

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF HARDIN	)	CASE NO.
COUNTY WATER DISTRICT NO. 2 FOR A	)	2023-00247
GENERAL ADJUSTMENT OF RATES	)	

ORDER

On September 29, 2023,<sup>1</sup> Hardin County Water District No. 2 (Hardin District No. 2) filed an application requesting to increase its rates pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001, Section 16(1)(b)(1).

BACKGROUND

Hardin District No. 2 is a jurisdictional utility that provides retail water service to approximately 29,932 retail customers in the following Kentucky counties: Hardin, Hart and Larue.<sup>2</sup> Hardin District No. 2's retail customers include 40 commercial customers.<sup>3</sup> Hardin District No. 2 provides wholesale water service to Hardin County Water District

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<sup>1</sup> On October 4, 2023, a deficiency letter was issued. In response to the deficiency letter, Hardin District No. 2 filed a motion for deviation from the requirements set forth in 807 KAR5:001 Section 16(4)(n). In the motion, Hardin District No. 2 noted that it did not perform a depreciation study but instead relied on NARUC accepted midpoint useful life periods. Hardin District No. 2 stated that it did not have plant addition and retirement information so as to render a depreciation study accurate and the utility was not requesting any changes to its depreciation rates. The motion also noted that other water utilities having to file using the general rate adjustment procedures had not been required to perform a depreciation study or file a motion for deviation. By Order dated October 13, 2023, the Commission found that Hardin District No. 2 had explained the absence of a depreciation study in its application and the Commission had not previously required water utilities to file a motion for deviation in the past. As such, the Commission found the deficiency letter was issued in error and the application was deemed filed as of Sept. 29, 2023.

<sup>2</sup> Application at 2; All customer information provided as of December 31, 2022.

<sup>3</sup> Application at 3.

No. 1 (Hardin District No. 1).<sup>4</sup> Hardin District No. 2 also provides wastewater collection service to 39 customers in the Glendale Community of Hardin County, Kentucky.<sup>5</sup>

In its application, Hardin District No. 2 requested an increase in operating revenues from base water rates of \$2,302,048 per year, or 15.68 percent, compared to the operating revenues for the historical test period under existing water rates.<sup>6</sup> There are no intervenors in this matter.

By Order entered October 13, 2023, the Commission suspended the proposed rates up to and including April 1, 2024. Hardin District No. 2 filed testimony and responded to three rounds of discovery.<sup>7</sup> An evidentiary hearing was held on January 11, 2024. Hardin District No. 2 responded to Commission Staff's Post-Hearing Request for Information (Staff's Post-Hearing Request) on January 26, 2024 and filed its post-hearing brief on February 16, 2024. This matter now stands submitted for a decision.

#### LEGAL STANDARD

Hardin District No. 2 filed its application for an adjustment of rates pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001, Section 16(1)(b)(1). The Commission's standard of review for a utility's request for a rate increase is whether the proposed rates

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<sup>4</sup> Application at 3.

<sup>5</sup> Application at 3.

<sup>6</sup> Application at 6.

<sup>7</sup> Hardin District No. 2's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Oct. 13, 2023) (supplemented on Nov. 15, 2023, Dec. 14, 2023, Dec. 19, 2023, Jan. 17, 2024, Feb. 7, 2024, and Feb. 15, 2024); Hardin District No. 2's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Nov. 17, 2023); Hardin District No. 2's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Dec. 15, 2023).

are “fair, just and reasonable.”<sup>8</sup> Hardin District No. 2 bears the burden of proof to show that the proposed rate is just and reasonable under the requirements of KRS 278.190(3).

WATER LOSS

The Commission notes that Hardin District No. 2’s 2022 Annual Report reported a water loss of 14.0257 percent.<sup>9</sup> Commission regulation 807 KAR 5:066 Section 6(3) states that for ratemaking purposes, a utility’s water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Hardin District No. 2’s water loss does not exceed the 15 percent threshold; however, the percentage is extremely close to the threshold. As such, the Commission notes at 14.0257 percent water loss, the annual cost of total water loss to Hardin District No. 2 is \$282,328, as shown below.

Total Water Loss	Water	Power	Total
Pro Forma Purchases	\$ 1,031,145	\$ 981,788	\$ 2,012,933
Water Loss Percent	14.0257%	14.0257%	
Total Water Loss	<u>\$ 144,625</u>	<u>\$ 137,703</u>	<u>\$ 282,328</u>

The Commission encourages Hardin District No. 2 to be mindful and continue to take steps to monitor and reduce its water loss.

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<sup>8</sup> KRS 278.030; *Pub. Serv. Comm’n v. Com. ex rel. Conway*, 324 S.W.3d 373, 377 (Ky. 2010).

<sup>9</sup> *Annual Report of Hardin County Water District No. 2 to the Public Service Commission for the Year Ending December 31, 2022* (2022 Annual Report) at 57.

## ANALYSIS AND DETERMINATION

### Test Year

Hardin District No. 2 proposed to use as its historical test year the 12-month period ending December 31, 2022, as adjusted for known and measurable changes.<sup>10</sup> The Commission finds the use of this period reasonable.

### Operating Income Adjustments

Metered Water Sales. Hardin District No. 2 provided a detailed billing analysis for its test-year retail water sales with a difference of \$102,290 between the retail water sales reported in the test year annual report of \$13,737,983 and the calculated revenue in the billing analysis of \$13,840,273.<sup>11</sup> Hardin District No. 2 did not propose an adjustment to metered water sales. However, because the billing analysis calculates gallons sold per meter size in detail, it more accurately reflects the retail water sales and thus based upon the evidence of record, the Commission finds that an increase to Metered Water Revenue is warranted in the amount of \$102,290.<sup>12</sup> The adjustment more accurately reflects an increase in the water sales of Hardin District No. 2.

