

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WHITLEY)	CASE NO.
COUNTY WATER DISTRICT #1 FOR A RATE)	2022-00321
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of October 27, 2022, the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's October 27, 2022 Order, Whitley County Water District #1 (Whitley District #1) 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 Whitley District #1 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 FEB 02 2023

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 WHITLEY COUNTY WATER DISTRICT #1

Whitley County Water District #1 (Whitley District #1) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 3,546 residential customers, 121 commercial customers, and 6 public authorities located in Whitley County, Kentucky.¹ On October 3, 2022, Whitley District #1 filed an application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. The application was filed pursuant to the Commission's Order in Case 2021-00157, which required Whitley District #1 to file an application for an adjustment in base rates no later than May 3, 2022.² Whitley District #1 requested an extension to the May 3, 2022 deadline by letter dated June 15, 2022.³ The Commission treated Whitley District #1's June 15, 2022 letter as a motion. The Commission denied Whitley District #1's request for a 180-day extension and required

¹ *Annual Report of Whitley County Water District #1 to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 12 and 49.

² Case No. 2021-00157, *Electronic Purchased Water Adjustment Filing of Whitley County Water District #1* (Ky. PSC May. 3, 2021) at 6, ordering paragraph 5.

³ Case No. 2021-00157, *Electronic Purchased Water Adjustment Filing of Whitley County Water District #1*, Letter to Linda Bridwell (filed June 15, 2022).

Whitley District # 1 to file an application for an adjustment of its rate as soon as possible.⁴ Whitley District #1's last base rate increase was approved in Case No. 2000-00001.⁵ To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated October 27, 2022. Whitley District #1 responded to two formal requests for information from Commission Staff.

WATER LOSS

The Commission notes that in its 2021 Annual Report, Whitley District #1 reported a water loss of 34.19 percent.⁶ 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 annual cost to Whitley District #1 for water loss above the allowable 15 percent is \$142,551.⁷ Whitley District #1's total annual cost of water loss is \$253,975.⁸

⁴ Case No. 2021-00157, *Electronic Purchased Water Adjustment Filing of Whitley County Water District #1* (Ky. PSC July 1, 2022), Order at 3.

⁵ Case No. 2000-00001, *An Adjustment of Rates of the Whitley County Water District*, (Ky. PSC July 18, 2000).

⁶ 2021 Annual Report at 57.

⁷

	Purchased Water	Purchased Power	Chemicals & Lab Testing	Total
Pro Forma Expenses	\$ 709,832	\$ 32,801	\$ 201	\$ 742,834
Multiply by: Water loss in Excess of 15 Percent	-19.19%	-19.19%	-19.19%	-19.19%
Pro Forma Excess Cost	\$ (136,217)	\$ (6,295)	\$ (39)	\$ (142,551)

⁸

	Purchased Water	Purchased Power	Chemicals & Lab Testing	Total
Pro Forma Expenses	\$ 709,832	\$ 32,801	\$ 201	\$ 742,834
Multiply by: Total Water loss	-34.19%	-34.19%	-34.19%	-34.19%
Excess Cost	\$ (242,692)	\$ (11,215)	\$ (69)	\$ (253,975)

DISCUSSION

To comply with the requirements of 807 KAR 5:076, Section 9,⁹ Whitley District #1 used the calendar year ended December 31, 2021, as the basis for its application. Using its pro forma test-year operations, Whitley District #1 determined that a revenue increase of \$102,118, or 5.55 percent over test-year normalized revenues of \$1,839,035, was warranted¹⁰ as shown in the table below. Whitley District #1 also proposed a monthly water loss reduction surcharge of \$3.95 per customer. The rates requested by Whitley District #1 would increase the residential monthly bill of a typical residential customer using 4,000 gallons per month by \$2.29 from \$41.26 to \$43.55, or approximately 5.55 percent.¹¹ The rates and surcharge requested by Whitley District #1 would increase the residential monthly bill of a typical residential customer using 4,000 gallons per month by \$6.24, from \$41.26 to \$47.50, or approximately 15.12 percent.¹²

	<u>Whitley County Water District #1</u>
Pro Forma Operating Expenses	\$1,881,675
Plus: Avg. Annual Principal and Interest Payments	314,535
Additional Working Capital	<u>62,907</u>
Total Revenues Requirement	2,259,117
Less: Other Operating Revenue	(310,690)
Interest and Dividend Income	<u>(7,274)</u>

⁹ The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measureable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

¹⁰ Application, Attachment 4, Revenue Requirements using Debt Service Coverage Method.

¹¹ Application, Attachment 1, Customer Notice.

¹² $\$47.50 [\$43.55 \text{ (Average Bill New Water Rates)} + \$3.95 \text{ (Water Loss Reduction Surcharge)}] - \$41.26 \text{ (Average Bill Current Water Rates)} = \$6.24 \text{ (Total Difference in Customer Bill)} \div \$41.26 \text{ (Average Bill Current Water Rates)} = 15.12\%$

Revenue Required from Water Sales	1,941,153
Revenue from Sales at Present Rates	<u>(1,839,035)</u>
Required Revenue Increase	<u>\$102,118</u>
Percentage Increase	<u>5.55%</u>

To determine the reasonableness of the rates requested by Whitley District #1, Commission Staff performed a limited financial review of Whitley District #1’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 measurable¹³ changes to test-year operations were identified and adjustments made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff’s findings are summarized in this report. William Foley reviewed the calculation of Whitley District #1’s Overall Revenue Requirement. Elizabeth Stefanski reviewed Whitley District #1’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

