

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF OHIO COUNTY)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2024-00127
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 May 30, 2024, as amended by Order entered July 31, 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 May 30, 2024, as amended by Order entered July 31, 2024, Ohio County Water District (Ohio 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 Ohio District to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



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

DATED NOV 20 2024

cc: Parties of Record

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

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COMMISSION STAFF'S REPORT
ON OHIO COUNTY WATER DISTRICT

Ohio County Water District (Ohio 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 5,838 residential customers, 140 commercial customers, and 144 public authorities that reside in Breckinridge, Daviess, Grayson, and Ohio counties, Kentucky.¹

On April 29, 2024,² Ohio 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 9,³ Ohio District used the calendar year ended December 31, 2023, as the basis for its application. Ohio District's last base rate increase, also filed pursuant to the alternative rate filing procedure, was in

¹ *Annual Report of Ohio County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) 12, 49.

² Ohio District tendered its application on April 29, 2024. By letter dated April 30, 2024, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on May 1, 2024.

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

Case No. 2020-00167.⁴ Since that matter, Ohio District has only adjusted its rates pursuant to tariff filings.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated May 30, 2024, as amended by Order entered July 31, 2024. Ohio District responded to four rounds of discovery.⁵

UNACCOUNTED-FOR WATER LOSS

Commission Staff notes that in its 2023 Annual Report, Ohio District reported a water loss of 10.1299 percent.⁶ Ohio District’s average water loss over the last three years was 15.38 percent. 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 table below shows that the 2023 total annual cost of water loss to Ohio District is \$68,184 while the annual cost of water loss in excess of 15 percent is \$0.

Total Water Loss	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ -	\$ 404,011	\$ 269,084	\$673,095
Water Loss Percent	10.1299%	10.1299%	10.1299%	10.1299%
Total Water Loss	<u>\$ -</u>	<u>\$ 40,926</u>	<u>\$ 27,258</u>	<u>\$ 68,184</u>

⁴ Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec 3, 2020).

⁵ Ohio District’s Response to Commission Staff’s First Request for Information (Staff’s First Request) (filed July 2, 2024); Ohio District’s Response to Commission Staff’s Second Request for Information (Staff’s Second Request) (filed July 31, 2024); Ohio District’s Response to Commission Staff’s Third Request for Information (Staff’s Third Request) (filed Sept 3, 2024); Ohio District’s Response to Commission Staff’s Fourth Request for Information (Staff’s Fourth Request) (filed Sept 18, 2024).

⁶ 2023 Annual Report at 58.

DISCUSSION

Using its pro forma test-year operations, Ohio District determined that a base rate revenue increase of \$817,645, or 17.66 percent, was necessary to achieve the revenue requirement as shown in the table below.⁷

<u>Description</u>	<u>Ohio County Water District</u>
Pro Forma Operating Expenses	\$ 4,719,406
Average Annual Principal and Interest Payments	874,924
Additional Working Capital	174,985
Overall Revenue Requirement	<u>5,769,315</u>
Other Operating Revenue	(231,646)
Interest Income ()	(84,739)
Net Nonutility Income	(5,648)
Revenue Required from Rates	<u>5,447,282</u>
Pro Forma Present Rate Service Revenues ()	(4,629,637)
Required Revenue Increase	<u><u>\$ 817,645</u></u>
Percentage Increase	<u><u>17.66%</u></u>

To determine the reasonableness of the rates and revenues requested by Ohio District, Commission Staff performed a limited financial review of Ohio 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

⁷ Application, Reasons for Application at 7 and Statement of Adjusted Operations at 9.

and measurable⁸ changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's recommendations are summarized in this report. William Pearce reviewed the calculation of Ohio District's Overall Revenue Requirement, and Jason Green reviewed Ohio District's reported revenues and rate design.

SUMMARY OF FINDINGS

Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff found that Ohio District's required revenue from water sales is \$5,433,790, to meet the Overall Revenue Requirement of \$5,782,802, and that a \$804,153 revenue increase, or 17.37 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

1. Monthly Water Service Rates. Based upon the revenue requirement, Ohio District proposed to increase all of its monthly retail water service rates evenly across the board by 17.66 percent. Ohio District did not perform a cost-of-service study (COSS).⁹

⁸ 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).

⁹ Ohio District's Response to Staff's First Request, Item 14a, 14b, and 14c. The last Cost of Service Study was performed in 1998.

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.¹⁰ Finding no such evidence in this case, Commission Staff followed the proposed allocation methodology by Ohio District and allocated Commission Staff's revenue increase of \$804,153 across the board to Ohio District's monthly retail water service rate classes.

The rates calculated and set forth in Appendix B will recover an increase of approximately 17.37 percent, which will produce sufficient revenues from water sales to recover the \$5,433,790 Revenue Required from Water Sales.

The rates contained in Appendix B to this report will increase a typical residential customer's monthly water bill from the current rates from \$47.55 to \$55.81 an increase of \$8.26, or approximately 17.37 percent.¹¹

2. Nonrecurring Charges. In light of recent Commission decisions,¹² Commission Staff reviewed Ohio District's Nonrecurring Charges. Because Ohio District personnel are already compensated for labor performed during normal business hours, estimated labor costs performed during normal business hours and included in the

¹⁰ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

¹¹ The average usage for a residential customer is 4,000 gallons.

¹² 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).

proposed amount of Nonrecurring Charges should be eliminated.¹³ The labor performed during regular business hours is already recovered as a part of the revenue requirement.

Ohio District provided updated cost justification information for the Nonrecurring Charges¹⁴ and Meter Tap charges.¹⁵ Commission Staff reviewed the cost justification information provided by Ohio District and adjusted these charges by removing the Field Labor Costs and the Office/Clerical Labor Costs from those charges that occur during normal business hours. Commission Staff also removed the Office/Clerical Labor Costs from the After-Hours Reconnection Charge, as office labor is typically performed during normal business hours. The calculation of these adjustments to the Nonrecurring Charges are included in a table provided in Appendix A. The adjustments to the Nonrecurring Charges result in a net decrease in Other Operating Revenue of \$1,426 as shown below.

¹³ 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) at 10, citing 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).

¹⁴ Ohio District's Response to Staff's First Request, Item 19, Nonrecurring Charge Cost Justification.

