

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF POWELL'S)	CASE NO.
VALLEY WATER DISTRICT FOR A RATE)	2023-00387
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On January 10, 2024,¹ Powell's Valley Water District (Powell's Valley District) filed its application with the Commission requesting an adjustment to its water and sewer service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,² Powell's Valley District used the calendar year ended December 31, 2022, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2023-00053³ which required Powell's Valley District to file an application for an adjustment of its base rates by June 30, 2024. Powell's Valley District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2008-00512.⁴ Since that matter, Powell's Valley District has only adjusted its

¹ Powell's Valley District tendered its application on January 10, 2024. By Order dated January 24, 2024, Powell's Valley District was granted a deviation from the requirement of 807 KAR 5:076, Section 5(2)(b)(3) by Order issued January 24, 2024, and the application was deemed filed on January 10, 2024.

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.

³ See Case No. 2023-00053, *Electronic Purchased Water Adjustment Filing of Powell's Valley Water District* (Ky. PSC Mar. 16, 2023).

⁴ See Case No. 2008-00512, *Application of Powell's Valley Water District for the Approval of the Proposed Increase in Rates for Water Service* (Ky. PSC Apr. 14, 2009).

rates pursuant to purchased water adjustments or in conjunction with an application for a Certificate of Public Convenience and Necessity.

In its application, Powell's Valley District requested water rates that would increase its base rate revenues by \$135,686, 11.20 percent, to pro forma present rate water sale revenues.⁵ Powell's Valley District also proposed a monthly water loss reduction surcharge of \$2.28 per customer.⁶ The rates requested by Powell's Valley District, excluding the requested surcharge, would increase the monthly bill of a typical residential customer using 4,000 gallons per month by \$5.20 from \$46.43 to \$51.61, or approximately 11.20 percent.⁷ The rates, including the surcharge requested, would increase the residential monthly bill of a typical residential customer using 4,000 gallons per month by \$7.48 from \$46.43 to \$53.91, or approximately 16.11 percent.⁸

Powell's Valley District requested sewer rates that would increase its base rate revenues by \$7,452, 5.95 percent, to pro forma present rate sewer service revenues.⁹ The rates requested by Powell's Valley District would increase the residential monthly bill of a typical residential customer using 4,000 gallons per month by \$3.28 from \$55.13 to \$58.41, or approximately 5.95 percent.¹⁰

⁵ Application, Exhibit 4, Revenue Requirement table.

⁶ Application, Attachment 1 at 3.

⁷ Application, Attachment 1 at 3.

⁸ Application, Attachment 1 at 3.

⁹ Application, Attachment 4, Revenue Requirement at 11.

¹⁰ Application, Attachment 1 at 3.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated February 5, 2024.¹¹ The procedural schedule was amended by Orders entered May 21, 2024, and June 14, 2024.¹² Powell's Valley District responded to three discovery requests.¹³ The Commission amended the procedural schedule pursuant to the May 21, 2024 Order due to Powell's Valley District's failure to timely file a response to Commission Staff's Third Request for Information. After review of Powell's Valley District's supplemental response to Staff's Third Request, the Commission issued the June 14, 2024 Order, which extended the deadline for Commission Staff's Report to July 2, 2024. Powell's Valley District provided supplemental responses on March 15, 2024, and May 16, 2024.¹⁴

Commission Staff issued its report (Commission Staff's Report) on July 2, 2024, summarizing its findings and recommendations regarding Powell's Valley District's requested rate adjustment. Commission Staff found that Powell's Valley District's water division adjusted test-year operations support an overall revenue requirement of \$1,340,020 and that an annual revenue decrease of \$75,196 or 5.47 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.¹⁵ Commission Staff found that Powell's Valley District's sewer division adjusted test-year

¹¹ Order (Ky. PSC Feb. 5, 2024).

¹² Order (Ky. PSC May 21, 2024) and Order (Ky. PSC June 14, 2024).

¹³ Powell's Valley District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Mar. 6, 2024); Powell's Valley District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Apr. 2, 2024); Powell's Valley District's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Apr. 30, 2024).

¹⁴ Powell's Valley District's Supplemental Response to Staff's First Request (filed Mar. 15, 2024); Powell's Valley District's Supplemental Response to Staff's Third Request (filed May. 16, 2024).

¹⁵ Commission Staff's Report at 7.

operations support an overall revenue requirement of \$136,159 and that an annual revenue increase of \$8,408 or 6.71 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.¹⁶

On July 16, 2024, Powell's Valley District filed its response to Commission Staff's Report. In its written comments Powell's Valley District concurred with Commission Staff's recommended revenue requirement and rates and waived its right to request a hearing or informal conference.¹⁷ However, Powell's Valley District alleged that information in regard to the meter test charge had not been included. It provided an updated cost justification sheet and invoice for the outside contractor for the meter testing.¹⁸ Consistent with 807 KAR 5:076, Section 11(3)(f), because Powell's Valley District amended its application on July 16, 2024, when it accepted the sewer revenue increase proposed by Commission Staff that exceeded the 110 percent threshold, Powell's Valley District was required to re-notice its customers. Powell's Valley District filed the publisher's certificate of publication for the re-notice on September 20, 2024, and the case now stands submitted for a decision by the Commission.¹⁹

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

¹⁶ Commission Staff's Report at 30.

¹⁷ Powell's Valley District Response to Commission Staff's Report (filed July 16, 2024).

¹⁸ Powell's Valley District Response to Commission Staff's Report.

¹⁹ Powell's Valley Affidavit of Public Notice Publication (filed Sept 20, 2024). Publication occurred on August 20, 2024.

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."²⁰ 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

Powell's Valley District is a water and sewer utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water to approximately 2,302 residential customers and 143 commercial customers that reside in Estill, Montgomery, and Powell counties, Kentucky.²¹ Powell's Valley District provides sewer service to approximately 59 residential customers and 51 commercial customers in Powell County, Kentucky.²² This application was filed pursuant to the Commission's Order in Case No. 2023-00053,²³ which required Powell's Valley District to file an application for an adjustment of its base rates by June 30, 2024. Powell's Valley District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2008-00512.²⁴ Since that matter, Powell's Valley District has only adjusted its

²⁰ *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).

²¹ *Annual Report of Powell's Valley District Water Division to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Water Report) at 12, 49.

²² *Annual Report of Powell's Valley District Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Sewer Report) at 9, 25.

²³ See Case No. 2023-00053, Mar. 16, 2023 Order.

²⁴ See Case No. 2008-00512, Apr. 14, 2009 Order.

rates pursuant to purchased water adjustments or in conjunction with an application for a Certificate of Public Convenience and Necessity.

WATER DIVISION

UNACCOUNTED-FOR WATER LOSS

The Commission notes that, in its 2022 Annual Report, Powell's Valley District reported a water loss of 27.5869 percent.²⁵ 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 2022 total annual cost of water loss to Powell's Valley District is \$147,138, while the annual cost of water loss in excess of 15 percent is \$67,134.

Description	Purchased Water	Fuel for Purchased Power	Total
Pro Forma Purchases	\$ 442,259	\$ 91,101	\$ 533,360
Water Loss Percent	27.5869%	27.5869%	
Total Water Loss	<u>\$ 122,006</u>	<u>\$ 25,132</u>	<u>\$ 147,138</u>

Description	Purchased Water	Fuel for Purchased Power	Total
Pro Forma Purchases	\$ 442,259	\$ 91,101	\$ 533,360
Water Loss in Excess of 15%	12.5869%	12.5869%	
Disallowed Water Loss	<u>\$ 55,667</u>	<u>\$ 11,467</u>	<u>\$ 67,134</u>

TEST PERIOD

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

²⁵ 2022 Annual Water Report at 57.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Powell's Valley District's pro forma income statement as follows:

Description	Test-Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$1,415,244	\$ (881)	\$1,414,363
Operating Expenses ()	(1,664,702)	489,386	(1,175,316)
Total Utility Operating Income	<u>\$ (249,458)</u>	<u>\$ 488,505</u>	<u>\$ 239,047</u>

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Powell's Valley District 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. Powell's Valley District accepted Commission Staff's adjustments but provided an updated cost justification sheet for its Meter Test Charge. The Commission accepts the recommendations contained in the Commission Staff's Report and Powell's Valley District's updated cost justification. Commission Staff's complete pro forma is presented in the following table.²⁶

²⁶ Commission Staff's Report at 12.

Description	Test Year	Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	Pro Forma
Operating Revenues					
Metered Sales to Retail Customers	\$ 1,069,672	\$ (62,232)		\$ (62,232)	\$ 1,007,440
Sales to Commercial Customers	300,346	(99,953)	164,933	64,980	365,326
Sales for Resale		3,138		3,138	3,138
Other Water Revenues:					
Forfeited Discounts				0	0
Other Water Revenue	45,226		4,223	4,223	
			(10,990)	(10,990)	38,459
Total Operating Revenues	1,415,244	(159,047)	158,166	(881)	1,414,363
Operating Expenses					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	272,790	(85,173)		(85,173)	
		(18,670)		(18,670)	168,947
Salaries and Wages - Officers	9,522	814		814	
			(10,336)	(10,336)	0
Employee Benefits - Medical	0	(89,132)	89,132	0	
			173,497	173,497	
			(41,035)	(41,035)	
			(35,859)	(35,859)	
			(11,888)	(11,888)	84,715
Employee Benefits - Retirement	270,600		(270,600)	(270,600)	
			97,103	97,103	
		(29,521)	29,521	0	
			(31,629)	(31,629)	
			(24,280)	(24,280)	
			(4,215)	(4,215)	36,979
Purchased Water	408,141	(51,372)	(4,295)	(55,667)	
			35,344	35,344	
			(1,226)	(1,226)	386,592
Purchased Power for Pumping	4,405	(554)	554	0	
			(4,405)	(4,405)	0
Fuel for Power Production	122,040	(15,361)	3,894	(11,467)	
			(35,344)	(35,344)	
			4,405	4,405	79,634
Materials and Supplies	141,258	(43,562)		(43,562)	
			(20,771)	(20,771)	
			4,154	4,154	81,079
Contractual Services - Acct.	5,375	(231)		(231)	5,144
Contractual Services - Other	29,398			0	29,398
Rental of Equipment	34,700			0	34,700
Transportation Expense	19,502	(840)		(840)	18,662
Insurance - General Liability & Other	12,992	(559)		(559)	12,433
Insurance - Workers Comp	9,141	(394)		(394)	8,747
Insurance - Other	9,913	(427)		(427)	9,486
Advertising Expense	229			0	229
Miscellaneous Expense	29,505	(882)		(882)	28,623
Total Operation and Maintenance Expenses	1,379,511	(335,864)	(58,279)	(394,143)	985,368
Depreciation Expense	269,980	(99,357)		(99,357)	
			1,383	1,383	172,006
Taxes Other Than Income	15,211	(68)	68	0	
			(858)	(858)	14,353
Amortization Expense		3,589		3,589	3,589
Total Operating Expenses	1,664,702	(431,700)	(57,686)	(489,386)	1,175,316
Net Operating Income	(249,458)	272,653	215,852	488,505	239,047
Income Available to Service Debt	\$ (249,458)	\$ 272,653	\$ 215,852	\$ 488,505	\$ 239,047

