\$ (549,100)</u>	<u>\$ (681)</u>	<u>\$ (549,781)</u>

REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations.⁶⁷ This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;⁶⁸ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

⁶⁷ Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2022). Case No. 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

⁶⁸ The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

	<u>Commission Staff Proposed</u>	<u>Commission Approved</u>
Pro Forma Operating Expenses	\$ 1,815,679	\$1,816,360
Plus: Avg. Annual Principal and Interest Payments	114,828	114,828
Additional Working Capital	<u>22,966</u>	<u>22,966</u>
Total Revenues Requirement	1,953,473	1,954,154
Less: Other Operating Revenue	(15,494)	(15,494)
Interest Income	(182)	(182)
Non Utility Income	<u>(49,300)</u>	<u>\$ (49,300)</u>
Revenue Required From Water Sales	1,888,497	1,889,178
Revenue from Sales at Present Rates	<u>(1,201,603)</u>	<u>(1,226,142)</u>
Required Revenue Increase	<u>\$ 686,894</u>	<u>\$ 663,036</u>
Percentage Increase	<u>57.16%</u>	<u>54.07%</u>

Average Annual Principal and Interest Payments

At the time of Commission Staff's review, Breathitt District had two outstanding Kentucky Infrastructure Authority (KIA) loans⁶⁹ and one outstanding United States Department of Agriculture, Rural Development (RD) waterworks revenue bond.⁷⁰ In its application, Breathitt District requested recovery of the average annual principal and interest on its indebtedness based on an average of the annual principal, and interest and fee payments for the three years following the test year, which is 2022 through

⁶⁹ Case No. 2011-00399, *Application of Breathitt County Water District for Authority to Enter into a Loan Agreement with the Kentucky Infrastructure Authority* (Ky. PSC Dec. 27, 2011), Order at 8, ordering paragraph 8. Case No. 2010-00042, *Application of Breathitt County Water District for Authorization to Enter Loan Agreement with Kentucky Infrastructure Authority* (Ky. PSC Feb. 15, 2010), Order at 3, ordering paragraph 1.

⁷⁰ Case No. 2009-00183, *Application of Breathitt County Water District for a Certificate of Public Convenience and Necessity to Construct and Finance Pursuant To the Provisions of KRS 278.023* (Ky. PSC June 9, 2009), Order at 2, ordering paragraph 3.

2024.⁷¹ However, because the statutory date for a final Order to be issued in this proceeding is April 6, 2024, the 2022 and 2023 payments will be recovered through Breathitt District’s existing rates. Therefore, only debt service payments that will be made after the new rates are placed into effect should be considered in determining Breathitt District’s annual interest and fees expense. Commission Staff calculated the average annual principal and interest on a three-year average for the years 2024 through 2026. Commission Staff calculated average annual debt service of \$114,828 as shown below. The Commission finds that Commission Staff’s recommendation is reasonable since Breathitt District provided the amortization schedule for its existing debt.⁷²

2024-2026 Average Annual Debt Service									
Year	KIA F209-05			KIA F11-07			RD Bond		Total
	Principal	Interest	Fees	Principal	Interest	Fees	Principal	Interest	
2024	\$ 13,694	\$ 881	\$220	\$ 73,764	\$ 9,172	\$2,293	\$ 7,500	\$ 7,563	\$115,088
2025	13,831	744	186	74,504	8,433	2,108	7,500	7,357	114,662
2026	13,970	605	151	75,250	7,686	1,922	8,000	7,150	114,734
Totals	<u>\$ 41,495</u>	<u>\$2,229</u>	<u>\$557</u>	<u>\$223,518</u>	<u>\$25,292</u>	<u>\$6,323</u>	<u>\$23,000</u>	<u>\$22,070</u>	344,484
Divide by: 3 years									<u>3</u>
Average Annual Interest Payment									<u>\$ 114,828</u>

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, Breathitt District requested recovery of an allowance for working capital that

⁷¹ Application, Attachment 6, Revenue Requirement Calculation – Debt Coverage Method.

⁷² Response to Filing Deficiency, Attachment 9.

is equal to 120 percent of its average annual debt payments for its Waterworks Revenue Bond and KIA loans at the time of its application.

Following the Commission’s historic practice, Commission Staff agrees with Breathitt District. Therefore, as calculated below and shown in the table above, \$22,966 is included in the revenue requirement. The Commission finds Commission Staff’s recommendation to be reasonable since the Additional Working Capital is a direct result of the Average Annual Principal and Interest Payments.

