

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NEBO WATER )	CASE NO.
DISTRICT FOR AN ALTERNATIVE RATE FILING )	2024-00002
PURSUANT TO 807 KAR 5:076 )	

ORDER

On February 6, 2024,<sup>1</sup> Nebo Water District (Nebo District) 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,<sup>2</sup> Nebo District used the calendar year ended December 31, 2022, as the basis for its application. Nebo District’s last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2016-00435.<sup>3</sup>

In its application, Nebo District requested rates that would increase its annual water sales revenues by \$204,278 or 23.33 percent.<sup>4</sup>

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<sup>1</sup> Nebo District tendered its application on January 29, 2024. By letter dated February 5, 2024, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on February 6, 2024.

<sup>2</sup> 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.

<sup>3</sup> Case No. 2016-00435, *Application for Rate Adjustment of Nebo Water District* (Ky. PSC June 5, 2017).

<sup>4</sup> Application, Attachment 4, Revenue Requirement Calculation at 15.

To ensure orderly review of the application, the Commission established a procedural schedule by Order dated February 26, 2024. Nebo District responded to two requests for information from Commission Staff.<sup>5</sup>

On June 11, 2024, Commission Staff issued its report (Commission Staff's Report) summarizing its recommendations regarding Nebo District's requested rate adjustment. In Commission Staff's Report, Commission Staff recommended that Nebo District's adjusted test-year operations support a total revenue requirement of \$1,123,182, and that an annual revenue increase of \$63,301, or 5.97 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.<sup>6</sup> In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board of retail customers to calculate its recommended water rates.

On June 25, 2024, Nebo District filed its response to Commission Staff's Report.<sup>7</sup> In its written comments, Nebo District stated that it does not agree with the removal of certain labor expensed from nonrecurring charges, but it did not wish to contest that adjustment.<sup>8</sup> Nebo District concurred with the remainder of the findings presented in

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<sup>5</sup> Nebo District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Feb. 26, 2024); Nebo District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed May 3, 2024); Nebo District's Supplemental Response to Staff's Second Request (filed May 6, 2024).

<sup>6</sup> Commission Staff's Report at 26.

<sup>7</sup> Nebo District's Response to Commission Staff's Report (filed June 25, 2024).

<sup>8</sup> Nebo District's Response to Commission Staff's Report, Item 1.

Commission Staff's Report.<sup>9</sup> Nebo District waived its right to request an informal hearing.<sup>10</sup> The case now stands submitted for a decision by the Commission.

### LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."<sup>11</sup> Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

### BACKGROUND

Nebo 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 1,556 residential customers, 21 commercial customers, 10 industrial customers, and 18 public authorities that reside in Hopkins County, Kentucky.<sup>12</sup>

Nebo District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2016-00435.<sup>13</sup> Since that matter, Nebo District has only

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<sup>9</sup> Nebo District's Response to Commission Staff's Report, Item 2.

<sup>10</sup> Nebo District's Response to Commission Staff's Report, Item 3.

<sup>11</sup> *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

<sup>12</sup> *Annual Report of Nebo District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report), at 12 and 49.

<sup>13</sup> Case No. 2016-00435, June 5, 2017 Order.

adjusted its retail rates pursuant to purchased water adjustments (PWA), or in conjunction with an application for a Certificate of Public Convenience and Necessity (CPCN).<sup>14</sup> Nebo District last adjusted its wholesale rates in 2017.<sup>15</sup>

### UNACCOUNTED-FOR WATER LOSS

The Commission notes that Nebo District reported a water loss of 17.2239 percent in its 2022 Annual Report,<sup>16</sup> and a water loss of 12.7850 percent in its 2023 report.<sup>17</sup> The Commission acknowledges that Nebo District has reduced its water loss percentage. 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 following table shows that the 2022 test year total annual cost of water loss to Nebo District is \$88,540, while the annual cost of water loss in excess of 15 percent is \$11,477. The Commission views excessive water loss as a potential warning sign of problems with the financial health and operational well-being of water utilities.<sup>18</sup>

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<sup>14</sup> Case No. 2024-00062, *Electronic Application of the Nebo Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky PSC Apr. 18, 2024).

<sup>15</sup> Case No. 2017-00133, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Madisonville Water Distribution*, (Ky. PSC Aug. 9, 2017).

<sup>16</sup> 2022 Annual Report at 57.

<sup>17</sup> *Annual Report of Nebo District to the Public Service Commission for the Calendar Year Ended December 31, 2023* at 57.

<sup>18</sup> Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Mar. 12, 2019), Order.

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 496,400	\$ 17,355	\$ 513,755
Multiplied by: Total Water Loss	17.2339%	17.2339%	17.2339%
Total Water Loss	<u>\$ 85,549</u>	<u>\$ 2,991</u>	<u>\$ 88,540</u>

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 496,400	\$ 17,355	\$ 513,755
Multiplied by: Water Loss in Excess of 15 Percent	2.2339%	2.2339%	2.2339%
Excess Cost	<u>\$ 11,089</u>	<u>\$ 388</u>	<u>11,477</u>

TEST PERIOD

The calendar year ended December 31, 2022, was used as the test year to determine the reasonableness of Nebo District’s existing and proposed wastewater rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission identified a discrepancy in the Commission Staff’s Report. Neither the test year income available to service debt or the Total Adjustments columns included the \$34,200 for Nonutility Income in its calculation, or its removal in the adjustments. However, this has no impact on the Pro Forma Income available to service debt since the Nonutility income was removed in the pro forma calculation. However, in order to eliminate confusion that might occur in comparing the application, Commission Staff’s Report and this Order, the Nonutility Income is included in the calculations, but this inclusion does not impact the overall recommended revenue requirement or percentage increase. The Commission Staff’s Report summarizes Nebo District’s pro forma income statement as follows:

	2022 Test Year	Proposed Adjustments	Commission Staff Adjustments	Total Proposed Adjustments	Commission Staff's Report Pro Forma
Total Operating Revenues	\$ 899,295	12,882	179,377	192,259	\$ 1,091,554
Total Operating Expenses	1,004,325	(18,098)	(12,961)	(31,059)	973,266
Net Operating Income	(105,030)	30,980	192,338	223,318	118,288
Interest Income	5,824	-	-	-	5,824
Nonutility Income	34,200	(34,200)	-	(34,200)	-
Income Available to Service Debt	\$ (65,006)	\$ (3,220)	\$ 192,338	\$ 189,118	\$ 124,112
Original Commission Staff's Report	\$ (99,206)	\$ 30,980	\$ 192,338	\$ 223,318	\$ 124,112

### REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Nebo District proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. Upon review, the Commission discovered Commission Staff used the incorrect Interest Income in the calculation of the Required Revenue Increase. Correction for the difference in Interest Income results in a decrease to the Revenue Requirement of \$1,566. The correction does not show in Nebo District's pro forma schedule of adjusted operations, the correction to Interest Income is presented in The Commission's Revenue Requirement calculation table. The following is the Commission Staff's complete pro forma:

Description	2022 Test Year	Total Proposed Adjustments	Commission Staff's Report Pro Forma	Commission Adjustments	Commission Approved Pro Forma
<i>Operating Revenues</i>					
Total Metered Retail Sales	\$ 862,702	\$ 197,179	\$ 1,059,881	\$ -	\$ 1,059,881
Sales to Public Authorities	3,274	-	3,274	-	3,274
<i>Other Water Revenues</i>					
Forfeited Discounts	14,297	-	14,297	-	14,297
Misc. Service Revenues	16,622	(4,920)	11,702	-	11,702
Rents from Water Property	2,400	-	2,400	-	2,400
<b>Total Operating Revenues</b>	<b>899,295</b>	<b>192,259</b>	<b>1,091,554</b>	<b>-</b>	<b>1,091,554</b>
<i>Operating Expenses</i>					
Salaries and Wages - Employees	251,567	(9,636)	238,301	-	238,301
		(3,630)	12,000	-	12,000
Salaries and Wages - Officers	10,800	1,200	12,000	-	12,000
Employee Benefits	40,830	(8,791)	32,039	-	32,039
Employee Pensions	6,517	741	7,258	-	7,258
Purchased Water	459,978	36,422	-	-	-
		(11,089)	485,311	-	485,311
Purchased Power	17,355	(388)	16,967	-	16,967
Materials & Supplies	45,861	(8,470)	37,391	-	37,391
Contractual Services	14,808	-	14,808	-	14,808
Transportation Expenses	14,555	-	14,555	-	14,555
Insurance - General Liability & Wor	12,123	-	12,123	-	12,123
Insurance - Other	2,942	-	2,942	-	2,942
Bad Debt	1,267	-	1,267	-	1,267
Miscellaneous Expense	31,192	(4,449)	26,743	-	26,743
<b>Total Operation and Maintenance Exp</b>	<b>909,795</b>	<b>(8,090)</b>	<b>901,705</b>	<b>-</b>	<b>901,705</b>
Depreciation	73,097	(23,001)	85	-	50,181
		85	50,181	-	50,181
Taxes Other Than Income	21,433	(53)	21,380	-	21,380
<b>Total Operating Expenses</b>	<b>1,004,325</b>	<b>(31,059)</b>	<b>973,266</b>	<b>-</b>	<b>973,266</b>
Net Operating Income	(105,030)	223,318	118,288	-	118,288
Interest Income	5,824		5,824	-	5,824
Nonutility Income	34,200	(34,200)	-	-	-
<b>Income Available to Service Debt</b>	<b>\$ (65,006)</b>	<b>\$ 189,118</b>	<b>\$ 124,112</b>	<b>\$ -</b>	<b>\$ 124,112</b>

### PRO FORMA OPERATING STATEMENT

Billing Analysis. Nebo District provided a billing analysis listing the gallons sold and water revenue for the 12-month test year in its application.<sup>19</sup> In the 2022 Annual

<sup>19</sup> Application, Attachment #5, Current Billing Analysis.

Report, total metered sales revenue was reported as \$862,702 plus Other Sales to Public Authorities of \$3,274 for Total Water Sales of \$865,976.<sup>20</sup> Nebo District provided a billing analysis to calculate a normalized revenue amount of \$878,858, and proposed an adjustment increase of \$12,882, based on the usage during the test year, using the rates authorized in its current tariff prior to April 18, 2024.<sup>21</sup> As discussed in the Monthly Water Service Rates section, the Commission approved new rates in Nebo District's CPCN filing<sup>22</sup> on April 18, 2024, and on June 6, 2024, Nebo District's PWA rate increase was approved by the Commission.<sup>23</sup> Nebo District did not provide an updated billing analysis to include the most recent rate increases. In Commission Staff's Report, a normalized revenue amount was calculated based on the water usage and water sales from the test year and updated the normalized revenue to include the April 18, 2024 rate increase and the June 6, 2024 rate increase.<sup>24</sup> An adjustment increase to Total Metered Retail Sales of \$197,179 is necessary to normalize water sales with the updated rates from Case No. 2024-00062 and Case No. 2024-00120 as shown in the table below.<sup>25</sup>

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<sup>20</sup> 2022 Annual Report at 49.

<sup>21</sup> Application, Attachment #5, Current Billing Analysis.

<sup>22</sup> Case No. 2024-00062, Apr. 18, 2024 final Order.

<sup>23</sup> Case No. 2024-00120, *Electronic Purchased Water Adjustment Filing of Nebo Water District* (Ky. PSC June 6, 2024), final Order.

<sup>24</sup> Commission Staff's Report at 10–11.

<sup>25</sup> Commission Staff's Report at 10–11.



Meter Size	Bills	Gallons Sold	Revenue	Revenue After Increase in Case:	
				2024-00062 (CPCN)	2024-00120 (PWA)
5/8 x 3/4 Inch	18,811	67,981,700	\$768,976	\$ 902,266	\$ 941,053
5/8 Inch	60	289,300	3,822	4,115	4,308
1 Inch	216	1,584,800	17,255	19,660	20,630
1-1/2 Inch	24	1,548,700	13,187	14,707	15,556
2 Inch	111	5,643,300	52,378	58,516	61,861
3 Inch	-	-	-	-	-
4 Inch	48	2,630,900	22,261	24,871	25,708
<b>Total</b>	<b>19,270</b>	<b>79,678,700</b>	<b>877,879</b>	<b>1,024,135</b>	<b>1,069,116</b>
Billing Adjustments			(5,961)	(5,961)	(5,961)
Normalized Revenue			871,918	1,018,174	1,063,155
Annual Report Revenues ( )			(865,976)	(865,976)	(865,976)
Adjustment			\$ 5,942	152,198	197,179
Incremental Adjustments				146,256	44,981

The Commission finds that Commission Staff's recommended adjustment is reasonable and should be accepted. Nebo District's Metered Retail Sales should be increased by \$197,179, because the adjustment to Metered Sales to Retail Customers is a known and measurable change reflected in the evidence provided in the record. The Commission notes that, to ignore the other rate increases, would result in Nebo District over-recovering in rates.

Miscellaneous Service Revenues. Nebo District provided updated cost justification information for the Nonrecurring Charges.<sup>26</sup> In Commission Staff's Report, all labor costs for charges occurring during normal business hours and all office labor charges from After-Hours nonrecurring charges were removed.<sup>27</sup> The calculation of these

<sup>26</sup> Nebo District's Response to Staff's First Request, Item 22.

<sup>27</sup> Commission Staff's Report at 7-9.

adjustments to the Nonrecurring Charges are included in a table provided in Appendix A. Commission Staff recommended that the Commission approve the total adjustment to decrease Miscellaneous Service Revenue by \$4,920,<sup>28</sup> because it conforms to Commission precedent on Nonrecurring Charges.<sup>29</sup>

The Commission finds that the Commission Staff's recommendation is consistent with recent Commission decisions, that labor expenses resulting from work performed during normal business hours should not be recovered through nonrecurring charges.<sup>30</sup> The Commission requires that charges be directly related to the actual cost incurred to provide the service. Only the marginal cost related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. For the reasons discussed above, the estimated labor expenses previously included in determining the amount of nonrecurring charges should be eliminated from the charges as proposed by Commission Staff. Thus, the Commission finds that Commission Staff's recommendation is reasonable, the revised nonrecurring charges as described in Appendix A to be reasonable and that Nebo District's Miscellaneous Service Revenue should be reduced by \$4,920 because only the incremental cost related to the service should be recovered for service provided during normal business hours.

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<sup>28</sup> Commission Staff's Report at 8–9.

<sup>29</sup> Commission Staff's Report at 12.

<sup>30</sup> Case No. 2023-00090, *Electronic Application of Henry County Water District #2 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2023); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 4, 2024); Case No. 2023-00090, *Electronic Application of Kirksville Water Association Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2023-00252, *Electronic Application of Oldham County Water District for an Alternative Rate Adjustment* (Ky. PSC June 18, 2024).

