

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF OHIO COUNTY)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2024-00127
PURSUANT TO 807 KAR 5:076)	

ORDER

On May 1, 2024,¹ Ohio County Water District (Ohio District) filed its application with the Commission requesting an adjustment to its water service rates pursuant to 807 KAR 5:076.

In its application, Ohio District requested rates that would increase its base rate revenue by \$817,645, or 17.66 percent to pro forma present rate water sale revenues.² Ohio District utilized calendar year ended December 31, 2023, as the test year to determine the reasonableness of Ohio District's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated May 30, 2024,³ and amended by Order dated

¹ Ohio District tendered its application on April 26, 2024. Then, the district resubmitted the application on April 29, 2024. By letter dated April 30, 2024, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on May 1, 2024.

² Application, Reasons for Application at 7 and Statement of Adjusted Operations at 9.

³ Order (Ky. PSC May 30, 2024).

July 31, 2024.⁴ Ohio District responded to four rounds of discovery.⁵ Ohio District timely filed its response to all rounds of discovery.

Commission Staff issued its report (Commission Staff's Report) on November 20, 2024,⁶ summarizing its findings and recommendations regarding Ohio District's requested rate adjustment. In the Commission Staff's Report, Commission Staff found that Ohio District's adjusted test-year operations support an overall revenue requirement of \$5,782,802 and that a \$804,153 revenue increase, or 17.37 percent, to pro forma present rate revenues is necessary to generate the overall revenue requirement.⁷ In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across all customer classes to calculate its recommended water rates.

On November 22, 2024, Ohio District filed its response to Commission Staff's Report.⁸ In its written comments, Ohio District did not agree with the removal of certain labor expenses from Salaries and Wages and portions of employee medical benefits and requested it be restored to the revenue requirement.⁹ Ohio District also disagreed with the removal of certain labor expenses from nonrecurring charges but did not want to

⁴ Order (Ky. PSC July 31, 2024).

⁵ Ohio District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed July 2, 2024); Ohio District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed July 31, 2024); Ohio District's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Sept. 3, 2024); Ohio District's Response to Commission Staff's Fourth Request for Information (Staff's Fourth Request) (filed Sept. 18, 2024).

⁶ Commission Staff's Report (issued Nov. 22, 2024).

⁷ Commission Staff's Report at 28, Revenue Requirement table.

⁸ Ohio District's Response to Commission Staff's Report (filed Nov. 22, 2024).

⁹ Ohio District's Response to Commission Staff's Report (filed Nov. 22, 2024).

contest the adjustment in this case.¹⁰ Ohio District concurred with the remainder of the findings presented in Commission Staff's Report and waived its right to request an informal conference or a hearing.¹¹ The case now stands submitted for a decision by the Commission.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard of review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, the utility is allowed to charge its customers "only fair, just and reasonable rates."¹² 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

Ohio 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 5,838 residential customers, 140 commercial customers, and 144 public authorities that reside in Breckinridge, Daviess, Grayson, and Ohio counties, Kentucky.¹³

¹⁰ Ohio District's Response to Commission Staff's Report (filed Nov. 22, 2024).

¹¹ Ohio District's Response to Commission Staff's Report (filed Nov. 22, 2024).

¹² *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).

¹³ *Annual Report of Ohio County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 12, 49.

Ohio District’s last base rate increase, also filed pursuant to the alternative rate filing procedure, was in Case No. 2020-00167.¹⁴

UNACCOUNTED-FOR WATER LOSS

In its 2023 Annual Report, Ohio District reported a water loss of 10.1299 percent.¹⁵ Ohio District’s average water loss over the last three years was 15.3418 percent.¹⁶ 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 2023 total annual cost of water loss to Ohio District is \$68,184 while the annual cost of water loss in excess of 15 percent is zero.

Total Water Loss	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ -	\$ 404,011	\$ 269,084	\$ 673,095
Water Loss Percent	10.1299%	10.1299%	10.1299%	10.1299%
Total Water Loss	\$ -	\$ 40,926	\$ 27,258	\$ 68,184

TEST PERIOD

The calendar year ended December 31, 2023, was used as the test year to determine the reasonableness of Ohio District’s existing and proposed water rates as required by 807 KAR 5:076, Section 9.

¹⁴ Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020).

¹⁵ 2023 Annual Report at 58.

