

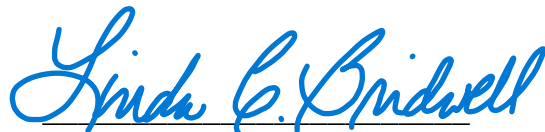
COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF HYDEN-LESLIE )	CASE NO.
COUNTY WATER DISTRICT FOR A RATE )	2024-00022
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 February 26, 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 February 26, 2024 Order, Hyden-Leslie County Water District (Hyden-Leslie District) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Hyden-Leslie District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.



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

DATED JUN 10 2024

cc: Parties of Record

---

<sup>1</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF HYDEN-LESLIE )	CASE NO.
COUNTY WATER DISTRICT FOR A RATE )	2024-00022
ADJUSTMENT PURSUANT TO 807 KAR 5:076 )	

COMMISSION STAFF'S REPORT  
ON HYDEN-LESLIE COUNTY WATER DISTRICT

Hyden-Leslie County Water District (Hyden-Leslie 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 3,431 residential customers and 238 commercial customers that reside in Clay, Leslie, and Perry counties, Kentucky.<sup>1</sup>

On February 5, 2024, Hyden-Leslie 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> Hyden-Leslie District 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. 2020-00141 which required Hyden-Leslie District to file an application for an adjustment of its base

---

<sup>1</sup> *Annual Report of Hyden-Leslie District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 49.

<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.

rates by February 5, 2024.<sup>3</sup> Hyden-Leslie District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2020-00141.<sup>4</sup> Since that matter, Hyden-Leslie District has not adjusted its rates. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated February 26, 2024. Hyden-Leslie District responded to two requests for information from Commission Staff.<sup>5</sup>

### UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2022 Annual Report, Hyden-Leslie District reported a water loss of 24.7056 percent.<sup>6</sup> 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. Hyden-Leslie currently produces its own water and does not purchase water from another source.<sup>7</sup> The table below shows that the 2022 total annual cost of water loss to Hyden-Leslie District is \$108,609, while the annual cost of water loss in excess of 15 percent is \$42,667.

---

<sup>3</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 13, 2023).

<sup>4</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

<sup>5</sup> Hyden-Leslie District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Apr. 2, 2024). Hyden-Leslie District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Jan. 24, 2024). Supplemental filings with additional information were made on May 7, 2024, May 13, 2024, and May 14, 2024.

<sup>6</sup> 2022 Annual Report at 57.

<sup>7</sup> 2022 Annual Report at 57.

Description	Purchased Power	Chemicals and Lab Testing	Total
Pro Forma Expenses	\$ 324,191	\$ 115,423	\$ 439,614
Multiply by: Total Water Loss Percent	24.7056%	24.7056%	24.7056%
Total Cost of Water Loss	\$ 80,093	\$ 28,516	\$ 108,609

Description	Purchased Power	Chemicals and Lab Testing	Total
Pro Forma Expenses	\$ 324,191	\$ 115,423	\$ 439,614
Multiply by: Water Loss in Excess of 15 Percent	9.7056%	9.7056%	9.7056%
Cost of Excess Water Loss	\$ 31,465	\$ 11,202	\$ 42,667

Hyden-Leslie District was approved to charge a water loss reduction surcharge in its last alternative rate adjustment (ARF) case in 2020.<sup>8</sup> The surcharge is currently \$1.53 per customer per month for 48 months, or until \$263,124 has been assessed, whichever occurs first.<sup>9</sup> Hyden-Leslie District reported its 12-month average water loss is 19.15 percent as shown in the following table.<sup>10</sup>

Period	Water Produced	Total Water Loss	Water Loss Percentage
6/23/2023	22,310	3,780	16.9431%
7/23/2023	22,200	2,767	12.4640%
8/23/2023	23,300	3,807	16.3391%
9/23/2023	23,080	3,052	13.2236%
10/23/2023	21,940	3,968	18.0857%
11/23/2023	22,270	3,836	17.2250%
12/23/2023	22,020	4,985	22.6385%
1/23/2024	23,150	6,048	26.1253%
2/23/2024	27,330	6,638	24.2883%
3/23/2024	22,370	4,871	21.7747%
4/23/2024	22,851	5,367	23.4869%
5/23/2024	21,614	3,443	15.9295%
	274,435	52,562	19.1528%

<sup>8</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

<sup>9</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Order at 26, ordering paragraph 3.

<sup>10</sup> Case No. 2020-00340, *Electronic Hyden-Leslie Water District's Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring*. PSC Surcharge Reports June 2023 thru May 2024.

During the rate case Hyden-Leslie District's water loss was 32.86 percent.<sup>11</sup> Therefore, Hyden-Leslie has made significant progress at reducing the excess water loss.

DISCUSSION

Using its pro forma test-year operations, Hyden-Leslie District determined that a base rate revenue increase of \$559,735, or 24.03 percent, was necessary to achieve the revenue requirement as shown in the table below.<sup>12</sup> The rates requested by Hyden-Leslie District would increase the residential monthly bill of a typical residential customer using 4,000 gallons per month by \$12.50 from \$54.74 to \$67.24 or approximately 22.84 percent.<sup>13</sup>

Description	Hyden-Leslie District
Pro Forma Operating Expenses	\$ 2,640,682
Plus: Average Annual Principal and Interest Payments	289,597
Additional Working Capital	57,919
Overall Revenue Requirement	2,988,198
Less: Other Operating Revenue	(7,601)
Proposed Late Charges	(90,541)
Interest Income	(1,119)
Revenue Required from Rates	2,888,937
Less: Pro Forma Present Rate Service Revenues	(2,329,202)
Required Revenue Increase	\$ 559,735
Percentage Increase	24.03%

---

<sup>11</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), final Order at 10.

<sup>12</sup> Amended Response to Staff's First Request, (filed May. 14, 2024), Item1f, 2022\_Rate\_Study\_Hyden-Leslie.xlsx.

<sup>13</sup> Application, Attachment 1, Customer Notice.

To determine the reasonableness of the rates requested by Hyden-Leslie District, Commission Staff performed a limited review of Hyden-Leslie District's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable<sup>14</sup> 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 Foley reviewed the calculation of Hyden-Leslie District's Overall Revenue Requirement, and Elizabeth Stefanski reviewed Hyden-Leslie District's reported revenues and rate design.

### SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff determined that Hyden-Leslie District's required revenue from water sales is \$2,860,729 to meet the Overall Revenue Requirement of \$2,955,852 and that a \$532,213 revenue increase, or 22.86 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

---

<sup>14</sup> 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).

