

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KIRKSVILLE	)	CASE NO.
WATER ASSOCIATION, INC. FOR A RATE	)	2023-00258
ADJUSTMENT PURSUANT TO 807 KAR 5:076	)	

ORDER

On August 12, 2023,<sup>1</sup> Kirksville Water Association, Inc. (Kirksville Water) filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,<sup>2</sup> Kirksville Water used the calendar year ended December 31, 2022, as the basis for its application. Kirksville Water's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2015-00097.<sup>3</sup>

In its application, Kirksville Water requested rates that would decrease its annual water sales revenues by \$31,751 or 2.36 percent.<sup>4</sup>

---

<sup>1</sup> Kirksville Water tendered its application on July 31, 2023. By letter dated August 2, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application was deemed filed on August 12, 2023.

<sup>2</sup> The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

<sup>3</sup> Case No. 2015-00097, *Alternative Rate Adjustment Filing of Kirksville Water Association, Inc.* (Ky. PSC Sept. 25, 2015).

<sup>4</sup> Application, Copy\_of\_Kirksville\_Water\_Association\_Rate\_Increase\_(6)corrected.xlsx, (filed Aug. 12, 2023), Tab 'FA-6'. Kirksville Water calculated a \$31,751 decrease in its Revenue Requirement Calculation. However, it was discovered that Kirksville Water had erroneously stated a proposed 10 percent increase for its rates rather than a 2.36 percent decrease.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated August 30, 2023. On September 27, 2023, Kirksville Water requested additional time to respond to Commission Staff's First Request for Information (Staff's First Request), which was granted by the Commission in an Order dated October 11, 2023. Kirksville Water responded to two requests for information from Commission Staff.<sup>5</sup>

On January 4, 2024, Commission Staff issued its report (Commission Staff's Report) summarizing its recommendations regarding Kirksville Water's requested rate adjustment. In Commission Staff's Report, Commission Staff recommended that Kirksville Water's adjusted test-year operations support a total revenue requirement of \$1,262,572, and that an annual revenue increase of \$205,345, or 19.83 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.<sup>6</sup> In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates.

On January 19, 2024, Kirksville Water filed its response to Commission Staff's Report. In its written comments, Kirksville Water concurred with all findings presented in Commission Staff's Report and waived its right to request an informal hearing.<sup>7</sup> On March 4, 2024, the Commission issued an Order requiring Kirksville Water to publish

---

<sup>5</sup> Kirksville Water's Response to Staff's First Request (filed Oct. 25, 2023). Kirksville Water's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Nov. 27, 2023).

<sup>6</sup> Commission Staff Report at 18.

<sup>7</sup> Kirksville Water's Response to Commission Staff's Report (filed Jan. 19, 2024).

notice of the recommended rates set out in the Commission Staff's Report. When Kirksville Water accepted Commission Staff's proposed revenue requirement increase of \$205,345, Kirksville Water accepted rates that produced a total increase that exceeds the revenue initially proposed by \$237,096 or is 115.46 percent of the original proposed rates.<sup>8</sup> Kirksville Water filed proof of publication on April 11, 2024.<sup>9</sup> The case now stands submitted for a decision by the Commission.

### LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."<sup>10</sup> Further, the utility bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

### BACKGROUND

Kirksville Water is a water utility organized pursuant to KRS Chapter 273 that owns and operates a distribution system through which it provides retail water service to approximately 1,897 residential customers, 91 commercial customers, and 1 public

---

<sup>8</sup> 807 KAR 5:076, Section 11(3)(f);  $(\$31,751) \div \$205,345 = 115.46\%$ .

<sup>9</sup> Kirksville Water's Proof of rate increase notice (filed Apr. 11, 2024).

<sup>10</sup> *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

authority that reside in Madison County, Kentucky.<sup>11</sup> The application was filed pursuant to the Commission's Order in Case No. 2022-00197<sup>12</sup> that required Kirksville Water to file an application for an adjustment of its base rates by June 30, 2023. This Order modified an Order in Case No. 2022-00076<sup>13</sup> in which the Commission ordered Kirksville Water to file an application for a general rate adjustment or to provide an analysis for why no rate modifications were necessary by December 20, 2022. Kirksville Water's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2015-00097.<sup>14</sup> Since the 2015 filing, Kirksville Water has only adjusted its rates pursuant to purchased water adjustments.

#### UNACCOUNTED-FOR WATER LOSS

Pursuant to 807 KAR 5:066, Section 6(3), water loss is limited to 15 percent for ratemaking purposes. As noted in the Commission Staff's Report, Kirksville Water reported water loss of 22.9613 percent in its 2022 Annual Report.<sup>15</sup> The annual cost of water loss in excess of 15 percent is \$43,020 of the total cost of water loss to Kirksville Water, which is \$124,074, as calculated below. Accordingly, Commission Staff reduced test-year expenses by \$43,020 to account for excess water loss.<sup>16</sup>

---

<sup>11</sup> *Annual Report of Kirksville Water to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 49.

