

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)	

ORDER

On April 26, 2023, Reid Village Water District (Reid Village District) filed its application with the Commission requesting an adjustment to its water rates pursuant to 807 KAR 5:076. 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, 2024.¹ 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.² Reid Village District used the calendar year ended December 31, 2021, as the basis for its application and Commission Staff drafted its report based on the 2021 Annual Report.³

¹ 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), Order at 6, ordering paragraph 5.

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 *Annual Report of Reid Village District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report). The 2022 Annual Report was not filed at the time of application.

In its application, Reid Village District requested rates that would increase its base revenue by \$77,069, or 12.70 percent to pro forma present rate water sale revenues.⁴

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.⁵ 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.⁶ Reid Village District filed supplemental information into the record on August 21, 2023, in response to requests made during the informal conference.⁷

Commission Staff issued its report (Commission Staff's Report) on September 27, 2023, summarizing its findings and recommendations regarding Reid Village District's requested rate adjustment. In the Commission Staff's Report, Commission Staff found that Reid Village District's adjusted test-year operations support an 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. In the absence of a cost-of-service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates.

⁴ Application (filed Apr. 26, 2023), Attachment 2.

⁵ Reid Village District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed June 26, 2023). Reid Village District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed July 22, 2023).

⁶ Informal Conference Memorandum (Ky. PSC Aug. 22, 2023).

⁷ Reid Village District's Updated Rate Study Containing Corrected Billing Analysis (Supplemental Responses) (filed Aug. 21, 2023).

On September 28, 2023, Reid Village District filed its response to Commission Staff's Report. In its written comments, Reid Village District disagreed with removal of certain labor expenses from nonrecurring charges but waived its right to contest that adjustment.⁸ Reid Village District expressly stated that its current waiver should not be construed as a waiver of its right to contest similar findings or recommendations regarding nonrecurring charges in any future rate proceedings.⁹ Reid Village District concurred with the remaining findings presented in Commission Staff's Report and waived its right to request an informal hearing.¹⁰ Upon Reid Village District's acceptance of Commission Staff's recommendation regarding the increased rate amount, the Commission ordered the applicant to provide notice of the recommendation to its customers.¹¹ Reid Village District filed its updated proof of customer notice on November 7, 2023.¹² The case now stands submitted for a decision by the Commission.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case

⁸ Reid Village District's Response to Commission Staff's Report (filed Sept. 28, 2023).

⁹ Reid Village District's Response to Commission Staff's Report.

¹⁰ Reid Village District's Response to Commission Staff's Report.

¹¹ Order (Ky. PSC Oct. 12, 2023).

¹² Reid Village District's Cover letter, customer notice, and proof of publication of additional customer notice (filed Nov. 7, 2023.).

law, the utility is allowed to charge its customers “only fair, just and reasonable rates”.¹³ Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

BACKGROUND

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.¹⁴ Reid Village District does not produce any of its own water; rather, it purchases its water from Mount Sterling Water & Sewer.¹⁵ A review of the Commission’s records indicates that Reid Village District’s last base rate increase was an alternative rate filing procedure in Case No. 2014-00379.¹⁶

UNACCOUNTED-FOR WATER LOSS

Commission Staff noted that, in its 2021 Annual Report, Reid Village District reported a water loss of 12.1706 percent.¹⁷ 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 was \$32,110.

¹³ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm’n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

¹⁴ 2021 Annual Report at 12 and 49.

¹⁵ 2021 Annual Report at 54 and 57.

¹⁶ 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).

¹⁷ 2021 Annual Report at 57.

	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

TEST PERIOD

The calendar year ended December 31, 2021, was used as the test year to determine the reasonableness of Reid Village District's existing and proposed wastewater rates as required by 807 KAR 5:076, Section 9.¹⁸

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Reid Village District's pro forma income statement as follows:

	<u>Commission Staff's Report</u>		
	<u>Test-Year Operations</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 609,772	\$ 20,289	\$ 630,061
Operating Expenses	\$ 572,873	\$ 83,861	\$ 656,734
Net Utility Operating Income	\$ 36,899	\$ (63,572)	\$ (26,673)
Interest Income	\$ 5,225	\$ (4,550)	\$ 675
Total Utility Operating Income	<u>\$ 42,124</u>	<u>\$ (68,122)</u>	<u>\$ (25,998)</u>

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Reid Village District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission's Staff Report, Commission Staff proposed additional adjustments. The Commission accepts the

