

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KIRKSVILLE)	CASE NO.
WATER ASSOCIATION, INC. FOR A RATE)	2023-00258
ADJUSTMENT 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 August 30, 2023, as amended by an Order entered October 11, 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 October 11, 2023 Order, Kirksville Water Association, Inc. (Kirksville Water) 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 Kirksville Water 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 04 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 KIRKSVILLE WATER ASSOCIATION, INC.

Kirksville Water Association, Inc. (Kirksville Water) is a water utility organized pursuant to KRS Chapter 273 that owns and operates a distribution system through which it provides retail water service to approximately 1,897 residential customers, 91 commercial customers, and 1 public authority that reside in Madison County, Kentucky.¹

On August 12, 2023,² Kirksville Water filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,³ Kirksville Water used the calendar year ended December 31, 2022, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2022-00197 that required

¹ *Annual Report of Kirksville Water to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 49.

² Kirksville Water tendered its application on July 31, 2023. By letter dated August 2, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on August 12, 2023.

³ Commission regulation 807 KAR 5:076, Section 9, states that 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.

Kirksville Water to file an application for an adjustment of its base rates by June 30, 2023, with a test year of 2022.⁴ This Order modified an Order in Case No. 2022-0076 in which the Commission ordered Kirksville Water to file an application for a general rate adjustment or to provide an analysis for why no rate modifications were necessary by December 20, 2022.⁵ Kirksville Water's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2015-00097.⁶ Since the 2015 filing, Kirksville Water has only adjusted its rates pursuant to purchased water adjustments. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated August 30, 2023. Commission Staff's First Request for Information (Staff's First Request) was issued as an Appendix to the procedural schedule issued on August 30, 2023, with a response due date of September 28, 2023. Kirksville Water filed a request for an extension to submit its response to Staff's First Request on September 27, 2023, which was granted by an Order dated October 11, 2023. Kirksville Water filed its response on October 25, 2023. Commission Staff's Second Request for Information (Staff's Second Request) was issued on November 13, 2023, with a response due date of November 27, 2023.

⁴ Case No. 2022-00197, *Kirksville Water Association, Inc. and Its Individual Directors, Armon Sanders, Wayne Long, Alfred Winkler, Randell Webb, and Bobby Powell, and Manager Mike Agee Alleged Failure to Comply with KRS 278.300 and KRS 278.020* (Ky. PSC Nov. 7, 2022).

⁵ Case No. 2022-0076, *Electronic Application of Kirksville Water Association, Inc. for Permission to Issue Indebtedness Pursuant to KRS 278.300* (Ky. PSC June 20, 2022), ordering paragraph 3.

⁶ Case No. 2015-00097, *Alternative Rate Adjustment Filing of Kirksville Water Association, Inc.* (Ky. PSC Sept. 25, 2015).

UNACCOUNTED-FOR WATER LOSS

Commission Staff notes that Kirksville Water reported water loss of 22.9613 percent in its 2022 Annual Report.⁷ 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. Kirksville Water's 2022 total cost of water loss is \$124,074, while the annual cost of water loss in excess of 15 percent is \$43,020 as shown in the table below.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 520,713	\$ 19,651	\$ 540,364
Water Loss Percent	22.9613%	22.9613%	
Total Water Loss	<u>\$ 119,562</u>	<u>\$ 4,512</u>	<u>\$ 124,074</u>

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 520,713	\$ 19,651	\$ 540,364
Water Loss in Excess of 15%	7.9613%	7.9613%	7.9613%
Total Disallowed Water Loss	<u>\$ 41,456</u>	<u>\$ 1,564</u>	<u>\$ 43,020</u>

Kirksville Water stated that it has taken steps to reduce water loss including replacement of lines, new valve installations, meter replacements, and additional staff.⁸

DISCUSSION

Using its pro forma test-year operations, Kirksville Water determined that base rate revenue exceeds its revenue requirement by \$31,751, or 2.36 percent, as shown in the

⁷ Annual Report of Kirksville Water to the Public Service Commission for the Calendar Year Ended December 31, 2022 (2022 Annual Report) at 57.