¹⁶ 2023 Annual Report at 58; *Annual Report of Ohio County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2022*, at 58; *Annual Report of Ohio County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2021*, at 57.

$$10.01299 + 13.5979 + 22.4145 = 46.02539 / 3 = 15.3418$$

SUMMARY OF REVENUE AND EXPENSES

Commission Staff's Report summarizes Ohio District's pro forma income statement as follows:

Description	Commission Staff's Report		
	Test-Year Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 4,838,775	\$ 16,275	\$ 4,855,050
Operating Expenses	4,838,886	(42,380)	4,796,506
Total Utility Operating Income	<u>\$ (111)</u>	<u>\$ 58,655</u>	<u>\$ 58,544</u>

REVIEW AND MODIFICATION OF
COMMISSION STAFF'S RECOMMENDATIONS

Ohio District proposed adjustments to its revenues and expense to reflect current and expected operating conditions. In Commission Staff's Report, Commission Staff proposed additional adjustments. Upon review, the Commission discovered one necessary modification to Commission Staff's Report. This adjustment was a decrease of \$25,200 to Ohio District's Salaries and Wages – Officers to remove its commissioners' pay from the revenue requirement. The following is the Commission's complete pro forma.¹⁷

¹⁷ Commission Staff's Report at 9.

Description	Test Year	Total Adjustments	Commission Staff Report Pro Forma	Commission Adjustments	Pro Forma
<u>Operating Revenues</u>					
Total Retail Metered Sales	\$ 4,005,490	\$ 22,508	\$ 4,027,998		\$ 4,027,998
Sales for Resale	601,639	-	601,639		601,639
Other Water Revenues					
Forfeited Discounts		80,107	80,107		80,107
Misc. Service Revenues	23,492	-	23,492		23,492
Other Water Revenues	208,154	(81,533)	121,814		121,814
		(4,807)			
Total Operating Revenues	<u>4,838,775</u>	<u>16,275</u>	<u>4,855,050</u>	<u>0</u>	<u>4,855,050</u>
<u>Operating Expenses</u>					
<u>Operation and Maintenance</u>					
Salaries and Wages - Employees	1,151,874	52,904			
		178,101			
		(19,576)	1,363,303		1,363,303
Salaries and Wages - Officers	25,200	-	25,200	(25,200)	0
Employee Benefits - Medical/Other	685,368	(373,894)			
		0			
		30,186			
		36,990			
		(81,568)	297,082		297,082
Employee Benefits - Retirement (CERS)		373,894			
		(104,224)			
		0			
		0			
		44,708			
		(41,813)	272,565		272,565
Purchased Water	1,698	(1,698)	0		
Purchased Power	404,011	0	404,011		404,011
Chemicals	269,084	0	269,084		269,084
Materials and Supplies	266,738	(15,410)	251,328		251,328
Contractual Services - Engineering	55,497	0	55,497		55,497
Contractual Services - Acct. & Legal	32,604	0	32,604		32,604
Contractual Services - Water Testing	31,174	0	31,174		31,174
Contractual Services - Other	188,941	(9,827)			
		4,750			
		(158,800)			
		3,689	28,753		28,753
Rental of Bldg/Property & Equipment	29,526	(27,500)			
		(700)	1,326		1,326
Transportation Expense	77,214	0	77,214		77,214
Insurance - Vehicle, Gen. Liability and Other	67,997	0	67,997		67,997
Insurance - Workers Comp.	9,125	0	9,125		9,125
Advertising	469	73	542		542
Bad Debt Expense	17,868	0	17,868		17,868
Miscellaneous Expense	193,165	1,698	194,863		194,863
Total Operation and Maintenance Expenses	<u>3,507,553</u>	<u>(108,017)</u>	<u>\$ 3,399,536</u>	<u>(25,200)</u>	<u>\$ 3,374,336</u>
Depreciation	1,239,687	45,430	1,285,117		1,285,117
Taxes Other Than Income	91,646	20,207	111,853		111,853
Total Operating Expenses	<u>4,838,886</u>	<u>(42,380)</u>	<u>\$ 4,796,506</u>	<u>(25,200)</u>	<u>\$ 4,771,306</u>
		0			
Net Operating Income	(111)	58,655	\$ 58,544		\$ 58,544
Interest Income	84,739	33,212	\$ 117,951		\$ 117,951
Income Available to Service Debt	<u>\$ 84,628</u>	<u>\$ 91,867</u>	<u>\$ 176,495</u>	<u>\$ -</u>	<u>\$ 176,495</u>

PRO FORMA OPERATING STATEMENT

Total Retail Metered Sales. Ohio District provided a billing analysis listing the water usage and water sales revenue for the test year in its application.¹⁸ It reported a test-year amount of \$4,607,129 and proposed one adjustment to the account.¹⁹ This adjustment was to normalize the revenue from the test year to the amount calculated by the billing analysis in the amount of \$22,508.²⁰ Commission Staff recommended the Commission accept the adjustment because the amounts are known and measurable as the amount matched the current billing analysis.²¹

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

Sales for Resale. Ohio District sells water at wholesale rates to Beaver Dam Municipal Water & Sewer System, Centertown Water System, and Fordsville Water Works on a permanent basis.²² Ohio District reported a test year amount of \$601,639 of wholesale revenues and proposed no adjustments to the account.²³ Commission Staff confirmed the test-year amount matched the current billing analysis for wholesale

¹⁸ Application, Item 6, Current Billing Analysis at 15.