PRO FORMA OPERATING STATEMENT

Metered Water Sales. Powell's Valley District proposed three changes to the test year amount of \$1,370,018.²⁷ The first change was an adjustment of \$62,232 to remove tap fee revenue that was included in metered sales.²⁸ The second adjustment was to include water sales to the city of Stanton that were not included in the 2022 Annual Report, an increase in the amount of \$3,138.²⁹ The third proposed adjustment of test year metered water sales revenue to match the test year Billing Analysis submitted in Powell's Valley Application³⁰, resulted in a decrease in the amount of \$99,953.³¹ Commission Staff determined the Billing Analysis adjustment was larger than expected and requested Powell's Valley District to provide support for the adjustment. Powell's Valley District provided an updated Billing Analysis that generated test year revenues from metered water sales of \$1,372,766.³² The new Billing adjustment resulted in an increase of \$64,980 to test year revenue from metered water sales, instead of the proposed \$99,953 decrease.

Commission Staff accepted Powell's Valley District's revised Billing Analysis and agreed with its adjustment of \$64,980. The adjustments result in Pro Forma Metered Water Sales of \$1,375,904. Commission Staff recommended accepting Powell's Valley

²⁷ Application, Attachment #4, Schedule of Adjusted Operations.

²⁸ Application, Attachment #4, Schedule of Adjusted Operations, Reference A at 12.

²⁹ Application, Attachment #4, Schedule of Adjusted Operations, Reference C at 12.

³⁰ Application, Attachment #5, Schedule of Adjusted Operations, Current Billing Analysis.

³¹ Application, Attachment #4, Schedule of Adjusted Operations, Reference B at 12.

³² Powell's Valley District's Supplemental Response to Staff's Third Request, Revised Rate Study, Existing Billing Analysis Tab.

adjustments for tap fees and sales to the city of Stanton and Commission Staff's adjustment to match the Billing Analysis as the amounts are known and measurable.

The Commission finds the recommended adjustments are reasonable and approves the adjustments.

Other Water Revenue. Powell's Valley District reported a test year amount of \$45,226 and did not propose any additional adjustments.³³ Commission Staff identified Miscellaneous Sales of \$3,404, Miscellaneous Income of \$425, and Other Income of \$394 not included in the test year amount and proposed an increase of \$4,223 to Other Water Revenue. Commission Staff also proposed to remove \$10,990 from Other Water Revenue for Pro Forma adjustments to the Test Year non-recurring charge (NRC), which the Commission further discusses below, as shown in the table below. This results in a Pro Forma amount of \$38,459. Commission Staff recommended accepting the proposed adjustments as the amounts are known and measurable.

The Commission finds that Commission Staff's recommendations are consistent with recent Commission decisions addressing labor expenses resulting from work occurring during normal business hours should not be recovered through nonrecurring charges.³⁴ Non-recurring charges must be directly related to the actual cost incurred to provide the service. It is unreasonable to allocate an expense already incurred and

³³ Application, Attachment #4, Schedule of Adjusted Operations.

³⁴ Case No. 2023-00090, *Electronic Application of Henry County Water District #2 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2023); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 4, 2024); Case No. 2023-00090, *Electronic Application of Kirksville Water Association Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2023-00252, *Electronic Application of Oldham County Water District for an Alternative Rate Adjustment* (Ky. PSC June 18, 2024).

recovered in customer rates 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 working hours. Thus, the Commission finds that the revised nonrecurring charges set forth in Appendix B to this Order and the decrease of \$6,767 to Other Water Revenue are reasonable.

Description	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma	Test Year
Broken Lock Fee	7	\$100.00	\$240.00	\$ 980	\$ 1,680	\$ 700
Connection / Turn-on Charge	230	\$20.00	\$13.00	(1,610)	2,990	4,600
Connection / Turn-on Charge (After Hours)	0	\$30.00	\$47.00	0	0	0
Field Collection Charge	0	\$20.00	\$13.00	0	0	0
Meter Relocation Charge	0	Actual Cost	Actual Cost	0	0	0
Meter Re-read Charge	0	\$20.00	\$13.00	0	0	0
Meter Test Charge	2	\$25.00	\$13.00	(24)	26	50
Reconnection Charge	383	\$40.00	\$13.00	(10,341)	4,979	15,320
Reconnection Charge (After Hours)	0	\$50.00	\$47.00	0	0	0
Returned Check Charge	9	\$20.00	\$13.00	(63)	117	180
Service Call / Investigation	0	\$20.00	\$13.00	0	0	0
Service Call / Investigation (After Hours)	4	\$30.00	\$47.00	68	188	120
Total Adjustment, Pro Forma, Test Year				<u>\$ (10,990)</u>	9,980	<u>\$ 20,970</u>
Test Year ()					(20,970)	
Adjustment					<u>\$ (10,990)</u>	

Cost Allocation to Sewer. Powell’s Valley District stated that it reported expenses in the Schedule of Adjusted Operations (SAO) for water that included a portion that should have been allocated to sewer.³⁵ Powell’s Valley District used the number of customers for the water and sewer divisions to determine the cost allocation, 95.7 percent for water and 4.3 percent for sewer.³⁶ The amounts allocated out of each water expense to transfer to the sewer division are shown in the table below. Commission Staff recommended that the Commission accept Powell’s Valley District’s proposed methodology. Powell’s Valley

³⁵ Powell’s Valley District’s Response to Staff’s Second Request, Items 1 and 2.

³⁶ Application, Attachment #11_2, Powell’s Valley Rate Study, Adj. Tab.

District also included cost allocations for employee wages and benefits, which are discussed below.

The Commission finds that the allocation of cost to properly record expenses to their correct division is reasonable. Additionally, the Commission finds that the allocation method used by Powell’s Valley District to be reasonable and accepts Powell’s Valley District’s proposed amounts.

Description	Test Year Expense	Allocated to Water	Allocated to Sewer
Contractual services - Acct	\$ 5,375	\$ 5,144	\$ 231
Postage	12,503	11,965	538
Telephone	7,973	7,630	343
Transportation Expense	19,502	18,662	840
Insurance - General Liability & Other	12,992	12,433	559
Insurance - Workers Comp	9,141	8,747	394
Insurance - Other	9,913	9,486	427
Total		<u>\$ 74,067</u>	<u>\$ 3,332</u>

Salaries and Wages – Employees. Powell’s Valley District reported a Test Year amount of \$272,790 and proposed two changes.³⁷ First, Powell’s Valley District proposed a reduction of \$85,173 which was comprised of two items.³⁸ The adjustment included a \$21,385 reclassification to the sewer division and a reconciliation of test year wages to the general ledger of \$63,788. Second, it proposed a reduction of \$18,670 for removal of tap fees for wage expense resulting in a Pro Forma amount of \$168,947.³⁹

The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these costs be capitalized as Utility Plant in Service and depreciated over their

³⁷ Application, Attachment #4, Schedule of Adjusted Operations.

³⁸ Application, Attachment #4, Schedule of Adjusted Operations, Reference D at 12.

³⁹ Application, Attachment #4, Schedule of Adjusted Operations, Reference E at 12.

estimated useful lives.⁴⁰ Commission Staff capitalized the costs and made a corresponding adjustment to test-year depreciation. Commission Staff reviewed Powell's Valley District's general ledger,⁴¹ submitted pay information,⁴² and agreed with the proposed adjustments. Commission Staff recommended the Commission accept the proposed changes as the amounts are known and measurable based upon the current wage rates that Powell's Valley District provided in its response to Commission Staff's First Request for Information and because the USoA requires that tap fee costs be capitalized as utility plant in service and depreciated over their estimated useful lives.

The Commission finds Powell's Valley District's two proposed adjustments to be reasonable because the amounts are known and measurable.

Salaries and Wages - Officers. Powell's Valley District reported a test year amount of \$9,522 for Commissioners wages.⁴³ Additionally, Powell's Valley District proposed an adjustment to increase the amount by \$814 as a result of a vacancy for part of the test year.⁴⁴ Commission Staff asked Powell's Valley District to file documentation from the Fiscal Court that authorizes each Board of Commission member's compensation. Powell's Valley District responded that it would supplement the response when the requested information was available⁴⁵ but never filed any documentation. KRS 74.020(6) states that "[e]ach commissioner shall receive an annual salary of not more than thirty-six

⁴⁰ USoA, Accounting Instruction 19 and 33.

⁴¹ Powell's Valley District Supplemental Response to Staff's First Request, General Ledger files.

⁴² Application, Attachment #11-2, Rate Study, Wages Sheet.

⁴³ Application, Attachment #4, Schedule of Adjusted Operations.

⁴⁴ Application, Attachment #4, Schedule of Adjusted Operations, Reference F at 12.

⁴⁵ Powell's Valley District Response to Staff's First Request, Item 12, at 7.

hundred dollars (\$3,600) ” and that “[i]n fixing and approving the salary of the commissioners, the county judge/executive and the fiscal court shall take into consideration the financial condition of the district and its ability to meet its obligations as they mature.”⁴⁶ Commission Staff recommended the Commission exclude commissioners’ salaries and remove \$10,800 from the revenue requirement because Powell’s Valley District did not provide evidence to support the compensation amounts as required by KRS 74.020(6).