<sup>12</sup> Case No. 2022-00197, *Kirksville Water Association, Inc. and Its Individual Directors, Armon Sanders, Wayne Long, Alfred Winkler, Randal Webb, and Bobby Powell, and Manager Mike Agee Alleged Failure to Comply with KRS 278.300 and KRS 278.020* (Ky. PSC Nov. 7, 2022), Order.

<sup>13</sup> Case No. 2022-00076, *Electronic Application of Kirksville Water Association, Inc. for Permission to Issue Indebtedness Pursuant to KRS 278.300* (Ky. PSC June 20, 2022), final Order.

<sup>14</sup> Case No. 2015-00097, *Alternative Rate Adjustment Filing of Kirksville Water Association, Inc.* (Ky. PSC Sept. 25, 2015).

<sup>15</sup> Commission Staff's Report at 4.

<sup>16</sup> Commission Staff's Report at 4.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 520,713	\$ 19,651	\$ 540,364
Water Loss Percent	22.9613%	22.9613%	
Total Water Loss	\$ 119,562	\$ 4,512	\$ 124,074

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 520,713	\$ 19,651	\$ 540,364
Water Loss in Excess of 15%	7.9613%	7.9613%	7.9613%
Total Disallowed Water Loss	\$ 41,456	\$ 1,564	\$ 43,020

The Commission continues placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and, therefore, strongly encourages Kirksville Water to pursue reasonable actions to reduce its water loss. Failure by Kirksville Water to make significant progress toward reducing unaccounted-for water loss may cause the Commission to pursue additional action with Kirksville Water.

#### TEST PERIOD

The calendar year ended December 31, 2022, was used as the test year to determine the reasonableness of Kirksville Water's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

#### SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Kirksville Water's pro forma income statement as follows:

	<u>Commission Staff's Report</u>		
	<u>Test-Year Operations</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$1,413,512	\$ (356,285)	\$ 1,057,227
Operating Expenses	1,046,019	125,227	1,171,246
Net Utility Operating Income	367,493	(481,512)	(114,019)
Interest Income	455	-	455
Total Utility Operating Income	<u>\$ 367,948</u>	<u>\$ (481,512)</u>	<u>\$ (113,564)</u>

### REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Kirksville Water proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff's Report, Commission Staff proposed additional adjustments. The Commission has no further modifications or adjustments. The following is the Commission Staff's complete pro forma:

	Test Year	Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	Pro Forma
<b>Operating Revenues</b>					
Sales of Water	\$ 1,026,043	\$ 130,730	(146,709)	(15,979)	
			25,256	25,256	1,035,320
Late Payment Penalties			13,160	13,160	13,160
Fees and Charges	57,256		(13,160)	(13,160)	
			(31,012)	(31,012)	
			(6,592)	(6,592)	6,492
Interest Income	455			0	455
Misc	12,827		(11,027)	(11,027)	1,800
Grant Revenue	316,931		(316,931)	(316,931)	0
<b>Total Operating Revenues</b>	<b>1,413,512</b>	<b>130,730</b>	<b>(487,015)</b>	<b>(356,285)</b>	<b>1,057,227</b>
<b>Operating Expenses</b>					
<b>Operation and Maintenance Expenses</b>					
Personnel (Salaries)	263,276	13,164		13,164	
			(18,600)	(18,600)	
			(33,928)	(33,928)	223,912
Salaries - Officers	18,600	930	(930)	0	18,600
Benefits	0	0	33,928	33,928	
			1,064	1,064	34,992
Purchased Water	495,457	24,773	(24,773)	0	
			25,256	25,256	
			(41,456)	(41,456)	479,257
Purchased Power	19,651	983	(983)	0	
			(1,564)	(1,564)	18,087
Insurance	19,248	962	(962)	0	19,248
Postage	3,826	191	(191)	0	3,826
Advertising	1,761	88	(88)	0	1,761
Taxes & License	5,075	254	(254)	0	
			(5,075)	(5,075)	0
Telephone	4,106	205	(205)	0	4,106
Supplies	24,792	1,240	(1,240)	0	24,792
Professional Services	42,418	2,120	(2,120)	0	42,418
Miscellaneous	23,818	1,191	(1,191)	0	
			(16,390)	(16,390)	7,428
Repairs and Maintenance	73,865	3,693	(3,693)	0	
			(20,782)	(20,782)	53,083
Travel	18,270	914	(914)	0	18,270
Bank Charges	1,417	71	(71)	0	1,417
Interest in long-term debt	30,439		(30,439)	(30,439)	0
Depreciation	177,802		(177,802)	(177,802)	0
Office Costs	0		20,782	20,782	20,782
<b>Total Operation and Maintenance Expenses</b>	<b>1,223,821</b>	<b>50,779</b>	<b>(302,621)</b>	<b>(251,842)</b>	<b>971,979</b>
Taxes Other Than Income			16,390	16,390	
			5,075	5,075	21,465
Depreciation	(177,802)		177,802	177,802	
			177,802	177,802	177,802
<b>Total Operating Expenses</b>	<b>1,046,019</b>	<b>50,779</b>	<b>74,448</b>	<b>125,227</b>	<b>1,171,246</b>
<b>Income Available to Service Debt</b>	<b>\$ 367,493</b>	<b>\$ 79,951</b>	<b>\$ (561,463)</b>	<b>\$ (481,512)</b>	<b>\$ (114,019)</b>

