

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF HYDEN-LESLIE)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2024-00022
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On February 5, 2024, Hyden-Leslie Water District (Hyden-Leslie District) filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076. To comply with the requirements of 807 KAR 5:076, Section 9,¹ Hyden-Leslie 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. 2020-00141 which required Hyden-Leslie District to file an application for an adjustment of its base rates by February 5, 2024.² Hyden-Leslie District’s last base rate increase was pursuant to the alternative rate filing procedure in Case No. 2020-00141.³

¹ 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.

² Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2023). On Oct. 27, 2023, Hyden Leslie District filed a motion requesting an extension to file its alternative rate adjustment application which was originally due no later than Nov. 6, 2023. By Order dated Nov. 13, 2023, the Commission granted Hyden-Leslie District a 91 day extension.

³ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

In its application, Hyden-Leslie District initially requested rates that would increase its annual water sales revenue by \$531,670 or 22.83 percent.⁴ Subsequently, Hyden-Leslie District identified a mathematical error in its calculation of Other Water Revenues. Hyden-Leslie filed a corrected Schedule of Adjusted Operations and Revenue Requirement calculation which reflected an increase in annual water sales revenues by \$559,735 or 24.03 percent.⁵

To ensure an orderly review of the application, the Commission established a procedural schedule by Order dated February 26, 2024. Hyden-Leslie District responded to two requests for information from Commission Staff,⁶ and filed an Amended Response to Commission Staff's first request for information.⁷

On June 10, 2024, Commission Staff issued its report (Commission Staff's Report) summarizing its recommendations regarding Hyden-Leslie District's requested rate adjustment. Commission Staff recommended that Hyden-Leslie District's adjusted test-year operations support a total revenue requirement of \$2,955,852, and that an annual revenue increase of \$532,213, or 22.86 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.⁸ In the absence of a cost of

⁴ Application, Attachment 4, Revenue Requirement Table.

⁵ Hyden-Leslie District's Amended Response to Staff's First Request, (filed May. 14, 2024), Item1f, 2022_Rate_Study_Hyden-Leslie.xlsx.

⁶ Hyden-Leslie District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed April 2, 2024); Hyden-Leslie District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed April 30, 2024).

⁷ Hyden-Leslie District's Amended Response to Staff's First Request.

⁸ Commission Staff's Report at 5.

service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates.⁹

On June 25, 2024, Hyden-Leslie District filed its response to Commission Staff's Report.¹⁰ Hyden-Leslie District affirmed its request for the meter reading date to begin on the 15th and the billing due date on the 20th of each month.¹¹ Hyden-Leslie District also stated that it does not agree with the removal of certain labor expenses from nonrecurring charges, but the district did not wish to contest that adjustment.¹² Hyden-Leslie District concurred with the remainder of findings in Commission Staff's Report¹³ and waived its right to request an informal hearing.¹⁴ The case now stands submitted for a decision by the Commission.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."¹⁵

⁹ Commission Staff's Report at 6.

¹⁰ Hyden-Leslie District's Response to Commission Staff's Report (filed June 25, 2024).

¹¹ Hyden-Leslie District's Response to Commission Staff's Report, Item 1.

¹² Hyden-Leslie District's Response to Commission Staff's Report, Item 2.

¹³ Hyden-Leslie District's Response to Commission Staff's Report, Item 3.

¹⁴ Hyden-Leslie District's Response to Commission Staff's Report, Item 4.

¹⁵ *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).

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

Hyden-Leslie District is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 3,431 residential customers and 238 commercial customers that reside in Clay, Leslie, and Perry counties, Kentucky.¹⁶ Hyden-Leslie District produces all of its and does not purchase water from another source.¹⁷

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2022 Annual Report, Hyden-Leslie District reported a water loss of 24.7056 percent.¹⁸ 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 Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The following table shows that the 2022 total annual cost of water loss to Hyden-Leslie District is \$108,609, while the annual cost of water loss in excess of 15 percent is \$42,667. The Commission views excessive water loss as a potential warning sign of problems with the financial health and operational well-being of water utilities.¹⁹

¹⁶ *Annual Report of Hyden-Leslie District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report), at 12 and 49.

¹⁷ 2022 Annual Report at 57.

¹⁸ 2022 Annual Report at 57.

¹⁹ Case No. 2019-00041, *Electronic Investigation Into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Mar. 12, 2019), Order.

Description	Purchased Power	Chemicals and Lab Testing	Total
Pro Forma Expenses	\$ 324,191	\$ 115,423	\$ 439,614
Multiply by: Total Water Loss	24.7056%	24.7056%	24.7056%
Total Cost of Water Loss	<u>\$ 80,093</u>	<u>\$ 28,516</u>	<u>\$ 108,609</u>

Description	Purchased Power	Chemicals and Lab Testing	Total
Pro Forma Expenses	\$ 324,191	\$ 115,423	\$ 439,614
Multiply by: Water Loss in Excess of 15 Percent	9.7056%	9.7056%	9.7056%
Excess Cost	<u>\$ 31,465</u>	<u>\$ 11,202</u>	<u>\$ 42,667</u>

Hyden-Leslie District was a party to the Commission's 2019 investigation into excessive water loss.²⁰ It was approved for a water loss surcharge in November 2020²¹ and had not begun spending surcharge funds as of May 2024.²² Hyden-Leslie District projects to cease collecting surcharge funds as of the month of October 2024.²³ Commission Staff's Report noted that Hyden-Leslie District's water loss appears to be decreasing overall over a five-year period as shown in the table below. Hyden-Leslie District reported water loss of 18.7736 percent in its 2023 Annual Report.²⁴

²⁰ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities, Entry of Appearance* (filed Mar. 15, 2019).

²¹ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment*, (Ky. PSC Nov. 6, 2020)

²² Case No. 2020-00340, *Electronic Hyden-Leslie Water District's Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring*, (Ky. PSC Nov. 6, 2020); Hyden-Leslie's Response to Commission Staff's Second Request for Information (Staff's Second Request) (May 29, 2024), Item 3.

²³ Case No. 2024-00340, Hyden-Leslie District's Response to Staff's Second Request, Item 2.

²⁴ 2023 Annual Report at 57.

Year	Water Loss Percentage
2018	32.8656%
2019	24.4038%
2020	22.1680%
2021	23.0587%
2022	24.7056%

TEST PERIOD

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

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff's Report summarizes Hyden-Leslie District's pro forma income statement as follows.

