

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ESTILL)	CASE NO.
COUNTY WATER DISTRICT NO. 1 FOR A RATE)	2023-00371
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 December 22, 2023, as amended on April 25, 2024, 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 December 22, 2023, as amended by the April 25, 2024, Order, Estill County Water District #1 (Estill District #1) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Estill District #1 to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



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

DATED MAY 14 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 ESTILL COUNTY WATER DISTRICT #1

Estill County Water District #1 (Estill District #1) 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 3,628 residential customers and 180 commercial customers that reside in Estill County, Kentucky.¹

On December 15, 2023,² Estill District #1 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 Estill District #1 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. 2021-00064,⁴ which required

¹ *Annual Report of Estill District #1 to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report).

² Estill District #1 tendered its application on December 1, 2023. By letter dated December 6, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on December 15, 2023.

³ The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

⁴ Case No. 2021-00064, *Electronic Application of Estill County Water District No. 1 for Authorization to Enter into an Assistance Agreement with the Kentucky Infrastructure Authority, for a Certificate of Public Convenience to Construct Certain Water Improvements and Authorization to Use Water Loss Control Program Surcharge Proceeds* (Ky. PSC June 3, 2022).

Estill District #1 to file an application for an adjustment of its base rates by December 1, 2023. Estill District #1's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2017-00176.⁵ Since that matter, Estill District #1 has only adjusted its rates pursuant to purchased water adjustments.⁶

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated December 22, 2023, as amended by Order on April 25, 2024. Estill District #1 responded to three rounds of discovery.⁷

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2022 Annual Report, Estill District #1 reported a water loss of 39.8996 percent.⁸ Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes, a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission views excessive water loss as a potential warning sign of problems with the

⁵ Case No. 2017-00176, *Electronic Application of Estill County Water District No. 1 for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 20, 2017).

⁶ Case No. 2017-00377, *Electronic Purchased Water Adjustment of Estill County Water District No. 1*, (Ky. PSC Oct. 13, 2017), Order; and Case No. 2018-00276, *Electronic Purchased Water Adjustment of Estill County Water District No. 1* (Ky. PSC Sept. 5, 2018), Order.

⁷ Estill District #1's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Jan. 24, 2024); Estill District #1's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Feb. 27, 2024); and Estill District's #1's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed May 3, 2024).

⁸ 2022 Annual Report at 57.

financial health and operational well-being of water utilities.⁹ The table below shows that the 2022 total annual cost of water loss to Estill District #1 is \$386,205 while the annual cost of water loss in excess of 15 percent is \$241,014.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 883,188	\$ 84,756	\$ 967,944
Water Loss Percent	39.8996%	39.8996%	39.8996%
Total Water Loss	\$ 352,388	\$ 33,817	\$ 386,205

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 883,188	\$ 84,756	\$ 967,944
Water Loss in Excess of 15%	24.8996%	24.8996%	24.8996%
Disallowed Water Loss	\$ 219,910	\$ 21,104	\$ 241,014

Estill District #1 was a party to the Commission’s 2019 investigation into excessive water loss.¹⁰ It was approved for a water loss surcharge in March 2020 and began spending surcharge funds in early 2024.¹¹ Estill District #1’s water loss has changed minimally during the past five years as shown in the table below.

Year	Water Loss Percentage
2018	39.63%
2019	37.46%
2020	31.05%
2021	39.88%
2022	39.90%

⁹ Case No. 2019-00041, *Electronic Investigation Into Excessive Water Loss by Kentucky’s Jurisdictional Water Utilities* (Ky. PSC Mar. 12, 2019), Order.

¹⁰ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky’s Jurisdictional Water Utilities*, Entry of Appearance (filed Mar. 15, 2019).

¹¹ Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2020), Order; January 2024 Activity Report (filed Feb. 15, 2024).

DISCUSSION

Using its pro forma test-year operations, Estill District #1 determined that a base rate revenue increase of \$355,239 or 18.79 percent, was necessary to achieve the revenue requirement as shown in the table below.¹² The rates requested by Estill District #1 would increase the residential monthly bill of a typical residential customer with a 5/8-Inch x 3/4-Inch meter using 3,075 gallons per month by \$6.18 from \$32.90 to \$39.08, or approximately 18.78 percent.¹³

Description	Estill County Water
Pro Forma Operating Expenses	\$ 2,054,471
Average Annual Principal and Interest Payments	238,556
Additional Working Capital	47,711
Overall Revenue Requirement	2,340,738
Other Operating Revenue ()	(94,256)
Interest Income ()	(746)
Revenue Required from Rates	2,245,736
Pro Forma Present Rate Service Revenues ()	(1,890,497)
Required Revenue Increase	\$ 355,239
Percentage Increase	18.79%

To determine the reasonableness of the rates requested by Estill District #1, Commission Staff performed a limited financial review of Estill District #1's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known

¹² Application, Attachment 6, Revenue Requirement Calculation at 19.

