

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF OLDHAM)	CASE NO.
COUNTY WATER DISTRICT FOR AN)	2023-00252
ALTERNATIVE RATE ADJUSTMENT)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of September 28, 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 28, 2023 Order, Oldham County Water District (Oldham District) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Oldham District to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



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

DATED JAN 02 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).

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF OLDHAM)	CASE NO.
COUNTY WATER DISTRICT FOR AN)	2023-00252
ALTERNATIVE RATE ADJUSTMENT)	

COMMISSION STAFF'S REPORT
ON OLDHAM COUNTY WATER DISTRICT

Oldham County Water District (Oldham District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 8,379 residential customers, and 677 commercial customers who reside in Oldham County, Kentucky. Additionally, Oldham District provides wholesale water service to one industrial customer and one wholesale customer in Oldham County, Kentucky.¹

On August 18, 2023, Oldham District filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076, the Commission regulation governing alternative rate filings for small utilities (ARF). To comply with the requirements of 807 KAR 5:076, Section 9,² Oldham District used the calendar year ended December 31, 2022, as the basis for its application. Oldham District has never had a base rate increase pursuant to the alternative rate filing procedure.

¹ *Annual Report of Oldham District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 49.

² Commission regulation 807 KAR 5:076, Section 9 states that in ARF filings 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.

Oldham District has only adjusted its rates pursuant to financing approval, or in conjunction with an application for a Certificate of Public Convenience and Necessity. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated September 28, 2023. Commission Staff's First Request for Information (Staff's First Request) was issued as an Appendix to the procedural schedule issued on September 28, 2023, with a response due date of November 1, 2023. Commission Staff's Second Request for Information (Staff's Second Request) was issued on November 15, 2023, with a response due date of November 29, 2023. Oldham District filed its response to Staff's Second Request on November 20, 2023.

WATER LOSS

Commission Staff notes that, Oldham District reported a water loss of 10.6607 percent in its 2022 Annual Report.³ 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. Oldham District produces all of its water supply. The table below shows that the 2022 total annual cost of water loss to Oldham District is \$75,718.

	Purchased Power	Chemicals	Total
Pro Forma Expense	\$ 526,196	\$ 184,062	\$ 710,258
Water Loss Percent	10.6607%	10.6607%	
Total Water Loss	\$ 56,096	\$ 19,622	\$ 75,718

³ 2022 Annual Report at 57.

DISCUSSION

Using its pro forma test-year operations, Oldham District determined that a base rate revenue increase of \$944,172, or 18.65 percent, was necessary to achieve the revenue requirement as shown in the table below.⁴

Pro Forma Operating Expenses	\$ 5,882,731
Average Annual Principal and Interest Payments	549,172
Additional Working Capital	109,834
Overall Revenue Requirement	<u>6,541,737</u>
Less: Other Operating Revenue	(114,828)
Rents from Water Property	(132,384)
Billing Services Fee	(60,262)
Grant Income	(3,035)
Other Income	(46,692)
Interest Income	(176,710)
Revenue Required from Rates	<u>6,007,826</u>
Less: Pro Forma Present Rate Service Revenues	<u>(5,063,655)</u>
Required Revenue Increase (rounded)	<u><u>\$ 944,172</u></u>
Percentage Increase	<u><u>18.65%</u></u>

To determine the reasonableness of the rates requested by Oldham District, Commission Staff performed a limited review of Oldham District's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and

⁴ Application, Attachment 4, Revenue Requirement Calculation.

measurable⁵ changes to test-year operations were identified, and adjustments were made when its effects were deemed material. Insignificant and immaterial discrepancies were not pursued or addressed.

Commission Staff's recommendations are summarized in this report. Noah Abner and Jeff Abshire reviewed the calculation of Oldham District's Overall Revenue Requirement, and Eddie Beavers reviewed Oldham District's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff found that Oldham District's required revenue from water sales is \$5,781,962 to meet the Overall Revenue Requirement of \$6,300,186 and that a \$718,308 revenue increase, or 14.19 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Oldham District proposed to increase its monthly retail and wholesale water service rates using a cost-of-service study (COSS) that it prepared in 2023.⁶ Commission Staff utilized the COSS provided by Oldham

⁵ 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).