¹⁵ Ohio District's Response to Staff's First Request, Item 20, Average Meter Connection Expense Cost Justification.

Description	Occurrences	Current Charge	Revised Charge	Test Year	Pro Forma	Adjustment
Meter Test Charge (5/8-Inch Meter)	0	\$45.43	\$67.00	\$0	\$0	\$0
Meter Test Charge (1-Inch Meter)	0	Actual Cost	Actual Cost	0	0	0
Connection/Turn-on Charge	466	\$25.21	\$32.00	11,748	14,912	3,164
Meter Re-Read Charge	0	\$25.21	\$32.00	0	0	0
Meter Relocation Charge	0	Actual Cost	Actual Cost	0	0	0
Reconnection Charge	401	\$45.43	\$32.00	18,217	12,832	(5,385)
Returned Payment Charge	28	\$25.00	\$28.00	700	784	84
Service Call/Investigation	0	\$25.21	\$32.00	0	0	0
Service Call/Investigation (After Hours)	9	\$52.99	\$132.00	477	1,188	711
Pro Forma Test Year NRC Revenue				<u>\$31,142</u>	<u>\$29,716</u>	<u>(\$1,426)</u>
Less: Test Year NRC Revenue					(31,142)	
Adjustment					<u>(\$1,426)</u>	

In addition to its nonrecurring charges, Ohio District provided updated cost justification sheets for its Meter Tap-On Fees for its 3/4 x 5/8-Inch meter sizes. The updated cost justification sheets support a tap-on fee of \$1,670, which is an increase from its current tap-on fee of \$1,280. Commission Staff reviewed the cost justification sheets¹⁶ provided by Ohio District and recommends an increase to its Meter Tap-On Fee to align with the principle of cost causation in that Ohio District would not under recover approximately \$390 per installation.

PRO FORMA OPERATING STATEMENT

Ohio District's Pro Forma Operating Statement for the test year ended December 31, 2023, as determined by Commission Staff appears in the table below. On July 16, 2024, approximately three months after filing its original application, Ohio District proposed adjustments to its original application to hire three additional employees and promote two existing employees to managerial positions.¹⁷ Ohio District stated the need to enhance its operational efficiencies, reliability, and the quality of service it provides to

¹⁶ Ohio District's Response to Staff's First Request, Item 20, Average Meter Connection Expense Cost Justification.

¹⁷ Ohio District's Request to Modify Expenses in the ARF Application (filed July 16, 2024).

its customers as the reasoning for the new employees. It also stated that it currently has maintenance deficiencies and room for improvement in distribution levels of service to its customers.¹⁸ The proposed adjustment affects employee salaries, benefits, retirement, and contractual services and each adjustment is discussed in each of the respective sections below. The net impact of the proposed adjustments is to increase expenses by \$148,941 as shown in the table below.

Description	Proposed Amount	Ref
Wages	\$ 192,000	F2
Medical Related Benefits	96,000	H2
Pension (CERS)	46,041	I4 , I5
Call Before You Dig Program	3,700	Q4
Cost Increases	\$ 337,741	
<i>Expense Reductions</i>		
Elimintate Part Time Position	\$ (30,000)	F2
Contractual Services Reduction	(158,800)	Q3
Cost Reductions	\$ (188,800)	
Net Increase	\$ 148,941	

¹⁸ Response to Staff's Third Request, Item 2.

Description	Test Year	Ohio District Proposed Adjustments	Commission Staff Adjustments	Total Adjustments (Ref.)	Pro Forma
<u>Operating Revenues</u>					
Total Retail Metered Sales	\$ 4,005,490	\$ 22,508		\$ 22,508 A	\$ 4,027,998
Sales for Resale	601,639			- B	601,639
Other Water Revenues					
Forfeited Discounts		80,107		80,107 C	80,107
Misc. Service Revenues	23,492			- D	23,492
Other Water Revenues	208,154	(80,107)	(1,426)	(81,533) E	
			(4,807)	(4,807) E	121,814
Total Operating Revenues	4,838,775	22,508	(6,233)	16,275	4,855,050
<u>Operating Expenses</u>					
<u>Operation and Maintenance</u>					
Salaries and Wages - Employees	1,151,874	52,904		52,904 F1	
		162,000	16,101	178,101 F2	
			(19,576)	(19,576) F3	1,363,303
Salaries and Wages - Officers	25,200			- G	25,200
Employee Benefits - Medical/Other	685,368		(373,894)	(373,894) I1	
		(45,390)	45,390	0 H1	
		96,000	(65,814)	30,186 H2	
			36,990	36,990 H3	
			(81,568)	(81,568) H4	297,082
Employee Benefits - Retirement (CERS)			373,894	373,894 I1	
		(104,224)		(104,224) I2	
		(38,928)	38,928	0 I3	
		46,041	(46,041)	0 I4	
			44,708	44,708 I5	
			(41,813)	(41,813) I6	272,565
Purchased Water	1,698			(1,698) J	0
Purchased Power	404,011			0 K	404,011
Chemicals	269,084			0 L	269,084
Materials and Supplies	266,738		(15,410)	(15,410) M	251,328
Contractual Services - Engineering	55,497			0 N	55,497
Contractual Services - Acct. & Legal	32,604			0 O	32,604
Contractual Services - Water Testing	31,174			0 P	31,174
Contractual Services - Other	188,941	(9,827)		(9,827) Q1	
		4,750		4,750 Q2	
		(158,800)		(158,800) Q3	
		3,700	(11)	3,689 Q4	28,753
Rental of Bldg/Property & Equipment	29,526	(28,800)	1,300	(27,500) R	
			(700)	(700) R	1,326
Transportation Expense	77,214			0 S	77,214
Insurance - Vehicle, Gen. Liability and Other	67,997			0 T	67,997
Insurance - Workers Comp.	9,125			0 U	9,125
Advertising	469		73	73 V	542
Bad Debt Expense	17,868			0 W	17,868
Miscellaneous Expense	193,165		1,698	1,698 X	194,863
Total Operation and Maintenance Expenses	3,507,553	(20,574)	(87,443)	(108,017)	\$ 3,399,536
Depreciation	1,239,687	43,454	1,976	45,430 Y	1,285,117
Taxes Other Than Income	91,646	6,582	13,625	20,207 Z	111,853
Total Operating Expenses	4,838,886	29,462	(71,842)	(42,380)	\$ 4,796,506
				0	
Net Operating Income	(111)	(6,954)	65,609	58,655	\$ 58,544
Interest Income	84,739		33,212	33,212	\$ 117,951
Income Available to Service Debt	\$ 84,628	\$ (6,954)	\$ 98,821	\$ 91,867	\$ 176,495

(A) Total Retail Metered Sales. Ohio District provided a billing analysis listing the water usage and water sales revenue for the test year in its application.¹⁹ It reported a test year amount of \$4,607,129 and proposed one adjustment to the account.²⁰ This adjustment was to normalize the revenue from the test year to the amount calculated by the billing analysis in the amount of \$22,508.²¹ Commission Staff recommends the Commission accept the adjustment because the amounts are known and measurable.

