

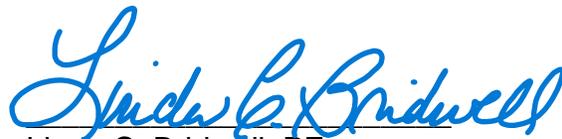
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BATH COUNTY)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2022-00404
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 January 11, 2023, 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 January 11, 2023 Order, Bath County Water District (Bath District) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Bath District to the Commission's July 22, 2021, Order in Case No. 2020-00085¹ regarding filings with the Commission.



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

DATED MAY 03 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).

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BATH COUNTY)	CASE NO.
WATER DISTRICT FOR AN ADJUSTMENT OF ITS)	2022-00404
WATER RATES PURSUANT TO 807 KAR 5:076)	

COMMISSION STAFF'S REPORT
ON BATH COUNTY WATER DISTRICT

Bath County Water District (Bath District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system and provides retail water service to approximately 3,924 residential customers, 113 commercial customers, and 7 industrial customers that reside in Bath, Menifee, Montgomery, and Rowan counties, Kentucky.¹

On December 15, 2022, Bath 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 Bath District used the calendar year ended December 31, 2021, as the basis for its application. Bath District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2012-00537.³ To ensure the orderly review of the application, the Commission established a procedural

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

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. 2012-00537, *Alternative Rate Adjustment for Bath County Water District* (Ky. PSC May 17, 2013).

schedule by Order dated January 11, 2023. Bath District responded to two requests for information from Commission Staff.⁴

WATER LOSS

Commission regulation 807 KAR 5:066, Section 6(3), states, in relevant part, that for ratemaking purposes, a utility’s unaccounted-for water loss shall not exceed 15 percent of total water produced and purchased, excluding water used by a utility in its own operations. The Commission notes that, in its 2021 Annual Report, Bath District reported a water loss of 12.1047 percent.⁵ As the table below shows, the total annual cost of Bath District’s water loss was \$138,929.

	<u>Purchased Water</u>	<u>Purchased Power</u>	<u>Total</u>
Pro Forma Purchases	\$ 1,062,606	\$ 85,121	\$ 1,147,727
Water Loss Percent	12.1047%	12.1047%	12.1047%
Total Water Loss	<u>\$ 128,625</u>	<u>\$ 10,304</u>	<u>\$ 138,929</u>

DISCUSSION

Using its pro forma test-year operations, Bath District determined that a base rate revenue increase of \$95,195, or 4.14 percent, was necessary to achieve the revenue requirement as shown in the table below.⁶

⁴ Bath District’s Response to Commission Staff’s First Request for Information (Staff’s First Request) (filed Feb. 10, 2023); Response to Commission Staff’s Second Request for Information (Staff’s Second Request) (filed Mar. 14, 2023).

⁵ 2021 Annual Report at 57.

⁶ Application, Attachment_RR-DC.pdf.

Pro Forma Operating Expenses	\$ 2,366,305
Plus: Average Annual Principal and Interest Payments	91,544
Additional Working Capital	18,309
	<hr/>
Overall Revenue Requirement	2,476,158
Less: Other Operating Revenue	(47,423)
Non-Operating Revenue	(21,871)
Interest Income	(10,584)
	<hr/>
Revenue Required from Rates	2,396,280
Less: Pro Forma Present Rate Service Revenues	(2,301,085)
	<hr/>
Required Revenue Increase	<u>\$ 95,195</u>
	<hr/>
Percentage Increase	<u>4.14%</u>

To determine the reasonableness of the rates requested by Bath District, Commission Staff performed a limited financial review of Bath District’s test-year operations. The scope of Commission Staff’s review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable⁷ 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. Jeff Abshire and Noah Abner reviewed the calculation of Bath District’s Overall Revenue Requirement and Eddie Beavers reviewed Bath District’s reported revenues and rate design.

⁷ Commission regulation 807 KAR 5:076, Section 9 establishes the mechanism by which the “reasonableness of the proposed rates shall be determined” and states, in pertinent part, that the test period shall be “adjusted for known and measurable changes[.]” See e.g. 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).

