

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF HARDIN)	
COUNTY WATER DISTRICT NO. 1 FOR AN)	CASE NO.
ADJUSTMENT OF THE RADCLIFF SEWER)	2023-00242
SYSTEM RATES FOR SEWER SERVICE)	
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 September 22, 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 September 22, 2023, Order, Hardin County Water District No. 1 (Hardin District No. 1) 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 Hardin District No. 1 to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



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

DATED JAN 23 2024
cc: Parties of Record

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

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COMMISSION STAFF'S REPORT
ON HARDIN COUNTY WATER DISTRICT NO. 1

Hardin County Water District No. 1 (Hardin District No. 1) is a sewer utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail sewer service to approximately 8,434 residential customers and 916 commercial customers that reside in Hardin County, Kentucky.¹

On August 21, 2023,² Hardin District No. 1 filed its application with the Commission requesting an adjustment to its sewer service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,³ Hardin District No. 1 used the calendar year ended December 31, 2022, as the basis for its application. Hardin

¹ *Annual Report of Hardin District No. 1 to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 25.

² Hardin District No. 1 tendered its application on August 21, 2023. By letter dated August 30, 2023, the Commission inadvertently rejected the application for filing deficiencies. By letter dated August 31, 2023, the Commission corrected this error, and the application is deemed filed on August 21, 2023.

³ 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.

District No. 1's most recent rate case was in Case No. 2013-00050.⁴ Since that matter, Hardin District No. 1 has not adjusted its base rates. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated September 22, 2023. Commission Staff's First Request for Information (Staff's First Request) was issued as an Appendix to the procedural schedule issued on September 22, 2023, with a response due date of October 24, 2023. Commission Staff's Second Request for Information (Staff's Second Request) was issued on November 7, 2023, with a response due date of November 21, 2023.

DISCUSSION

Using its pro forma test-year operations, Hardin District No. 1 determined that a base rate revenue increase of \$647,007, or 17.23 percent, was necessary to achieve the revenue requirement as shown in the table below.⁵

Pro Forma Operating Expenses	\$ 4,270,415
Operating Ratio	0.88
Sub Total	4,852,744
Interest Expense ()	(50)
Other Operating Revenue ()	(226,950)
Non-Operating Revenue ()	(8,535)
Interest Income ()	(215,300)
Revenue Required from Rates	4,401,909
Revenue From Sales at Present Rates ()	(3,754,902)
Required Revenue Increase	647,007
Percentage Increase	17.23%

⁴ Case No. 2013-00050, *Application of Hardin County Water District No. 1 to Adjust its Rates for Sewer Service* (Ky. PSC Apr. 29, 2014).

⁵ Application, Attachment 4, Revenue Requirement Calculation (Operating Ratio Method).

To determine the reasonableness of the rates requested by Hardin District No. 1, Commission Staff performed a limited financial review of Hardin District No. 1's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable⁶ 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. Jeff Abshire reviewed the calculation of Hardin District No. 1's Overall Revenue Requirement, and Eddie Beavers reviewed Hardin District No. 1's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Operating Ratio method, as generally accepted by the Commission, Commission Staff found that Hardin District No. 1's required revenue from sewer sales is \$4,305,987 to meet the Overall Revenue Requirement of \$4,756,822 and that a \$581,748 revenue increase, or 15.62 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

⁶ 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 Sewer Service Rates. Hardin District No. 1 proposed to increase its monthly retail sewer service rates by approximately 17.3 percent across the board. Hardin District No. 1 did not perform a cost-of-service study (COSS). Hardin District No. 1 stated that it did not complete a COSS at this time as there have been no material changes in the sewer system.⁷

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.⁸ Since no COSS was conducted, and because there was no evidence that allocating revenue increase across the board was unreasonable, Commission Staff allocated the \$81,748 revenue increase evenly across the board to Hardin District No. 1's monthly retail and wholesale sewer service rates.

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 sewer sales to recover the \$4,305,987 Revenue Required from Rates. The rates will increase a typical residential customer's monthly sewer bill from \$32.43 to \$37.50 an increase of \$5.07, or 15.63 percent.⁹

3. Miscellaneous Sewer Revenues. Hardin District No. 1 did not propose any adjustments to Miscellaneous Sewer Revenues of \$226,950. Hardin District No. 1 does

⁷ Hardin District No. 1's Response to Staff's First Request, Item 11.