(B) Sales for Resale. Ohio District sells water at wholesale rates to Beaver Dam Municipal Water & Sewer System, Centertown Water System, and Fordsville Water Works on a permanent basis.²² Ohio District reported a test year amount of \$601,639 of wholesale revenues and proposed no adjustments to the account.²³ Commission Staff confirmed the test year amount matched the current billing analysis for wholesale revenues,²⁴ and, as such, it recommends the Commission accept the amount proposed because the amount is known and measurable.

(C) Forfeited Discounts. Ohio District did not include a test year amount but proposed one change to the account.²⁵ This adjustment was to reclassify late fees that

¹⁹ Application, Item 6, Current Billing Analysis at 15.

²⁰ Application, Item 5, Schedule of Adjusted Operations at 9.

²¹ Application, Item 5, Schedule of Adjusted Operations, Reference A, at 10.

²² 2023 General Ledger at 56.

²³ Application, Item 5, Schedule of Adjusted Operations at 9.

²⁴ Application, Item 6, Current Billing Analysis at 15.

²⁵ Application, Item 5, Schedule of Adjusted Operations at 9.

were reported in Other Water Revenues in the amount of \$80,107.²⁶ Commission Staff recommends accepting the proposed reclassification to properly record expenses.

(D) Miscellaneous Service Revenues. Ohio District reported a test year amount of \$23,492 and proposed no changes to the account.²⁷ Commission Staff reviewed Ohio District's general ledger and determined no adjustment was necessary for the account. Commission Staff recommends the Commission accept the test year amount for miscellaneous service revenues proposed by Ohio District.

(E) Other Water Revenues. Ohio District reported a test year amount of \$208,154 and proposed one change to the account.²⁸ This adjustment was the Forfeited Discounts reclassification, late fees, as discussed above in the amount of \$80,107.²⁹ Commission Staff reviewed Ohio District's Non-Recurring Charges and proposed a decrease of \$1,426 to revise Ohio District's revenues from Non-Recurring Charges to reflect the adjustments discussed above. Commission Staff reviewed the general ledger and determined it would be appropriate to remove Ohio District's Bad Debt Recovery as the expense would not be recurring. This resulted in a reduction of \$4,807 to Other Water Revenues resulting in a Pro Forma amount of \$121,814. Ohio District's total Other Water Revenues, including forfeited discounts and Miscellaneous Service Revenues, totals \$225,413 as shown in the table below. Commission Staff recommends the Commission accept the proposed adjustments as the amounts are known and measurable.

²⁶ Application, Item 5, Schedule of Adjusted Operations, Reference B, at 10.

²⁷ Application, Item 5, Schedule of Adjusted Operations at 9.

²⁸ Application, Item 5, Schedule of Adjusted Operations at 9.

²⁹ Application, Item 5, Schedule of Adjusted Operations, Reference B, at 10.

Description	Test Year	Ohio County Adjustments	Commission Staff Adjustments	Pro Forma
Forfeited Discounts	\$ 80,107			\$ 80,107
<i>Non-Recurring Charges</i>				
Connection/Turn-On Charge	11,748		3,164	14,912
Reconnect Fees	18,217		(5,385)	12,832
Service Call	477		711	1,188
Returned Check	700		84	784
sub-total	31,142	0	(1,426)	29,716
<i>Other</i>				
Miscellaneous Income	23,492			23,492
Bad Debt Recovery	4,807		(4,807)	0
Miscellaneous Revenues	15,521			15,521
Credit / Debit Card Web Fee (Tariff sheet 43)	32,258			32,258
Credit Card fee (Tariff sheet 43)	19,299			19,299
Service Charge	56,163	(31,142)		25,021
sub-total	151,539	(31,142)	(4,807)	115,590
Total Other Income	\$ 262,788	\$ (31,142)	\$ (6,233)	\$ 225,413

(F) Salaries and Wages Employees. Ohio District reported a test year amount of \$1,151,874 and proposed one change to the account.³⁰ This change was to account for changes in the employee roster and wage rates during and after 2023 in the amount of \$52,904 (F1).³¹ This increase included a 5 percent Cost of Living Adjustment for 2024; Ohio District provided the Board minutes approving the increase.³² Ohio District later filed an additional change on July 16, 2024, that proposed to increase salaries and wages by an additional \$162,000 (F2).³³ This adjustment was the result of the proposed three new

³⁰ Application, Item 5, Schedule of Adjusted Operations at 9.

³¹ Application, Item 5, Schedule of Adjusted Operations, Reference C, at 10.

³² Response to Staff's First Request, Item 8, Minutes 2023, November 27, Motion #3.

³³ Ohio District's Request to Modify Expenses in ARF Application.

employees and a promotion of two other existing employees in the amount of \$192,000, while removing one part time position as a reduction of \$30,000. One of the promotions and two new employees would be in the newly established Maintenance Department, and the other promotion and new employee would be used to increase the capabilities of the Distribution Department, as mentioned above. Ohio District provided its Board's approval for the proposed new positions.³⁴ Ohio District stated that after the addition of the new employees it expects to employ 20 full-time employees and one part-time employee, when fully staffed.³⁵ Commission Staff did not use the \$30,000 amount proposed by Ohio District for the reduction for the elimination of a part-time employee but instead calculated the adjustment based on the wages submitted by Ohio District.³⁶ Commission Staff recalculated the expense based on the additional \$192,000 in new salaries and a reduction of \$13,899 for the removal of one of Ohio District's part time workers, resulting in an adjustment of \$16,101 (F2).