⁸ Kirksville Water's Response to Staff's First Request, Item 9.

table below.⁹ However, Kirksville Water provided notice to customers that contradicted the calculated 2.36 percent decrease and stated a proposed increase of 10 percent.¹⁰

Pro Forma Operating Expenses	\$ 1,274,600
Plus: Average Annual Principal and Interest Payments	53,923
Additional Working Capital	53,238
	1,381,761
Overall Revenue Requirement	1,381,761
Less: Other Operating Revenue	(70,538)
	1,311,223
Revenue Required from Rates	1,311,223
Less: Pro Forma Present Rate Service Revenues	(1,342,974)
	\$ (31,751)
Required Revenue Increase	\$ (31,751)
Percentage Increase	-2.36%

To determine the reasonableness of the revenue requirement calculation and rates requested by Kirksville Water, Commission Staff performed a limited financial review of Kirksville Water’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 measurable¹¹ 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.

⁹ Application, Copy_of_Kirksville_Water_Association_Rate_Increase_2023_(6)corrected.xlsx.

¹⁰ Application, Rate_increase_notice_2023.pdf (filed July 31, 2023).

¹¹ 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).

Commission Staff's recommendations are summarized in this report. Jeff Abshire reviewed the calculation of Kirksville Water's Overall Revenue Requirement, and Elizabeth Stefanski reviewed Kirksville Water'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 Kirksville Water's required revenue from water sales is \$1,240,665 to meet the Overall Revenue Requirement of \$1,262,572 and that a \$205,345 revenue increase, or 19.83 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Kirksville Water proposed a 10 percent across-the-board increase in its notice. Kirksville Water stated that it has never performed a cost of service study (COSS) to review the appropriateness of its rate design and that one was not considered for the current rate application.¹² The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff followed the method proposed by Kirksville Water and allocated the \$205,345 revenue increase across Kirksville Water's rate design. Based on an average monthly residential usage of 4,162 gallons,¹³ Kirksville

¹² Kirksville Water's Response to Staff's First Request, Item 19 at 18.

¹³ 2022 Annual Report at 49 and 57. Residential gallons sold divided by residential customers divided by twelve = $94,748,146 / 1,897 / 12 = 4,162$.

Water's proposed rates would increase the average monthly bill by \$4.32, from \$43.16 to \$47.48, or 10 percent.

Commission Staff recommends a two-phase increase to lessen the full effect on customers rather than one larger adjustment. Kirksville Water expects to receive \$45,000 in each of 2023, 2024, and 2025 from a prior asset sale,¹⁴ which mitigates the need for an immediate full rate increase. Commission Staff calculated an increase of \$4.27, or 9.90 percent, from \$43.16 to \$47.44 in Phase I. Commission Staff calculated the Phase II increase, which will become effective one year after the Phase I increase becomes effective, of \$4.27, or 9.01 percent, from \$47.44 to \$51.71 in Phase II. The combined increase is 19.81 percent.

3. Nonrecurring Charges. Following the Commission's recent decisions,¹⁵ Commission Staff reviewed Kirksville Water's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours and their salaries and wages are an expense recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated. Kirksville Water provided updated cost justification sheets for all the nonrecurring charges listed in its tariff.¹⁶ Commission Staff reviewed the cost justification information provided by Kirksville Water and adjusted these charges by removing Field

¹⁴ Kirksville Water Association, Inc. Audited Financial Statements for the Year Ended December 31, 2022, Note 1, Accounts Receivable at 10 (filed June 5, 2023).

¹⁵ 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).

¹⁶ Kirksville Water's Response to Staff's First Request, Item 15.

Labor Costs of approximately \$28.11 per hour and Office/Clerical Labor Costs of approximately \$26.00 per hour from those charges that occur during normal business hours.

The breakdown of cost for each nonrecurring charge and any Commission Staff adjustment can be found in Appendix A of the Staff Report. These adjustments result in the following revised nonrecurring charges.