Description	2022 Test Year	Total Proposed Adjustment	Commission Staff's Report Pro Forma
Total Operating Revenues	\$ 2,423,145	\$ 66,824	\$ 2,489,969
Total Operating Expenses	2,574,766	33,570	2,608,336
Net Operating Income	(151,621)	33,254	(118,367)
Interest and Dividend Income	1,119	-	1,119
Income Available to Service Debt	<u>\$ (150,502)</u>	<u>\$ 33,254</u>	<u>\$ (117,248)</u>

REVIEW OF COMMISSION STAFF'S RECOMMENDATIONS

Hyden-Leslie 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 Commission has no

further modifications. The following is the Commission Staff's complete pro forma:

Description	2022 Test Year	Total Proposed Adjustment	Commission Staff's Report Pro Forma	Commission Proposed Adjustments	Commission Approved Pro Forma
Operating Revenues					
Total Metered Retail Sales	\$ 2,346,067	\$ (17,551)	\$ 2,328,516	\$ -	\$ 2,328,516
Surcharge Revenue	67,449	0	67,449	-	67,449
Total Metered Sales	2,413,516	(17,551)	2,395,965	-	2,395,965
Other Water Revenues					
Forfeited Discounts	-	79,361	79,361	-	79,361
Other Water Revenues	9,629	(2,028)			
	-	7,042	14,643	-	14,643
Total Other Water Revenues	9,629	84,375	94,004	-	94,004
Total Operating Revenues	2,423,145	66,824	2,489,969	-	2,489,969
Operating Expenses					
Operation and Maintenance Expenses					
Salaries and Wages - Employees	562,663	(4,200)			
		39,521	597,984	-	597,984
Salaries and Wages - Commissioners	30,000	-	30,000	-	30,000
Employee Pensions	-	118,690	118,690	-	118,690
Employee Benefits	245,611	(87,773)	157,838	-	157,838
Purchased Power	324,191	(31,465)	292,726	-	292,726
Chemicals	115,423	(11,202)	104,221	-	104,221
Materials and Supplies	177,942	(9,800)	168,142	-	168,142
Contractual Services	30,674	-	30,674	-	30,674
Transportation Expense	54,167	-	54,167	-	54,167
Insurance - Other	62,653	-	62,653	-	62,653
Bad Debt Expense	21,667	-	21,667	-	21,667
Miscellaneous Expense	111,640	-	111,640	-	111,640
Total Operation and Maintenance Expenses	1,736,631	13,771	1,750,402	-	1,750,402
Depreciation Expense	798,357	11,103			
		112	809,572	-	809,572
Taxes Other Than Income	39,778	8,584	48,362	-	48,362
Total Operating Expenses	2,574,766	33,570	2,608,336	-	2,608,336
Net Operating Income	(151,621)	33,254	(118,367)	-	(118,367)
Interest and Dividend Income	1,119	-	1,119	-	1,119
Income Available to Service Debt	\$ (150,502)	\$ 33,254	\$ (117,248)	\$ -	\$ (117,248)

PRO FORMA OPERATING STATEMENT

Billing Analysis: In its application, Hyden-Leslie District proposed a decrease of \$16,865 to Total Metered Retail Sales for the test year of 2022 to reflect the current billing analysis.²⁵ Hyden-Leslie District reported total metered water sales for the test year of

²⁵ Application, Schedule of Adjusted Operations, Adjustment A.

\$2,346,067.²⁶ Hyden-Leslie District provided a billing analysis to calculate a normalized revenue amount of \$2,329,202, based on the usage during the test year and using the rates authorized in its current tariff.²⁷ In its application, Hyden-Leslie District provided a billing adjustment total of \$21,757, which decreased total water sales from \$2,350,959 to the normalized amount of \$2,329,202.²⁸ In its response to Commission Staff's first request, Hyden-Leslie District provided a detailed list of billing adjustments from the test year, which totaled \$22,443.²⁹ As shown in the table below, Commission Staff calculated an adjustment decrease to Total Metered Retail Sales of \$17,551 for a normalized revenue amount of \$2,328,516, which is \$686 more than proposed by Hyden-Leslie District. Commission Staff recommended Commission approval of the adjustment to decrease Total Retail Metered Sales by \$17,551, because it meets the ratemaking criteria of being known and measurable.

Revenue Classification	Bills	Gallons Sold	Revenue
All Meters	44,144	161,866,600	\$ 2,350,959
Less: Billing Adjustments ()			(22,443)
Normalized Revenues			2,328,516
Less: Metered Sales in Annual Report ()			(2,346,067)
Total Metered Sales Adjustment			(17,551)
Hyden-Leslie District Proposed Adjustment ()			16,865
Commission Staff's Proposed Adjustment			<u>\$ (686)</u>

The Commission finds that Commission Staff's recommended adjustment is reasonable and should be accepted. Hyden-Leslie District's Metered Retail Sales should

²⁶ 2022 Annual Report at 49.

²⁷ Application, Attachment 5, Current Billing Analysis.

²⁸ Application, Attachment 5, Current Billing Analysis.

²⁹ Hyden-Leslie District's Response to Staff's First Request, Item 23.

be decreased by \$17,551 because the adjustment to Metered Sales to Retail Customers is a known and measurable change reflected in the evidence provided in the record.

Forfeited Discounts. Hyden-Leslie District has not charged its customers a late payment fee since November 6, 2020, when the final Order was issued in Case No. 2020-00141.³⁰ The November 6, 2020 Order found that the Late Payment Fee should be discontinued, and included the amount estimated to have been collected from late fee revenue to the revenue requirement so that Hyden-Leslie District could receive the late fee revenue through its base rate.³¹ In its application in this case, Hyden-Leslie District proposed to reinstate a Late Payment Penalty of ten percent.³² Commission regulation 807 KAR 5:006, Section 9(3)(h), states that “[a] late payment charge may be assessed if a customer fails to pay a bill for services by the due date shown on the customer’s bill.”³³ Administrative regulation 807 KAR 5:003, Section 9(3)(h)(1)-(3) further states “[t]he late payment charge may be assessed only once on a bill for rendered service”; “[a] payment received shall first be applied to the bill for service rendered”; and “[a]dditional late payment charges shall not be assessed on unpaid late payment charges.”³⁴ Hyden-Leslie District’s reinstatement of a late payment charge should comply with the regulation.

Hyden-Leslie District provided historical data concerning prior years’ collections of forfeited discounts to support re-establishing a 10 percent late payment charge in its

³⁰ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), final Order at 24, ordering paragraph 4.

³¹ Case No. 2020-00141, Nov. 6, 2020 final Order at 22.

³² Application, Attachment 3.

³³ Title 807 of the Kentucky Administrative Regulations Chapter 5, Regulation 6, Section 9(3)(h)(1)-(3).