Salaries and Wages – Employees: In its application, Nebo District reported Salaries and Wages of \$251,567.<sup>31</sup> Nebo District provided the test year employee list,<sup>32</sup> test year hours worked,<sup>33</sup> current wage rates,<sup>34</sup> and a current employee list.<sup>35</sup> Comparing the test year payroll register to the current payroll register revealed that, subsequent to the test year, Nebo District did not have any employee turnover, the only change to Salaries and Wages was a post test year wage increase for several employees.<sup>36</sup>

Nebo District included \$3,600 for incentives, identified as Christmas Incentives,<sup>37</sup> in the test year Salaries and Wages – Employees.<sup>38</sup> Since these incentives are not performance based, Commission Staff removed them in its calculation of Salaries and Wages – Employees. Upon reviewing the Wage Report, Commission Staff determined Nebo District included the Commissioner Salaries as part of the test year calculation; this amount is also reported in Salaries and Wages – Officers. Therefore, when Commission Staff calculated the current Salaries and Wages – Employees it removed Commissioner

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<sup>31</sup> Application, Attachment 4, Schedule of Adjusted Operations.

<sup>32</sup> Nebo District's Response to Staff's First Request, Item 5, Item\_5\_2022\_and\_2023\_Wage\_Report.xlsx, Column B.

<sup>33</sup> Nebo District's Response to Staff's First Request, Item 5, Item\_5\_2022\_and\_2023\_Wage\_Report.xlsx, Columns D, E, F, and G.

<sup>34</sup> Nebo District's Response to Staff's First Request, Item 5, Item\_5\_2022\_and\_2023\_Wage\_Report.xlsx, Columns I plus Column K.

<sup>35</sup> Nebo District's Response to Staff's First Request, Item 5, Item\_5\_2022\_and\_2023\_Wage\_Report.xlsx, Column B.

<sup>36</sup> Nebo District's Response to Staff's First Request, Item 5, Item\_5\_2022\_and\_2023\_Wage\_Report.xlsx, Column K.

<sup>37</sup> Nebo District's Response to Staff's First Request, Item 10, Item\_10\_Board\_Minutes\_2022\_2023.pdf, at 16.

<sup>38</sup> Nebo District's Response to Staff's First Request, Item 5, Item\_5\_2022\_and\_2023\_Wage\_Report.xlsx, Column O.

Salaries from the calculation. Commission Staff calculated a Current Salaries and Wages – Employees amount of \$241,931, using the test year hours for non-commissioner employees and current wage rates.<sup>39</sup> Commission Staff calculated a decrease of \$9,636, as shown in the following table.

Job Title	Test Year		Pro Forma	Regular Wages	Test Year		Pro Forma	Overtime Wages	Total Wages
	Total Hours Worked	Regular Hours Worked	Regular Wage Rates		Overtime Hours	Overtime Wage Rate			
Superintendent	2,125	2,080	\$ 34.00	\$ 70,720	44.75	\$ 51.00	\$ 2,282.25	\$ 73,002.25	
Water Distribution System Operator #1	2,294	2,120	22.00	46,640	173.75	33.00	5,734	52,373.75	
Water Distribution System Operator #2	2,267	2,120	19.00	40,280	147.25	28.50	4,197	44,476.63	
Office Clerk #1	2,166	2,160	19.00	41,040	5.75	28.50	164	41,203.88	
Office Clerk #2	1,929	1,927	16.00	30,832	1.75	24.00	42	30,874.00	
Total	10,780.25	10,407		\$ 229,512	373		\$ 12,419	\$ 241,931	
Less: Test Year Salaries and Wages ()								(251,567)	
Salaries and Wages - Employee Adjustment								<u>\$ (9,636)</u>	

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted. Nebo District's Salaries and Wages- Employees should be decreased by \$9,636, because the adjustment to normalize Salaries and Wages – Employees is a known and measurable change reflected in the evidence provided in record. The Commission has a long standing precedent of removing recovery for bonuses that are nonrecurring transactions, including one-time annual performance incentives, and will not be occurring subsequent to the test year.<sup>40</sup>

Expenses Related to Meter Installations. In its application, Nebo District proposed an adjustment to decrease Salaries and Wages – Employees by \$3,300 and Materials and Supplies by \$7,700,<sup>41</sup> to account for tap fee expenses that were included as part of

<sup>39</sup> Nebo District's Response to Staff's First Request, Item 5, Item\_5\_2022\_and\_2023\_Wage\_Report.xlsx, Columns I plus Column K.

<sup>40</sup> Case No. 2023-00338, *Electronic Application of Rattlesnake Ridge Water District for A Rate Adjustment Pursuant to 807 KAR 5:076 (Ky. PSC July 12, 2024)*, final Order at 17–18; and Case No. 2022-00317, *Electronic Application of North Shelby Water Company for A Rate Adjustment Pursuant to 807 KAR 5:076 (Ky. PSC Dec. 15, 2023)*, final Order at 12.

<sup>41</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment B.

these expenses during the test year.<sup>42</sup> During the test year, Nebo District installed 11 new water connections.<sup>43</sup> The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.<sup>44</sup> Commission Staff agreed with Nebo District's proposed adjustment methodology.<sup>45</sup> However, when Commission Staff calculated the normalized tap fees expense of the 11<sup>46</sup> test year meters installed<sup>47</sup> at the current tariff rate of \$1,100 per meter;<sup>48</sup> Commission Staff calculated that \$12,100 in expenses needed to be capitalized instead of \$11,000,<sup>49</sup> which is an additional \$1,100 in expenses that should be reduced from the expense categories. Therefore, Commission Staff decreased Salaries and Wages – Employee by \$3,630 and Materials and Supplies by \$8,470, as shown in the following table. Additionally, Nebo District confirmed that it has not capitalized the water tap labor but only the cost of replacements or betterment is capitalized.<sup>50</sup> Therefore, Commission Staff capitalized the labor costs, and made a corresponding adjustment to test-year depreciation as shown below.

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<sup>42</sup> Application, Attachment 4, References, Adjustment B.

<sup>43</sup> Nebo District's Response to Staff's First Request, Item 15a.

<sup>44</sup> USoA, Accounting Instruction 19 and 33.

<sup>45</sup> Commission Staff's Report at 14–15.

<sup>46</sup> Commission Staff believed that the information provided supported that Nebo District installed only 10 meters and adjusted accordingly.

<sup>47</sup> Nebo District's Response to Staff's First Request, Item 15a.

<sup>48</sup> Nebo District's Tariff P.S.C. Ky. 2, Sheet 6 (Issued Dec. 11, 2023), effective Jan. 11, 2024.

<sup>49</sup> Commission Staff's Report at 14–15.

<sup>50</sup> Nebo District's Response to Staff's First Request, Item 15b and 15c.

Description	Salaries and Wages Employees	Materials and Supplies
Tap Fees Collected	\$ 12,100	\$ 12,100
Allocation Percent	30%	70%
Proposed Adjustment ( )	(3,630)	(8,470)
Less: Nebo District Proposed Adjustments ( )	3,300	7,700
Commission Staff's Proposed Adjustment	<u>\$ (330)</u>	<u>\$ (770)</u>

The Commission finds that Commission Staff's adjustment is reasonable and should be accepted. Nebo District's Salaries and Wages – Employees should be reduced by \$3,630, and Materials and Supplies should be reduced by \$8,470 because the USoA requires that costs be capitalized as utility plant in service and depreciated over their estimated useful lives.