¹³ Commission regulation 807 KAR 5:076, Section 9 sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be “adjusted for known and measurable changes.” See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

Commission, Commission Staff determined that Whitley District #1's required revenue from water sales is \$1,906,475 to meet the Overall Revenue Requirement of \$2,237,479 and that a \$67,440 revenue increase, or 3.67 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Water Loss Surcharge. Whitley District #1 requested the Commission authorize a water loss reduction surcharge of \$3.95 per customer per month to assist in lowering system water loss to more acceptable levels.¹⁴ Whitley District #1 submitted a formal proposal entitled Whitley County Water District, Water Loss Prevention and Leak Detection Program¹⁵ (Loss Leak Program) that outlined processes and procedures that will be routinely performed to identify and repair water line leaks, identify and monitor un-metered water usage, and help reduce overall water loss. Whitley District #1's Loss Leak Program does not contain a specific breakdown for the use of future program funds or a record keeping plan. In the absence of a specific monetary plan, Commission Staff recalculated the monthly per customer impact of the water loss adjustment, using the data provided by Whitley District #1 in its application, with an amount of \$2.76 per customer per month as a water loss reduction surcharge. This is a materially accurate representation of the per customer impact on the actual annual cost of water loss above 15 percent.¹⁶ The use of a surcharge is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for water loss in excess of

¹⁴ Application, Attachment 1, Customer Notice.

¹⁵ Whitley District #1's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Nov. 18, 2022), Item 9, 9_Water_Loss_Program.pdf.

¹⁶ \$136,243 (Purchased Water) + \$6,296 (Purchased Power) + \$39 (Chemicals & Lab Testing) = \$142,578 (Annual Surcharge Collections) ÷ 51,656 (Number of Test Year Bills as of December 31, 2021) = \$2.76.

30 percent.¹⁷ The Commission has also ordered surcharges even when a utility has not specifically requested a surcharge. Recently, the Commission has allowed water utilities with reported water loss above the 15 percent threshold to assess water loss reduction surcharges. Recognizing prior Commission precedent to allow the use of surcharges to assist utilities in obtaining the proper funding for primarily capital construction needed to combat water loss, Commission Staff recommends the Commission approve Whitley District #1's request and authorize the surcharge for a temporary period of 48 months, with a review of the necessity to continue the surcharge before the temporary period expires. Commission Staff also recommends the Commission establish a separate proceeding to monitor the surcharge and place strict controls over the use of the funds that will be collected from the surcharge. Further, Commission Staff recommends the Commission approve the Whitley District #1 Water Loss Prevention and Leak Detection Program¹⁸ which addresses its aging infrastructure and will help to combat water loss in the future.

3. Monthly Water Service Rates. Based upon its application, Whitley District #1 proposed to increase all of its monthly retail water service rates evenly across the board by approximately 5.55 percent. Whitley District #1 did not perform a cost of service

¹⁷ See Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges*, (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2020); Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Order at 11–13.

¹⁸ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 9, 9_Water_Loss_Program.pdf.

study (COSS). Whitley District #1 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.¹⁹

The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff followed the method proposed by Whitley District #1 and allocated the \$67,440 revenue increase across the board to Whitley District #1's monthly retail and wholesale water service rates.

The rates set forth in Appendix A to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$1,906,475 Revenue Required from Water Sales, an approximate 3.67 percent increase. These rates, including the water loss recovery surcharge of \$2.76, will increase a typical residential customer's monthly water bill from \$41.26 to \$45.44, an increase of \$4.18, or approximately 10.13 percent.²⁰ The increase in a typical customer's monthly water bill before the water loss recovery surcharge, is from \$41.26 to \$42.68, an increase of \$1.42 or approximately 3.44 percent.²¹

¹⁹ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 13.

²⁰ $\$45.44 [\$42.68 \text{ (Average Bill New Water Rates)} + \$2.76 \text{ (Water Loss Reduction Surcharge)}] - \$41.26 \text{ (Average Bill Current Water Rates)} = \$4.18 \text{ (Total Difference in Customer Bill)} \div \$41.26 \text{ (Average Bill Current Water Rates)} = 10.13\%$.

²¹ The typical residential customer uses approximately 4,000 gallons per month.

4. Nonrecurring Charges. Following the Commission’s recent decisions,²² Commission Staff has reviewed Whitley District #1’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. Whitley District #1 provided cost justification information for the Nonrecurring Charges.²³ Commission Staff reviewed the cost justification information provided by Whitley District #1 and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs from those charges that occur during normal business hours. Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Late Payment Charge	10%	10%
Meter Turn-On Charge	\$22.00	\$8.00
Meter Relocation Charge	Actual	Actual
Meter Re-Read Charge	\$22.00	\$8.00
Meter Resetting Charge	\$22.00	\$8.00
Meter Test Charge	Actual	Actual
Service Call/Investigation	\$22.00	\$8.00
Service Line Inspection	\$22.00	\$8.00
Service Disconnection	\$22.00	\$8.00
Service Reconnection	\$22.00	\$8.00
Service Termination Field Collection	\$22.00	\$8.00
Returned Check Charge	\$25.00	\$11.00

²² 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).

²³ Whitley District #1’s Response to Staff’s First Request (filed Nov. 18, 2022), Item 6, 6_Cost_Justification.pdf.