The Commission is unable to allow recovery for commissioner salaries unless approval of the salaries by the appropriate fiscal court is of record. Here, evidence of such an approval is not of record. Therefore, the Commission finds Commission Staff’s adjustment is consistent with KRS 74.020(6) and the removal of Powell’s Valley District’s Commissioners pay from its revenue requirement is appropriate and thus removed the commissioners’ salaries from the revenue requirement.

Employee Benefits - Medical. Powell’s Valley District reported a combined Medical and Pension Benefits of \$270,600.⁴⁷ Commission Staff identified all costs by expense type by reviewing payroll and general ledger information that was provided by Powell’s Valley District.⁴⁸ Commission Staff determined that separation of the medical and related benefit costs from retirement benefits would better facilitate discussion of the respective

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

⁴⁷ Application, Attachment #4, Schedule of Adjusted Operations.

⁴⁸ Powell’s Valley District Supplemental Response to Staff’s First Request, General Ledger files.

adjustments and reclassified \$173,497 to Employee Benefits - Medical in the SAO as reported in Powell's Valley District's Trial Balance.⁴⁹

Powell's Valley District proposed an adjustment for decreasing health insurance by \$89,132 to the employer contribution percentage the Commission generally approves, absent a wage and salary study or other similar evidence, to be recovered in the rates as well as an allocation to the sewer division.⁵⁰ Commission Staff determined that breaking up the costs would better facilitate discussion and made the following adjustments. First, Commission Staff made a \$41,035 decrease to reflect the average employer contribution to health insurance premiums based on the Bureau of Labor Statistics' (BLS) national average for an employer's share of health insurance premiums as shown in the table below.⁵¹ Powell's Valley District did include an adjustment for the average employer share, but Commission Staff recalculated the amount separately as a result of other adjustments.

⁴⁹ Powell's Valley District 2022 Trial Balance Account Number 00656-0001.

⁵⁰ Application, Attachment #4, Schedule of Adjusted Operations, Reference H at 12.

⁵¹ U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Single Coverage, March 2023 <https://www.bls.gov/news.release/ebs2.t03.htm>, U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Family Coverage, March 2023 <https://www.bls.gov/news.release/ebs2.t04.htm>.

Employee	District's Monthly Premium	District's Monthly Premium	Employer Share	Employer Premium
1	\$ 1,026	\$ 12,311	79%	\$ 9,726
2	\$ 3,542	42,506	67%	28,479
3	\$ 513	6,156	79%	4,863
4	\$ 2,300	27,597	67%	18,490
5	\$ 1,506	18,076	79%	14,280
6	\$ 2,583	30,992	67%	20,765
Totals		<u>\$ 137,638</u>		<u>\$ 96,602</u>
BLS Adjustment				<u>\$ 41,035</u>

Second, an allocation to sewer in the amount of \$11,888 included an allocation of Powell's Valley District's employer premium for benefit costs of 4.3 percent from office employees, based on customer counts, and 20 percent⁵² from field employees. Powell's Valley District's Manager, Kendell Knox confirmed that sewer costs were incurred at a higher percentage of the total for field expenses than other expenses, resulting in the 20 percent allocation for field employees. Third, a decrease of \$35,859 was made to adjust for the average employer contribution amount for Health Insurance of \$84,715 as shown in the table below.

⁵² Powell's Valley District's Submitted Rate Study, Wages Tab.

Description	Water	Sewer	Totals
Customers	2,445	110	2,555
Allocation Percentage	95.7%	4.3%	100%
Office Clerk	\$ 9,307.18	\$ 418.73	\$ 9,725.91
Bookkeeper	4,653.59	209.36	4,862.96
Office Clerk	17,693.71	796.04	18,489.75
Superintendent	13,665.21	614.79	14,280.01
sub-total	<u>\$ 45,319.70</u>	<u>\$ 2,038.92</u>	<u>\$ 47,358.62</u>
	80%	20%	100%
Distribution Operator	\$ 22,783.17	\$ 5,695.79	\$ 28,478.97
Distribution Operator	16,611.86	4,152.97	20,764.83
sub-total	<u>\$ 39,395.04</u>	<u>\$ 9,848.76</u>	<u>\$ 49,243.79</u>
Total	<u><u>\$ 84,715.00</u></u>	<u><u>\$ 11,888.00</u></u>	<u><u>\$ 96,603.00</u></u>

Commission Staff recommends denying Powell's Valley District's proposed adjustment and accepting Commission Staff's proposed adjustments to reflect Commission precedent on the health insurance premium based on the BLS's national average for an employer's share of health insurance premiums.⁵³ Commission Staff recommended that, without that additional evidence to support Powell's Valley District's proposal, the Commission should not deviate from its precedent.

The Commission finds these adjustments are reasonable as they are consistent with Commission precedent related to the average employer contribution to health insurance premium expenses⁵⁴ and reflect the difference between actual test-year medical expenses and the amount Powell's Valley District filed in its Schedule of Adjusted Operations.

⁵³ See Case No. 2017-00263 *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), at 9-10, and The Willis Benchmarking Survey, 2015, at 62-63. (https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf).

⁵⁴ See Case No. 2017-00263, Dec. 22, 2017 Order, at 9-10, and Bureau of Labor Statistics.

Employee Benefits - Retirement. Powell's Valley District reported a combined Medical and Pension Benefits of \$270,600.⁵⁵ Commission Staff identified expenses by type from payroll⁵⁶ and general ledger⁵⁷ information that was provided by Powell's Valley District. It determined that separation of medical and related benefit costs from retirement benefits for presentation would better facilitate discussion of their respective adjustments and reclassified \$97,103 to Employee Benefits - Retirement in the SAO as reported in Powell's Valley District's Trial Balance. Powell's Valley District participates in the County Employee Retirement System (CERS), which is managed by the Kentucky Public Pension Authority (KPPA). Powell's Valley District proposed an adjustment to decrease pension benefits by \$29,521 to reflect a decrease in contribution rates and an allocation to sewer.⁵⁸

Commission Staff determined that individual adjustments would better facilitate review of adjustments, and recommended denying Powell's Valley District adjustments and proposed separate adjustments. First, Commission Staff made an adjustment to decrease expense by \$4,215⁵⁹ to allocate the appropriate cost to the sewer division. Second, Commission Staff made an adjustment of \$31,629 to account for the decrease in employee wages paid and for a change in the contribution percent, to 2024 amounts of 19.71 percent as approved by the CERS.⁶⁰ Third, Commission Staff concluded that

⁵⁵ Application, Attachment #4, Schedule of Adjusted Operations.

⁵⁶ Application, Attachment #11-2, Rate Study, Wages Sheet.

⁵⁷ Powell's Valley District Supplemental Response to Staff's First Request, General Ledger files.

⁵⁸ Application, Attachment #4, Schedule of Adjusted Operations, Reference G at 12.

⁵⁹ $\$41,194 * 4.3\% = \$4,215$.

⁶⁰ CERS Board of Trustees December 4, 2023 Meeting, Minutes, at 2.

Powell’s Valley District excluded certain accounting adjustments for Pension and Other Post Employment Benefits (OPEB) related to GASB 68 and GASB 75 from its test year amount. In Case No. 2016-00163,⁶¹ Commission Staff discussed in detail how reporting requirements for GASB 68 would affect a utility’s income statement and balance sheet. In that proceeding, the Commission found that the annual pension expense should be equal to the amount of a district’s contributions to CERS. Consistent with Commission precedent,⁶² Commission Staff proposed a GASB adjustment for a decrease of \$24,280. The above adjustments result in a Pro Forma amount of \$36,979 as shown in the table below. Commission Staff recommended denying Powell’s Valley District’s proposed adjustment and accepting Commission Staff’s proposed adjustments as the amounts are known and measurable because the adjustments used the evidence provided to adjust the contribution expense to account for the normalization of Salaries and Wages and the corresponding update to the required contribution percent by CERS.

Description	Total	Water	Sewer
Wages applicable to CERS payments	\$ 209,002	\$ 187,617	\$ 21,385
Times: Percent Pension Contribution	19.71%	19.71%	19.71%
Total Pro Forma Pension Contribution	41,194	36,979	4,215

The Commission finds Commission Staff’s recommended adjustments are reasonable.

Purchased Water. Powell’s Valley District purchases water from Beech Fork Water Commission.⁶³ Powell’s Valley District’s water loss for 2022 was

⁶¹ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), Order at 11–15.

⁶² Case No. 2022-00044, *Electronic Application of Big Sandy Water District for an Adjustment of its Water Rates Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 13, 2022), Order at 11–12.

⁶³ 2022 Annual Water Report at 54.

27.5869 percent.⁶⁴ Powell’s Valley District reported a test year amount of \$408,141 and proposed a decrease of \$51,372.⁶⁵ Commission Staff identified a reclassification item⁶⁶ from Fuel for Power Production Expense when reviewing Powell’s Valley District’s General Ledger, resulting in an increase in purchased water cost of \$35,344, resulting in a test year amount of \$443,485.⁶⁷ Commission Staff calculated purchased water cost at current rates including the reclassification from purchased power, resulting in a reduction of \$1,226 as shown in the table below.

Description	Beechfork Water Commission		Total
Gallons		161,881	161,881
Current Purchase Rate	\$	2.732	\$ 2.7320
Pro Forma Cost	<u>\$</u>	<u>442,259</u>	<u>\$ 442,259</u>
Test Year Purchase Cost			\$ 443,485
Increase in Purchase Cost			<u><u>\$ (1,226)</u></u>

Water loss above 15 percent was increased to \$55,667 resulting in an additional \$4,295 to Powell’s Valley District’s proposed adjustment of a \$51,372 decrease. Commission Staff recommended accepting the changes proposed by Commission Staff as the amounts are known and measurable as they reflect the current purchase water rates for Powell’s Valley District and its actual test-year water loss.

⁶⁴ 2022 Annual Water Report at 57.

⁶⁵ Application, Attachment #4, Schedule of Adjusted Operations, Reference I at 12.

⁶⁶ Refer to 2022 General Ledger, 00615-0001, December 31, 2022, EOY Closing Entries.