⁶ Oldham District's Response to Staff's First Request, Item 19.

District and allocated the \$718,308 revenue increase to the monthly retail and wholesale water service rates.

The rates, as calculated by Commission Staff, which are set forth in Appendix B to this report, are based upon the revenue requirement, and will produce sufficient revenues from water sales to recover the \$5,781,962 Revenue Required from Rates. The rates will increase a typical residential customer's monthly water bill from \$27.34 to \$29.12, an increase of \$1.78, or approximately 6.51 percent.⁷

3. Nonrecurring Charges. Following the Commission's recent decisions,⁸ Commission Staff has reviewed Oldham District's nonrecurring charges. The Commission found that because district personnel are currently paid during normal business hours and the labor costs are recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated. Commission Staff reviewed the cost justification information provided by Oldham District and adjusted these charges by removing Field Labor Costs of approximately \$49.80 per hour and Office/Clerical Labor Costs of approximately \$19.50 per hour from those charges which occur during normal business hours.⁹

The calculation of these revised rates is displayed below and the table to show the calculations can be found in Appendix A attached to this Commission Staff's Report.

⁷ The typical residential customer uses approximately 5,000 gallons per month. Application, Attachment 1.

⁸ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195 *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

⁹ Oldham District's Response to Staff's First Request, Item 16.

Miscellaneous Service Revenues:	
Connection/Turn On Charge	\$19.65
Connection/Turn On Charge After Hours	\$132.00
Field Collection Charge	\$19.65
Meter Reread Charge	\$19.65
Meter Test Charge	\$19.65
Returned Check Charge	\$10.00
Reconnect Charge	\$19.65
Reconnect Charge After Hours	\$132.00
Service Call/Investigation Charge	\$19.65
Service Call/Investigation Charge After Hours	\$132.00

PRO FORMA OPERATING STATEMENT

Oldham District's Pro Forma Operating Statement for the test year ended December 31, 2022, as determined by Commission Staff appears in the table below.

	Test Year	Proposed Adjustments	Commission Staff Adjustments	Total Adjustments (Ref.)	Pro Forma
Operating Revenues					
Sales of Water	\$ 4,302,238	\$ 29,044		\$ 29,044 (A)	\$ 4,331,282
Sales for Resale	732,373	(1)		(1) (A)	732,372
Other Water Revenues	96,656	(51,005)		(51,005) (B)	45,651
Forfeited Discounts	32,153			0 (C)	32,153
Miscellaneous Service Revenues	37,025	(15,688)		(15,688) (D)	21,337
Total Operating Revenues	5,200,445	(37,650)	0	(37,650)	5,162,795
Operating Expenses					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	1,504,974	311,754		311,754 (E)	1,816,728
Salaries and Wages - Officers	30,200			0	30,200
Employee Pensions and Benefits	1,106,773	43,948	(94,445)	(50,497) (F)	1,056,276
Purchased Power for Pumping	526,196			0	526,196
Chemicals	184,062	197,664	(146,973)	50,691 (G)	234,753
Materials and Supplies	265,157	93,911		93,911 (H)	359,068
Contractual Services	162,691	38,870		38,870 (I)	201,561
Transportation Expense	104,167			0	104,167
Insurance	111,811			0	111,811
Advertising	9,496			0	9,496
Bad Debt Expense	10,083.00			0	10,083
Miscellaneous Expense	137,011	(2,680)	(133)	(2,813) (J)	134,198
Total Operation and Maintenance Expen	4,152,621	683,467	(241,551)	441,916	4,594,537
Depreciation	1,073,910	(27,267)		(27,267) (K)	1,046,643
Total Operating Expenses	5,226,531	656,200	(241,551)	414,649	5,641,180
Net Operating Income	(26,086)	(693,850)	241,551	(452,299)	(478,385)
Interest Income	176,710			0	176,710
Income Available to Service Debt	\$ 150,624	\$ (693,850)	\$ 241,551	\$ (452,299)	\$ (301,675)