Ohio District stated it did not remove tap fees from its labor expense.³⁷ Commission Staff proposes to remove the labor cost for each tap installation, Ohio District stated 63 installations were done in the test year,³⁸ for the amount provided in Ohio District's cost justification.³⁹ This results in a reduction of \$19,576⁴⁰ (F3) to Ohio District's

³⁴ Ohio District's July 22, 2024 Board Meeting Minutes (filed July 31, 2024).

³⁵ Response to Staff's Fourth Request, Item 1.

³⁶ Response to Staff's First Request, Item 4, Employee Wages Pro Forma.

³⁷ Response to Staff's First Request, Item 12b.

³⁸ Response to Staff's First Request, Item 12a.

³⁹ Response to Staff's First Request, Item 20.

⁴⁰ $63 * 310.73 = \$19,575.99$

salary and wage expense. 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.⁴¹ Commission Staff capitalized the costs and made a corresponding adjustment to test-year depreciation as shown in adjustment (Y). Commission Staff recommends the Commission accept Ohio District and Commission Staff's proposed adjustments. Ohio District provided sufficient information to demonstrate why the staffing changes were necessary and reasonable. The changes will result in efficiencies with the utility service and as a result, Commission Staff believes the amounts are reasonable and reflect the known, approved staffing numbers and pay rates.

(G) Salaries and Wages - Officers. Ohio District reported a test year amount of \$25,200 and proposed no changes to the account.⁴² Ohio District's Board consists of seven members who are each paid \$300 per month.⁴³ Ohio District provided training records for each of its commissioners⁴⁴ and Fiscal Court Minutes approving their appointments.⁴⁵ KRS 74.020(6) states that "[e]ach commissioner shall receive an annual salary of not more than thirty-six hundred dollars (\$3,600)" and that "[i]n fixing and approving the salary of the commissioners, the county judge/executive and the fiscal court shall take into consideration the financial condition of the district and its ability to meet its

⁴¹ USoA, Accounting Instruction 19 and 33.

⁴² Application, Item 5, Schedule of Adjusted Operations at 9.

⁴³ Response to Staff's First Request, Item 9, Commissioner Compensation.

⁴⁴ Response to Staff's First Request, Item 11.

⁴⁵ Response to Staff's First Request, Item 10.

obligations as they mature.”⁴⁶ During its preparation of its Staff Report, Commission Staff identified that Ohio District had not provided documentation authorizing the pay of its Board Members from the Fiscal Court. Commission Staff request Ohio District to provide proof from the Fiscal Court of Ohio District’s Board Members salaries. Commission Staff recommends the Commission include Ohio District’s Board Members’ salaries in the revenue requirement pending the submission requested and included it in the Revenue Requirement in its Staff Report. If no such document is filed or the documentation does not provide adequate evidence to support Ohio District’s Board Members’ salaries, Commission Staff would then recommend that the amount be disallowed because Ohio District did not provide evidence to support the compensation amounts as required by KRS 74.020(6).

(H) Employee Pension and Benefits - Medical. Commission Staff identified costs by expense type by reviewing payroll and general ledger information that was provided by Ohio District.⁴⁷ Commission Staff determined that separation of the medical and related benefits costs from retirement benefits would better facilitate discussion of the respective adjustments and reclassified \$373,894 (I1) to Employee Benefits – Retirement (CERS) in the SAO and in the table below. Ohio District initially proposed a total test year employee pension and benefits expense of \$685,368.⁴⁸ With Commission Staff’s proposed reclassification, Ohio District’s medical benefits for the test year is \$311,474. Ohio District proposed an adjustment for its health insurance contributions to

⁴⁶ KRS 74.020(6), Appointment of commissioners – Number – Terms – Removal – Vacancies – Organization – Bond – Compensation – Mandatory Training – Notice of Vacancy.

⁴⁷ Response to Staff’s First Request, Item 1a, 2023 General Ledger.

⁴⁸ Application, Item 5, Schedule of Adjusted Operations at 9.

be adjusted to be consistent with the Bureau of Labor Statistics national average for employer’s share of premiums as a decrease of \$45,390 (H1).⁴⁹ Ohio District also proposed to increase its non-pension benefits by \$96,000 (H2) in its request to modify expenses.⁵⁰ Commission Staff recalculated the benefits for new employees, using the invoices provided by Ohio District, in the amount of \$30,186 and subsequently proposed an adjustment of \$65,814 (H2) to reach that amount.⁵¹ Commission Staff then proposes an increase of \$36,990 (H3) to account for increases in benefit costs for existing employees based upon the invoices provided by Ohio District.⁵² This results in a yearly benefit cost of \$378,650 as shown in the table below.

Description	Pro Forma Amount
Medical	\$ 281,616
Dental	10,488
Vision	2,052
Life	16,680
Uniforms	22,816
HSA Contributions	43,678
HRA Admin Fees	1,320
Total	<u>\$ 378,650</u>

Commission Staff proposes an adjustment of \$81,568 (H4) to decrease Ohio District’s contributions to health insurance to align employer contribution rates with the

⁴⁹ Application, Item 5, Schedule of Adjusted Operations, Reference F, at 10.

⁵⁰ Ohio District’s Request to Modify Expenses in ARF Application (filed July 16, 2024).

⁵¹ Response to Staff’s First Request, Item 5a, Benefits Invoices.

⁵² Response to Staff’s First Request, Item 5a, Benefits Invoices.

national average for private industry worker reported by the Bureau of Labor Statistics⁵³ (BLS) and the Willis Benchmarking Survey for national average for an employer's share of dental insurance that is consistent with Commission precedent⁵⁴ as shown in the table below. The adjustments result in a Pro Forma amount of \$297,082. Commission Staff recommends denying Ohio District's proposed BLS adjustment and accepting all other proposed adjustments as the amounts discussed by Commission Staff are known and measurable as well as supported by the evidence in the record and the salary and wage information discussed above.