¹³ Application, Attachment 1, Customer Notice at 8.

and measurable¹⁴ changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's recommendations are summarized in this report. William Pearce reviewed the calculation of Estill District #1's Overall Revenue Requirement, and Jason Green and Manuel Jerez Tamayo reviewed Estill District #1'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 Estill District #1's required revenue from water sales is \$2,217,357 to meet the Overall Revenue Requirement of \$2,287,095 and that a \$326,860 revenue increase, or 17.29 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Estill District #1 proposed to increase all of its monthly retail and wholesale water service rates by approximately 18.79 percent

¹⁴ 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).

across the board. Estill District #1 stated that it did not complete a COSS at this time as there has been no material changes in the water system.¹⁵

The rates set forth in the Appendix to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$2,217,357 Revenue Required from Rates, an approximate 17.29 percent increase. These rates will increase a typical residential customer's monthly water bill from \$32.90 to \$38.56 an increase of \$5.66, or approximately 17.20 percent.¹⁶ Estill District #1 also charges a monthly water loss control program surcharge, established in Case No. 2019-00119 of \$3.54 per month per customer.¹⁷ This increases the typical residential customer's monthly water bill, including the surcharge, from \$36.44 to \$44.71, an increase of \$5.66, or 15.53 percent. Commission Staff notes that the typical bill listed in the notice did not include the surcharge in its calculations. Commission Staff recommends that the surcharge be terminated effective December 31, 2025, as further described below.

3. Nonrecurring Charges. Following the Commission's recent decisions,¹⁸ Commission Staff has reviewed Estill District #1's Nonrecurring Charges. The

¹⁵ Estill District #1's Response to Staff's First Request, Item 18 at 139.

¹⁶ The average retail customer uses approximately 3,075 gallons per month as used by Estill District #1 in its deficiency cured notice at 39.

¹⁷ Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (filed Aug. 1, 2019).

¹⁸ 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).

Commission found that because district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. Estill District #1 provided the cost justification for the nonrecurring charges.¹⁹ Commission Staff reviewed the cost justification information provided by Estill District #1 and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. Such adjustments result in the following revised Nonrecurring Charges:

	<u>Current</u> <u>Charge</u>	<u>Revised</u> <u>Charge</u>
Disconnection/Reconnection Charge	\$50.00	\$20.00
Returned Payment Charge	\$25.00	\$7.00
Service Call/Investigation	\$50.00	\$20.00
Meter Test Request	\$80.00	\$90.00
Damage To Meter Setting or Lid	Actual Cost	Actual Cost
Meter Relocation Charge	Actual Cost	Actual Cost

The adjustments to the Nonrecurring Charges result in a decrease in Other Operating Revenue of \$14,064 as shown below.

Description	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Disconnection/Reconnection Charge	393	\$50.00	\$20.00	\$ (11,790)	\$ 7,860
Returned Check Charge	53	\$25.00	\$7.00	(954)	371
Service Call/Investigation	44	\$50.00	\$20.00	(1,320)	880
Meter Test Charge	0	\$80.00	\$90.00	0	0
Damage to Meter Setting or Lid	13	Actual Cost	Actual Cost	0	3,098
Meter Relocation Fee	0	Actual Cost	Actual Cost	0	0
Pro Forma Test Year NRC Revenue				<u>\$ (14,064)</u>	\$ 12,209
Less: Test Year NRC Revenue ()					(26,273)
Adjustment					<u>\$ (14,064)</u>

¹⁹ Estill District #1's Response to Staff's First Request, Item 15.

Estill District #1 also provided updated cost justification information for its 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge.²⁰ Commission Staff reviewed the proposed expenses provided by Estill District #1 and agreed with its proposed increase. Estill District #1's tap-on fee will increase from \$1,277 to \$1,850.

4. Water Loss Surcharge. In Case No 2019-00119, Estill District #1 was approved for a water loss surcharge of \$3.54 per customer per month.²¹ On August 31, 2023, Estill District #1 requested that the surcharge be permitted to continue until December 31, 2025.²² Commission Staff reviewed the surcharge collections and approved expenditures and did not identify a necessity for the surcharge to be continued after the requested date. Commission Staff recommends that an order be issued in Case No. 2019-00119, the water loss control program surcharge case, concurrent with the Final Order in this case to permit termination of the surcharge on the requested date and that the order strongly encourage Estill District #1 to develop a long-term capital plan that includes its water loss minimization plans. Commission Staff notes that Estill District #1 was authorized to use surcharge proceeds to facilitate payment of debt service to the Kentucky Infrastructure Authority (KIA) in Case No. 2021-00064²³; however, its

²⁰ Estill District #1's Response to Staff's First Request, Item 15.