PRO FORMA OPERATING STATEMENT

Whitley District #1's Pro Forma Operating Statement for the test year ended
December 31, 2021, as determined by Commission Staff, appears below.

	<u>Test Year</u>	<u>Adjustment</u>	<u>(Ref.)</u>	<u>Pro Forma</u>
Operating Revenues				
Total Metered Water Sales	\$ 1,861,535	\$ 46,965	(A)	
		(45,765)	(B)	
		(23,700)	(D)	\$ 1,839,035
Other Water Revenues				
Forfeited Discounts		52,511	(B)	52,511
Misc. Service Revenues	310,690	(48,135)	(C)	262,555
		8,664	(D)	8,664
Total Operating Revenues	2,172,225	(9,460)		2,162,765
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	286,270	(9,750)	(E)	
		10,091	(F)	
		(18,358)	(G)	268,253
Salaries and Wages - Officers	10,000	8,000	(H)	18,000
Employee Pensions and Benefits	101,440	(6,735)	(I)	
		24,087	(J)	118,792
Purchased Water	746,436	(36,604)	(K)	
		(136,217)	(L)	573,615
Purchased Power		32,801	(M)	
		(6,295)	(L)	26,506
Chemicals & Lab Testing	201	(39)	(L)	162
Materials and Supplies	33,799	(22,750)	(E)	11,049
Contractual Services- Engineering	40,655			40,655
Rental of Equipment	279			279
Transportation Expenses	36,435			36,435
Insurance- Vehicle	3,587			3,587
Insurance- General Liability	18,538			18,538
Insurance- Worker's Compensation	3,450			3,450
Miscellaneous Expense	383,413	(32,801)	(M)	
		(399)	(N)	350,213
Total Operation and Maintenance Expenses	1,664,503	(194,969)		1,469,534
Depreciation	643,000	(132,312)	(O)	
		(142,829)	(P)	367,859
Taxes Other Than Income		18,358	(G)	
		4,286	(Q)	22,644
Utility Operating Expenses	2,307,503	(447,466)		1,860,037
Net Operating Income	(135,278)	438,006		302,728
Interest and Dividend Income	7,274			7,274
Income Available to Service Debt	\$ (128,004)	\$ 438,006		\$ 310,002

(A) Billing Analysis Adjustment. Whitley District #1 proposed an adjustment of \$22,500 to decrease Total Metered Retail Sales for the test year of 2021.²⁴ Whitley District #1 calculated the adjustment by creating a billing analysis for 2021,²⁵ and subtracting billing adjustments of \$173,900²⁶ for a Net Water Sales total of \$1,839,035.²⁷ This normalized amount included an adjustment for billing errors of \$130,057.55, meter read errors of \$7,849.37, leak adjustments of \$30,711.19, and burst meter adjustments of \$5,281.91.²⁸ The result is a normalized revenue amount of \$1,839,035. As explained below, the test year revenue from rates included forfeited discount revenue of \$45,765,²⁹ and nonrecurring charge revenue of \$23,700,³⁰ which Commission Staff subtracted from the test year revenue total. The net result is an increase in test year water sales revenue of \$46,965 as shown in the table below to reflect the revenue generated in the billing analysis.

²⁴ Application, Attachment 4, Adjustment A.

²⁵ Application, Attachment 5.

²⁶ Application, Attachment 5.

²⁷ Application, Attachment 5.

²⁸ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 15b, 15b_Adjustments.pdf.

²⁹ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 3, 3_Late_Fees.pdf.

³⁰ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 4.

<u>Meter Size</u>	<u>Bills</u>	<u>Gallons Sold</u>	<u>Revenue</u>
All meters	51,656	183,928,600	\$2,012,935
Less: Billing Adjustments			(173,900)
Normalized Revenue from Rates			<u>\$1,839,035</u>
Reported Test Year Revenue			\$1,861,535
Less: Nonrecurring Charge Revenue			(23,700)
Less: Late Payment Revenue			<u>(45,765)</u>
Total of Test Year less Misc. Revenue			<u>\$1,792,070</u>
Metered Water Sales Adjustment			<u><u>\$46,965</u></u>

(B) Forfeited Discounts. Whitley District #1 provided detailed information about the late fee revenue and occurrences for the test year of 2021, as well as the calendar years of 2020, 2019, 2018, and 2017. Whitley District #1 collected \$45,765 in late fee revenue in the test year of 2021, \$13,013.98 in 2020, \$52,480.42 in 2019, \$54,206.44 in 2018 and \$50,845.13 in 2017.³¹ All late fee revenue was reported as Total Metered Water Sales. Therefore, since late payment revenue was included in test year revenue from rates, Commission Staff decreased Total Metered Water Sales by \$45,765 as further explained in Adjustment (A) above. Commission Staff normalized the Late Payment Revenue based upon recent Commission precedent.³² Commission Staff calculated late payment penalties to closer align with a normal year by averaging three years, 2017, 2018 and 2019 for an amount of \$52,511 as shown below. As a result, Commission Staff increased Forfeited Discount revenue by \$52,511 and decreased Metered Water Sales revenue by \$45,765.

³¹ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 3, 3_Late_Fees.pdf.