**Billing Analysis.** Kirksville Water provided a billing analysis listing the gallons sold and sales revenue for the 12-month test year in its application, with a total metered sales

revenue of \$1,291,840.<sup>17</sup> In the 2022 Annual Report, total metered sales revenue reflected \$1,026,043.<sup>18</sup> In its application, Kirksville Water proposed an adjustment to Retail Water Revenue in the amount of \$130,730, a 10 percent increase.<sup>19</sup> Kirksville Water's billing analysis calculated a 10 percent increase to Residential Current Rates and Commercial Current Rates.<sup>20</sup> In the Commission Staff's Report, Commission Staff reviewed the billing analysis created by Kirksville Water and found substantial errors in the application of the Usage Table, specifically, the gallons in each tier lever were applied incorrectly. Kirksville Water provided the test-year "Adjustment Report" containing additional detailed information about the test-year leak adjustments and billing adjustments.<sup>21</sup>

In the Commission Staff's Report, Commission Staff explained that during the test year, Kirksville Water received approval from the Commission to raise its rates in a purchased water adjustment (PWA) filing case.<sup>22</sup> Therefore, Commission Staff applied the current rates approved in PWA Case No. 2022-00185,<sup>23</sup> to the entire test year to

---

<sup>17</sup> Kirksville Water's Response to Staff's First Request (filed Oct. 25, 2023), Exhibit 16-billing analysis.

<sup>18</sup> 2022 Annual Report at 49.

<sup>19</sup> Application (filed Aug. 12, 2023), Copy\_of\_Kirksville\_Water\_Association\_Rate\_Increase\_2023\_(6)corrected.xlsx, Tab 'FA-5'.

<sup>20</sup> Application, Copy\_of\_Kirksville\_Water\_Association\_Rate\_Increase\_2023\_(6)corrected.xlsx.

<sup>21</sup> Kirksville Water's Response to Staff's Second Request (filed Nov. 27, 2023), Q2\_Adjustments\_2022.pdf.

<sup>22</sup> Case No. 2022-00185, *Electronic Purchased Water Adjustment Filing of Kirksville Water Association, Inc.* (Ky. PSC July 15, 2022), final Order.

<sup>23</sup> Case No. 2022-00185, *Electronic Purchased Water Adjustment Filing of Kirksville Water Association, Inc.* (Ky. PSC July 15, 2022), final Order.



calculate a normalized revenue amount of \$1,035,320 for Kirksville Water.<sup>24</sup> Commission Staff then subtracted the reported test-year revenue amount of \$1,026,043 from the normalized revenue amount for a total adjustment increase to Metered Water Sales of \$9,277.<sup>25</sup> The Commission finds that Commission Staff's recommendation is reasonable; Kirksville Water's test-year water sales revenue should be increased by \$9,277 because the billing and usage data provided by Kirksville Water reflects a higher water sales revenue.

Late Payment Penalties. In the Commission Staff's Report, Commission Staff reclassified late payment penalties of \$13,160 from Fees and Charges for purposes of clarity.<sup>26</sup> In response to Commission Staff's Second Request, Kirksville Water provided an itemized list of late fee postings from the general ledger verifying the late payment revenue total.<sup>27</sup> Kirksville Water provided the itemized General Ledger account for Late Fees from the test year.<sup>28</sup> The Commission finds that this adjustment, as reclassified by Commission Staff, is a known and measurable change, is reasonable, and should be accepted.

Fees and Charges. In the Commission's Staff Report, Commission Staff recommended removal of estimated labor costs, previously included in determining the

---

<sup>24</sup> Commission Staff's Report at 10.

<sup>25</sup> Commission Staff's Report at 10.

<sup>26</sup> Commission Staff's Report at 8 and 10.