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff found that Bath District's required revenue from water sales is \$2,384,604 to meet the Overall Revenue Requirement of \$2,451,138 and that a \$83,999 revenue increase, or 3.65 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Bath District proposed to increase its monthly retail and wholesale water service rates by approximately 4.14 percent across the board. Bath District has not performed a cost of service study (COSS). Bath District stated that it did not complete a COSS at this time as there have been no material changes in the water system.⁸

The Commission has previously found that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.⁹ Finding no such evidence in this case, Commission Staff followed the method previously accepted by the Commission and allocated the \$83,999 revenue increase evenly across the board to Bath District's monthly retail and wholesale water service rates.

⁸ Bath District's Response to Staff's First Request, Item 13.

⁹ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan 5, 2022)

The rates, which are set forth in the Appendix to this report, are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$2,384,604 Revenue Required from Rates. The rates will increase a typical residential customer's monthly water bill from \$29.84 to \$30.93, an increase of \$1.09, or approximately 3.65 percent.¹⁰

3. Nonrecurring Charges. Following the Commission's recent decisions,¹¹ Commission Staff has reviewed Bath District's nonrecurring charges. The Commission found that because district personnel are currently paid during normal business hours and the labor costs are recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated to avoid double recovery of the same expense. Commission Staff reviewed the cost justification information provided by Bath District and adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs from those charges which occur during normal business hours.¹² These adjustments result in the following revised nonrecurring charges:

¹⁰ The typical residential customer uses approximately 3,955 gallons per month. Application, Exhibit K Notices at 4.

¹¹ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and 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).

¹² Bath District's Response to Commission Staff's First Request, Item 11.

Connection Charge	\$27.50
Connection Charge After Hours	\$70.00
Field Collection	\$27.50
Field Collection After Hours	\$70.00
Meter Reread	\$27.50
Meter Reread Charge After Hours	\$70.00
Meter Test Charge	\$27.50
Reconnection Charge	\$27.50
Reconnection Charge AH	\$70.00
Returned Check Charge	\$0.00
Service Call Charge	\$27.50
Service Call Charge AH	\$70.00
Service Line Insp	\$27.50
Service Line Insp AH	\$70.00
5/8 x 3/4 Tap Fee	\$1,350.00
5/8 x 3/4 Tap Fee Tandem Service	\$1,535.00

The revised nonrecurring charges result in a decrease to test year Other Water Revenues and an increase to the total revenue requirement of \$7,180 as explained in adjustment (C) below.

PRO FORMA OPERATING STATEMENT

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

	Test Year	Adjustment	(Ref.)	Pro Forma
Operating Revenues				
Sales of Water	\$ 2,236,094	\$ 64,511	(A)	\$ 2,300,605
Public Fire Protection	480			480
Forfeited Discounts	28,643			28,643
Misc Service Revenues / Other	19,440	7,180	(B)	26,620
Total Operating Revenues	2,284,657	71,691		2,356,348
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	370,182	(41,578)	(C)	328,604
Salaries and Wages - Commissioners	17,700	300	(D)	18,000
Employee Pensions and Benefits	244,871	11,416	(E)	
		(57,388)	(E)	
		(4,821)	(E)	
		(9,444)	(E)	184,634
Purchased Water	1,001,951	60,655	(F)	1,062,606
Purchased Power for Pumping	85,121			85,121
Chemicals	10,393			10,393
Materials and Supplies	67,912			67,912
Contractual Services	19,664	5,000	(G)	24,664
Water Testing	8,200			8,200
Transportation Expense	27,784			27,784
Insurance	30,440			30,440
Bad Debt Expense	(306)			(306)
Miscellaneous Expense	95,796			95,796
Total Operation and Maintenance Expenses	1,979,708	(35,860)		1,943,848
Taxes Other Than Income - FICA	34,741	(4,135)	(H)	30,606
Depreciation	371,853	(3,078)	(I)	368,775
Total Operating Expenses	2,386,302	(43,073)		2,343,229
Net Operating Income	(101,645)	114,764		13,119
Interest Income		10,584		10,584
Income Available to Service Debt	\$ (101,645)	\$ 125,348		\$ 23,703