³² Case No. 2021-00475, *Electronic Application of Carroll County Water District No. 1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

Year	Late Payment Penalties
2017	\$50,845
2018	54,206
2019	52,480
Total Late Payment Collected	157,532
Divided by Three Years	3
Three year Average Collected	<u>\$52,511</u>

(C) Other Misc. Service Charges. In 2021, Whitley District #1 reported \$317,964 in Miscellaneous Service Revenue.³³ In its application, Whitley District #1 listed Miscellaneous Service Revenue as \$310,690.³⁴ Whitley District #1 provided detailed information about the test year Miscellaneous Service Revenue amount of \$310,690, which included \$48,135 in Tap Fee revenue, revenue from 911 reimbursements, sewer reimbursements, commercial water sales reimbursements, credit card fee reimbursements, omitted accounts receivables, revenue from equipment sales, refund from KEMI, a restitution from a customer, and revenue from public water purchases.³⁵ Whitley District #1 provided an explanation for the discrepancy between the reported amount of \$317,964 and the application amount of \$310,690,³⁶ and also verified that the correct amount is \$310,690.³⁷ Commission Staff removed the Tap Fee revenue from the

³³ 2021 Annual Report at 49.

³⁴ Application, Attachment 4, Schedule of Adjusted Operations.

³⁵ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 14.

³⁶ Whitley District #1's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Jan. 3, 2023), Item 6.

³⁷ Whitley District #1's Response to Staff's Second Request (filed Jan. 3, 2023), Item 6, 14a_Miscellaneous_Service_Revenue.pdf.

test year total, because revenue from Tap Fees is a Capital Expense. As a result, Commission Staff made an adjustment to decrease Other Water Revenue by \$48,135.

(D) Nonrecurring Charges. Whitley District #1 included nonrecurring charges revenue and late payment revenue in its retail sales revenue. Whitley District #1 provided information about the nonrecurring charges revenue,³⁸ and Commission Staff calculated an adjustment to Other Water Revenue, removing Labor costs as discussed earlier. The adjustments to Nonrecurring Charges result in an increase of \$8,664 to Other Water Revenue and a decrease of \$23,700³⁹ to Metered Water revenue as shown in the table below.

	No. of Occurrences	Current NRC	Other Water Revenue	Adjusted NRC	Pro Forma
Meter Turn-On Charge	409	\$22	\$ 8,998	\$8	\$ 3,272
Service Reconnection	641	\$22	14,102	\$8	5,128
Returned Check Charge	24	\$25	600	\$11	264
			<u>\$ 23,700</u>		<u>\$ 8,664</u>

(E) Expenses Related to Meter Installations. In its application, Whitley District #1 proposed an adjustment to the 2021 test year to decrease Materials and Supplies by \$22,750 and Salaries and Wages – Employees by \$9,750 to account for tapping fees that were included as part of the expenses.⁴⁰ During 2021, Whitley District #1 installed 50 new water connections all of which were 3/4” meters.⁴¹ The Uniform System of Accounts

³⁸ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 4.

³⁹ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 4.

⁴⁰ Application, Attachment 4, Adjustment B.

⁴¹ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 11.

for Class A/B Water Systems (USoA) requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.⁴² Therefore, Commission Staff agrees with Whitley District #1’s proposed adjustment and decreased Materials and Supplies expense by \$22,750 and Salaries and Wages – Employees by \$9,750 as shown below. In addition, Whitley District #1 confirmed the expenses related to new meter connections installed during the test year are already included in the 2021 depreciation calculation.⁴³

Test-Year Tap Fees Collected		\$32,500
Multiplied by Salaries and Wages Percentage- 30%		9,750
Multiplied by Materials and Supplies Percentage-70%		22,750

(F) Salaries and Wages – Employees. In its application, Whitley District #1 proposed an adjustment to increase Salaries and Wages – Employees by \$5,391.⁴⁴ The adjustment was proposed to account for an increase in wages since 2021. Whitley District #1 provided its test-year, and current employee list⁴⁵ and current employee wages.⁴⁶ During the test year two employees left employment, and three new employees were hired.⁴⁷ Commission Staff Normalized the Test year Salaries and Wages – Employees. Therefore, based on the Normalized test year, Commission Staff increased Salaries and Wages – Employees by \$10,091.

⁴² USoA, Accounting Instruction 19 and 33.

⁴³ Whitley District #1’s Response to Staff’s Second Request (filed Jan. 3, 2022), Item 5.

⁴⁴ Application, Attachment 4, Adjustment C.

⁴⁵ Whitley District #1’s Response to Staff’s First Request (filed Nov. 18, 2022), Item 1e.

⁴⁶ Whitley District #1’s Response to Staff’s First Request (filed Nov. 18, 2022), Item 1f.

⁴⁷ Whitley District #1’s Response to Staff’s First Request (filed Nov. 18, 2022), Item 1e.

Normalized Hours with Current Wages							
Employee Position	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
Meter Reader	2,080	\$ 12.56	\$ 26,125	372	\$ 18.84	\$ 7,008	\$ 33,133
Account Clerk	2,080	15.35	31,928	102	23.03	2,349	34,277
Service Technician	1,021	15.63	15,958	-	23.45	-	15,958
General Manager	2,080	20.83	43,326	281	31.25	8,764	52,091
Field Supervisor	2,080	16.42	34,154	706	24.63	17,376	51,530
Service Technician	2,080	12.16	25,293	229	18.24	4,177	29,470
Asst. Account Clerk	1,033	11.18	11,549	-	16.77	-	11,549
Service Technician	2,080	11.50	23,920	130	17.25	2,234	26,154
Service Technician	2,080	10.80	22,464	85	16.20	1,377	23,841
Pro Forma Wages							278,002
Less: Test Year Salaries & Wages - Employees							<u>(267,912)</u>
Pro Forma Adjustment							<u>\$ 10,091</u>

(G) Payroll Taxes Reclassification. In its application, Whitley District #1 proposed an adjustment to increase Taxes other than Income and Decrease Miscellaneous Expense by \$18,358; the adjustment was proposed since payroll taxes were incorrectly recorded as miscellaneous expenses.⁴⁸ Commission Staff agrees with Whitley District #1's proposal to reclassify expenses into the correct expense. However, after reviewing Whitley District #1's Adjusted Trial Balance, Commission Staff determined Payroll Taxes were included in Salaries and Wages- Employees, as shown below, instead of Miscellaneous Expenses.