2. Monthly Water Service Rates. Hyden-Leslie District proposed a 24.03 percent across-the-board increase in its application, and requested that the Commission consider applying the increase over a three year period.<sup>15</sup> Hyden-Leslie District applied its proposed rate increase across the board in its notice,<sup>16</sup> and did not provide a phase-in table within the notice.

Hyden-Leslie District performed a cost of service study (COSS) in 2020 to review the appropriateness of its rates and rate design as part of Case No. 2020-00141,<sup>17</sup> and Commission Staff, in that case, performed a COSS which is detailed in the Staff Report.<sup>18</sup> Hyden-Leslie District did not file a new COSS in this case, considering there have been no material changes in its system since its last rate case.<sup>19</sup> Hyden-Leslie District stated that in the event of material changes to its system, a new COSS would be performed.<sup>20</sup>

The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff allocated the \$532,213 revenue increase following Hyden-Leslie District's proposed

---

<sup>15</sup> Cover letter to Application (filed Feb. 5, 2024), Read\_First\_ARF\_Application\_Cover\_Letter.pdf.

<sup>16</sup> Application, Attachment 1, Customer Notice.

<sup>17</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (filed July 6, 2020), ResponseToOrder\_6-18-2020.pdf, Item 3.

<sup>18</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Sep. 18, 2020), Staff Report, Appendix A.

<sup>19</sup> Hyden-Leslie District's Response to Staff's First Request (filed Apr. 2, 2024), Item 17.

<sup>20</sup> Hyden-Leslie District's Response to Staff's First Request, Item 17.

three-year phased-in approach, and evenly across Hyden-Leslie District's monthly retail water service rates.

As discussed above in the Unaccounted-for Water Loss section, Hyden-Leslie District currently charges a monthly Water Loss Reduction Surcharge of \$1.53 per bill. The rates set forth in Appendix B 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 \$2,860,729 Revenue Required from Water Sales, an approximate 22.86 percent increase. The rates, as calculated by Commission Staff and including the current Water Loss Reduction Surcharge of \$1.53, will increase the monthly water bill of a typical residential customer using 4,000 gallons from \$56.27 to \$68.68, an increase of \$12.41, or approximately 22.05 percent.<sup>21</sup> The Water Loss Reduction Surcharge is project to be discontinued December 1, 2024.<sup>22</sup> The new rates, without the Water Loss Reduction Surcharge, will increase the monthly water bill of a typical residential customer using 4,000 gallons from \$54.74 to \$67.15, an increase of \$12.41, or approximately 22.67 percent.<sup>23</sup> Alternately, in the phased-in approach, Phase 1 rates will increase the monthly water bill of a typical residential customer using 4,000 gallons from \$54.74 to \$58.81, an

---

<sup>21</sup>  $\$67.15$  (Average Bill New Water Rates) +  $\$1.53$  (water loss reduction surcharge) minus ( $\$54.74$  (Average Bill Current Water Rates) +  $\$1.53$  (water loss reduction surcharge)) =  $\$12.41$  (Total Difference in Customer Bill)  $\div$   $\$56.27$  (Average Bill Current Water Rates with water loss reduction surcharge) =22.05%.

<sup>22</sup> Case No. 2020-00340, *Electronic Hyden-Leslie Water District's Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring*. PSC Surcharge Report 2024, PSC\_Surcharge\_Report\_MAY\_2024.PDF, First surcharge collected for period of 12/01/2020–12/31/2020.

<sup>23</sup>  $\$67.15$  (Average Bill New Water Rates) -  $\$54.74$  (Average Bill Current Water Rates) =  $\$12.41$  (Total Difference in Customer Bill)  $\div$   $\$54.74$  (Average Bill Current Water Rates) =22.67%.



increase of \$4.07, or approximately 7.44 percent.<sup>24</sup> Phase 2 rates will increase the monthly water bill of a typical residential customer using 4,000 gallons from \$58.81 to \$63.19, an increase of \$4.38, or approximately 7.45 percent.<sup>25</sup> Finally, Phase 3 rates will increase the monthly water bill of a typical residential customer using 4,000 gallons from \$63.19 to \$67.15, an increase of \$3.96, or approximately 6.27 percent,<sup>26</sup> which will complete the phase-in for this rate case.

3. Nonrecurring Charges. Following the Commission's recent decisions,<sup>27</sup> Commission Staff has reviewed Hyden-Leslie District's Nonrecurring Charges. The Commission approved the current Nonrecurring Charges in Hyden-Leslie District's tariff on August 4, 2021.<sup>28</sup> In Hyden-Leslie District's prior ARF case, Nonrecurring Charge Cost Justification forms were provided for each nonrecurring charge,<sup>29</sup> and the Nonrecurring Charges approved in the tariff filing for Case No. 2021-00071, reflect the removal of Field Labor Costs and Office/Clerical Labor Costs from those charges that

---

<sup>24</sup>  $\$58.81$  (Average Bill Phase 1 Water Rates) -  $\$54.74$  (Average Bill Current Water Rates) =  $\$4.07$  (Total Difference in Customer Bill)  $\div$   $\$54.74$  (Average Bill Current Water Rates) = 7.44%.

<sup>25</sup>  $\$63.19$  (Average Bill Phase 2 Water Rates) -  $\$58.81$  (Average Bill Phase 1 Water Rates) =  $\$4.38$  (Total Difference in Customer Bill)  $\div$   $\$58.81$  (Average Bill Phase 1 Water Rates) = 7.45%.

<sup>26</sup>  $\$67.15$  (Average Bill Phase 3 Water Rates) -  $\$63.19$  (Average Bill Phase 2 Water Rates) =  $\$3.96$  (Total Difference in Customer Bill)  $\div$   $\$63.19$  (Average Bill Phase 2 Water Rates) = 6.27%.

<sup>27</sup> Case No. 2023-00299, *Electronic Application of Magoffin County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 24, 2024); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 5, 2024); Case No. 2023-00258, *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. 2023-00220, *Electronic Application of East Casey County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 21, 2024).

<sup>28</sup> Case No. 2021-00071, *Electronic Tariff Filing of Hyden-Leslie County Water District* (Ky. PSC Aug. 4, 2021), final Order.

<sup>29</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment*, (filed May 7, 2020), Application at unnumbered pages 797-800.

occur during normal business hours.<sup>30</sup> Therefore, Hyden-Leslie District's current Nonrecurring Charges do not include Field Labor Costs and Office/Clerical Labor Costs for those charges occurring during normal business hours. However, when Hyden-Leslie District provided updated cost justification information for the Nonrecurring Charges in this case,<sup>31</sup> it included field and office labor cost in the calculations. Commission Staff reviewed the updated cost justification information provided by Hyden-Leslie District and removed the labor charges. Due to current transportation costs, the updated Nonrecurring charges have increased. The calculation of these adjustments to the Nonrecurring Charges are included in a table provided in Appendix A. Commission Staff's proposed nonrecurring charges are listed below.