³⁴ 807 KAR 5:006, Section 9(3)(h).

tariff.³⁵ In its application, Hyden-Leslie District proposed an adjustment of \$90,541 to increase Other Water Revenue – Forfeited Discounts³⁶ and provided the calculations shown in the table below.³⁷

Year	2017	2018	2019	Total
Forfeited Discount Revenue	\$43,888	\$50,459	\$48,990	\$143,337
Divided by 3 year Average				3
3 year Average Forfeited Discount Revenue				47,779
Rate Increase 2020-00141			66.10%	31,582
Rate Increase Proposed			23.40%	11,180
Total				<u>\$ 90,541</u>

Commission Staff agreed that an adjustment to Other Water Revenue is necessary but disagreed with the proposed inclusion of \$11,180 in which the proposed rate increase percentage is multiplied by the three-year average amount of \$47,779, as the adjustment is meant to normalize current income, not future income. Administrative regulation 807 KAR 5:076 Section 9 states “the reasonableness of the proposed rates shall be determined using a twelve (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.”³⁸ Commission Staff recommended the adjustment include only the three-year average of \$47,779 and the prior rate increase percentage of \$31,582, which totals an adjustment increase of \$79,361.³⁹

³⁵ Commission Staff’s Report at 10.

³⁶ Application, Schedule of Adjusted Operations, Adjustment B.

³⁷ Hyden-Leslie District’s Response to Staff’s First Request, Item 18, 2022_Rate_Study_Hyden-Leslie, Late Charges Tab.

³⁸ 807 KAR 5:076, Section 12.

³⁹ Commission Staff’s Report at 13.

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted. Hyden-Leslie District's Other Water Revenue-Forfeited Discounts should be increased by \$79,361, because the adjustment is in accordance with 807 KAR 5:076, Section 9. The Commission notes that any late fee must be in compliance with all applicable regulations and on file with the Commission.

Other Water Revenues. In its amended response to Commission Staff's request for information, Hyden-Leslie District proposed a decrease to Other Water Revenue of \$2,028.⁴⁰ Following the Commission's recent decisions,⁴¹ Commission Staff reviewed Hyden-Leslie District's Nonrecurring Charges. The Commission approved the current Nonrecurring Charges in Hyden-Leslie District's tariff on August 4, 2021.⁴² In Hyden-Leslie District's prior ARF case, Nonrecurring Charge Cost Justification forms were provided for each nonrecurring charge,⁴³ and the Nonrecurring Charges approved in the tariff filing for Case No. 2021-00071, reflect the removal of Field Labor Costs and Office/Clerical Labor Costs from those charges that occur during normal business hours.⁴⁴ Therefore, Hyden-Leslie District's current Nonrecurring Charges do not include

⁴⁰ Hyden-Leslie District's Amended Response to Staff's First Request, Item 1f, 2022_Rate_Study_Hyden-Leslie.xlsx, SAO Tab, Cell F10.

⁴¹ Case No. 2023-00299, *Electronic Application of Magoffin County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 24, 2024); Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Mar. 5, 2024); Case No. 2023-00258, *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. 2023-00220, *Electronic Application of East Casey County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 21, 2024).

⁴² Case No. 2021-00071, *Electronic Tariff Filing of Hyden-Leslie County Water District* (Ky. PSC Aug. 4, 2021), final Order.

⁴³ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (filed May 7, 2020), Application at unnumbered pages 797-800.

⁴⁴ Case No. 2021-00071, *Electronic Tariff Filing of Hyden-Leslie County Water District* (Ky. PSC Aug. 4, 2021), final Order.

Field Labor Costs and Office/Clerical Labor Costs for those charges occurring during normal business hours.

However, when Hyden-Leslie District provided updated cost justification information for the Nonrecurring Charges in this case,⁴⁵ it included field and office labor cost in the calculations. Commission Staff reviewed the updated cost justification information provided by Hyden-Leslie District and removed the labor charges. Due to current transportation costs, the Nonrecurring Charge costs have increased. The calculation of these adjustments to the Nonrecurring Charges are included in a table provided in Appendix A. Commission Staff calculated adjustments to Nonrecurring Charges resulting in an increase to test year Other Water Revenues of \$7,042.⁴⁶

Commission Staff recommended no adjustments to the Tap-On charges as the cost justification sheet provided by Hyden-Leslie District indicated that the cost of installing a 5/8-Inch by 3/4-Inch meter has not changed since the most recent tariff was approved.⁴⁷

The increase of \$7,042 discussed above and the \$2,028 decrease proposed by Hyden-Leslie District, equals an increase to Other Water Revenue of \$5,014. Commission Staff recommended Commission approval of the total adjustment to increase Other Water Revenue by \$5,014, because it meets the rate making criteria of being known and measurable.

⁴⁵ Hyden-Leslie District's Response to Staff's First Request, Item 21, and Hyden-Leslie District's Response to Staff's Second Request, Item 6.

⁴⁶ Commission Staff's Report at 9-10.

⁴⁷ Hyden-Leslie District's Response to Staff's First Request, 22_Tap_Fee_Calculation_2024.pdf.

The Commission finds that Commission Staff's recommendation is reasonable, the revised nonrecurring charges as described in Appendix A to be reasonable and that Hyden-Leslie District's Other Water Revenue should be increased by \$5,014 because the adjustment is a known and measurable change reflected in the evidence provided in the record.

Expenses Related to Meter Installations: In its application, Hyden-Leslie District proposed an adjustment to decrease Salaries and Wages – Employees by \$4,571,⁴⁸ and Materials and Supplies by \$10,665,⁴⁹ to account for tap fee expenses that were included as part of the test year.⁵⁰ 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 estimated useful lives.⁵¹ Commission Staff agreed with Hyden-Leslie District's proposed adjustment methodology.⁵² However, during the test year, Hyden-Leslie District installed 14 new water connections⁵³ and collected \$14,000.⁵⁴ Therefore, Commission Staff decreased Salaries and Wages – Employee by \$4,200, which is \$371 less than Hyden-Leslie District proposed, and decreased Materials and Supplies by

⁴⁸ Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment C.

⁴⁹ Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment C.

⁵⁰ Application, Exhibit 4, Schedule of Adjusted Operations, References, Adjustment C.

⁵¹ USoA, Accounting Instruction 19 and 33.

⁵² Commission Staff's Report at 14 – 15.

⁵³ Hyden-Leslie District's Response to Staff's First Request, Item 14a.

⁵⁴ Hyden-Leslie District's Response to Staff's First Request, Item 20.

\$9,800, which is \$865 less than proposed by Hyden-Leslie District, as shown in the following table.⁵⁵

Description	Salaries and	
	Wages Employees	Materials and Supplies
Tap Fees Collected	\$ 14,000	\$ 14,000
Allocation Percent	30%	70%
Proposed Adjustment ()	(4,200)	(9,800)
Less: Hyden-Leslie District Proposed Adjustments	4,571	10,665
Commission Staff's Proposed Adjustment	<u>\$ 371</u>	<u>\$ 865</u>

The Commission finds that Commission Staff's adjustment is reasonable and should be accepted. Hyden-Leslie District's Salaries and Wages – Employees should be reduced by \$4,200, and Materials and Supplies should be reduced by \$9,800 because the USoA requires that costs be capitalized as utility plant is service and depreciated over their estimated useful lives.