(A) Billing Analysis Adjustment. Bath District proposed an adjustment of \$64,511 to its test-year revenues of \$2,236,094, for an adjusted test-year normalized revenues of \$2,300,605. Bath District adjusted revenues for the effect of two purchased

water adjustments that were approved during 2022.¹³ Commission Staff reviewed Bath District's analysis and agrees with the adjustment. Commission Staff recommends that the Commission approve the adjustment.

(B) Miscellaneous Service Revenues and Other Water Revenues. In its application, Bath District did not propose any adjustment to Miscellaneous Service Revenues and Other Water Revenues, which totaled \$19,440 (\$18,780 plus \$660). In a response to Staff's First Request, Bath District provided the amount that was collected during the test year for Returned Check Fees and Service Charges.¹⁴ Additionally, Bath District provided updated cost justification sheets for the pro forma revenues.¹⁵

Commission Staff reviewed the responses to the information requests, the cost justification sheets, and the General Ledger. The returned check fee was double counted by being recorded in both the Miscellaneous Revenues and the Other Water Revenue based upon the information provided in the response to the Staff's First Request and a review of the information provided in the General Ledger. Commission Staff made adjustments to increase Miscellaneous Revenue by \$7,180 for \$7,160 in changes to nonrecurring charge amounts and a \$20 miscellaneous adjustment.

The proposed adjustments made by Commission Staff results in a pro forma amount of \$26,620 as shown below.

¹³ Case No. 2022-00067, *Electronic Purchased Water Adjustment Filing of Bath County Water District* (KY PSC Mar 30, 2022); and Case No. 2022-00239, *Electronic Purchased Water Adjustment Filing of Bath County Water District* (KY PSC Aug 22, 2022).

¹⁴ Bath District's Response to Staff's First Request, Item 10.

¹⁵ Bath District's Response to Staff's First Request, Item 11.

	Number	Current Rate	Total	Revised Rate	Adjustment	Pro Forma
Returned Check Charge	33	\$20.00	640.00	\$5.00	(475.00)	165.00
Service Call Charge	962	\$20.00	18,820.00	\$27.50	7,635.00	26,455.00
Total			<u>\$19,460.00</u>		<u>\$7,160.00</u>	<u>\$26,620.00</u>

Commission Staff recommends that the Commission approve these adjustments.

(C) Salaries and Wages - Employees. Bath District proposed a decrease of \$3,891 to reflect the net effect of changes in staffing during the test year.¹⁶ Commission Staff reviewed Bath District's calculations and determined that Bath District had included both the wages of an employee who retired during the test year as well as the wages of the employee who was subsequently hired, which Bath District subsequently acknowledged.¹⁷ Commission Staff accepted Bath District's reduction of \$3,891 and made an additional reduction of \$37,688 for the duplicated wages for a total reduction of \$41,578 as shown below.

Description	Utility Test Year	Increase / (Decrease)	Utility Pro Forma	Commission Staff Adj	Revised Pro Forma
Straight Time Wages	\$ 356,655		\$ 356,655	\$ (37,688)	\$ 318,967
Overtime	9,193	444	9,637		9,637
Incentive Pay - Employees	10,361	(10,361)	0		0
Less Capitalized Labor	(12,768)	12,768	0		0
Other Net Differences	6,741	(6,742)	(1)	1	0
Total	<u>\$ 370,182</u>	<u>\$ (3,891)</u>	<u>\$ 366,291</u>	<u>\$ (37,687)</u>	<u>\$ 328,604</u>

(D) Salaries and Wages – Officers. In the test year, Bath District reported \$17,700 for Salaries and Wages – Officer Expense. Bath District proposed an increase of \$300 to reflect five commissioners with annual compensation of \$3,600 each. Bath District provided training documentation for one new commissioner during 2021.

¹⁶ Application at 17, References.