Other Water Revenues. Hardin District No. 2 provided updated cost justification sheets for the nonrecurring charges listed in its tariff.<sup>13</sup> Hardin District No. 2 also provided

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<sup>10</sup> Application at 3.

<sup>11</sup> Billing Analysis (filed Sept. 29, 2023).

<sup>12</sup> Hardin District No. 2's Response to Staff's First Request, Exhibit\_32\_HCWD2\_Rate\_Study.xlsx, Tab Ex BA.

<sup>13</sup> Hardin District No. 2's Response to Staff's First Request, Item 37 and Hardin District No. 2's First Supplemental Response to Staff's First Request (filed Dec. 19, 2023), Item 37.

the number of occurrences and revenues of nonrecurring charges during the test year for each of the Miscellaneous Service Revenues.<sup>14</sup>

As discussed below in the Nonrecurring Charges section, the Commission finds adjustments to several non-recurring charges are supported by the record. The adjustments result in a decrease of \$53,867 to Miscellaneous Service Revenues due to the disallowance of labor expenses performed during normal working hours, as discussed later on in this Order, and shown in the table below.

Nonrecurring Charge	Number of Occurrences	Utility Pro Forma	Adjustment	Pro Forma
Turn-On Charge	5053	\$126,325	(\$25,265)	\$101,060
Reconnection Charge	2151	53,775	(10,755)	43,020
Termination Charge	2454	61,350	(12,270)	49,080
Meter Re-setting Charge	0	-	-	-
Meter Testing Charge	0	-	-	-
Returned Check Charge	645	16,125	(8,385)	7,740
Late Payment Penalty	51156	236,280	0	236,280
After Hours Turn-On Charge	26	1,040	2,808	3,848
		<u>\$ 494,895</u>	<u>\$(53,867)</u>	<u>\$ 441,028</u>

Salaries and Wages – Employees. In its application, Hardin District No. 2 proposed an increase of \$958,935 to Salaries and Wages – Employees to reflect the raises realized during 2022 and 2023 as well as changes to the employee roster.<sup>15</sup> In response to Commission Staff’s Second Request for Information, Hardin District No. 2 stated that \$40,500 of the \$958,835 proposed increase was year-end bonuses that are not mandated by any written district policy nor is it listed in the Employee Handbook and

<sup>14</sup> Hardin District No. 2’s Response to Staff’s First Request, Item 36.

<sup>15</sup> Application, Exhibit 8, Schedule of Adjusted Values, Adjustment A.

should be removed.<sup>16</sup> Removing the \$40,500 results in a proposed increase to Salaries and Wages – Employees of \$918,435.

Since the test year, Hardin District No. 2 has increased its employees' wages using a cost-of-living adjustment,<sup>17</sup> a merit matrix,<sup>18</sup> and an informal wage study conducted by the district.<sup>19</sup> The Commission has reviewed Hardin District No. 2's wage study and agrees that the proposed increase to Salaries and Wages – Employees of \$918,435 is appropriate given the wage ranges provided in the study in light of the new Blue Oval SK facility breaking ground in the area creating thousands of new jobs.<sup>20</sup> The Commission has reviewed the evidence submitted in the case and finds that Hardin District No. 2's proposed adjustment to increase Salaries and Wages – Employees by \$918,435 is based upon known and measurable changes, is reasonable, and accepts the adjustment.

Salaries and Wages – Officers. In its application, Hardin District No. 2 reported a test year Salaries and Wages – Officers expense of \$29,964.<sup>21</sup> KRS 74.020 requires Commissioners' salaries to be set by the county judge/executive and approved by the fiscal court.<sup>22</sup> The Commission has reviewed the evidence submitted in the case and notes the district did not provide Hardin County Fiscal Court minutes with approval of

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<sup>16</sup> Hardin District No.2's Response to Staff's Second Request, Item 2.

<sup>17</sup> Hardin District No. 2's Response to Staff's Post-Hearing Request (filed Jan. 26, 2024), Item 4.

<sup>18</sup> Hardin District No. 2's Response to Staff's First Request, Item 29.

<sup>19</sup> Hardin District No. 2's Response to Staff's Post-Hearing Request, Item 3.

<sup>20</sup> Hardin District's Response to Commission Staff's Post-Hearing Request for Information, Item No. 8.

<sup>21</sup> Application, Exhibit 8, Schedule of Adjusted Values.

<sup>22</sup> KRS 74.020 (6).

Commissioners' positions or salaries. As such, the Commission finds that the \$29,964 amount of Salaries and Wages – Officers expense should be removed.

Employee Pension and Benefits. In its application, Hardin District No. 2 proposed an increase of \$237,462 to Employee Pension and Benefits to reflect changes associated with 2023 Salaries, Medical Insurance, Life Insurance, and Unemployment Tax.<sup>23</sup> The Commission has reviewed Hardin District No. 2's proposed adjustment calculation<sup>24</sup> and has made several changes. These changes are displayed in the benefits table in Appendix D.

1. Retirement – In its benefits adjustment calculation, Hardin District No. 2 used a total Salary and Wages expense of \$5,404,982 which included Board of Commissioners' salaries and a County Employees Retirement System (CERS) contribution percentage of 23.34 percent.<sup>25</sup> The Commission, as stated above, removed Hardin District No. 2's Commissioner's salaries and \$40,500 of employee salaries for bonuses from the overall revenue requirement. As a result, the Commission's total Salaries and Wages expense used for CERS contribution is \$5,334,282. Hardin District No. 2 used a CERS contribution rate of 23.34 percent in its adjustment calculation.<sup>26</sup> The current CERS contribution rate is 19.71 percent as of July 1, 2024.<sup>27</sup> The Commission included the current CERS contribution rate of 19.71 percent and a total Salaries and

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<sup>23</sup> Application, Exhibit 8, Schedule of Adjusted Values, Adjustment B.