(A) Billing Analysis. Oldham District proposed an adjustment to increase its test-year general water sales revenues of \$4,302,238 by \$29,044 to a normalized level of \$4,331,283 and an adjustment to decrease its test-year wholesale water sales revenues of \$732,373 by \$1 to a normalized level of \$732,372. Commission Staff reviewed the billing analysis and recommends that the Commission accept this adjustment.

(B) Other Water Revenues. In its application, Oldham District proposed an adjustment to Other Water Revenues, which totaled \$96,656, Oldham District's adjustment of \$51,005, is to remove funds reimbursed to Oldham District for the cost of Oldham District's crew that was deployed to assist after the Eastern Kentucky Floods of 2002. Commission Staff recommends that the Commission accept this adjustment, because this was a reimbursement for an unusual expense that is not likely to reoccur.

(C) Miscellaneous Service Revenues. In its application, Oldham District reported Miscellaneous Service Revenues of \$37,025 for the test year. In response to Staff's First Request, Oldham District provided cost justification sheets for the Nonrecurring Charges.¹⁰ Commission Staff reviewed the responses to the information requests, the cost justification sheets, and the general ledger. Commission Staff decreased Miscellaneous Service Revenues by \$15,688 by removing field labor and office/clerical labor to nonrecurring charges that are accomplished during normal office hours. As noted above, the proposed adjustments made by Commission Staff result in a pro forma amount of \$21,337. Commission Staff recommends that the Commission

¹⁰ Oldham District's Response to Staff's First Request, Item 16.

accept the adjustment as Commission Staff followed the Commission's precedent in removing field labor and office/clerical labor costs.¹¹

(D) Salary and Wages - Employees. In its application, Oldham District proposed a \$311,754 increase to Salaries and Wages – Employees expense to reflect the District's board approved 2023 salary increases and the removal of expenses associated with overtime worked in Eastern Kentucky assisting with flood damage.¹² Commission Staff reviewed Oldham District's board minutes and confirmed that salary increases were approved.¹³ Commission Staff reviewed Oldham District's 2022 general ledger¹⁴ and adjustment calculation¹⁵ and determined the proposed adjustment is an accurate representation of the increase in the annual labor expense to Oldham District. Commission Staff recommends that the Commission accept the adjustment as known and measurable changes.

(E) Employee Pensions and Benefits. In its application, Oldham District proposed a \$43,948 increase to Employee Pensions and Benefits expense to reflect the additional payroll taxes from new wages, additional County Employees Retirement System (CERS) contributions at the new contribution rate, and current insurance benefits

¹¹ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195 *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

¹² Application, Attachment 4, Schedule of Adjusted Operations, Adjustment C.

¹³ Oldham District's Response to Staff's First Request, Item 7, Attachment 1-7.

¹⁴ Oldham District's Response to Staff's First Request, Item 1-1(a), Attachment_1-1a_General_Ledger_2022.xls.

¹⁵ Oldham District's Response to Staff's First Request, Item 11a, Attachment_1-11a_Cost_of_Service_Study.xlsx.

with the removal of Oldham District Commissioner Benefits.¹⁶ Commission Staff compiled a table of each component of Oldham District’s proposed adjustment in the table below.

	Oldham District's Adjustments
Payroll Taxes	\$ 22,996
CERS	72,798
Commissioner Benefits	(106,509)
Current Employee Insurance	54,663
Adjustment	<u>\$ 43,948</u>

Commission Staff reviewed Oldham District’s calculations for Payroll Taxes and CERS contributions with the new Salaries and Wages – Employees expense and determined that the proposed adjustments are an accurate representation of the increase in Payroll Taxes and CERS contributions.¹⁷ Accordingly, Commission Staff increased Payroll Taxes by \$22,996 and increased CERS contributions by \$72,798. Commission Staff reviewed Commissioner benefit information that Oldham District provided¹⁸ and determined that the proposed adjustment is an accurate representation of the decrease in insurance benefits. Therefore, Commission Staff reduced Insurance Benefits by \$106,506.