Salaries and Wages – Officers: In the test year, Nebo District reported Salaries and Wages – Officers expense of \$10,800.<sup>51</sup> Nebo District's Board of Commissioners consists of three members.<sup>52</sup> Nebo District submitted the Hopkins County Fiscal Court minutes evidencing the members were approved, and their salaries were adjusted subsequent to the test year.<sup>53</sup> The Hopkins County Fiscal Court approved Mike Shocklee and Christopher Winstead to receive \$500 per month, for an annual salary of \$6,000 each.<sup>54</sup> However, Nebo District was not able to locate the fiscal court minutes that

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<sup>51</sup> Application, Schedule of Adjusted Operations.

<sup>52</sup> Nebo District's Response to Staff's First Request, Item 11, Item\_11\_Commissioners\_Wages\_Benefits.xlsx.

<sup>53</sup> Nebo District's Response to Staff's First Request, Item 12, Item\_12\_Fiscal\_Court\_Minutes.pdf.

<sup>54</sup> Nebo District's Response to Staff's First Request, Item 12, Item\_12\_Fiscal\_Court\_Minutes.pdf.

authorize Billy Brown to receive compensation.<sup>55</sup> Therefore, there was no evidence provided authorizing Billy Brown’s compensation. Commission Staff removed Billy Brown’s compensation from its calculation; the remaining two commissioner’s salaries, that have authorization to receive compensation,<sup>56</sup> resulted in a pro forma Salaries and Wages – Officers of \$12,000. Therefore, Commission Staff calculated an increase to Salaries and Wages – Officers of \$1,200 as shown in the following table.<sup>57</sup>

Commissioners	Pro Forma Salaries
Michael Shocklee/Chairman	6,000
Billy Brown/Treasurer	-
Christopher Winstead/Secretary	<u>6,000</u>
Total Salaries and Wages - Officers	12,000
Less: Test Year Salaries and Wages - Officers ( )	<u>(10,800)</u>
Salaries and Wages - Officers Adjustment	<u>\$ 1,200</u>

The Commission finds that Commission Staff’s recommended adjustment is reasonable and Nebo District’s Salaries and Wages – Officers should be increased by \$1,200 based on the evidence in the case record for officer’s salaries as well as the lack of evidence in the record for fiscal court approval of Billy Brown’s salary. The Commission further recommends Nebo District discuss with the Fiscal Court approval for Billy Brown’s salary, if the district desires.

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<sup>55</sup> Nebo District’s Response to Staff’s Second Request, Item 7.

<sup>56</sup> Commission Staff’s Report at 15–16.

<sup>57</sup> Commission Staff’s Report at 15–16.

Employee Benefits – Insurance Premiums. In its application, Nebo District reported \$47,347<sup>58</sup> for Employee Pensions and Benefits, of which \$40,830 is for Benefits<sup>59</sup> and \$6,517<sup>60</sup> is for pensions. Nebo District currently contributes 100 percent of employees' Health, Dental, and Vision insurance premiums.<sup>61</sup> The Commission continues to review employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. The Commission has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.<sup>62</sup> Consistent with precedent,<sup>63</sup> Commission Staff recommended a reduction in Nebo District's contribution amount to single health insurance premiums by 21 percent,<sup>64</sup> and to family insurance premiums by 33 percent<sup>65</sup> as shown in the calculation below.<sup>66</sup> In addition, Commission Staff recommended a reduction in Nebo District's contribution to

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<sup>58</sup> Application, Exhibit 4, Schedule of Adjusted Operations.

<sup>59</sup> Nebo District's Response to Staff's First Request, Item 1b, Item\_1b\_2022\_Trial\_Balance.xls, Cells K99 Account 00659-001 Insurance – Employee Group \$39,547 plus K89, 00626-0000 Education Expense \$1,283 = \$40,830.

<sup>60</sup> Nebo District's Response to Staff's First Request, Item 1b, Item\_1b\_2022\_Trial\_Balance.xls, Cell K75, Account 00604-0000 Employee 401K Simple IRA and Benefits \$6,517.

<sup>61</sup> Nebo District's Response to Staff's Second Request, Item 1.

<sup>62</sup> Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

<sup>63</sup> Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates* (Ky. PSC June 20, 2019), Order at 8–12.

<sup>64</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2023, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ehs2.pdf>).

<sup>65</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2023, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ehs2.pdf>).

<sup>66</sup> Commission Staff's Report at 16–18.



dental insurance by 60 percent.<sup>67</sup> Nebo District provided the most recent copy of its health invoices.<sup>68</sup> Accordingly, utilizing the most recent invoice amounts, Commission Staff calculated a final insurance contribution amount of \$30,756 which is \$8,791 less than the test year, as shown in the following table.

Type of Premium	Number of Employees	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	3	\$ 2,076	21%	\$ (436)	\$ 1,640
Family Health Insurance	1	1,235	33%	(408)	827
Dental Insurance	3	36	60%	(22)	14
Vision Insurance	4	82	0%	0	82
Total Pro Forma Monthly Premium		3,429		(866)	2,563
Times: 12 Months		12		12	12
Total Annual Pro Forma Premium		<u>\$ 41,148</u>		<u>\$ (10,392)</u>	30,756
Less: Test Year Insurance					(39,547)
Employee Benefits Adjustment					<u>\$ (8,791)</u>

The Commission finds that Commission Staff's recommended adjustments are reasonable. Nebo District's Employee Benefits – Insurance Premiums should be decreased by \$8,791, because it is consistent with the precedent established in previous cases regarding the evaluation of employees' total compensation packages for market and geographic competitiveness that ensure the development of a fair, just and reasonable rate.<sup>69</sup> The Commission notes that Nebo District did not provide sufficient evidence to ignore this extensive precedent.

<sup>67</sup> 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.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

<sup>68</sup> Nebo District's Response to Staff's First Request, Item 4, Item\_4\_Recent\_Invoices.PDF.

<sup>69</sup> Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates* (Ky. PSC June 20, 2019) at 8–12.

Employee Benefits – Pensions. Nebo District currently matches its employees' Individual Retirement Account (IRA) contributions, up to 3 percent.<sup>70</sup> The general ledger for the test year was reviewed, and it was determined that Nebo District recorded \$6,517 for IRA Matching.<sup>71</sup> However, as explained above, Commission Staff calculated pro forma Salaries and Wages – Employees of \$241,931.<sup>72</sup> Therefore, Commission Staff calculated the revised 3 percent match. Commission Staff proposed an adjustment to increase Employee Pensions and Benefits by \$741, as shown below.

Commission Staff recommended the Commission accept Commission Staff's \$741 total increase to Employee Pensions to reflect the change in retirement contributions due to changes in employees' salaries.<sup>73</sup>

Description	Amount
Salaries and Wages - Employees	\$ 241,931
Multiplied by: IRA Contribution Match percentag	3%
Pro Forma Retirement Expense	<u>7,258</u>
Less: Test year Employee Pensions ( )	(6,517)
Employee Pensions Adjustment	<u><u>\$ 741</u></u>

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted. Nebo District's Employee Benefits – Pensions should be increased by \$741 because the known and measurable change is a direct result of changes to Salaries and Wages – Employees.

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<sup>70</sup> Nebo District's Response to Staff's First Request, Item 3, Item\_3\_Nebo\_Water\_District\_Employee\_Benefits.pdf.

<sup>71</sup> Nebo District's Response to Staff's First Request, Item 1a, Item\_1a\_2022\_General\_Ledger.xls, Account 00604-0000 Employee 401K Simple IRA and Benefits, Cell O12183.

<sup>72</sup> Commission Staff's Report at 18–19.

<sup>73</sup> Commission Staff's Report at 18–19.