¹⁸ Application at 3.

recommendations contained in the Commission Staff's Report without further modification. The following is the Commission Staff's complete pro forma:

	Test Year	Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	Pro Forma
<u>Operating Revenues</u>					
Total Metered Retail Sales	599,543	7,245	(19,779)	(12,534)	
			16,538	16,538	
			19,389	19,389	622,936
Other Water Revenues	10,229		(3,104)	(3,104)	7,125
Total Operating Revenues	609,772	7,245	13,044	20,289	630,061
<u>Operating Expenses</u>					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	158,125	23,028		23,028	
		(1,365)		(1,365)	179,788
Salaries and Wages - Officers	3,500			0	3,500
Employee Pensions and Benefits	56,185	46,229	(5,953)	40,276	
		(4,491)		(4,491)	91,970
Purchased Water	208,483		36,644	36,644	245,127
Purchased Power	18,707			0	18,707
Chemicals	-	3,974		3,974	3,974
Materials and Supplies	6,107	(3,185)		(3,185)	
		(3,293)		(3,293)	(371)
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
Total Operation and Maintenance Expenses	511,684	60,897	30,691	91,588	603,272
Depreciation Expense	46,069	(7,669)		(7,669)	38,400
Taxes Other Than Income	15,120	(58)		(58)	15,062
Total Operating Expenses	572,873	53,170	30,691	83,861	656,734
Net Operating Income	36,899	(45,925)	(17,647)	(63,572)	(26,673)
Interest Income	5,225		(4,550)	(4,550)	675
Income Available to Service Debt	42,124	(45,925)	(22,197)	(68,122)	(25,998)

Nonrecurring Charges. In the Commission Staff's Report, Commission Staff recommended the removal of estimated labor costs, previously included in determining the amount of Nonrecurring Charges, from the Nonrecurring Charges.¹⁹ Reid Village District provided updated cost justification information for the Nonrecurring Charges.²⁰

¹⁹ Commission Staff's Report at 7–8, Appendix A.

²⁰ Reid Village District's Response to Staff's First Request, Item 18.

Commission Staff reviewed the cost justification information provided by Reid Village District and adjusted these charges by removing the \$20 per hour Field Labor Costs and the \$25 per hour Office/Clerical Labor Costs from those charges that occur during normal business hours. The Commission continues to follow its previous decisions regarding Nonrecurring Charges; personnel are paid during normal business hours and their salaries are recovered through rates.²¹ It is unreasonable to allocate an expense already incurred as a day-to-day cost of maintaining a system, such as the salary of a distribution operator or field technician to a nonrecurring service, such as the connection and reconnection of a meter during normal working hours.

The Commission requires that charges be directly related to the actual cost incurred to provide the service. The Commission is aware of the strain placed on the daily work of small utilities when employees are diverted from other duties to reconnect service. However, allowing a utility to recover the same labor expense twice is not fair, just and reasonable. Reid Village District's field and office labor costs during regular working hours do not fluctuate based on the tasks its employees are performing. Therefore, estimated labor costs previously included in determining the amount of Nonrecurring Charges were eliminated from the charges, because they are already recovered in rates. This approach to ratemaking is entirely consistent with the Commission's history of ensuring that rates reflect, to a reasonable degree, the principle of cost causation while simultaneously taking into account the health of the utility, and the ability of the utility to provide the adequate, efficient, and reasonable provision of service.

²¹ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

The calculation of these adjustments to the Nonrecurring Charges and Commission Staff's proposed Nonrecurring Charges are included in a Table provided in Appendix B. The Commission finds that the revised Nonrecurring Charges set out in Appendix B to be reasonable and consistent with Commission precedent.²² 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 calculated 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					<u>5,149</u>
Adjustment					<u><u>(\$3,104)</u></u>

The Commission finds that Staff's recommended adjustments are reasonable because it reflects charges directly related to the actual cost incurred to provide service and is a reasonable adjustment for Reid Village District to remain operationally and financially sound while providing adequate, efficient and reasonable service to its customers.

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).

Additionally, Reid Village District proposed 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 \$1,483.²³ Commission Staff concurred with Reid Village District's proposed tap-on fee increase based on its provided cost justification sheet.²⁴ The Commission finds Reid Village District's proposed tap-on fee to be reasonable because the charge is justified by the associated costs.

