

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF REID VILLAGE	)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT	)	2023-00140
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 May 23, 2023, the attached report containing the recommendations 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 May 23, 2023 Order, Reid Village Water District (Reid Village District) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Reid Village District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.



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

DATED SEP 27 2023

cc: Parties of Record

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

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COMMISSION STAFF'S REPORT  
ON REID VILLAGE WATER DISTRICT

Reid Village Water District (Reid Village District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 1,108 residential customers and 39 commercial customers who reside in Clark and Montgomery counties, Kentucky.

On April 26, 2023,<sup>1</sup> Reid Village District filed its application with the Commission requesting an adjustment to its water rates pursuant to 807 KAR 5:076. Although Commission regulation 807 KAR 5:076, Section 9, requires the use of a historical test-year coinciding with the reporting period of the applicant's annual report for the immediate past year,<sup>2</sup> Reid Village District used the calendar year ended December 31, 2021, as the basis for its application. Commission Staff notes that according to the Commission's records, Reid Village District's accountant requested an extension of time in which to submit the 2022 Annual Report by letter dated April 3, 2023, and the request was granted.

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<sup>1</sup> Reid Village District tendered its application on April 26, 2023. By letter dated May 1, 2023, the Commission accepted the application, and the application is deemed filed on April 26, 2023.

<sup>2</sup> 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.

Given this, Commission Staff drafted its report based on the 2021 Annual Report,<sup>3</sup> and recommends that the Commission accept this report and grant Reid Village District any deviation from the requirement of 807 KAR 5:076, Section 9, that would have been required.

The application was filed pursuant to the Commission's Order in Case No. 2022-00240, which required Reid Village District to file an application for an adjustment of its base rates by August 26, 2024.<sup>4</sup> Reid Village District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2014-00379.<sup>5</sup> Since that matter, Reid Village District has only adjusted its rates pursuant to purchased water adjustments. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated May 23, 2023. Reid Village District responded to two discovery requests from Commission Staff.<sup>6</sup> Commission Staff held an informal conference with Reid Village District on August 21, 2023, to discuss issues Commission Staff had with Reid Village District's responses to Staff's requests for information.<sup>7</sup>

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<sup>3</sup> *Annual Report of Reid Village District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report).

<sup>4</sup> Case No. 2022-00240, *Electronic Application of Reid Village District for a Purchased Water Adjustment Pursuant to KRS 278.015* (Ky. PSC Aug. 23, 2022).

<sup>5</sup> Case No. 2014-00379, *Application of Reid Village District for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 30, 2015).

<sup>6</sup> Reid Village District's Response to Commission's First Request for Information (Staff's First Request) (filed June 26, 2023). Reid Village District's Response to Commission's Second Request for Information (Staff's Second Request) (filed Jul. 22, 2023).

<sup>7</sup> Informal Conference Memorandum (Ky. PSC Aug. 22, 2023).

## WATER LOSS

Commission Staff notes that in its 2021 Annual Report, Reid Village District reported a water loss of 12.1706 percent.<sup>8</sup> 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 Reid Village District is \$32,110.

	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 245,127	\$ 18,707	\$ 263,834
Water Loss Percent	12.1706%	12.1706%	
Total Water Loss	\$ 29,833	\$ 2,277	\$ 32,110

## DISCUSSION

Using its pro forma test-year operations, Reid Village District determined that a base rate revenue increase of \$77,069, or 12.70 percent, was necessary to achieve the revenue requirement as shown in the table below.<sup>9</sup>

Pro Forma Operating Expenses	\$ 626,043
Plus: Average Annual Principal and Interest Payments	61,057
Additional Working Capital	12,211
	<hr/>
Total Revenue Requirement	699,311
Less: Other Operating Revenue	(10,229)
Interest Income	(5,225)
	<hr/>
Revenue Required From Sales of Water	683,857
Less: Revenue from Sales with Present Rates	(606,788)
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Required Revenue Increase	\$ 77,069
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Percent Increase	12.70%
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<sup>8</sup> 2021 Annual Report at 57.

<sup>9</sup> Application, Attachment #4, Revenue Requirements.

To determine the reasonableness of the rates requested by Reid Village District, Commission Staff performed a limited review of Reid Village 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 measurable<sup>10</sup> changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's recommendations are summarized in this report. Noah Abner reviewed the calculation of Reid Village District's Overall Revenue Requirement, and Jason Green reviewed Reid Village District's reported revenues and rate design.

#### SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff determined that Reid Village District's required revenue from water sales is \$722,202 to meet the Overall Revenue Requirement of \$730,002 and that a \$99,266 revenue increase, or 15.94 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

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<sup>10</sup> 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); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

2. Monthly Water Service Rates. Based upon the revenue requirement, Reid Village District proposed to increase all of its monthly retail water service rates evenly across the board. Reid Village District did not perform a cost of service study (COSS).<sup>11</sup> Reid Village 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.<sup>12</sup>

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 Reid Village District and allocated the \$99,266 revenue increase across the board to Reid Village District's monthly retail and wholesale water service rates.

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 \$722,202 Revenue Required from Water Sales, an approximate 15.94 percent increase. These rates will increase a typical retail residential customer's monthly water bill from \$45.44<sup>13</sup> to \$52.68, an increase of \$7.24, or approximately 15.94 percent.

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<sup>11</sup> Reid Village District's Response to Staff's First Request, Item 20.

<sup>12</sup> Reid Village District's Response to Staff's First Request, Item 23.

<sup>13</sup> Application, Attachment 1, Customer Notice, typical residential customer uses approximately 4,000 gallons per month.

3. Nonrecurring Charges. Following the Commission’s recent decisions,<sup>14</sup> Commission Staff has reviewed Reid Village 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 Reid Village District and adjusted these charges by removing Field Labor Costs of \$20.00 per hour and Office/Clerical Labor Costs of \$25.00 per hour from those charges which occur during normal business hours.<sup>15</sup> For the remaining nonrecurring charges, Commission Staff agrees that Reid Village District’s proposed adjustments meet the ratemaking criteria of being known and measurable. The breakdown of costs for each nonrecurring charge and any Commission Staff adjustment can be found in Appendix A.

These adjustments result in the following revised nonrecurring charges:

Reconnection Charge	\$15.00
Service Connection Charge	\$10.00
Meter Test Charge	\$60.00
Returned Check Charge	\$5.00

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<sup>14</sup> 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).

<sup>15</sup> Reid Village District's Response to Staff's First Request, Item 18.

The revised nonrecurring charges result in a decrease to test year Other Water Revenues and an increase to the total revenue requirement of \$3,104 as explained in adjustment (C) below:

	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Service Connection Charge	92	\$27.00	\$10.00	-\$1,564	\$920
Reconnection Charge	71	\$35.00	\$15.00	-\$1,420	\$1,065
Returned Check Fee	12	\$15.00	\$5.00	-\$120	\$60
Meter Test Charge	0	\$40.00	\$60.00	\$0	\$0
Pro Forma Test Year NRC Revenue					\$2,045
Less: Test Year NRC Revenue					\$5,149
Adjustment					<u><u>-\$3,104</u></u>

Additionally, Reid Village District proposes to increase its tap-on fees for 5/8-Inch x 3/4-Inch meters. The cost justification form provided by Reid Village District results in a tap-on fee for 5/8-Inch x 3/4-Inch meters of \$1,483. Staff concurs with Reid Village District's proposed increase to its tap-on fees.

#### PRO FORMA OPERATING STATEMENT

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

	Test Year	Commission		(Ref.)	Pro Forma
		Proposed Adjustments	Staff Adjustments		
<u>Operating Revenues</u>					
Total Metered Retail Sales	599,543	7,245	(19,779)	(12,534)	(A)
			16,538	16,538	(B)
			19,389	19,389	(B)
Other Water Revenues	10,229		(3,104)	(3,104)	(C)
<b>Total Operating Revenues</b>	<b>609,772</b>	<b>7,245</b>	<b>13,044</b>	<b>20,289</b>	<b>630,061</b>
<u>Operating Expenses</u>					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	158,125	23,028		23,028	(D)
		(1,365)		(1,365)	(E)
Salaries and Wages - Officers	3,500			0	3,500
Employee Pensions and Benefits	56,185	46,229	(5,953)	40,276	(F)
		(4,491)		(4,491)	(G)
Purchased Water	208,483		36,644	36,644	(H)
Purchased Power	18,707			0	18,707
Chemicals	-	3,974		3,974	(I)
Materials and Supplies	6,107	(3,185)		(3,185)	(E)
		(3,293)		(3,293)	(I)
Contractual Services - Accounting	4,500			0	4,500
Contractual Services - Other	2,938			0	2,938
Transportation Expenses	5,187			0	5,187
Insurance - Other	14,217			0	14,217
Miscellaneous Expense	33,735			0	33,735
<b>Total Operation and Maintenance Expenses</b>	<b>511,684</b>	<b>60,897</b>	<b>30,691</b>	<b>91,588</b>	<b>603,272</b>
Depreciation Expense	46,069	(7,669)		(7,669)	(J)
Taxes Other Than Income	15,120	(58)		(58)	(K)
<b>Total Operating Expenses</b>	<b>572,873</b>	<b>53,170</b>	<b>30,691</b>	<b>83,861</b>	<b>656,734</b>
Net Operating Income	36,899	(45,925)	(17,647)	(63,572)	(26,673)
Interest Income	5,225		(4,550)	(4,550)	(L)
<b>Income Available to Service Debt</b>	<b>42,124</b>	<b>(45,925)</b>	<b>(22,197)</b>	<b>(68,122)</b>	<b>(25,998)</b>

