

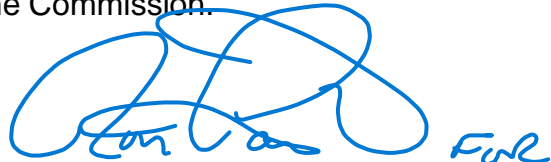
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | |
|--|------------|
| ELECTRONIC APPLICATION OF HENDERSON) | CASE NO. |
| COUNTY WATER DISTRICT FOR A RATE) | 2023-00101 |
| 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 April 28, 2023, the attached report containing the findings 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 April 28, 2023 Order, Henderson County Water District (Henderson District) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of service of this report. The Commission directs Henderson 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 AUG 22 2023

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 HENDERSON COUNTY WATER DISTRICT

Henderson County Water District (Henderson District) is a water utility organized pursuant to KRS Chapter KRS 74 that owns and operates a water distribution system through which it provides retail water service to approximately 6,237 residential customers and 267 commercial customers that reside in Henderson and Webster counties, Kentucky.¹

On April 6, 2023, Henderson District filed its application with the Commission requesting an adjustment to its water rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,² Henderson District used the calendar year ended December 31, 2021, as the basis for its application. The application was filed

¹ *Annual Report of Henderson District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 49.

² 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.

pursuant to Commission Orders in Case No. 2022-00013,³ Case No. 2022-00034,⁴ and Case No. 2023-00041. Henderson District was ordered to file a rate case on or before February 10, 2023. On February 10, 2023, Henderson District filed a motion for an extension of time to file its application for a rate adjustment.⁵ On March 2, 2023, the Commission ordered Henderson District to file an application for an adjustment of its base rates as soon as possible.⁶ Henderson District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2013-00154.⁷ Since that matter, Henderson District has only adjusted its rates pursuant to purchased water adjustments which are governed by KRS 278.015 and 807 KAR 5:068. Those provisions authorize

³ Case No. 2022-00013, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Feb. 10, 2022), final Order. Henderson District was ordered to file a rate case by February 10, 2023.

⁴ Case No. 2022-00034, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Mar. 16, 2022). Once again Henderson District was ordered to file a rate case by February 10, 2023.

⁵ Case No. 2022-00034, Motion for Extension, Post Case Files (filed Feb. 10, 2023),

⁶ Case No. 2023-00041, *Electronic Purchased Water Adjustment Filing for Henderson County Water District* (Ky. PSC Mar. 2, 2023) Order at 6.

⁷ Case No. 2013-00154, *Alternative Rate Filing of Henderson County Water District* (Ky. PSC Nov. 14, 2013).

water districts, such as Henderson District, to pass on the increased water rates from its wholesale supplier to its customers.⁸ .

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated April 28, 2023. Commission Staff's First Request for Information (Staff's First Request) was issued as an Appendix to the procedural schedule. During the pendency of this case, Henderson District responded to two requests for information.

WATER LOSS

The Commission notes that in its 2021 Annual Report, Henderson District reported a water loss of 24.2780 percent.⁹ 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 2021 total annual cost of water loss to Henderson District is \$382,185, with the annual cost of water loss in excess of 15 percent being \$146,055.

⁸ Since its last base rate case, nine purchased water adjustment filings have resulted in increased rates. See generally, Case No. 2014-00111, *Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC May 19, 2014) Order; Case No. 2015-00072, *Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Mar. 27, 2015), Order; Case No. 2016-00101, *Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Mar. 22, 2016), Order; Case No. 2017-00104, *Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Mar. 07, 2017), Order; Case No. 2018-00102, *Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Apr. 02, 2018), Order; Case No. 2019-00050 *Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Mar 13, 2019), Order; Case No. 2020-00071, *Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Mar 27, 2020), Order; Case No. 2022-00013, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Feb. 10, 2022), Order; Case No. 2022-00034, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Mar. 16, 2022), Order; Case No. 2023-00041, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Mar. 02, 2023), Order.

⁹ 2021 Annual Report at 57.

| Total Water Loss | Purchased Water | Purchased Power | Total |
|-----------------------|-----------------|-----------------|--------------|
| Purchases | \$ 1,517,322 | \$ 68,706 | \$ 1,586,028 |
| Less Office Power () | | (11,824) | (11,824) |
| Pro Forma Purchases | \$ 1,517,322 | \$ 56,882 | \$ 1,574,204 |
| Water Loss Percent | 24.2780% | 24.2780% | |
| Total Water Loss | \$ 368,375 | \$ 13,810 | \$ 382,185 |

| Disallowed Water Loss | Water | Power | Total |
|-----------------------------|--------------|-----------|--------------|
| Pro Forma Purchases | \$ 1,517,322 | \$ 56,882 | \$ 1,574,204 |
| Water Loss in Excess of 15% | 9.2780% | 9.2780% | 9.2780% |
| Disallowed Water Loss | \$ 140,777 | \$ 5,278 | \$ 146,055 |

