

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)	

ORDER

On August 21, 2023,¹ Hardin County Water District No. 1 (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 9,² Hardin District No. 1 used the calendar year ended December 31, 2022, as the basis for its application. Hardin District No. 1's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2013-00050.³

In its application, Hardin District No. 1 requested rates that would increase its annual water sales revenues by \$647,007 or 17.2%.⁴

¹ 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.

² The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

³ Case No. 2013-00050, *Application of Hardin County Water District No. 1 to Adjust Rates for Sewer Service* (Ky. PSC Apr. 29, 2014).

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

To ensure the orderly review of the application, the Commission established a procedural schedule Order dated September 22, 2023. On January 2, 2024, the Commission amended the procedural schedule to require the filing of the Commission Staff's Report by January 23, 2024. Hardin District No. 1 responded to two discovery requests from Commission Staff.⁵

On January 23, 2024, Commission Staff issued its report (Commission Staff's Report) summarizing its recommendations regarding Hardin District No. 1's requested rate adjustment. In the Commission Staff's Report, Commission Staff recommended that Hardin District No. 1's adjusted test-year operations support a total revenue requirement of \$4,756,822, and that an annual revenue increase of \$581,748, or 15.62 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.

On February 2, 2024, Hardin District No. 1 filed its response to Commission Staff's Report. In its response, Hardin District No. 1 objected to the findings in the Commission Staff's Report regarding the reasonableness of Hardin District No. 1's practice of contributing the full cost of employee health and dental insurance and the recommended disallowance of a portion of that expense.⁶ Hardin District No. 1 agreed with the remainder of Commission Staff's recommendations and waived its right to an informal

⁵ Hardin District No. 1's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Oct. 24, 2023). Hardin District No. 1's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Nov. 13, 2023).

⁶ Hardin District No. 1's Response to Commission Staff's Report (filed Feb. 1, 2024) at 1.

conference or hearing on the matter. 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 law, the utility is allowed to charge its customers "only fair, just and reasonable rates."⁷ 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

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.⁸ Hardin District No. 1's most recent rate case was in Case No. 2013-00050.⁹

⁷ *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).

⁸ *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.

⁹ Case No. 2013-00050, *Application of Hardin County Water District No. 1 to Adjust its Rates for Sewer Service* (Ky. PSC Apr. 29, 2014).

TEST PERIOD

The calendar year ended December 31, 2022, was used as the test year to determine the reasonableness of Hardin District No. 1's existing and proposed wastewater rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Hardin District No. 1'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	\$ 3,990,387	\$ (30,663)	\$ 3,959,724
Operating Expenses	3,785,992	400,011	4,186,003
Net Utility Operating Income	204,395	(430,674)	(226,279)
Loss on Asset Dispositions	(42,053)	42,053	0
Interest and Dividend Income	141,237	74,063	215,300
Interest Expense	(1,322)	1,372	50
Total Utility Operating Income	<u>\$ 302,257</u>	<u>\$ (313,186)</u>	<u>\$ (10,929)</u>

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Hardin District No. 1 proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. The Commission accepts the findings and recommendations contained in the Commission Staff's Report. The following is the complete pro forma:

	Test Year	Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	Pro Forma
Operating Revenues					
Measured Revenues	3,754,902		(30,663)	(30,663)	\$ 3,724,239
Miscellaneous Sewage Revenues	226,950			0	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	
			(5,169)	(5,169)	
			(8,076)	(8,076)	240,068
Collection System Labor	537,165	140,537		140,537	
			(12,046)	(12,046)	
			(22,018)	(22,018)	643,638
Customer Service Labor	195,855	34,525		34,525	
			(4,792)	(4,792)	
			(6,785)	(6,785)	218,803
Maintenance Labor	62,275	8,399		8,399	
			(981)	(981)	
			(2,361)	(2,361)	67,332
Administrative Labor	126,086	72,838		72,838	
			(2,445)	(2,445)	
			(5,948)	(5,948)	190,531
Professional Services - Accounting	10,275			0	10,275
Professional Services - Legal	4,690	(2,975)		(2,975)	1,715
Information Technology Expense	20,856	1,344		1,344	22,200
Contractual Services	262,457	(25,757)		(25,757)	236,700
Insurance Expense	28,540	2,960		2,960	31,500
Chemicals	15,919	1,381		1,381	17,300
Sludge Removal	90,679	93,819		93,819	184,498
Maintenance & Repairs	63,451	24,749		24,749	
			(700)	(700)	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)	42,314
Utility Regulatory Expense	6,822			0	6,822
Office Supplies	20,760	7,140		7,140	
			(400)	(400)	27,500
Utilities	401,969	12,410		12,410	
			(11,792)	(11,792)	402,587
Bad Debt Expense	37,018	12,282		12,282	49,300
Agency Collection Expense	2,447			0	2,447
Phone Expense	4,654			0	4,654
Safety Expense	11,025		(400)	(400)	10,625
Advertising Expense	144			0	144
Rent Expense	2,250			0	2,250
Travel & Lodging	3,595	2,705		2,705	6,300
Certification & Training	8,554			0	8,554
Education & Conferences	1,338			0	
			(100)	(100)	1,238
Routine Maintenance Service & Uniform	3,135			0	3,135
Miscellaneous Customer Expense	319			0	319
Miscellaneous Expense	4,535			0	
			(200)	(200)	4,335
Customer Deposit Interest Expense	302			0	302
Allocated Fort Knox Water G&A Expense	(30,672)	(1,643)		(1,643)	(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	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	215,300
Loss on Asset Dispositions	(42,053)	42,053		42,053	0
Interest Expense	(1,322)	1,372		1,372	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)