<sup>27</sup> Kirksville Water's Response to Staff's Second Request, Item 1.

<sup>28</sup> Kirksville Water's Response to Staff's First Request, Item 1a, Q1AB\_YearEnd12312022\_GeneralLedger\_TrialBalance.pdf.

amount of Nonrecurring Charges, from Fees and Charges.<sup>29</sup> Following the Commission's recent decisions,<sup>30</sup> the Commission found that because Kirksville Water's personnel are currently paid during normal business hours and their salaries and wages are an expense recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated. Commission Staff reviewed the cost justification information<sup>31</sup> provided by Kirksville Water and adjusted these charges by removing Field Labor Costs of approximately \$28.11 per hour and Office/Clerical Labor Costs of approximately \$26.00 per hour from those charges that occur during normal business hours. The breakdown of cost for each nonrecurring charge and any Commission Staff adjustment can be found in Appendix A.

Kirksville Water reported \$57,256 in Fees and Charges consisting of late payment revenue, meter installation fees (tap fees) of \$31,012, service charges of \$6,871, cut-off charges of \$6,113 and return check charges of \$100.<sup>32</sup> Late payment penalties of \$13,160 were reclassified as explained above. In the Commission Staff's Report, Commission Staff removed tap fees from revenues because the Uniform System of Accounts for Class A/B Water Districts and Associations (USoA) indicates tap fees

---

<sup>29</sup> Commission Staff's Report at 10–11, Appendix A.

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

<sup>31</sup> Kirksville Water's Response to Staff's First Request, Item 15.

<sup>32</sup> Kirksville Water's Response to Staff's Second Request, Item 1.

represent contributed capital and are not considered revenue.<sup>33</sup> The revised charges result in a decrease to Other Water Revenue of \$6,592.

Nonrecurring Charges	Current		Total	Revised		Pro Forma
	Tariff Rate	Num.		Rate	Adjustment	
Meter Reading Recheck	\$ 58.00	0	\$ -	\$29.00	\$ -	\$ -
Service Reconnection Charge	\$ 58.00	105	6,113	\$29.00	(3,068)	3,045
Service Charge	\$ 58.00	118	6,844	\$29.00	(3,422)	3,422
Returned Check Charge	\$ 20.00	5	100	\$5.00	(75)	25
3/4-Inch Meter Test Request	\$ 135.00	0	0	\$64.00	0	0
1 Inch Meter Test Request	\$ 135.00	0	0	\$104.00	0	0
Damage to Meter Setting or Lid	Actual	0	0	Actual	0	0
Meter Relocate	Actual	0	0	Actual	0	0
Total Nonrecurring Adjustment			\$ 13,057		\$ (6,565)	\$ 6,492
Unidentified Amount			27		(27)	0
Total Adjustment			<u>\$ 13,084</u>		<u>\$ (6,592)</u>	<u>\$ 6,492</u>

The Commission finds that Commission Staff's recommendation is reasonable and Kirksville Water's Other Water Revenues should be decreased by \$6,592, to reflect Commission precedent on Nonrecurring Charges, and to be consistent with USoA practices.

Miscellaneous. In the Commission's Staff Report, Commission Staff recommended the removal of \$11,027 in miscellaneous revenue for items that Kirksville Water indicated are nonrecurring.<sup>34</sup> Kirksville Water reported \$12,827 in miscellaneous revenues.<sup>35</sup> The Commission finds that Commission Staff's recommendation is reasonable, and Kirksville Water's Other Water Revenues should be decreased by \$11,027 to reflect the correct amount of revenue expected to recur.

<sup>33</sup> Commission Staff's Report at 10–11.

<sup>34</sup> Kirksville Water's Response to Staff's Second Request, Item 10d.

<sup>35</sup> Application, Copy\_of\_Kirksville\_Water\_Association\_Rate\_Increase\_2023\_(6)corrected.xlsx, (filed Aug. 12, 2023), Tab 'FA-5'.

Grant Revenue. In Commission Staff's Report, Commission Staff noted that an item for \$316,931 was reported as income but was not identified in the general ledger as a revenue source.<sup>36</sup> Contributions in the form of grants are not considered recurring income; therefore, Commission Staff adjusted the revenues to remove the grant revenue from the test year. Kirksville Water did not propose an adjustment but noted that the income is not expected to recur.<sup>37</sup> The Commission finds that Commission Staff's adjustment better reflects the correct amount of revenue expected to occur, is reasonable and should be accepted.