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Connection Turn-On Charge	10.44	\$20.10
Reconnection Charge	10.44	\$20.10
Reconnection Charge -After Hours	53.62	\$67.00
Service Call/Investigation	10.44	\$20.10
Service Call/Investigation-After Hours	53.62	\$67.00
Meter Test Request	20.44	\$45.00
Damage to Meter	Actual	Actual
Meter Relocate	Actual	Actual
5/8-Inch x 3/4-Inch Meter	\$1,000.00	\$1,000.00
All Larger than 5/8-Inch x 3/4-Inch Meters	Actual	Actual

The adjustments to Nonrecurring Charges result in an increase to test year Other Water Revenues of \$7,042 as shown below:

---

<sup>30</sup> Case No. 2021-00071, *Electronic Tariff Filing of Hyden-Leslie County Water District (Ky. PSC Aug. 4, 2021)*, final Order.

<sup>31</sup> Hyden-Leslie District's Response to Staff's First Request (filed Apr. 2, 2024), Item 21, and Hyden-Leslie District's Response to Staff's Second Request (filed Apr. 30, 2024), Item 6.

Description	No.	Current Charge	Current Total	Revised Charge	Adjustment	Pro Forma
Connection Turn-On Charge	234	\$10.44	\$2,443	\$20.10	\$2,260	\$4,703
Reconnection Charge	495	\$10.44	5,168	\$20.10	4,782	9,950
Reconnection Charge -After Hours	0	\$53.62	0	\$67.00	0	0
Service Call/Investigation	0	\$10.44	0	\$20.10	0	0
Service Call/Investigation-After Hours	0	\$53.62	0	\$67.00	0	0
Meter Test Request	0	\$20.44	0	\$45.00	0	0
Damage to Meter	0	Actual	0	Actual	0	0
Meter Relocate	0	Actual	0	Actual	0	0
Total			<u>\$7,611</u>		<u>\$7,042</u>	<u>\$14,653</u>

No adjustments were made to the Tap-On charges as the cost justification sheet provided by Hyden-Leslie District indicated that the cost of installing a 5/8-Inch by 3/4-Inch meter has not changed since the most recent tariff was approved.<sup>32</sup>

4. Late Payment Penalties. Hyden-Leslie District discontinued late fee charges in 2020 due to the COVID-19 epidemic. In its application, Hyden-Leslie District proposed to resume charging a late payment penalty of 10 percent for outstanding bills,<sup>33</sup> and submitted a cost justification sheet.<sup>34</sup> Hyden-Leslie District stated that no late fees were charged for the calendar years of 2022 or 2023,<sup>35</sup> and provided historical data concerning prior year's collections of penalties for late payments.<sup>36</sup> Commission Staff recommends Commission approval for the reintroduction of a 10 percent late payment penalty to be added to Hyden-Leslie District's tariff and charged to customers for any

<sup>32</sup> Hyden-Leslie District's Response to Staff's First Request (filed Apr. 2, 2024), 22\_Tap\_Fee\_Calculation\_2024.pdf.

<sup>33</sup> Application, Schedule of Adjusted Operations, References, Adjustment B.

<sup>34</sup> Cover letter and cost justification for late payment charge (filed May 13, 2024).

<sup>35</sup> Hyden-Leslie District's Response to Staff's First Request (filed Apr. 2, 2024), Item 19.

<sup>36</sup> Hyden-Leslie District's Response to Staff's First Request (filed Apr. 2, 2024), Item 18, 2022\_Rate\_Study\_Hyden-Leslie, Late Charges Tab.

amount outstanding. Hyden-Leslie District calculated an adjustment to normalize expected future late payment revenue, which is discussed below for Adjustment B, Forfeited Discounts.

### PRO FORMA OPERATING STATEMENT

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

Description	Test Year	Hyden-Leslie District Proposed Adjustment	Commission Staff Proposed Adjustment	Total Proposed Adjustment	(Ref.)	Pro Forma
<b>Operating Revenues</b>						
Total Metered Retail Sales	\$ 2,346,067	\$ (16,865)	\$ (686)	\$ (17,551)	(A)	\$ 2,328,516
Surcharge Revenue	67,449			0		67,449
<b>Total Metered Sales</b>	<b>2,413,516</b>	<b>(16,865)</b>	<b>(686)</b>	<b>(17,551)</b>		<b>2,395,965</b>
<b>Other Water Revenues</b>						
Forfeited Discounts		90,541	(11,180)	79,361	(B)	79,361
Other Water Revenues	9,629	(2,028)		(2,028)	(C)	
			7,042	7,042	(C)	14,643
<b>Total Other Water Revenues</b>	<b>9,629</b>	<b>88,513</b>	<b>(4,138)</b>	<b>84,375</b>		<b>94,004</b>
<b>Total Operating Revenues</b>	<b>2,423,145</b>	<b>71,648</b>	<b>(4,824)</b>	<b>66,824</b>		<b>2,489,969</b>
<b>Operating Expenses</b>						
<b>Operation and Maintenance Expenses</b>						
Salaries and Wages - Employees	562,663	(4,571)	371	(4,200)	(D)	
		57,181	(17,660)	39,521	(E)	597,984
Salaries and Wages - Commissioners	30,000			0		30,000
Employee Pensions	-	130,823	(12,133)	118,690	(F)	118,690
Employee Benefits	245,611	(67,837)	(19,936)	(87,773)	(G)	157,838
Purchased Power	324,191	(31,465)		(31,465)	(H)	292,726
Chemicals	115,423	(11,202)		(11,202)	(H)	104,221
Materials and Supplies	177,942	(10,665)	865	(9,800)	(D)	168,142
Contractual Services	30,674			0		30,674
Transportation Expense	54,167			0		54,167
Insurance - Other	62,653			0		62,653
Bad Debt Expense	21,667			0		21,667
Miscellaneous Expense	111,640			0		111,640
<b>Total Operation and Maintenance Expenses</b>	<b>1,736,631</b>	<b>62,264</b>	<b>(48,493)</b>	<b>13,771</b>		<b>1,750,402</b>
Depreciation Expense	798,357	(3,989)	15,092	11,103	(I)	
		0	112	112	(J)	809,572
Taxes Other Than Income	39,778	7,640	944	8,584	(K)	48,362
<b>Total Operating Expenses</b>	<b>2,574,766</b>	<b>65,915</b>	<b>(32,345)</b>	<b>33,570</b>		<b>2,608,336</b>
Net Operating Income	(151,621)	5,733	27,521	33,254		(118,367)
Interest and Dividend Income	1,119			0		1,119
<b>Income Available to Service Debt</b>	<b>\$ (150,502)</b>	<b>\$ 5,733</b>	<b>\$ 27,521</b>	<b>\$ 33,254</b>		<b>\$ (117,248)</b>