Meter Reading Recheck	\$29.00
Service Reconnection Charge	\$29.00
Service Charge	\$29.00
Returned Payment Charge	\$5.00
¾-inch Meter Test Request	\$64.00
1-inch Meter Test Request	\$104.00

PRO FORMA OPERATING STATEMENT

Kirksville Water'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	\$ 1,026,043	\$ 130,730	(146,709)	(15,979) (A)	
			25,256	25,256 (A)	1,035,320
Late Payment Penalties			13,160	13,160 (B)	13,160
Fees and Charges	57,256		(13,160)	(13,160) (B)	
			(31,012)	(31,012) (C)	
			(6,592)	(6,592) (C)	6,492
Interest Income	455			0	455
Misc	12,827		(11,027)	(11,027) (D)	1,800
Grant Revenue	316,931		(316,931)	(316,931) (E)	0
Total Operating Revenues	1,413,512	130,730	(487,015)	(356,285)	1,057,227
Operating Expenses					
Operation and Maintenance Expenses					
Personnel (Salaries)	263,276	13,164		13,164 (F)	
			(18,600)	(18,600) (H)	
			(33,928)	(33,928) (G)	223,912
Salaries - Officers	18,600	930	(930)	0 (F)	18,600
Benefits	0	0	33,928	33,928 (G)	
			1,064	1,064 (I)	34,992
Purchased Water	495,457	24,773	(24,773)	0 (F)	
			25,256	25,256 (J)	
			(41,456)	(41,456) (J)	479,257
Purchased Power	19,651	983	(983)	0 (F)	
			(1,564)	(1,564) (K)	18,087
Insurance	19,248	962	(962)	0 (F)	19,248
Postage	3,826	191	(191)	0 (F)	3,826
Advertising	1,761	88	(88)	0 (F)	1,761
Taxes & License	5,075	254	(254)	0 (F)	
			(5,075)	(5,075) (G)	0
Telephone	4,106	205	(205)	0 (F)	4,106
Supplies	24,792	1,240	(1,240)	0 (F)	24,792
Professional Services	42,418	2,120	(2,120)	0 (F)	42,418
Miscellaneous	23,818	1,191	(1,191)	0 (F)	
			(16,390)	(16,390) (G)	7,428
Repairs and Maintenance	73,865	3,693	(3,693)	0 (F)	
			(20,782)	(20,782) (G)	53,083
Travel	18,270	914	(914)	0 (F)	18,270
Bank Charges	1,417	71	(71)	0 (F)	1,417
Interest in long-term debt	30,439		(30,439)	(30,439) (L)	0
Depreciation	177,802		(177,802)	(177,802) (G)	0
Office Costs	0		20,782	20,782 (G)	20,782
Total Operation and Maintenance Expenses	1,223,821	50,779	(302,621)	(251,842)	971,979
Taxes Other Than Income			16,390	16,390 (G)	
			5,075	5,075 (G)	21,465
Depreciation	(177,802)		177,802	177,802 (G)	
			177,802	177,802 (M)	177,802
Total Operating Expenses	1,046,019	50,779	74,448	125,227	1,171,246
Income Available to Service Debt	\$ 367,493	\$ 79,951	\$ (561,463)	\$ (481,512)	\$ (114,019)

(A) Billing Analysis. Kirksville Water provided a billing analysis listing the gallons sold and sales revenue for the 12-month test year in its application.¹⁷ In the 2022 Annual Report, total metered sales revenue reflected \$1,026,043.¹⁸ Kirksville Water provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff to be \$1,291,840, based on the usage during the test year, using the rates authorized in its current tariff.¹⁹ In its application, Kirksville Water proposed an adjustment to Retail Water Revenue in the amount of \$130,730,²⁰ which is a 10 percent increase.²¹ In its billing analysis, Kirksville Water calculated a 10 percent increase to Residential Current Rates²² and Commercial Current Rates.²³ Commission Staff reviewed the billing analysis created by Kirksville Water and found substantial errors in the application of the Usage Table, specifically, the gallons in each tier lever were applied incorrectly.²⁴ Kirksville Water provided the test-year “Adjustment Report” that contained additional detailed information about the test-

¹⁷ Application, Copy_of_Kirksville_Water_Association_Rate_Increase_2023_(6)corrected.xlsx.