⁸ Case No. 2021-00218, Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment (Ky. PSC Jan 5, 2022)

⁹ The typical residential customer uses approximately 4,000 gallons per month. Application, Attachment 9 at 70.

not have any nonrecurring charges in its Radcliff Sewer tariff other than a 10 percent delinquent fee¹⁰ and a \$5.00 administrative fee¹¹. However, it allocates 47 percent of revenues from nonrecurring charges that are in its water tariff to the Radcliff sewer operation based upon the average number of customer bills (excluding the Fort Knox Military Installations operations).¹² Hardin District No. 1 allocated \$111,031 in nonrecurring charge revenue from its water operation to the Radcliff sewer operation for the 2022 test year.¹³ Hardin District No. 1's water rates and nonrecurring charges are not at issue in this case. Therefore, Commission Staff did not review the water nonrecurring charges for consideration of removal of labor costs, which has been its practice in recent cases.¹⁴

PRO FORMA OPERATING STATEMENT

Hardin District No. 1's Pro Forma Operating Statement for the test year ended December 31, 2022, as determined by Commission Staff appears in the table below.¹⁵

¹⁰ Tariff ([City of Radcliff Sewer Tariff.pdf \(ky.gov\)](#)), Article VII Sewage Service Rates & Policies, 1 Billing Policies, (d) Billing, (iii) (effective Sep 15, 2014).

¹¹ Tariff ([City of Radcliff Sewer Tariff.pdf \(ky.gov\)](#)), Article VII Sewage Service Rates & Policies, 1 Billing Policies, (i) Non-Water Customer; (effective Sept. 15, 2014).

¹² Hardin District No. 1's Response to Staff's Second Request, Item 3.

¹³ Hardin District No. 1's Response to Staff's Second Request, Item 3.

¹⁴ 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).

¹⁵ Application, Attachment 3 – Statement of Adjusted Operations (SAO).

