

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF)	
KENTUCKY RURAL WATER)	
ASSOCIATION FOR ACCREDITATION)	CASE NO. 2024-00009
APPROVAL OF PROPOSED WATER)	
DISTRICT MANAGEMENT TRAINING)	
PROGRAM)	

NOTICE OF FILING AND COMPLIANCE

Pursuant to the Kentucky Public Service Commission’s (the “Commission”)

February 7, 2024 Order in the above-referenced case, Kentucky Rural Water

Association gives notice of its compliance with the provisions of said Order and the filing of the following documents:

1. A sworn statement attesting that the accredited instruction was performed, including a statement that the materials regarding each session were distributed as required by the Commission (**Exhibit 1**).
2. A description of any changes in the presenters or the proposed curriculum that occurred after the submission of the application for accreditation (**Exhibit 2**).
3. The name of each attending water district commissioner, his or her water district, and the number of hours that he or she attended (**Exhibit 3**).

4. A copy of all written materials given to program attendees not included in the Application (**Exhibit 4**);

Dated: March 29, 2024

Respectfully submitted,

A handwritten signature in blue ink that reads "Damon R. Talley". The signature is written in a cursive style and is positioned above a solid horizontal line.

Damon R. Talley
Stoll Keenon Odgen PLLC
112 North Lincoln Boulevard
PO Box 150
Hodgenville, Kentucky 42748
Telephone: (270) 358-3187
Fax: (270) 358-9560
damon.talley@skofirm.com

Counsel for Kentucky Rural Water
Association and Stoll Keenon Ogden
PLLC

CERTIFICATE OF SERVICE

In accordance with the Commission's order of July 22, 2021 in Case No. 2020-00085 (Electronic Emergency Docket Related to the Novel Coronavirus COVID-19), this is to certify that the electronic filing has been transmitted to the Commission on March 29, 2024; and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.



EXHIBIT 1



Randall Kelley
Education Director
Kentucky Rural Water Association
1151 Old Porter Pike
Bowling Green, KY 42103

Subscribed and sworn to before me by Randall Kelley, on this 29th
day of March, 2024.



Notary Public



Notary No.

My Commission expires: 7/12/2026

EXHIBIT 2

EXHIBIT 2

CHANGES TO PROPOSED AGENDA AND PRESENTATIONS

The agenda found at Exhibit 1 of the Application was not revised; however, two presentations follow that were not previously included with the original Application:

1. PSC Oversight (William Coston)
2. Inspection Check List (Erin Donges)

PSC Oversight



TEAM 
KENTUCKY®

Presenters

William “Tripp” Coston

Director, Financial Analysis

Kentucky Public Service Commission

William.Coston@ky.gov

502-782-1286

Duties of the Board of Commissioners

- **The fiduciary duties of a water district commissioner are to act bona fide in the interest of the District.**
- **Acting bona fide in the interest of the District is to act with good faith for the benefit of the District.**
- **A commissioner is under a duty to ensure that any act he/she undertakes is with a view to enhancing the interest of the district either by enhancing revenue, reducing costs or even positive publicity of the district.**

Duties of the Board of Commissioners

KRS 74.070

- (1) The commission shall be a body corporate for all purposes, and may make contracts for the water district with municipalities and other persons.
- (2) All corporate powers of the water district shall be exercised by, or under the authority of, its commission. The business and affairs of the water district shall be managed under the direction and oversight of its commission.
- (3) The commission may prosecute and defend suits, hire the chief executive officer and do all acts necessary to carry on the work of the water district.
- (4) The commission may adopt bylaws not inconsistent with the provisions of this chapter.
- (5) The commission shall comply with the provisions of KRS 65A.010 to 65A.090.

Commissioners are responsible for ensuring that the utility complies with the laws of the Commonwealth and Commission regulations

Duties of the Board of Commissioners

2024 PSC Water Commissioner Training

- **March 19-20** **Blue Lick State Resort Park**
- **April 23-24** **Lake Barkley State Park**
- **June 18-19** **Carter Caves State Park**
- **July 23-24** **Owensboro (location to be determined)**
- **September 24-25** **Pine Mountain State Park**
- **December 3-4** **Frankfort--Public Service Commission**

Alternative Rate Filing (ARF) 807 KAR 5:076

- Simplified and less expensive process
- Utilities need to file Simplified Application Form with the PSC
- Eligibility - Applicant had \$5,000,000 or less in gross annual revenues in its immediate past calendar year of operation.
- No Limitations on frequency of filings