Inflation Adjustment. Kirksville Water proposed a 5 percent inflation adjustment, resulting in a \$50,779 increase to the expense categories listed in the chart below. Kirksville Water provided information to support its adjustment to wages<sup>38</sup> but did not otherwise provide evidence to support each of its proposed adjustments. The Commission has previously determined that inflation adjustments are not appropriate pro forma adjustments for a historic test-year case because they are not known and measurable adjustments.<sup>39</sup> In Commission Staff's Report, Commission Staff accepted the proposed salary adjustment but removed \$37,615 of other adjustments due to the proposed adjustments not being known and measurable. The table below details the adjustments made by Commission Staff.

---

<sup>36</sup> Kirksville Water's Response to Staff's First Request, Q1AB\_YearEnd12312022\_GeneralLedger\_TrialBalance.pdf.

<sup>37</sup> Kirksville Water's Response to Staff's First Request, Item 10d.

<sup>38</sup> Kirksville Water's Response to Staff's First Request, Item 1c, Q2Q3\_EmployeeWages\_Benefits.xlsx.

<sup>39</sup> Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9, 2009) at 9–13.

Category	Amount
Personnel (Salaries)	\$ 13,164
Salaries - Officers	930
Purchased Water	24,773
Purchased Power	983
Insurance	962
Postage	191
Advertising	88
Taxes & License	254
Telephone	205
Supplies	1,240
Professional Services	2,120
Miscellaneous	1,191
Repairs and Maintenance	3,693
Travel	914
Bank Charges	71
Proposed Increases	50,779
Personnel (Salaries) ( )	(13,164)
Amounts Removed from Pro Forma	<u>\$ 37,615</u>

The Commission finds that Commission Staff's recommendation is reasonable, and Kirksville Water's adjustment as modified by Commission Staff should be accepted to reflect current wage rates.

Expense Reclassifications. In Commission Staff's Report, Commission Staff reclassified expenses in the following account classifications to facilitate consistency of presentation and to classify the amounts in their proper reporting category, resulting in no impact on the revenue requirement. The Commission finds the proposed reclassifications are a better reflection of Kirksville Water's Schedule of Adjusted Operations and should be accepted.

Category	Amount
Wages (account 896 Employee Benefits)	(33,928)
Benefits (account 896 Employee Benefits)	33,928
Licenses & Taxes (account 910 licenses & taxes)	(5,075)
Miscellaneous (account 934 Unemploy Taxes - State; account 936 Employer FICA Tax)	(16,390)
Repairs and Maintenance (account 919 customer billing; account 945 office utilities)	(20,782)
O&M - Depreciation	(177,802)
Office Costs (account 919 customer billing; account 945 office utilities)	20,782
Taxes Other Than Income (account 934 Unemploy Taxes - State; account 936 Employer FICA Tax)	16,390
Taxes Other Than Income (account 910 licenses & taxes)	5,075
Depreciation	177,802
Net Reclassifications	<u>\$ -</u>

Personnel Costs (Wages). In Commission Staff's Report, Commission Staff removed \$18,600 representing Officers' Salaries. The amount was counted twice in the Schedule of Adjusted Operations<sup>40</sup> submitted by Kirksville Water, and Commission Staff identified the error in its reconciliation of the test-year general ledger to the Statement of Adjusted Operations. Commission Staff did not propose any additional adjustments to wage costs. Commission Staff's calculations for pro forma wages (\$223,912), benefits (\$34,992), and FICA (\$18,485) are reflected in the chart below. FICA is included in the Taxes Other Than Income expense category. The Commission finds that this adjustment is known and measurable and should be accepted.

<sup>40</sup> Application, Copy\_of\_Kirksville\_Water\_Association\_Rate\_Increase\_2023\_(6)corrected.xlsx, Tab 'FA-5'.

Compensation / FICA				Benefits	
Position	Hours	Rate	Wages	Health Insurance Stipend	Retirement @ 10%
Position 1	2,080	\$24.00	\$ 49,920	4,432	4,992
Position 2	2,080	\$19.50	40,560	4,432	4,056
Position 3	2,080	\$19.50	40,560	4,432	4,056
Position 4	2,080	\$20.00	41,600	4,432	4,160
Position 5 (part-time)		\$16.00	25,248		
Position 6 (part-time)		\$16.50	26,024		
Wages (rounded)			<b>\$ 223,912</b>	17,728	17,264
Insurance Stipend			17,728		
Amount Subject to FICA			241,640	Total Benefits \$	<b>34,992</b>
FICA Rate			0.0765	Test Yr ( )	(33,928)
FICA Amount			<b>\$ 18,485</b>	Adjustment	<b>\$ 1,064</b>

Benefits. In Commission Staff's Report, Commission Staff noted that Kirksville Water pays an insurance stipend of \$369.36 per month to full-time employees.<sup>41</sup> It also contributes 10 percent of wages to individual retirement accounts for each full-time employee.<sup>42</sup> Commission Staff calculated a net benefits increase of \$1,064, as shown in the table above, based on pro forma staffing and wage information. Commission Staff included the insurance stipend in wages subject to FICA since it is a cash payment to eligible employees. The Commission finds that this adjustment is a known and measurable change to the current benefits of Kirksville Water's employees and should be accepted.