	Test Year	Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref)	Pro Forma
Operating Revenues						
Measured Revenues	3,754,902		(30,663)	(30,663)	(A)	\$ 3,724,239
Miscellaneous Sewage Revenues	226,950			0	(B)	226,950
Other Operating Revenues	8,535			0		8,535
Total Operating Revenues	3,990,387	0	(30,663)	(30,663)		3,959,724
Operating Expenses						
Operation and Maintenance Expenses						
Treatment Labor	247,838	5,475		5,475	(D1)	
			(5,169)	(5,169)	(D2)	
			(8,076)	(8,076)	(D3)	240,068
Collection System Labor	537,165	140,537		140,537	(D1)	
			(12,046)	(12,046)	(D2)	
			(22,018)	(22,018)	(D3)	643,638
Customer Service Labor	195,855	34,525		34,525	(D1)	
			(4,792)	(4,792)	(D2)	
			(6,785)	(6,785)	(D3)	218,803
Maintenance Labor	62,275	8,399		8,399	(D1)	
			(981)	(981)	(D2)	
			(2,361)	(2,361)	(D3)	67,332
Administrative Labor	126,086	72,838		72,838	(D1)	
			(2,445)	(2,445)	(D2)	
			(5,948)	(5,948)	(D3)	190,531
Professional Services - Accounting	10,275			0		10,275
Professional Services - Legal	4,690	(2,975)		(2,975)	(D1)	1,715
Information Technology Expense	20,856	1,344		1,344	(E)	22,200
Contractual Services	262,457	(25,757)		(25,757)	(F)	236,700
Insurance Expense	28,540	2,960		2,960	(G)	31,500
Chemicals	15,919	1,381		1,381	(H)	17,300
Sludge Removal	90,679	93,819		93,819	(I)	184,498
Maintenance & Repairs	63,451	24,749		24,749	(J)	
			(700)	(700)	(C)	87,500
Small Tool Expense	1,320			0		1,320
Workers Comp/Unemployment Insurance	15,472			0		15,472
Transportation Fuel & Repairs	42,514			0		
			(200)	(200)	(C)	42,314
Utility Regulatory Expense	6,822			0		6,822
Office Supplies	20,760	7,140		7,140	(K)	
			(400)	(400)	(C)	27,500
Utilities	401,969	12,410		12,410	(L)	
			(11,792)	(11,792)	(C)	402,587
Bad Debt Expense	37,018	12,282		12,282	(M)	49,300
Agency Collection Expense	2,447			0		2,447
Phone Expense	4,654			0		4,654
Safety Expense	11,025		(400)	(400)	(C)	10,625
Advertising Expense	144			0		144
Rent Expense	2,250			0		2,250
Travel & Lodging	3,595	2,705		2,705	(N)	6,300
Certification & Training	8,554			0		8,554
Education & Conferences	1,338			0		
			(100)	(100)	(C)	1,238
Routine Maintenance Service & Uniform	3,135			0		3,135
Miscellaneous Customer Expense	319			0		319
Miscellaneous Expense	4,535			0		
			(200)	(200)	(C)	4,335
Customer Deposit Interest Expense	302			0		302
Allocated Fort Knox Water G&A Expense	(30,672)	(1,643)		(1,643)	(O)	(32,315)
Total Operation and Maintenance Expenses	2,203,587	390,189	(84,413)	305,776		2,509,363
Depreciation	1,582,405	94,235		94,235	(P)	1,676,640
Total Operating Expenses	3,785,992	484,424	(84,413)	400,011		4,186,003
Net Operating Income	204,395	(484,424)	53,750	(430,674)		(226,279)
Non-Operating Income/(Expenses)						
Interest and Dividend Income	141,237	74,063		74,063	(Q)	215,300
Loss on Asset Dispositions	(42,053)	42,053		42,053	(R)	0
Interest Expense	(1,322)	1,372		1,372	(S)	50
Total Non-Operating Income/Expenses	97,862	117,488	0	117,488		215,350
Income Before Capital Contributions	302,257	(366,936)	53,750	(313,186)		(10,929)
Income Available to Service Debt	\$ 302,257	\$ (366,936)	\$ 53,750	\$ (313,186)		\$ (10,929)

(A) Billing Analysis Adjustment. Hardin District No. 1 did not propose an adjustment to its test-year Sewer Revenues of \$3,754,902. Hardin District No. 1 filed a normalized billing analysis with the Commission with the test-year revenues of \$3,724,239. Hardin District No. 1 should have increased its test-year revenues by \$30,663. Commission Staff reviewed Hardin District No. 1’s sewer billing analysis revenues and adjusted the revenues by \$(30,663) to the test-year Sewer Revenues of \$3,724,239.¹⁶ Commission Staff recommends that the Commission accept Commission Staff’s adjustment to the Sewer Revenues to reflect the normalized billing analysis provided by Hardin District No. 1.

(B) Miscellaneous Sewage Revenues. Miscellaneous Sewage Revenue components are shown in the chart below.¹⁷

Description	Amount
Late Fees	\$ 107,474
<i><u>Allocated Non-Recurring Charges</u></i>	
Delinquent Off.Reconnection Fee	66,986
Returned Check Fee	2,395
New Account Activation Fee	16,518
Administrative Fee	7,215
Field Service Call Fee	12,631
After Hours Service Call Fee	5,286
Sub Total	111,031
Other Misc	8,445
Total Miscellaneous Sewage Revenues	<u>\$ 226,950</u>

Approximately 84 percent of the nonrecurring charge amounts relate to account management (which is inseparable between water and sewer), while the 16 percent

¹⁶ Hardin District’s No. 1, Response to Staff’s Second Request, Attachment 1(9), https://psc.ky.gov/pscecf/2023-00242/gerald.wuetcher%40skofirm.com/10242023114954/Attachment_1-9.xlsx, and Item 5.

¹⁷ Hardin District No. 1’s Response to Staff’s First Request, Items 2 and 3.

balance relates to service calls, which are not distinguished between water and sewer.¹⁸ The allocation of revenues to the sewer division is based on the proportionate number of sewer division bills to Hardin District No. 1's overall number of bills.