Billing Analysis. 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.²⁵ In the 2021 Annual Report, total metered water sales revenue reported for the test year is \$599,543 from retail water sales.²⁶ Reid Village District 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.²⁷ An Informal Conference was held on August 22, 2023. Prior to the Informal Conference, Reid Village District was able to produce an accurate test-period billing analysis.²⁸ During the Informal Conference, when asked about ensuring future

²³ Reid Village District's Response to Staff's First Request, Item 18.

²⁴ Commission Staff's Report at 7.

²⁵ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment A.

²⁶ 2021 Annual Report at 49, Total Retail Sales \$2,823,264, Sales for Resale \$85,521.

²⁷ 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.

²⁸ Supplemental Responses, 6a_Rate_Study_Corrected.xlsx, August 21, 2023.

billing analysis reports were more useable, Robert Miller agreed to contact Reid Village District's software vendor and discuss addressing ways to avoid future errors.²⁹

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. The change was a result of the metered water sales revenue of \$599,543 to \$587,009 based on its updated billing analysis. This results in a normalized revenue from retail sales of \$587,009 and an adjustment of \$12,534 to test-year metered water sales revenue.

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

Purchased Water Adjustments (PWA). After the test period, Reid Village District had an adjustment in rates as a result of two separate PWA filings.³⁰

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. 2022-00240 and \$19,389 based on the final Order in Case No. 2023-00241 to test-year water sales to reflect the additional revenues generated from the two PWAs.³¹

²⁹ Informal Conference Memorandum.

³⁰ Case No. 2022-00240, *Electronic Application of Reid Village Water District for a Purchased Water Adjustment* (Ky. PSC Aug. 23, 2022); and Case No. 2023-00241, *Electronic Application of Reid Village Water District for a Purchased Water Adjustment* (Ky. PSC Sept. 20, 2023).

³¹ Commission Staff's Report at 10.

The Commission finds that these adjustments are reasonable because they correct Reid Village District's test-year water sales using its most recent rates set in Case No. 2023-00241.

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.³²

After review of Reid Village District's response to Staff's First Request, which included old and new wage rates for employees,³³ Commission Staff agreed with Reid Village District's \$23,028 increase to Salaries and Wages – Employees expense and included the adjustment to pro forma Operating Expenses.³⁴

The Commission finds Reid Village District's adjustment is reasonable because it is a known and measurable change to Salaries and Wages – Employees, based on current staffing and wage rates, and therefore accepts the adjustment.

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 \$4,550 in Tap Fee costs, based on the current tariff, for seven installations during the test year.³⁵

³² Application, Attachment 4, Schedule of Adjusted Operations, Adjustment B.

³³ 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.

³⁴ Commission Staff's Report at 10.

³⁵ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment E.

After review of Reid Village District's response to Staff's First Request,³⁶ Commission Staff agreed with Reid Village District's \$1,365 decrease to Salaries and Wages – Employees expense and \$3,185 decrease to Materials and Supplies expense and included the adjustments to pro forma Operating Expenses.³⁷

The Commission finds that Reid Village District's adjustments are known and measurable changes to Salaries and Wages – Employees and Materials and Supplies. The adjustments are reasonable and should be accepted.

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.³⁸

Commission Staff noted that Reid Village District used a 26.95 percent contribution rate for CERS³⁹ and that effective July 1, 2023, the CERS contribution rate is 23.345 percent.⁴⁰ Commission Staff calculated, in the table below, a \$5,953 decrease to Reid Village District's Employee Pensions and Benefits expense.⁴¹

³⁶ Reid Village District's Response to Staff's First Request, Item 1, 1_General_Ledger_21.xlsx, and Item 14, 14_Rate_Study.xlsx.

³⁷ Commission Staff's Report at 10-11.

³⁸ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment C.

³⁹ Reid Village District's Response to Staff's First Request, Item 14, 14_Rate_Study.xlsx.

⁴⁰ Kentucky Public Pensions Authority, GASB Overview. (<https://www.kyret.ky.gov/Employers/GASB/Pages/default.aspx>).

⁴¹ Commission Staff's Report at 11.

	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>

The Commission finds that the recommended adjustment is reasonable and should be accepted because it reflects the current CERS contribution rate.

Health and Dental Insurance. Reid Village District currently pays for 100 percent of employee health and dental insurance.⁴² 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.⁴³

After review of Reid Village District's response to Staff's First Request,⁴⁴ Commission Staff agreed with Reid Village District's \$4,491 decrease to Employee Pensions and Benefits expense and included the adjustment pro forma Operating Expenses.⁴⁵

The Commission finds Reid Village District's adjustment is reasonable as it is consistent with Commission precedent on allowable health insurance premium expenses, and therefore should be accepted.