¹⁸ 2022 Annual Report at 49.

¹⁹ Kirksville Water’s Response to Staff’s First Request, (filed Oct. 25, 2023), Exhibit 16-billing analysis.

²⁰ Application, Copy_of_Kirksville_Water_Association_Rate_Increase_2023_(6)corrected.xlsx, Tab ‘FA-5’.

²¹ Application, Copy_of_Kirksville_Water_Association_Rate_Increase_2023_(6)corrected.xlsx, Tab ‘FA-4A’.

²² Application, Copy_of_Kirksville_Water_Association_Rate_Increase_2023_(6)corrected.xlsx, Tab ‘Residential Current Rates’.

²³ Application, Copy_of_Kirksville_Water_Association_Rate_Increase_2023_(6)corrected.xlsx, Tab ‘Commercial Current Rates’.

²⁴ Kirksville Water’s Response to Staff’s First Request, Exhibit 16-billing analysis.

year billing adjustments,²⁵ and allowed Commission Staff to identify totals for leak adjustments and adjustments to customer bills.

During the test year, Kirksville Water's supplier increased its wholesale rates and Kirksville Water received approval from the Commission to raise its rates in a purchased water adjustment (PWA) filing case.²⁶ In order to calculate a normalized revenue amount for Kirksville Water, Commission Staff applied the current rates approved in PWA Case No. 2022-00185²⁷ to the entire test year. Commission Staff reviewed all data provided by Kirksville Water and calculated a normalized revenue amount of \$1,035,320. Commission Staff subtracted the reported test-year revenue amount of \$1,026,043 from the normalized revenue amount for a total adjustment increase to Metered Water Sales of \$9,277. Commission Staff recommends the Commission accept the proposed adjustments to correct the pro forma to the billing analysis.

(B) Late Payment Penalties. Late payment penalties of \$13,160 were reclassified from Fees and Charges for presentation purposes. Kirksville Water provided detailed information about the late payment revenue, allowing Commission Staff to verify the total test-year amount of \$13,160.²⁸

(C) Fees and Charges. In its application, Kirksville Water reported \$57,256 in Fees and Charges consisting of late payment revenue, meter installation fees (tap fees)

²⁵ Kirksville Water's Response to Staff's Second Request (filed Nov. 27, 2023), Q2_Adjustments_2022.pdf.

²⁶ Case No. 2022-00185, *Electronic Purchased Water Adjustment Filing of Kirksville Water Association, Inc.* (Ky. PSC July 15, 2022), final Order.

²⁷ Case No. 2022-00185, *Electronic Purchased Water Adjustment Filing of Kirksville Water Association, Inc.* (Ky. PSC July 15, 2022), final Order.

²⁸ Kirksville Water's Response to Staff's Second Request (filed Nov. 27, 2023), Item 1.

of \$31,012, service charges of \$6,871, cut-off charges of \$6,112.50, and return check charges of \$100.²⁹ Late payment penalties of \$13,160 were reclassified as explained above. Tap fees of \$31,012 for new meter installations were removed from revenues because the Uniform System of Accounts for Class A/B Water Districts and Associations (USoA) indicates these fees represent contributed capital and are not considered revenue.³⁰ As discussed in the Nonrecurring Charges section above, the adjustments to the nonrecurring charges result in a decrease in Other Water Revenue of \$6,592.