Salaries and Wages – Employee Normalization. In its application, Hyden-Leslie District proposed an adjustment to increase Salaries and Wages – Employees by \$57,181.⁵⁶ However, the explanation for the proposed adjustment only stated that the increase should be \$20,792, to reflect changes on personnel.⁵⁷ Hyden-Leslie District

⁵⁵ Commission Staff's Report at 14 – 15.

⁵⁶ Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment D.

⁵⁷ Application, Exhibit 4, Schedule of Adjusted Operations, References, Adjustment D.

provided the test year employee list,⁵⁸ test year hours worked,⁵⁹ current wage rates,⁶⁰ and a current employee list,⁶¹ as well as an explanation for changes to employees subsequent to the application being filed.⁶² Commission Staff normalized current staffing to 2,080 hours resulting in an increase of 1,612 hours as shown in the following table. In addition, subsequent to the test year, employees received an increase in wages.⁶³

Employee	Test Year		
	Hours	Normalized	Difference
Employee 2	591	2,080	1,489
Employee 7	608	2,080	1,472
Employee 8	2,301	-	(2,301)
Employee 12	513	2,080	1,567
Employee 10	2,695	-	(2,695)
Employee 14	-	2,080	2,080
Total	6,708	8,320	1,612

Commission Staff calculated a Normalized Salaries and Wages – Employees amount of \$602,184.⁶⁴ Commission Staff’s calculated amount is an increase of \$39,521,

⁵⁸ Hyden-Leslie District’s Response to Staff’s First Request, Item 3, Redacted spreadsheet, 3-6_Pay_and_Benefits.xlsx, Columns A and B.

⁵⁹ Hyden-Leslie District’s Response to Staff’s First Request, Item 3, Redacted spreadsheet, 3-6_Pay_and_Benefits.xlsx, Column AD.

⁶⁰ Hyden-Leslie District’s Response to Staff’s First Request, Item 18, 2022_Rate_Study_Hyden-Leslie, Wages Tab, Column E.

⁶¹ Hyden-Leslie District’s Response to Staff’s First Request, Item 18, 2022_Rate_Study_Hyden-Leslie, Wages Tab, Column A.

⁶² Additional Information requested by Commission Staff, Additional_Answers_Email_May_7_2024.pdf (filed May 7, 2024).

⁶³ Hyden-Leslie District’s Response to Staff’s First Request, Item 18, 2022_Rate_Study_Hyden-Leslie, Wages Tab, Column E.

⁶⁴ Commission Staff’s Report at 17.

which is \$17,660 less than Hyden-Leslie District proposed \$57,181 increase, as shown in the following table.⁶⁵

Title	Total Hours	Test Year Regular Hours	Current Wage Rate	Pro-Forma Regular Wages	Test Year Overtime Hours	Holiday Worked Hours	Current Overtime Rate	Pro-Forma Overtime Wages	Pro-Forma Overtime Wages
Bookkeeper	2,260	2,110.28	\$ 21.51	\$ 45,392	149.95	-	\$ 32.27	\$ 4,838	\$ 50,230
Billing Clerk	2,087	2,080.00	16.31	33,925	6.91	-	24.47	169.05	34,094
Distribution Laboror	2,273	2,094.01	19.17	40,142	178.90	-	28.76	5,144.27	45,286
Distribution Operator	2,750	2,298.79	21.14	48,596	451.18	49.50	31.71	15,876.56	64,473
Distribution Operator	2,631	2,441.62	22.63	55,254	189.85	1.08	33.95	6,481.12	61,735
Distribution Operator	2,345	2,151.67	23.59	50,758	193.14	13.82	35.39	7,323.28	58,081
Distribution Laboror	2,173	2,080.00	16.31	33,925	93.44	-	24.47	2,286.01	36,211
Manager	2,428	2,428.37			-			-	75,512
Billing Clerk	2,443	2,189.23	18.97	41,530	253.71	0.92	28.46	7,245.50	48,775
WTP Operator	2,119	2,080.00	23.10	48,048	38.82	-	34.65	1,345.11	49,393
WTP Operator	2,512	2,208.26	17.13	37,827	303.85	60.65	25.70	9,365.83	47,193
Operator in Training	2,080	2,080.00	15.00	31,200	-	-	22.50	-	31,200
Total Gross Wages	28,102	26,242.23		466,597.26	1,859.75			60,074.87	602,184
Less: Test Year Salaries									(562,663)
Pro Forma Salaries & Wages Adjustment									39,521
Less: Hyden-Leslie District Proposed Adjustment									(57,181)
Additional Proposed Adjustment									(17,660)

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted. Hyden-Leslie District's Salaries and Wages-Employees should be increased by \$39,521, because the adjustment to normalize Salaries and Wages – Employees is a known and measurable change reflected in the evidence provided in the record.

Employee Benefits – County Employee Retirement System (CERS). In its application, Hyden-Leslie District proposed to increase Employee Pensions and Benefits by \$130,823,⁶⁶ to reflect Hyden-Leslie District joining the Kentucky Public Pensions Authority (KPPA) – CERS.⁶⁷ Commission Staff agreed with Hyden-Leslie District's methodology, however, as discussed in the Salaries and Wages – Employee Normalization adjustment above, Commission Staff calculated a normalized Salaries and

⁶⁵ Commission Staff's Report at 16–17.

⁶⁶ Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment E.

⁶⁷ Application, Exhibit 4, References, Adjustment E.

Wages – Employees’ expense of \$602,184. In addition, the KPPA fiscal year 2025 contribution rate, effective July 1, 2024, is 19.71 percent.⁶⁸ Using the full time Salaries and Wages – Employees, of \$602,184 and the current contribution rate, Commission Staff calculated a CERS contribution of \$118,690, as shown in the following table.⁶⁹ The contribution is an increase of \$118,690 to Hyden-Leslie District’s test year pension contribution amount of \$0.⁷⁰ The adjustment is \$12,133 less than Hyden-Leslie District’s proposed increase of \$130,823, as shown in the following table.