Purchased Water. In Commission Staff's Report, Commission Staff recommended an increase to Kirksville Water's purchased water cost of \$25,256 as shown in the table

<sup>41</sup> Kirksville Water's Response to Staff's First Request, Item 1c, Q2Q3\_EmployeeWages\_Benefits.xlsx.

<sup>42</sup> Kirksville Water's Response to Staff's First Request, Item 1c, Q2Q3\_EmployeeWages\_Benefits.xlsx.

below to better reflect the full-year effect of a PWA that became effective for water purchased on or after July 1, 2022.<sup>43</sup>

Gallons Purchased (2022)	131,562,728
Current Purchase Rate (conferted from cu ft to '000 gallons)	\$ 3.9579
Pro Forma Cost	\$ 520,713
Test Year Purchase Cost	(495,457)
Increase in Purchase Cost	\$ 25,256

Commission Staff also calculated a decrease of \$41,456 to Kirksville Water’s Purchased Water expense based on the utility’s 2022 reported water loss of 22.9613 percent. The Commission finds that this adjustment is appropriate pursuant to 807 KAR 5:066, Section 6(3), which limits water loss is limited to 15 percent for ratemaking purposes.

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 520,713	\$ 19,651	\$ 540,364
Water Loss in Excess of 15%	7.9613%	7.9613%	7.9613%
Total Disallowed Water Loss	\$ 41,456	\$ 1,564	\$ 43,020

Purchased Power. In Commission Staff’s Report, Commission Staff calculated a decrease of \$1,564 to Purchased Power expense for water loss in excess of 15 percent as shown in the chart above. The Commission finds that this adjustment is appropriate pursuant to 807 KAR 5:066, Section 6(3), which limits water loss is limited to 15 percent for ratemaking purposes.

Interest on Long-Term Debt. In Commission Staff’s Report, Commission Staff noted that Kirksville Water included \$30,439 of interest expenses from long-term debt in

---

<sup>43</sup> Case No. 2022-00185, *Electronic Purchased Water Adjustment Filing of Kirksville Water Association, Inc.* (Ky. PSC July 15, 2022).



operating and maintenance costs.<sup>44</sup> Commission Staff removed \$30,439 from operating and maintenance expense as an inappropriate classification for recovery, as interest on long-term debt should be included in debt service.<sup>45</sup> The Commission finds that this adjustment, as corrected by Commission Staff, is a known and measurable change, is reasonable, and should be accepted.

Depreciation. In the Commission Staff's Report, Commission Staff noted that Kirksville Water included a depreciation expense of \$177,802 in its test year Total Water Expenses.<sup>46</sup> Kirksville Water then subsequently, as a separate line item, removed the depreciation expense of \$177,802 from its test-year Total Water Expenses to calculate its Total Operating Expenses.<sup>47</sup> However, Kirksville Water explained that it first removed depreciation expense from Total Water Expenses to reflect operations and then added back the depreciation expense as a separate line item to more clearly reflect overall financial comparisons.<sup>48</sup> Commission Staff assumed, based on Kirksville explanation, that including depreciation expense in the Total Water Expenses first and then subsequently removing it as a separate line item was a typographical error and that depreciation expense should have been removed from Total Water Expenses first and then, subsequently, added back afterwards to reflect overall financial comparisons.

---

<sup>44</sup> Application, Copy\_of\_Kirksville\_Water\_Association\_Rate\_Increase\_2023\_(6)corrected.xlsx, Tab 'FA-5'.

<sup>45</sup> Commission Staff's Report at 16.

<sup>46</sup> Application, Copy\_of\_Kirksville\_Water\_Association\_Rate\_Increase\_2023\_(6)corrected.xlsx, Tab 'FA-5'. Total Test Year Water Expense was \$1,223,821.

<sup>47</sup> Application, Copy\_of\_Kirksville\_Water\_Association\_Rate\_Increase\_2023\_(6)corrected.xlsx, Tab 'FA-5'. Total Test Year Operating Expenses was \$1,046,019.

<sup>48</sup> Application, Copy\_of\_Kirksville\_Water\_Association\_Rate\_Increase\_2023\_(6)corrected.xlsx, Tab 'FA-5', cell O38 and O42.

Therefore, Commission Staff first removed depreciation expense from the test year and then subsequently included the \$177,802 of depreciation expense as an adjustment to the pro forma calculation to ensure that the revenue requirement was properly stated for ratemaking purposes. While the Commission acknowledges that the Total Test Year Operating Expense amount of \$1,046,019 was correct, the Total Test Year Water Expense amount of \$1,223,821 was overstated and should have been \$868,217. The Commission finds that this adjustment is a known and measurable change to Depreciation Expense, is reasonable, and should be accepted.