²¹ Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Aug. 29, 2019), Order.

²² Case No. 2019-00119, *Verified Motion for Authorization to Expend Surcharge Proceeds and to Continue Billing Surcharge Until December 31, 2025* (filed Aug. 31, 2023), Item 26 at 13.

²³ Case No. 2021-00064, *Electronic Application of Estill County Water District No. 1 for Authorization to Enter into an Assistance Agreement with the Kentucky Infrastructure Authority, for a Certificate of Public Convenience to Construct Certain Water Improvements and Authorization to Use Water Loss Control Program Surcharge Proceeds* (Ky. PSC Apr. 8, 2021), Order at 7, ordering paragraph 7.

August 31, 2023, motion in Case No. 2019-00119²⁴ did not reference this authorization. Commission Staff included debt service on the KIA loan in the revenue requirement in this case. Commission Staff recommends that Estill District #1 file an alternative rate filing no later than July 1, 2027, based on a 2026 test year to ensure that its post surcharge operating costs are appropriately reflected in its rate structure.

PRO FORMA OPERATING STATEMENT

Estill District #1's Pro Forma Operating Statement for the test year ended December 31, 2022, as determined by Commission Staff appears in the table below.

²⁴ Case No. 2019-00119, Verified Motion for Authorization to Expend Surcharge Proceeds and to Continue Billing Surcharge Until December 31, 2025 (filed Aug. 31, 2023).

Description	Test Year	Estill District Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref.)	Pro Forma
Operating Revenues						
Sales of Water	\$ 1,917,600	\$ (27,103)		\$ (27,103)	A	\$ 1,890,497
Other Water Revenues	254,809	(160,553)	(25,264)	(160,553) (25,264)	B B	68,992
Total Operating Revenues	2,172,409	(187,656)	(25,264)	(212,920)		1,959,489
Operating Expenses						
Operation and Maintenance Expenses						
Salaries and Wages - Employees	332,108	127,768		127,768	C	459,876
Salaries and Wages - Officers	18,000			0		18,000
Employee Benefits - Medical	263,936		(136,359)	(136,359)	D1	
			(30,751)	(30,751)	D2	
			(18,675)	(18,675)	D3	
			(223)	(223)	D4	
			(7,019)	(7,019)	D5	70,909
Employee Benefits - Retirement (CERS)	0	17,832	136,359	154,191	D1	
			(46,215)	(46,215)	E1	
			(641)	(641)	E2	107,335
Purchased Water	890,552	(221,744)	1,834	(219,910)	F	
			(7,364)	(7,364)	F	663,278
Purchased Power for Pumping	84,756	(21,104)		(21,104)	G	63,652
Materials and Supplies	61,805		(21,304)	(21,304)	H	40,501
Contractual Services	62,262			0		62,262
Water Testing	5,285			0		5,285
Transportation Expense	24,928			0		24,928
Insurance	24,351			0		24,351
Regulatory Commission Expense	38			0		38
Miscellaneous Expense	56,583			0		56,583
Total Operation and Maintenance Expenses	1,824,604	(97,248)	(130,358)	(227,606)		1,596,998
Taxes Other Than Income - FICA	28,846	9,774		9,774	I	38,620
Depreciation	279,693		80,060	80,060	J	359,753
Amortization Expense	3,801	5,000		5,000	K	8,801
Total Operating Expenses	2,136,944	(82,474)	(50,298)	(132,772)		2,004,172
Net Operating Income	35,465	(105,182)	25,034	(80,148)		(44,683)
Interest Income	0		746	746		746
Income Available to Service Debt	\$ 35,465	\$ (105,182)	\$ 25,780	\$ (79,402)		\$ (43,937)

(A) Billing Analysis Adjustment. Estill District #1 provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application.²⁵ It reported total metered water sales revenue of \$1,917,600 for the test year in its Schedule of Adjusted Operations.²⁶ Estill District #1 provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using

²⁵ Application, Attachment #7, Existing Billing Analysis at 21.

²⁶ Application, Attachment #5, Schedule of Adjusted Operations at 15.

the rates authorized in its current tariff to be \$1,890,497 and proposed an adjustment to decrease test-year water sales revenue by \$27,103 to reflect the revenues from water rates generated by the billing analysis.²⁷ Commission Staff notes that a portion of the decrease could be the result of some nonrecurring charges being recorded as Sales of Water. Commission Staff recommends the Commission accept the adjustments because the amounts are known and measurable.