	Commission Staff's Calculated Employer Contribution					
	Health (Single)	Health (Family)	Dental	Vision	Life	Total
Proforma Monthly	\$ 10,307	\$ 13,161	\$ 874	\$ 171	\$ 1,390	\$ 25,903
Proforma Yearly	123,684	157,932	10,488	2,052	16,680	310,836
Employer Cont. %	80%	68%	40%	100%	100%	n/a
Employer Cont.	98,947	107,394	4,195	2,052	16,680	229,268
BLS / Survey Amounts	\$ 24,737	\$ 50,538	\$ 6,293	\$ -	\$ -	\$ 81,568

(I) Employee Benefits – Retirement (CERS). Commission Staff reclassified \$373,894 (I1) from Medical Benefits to Retirement as discussed above. Ohio District participates in the County Employees Retirement System (CERS), which is managed by the Kentucky Public Pension Authority (KPPA).⁵⁵ It proposed two changes for its retirement benefits expenses. The first adjustment was to account for the change in

⁵³ U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Single Coverage, March 2024 <https://www.bls.gov/news.release/ebs2.t03.htm>, U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Family Coverage, March 2024 <https://www.bls.gov/news.release/ebs2.t04.htm>.

⁵⁴ See Case No. 2017-00263, Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment (Ky. PSC Dec. 22, 2017), Order at 9-10; and The Willis Benchmarking Survey, 2015, at 62-63. (https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf).

⁵⁵ Ohio District's Response to Staff's First Request, Item 5, Employee Benefit Handbook.

contribution rates charged by CERS beginning July 1, 2024, as a decrease of \$38,928 (I3) to its pension benefits expense. The second adjustment was a decrease of \$104,224 (I2) to account for GASB reporting requirements for liabilities. In Case No. 2016-00163,⁵⁶ the Commission discussed in detail how reporting requirements for GASB 68 would affect a utility's income statement and balance sheet. In that proceeding, the Commission found that the annual pension expense should be equal to the amount of a district's contributions to CERS. Ohio District also proposed to increase its pension benefits by \$46,041 (I4) in its request to modify expenses.⁵⁷ Commission Staff agreed with Ohio District's removal of \$104,224 for the reporting requirements of GASB 68 but proposes its own adjustments as an alternative to Ohio District's other adjustments.

First, Commission Staff proposes an increase of \$44,708 (I5) to account for the increased pension cost from new employees and updated pay rates. Commission Staff then calculated the adjustment due to the change in contribution rate⁵⁸ and proposed to decrease Ohio District's retirement expense by \$41,813 (I6). The adjustments result in a pro forma test year amount of \$272,565 as shown in the table below. Commission Staff recommends the Commission accept Ohio District's proposed adjustment for GASB reporting and Commission Staff's proposed adjustments as the amounts are known and measurable as well as reflect the current number of approved employees and salary amounts.

⁵⁶ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), Order at 11–15.

⁵⁷ Ohio District's Request to Modify Expenses in ARF Application.

⁵⁸ CERS Board of Trustees December 4, 2023 Meeting, Minutes, Page 2. CERS Contribution Rate in test year was 23.34, and 19.71 in current year.

Description	Test Year	Pro Forma
Wages	\$ 1,151,874	\$ 1,382,879
Contribution Rate	23.34%	19.71%
Contributions	268,847	272,565
Excess (Cost) / Income Over Contributions	104,224	0
Immaterial Unidentified Amounts	823	0
Total	<u>\$ 373,894</u>	<u>\$ 272,565</u>
Increase / (Decrease)		<u>\$ (101,329)</u>

(J) Purchased Water. Ohio County produces its own water and, therefore, does not purchase water unless there is an emergency but reported a test year amount of \$1,698 and proposed no changes.⁵⁹ Ohio District confirmed the amount in the test year was not part of its sales to customers and stated the water was purchased for office use.⁶⁰ Commission Staff proposes to reclassify the total amount to Miscellaneous Expenses which results in a reduction of \$1,698. Commission Staff recommends the Commission approve the proposed reclassification to record expense properly.

(K) Purchased Power. Ohio District reported a Purchased Power test year expense of \$494,011 and proposed no changes to the account.⁶¹ Commission Staff reviewed Ohio District's general ledger⁶² and agreed with Ohio District that no adjustment was necessary. Commission Staff recommends the Commission accept the proposed amount. Ohio District's water loss was below 15 percent, so no adjustment was necessary to account for excess water loss. The water loss table is shown below.

⁵⁹ Application, Item 5, Schedule of Adjusted Operations at 9.

⁶⁰ Ohio District's Response to Staff's Second Request for Information, Item 10.

⁶¹ Application, Item 5, Schedule of Adjusted Operations at 9.

⁶² Response to Staff's First Request for Information, Item 1a, 2023 General Ledger.

Total Water Loss	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ -	\$ 404,011	\$ 269,084	\$ 673,095
Water Loss Percent	10.1299%	10.1299%	10.1299%	10.1299%
Total Water Loss	\$ -	\$ 40,926	\$ 27,258	\$ 68,184

(L) Chemicals. Ohio District reported a test year amount of \$269,084 and proposed no changes to the account.⁶³ Commission Staff reviewed Ohio District's general ledger⁶⁴ and agreed with Ohio District that no adjustment was necessary. Commission Staff recommends the Commission accept the proposed amount.

(M) Materials and Supplies. Ohio District reported a test year amount of \$266,738 and proposed no changes to the account.⁶⁵ In Staff's Second Request, Staff requested that Ohio District confirm whether certain items below should have been capitalized. Ohio District stated that its capitalization policy was to capitalize items that were over \$5,000.⁶⁶ Commission Staff asked for more clarity regarding each purchase and whether it specifically should have been capitalized in its Third Request. Ohio District stated that SCADA upgrades reported in the general ledger should have been capitalized and provided sufficient explanation for the remaining items to not be considered capital.⁶⁷ Commission Staff proposes an adjustment of \$15,410 to correctly capitalize the expenditures and remove the expense from materials and supplies. Commission Staff

⁶³ Application, Item 5, Schedule of Adjusted Operations at 9.

⁶⁴ Response to Staff's First Request, Item 1a, 2023 General Ledger.

⁶⁵ Application, Item 5, Schedule of Adjusted Operations at 9.

⁶⁶ Response to Staff's Second Request, Item 7.

⁶⁷ Response to Staff's Third Request, Item 1.

recommends the Commission accept Commission Staff's proposed adjustment, resulting in a Pro Forma amount of \$251,328.