(A) Billing Analysis. In its application, Hyden-Leslie District proposed a decrease of \$16,865 to Total Metered Retail Sales for the test year of 2022 to reflect the

current billing analysis.<sup>37</sup> Hyden-Leslie District reported total metered water sales for the test year of \$2,346,067.<sup>38</sup> Hyden-Leslie District provided a billing analysis to calculate a normalized revenue amount of \$2,329,202, based on the usage during the test year and using the rates authorized in its current tariff.<sup>39</sup> In its application, Hyden-Leslie District calculated billing adjustments totaling \$21,757, which decreased total water sales from \$2,350,959 to the normalized amount of \$2,329,202.<sup>40</sup> Hyden-Leslie District provided a detailed list of billing adjustments from the test year, which totaled \$22,443.<sup>41</sup> Commission Staff calculated an adjustment decrease to Total Metered Retail Sales of \$17,551 for a normalized revenue amount of \$2,328,516, as shown in the table below. Commission Staff recommends Commission approval of the adjustment to decrease Total Retail Metered Sales by \$17,551, because it meets the ratemaking criteria of being known and measurable.

Revenue Classification	Bills	Gallons Sold	Revenue
All Meters	44,144	161,866,600	\$2,350,959
Less: Billing Adjustments			<u>(22,443)</u>
Normalized Revenue			2,328,516
Less: Metered Sales in Annual Report			<u>(2,346,067)</u>
Adjustment Needed to Retail Sales			<u><u>(\$17,551)</u></u>

<sup>37</sup> Application, Schedule of Adjusted Operations, Adjustment A.

<sup>38</sup> 2022 Annual Report at 49.

<sup>39</sup> Application, Attachment 5, Current Billing Analysis.

<sup>40</sup> Application, Attachment 5, Current Billing Analysis.

<sup>41</sup> Hyden-Leslie District's Response to Staff's First Request (filed Apr. 2, 2024), Item 23.

(B) Forfeited Discounts. In its application, Hyden-Leslie District proposed an adjustment of \$90,541 to increase Other Water Revenue-Forfeited Discounts.<sup>42</sup> The calculations resulted in a \$90,541 adjustment are provided in the Late Charges tab of the Rate Study, and are shown in the table below.<sup>43</sup>

Year	2017	2018	2019	Total
Forfeited Discount Revenue	\$43,888	\$50,459	\$48,990	\$143,337
Divided by 3 year Average				3
3 year Average Forfeited Discount Revenue				<u>47,779</u>
Rate Increase 2020-00141			66.10%	31,582
Rate Increase Proposed			23.40%	11,180
Total				<u><u>\$ 90,541</u></u>

Commission Staff agrees that an adjustment to Other Water Revenue is necessary, but disagrees with the proposed inclusion of \$11,180 in which the proposed rate increase percentage is multiplied by the 3-year average amount of \$47,779, as the adjustment is meant to normalize current income, not future income. The ARF filing regulations require the use of a historical test period, and the Commission allows for pro forma adjustments to current revenues and expenses. Commission Staff recommends the adjustment include only the 3-year average of \$47,779 and the prior rate increase percentage of \$31,582, which totals an adjustment increase of \$79,361.

(C) Other Water Revenue. In its application, Hyden-Leslie District proposed an adjustment to Other Water Revenues of \$26,038,<sup>44</sup> which was attributed to a billing

---

<sup>42</sup> Application, Schedule of Adjusted Operations, Adjustment B.

<sup>43</sup> Hyden-Leslie District's Response to Staff's First Request (filed Apr. 2, 2024), Item 18, 2022\_Rate\_Study\_Hyden-Leslie, Late Charges Tab.

<sup>44</sup> Application, Schedule of Adjusted Operations, Adjustment I.

system upgrade that automatically assessed service charges.<sup>45</sup> Hyden-Leslie District provided additional details about the Service Charges in response to Commission Staff's request for information.<sup>46</sup> On May 14, 2024, Hyden-Leslie District filed additional information amending the adjustment to Other Water Revenue, explaining that due to an audit reconciliation from the test year, \$6,795 is not considered revenue to the utility.<sup>47</sup> In its amended response, Hyden-Leslie District proposed a decrease to Other Water Revenue of \$2,028.<sup>48</sup> As discussed in the Nonrecurring Charges section above, Commission Staff calculated adjustments to the nonrecurring charges resulting in an increase to Other Water Revenue of \$7,042. Together with the adjustment decrease proposed by Hyden-Leslie, the combined adjustment equals an increase to Other Water Revenue of \$5,014. Commission Staff recommends Commission approval of the total adjustment to increase Other Water Revenue by \$5,014, because it meets the rate making criteria of being known and measurable.

(D) Expenses Related to Meter Installations. In its application, Hyden-Leslie District proposed an adjustment to decrease Salaries and Wages – Employees by \$4,571,<sup>49</sup> and Materials and Supplies by \$10,665,<sup>50</sup> to account for tap fee expenses that

---

<sup>45</sup> Hyden-Leslie District's Response to Staff's First Request (filed Apr. 2, 2024), Item 1f, 2022\_Rate\_Study\_Hyden-Leslie, Tab SAO and Item 20.

<sup>46</sup> Hyden-Leslie District's Response to Staff's Second Request (filed Apr. 30, 2024), Item 7.

<sup>47</sup> Hyden-Leslie District's Amended Response to Commission Staff's First Request for Information, (filed May 14, 2024), Item 1f, Cover-Letter\_Read\_First.pdf.

<sup>48</sup> Hyden-Leslie District's Amended Response to Staff's First Request for Information, Item 1f, 2022\_Rate\_Study\_Hyden-Leslie.xlsx, SAO Tab, Cell F10.

<sup>49</sup> Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment C.

<sup>50</sup> Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment C.

were included as part of these expenses during the test year.<sup>51</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>52</sup> Commission Staff agrees with Hyden-Leslie District’s proposed adjustment methodology. However, during the test year, Hyden-Leslie District installed 14 new water connections<sup>53</sup> and collected \$14,000.<sup>54</sup> Therefore, Commission Staff decreased Salaries and Wages – Employee by \$4,200, which is \$371 less than Hyden-Leslie District proposed, and decreased Materials and Supplies by \$9,800, which is \$865 less than proposed by Hyden-Leslie District, as shown in the following table.