Commission Staff recommends that the Commission approve the allocation of revenues from tariffed water nonrecurring charges of \$266,950 to the sewer fund for ratemaking purposes since the charges are, in general, equally applicable to both water and sewer.

(C) Removal of General Inflation in Costs. Hardin District No. 1 provided explanations to support pro forma amounts. Staff reviewed the information and notes that Hardin District No. 1 included a 3 percent adjustment for inflation to seven expense categories for a total proposed increase of \$13,792 as shown in the table below.¹⁹ The Commission has previously determined that inflation adjustments are not appropriate pro forma adjustments for a historic test-year case because they are not known and measurable adjustments. Commission Staff removed the \$13,792 inflationary adjustment amount due to the proposed adjustments not being known and measurable. Commission Staff recommends the Commission accept Commission Staff's proposed removal of the adjustments.

¹⁸ Hardin District No.1's Response to Staff's First Request, Item 3.

¹⁹ Hardin District No. 1's Response to Staff's First Request, [Attachment 1-9.xlsx \(live.com\)](#) .

Description	Amount
Utilities	\$ 6,564
Transportation Fuel & Repairs	200
Utilities	5,228
Maintenance & Repairs	700
Office Supplies	100
Education & Conferences	100
Office Supplies	300
Safety Expense	400
Miscellaneous Expense	200
Total	<u>\$ 13,792</u>

(D) Labor. Hardin District No. 1 reports all labor, benefits, and related taxes into line items designated as labor. It proposed \$261,775 (D1) in total adjustments as shown in the table below. The core labor cost component was increased by 11 percent. Commission Staff reviewed the detailed calculations and recommends the Commission accept Hardin District No. 1's proposed adjustment to reflect current wages and labor related expenses. After determining the appropriate base level of labor and labor related expenses, Commission Staff then calculated additional adjustments as discussed below.

Medical, Dental and Vision Benefits. Hardin District No. 1 provides health, dental and vision insurance to employees at no cost while coverage to spouses and dependents is available at the employee's expense.²⁰ Commission Staff reviewed the detailed calculations and evidence provided by Hardin District No. 1.

Commission Staff noted that Hardin District No. 1 did not make an adjustment to reflect the allowable insurance contribution based on the Bureau of Labor Statistics' (BLS) national average for an employer's share of health insurance premiums and the Willis Benchmarking Survey for national average for an employer's share of dental insurance

²⁰ Hardin District No. 1's Response to Staff's First Request, Item10a at 391.

that is consistent with Commission precedent.²¹ Commission Staff calculated a \$25,433 decrease as shown in the table below (D2). Commission Staff recommends the Commission accept Commission Staff's proposed adjustment to reflect Commission precedent of using BLS national average for an employer's share of health insurance premiums and the Willis Benchmarking Survey for national average for an employer's share of dental insurance.

Retirement (CERS). Hardin District No. 1 employees participate in the County Employees Retirement System (CERS), which is administered by the Kentucky Public Pensions Authority. Hardin District No. 1 calculated the employer contribution based on six months at the July 1, 2023 contribution rate of 26.79 percent and assumed a 12 percent increase to 30.00 percent for the second six months beginning July 1, 2024, for a blended rate of 28.40 percent. Commission Staff recalculated the contribution amount based on the July 1, 2023 employer contribution rate of 23.34 percent.²² Commission Staff calculated a \$45,188 decrease as shown in the table below (D3). Commission Staff recommend the Commission accept Commission Staff's proposed adjustment to reflect the current CERS contribution rate.

²¹ See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), at 9–10, and The Willis Benchmarking Survey, 2015, at 62–63. (https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf).

²² [Contribution Rates - Kentucky Public Pensions Authority](#). The contribution rate effective July 1, 2023 is 23.34% for CERS Nonhazardous.