Commission Staff reviewed Oldham District’s current employee insurance benefits adjustment calculation¹⁹ and noted that Oldham District did not make an adjustment to reflect the allowable health insurance premium based on the Bureau of Labor Statistics’

¹⁶ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment D.

¹⁷ Oldham District’s Response to Staff’s First Request, Item 11a, Attachment_1-11a_Cost_of_Service_Study.xlsx.

¹⁸ Oldham District’s Response to Staff’s First Request, Item 11a, Attachment_1-11a_Cost_of_Service_Study.xlsx.

¹⁹ Oldham District’s Response to Staff’s First Request, Item 11a, Attachment_1-11a_Cost_of_Service_Study.xlsx.

(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.²⁰ Commission Staff, using the table below and Oldham District's current and test year²¹ employee insurance premiums, calculated a \$39,782 decrease for current employee health insurance.

	Commission Staff's Calculated Employee Contribution					
	Health	Dental	Vision	Life	LTD	Total
Proforma Monthly	\$ 24,854	\$ 1,218	\$ 316	\$ 571	\$ 1,338	\$ 28,297
Proforma Yearly	298,254	14,612	3,786	6,848	16,059	339,560
Employer Cont. %	79%	40%	100%	100%	100%	n/a
Employer Cont.	235,621	5,845	3,786	6,848	16,059	268,159
Test Year ()	(271,885)	(13,682)	(3,298)	(6,214)	(12,863)	(307,941)
Difference From Test Year	\$ (36,264)	\$ (7,837)	\$ 488	\$ 634	\$ 3,196	\$ (39,782)

Based on the BLS national average for an employer's share of health insurance premiums, Commission Staff calculated a \$94,445 decrease to Oldham District's total adjustment to reflect allowable health insurance premium costs for ratemaking purposes as shown in the chart below.

²⁰ 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).

²¹ Oldham District's Response to Staff's First Request, Item 5, Attachment-1-5_Employee_Hours_Pay_Benefits.xlsx.

	Oldham District's Adjustments	Commission Staff's Adjustments	Difference
Payroll Taxes	\$ 22,996	\$ 22,996	\$ -
CERS	72,798	72,798	-
Commissioner Benefits	(106,509)	(106,509)	-
Current Employee Insurance Adjustment	54,663	(39,782)	(94,445)
	<u>\$ 43,948</u>	<u>\$ (50,497)</u>	<u>\$ (94,445)</u>

Commission Staff recommends the Commission accept Oldham District's adjustment as modified by Commission Staff to reflect additional payroll taxes from new wages, additional CERS contributions at the new contribution rate, and current insurance benefits with the removal of Oldham District Commissioner Benefits with the allowable health insurance premium based on the BLS national average for an employer's share of health insurance premiums, because the adjustments meet the ratemaking criteria of being known and measurable as well as appropriate in following Commission precedent.

(F) Chemicals. Oldham District proposed a \$197,664 increase to its Chemicals expense in its application, asserting that expenses had increased by 107 percent for the first four months of 2023 compared to the first four months in 2022.²² Commission Staff reviewed Oldham District's 2022 and 2023 general ledgers for the January through September periods²³ along with invoices from Oldham District's chemical treatment suppliers.²⁴ Commission Staff concluded that, while costs had increased, the amount of increase asserted by Oldham District for the first four months was partially due to timing and that, based on Commission Staff's nine month comparison of chemical spending, a

²² Application, Attachment 4, Schedule of Adjusted Operations, Adjustment E.