Description	Commission Adjustment
Full Time Salaries and Wages - Employees	\$ 602,184
Multiplied by: Current CERS Contribution Rate	19.710%
CERS Retirement- Employer Contribution	118,690
Less: Test Year Retirement ()	-
Employee Pensions and Benefits Adjustment	118,690
Less: Hyden-Leslie District Proposed Adjustment ()	(130,823)
Commission Staff Proposed Adjustment	<u>\$ (12,133)</u>

The Commission finds Commission Staff’s recommended adjustment is reasonable and should be accepted. Hyden-Leslie District’s Employee Benefits (CERS) should be increased by \$118,690, because the known and measurable change is a direct result of changes to Salaries and Wages – Employees and the contribution rate as recorded in the case record. The adjustment reflects the current, known CERS contribution percentage.

⁶⁸ KPPA, GASB Contribution Rates (<https://www.kyret.ky.gov/Employers/GASB/Pages/Contribution-Rates.aspx>).

⁶⁹ Commission Staff’s Report at 17–18.

⁷⁰ Commission Staff’s Report at 17–18.

Employee Benefits – Medical Insurance Premiums: In its application, Hyden-Leslie District proposed an adjustment to decrease Employee Benefits by \$67,837⁷¹ to reflect Commission policy of limiting expenses for ratemaking purposes associated with providing employer contributions to employees’ medical insurance at a percentage comparable to the Bureau of Labor Statistics’ report.⁷² Hyden-Leslie District’s employees currently contribute between 5.74 to 32.79 percent to their insurance premiums, an average of 19.39 percent. Hyden-Leslie District contributes between 67.21 to 94.26 percent, an average of 80.61 percent, for full-time employees’ health insurance plans,⁷³ as shown in the following table.

Insurance Type	Coverage	Medical (EE)	Percentage	Medical (ER)	Percentage
Living Well PPO	FAM	\$ 717	32.79%	\$ 1,469	67.21%
Living Well CDHP	FAM	339	18.18%	1,527	81.82%
Living Well CDHP	FAM	137	10.80%	1,132	89.20%
Living Well CDHP	FAM	399	19.20%	1,679	80.80%
Living Well CDHP	EMP	53	5.74%	877	94.26%
Living Well CDHP	FAM	339	18.18%	1,527	81.82%
Living Well PPO	FAM	717	32.79%	1,469	67.21%
Living Well PPO	EMP	129	13.61%	820	86.39%
Living Well PPO	FAM	717	32.79%	1,469	67.21%
Living Well CDHP	FAM	399	19.20%	1,679	80.80%
Living Well CDHP	EMP	93	10.04%	837	89.96%
Total		<u>\$ 4,040</u>	<u>19.39%</u>	<u>\$ 14,486</u>	<u>80.61%</u>

The Commission continues to place greater emphasis on evaluating employees’ total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable

⁷¹ Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment F.

⁷² Application, Exhibit 4, Schedule of Adjusted Operations, References, Adjustment F.

⁷³ Hyden-Leslie District’s Response to Staff’s First Request, Item 4, 4_Benefits_Invoice_Redacted.pdf.

rate. Consistent with precedent,⁷⁴ Commission Staff agreed with Hyden-Leslie District's methodology but calculated a different amount. Commission Staff adjusted Hyden-Leslie District's single health insurance plan premiums contribution expense to 79 percent,⁷⁵ and family insurance plan premiums contribution expense to 67 percent,⁷⁶ as shown in the calculation below. Hyden-Leslie District provided the most recent copy of its health insurance invoice.⁷⁷ Accordingly, utilizing the most recent invoice amounts, Commission Staff recalculated the proposed adjustment and decreased Employee Benefits by \$87,773, which is \$19,936 more than proposed by Hyden-Leslie District, as shown in the following table.⁷⁸

Type of Premium	Number of Employees	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Health Insurance - Single	3	\$ 2,811	21%	\$ (590)	\$ 2,221
Health Insurance - Family	8	15,715	33%	(5,186)	10,529
Total Pro Forma Monthly Premium Times: 12 Months	11	18,526		(5,776)	12,750
		12		12	12
Total Annual Pro Forma Premium Plus: Uniform Expense		<u>\$ 222,312</u>		<u>\$ (69,312)</u>	153,000
Pro Forma Employee Benefits					157,838
Less: Test Year Insurance					(245,611)
Employee Benefits Adjustment					(87,773)
Less: Commission Staff Recommended Adjustment					67,837
Final Pro Forma Employee Benefits Adjustment					<u>\$ (19,936)</u>

⁷⁴ Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates* (Ky. PSC June 20, 2019), Order at 8–12.

⁷⁵ Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁷⁶ Bureau of Labor Statistics, Healthcare Benefits, March 2021, Table 4, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

⁷⁷ Hyden-Leslie District's Response to Staff's First Request, Item 4, 4_Benefits_Invoice_Redacted.pdf.

⁷⁸ Commission Staff's Report at 18–20.

The Commission finds Commission Staff's recommended adjustment is reasonable and should be accepted. Hyden-Leslie District's Employee Benefits is decreased by \$87,773, because it is consistent with the precedent established in previous cases regarding the evaluation of employees' total compensation packages for market and geographic competitiveness that ensure the development of a fair, just, and reasonable rate.⁷⁹

Expenses Related to Excess Water Loss. In its application, Hyden-Leslie District proposed adjustments to decrease Purchased Power expense by \$31,465⁸⁰ and Chemicals expense by \$11,202.⁸¹ The adjustments are to reflect the expense for water loss in excess of 15 percent.⁸² During the test year, Hyden-Leslie District reported water loss of 24.7056 percent.⁸³ As noted earlier in the report, Commission regulations disallow the recovery of expenses for water loss in excess of 15 percent.⁸⁴ Hyden-Leslie District reduced Purchased Power Expense by \$31,465, and Commission Staff agreed with the adjustment; and reduced Chemical Expense by \$11,202, which Commission Staff also agreed with, as shown in following table.⁸⁵

⁷⁹ Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates* (Ky. PSC June 20, 2019) at 8–12.

⁸⁰ Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment G.

⁸¹ Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment G.

⁸² Application, Exhibit 4, Adjusted Operations, References, Adjustment G.

⁸³ 2022 Annual Report at 57.

⁸⁴ Commission Staff's Report at 20–21.

⁸⁵ Commission Staff's Report at 20–21.

Description	Purchased Power	Chemicals Expense	Total
Pro Forma Expenses	\$ 324,191	\$ 115,423	\$ 439,614
Multiply by: Water Loss in Excess of 15 Percent	9.7056%	9.7056%	9.7056%
Excess Cost	\$ 31,465	\$ 11,202	\$ 42,667

The Commission finds Commission Staff’s recommended adjustment is reasonable and should be accepted. Hyden-Leslie District’s Purchased Water expense should be decreased by \$31,465 and Hyden-Leslie District’s Purchased Power expense is decreased by \$11,202, since Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes.

Depreciation Expense. In the application, Hyden-Leslie District proposed a decrease to Depreciation Expense of \$3,989⁸⁶ to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study).⁸⁷ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same NARUC Study published in 1979.⁸⁸ 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.⁸⁹ Upon

⁸⁶ Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment H.