(A) Billing Analysis. In its application Reid Village District proposed to increase total retail sales for the test period by \$7,245 to reflect the amount of revenue collected from retail customers. In the 2021 Annual Report, total metered water sales revenue reported for the test year is \$599,543 from retail water sales.<sup>16</sup> Reid Village District

<sup>16</sup> 2021 Annual Report at 49, Total Retail Sales \$2,823,264, Sales for Resale \$85,521.

provided a billing analysis listing the water usage and water sales revenue for the twelve-month test year in its application. Reid Village District stated that the billing analysis provided in its application was unusable, and in response to Staff's First Request provided a Tier Usage Report that Reid Village District stated more closely resembled the actual revenue received from customer water usage.<sup>17</sup> In the Informal Conference held on August 22, 2023, Robert Miller, when asked about ensuring future billing analysis reports were more useable, agreed to contact Reid Village District's software vendor and discuss addressing ways to avoid future errors.<sup>18</sup> Prior to an Informal Conference Reid Village District was able to produce an accurate test-period billing analysis.<sup>19</sup> Commission Staff reviewed the updated billing analysis provided by Reid Village District and concurred that the information provided was a more accurate representation of actual customer usage. Commission Staff is confident that Reid Village District will be able to produce an accurate billing analysis that resembles customer water usage and revenue information in future proceedings.

Reid Village District's updated billing analysis was used to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff. This results in a normalized revenue from retail sales of \$587,009. Commission Staff made an adjustment to decrease test-year water sales revenue from retail water sales by \$12,534 to reflect the revenues from water rates generated by the updated billing analysis.

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<sup>17</sup> Reid Village District's Response to Staff's First Request, Item 16, and Reid Village District's Response to Staff's Second Request, Item 6a.

<sup>18</sup> Informal Conference Memorandum (Ky. PSC Aug. 22, 2023).

<sup>19</sup> Reid Village District's Supplemental Filing, 6a\_Rate\_Study\_Corrected.xlsx, August 21, 2023.

(B) Purchased Water Adjustments (PWA). After the test period, Reid Village District has had an adjustment in rates via two separate PWA filings.<sup>20</sup> Applying the rates that were authorized in the Final Orders of these cases to the current billing analysis, Commission Staff made adjustments of \$16,538 based on the final Order in Case No. 2022-00241 and \$19,389 based on the final Order in Case No. 2023-00240 to test-year water sales to reflect the additional revenues generated from the two PWAs.

(C) Nonrecurring Charges. As discussed in the Nonrecurring Charges section above, the adjustments to the nonrecurring charges result in an increase in Miscellaneous Service Revenues of \$3,104.

(D) Salary and Wages - Employees. In its application Reid Village District proposed a \$23,028 increase to Salaries and Wages – Employees expense to reflect increases in wage rates.<sup>21</sup> After review of Reid Village District’s response to Staff’s First Request, which included old and new wage rates for employees,<sup>22</sup> Commission Staff agrees with Reid Village District’s \$23,028 increase to Salaries and Wages – Employees expense and included the adjustment Operating Expenses.