Description	Salaries and Wages Employees	Materials and Supplies
Tap Fees Collected	\$ 14,000	\$ 14,000
Allocation Percent	30%	70%
Proposed Adjustment ( )	(4,200)	(9,800)
Less: Hyden-Leslie District Proposed Adjustments	4,571	10,665
Commission Staff’s Proposed Adjustment	\$ 371	\$ 865

Additionally, Hyden-Leslie District confirmed that it has not capitalized the water tap labor, and only capitalized \$9,267 of the materials and supplies expense of the new meter.<sup>55</sup> Therefore, Commission Staff capitalized the full labor costs and remaining

---

<sup>51</sup> Application, Exhibit 4, Schedule of Adjusted Operations, References, Adjustment C.

<sup>52</sup> USoA, Accounting Instruction 19 and 33.

<sup>53</sup> Hyden-Leslie District’s Response to Staff’s First Request, Item 14a.

<sup>54</sup> Hyden-Leslie District’s Response to Staff’s First Request, Item 20.

<sup>55</sup> Hyden-Leslie District’s Response to Staff’s First Request, Item 15b and 15c.



materials expense, and made a corresponding adjustment to test-year depreciation as shown in Adjustment (J).

(E) Salaries and Wages – Employee Normalization. In its application, Hyden-Leslie District proposed an adjustment to increase Salaries and Wages – Employees by \$57,181.<sup>56</sup> However, the explanation for the proposed adjustment only stated that the increase should be \$20,792, to reflect changes on personnel.<sup>57</sup> Hyden-Leslie District provided the test year employee list,<sup>58</sup> test year hours worked,<sup>59</sup> current wage rates,<sup>60</sup> and a current employee list,<sup>61</sup> as well as an explanation for changes to employees subsequent to the application being filed.<sup>62</sup> Commission Staff normalized current staffing to 2,080 hours resulting in an increase of 1,612 hours as shown in the following table. In addition, subsequent to the test year, employees received an increase in wages.<sup>63</sup>

---

<sup>56</sup> Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment D.

<sup>57</sup> Application, Exhibit 4, Schedule of Adjusted Operations, References, Adjustment D.

<sup>58</sup> Hyden-Leslie District's Response to Staff's First Request, Item 3, Redacted spreadsheet, 3-6\_Pay\_and\_Benefits.xlsx (filed Apr. 3, 2024), Columns A and B.

<sup>59</sup> Hyden-Leslie District's Response to Staff's First Request, Item 3, Redacted spreadsheet, 3-6\_Pay\_and\_Benefits.xlsx (filed Apr. 3, 2024), Column AD.

<sup>60</sup> Hyden-Leslie District's Response to Staff's First Request, Item 18, 2022\_Rate\_Study\_Hyden-Leslie, Wages Tab, Column E.

<sup>61</sup> Hyden-Leslie District's Response to Staff's First Request, Item 18, 2022\_Rate\_Study\_Hyden-Leslie, Wages Tab, Column A.

<sup>62</sup> Additional Information requested by Commission Staff, Additional\_Answers\_Email\_May\_7\_2024.pdf (filed May 7, 2024).

<sup>63</sup> Hyden-Leslie District's Response to Staff's First Request, Item 18, 2022\_Rate\_Study\_Hyden-Leslie, Wages Tab, Column E.

Employee	Test Year		
	Hours	Normalized	Difference
Employee 2	591	2,080	1,489
Employee 7	608	2,080	1,472
Employee 8	2,301	-	(2,301)
Employee 12	513	2,080	1,567
Employee 10	2,695	-	(2,695)
Employee 14	-	2,080	2,080
<b>Total</b>	<b>6,708</b>	<b>8,320</b>	<b>1,612</b>

Commission Staff calculated a Normalized Salaries and Wages – Employees amount of \$602,184. Commission Staff's calculated amount is an increase of \$39,521, which is \$17,660 less than Hyden-Leslie District proposed \$57,181 increase, as shown in the following table.

Title	Total Hours	Test Year Regular Hours	Current Wage Rate	Pro-Forma Regular Wages	Test Year Overtime Hours	Holiday Worked Hours	Current Overtime Rate	Pro-Forma Overtime Wages	Pro-Forma Overtime Wages
Bookkeeper	2,260	2,110.28	\$ 21.51	\$ 45,392	149.95	-	\$ 32.27	\$ 4,838	\$ 50,230
Billing Clerk	2,087	2,080.00	16.31	33,925	6.91	-	24.47	169.05	34,094
Distribution Laboror	2,273	2,094.01	19.17	40,142	178.90	-	28.76	5,144.27	45,286
Distribution Operator	2,750	2,298.79	21.14	48,596	451.18	49.50	31.71	15,876.56	64,473
Distribution Operator	2,631	2,441.62	22.63	55,254	189.85	1.08	33.95	6,481.12	61,735
Distribution Operator	2,345	2,151.67	23.59	50,758	193.14	13.82	35.39	7,323.28	58,081
Distribution Laboror	2,173	2,080.00	16.31	33,925	93.44	-	24.47	2,286.01	36,211
Manager	2,428	2,428.37			-			-	75,512
Billing Clerk	2,443	2,189.23	18.97	41,530	253.71	0.92	28.46	7,245.50	48,775
WTP Operator	2,119	2,080.00	23.10	48,048	38.82	-	34.65	1,345.11	49,393
WTP Operator	2,512	2,208.26	17.13	37,827	303.85	60.65	25.70	9,365.83	47,193
Operator in Training	2,080	2,080.00	15.00	31,200	-	-	22.50	-	31,200
<b>Total Gross Wages</b>	<b>28,102</b>	<b>26,242.23</b>		<b>466,597.26</b>	<b>1,859.75</b>			<b>60,074.87</b>	<b>602,184</b>
Less: Test Year Salaries									(562,663)
Pro Forma Salaries & Wages Adjustment									39,521
Less: Hyden-Leslie District Proposed Adjustment									(57,181)
Additional Proposed Adjustment									(17,660)

(F) Employee Pension – County Employees Retirement System (CERS). In its application, Hyden-Leslie District proposed to increase Employee Pensions and Benefits by \$130,823,<sup>64</sup> to reflect Hyden-Leslie District joining the Kentucky Public Pensions

<sup>64</sup> Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment E.

Authority (KPPA) – CERS.<sup>65</sup> Commission Staff agrees with Hyden-Leslie District’s methodology; however, as discussed in Adjustment (E), Commission Staff calculated a normalized Salaries and Wages – Employees’ expense of \$602,184. In addition, the KPPA fiscal year 2025, effective July 1, 2024 contribution rate is 19.71 percent.<sup>66</sup> Using the full time Salaries and Wages – Employees, of \$602,184 and the most recent contribution rate, Commission Staff calculated a CERS contribution of \$118,690, which is an increase of \$118,690 to Hyden-Leslie District’s test year pension contribution amount of \$0. The adjustment is \$12,133 less than Hyden-Leslie District’s proposed increase of \$130,823, as shown in the following table.