⁸⁷ Application, Exhibit 4, References, Adjustment H.

⁸⁸ Case 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 22, 2023), Order at 30. Case 2023-00154, *Electronic Application of Harrison County Water Association, Inc. for an Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024), Order at 36.

⁸⁹ See Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), Order. Case 2023-00134 *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 22, 2023), Order at 30. Case 2023-00154, *Electronic Application of Harrison County Water Association, Inc. for an Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024), Order at 36.

examination, Commission Staff agreed with Hyden-Leslie District’s methodology to adjust depreciation expense. However, Commission Staff calculated a depreciation expense of \$809,460.⁹⁰ Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff increased Hyden-Leslie District’s Depreciation Expense by \$11,103, which is \$15,092 more than proposed by Hyden-Leslie District, as shown in the following table.⁹¹

Asset Class	Service Life Range	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Land & Land Rights	N/A	\$ -	\$ -	\$ -
Structures and Improvements	35 - 40	150,197	-	150,197
Collection & Impounding Reservoirs	50 - 75	-	-	-
Lake, River, and Other Intakes	35 -45	11,864	-	11,864
Supply Mains	50 - 75	7,823	-	7,823
Pumping Equipment	20	68,630	713	69,343
Water Treatment Equipment	20 -35	124,516	8,081	132,597
Reservoirs and Tanks	30 - 60	62,676	-	62,676
Transmission & Distribution Mains	50 - 75	265,579	-	265,579
Services	30 - 40	-	-	-
Meter Installation	40 - 50	35,594	206	35,800
Hydrants	40 - 60	3,422	-	3,422
Office Furniture & Equipment	20 - 25	5,048	2,103	7,151
Transportation	7	24,946	-	24,946
Tools, Shop, & Garage Equipment	15 - 20	395	-	395
Power Operated Equipment	10 - 15	36,386	-	36,386
Communication Equipment	10	1,281	-	1,281
Total		\$ 798,357	11,103	\$ 809,460
Less: Hyden Leslie District's Proposed Adjustment			3,989	
Total Depreciation Adjustment			\$ 15,092	

The Commission finds Commission Staff’s recommended adjustment is reasonable and should be accepted. Hyden-Leslie District’s Depreciation expense is

⁹⁰ Commission Staff’s Report at 21–22.

⁹¹ Commission Staff’s Report at 21–22.

increased by \$11,103, in order to align Hyden-Leslie District’s capital assets’ useful lives with the NARUC recommended useful lives.

Capitalization of Tap Labor Expenses. As explained 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. Hyden-Leslie District confirmed that it has already capitalized \$9,267 for materials cost,⁹² but has not capitalized the labor costs or the remaining materials used.⁹³ Therefore, Commission Staff calculated the annual depreciation amount for the test year and increased depreciation expense by \$99 to account for the Tap Fee Labor Expense and \$13 for the remaining Tap Fee Material Expense, for a total increase of \$112 as shown below:⁹⁴

Description	Labor Expense Amount	Materials and Supplies
Test Year Water Connections Expense	\$ 4,200	\$ 9,800
Less: Expense Already Capitalized ()	-	(9,267)
Total Amount to Capitalize	4,200	533
Divided by: NARUC Proposed Service Lives	42.5	42.5
Pro Forma Depreciation Adjustment	\$ 99	13
Total Capitalized Expense Increase		\$ 112

The Commission finds Commission Staff’s recommended adjustment is reasonable and should be accepted. Hyden-Leslie District’s Depreciation Expense

⁹² Hyden-Leslie District’s Response to Staff’s First Request, Item 14c.

⁹³ Hyden-Leslie District’s Response to Staff’s First Request, Item 14b.

⁹⁴ Commission Staff’s Report at 23.

should be increased by \$112, because the USoA requires the assets to be depreciated over their estimated useful lives.

Taxes other than Income – Federal Insurance Contributions Act (FICA). In its application, Hyden-Leslie District proposed an adjustment to increase Taxes Other Than Income by \$7,640.⁹⁵ As explained above, Commission Staff calculated pro forma Salaries and Wages – Employees of \$602,184;⁹⁶ and Hyden-Leslie District reported Salaries and Wages – Officers of \$30,000.⁹⁷ Therefore, Commission Staff calculated an increase to Taxes Other Than Income of \$8,584, which is \$944 more than proposed by Hyden-Leslie District, as shown in the following table.

Description	Commission Staff's
Salaries and Wages - Employees	\$ 602,184
Salaries and Wages - Officers	30,000
Total Salaries and Wages	632,184
Times: 7.65 Percent FICA Rate	7.65%
Total Pro Forma Payroll Taxes	48,362
Less: Test Year Payroll Taxes ()	(39,778)
Payroll Tax Adjustment	8,584
Less: Proposed Adjustment ()	(7,640)
Commission Staff's Proposed Adjustment	\$ 944

The Commission finds that Commission Staff's recommended adjustments are reasonable and should be accepted. Hyden-Leslie District's Taxes other than Income

⁹⁵ Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment D.

⁹⁶ Commission Staff's Report at 16–17.

⁹⁷ Application, Exhibit 4, Schedule of Adjusted Operations.

should be increased by \$8,584 because the known and measurable change is a direct result of changes to Salaries and Wages – Employees.

SUMMARY OF ADJUSTMENTS

Based upon the Commission’s findings discussed above, the following table summarizes Hyden-Leslie District’s adjusted pro forma:

Description	Commission Staff's Report Pro Forma	Commission Approved Adjustments	Commission Approved Pro Forma
Total Operating Revenues	\$ 2,489,969	\$ -	\$ 2,489,969
Total Operating Expenses	2,608,336	-	2,608,336
Net Operating Income	(118,367)	-	(118,367)
Interest and Dividend Income	1,119	-	1,119
Income Available to Service Debt	<u>\$ (117,248)</u>	<u>\$ -</u>	<u>\$ (117,248)</u>

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.⁹⁸ 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;⁹⁹ (3) the

⁹⁸ Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2022). Case No. 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

⁹⁹ 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).

average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense. The table below reflects Commission Staff's and the Commission approved calculated revenue requirement.