Account #	Account Name	Amount
0601-000	Salaries and Wage – Employees	\$267,912
0408-012	Payroll Taxes	<u>18,358</u>
Application's Total Salaries and Wages –Employees		<u>\$286,270</u>

Therefore, Commission Staff reduced Salaries and Wages- Employees, and increased Taxes other than Income by \$18,358.

⁴⁸ Application, Attachment 4, Adjustment E.

(H) Salaries and Wages – Officers. In its application Whitley District #1 reported Salaries and Wages – Officers of \$10,000.⁴⁹ Whitley District #1 provided the test-year Commissioners and Commissioner’s Salaries.⁵⁰ In December of the test year, the Whitley Fiscal Court authorized Whitley District #1 to pay each of its Commissioners \$6,000 annually.⁵¹ Commission Staff calculated the test year Salaries and Wages- Officers to be \$18,000 as shown below. Therefore, in order to normalize the test year Commission Staff increased Salaries and Wages – Officers by \$8,000. However, there is currently no record of the three commissioners having attended the required 6 instructional hours of water training during 2022. Since the Commissioners are required to attend water training annually,⁵² Whitley District #1 needs to submit proof in its response to Commission Staff’s Report that the Commissioners attended Commission administered or Commission approved training in order to receive the \$6,000 annual salary.

<u>Commissioners</u>	<u>Pro Forma Salaries</u>
Durham, Bob G.	\$6,000
Meadors, Andrew D.	6,000
Stanley, Billy R.	<u>6,000</u>
Total	18,000
Less: Test-Year Salaries and Wages- Officers	<u>(10,000)</u>
Salaries and Wages- Officers Adjustment	<u><u>\$8,000</u></u>

⁴⁹ Application, Attachment 4, Schedule of Adjusted Operations.

⁵⁰ Whitley District #1’s Response to Staff’s First Request (filed Nov. 18, 2022), Item 11.

⁵¹ Whitley District #1’s Response to Staff’s Second Request (filed Jan. 3, 2023), Item 1.

⁵² KRS 74.020(6), Each commissioner shall receive an annual salary of not more than thirty-six hundred dollars (\$3,600), which shall be paid out of the water district fund, except that beginning January 1, 1999, and subject to subsection (9) of this section, each commissioner who completes during an educational year a minimum of six (6) instructional hours of water district management training approved by the Public Service Commission may receive an annual salary of not more than six thousand dollars (\$6,000) to be paid out of the water district fund. An educational year shall begin on January 1 and end on the following December 31.

(l) Employee Pensions and Benefits- Insurance. In its application, Whitley District #1 proposed an adjustment to decrease Employee Pension and Benefits by \$5,672 in order to limit expenses associated with providing employees medical and dental insurance.⁵³ Whitley District #1 currently pays all seven of its full time employees 100 percent of a single health insurance plan at \$772 per month.⁵⁴ Four employees receive employee only dental insurance for \$20.90 per month, two receive employee and spouse for \$40.24 per month, and one receives employee and children dental insurance for \$62.92 per month.⁵⁵ 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. The Commission has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.⁵⁶

Consistent with precedent⁵⁷ in which the Commission has reduced benefit expenses for utilities that pay 100 percent of an employee's health insurance coverage, Commission Staff reduced Whitley District #1's single health insurance premiums by

⁵³ Application, Attachment 4, Adjustment I.

⁵⁴ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 5.

⁵⁵ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 5.

⁵⁶ 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).

⁵⁷ Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates*, (Ky. PSC June 20, 2019) at 8–12.

22 percent,⁵⁸ and dental insurance premiums by 60 percent⁵⁹ as shown in the calculation below. Whitley District #1 provided the most recent copy of its health and dental insurance invoices.⁶⁰ Accordingly, utilizing the most recent invoice amounts Commission Staff recalculated the proposed adjustment and decreased Employee Pensions and Benefits by a net of \$6,735 as shown below.

Type of Premium	Monthly Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	\$ 5,405	22%	\$ (1,189)	\$ 4,216
Dental and Vision Insurance	227	60%	(136)	91
Total Pro Forma Monthly Premium				4,307
Times: 12 Months				12
Total Annual Pro Forma Premium				51,684
Less: Test Year Health and Dental Insurance Expense				(58,419)
Employee Pension and Benefits Adjustment				<u>\$ (6,735)</u>

(J) Employee Pensions and Benefits - County Employees Retirement System (CERS). Whitley District #1 proposed an adjustment to increase Employee Pensions and Benefits by \$26,010 in order to account for the increase in pension contributions due to the proposed increase in Salaries and Wages.⁶¹ As explained in Adjustment (C) above, Commission Staff increased Salaries and Wages - Employees to \$278,002. Whitley District #1 only contributes to pensions for its full time employees. Therefore, the Salaries

⁵⁸ Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁵⁹ Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Mar. 24, 2020). Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Mar. 5, 2021). Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

⁶⁰ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 5.