### REVENUE REQUIREMENT

Commission Staff's Report recommended using the Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;<sup>49</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.

---

<sup>49</sup> The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

The Commission agrees with using the DSC methodology since Kirksville Water has seven long-term debts.<sup>50</sup> Based upon the Commission’s findings herein, Kirksville Water requires an increase in revenues from water sales of \$205,345, or 19.83 percent above pro forma present rate water revenues as shown below. This increase is required for Kirksville Water to remain operationally and financially sound while providing adequate, efficient, and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 1,171,246
Plus: Average Annual Principal and Interest Payments	76,105
Additional Working Capital	15,221
	1,262,572
Overall Revenue Requirement	1,262,572
Less: Other Operating Revenue	(21,907)
	1,240,665
Revenue Required from Rates	1,240,665
Less: Pro Forma Present Rate Service Revenues	(1,035,320)
	\$ 205,345
Required Revenue Increase	\$ 205,345
Percentage Increase	19.83%

#### RATE DESIGN

Kirksville Water requested rates that would decrease its annual water sales revenues by \$31,751 or 2.36 percent, it also proposed to increase all its monthly retail water service rates evenly across the board by approximately 10 percent in its application.<sup>51</sup> There was a lack of clarity for what Kirksville Water was actually proposing in its application, specifically with the discrepancy between the revenue requirement decrease and the 10 percent increase in its retail rates. The Commission acknowledges

---

<sup>50</sup> Kirksville Water Association Audited Financial Statements for the Year Ended December 31, 2022 (filed with the Commission June 5, 2023).

<sup>51</sup> Application, Copy\_of\_Kirksville\_Water\_Association\_Rate\_Increase\_(6)corrected.xlsx (filed Aug. 12, 2023), Tab 'FA-6'.

that Kirksville Water provided customer notice of a 10 percent increase across the board to all retail rates but was unclear in its application with the Commission. Kirksville Water stated that it has never performed a COSS and that it did not consider having a COSS performed because the expense of the study is not economically feasible.<sup>52</sup> 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 the absence of a COSS. In the Commission Staff's Report, Commission Staff followed the methodology previously accepted by Kirksville Water and allocated Commission Staff's calculated revenue increase across the board to Kirksville Water's monthly retail water service rates in two equal phases.<sup>53</sup>

While the Commission acknowledges the concept of gradualism in ratemaking is to mitigate the financial impact of rate increases on customers, the Commission notes that gradualism is used in circumstances where there is evidence that there is an economic imbalance or difficult financial conditions within the utility service territory. Additionally, during a phase in approach, the Commission notes that the utility has the burden of proof to provide sufficient evidence that a phase in approach is economically reasonable for itself so that the phases are balanced proportionally where the utility can properly meet its debt coverage, expenses and depreciation over a certain span of time and is also beneficial to the customers so that the rate increase is not overly burdensome. The Commission observes that Kirksville Water did not object to Commission Staff's

---

<sup>52</sup> Kirksville Water's Response to Commission Staff's First Request, Item 19.

<sup>53</sup> Commission Staff Report at 6.

proposed phase in approach.<sup>54</sup> Since Kirksville Water has already re-noticed rates based on the Commission Staff's Report, and to limit confusion, the Commission will utilize Commission Staff's proposed allocation and finds that the increase should be calculated based on a phased-in approach in two equal phases. The Commission has found that Kirksville Water will be able to meet its debt obligations with Commission Staff's proposed allocation and, therefore, finds it reasonable. The Commission finds that Phase 1 will begin upon the effective date of this Order, and Phase 2 will begin 12 months from the effective date of the Order.

The rates for Phase 1 and Phase 2 set forth in Appendix B to this Order are based upon the revenue requirement the Commission has found to be fair, just and reasonable, and will produce sufficient revenues from water services to recover the \$1,240,665 Revenue Required from Water Services, an approximate 19.83 percent increase over normalized test-year water services of \$1,035,320.

In Phase 1, the monthly bill of a typical residential customer using 4,162 gallons of water will increase from \$43.16 to \$47.44, an increase of \$4.27, or approximately 9.90 percent. The rates set forth in Phase 1 will begin as of the date of this Order for a 12-month period. In Phase 2, the monthly bill of a typical residential customer using 4,162 gallons of water will increase from the Phase 1 amount of \$47.44 to \$51.71, an increase of \$4.27, or approximately 9.01 percent. Phase 2 rates will begin one year after the date of this Order.