DISCUSSION

Using its pro forma test-year operations, Henderson District determined that a base rate revenue increase of \$321,150, or 10.19 percent, was necessary to achieve the revenue requirement as shown in the table below.¹⁰

| | |
|--|-----------------------|
| | Henderson District |
| Pro Forma Operating Expenses | \$ 3,132,856 |
| Plus: Average Annual Principal and Interest Payments | 372,769 |
| Additional Working Capital | 74,554 |
| Total Revenue Requirement | 3,580,179 |
| Less: Miscellaneous Service Revenues | (21,103) |
| Other Water Revenues | (76,590) |
| Interest Income | (9,808) |
| Revenue Required from Sales of Water | 3,472,678 |
| Less: Pro Forma Present Rate Service Revenues | (3,151,528) |
| Required Revenue Increase | <u>\$ 321,150</u> |
| Percentage Increase | <u>10.19%</u> |

¹⁰ Application, Attachment 4, Revenue Requirements Using Debt Service Coverage Method.

To determine the reasonableness of the rates requested by Henderson District, Commission Staff performed a limited review of Henderson 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 measurable¹¹ 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 findings are summarized in this report. Noah Abner reviewed the calculation of Henderson District's Overall Revenue Requirement, and Eddie Beavers reviewed Henderson 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 found that Henderson District's required revenue from water sales is \$3,374,773 to meet the Overall Revenue Requirement of \$3,475,790 and that a \$223,245 revenue increase, or 7.08 percent increase, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

¹¹ 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. Water Loss Reduction Surcharge. In its application, Henderson District requested to implement a per customer monthly water loss reduction surcharge of \$1.30.¹² Henderson District did not provide any information with respect to future water loss reduction plans or a time period for the water loss surcharge. The use of a surcharge is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for water loss.¹³ Recognizing prior Commission precedent to allow the use of surcharges to assist utilities in obtaining the proper funding needed to combat water loss, Commission Staff recommends that the Commission approve a water loss surcharge for Henderson District.

Henderson District's proposed monthly water loss surcharge used a disallowed water loss expense of \$99,004. Henderson District, in its calculation, used a water loss percent of 21.7992 percent, which was different from its 2021 annual report water loss of 24.2780 percent.¹⁴ Commission Staff used the 24.2780 percent water loss from the 2021 annual report and calculated disallowed water loss expense of \$146,055 as presented in the table above Henderson District used 76,009 customer bills from its billing analysis to calculate its proposed monthly water loss surcharge.¹⁵ Commission Staff calculated the

¹² Application, Attachment 3, Current and Proposed Rates.

¹³ See Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011-00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges*, (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); and Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2010); Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Order at 11-13.

¹⁴ 2021 Annual Report at 57.

¹⁵ Henderson District's Response to Staff's First Request (filed June 5, 2023), Item 22, 22_Rate_Study.xlsx.

number of bills at 78,048 by multiplying the test year customer count of 6,504¹⁶ by 12. Commission Staff used the number of bills of 78,048 and disallowed water loss expense of \$146,055 to reach a water loss surcharge of \$1.87 as shown in the table below. Commission Staff recommends a per customer monthly water loss reduction surcharge of \$1.87 for 48 months or \$584,220 for the life of the surcharge.

| | Henderson District | Commission Staff | Difference |
|-----------------------|-----------------------|---------------------|------------|
| Disallowed Water Loss | \$ 99,004 | \$ 146,055 | \$ 47,051 |
| No. of Bills | 76,009 | 78,048 | |
| Monthly Surcharge | \$ 1.30 | \$ 1.87 | \$ 0.57 |

In keeping with Commission practice, Commission Staff recommends that the Commission establish a separate proceeding to monitor the surcharge, place strict controls over the use of the funds that will be collected from the surcharge, and require Henderson District to develop a long-term plan to combat water loss within four months of the final Order in this proceeding.

3. Monthly Water Service Rates. Henderson District proposed to increase its monthly retail and Fire Department water service rates by approximately 10.19 percent across the board. Henderson District did not perform a cost-of-service study (COSS). Henderson District stated that it did not complete a COSS at this time as there have been no material changes in the water system.¹⁷

The Commission has previously found that the allocation of a revenue increase 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

¹⁶ 2021 Annual Report at 49.

¹⁷ Henderson District's Response to Staff's First Request, Item 6.

the absence of a COSS.¹⁸ Since no COSS was conducted, and because there was no evidence that allocating revenue increase across the board was unreasonable, Commission Staff allocated the \$223,245 revenue increase evenly across the board to Henderson District's monthly retail and wholesale water service rates.