⁶¹ Application, Attachment 4, References, Adjustment D.

and Wages for employees eligible for pensions and benefits is \$250,495. Accounting for the revised increase to Salaries and Wages in Adjustment (C), Commission Staff calculated the pro forma CERS contribution amount of \$67,108. Therefore, Commission Staff decreased Employee Pensions and Benefits by \$24,087 as shown below.

<u>Employee Pensions and Benefits</u>	
Pro Forma Salaries and Wage- Eligible Employees	\$250,495
Multiplied by: Employer Contribution Rate Fiscal	<u>26.79%</u>
Pro Forma CERS- Employer Contribution	67,108
Less: Test Year Employee Pensions and Benefits	<u>(43,021)⁶²</u>
Employee Pensions and Benefits Adjustment	<u>\$24,087</u>

(K) Purchased Water Expense. In its test year, Whitley District #1 reported a purchased water expense of \$746,436.⁶³ Whitley District #1 confirmed the purchased water expense is determined based on invoices paid instead of master meter readings.⁶⁴ During the test year, Whitley District #1 filed and was approved an increase due to a purchase water adjustment in Case No. 2021-00157.⁶⁵ Whitley District provided the total number of gallons and the purchased rate for water purchased during the test year.⁶⁶ Commission Staff discovered, and Whitley District #1 confirmed, the actual purchased

⁶² Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 1b.

⁶³ Application, Exhibit 8, Schedule of Adjusted Operations.

⁶⁴ Whitley District #1's Response to Staff's Second Request (filed Jan. 3, 2023), Item 4.

⁶⁵ Case No. 2021-00157, *Electronic Purchased Water Adjustment Filing of Whitley County Water District #1* (KY. PSC May 3, 2021).

⁶⁶ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 7, 7_Water_Purchases.xlsx.

Water expense for gallons purchased in the test year is \$697,664.⁶⁷ In order to annualize 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 \$709,832. Therefore, Commission Staff decreased purchased water expense by \$36,604 in order to reconcile the test year amount with the reported purchased amount as shown below.

Period	Corbin		Williamsburg		Jellico		McCreary Co. WD		Total
	Gallons Purchased	Dollars per Gallon							
Jan-2021	10,747,000	\$0.00220	5,769,848	\$0.00250	5,495,217	\$0.00350	673,062	\$0.00759	\$ 62,410
Feb-2021	10,222,000	0.00220	5,022,439	0.00250	5,231,933	0.00350	569,731	0.00759	57,681
Mar-2021	10,731,000	0.00220	6,529,922	0.00250	4,892,342	0.00350	742,428	0.00759	62,691
Apr-2021	10,363,000	0.00220	11,057,990	0.00250	124,114	0.00350	764,477	0.00759	56,680
May-2021	10,694,000	0.00220	8,362,468	0.00250	3,338,920	0.00350	694,874	0.00759	61,393
Jun-2021	10,436,000	0.00220	6,137,093	0.00250	4,416,244	0.00350	605,104	0.00759	58,352
Jul-2021	10,182,000	0.00220	6,879,846	0.00250	4,551,426	0.00350	799,614	0.00759	61,599
Aug-2021	10,534,000	0.00220	5,868,430	0.00250	4,233,423	0.00350	784,097	0.00759	58,614
Sep-2021	9,538,000	0.00220	5,345,000	0.00250	3,928,515	0.00350	663,987	0.00759	53,136
Oct-2021	10,949,000	0.00220	5,435,157	0.00250	4,320,331	0.00350	762,127	0.00759	58,581
Nov-2021	10,962,000	0.00220	5,898,835	0.00250	3,980,200	0.00350	620,901	0.00759	57,507
Dec-2021	12,847,000	0.00220	5,648,474	0.00250	4,231,970	0.00350	525,906	0.00759	61,188
Total Purchased Water Expense									709,832
Less: Test Year Purchased Water									<u>(746,436)</u>
Pro Forma Purchased Water Adjustment									<u><u>\$(36,604)</u></u>

(L) Expenses Attributable to Water Loss. In its application, Whitley District #1 proposed a net adjustment of \$149,604 decrease to Purchased Water, Purchased Power, and Chemicals & Lab Testing to account for excess water loss.⁶⁸ This adjustment is in accordance with Commission precedent of not allowing recovery of expenses for water

⁶⁷ Corbin- Cost \$282,051 + Williamsburg- Cost \$194,889 + Jellico- Cost \$170,606 + McCreary Co- Cost \$50,118 = \$697,664.

⁶⁸ Application, Attachment 4, Adjustment H.

loss in excess of 15 percent.⁶⁹ Commission Staff agrees with Whitley District #1's methodology. Additionally, when adjustment (K) is included in the purchased water calculation, it results in a decrease to Purchased Water Expense by \$136,243, Purchased Power Expense by \$6,296, and Chemical Expense by \$39. The adjustments result in a net decrease of \$142,578 as shown in the table below.