(E) Tap Fees. In its application Reid Village District proposed a \$1,365 decrease to Salaries and Wages – Employees expense and a \$3,185 decrease to Materials and Supplies expense to reflect capitalization of Tap Fees during the test year.<sup>23</sup>

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<sup>20</sup> Case No. 2022-00240, *Electronic Application of Reid Village Water District for a Purchased Water Adjustment* (Ky. PSC Aug. 23, 2022); and Case No. 2022-00241, *Electronic Application of Reid Village Water District for a Purchased Water Adjustment* (Ky. PSC Sept. 20, 2023).

<sup>21</sup> Application, Attachment 4, Schedule of Adjusted Operations, adjustment B.

<sup>22</sup> Reid Village District’s Response to Staff’s First Request, Item 1, 1\_General\_Ledger\_21.xlsx, Item 1, 1\_General\_Ledger\_22.xlsx, Item 4, 4\_Hours\_and\_Pay\_21.xlsx, Item 4, 4\_Hours\_and\_Pay\_22.xlsx, and Item 14, 14\_Rate\_Study.xlsx.

<sup>23</sup> Application, Attachment 4, Schedule of Adjusted Operations, adjustment E.

After review of Reid Village District’s response to Staff’s First Request<sup>24</sup> Commission Staff agrees with Reid Village District’s \$1,365 decrease to Salaries and Wages – Employees expense and a \$3,185 decrease to Materials and Supplies expense and included the adjustments to pro forma Operating Expenses.

(F) Employee Pension and Benefits. In its application, Reid Village District proposed a \$46,229 increase to Employee Pensions and Benefits expense to reflect Reid Village District’s new enrollment in the County Employees Retirement System (CERS) program.<sup>25</sup> Commission Staff notes that Reid Village District used a 26.95 percent contribution rate for CERS<sup>26</sup> and that effective July 1, 2023, the CERS contribution rate is 23.345 percent.<sup>27</sup> Commission Staff calculated in the table below a 5,953 decrease to Reid Village District’s Employee Pensions and Benefits expense using the correct contribution rate of 23.345 percent.

	Reid Village District	Commission Staff	Difference
Wages applicable to CERS payments	\$ 172,560	\$ 172,560	\$ -
Times: Percent Pension Contribution	26.79%	23.34%	-3.45%
Total Pro Forma Pension Contribution	46,229	40,276	(5,953)
Less: Test Year Pension Contribution	-	-	-
Pension & Benefits Adjustment	<u>\$ 46,229</u>	<u>\$ 40,276</u>	<u>\$ (5,953)</u>

<sup>24</sup> Reid Village District’s Response to Staff’s First Request, Item 1, 1\_General\_Ledger\_21.xlsx, and Item 14, 14\_Rate\_Study.xlsx.

<sup>25</sup> Application, Attachment 4, Schedule of Adjusted Operations, adjustment C.

<sup>26</sup> Reid Village District’s Response to Staff’s First Request, Item 14, 14\_Rate\_Study.xlsx.

<sup>27</sup> Kentucky Public Pensions Authority, GASB Overview. (<https://www.kyret.ky.gov/Employers/GASB/Pages/default.aspx>).

(G) Health and Dental Insurance. Reid Village District currently pays for 100 percent of employee health and dental insurance.<sup>28</sup> In its application Reid Village District proposed a \$4,491 decrease to Employee Pensions and Benefits expense to reflect the allowable health insurance premium based on the Bureau of Labor Statistics' (BLS) national average for an employer's share of health insurance premiums.<sup>29</sup> After review of Reid Village District's response to Staff's First Request,<sup>30</sup> Commission Staff agrees with Reid Village District's \$4,491 decrease to Employee Pensions and Benefits expense and included the adjustment Operating Expenses.

(H) Purchased Water Expense. In its application Reid Village District did not propose an adjustment to Purchased Water expense. Reid Village District's sole supplier of water is Mount Sterling Water and Sewer.<sup>31</sup> Commission Staff notes that Reid Village District has had two PWA cases, Case No. 2022-00240<sup>32</sup> and Case No. 2023-00241,<sup>33</sup> since the test year of 2021. Commission Staff calculated, using the test year purchased gallons as shown in the table below, a \$36,644 increase to Purchased Water expense to reflect the current purchase rate of Reid Village District from Mount Sterling Water and Sewer.

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<sup>28</sup> Reid Village District's Response to Staff's First Request, Item 14, 14\_Rate\_Study.xlsx.

<sup>29</sup> Application, Attachment 4, Schedule of Adjusted Operations, adjustment D.