(B) Other Water Revenues. A summary of Other Water Revenues and adjustments is presented in the table below. Estill District #1 reported a test year amount of \$254,809 and proposed a decrease of \$160,553 to eliminate revenue generated by the water loss surcharge, which is not a component of the revenue requirement.²⁸ Commission Staff made three additional adjustments, as shown in the chart below. First, Commission Staff reduced nonrecurring charges by \$6,814 (B1). This amount is comprised of a reduction for labor costs of \$14,064 as discussed previously, which is partly offset by an increase of \$7,250 which represents nonrecurring charges that were not properly classified. Second, it increased miscellaneous revenue components by \$7,167 (B2) to balance total Other Revenues to known amounts. Third, it decreased sales tax, utility gross receipts tax, and 911 Fees, all of which are pass through collections, by a net of \$11,283 (B3) to balance to collections and disbursements to zero. The net of the three adjustments decreases other revenues by \$25,264 resulting in pro forma Other Water Revenues of \$68,992. Commission Staff recommends the Commission accept the adjustments because the amounts are known and measurable.

²⁷ Application, Attachment #7, proposed Billing Analysis at 23.

²⁸ Application, Attachment #5, Reference B at 17.

Description	Test Year	Estill District Adj	Commission Staff Adj	Pro Forma
Late Payment Penalties	\$53,275	\$0	\$0	\$53,275
<i>Non-Recurring Charges</i>				
Disconnection / Reconnection Charge	18,023		(10,163)	7,860
Returned Check Charge	1,000		(629)	371
Service Call / Investigation			880	880
Damage to Meter Setting or Lid			3,098	3,098
sub-total Non-Recurring	19,023	0	(6,814)	12,209
			(B1)	
<i>Miscellaneous</i>				
Fire Protection	3,508			3,508
Misc. Income	7,333		(7,333)	0
Customer Refunds	(166)		166	0
Surcharge-Residential	160,553	(160,553)		0
sub-total Non-Recurring	171,228	(160,553)	(7,167)	3,508
			(B2)	
<i>Tax Billing / Pass Throughs</i>				
Collections - Utility Tax	44,220			44,220
Taxes - Utility	(43,093)		(1,127)	(44,220)
Collections - Sales Tax	17,522			17,522
Taxes - Sales	(17,767)		245	(17,522)
911 Fee Assessed	365,395			365,395
911 Fee	(354,994)		(10,401)	(365,395)
sub-total Pass Through Items	11,283	0	(11,283)	0
			(B3)	
Total	\$254,809	(\$160,553)	(\$25,264)	\$68,992

(C) Salaries and Wages - Employees. Estill District #1 reported test-year wages of \$332,108. In its application, Estill District #1 proposed an increase of \$127,768 to reflect changes in staffing, hiring of two new workers in 2023, and an increase in pay rates.²⁹ Commission Staff reviewed Estill District #1's submission of 2022 and 2023 pay and benefit information and calculations and agrees with the proposed adjustment

²⁹ Application, Attachment #5 – SAO, Reference C.

resulting in a Pro Forma amount of \$459,876.³⁰ Commission Staff recommends the Commission accept the proposed adjustments because the amounts are known and measurable.

(D) Employee Pensions and Benefits - Medical. Estill District #1 reports benefits into five account classifications (Health Reimbursement Account; Payroll Expenses; and a combined Benefits category for each of Maintenance, Customer Service, and Administrative) as shown below. Thus, its general ledger does not provide cost visibility by account for expenditures of each benefit type (medical, dental, life, retirement).

Description	Test Year
Health Reimbursement Account	12,302
Employee Pen & Ben/Maintenance	123,959
Employee Pen & Ben/Cust Service	91,778
Employee Pen & Ben/AD&G	57,272
Payroll Expenses	7,470
Total	292,781
Payroll Taxes (reclassified to Other Taxes)	(28,846)
Reported Benefits	263,935

Commission Staff identified costs by expense type by reviewing payroll and general ledger information that was provided by Estill District #1.³¹ Commission Staff determined that separation of the medical and related benefits costs from retirement benefits would better facilitate discussion of the respective adjustments and reclassified \$136,359 (D1) to Employee Benefits – Retirement (CERS) in the SAO and in the table below. Estill

³⁰ Estill District #1's Response to Staff's First Request, Item 1d, and Attachment 1d, OfficerAndEmployeePayAndBenefitInfo.

³¹ Estill District #1's Response to Staff's First Request, Item 1d, Attachment 1d, OfficerAndEmployeePayAndBenefitInfo, and Attachment 9, General Ledgers.