⁶⁷ Powell’s Valley District’s Supplemental Response to Staff’s First Request, General Ledger Acct. 00615-0001, Dec. 31, 2022 Closing Entry.

Description	Test Year	Powell's Valley Adjustments	Commission Staff Adjustments	Pro Forma
Purchased Water Cost	\$ 408,141		\$ (1,226)	\$ 406,915
Purchased Power Reclassification			35,344	35,344
Total Purchased Water Cost				442,259
Disallowed Water Loss		(51,372)	(4,295)	(55,667)
Pro Forma Purchased Water Cost				<u>\$ 386,592</u>

The Commission finds the adjustments are reasonable because they are known and measurable.

Purchased Power. Powell's Valley District reported a test year amount of \$4,405 and proposed a decrease of \$554 for water loss above the allowable 15 percent.⁶⁸ Commission Staff reviewed Powell's Valley District's general ledger Purchased Power Expense and determined it should have included the fuel for power production and proposed to make an adjustment of \$4,405 to reclassify the entire expense. Commission Staff recommended the Commission deny Powell's Valley District's proposed adjustment and accept Commission Staff's proposed adjustment.

The Commission finds Commission Staff's adjustment reasonable as it is an adjustment to record expenses in the proper account.

Fuel for Power Production. Powell's Valley District reported a test year amount of \$122,040 and proposed a decrease of \$15,361 for water loss above the allowed 15 percent.⁶⁹ Powell's Valley District's water loss for 2022 was 27.5869 percent.⁷⁰ Commission Staff proposed the two reclassifications above be included in the expense. First, Commission Staff removed \$35,344 as the expense was reclassified to Purchased

⁶⁸ Application, Attachment #4, Schedule of Adjusted Operations.

⁶⁹ Application, Attachment #4, Schedule of Adjusted Operations, Reference I at 12.

⁷⁰ 2022 Annual Water Report at 57.

Water. Second, Commission Staff added the reclassified Purchased Power Expense in the amount of \$4,405. These adjustments resulted in a \$3,894 decrease in Powell's Valley District's Purchased Power expense for water loss above the allowed 15 percent resulting in a Pro Forma amount of \$79,634 as shown in the table below. Commission Staff recommended the Commission accept the proposed adjustments as the amounts are known and measurable as they reflect the actual test-year Fuel for Power Production as well as reflecting the maximum allowable water loss expense permitted for ratemaking purposes of 15 percent.

Description	Test Year	Powell's Valley Adjustments	Commission Staff Adjustments	Pro Forma
Purchased Water Cost	\$ 122,040			\$ 122,040
Purchased Power Reclassification			(35,344)	(35,344)
Fuel for Purchased Power Production Reclassification			4,405	4,405
Total Fuel for Purchased Power Expense				91,101
Water Loss Above 15%		(15,361)	3,894	(11,467)
Total				<u>\$ 79,634</u>

The Commission finds Powell's Valley District's and Commission Staff's proposed adjustments reasonable.

Materials and Supplies. Powell's Valley District reported a test year amount of \$141,258 for material and supplies and proposed one adjustment.⁷¹ This adjustment was to remove tap fees in the amount of \$43,562.⁷² The USoA for Class A/B Water Systems requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.⁷³ Commission Staff capitalized the costs and made a corresponding adjustment to test-year depreciation as discussed below. Commission

⁷¹ Application, Attachment #4, Schedule of Adjusted Operations.

⁷² Application, Attachment #4, Schedule of Adjusted Operations, Reference E at 12.

⁷³ USoA, Accounting Instruction 19 and 33.

Staff also identified other possible capital expenditures in Powell’s Valley District’s general ledger. When Commission Staff asked Powell’s Valley District about its classification, it responded that the district believed the expenses were not capital.⁷⁴ Commission Staff accepted Powell’s Valley District’s explanation that the expenditures were not capital, but also determined the expenditures were not a yearly expense. Commission Staff proposed to remove the identified expenditures and to amortize the expense over five years as shown in the table below. This resulted in a Pro Forma amount of \$81,079. Commission Staff recommended the Commission accept the proposed adjustments as the appropriate method to properly record expenses as defined by the USoA.

Description	Reference Number	Transaction Date	Amount
389 14024 Whitaker Bank, Inc	Draft 8/25/2	8/25/2022	\$ 3,056.61
411 13993 Marty's Refrigeration, I	CK# 18468	8/30/2022	2,250.00
410 14170 Ditch Witch Mid-States	CK# 18517	10/12/2022	5,383.39
72 14300 Kentucky Auto Parts Sale	CK# 18562	11/14/2022	4,566.94
389 14372 Whitaker Bank, Inc	Draft 11/25/	11/25/2022	5,514.00
Total Adjustment			<u>(20,770.94)</u>
Amortized Over 5 years			4,154.19

The Commission finds Powell’s Valley District’s and Commission Staff’s adjustments are appropriate to properly record expenses as defined by the USoA and therefore, accepts the adjustment.

Depreciation Expense. Powell’s Valley District reported a test year amount of \$269,980 and proposed one adjustment.⁷⁵ This adjustment was included to bring asset

⁷⁴ Powell’s Valley District Response to Staff’s Third Request, Item 3.

⁷⁵ Application, Attachment #4, Schedule of Adjusted Operations.

lives to the midpoint set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled “Depreciation Practices for small utilities”.⁷⁶ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the NARUC study. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff recommended that the Commission accept Powell’s Valley District’s adjustment of \$99,357, which resulted in a Pro Forma amount of \$170,623. This adjustment does not require an allocation to sewer as Powell’s Valley District properly reported its depreciation expense for both divisions.

The Commission finds that the proposed adjustment and decrease of Depreciation Expense in the amount of \$99,357 is reasonable given that there is no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges and accepts the adjustment.

Taxes Other Than Income. Powell’s Valley District reported a test year amount of \$15,211 and proposed one adjustment.⁷⁷ This adjustment in the amount of \$68 was to reflect a decrease in payroll taxes paid due to the allocation of a portion of the wages to the sewer department.⁷⁸ Commission Staff recalculated this amount after removing the Board Member’s salaries from the wage calculation, which resulted in new Pro Forma

⁷⁶ Application, Attachment #4, Schedule of Adjusted Operations, Reference K at 12.

⁷⁷ Application, Attachment #4, Schedule of Adjusted Operations.

⁷⁸ Application, Attachment #4, Schedule of Adjusted Operations, Reference L at 12.

payroll taxes of \$14,353.⁷⁹ Commission Staff proposed a decrease of \$858 to reflect the new amount.⁸⁰ Commission Staff recommended rejecting Powell's Valley District's adjustment and accepting Commission Staff's adjustment as the amounts are known and measurable.

The Commission finds Commission Staff's adjustment is known and measurable and agrees with the adjustment.

Amortization Expense. Powell's Valley District did not report a test year amount but proposed one adjustment.⁸¹ Powell's Valley District proposed an increase of \$3,589 for amortization of \$10,766 in Rate Case Expense over three years.⁸² Commission Staff reviewed the proposed Rate Case Expense and agrees with Powell's Valley District recovery of Rate Case Expense but requested that Powell's Valley District file an updated invoice of actual expenditures.

Powell's Valley District did not respond with an invoice to provide updated Rate Case expense information, so the Commission approves only the initial proposed amount of \$3,589 for amortization as known and reasonable.

Capitalization of Water Tap Expenses. As explained in the Salaries and Wages and Materials and Supplies sections above, the expenses related to the installation of new water connections are capital expenditures that should be capitalized as Utility Plant in Service and depreciated over their estimated useful lives. Commission Staff calculated

⁷⁹ Based on 7.65% FICA Rate.

⁸⁰ \$15,211-\$14,353 = \$858.

⁸¹ Application, Attachment #4, Schedule of Adjusted Operations.

⁸² Application, Attachment #4, Schedule of Adjusted Operations, Reference M at 12.

the annual depreciation amount for the test year and increased Depreciation Expense by \$1,383 as shown below.

Asset	Test Year Cost	NARUC Service Life	Adjusted Depreciation
Tap Fees	\$ 62,232	45.00	\$ 1,383

The Commission finds Commission Staff’s adjustment reasonable to properly capitalize expenses and therefore accepts the adjustment.

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) recovery of depreciation expense, a non-cash item, to provide working capital;⁸³ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

⁸³ 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).

Description	Powell's Valley	Commission Staff
Pro Forma Operating Expenses	\$ 1,229,413	\$ 1,175,316
Average Annual Principal and Interest Payments	137,253	137,253
Additional Working Capital	27,451	27,451
Overall Revenue Requirement	1,394,117	1,340,020
Other Operating Revenue	(45,226)	(38,459)
Other Operating Income	(1,381)	0
Interest Income	(853)	(853)
Revenue Required from Rates	1,346,657	1,300,708
Pro Forma Present Rate Service Revenues	(1,210,971)	(1,375,904)
Required Revenue Increase	<u>\$ 135,686</u>	<u>\$ (75,196)</u>
Percentage Increase	<u>11.20%</u>	<u>-5.47%</u>

Average Annual Principal and Interest Payments. At the time of Commission Staff's Review, Powell's Valley District reported eight outstanding Rural Development Bonds, six of which are for the water division. Powell's Valley District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, interest, and fee payments for the years 2024 through 2028.⁸⁴ Commission Staff agreed with the methodology Powell's Valley District proposed and included \$137,253 in the calculation of the revenue requirement.

⁸⁴ Application, Attachment #4, Schedule of Adjusted Operations, Reference N at 12.

Year	Total Principal	Total Interest	Total Payments
2024	\$ 81,000	\$ 59,064	\$ 140,064
2025	84,500	55,399	139,899
2026	89,000	51,554	140,554
2027	92,000	47,541	139,541
2028	82,500	43,709	126,209
Total	<u>\$ 429,000</u>	<u>\$ 257,267</u>	<u>\$ 686,267</u>

Average 5 Year Principal and Interest Payments \$ 137,253

The Commission finds that including \$137,253 in the revenue requirement calculation for average annual principal, as well as interest and fee payments for debt obligations is reasonable as it is known and measurable and as such, the Commission accepts the recommendation.

Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its exhibits, Powell's Valley District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments, or \$27,451.⁸⁵ Following the Commission's historic practice of including additional working capital, Commission Staff agreed with Powell's Valley District's proposed \$27,451 working capital adjustment and include it in the revenue requirement.

⁸⁵ Application, Attachment #4, Schedule of Adjusted Operations, Reference O at 12.

Description	Amount
Average Annual Principal and Interest	\$ 137,253
Times: DSC Coverage Ratio	120%
Total Net Revenues Required	164,704
Less: Average Annual Principal and Interest Payments	(137,253)
Additional Working Capital	<u>\$ 27,451</u>

The Commission finds that including additional working capital of \$47,154 in the revenue requirement calculation is appropriate.

RATE DESIGN

In its application, Powell's Valley District proposed to increase all of its monthly retail water service rates evenly across the board by 11.2 percent.⁸⁶ Powell's Valley District stated that it was unaware of a cost-of-service study (COSS) ever being produced for Powell's Valley District and it did not consider having a COSS performed in conjunction with this application filing.⁸⁷ The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.

The Commission accepts Commission Staff's recommendation and finds that this allocation is reasonable. The rates 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 sales to recover the \$1,300,728 Revenue Required from Water Sales.

⁸⁶ Application, Attachment #2, Reasons for Application, Attachment at 6.

⁸⁷ Powell's Valley District's Response to Staff's First Request, Item 18a at 9.

Commission Staff believed it to be unreasonable to require Powell's Valley District to reduce its water rates under the current economic environment. The Commission acknowledges that utilities have experienced operational cost increases since calendar year 2021 due to the Covid pandemic, recent supply chain issues, and the current rate of inflation and agrees with Commission Staff's proposal to allow Powell's Valley District to maintain its current rates. This results in the average residential customer's monthly water bill increasing only by the amount of the approved surcharge as discussed below, or \$2.28, from \$46.43 to \$48.71, or 4.91 percent.⁸⁸

Powell's Valley proposed to implement rates with monthly minimum bills for its 1-inch and 2-inch meter customers. The proposed minimum bills for larger size meters follow the current rate design for its 5/8-inch meter customers and are revenue neutral for customers. The Commission reviewed this proposal and agreed with this methodology for calculating minimum bills for larger size meters. However, the Commission notes that Powell's Valley District is not aware of a COSS being performed to calculate rates based on the cost to serve its retail and wholesale customers and finds that Powell's Valley shall perform a COSS within the next two years. This will ensure that the rates being charged to its customers are based on the actual cost to serve those customers.

Nonrecurring Charges. Powell's Valley District provided the cost justification for the nonrecurring charges.⁸⁹ Commission Staff reviewed Powell's Valley District's

⁸⁸ Commission Staff's Report at 8–9.

⁸⁹ Powell's Valley District's Response to Staff's First Request, Item 21a at 11.

Nonrecurring Charges and, consistent with recent Commission decisions,⁹⁰ examined the components of the cost justification information. The Commission requires that charges be directly related to the actual cost incurred to provide the service. Only the marginal cost related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours.

For the reasons discussed above, the estimated labor expenses previously included in determining the amount of nonrecurring charges should be eliminated from the charges, as proposed by Commission Staff.

Additionally, Powell's Valley District also provided updated cost justification information for its 5/8-Inch x 3/4-Inch Meter Connection/Tap-On Charge for the water division.⁹¹ Commission Staff reviewed the proposed expenses provided by Powell's Valley District and agreed with its proposed Meter Connection/Tap-on Charge Powell's Valley District's tap-on Charge will remain unchanged at \$1,445.⁹² The Commission agreed with the methodology Commission Staff proposed in its Commission Staff's Report, and thus finds the revised Nonrecurring Charges are reasonable.

In its response to the Commission Staff's Report, Powell's Valley District noted that there was an error in their proposed Meter Test Charge cost justification. Powell's Valley District employs an outside contractor to perform its meter testing and therefore the cost

⁹⁰ Case No. 2023-00090, *Electronic Application of Henry County Water District #2 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2023); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 4, 2024); Case No. 2023-00090, *Electronic Application of Kirksville Water Association Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 3, 2024); and Case No. 2023-00252, *Electronic Application of Oldham County Water District for an Alternative Rate Adjustment* (Ky. PSC June 18, 2024).

⁹¹ Powell's Valley District's Response to Staff's First Request, Item 21b.

⁹² Commission Staff's Report at 10.

of labor should be included in the cost justification. Revising this charge to reflect the cost of outside labor results in a Meter Test Charge of \$93.

Thus, the Commission finds that Commission Staff's recommendation is reasonable; the revised nonrecurring charges as described in Appendix A to be reasonable; and that Powell's Valley District's Other Operating Revenue should be decreased by \$10,990, as shown in the table below, because only the incremental cost related to the service should be recovered for service provided during normal business hours.

Description	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma	Test Year
Broken Lock Fee	7	\$ 100.00	\$ 240.00	\$ 980.00	\$ 1,680.00	\$ 700.00
Connection/Turn-on Charge	230	\$ 20.00	\$ 13.00	\$ (1,610.00)	\$ 2,990.00	\$ 4,600.00
Connection/Turn-on Charge (After Hours)	0	\$ 30.00	\$ 47.00	\$ -	\$ -	\$ -
Field Collection Charge	0	\$ 20.00	\$ 13.00	\$ -	\$ -	\$ -
Meter Relocation Charge	0	Actual Cost	Actual Cost	\$ -	\$ -	\$ -
Meter Re-read Charge	0	\$ 20.00	\$ 13.00	\$ -	\$ -	\$ -
Meter Test Charge	2	\$ 25.00	\$ 13.00	\$ (24.00)	\$ 26.00	\$ 50.00
Reconnection Charge	383	\$ 40.00	\$ 13.00	\$ (10,341.00)	\$ 4,979.00	\$ 15,320.00
Reconnection Charge (After Hours)	0	\$ 50.00	\$ 47.00	\$ -	\$ -	\$ -
Returned Check Charge	9	\$ 20.00	\$ 13.00	\$ (63.00)	\$ 117.00	\$ 180.00
Service Call/Investigation	0	\$ 20.00	\$ 13.00	\$ -	\$ -	\$ -
Service Call/Investigation (After Hours)	4	\$ 30.00	\$ 47.00	\$ 68.00	\$ 188.00	\$ 120.00
Pro Forma Test Year NRC Revenue					\$ 9,980.00	
Less: Test Year NRC Revenue					<u>\$ 20,970.00</u>	
Adjustment					<u><u>\$(10,990.00)</u></u>	

In its review of the cost justification information provided by Powell's Valley District, Commission Staff adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. The breakdown of cost for each nonrecurring charge and any Commission Staff adjustment can be found in Appendix A.

Nonrecurring Charges (Water)

	<u>Current Charge</u>	<u>Revised Charge</u>
Broken Lock Fee	\$100.00	\$240.00
Connection/Turn-on Charge	\$20.00	\$13.00

Connection/Turn-on Charge (After Hours)	\$30.00	\$47.00
Field Collection Charge	\$20.00	\$13.00
Meter Re-read Charge	\$20.00	\$13.00
Meter Test Charge	\$25.00	\$93.00
Reconnection Charge	\$40.00	\$13.00
Reconnection Charge (After Hours)	\$50.00	\$47.00
Returned Check Charge	\$20.00	\$13.00
Service Call/Investigation	\$20.00	\$13.00
Service Call/Investigation (After Hours)	\$30.00	\$47.00

WATER LOSS SURCHARGE (WATER DIVISION ONLY)

In the Commission Staff's Report, Staff recommended the Commission approve Powell's Valley District's proposed Water Loss Reduction Surcharge of \$2.28 per water division customer per month for 48 months to help lower system losses to more acceptable levels. The surcharge would produce approximately \$66,895 annually, and \$267,581 in total collections over the 48 month period.⁹³

The annual surcharge collection reflects the amount disallowed for excessive water loss pursuant to 807 KAR 5:066, Section 6(3). The use of a surcharge is consistent with prior Commission action in cases involving water utilities with excessive unaccounted-for water loss. In establishing water-loss surcharges, the Commission recognized that the adjustments required to comply with the 15 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water utility's ability to take the necessary action to focus on its leak detection and repair. Using a surcharge to fund a water utility's water loss reduction efforts allows the Commission to place strict controls governing the surcharge proceeds to ensure their effective use, public

⁹³ Commission Staff's Report at 7.

acceptance of the surcharge and public confidence in the water utility’s use of those funds. In its report titled *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report* by the Kentucky Public Service Commission November 2019 that was fully incorporated in the final Order in Case No. 2019-00041, Appendix L, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.⁹⁴

In Commission Staff’s Report, the water loss surcharge was calculated with a disallowed water loss of \$67,134.

Description	Purchased Water	Power	Total
Pro Forma Purchases	442,259	91,101	\$ 533,360
Water Loss in Excess of 15%	12.5869%	12.5869%	
Disallowed Water Loss	\$ 55,667	\$ 11,467	\$ 67,134

Commission Staff calculated an average annual water loss of 25.76 percent and average purchased water expense above 15 percent water loss of \$44,764 for the test year and four years prior. Therefore, the Commission finds that a monthly surcharge is a reasonable means for Powell's Valley District to recover the cost for its water leak detection efforts and repairs in order to reduce the increased expense and lost revenue from unaccounted-for water loss. Utilizing the \$67,134 disallowed water loss, the Commission finds that a monthly water loss reduction surcharge of \$2.28 per customer

⁹⁴ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019* at 24–25.

over 48 months, or until \$267,581 has been assessed, whichever occurs first, should be approved subject to the following conditions:

1. Within 120 days of the date of service of this Order, Powell's Valley District should file into the record of Case No. 2024-00314,⁹⁵ a Qualified Infrastructure Improvement Plan (QIIP), including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

2. Powell's Valley District shall deposit surcharge collections in a separate interest-bearing account.

3. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Powell's Valley District should file into the record of Case No. 2024-00314, a monthly activity report that includes a statement of monthly surcharge billings and collections using the format in the Surcharge Reporting form located on the Commission's website, a monthly surcharge bank statement, and a list of all payments made for the month from the surcharge account that includes the following for each payment: the payee, a description of the purpose, and the supporting invoice.

4. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Powell's Valley District should

⁹⁵ Case No. 2024-00314, *Electronic Powell's Valley Water District Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring* (Ky. PSC Dec 9, 2024).

file a monthly water loss report, using the format in the Water Use & Loss Calculations form located on the Commission's website, into the record of Case No. 2024-00314.

5. Powell's Valley District should not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

6. Powell's Valley District should file all requests to use surcharge proceeds in the record of Case No. 2024-00314. A request shall include a complete description of the equipment, project, or service for which approval is sought; bids, invoices, or price quotes as applicable; and a statement describing how the proposed purchase, project, or service is related to the QIIP and the goal of reducing unaccounted-for water loss.

7. Powell's Valley District should consider all surcharge collections as contributions and should account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

8. Powell's Valley District should debit monthly billings for the surcharge to customers' accounts received and credit the contribution account.

9. When Powell's Valley District collects the surcharge from the customers, it should debit special funds and credit the customer account.

10. No later than April 30 of each year, Powell's Valley District should file in Case No. 2024-00314, a report of surcharge activity and water loss improvement progress based on the preceding year ended December 31 with reported annual surcharge billings and expenditures reflecting the amounts reported for surcharge activity in the financial and statistical Annual Report filed with the Commission and Powell's Valley District's audited financial statements. Cumulative surcharge billings and expenditures

shall also be reported. A schedule of the estimated and actual progress of the program, actual expenditures made with surcharge proceeds, and encumbered amounts of future surcharge proceeds for the purpose of evaluating whether adjustments to the program or to the surcharge amount shall be provided.

11. Powell's Valley District should respond to any requests for information propounded by Commission Staff, by the date set forth in the request, as a result of the required filings regarding the surcharge as provided in those requests.

12. Powell's Valley District's failure to comply with any conditions attached to its assessment of the surcharge should result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of the expenses and projects approved by the Commission.

SEWER DIVISION

TEST PERIOD

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

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Powell's Valley District's pro forma income statement as follows:

Description	Test-Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	187,246	(59,967)	127,279
Operating Expenses	(125,052)	13,377	(114,776)
Total Utility Operating Income	<u>62,194</u>	<u>(46,590)</u>	<u>12,503</u>

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Powell's Valley District 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 accepts the recommendations contained in the Commission Staff's Report. The following is Commission Staff's complete pro forma.⁹⁶

⁹⁶ Commission Staff's Report at 32.

Description	Test Year	Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	Pro Forma
Operating Revenues					
Total Sewer Sales	187,246	(1,982)		(1,982)	
		(65,966)		(65,966)	
		5,999		5,999	125,297
Other Sewer Revenues		1,982		1,982	1,982
Total Operating Revenues	187,246	(59,967)	0	(59,967)	127,279
Operating Expenses					
Operation Expenses					
Collection - Labor, Materials and Expenses					
Salaries and Wages - Employees		21,385		21,385	
		(19,790)		(19,790)	1,595
Salaries and Wages - Commissioners		464	(464)	0	0
Employee Pensions and Benefits		4,991	(776)	4,215	
		11,872	16	11,888	16,103
Pumping - Labor, Materials and Expenses					
Power for Pumping and Treatment	22,503			0	22,503
Chemicals					
Miscellaneous Supplies and Expenses					
Treatment & Disposal					
Maintenance Expenses					
Maintenance of Collection Sewer System					
Maintenance of Pumping System					
Maintenance of Treatment and Disposal Plant					
Administrative and General Expenses					
Salaries and Wages - Officers					
Office Supplies and Other Expenses	76,739	(46,176)		(46,176)	30,563
Outside Services Employed	6,200			0	6,200
Contractual services - Acct.		231		231	231
Postage		538		538	538
Telephone		343		343	343
Transportation Expense		840		840	840
Insurance - General Liability & Other		559		559	559
Insurance - Workers Comp		394		394	394
Insurance - Other		427		427	427
Total Sewer Operation and Maintenance Expenses	105,442	(27,023)	(1,224)	(28,247)	80,296
Depreciation Expense	19,610	13,073		13,073	32,683
Taxes Other Than Income		1,671	(35)	1,636	1,636
Amortization Expense		161		161	161
Total Operating Expenses	125,052	(12,118)	(1,259)	(13,377)	114,776
Net Operating Income	62,194	(47,849)	1,259	(46,590)	12,503
Income Available to Service Debt	62,194	(47,849)	1,259	(46,590)	12,503

PRO FORMA OPERATING STATEMENT

Total Sewer Sales. Powell's Valley District reported a test year amount of \$187,246 and proposed three changes.⁹⁷ First, Powell's Valley District made a reclassification of other revenues that were included in metered sewer sales in the

⁹⁷ Application, Attachment #4, Schedule of Adjusted Operations.

amount of \$1,982.⁹⁸ Second, Powell's Valley District decreased revenues for revenue from tapping fees included in metered sewer sales in the amount of \$65,966.⁹⁹ Third, Powell's Valley District made an adjustment of \$5,999 to adjust sewer revenues to the test year billing analysis.¹⁰⁰ This resulted in a Pro Forma amount of \$125,297. Commission Staff recommended accepting the proposed changes as the amounts are known and measurable.

The Commission finds the recommended adjustments and the normalized revenue are reasonable and accepts the adjustments.

Other Sewer Revenues. Powell's Valley District reported no Other Sewer Revenues but proposed one change to the account.¹⁰¹ The adjustment was the reclassification from Total Sewer Sales above in the amount of \$1,982. Commission Staff recommended accepting the proposed adjustment as the amount is known and measurable.

The Commission finds the allocation of costs to properly record expenses to the correct division is reasonable and accepts the proposed adjustment.

Cost Allocation from Water Division. As described in the Water Division Cost Allocation section described above, Powell's Valley District did not allocate some of its sewer expenses properly resulting in the adjustments shown in the chart below.

⁹⁸ Application, Attachment #4, Schedule of Adjusted Operations, Reference P at 12.

⁹⁹ Application, Attachment #4, Schedule of Adjusted Operations, Reference Q at 12.

¹⁰⁰ Application, Attachment #4, Schedule of Adjusted Operations, Reference R at 12.

¹⁰¹ Application, Attachment #4, Schedule of Adjusted Operations.

Description	Test Year Expense	Allocated to Water	Allocated to Sewer
Contractual services - Acct	\$ 5,375	\$ 5,144	\$ 231
Postage	12,503	11,965	538
Telephone	7,973	7,630	343
Transportation Expense	19,502	18,662	840
Insurance - General Liability & Other	12,992	12,433	559
Insurance - Workers Comp	9,141	8,747	394
Insurance - Other	9,913	9,486	427
Total		<u>\$ 74,067</u>	<u>\$ 3,332</u>

The Commission finds that the allocation of cost to properly record expenses to the correct division is reasonable.

Salaries and Wages – Employees. Powell’s Valley District reported no test year salaries and wages – employees’ expense. Powell’s Valley District proposed two changes to the account. First, it increased the expense by \$21,385 for the allocation of expenses to sewer as explained in the water division discussion above. Second, it proposed an adjustment to remove tap fees in the amount of \$19,790, or 30 percent of sewer tap fees for the labor portion of the tap fees expense,¹⁰² resulting in a Pro Forma amount of \$1,595. Commission Staff recommended accepting the proposed adjustments as the amounts are known and measurable and Commission Staff did not identify a reason to deviate from Powell’s Valley District’s proposed 30 percent proportion.

The Commission finds that these adjustments are reasonable because the amounts are based upon the current wage rates and because the USoA requires that tap fee costs be capitalized as utility plant in service and depreciated over their estimated useful lives.

¹⁰² Application, Attachment #4, Schedule of Adjusted Operations, Reference T at 12.

Salaries and Wages – Commissioners. Powell’s Valley District reported no test year amount for salaries and wages for Commissioners. It proposed one change to the account.¹⁰³ Powell’s Valley District’s adjustment was to allocate an amount of \$464 for commissioner pay to the sewer division. As noted in the Salaries and Wages – Commissioners section above, Powell’s Valley District did not file documentation for Fiscal Court approval for Board Member compensation. Commission Staff recommended the Commission not include commissioner salaries and remove \$464 from the revenue requirement because Powell’s Valley District did not provide evidence to support the compensation amounts as required by KRS 74.020(6).

The Commission finds Commission Staff’s adjustment is consistent with KRS 74.020(6). As discussed above, the removal of Powell’s Valley District’s Commissioners pay from its revenue requirement is appropriate. Thus, the Commission finds that the Commission Staff’s recommendation is reasonable and accepts the adjustment.

Employee Pension and Benefits. Powell’s Valley District reported no test year amount for employee pension and benefits and proposed two adjustments to the account. First, it proposed to increase the pension expense by \$4,991 to allocate the appropriate expense amount to the sewer division.¹⁰⁴ Second, it proposed to increase the health insurance expense by \$11,872 to allocate the appropriate expense amount to the sewer division.¹⁰⁵ Commission Staff agreed that the two allocation adjustments should be made;

¹⁰³ Application, Attachment #4, Schedule of Adjusted Operations, Reference U at 12.

¹⁰⁴ Application, Attachment #4, Schedule of Adjusted Operations, Reference V at 12.

¹⁰⁵ Application, Attachment #4, Schedule of Adjusted Operations, Reference W at 12.

however, the adjustments should be made in accordance with the discussion in the Benefits section of the water division discussion to properly report the allocation. First, Commission Staff proposed a change of \$776 for pension benefits resulting in an adjustment of \$4,215. Second, Commission Staff proposed a change of \$16 for health insurance benefits resulting an adjustment of \$11,888. The new Pro Forma amount was \$16,863. Commission Staff recommended accepting the proposed adjustments as the amounts are known and measurable.

The Commission finds the allocation of costs to properly record expenses to the correct division is reasonable and accepts the proposed adjustment. The amounts reflect an allocation based on the accepted adjustments discussed in the water division section.

Power for Pumping and Treatment. Powell's Valley District reported a test year amount of \$22,503 and proposed no changes.¹⁰⁶ Commission Staff reviewed Powell's Valley District's purchased power expense and agreed with the proposed amount.