¹⁹ Application, Item 5, Schedule of Adjusted Operations at 9.

²⁰ Application, Item 5, Schedule of Adjusted Operations, Reference A, at 10.

²¹ Commission Staff's Report at 10.

²² 2023 General Ledger at 56.

²³ Application, Item 5, Schedule of Adjusted Operations at 9.

revenues.²⁴ and, as such, it recommended that the amount proposed be accepted because the amount is known and measurable.²⁵

The Commission finds that the recommendation that the proposed test-year wholesale revenue amount is known and measurable is supported by the administrative record. Accordingly, the Commission finds that test-year Sales for Resale revenue to be reasonable and approves the amount.

Forfeited Discounts. Ohio District did not include a test year amount in forfeited discounts but proposed one adjustment to the account.²⁶ This adjustment was to reclassify late fees that were reported in the test year as Other Water Revenues in the amount of \$80,107.²⁷ Commission Staff recommended accepting the proposed reclassification to properly record expenses.²⁸

The Commission finds the reclassification reasonable and approves the adjustment.

Miscellaneous Service Revenues. Ohio District reported a test-year amount of \$23,492 and proposed no changes to the account.²⁹ Commission Staff reviewed Ohio District's general ledger, confirmed the test-year amount, and thus determined no adjustment was necessary for the account. Commission Staff recommended the

²⁴ Application, Item 6, Current Billing Analysis at 15.

²⁵ Commission Staff's Report at 10.

²⁶ Application, Item 5, Schedule of Adjusted Operations at 9.

²⁷ Application, Item 5, Schedule of Adjusted Operations, Reference B, at 10.

²⁸ Commission Staff's Report at 11.

²⁹ Application, Item 5, Schedule of Adjusted Operations at 9.

Commission accept the test year amount for miscellaneous service revenues proposed by Ohio District.³⁰

As the general ledger supports the proposed test year amount, the Commission finds that the test year Miscellaneous Service Revenue to be reasonable and approves the amount.

Other Water Revenues. Ohio District reported a test year amount of \$208,154 and proposed one change to the account.³¹ This adjustment was the result of the Forfeited Discounts reclassification, late fees, as discussed above, reducing the Other Water Revenues by \$80,107.³² Commission Staff reviewed Ohio District's Non-Recurring Charges and proposed a decrease of \$1,426 to revise Ohio District's revenues from Non-Recurring Charges to reflect the revised amounts included in Appendix A. Commission Staff reviewed the general ledger and further determined it would be appropriate to remove Ohio District's Bad Debt Recovery as the recovery of a bad debt expense would not typically recur. This resulted in a reduction of \$4,807 to Other Water Revenues resulting in a pro forma amount of \$121,814. Ohio District's total Other Water Revenues, including forfeited discounts and Miscellaneous Service Revenues, totals \$225,413 as shown in the table below. Commission Staff recommended the Commission accept the proposed adjustments as the amounts are known and measurable.³³

³⁰ Commission Staff's Report at 10–11.

³¹ Application, Item 5, Schedule of Adjusted Operations at 9.

³² Application, Item 5, Schedule of Adjusted Operations, Reference B, at 10.

³³ Commission Staff's Report at 11–12.

Description	Test Year	Ohio County Adjustments	Commission Staff Adjustments	Pro Forma
Forfeited Discounts	\$ 80,107			\$ 80,107
<i>Non-Recurring Charges</i>				
Connection/Turn-On Charge	11,748		3,164	14,912
Reconnect Fees	18,217		(5,385)	12,832
Service Call	477		711	1,188
Returned Check	700		84	784
sub-total	31,142	0	(1,426)	29,716
<i>Other</i>				
Miscellaneous Income	23,492			23,492
Bad Debt Recovery	4,807		(4,807)	0
Miscellaneous Revenues	15,521			15,521
Credit / Debit Card Web Fee (Tariff sheet 43)	32,258			32,258
Credit Card fee (Tariff sheet 43)	19,299			19,299
Service Charge	56,163	(31,142)		25,021
sub-total	151,539	(31,142)	(4,807)	115,590
Total Other Income	\$ 262,788	\$ (31,142)	\$ (6,233)	\$ 225,413

The Commission finds that Commission Staff's recommendations are not only consistent with recent Commission decisions excluding labor expenses resulting from work occurring during normal business hours from also being recovered through nonrecurring charges, but also supported by the record.³⁴ Expenses attributed to nonrecurring charges must be directly related to the actual additional cost incurred to provide the service. Labor expenses incurred during normal business hours are generally already recovered in customer rates as a day-to-day cost of maintaining a system. Here, Ohio District did not provide sufficient evidence to allocate those already incurred and

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 labor expenses, such as the connection and reconnection of a meter during normal working hours, to a nonrecurring service. Thus, the Commission finds that the revised nonrecurring charges set forth in Appendix B to this Order and the decrease of \$1,426 to Other Water Revenue are reasonable, as well as the bad debt recovery adjustment of \$4,807.