District #1 did not propose any adjustments to medical and related benefits costs. Commission Staff made four additional adjustments. First, it reduced medical insurance cost. Estill District #1 provided a copy of an invoice for \$5,253.24 medical coverage for December 2023 for eight employees and adjusted it to add one vacant position.³² The annualized amount resulted in a decrease of \$30,751 (D2). Second and third, Estill District #1 provides medical and dental insurance benefits for employee and employee child coverage at no cost. If the employee requests family coverage, the employee is responsible for the incremental cost of the coverage.³³ Commission Staff notes that Estill District #1 did not make an adjustment to reflect the allowable health insurance premium based on the Bureau of Labor Statistics' (BLS) national average for an employer's share of health insurance premiums³⁴ and the Willis Benchmarking Survey for national average for an employer's share of dental insurance that is consistent with Commission precedent.³⁵ Commission Staff reviewed the costs of coverage and withholding amounts reported for test year payroll and calculated adjustments to reduce medical and dental costs by \$18,675 (D3) and \$233 (D4), respectively. Fourth, Estill District #1 reported

³² Estill District #1's Response to Staff's First Request, Item 5a, Attachment 5a, KACO Benefits Invoice, Page 68 of 139. Commission Staff recalculated cost to add one person as follows: Invoice amount of \$5,253.24 divided by eight covered employees equals \$656.66 times nine employees at full staffing equals \$5,909.94. This amount times twelve months equals \$70,919.28.

³³ Estill District #1's Response to Staff's First Request, Item 5 at 62 of 139.

³⁴ U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Single Coverage, March 2023 <https://www.bls.gov/news.release/ebs2.t03.htm>, U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Family Coverage, March 2023 <https://www.bls.gov/news.release/ebs2.t04.htm>.

³⁵ See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), Order at 9-10; and The Willis Benchmarking Survey, 2015, at 62-63. (https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf).

\$7,470 as Payroll Expense in account 66000 in its general ledger. Commission Staff reviewed the general ledger and determined that \$7,019 (D5) should be removed as it was for wage compensation that was adjusted previously to the calculated pro forma amount in Adjustment C above. In aggregate, Commission Staff reduced benefit costs by \$56,668 as shown below:

Description	Test Year	Estill District #1 Adjustments	Commission Staff Adjustments	Pro Forma	Ref
Dental	\$ 2,296.32			\$ 2,296.32	
Dental Withholding ()	(1,154.92)				
Dental Adjustment			(223.00)	(1,377.92)	D4
Medical	101,670.79		(30,751.00)		D2
Medical BLS			(18,675.00)	52,244.79	D3
Life	2,196.55			2,196.55	
Life Withholding ()	(735.82)			(735.82)	
Health Care Reimburse G/L Acct 604.1	12,302.00			12,302.00	
Payroll Expenses G/L Acct 66000	7,470.00		(7,019.00)	451.00	D5
Not Identified	3,531.17			3,531.17	
Total Medical, Dental, Life Retirement	\$ 127,576.09	\$ -	\$ (56,668.00)	\$ 70,908.09	
	136,358.91		(136,358.91)	0.00	D1
Test Year Total Benefits	\$ 263,935.00	\$ -	\$ (193,026.91)	\$ 70,908.09	

Whole dollar amounts are shown to tie to Estill Water #1's general ledger. Amounts reported in Schedule of Adjusted Operations are rounded to zero and may differ slightly.

(E) Employee Benefits – Retirement (CERS). Commission Staff reclassified \$136,359 (D1) from Medical Benefits to Retirement as discussed above. Estill District #1 participates in the County Employees Retirement System (CERS), which is managed by the Kentucky Public Pension Authority (KPPA).³⁶ It proposed one adjustment of \$17,832 to increase retirement cost for increases in pro forma wages.³⁷ Commission Staff agrees with Estill District #1's pro forma amount but does not agree with the test-year amount

³⁶ Estill District #1's Response to Staff's First Request, Item 5, Description of Benefits at 62.

³⁷ Application, Attachment #5, Reference D at 17.

that Estill District #1 used in its calculations. The test year amount is \$136,359 but Estill District #1 used \$89,503.³⁸ Commission Staff concluded that Estill District #1 excluded certain accounting adjustments for Pension and Other Post Employment Benefits (OPEB) related to GASB 68 and GASB 75 from its test year amount. In Case No. 2016-00163,³⁹ Commission Staff discussed in detail how reporting requirements for GASB 68 would affect a utility's income statement and balance sheet. In that proceeding, the Commission found that the annual pension expense should be equal to the amount of a district's contributions to CERS. Consistent with Commission precedent,⁴⁰ Commission Staff removed the \$46,215 (E1) adjustment related to GASB 68 as well as GASB 75, which did not become effective until after GASB 68. Estill District #1 implemented both during 2018.⁴¹ Commission Staff reviewed general ledger entries for the test year and identified \$46,215 (\$27,147 plus \$19,068 below) in expense that should be removed.⁴² Commission Staff made a further reduction of \$641 (E2) to reconcile to Estill District #1's proposed amount. A summary of the adjustments is shown in the table below.