Billing Analysis. Hardin District No. 1 did not propose an adjustment to its test-year Sewer Revenues of \$3,754,902. In Commission Staff’s Report, 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 \$3,724,239.¹⁰

The Commission finds that Commission Staff’s recommendation is reasonable, and should be accepted because they are consistent with proper ratemaking accounting and is supported by the record.

Miscellaneous Sewage Revenues. In the application, Hardin District No. 1 did not propose any adjustments to its miscellaneous sewage revenues. In the Commission Staff’s Report, Commission Staff recommended approval of Hardin District No. 1’s miscellaneous sewage revenues of \$226,950.¹¹ The Commission finds that Hardin District No. 1’s proposed miscellaneous sewage revenues of \$226,950 should be accepted. Hardin District No. 1’s Miscellaneous Sewage Revenue components are shown in the chart below.

Description	Amount
Late Fees	\$ 107,474
<i>Allocated Non-Recurring Charges</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 Seweage Revenues	\$ 226,950

¹⁰ 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.

¹¹ Commission Staff’s Report at 7–8.

Inflation Adjustment. In the Commission Staff’s Report, Commission Staff noted 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.¹² Commission Staff recommended removing the \$13,792 inflationary adjustment amount because pro forma adjustments for a historic test-year case are not known and measurable adjustments.¹³ The Commission finds that Commission Staff’s recommendation is appropriate and Hardin District No. 1’s inflation adjustment of \$13,792 should be removed.

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>

Labor. Hardin District No. 1 reported all labor, benefits, and related taxes into line items designated labor. Hardin District No. 1 proposed \$261,775 in total adjustments and a core labor cost component increase of 11 percent.¹⁴ In the Commission Staff’s Report, Commission Staff reviewed the calculations and recommended the Commission accept Hardin District No. 1’s proposed adjustment to reflect current wages and labor related

¹² Commission Staff’s Report at 8.

¹³ Commission Staff’s Report at 8.

¹⁴ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment A.

expenses.¹⁵ However, Commission Staff recommended additional adjustments to health and retirement benefits.

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	\$ 1,169,218	\$ 261,775	\$ 1,430,993	\$ (22,419)	\$ (3,014)	\$ (25,433)	\$ (45,188)
		(D1)				(D2)	(D3)

Medical, Dental and Vision Benefits. Commission Staff noted that 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.¹⁶ Commission Staff reported that Hardin District No. 1 did not make an adjustment to reflect the allowable insurance contribution based on the Bureau of Labor Statistic’ (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 that is consistent with Commission precedent.¹⁷ Commission Staff recommended a \$25,433 decrease to reflect the 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.¹⁸ The Commission finds that Commission Staff’s

¹⁵ Commission Staff’s Report at 9.

¹⁶ Hardin District No. 1’s Response to Staff’s First Request, Item10a at 391.

¹⁷ 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.

¹⁸ 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.

recommendation is reasonable and Hardin District No. 1's allowable recovery for health benefits should be reduced by \$25,433.

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 percent for the second six months beginning July 1, 2024, for a blended rate of 28.40 percent.¹⁹ Commission Staff noted that it recalculated the contribution amount based on the July 1, 2023, employer contribution rate of 23.34 percent.²⁰ Commission Staff recommended a \$45,188 decrease to reflect the current CERS contribution rate.²¹ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's allocation for employer retirement contributions should be decreased by \$45,188 to better align with current CERS contribution rates.

(https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf).

¹⁹ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment A.