The rates, which are set forth in the Appendix to this report, are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$3,374,773 Revenue Required from Rates. The rates along with the monthly water loss surcharge will increase a typical residential customer's monthly water bill from \$36.14 to \$40.57, an increase of \$4.43, or 12.26 percent, of which \$1.87 or 5.17 percent is due to the water loss surcharge.¹⁹

4. Nonrecurring Charges. Following the Commission's recent decisions,²⁰ Commission Staff has reviewed Henderson District's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours and the labor costs are recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated to avoid double recovery of the same expense. Commission Staff reviewed the cost justification information provided by Henderson District and adjusted these

¹⁸ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan 5, 2022)

¹⁹ The typical residential customer uses approximately 4,000 gallons per month. Application, Attachment 1.

²⁰ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195 *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment*, (Ky. PSC Dec. 30, 2020).

charges by removing Field Labor Costs of \$20.25 per hour and Office/Clerical Labor Costs of \$22.12 per hour from those charges which occur during normal business hours.²¹

The following chart highlights Commission Staff's updated Nonrecurring Charges.

Nonrecurring Charges Adjustments

| Connection/Turn-On/Field Collection/Meter Reread/Reconnection/ Return Check/Service Call/Service Line Inspection Charge | | |
|--|-------------------------|----------------------|
| | District Revised Charge | Staff Revised Charge |
| Field Labor \$20.25 at 0.5 hour | \$10.13 | \$ 0.00 |
| Office Labor \$22.14 at 0.25 hour | \$ 5.54 | \$ 0.00 |
| Transportation | \$13.50 | \$13.50 |
| Total Revised Charge | \$29.17 | \$13.50 |

Current Rate \$25.00

| Connection/Turn-On After Hours Charge | | |
|---------------------------------------|-------------------------|----------------------|
| | District Revised Charge | Staff Revised Charge |
| Field Labor \$30.38 at 0.5 hour | \$15.19 | \$15.19 |
| Office Labor \$22.14 at 0.25 hour | \$ 5.54 | \$ 0.00 |
| Transportation | \$13.50 | \$13.50 |
| Total Revised Charge | \$34.23 | *\$28.70 |

Current Rate \$40.00

| Reconnection After Hours Charge | | |
|---|-------------------------|----------------------|
| | District Revised Charge | Staff Revised Charge |
| Field Labor \$30.38 at 0.5 hour | \$15.19 | \$15.19 |
| Office Labor Portion of hours per average cutoff meter | \$11.73 | \$ 0.00 |
| Transportation | \$13.50 | \$13.50 |
| Total Revised Charge | \$40.42 | *\$28.70 |

Current Rate \$65.00

| Service Call After Hours Charge | | |
|----------------------------------|-------------------------|----------------------|
| | District Revised Charge | Staff Revised Charge |
| Field Labor \$37.02 at 1.0 hour | \$37.02 | \$37.02 |
| Office Labor \$22.14 at 0.5 hour | \$11.07 | \$ 0.00 |

²¹ Henderson District's Response to Staff's First Request, https://psc.ky.gov/pscecf/2023-00101/bob.miller%40straightlineky.com/06052023050816/3_Nonrecurring_Charge_Cost_Justifications.pdf.

| | | |
|----------------------|----------------|-----------------|
| Transportation | \$13.50 | \$13.50 |
| Total Revised Charge | <u>\$61.59</u> | <u>*\$50.50</u> |

Current Rate \$40.00

| | Meter Test Charge | |
|-----------------------------------|-------------------------|----------------------|
| | District Revised Charge | Staff Revised Charge |
| Field Labor \$20.25 at 1.0 hour | \$20.25 | \$ 0.00 |
| Office Labor \$22.14 at 0.25 hour | \$11.07 | \$ 0.00 |
| Transportation | \$13.50 | \$13.50 |
| Meter Test (1 hour) | \$28.17 | \$28.17 |
| Total Revised Charge | <u>\$72.99</u> | <u>*\$42.00</u> |

Current Rate \$50.00

These adjustments result in the following revised nonrecurring charges.

| | |
|---|-------------|
| Connection Charge | \$13.50 |
| Connection Charge After Hours | \$29.00 |
| Field Collection Charge | \$13.50 |
| Meter Reread | \$13.50 |
| Meter Test Charge | \$42.00 |
| Reconnection Charge | \$13.50 |
| Reconnection Charge After Hours | \$28.70 |
| Returned Check Charge | \$13.50 |
| Service Call/Investigation Charge | \$13.50 |
| Service Call/Investigation Charge After Hours | \$50.50 |
| 3/4- Inch Tap Fee | \$1,366.00 |
| 1 -Inch Tap Fee | \$1,607.00 |
| 1 1/2 - Inch and 2 -Inch Tap Fee | Actual Cost |

The revised nonrecurring charges result in a decrease to test year Other Water Revenues and an increase to the total revenue requirement of \$15,745 as explained in adjustment (B) below.