Description	Commission Adjustment
Full Time Salaries and Wages - Employees	\$ 602,184
Multiplied by: Current CERS Contribution Rate	19.710%
CERS Retirement- Employer Contribution	118,690
Less: Test Year Retirement ( )	-
Employee Pensions and Benefits Adjustment	118,690
Less: Hyden-Leslie District Proposed Adjustment ( )	(130,823)
Commission Staff Proposed Adjustment	<u>\$ (12,133)</u>

(G) Employee Benefits – Medical Insurance Premiums. In its application, Hyden-Leslie District proposed an adjustment to decrease Employee Benefits by \$67,837<sup>67</sup> to reflect Commission policy of limiting expenses for ratemaking purposes associated with providing employer contributions to employees’ medical insurance at a

<sup>65</sup> Application, Exhibit 4, References, Adjustment E.

<sup>66</sup> KPPA, GASB Contribution Rates (<https://www.kyret.ky.gov/Employers/GASB/Pages/Contribution-Rates.aspx>).

<sup>67</sup> Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment F.

percentage comparable to the Bureau of Labor Statistics' report.<sup>68</sup> Hyden-Leslie District's employees currently contribute between 5.74 to 32.79 percent to their insurance premiums, an average of 19.39 percent. Hyden-Leslie District contributes between 67.21 to 94.26 percent, an average of 80.61 percent, for full-time employees' health insurance plans,<sup>69</sup> as shown in the following table.

Insurance Type	Coverage	Medical (EE)	Percentage	Medical (ER)	Percentage
Living Well PPO	FAM	\$ 717	32.79%	\$ 1,469	67.21%
Living Well CDHP	FAM	339	18.18%	1,527	81.82%
Living Well CDHP	FAM	137	10.80%	1,132	89.20%
Living Well CDHP	FAM	399	19.20%	1,679	80.80%
Living Well CDHP	EMP	53	5.74%	877	94.26%
Living Well CDHP	FAM	339	18.18%	1,527	81.82%
Living Well PPO	FAM	717	32.79%	1,469	67.21%
Living Well PPO	EMP	129	13.61%	820	86.39%
Living Well PPO	FAM	717	32.79%	1,469	67.21%
Living Well CDHP	FAM	399	19.20%	1,679	80.80%
Living Well CDHP	EMP	93	10.04%	837	89.96%
Total		\$ 4,040	19.39%	\$ 14,486	80.61%

The Commission continues to place greater emphasis on evaluating 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. Consistent with precedent,<sup>70</sup> Commission Staff agrees with Hyden-Leslie District's methodology but calculated a different amount. Commission Staff adjusted Hyden-Leslie

<sup>68</sup> Application, Exhibit 4, Schedule of Adjusted Operations, References, Adjustment F.

<sup>69</sup> Hyden-Leslie District's Response to Staff's First Request, Item 4, 4\_Benefits\_Invoice\_Redacted.pdf.

<sup>70</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.

District’s single health insurance plan premiums contribution expense to 79 percent,<sup>71</sup> and family insurance plan premiums contribution expense to 67 percent,<sup>72</sup> as shown in the calculation below. Hyden-Leslie District provided the most recent copy of its health insurance invoice.<sup>73</sup> Accordingly, utilizing the most recent invoice amounts, Commission Staff recalculated the proposed adjustment and decreased Employee Benefits by \$87,773, which is \$19,936 more than proposed by Hyden-Leslie District, as shown below.

Type of Premium	Number of Employees	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Health Insurance - Single	3	\$ 2,811	21%	\$ (590)	\$ 2,221
Health Insurance - Family	8	15,715	33%	(5,186)	10,529
Total Pro Forma Monthly Premium	11	18,526		(5,776)	12,750
Times: 12 Months		12		12	12
Total Annual Pro Forma Premium		<u>\$ 222,312</u>		<u>\$ (69,312)</u>	153,000
Plus: Uniform Expense					4,838
Pro Forma Employee Benefits					157,838
Less: Test Year Insurance					(245,611)
Employee Benefits Adjustment					(87,773)
Less: Commission Staff Recommended Adjustment					67,837
Final Pro Forma Employee Benefits Adjustment					<u>\$ (19,936)</u>

(H) Excess Water Loss. In its application, Hyden-Leslie District proposed adjustments to decrease Purchased Power expense by \$31,465<sup>74</sup> and Chemicals expense by \$11,202.<sup>75</sup> The adjustments are to reflect the expense for water loss in

<sup>71</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>72</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2021, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>73</sup> Hyden-Leslie District’s Response to Staff’s First Request, Item 4, 4\_Benefits\_Invoice\_Redacted.pdf.

<sup>74</sup> Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment G.

<sup>75</sup> Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment G.

excess of 15 percent.<sup>76</sup> During the test year, Hyden-Leslie District reported water loss of 24.7056 percent.<sup>77</sup> As noted earlier in the report, Commission regulations disallows the recovery of expenses for water loss in excess of 15 percent. Hyden-Leslie District reduced Purchased Power Expense by \$31,465, and Commission Staff agreed with the adjustment; and reduced Chemical Expense by \$11,202, which Commission Staff also agreed with, as shown in following table

Description	Purchased Power	Chemicals Expense	Total
Pro Forma Expenses	\$ 324,191	\$ 115,423	\$ 439,614
Multiply by: Water Loss in Excess of 15 Percent	-9.71%	-9.71%	-9.71%
Excess Cost	<u>\$ (31,465)</u>	<u>\$ (11,202)</u>	<u>\$ (42,667)</u>

(l) Depreciation Expense. In the application, Hyden-Leslie District proposed a decrease to Depreciation Expense of \$3,989<sup>78</sup> to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study).<sup>79</sup> To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC Study published in 1979.<sup>80</sup> When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has

---

<sup>76</sup> Application, Exhibit 4, Adjusted Operations, References, Adjustment G.

<sup>77</sup> 2022 Annual Report at 57.

<sup>78</sup> Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment H.

<sup>79</sup> Application, Exhibit 4, References, Adjustment H.