⁴² Reid Village District's Response to Staff's First Request, Item 14, 14_Rate_Study.xlsx.

⁴³ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment D.

⁴⁴ 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.

⁴⁵ Commission Staff's Report at 12.

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.⁴⁶

Commission Staff noted that Reid Village District has had two PWA cases, Case No. 2022-00240⁴⁷ and Case No. 2023-00241,⁴⁸ 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.

Description	Amount
Gallons (000's omitted)	66,792
Current Purchase Rate	\$ 3.670
Pro Forma Cost	\$ 245,127
Test Year Purchase Cost ()	\$ (208,483)
Increase in Purchase Cost	<u>\$ 36,644</u>

The Commission finds that the adjustment is known and measurable as it reflects Reid Village District’s current water purchase rate.

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 and to reflect a \$681 increase in Chemical expense since the test year.⁴⁹

⁴⁶ 2021 Annual Report at 54.

⁴⁷ Case No. 2022-00240, *Electronic Application of Reid Village Water District for a Purchased Water Adjustment* (Ky. PSC Aug. 23, 2022).

⁴⁸ Case No. 2022-00241, *Electronic Application of Reid Village Water District for a Purchased Water Adjustment* (Ky. PSC Sep. 20, 2023).

⁴⁹ Application, Attachment 4, Schedule of Adjusted Operations, adjustment F.

After Commission Staff's review of Reid Village District's 2021 and 2022 general ledgers,⁵⁰ along with invoices from Reid Village District's chemical provider, Citco Water, to confirm the expense increase,⁵¹ Commission Staff agreed 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 pro forma Operating Expenses.⁵²

The Commission finds that Reid Village District's adjustment reflects the evidence of reclassification of these expenses, is reasonable, and is accepted.

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 Utilities (NARUC Study).⁵³

Commission Staff agreed with Reid Village District's proposed adjustment and decreased pro forma Depreciation expense \$7,669.⁵⁴ 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

⁵⁰ 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.

⁵¹ Reid Village District's Response to Staff's Second Request, Item 1b, 1b_Chlorine_Invoices.pdf.

⁵² Commission Staff's Report at 13.

⁵³ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

⁵⁴ Commission Staff's Report at 13-14.

evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges.

The Commission finds that the proposed adjustment and decreased pro forma Depreciation expense of \$7,669 is reasonable given that there is no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges.

Taxes Other Than Income. In its application, Reid Village District proposed a \$58 decrease to Taxes Other Than Income to reflect payroll taxes decreasing.⁵⁵

After review of Reid Village District's Taxes Other Than Income calculation provided in Reid Village District's Response to Staff's First Request,⁵⁶ Commission Staff agreed with Reid Village District's \$58 decrease to Taxes Other Than Income.⁵⁷

The Commission finds that the proposed adjustment is a known and measurable change to Taxes Other Than Income Expense and is accepted.

Interest Income. In its application, Reid Village District stated it had test-year Interest Income of \$5,225.⁵⁸

Commission Staff noted Interest Income of \$675 reported in Reid Village District's 2021 Annual Report.⁵⁹ Commission Staff calculated a \$4,550 decrease to Interest Income to reflect what was reported in Reid Village District's 2021 Annual Report⁶⁰.

⁵⁵ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment H.

⁵⁶ 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.

⁵⁷ Commission Staff's Report at 14.

⁵⁸ Application, Attachment 4, Revenue Requirements.

⁵⁹ 2021 Annual Report at 20.

⁶⁰ Commission Staff's Report at 14.

The Commission finds that a \$4,550 decrease to Interest Income is reasonable to reflect what was reported in Reid Village District's 2021 Annual Report, and that the adjustment should be accepted.

REVENUE REQUIREMENT

Commission Staff's Report recommended using the Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) full recovery of depreciation expense, a non-cash item, to provide working capital;⁶¹ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense and generally required in bond covenants. The Commission finds that the use of the DSC methodology is reasonable since Reid Village District has three long-term debt obligations.

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.⁶² Reid Village District requested recovery of a five-year average of the annual principal, as well as interest and fee payments for the years

⁶¹ 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).

⁶² Application, Attachment 8, Loan Agreements.