Salaries and Wages Employees. Ohio District reported a test year amount of \$1,151,874 and proposed one adjustment to the account.³⁵ The adjustment was to account for changes in the employee roster and wage rates during and after the 2023 test year in the amount of \$52,904.³⁶ This increase included a 5 percent Cost of Living Adjustment for 2024; Ohio District provided the Board minutes approving the increase.³⁷ Ohio District later filed an additional adjustment on July 16, 2024, that proposed to increase salaries and wages by an additional \$162,000.³⁸ The increase was the result of proposing the addition of three new employees and a promotion of two other existing employees in the amount of \$192,000, while removing one part-time position as a reduction of \$30,000. One of the promotions and two new employees would be assigned to the newly established Maintenance Department, and the other promotion and new employee would be used to increase the capabilities of the Distribution Department.³⁹ Ohio District provided its Board's approval for the proposed new positions and

³⁵ Application, Item 5, Schedule of Adjusted Operations at 9.

³⁶ Application, Item 5, Schedule of Adjusted Operations, Reference C, at 10.

³⁷ Response to Staff's First Request, Item 8, Minutes 2023, November 27, Motion #3.

³⁸ Ohio District's Request to Modify Expenses in ARF Application.

³⁹ Ohio District's Request to Modify Expenses in ARF Application.

promotions.⁴⁰ Ohio District stated that, after the addition of the new employees, it expects to employ 20 full-time employees and one part-time employee, when fully staffed.⁴¹ Commission Staff did not use the \$30,000 amount proposed by Ohio District in its modification for the reduction of the elimination part-time employee but instead calculated the adjustment based on the actual wages submitted by Ohio District because it was based on actual expenses in the test year.⁴² Commission Staff recalculated the expense based on the additional \$192,000 in new salaries and a reduction of \$13,899 for the removal of one of Ohio District's part-time workers, resulting in an total adjustment for the staffing changes of \$178,101.

Ohio District stated it did not remove tap fees from its labor expense.⁴³ Commission Staff proposed to remove the labor cost for each tap installation as explained below, Ohio District stated 63 installations were done in the test year,⁴⁴ for the amount provided in Ohio District's cost justification.⁴⁵ This results in a reduction of \$19,576⁴⁶ to Ohio District's salary and wage expense. 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.⁴⁷ Commission Staff capitalized the

⁴⁰ Ohio District's July 22, 2024, Board Meeting Minutes (filed July 31, 2024).

⁴¹ Response to Staff's Fourth Request, Item 1.

⁴² Response to Staff's First Request, Item 4, Employee Wages Pro Forma.

⁴³ Response to Staff's First Request, Item 12b.

⁴⁴ Response to Staff's First Request, Item 12a.

⁴⁵ Response to Staff's First Request, Item 20.

⁴⁶ $63 * 310.73 = \$19,575.99$

⁴⁷ USoA, Accounting Instruction 19 and 33.

costs and made a corresponding adjustment to depreciation. Commission Staff recommended the Commission accept the proposed adjustments.⁴⁸ Commission Staff determined that Ohio District provided sufficient information to demonstrate why the staffing changes were necessary and reasonable. The changes will result in efficiencies with the utility service and as a result, Commission Staff believes the amounts are reasonable and reflect the known, approved staffing numbers and pay rates.

In its response to Commission Staff's Report, Ohio District disagreed with Commission Staff removing certain labor expenses from Salaries and Wages-Employees. Ohio District states that while those reductions will eventually occur, they will not happen in the next year. Therefore, Ohio District requested that labor expense reductions be restored to the requested revenue requirement.⁴⁹ The Commission finds that if a pro forma adjustment is made to salaries and wages expenses for new positions created after the test year to replace old positions, then the salaries and wages expenses for the replaced positions should be removed from the test year expenses. The Commission finds that the Commission Staff's adjustments, based upon the current wage rates of Ohio District employees and the expected number of employees documented in the case record, are reasonable; and therefore, approves the Commission staff's pro forma adjustments to Salaries and Wages expense.

Salaries and Wages - Officers. Ohio District reported a test-year amount of \$25,200 and proposed no changes to the account.⁵⁰ Ohio District's Board consists of

⁴⁸ Commission Staff's Report at 13-14.

⁴⁹ Response to Commission Staff's Report (filed Nov. 22, 2024).