---

<sup>54</sup> Kirksville Water's Response to Commission Staff's Report stated that the Board voted unanimously to accept the Staff's report and waives informal conference as well as its right to a hearing.

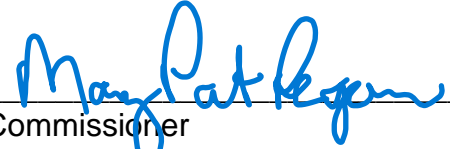
IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Kirksville Water are denied.
3. The rates and nonrecurring charges set forth in Appendix B to this Order are approved for services rendered by Kirksville Water on or after the date of this Order.
4. Within 20 days of service of this Order, Kirksville Water shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and its effective date, and stating that the rates and charges were authorized by this Order.
5. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director

ENTERED  
MAY 03 2024 rcs  
KENTUCKY PUBLIC  
SERVICE COMMISSION

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2023-00258 DATED MAY 03 2024

\* Denotes Rounding

**Nonrecurring Charges Adjustments**

	<u>Meter Reading Recheck</u>	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$28.11 at 1 hours)	\$28.11	
Office Supplies		
Office Labor	\$26.02	
Transportation (44 miles @ 0.655)	\$28.82	\$29.00
Misc.		
Total Revised Charge	<u>\$82.95</u>	<u>\$29.00</u>
Current Rate	\$58.00	

	<u>Service Reconnection Charge</u>	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$28.11 at 1 hours)	\$28.11	
Office Supplies		
Office Labor	\$26.02	
Transportation (44 miles @ 0.655)	\$28.82	\$29.00
Misc.		
Total Revised Charge	<u>\$82.95</u>	<u>\$29.00</u>
Current Rate	\$58.00	

	<u>Service Charge</u>	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor (\$28.11 at 1 hours)	\$28.11	
Office Supplies		
Office Labor	\$26.02	
Transportation (44 miles @ 0.655)	\$28.82	\$29.00
Misc.		
Total Revised Charge	<u>\$82.95</u>	<u>\$29.00</u>
Current Rate	\$58.00	



---

	<u>Returned Payment Charge</u>	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials		
Field Labor		
Office Supplies		
Office Labor	\$26.02	
Transportation		
Misc.-Bank Fee	\$5.00	\$5.00
Total Revised Charge	<u>\$31.02</u>	<u>\$5.00</u>
Current Rate	\$20.00	

---

	<u>3/4-inch Meter Test Request</u>	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials	\$35.00	\$35.00
Field Labor		
Office Supplies		
Office Labor		
Transportation		
Service Call	\$83.00	\$29.00
Total Revised Charge	<u>\$118.00</u>	<u>\$64.00</u>
Current Rate	\$135.00	

---

	<u>1-inch Meter Test Request</u>	
	<u>Utility Revised Charge</u>	<u>Staff Revised Charge</u>
Field Materials	\$75.00	\$75.00
Field Labor		
Office Supplies		
Office Labor		
Transportation		
Service Call	\$83.00	\$29.00
Total Revised Charge	<u>\$158.00</u>	<u>\$104.00</u>
Current Rate	\$135.00	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2023-00258 DATED MAY 03 2024

The following rates and charges are prescribed for the customers in the area served by Kirksville Water Association, Inc. 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

PHASE I

All Meters

First	2,000 Gallons	\$23.20	Minimum Bill
Next	3,000 Gallons	0.01121	Per Gallon
Next	5,000 Gallons	0.00960	Per Gallon
Over	10,000 Gallons	0.00826	Per Gallon

PHASE II (effective one year after Phase I rates begin)

All Meters

First	2,000 Gallons	\$25.29	Minimum Bill
Next	3,000 Gallons	0.01222	Per Gallon
Next	5,000 Gallons	0.01047	Per Gallon
Over	10,000 Gallons	0.00900	Per Gallon

Nonrecurring Charges

5/8 x 3/4 Inch Water Tap On	\$1,190.00
All Larger Meters	\$1,420.00
Late Payment Penalty	10%
Meter Reading Recheck	\$29.00
Service Reconnection Charge	\$29.00
Service Charge	\$29.00
Returned Check Charge	\$5.00
3/4-Inch Meter Test Request	\$64.00
1 Inch Meter Test Request	\$104.00
Damage to Meter Setting or Lid	Actual
Meter Relocate	Actual

\*Ashley Owens  
Office Manager  
Kirksville Water Association, Inc.  
P. O. Box 1150  
Richmond, KY 40476

\*Kirksville Water Association, Inc.  
1613 Foxhaven Drive  
P. O. Box 1150  
Richmond, KY 40475

\*Honorable Jud Patterson  
Patterson Law Office, PLLC  
228A. West Main Street  
P.O. Box 825  
Richmond, KENTUCKY 40475