The Commission finds Powell's Valley District's proposed amount reasonable and accepts it as an actual test-year amount for Power for Pumping and Treatment expense.

Office Supplies and Other Expenses. Powell's Valley District reported a test year amount of \$76,739 and proposed one change to the account.¹⁰⁷ This adjustment was to remove the remaining 70 percent of sewer tap fees that were included in employee salaries above.¹⁰⁸ This resulted in a decrease of \$46,176 and a Pro Forma amount of \$30,563. Commission Staff recommended accepting the proposed adjustment as the

¹⁰⁶ Application, Attachment #4, Schedule of Adjusted Operations.

¹⁰⁷ Application, Attachment #4, Schedule of Adjusted Operations.

¹⁰⁸ Application, Attachment #4, Schedule of Adjusted Operations, Reference T at 12.

amounts are known and measurable and Commission Staff did not identify a reason to deviate from Powell's Valley District's proposed 70 percent proportion.

The Commission finds that the adjustment is reasonable because the USoA requires that tap fee costs be capitalized as utility plant in service and depreciated over their estimated useful lives.

Outside Services Employed. Powell's Valley District reported a test year amount of \$6,200 and proposed no adjustments.¹⁰⁹ Commission Staff reviewed Powell's Valley District's general ledger and agreed with making no change.

The Commission finds Powell's Valley District's proposed amount reasonable and accepts the test-year amount with no changes.

Depreciation Expense. Powell's Valley District reported a test year amount of \$19,610 and proposed one change.¹¹⁰ The proposed adjustment was an increase in order to align with the Commission precedent related to a sewer utility's depreciation expense when asset lives fall outside the ranges recommended by NARUC in its publication titled "Depreciation Practices for small utilities". The adjustment was made to bring asset lives to the midpoint of the recommended ranges, increasing depreciation expense by \$13,073.¹¹¹ This results in a Pro Forma amount of \$32,683. Commission Staff recommended accepting the proposed adjustment as the amounts are known and measurable.

¹⁰⁹ Application, Attachment #4, Schedule of Adjusted Operations.

¹¹⁰ Application, Attachment #4, Schedule of Adjusted Operations.

¹¹¹ Application, Attachment #4, Schedule of Adjusted Operations, Reference X at 12.

The Commission finds that the proposed adjustment and increase of Depreciation Expense in the amount of \$13,073 to be reasonable and accepts Powell's Valley District's recommendation, given that there is no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges.

Taxes Other Than Income. Powell's Valley District reported no test year amount but proposed one change,¹¹² an increase of \$1,671 to account for the increased salaries and wage expense. Commission Staff proposed an adjustment to reflect the removal of Board Member's Salaries in payroll taxes. Commission Staff's adjustment was a decrease of \$35 to reflect the overall Pro Forma amount of \$1,636.¹¹³ Commission Staff recommended accepting the proposed adjustments as the amounts are known and measurable.

The Commission finds Powell's Valley District and Commission Staff's adjustment is reasonable to account for the change in salaries and wages taxes and the removal of Board Member's salaries, as there is sufficient evidence to support the adjustment.

Amortization Expense. Powell's Valley District reported no test year amount but proposed one change.¹¹⁴ This adjustment was an increase of \$161 for amortization of the \$434 of Rate Case expense allocated to the sewer division amortized over three years. Commission Staff reviewed the proposed Rate Case Expense and agreed with Powell's Valley District recovery of Rate Case Expense but requested that Powell's Valley District file an updated invoice of actual expenditures.

¹¹² Application, Attachment #4, Schedule of Adjusted Operations.

¹¹³ Based on FICA Taxes of 7.65%.

¹¹⁴ Application, Attachment #4, Schedule of Adjusted Operations, Reference Y at 12.

Powell's Valley District did not respond with an updated invoice, so the Commission proposes to use the initial amount. The Commission finds Powell's Valley District's proposed adjustment reasonable and therefore accepts the adjustment.

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) recovery of depreciation expense, a non-cash item, to provide working capital;¹¹⁵ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

¹¹⁵ 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).

Description	Powell's Valley	Commission Staff
Pro Forma Operating Expenses	\$ 115,572	\$ 114,776
Average Annual Principal and Interest Payments	16,359	\$ 17,819
Additional Working Capital	3,272	\$ 3,564
Overall Revenue Requirement	135,203	\$ 136,159
Other Operating Revenue	(1,982)	\$ (1,982)
Interest Income	(472)	\$ (472)
Revenue Required from Rates	132,749	\$ 133,705
Pro Forma Present Rate Service Revenues	(125,297)	\$ (125,297)
Required Revenue Increase	<u>\$ 7,452</u>	<u>\$ 8,408</u>
Percentage Increase	<u>5.95%</u>	<u>6.71%</u>

Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Powell's Valley District reported eight Rural Development Bonds outstanding, two of which are for the sewer division.¹¹⁶ Powell's Valley District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, interest, and fee payments for the years 2024 through 2028.¹¹⁷ Commission Staff agreed with the methodology Powell's Valley District proposed but calculated a different value than proposed by Powell's Valley District. Powell's Valley District requested recovery of \$16,359 but Commission Staff found the average annual principal and interest to be \$17,819 and included it in the calculation of the revenue requirement.

¹¹⁶ Application, Rate Study Excel Document, Debt Sch. Tab.

¹¹⁷ Application, Attachment #4, Schedule of Adjusted Operations, Reference Z at 12.

Year	Total Principal	Total Interest	Total Payment
2024	\$ 7,600	\$ 10,141	\$ 17,741
2025	8,100	9,787	17,887
2026	8,600	9,413	18,013
2027	8,600	9,027	17,627
2028	9,200	8,626	17,826
Total	<u>42,100</u>	<u>46,994</u>	<u>89,094</u>
Average 5 Year Principal and Interest Payments			<u>17,819</u>

The Commission finds that including \$17,819 in the revenue requirement calculation for average annual principal, as well as interest and fee payments for debt obligations is known and measurable and is accepted.

Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its exhibits, Powell's Valley District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments, or \$3,272.¹¹⁸ Following the Commission's historic practice of including additional working capital, Commission Staff agreed with Powell's Valley District's proposed method but calculated a new value of \$3,564 based upon the increase in average annual principal and interest and included it in the revenue requirement.

¹¹⁸ Application, Attachment #4, Schedule of Adjusted Operations, Reference AA at 12.

Description	Amount
Average Annual Principal and Interest	\$ 17,819
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	21,383
Less: Average Annual Principal and Interest Payments	<u>(17,819)</u>
Additional Working Capital	<u><u>3,564</u></u>

The Commission finds that including additional working capital of \$3,564 in the revenue requirement calculation is accepted.

RATE DESIGN

In its application, Powell’s Valley District proposed to increase all of its monthly retail sewer service rates evenly across the board by 5.9 percent.¹¹⁹ Powell’s Valley District stated that was unaware of a cost-of-service study (COSS) ever being produced for Powell’s Valley District and it did not consider having a COSS performed in conjunction with this application filing.¹²⁰ The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility’s rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff followed the proposed allocation methodology by Powell’s Valley District and allocated Commission Staff’s revenue increase required from sales of \$8,408 across the board to Powell’s Valley District’s monthly retail sewer service rates.

The Commission accepts Commission Staff’s recommendation and finds that this allocation is reasonable. The rates set forth in Appendix B to this report are based upon the revenue requirement the Commission has found to be fair, just and reasonable, and

¹¹⁹ Application, Attachment #2, Reasons for Application, Attachment at 6.

¹²⁰ Powell’s Valley District’s Response to Staff’s First Request, Item 18a at 9.

will produce sufficient revenues from sewer sales to recover the \$133,705 Revenue Required from Rates, an approximate 6.71 percent increase. The rates will increase a typical residential customer’s sewer bill from \$55.13 to \$61.82, an increase of \$6.69, or approximately 12.14 percent.¹²¹ For those customers who receive a flat monthly sewer bill, the increase will be \$1.85, from \$27.57 to \$29.42, or approximately 6.71 percent.

Nonrecurring Charges. Powell’s Valley District provided the cost justification for the nonrecurring charges of the sewer division.¹²² Commission Staff reviewed the cost justification information provided by Powell’s Valley District where Powell’s Valley District proposed the reduction of the following charges to zero.

Commission agrees with Powell’s Valley District’s proposal and with Commission Staff’s recommendation¹²³ of having the charges listed below be removed from Powell’s Valley District’s current tariff.

<u>Nonrecurring Charges (Sewer)</u>		
	<u>Current</u>	<u>Revised</u>
	<u>Charge</u>	<u>Charge</u>
Disconnection Charge	\$20.00	\$0.00
Reconnection Charge	\$20.00	\$0.00
Returned Check Charge	\$20.00	\$0.00

There were no changes to Other Operating Revenue as a result of the adjustments to Nonrecurring Charges for Powell's Valley District sewer division.

¹²¹ The average residential customer uses approximately 4,000 gallons per month.

¹²² Powell's Valley District's Response to Staff's First Request, Item 22a at 12.

¹²³ Commission Staff's Report at 30–31.

Powell's Valley District did not provide cost justification information for its Meter Connection/Tap-On Charge for the sewer division. Powell's Valley District's tap-on fee will remain unchanged at \$1,010.50.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report, are supported by the evidence of record and are reasonable. Applying the DSC method to Powell's Valley District's pro forma water operations results in an Overall Revenue Requirement of \$1,340,020 and that a \$75,196 revenue decrease, or 5.47 percent, to pro forma present rate revenues is warranted. The Commission finds it to be unreasonable to require Powell's Valley District to reduce its water rates under the current economic environment and agrees with Commission Staff's recommendation that Powell's Valley District's rates stay the same. The Commission further finds that the water loss reduction surcharge of \$2.28 per customer per month is supported by the evidence of record and is reasonable. By applying the DSC method to Powell's Valley District's pro forma sewer operations result in an Overall Revenue Requirement of \$136,159 and that a \$8,408 revenue increase, or 6.71 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

IT IS THEREFORE ORDERED that:

1. The recommendations contained in the Commission Staff's Report, as amended, are adopted, and incorporated by reference into this Order as if fully set out herein.