⁵⁰ Application, Item 5, Schedule of Adjusted Operations at 9.

seven members who are each paid \$300 per month.⁵¹ Ohio District provided training records for each of its commissioners⁵² and Fiscal Court Minutes approving their appointments.⁵³ KRS 74.020(6) states that “[e]ach commissioner shall receive an annual salary of not more than thirty-six 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.”⁵⁴

During its preparation of its Staff Report, Commission Staff identified that Ohio District had not provided documentation authorizing the pay of its Commissioners from the Fiscal Court. Commission Staff requested Ohio District provide proof from the Fiscal Court of Ohio County reflecting the District’s Commissioners’ salaries.⁵⁵ Commission Staff recommended the Commission include Ohio District’s Commissioners’ salaries in the revenue requirement pending the submission requested and included it in the Revenue Requirement in its Staff Report.⁵⁶

The Commission is unable to allow recovery for commissioner salaries unless approval of the salaries by the appropriate fiscal court is of record. In response to Commission Staff’s Report and the request for additional documentation, Ohio District

⁵¹ Response to Staff’s First Request, Item 9, Commissioner Compensation.

⁵² Response to Staff’s First Request, Item 11.

⁵³ Response to Staff’s First Request, Item 10.

⁵⁴ KRS 74.020(6), Appointment of commissioners – Number – Terms – Removal – Vacancies – Organization – Bond – Compensation – Mandatory Training – Notice of Vacancy.

⁵⁵ Commission Staff’s Report at 15.

⁵⁶ Commission Staff’s Report at 15.

provided Fiscal Court minutes that authorized an additional \$100 per month divided among the 7 Board members.⁵⁷ The Commission finds the submitted documentation does not provide adequate evidence to support Ohio District's Board Members' salaries amounts as required by KRS 74.020(6) and thus \$25,200 in expenses should be removed.

Employee Pension and Benefits - Medical. Commission Staff identified costs by expense type by reviewing payroll and general ledger information that was provided by Ohio District.⁵⁸ Commission Staff separated the medical and related benefits costs from retirement benefits to facilitate clarity in the respective adjustments. To accomplish the separation, Commission Staff reclassified \$373,894 to Employee Benefits – Retirement (CERS) in the Schedule of Adjusted Operations (SAO) and in the table below. Ohio District initially proposed a total test-year employee pension and benefits expense of \$685,368.⁵⁹ With Commission Staff's proposed reclassification, Ohio District's medical benefits for the test year were \$311,474. Ohio District proposed an adjustment for its health insurance contributions to be adjusted to be consistent with the Bureau of Labor Statistics national average for employer's share of premiums as a decrease of \$45,390.⁶⁰ In its request to modify expenses, Ohio District also proposed to increase its non-pension benefits by \$96,000.⁶¹ Commission Staff recalculated the benefits for new employees, using the invoices provided by Ohio District, in the amount of \$30,186 and subsequently

⁵⁷ Fiscal Court Minutes Authorizing Commissioner Pay (filed Nov. 27, 2024).

⁵⁸ Response to Staff's First Request, Item 1a, 2023 General Ledger.

⁵⁹ Application, Item 5, Schedule of Adjusted Operations at 9.

⁶⁰ Application, Item 5, Schedule of Adjusted Operations, Reference F at 10.

⁶¹ Ohio District's Request to Modify Expenses in ARF Application (filed July 16, 2024).

proposed an adjustment of \$65,814 to reach that amount.⁶² Commission Staff then proposed an increase of \$36,990 to account for increases in benefit costs for existing employees based upon the invoices provided by Ohio District.⁶³ This results in an annual medical benefit cost of \$378,650 as shown in the table below.

Description	Pro Forma Amount
Medical	\$ 281,616
Dental	10,488
Vision	2,052
Life	16,680
Uniforms	22,816
HSA Contributions	43,678
HRA Admin Fees	1,320
Total	\$ 378,650

Commission Staff recommended an adjustment of \$81,568 to decrease Ohio District’s contributions to health insurance to align employer contribution rates with the national average for private industry worker reported by the Bureau of Labor Statistics⁶⁴ (BLS) and the Willis Benchmarking Survey for national average for an employer’s share of dental insurance that is consistent with Commission precedent⁶⁵ as shown in the table below. The adjustments result in a pro forma amount of \$297,082.

⁶² Response to Staff’s First Request, Item 5a, Benefits Invoices.

⁶³ Commission Staff’s Report at 16.

⁶⁴ U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Single Coverage, March 2024 <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 2024 <https://www.bls.gov/news.release/ebs2.t04.htm>.

⁶⁵ See Case No. 2016-00434, *Application of Shelby Energy Cooperative, Inc. for an Increase in its Retail Rates* (Ky. PSC July 31, 2017), final Order at 7; and The Willis Benchmarking Survey, 2015, at 62-63. (https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf).