²⁰ Contribution Rates - Kentucky Public Pensions Authority. The contribution rate effective July 1, 2023 is 23.34% for CERS Nonhazardous.

²¹ Commission Staff's Report at 10.

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)

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.²² In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's proposed increase in information technology expenses of \$1,344.²³ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed information technology adjustment of \$1,344 should be approved to reflect current IT contracts as known and measurable changes.

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.²⁴ In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's proposed decrease in contractual

²² Application, Attachment 3, Schedule of Adjusted Operations, Adjustment B.

²³ Commission Staff's Report at 11.

²⁴ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment C.

services of \$25,757.²⁵ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed contractual services decrease of \$25,757 should be approved to reflect current contractual services.

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.²⁶ In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's proposed increase of \$2,960 to its insurance expense based on information provided by its carrier.²⁷ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed insurance expense increase of \$2,960 should be approved to reflect known and measurable changes.

Chemical. In its application, Hardin District No. 1 proposed an increase of \$1,381 to Chemicals to reflect cost and usage increases.²⁸ In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's proposed increase of \$1,381 to chemical expenses to reflect cost and usage increases.²⁹ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed increase of \$1,381 to chemical expenses should be approved to reflect current chemical costs.

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,

²⁵ Commission Staff's Report at 11.

²⁶ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment D.

²⁷ Commission Staff's Report at 11–12.

²⁸ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment E.

²⁹ Commission Staff's Report at 12.

and projected 2023 at the current contract rate.³⁰ In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's proposed \$93,819 increase to its sludge removal expense based on the average tonnage for 2021, 2022, and projected 2023 at the current contract rate.³¹ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed increase of \$93,819 to sludge removal expenses should be approved to reflect cost of sludge removal services based on current contract pricing.

Maintenance and Repairs. In its application, Hardin District No. 1 proposed an increase of \$24,749 to Maintenance and Repairs based on normalizing 2021 and 2022 spending plus known additions for 2023.³² In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's proposed \$24,749 increase to maintenance and repair expenses based on normalizing 2021 and 2022 spending plus known additions for 2023.³³ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed increase of \$24,749 for maintenance and repair expenses should be approved to reflect normalized Maintenance and Repairs expenses.

Office Supplies. In its application, Hardin District No. 1 proposed an increase of \$7,140 to reflect known spending increases.³⁴ In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's proposed increase of

³⁰ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment F.

³¹ Commission Staff's Report at 12.

³² Application, Attachment 3, Schedule of Adjusted Operations, Adjustment G.

³³ Commission Staff's Report at 12.

³⁴ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment H.

\$7,140 for office supply expenses to reflect known spending increases.³⁵ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed increase of \$7,140 for office supply expenses should be approved to reflect a known and measurable increase in Office Supplies costs.

Utilities. In its application, Hardin District No. 1 proposed an increase of \$12,410 to utilities to reflect increased flows from inflow and infiltration issues.³⁶ In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's proposed increase of \$12,410 to utilities expenses to reflect increased flows from inflow and infiltration issues.³⁷ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed increase of \$12,410 to utilities expenses should be approved to reflect the current utilities' expense increase from increased flows from inflow and infiltration issues as known and measurable changes.

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.³⁸ In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's proposed increase of \$12,282, but did not recommended the approval of the 3 percent inflationary adjustment..³⁹ Commission Staff stated that inflationary adjustments were excluded due to these adjustments not being known and

³⁵ Commission Staff's Report at 12–13.

³⁶ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment I.

³⁷ Commission Staff's Report at 13.

³⁸ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment J.

³⁹ Commission Staff's Report at 13.

measurable.⁴⁰ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed increase of \$12,282 to its bad debt expense should be approved and the proposed 3 percent inflationary adjustment is denied.

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.⁴¹ In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's proposed increase of \$2,705 to travel and lodging expenses to normalize expenses after travel delays due to COVID, returning to travel for training, certifications, and conferences, as well as travel for new staffing.⁴² The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed increase of \$2,705 to travel and lodging expenses should be approved to reflect current travel expenses.

Allocated Fort Knox Water General and Administrative (G&A) Expense. In its application, Hardin District No. 1 proposed a decrease of \$1,643 to its Allocated Fort Knox Water GA 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.⁴³ In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's

⁴⁰ Commission Staff's Report at 8.

⁴¹ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment K.

⁴² Commission Staff's Report at 13.

⁴³ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment I.

proposed 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.⁴⁴ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed decrease of \$1,643 to its allocated Fort Knox Water G&A expense should be approved to reflect the increase in total Fort Knox revenue.