²³ Oldham District's Response to Staff's First Request, Item 1-1(a), Attachment_1-1a_General_Ledger_2022.xls, and Attachment_1-1a_General_Ledger_YTD_09.30.23.xls.

²⁴ Oldham District's Response to Staff's Second Request, Item 11c.

\$50,691, or 27.45 percent, increase from Oldham District’s chemical suppliers is appropriate. Commission Staff calculated a \$146,973 decrease to Oldham District’s proposed \$197,664 increase to its Chemicals expense for a total increase of \$50,691 as shown below. Commission Staff recommends the Commission accept Oldham District’s adjustment as modified by Commission Staff to reflect Chemical cost increases.

Month	2022	2023	Percent Change
Jan	4,127	6,555	58.84%
Feb	9,281	32,428	249.39%
Mar	21,001	57,393	173.29%
Apr	26,251	64,211	144.61%
May	51,086	73,530	43.93%
Jun	57,218	99,068	73.14%
Jul	98,153	107,308	9.33%
Aug	104,332	132,995	27.47%
Sep	117,122	149,380	27.54%
Test Year Chemical Cost			\$ 184,062
Commission Staff Calculated Increase			\$ 50,691
Increase Proposed by Oldham District ((197,664)
Commission Staff Adjustment			<u>\$ (146,973)</u>

(G) Materials and Supplies. In its application, Oldham District proposed a \$93,911 increase to Materials and Supplies expense to reflect increased costs.²⁵ Commission Staff reviewed Oldham District’s 2022 and 2023 materials and supplies expense²⁶ and determined that Oldham District’s proposed \$93,911 increase is an accurate representation of increased materials and supplies expense. Commission Staff

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

²⁶ Oldham District’s Response to Staff’s First Request, Item 1-1(a), Attachment_1-1a_General_Ledger_2022.xls, and Attachment_1-1a_General_Ledger_YTD_09.30.23.xls.

concluded that the increase is a combination of cost increases and a higher frequency of repairs.

(H) Contractual Services. In its application, Oldham District proposed a \$38,870 increase to Contractual Services expense to reflect new meter reading software, outsourced billing, and one third of the legal fees associated with this rate case.²⁷ After Commission Staff's review of Oldham District's 2022 and 2023 general ledgers²⁸, along with invoices from Oldham District's new meter reading software provider, Commission Staff determined that Oldham District's proposed \$38,870 increase to Contractual Services expense is accurate. Commission staff recommends accepting the adjustment as known and measurable changes to the test period expenses.

(I) Miscellaneous Expenses. In its application, Oldham District proposed a \$2,680 decrease to Miscellaneous Expenses to reflect lodging and per diem related to the work performed in Eastern Kentucky assisting with flood repairs.²⁹ After Commission Staff reviewed Oldham District's invoices and Oldham District's 2022 general ledger Commission Staff noted that the total expense for lodging and per diem related to work performed in Eastern Kentucky assisting with flood repairs was \$2,813. Commission Staff made a \$133 adjustment to Oldham District proposed \$2,680 decrease to Miscellaneous Expenses for a total decrease of \$2,813. Commission Staff recommends that this adjustment be accepted to reflect the actual total lodging and per diem expense related to the work performed in Eastern Kentucky assisting with flood repairs.

²⁷ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

²⁸ Oldham District's Response to Staff's First Request, Item 1-1(a), Attachment_1-1a_General_Ledger_2022.xls, and Attachment_1-1a_General_Ledger_YTD_09.30.23.xls.

²⁹ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment H.

(J) Depreciation. In its application Oldham District proposed a \$27,267 decrease to Depreciation Expense 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).³⁰ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the NARUC Study. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff agrees with Oldham District's proposed adjustment and recommends accepting the increased pro forma Depreciation expense \$27,267 as appropriate.

(K) Grant Income. In its application, Oldham District proposed a \$32,500 decrease to Grant Income to reflect a grant of \$32,500 that is not going to recur outside of the test year.³¹ Commission Staff reviewed Oldham District's 2022 general ledger and noted a Head, Peyton Samuel Family Grant of \$32,500.³² Commission Staff determined that Oldham District's proposed \$32,500 decrease to Grant Income is appropriate.