| Miscellaneous Service Revenues | Num. | Current Rate | Total | Revised Rate | Adj | Pro Forma |
|---|------------|--------------|------------------|--------------|--------------------|------------------|
| Connection/Turn-On Charge | 312 | \$ 25.00 | \$ 7,800 | \$ 13.50 | \$ (3,588) | \$ 4,212 |
| Connection Charge After Hours | 0 | 40.00 | - | 28.70 | - | - |
| Field Collection Charge | 1 | 25.00 | 25 | 13.50 | (12) | 14 |
| Meter Reread | 0 | 25.00 | - | 13.50 | - | - |
| Meter Test Charge | 4 | 50.00 | 200 | 42.00 | (32) | 168 |
| Reconnection Charge | 267 | 50.00 | 13,350 | 13.50 | (9,746) | 3,605 |
| Reconnection Charge After Hours | 53 | 65.00 | 3,445 | 28.70 | (1,924) | 1,521 |
| Returned Check Charge | 48 | 20.00 | 960 | 13.50 | (312) | 648 |
| Service Call/Investigation Charge | 0 | 25.00 | - | 13.50 | - | - |
| Service Call/Investigation Charge After Hours | 0 | 40.00 | - | 50.50 | - | - |
| Service Line Inspection | 5 | 40.00 | 200 | 13.50 | (133) | 68 |
| Total Miscellaneous Service Revenues | 690 | | \$ 25,980 | | \$ (15,745) | \$ 10,235 |

PRO FORMA OPERATING STATEMENT

Henderson District's Pro Forma Operating Statement for the test year ended December 31, 2021, as determined by Commission Staff appears in the table below. Employee Pensions (CERS) and Employee Benefits (Medical, Life) were separated in the test year to facilitate discussion of the adjustments.

| | Henderson County Water District | | | Commission Staff | Total | (Ref.) | Pro Forma |
|---|---------------------------------------|------------------|------------------|---------------------|-------|--------|------------------|
| | Test Year | Adjustments | Adjustment | Adjustment | | | |
| Operating Revenues | | | | | | | |
| Total Metered Retail Sales | 3,163,386 | (11,858) | | (11,858) | (A) | | 3,151,528 |
| Private Fire Protection | 0 | | | 0 | | | 0 |
| Sales for Resale | 0 | | | 0 | | | 0 |
| Other Water Revenues: | | | | | | | |
| Forfeited Discounts | 0 | | 76,590 | 76,590 | (B) | | 76,590 |
| Misc. Service Revenues | 21,103 | | (15,745) | (15,745) | (B) | | |
| | | | 9,261 | 9,261 | (B) | | 14,619 |
| Other Water Revenues | 76,590 | | (76,590) | (76,590) | (B) | | 0 |
| Total Operating Revenues | 3,261,079 | (11,858) | (6,484) | (18,342) | | | 3,242,737 |
| Operating Expenses | | | | | | | |
| Operation and Maintenance Expenses | | | | | | | |
| Salaries and Wages - Employees | 436,307 | 96,686 | | 96,686 | (C) | | 532,993 |
| Salaries and Wages - Officers | 8,400 | | 600 | 600 | (D) | | 9,000 |
| Employee Pensions (CERS) | 248,134 | 32,196 | (7,095) | 25,101 | (E) | | |
| | | | (152,233) | (152,233) | (E) | | 121,002 |
| Employee Benefits (Medical, Life) | 126,358 | (21,928) | | (21,928) | (F) | | |
| | | | (28,516) | (28,516) | (F) | | 75,914 |
| Purchased Water | 1,387,417 | (94,333) | (46,444) | (140,777) | (G) | | |
| | | | 129,905 | 129,905 | (G) | | 1,376,545 |
| Purchased Power | 68,706 | (4,671) | (607) | (5,278) | (H) | | 63,428 |
| Chemicals | 0 | | | 0 | | | 0 |
| Materials and Supplies | 194,179 | | | 0 | | | 194,179 |
| Contractual Services - Accounting | 14,915 | | | 0 | | | 14,915 |
| Contractual Services - Mangement | 0 | | | 0 | | | 0 |
| Contractual Services - Other | 3,238 | | | 0 | | | 3,238 |
| Rental of Building/Real Property | 0 | | | 0 | | | 0 |
| Transportation Expense | 31,481 | | | 0 | | | 31,481 |
| Insurance - General Liability | 25,818 | | | 0 | | | 25,818 |
| Insurance - Other | 13,090 | | | 0 | | | 13,090 |
| Bad Debt Expense | 11,454 | | | 0 | | | 11,454 |
| Miscellaneous Expense | 11,790 | | | 0 | | | 11,790 |
| Total Operation and Maintenance Expenses | 2,581,287 | 7,950 | (104,390) | (96,440) | | | 2,484,847 |
| Depreciation Expense | 398,042 | 98,609 | | 98,609 | (I) | | 496,651 |
| Taxes Other Than Income | 38,173 | 8,796 | | 8,796 | (J) | | 46,969 |
| Total Operating Expenses | 3,017,502 | 115,355 | (104,390) | 10,965 | | | 3,028,467 |
| Net Operating Income | 243,577 | (127,213) | 97,906 | (29,307) | | | 214,270 |
| Interest Income | 9,808 | | | 0 | | | 9,808 |
| Income Available to Service Debt | 253,385 | (127,213) | 97,906 | (29,307) | | | 224,078 |