Purchased Water Normalization. During the test year, Nebo District reported a Purchased Water expense of \$459,978.<sup>74</sup> Subsequent to the filing of this case, Nebo District submitted and received approval for a Purchased Water Adjustment, therefore, the current rates are \$.00498 and \$.00370 per gallon, respectively.<sup>75</sup> Commission Staff calculated Purchased Water expense using the test year gallons purchased of 99,265,000 from the city of Madisonville and 556,800 from Webster County Water District<sup>76</sup> and the current rates.<sup>77</sup> Commission Staff calculated a Purchased Water Expense of \$496,400,<sup>78</sup> which resulted in a \$36,422 increase to Purchased Water Expense as shown in the table below.<sup>79</sup>

Description	Gallons Purchased	Cost per Gallon	Total
City of Madisonville	99,265,000	\$0.00498	\$ 494,340
Webster County Water District	556,800	0.00370	2,060
Total	<u>99,821,800</u>		<u>496,400</u>
Less: Test Year Purchased Water ( )			(459,978)
Purchased Water Adjustment			<u>\$ 36,422</u>

The Commission finds Commission Staff's recommended adjustment is reasonable and should be accepted. Nebo District's Purchased Water expense should

<sup>74</sup> Application, Attachment 4, Schedule of Adjusted Operations.

<sup>75</sup> Case No. 2024-00120, June 6, 2024 final Order. The PWA approved rate increase was based on the rates approved in the CPCN filing in Case No. 2024-00062.

<sup>76</sup> Nebo District's Supplement Response to Staff's Second Information Request, Supplemental\_Info\_to\_Staffs\_2nd\_Data\_Request.xlsx, Cells B15 and C15.

<sup>77</sup> Case No. 2024-00120, June 6, 2024 final Order.

<sup>78</sup> Commission Staff's Report at 19–20.

<sup>79</sup> Commission Staff's Report at 19–20.

be increased by \$36,422, because Nebo District provided sufficient evidence that its water provider's rates were increased subsequent to the filing of this application as approved in Case No. 2024-00120.<sup>80</sup>

Expenses Related to Excess Water Loss. In its application, Nebo District proposed adjustments to decrease Purchased Water Expense by \$10,275 and Purchased Power Expense by \$388.<sup>81</sup> The adjustments are to reflect the expense for water loss in excess of 15 percent.<sup>82</sup> During the test year, Nebo District reported water loss of 17.2339 percent.<sup>83</sup> Commission regulations state that for ratemaking purposes, expenses for water loss in excess of 15 percent shall not be included. Commission Staff calculated a net decrease of \$11,089 to Purchased Water expense, which is \$814 more than proposed by Nebo District.<sup>84</sup> Nebo District proposed to reduce Purchased Power Expense by \$388, and Commission Staff agreed with the adjustment, as shown in following table.<sup>85</sup>

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 496,400	\$ 17,355	\$ 513,755
Multiply by: Water loss in Excess of 15 Percent	(2.2339%)	(2.2339%)	(2.2339%)
Excess Cost	(11,089)	(388)	(11,477)
Less: Nebo Proposed Adjustment ( )	10,275	388	10,663
Total proposed Adjustment	\$ (814)	\$ -	\$ (814)

<sup>80</sup> Case No. 2024-00120, June 6, 2024 final Order.

<sup>81</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment B.

<sup>82</sup> Application, Attachment 4, References, Adjustment B.

<sup>83</sup> 2022 Annual Report at 57.

<sup>84</sup> Commission Staff's Report at 20–21.

<sup>85</sup> Commission Staff's Report at 20–21.

The Commission finds Commission Staff's recommended adjustment is reasonable and should be accepted. Nebo District's Purchased Water expense should be decreased by \$11,089 and Nebo District's Purchased Power expense is decreased by \$388, since Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes.

Miscellaneous Expense. In its application, Nebo District reported Miscellaneous Expense of \$31,192.<sup>86</sup> Commission Staff reviewed the adjusted trial balance<sup>87</sup> and Nebo District's Trial Balance to Annual Report reconciliation.<sup>88</sup> Commission Staff totaled the Miscellaneous Expense subaccounts and agreed with Nebo District's Trial Balance's Miscellaneous Expense of \$26,743.<sup>89</sup> Nebo District also noted, but was unable to explain the \$4,449 difference.<sup>90</sup> Therefore, in order to reconcile the application to the Trial Balance, Commission Staff proposed a decrease to Miscellaneous Expense of \$4,449, as shown in the following table.<sup>91</sup>

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<sup>86</sup> Application, Exhibit 4, Schedule of Adjusted Operations.

<sup>87</sup> Nebo District's Response to Staff's First Request, Item 1b, Item\_1b\_2022\_Trial\_Balance.xlsx.

<sup>88</sup> Nebo District's Response to Staff's First Request, Item 9, Item\_9\_Rate\_Study\_Nebo\_Water\_District.xlsx.

<sup>89</sup> Nebo District's Response to Staff's First Request, Item 9, Item\_9\_Rate\_Study\_Nebo\_Water\_District.xlsx, AT to ATB Tab, cell H55.

<sup>90</sup> Nebo District's Response to Staff's First Request, Item 9, Item\_9\_Rate\_Study\_Nebo\_Water\_District.xlsx, AT to ATB Tab, cell I55.

<sup>91</sup> Commission Staff's Report at 21–22.

Description	Amount
00622-0000 Utilities	\$ 2,518
00623-0000 Bank Service Charges	6,138
00625-0000 Telephones & Internet	4,599
00630-0000 Office Expenses	11,426
00675-0000 Misc Exp	1,942
00607-0000 Uniforms	120
Total Miscellaneous Expense	26,743
Less: Test Year Miscellaneous Expense ()	(31,192)
Miscellaneous Expense Adjustment	<u>\$ (4,449)</u>

The Commission finds Commission Staff's recommended adjustment is reasonable and should be accepted. Nebo District's Miscellaneous Expense is decreased by \$4,449, in order to reflect the reconciliation between the application and the Trial Balance since Nebo District was unable to provide sufficient evidence to explain the discrepancy

Depreciation Expense. In the application, Nebo District proposed an increase in Depreciation Expense by \$3,565,<sup>92</sup> to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Average Service Lifetimes, Major Systems Components – Wastewater Systems* (Wastewater Study).<sup>93</sup> To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon a NARUC study titled *Depreciation Practices for Small Water Utilities* (NARUC Study) published in 1979.<sup>94</sup> When no evidence exists to

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<sup>92</sup> Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment D.

<sup>93</sup> Application, Exhibit 4, References, Adjustment D.

<sup>94</sup> Case 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Dec. 22, 2023), Order at 30; Case 2023-00154, *Electronic Application of Harrison County Water Association, Inc. for an Alternative Rate Adjustment*, (Ky. PSC Jan. 11, 2024), Order at 36.