Benefits of filing periodic rate requests:

- Maintain sound finances of the utility
- More, frequent, smaller increases are more tolerable for ratepayers
- Allows for better planning / capital equipment replacement

Alternative Rate Filing (ARF) – Process Overview

Typical Process Flow (not all inclusive)

- Test Year (must use the prior historic year as represented in the utility's annual report)
- Each Utility Filing Includes a “Read First” Letter
- Notice of Intent (NOI)
- Application
- Deficiency or No Deficiency Letter
- Procedural Schedule, First Data Request (DR)
- Utility Responds to DR1 (approx. 30 days)
- Second Data Request (DR2), Utility responds (14 days)
- Staff Report
- Utility Response to Staff Report (14 days)
- Final Order (FO)

Alternative Rate Filing (ARF) – Smoother Sailing

- Support schedules tie to Test Year and Pro-Forma amounts or show reconciling difference (test year)
- Documentation quality
- Clarity of responses to data requests
- Show calculations in excel, not hard entered numbers
- Known and measurable documentation ... using a Consumer Price Index to adjust costs is typically not accepted in ARF cases

Save yourself from multiple data requests (DR) by send these items with application. Then the second DR will be more targeted

- Test year and current year to date general ledger and trial balance (Excel format)
- Prior year, test year, current year Board minutes
- Commission appointment and salary documentation and training records
- Rate calculation Excel workbook that shows details of each proposed adjustment

Alternative Rate Filing (ARF) – Overview of the Math

	Test Year	Adjustment	(Ref.)	Pro Forma
Operating Revenues				
Total Metered Retail Sales	\$ 2,411,628	\$ 375,137	(A)	\$ 2,786,765
Sales for Resale	341,398	100,928	(A)	442,326
Other Water Revenues:				
Forfeited Discounts		43,653	(B)	43,653
Other Water Revenues	93,927	(43,653)	(B)	
		(14,102)	(C)	36,172
Total Operating Revenues	2,846,953	461,963		3,308,916
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	485,275	90,901	(D)	576,176
Salaries and Wages - Commissioners	30,000			30,000
Employee Pensions and Benefits	243,861	30,473	(E)	274,334
		(42,509)	(E)	(42,509)
Purchased Water	909,331	373,799	(F)	1,271,254
		(11,876)	(G)	
Purchased Power for Pumping	58,545	(542)	(G)	58,003
Materials and Supplies	63,784			63,784
Contractual Services - Acct. & Legal	22,186			22,186
Contractual Services - Water Testing	2,610			2,610
Transportation Expenses	22,725			22,725
Insurance - Gen. Liab. & Workers Comp.	34,745			34,745
Miscellaneous Expenses	167,520			167,520
Total Operation and Maintenance Expenses	2,040,582	440,246		2,480,828
Depreciation	685,991	(175,750)	(H)	510,241
Taxes Other Than Income	40,956	5,416	(D)	46,372
Total Operating Expenses	2,767,529	269,912		3,037,441
Net Operating Income	79,424	192,051		271,475
Interest Income	1,277			1,277
Income Available to Service Debt	\$ 80,701	\$ 192,051		\$ 272,752

Methods for Establishing a Utility's Revenue Requirement

- Debt Coverage Ratio
- Operating Ratio
- Non-Recurring Charges

Debt Service Coverage (DSC) (continued)

Pro Forma Operating Expenses	\$ 2,959,977
Plus: Average Annual Principal and Interest Payments	374,415
Additional Working Capital	74,883
Overall Revenue Requirement	<u>3,409,275</u>
Less: Other Operating Revenue	(93,927)
Interest Income	<u>(1,277)</u>
Revenue Required from Rates	<u>3,314,071</u>
Less: Revenue from Sales at Present Rates	<u>(3,229,091)</u>
Required Revenue Increase	<u>\$ 84,980</u>
Percentage Increase	<u>2.63%</u>

Operating Ratio (OR) (continued)

Pro Forma Operating Expenses	\$ 2,110,086
Operating Ratio	88%
Sub-total	<u>2,397,825</u>
Plus: Interest Expense	<u>13,845</u>
Total Revenue Requirement	2,411,670
Less: Other Operating Revenue	(84,933)
Interest Income	<u>0</u>
Revenue Required From Sales of Water	2,326,737
Less: Revenue from Sales with Present Rates	(2,106,857)
Sales for Resale	<u>(22,449)</u>
Required Revenue Increase	<u><u>\$ 197,431</u></u>
Percent Increase	<u><u>9.27%</u></u>