(A) Billing Analysis Adjustment. Henderson District proposed a reduction of \$11,858 to its test-year revenues of \$3,163,386, for an adjusted test-year normalized revenues of \$3,151,528. Henderson District adjusted revenues to meet the revenues

generated by the billing analysis.²² Commission Staff reviewed Henderson District's analysis and agrees that the proposed adjustment meets the ratemaking criteria of being known and measurable. Commission Staff recommends that the Commission approve the adjustment.

(B) Miscellaneous Service Revenues and Other Water Revenues, Forfeited Discounts. In its application, Henderson District did not propose any adjustment to Miscellaneous Service Revenues and Other Water Revenues, which totaled \$21,103. Commission Staff determined that Miscellaneous Service Revenues is comprised of the amounts below.

| | |
|--|--------------------------|
| <i>Other Miscellaneous Income Components</i> | |
| Non-Recurring Charges | \$ 10,235 |
| Recurring Misc Income | 4,384 |
| Total | <u>14,619</u> |
| Test Year | (21,103) |
| Net Adjustment | <u><u>(6,484)</u></u> |
| <i>Adjustment Components</i> | |
| Non-Recurring Charge Labor Elimination | (15,745) |
| Adjustment to Other Recurring Income | 9,261 |
| Net Adjustments | <u><u>\$ (6,484)</u></u> |

After review of Henderson District's 2021 General Ledger²³ account 470-0 Penalties & Cut Offs, Commission Staff determined that Henderson District misclassified Forfeited Discounts as Other Water Revenues in its application.²⁴ Therefore, Commission Staff reclassified \$76,590 from Other Water Revenues to Forfeited Discounts. This required a reduction to Other Water Revenues of \$76,590 and an

²² Application, Attachment 4, SAO, Reference (A).

²³ Henderson District's Response to Staff's First Request, Item 8, 8_General_Ledger.xlsx.

²⁴ Application, Attachment 4, SAO.

increase to Forfeited Discounts of \$76,590. Commission Staff recommends that the Commission approve these adjustments based on Commission Staff's analysis of Miscellaneous Income components.

(C) Salaries and Wages - Employees. In its application, Henderson District proposed a \$96,686 increase to Salaries and Wages – Employees expense to reflect increases in wage rates since 2021.²⁵ Commission Staff reviewed Henderson District's calculations and evidence that it provided in its response to Staff's First Request which showed updated salaries and wages for Henderson District employees.²⁶ Commission Staff agrees that the proposed adjustment meets the ratemaking criteria of being known and measurable and Commission Staff included the increase in its pro forma operating expenses.

(D) Salaries and Wages - Officers. In its application, Henderson District did not propose an adjustment to Salaries and Wages – Officer's expense.²⁷ Commission Staff reviewed Henderson District's response to Staff's First Request and notes that there are five board members with a monthly salary of \$150,²⁸ which results in an annual expense of \$9,000. However, Henderson District reported a test year Salaries and Wages – Officers expense of \$8,400. Using the table below Commission Staff calculated a \$600 increase to Salaries and Wages – Officers expense to reflect the actual board member salaries.

²⁵ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment B.

²⁶ Henderson District's Response to Staff's First Request, Item 22, 22_Rate_Study.xlsx.

²⁷ Application, Attachment 4, Schedule of Adjusted Operations.

²⁸ Henderson District's Response to Staff's First Request, Item 15, 15_Fiscal_Court_Minutes.pdf.

| No. of Commissioner | Monthly Salary | Total |
|---|----------------|---------------|
| 5 | \$ 150 | \$ 9,000 |
| Less: Test Year Salaries and Wages - Officers | | (8,400) |
| Adjustment | | <u>\$ 600</u> |

(E) Employee Pensions. In its application, Henderson District proposed a \$32,196 increase to Employee Pensions and Benefits expense to reflect an increase in County Employees Retirement System (CERS) contributions due to increase in wage rates.²⁹ Commission Staff notes that Henderson District used a 26.95 percent contribution rate for CERS³⁰ and that effective July 1, 2023, the CERS contribution rate is 23.345 percent.³¹ Commission Staff also notes that Henderson District used a test year pension amount of \$107,522³² for the basis of its adjustment. After review of Henderson District's 2021 general ledger³³ Commission Staff determined that Henderson District's test year pension expense amount was \$248,134. Further, Commission Staff notes that Henderson District did not make Governmental Accounting Standards Board (GASB) adjustment 68 and 74³⁴ to its test year CERS contributions. Commission Staff calculated two adjustments using the information above and the table below. The first adjustment is a \$7,095 decrease to Henderson District's proposed adjustment for a total adjustment of \$25,101 to Employee Pensions (CERS) expense to reflect the correct CERS

²⁹ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment C.