Description	Commission Staff's Report	Commission Approved
Pro Forma Operating Expenses	\$ 2,608,336	\$2,608,336
Plus: Average Annual Principal and Interest Payments	289,597	289,597
Additional Working Capital	57,919	57,919
Overall Revenue Requirement	2,955,852	2,955,852
Less: Other Operating Revenue	(14,643)	(14,643)
Proposed Late Charges	(79,361)	(79,361)
Interest Income	(1,119)	(1,119)
Revenue Required from Rates	2,860,729	2,860,729
Less: Pro Forma Present Rate Service Revenues	(2,328,516)	(2,328,516)
Required Revenue Increase	<u>\$ 532,213</u>	<u>\$ 532,213</u>
Percentage Increase	<u>22.86%</u>	<u>22.86%</u>

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Hyden-Leslie District had three Bonds with United States Department of Agriculture (USDA) Rural Development (RD),¹⁰⁰ one outstanding Kentucky Rural Water Finance Corporation (KRWFC) bond,¹⁰¹ and one Kentucky Infrastructure Authority (KIA) Loan.¹⁰² In its application, Hyden-Leslie District requested recovery of the average annual principal and interest on its indebtedness based on an average of the

¹⁰⁰ Case No. 2000-00077, *In The Matter of the Application of Hyden-Leslie County Water District for a Certificate of Public Convenience and Necessity to Construct and Finance Pursuant to the Provisions of KRS 278.023*, (Ky. PSC Mar. 20, 2000). Case No. 2010-00384, *Application of Hyden-Leslie County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Oct. 29, 2010).

¹⁰¹ Case No. 2013-00388, *Application of Hyden-Leslie County Water District for Authority to Issue Securities and Issuance of a Certificate of Public Convenience and Necessity to Construct an Improvements Project Pursuant to KRS 278.020 and 278.300* (Ky. PSC Feb. 6, 2014).

¹⁰² Case No. 2020-00141, Nov. 6, 2020 Order, ordering paragraph 7.

annual principal, and interest and fee payments for the five years following the test year, which is 2024 through 2028.¹⁰³ Commission Staff calculated the average annual principal and interest on a five-year average for the years 2024 through 2028, and agrees with Hyden-Leslie District's proposed Average Annual Principal and Interest Payments of \$289,597, as shown in the following table.

	2024		2025		2026		2027		2028		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
USDA 20000	\$ 8,100	\$ 8,690	\$ 8,500	\$ 8,352	\$ 8,900	\$ 7,952	\$ 9,300	\$ 7,534	\$ 9,700	\$ 7,096	\$ 84,124
USDA 2011A	18,000	35,441	18,500	34,658	19,500	33,946	20,500	33,196	21,500	32,498	267,739
USDA 2011B	41,000	35,546	42,000	34,514	43,000	33,557	44,000	32,579	45,000	31,665	382,861
KRWFC Bond	40,000	4,756	42,083	3,491	45,000	2,140	45,000	113	23,334	-	205,917
KIA Loan B19-008	88,781	12,688	89,226	12,244	89,672	11,797	90,121	11,348	90,572	10,897	507,346
Total	\$ 195,881	\$ 97,121	\$ 200,309	\$ 93,259	\$ 206,072	\$ 89,392	\$ 208,921	\$ 84,770	\$ 190,106	\$ 82,156	1,447,987
Divided by: 5 years											5
Average Annual Principal and Interest Payments											\$ 289,597

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its application, Hyden-Leslie District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual principal and debt payments at the time of its application for a total of \$57,919.¹⁰⁴

Following the Commission's historic practice,¹⁰⁵ Commission Staff agreed with Hyden-Leslie District's methodology. Therefore, when the change from 2023 through

¹⁰³ Application, Attachment 4, Revenue Requirements Calculation, Table B, Debt Service Schedule.

¹⁰⁴ Application, Attachment 4, Revenue Requirements Calculation.

¹⁰⁵ Case No. 2022-00431, *Electronic Application of Letcher County Water and Sewer District for a Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Nov. 17, 2023). Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For An Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024). Case No. 2023-00182, *Electronic Application of Western Mason County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 4, 2024).

2027 to 2024 through 2028 in considered, Commission Staff recommended \$57,919 be included in the revenue requirement as shown in the following table.

Average Annual Principal and Interest	\$ 289,597
Times: DSC Coverage Ratio	120%
Total Net Revenues Required	<u>347,516</u>
Less: Average Annual Principal and Interest Payments	(289,597)
Additional Working Capital	<u><u>\$ 57,919</u></u>

The Commission finds Commission Staff's proposed Additional Working Capital of \$57,919 should be included in Hyden-Leslie District's Revenue Requirement because the Additional Working Capital is a direct result of the calculated Annual Debt Principal and Interest payments.

RATE DESIGN

Hyden-Leslie District proposed to increase its monthly retail and wholesale water service rates by approximately 24.03 percent across the board and requested that the Commission consider applying the increase over a three-year period.¹⁰⁶ However, in its notice, Hyden-Leslie District applied its proposed rate increase across the board,¹⁰⁷ and did not provide a phase-in table within the notice.¹⁰⁸

Hyden-Leslie District performed a cost of service study (COSS) in 2020 to review the appropriateness of its rates and rate design as part of Case No. 2020-00141,¹⁰⁹ and Commission Staff, in that case, performed a COSS which is detailed in that Commission

¹⁰⁶ Cover letter to Application (filed Feb. 5, 2024), Read_First_ARF_Application_Cover_Letter.pdf.

¹⁰⁷ Application, Attachment 1, Customer Notice.

¹⁰⁸ Application, Attachment 1, Customer Notice.

¹⁰⁹ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (filed July 6, 2020), Response to Order, Item 3.

Staff 's Report.¹¹⁰ Hyden-Leslie District did not file a new COSS in this case, but stated that in the event of material changes to its system, a new COSS would be performed.¹¹¹

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. However, while there is no COSS in this case, Commission Staff allocated the \$532,213 revenue increase following Hyden-Leslie District's proposed three-year phased-in approach, and evenly across Hyden-Leslie District's monthly retail water service rates.

Hyden-Leslie District currently charges a monthly Water Loss Reduction Surcharge of \$1.53 per bill. The Water Loss Reduction Surcharge is projected to be discontinued December 1, 2024.¹¹²

The rates, as calculated by Commission Staff, which are set forth in Appendix B to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$2,860,729 Revenue Required from Water Sales, an approximate 22.86 percent increase. The new rates, without the Water Loss Reduction Surcharge, will increase the monthly water bill of a typical residential customer using 4,000 gallons from \$54.74 to \$67.15, an increase of

¹¹⁰ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 18, 2020), Commission Staff's Report, Appendix A.

¹¹¹ Commission Staff's Report at 6.

¹¹² Case No. 2020-00340, *Electronic Hyden-Leslie Water District's Unaccounted-For Water Loss Reduction Plan, Surcharge and Monitoring*. PSC Surcharge Report 2024, PSC_Surcharge_Report_MAY_2024.PDF, First surcharge collected for period of 12/01/2020–12/31/2020.