Purchased Water Expense				
	Purchased Water	Purchased Power	Chemical & Lab Testing	Total
Pro Forma Expenses	\$709,832	\$32,801	\$201	\$742,832
Multiply by: Water Loss in Excess of 15 percent	19.19%	19.19%	19.19%	19.19%
Total Costs due to Excess Water Loss	<u>\$136,243</u>	<u>\$6,296</u>	<u>\$39</u>	<u>\$142,578</u>

(M) Purchased Power Reclassification. In its application, Whitley District #1 proposed an adjustment to increase Purchased Power Expense and Decrease Miscellaneous Expense by \$32,801.⁷⁰ The adjustment was proposed since purchased power expenses were incorrectly recorded as miscellaneous expenses. Whitley District #1 provided the test year Purchased Power Expense.⁷¹ Commission Staff agrees with Whitley District #1's proposal to record expenses in the correct expense. Therefore, Commission Staff reduced Miscellaneous Expenses and increased Purchased Power Expense by \$32,801.

⁶⁹ Case No. 2022-00117, *Electronic Application of Bronston Water Association, Inc. For A Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Oct 12, 2022) at 10 and 11. Case No. 2022-0012, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct 24, 2022) at 8.

⁷⁰ Application, Attachment 4, Adjustment G.

⁷¹ Whitley District #1's Response to Staff's First Request (filed Nov. 18, 2022), Item 1b, 1b_2021_Trial_Balance.xlsx.

(N) Reconciliation of Miscellaneous Expense. Whitley County District #1 recorded a test year Miscellaneous Expense of \$383,413.⁷² As discussed in Adjustment (J), Commission Staff reclassified \$32,801 as Purchased Power Expense, resulting in a Miscellaneous Expense of \$350,612.⁷³ Commission Staff reviewed Whitley District #1's Adjusted Trial Balance and determined Miscellaneous Expense of \$350,213. Therefore, Commission Staff reduced Miscellaneous Expense by \$399 as shown below.

Miscellaneous Expense		
Account Number	Account Name	Amount
0670-000	Bad Debt Expense	\$ 54
0675-000	Miscellaneous Expense	49,681
0675-002	Reimbursed Expenses	939
0675-004	Supplies- Office	9,480
0675-005	Supplies- Pump Maintenance	21,221
0675-006	Supplies- Meter Maintenance	34,795
0675-007	Telephone	8,599
0675-009	Uniform Rental	1,038
0675-011	Postage/ Shipping	21,425
0675-012	Equipment Repairs	5,932
0675-014	Monitoring Services	384
0675-016	Supplies- General Maintenance	451
0675-017	Membership Dues	6,868
0675-018	Tools, Non-Depreciable	661
0408-000	Taxes other than Income	<u>188,683</u>
Total Test Year Miscellaneous Expenses		350,213
Less: Test Year Miscellaneous Expenses		<u>(350,612)</u>
Pro Forma Miscellaneous Expense Adjustment		<u>\$ (399)</u>

⁷² Application, Attachment 4, Schedule of Adjusted Operations.

⁷³ \$383,413 - \$32,801 = \$30,612.

(O) Reconciliation of Depreciation Expense. In its application, Whitley District #1 proposed an adjustment decreasing Depreciation Expense by \$132,312 in order to reconcile the 2021 Annual Report and the Fixed Assets Register.⁷⁴ Whitley District #1 reported a Depreciation Expense of \$643,000.⁷⁵ Commission Staff has reviewed the Depreciation Listing and agrees with Whitley District #1's reported proposed test year Depreciation expense is \$510,688.⁷⁶ Therefore, Commission Staff agrees with Whitley District #1's Depreciation adjustment decreasing Depreciation Expense by \$132,312.

(P) Depreciation Expense. In its application Whitley District #1 proposed an adjustment decreasing Depreciation Expense by \$141,096.⁷⁷ As explained in adjustment (L) above, the adjusted test year Depreciation Expense was \$510,688. To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study). 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 Whitley District #1's methodology to adjust depreciation expense; however, Commission Staff calculated the depreciation expense of \$367,859. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the

⁷⁴ Application, Attachment 4, Adjustment J.

⁷⁵ 2021 Annual Report at 20.

⁷⁶ Application, Attachment 7.

⁷⁷ Application, Attachment 4, Adjustment K.

NARUC ranges. Therefore, Commission Staff decreased Whitley District #1's Depreciation Expense by \$142,829 to \$367,859 as shown below.

Categories	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
General Plant			
Structures & Improvements	\$ 2,321	\$ 261	\$ 2,582
Communications & Computer Eqmt.	15,162	(3,935)	11,227
Office Furniture & Equipment	1,357	(620)	737
Power Operated Equipment	117	14	131
Tools, Shop, & Garage Equipment	1,193	(668)	525
Tank Repairs & Painting	-	-	-
Transmission & Distribution Plant			
Transmission & Distribution Mains	406,129	(146,286)	259,843
Meter Installations	4,152	(2,059)	2,093
Meter Change-outs	24,966	26,239	51,205
Pump Equipment	30	29	59
Services	1,210	(908)	302
Reservoirs & Tanks	4,408	(490)	3,918
Transportation Equipment	13,429	(1,369)	12,060
Transmission & Distribution Mains	36,214	(13,037)	23,177
Total	\$ 510,688	\$ (142,829)	\$ 367,859

(Q) Taxes other Than Income- FICA. In its application, Whitley District #1 proposed an adjustment to increase Taxes other Than Income by \$3,954 in order to account for increase in payroll taxes due to the proposed increase in Salaries and Wages Expense.⁷⁸ However, as explained in Adjustments (C) and (E) above, Commission Staff calculated pro forma Salaries and Wages – Employees of \$278,002 and Officers of \$11,000. Therefore, Commission Staff calculated an increase to Taxes other Than Income of \$4,286 as shown below.