³⁰ Henderson District's Response to Staff's First Request, Item 22, 22_Rate_Study.xlsx.

³¹ Kentucky Public Pensions Authority, CERS Employer Contribution Rates, Contribution Rates - Kentucky Public Pensions Authority. (<https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>).

³² Henderson District's Response to Staff's First Request, Item 22, 22_Rate_Study.xlsx.

³³ Henderson District's Response to Staff's First Request, Item 8, 8_General_Ledger.xlsx.

³⁴ Kentucky Public Pensions Authority, GASB Overview. (<https://www.kyret.ky.gov/Employers/GASB/Pages/default.aspx>).

contribution percent of 23.345. The second is a \$152,233 decrease to Employee Pensions (CERS) expense to reflect a GASB 68 and 74 adjustment to the test year amount of Pension expense.

| | Henderson District | Commission Staff | Difference |
|---|-----------------------|---------------------|--------------------|
| <i>Pension / OPEB</i> | | | |
| Wages Applicable to CERS Payments | \$ 518,433 | \$ 518,433 | \$ - |
| Percent Pension Contribution Rate | 26.95% | 23.34% | -3.61% |
| Pro Forma Pension Contribution | <u>\$ 139,718</u> | <u>\$ 121,002</u> | <u>\$ (18,716)</u> |
| <i>Test Year Walkforward to Pro Forma</i> | | | |
| Test Year Pension Account 604-8 | \$ 107,522 | \$ 248,134 | \$ 140,612 |
| GASB 68 and 74 Adjustment | 0 | (152,233) | (152,233) |
| Adjustment | 32,196 | 25,101 | (7,095) |
| Total | <u>\$ 139,718</u> | <u>\$ 121,002</u> | <u>\$ (18,716)</u> |

(F) Employee Benefits (Medical, Life). In its application, Henderson District proposed a \$21,928 decrease to Employee Pensions and Benefits expense to reflect the allowable health insurance premium based on the Bureau of Labor Statistics' (BLS) national average for an employer's share of health insurance premiums.³⁵ Commission Staff, after review of Henderson District's calculations³⁶, agrees with Henderson District proposed \$21,928 decrease Employee Benefits (Medical, Life) expense. Commission Staff notes that Henderson District used test year medical expense of \$111,614 and did not include Life Insurance.³⁷ After a review of Henderson District's 2021 general ledger³⁸ Commission Staff determined that Henderson District's test year medical expense was

³⁵ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment E.

³⁶ Henderson District's Response to Staff's First Request, Item 22, 22_Rate_Study.xlsx.

³⁷ Henderson District's Response to Staff's First Request, Item 22, 22_Rate_Study.xlsx.

³⁸ Henderson District's Response to Staff's First Request, Item 8, 8_General_Ledger.xlsx.

\$141,752 and test year life insurance was \$1,646. Commission Staff, using the table below, calculated a second adjustment of a \$28,516 decrease to Employee Benefits (Medical, Life) expense to correct Henderson District's test year medical and life expense to its 2021 general ledger amount.

| | Henderson District | Commission Staff | Difference |
|---|-----------------------|---------------------|-----------------|
| <i>Medical / Life</i> | | | |
| Gross Medical Cost | \$ 109,357 | \$ 109,357 | \$ - |
| Employee Contributions () | (13,161) | (13,161) | 0 |
| BLS Adjustment () | (21,928) | (21,928) | 0 |
| Life | - | 1,646 | 1,646 |
| Pro Forma Medical and Life | <u>\$ 74,268</u> | <u>\$ 75,914</u> | <u>\$ 1,646</u> |
| <i>Test Year Walkforward to Pro Forma</i> | | | |
| Gross Medical Cost | \$ 111,614 | \$ 141,752 | 30,138 |
| Employee Contributions () | (17,821) | (17,040) | 781 |
| Life | | 1,646 | 1,646 |
| Test Year Benefits | 93,793 | 126,358 | 32,565 |
| BLS Adjustment | (21,928) | (21,928) | 0 |
| | | (28,516) | (28,516) |
| Pro Forma | <u>\$ 71,865</u> | <u>\$ 75,914</u> | <u>\$ 4,049</u> |

(G) Purchased Water. Henderson District reported a water loss of 24.2780 percent in its 2021 Annual Report.³⁹ In its application, Henderson District proposed a decrease of \$94,333 to Purchased Water expense to reflect the maximum allowable water loss expense collected for rating making purposes of 15 percent.⁴⁰ Commission Staff reviewed Henderson District's calculation and notes that Henderson District used a

³⁹ 2021 Annual Report at 57.