¹⁷ Bath District's Response to Staff's Second Request, Item 3a.

Commission Staff agrees that the proposed adjustment is known and measurable and has included it in pro forma operations.

(E) Employee Benefits.

Medical Benefits - Bath District pays 100 percent of employee health, vision, a flexible spending benefit, and \$15,000 in employee life insurance. Supplemental short- and long-term disability coverage is also available at cost to employees. Bath District proposed an increase of \$11,416 to reflect the net of changes in employee participation and inflation. Additionally, Bath District proposed to reduce benefit costs for ratemaking purposes by \$57,388 to limit Bath District's contribution to coverage to 78 percent for single coverage and 66 percent for family coverage based on current Bureau of Labor (BLS) Statistics Average Employer Contribution Rates for Health Insurance.¹⁸ Commission Staff reviewed Bath District's calculations and agrees that the proposed adjustment is known and measurable and has included it in pro forma operations.

County Employees' Retirement System. - Regular, full-time employees of Bath District are provided with retirement benefits through the County Employees' Retirement System (CERS), which is administered by the Kentucky Public Pensions Authority. As part of CERS, Bath District makes contributions to employee's retirement account based on annual salaries and wages. The CERS pension expense Bath District reported in the test year conformed to the requirements of the Governmental Accounting Standards Board Statement No. 68 and No. 75 (GASB 68 and 75). In its application, Bath District proposed to decrease Employee Pensions and Benefits by \$4,821 to normalize expenses related to CERS contributions to the amount actually paid by Bath District in the test

¹⁸ Application, Attachment_SAO_AndSupportingExhibits.pdf.

period and to remove the effects of the journal entries made to conform to the requirements of GASB 68 and 75.¹⁹

In Case No. 2016-00163,²⁰ Commission Staff discussed in detail how reporting requirements for GASB 68 would affect a utility's income statement and balance sheet. In that proceeding, Commission Staff found that the annual pension expense should be equal to the amount of a district's contributions to CERS, which historically have been constant.²¹ Because it is consistent with Commission Staff's previous practice, Commission Staff agrees with Bath District's proposed adjustment to reduce expenses related to GASB 68 and 75 and reduced Employee Pensions and Benefits expense by \$4,821. Additionally, Commission Staff reviewed Bath District's calculations and determined that Bath District had included both the wages of an employee who retired during the test year as well as the wages of the employee who was subsequently hired, which Bath District subsequently acknowledged.²² Commission Staff reduced pension expense by \$9,444 for this item along with a true-up of the calculation of overall pension contributions. A summary of the adjustments is shown below:

¹⁹ Application, Exhibit C, Statement of Adjusted Operations, References, Adjustment G.

²⁰ Case No. 2016-00163, *Electronic Rate Adjustment Filing of Marion County Water District*, Staff Report (filed on Aug. 11, 2016) at 11–27.

²¹ Case No. 2016-00163, *Electronic Rate Adjustment Filing of Marion County Water District*, Staff Report (filed on Aug. 11, 2016) at 26.

²² Bath District's Response to Staff's Second Request, Item 3a.

Benefits	Test Year	Change	BLS			
			Adjustment ()	Bath District Pro Forma	Commission Staff Adj	Revised Pro Forma
Health	\$ 122,568	\$ (6,638)	\$ (57,388)	\$ 58,542	\$ 17,596	\$ 76,138
HRA FEBCO	23,946	18,054		42,000	(17,596)	24,404
Life	1,749	0		1,749		1,749
Life, Medical, Flex	148,263	11,416	(57,388)	102,291	0	102,291
Retirement (CERS)	96,608	(4,821)		91,787	(9,444)	82,343
Total Benefits	\$ 244,871	\$ 6,595	\$ (57,388)	\$ 194,078	\$ (9,444)	\$ 184,634

(F) Purchased Water. In its application, Bath District proposed to increase Purchased Water Expense by \$32,465 to account for increases in wholesale rates from two of its suppliers.²³ Commission Staff recalculated Pro Forma Purchased Water Expense based on updated purchase information provided by Bath District²⁴ and increased Purchased Water expense by \$60,655 to \$1,062,606 as shown below.