\$12.41, or approximately 22.67 percent.¹¹³ Under the three-year phased-in approach, Phase 1 rates will increase the monthly water bill of a typical residential customer using 4,000 gallons from \$54.74 to \$58.81, an increase of \$4.07, or approximately 7.44 percent.¹¹⁴ Phase 2 rates will increase the monthly water bill of a typical residential customer using 4,000 gallons from \$58.81 to \$63.19, an increase of \$4.38, or approximately 7.45 percent.¹¹⁵ Finally, Phase 3 rates will increase the monthly water bill of a typical residential customer using 4,000 gallons from \$63.19 to \$67.15, an increase of \$3.96, or approximately 6.27 percent,¹¹⁶ which will complete the phase-in for this rate case.

The Commission finds that the evidence provided in the record and the analysis shows that the revenue requirement and the allocation methodology used by Commission Staff are fair, just and reasonable and should be approved.

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 and should be accepted. By applying the DSC method to Hyden-Leslie District's pro forma operations results in an Overall Revenue Requirement of \$2,955,852 and that a \$532,213 revenue

¹¹³ $\$67.15$ (Average Bill New Water Rates) - $\$54.74$ (Average Bill Current Water Rates) = $\$12.41$
(Total Difference in Customer Bill) \div $\$54.74$ (Average Bill Current Water Rates) = 22.67%.

¹¹⁴ $\$58.81$ (Average Bill Phase 1 Water Rates) - $\$54.74$ (Average Bill Current Water Rates) = $\$4.07$
(Total Difference in Customer Bill) \div $\$54.74$ (Average Bill Current Water Rates) = 7.44%.

¹¹⁵ $\$63.19$ (Average Bill Phase 2 Water Rates) - $\$58.81$ (Average Bill Phase 1 Water Rates) = $\$4.38$
(Total Difference in Customer Bill) \div $\$58.81$ (Average Bill Phase 1 Water Rates) = 7.45%.

¹¹⁶ $\$67.15$ (Average Bill Phase 3 Water Rates) - $\$63.19$ (Average Bill Phase 2 Water Rates) = $\$3.96$
(Total Difference in Customer Bill) \div $\$63.19$ (Average Bill Phase 2 Water Rates) = 6.27%.

increase, or 22.86 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, are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Hyden-Leslie District are denied.
3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Hyden-Leslie District on or after August 20, 2024.
4. The late payment penalty as proposed by Hyden-Leslie District is approved and shall comply with all applicable regulations.
5. Within 20 days of the date of service of this Order, Hyden-Leslie 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.
6. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner



May Pat Reagen

ENTERED
AUG 06 2024
rCS
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director *Folk*

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00022 DATED AUG 06 2024

* Denotes Rounding

Nonrecurring Charges Adjustments

	Connection/Turn-On Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$33.15 at 1 hours)	\$33.15	
Office Supplies		
Office Labor	\$31.32	
Transportation (30 miles @\$0.67)	\$20.10	\$20.00
Misc.	\$0.00	
Total Revised Charge	<u>\$84.57</u>	<u>\$20.00</u>
Current Rate	\$10.44	

	Reconnection Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$33.15 at 1 hours)	\$33.15	
Office Supplies		
Office Labor	\$31.32	
Transportation (30 miles @\$0.67)	\$20.10	\$20.00
Misc.	\$0.00	
Total Revised Charge	<u>\$84.57</u>	<u>\$20.00</u>
Current Rate	\$10.44	

	Reconnection Charge (After Hours) Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$46.85 at 1 hours)	\$46.85	\$46.85
Office Supplies		
Office Labor	\$44.12	
Transportation	\$20.10	\$20.10
Misc.		
Total Revised Charge	<u>\$111.07</u>	<u>\$67.00</u>

Current Rate		\$53.62	
	Service Call / Investigation		
	Utility Revised Charge		Staff Revised Charge
Field Materials			
Field Labor (\$33.15 per hour)		\$33.15	
Office Supplies			
Office Labor		\$31.32	
Transportation (30 miles @\$0.67)		\$20.10	\$20.00
Misc.		\$0.00	
Total Revised Charge		\$84.57	\$20.00
Current Rate		\$10.44	

	Service Call / Investigation (After Hours)		
	Utility Revised Charge		Staff Revised Charge
Field Materials			
Field Labor (\$46.85 per hour)		\$46.85	\$46.85
Office Supplies			
Office Labor		\$44.12	
Transportation		\$20.10	\$20.10
Misc.			
Total Revised Charge		\$111.07	\$67.00
Current Rate		\$53.62	

	Meter Test Request		
	Utility Revised Charge		Staff Revised Charge
Field Materials			
Field Labor			
Office Supplies			
Office Labor			
Other: Test Fee		\$15.00	\$15.00
Shipping		\$30.00	\$30.00
Total Revised Charge		\$45.00	\$45.00
Current Rate		\$20.44	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00022 DATED AUG 06 2024

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

Monthly Water Rates

PHASE 1 effective for one year as of the date of this Order

All Meters

First	2,000 Gallons	\$32.01	Minimum Bill
Next	3,000 Gallons	0.01340	Per Gallon
Next	20,000 Gallons	0.01172	Per Gallon
Next	75,000 Gallons	0.01006	Per Gallon
Over	100,000 Gallons	0.00840	Per Gallon

PHASE 2 implement one year after the date of this Order

All Meters

First	2,000 Gallons	\$34.41	Minimum Bill
Next	3,000 Gallons	0.01439	Per Gallon
Next	20,000 Gallons	0.01257	Per Gallon
Next	75,000 Gallons	0.01079	Per Gallon
Over	100,000 Gallons	0.00901	Per Gallon

PHASE 3 implement two years after the date of this Order

All Meters

First	2,000 Gallons	\$36.55	Minimum Bill
Next	3,000 Gallons	0.01530	Per Gallon
Next	20,000 Gallons	0.01338	Per Gallon
Next	75,000 Gallons	0.01149	Per Gallon
Over	100,000 Gallons	0.00960	Per Gallon

Nonrecurring Charges

Late Payment Penalty	10%
Connection Turn-On Charge	\$20.00
Reconnection Charge	\$20.00
Reconnection Charge -After Hours	\$67.00
Service Call/Investigation	\$20.00
Service Call/Investigation-After Hours	\$67.00
Meter Test Request	\$45.00
Damage to Meter	Actual
Meter Relocate	Actual
5/8-Inch x 3/4-Inch Water Tap On All Larger than 5/8-Inch x 3/4-Inch Meters	\$1,000.00 Actual

*Robert K. Miller
Straightline Kentucky LLC
113 North Birchwood Ave.
Louisville, KENTUCKY 40206

*Hyden-Leslie County Water District
356 Wendover Road
Hyden, KY 41749

*Kevin Cook
Chairman
Hyden-Leslie County Water District
356 Wendover Road
Hyden, KY 41749