<sup>24</sup> Application, 001\_Rate\_Study\_Adjustments.xlsx.

<sup>25</sup> Application, 001\_Rate\_Study\_Adjustments.xlsx, Tab Benefit Adjust 1.

<sup>26</sup> Application, 001\_Rate\_Study\_Adjustments.xlsx, Tab Benefit Adjust 1.

<sup>27</sup> Kentucky Public Pensions Authority, Contribution Rates, <https://www.kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>.

Wages expense of \$5,334,282 in its calculation of Hardin District No. 2's benefits adjustment.

2. Health Insurance – Hardin District No. 2 provided its health insurance calculation from its benefits adjustment.<sup>28</sup> Hardin District No. 2 stated in the hearing on January 11, 2024, that its Health Insurance employer contribution rate is approximately 94.07 percent.<sup>29</sup> The District has a partially self-insured health plan that allows the district to offer approximately 94.07 percent employer contribution rate while saving the district in health insurance costs. In the past, the Commission has used the U.S. Bureau of Labor Statistics report to determine the average share of premiums paid by employer and employee for health insurance to make adjustments to utilities' insurance contribution percentages recoverable in rates.<sup>30</sup> Hardin District No. 2 referred to the New BlueOval SK plant being built in Hardin County and how the district could lose employees to the benefits offered by the new plant.<sup>31</sup> The Commission reviewed the wage study comparisons of whole compensation package of Hardin District No. 2's employees and finds the 94.07 percent contribution rate reasonable, thus did not amend Hardin District No. 2's Health Insurance calculation from its benefits adjustment.

3. In its benefits adjustment calculation, Hardin District No. 2 included Commissioners in Dental, Vision, and Life Insurance calculation from its benefits

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<sup>28</sup> Application, 001\_Rate\_Study\_Adjustments.xlsx, Tab Benefit Adjust 1.

<sup>29</sup> Hearing Video Transcript (HVT) of the Jan. 11, 2024 Hearing, Michael Bell Testimony, 11:08:45 am; see also Hardin District No. 2's Post-Hearing Brief (filed Feb. 16, 2024) at 8.

<sup>30</sup> See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), at 9-10.

<sup>31</sup> Hardin District No. 2's Response to Staff's Post-Hearing Request, Item 8.; Hardin District No. 2's Post-Hearing Brief at 9, 14-16.



adjustment.<sup>32</sup> As noted above, Hardin District No. 2 failed to provide evidence that, pursuant to KRS 74.020, the benefits for commissioners had been approved by the Hardin County Fiscal Court. Hardin District No. 2 provided only meeting minutes from September 14, 1982, in which the Hardin District No. 2 Board of Commissioners voted to give themselves benefits.<sup>33</sup> Accordingly, the Commission removed the Hardin District No. 2's Commissioners' Dental, Vision and Life Insurance in the amount of \$1,827.

4. Employee Contribution - In its benefits adjustment calculation, Hardin District No. 2 included \$70,183 of employee contribution for health and dental insurance.<sup>34</sup> The Commission, as stated above, removed Hardin District No. 2's amount attributable to the commissioners from the benefits calculation and removed the Commissioners' contribution to insurance benefits lowering employee contribution for health and dental insurance to \$66,477.<sup>35</sup> Additionally, the Commission identified an error in the benefits adjustment calculation, as Hardin District No. 2 incorrectly included employee contribution for health and dental insurance as a positive and not a negative in its total benefits calculation. Accordingly, the Commission has corrected the benefits calculation in Appendix D.

With the adjustments listed above and in the table in Appendix D, the Commission finds that a \$111,161 decrease should be made to Hardin District No. 2's Employee Pensions and Benefits expense.

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<sup>32</sup> Application, 001\_Rate\_Study\_Adjustments.xlsx, Tab Benefit Adjust 1.

<sup>33</sup> Hardin District No. 2's Response to Staff's Second Request, Item 3b.

<sup>34</sup> Application, 001\_Rate\_Study\_Adjustments.xlsx, Tab Benefit Adjust 1.

<sup>35</sup> Application, 001\_Rate\_Study\_Adjustments.xlsx, Tab Benefit Adjust 2.

Purchased Water Expense. In its application, Hardin District No. 2 proposed an increase of \$30,087 to Purchased Water expense to reflect an increase wholesale rate from its supplier Louisville Water Company.<sup>36</sup> The Commission has reviewed the calculation that Hardin District No. 2 provided and finds that the district did not calculate the Purchased Water expense increase correctly.<sup>37</sup> Hardin District No. 2 used a percentage increase instead of using the gallons purchased from the test year and multiplying that by the new wholesale rate. As shown in the table below, when calculated correctly, using the test year gallons times the new wholesale purchase rate the increase in purchase water cost is \$42,032 or \$11,945 more than what Hardin District No. 2 proposed.

Description		Total
2022 Gallons ('000 Omitted)	a	387,715
Current Purchase Rate	b	\$ 2.630
Current Yearly Meter Charge	c	11,455
Pro Forma Cost	a x b + c	<u>\$1,031,145</u>
Less Test Year Purchased Cost		989,113
Increase in Purchase Cost		<u><u>\$ 42,032</u></u>

The Commission finds that a total increase of \$42,032 to Hardin District No. 2's Purchased Water expense is known and measurable and accurately reflects the wholesale rate increase from the district's supplier.