(L) Gains from Disposition of Property and Net Amortization. In its application, Oldham District proposed a \$48,115 decrease to Gains from Disposition of Property and

³⁰ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment M.

³¹ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment L.

³² Oldham District's Response to Staff's First Request, Item 1-1(a), Attachment_1-1a_General_Ledger_2022.xls.

a \$2,177 increase to Net Amortization because the Gains from Disposition of Property and net amortization should not be considered as an offset to operating expenses and are removed.³³ Commission Staff reviewed Oldham District's 2022 general ledger³⁴ and determined that the \$48,115 decrease to Gains from Disposition of Property and a \$2,177 increase to Net Amortization is appropriate.

OVERALL REVENUE REQUIREMENT

The Commission has historically applied the Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;³⁵ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

³³ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment M.

³⁴ Oldham District's Response to Staff's First Request, Item 1-1(a), Attachment_1-1a_General_Ledger_2022.xls.

³⁵ 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).

	Oldham County District	Commission Staff	
Pro Forma Operating Expenses	\$ 5,882,731	\$ 5,641,180	
Average Annual Principal and Interest Payments	549,172	549,172	(N)
Additional Working Capital	109,834	109,834	(O)
Overall Revenue Requirement	6,541,737	6,300,186	
Less: Other Operating Revenue	(114,828)	(99,141)	
Rents from Water Property	(132,384)	(132,384)	
Billing Services Fee	(60,262)	(60,262)	
Grant Income	(3,035)	(3,035)	(L)
Other Income	(46,692)	(46,692)	(M)
Interest Income	(176,710)	(176,710)	
Revenue Required from Rates	6,007,826	5,781,962	
Less: Pro Forma Present Rate Service Revenues	(5,063,655)	(5,063,654)	
Required Revenue Increase (rounded)	\$ 944,172	\$ 718,308	
Percentage Increase	18.65%	14.19%	

(M) Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Oldham District had one Kentucky Infrastructure Authority (KIA) loan and two bonds. Oldham District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2023 through 2027.³⁶ Commission Staff agrees with the methodology Oldham District proposed and included \$549,172 in the calculation of the revenue requirement.

(N) 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. Oldham District requested recovery of an allowance for working capital

³⁶ Application, Table B, Debt Service Schedule.

that is equal to 120 percent of its average annual debt payments.³⁷ Following the Commission's historic practice of including additional working capital, \$109,834 is included in the revenue requirement.

³⁷ Application, Table B, Debt Service Schedule.

Signatures

/s/Noah Abner

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

/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 A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY
PUBLIC SERVICE COMMISSION IN CASE NO.2023-00252 DATED JAN 02 2024

Description	Num.	Current Rate	Total	Revised Rate	Adj	Pro Forma
Miscellaneous Service Revenues:						
Connection/Turn On Charge	626	\$25.00	\$15,650.00	\$19.65	\$ (3,349.10)	\$ 12,300.90
Connection/Turn On Charge After Hours	0	\$0.00	0	\$132.00	0	0
Field Collection Charge	34	\$25.00	850	\$19.65	(182)	668
Meter Reread Charge	0	\$25.00	0	\$19.65	0	0
Meter Test Charge	0	\$10.00	0	\$19.65	0	0
Returned Check Charge	41	\$25.00	1,025	\$10.00	(615)	410
Reconnect Charge	375	\$50.00	18,750	\$19.65	(11,381)	7,369
Reconnect Charge After hours	0	\$0.00	0	\$132.00	0	0
Service Call/Investigation Charge	30	\$25.00	750	\$19.65	(161)	590
Service Call/Investigation Charge After Hours	0	\$0.00	0	\$132.00	0	0
Total Miscellaneous Service Revenues			<u>\$ 37,025</u>		<u>\$ (12,339)</u>	<u>\$ 9,036</u>