Budget Categories	Test Year	Commission Staff Adjustments					
		Cost Adjustment	Rate Year Cost	Health	Dental / Vision	Combined Health, Dental / Vision	CERS Adjustment
Treatment Labor	\$ 247,838	\$ 5,475	\$ 253,313	\$ (4,557)	\$ (612)	(5,169)	\$ (8,076)
Collection System Labor	537,165	140,537	677,702	(10,619)	(1,427)	(12,046)	(22,018)
Customer Service Labor	195,855	34,525	230,380	(4,224)	(568)	(4,792)	(6,785)
Maintenance Labor	62,275	8,399	70,674	(864)	(117)	(981)	(2,361)
Administrative Labor	126,086	72,838	198,925	(2,155)	(290)	(2,445)	(5,948)
Total	<u>\$ 1,169,218</u>	<u>\$ 261,775</u>	<u>\$ 1,430,993</u>	<u>\$ (22,419)</u>	<u>\$ (3,014)</u>	<u>\$ (25,433)</u>	<u>\$ (45,188)</u>
		(D1)				(D2)	(D3)

(E) Information Technology Expense. In its application, Hardin District No. 1 proposed an increase of \$1,344 to its Information Technology (IT) Expense to reflect its changing IT contracts as well as an increase in accounting software maintenance fees associated with recently upgraded utility billing software. Commission Staff reviewed Hardin District No. 1's calculations and recommends the Commission accept Hardin District No. 1's proposed adjustment to reflect current IT contracts as known and measurable changes.

(F) Contractual Services. In its application, Hardin District No. 1 proposed a decrease of \$25,757 to its Contractual Services to reflect annual savings due to Hardin District No. 1 no longer contracting with Paymentech, which reduced credit card processing fee costs, offset slightly by increased costs for meter calibration, lab costs, and other shared contractual services. Commission Staff reviewed Hardin District No. 1's calculations and evidence and recommends the Commission accept Hardin District No. 1's proposed adjustment to reflect current contractual services.

(G) Insurance Expense. In its application, Hardin District No. 1 proposed an increase of \$2,960 to its Insurance Expense based on information provided by its carrier. Commission Staff reviewed Hardin District No. 1's calculations and evidence and

recommends the Commission accept Hardin District No. 1's proposed adjustment to reflect current insurance policies because they are known and measurable changes.

(H) Chemicals. In its application, Hardin District No. 1 proposed an increase of \$1,381 to Chemicals to reflect cost and usage increases. Commission Staff reviewed Hardin District No. 1's calculations and evidence and recommend the Commission accept Hardin District No. 1's proposed adjustment to reflect current chemical costs because they are known and measurable changes.

(I) Sludge Removal. In its application, Hardin District No. 1 proposed an increase of \$93,819 to its Sludge Removal expense based on the average tonnage for 2021, 2022, and projected 2023 at the current contract rate. Commission Staff reviewed Hardin District No. 1's calculations and evidence and recommend the Commission accept Hardin District No. 1's proposed adjustment to reflect current cost of sludge removal services.

(J) Maintenance & Repairs. In its application, Hardin District No. 1 proposed an increase of \$24,749 to Maintenance & Repairs based on normalizing 2021 and 2022 spending plus known additions for 2023. Commission Staff reviewed Hardin District No. 1's calculations and evidence. Commission Staff recommends the Commission accept Hardin District No. 1's proposed adjustment to reflect normalized Maintenance & Repairs expenses as known and measurable changes.

(K) Office Supplies. In its application, Hardin District No. 1 proposed an increase of \$7,140 to reflect known spending increases. Commission Staff reviewed Hardin District No. 1's calculations and evidence and recommends the Commission

accept Hardin District No. 1's proposed adjustment to reflect a known and measurable increase in Office Supplies costs.

(L) Utilities. In its application, Hardin District No. 1 proposed an increase of \$12,410 to utilities to reflect known increases for increased flows from inflow and infiltration issues. Commission Staff reviewed Hardin District No. 1's calculations and evidence and recommends the Commission accept Hardin District No. 1's proposed adjustment to reflect current utilities expense increase from increased flows from inflow and infiltration issues.

(M) Bad Debt Expense. In its application, Hardin District No. 1 proposed an increase of \$12,282 to its Bad Debt Expense to reflect the five-year average of actuals plus 3 percent. Commission Staff reviewed Hardin District No. 1's calculations and evidence and recommend the Commission accept Hardin District No. 1's proposed adjustment, excluding the 3 percent component which Commission Staff removed in Adjustment C above.