Chemicals Expense. In its application, Hardin District No. 2 proposed an increase of \$177,092 to its Chemicals expense to reflect chemical pricing increases.<sup>38</sup> In its post

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<sup>36</sup> Application, Exhibit 8, Schedule of Adjusted Values, Adjustment C.

<sup>37</sup> Application, 001\_Rate\_Study\_Adjustments.xlsx.

<sup>38</sup> Application, Exhibit 8, Schedule of Adjusted Values, Adjustment D.

hearing brief, Hardin District No. 2 requested that the Commission include a \$188,472 increase to Chemicals expense instead of \$177,092 to reflect actuals from 2023 chemical invoices.<sup>39</sup>

The Commission reviewed Hardin District No. 2's calculation<sup>40</sup> and chemical invoices<sup>41</sup> and finds that Hardin District No. 2's proposed \$188,472 increase to Chemicals expense a known and measurable change and accepts the adjustment.

Rate Case Expense. In its application, Hardin District No. 2 proposed an increase of \$37,500 to Contractual Services-Other expense to reflect the cost associated this rate case.<sup>42</sup> According to Hardin District No. 2, the adjustment is to account for the amortization of the estimated \$75,000 rate case expense over two years.<sup>43</sup> Hardin District No. 2 filed a file updated total Rate Case expense cost of \$196,176.<sup>44</sup> In its post hearing brief, Hardin District No. 2 requested an amortization period of three years because the district now intends to file its next rate case within the next three years.<sup>45</sup>

The Commission has reviewed the evidence submitted in the case and finds that increase to Contractual Services-Other expense to reflect the cost associated with this rate case is \$65,392, or \$196,176 over three years. The Commission finds that the \$65,392 increase to Contractual Services-Other expense is known and measurable.

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<sup>39</sup> Hardin District No. 2's Post-Hearing Brief at 18-19.

<sup>40</sup> Application, 001\_Rate\_Study\_Adjustments.xlsx.

<sup>41</sup> Hardin District No. 2's Response to Staff's Second Request, Item 1.

<sup>42</sup> Application, Exhibit 8, Schedule of Adjusted Values, Adjustment E.

<sup>43</sup> Application, Exhibit 8, Schedule of Adjusted Values, Adjustment E.

<sup>44</sup> Hardin District No. 2's Fifth Supplemental Response to Staff's First Request (filed Feb. 15, 2024), 1-12d, Rate Case Expense Report.

<sup>45</sup> Hardin District No. 2's Post-Hearing Brief at 21-22.

Depreciation Expense. In its application, Hardin District No. 2 proposed a \$286,381 decrease to Depreciation expense to account for the adjustment to asset lives that fall outside the ranges recommended by National Association of Regulatory Utility Commissioners (NARUC) in its publication titled *Depreciation Practices for Small Water Utilities* (NARUC Study); as well as the inclusion of the new water treatment plant assets.<sup>46</sup> In reviewing, Hardin District No. 2's adjustment the Commission notes that a large portion of this adjustment is due to the district moving its depreciable service life of water meters from ten years to the NARUC standard of 40 years.<sup>47</sup>

The Commission has reviewed the evidence submitted in the case<sup>48</sup> and finds that Hardin District No. 2's proposed adjustment to decrease Depreciation expense by \$286,381 is reasonable and accepts the adjustment.

Taxes Other Than Income. In its application, Hardin District No. 2 did not propose an adjustment to Taxes Other Than Income. The Commission has calculated a \$79,165 increase to Taxes Other Than Income using the table below to reflect higher wage rates following the increase in Salaries and Wages expense to \$5,334,282, and the test year payroll taxes of \$328,908.<sup>49</sup>

The Commission finds that this adjustment is known and measurable and reflects the increase in payroll tax associated with the Salaries and Wages increase.

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<sup>46</sup> Application, Exhibit 8, Schedule of Adjusted Values, Adjustment F.

<sup>47</sup> Hardin District No. 2's Response to Staff's First Request, Item 32.

<sup>48</sup> Hardin District No. 2's Response to Staff's First Request, Item 32.

<sup>49</sup> 2022 Annual Report at 45.

Pro forma Salary and Wages	\$	5,334,282
FICA		7.65%
Proforma Taxes Other Than Income		408,073
Test Year Taxes Other Than Income		(328,908)
Adjustment	\$	<u>79,165</u>

Summary of Adjustments to Operating Expense and Revenue

The following schedule is a summary of Hardin District No. 2’s test-year operating revenues and expenses, including appropriate adjustments found reasonable herein. The chart in Appendix C, attached to this Order, is a detailed pro forma Income Statement that shows the proposed, revised, and accepted adjustments for Hardin District No. 2:

	<u>Hardin District No. 2 Test Year</u>	<u>Commission Pro forma Adjustments</u>	<u>Commission Approved Proforma</u>
Total Operating Revenues	\$ 15,475,429	\$ 48,423	\$ 15,523,852
Utility Operating Expense	<u>(15,004,423)</u>	<u>(865,990)</u>	<u>(15,870,413)</u>
Utility Operating Income	471,006	(817,567)	(346,561)
Total Other Income Deductions	(994,978)		(994,978)
Total Interest Expense	<u>(292,443)</u>	<u>(78,506)</u>	<u>(370,949)</u>
Net Income Available to Service Debt	<u>(816,415)</u>	<u>(896,073)</u>	<u>(1,712,488)</u>

Debt Service Coverage

Hardin District No. 2 proposed the use of the Debt Service Coverage (DSC) method to calculate its revenue requirement. The Commission has historically applied a 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) recovery of depreciation expense, a noncash item, to provide working

capital;<sup>50</sup> (3) the average annual principal and interest payments on all long-term debts, and (4) working capital that is in addition to depreciation expense. The Commission finds that the Debt Service Coverage method to be appropriate given the debt currently held by Hardin District No. 2.