2. The water and sewer service rates proposed by Powell's Valley District are denied.

3. The water and sewer service rates set forth in Appendix B to this Order are approved for service rendered by Powell's Valley District on or after the date of service of this Order.

4. Within 20 days of the date of service of this Order, Powell's Valley District 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 their effective date, and stating that the rates and charges were authorized by this Order.

5. The Commission shall open a separate proceeding, Case No. 2024-00314 to monitor the surcharge proceeds collection and expenses subject to the following conditions:

a. Within 120 days of the date of service of this Order, Powell's Valley District shall file into the record of Case No. 2024-00314 a QIIP, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. Powell's Valley District shall deposit surcharge collections in a separate interest-bearing account.

c. On the 15th day of each month for 48 months from the date of this Order or until all surcharge proceeds are expended, Powell's Valley District shall file into the record of Case No. 2024-00314 a monthly activity report that includes a statement of monthly surcharge billings and collections using the format in the Surcharge Reporting

form located on the Commission's website, a monthly surcharge bank statement, and a list of all payments made for the month from the surcharge account that includes the following for each payment: the payee, a description of the purpose, and the supporting invoice.

d. On the 15th day of each month for 48 months from the date of service of this Order or until all surcharge proceeds are expended, Powell's Valley District shall file into the record of Case No. 2024-00314 a monthly water loss report, using the format in the Water Use & Loss Calculations form located on the Commission's website, with the Commission.

e. Powell's Valley District shall not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

f. Powell's Valley District shall file all requests to use surcharge proceeds in the record of Case No. 2024-00314. A request shall include a complete description of the equipment, project, or service for which approval is sought; bids, invoices, or price quotes as applicable; and a statement describing how the proposed purchase, project, or service is related to the qualified infrastructure improvement plan and the goal of reducing unaccounted-for water loss.

g. Powell's Valley District shall consider all surcharge collections as contributions and shall account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

h. Powell's Valley District shall debit monthly billings for the surcharge to customers' accounts received and credit the contribution account.

i. When Powell's Valley District collects the surcharge from the customers, it shall debit special funds and credit the customer account.


j. No later than April 30 of each year, Powell's Valley District shall file in Case No. 2024-00314, a report of surcharge activity and water loss improvement progress based on the preceding year ended December 31 with reported annual surcharge billings and expenditures reflecting the amounts reported for surcharge activity in the financial and statistical Annual Report filed with the Commission and Powell's Valley District's audited financial statements. Cumulative surcharge billings and expenditures shall also be reported. A schedule of the estimated and actual progress of the program, actual expenditures made with surcharge proceeds, and encumbered amounts of future surcharge proceeds for the purpose of evaluating whether adjustments to the program or to the surcharge amount shall be provided.

k. Powell's Valley District shall respond to any requests for information propounded by Commission Staff, by the date set forth in the request, as a result of the required filings regarding the surcharge as provided in those requests.

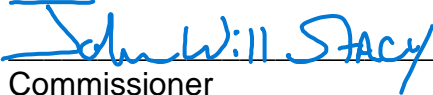
l. Powell's Valley District's failure to comply with any conditions attached to its assessment of the surcharge shall result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

6 This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION



Chairman



Commissioner

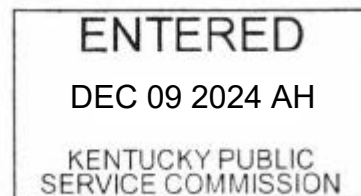


Commissioner

ATTEST:



Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00387 DATED DEC 09 2024

* Denotes Rounding

Nonrecurring Charges Adjustments

Broken Lock Fee		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$227.00	\$227.00
Field Labor (2 men 1 hour @22.41)	\$22.41	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$12.45	\$0.00
Transportation (20-mile average trip @.67 per mile)	\$13.40	\$13.40
Misc.	\$0.00	\$0.00
Total Revised Charge*	\$275.26	\$240.00
Current Rate	\$100.00	

Connection/Turn-on Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1 hour @22.41)	\$22.41	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation (@20 mile average .67 per mile)	\$13.40	\$13.40
Misc.	\$0.00	\$0.00
Total Revised Charge	\$35.81	\$13.00
Current Rate	\$20.00	

Connection/Turn-on Charge (After Hours)		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1 hr overtime @ 33.61)	\$33.61	\$33.61
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation (@20 mile average trip @.67 per mile)	\$13.40	\$13.40
Misc.	\$0.00	\$0.00
Total Revised Charge*	\$47.01	\$47.00
Current Rate	\$30.00	

Field Collection Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1 hr @ 22.41)	\$22.41	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation (20 mile average trip @ .67 per mile)	\$13.40	\$13.40
Misc.	\$0.00	\$0.00
Total Revised Charge	<u>\$35.81</u>	<u>\$13.00</u>
Current Rate	\$20.00	

Meter Relocation Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor	\$0.00	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation	\$0.00	\$0.00
Misc.	\$0.00	\$0.00
Total Revised Charge	<u>\$0.00</u>	<u>\$0.00</u>
Current Rate	Actual Charge	Actual Charge

Meter Re-read Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1 hr @22.41)	\$22.41	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation (20 mile average trip @ .67 per mile)	\$13.40	\$13.40
Misc.	\$0.00	\$0.00
Total Revised Charge	<u>\$35.81</u>	<u>\$13.00</u>
Current Rate	\$20.00	

Meter Test Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$45.00
Field Labor (1 hr @22.41)	\$22.41	\$22.41
Office Supplies	\$0.00	\$0.00
Office Labor	\$12.45	\$12.45

Transportation (20 mile average trip @.67 per mile)	\$13.40	\$13.40
Misc.	\$0.00	\$0.00
Total Revised Charge	<u>\$48.26</u>	<u>\$93.00</u>
Current Rate	\$25.00	

Reconnection Charge

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1 ½ hr @ 22.41)	\$22.41	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$12.45	\$0.00
Transportation (20 mile average trip @.67 per mile)	\$13.40	\$13.40
Misc.	\$0.00	\$0.00
Total Revised Charge	<u>\$48.26</u>	<u>\$13.00</u>
Current Rate	\$40.00	

Reconnection Charge (After Hours)

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1 ½ hr Overtime @ 33.61)	\$33.61	\$33.61
Office Supplies	\$0.00	\$0.00
Office Labor	\$12.45	\$0.00
Transportation (20 mile average trip @.67 per mile)	\$13.40	\$13.40
Misc.	\$0.00	\$0.00
Total Revised Charge	<u>\$59.46</u>	<u>\$47.00</u>
Current Rate	\$50.00	

Returned Check Charge

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1 hr @22.41)	\$22.41	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$12.45	\$0.00
Transportation (20 mile average trip @.67 per mile)	\$13.40	\$13.40
Misc.	\$0.00	\$0.00
Total Revised Charge	<u>\$48.26</u>	<u>\$13.00</u>
Current Rate	\$20.00	

Service Call/Investigation

Utility Revised Charge	Staff Revised Charge
------------------------	----------------------

Field Materials	\$0.00	\$0.00
Field Labor (1 hr @22.41)	\$22.41	\$0.00
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation (20 mile average trip @.67 per mile)	\$13.40	\$13.40
Misc.	\$0.00	\$0.00
Total Revised Charge	<u>\$35.81</u>	<u>\$13.00</u>
Current Rate	\$20.00	

Service Call/Investigation (After Hours)

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$0.00	\$0.00
Field Labor (1 hr Overtime @ 33.61)	\$33.61	\$33.61
Office Supplies	\$0.00	\$0.00
Office Labor	\$0.00	\$0.00
Transportation (20 mile average trip @.67 per mile)	\$13.40	\$13.40
Misc.	\$0.00	\$0.00
Total Revised Charge	<u>\$47.01</u>	<u>\$47.00</u>
Current Rate	\$30.00	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00387 DATED DEC 09 2024

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

Monthly Retail Rates - Water Division

5/8-Inch Meter x 3/4-Inch Meter

First	2,000 Gallons	\$24.77	Min. Bill
Next	2,000 Gallons	0.01083	per Gallon
Next	2,000 Gallons	0.00984	per Gallon
Over	6,000 Gallons	0.00925	per Gallon

1-Inch Meter

First	4,000 Gallons	\$46.43	Min. Bill
Next	2,000 Gallons	0.00984	per Gallon
Over	6,000 Gallons	0.00925	per Gallon

2-Inch Meter

First	6,000 Gallons	\$66.11	Min. Bill
Over	6,000 Gallons	0.00925	per Gallon

Wholesale Rate

\$0.00350 per Gallon

Water Loss Reduction Surcharge

\$2.28 Per Customer Per Month

Nonrecurring Charges (Water)

	<u>Current</u> <u>Charge</u>	<u>Revised</u> <u>Charge</u>
Broken Lock Fee	\$100.00	\$240.00
Connection/Turn-on Charge	\$20.00	\$13.00
Connection/Turn-on Charge (After Hours)	\$30.00	\$47.00
Field Collection Charge	\$20.00	\$13.00
Meter Re-read Charge	\$20.00	\$13.00
Meter Test Charge	\$25.00	\$93.00
Reconnection Charge	\$40.00	\$13.00
Reconnection Charge (After Hours)	\$50.00	\$47.00
Returned Check Charge	\$20.00	\$13.00
Service Call/Investigation	\$20.00	\$13.00
Service Call/Investigation (After Hours)	\$30.00	\$47.00

Monthly Retail Rates - Sewer Division

5/8-Inch Meter x 3/4-Inch Meter

First 2,000 Gallons	\$29.42	Min. Bill
Over 2,000 Gallons	0.01470	per Gallon

Flat Rate Customers \$29.42 per Month

*Powell's Valley Water District
31 Adams Ridge Road
P. O. Box 550
Clay City, KY 40312

*Ashley Hood
Chairman
Powell's Valley Water District
31 Adams Ridge Road
P. O. Box 550
Clay City, KY 40312

*Kendell Knox
Manager
Powell's Valley Water District
31 Adams Ridge Road
P. O. Box 550
Clay City, KY 40312

*Sam Reid
312 N. Jackson Street
Perryville, KENTUCKY 40468