Tariffs - Non-Recurring Charges (NRC)

- Revisions - 807 KAR 5:011 Section 10. Non-Recurring Charges. This section discusses revisions to NRCs.
- Types of Charges - 807 KAR 5:006 Section 9. Item 3.
 - a) Turn-on charge
 - b) Reconnect charge
 - c) Termination or field collection charge
 - d) Special meter reading charge
 - e) Meter resetting charge
 - f) Meter test charge
 - g) Returned payment charge
 - h) Late payment charge
 - i) Tap fees

Recurring Problems With Rate Adjustment Filings - Commissioner Appointment and Salary Documentation

- Appointment Documentation: Fiscal Court Minutes – work with your fiscal court to get them to document appointment, start and end terms, and annual compensation.

Recurring Problems With Rate Adjustment Filings - Depreciation / NARUC

Depreciation estimated useful lives should be consistent from utility to utility and rate payers should not be required to pay to recover the utility's investment in capital faster (or slower) than the standard rate range.

The Commission relies on the National Association of Regulatory Utility Commissioners' (NARUC) 1979 publication entitled Depreciation Practices for Small Water Utilities (NARUC Study). To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon 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.

Investigations

Actions that may lead to an investigation

- Failure to file Annual Reports and Audits on time
- Failure to follow a Commission Order.
- The discovery of unauthorized debt.
- Failure to keep the Commission informed of Board appointments and terms of service.
- Failure to seek a Certificate of Public Convenience and Necessity (CPCN) when purchasing or renovating an office building.
- A board member providing professional services for the utility for compensation.

Penalties

- KRS 278.990(1): Any utility or utility officer, agent or employee who willfully violates KRS Chapter 278, a Commission regulation, or a Commission order may be assessed a civil penalty between \$25 and \$2,500 for each occurrence of each offense.

Tariffs

- 807 KAR 5:011 Section 1(9) "Tariff" means the schedules of a utility's rates, charges, regulations, rules, tolls, terms, and conditions of service over which the commission has jurisdiction.
- KRS 278.160(1) Rates must be filed with the PSC
 - Utility must file tariffs showing the
 - Schedule of rates for each class of customers
 - Terms and conditions under which service is provided to customer
- KRS 278.160(2) Filed Rate Doctrine
 - Utility cannot charge or collect greater or less compensation for service rendered than its filed tariff
 - Customer can not receive service that differs from the tariff

Tariffs

- If it is not in your tariff, you cannot do it
- If it is in your tariff, you must do it

Ratemaking Consequences of Excessive Water Loss

807 KAR 5:066 Section 6 (3)

- Unaccounted for water loss. Except for purchased water rate adjustments for water districts and water associations, and rate adjustments pursuant to KRS 278.023(4), for rate making purposes a utility's water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water used by a utility in its own operations.
- Upon application by a utility in a rate case filing or by separate filing, or upon motion by the commission, an alternative level of reasonable water loss may be established by the commission. A utility proposing an alternative level shall have the burden of demonstrating that the alternative level is more reasonable than the level prescribed in this section.

Ratemaking Consequences of Excessive Water Loss – The Math

Description / Water Loss	15%	20%	40%	50%
Purchased Water and Power Cost ⁽¹⁾	\$100,000	\$100,000	\$100,000	\$100,000
Cost of Lost Water	15,000	20,000	40,000	50,000
Allowed Water Loss	(15,000)	(15,000)	(15,000)	(15,000)
Cost That is Not Recoverable for Ratemaking Purposes	\$0	\$5,000	\$25,000	\$35,000

(1) This could also be production costs (chemicals, power)

Cost That is Not Recoverable = Cash That You Spend But Do Not Bill and Collect

Water Loss Surcharge Assessments

- Water Surcharge assessments allow utilities with higher water loss percentages to collect an additional fee, over a defined timeframe.
- These funds are specifically directed to addressing water loss and are monitored by the Commission.
- The utility must submit a Qualified Infrastructure Plan demonstrating the short- and long-term capital infrastructure projects to address water loss.
- A utility may petition the Commission for a surcharge, or the Commission may implement an assessment via an Order.
- Currently, the Commission has approved a surcharge for approximately 27 water utilities.