<sup>80</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.

historically used the midpoint of the NARUC ranges to depreciate the utility plant.<sup>81</sup> Upon examination, Commission Staff agrees with Hyden-Leslie District’s methodology to adjust depreciation expense. However, Commission Staff calculated a depreciation expense of \$809,460. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff increased Hyden-Leslie District’s Depreciation Expense by \$11,103, which is \$15,092 more than proposed by Hyden-Leslie District, as shown in the following table:

Asset Class	Service Life Range	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Land & Land Rights	N/A	\$ -	\$ -	\$ -
Structures and Improvements	35 - 40	150,197	-	150,197
Collection & Impounding Reservoirs	50 - 75	-	-	-
Lake, River, and Other Intakes	35 - 45	11,864	-	11,864
Supply Mains	50 - 75	7,823	-	7,823
Pumping Equipment	20	68,630	713	69,343
Water Treatment Equipment	20 - 35	124,516	8,081	132,597
Reservoirs and Tanks	30 - 60	62,676	-	62,676
Transmission & Distribution Mains	50 - 75	265,579	-	265,579
Services	30 - 40	-	-	-
Meter Installation	40 - 50	35,594	206	35,800
Hydrants	40 - 60	3,422	-	3,422
Office Furniture & Equipment	20 - 25	5,048	2,103	7,151
Transportation	7	24,946	-	24,946
Tools, Shop, & Garage Equipment	15 - 20	395	-	395
Power Operated Equipment	10 - 15	36,386	-	36,386
Communication Equipment	10	1,281	-	1,281
<b>Total</b>		<b>\$ 798,357</b>	<b>11,103</b>	<b>\$ 809,460</b>
Less: Hyden Leslie District's Proposed Adjustment			3,989	
<b>Total Depreciation Adjustment</b>			<b>\$ 15,092</b>	

<sup>81</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 *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.

(J) Capitalization of Water Tap Labor. As explained in Adjustment (D) 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. Hyden-Leslie District confirmed that it has already capitalized \$9,267 for materials cost,<sup>82</sup> but has not capitalized the labor costs or the remaining materials used.<sup>83</sup> Therefore, Commission Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$99 to account for the Tap Fee Labor Expense and \$13 for the remaining Tap Fee Material Expense, for a total increase of \$112 as shown below:

Description	Labor Expense Amount	Materials and Supplies
Test Year Water Connections Expense	\$ 4,200	\$ 9,800
Less: Expense Already Capitalized ( )	-	(9,267)
Total Amount to Capitalize	4,200	533
Divided by: NARUC Proposed Service Lives	42.5	42.5
Pro Forma Depreciation Adjustment	<u>\$ 99</u>	13
Total Capitalized Expense Increase		<u>\$ 112</u>

(K) Taxes other than Income – Federal Insurance Contributions Act (FICA). In its application, Hyden-Leslie District proposed an adjustment to increase Taxes Other Than Income by \$7,640.<sup>84</sup> However, the reference to the adjustment stated the change to account for an increase in payroll taxes due to the proposed increase in Salaries and

<sup>82</sup> Hyden-Leslie District’s Response to Staff’s First Request, Item 14c.

<sup>83</sup> Hyden-Leslie District’s Response to Staff’s First Request, Item 14b.

<sup>84</sup> Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment D.



Wages Expense is only \$4,856.<sup>85</sup> However, as explained in Adjustments (D) and (E) above, Commission Staff calculated pro forma Salaries and Wages – Employees of \$602,184 and Hyden-Leslie District reported Salaries and Wages – Officers of \$30,000. Therefore, Commission Staff calculated an increase to Taxes Other Than Income of \$1,699, which is \$1,786 less than proposed by Hyden-Leslie District, as shown in the following table.

Description	Commission Staff's
Salaries and Wages - Employees	\$ 602,184
Salaries and Wages - Officers	30,000
Total Salaries and Wages	632,184
Times: 7.65 Percent FICA Rate	7.65%
Total Pro Forma Payroll Taxes	48,362
Less: Test Year Payroll Taxes ( )	(39,778)
Payroll Tax Adjustment	8,584
Less: Proposed Adjustment ( )	(7,640)
Commission Staff's Proposed Adjustment	<u>\$ 944</u>

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.<sup>86</sup> This method allows for recovery of (1) cash-related pro forma operating expenses; (2)

---

<sup>85</sup> Application, Exhibit 4, References, Adjustment D.

<sup>86</sup> Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2022). Case No. 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

recovery of depreciation expense, a noncash item, to provide working capital;<sup>87</sup> (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	Hyden-Leslie District	Commission Staff
Pro Forma Operating Expenses	\$ 2,640,682	\$ 2,608,336
Plus: Average Annual Principal and Interest Payments	289,597	289,597
Additional Working Capital	57,919	57,919
Overall Revenue Requirement	2,988,198	2,955,852
Less: Other Operating Revenue	(7,601)	(14,643)
Proposed Late Charges	(90,541)	(79,361)
Interest Income	(1,119)	(1,119)
Revenue Required from Rates	2,888,937	2,860,729
Less: Pro Forma Present Rate Service Revenues	(2,329,202)	(2,328,516)
Required Revenue Increase	<u>\$ 559,735</u>	<u>\$ 532,213</u>
Percentage Increase	<u>24.03%</u>	<u>22.86%</u>

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Hyden-Leslie District had three Bonds with United States Department of Agriculture (USDA) Rural Development (RD),<sup>88</sup> one outstanding Kentucky

<sup>87</sup> 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).

<sup>88</sup> Case No. 2000-00077, *In The Matter of the Application of Hyden-Leslie County Water District for a Certificate of Public Convenience and Necessity to Construct and Finance Pursuant to the Provisions of KRS 278.023*, (Ky. PSC Mar. 20, 2000). Case No. 2010-00384, *Application of Hyden-Leslie County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Oct. 29, 2010).

Rural Water Finance Corporation (KRWFC) bond,<sup>89</sup> and one Kentucky Infrastructure Authority (KIA) Loan.<sup>90</sup> In its application, Hyden-Leslie District requested recovery of the average annual principal and interest on its indebtedness based on an average of the annual principal, and interest and fee payments for the five years following the test year, which is 2024 through 2028.<sup>91</sup> Commission Staff calculated the average annual principal and interest on a five-year average for the years 2024 through 2028, and agrees with Hyden-Leslie District's proposed Average Annual Principal and Interest Payments of \$289,597, as shown in the following table.