In response to Commission Staff’s Report, Ohio District requested that benefit expense reductions be restored to Ohio District’s proposed level as the benefits are necessary for recruiting and retaining qualified employees.⁶⁶ Ohio District did not provide any evidence of a wage study or comparative information for the area in the record. As such, the Commission agrees with Commission Staff that the adjustment is consistent with the benefits provided by similarly situated employers in the area and with the Commission precedent, thus the adjustment is reasonable and should be approved based on the information in the record. The Commission finds the Commission staff’s recommended adjustments are reasonable and are approved.

	Commission Staff's Calculated Employer Contribution					
	Health (Single)	Health (Family)	Dental	Vision	Life	Total
Proforma Monthly	\$ 10,307	\$ 13,161	\$ 874	\$ 171	\$ 1,390	\$ 25,903
Proforma Yearly	123,684	157,932	10,488	2,052	16,680	310,836
Employer Cont. %	80%	68%	40%	100%	100%	n/a
Employer Cont.	98,947	107,394	4,195	2,052	16,680	229,268
BLS / Survey Amounts	\$ 24,737	\$ 50,538	\$ 6,293	\$ -	\$ -	\$ 81,568

Employee Benefits – Retirement (CERS). Commission Staff reclassified \$373,894 from Medical Benefits to Retirement as discussed above. Ohio District participates in the County Employees Retirement System (CERS), which is managed by the Kentucky Public Pension Authority (KPPA).⁶⁷ Ohio District proposed three adjustments for retirement benefits expenses. The first adjustment was to account for the change in contribution rates charged by CERS beginning July 1, 2024, as a decrease of \$38,928 to

⁶⁶ Response to Commission Staff’s Report (filed Nov. 22, 2024).

⁶⁷ Ohio District’s Response to Staff’s First Request, Item 5, Employee Benefit Handbook.

its pension benefits expense.⁶⁸ The second adjustment was a decrease of \$104,224 to account for GASB reporting requirements for liabilities. In Case No. 2016-00163,⁶⁹ the Commission 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. Ohio District also proposed to increase its pension benefits by \$46,041 in its request to modify expenses.⁷⁰

Commission Staff agreed with Ohio District's removal of \$104,224 for the reporting requirements of GASB 68 but recommended adjustments different from Ohio District's other adjustments. First, Commission Staff recommended an increase of \$44,708 to account for the increased pension cost from new employees and updated pay rates. Commission Staff then calculated the adjustment due to the change in contribution rate⁷¹ and decreased Ohio District's retirement expense by \$41,813. The adjustments result in a pro forma test year amount of \$272,565 as shown in the table below. Commission Staff recommended the Commission accept Commission Staff's recommended adjustments including an adjustment for GASB reporting, and other adjustments as the amounts are

⁶⁸ CERS Board of Trustees December 4, 2023, Meeting, Minutes, Page 2. CERS Contribution Rate in test year was 26.79, and 19.71 in current year.

⁶⁹ Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), Order at 11–15.

⁷⁰ Ohio District's Request to Modify Expenses in ARF Application.

⁷¹ CERS Board of Trustees December 4, 2023, Meeting, Minutes, Page 2. CERS Contribution Rate in the test year was 23.34 percent, and 19.71 percent in 2024-2025 fiscal year.

known and measurable as well as reflect the current number of approved employees and salary amounts as reflected below.⁷²

Description	Test Year	Pro Forma
Wages	\$ 1,151,874	\$ 1,382,879
Contribution Rate	23.34%	19.71%
Contributions	268,847	272,565
Excess (Cost) / Income Over Contributions	104,224	0
Immaterial Unidentified Amounts	823	0
Total	\$ 373,894	\$ 272,565
Increase / (Decrease)		\$ (101,329)

The Commission finds Commission Staff's recommended adjustments are reasonable and should be accepted. Ohio District's Employee Pensions and Benefits should be decreased by \$101,329 pursuant to adjust the contribution expense to account for the normalization of Salaries and Wages arising from the reduction of the required CERS contribution rate, accounting adjustment in compliance with GASB 68 and the removal of immaterial unidentified amounts.

Purchased Water. Ohio County produces its own water and, therefore, does not purchase water unless there is an emergency but reported a test year amount of \$1,698 and proposed no changes.⁷³ Ohio District confirmed the amount in the test year was not part of its sales to customers and stated the water was purchased for office use.⁷⁴ Commission Staff proposed to reclassify and increase Miscellaneous Expenses by

⁷² Commission Staff's Report at 18.

⁷³ Application, Item 5, Schedule of Adjusted Operations at 9.

⁷⁴ Ohio District's Response to Staff's Second Request for Information, Item 10.

\$1,698, with a corresponding reduction of \$1,698 to Purchase Water expense. Commission Staff recommended the Commission approve the proposed reclassification to record expenses properly.⁷⁵

The Commission finds the reclassification of Purchase Water expense to Miscellaneous Expense to be reasonable and that it should be approved because the expense arises from activities generally classified in the Miscellaneous Expense category and reflects Ohio District's actual costs.