(N) Travel and Lodging. In its application, Hardin District No. 1 proposed an increase of \$2,705 to Travel and Lodging to normalize expenses after travel delays due to COVID, returning to travel for training, certifications, and conferences, as well as travel for new staffing. Commission Staff reviewed Hardin District No. 1's calculations and evidence, and recommends the Commission accept Hardin District No. 1's proposed adjustment to reflect current travel expenses.

(O) Allocated Fort Knox Water G&A Expense. In its application, Hardin District No. 1 proposed a decrease of \$1,643 to its Allocated Fort Knox Water G&A Expense to reflect an increase in total Fort Knox revenue of which 4.4 percent is allocated to Radcliff

to offset Fort Knox related G&A expense. Commission Staff reviewed Hardin District No. 1's calculations and evidence, and recommends the Commission accept Hardin District No. 1's proposed adjustment to reflect the increase in total Fort Knox revenue.

(P) Depreciation. In its application, Hardin District No. 1 proposed to increase test-year depreciation by \$94,235 to adjust for capital assets added during 2022 that were not depreciated for a full 12 months and for capital assets that were added during 2023. Commission Staff reviewed the depreciation calculations as well as the fixed asset listing and lives for Radcliff assets and determined the proposed adjustments were known and measurable changes. The Commission Staff recommends the Commission accept Hardin District No. 1's proposed adjustment to reflect depreciation expense that includes a full 12 months and for capital assets that were added during 2023.

(Q) Interest and Dividend Income. In its application, Hardin District No. 1 proposed an increase of \$74,063 to its Interest Income to reflect higher interest rates. Commission Staff reviewed Hardin District No. 1's calculations and evidence and recommends the Commission accept Hardin District No. 1's proposed adjustment to reflect current interest rates as known and measurable changes.

(R) Loss on Asset Dispositions. In its application, Hardin District No. 1 eliminated a \$42,053 loss on asset dispositions because it is considered nonrecurring. Commission Staff reviewed Hardin District No. 1's calculations and evidence and recommends the Commission accept Hardin District No. 1's proposed adjustment because the asset disposition was nonrecurring.

(S) Interest. In its application, Hardin District No. 1 reduced interest expense by \$1,372 resulting in a balance of \$50 which represents imputed interest on its phone

lease. Commission Staff reviewed Hardin District No. 1’s calculations and evidence and recommends the Commission accept Hardin District No. 1’s proposed adjustment to reflect current interest expense.

OVERALL REVENUE REQUIREMENT

The Operating Ratio methodology is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt of which the Radcliff sewer operation has none. Commission Staff is of the opinion that an operating ratio of 88 percent will allow Hardin District No. 1 sufficient revenues to cover its operating expenses and provide for reasonable equity growth.

By applying the Operating Ratio method, Commission Staff determined the Hardin District No. 1 Overall Revenue Requirement to be \$4,756,822. Commission Staff calculated a revenue increase of \$581,748 or 15.62 percent, is necessary to generate the Overall Revenue Requirement. Commission Staff’s calculation of the Overall Revenue Requirement and the Required Revenue Increase using the Operating Ratio method is shown below.

Description	Hardin District #1	Commission Staff
Pro Forma Operating Expenses	\$ 4,270,415	\$ 4,186,003
Operating Ratio	0.88	0.88
Sub Total	4,852,744	4,756,822
Interest Expense ()	(50)	(50)
Other Operating Revenue ()	(226,950)	(8,535)
Non-Operating Revenue ()	(8,535)	(226,950)
Interest Income ()	(215,300)	(215,300)
Revenue Required from Rates	4,401,909	4,305,987
Revenue From Sales at Present Rates ()	(3,754,902)	(3,724,239)
Required Revenue Increase	647,007	581,748
Percentage Increase	17.23%	15.62%

Signatures

/s/ Jeff Abshire

Prepared by: Jeff Abshire
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. 2023-00242 DATED JAN 23 2024

The following rates and charges are prescribed for the customers in the area served by Hardin County Water District No. 1. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Sewer Rates

First 2 ,000 Gallons	\$ 22.70 Minimum Bill
Next 13 ,000 Gallons	0.00740 Per Gallon
Over 15 ,000 Gallons	0.00665 Per Gallon

Wholesale Rates 0.00347 Per Gallon

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