(N) Contractual Services – Engineering. Ohio District reported a test year amount of \$55,497 and proposed no changes to the account.⁶⁸ Commission Staff reviewed Ohio District's general ledger⁶⁹ and determined no adjustment was needed. Commission Staff recommends the Commission accept the proposed amount because it is known and measurable.

(O) Contractual Services – Accounting and Legal. Ohio District reported a test year amount of \$32,604 and proposed no changes to the account.⁷⁰ Commission Staff reviewed Ohio District's general ledger⁷¹ and determined no adjustment was needed. Commission Staff recommends the Commission accept the proposed amount because it is known and measurable.

(P) Contractual Services – Water Testing. Ohio District reported a test year amount of \$31,174 and proposed no changes to the account.⁷² Commission Staff reviewed Ohio District's general ledger⁷³ and determined no adjustment was needed. Commission Staff recommends the Commission accept the proposed amount because it is known and measurable.

⁶⁸ Application, Item 5, Schedule of Adjusted Operations at 9.

⁶⁹ Response to Staff's First Request, Item 1a, 2023 General Ledger.

⁷⁰ Application, Item 5, Schedule of Adjusted Operations at 9.

⁷¹ Response to Staff's First Request, Item 1a, 2023 General Ledger.

⁷² Application, Item 5, Schedule of Adjusted Operations at 9.

⁷³ Response to Staff's First Request, Item 1a, 2023 General Ledger.

(Q) Contractual Services – Other. Ohio District reported a test year amount of \$188,941 and proposed three changes to the account.⁷⁴ Ohio District first proposed a decrease of \$9,827 (Q1) for a reduction in its payment to the Rochester Dam Regional Water Commission (RDRWC) for water drawn from Green River.⁷⁵ This reduction is due to the fact RDRWC reduced its charge from \$0.10 per 1,000 gallons to \$0.08 per 1,000 gallons. The second change was to amortize rate case expenses for this case.⁷⁶ Ohio District reported \$8,250 in expenses for the rate consultant and \$6,000 in attorney’s fees. They proposed to amortize the total amount over 3 years, resulting in an annual adjustment of \$4,750 (Q2). As part of Ohio District’s request to modify expenses, it stated that it would bring responsibilities in-house.⁷⁷ In response to Staff’s Third Request, Ohio District provided a list of expected reductions in cost that hiring of new employees would eliminate.⁷⁸ A summary of the expected cost savings is shown in the table below.

Description	Amount
Grounds Mainenance	\$ 30,000
Right-of-way and easement clearing	10,000
Basic fleet maintenance	19,800
Lagoon sludge cleanouts	87,500
Vibration analysis	3,000
Criticality inspections on pumps and motors	6,000
Basic electrical jobs	2,500
Total	<u>\$ 158,800</u>

⁷⁴ Application, Item 5, Schedule of Adjusted Operations at 9.

⁷⁵ Application, Item 5, Schedule of Adjusted Operations at 10, Reference I.

⁷⁶ Application, Item 5, Schedule of Adjusted Operations at 10, Reference H.

⁷⁷ Ohio District’s Request to Modify Expenses in ARF Application.

⁷⁸ Response to Staff’s Third Request, Item 2.

Commission Staff was unable to identify the specific location of each expense during the test year and proposes to remove the expected reductions entirely from Contracted Services - Other. As part of its request to modify expenses, Ohio District also stated that it would be joining the Kentucky 811 system. Based upon the previous year, Ohio District stated it would have expected to receive 2,459 tickets at \$1.50 each.⁷⁹ Ohio District proposed an increase of \$3,700 (Q4) to account for this expense. Commission Staff proposes to decrease Ohio District's proposed adjustment by \$11 to reach the calculated amount of \$3,689 (Q4).⁸⁰ The total adjustments result in a Pro Forma amount of \$28,753. Commission Staff recommends accepting the proposed adjustments because the amounts are known and measurable.

(R) Rental of Building/Property and Equipment. Ohio District reported a test year amount of \$29,256 and proposed one change to the account.⁸¹ This adjustment was to reduce the rent it had paid on its building used for field operations in the amount of \$28,800. Ohio District stated that expense will be eliminated with the occupancy of its new Distribution Building. Using Ohio District's general ledger,⁸² Commission Staff identified that instead of the \$28,800 proposed amount by Ohio District, the rent paid in the test year was \$27,500 and proposed a decrease of \$1,300 to account for the difference. Commission Staff also identified \$700 of expenses to Heaving Hatchets for Ohio District's Christmas year recap recognition event⁸³ and proposed to remove the

⁷⁹ Ohio District's Request to Modify Expenses in ARF Application.

⁸⁰ $2,459 * \$1.50 = \$3,688.50$.

⁸¹ Application, Item 5, Schedule of Adjusted Operations at 9.

⁸² Response to Staff's First Request, Item 1a, 2023 General Ledger.

⁸³ Response to Staff's Second Request, Item 5a.

expense from Ohio District's revenue requirement. Commission Staff recommends accepting the Ohio District and Commission Staff's additional proposed adjustments because the amounts are known and measurable.

(S) Transportation Expense. Ohio District reported a test year amount of \$77,214 and proposed no changes to the account.⁸⁴ Commission Staff reviewed Ohio District's general ledger⁸⁵ and determined no adjustment was needed. Commission Staff recommends the Commission accept the proposed amount because it is known and measurable.

(T) Insurance – Vehicle, General Liability, and Other. Ohio District reported a test year amount of \$67,997 and proposed no changes to the account.⁸⁶ Commission Staff reviewed Ohio District's general ledger⁸⁷ and submitted invoices⁸⁸ and determined no adjustment was needed. Commission Staff recommends the Commission accept the proposed amount because it is known and measurable.

(U) Insurance – Workers Compensation. Ohio District reported a test year amount of \$9,125 and proposed no changes to the account.⁸⁹ Commission Staff reviewed Ohio District's general ledger⁹⁰ and submitted invoices⁹¹ and determined no adjustment

⁸⁴ Application, Item 5, Schedule of Adjusted Operations at 9.

⁸⁵ Response to Staff's First Request, Item 1a, 2023 General Ledger.