⁴⁰ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

water loss of 21.7992 percent in its adjustment calculation.⁴¹ Using the table below Commission Staff calculated a \$46,444 reduction to Henderson District’s adjustment for a total decrease to Purchased Water expense of \$140,777.

| | Henderson District | Commission Staff | Difference |
|--|--------------------|-------------------|------------------|
| Pro Forma Purchased Water | \$ 1,387,417 | \$ 1,517,322 | \$ 129,905 |
| Water Loss Percent | 21.7992% | 24.2780% | 2.4788% |
| Water Loss Percent in Excess of 15% Adjustment | 6.7992% | 9.2780% | 2.4788% |
| | <u>\$ 94,333</u> | <u>\$ 140,777</u> | <u>\$ 46,444</u> |

Commission Staff identified a purchased water adjustment that was approved during 2023 and not reflected in the pro forma Purchased Water expense.⁴² Henderson District’s sole supplier of water is Henderson Water Utility with two separate rates from Henderson Water Utility North and Henderson Water Utility South.⁴³ Using the table below and Henderson District’s response to Staff’s Second Request⁴⁴ Commission calculated a \$129,905 increase to Purchased Water expense to reflect the expense increase from the approved purchased water adjustment.

| | Henderson Water Utility North | Henderson Water Utility South | Total |
|---------------------------|-------------------------------|-------------------------------|-------------------|
| Gallons (,000 Omitted) | 433,747 | 28,577 | 462,324 |
| Current Purchase Rate | \$ 3.304 | \$ 2.955 | \$ 3.2819 |
| Pro Forma Cost | <u>\$1,432,883</u> | <u>\$ 84,439</u> | 1,517,322 |
| Test Year Purchase Cost | | | <u>1,387,417</u> |
| Increase in Purchase Cost | | | <u>\$ 129,905</u> |

⁴¹ Henderson District’s Response to Staff’s First Request, Item 22, 22_Rate_Study.xlsx.

⁴² Case No. 2023-00041, *Electronic Purchased Water Adjustment Filing for Henderson County Water District* (Ky. PSC Mar. 2, 2023).

⁴³ 2021 Annual Report at 54.

⁴⁴ Henderson District’s Response to Staff’s Second Request (filed June 30, 2023), Item 2.

(H) Purchased Power. In its application, Henderson District proposed a decrease of \$4,671 to Purchased Power expense to reflect the maximum allowable water loss expense collected for rating making purposes of 15 percent.⁴⁵ Commission Staff reviewed Henderson District’s calculation and notes that Henderson District used a water loss of 21.80 percent in its adjustment calculation.⁴⁶ As stated above Henderson District’s 2021 water loss is 24.278 percent.⁴⁷ Commission Staff notes that during its review of Henderson District’s 2021 general ledger and trial balance, Henderson District included account number 615-8 Telephone/Office Utility amount of \$11,824 in its Purchased Power expense for the test year.⁴⁸ Using the table below, Henderson District’s 2021 water loss of 24.278 percent, and Henderson District’s response to Staff’s First Request Commission Staff calculated a \$607 reduction to Henderson District’s adjustment for a total decrease to Purchased Power expense of \$5,278.

| | Henderson District | Commission Staff | Difference |
|-------------------------------------|-----------------------|---------------------|------------|
| Test Year Purchased Power | \$ 68,706 | \$ 68,706 | \$ - |
| Less: Test Year Office Utilities | | (11,824) | (11,824) |
| Adjusted Test Year Purchased Power | 68,706 | 56,882 | (11,824) |
| Water Loss Percent | 21.7992% | 24.2780% | 2.4788% |
| Water Loss Percent in Excess of 15% | 6.7992% | 9.2780% | 2.4788% |
| Adjustment | \$ 4,671 | \$ 5,278 | \$ 607 |

(I) Depreciation. In its application Henderson District proposed a \$98,609 increase to Depreciation expense to reflect adjustments of asset service lives to the

⁴⁵ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

⁴⁶ Henderson District’s Response to Staff’s First Request, Item 22, 22_Rate_Study.xlsx.

⁴⁷ 2021 Annual Report at 57.

⁴⁸ Henderson District’s Response to Staff’s First Request, Item 8 and 9, 8_General_Ledger.xlsx and 9_Trial_Balance.xlsx.

midpoint of service life range set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled, Depreciation Practices for Small Water Utilities (NARUC Study).⁴⁹ 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. In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff agrees with Henderson District's adjustment and increased pro forma Depreciation Expense by \$98,609.

(J) Taxes Other Than Income. In its application Henderson District proposed an \$8,796 increase to Taxes Other Than Income to reflect the increases in wage rates since 2021. Commission Staff reviewed Henderson District's calculations and evidence⁵⁰ and agrees that the proposed adjustment meets the ratemaking criteria of being known and measurable and Commission Staff included the increase in its pro forma operating expenses.