At this time of its application, Hardin District No. 2 had five outstanding United States Department of Agriculture Rural Development (RD) bonds, one outstanding bond to The Cecilian Bank, and a note to the city of Elizabethtown, Kentucky<sup>51</sup> for \$8 million based on 20 annual installments of \$400,000 beginning in 2015 with the Commission's approved asset purchase agreement.<sup>52</sup>

In its application Hardin District No. 2 proposed an Average Annual Principal and Interest expense of \$1,763,124 and an Additional Working Capital expense of \$352,625 based on a three-year average of 2023-2025. Commission Staff requested an updated debt service schedule that included 2024-2026 because the statutory date for this case ends in 2024 not 2023.<sup>53</sup> The revised three-year Average Annual Principal and Interest

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<sup>50</sup> The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

<sup>51</sup> Application at 9, paragraph 25.

<sup>52</sup> Application, Exhibit 12, Table B, Debt Service Schedule, footnote 1, referencing Case No. 2014-00289, *Application of Hardin County Water District No. 2 for Authority to Execute a Promissory Note in the Principal Amount of \$8,000,000 Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Oct. 23, 2014).

<sup>53</sup> Hardin District No. 2's Response to Staff's Second Request, Item No. 4, Attachment 2-4.

is \$1,659,863, with an Additional Working Capital amount of \$331,973.<sup>54</sup> The Commission finds that this change is known and measurable and should be included in the calculation of the revenue requirement.

Applying the DSC method to Hardin District No. 2's pro forma operations result in an Overall Revenue Requirement of \$17,862,249 and, based upon pro forma present rate service revenues of \$14,787,688, a revenue increase of \$1,762,501 from water service rates is necessary to generate the overall revenue requirement.

	Hardin District No. 2	Commission Staff
Pro Forma Operating Expenses	\$16,159,118	\$15,870,413
Plus: Average Annual Principal and Interest Payments	1,763,124	1,659,863
Additional Working Capital	352,625	331,973
Overall Revenue Requirement	18,274,867	17,862,249
Less: Other Operating Revenue	(790,031)	(736,164)
Interest Income	(292,443)	(370,949) (1)
Non-Utility Income	(204,947)	(204,947)
Revenue Required from Rates	16,987,446	16,550,189
Less: Pro Forma Present Rate Service Revenues	(14,685,398)	(14,787,688)
Required Revenue Increase	<u>\$ 2,302,048</u>	<u>\$ 1,762,501</u>
Percentage Increase	<u>15.68%</u>	<u>11.92%</u>

1. In its post hearing brief, Hardin District No. 2 provided a three-year average of interest income from 2021 to 2023 of \$370,949.<sup>55</sup> Hardin District No. 2 requested to include this amount in place of the test year \$292,443 to normalize the test year amount due to the wide fluctuations in interest rates in recent years. The Commission finds that the change of interest income should be included in the revenue requirement calculation.

<sup>54</sup> Hardin District No. 2's Response to Staff's Second Request, Item No. 4, Attachment 2-4.

<sup>55</sup> Hardin District No. 2's Post-Hearing Brief at 18.

Based upon the Commission's findings and determinations in this Order, Hardin District No. 2 requires an increase in revenues of \$1,762,501 or 11.92 percent above pro forma present rate revenues, as shown below.

Cost-of-Service Study. Hardin District No. 2 included a cost-of-service study (COSS) performed by Kenvirons in order to allocate the expenses to customer classes in proportion with the cost of providing service to each class.<sup>56</sup> The rates in the COSS were developed following the commodity demand methodology that is recognized in the Manual M-1 published by the American Water Works Association (AWWA). The Commission has long accepted the AWWA guidelines as a reasonable method to ratemaking and a reasonable method of designing rates for small water utilities.<sup>57</sup>

Using this method, Hardin District No. 2 allocated the Overall Revenue Requirement to its customer classes in proportion to the cost of providing service to those customer classes. This method recognizes that a utility must meet peak demand requirements as well as the customer's average water use. Hardin District No. 2 also proposed to increase its current wholesale water service rate and has provided a COSS using the "inch-miles" method to allocate expenses to the wholesale customer.<sup>58</sup> This method has been accepted by the Commission in past proceedings<sup>59</sup> and the

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<sup>56</sup> Application, Exhibit 19, Water Rate Analysis and Written Testimony of Vaughn Williams.

<sup>57</sup> Case No. 2023-00088, *Electronic Application of Green River Valley Water District for Adjustment of Rates* (Ky. PSC Oct. 30, 2023), final Order; Case No. 2022-00366, *Electronic Application of Mountain Water District for a General Adjustment of Water Rates* (Ky. PSC Oct. 31, 2023), final Order; and Case No. 2022-00142, *Electronic Application of Daviess County Water District for an Adjustment of Rates* (Ky. PSC Feb. 10, 2023), final Order.

<sup>58</sup> Application, Written Testimony of Vaughn Williams at 12.

<sup>59</sup> Case No. 2022-00142, Feb. 10, 2023 final Order.



Commission finds that it is a reasonable method for allocating expenses to the wholesale customer in this case.

The Commission calculated the revenue required from rates of \$16,550,189, which is approximately 97.43 percent of the revenue requirement calculated by Hardin District No. 2. As noted in the COSS, there are only two classes in the rate study, wholesale and retail, with the COSS percentage attributed to the wholesale class of approximately 6.82 percent, and the retail class percentage of the cost of service the remaining 93.18 percent.<sup>60</sup> The rates in Appendix B reflect the revenue requirement being spread across the customer classes reflecting the percentage attributable to each class. The Commission accepts Hardin District No. 2's proposed COSS as a reasonable basis for allocating costs but incorporates revisions based upon the adjustments made to the proforma expenses explained above.