⁸⁶ Application, Item 5, Schedule of Adjusted Operations at 9.

⁸⁷ Response to Staff's First Request, Item 1a, 2023 General Ledger.

⁸⁸ Response to Staff's First Request, Item 6.

⁸⁹ Application, Item 5, Schedule of Adjusted Operations at 9.

⁹⁰ Response to Staff's First Request, Item 1a, 2023 General Ledger.

⁹¹ Response to Staff's First Request, Item 6.

was needed. Commission Staff recommends the Commission accept the proposed amount because it is known and measurable.

(V) Advertising. Ohio District reported a test year amount of \$469 and proposed no changes to the account.⁹² In response to Staff's First Request, Ohio District discovered it had incorrectly recorded its advertising expense in the test year.⁹³ Commission Staff proposes an adjustment of \$73 to bring the amount recorded in the test year to the actual amount in Ohio District's 2023 general ledger.⁹⁴ Commission Staff recommends the Commission accept the proposed adjustment as the amount is known and measurable.

(W) Bad Debt Expense. Ohio District reported a test year amount of \$17,868 and proposed no changes to the account.⁹⁵ Commission Staff reviewed Ohio District's general ledger⁹⁶ and determined no adjustment was needed. Commission Staff recommends the Commission accept the proposed amount because it is known and measurable.

(X) Miscellaneous Expense. Ohio District reported a test year amount of \$193,165 and proposed no changes to the account.⁹⁷ Commission Staff proposed a reclassification of \$1,698 from Purchased Water for water for office use as described

⁹² Application, Item 5, Schedule of Adjusted Operations at 9.

⁹³ Response to Staff's First Request, Item 1b, Cross Reference.

⁹⁴ Response to Staff's First Request, Item 1a, 2023 General Ledger.

⁹⁵ Application, Item 5, Schedule of Adjusted Operations at 9.

⁹⁶ Response to Staff's First Request, Item 1a, 2023 General Ledger.

⁹⁷ Application, Item 5, Schedule of Adjusted Operations at 9.

above. Commission Staff recommends the Commission accept the proposed increase in amount because it is known and measurable.

(Y) Depreciation. Ohio District reported a test year amount of \$1,239,687 and proposed one change to the account.⁹⁸ A proposed increase of \$43,454 was made to account for 2024 additions to Ohio District's depreciation schedule and to bring asset lives to the midpoint of the ranges recommend by NARUC in its publication "Depreciation Practices for Small Utilities".⁹⁹ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the NARUC study. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff recommends that the Commission accept Ohio District's adjustment of \$43,454. Commission Staff also proposed an adjustment of \$1,976 to capitalize the labor portion of tap fees and to account for the SCADA upgrades removed from materials and supplies as shown in the chart below.

⁹⁸ Application, Item 5, Schedule of Adjusted Operations at 9.

⁹⁹ Application, Item 5, Schedule of Adjusted Operations at 10, Reference J.

Asset	Original Cost	Staff Life	Adjusted Depreciation
<i>Commission Staff Adjustments</i>			
SCADA Upgrades	\$ 15,410	10.00	\$ 1,541
Labor Portion of Tap Fees	19,576	45.00	435
Depreciation Adjustments			<u>\$ 1,976</u>

(Z) Taxes Other Than Income. Ohio District reported a test year amount of \$91,646 and proposed one change to the account.¹⁰⁰ Ohio District proposed an increase in the amount of \$6,582 to account for changes in employee roster and wage rates.¹⁰¹ Commission Staff calculated updated FICA taxes for the additional employees and updated wage rates in the amount of \$105,790.¹⁰² Ohio District also included the Utility Regulation Assessment Fee in its taxes other than income in the amount of \$6,063. The combined FICA taxes and Utility Regulation Assessment Fee results in total taxes other than income of \$111,853. Commission Staff proposes an adjustment of \$13,625 to reach the Pro Forma amount in addition to Ohio District's proposed adjustment. Commission Staff recommends the Commission accept the proposed adjustments as the amounts are known and reasonable.

OVERALL REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2)

¹⁰⁰ Application, Item 5, Schedule of Adjusted Operations at 9.

¹⁰¹ Application, Item 5, Schedule of Adjusted Operations at 10, Reference C.

¹⁰² \$1,396,778 * 7.65% = \$106,853.52.

recovery of depreciation expense, a non-cash item, to provide working capital;¹⁰³ (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	Ohio County Water District	Commission Staff
Pro Forma Operating Expenses	\$ 4,719,406	\$ 4,796,506
Average Annual Principal and Interest Payments	874,924	821,913
Additional Working Capital	174,985	164,383
Overall Revenue Requirement	5,769,315	5,782,802
Other Operating Revenue	(231,646)	(225,413)
Interest Income ()	(84,739)	(117,951)
Net Nonutility Income	(5,648)	(5,648)
Revenue Required from Rates	5,447,282	5,433,790
Pro Forma Present Rate Service Revenues ()	(4,629,637)	(4,629,637)
Required Revenue Increase	\$ 817,645	\$ 804,153
Percentage Increase	17.66%	17.37%

1. Average Annual Principal and Interest Payments. Ohio District requested recovery of the average annual principal and interest on its indebtedness based on a three-year average of the annual principal, interest, and fee payments for the years 2025 through 2027.¹⁰⁴ Commission Staff agrees with the methodology Ohio District proposed but calculated a different amount. The difference is a result of the BAN Series 2023

¹⁰³ 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).

¹⁰⁴ Application, Item 5, Schedule of Adjusted Operations at 11, Reference K.

interest payments. The financing was to assist Ohio District in funding projects approved in Case No. 2023-00192.¹⁰⁵ Ohio District initially proposed an annual interest payment of \$165,270. Commission Staff asked for a calculation of the amount, which Ohio District responded to with a different amount, \$267,283.¹⁰⁶ When Commission Staff asked for clarification on the difference, Ohio District responded that the initial amount of \$165,270 was an estimate based on long term financing with reductions on the principal for grants Ohio District applied for while the updated amount is interest payments calculated on the full principal amount.¹⁰⁷ Ohio District also stated that it had only received approval for one of the grants and, while it is cautiously optimistic about receiving the other, it would be prudent to exclude it from the current rate case. Commission Staff disagrees with the inclusion of expected payments on a loan that has not yet been approved by the Commission but agrees with the exclusion of the unapproved grant. The inclusion of an expected loan or unapproved grant would result in speculative amounts being included in the overall revenue requirement and Commission Staff does not believe that would result in fair, just and reasonable rates supported by sufficient evidence in the record.