	Purchased		
	Purchased Water	Power	Total
Pro Forma Purchases	\$ 1,062,606	\$ 85,121	\$ 1,147,727
Water Loss Percent	12.1047%	12.1047%	12.1047%
Total Water Loss	\$ 128,625	\$ 10,304	\$ 138,929

(G) Contractual Services. Bath District proposed to amortize \$25,000 in rate case expenses over a period of five years, or \$5,000 per year. Commission Staff agrees that the proposed adjustment is known and measurable and has included it in pro forma operations.

(H) Taxes Other Than Income - FICA. Bath District did not propose to adjust Taxes Other Than Income - FICA. Commission Staff recalculated FICA taxes for the net

²³ Application, Attachment_SAO_AndSupportingExhibits.pdf.

²⁴ Bath District's Response to Staff's First Request, Item 6.a Revised 2021 Water Supplier Usage and Cost.xls.

effect of all adjustments to wages which resulted in a reduction to Taxes Other Than Income - FICA of \$4,135 As shown below.

Descr	Acct / Cost Center	Test	Pro Forma	Inc / (Dec)
Employee Wages		\$ 382,950	\$ 328,604	
Officers	603-008	17,700	18,000	
Total		400,650	346,604	(54,052)
FICA %		0.0765	0.0765	
FICA	604-006	30,650	26,515	(4,135)
Rounding Adjustment	604-006	(190)		
Reg Commission Exp	667-007	4,281	4,281	0
Total		\$ 34,741	\$ 30,796	\$ (4,135)

(l) Depreciation. In its application, Bath District reported Depreciation Expense of \$371,853.²⁵ Bath District decreased its test-year depreciation by \$3,078 to reflect adjustments of asset service lives to the midpoint of service life range set forth in the National Association of Regulatory Utility Commissioners' (NARUC) 1979 publication titled *Depreciation Practices for Small Water Utilities* (NARUC Study). To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon 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. In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. For this reason, Commission Staff agrees with Bath District's proposed adjustment and decreased pro forma Depreciation Expense by \$3,078.

²⁵ Application, Attachment_SAO_AndSupportingExhibits.pdf.

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 noncash item, to provide working capital;²⁶ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital in addition to depreciation expense.

	Bath District	Commission Staff	
Pro Forma Operating Expenses	\$ 2,366,305	\$ 2,343,916	
Plus: Average Annual Principal and Interest Payments	91,544	89,352	(1)
Additional Working Capital	18,309	17,870	(2)
Overall Revenue Requirement	2,476,158	2,451,138	
Less: Other Operating Revenue	(47,423)	(55,950)	
Non-Operating Revenue	(21,871)		
Interest Income	(10,584)	(10,584)	
Revenue Required from Rates	2,396,280	2,384,604	
Less: Pro Forma Present Rate Service Revenues	(2,301,085)	(2,300,605)	
Required Revenue Increase	<u>\$ 95,195</u>	<u>\$ 83,999</u>	
Percentage Increase	<u>4.14%</u>	<u>3.65%</u>	

1. Average Annual Principal and Interest Payments. In its application, Bath District reported two loans from the United States Department of Agriculture Rural

²⁶ 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. *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).

Development (RD) and two loans from the Kentucky Infrastructure Authority (KIA).²⁷ Bath District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2022 through 2026.²⁸ Bath District stated that one of the KIA loans, which had not yet been executed with KIA or approved by the Commission, would be submitted to the Commission for approval by March 31, 2023. Bath District also provided updated schedule information for the project associated with the loan.²⁹ Bath District subsequently filed for approval for the project.³⁰ Because the statutory date for a final Order to be issued in this proceeding is October 15, 2023, the 2022 payments were recovered through Bath District's existing rates. Only debt service payments that will be made after the new rates are placed into effect should be considered in determining Bath District's annual principal and interest expense. Commission Staff recalculated the average annual principal and interest on a five-year average for the years 2023 through 2027 as well as the updated debt service schedule for the pending KIA loan and recommends an average debt service amount of \$89,352 as shown below.