Forms

- <http://www.psc.ky.gov/>
- **Utility Information**
 - Utility Forms
 - NRC Cost Justification
 - Water specific Forms
 - Average meter connection Cost Justification
 - PWA Forms
 - ARF Forms
 - Filing requirements check list

The background features a large, faint watermark of the University of Kentucky seal. The seal is circular and contains the text "UNIVERSITY OF KENTUCKY" at the top and "PUBLIC SERVICE COMMISSION" at the bottom. In the center of the seal is a stylized figure of a person holding a torch, with a book resting on a table in front of them.

QUESTIONS?



Thank You!

Essential Requirements for Utilities Undergoing a PSC Inspection (Part 1 and Part 2)

Below is a list of documents that utilities should make available when undergoing a PSC inspection:

1. Customer Complaints(5)
2. Meter Test Bench Certification if applicable
3. Master Meter Testing
4. Safety Meetings and CPR Training
5. Inspection records (tanks, pump stations, water treatment plant, vehicles and construction equipment, valves, meters, wells
6. Pressure charts
7. Leak Log
8. Monthly water loss reports(2023)
9. Flushing records(2023)
10. Fire department records (2023)
11. List of Water Storage Tanks, Pump Stations, Wells, Master Meters
12. Water Purchase/Wholesale Contracts
13. Current Customer and Wholesale Rate Sheet
14. List of Commissioners(Water Board), background, term expiration, how many years on board
15. Last case filed with the Commission
16. Last rate case filed with the Commission
17. Quarterly Meter Reports and state if you are replacing or testing
18. A list of any potential cases in the next year

Any questions please don't hesitate to call 502-330-5970 or email me at erin.donges@ky.gov.

Thank you

Erin Donges

Public Service Commission Inspections

EXHIBIT 3

EXHIBIT 3

**Water District Commissioners Attending Training Program held
February 21, 2024**

First Name	Last Name	Water District	Hours Attended
Darace	Tabor	Allen Co. Water District	6
Jeff	Powell	Allen Co. Water District	6
Joe	Young	Allen Co. Water District	6
Robin	York	Allen Co. Water District	6
Wayne	Jackson	Allen Co. Water District	6
Troy	Norris	Cumberland Co. Water District	6
Dennis	Minton	East Laurel Water District	6
Loyd	Houchens	East Logan Water District	6
Jimmy	Mills	Edmonson Co. Water District	6
Blake	Aubrey	Edmonson Co. Water District	6
Jarrold	Beatty	Edmonson Co. Water District	6
Ann	Webster	Gallatin Co. Water District	6
Vic	Satchwell	Gallatin Co. Water District	6
Zachary	McCord	Gallatin Co. Water District	6
Craig	Constant	Grayson Co. Water District	6
Kenneth	Sharp	Grayson Co. Water District	6
Mike	Kipper	Grayson Co. Water District	6
Nancy	Cain	Grayson Co. Water District	6
Debbie	Fowler	Green River Valley Water District	6
Pat	Eastridge	Larue Co. Water District #1	6
Lisa	Baker	Laurel Co. Water District #2	6
Steve	Cornn	Laurel Co. Water District #2	6
Theresa	Brewer	Laurel Co. Water District #2	6
Larry Joe	Draffen	North Marshall Water District	6
James	Leonard	North Marshall Water District	6
Michael	McCoy	North Marshall Water District	6
Kenneth	Shadowen	North Marshall Water District	6

First Name	Last Name	Water District	Hours Attended
Andrew	Dennis	North Mercer Water District	6
Paul	Campbell	North Mercer Water District	6
Tony	Best	North Mercer Water District	6
Tad	Donnelly	Warren Co. Water District	6
Harvey	Johnston	Warren Co. Water District	6
Tim	Kanaly	Warren Co. Water District	6
Dion	Houchins	Warren Co. Water District	6
Vince	Berta	Warren Co. Water District	6
John	Gill	West Laurel Water Association	6
Jerry	Fields	Western Mason Co. Water District	6
Jim	Keller	Wood Creek Water District	6

EXHIBIT 4

EXHIBIT 4

**WRITTEN MATERIALS GIVEN TO PROGRAM ATTENDEES NOT
INCLUDED IN APPLICATION**

There were no written materials given to program attendees not included in the Application.