Nonrecurring Charges	Current Tariff Rate	Num.	Total	Revised Rate	Adjustment	Pro Forma
Meter Reading Recheck	\$ 58.00	0	\$ -	\$29.00	\$ -	\$ -
Service Reconnection Charge	\$ 58.00	105	6,113	\$29.00	(3,068)	3,045
Service Charge	\$ 58.00	118	6,844	\$29.00	(3,422)	3,422
Returned Check Charge	\$ 20.00	5	100	\$5.00	(75)	25
3/4-Inch Meter Test Request	\$ 135.00	0	0	\$64.00	0	0
1 Inch Meter Test Request	\$ 135.00	0	0	\$104.00	0	0
Damage to Meter Setting or Lid	Actual	0	0	Actual	0	0
Meter Relocate	Actual	0	0	Actual	0	0
Total Nonrecurring Adjustment			\$ 13,057		\$ (6,565)	\$ 6,492
Unidentified Amount			27		(27)	0
Total Adjustment			\$ 13,084		\$ (6,592)	\$ 6,492

Commission Staff recommends the Commission accept the proposed adjustments to reflect Commission precedent on Nonrecurring Charges, and to be consistent with USoA practices.

(D) Miscellaneous. Kirksville Water reported \$12,827 in miscellaneous revenues.³¹ Commission Staff removed \$11,027 for items that Kirksville Water indicated

²⁹ Kirksville Water's Response to Staff's Second Request, Item 1.

³⁰ Uniform System of Accounts for Class A/B Water Companies, <https://psc.ky.gov/agencies/psc/forms/usoa/0600ab02.pdf>.

³¹ Application, Copy_of_Kirksville_Water_Association_Rate_Increase_2023_(6)corrected.xlsx, Tab 'FA-5'.

are nonrecurring.³² Commission Staff recommends the Commission accept the proposed adjustment to reflect the correct amount of revenue expected to recur.

(E) Grant Revenue. This item for \$316,931 was reported as income but was not identified in the general ledger as a revenue source. Contributions as grants are not considered recurring income and therefore Commission Staff adjusted the revenues to remove the grant revenue from the test year. Kirksville Water did not propose an adjustment but noted that the income is not expected to recur.³³ Commission Staff recommends the Commission accept the Commission Staff's proposed adjustment to reflect the correct amount of revenue expected to recur.

(F) Five Percent Inflation Adjustment. Kirksville Water proposed a 5.0 percent, or \$50,779 increase to the expense categories listed in the chart below. Kirksville Water stated, "The District considered the normal operations cost would increase at a rate of 5 percent in the next reporting period."³⁴ Kirksville Water provided information to support its adjustment to wages,³⁵ but did not otherwise provide evidence to support each of its proposed adjustments. The Commission has previously determined that inflation adjustments are not appropriate pro forma adjustments for a historic test-year case because they are not know and measurable adjustments. Commission Staff accepted the proposed salary adjustment but removed \$37,615 of other adjustments due to the proposed adjustments not being known and measurable. The table below details the

³² Kirksville Water's Response to Staff's Second Request, Item 10 d.

³³ Response to Staff's First Request, Item 10 d.

³⁴ Application, Copy_of_Kirksville_Water_Association_Rate_Increase_2023_(6)corrected.xlsx, Tab 'FA-5'.

³⁵ Staff's First Request, Item 1c, Q2Q3_EmployeeWages_Benefits.xlsx.

adjustments made by Commission Staff. Commission Staff recommends the Commission accept the Kirksville Water’s proposed adjustments as modified by Commission Staff to reflect current wage rates.

Category	Amount
Personnel (Salaries)	\$ 13,164
Salaries - Officers	930
Purchased Water	24,773
Purchased Power	983
Insurance	962
Postage	191
Advertising	88
Taxes & License	254
Telephone	205
Supplies	1,240
Professional Services	2,120
Miscellaneous	1,191
Repairs and Maintenance	3,693
Travel	914
Bank Charges	71
Proposed Increases	50,779
Personnel (Salaries) ()	(13,164)
Amounts Removed from Pro Forma	\$ 37,615

(G) Expense Reclassifications. Commission Staff reclassified expenses in the following account classifications to facilitate consistency of presentation and to classify the amounts in their proper reporting category. There is no impact on the revenue requirement. Commission Staff recommends the Commission accept the proposed reclassifications by Commission Staff to better reflect Kirksville Water’s Schedule of Adjusted Operations.