Average Annual Principal and Interest	\$ 114,828
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	137,794
Less: Average Annual Principal and Interest Payments	<u>(114,828)</u>
Additional Working Capital	<u>\$ 22,966</u>

RATE DESIGN

Based upon the revenue requirement, Breathitt District proposed to increase its monthly retail water service rates evenly across its rate design. Breathitt District did not perform a cost of service study (COSS), and is unsure when the last time a COSS has been performed.⁷³ Breathitt District stated that it did not complete a COSS at this time, as there has not been any material change in the water system to warrant a COSS.⁷⁴

The Commission has previously found that the allocation of a revenue adjustment evenly across 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

⁷³ Breathitt District’s Response to Staff’s First Request, Item 10.

⁷⁴ Breathitt District’s Response to Staff’s First Request, Item 12.

the absence of a COSS. Finding no such evidence in this case, Commission Staff followed the method proposed by Breathitt District and allocated the \$663,036 revenue increase across Breathitt District's monthly retail and wholesale water service rates.

In its response to Commission Staff's Report, Breathitt District requested that the Commission phase-in the rate increase over a four-year period due to the impact of the July 2022 flood which caused a significant decline in population.⁷⁵ The Commission finds that the rate increase should be phased-in over time, but finds that a three-year period is more appropriate than a four-year period. Financial stability is key to maintaining providing safe and reliability water service to customers. Phasing in the rates over three years acknowledges the adverse effects of the July 2022 flood, and avoids the hardship on customers of implementing the full rate increase immediately, but allows Breathitt District to realize its full rate increase sooner, and thus provide greater financial stability for the water district, than a four-year phase in period would permit.

The rates set forth in Appendix B to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$1,889,178 Revenue Required from Water Sales, an approximate 54.07 percent increase. These rates in Phase 1 will increase a typical retail residential customer's monthly water bill from \$45.38⁷⁶ to \$53.57, an increase of \$8.19, or approximately 18.04 percent. The rates in Phase 2 will increase a typical retail residential customer's monthly water bill from \$53.57 to \$61.76, an increase of

⁷⁵ Breathitt District's Response to Staff Report.

⁷⁶ Application, Attachment 1, Customer Notice, typical residential customer uses approximately 3,000 gallons per month.

\$8.20 or approximately 15.30 percent. The rates in Phase 3 will increase a typical retail residential customer's monthly water bill from \$61.76 to \$69.93, an increase of \$8.17 or approximately 13.23 percent.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report are supported by the evidence of record and are reasonable. The Commission has historically used a DSC method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Therefore, applying the DSC method to Breathitt District's pro forma operations results in an Overall Revenue Requirement of \$1,954,154, a required revenue from water sales of \$1,889,178, and an increase in revenue from water sales of \$663,036, or 54.07 percent.

The Commission finds that allocating the calculated revenue increase across the board to Breathitt District's monthly water service rates and to phase-in this increase over three years to be fair, just and reasonable.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report, as modified above, are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Breathitt District are denied.
3. The Nonrecurring Charges set forth in Appendix C to this Order are approved for service rendered by Breathitt District on or after the date of this Order.

4. Phase 1 rates set forth in Appendix B to this Order are approved for service rendered by Breathitt District on and after the date of this Order.

5. Phase 2 rates set forth in Appendix B to this Order are approved for service rendered by Breathitt District on and after one year following the date of this Order.

6. One month prior to the effective date of the Phase 2 rates, Breathitt District shall notify its customers of the implementation of the Phase 2 rates by publishing one-time notice of the increase in a newspaper of general circulation in its territory or placing an insert in bills rendered to its customers.

7. Within 45 days of publishing notice required in ordering paragraph 6, Breathitt District shall file proof of publication of the notice to the Commission as required pursuant to 807 KAR 5:076, Section 5(3) in the post case correspondence, referencing this case number.

8. Phase 3 rates set forth in Appendix B to this Order are approved for service rendered by Breathitt District on and after two years following the date of this Order.

9. One month prior to the effective date of the Phase 3 rates, Breathitt District shall notify its customers of the implementation of the Phase 3 rates by publishing one-time notice of the increase in a newspaper of general circulation in its territory or placing an insert in bills rendered to its customers.

10. Within 45 days of publishing notice required in ordering paragraph 9, Breathitt District shall file proof of publication of the notice to the Commission as

required pursuant to 807 KAR 5:076, Section 5(3) in the post case correspondence, referencing this case number.