2023 through 2027 of \$61,057.⁶³ Commission Staff agreed with Reid Village District's average annual principal and interest for use in the revenue requirement given the information above.⁶⁴

The Commission finds that including \$61,057 in the revenue requirement calculation for average annual principal, as well as interest and fee payments for debt obligations is known and measurable and is accepted.

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.⁶⁵ The Commission finds that including additional working capital of \$12,211 in the revenue requirement calculation is accepted.

Based upon the Commission's determinations contained in this Order, the Commission finds that Reid Village District requires an increase in revenues from water sales of \$99,266, or 15.94 percent above pro forma present water rate revenues as shown below. This increase is required for Reid Village District to remain operationally and financially sound while providing adequate, efficient and reasonable service to its customers.

⁶³ Application, Attachment 4, Table B, Debt Service Schedule.

⁶⁴ Commission Staff's Report at 16.

⁶⁵ Application, Attachment 4, Revenue Requirements.

	Commission Staff
Pro Forma Operating Expenses	\$ 656,734
Plus: Average Annual Principal and Interest Payments	61,057
Additional Working Capital	<u>12,211</u>
Total Revenue Requirement	730,002
Less: Other Operating Revenue	(7,125)
Interest Income	<u>(675)</u>
Revenue Required From Sales of Water	722,202
Less: Revenue from Sales with Present Rates	<u>(622,936)</u>
Required Revenue Increase	<u>\$ 99,266</u>
Percent Increase	<u>15.94%</u>

RATE DESIGN

Reid Village District proposed to increase all its monthly retail water service rates evenly across the board by approximately 12.70 percent.⁶⁶ Reid Village District did not perform a cost of service study (COSS)⁶⁷. Reid Village District stated that it did not consider filing a COSS because there have not been any material changes in customer usage patterns to warrant it.⁶⁸

In the Commission Staff's Report, Commission Staff followed the method proposed by Reid Village District and allocated Commission Staff's calculated revenue increase across the board to Reid Village District's monthly retail water service rates. The Commission finds that, in the absence of a COSS, the proposed across-the-board method

⁶⁶ Application, Attachment 3, Current and Proposed Rates.

⁶⁷ Reid Village District's Response to Staff's First Request, Item 20.

⁶⁸ Reid Village District's Response to Staff's First Request, Item 21.

is an appropriate and equitable method to allocate the increased cost to Reid Village District's customers.

The rates set forth in Appendix A to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenues to recover the required revenue of \$722,202 from water sales, an approximate 15.94 percent over normalized test-year water sales of \$622,936.

These rates will increase a typical retail residential customer's monthly water bill from \$45.44 to \$52.68, an increase of \$7.24, or approximately 15.94 percent.⁶⁹

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations in Commission Staff's Report are supported by the evidence of record and are reasonable. The Commission has historically used a DSC method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Therefore, applying the DSC method to Reid Village District's pro forma operations results in an Overall Revenue Requirement of \$730,002, a required revenue from water sales of \$722,202, and an increase in revenue from water sales of \$99,266, or 15.94 percent.

The Commission finds that allocating the calculated revenue increase across the board to Reid Village District's monthly water service rates is fair, just and reasonable.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report are adopted and incorporated by reference into this Order as if fully set out herein.

⁶⁹ The typical residential customer uses approximately 4,000 gallons per month.

2. The water service rates proposed by Reid Village District are denied.
3. The rates set forth in the Appendix A to this Order are approved for services rendered by Reid Village District on or after the date of this Order.
4. The Nonrecurring Charges set forth in the Appendix A to this Order are approved for service rendered by Reid Village District on or after the date of this Order.
5. Within 20 days of the date of service of this Order, Reid Village District shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.
6. Reid Village District shall use the midpoint of the depreciable lives of the NARUC ranges, as proposed in the application and agreed upon by Commission Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.
7. This case is closed and removed from the Commission's docket.

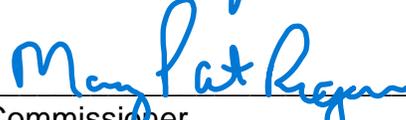
PUBLIC SERVICE COMMISSION



Chairman



Vice Chairman



Commissioner

ENTERED
FEB 23 2024 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00140 DATED FEB 23 2024

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

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00140 DATED FEB 23 2024

* 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.			
Total Revised Charge*	\$ 42.98	\$	15.00
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.			
Total Revised Charge*		\$	10.00
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		

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