Category	Amount
Wages (account 896 Employee Benefits)	(33,928)
Benefits (account 896 Employee Benefits)	33,928
Licenses & Taxes (account 910 licenses & taxes)	(5,075)
Miscellaneous (account 934 Unemploy Taxes - State; account 936 Employer FICA Tax)	(16,390)
Repairs and Maintenance (account 919 customer billing; account 945 office utilities)	(20,782)
O&M - Depreciation	(177,802)
Office Costs (account 919 customer billing; account 945 office utilities)	20,782
Taxes Other Than Income (account 934 Unemploy Taxes - State; account 936 Employer FICA Tax)	16,390
Taxes Other Than Income (account 910 licenses & taxes)	5,075
Depreciation	177,802
Net Reclassifications	<u>\$ -</u>

(H) Personnel Costs (Wages). Commission Staff removed \$18,600 representing Officer's Salaries. This amount was counted twice in the Schedule of Adjusted Operations (SAO)³⁶ submitted by Kirksville Water, and Commission Staff identified the error in its reconciliation of the test-year general ledger to the SAO. Commission Staff did not propose any additional adjustments to wage costs. The chart below reflects the amounts Commission Staff calculated for pro forma wages (\$223,912), benefits (\$34,992) and FICA (\$18,485). FICA is included in the Taxes Other Than Income expense category described. Commission Staff recommends the Commission accept the Commission Staff's proposed adjustments to reflect the current wages of Kirksville Water's board of commissioners.

³⁶ Application, Copy_of_Kirksville_Water_Association_Rate_Increase_2023_(6)corrected.xlsx, Tab 'FA-5'.

Compensation / FICA				Benefits	
Position	Hours	Rate	Wages	Health Insurance Stipend	Retirement @ 10%
Position 1	2,080	\$24.00	\$ 49,920	4,432	4,992
Position 2	2,080	\$19.50	40,560	4,432	4,056
Position 3	2,080	\$19.50	40,560	4,432	4,056
Position 4	2,080	\$20.00	41,600	4,432	4,160
Position 5 (part-time)		\$16.00	25,248		
Position 6 (part-time)		\$16.50	26,024		
Wages (rounded)			\$ 223,912	17,728	17,264
Insurance Stipend			17,728		
Amount Subject to FICA			241,640	Total Benefits \$	34,992
FICA Rate			0.0765	Test Yr ()	(33,928)
FICA Amount			\$ 18,485	Adjustment	\$ 1,064

(I) Benefits. Kirksville Water pays an insurance stipend of \$369.36 per month to full-time employees.³⁷ It also contributes 10 percent of wages to individual retirement accounts for each full-time employee.³⁸ Commission Staff calculated a net benefits increase of \$1,064, as shown in the table above, based on pro forma staffing and wage information. Commission Staff included the insurance stipend in wages subject to FICA since it is a cash payment to eligible employees. Commission Staff recommends the Commission accept the Commission Staff's proposed adjustments to reflect the current benefits of Kirksville Water's employees.

(J) Purchased Water. Commission Staff increased purchased water cost by \$25,256 as shown below to reflect the full year effect of a PWA that became effective for water purchased on or after July 1, 2022.³⁹

³⁷ Staff's First Request, Item 1c, Q2Q3_EmployeeWages_Benefits.xlsx.

³⁸ Staff's First Request, Item 1c, Q2Q3_EmployeeWages_Benefits.xlsx.

³⁹ Case No. 2022-00185, *Electronic Purchased Water Adjustment Filing of Kirksville Water Association, Inc.* (Ky. PSC July 15, 2022).

Gallons Purchased (2022)	131,562,728
Current Purchase Rate (conferted from cu ft to '000 gallons)	\$ 3.9579
Pro Forma Cost	\$ 520,713
Test Year Purchase Cost	(495,457)
Increase in Purchase Cost	\$ 25,256

Kirksville Water reported water loss of 22.9613 percent in its 2022 Annual Report.⁴⁰ Commission Staff calculated a decrease of \$41,456 to Purchased Water expense for water loss in excess of 15 percent as shown below. Commission Staff recommends the Commission accept the Commission Staff's proposed adjustments to reflect the current purchase water expense of Kirksville Water along with the correct disallowed purchased water expense amount associated with water loss in excess of 15 percent.