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 2023.⁴⁵ In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's proposed increase of \$94,235 to its test-year depreciation to adjust for capital assets that were added during 2023.⁴⁶ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed increase of \$94,235 to its test-year depreciation should be approved to reflect depreciation expense that includes a full 12 months of depreciation and for capital assets that were added during 2023.

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.⁴⁷ In the Commission Staff's Report, Commission Staff recommended approval of Hardin District

⁴⁴ Commission Staff's Report at 13–14.

⁴⁵ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment M.

⁴⁶ Commission Staff's Report at 14.

⁴⁷ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment N.

No. 1's proposed increase of \$74,063 to its interest income to reflect higher interest rates.⁴⁸ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed increase of \$74,063 to its interest income should be approved to reflect current interest rates, a known and measurable change.

Loss on Asset Dispositions. In its application, Hardin District No. 1 eliminated a \$42,053 loss on asset dispositions because it is considered nonrecurring.⁴⁹ In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's proposed elimination of a \$42,053 loss on asset dispositions because it is considered nonrecurring.⁵⁰ The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's proposed elimination of a \$42,053 loss should be approved because the Commission agrees that the asset disposition was nonrecurring.

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.⁵¹ In the Commission Staff's Report, Commission Staff recommended approval of Hardin District No. 1's proposed decrease of interest expense by \$1,372 resulting in a balance of \$50 which represents imputed interest on its phone lease.⁵² The Commission finds that Commission Staff's recommendation is reasonable and Hardin District No. 1's decrease of interest expense by \$1,372 should be approved.

⁴⁸ Commission Staff's Report at 14.

⁴⁹ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment O.

⁵⁰ Commission Staff's Report at 14.

⁵¹ Application, Attachment 3, Schedule of Adjusted Operations, Adjustment P.

⁵² Commission Staff's Report at 14–15.

REVENUE REQUIREMENT

Commission Staff's Report recommending using the Operating Ratio method to calculate the Overall Revenue Requirement. This method 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. The Commission agrees with using the Operating Ratio method, as Hardin District No. 1's Radcliff sewer operation has no debt. The Commission finds the Operating Ratio method is appropriate for Hardin District No. 1. 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. Based upon the Commission's findings herein, Hardin District No. 1's Overall Revenue Requirement is calculated to be \$4,756,822. Hardin District No. 1 requires a revenue increase of \$581,748, or 15.62 percent, above pro forma present rates as shown below to generate the Overall Revenue Requirement. This increase is required for Hardin District No. 1 to remain operationally and financially sound while providing adequate, efficient, and reasonable service to its customers.

Description	Commission Staff
Pro Forma Operating Expenses	\$ 4,186,003
Operating Ratio	0.88
Sub Total	<u>4,756,822</u>
Interest Expense ()	(50)
Other Operating Revenue ()	(8,535)
Non-Operating Revenue ()	(226,950)
Interest Income ()	(215,300)
Revenue Required from Rates	<u>4,305,987</u>
Revenue From Sales at Present Rates ()	(3,724,239)
Required Revenue Increase	<u><u>581,748</u></u>
Percentage Increase	<u><u>15.62%</u></u>

RATE DESIGN

Hardin District No. 1 proposed an across-the-board 17.2 percent increase to its monthly sewer service rates. Hardin District No. 1 applied this across-the-board increase as no COSS was performed. Hardin District No. 1 stated that a COSS was not completed as there had not been any material change in its sewer system to warrant a COSS.⁵³

The Commission finds 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. In the Commission Staff's Report, Commission Staff followed the method proposed by Hardin District No. 1 and allocated Commission Staff's calculated revenue increase across the board to Hardin District No. 1's monthly retail sewer service rates.

The rates contained in the Commission Staff's Report will generate the appropriate revenue required from rates to support its calculated revenue requirement. The rates set forth in the Appendix to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable and will produce sufficient revenue from monthly retail sewer sales to recover the \$4,756,822 Revenue Required from Rates, an approximate 15.62 percent increase.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Commission Staff's Report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The sewer service rates proposed by Hardin District No. 1 are denied.

⁵³ Hardin District No. 1's Response to Staff's First Request, Item 11.

3. The rates set forth in the Appendix to this Order are approved for services rendered by Hardin District No. 1 on or after the date of this Order.

4. Within 20 days of the date of service of this Order, Hardin District No. 1 shall file with this 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.

5. Hardin District No. 1 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.

6. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ENTERED
FEB 20 2024 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00242 DATED FEB 20 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

<u>Wholesale Rates</u>	0.00347 Per Gallon
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