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.<sup>95</sup> Upon examination, Commission Staff agreed with Nebo District’s methodology to adjust depreciation expense. However, Commission Staff calculated a depreciation expense of \$50,095.<sup>96</sup> Nebo District did not provide sufficient evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges.<sup>97</sup> Therefore, Commission Staff recommended to decrease Nebo District’s Depreciation Expense by \$23,001, which is \$26,566 less than proposed by Nebo District, as shown in the following table.<sup>98</sup>

Class of Plant	Service Life Range	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Communication Equipment	10	\$ 771	\$ (231)	\$ 540
Office Equipment	20 - 25	1,342	(924)	418
Distribution Reservoirs	30 - 60	3,607	(400)	3,207
Tank Rainting & Repair/ Structures & Improvements	35 -40	21,321	(4,264)	17,057
Hydrants	40 - 60	228	(45)	183
Meters & Meter Installation	40 - 50	1,586	(1,189)	396
Power Operated Equipment	10 - 15	502	(221)	281
Pumping Equipment	20	3,813	(1,839)	1,973
Structures & Improvements	35 - 40	2,198	(596)	1,602
Transmission Mains	50 - 75	32,063	(11,543)	20,520
Transportation Equipment	7	5,485	(1,567)	3,918
Total		72,917	(22,821)	50,096
Less: Reported Test Year Depreciation				(73,097)
Total Depreciation Adjustment				(23,001)
Less: Nebo District’s Proposed Adjustment ( )				(3,565)
Commission Staff’s Proposed Adjustment				<u>\$ (26,566)</u>

The Commission finds Commission Staff’s recommended adjustment is reasonable and should be accepted. Nebo District’s Depreciation expense is decreased

<sup>95</sup> See Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), Order; Case 2023-00134, Dec. 22, 2023 Order at 30; Case 2023-00154, Jan. 11, 2024 Order at 36.

<sup>96</sup> Commission Staff’s Report at 22–23.

<sup>97</sup> Commission Staff’s Report at 22–23.

<sup>98</sup> Commission Staff’s Report at 22–23.

by \$23,001, in order to align Nebo District’s capital assets’ useful lives with the NARUC recommended useful lives.

Capitalization of Tap Labor Expenses. As explained above, the expenses related to the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives. Nebo District confirmed that it already capitalized the cost of replacement or betterment.<sup>99</sup> Therefore, Commission Staff calculated the annual depreciation amount for the test year and increased Depreciation Expense by \$85 to account for the Tap Fee Labor Expense, as shown in the following table.<sup>100</sup>

Description	Labor Expense Amount
Test Year Water Connections Labor Expense	\$ 3,630
Less: Expense Already Capitalized ()	-
Total Amount Capitalized	3,630
Divided by: NARUC Proposed Service Lives	42.5
Pro Forma Depreciation Adjustment	<u>\$ 85</u>

The Commission finds Commission Staff’s recommended adjustment is reasonable and should be accepted. Nebo District’s Depreciation Expense should be increased by \$85, because the USoA requires the assets to be depreciated over their estimated useful lives.

Taxes other than Income – FICA. In the application, Nebo District reported \$21,433 for Taxes Other Than Income.<sup>101</sup> As discussed above, Commission Staff

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<sup>99</sup> Nebo District’s Response to Staff’s First Request, Item 15c.

<sup>100</sup> Commission Staff’s Report at 23–24.

<sup>101</sup> Application, Attachment 4, Schedule of Adjusted Operations.



reduced Taxes Other Than Income by \$3,864. Commission Staff recalculated the payroll taxes, accounting for the Adjustments above, and calculated pro forma Salaries and Wages – Employees of \$241,931 and Salaries and Wages – Officers \$12,000.<sup>102</sup> Therefore, Commission Staff calculated a pro forma Taxes Other Than Income of \$21,380, which is a decrease of \$53, as shown in the following table.<sup>103</sup>

Description	Amount
Salaries and Wages - Employees	\$241,931
Salaries and Wages - Officers	12,000
Total Pro Forma Salaries	253,931
Multiply by: 7.65 Percent FICA Rate	7.65%
Total Pro Forma Payroll Taxes	19,426
Plus: Reg Comm Exp- PSC	1,954
Total Taxes Other Than Income	21,380
Less: Test Year Taxes other than Income ( )	(21,433)
Total Taxes Other Than Income Adjustment	<u>\$ (53)</u>

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted. Nebo District's Taxes other than Income should be increased by \$53 because the known and measurable change is a direct result of changes to Salaries and Wages – Employees.

Nonutility Income – Grant Funding. In its application, Nebo District included an adjustment to decrease Nonutility Income by \$34,200,<sup>104</sup> to reflect grant funding received in the test year.<sup>105</sup> Nebo District reported that this transaction was not expected to recur

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<sup>102</sup> Commission Staff's Report at 24–25.

<sup>103</sup> Commission Staff's Report at 24–25.

<sup>104</sup> Application, Attachment 4, Revenue Requirement, Adjustment E.

<sup>105</sup> Application, Attachment 4, References, Adjustment E.

in the future.<sup>106</sup> Therefore, it is not a routine transaction in the normal course of business and should be removed from the test year. Commission Staff agreed with Nebo District's proposed adjustment and decreased Nonutility Income by \$34,200 to remove the effects of this extraordinary transaction.<sup>107</sup>

The Commission finds that Commission Staff's recommended adjustment is reasonable and should be accepted. Nebo District's Nonutility Income should be decreased by \$34,200 because the known and measurable change is to remove the recording on an extraordinary transaction and is not a representation of the normal course of business for Nebo District.

Based upon the Commission's findings discussed above, the following table summarizes Nebo District's adjusted pro forma:

	Commission Staff's Report	Commission Proposed	Commission Approved
Total Operating Revenues	\$ 1,091,554	-	\$ 1,091,554
Total Operating Expenses	973,266	-	973,266
Net Operating Income	118,288	-	118,288
Interest Income	5,824	-	5,824
Nonutility Income	-	-	-
Income Available to Service Debt	<u>\$ 124,112</u>	<u>\$ -</u>	<u>\$ 124,112</u>

#### OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Commission has historically used an Operating Ratio (OR) Method to calculate the revenue requirement for water districts or associations with little to no

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<sup>106</sup> Application, Attachment 4, References, Adjustment E.

<sup>107</sup> Commission Staff's Report at 25.

outstanding long-term debt.<sup>108</sup> The Commission finds the OR method is appropriate for Nebo District because at the time of Commission Staff's review, Nebo District had one outstanding KIA loan.<sup>109</sup> Subsequent to the filing of this application, Nebo District filed and received an additional loan through the USDA/RD.<sup>110</sup> Applying an operating ratio of 88 percent will allow Nebo District sufficient revenues to cover its operating expenses and provide for reasonable equity growth. Commission Staff applied this ratio to the test year amounts, pro forma adjustments above and determined that the recommended revenue requirement for rates for service is \$1,123,182. A revenue increase of \$63,301, or 5.97 percent, is necessary to generate the Overall Revenue Requirement of \$1,159,113.

After reviewing the evidence provided, the Commission finds that the application of the OR Method is appropriate, but an adjustment to Commission Staff's proposal is necessary. Upon review of the Staff Report, the Commission made a correction to the Interest Income. In the application, Nebo District used \$4,258 for Interest Income in its calculation for Revenue Required from Rates.<sup>111</sup> Commission Staff reviewed the test year trial balance and determined the test year Interest Income should have been recorded as \$5,824.<sup>112</sup> However, in the Commission Staff's Report, Commission Staff mistakenly used the \$4,258 for Interest Income.<sup>113</sup> Therefore, the Commission finds that

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<sup>108</sup> Case No. 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Dec. 22, 2023).

<sup>109</sup> Case 2012-00483, *Application of Nebo Water District for Authority to Enter Into a Loan Agreement with the Kentucky Infrastructure Authority* (Ky. PSC Jan. 23, 2013).

<sup>110</sup> Case No. 2024-00062, Apr. 18, 2024 Order.

<sup>111</sup> Application, Attachment 4, Revenue Requirement Table.

<sup>112</sup> Nebo District's Response to Staff's First Request, Item 1b, Item\_1b\_2022\_Trial\_Balance.xls.