³⁸ Estill District #1's Response to Staff's First Request, Item 9, Attachment 9, Rate Case Workpapers, Salaries.

³⁹ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), Order at 11–15.

⁴⁰ Case No. 2022-00044, *Electronic Application of Big Sandy Water District for an Adjustment of its Water Rates Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 13, 2022), Order at 11–12.

⁴¹ Estill County Water District #1 Audited Financial Statements for the Year Ended December 31, 2018 (filed Oct. 30, 2019), Note 7 at 13 and Note 8 at 18.

⁴² Estill District #1's response to Staff's First Request, Item 1a, Attachment 1a, 2022 General Ledger account 66000, row 13307 for \$27,147.00 and row 13308 for \$19,068.00.

Description	Test Year	Estill District #1 Adjustments	Commission Staff Adjustments (E1, E2)	Pro Forma
Retirement (from payroll)	\$ 90,143.91	\$ 17,832.00	\$ (641.00)	\$ 107,334.91
Pension / OPEB (row 13307 2022 G/L)	27,147.00		(27,147.00)	0.00
Pension / OPEB (row 13308 2022 G/L)	19,068.00		(19,068.00)	0.00
Total (note)	<u>\$ 136,358.91</u>	<u>\$ 17,832.00</u>	<u>\$ (46,856.00)</u>	<u>\$ 107,334.91</u>

(F) Purchased Water. Estill District #1 purchases water from Irvine Municipal Utilities and Jackson County Water Association. Estill District #1 reported a test-year amount of \$890,552 and proposed a decrease of \$221,744 for water loss above the allowed 15 percent. Commission Staff calculated purchased water cost at current rates resulting in a reduction of \$7,364 as shown in the table below.

Description	Irvine Municipal Utilities	Jackson County Water Association	Total
Gallons	274,575,000	258,000	274,833,000
Current Purchase Rate	\$ 3.2133	\$ 3.4729	\$ 3.2135
Pro Forma Cost	<u>\$ 882,292</u>	<u>\$ 896</u>	\$ 883,188
Test Year Purchase Cost ()			(890,552)
Increase in Purchase Cost			<u>\$ (7,364)</u>

Water loss above 15 percent was reduced to \$219,910 resulting in an increase of \$1,834 to the disallowed water loss for a pro forma purchased water amount of \$663,278. Commission Staff recommends accepting the changes proposed by Commission Staff as the amounts are known and measurable.

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 883,188	\$ 84,756	\$ 967,944
Water Loss in Excess of 15%	24.8996%	24.8996%	24.8996%
Disallowed Water Loss	<u>\$ 219,910</u>	<u>\$ 21,104</u>	<u>\$ 241,014</u>

(G) Purchased Power. Estill District #1 reported a test year amount of \$84,756 and proposed a decrease of \$21,104 for water loss above the allowed 15 percent for a pro forma purchase power cost of \$63,652. Commission Staff reviewed Estill District #1's purchased power expense and agrees with its proposed adjustment as the amounts are known and measurable.

(H) Materials and Supplies. Estill District #1 reported a test year amount of \$61,805 and proposed no changes.⁴³ In Staff's Second Request, Staff requested that Estill District #1 confirm whether each of the items in the table below should have been capitalized. Estill District #1 confirmed that all of the items should have been capitalized.⁴⁴ Commission Staff recommends an adjustment of \$21,303.80 to correctly capitalize the expenditures and remove the expense from materials and supplies. Commission Staff recommends accepting the proposed adjustment resulting in a Pro Forma amount of \$40,501.20.

<u>Date</u>	<u>Name</u>	<u>Memo</u>	<u>Amount</u>
06/17/2022	CITCO WATER	PUMP END GRUNDFOS CR64-3-2	\$ 6,252.85
08/31/2022	CITCO WATER	GRUNFOS PUMP	3,484.00
10/03/2022	USA BLUE BOOK	VIPER MAG PIPE CABLE AND FERRO MAGNETIC LOCATOR	2,935.95
12/28/2022	TRUIST BANK UNITED SYSTEMS	REFLECTIVE SIGNS, AND STAND	2,641.00
06/14/2022	AND SOFTWARE, INC	2 ITRON LEAK DETECTO COMPLETE DLD SYSTEM	5,990.00
Total			<u>\$ 21,303.80</u>

(I) Taxes Other Than Income. Estill District #1 reported a test-year amount of \$28,846 and proposed an increase of \$9,774 due to increased taxes for increasing wages for employees. Commission Staff recommends accepting the proposed adjustment resulting in a Pro Forma value of \$38,620 for Taxes Other Than Income.