The Commission finds that the rates set forth in Appendix B to this Order are based upon the revenue requirement as calculated by the Commission and will produce sufficient revenues from water sales to recover the \$16,550,189 Revenue Required from Rates, an approximate 11.92 percent increase overall.

Wholesale Tariff Rates. Hardin District No. 2 stated in its application that it provides wholesale water service to Hardin District No. 1,<sup>61</sup> and a wholesale customer notice was provided.<sup>62</sup> Hardin District No. 2 only provides wholesale water service to

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<sup>60</sup> Application, Exhibit 19, Water Rate Analysis, Table G-1, Wholesale Rate Computation.

<sup>61</sup> Application at 3 and 2022 Annual Report at 27.

<sup>62</sup> Application, Exhibit 6.

Hardin District No. 1 and no other customers.<sup>63</sup> However, the Commission found no evidence of the existence of a valid wholesale rate tariff on file with the Commission for Hardin District No. 2. Hardin District No. 2 provided testimony that the wholesale rate tariff sheet had been canceled prior to the current management and that was not known or discovered until after the application was submitted.<sup>64</sup> Hardin District No. 2 proposed to establish a tarified wholesale water rate of \$2.89 per 1,000 gallons in this case.<sup>65</sup>

In the application, testimony was provided pertaining to Hardin District No. 1's purchase volume during the test year; Hardin District No. 1 was rehabilitating two water treatment plants and therefore needed to purchase water at a higher volume.<sup>66</sup> On September 18, 2023, Hardin District No. 1 sent a letter to Hardin District No. 2 informing the utility that the volume of purchased water needed will be reduced to approximately 400,000 gallons a day,<sup>67</sup> or 146,000,000 gallons annually, a reduction from the test year amount of 209,496,000 gallons annually.<sup>68</sup> Hardin District No. 2 stated that adjustments were made in the Water Rate Analysis to address the decrease in volume sold for wholesale, specifically "Reallocation of Wholesale Expense to Retail".<sup>69</sup> The assigned wholesale expense amount was reduced to 33.90 percent in the COSS, with approximately \$422,624 of the total revenue requirement allocated to wholesale expense,

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<sup>63</sup> Application at 3.

<sup>64</sup> HVT of the Jan. 11, 2024 Hearing, Shaun Youravich Testimony, 09:28:51.

<sup>65</sup> Hardin District No 2's Post Hearing Brief at 24.

<sup>66</sup> Application, Exhibit 9B, Written Testimony of Shaun Youravich (Youravich Testimony) at 4.

<sup>67</sup> Youravich Testimony, Appendix C.

<sup>68</sup> Youravich Testimony at 4-7.

<sup>69</sup> Application, Exhibit 19, Water Rate Analysis, Table G-2.

based on Hardin District No. 1's current purchases from Hardin District No. 2.<sup>70</sup> The Commission finds that there is sufficient evidence in the record to support the establishment of a wholesale or sales for resale rate for Hardin District No. 2. The rate in Appendix B for wholesale water sales is calculated based on the revenue requirement being allocated to the wholesale class reflecting the percentage attributable to the class.

The Commission advises Hardin District No. 2 that if the future amount of wholesale gallons sold deviates significantly from the estimate of 400,000 gallons per day, then the utility should file a new rate case with the Commission to accurately reflect its wholesale amount and in order to ensure that its revenue is sufficient to support adequate and reliable service.

Nonrecurring Charges. Hardin District No. 2 provided updated cost justification sheets in response to Commission Staff's requests for information.<sup>71</sup> The Commission continues to follow its previous decisions regarding nonrecurring charges: personnel are paid during normal business hours and their salaries are recovered through base rates.<sup>72</sup> The Commission requires that charges be directly related to the actual cost incurred to provide the service. It is unreasonable to allocate an expense already incurred as a day-to-day cost of maintaining a system, such as the salary of a distribution operator, to a nonrecurring service such as the connection and reconnection of a meter during normal

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<sup>70</sup> Application, Written Testimony of Vaughn Williams' at 14, Exhibit 19, Water Rate Analysis, Table G-2.

<sup>71</sup> Hardin District No. 2's Response to Staff's First Request, Item 37 and Hardin District No. 2's First Supplemental Response to Staff's First Request, Item 37.

<sup>72</sup> Case No. 2023-00088, *Electronic Application of Green River Valley Water District for Adjustment of Rates* (Ky. PSC Oct. 30, 2023), final Order; Case No. 2022-00366, *Electronic Application of Mountain Water District for a General Adjustment of Water Rates* (Ky. PSC Oct. 31, 2023), final Order; and Case No. 2022-00161, *Electronic Application of Northern Kentucky Water District for an Adjustment of Rates; Issuance of Bonds; Financing; and Tariff Revisions* (Ky. PSC Feb. 8, 2023), final Order.

working hours. Only the marginal costs related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours.

Therefore, the Commission finds that nonrecurring charges should each be reduced by the estimated labor costs stated in the cost justification sheets, unless the activity occurs outside business hours. The Commission accordingly finds the revised nonrecurring charges set out in Appendix B are reasonable and should be accepted, and as discussed above, that an adjustment of \$53,867 to Other Water Revenues is reasonable. The tables in Appendix A show the calculation of the adjustment of the decrease to the test year nonrecurring charges and the amount each nonrecurring charge was adjusted.

Meter Connections/Tap-On Fee. Hardin District No. 2 revised and updated its Tap Fee tariff through the Commission Tariff System in 2022.<sup>73</sup> The Commission finds that no other action is necessary for this item.

#### SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the adjustments, as discussed above, are supported by the evidence of record and are fair, just and reasonable. Based on the evidence of record, the Commission finds that the rates in Appendix B resulting from the adjustments and allocation in accordance with the COSS, are also fair, just and reasonable.

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<sup>73</sup> TFS2022-00415 (Ky. PSC Aug. 12, 2022); Hardin District No. 2 submitted the tariff on August 12, 2022, and the tariff was accepted for filing by the Commission by letter dated October 31, 2022, with an effective date of November 1, 2022.

IT IS THEREFORE ORDERED that:

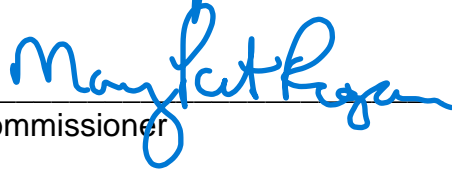
1. Hardin District No. 2's application for an adjustment of its rates is denied as proposed.
2. The general water service rates set forth in Appendix B of this Order are approved for the water service that Hardin District No. 2 renders on and after the date of this Order.
3. The wholesale water rates set forth in Appendix B of this Order are approved for water sales from Hardin District No. 2 to Hardin District No. 1 occurring on and after the date of this Order.
4. The nonrecurring charges set forth in Appendix B of this Order are approved for the water service that Hardin District No. 2 renders on and after the date of this Order.
5. Within 20 days of the date of entry of this Order, Hardin District No. 2 shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the general water rates approved herein and reflecting that it was approved pursuant to this Order.
6. Within 20 days of the date of entry of this Order, Hardin District No. 2 shall file through the Commission's Electronic Tariff Filing system new nonrecurring charges approved herein and reflecting that it was approved pursuant to this Order.
7. Within 20 days of the date of entry of this Order, Hardin District No. 2 shall file through the Commission's Electronic Tariff Filing system a new wholesale tariff approved herein and reflecting that it was approved pursuant to this Order.
8. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

\_\_\_\_\_  
Chairman

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

\_\_\_\_\_  
Commissioner



ATTEST:

  
Executive Director

ENTERED  
JUL 29 2024  
KENTUCKY PUBLIC SERVICE COMMISSION rCS

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2023-00247 DATED JUL 29 2024

\* Denotes Rounding

**Nonrecurring Charges Adjustments**

	Turn-On Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$40.82 at 1 hours)	\$40.82	
Office Supplies		
Office Labor	\$19.32	
Transportation (30 @ \$.655)	\$19.65	\$19.65
Misc.		
Total Revised Charge	<u>\$79.79</u>	<u>\$20.00*</u>
Current Rate	\$25.00	

	Reconnection Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$40.82 at 1 hours)	\$40.82	
Office Supplies		
Office Labor	\$19.32	
Transportation (30 @ \$.655)	\$19.65	\$19.65
Misc.		
Total Revised Charge	<u>\$79.79</u>	<u>\$20.00*</u>
Current Rate	\$25.00	

	Termination Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$40.82 at 1 hours)	\$40.82	
Office Supplies		
Office Labor	\$19.32	
Transportation (30 @ \$.655)	\$19.65	\$19.65
Misc.		
Total Revised Charge	<u>\$79.79</u>	<u>\$20.00*</u>
Current Rate	\$25.00	

	Meter Re-Setting Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$40.82 at 1 hours)	\$40.82	
Office Supplies		
Office Labor	\$19.32	
Transportation (30 @ \$.655)	\$19.65	\$19.65
Misc.		
Total Revised Charge	<u>\$79.79</u>	<u>\$20.00*</u>
Current Rate	\$25.00	

	Meter Testing Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$42.95 at 1.5 hours)	\$64.42	
Office Supplies		
Office Labor		
Transportation		
Misc. - Service Call	\$80.00	\$20.00
Total Revised Charge	<u>\$145.00</u>	<u>\$20.00</u>
Current Rate	\$25.00	

	Returned Payment Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor	\$40.82	
Office Supplies		
Office Labor	\$38.64	
Transportation		
Misc. - Bank Fee	\$12.00	\$12.00
Total Revised Charge	<u>\$50.00</u>	<u>\$12.00</u>
Current Rate	\$25.00	\$12.00

	After Hours Turn-On Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$64.19 at 2 hours)	\$128.38	\$128.38
Office Supplies		
Office Labor	\$19.32	\$0.00



Transportation (30 @ \$.655)	\$19.65	\$19.65
Misc.		
Total Revised Charge	<u>\$167.00</u>	<u>\$148.00*</u>
Current Rate	\$40.00	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2023-00247 DATED JUL 29 2024

The following rates and charges are prescribed for the customers in the area served by Hardin County Water District No. 2. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 Gallons	\$21.49	Minimum Bill
Next	498,000 Gallons	0.00597	Per Gallon
Over	500,000 Gallons	0.00335	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$42.28	Minimum Bill
Next	495,000 Gallons	0.00597	Per Gallon
Over	500,000 Gallons	0.00335	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$76.92	Minimum Bill
Next	490,000 Gallons	0.00597	Per Gallon
Over	500,000 Gallons	0.00335	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$146.19	Minimum Bill
Next	480,000 Gallons	0.00597	Per Gallon
Over	500,000 Gallons	0.00335	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$215.47	Minimum Bill
Next	470,000 Gallons	0.00597	Per Gallon
Over	500,000 Gallons	0.00335	Per Gallon

4-Inch Meter

First	50,000 Gallons	\$354.02	Minimum Bill
Next	450,000 Gallons	0.00597	Per Gallon
Over	500,000 Gallons	0.00335	Per Gallon

6-Inch Meter

First	100,000 Gallons	\$700.40	Minimum Bill
Next	400,000 Gallons	0.00597	Per Gallon
Over	500,000 Gallons	0.00335	Per Gallon