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

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

⁴⁹ Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

⁵⁰ Henderson District's Response to Staff's First Request, Item 22, 22_Rate_Study.xlsx.

recovery of depreciation expense, a non-cash item, to provide working capital;⁵¹ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

| | Henderson District | Commission Staff | |
|--|-----------------------|---------------------|-----|
| Pro Forma Operating Expenses | \$ 3,132,856 | \$ 3,028,467 | |
| Plus: Average Annual Principal and Interest Payments | 372,769 | 372,769 | (1) |
| Additional Working Capital | 74,554 | 74,554 | (2) |
| Total Revenue Requirement | 3,580,179 | 3,475,790 | |
| Less: Miscellaneous Service Revenues | (21,103) | (14,619) | |
| Other Water Revenues | (76,590) | (76,590) | |
| Interest Income | (9,808) | (9,808) | |
| Revenue Required from Sales of Water | 3,472,678 | 3,374,773 | |
| Less: Pro Forma Present Rate Service Revenues | (3,151,528) | (3,151,528) | |
| Required Revenue Increase | <u>\$ 321,150</u> | <u>\$ 223,245</u> | |
| Percentage Increase | <u>10.19%</u> | <u>7.08%</u> | |

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Henderson District had three outstanding Kentucky Rural Water Finance Corporation bonds and one note payable to Old National Bank.⁵² Henderson District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee

⁵¹ 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).

⁵² Case 2016-00133, *Application of Henderson County Water District to Issue Securities in the Approximate Principal Amount of \$3,225,000 for the Purpose of Reamortizing a Certain Outstanding Loan of the District.*

payments for the years 2023 through 2027.⁵³ Commission Staff agrees with the methodology Henderson District proposed and included \$372,769 in the calculation of the revenue requirement.

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. Henderson District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its long-term debt.⁵⁴ Following the Commission's historic practice of including additional working capital, \$74,554 is included in the revenue requirement.

⁵³ Application, Table B, Debt Service Schedule.

⁵⁴ Application, Revenue Requirements Using Debt Service Coverage Method.

Signatures

/s/ Noah Abner

Prepared by: Noah Abner
Revenue Requirement Branch
Division of Financial Analysis

/s/ Eddie Beavers

Prepared by: Eddie Beavers
Rate Design Branch
Division of Financial Analysis

APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00101 DATED AUG 22 2023

The following rates and charges are prescribed for the customers in the area served by Henderson County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

| | | | |
|---|-----------------|----------|--------------|
| <u>5/8- x 3/4-Inch Meter</u> | | | |
| First | 2,000 Gallons | \$22.23 | Minimum Bill |
| Next | 8,000 Gallons | 0.00823 | Per Gallon |
| Next | 20,000 Gallons | 0.00767 | Per Gallon |
| Over | 30,000 Gallons | 0.00710 | Per Gallon |
| | | | |
| <u>1-Inch Meter</u> | | | |
| First | 5,000 Gallons | \$46.93 | Minimum Bill |
| Next | 5,000 Gallons | 0.00823 | Per Gallon |
| Next | 20,000 Gallons | 0.00767 | Per Gallon |
| Over | 30,000 Gallons | 0.00710 | Per Gallon |
| | | | |
| <u>2-Inch Meter</u> | | | |
| First | 16,000 Gallons | \$134.10 | Minimum Bill |
| Next | 14,000 Gallons | 0.00767 | Per Gallon |
| Over | 30,000 Gallons | 0.00710 | Per Gallon |
| | | | |
| <u>3-Inch Meter</u> | | | |
| First | 30,000 Gallons | \$241.44 | Minimum Bill |
| Over | 30,000 Gallons | 0.00710 | Per Gallon |
| | | | |
| <u>4-Inch Meter</u> | | | |
| First | 50,000 Gallons | \$383.42 | Minimum Bill |
| Over | 50,000 Gallons | 0.00710 | Per Gallon |
| | | | |
| <u>6-Inch Meter</u> | | | |
| First | 100,000 Gallons | \$738.37 | Minimum Bill |
| Over | 100,000 Gallons | 0.00710 | Per Gallon |
| | | | |
| Volunteer Fire Department (Metered Services) | | \$22.23 | Minimum Bill |

Water Loss Surcharge \$1.87 Per Meter

Nonrecurring Charges

| | |
|--------------------------------------|-------------|
| Connection Charge | \$13.50 |
| Connection Charge AH | \$29.00 |
| Field Collection Charge | \$13.50 |
| Meter Reread | \$13.50 |
| Meter Test Charge | \$42.00 |
| Reconnection Charge | \$23.60 |
| Reconnection Charge AH | \$28.70 |
| Returned Check Charge | \$13.50 |
| Service Call/Investigation Charge | \$13.50 |
| Service Call/Investigation Charge AH | \$50.50 |
| 3/4- Inch Tap Fee | \$1,366.00 |
| 1 -Inch Tap Fee | \$1,607.00 |
| 1 1/2 - Inch and 2 -Inch Tap Fee | Actual Cost |

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