Therefore, Commission Staff proposes to use the interest rate of 5.53 percent from Ohio District's short-term financing for the principal amount with the approved grant removed for two years, which is the length of the short-term financing. This results in yearly interest payments of \$168,388.50 for 2025 and 2026.¹⁰⁸ Commission Staff then

¹⁰⁵ Case No. 2023-00192, *Electronic Application of Ohio County Water District for a Certificate of Public Convenience and Necessity Pursuant to KRS 278.020 And 807 KAR 5:001*.

¹⁰⁶ Response to Staff's First Request, Item 21a. Amount of interest paid in 2024.

¹⁰⁷ Response to Staff's Second Request for Information, Item 2.

¹⁰⁸ $\$5,000,000 - \$1,955,000 = \$3,045,000 * 5.530\% = \$168,388.50$.

calculated the three-year Average Annual Interest and Fees Payment of \$821,913 for the years 2025-2027 as shown in the table below.

Description / Year	2025	2026	2027
KIA #F08-08	\$ 234,215	\$ 233,675	\$ 233,129
KIA #F15-069	93,131	92,954	92,774
Kentucky Rural Water Series 2020 A	382,302	383,202	383,582
Bond Debt Service Series 2023	168,389	168,389	
Total	<u>878,037</u>	<u>878,220</u>	<u>709,485</u>
Three Year Average			<u>\$ 821,913</u>

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its exhibits, Ohio District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments, or \$174,985.¹⁰⁹ Following the Commission's historic practice of including additional working capital, Commission Staff agrees with Ohio District's proposed methodology but proposes an amount of \$164,383 because of the change in average annual principal and interest payments discussed above.

Description	Amount
Average Annual Principal and Interest	\$ 821,913
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	986,296
Less: Average Annual Principal and Interest Payments	<u>(821,913)</u>
Additional Working Capital	<u>\$ 164,383</u>

¹⁰⁹ Application, Item 5, Schedule of Adjusted Operations at 11, Reference L.

3. Interest Income. Ohio District reported interest income of \$84,739 in its revenue requirement calculation.¹¹⁰ Commission Staff reviewed Ohio District's general ledger¹¹¹ and identified account 419.000, Interest and Dividend Income, which reported \$117,876.35 in revenues in 2023. Commission Staff proposes to use the amount identified in the general ledger in its Revenue Requirement as the amount is known and measurable.

¹¹⁰ Application, Item 5, Revenue Requirements at 9.

¹¹¹ Response to Staff's First Request, Item 1a, 2023 General Ledger.

Signatures

/s/ William Pearce

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

/s/ Jason Green

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

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00127 DATED NOV 20 2024

* Denotes Rounding

Nonrecurring Charges Adjustments

Connection Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 66.59	\$ -
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 11.51	\$ -
Transportation	\$ 28.81	\$ 28.81
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 110.00	\$ 32.00
Current Rate	\$ 25.21	

Meter Test Request (5/8 - Inch Meter)		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 44.39	\$ -
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 26.02	\$ -
Transportation	\$ 28.81	\$ 28.81
Misc.	\$ 35.00	\$ 35.00
Total Revised Charge*	\$ 137.00	\$ 67.00
Current Rate	\$45.43	

Reconnection Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 66.59	\$ -
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 11.51	\$ -
Transportation	\$ 28.81	\$ 28.81
Misc.	\$ -	\$ -
Total Revised Charge	\$ 110.00	\$ 32.00
Current Rate	\$ 45.43	

Returned Check Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 46.03	\$ -
Transportation	\$ -	\$ -
Misc. (Bank Charge)	\$ 25.00	\$ 25.00
Total Revised Charge	\$ 74.00	\$ 28.00
Current Rate	\$ 25.00	

Service Call/Investigation		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 66.59	\$ -
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 11.51	\$ -
Transportation	\$ 28.81	\$ 28.81
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 110.00	\$ 32.00
Current Rate	\$ 25.21	

Service Call/Investigation (After Hours)		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 99.88	\$ 99.88
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 11.51	\$ -
Transportation	\$ 28.82	\$ 28.81
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 143.00	\$ 132.00
Current Rate	\$52.99	

Meter Re-Read Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 66.59	\$ -
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 11.51	\$ -
Transportation	\$ 28.81	\$ 28.81
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 110.00	\$ 32.00
Current Rate	\$ 25.21	

Meter Test Request (1-Inch Meter)

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ -	\$ -
Transportation	\$ -	\$ -
Misc.	\$ -	\$ -
Total Revised Charge*	<u>Actual Cost</u>	<u>Actual Cost</u>

Current Rate Actual Cost

Meter Relocation Charge

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ -	\$ -
Transportation	\$ -	\$ -
Misc.	\$ -	\$ -
Total Revised Charge*	<u>Actual Cost</u>	<u>Actual Cost</u>

Current Rate Actual Cost

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00127 DATED NOV 20 2024

The following rates and charges are recommended by Commission Staff based on the adjustments in Commission Staff's Report for the customers in the area served by Ohio County Water District. All other rates and charges not specifically mentioned herein are recommended to remain the same.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 gallons	\$ 30.48	Minimum bill
Next	3,000 gallons	0.01266	per gallon
Next	5,000 gallons	0.01095	per gallon
Next	5,000 gallons	0.00921	per gallon
All Over	15,000 gallons	0.00751	per gallon
Wholesale Rate		\$0.00386	per gallon

Nonrecurring Charges

Connection/Turn-On Charge	\$32.00
Meter Re-Read Charge	\$32.00
Meter Test Charge (5/8-Inch Meter)	\$67.00
Meter Test Charge (1-Inch Meter)	Actual Cost
Meter Relocation Charge	Actual Cost
Reconnection Charge	\$32.00
Service Call/Investigation	\$32.00
Service Call/Investigation (After Hours)	\$132.00
Returned Check Charge	\$28.00
Tap On Fee – 3/4 x 5/8-Inch Meter	\$1,670.00

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