⁴³ Application, Attachment #7, Schedule of Adjusted Operations at 15.

⁴⁴ Estill District #1's Response to Staff's Second Request for Information, Item 1 at 4.

(J) Depreciation Expense. Estill District #1 did not propose an adjustment based on NARUC estimated asset lives. In Case No. 2017-00176⁴⁵ Estill District #1 was ordered to adopt NARUC depreciable lives to depreciate water plant assets for accounting purposes in all future reporting periods. Commission Staff reviewed Estill District #1's depreciation and agreed that no adjustment for NARUC lives is necessary. Commission Staff made three other adjustments to increase depreciation expense by \$80,060 as described below. First, as noted in (H) above, \$21,303.80 was removed from materials and supplies expense because it should have been capitalized. Commission Staff calculated additional depreciation expense of \$1,405 as shown in the table below (J1). Second, Commission Staff included \$165,056 for three vehicles that were purchased with water loss surcharge funds in early 2024⁴⁶ and added depreciation of \$23,580 (J2) based on a seven-year NARUC life for transportation equipment. Third, Commission Staff identified significant assets that were listed as construction in process in Estill District #1's test year fixed asset list that were subsequently placed in service as of May 19, 2023.⁴⁷ Estill District #1 provided the depreciation amount for these assets as well as other capital expenditures that were placed in service after the test year,⁴⁸ and Commission Staff included an additional \$55,075 (J3) adjustment. The table below

⁴⁵ Case No. 2017-00176, *Electronic Application of Estill County Water District No. 1 for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 20, 2017), Order at 8.

⁴⁶ Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Jan. 25, 2024), Order at 4.

⁴⁷ Case No. 2019-00119, *Verified Motion for Authorization to Expend Surcharge Proceeds and to Continue Billing Surcharge Until December 31, 2025* (filed Aug. 31, 2023), Item 14 at 7.

⁴⁸ Estill District #1's Response to Staff's Third Request, Item 3-1C, Attachment 3-1C at 20.

summarizes the items. Commission Staff recommends the Commission approve the adjustment as the amounts are known and measurable.

Asset	Original Cost	NARUC Life	Adjusted Depreciation
<i>Reclassification of Items from Expense to Capital</i>			
Pump End Grundfos Cr64-3-2	\$ 6,252.85	20.00	\$ 313
Grunfos Pump	3,484.00	20.00	174
Viper Mag Pipe Cable And Ferro Magnetic Locator	2,935.95	17.50	168
Reflective Signs, And Stand	2,641.00	17.50	151
2 Itron Leak Detecto Complete Dld System	5,990.00	10.00	599
sub-total	<u>\$ 21,303.80</u>		<u>\$ 1,405</u> (J1)
<i>Trucks Purchased in Case No. 2019-00119</i>			
Ford F-150 Truck	\$ 53,128.00	7.00	7,590
Ford F-150 Truck	53,128.00	7.00	7,590
Chevrolet 2500 Truck	58,800.00	7.00	8,400
sub-total (J2)	<u>\$ 165,056.00</u>		<u>\$ 23,580</u> (J2)
<i>Assets Placed In Service After Test Year</i>			
Estill District #1's Response to Third Data Request (J3)	<u>\$ 2,927,171</u>	Various	<u>\$ 55,075</u> (J3)
Total (J)	<u>\$ 3,113,531</u>		<u>\$ 80,060</u>

(K) Amortization Expense. Estill District #1 reported a test year amount of \$3,801. Estill District #1 proposed an increase of \$5,000 for amortization of \$15,000 in legal fees related to this rate case to be amortized over three years.⁴⁹ Commission Staff agrees with this methodology and recommends approving the proposed changes as the amounts are known and measurable.

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

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)

⁴⁹ Application, Attachment 5 – Schedule of Adjusted Operations, Reference F at 17.

recovery of depreciation expense, a non-cash item, to provide working capital;⁵⁰ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

Description	Estill County Water	Commission Staff
Pro Forma Operating Expenses	\$ 2,054,471	\$ 2,004,172
Average Annual Principal and Interest Payments	238,556	235,769
Additional Working Capital	47,711	47,154
Overall Revenue Requirement	<u>2,340,738</u>	<u>2,287,095</u>
Other Operating Revenue ()	(94,256)	(68,992)
Interest Income ()	(746)	(746)
Revenue Required from Rates	<u>2,245,736</u>	<u>2,217,357</u>
Pro Forma Present Rate Service Revenues ()	(1,890,497)	(1,890,497)
Required Revenue Increase	<u>\$ 355,239</u>	<u>\$ 326,860</u>
Percentage Increase	<u>18.79%</u>	<u>17.29%</u>

1. Average Annual Principal and Interest Payments. Estill District #1 requested to recover debt service of \$238,556 on its loans from the United States Department of Agriculture Rural Development (RD), a loan payable to a local bank, and a loan payable to KIA based on a three-year average of the annual principal, interest and

⁵⁰ 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).

fee payments for years 2024 through 2027.⁵¹ Commission Staff calculated debt service based on the final KIA loan amount resulting in average debt service of \$235,769.