	2024		2025		2026		2027		2028		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
USDA 20000	\$ 8,100	\$ 8,690	\$ 8,500	\$ 8,352	\$ 8,900	\$ 7,952	\$ 9,300	\$ 7,534	\$ 9,700	\$ 7,096	\$ 84,124
USDA 2011A	18,000	35,441	18,500	34,658	19,500	33,946	20,500	33,196	21,500	32,498	267,739
USDA 2011B	41,000	35,546	42,000	34,514	43,000	33,557	44,000	32,579	45,000	31,665	382,861
KRWFC Bond	40,000	4,756	42,083	3,491	45,000	2,140	45,000	113	23,334	-	205,917
KIA Loan B19-008	88,781	12,688	89,226	12,244	89,672	11,797	90,121	11,348	90,572	10,897	507,346
<b>Total</b>	<b>\$ 195,881</b>	<b>\$ 97,121</b>	<b>\$ 200,309</b>	<b>\$ 93,259</b>	<b>\$ 206,072</b>	<b>\$ 89,392</b>	<b>\$ 208,921</b>	<b>\$ 84,770</b>	<b>\$ 190,106</b>	<b>\$ 82,156</b>	<b>1,447,987</b>
Divided by: 5 years											5
Average Annual Principal and Interest Payments											<b>\$ 289,597</b>

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 application, Hyden-Leslie District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual principal and debt payments at the time of its application for a total of \$57,919.<sup>92</sup>

<sup>89</sup> Case No. 2013-00388, *Application of Hyden-Leslie County Water District for Authority to Issue Securities and Issuance of a Certificate of Public Convenience and Necessity to Construct an Improvements Project Pursuant to KRS 278.020 and 278.300* (Ky. PSC Feb. 6, 2014).

<sup>90</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment*, (Ky. PSC Nov. 6, 2020), order paragraph 7.

<sup>91</sup> Application, Attachment 4, Revenue Requirements Calculation, Table B, Debt Service Schedule.

<sup>92</sup> Application, Attachment 4, Revenue Requirements Calculation.

Following the Commission’s historic practice,<sup>93</sup> Commission Staff agrees with Hyden-Leslie District’s methodology. Therefore, when the change from 2023 through 2027 to 2024 through 2028 is considered, \$57,919 is included in the revenue requirement as shown in the following table.

Average Annual Principal and Interest	\$ 289,597
Times: DSC Coverage Ratio	120%
Total Net Revenues Required	<u>347,516</u>
Less: Average Annual Principal and Interest Payments	(289,597)
Additional Working Capital	<u><u>\$ 57,919</u></u>

---

<sup>93</sup> Case No. 2022-00431, *Electronic Application of Letcher County Water and Sewer District for a Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Nov. 17, 2023). Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For An Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024). Case No. 2023-00182, *Electronic Application of Western Mason County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 4, 2024).

Signatures

/s/ William Foley

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

/s/ Elizabeth Stefanski

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

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00022 DATED JUN 10 2024

\* Denotes Rounding

<b>Nonrecurring Charges Adjustments</b>		
	Connection/Turn-On Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$33.15 at 1 hours)	\$33.15	
Office Supplies		
Office Labor	\$31.32	
Transportation (30 miles @\$0.67)	\$20.10	\$20.00
Misc.	\$0.00	
<b>Total Revised Charge</b>	<b>\$84.57</b>	<b>\$20.00</b>
Current Rate	\$10.44	
	Reconnection Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$33.15 at 1 hours)	\$33.15	
Office Supplies		
Office Labor	\$31.32	
Transportation (30 miles @\$0.67)	\$20.10	\$20.00
Misc.	\$0.00	
<b>Total Revised Charge</b>	<b>\$84.57</b>	<b>\$20.00</b>
Current Rate	\$10.44	
	Reconnection Charge (After Hours) Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$46.85 at 1 hours)	\$46.85	\$46.85
Office Supplies		
Office Labor	\$44.12	
Transportation	\$20.10	\$20.10
Misc.		
<b>Total Revised Charge</b>	<b>\$111.07</b>	<b>\$67.00</b>
Current Rate	\$53.62	

	Service Call / Investigation Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$33.15 per hour)	\$33.15	
Office Supplies		
Office Labor	\$31.32	
Transportation (30 miles @\$0.67)	\$20.10	\$20.00
Misc.	\$0.00	
Total Revised Charge	<u>\$84.57</u>	<u>\$20.00</u>
Current Rate	\$10.44	

	Service Call / Investigation (After Hours) Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$46.85 at 1 hours)	\$46.85	\$46.85
Office Supplies		
Office Labor	\$44.12	
Transportation	\$20.10	\$20.10
Misc.		
Total Revised Charge	<u>\$111.07</u>	<u>\$67.00</u>
Current Rate	\$53.62	

	Meter Test Request Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor		
Office Supplies		
Office Labor		
Other: Test Fee	\$15.00	\$15.00
Shipping	\$30.00	\$30.00
Total Revised Charge	<u>\$45.00</u>	<u>\$45.00</u>
Current Rate	\$20.44	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00022 DATED JUN 10 2024

The following rates and charges are recommended by Commission Staff for the customers in the area served by Hyden-Leslie County Water District. All other rates and charges not specifically mentioned herein are recommended to remain the same as those in effect under the authority of the Commission.

Monthly Water Rates

PHASE 1 effective for one year as of the date of this Order

All Meters

First	2,000 Gallons	\$32.01	Minimum Bill
Next	3,000 Gallons	0.01340	Per Gallon
Next	20,000 Gallons	0.01172	Per Gallon
Next	75,000 Gallons	0.01006	Per Gallon
Over	100,000 Gallons	0.00840	Per Gallon

PHASE 2 implement one year after the date of this Order

All Meters

First	2,000 Gallons	\$34.41	Minimum Bill
Next	3,000 Gallons	0.01439	Per Gallon
Next	20,000 Gallons	0.01257	Per Gallon
Next	75,000 Gallons	0.01079	Per Gallon
Over	100,000 Gallons	0.00901	Per Gallon

PHASE 3 implement two years after the date of this Order

All Meters

First	2,000 Gallons	\$36.55	Minimum Bill
Next	3,000 Gallons	0.01530	Per Gallon
Next	20,000 Gallons	0.01338	Per Gallon



Next	75,000 Gallons	0.01149	Per Gallon
Over	100,000 Gallons	0.00960	Per Gallon

Nonrecurring Charges

Late Payment Penalty	10%
Connection Turn-On Charge	\$20.00
Reconnection Charge	\$20.00
Reconnection Charge -After Hours	\$67.00
Service Call/Investigation	\$20.00
Service Call/Investigation-After Hours	\$67.00
Meter Test Request	\$45.00
Damage to Meter	Actual
Meter Relocate	Actual
5/8-Inch x 3/4-Inch Water Tap On All Larger than 5/8-Inch x 3/4-Inch Meters	\$1,000.00  Actual

\*Robert K. Miller  
Straightline Kentucky LLC  
113 North Birchwood Ave.  
Louisville, KENTUCKY 40206

\*Hyden-Leslie County Water District  
356 Wendover Road  
Hyden, KY 41749

\*Kevin Cook  
Chairman  
Hyden-Leslie County Water District  
356 Wendover Road  
Hyden, KY 41749