Purchased Power. Ohio District reported a Purchased Power test year expense of \$494,011 and proposed no changes to the account.⁷⁶ Commission Staff reviewed Ohio District's general ledger⁷⁷ and agreed with Ohio District that no adjustment was necessary. Commission Staff recommended the Commission accept the proposed amount.⁷⁸ Ohio District's water loss was below 15 percent, so no adjustment was necessary to account for excess water loss. The water loss table is shown below.

Total Water Loss	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ -	\$ 404,011	\$ 269,084	\$ 673,095
Water Loss Percent	10.1299%	10.1299%	10.1299%	10.1299%
Total Water Loss	\$ -	\$ 40,926	\$ 27,258	\$ 68,184

The Commission finds Ohio District's purchased power expense, as confirmed by its general ledger, is reasonable and should be approved because the amounts are known and measurable.

⁷⁵ Commission Staff's Report at 19.

⁷⁶ Application, Item 5, Schedule of Adjusted Operations at 9.

⁷⁷ Response to Staff's First Request for Information, Item 1a, 2023 General Ledger.

⁷⁸ Commission Staff's Report at 19.

Chemicals. Ohio District reported a test year amount of \$269,084 and proposed no changes to the account.⁷⁹ Commission Staff reviewed Ohio District's general ledger⁸⁰ and agreed with Ohio District that no adjustment was necessary. Commission Staff recommended the Commission accept the proposed amount.⁸¹

The Commission finds Ohio District's chemical expense, as evidenced by Ohio District's general ledger, is reasonable and should be approved because the amounts are known and measurable.

Materials and Supplies. Ohio District reported a test year amount of \$266,738 and proposed no changes to the account.⁸² Ohio District stated that its capitalization policy was to capitalize items that were over \$5,000.⁸³ After two requests for information, Ohio District stated that SCADA upgrades reported in the general ledger should have been capitalized and provided sufficient explanation for the remaining items to not be considered capital.⁸⁴ Commission Staff recommended an adjustment to decrease the test year amount by \$15,410 to correctly capitalize the expenditures and remove the expense from materials and supplies in accordance with Ohio District's policy. Commission Staff recommended the Commission accept Commission Staff's proposed adjustment, resulting in a pro forma amount of \$251,328.⁸⁵

⁷⁹ Application, Item 5, Schedule of Adjusted Operations at 9.

⁸⁰ Response to Staff's First Request, Item 1a, 2023 General Ledger.

⁸¹ Commission Staff's Report at 20.

⁸² Application, Item 5, Schedule of Adjusted Operations at 9.

⁸³ Response to Staff's Second Request, Item 7.

⁸⁴ Response to Staff's Third Request, Item 1.

⁸⁵ Commission Staff's Report at 20-21.

The Commission finds Commission Staff's adjustment reasonable in order to properly capitalize known and measurable expenses pursuant to Ohio District's policy, and therefore approves the adjustment.

Contractual Services – Other. Ohio District reported a test-year amount of \$188,941 and proposed four changes to the account.⁸⁶ Ohio District first proposed a decrease of \$9,827 reflecting a reduction in its payment to the Rochester Dam Regional Water Commission (RDRWC) for water drawn from Green River.⁸⁷ This reduction is due to the fact RDRWC reduced its charge from \$0.10 per 1,000 gallons to \$0.08 per 1,000 gallons. The second change was to amortize rate case expenses for this case.⁸⁸ Ohio District reported \$8,250 in expenses for the rate consultant and \$6,000 in attorney's fees. Ohio District proposed to amortize the total amount over three years, resulting in an annual adjustment of \$4,750. The third change was a part of Ohio District's request to modify expenses, stating that it would bring some previously contracted service responsibilities in-house.⁸⁹ In response to Staff's Third Request, Ohio District provided a list of expected reductions in expenses that hiring of new employees would eliminate.⁹⁰ A summary of the expected cost savings is shown in the table below.

⁸⁶ Application, Item 5, Schedule of Adjusted Operations at 9.

⁸⁷ Application, Item 5, Schedule of Adjusted Operations at 10, Reference I.

⁸⁸ Application, Item 5, Schedule of Adjusted Operations at 10, Reference H.

⁸⁹ Ohio District's Request to Modify Expenses in ARF Application.

⁹⁰ Response to Staff's Third Request, Item 2.