Year	Amount
2024	\$ 236,697
2025	235,304
2026	235,305
Average	<u>\$ 235,769</u>

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 a district's lenders that are above its average annual debt payments. In its exhibits, Estill District #1 requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments, or \$47,711.⁵² Following the Commission's historic practice of including additional working capital, Commission Staff agrees with inclusion of a working capital provision; however, it calculated the amount at \$47,154 based on the final KIA loan debt service discussed above.

⁵¹ Application at 37.

⁵² Application, Attachment #6, Revenue Requirement Calculation at 19.

Signatures

/s/ William Pearce

Prepared by: William Pearce
Revenue Requirement Branch
Division of Financial Analysis

/s/ Jason Green

Prepared by: Jason Green
Rate Design Branch
Division of Financial Analysis

/s/ Manuel Jerez Tamayo

Prepared by: Manuel Jerez Tamayo
Rate Design Branch
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00371 DATED MAY 14 2024

* Denotes Rounding

Nonrecurring Charges Adjustments		
	Disconnection/Reconnection Charge Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (\$23.17 at 1 hours)	\$23.17	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$16.50	\$0.00
Transportation	\$20.10	\$20.10
Misc.	\$0.00	\$0.00
Total Revised Charge*	\$59.77	\$20.00
Current Rate	\$50.00	
	Returned Payment Charge Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (\$23.17 at 1 hours)	\$0.00	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$16.50	\$0.00
Transportation	\$0.00	\$0.00
Misc.	\$7.00	\$7.00
Total Revised Charge	\$23.50	\$7.00
Current Rate	\$25.00	
	Service Call/Investigation Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (\$23.17 at 1 hours)	\$23.17	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$16.50	\$0.00
Transportation	\$20.10	\$20.10
Misc.	\$0.00	\$0.00
Total Revised Charge*	\$59.77	\$20.00
Current Rate	\$50.00	

	Meter Test Request	
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor	\$0.00	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation	\$0.00	\$0.00
Misc.	\$90.00	\$90.00
Total Revised Charge	<u>\$90.00</u>	<u>\$90.00</u>
Current Rate	\$80.00	

	Damage to Meter Setting or Lid	
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor	\$0.00	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation	\$0.00	\$0.00
Misc.	\$0.00	\$0.00
Total Revised Charge	<u>\$0.00</u>	<u>\$0.00</u>
Current Rate	Actual Charge	Actual Charge

	Meter Relocation Fee	
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor	\$0.00	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation	\$0.00	\$0.00
Misc.	\$0.00	\$0.00
Total Revised Charge	<u>\$0.00</u>	<u>\$0.00</u>
Current Rate	Actual Charge	Actual Charge

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00371 DATED MAY 14 2024

The following rates and charges are prescribed for the customers in the area served by Estill County Water District #1.

Monthly Retail Rates

5/8-Inch x 3/4-Inch Meter

First	2,000 Gallons	\$	25.29	Minimum Bill
Next	3,000 Gallons		0.01234	per Gallon
Next	5,000 Gallons		0.01209	per Gallon
Over	10,000 Gallons		0.00961	per Gallon

1-Inch Meter

First	5,000 Gallons	\$	62.37	Minimum Bill
Next	5,000 Gallons	\$	0.01209	per Gallon
Over	10,000 Gallons	\$	0.00961	per Gallon

2-Inch Meter

First	16,000 Gallons	\$	180.57	Minimum Bill
Over	16,000 Gallons	\$	0.00961	per Gallon

Bulk Loading Station	\$	0.00855	per Gallon
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Wholesale Rates

Powell's Valley Water District	\$	0.00484	per Gallon
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Tap-On Fee

5/8-Inch x 3/4-Inch Meter	\$	1,850.00	
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Nonrecurring Charges

Disconnection/Reconnection Charge	\$20.00
Returned Payment Charge	7.00
Service Call/Investigation	20.00
Meter Test Request	90.00
Damage to Meter Setting or Lid	Actual Cost
Meter Relocation Charge	Actual Cost

*Estill County Water District #1
76 Cedar Grove Road
Irvine, KY 40336

*Audrea Miller
Office Manager
Estill County Water District #1
76 Cedar Grove Road
Irvine, KY 40336

*David P. Foster
Rural Community Assistance Partnership
101 Burch Court
Frankfort, KENTUCKY 40601

*Gerald E Wuetcher
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801