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 520,713	\$ 19,651	\$ 540,364
Water Loss in Excess of 15%	7.9613%	7.9613%	7.9613%
Total Disallowed Water Loss	\$ 41,456	\$ 1,564	\$ 43,020

(K) Purchased Power. Commission Staff calculated a decrease of \$1,564 to Purchased Power expense for water loss in excess of 15 percent as shown in the preceding chart. Commission Staff recommends the Commission accept the Commission Staff's proposed adjustment to reflect the correct disallowed Purchased Power expense amount associated with water loss in excess of 15 percent.

(L) Interest on Long-Term Debt. Kirksville Water included \$30,439 of Interest in long-term debt expense in operating and maintenance costs.⁴¹ Commission Staff

⁴⁰ 2022 Annual Report at 57.

⁴¹ Application, Copy_of_Kirksville_Water_Association_Rate_Increase_2023_(6)corrected.xlsx, Tab 'FA-5'.

removed \$30,439 because it is an inappropriate classification for recovery as it should be included in debt service. Commission Staff recommends the Commission accept the Commission Staff's proposed adjustment to reflect the correct calculation of the revenue requirement.

(M) Depreciation. Kirksville Water included depreciation expense of \$177,802 in operating and maintenance costs. It subsequently removed the cost in Depreciation – Other Operating Expenses stating, “Depreciation is added back to more clearly reflect overall financial comparisons.”⁴² By removing Depreciation expense from its revenue requirement calculation, Kirksville Water understated the revenue requirement by \$177,802. Commission Staff added the \$177,802 exclusion of Depreciation back to the pro forma to ensure that the revenue requirement is properly stated for ratemaking purposes. Commission Staff recommends the Commission accept Commission Staff's proposed adjustments to reflect the correct calculation of revenue requirement.

OVERALL REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;⁴³ (3) the

⁴² Application, Copy_of_Kirksville_Water_Association_Rate_Increase_2023_(6)corrected.xlsx, Tab 'FA-5'.

⁴³ 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.

average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense. The table below reflects Kirksville Water’s and Commission Staff’s calculated revenue requirement.

	Kirksville Water	Commission Staff
Pro Forma Operating Expenses	\$ 1,274,600	\$ 1,171,246
Plus: Average Annual Principal and Interest Payments	53,923	76,105
Additional Working Capital	53,238	15,221
Overall Revenue Requirement	1,381,761	1,262,572
Less: Other Operating Revenue	(70,538)	(21,907)
Revenue Required from Rates	1,311,223	1,240,665
Less: Pro Forma Present Rate Service Revenues	(1,342,974)	(1,035,320)
Required Revenue Increase	<u>\$ (31,751)</u>	<u>\$ 205,345</u>
Percentage Increase	<u>-2.36%</u>	<u>19.83%</u>

1. Average Annual Principal and Interest Payments. At the time of Commission Staff’s review, Kirksville Water has seven loans, consisting of four loans from Rural Development, one loan from Kentucky Rural Water Finance Corporation, and two loans from First Trust Bank.⁴⁴ Kirksville Water requested to recover the average annual principal on its indebtedness based on a three-year average. It did not include interest in its debt service recovery calculation, but, as noted in adjustment (L), erroneously included it in operating and maintenance expenses. Commission Staff validated principal payments and interest rates on each loan against Kirksville Water’s audited financial

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).

⁴⁴ Kirksville Water Association Audited Financial Statements for the Year Ended December 31, 2022 (filed with the Commission June 5, 2023).

statements for the year ended December 31, 2022⁴⁵ and adjusted average debt service to include interest.