8-Inch Meter

First	150,000 Gallons	\$1,046.78	Minimum Bill
Next	350,000 Gallons	0.00597	Per Gallon
Over	500,000 Gallons	0.00335	Per Gallon

10-Inch Meter

First	250,000 Gallons	\$1,739.55	Minimum Bill
Next	250,000 Gallons	0.00597	Per Gallon
Over	500,000 Gallons	0.00335	Per Gallon

12-Inch Meter

First	400,000 Gallons	\$2,778.69	Minimum Bill
Next	100,000 Gallons	0.00597	Per Gallon
Over	500,000 Gallons	0.00335	Per Gallon

Wholesale Rates

All Water Sold	\$0.00289 Per Gallon
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Nonrecurring Charges

Turn-On Charge	\$ 20.00
Reconnection Charge	\$ 20.00
Termination Charge	\$ 20.00
Meter Re-Setting Charge	\$ 20.00
Meter Testing Charge	\$ 20.00
Returned Payment Charge	\$ 12.00
Late Payment Penalty	10%
After Hours Turn-On Charge	\$ 148.00

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2023-00247 DATED JUL 29 2024

<i>Water Division</i>	Hardin				Pro Forma
	Test Year	District No. 2 Adjustment	Commission Adjustment	Total Adjustment	
<b>Operating Revenues</b>					
Metered Water Revenue					
Sales to Residential Customers	\$ 8,972,015	\$ -	\$ -	\$ -	\$ 8,972,015
Sales to Commercial Customers	2,955,031				2,955,031
Sales to Industrial Customers	1,180,821				1,180,821
Sales to Public Authorities	625,371				625,371
Sales thru Bulk Loading Station	4,745				4,745
Total Retail Metered Sales	13,737,983		102,290	102,290	13,840,273
Sales for Resale	947,415				947,415
Other Water Revenues					
Misc. Service Revenues	494,895		(53,867)	(53,867)	441,028
Other Water Revenues	295,136				295,136
Total Other Water Revenues	790,031			(53,867)	736,164
<b>Total Operating Revenues</b>	<b>15,475,429</b>		<b>48,423</b>	<b>48,423</b>	<b>15,523,852</b>
<b>Operating Expenses</b>					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	4,415,847	958,935	(40,500)	918,435	5,334,282
Salaries and Wages - Officers	29,964		(29,964)	(29,964)	0
Employee Pensions and Benefits	2,391,618	237,462	(348,623)	(111,161)	2,280,457
Purchased Water	989,113	30,087	11,945	42,032	1,031,145
Purchased Power	981,788				981,788
Chemicals	678,241	177,092	11,380	188,472	866,713
Materials and Supplies	375,398				375,398
Contractual Services - Accounting	48,528				48,528
Contractual Services - Legal	62,318				62,318
Contractual Services - Other	515,746	37,500	27,892	65,392	581,138
Rental of Equipment	15,838				15,838
Transportation Expense	294,401				294,401
Insurance	152,958				152,958
Advertising Expense	4,396				4,396
Bad Debt Expense	74,476				74,476
Miscellaneous Expense	401,332				401,332
Total Operation and Maintenance Expenses	11,431,962	1,441,076	(367,870)	1,073,206	12,505,168
Depreciation Expense	3,211,425	(286,381)		(286,381)	2,925,044
Amortization	9,731				9,731
Taxes Other Than Income	351,305		79,165	79,165	430,470
<b>Total Operating Expenses</b>	<b>15,004,423</b>	<b>1,154,695</b>	<b>(288,705)</b>	<b>865,990</b>	<b>15,870,413</b>
<b>Net Operating Income</b>	<b>\$ 471,006</b>	<b>\$ (1,154,695)</b>	<b>\$ 337,128</b>	<b>\$ (817,567)</b>	<b>\$ (346,561)</b>

APPENDIX D  
APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2023-00247 DATED JUL 29 2024

<b>2022 Benefits</b>	
<b>Total Benefits in PSC Annual Report</b>	<b>\$2,391,618</b>
Break-Out of Benefits	
Retirement	1,181,298
Health Insurance	1,115,720
Less Commissioner Contribution	(2,346)
Less Employee Contribution	(50,806)
Dental Insurance	57,059
Vision Insurance	8,629
Life Insurance	68,071
SUTA	13,603
<b>2022 Total Benefits</b>	<b>\$2,391,228</b>

<b>Evaluation of Benefits</b>	
Retirement	
Salaries & Wages - Empl.	\$ 5,334,282
Salaries & Wages - Comm'r	0
Total Salaries & Wages	5,334,282
Contribution Rate	19.71%
	\$ 1,051,387
Health Insurance	
Stoploss per Employee/Month	\$ 467.97
Expected Funding Factor per Employee/Month	749.68
Total Health Insur. Cost per Employee/Month	1,217.65
No. Employees w/ Health Insurance	81
Months per Year	12
	\$ 1,183,556
Dental Insurance	
Dental Fee per Employee/Month	\$ 3.75
No. Employees w/ Dental Insurance	81
Months per Year	12
	\$ 3,645
Less Employee Contribution for Health & Dental	\$ (66,477)
Vision Insurance	
Vision Fee per Employee/Month	\$ 8.97
No. Employees w/ Dental Insurance	81
Months per Year	12
	\$ 8,719
Life Insurance	
Long Term Disability	\$ 21,280
Short Term Disability	35,679
Life Insurance	24,397
Accidental Death & Dismemberment	2,430
	\$ 83,786
State Unemployment Tax (SUTA)	\$ 15,841
<b>Total Benefits</b>	<b>\$ 2,280,457</b>
<b>Pro Forma Adjustment</b>	<b>\$ (111,161)</b>

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