<sup>113</sup> Commission Staff's Report at 26.

it should use \$5,824 in the calculation for Revenue Required from Rates, in order to accurately reflect Nebo District's test year General Ledger and Trial Balance. This results in a decrease to the Revenue Requirement of \$1,566.

Based on the adjustment, a revenue increase of \$61,735, or 5.82 percent, is necessary to generate the Overall Revenue Requirement of \$1,159,113.

Revenue Requirement - Operating Ratio Method		
Description	Commission Staff's Report	Commission Approved
Pro Forma Operating Expenses	\$ 973,266	\$ 973,266
Divided by: 88 Percent Operating Ratio	88%	88%
Plus: Average Interest Expense	53,129	53,129
Overall Revenue Requirement	1,159,113	1,159,113
Less: Other Operating Revenue	(28,399)	(28,399)
Sales to Public Authorities	(3,274)	(3,274)
Interest Income	(4,258)	(5,824)
Revenue Required from Rates	1,123,182	1,121,616
Less: Revenue from Sales at Present Rates	(1,059,881)	(1,059,881)
Required Revenue Increase	<u>\$ 63,301</u>	<u>\$ 61,735</u>
Percentage Increase	<u>5.97%</u>	<u>5.82%</u>

### RATE DESIGN

In its application, Nebo District proposed to increase all of its monthly retail water service rates evenly across the board by 23.33 percent. Nebo District stated that it did not complete a cost-of-service study (COSS) at this time, but has plans for a new COSS in the future when there are significant material changes in its water system that would warrant a COSS.<sup>114</sup> The Commission has previously found that the allocation of a revenue adjustment evenly across a utility's rate design is appropriate when there has

<sup>114</sup> Nebo District's Response to Staff's First Request, Item 18.

been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Commission Staff followed the allocation methodology proposed by Nebo District and allocated the recommended \$63,301 revenue increase evenly across Nebo District's monthly retail water service rates.

On April 18, 2024, the Commission approved new rates for Nebo District in its CPCN filing as required for financing through the United States Department of Agriculture (USDA) Rural Development (RD) for specific upgrades to its system in Case No. 2024-00062.<sup>115</sup> Additionally, on May 8, 2024, Nebo District submitted a PWA filing, Case No. 2024-00120, to pass-through a rate increase from its supplier, the city of Madisonville.<sup>116</sup> On June 6, 2024, the PWA rate increase was approved by the Commission, with an effective date of April 25, 2024.<sup>117</sup> Nebo District's proposed rate increase of 23.33 percent filed in its application does not include the revenue changes resulting from the April 18, 2024 CPCN rate increase<sup>118</sup> or the June 7, 2024 PWA rate increase,<sup>119</sup> although a memorandum was filed on March 26, 2024, stating that Case No. 2024-00062, would have a material impact on the rates proposed in this case.<sup>120</sup>

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<sup>115</sup> Case No. 2024-00062, *Electronic Application of the Nebo Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Apr. 18, 2024), final Order.

<sup>116</sup> Case No. 2024-00120, *Electronic Purchased Water Adjustment Filing of Nebo Water District* (filed May 8, 2024).

<sup>117</sup> Case No. 2024-00120, June 6, 2024 final Order.

<sup>118</sup> Case No. 2024-00062, Apr. 18, 2024 final Order.

<sup>119</sup> Case No. 2024-00120, June 6, 2024 final Order.

<sup>120</sup> Letter of Explanation (filed Mar. 27, 2024).

Therefore, Commission Staff applied the increased rates from Case No. 2024-00062 and Case No. 2024-00120 to normalize Nebo District's revenue from water sales. The normalized revenue from water sales for Nebo District meets the required revenue for rates of \$1,123,182. The rates calculated in the Commission Staff Report will increase the monthly water bill of a typical residential customer using 4,000 gallons, from \$51.56 to \$54.46, an increase of \$2.90, or 5.63 percent.<sup>121</sup>

The Commission does not agree with Commission Staff's proposed rates. As addressed above, the Commission disagreed with Commission Staff's Interest Income of \$4,258. When the Commission utilizes the \$5,824 for Interest Income, the normalized revenue from water sales for Nebo District meets the required revenue for rates of \$1,121,616. The rates set forth in Appendix B to this report, as calculated by Commission Staff, will produce sufficient revenues from water sales to recover the \$1,121,616 Revenue Required from Water Sales, an approximate 5.82 percent increase. The rates will increase the monthly water bill of a typical residential customer using 4,000 gallons, from \$51.56 to \$54.41, an increase of \$2.85, or 5.53 percent. The fractional difference between the increase in all rates and the increase in a typical customer's bill is spread out over all rate tiers and meter sizes.<sup>122</sup>

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<sup>121</sup> Commission Staff's Report at 6–7.

<sup>122</sup> A typical customer uses 4,000 gallons a month, so the first 2,000 gallons increased from \$29.48 to \$31.09 which is the minimum bill. The second tier of 'Next 2,000 gallons' increased from \$11.04 per 1,000 gallons to \$11.65 per 1,000 gallons, so from  $(\$11.04 \times 2) = \$22.08$  to  $(\$11.65 \times 2) = \$23.30$ . There are three more tiers for the 5/8 x 3/4-Inch Meter that a typical customer never uses or is charged for, as well as five different meter sizes that account for the fractional difference between a typical customer's bill increase and the percentage increase in all Rates.

Nonrecurring Charges. Following the Commission's recent decisions,<sup>123</sup> Commission Staff has reviewed Nebo District's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of the Nonrecurring Charges should be eliminated from the charges. Nebo District provided the cost justification for the nonrecurring charges.<sup>124</sup> Commission Staff reviewed the cost justification information provided by Nebo District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. Nebo District provided cost justification data for meter testing, which increased by \$7, from \$15 to \$22 because of the additional transportation expense of \$7.<sup>125</sup> The cost justification sheets provided by Nebo District for the Meter Connection Expense (Tap-On)<sup>126</sup> were reviewed by Commission Staff and the Tap-On fee adjusted as seen in the table below. The breakdown of cost for each nonrecurring charge and any Commission Staff adjustment can be found in Appendix A. The Commission Staff's proposed nonrecurring charges are listed below.

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<sup>123</sup> 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).

<sup>124</sup> Nebo District's Response to Staff's First Request, Item 22.

<sup>125</sup> Nebo District's Response to Staff's First Request, Item\_22\_Meter\_Test\_Cost\_Justification.pdf.

<sup>126</sup> Nebo District's Response to Staff's First Request, Item 22.

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Service Call	\$25.00	\$7.00
Service Call / After Hours	\$50.00	\$44.00
Meter Test	\$15.00	\$22.00
Reconnection	\$25.00	\$7.00
Reconnection / After Hours	\$50.00	\$44.00
Bills Paid at Customer's Door	\$15.00	\$4.00
Meter Lid Charge	Actual	Actual
Moving Meter	Actual	Actual
Returned Check	\$35.00	\$12.00
Turn-On Charge	\$25.00	\$7.00
Service Line Inspection	No Charge	No Charge
5/8 Inch Water Tap On	\$1,100.00	\$1,475.00
All Larger than 5/8-inch Meters	Actual	Actual

The recommended adjustment to the Nonrecurring Charges results in a decrease in Other Water Revenue of \$4,920 as shown below.<sup>127</sup>

<u>Nonrecurring Charge</u>	<u>No.</u>	<u>Current Charge</u>	<u>Total</u>	<u>Revised Charge</u>	<u>Adjustment</u>	<u>Pro Forma</u>
Bank Fees - Credit Card			\$8,362		n/a	\$8,362
Leak Repair - Other			914		n/a	\$914
Service Call	20	\$25.00	500	\$7.00	(\$360)	\$140
Service Call / After Hours	1	\$50.00	50	\$44.00	(\$6)	\$44
Meter Test	1	\$15.00	15	\$22.00	\$7	\$22
Reconnection Charge	130	\$25.00	3,250	\$7.00	(\$2,340)	\$910
Reconnection Chg/ After Hours	9	\$50.00	450	\$44.00	(\$54)	\$396
Bills Paid at Customer's Door	15	\$15.00	225	\$4.00	(\$165)	\$60
Meter Lid Charge	1	Actual	51	Actual	0	\$51
Moving Meter	-	Actual		Actual	n/a	-
Returned Check	8	\$35.00	280	\$12.00	(\$184)	\$96
Service Line Inspection	-	none		none	n/a	\$0
Turn-On Charge	101	\$25.00	2,525	\$7.00	(\$1,818)	\$707
			<u>\$16,622</u>		<u>(\$4,920)</u>	<u>\$11,702</u>

<sup>127</sup> Nebo District's Response to Staff's First Request, Item 21.