11. Within 20 days of the date of service of this Order, Breathitt District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

12. Breathitt District shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.

13. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ENTERED

JAN 31 2024

rcs

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00136 DATED JAN 31 2024

The following rates and charges are prescribed for the customers in the area served by Breathitt 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

Phase 1

5/8- x 3/4-Inch

First	2,000	Gallons	\$35.71 Minimum Bill
Over	2,000	Gallons	0.01786 Per Gallon

Wholesale

First	10,000	Gallons	\$178.52 Minimum Bill
Next	190,000	Gallons	0.01093 Per Gallon
Over	200,000	Gallons	0.00929 Per Gallon

Monthly Water Rates

Phase 2- To Be Implemented One Year After Phase 1 Rates

5/8- x 3/4-Inch

First	2,000	Gallons	\$41.17 Minimum Bill
Over	2,000	Gallons	0.02059 Per Gallon

Wholesale

First	10,000	Gallons	\$205.83 Minimum Bill
Next	190,000	Gallons	0.01260 Per Gallon
Over	200,000	Gallons	0.01071 Per Gallon

Monthly Water Rates

Phase 3 – To Be Implemented One Year After Phase 2 Rates

5/8- x 3/4-Inch

First	2,000	Gallons	\$46.61 Minimum Bill
Over	2,000	Gallons	0.02332 Per Gallon

Wholesale

First	10,000	Gallons	\$233.06 Minimum Bill
Next	190,000	Gallons	0.01409 Per Gallon
Over	200,000	Gallons	0.01191 Per Gallon

APPENDIX C

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00136 DATED JAN 31 2024

* Denotes Rounding

Adjustments to Nonrecurring Charges

	Connection/Turn-On Charge	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$17.00 at 1.5 hours)	\$ 25.50	\$ -
Office Supplies	\$ -	\$ -
Office Labor (\$18.50 at 0.3 hours)	\$ 6.17	\$ -
Transportation	\$ 18.40	\$ 18.40
Misc.	\$ -	\$ -
		\$
Total Revised Charge*	\$ 50.07	18.00
Current Rate	\$ 25.00	

	Connection/Turn-On Charge (After Hours)	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$17.00 at 1.5 hours)	\$ 25.50	\$ 25.50
Office Supplies	\$ -	\$ -
Office Labor (\$18.50 at 0.3 hours)	\$ 6.17	\$ -
Transportation	\$ 18.40	\$ 18.40
Misc.	\$ -	\$ -
	\$	\$
Total Revised Charge*	50.07	44.00
Current Rate	\$ 50.00	

	Reconnection Charge	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		

Field Labor (\$17.00 at 1.5 hours)	\$ 25.50	\$ -
Office Supplies	\$ -	\$ -
Office Labor (\$18.50 at 0.3 hours)	\$ 6.17	\$ -
Transportation	\$ 18.40	\$ 18.40
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 50.07	\$ 18.00
Current Rate	\$ 50.00	

Reconnection Charge (After Hours)

	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$25.50 at 1.5 hours)	\$ 38.25	\$ 38.25
Office Supplies	\$ -	\$ -
Office Labor (\$18.50 at 0.3 hours)	\$ 6.17	\$ -
Transportation	\$ 18.40	\$ 18.40
Misc.	\$ -	\$ -
Total Revised Charge	\$ 62.82	\$ 57.00
Current Rate	\$ 65.00	

Service Call/Investigation

	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$17.00 at 1.5 hours)	\$ 25.50	\$ -
Office Supplies	\$ -	\$ -
	\$	\$
Office Labor (\$18.50 at 0.3 hours)	6.17	-
	\$	\$
Transportation	18.40	18.40
	\$	\$
Misc.	-	-
Total Revised Charge*	\$ 50.07	\$ 18.00
Current Rate	\$ 25.00	

Service Call/Investigation (After Hours)

	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$25.50 at 1.5 hours)	\$ 38.25	\$ 38.25
Office Supplies	\$ -	\$ -
Office Labor (\$18.50 at 0.3 hours)	\$ 6.17	\$ -

Transportation	\$ 18.40	\$ 18.40
Misc.		
Total Revised Charge	<u>\$ 62.82</u>	<u>\$ 57.00</u>
Current Rate	\$ 50.00	

	Returned Check Charge	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$25.50 at 1.5 hours)	\$ -	\$ -
Office Supplies	\$ -	\$ -
Office Labor (\$18.50 at 1 hours)	\$ 18.50	\$ -
Transportation	\$ -	\$ -
Misc. (Bank Fee)	\$ 5.00	\$ 5.00
Total Revised Charge	<u>\$ 23.50</u>	<u>\$ 5.00</u>
Current Rate	\$ 30.00	

<u>Nonrecurring Charges</u>	
Connection/Turn-On Charge	\$18.00
Connection/Turn-on Charge (After Hours)	\$44.00
Meter Test Charge	\$40.00
Reconnection Charge	\$18.00
Reconnection Charge (After Hours)	\$57.00
Returned Check Charge	\$5.00
Service Call/Investigation	\$18.00
Service Call/Investigation (After Hours)	\$57.00
Meter Relocation Charge	Actual Cost
Repair to Meter, Meter Lid, or Setter	Actual Cost

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