⁷⁸ Application, Attachment 4, Adjustment F.

<u>Taxes other than Income- FICA</u>	
Pro Forma Salaries & Wages – Employees	\$278,002
Pro Forma Salaries & Wages –Officers	<u>18,000</u>
Pro Forma Wages	296,002
Multiplied by: 7.65 Percent FICA Rate	<u>7.65%</u>
Pro Forma Payroll Taxes	22,644
Less: Test Year Payroll Taxes	<u>(18,358)</u>
Taxes other than Income- FICA Adjustment	<u><u>\$4,286</u></u>

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. 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;⁷⁹ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

⁷⁹ 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).

	Whitley County Water District #1	Commission Staff	
Pro Forma Operating Expenses	\$ 1,881,675	\$ 1,860,037	
Plus: Avg. Annual Principal and Interest Payments	314,535	314,535	(1)
Additional Working Capital	62,907	62,907	(2)
Total Revenues Requirement	2,259,117	2,237,479	
Less: Other Operating Revenue	(310,690)	(323,730)	
Interest and Dividend Income	(7,274)	(7,274)	
Revenue Required From Water Sales	1,941,153	1,906,475	
Revenue from Sales at Present Rates	(1,839,035)	(1,839,035)	
Required Revenue Increase	\$ 102,118	\$ 67,440	
Percentage Increase	5.55%	3.67%	

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Whitley District #1 had one outstanding loan from the United States Department of Agriculture, Rural Development (RD),⁸⁰ and two loans from the Kentucky Infrastructure Authority (KIA).⁸¹ In addition, Whitley District #1 had one Capital Lease from KIA.⁸² In its application, Whitley District #1 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 2023 through 2027.⁸³

⁸⁰ Case No. 2006-00367, *The Application of Whitley County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Sept. 14, 2006).

⁸¹ Case No. 2010-00200, *Application of Whitley County Water District No. 1 for Approval of Financing and Issuance of a Certificate of Convenience and Necessity* (Ky. PSC Jul. 29, 2010). Case 2018-00235, *Application of Whitley County Water District No. 1 for Approval of Financing and Issuance of a Certificate of Convenience and Necessity* (Ky. PSC Aug. 30, 2018).

⁸² Case No. 2018-00211, *Application of Whitley County Water District #1 for Approval to Enter into a Lease Agreement with the Kentucky Association of Counties Leasing Trust for an Approximate Principal Amount of \$2,715,000 for the Purpose of Refinancing Certain Outstanding Obligations* (Ky. PSC Aug. 21, 2018).

⁸³ Application, Statement of Adjusted Operations, Table B Debt Service Schedule.

Commission Staff agrees with Whitley District #1's calculation. As shown below, Commission Staff calculated an Average Principal and Interest of \$314,535.

2023-2027 Five-Year Average of Debt Payments									
Year	91-13		B08-03		F15-030		Capital Lease		Total
	Principal	Interest	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	
2023	\$ 6,000	\$9,368	\$46,612	\$ 3,936	\$46,182	\$7,965	\$95,000	\$100,631	\$ 315,694
2024	6,300	9,114	46,892	3,563	46,529	7,502	100,000	95,519	315,419
2025	6,500	8,850	47,174	3,187	46,879	7,036	105,000	90,144	314,770
2026	6,800	8,576	47,458	2,809	47,231	6,567	110,000	84,506	313,946
2027	7,100	8,289	47,743	2,429	47,586	6,093	115,000	78,606	312,846
Total									1,572,676
Divide by: 5 years									5
Average Annual Interest Payment									<u>\$ 314,535</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, Whitley District #1 requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its loan payable to KIA at the time of its application.

RD requires that Whitley District #1 charge rates that produce net revenues that are at least 120 percent of its average annual debt payments. Following the Commission's historic practice, Commission Staff agrees with Whitley District #1. Therefore, as calculated below and shown in the table above, \$62,907 is included in the revenue requirement.

Additional Working Capital

Average Annual Principal and Interest	\$ 314,535
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	377,442
Less: Average Annual Principal and Interest Payments	<u>(314,535)</u>
Additional Working Capital	<u>\$ 62,907</u>

Signatures

/s/ William M. Foley

Prepared by: William M. Foley
Revenue Requirement Branch
Division of Financial Analysis

/s/ Elizabeth Stefanski

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

APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00321 DATED FEB 02 2023

The following rates and charges are prescribed for the customers in the area served by Whitley County Water District #1. 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

First	1,000 Gallons	\$20.42	Minimum Bill
Next	4,000 Gallons	\$0.00742	Per Gallon
Next	95,000 Gallons	\$0.00695	Per Gallon
Over	100,000 Gallons	\$0.00639	Per Gallon

Monthly Water Loss Reduction Surcharge \$2.76 per bill

Nonrecurring Charges

5/8 x 3/4 Inch Meter Tap On	\$843.00
All Meters Larger than 5/8 x 3/4 Inch	Actual Cost
Late Payment Charge	10%
Meter Turn-On Charge	\$8.00
Meter Relocation Charge	Actual
Meter Re-Read Charge	\$8.00
Meter Resetting Charge	\$8.00
Meter Test Charge	Actual
Service Call/Investigation	\$8.00
Service Line Inspection	\$8.00
Service Disconnection	\$8.00
Service Reconnection	\$8.00
Service Termination Field Collection	\$8.00
Returned Check Charge	\$11.00

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