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by an association or district's lenders that are above its annual average debt payments. Kirksville Water requested recovery of an allowance for working capital; however, it erroneously calculated the amount at approximately 98.73 percent of its presented debt service amount, or \$53,238. Commission Staff recalculated the working capital requirement based on the pro forma debt service described above at 120 percent of its average annual debt service resulting in a working capital amount of \$15,221, or \$38,017 less than the amount calculated by Kirksville Water.

⁴⁵ Kirksville Water Association Audited Financial Statements for the Year Ended December 31, 2022 (filed with the Commission Jun. 5, 2023).

Signatures

/s/Jeff Abshire

Prepared by: Jeff Abshire
Revenue Requirement Branch
Division of Financial Analysis

/s/Elizabeth Stefanski

Prepared by: Elizabeth Stefanski
Rate Design Branch
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00258 DATED JAN 04 2024

* Denotes Rounding

Nonrecurring Charges Adjustments

<u>Meter Reading Recheck</u>		
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$28.11 at 1 hours)	\$28.11	
Office Supplies		
Office Labor	\$26.02	
Transportation (44 miles @ 0.655)	\$28.82	\$29.00
Misc.		
Total Revised Charge	<u>\$82.95</u>	<u>\$29.00</u>
Current Rate	\$58.00	

<u>Service Reconnection Charge</u>		
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$28.11 at 1 hours)	\$28.11	
Office Supplies		
Office Labor	\$26.02	
Transportation (44 miles @ 0.655)	\$28.82	\$29.00
Misc.		
Total Revised Charge	<u>\$82.95</u>	<u>\$29.00</u>
Current Rate	\$58.00	

<u>Service Charge</u>		
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$28.11 at 1 hours)	\$28.11	
Office Supplies		
Office Labor	\$26.02	
Transportation (44 miles @ 0.655)	\$28.82	\$29.00
Misc.		
Total Revised Charge	<u>\$82.95</u>	<u>\$29.00</u>
Current Rate	\$58.00	

	<u>Returned Payment Charge</u>	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor		
Office Supplies		
Office Labor	\$26.02	
Transportation		
Misc.-Bank Fee	\$5.00	\$5.00
Total Revised Charge	<u>\$31.02</u>	<u>\$5.00</u>
Current Rate	\$20.00	

	<u>3/4-inch Meter Test Request</u>	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials	\$35.00	\$35.00
Field Labor		
Office Supplies		
Office Labor		
Transportation		
Service Call	\$83.00	\$29.00
Total Revised Charge	<u>\$118.00</u>	<u>\$64.00</u>
Current Rate	\$135.00	

	<u>1-inch Meter Test Request</u>	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials	\$75.00	\$75.00
Field Labor		
Office Supplies		
Office Labor		
Transportation		
Service Call	\$83.00	\$29.00
Total Revised Charge	<u>\$158.00</u>	<u>\$104.00</u>
Current Rate	\$135.00	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00258 DATED JAN 04 2024

The following rates and charges are prescribed for the customers in the area served by Kirksville Water Association, Inc. 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

PHASE I

All Meters

First	2,000 Gallons	\$23.20	Minimum Bill
Next	3,000 Gallons	0.01121	Per Gallon
Next	5,000 Gallons	0.00960	Per Gallon
Over	10,000 Gallons	0.00826	Per Gallon

PHASE II (effective one year after Phase I rates begin)

All Meters

First	2,000 Gallons	\$25.29	Minimum Bill
Next	3,000 Gallons	0.01222	Per Gallon
Next	5,000 Gallons	0.01047	Per Gallon
Over	10,000 Gallons	0.00900	Per Gallon

Nonrecurring Charges

5/8 x 3/4 Inch Water Tap On	\$1,190.00
All Larger Meters	\$1,420.00
Late Payment Penalty	10%
Meter Reading Recheck	\$29.00
Service Reconnection Charge	\$29.00
Service Charge	\$29.00
Returned Check Charge	\$5.00
3/4-Inch Meter Test Request	\$64.00
1 Inch Meter Test Request	\$104.00
Damage to Meter Setting or Lid	Actual
Meter Relocate	Actual

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