²⁷ Application, Exhibit D1, 5 Year Debt Payments.

²⁸ Application, Exhibit D1, 5 Year Debt Payments.

²⁹ Bath District's Response to Staff's Second Request, Item 2.

³⁰ Case No 2023-00097, *Electronic Application of Bath County Water District for a Certificate of Public Convenience and Necessity to Construct and Finance Improvement Projects Pursuant to 278.020 and 278.300* (Ky. PSC Mar 28, 2023).

Loan	2023		2024		2025		2026		2027		Total
	Interest	Principal									
KIA F16-011	4,837	32,225	4,514	32,467	4,189	32,711	3,861	32,957	3,531	33,204	184,494
2004 RD	16,505	10,500	16,034	11,000	15,542	11,500	15,028	12,000	14,492	12,500	135,102
2009 RD	4,898	5,500	4,768	5,500	4,637	5,500	4,501	6,000	4,358	6,000	51,662
KIA B22-003	0	0	4,447	6,273	8,878	12,742	8,693	12,902	8,505	13,064	75,504
Totals	\$ 26,240	\$ 48,225	\$ 29,763	\$ 55,240	\$ 33,246	\$ 62,453	\$ 32,082	\$ 63,859	\$ 30,886	\$ 64,768	\$ 446,762
Years											5
Average Debt Service											\$ 89,352

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 exhibits, Bath District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments.³¹ RD requires that Bath District charge rates that produce net revenues that are at least 120 percent of its average annual debt payments. Following the Commission's historic practice of including additional working capital, \$17,870 is included in the revenue requirement.

³¹ Application, Exhibit D1, 5 Year Debt Payments.

Signatures

/s/ Jeff Abshire

Prepared by: Jeff Abshire
Revenue Requirement Branch
Division of Financial Analysis

/s/ Noah Abner

Prepared by: Noah Abner
Revenue Requirement Branch
Division of Financial Analysis

/s/ Eddie Beavers

Prepared by: Eddie Beavers
Rate Design Branch
Division of Financial Analysis

APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00404 DATED MAY 03 2023

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

Monthly Water Rates

5/8- X 3/4-Inch Meter

First	2,000 Gallons	\$17.54	Minimum Bill
Next	3,000 Gallons	0.00685	Per Gallon
Next	5,000 Gallons	0.00537	Per Gallon
Next	10,000 Gallons	0.00468	Per Gallon
Next	30,000 Gallons	0.00446	Per Gallon
Over	50,000 Gallons	0.00433	Per Gallon

1-Inch Meter

First	10,000 Gallons	\$64.94	Minimum Bill
Next	10,000 Gallons	0.00468	Per Gallon
Next	30,000 Gallons	0.00446	Per Gallon
Over	50,000 Gallons	0.00433	Per Gallon

2-Inch Meter

First	50,000 Gallons	\$245.50	Minimum Bill
Over	50,000 Gallons	0.00433	Per Gallon

Wholesale Rates

City of Frenchburg	\$0.00357	Per Gallon
City of Owingsville	\$0.00404	Per Gallon
Sharpsburg Water District	\$4,906.70	Minimum Bill
	0.00319	Per Gallon

Nonrecurring Charges

Connection Charge	\$27.50
Connection Charge After Hours	\$70.00
Field Collection	\$27.50
Field Collection After Hours	\$70.00
Meter Reread	\$27.50
Meter Reread Charge After Hours	\$70.00
Meter Test Charge	\$27.50
Reconnection Charge	\$27.50
Reconnection Charge After Hours	\$70.00
Returned Check Charge	\$0.00
Service Call Charge	\$27.50
Service Call Charge After Hours	\$70.00
Service Line Inspection	\$27.50
Service Line Inspection After Hours	\$70.00
5/8 x 3/4 Tap Fee	\$1,350.00
5/8 x 3/4 Tap Fee Tandem Service	\$1,535.00

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