Nonrecurring Charges Adjustments

Connection/Field Collection/Meter Reread/Meter Test/Reconnection//Service Call Charge

	Oldham District Revised Charge	Staff Revised Charge
Field Labor at \$40.49 for 1.0 hour	\$40.49	\$0.00
Supplies	0.00	0.00
Office Labor at \$52.10 for 0.25 hours	13.03	0.00
Transportation Expense	19.65	19.65
Total Nonrecurring Charge Expense	\$73.17	\$19.65
Rounded Down to	\$73.00	\$19.65
Current Rate	\$25.00	

Connection After Hours Charge

	Oldham District Revised Charge	Staff Revised Charge
Field Labor Overtime at \$56.26 for 2.0 hour	\$112.52	\$112.52
Supplies	0.00	0.00
Office Labor at \$52.10 for 0.5 hours	26.05	0.00
Transportation Expense	19.65	19.65
Total Nonrecurring Charge Expense	\$158.22	\$132.17
Rounded Down to	\$158.00	\$132.00

Current Rate \$00.00

Reconnect/Service Call After Hours Charge

	Oldham District Revised Charge	Staff Revised Charge
Field Labor Overtime at \$56.26 for 2.0 hour	\$112.52	\$112.52
Supplies	0.00	0.00
Office Labor at \$52.10 for 0.25 hours	13.03	0.00
Transportation Expense	19.65	19.65
Total Nonrecurring Charge Expense	\$145.20	\$132.17
Rounded Down to	\$145.00	\$132.00
Current Rate	\$0.00	

Meter Test Charge

	Oldham District Revised Charge	Staff Revised Charge
Field Labor Overtime at \$40.49 for 1.0 hour	\$37.02	\$0.00
Meter Tester Labor at \$52.86 for 2.0 hours	105.72	0.00
Supplies	0.00	0.00
Office Labor at \$52.10 for 0.5 hours	26.05	0.00
Transportation Expense	19.65	19.65
Total Nonrecurring Charge Expense	\$191.90	\$19.65
Rounded Down to	\$192.00	\$19.65
Current Rate	\$10.00	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY
PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00252 DATED JAN 02 2024

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

Monthly Water Rates

Retail Rates

All Usage	\$0.405	Per Gallon
<u>5/8-Inch Meter</u>	\$8.87	Per Month
<u>3/4-Inch Meter</u>	\$13.31	Per Month
<u>1-Inch Meter</u>	\$22.18	Per Month
<u>1 1/2-Inch Meter</u>	\$44.35	Per Month
<u>2-Inch Meter</u>	\$70.96	Per Month
<u>3-Inch Meter</u>	\$141.92	Per Month
<u>4-Inch Meter</u>	\$221.75	Per Month
<u>6-Inch Meter</u>	\$443.50	Per Month
<u>8-Inch Meter</u>	\$709.50	Per Month
<u>10-Inch Meter</u>	\$1,862.70	Per Month
<u>12-Inch Meter</u>	\$2,350.55	Per Month

<u>Wholesale Rates</u>	\$0.00270	Per Gallon
------------------------	-----------	------------

Miscellaneous Service Revenues:	
Connection/Turn On Charge	\$19.65
Connection/Turn On Charge After Hours	\$132.00
Field Collection Charge	\$19.65
Meter Reread Charge	\$19.65
Meter Test Charge	\$19.65
Returned Check Charge	\$10.00
Reconnect Charge	\$19.65
Reconnect Charge After Hours	\$132.00
Service Call/Investigation Charge	\$19.65
Service Call/Investigation Charge After Hours	\$132.00

*Cameron F. Myers
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Honorable Damon R Talley
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Lacey Cunningham
Oldham County Water District
P. O. Box 51
Buckner, KY 40010

*Oldham County Water District
P.O. Box 51
2160 Spencer Court
Buckner, KY 40010

*Russell D. Rose
Oldham County Water District
P. O. Box 51
Buckner, KY 40010