<sup>30</sup> Reid Village District's Response to Staff's First Request, Item 1, 1\_General\_Ledger\_21.xlsx, Item 1, 1\_General\_Ledger\_22.xlsx, Item 5, 5\_Benefits.xlsx, Item 8, 8\_Benefits\_Recent\_Invoices.PDF, and Item 14, 14\_Rate\_Study.xlsx.

<sup>31</sup> 2021 Annual Report at 54.

<sup>32</sup> Case No. 2022-00240, *Electronic Application of Reid Village Water District for a Purchased Water Adjustment* (Ky. PSC Aug. 23, 2022).

<sup>33</sup> Case No. 2022-00241, *Electronic Application of Reid Village Water District for a Purchased Water Adjustment* (Ky. PSC Sep. 20, 2023).

	<b>Mount Sterling Water &amp; Sewer</b>	<b>Total</b>
Gallons (000's omitted)	66,792	66,792
Current Purchase Rate	\$ 3.670	\$ 3.670
Pro Forma Cost	<u>\$ 245,127</u>	<u>\$ 245,127</u>
Test Year Purchase Cost ( )		<u>\$ (208,483)</u>
Increase in Purchase Cost		<u>\$ 36,644</u>

(I) Chemicals. In its application Reid Village District proposed a \$3,974 increase to Chemicals expense and a \$3,293 decrease to Materials and Supplies expense to reflect a reclassification of Chemical expense from Materials and Supplies expense to an increase in Chemical expense since the test year.<sup>34</sup> After Commission Staff's review of Reid Village District's 2021 and 2022 general ledgers,<sup>35</sup> along with invoices from Reid village District's chemical provider, Citco Water, to confirm the expense increase,<sup>36</sup> Commission Staff agrees with Reid Village District's \$3,974 increase to Chemicals expense and a \$3,293 decrease to Materials and Supplies expense and included the adjustments in Operating Expenses.

(J) Depreciation Expense. In its application Reid Village District proposed a decrease to its test year depreciation of \$7,669 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) publication titled, Depreciation Practices for Small Water

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<sup>34</sup> Application, Attachment 4, Schedule of Adjusted Operations, adjustment F.

<sup>35</sup> Reid Village District's Response to Staff's First Request, Item 1, 1\_General\_Ledger\_21.xlsx, and Item 1, 1\_General\_Ledger\_22.xlsx.

<sup>36</sup> Reid Village District's Response to Staff's Second Request, Item 1b, 1b\_Chlorine\_Invoices.pdf.

Utilities (NARUC Study).<sup>37</sup> To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the 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. Therefore, Commission Staff agrees with Reid Village District's proposed adjustment and decreased proforma Depreciation expense \$7,669.

(K) Taxes Other Than Income. In its application Reid Village District proposed a \$58 decrease to Taxes Other Than Income. After review of Reid Village District's Taxes Other Than Income calculation provided in Reid Village District's Response to Staff's First Request,<sup>38</sup> Commission Staff agrees with Reid Village District's \$58 decrease to Taxes Other Than Income.

(L) Interest Income. In its application Reid Village District stated it had test-year Interest Income of \$5,225.<sup>39</sup> Commission Staff notes Interest Income of \$675 reported in Reid Village District's 2021 Annual Report.<sup>40</sup> Commission Staff calculated a \$4,550 decrease to Interest Income to reflect what was reported in Reid Village District's 2021 Annual Report.

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<sup>37</sup> Application, Attachment 4, Schedule of Adjusted Operations, adjustment G.

<sup>38</sup> Reid Village District's Response to Staff's First Request, Item 1, 1\_General\_Ledger\_21.xlsx, Item 1, 1\_General\_Ledger\_22.xlsx, Item 4, 4\_Hours\_and\_Pay\_21.xlsx, Item 4, 4\_Hours\_and\_Pay\_22.xlsx, and Item 14, 14\_Rate\_Study.xlsx.

<sup>39</sup> Application, Attachment 4, Revenue Requirements.

<sup>40</sup> 2021 Annual Report at 20.

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;<sup>41</sup> (3) the average annual principal and interest payments on all long-term debts; and (4) working capital in addition to depreciation expense.