The Commission finds that Commission Staff's adjustments, with noted modifications, are reasonable because the evidence filed into the case record has been carefully analyzed and evaluated by Commission Staff and is consistent with existing precedent.<sup>128</sup>

### SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report, along with the above stated modifications, are supported by the evidence of record and are reasonable. By applying the OR Method to Nebo District's pro forma operations results in an Overall Revenue Requirement of \$1,159,113 and that a \$61,735 revenue increase, or 5.82 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report, as modified above, are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Nebo District are denied.
3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Nebo District on or after the date of this Order.

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<sup>128</sup> 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).

4. Within 20 days of the date of service of this Order, Nebo District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

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

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PUBLIC SERVICE COMMISSION

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Vice Chairman

\_\_\_\_\_  
Commissioner

*[Handwritten signature]*  
*May Pat Regan*

ENTERED  
AUG 02 2024  
rCS  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

*Linda C. Bridwell*  
\_\_\_\_\_  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2024-00002 DATED AUG 02 2024

\* Denotes Rounding

**Nonrecurring Charges Adjustments**

	Service Call Utility Revised Charge	Staff Revised Charge*
Field Materials	\$0.00	\$0.00
Field Labor (1hr @ \$20.50/hr)	\$20.50	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$2.92	\$0.00
Transportation (10 miles X .67 per mile)	\$6.70	\$6.70
Misc.	\$0.00	\$0.00
Total Revised Charge*	\$30.12	\$7.00
Current Rate	\$25.00	

	Service Call-After Hours Utility Revised Charge	Staff Revised Charge*
Field Materials	\$0.00	\$0.00
Field Labor (1hr @ \$30.75/hr)	\$30.75	\$30.75
Office Supplies	\$0.00	\$0.00
Office Labor	\$2.92	\$0.00
Transportation (20 miles X .67 per mile)	\$13.40	\$13.40
Misc.	\$0.00	\$0.00
Total Revised Charge*	\$47.07	\$44.00
Current Rate	\$50.00	

	Meter Test Utility Revised Charge	Staff Revised Charge*
Field Materials	\$0.00	\$0.00
Field Labor (1hr @ \$20.50/hr)	\$20.50	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation (10 miles X .67 per mile)	\$6.70	\$6.70

Misc. (Meter Test Charged by I.T.M)	\$15.00	\$15.00
Total Revised Charge	\$42.20	\$22.00
Current Rate	\$15.00	

Reconnection for Non-Payment		
	Utility Revised Charge	Staff Revised Charge*
Field Materials	\$0.00	\$0.00
Field Labor (1hr @ \$20.50/hr)	\$20.50	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$2.92	\$0.00
Transportation (10 miles X .67 per mile)	\$6.70	\$6.70
Misc.	\$0.00	\$0.00
Total Revised Charge*	\$30.12	\$7.00
Current Rate	\$25.00	

Reconnection for Non-Payment / After Hours		
	Utility Revised Charge	Staff Revised Charge*
Field Materials	\$0.00	\$0.00
Field Labor (1hr @ \$30.75/hr)	\$30.75	\$30.75
Office Supplies	\$0.00	\$0.00
Office Labor	\$2.92	\$0.00
Transportation (miles 20 X .67 per mile)	\$13.40	\$13.40
Misc.	\$0.00	\$0.00
Total Revised Charge*	\$47.07	\$44.00
Current Rate	\$50.00	

Bills Paid at Customer's Door		
	Utility Revised Charge	Staff Revised Charge*
Field Materials	\$0.00	\$0.00
Field Labor (0.50 hr @ \$20.50/hr)	\$10.25	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation (5 miles X .67 per mile)	\$3.35	\$3.35
Misc.	\$0.00	\$0.00
Total Revised Charge	\$13.60	\$4.00

Current Rate \$15.00

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	Returned Check Utility Revised Charge	Staff Revised Charge*
Field Materials	\$0.00	\$0.00
Field Labor	\$0.00	\$0.00
Office Supplies	\$1.75	\$1.75
Office Labor (1 hr @ 19.00/hr)	\$19.00	\$0.00
Transportation	\$0.00	\$0.00
Misc. (Bank Charge)	\$10.00	\$10.00
Total Revised Charge	<u>\$30.75</u>	<u>\$12.00</u>
Current Rate	\$35.00	

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	Turn-On Charge Utility Revised Charge	Staff Revised Charge*
Field Materials	\$0.00	\$0.00
Field Labor (1hr @ \$20.50/hr)	\$20.50	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$2.92	\$0.00
Transportation (10 miles X .67 per mile)	\$6.70	\$6.70
Misc.	\$0.00	\$0.00
Total Revised Charge	<u>\$30.12</u>	<u>\$7.00</u>
Current Rate	\$25.00	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2024-00002 DATED AUG 02 2024

The following rates and charges are prescribed for the customers in the area served by Nebo 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

5/8 X 3/4-Inch Meter

First	2,000 Gallons	\$31.11	Minimum Bill
Next	2,000 Gallons	0.01165	Per Gallon
Next	6,000 Gallons	0.01112	Per Gallon
Next	10,000 Gallons	0.01061	Per Gallon
Over	20,000 Gallons	0.01008	Per Gallon

1-Inch Meter

First	4,000 Gallons	\$54.40	Minimum Bill
Next	6,000 Gallons	0.01112	Per Gallon
Next	10,000 Gallons	0.01061	Per Gallon
Over	20,000 Gallons	0.01008	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$121.10	Minimum Bill
Next	10,000 Gallons	0.01061	Per Gallon
Over	20,000 Gallons	0.01008	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$227.12	Minimum Bill
Over	20,000 Gallons	0.01008	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$327.90	Minimum Bill
Over	30,000 Gallons	0.01008	Per Gallon

4-Inch Meter

First	50,000 Gallons	\$529.40	Minimum Bill
Over	50,000 Gallons	0.01008	Per Gallon

Nonrecurring Charges

Late Payment Penalty	10%
Service Call	\$7.00
Service Call / After Hours	\$44.00
Meter Test	\$22.00
Reconnection for Non-Payment	\$7.00
Reconnection for Non-Payment / After Hours	\$44.00
Bills Paid at Customer's Door	\$4.00
Meter Lid Charge	Actual
Moving Meter	Actual
Returned Check	\$12.00
Turn-On Charge	\$7.00
Service Line Inspection	No Charge
5/8 Inch Water Tap On	\$1,475.00
All Larger than 5/8-inch Meters	Actual



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