	Reid Village District	Commission Staff	
Pro Forma Operating Expenses	\$ 626,043	\$ 656,734	
Plus: Average Annual Principal and Interest Payments	61,057	61,057	(1)
Additional Working Capital	12,211	12,211	(2)
Total Revenue Requirement	699,311	730,002	
Less: Other Operating Revenue	(10,229)	(7,125)	
Interest Income	(5,225)	(675)	(L)
Revenue Required From Sales of Water	683,857	722,202	
Less: Revenue from Sales with Present Rates	(606,788)	(622,936)	
Required Revenue Increase	<u>\$ 77,069</u>	<u>\$ 99,266</u>	
Percent Increase	<u>12.70%</u>	<u>15.94%</u>	

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<sup>41</sup> 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).

1. Average Annual Principal and Interest Payments. In its application, Reid Village District reported two loans from Kentucky Rural Water Finance Corporation and one loan with Kentucky Infrastructure Authority.<sup>42</sup> Reid Village District requested recovery of a five-year average of the annual principal, as well as interest and fee payments for the years 2023 through 2027 of \$61,057.<sup>43</sup> Commission Staff agrees with Reid Village District's average annual principal and interest for use in the revenue requirement given the information above.

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 Reid Village District, requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments.<sup>44</sup> Following the Commission's historic practice of including additional working capital, \$12,211 is included in the revenue requirement.

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<sup>42</sup> Application, Attachment 8, Loan Agreements.

<sup>43</sup> Application, Attachment 4, Table B, Debt Service Schedule.

<sup>44</sup> Application, Attachment 4, Revenue Requirements.

Signatures

/s/ Noah Abner

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

/s/ Jason Green

Prepared by: Jason Green  
Rate Design Branch  
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00140 DATED SEP 27 2023

\* Denotes Rounding

**Nonrecurring Charges Adjustments**

Reconnection Charge			
	Utility Revised Charge		Staff Revised Charge
Field Labor (\$20.00 at 0.75 hours)	\$	15.00	\$ -
Office Supplies	\$	5.00	\$ 5.00
Office Labor (\$25.00 at 0.5 hours)	\$	12.50	\$ -
Transportation (8 miles @ \$0.655) times 2 trips	\$	10.48	\$ 10.48
Misc.			
<b>Total Revised Charge*</b>	<b>\$</b>	<b>42.98</b>	<b>\$ 15.00</b>
Current Rate	\$	35.00	

Connection Charge			
	Utility Revised Charge		Staff Revised Charge
Field Labor (\$20.00 at 0.5 hours)	\$	10.00	\$ -
Office Supplies	\$	5.00	\$ 5.00
Office Labor (\$25.00 at 0.5 hours)	\$	12.50	\$ -
Transportation (8 miles @ \$0.655)	\$	5.24	\$ 5.24
Misc.			
<b>Total Revised Charge*</b>			<b>\$ 10.00</b>
Current Rate	\$	27.00	

Meter Test Charge			
	Utility Revised Charge		Staff Revised Charge
Field Labor (\$20.00 at 1 hours)	\$	20.00	\$ -
Office Labor (\$25.00 at 0.5 hours)	\$	12.50	\$ -
Misc.			
Shipping costs @ \$25.20			
Testing charge @ \$35.00	\$	60.20	\$ 60.20

Total Revised Charge*	\$	92.70	\$	60.00
Current Rate	\$	40.00		
Returned Check Charge				
		Utility Revised Charge		Staff Revised Charge
Office Supplies	\$	5.00	\$	5.00
Office Labor (\$25.00 at 0.5 hours)	\$	12.50	\$	-
Total Revised Charge	\$	17.50	\$	5.00
Current Rate	\$	15.00		

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00140 DATED SEP 27 2023

The following rates and charges are prescribed for the customers in the area served by Reid Village 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 Retail Rates

5/8-Inch x 3/4-Inch Meter

First	2,000 Gallons	\$	31.55	Minimum Bill
Next	1,000 Gallons		0.01091	per gallon
Next	2,000 Gallons		0.01023	per gallon
Next	5,000 Gallons		0.00952	per gallon
Over	10,000 Gallons		0.00880	per gallon

Tap-On Fee

5/8-Inch x 3/4-Inch Meter	\$	1,483.00
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Nonrecurring Charges

Reconnection Charge	\$	15.00
Connection Charge		10.00
Meter Test Charge		60.00
Returned Check Charge		5.00

\*Robert K. Miller  
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