Description	Amount
Grounds Mainenance	\$ 30,000
Right-of-way and easement clearing	10,000
Basic fleet maintenance	19,800
Lagoon sludge cleanouts	87,500
Vibration analysis	3,000
Criticality inspections on pumps and motors	6,000
Basic electrical jobs	2,500
Total	<u>\$ 158,800</u>

Commission Staff was unable to identify the specific location of each expense in the general ledger during the test year and removed the expected reductions entirely from Contracted Services - Other. The fourth change, also included as part of its request to modify expenses, Ohio District also stated that it would be joining the Kentucky 811 system. Based upon the previous year, Ohio District stated it would have expected to receive 2,459 tickets at \$1.50 each, totaling \$3,688.50.⁹¹ Ohio District proposed an increase rounded to \$3,700 to account for this expense. Commission Staff reduced Ohio District's proposed adjustment by \$11 to reach the calculated amount of \$3,689.⁹² The Commission Staff's recommended total adjustments result in a Pro Forma amount of \$28,753. Commission Staff recommended accepting the proposed adjustments because the amounts are known and measurable.⁹³

The Commission finds Commission Staff's recommended adjustments are known and measurable and should be approved.

⁹¹ Ohio District's Request to Modify Expenses in ARF Application.

⁹² 2,459 * \$1.50 = \$3,688.50.

⁹³ Commission Staff's Report at 22-23.

Rental of Building/Property and Equipment. Ohio District reported a test year amount of \$29,256 and proposed one adjustment to the account.⁹⁴ This adjustment was to reduce the rent it had paid on its building used for field operations in the amount of \$28,800. Ohio District stated that the field operations rental expense will be eliminated with the occupancy of its new Distribution Building. Using Ohio District's general ledger,⁹⁵ Commission Staff identified that instead of the \$28,800 proposed amount by Ohio District, the rent paid in the test year was \$27,500, and thus decreased the expense by \$1,300 to account for the difference.⁹⁶ Commission Staff also identified \$700 of expenses to Heaving Hatchets for Ohio District's Christmas year recap recognition event⁹⁷ and removed the expense from Ohio District's revenue requirement. Commission Staff recommended accepting Commission Staff's pro forma adjustment because the amounts are known and measurable.⁹⁸

Pursuant to the general ledger, the Commission finds Commission Staff's recommended adjustments known and measurable and therefore approves the adjustments.

Advertising. Ohio District reported a test year amount of \$469 and proposed no changes to the account.⁹⁹ Commission Staff reviewed the general ledger journal entries and determined the costs were associated with issuing request for proposals and contract

⁹⁴ Application, Item 5, Schedule of Adjusted Operations at 9.

⁹⁵ Response to Staff's First Request, Item 1a, 2023 General Ledger.

⁹⁶ Commission Staff's Report at 23.

⁹⁷ Response to Staff's Second Request, Item 5a.

⁹⁸ Commission Staff's Report at 23–24.

⁹⁹ Application, Item 5, Schedule of Adjusted Operations at 9.

solicitations. In response to Staff's First Request, Ohio District discovered it had incorrectly recorded its advertising expense in the test year.¹⁰⁰ Commission Staff proposed an adjustment of \$73 to bring the amount recorded in the test year to the actual amount in Ohio District's 2023 general ledger.¹⁰¹ Commission Staff recommended the Commission accept the proposed adjustment as the amount is known and measurable.¹⁰²

The Commission finds that the costs were associated with contract solicitation and that Commission Staff's recommended adjustments are reasonable and should be accepted because the amounts are known and measurable.

Miscellaneous Expense. Ohio District reported a test year amount of \$193,165 and proposed no changes to the account.¹⁰³ Commission Staff reclassified \$1,698 from Purchased Water for water for office use as described in the Purchased Water section above. Commission Staff recommended the Commission approved Commission Staff's adjustment because it is known and measurable.¹⁰⁴

As noted in the Purchase Water section above, the Commission finds Commission Staff's recommended adjustments are reasonable and should be approved because the amounts are known and measurable.

Depreciation. Ohio District reported a test year amount of \$1,239,687 and proposed one change to the account.¹⁰⁵ A proposed increase of \$43,454 was made to

¹⁰⁰ Response to Staff's First Request, Item 1b, Cross Reference.

¹⁰¹ Response to Staff's First Request, Item 1a, 2023 General Ledger.

¹⁰² Commission Staff's Report at 25.

¹⁰³ Application, Item 5, Schedule of Adjusted Operations at 9.

¹⁰⁴ Commission Staff's Report at 26.

¹⁰⁵ Application, Item 5, Schedule of Adjusted Operations at 9.

account for 2024 additions to Ohio District’s depreciation schedule and to bring asset lives to the midpoint of the ranges recommend by NARUC in its publication “Depreciation Practices for Small Utilities.”¹⁰⁶ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the NARUC study.¹⁰⁷ When no evidence exists of record 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.¹⁰⁸ 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 Ohio District’s adjustment of \$43,454.¹⁰⁹ Commission Staff also increased depreciation by \$1,976 to capitalize the labor portion of tap fees removed from Non-Recurring Charges and to account for the SCADA upgrades removed from materials and supplies as shown in the chart below.

Asset	Original Cost	Staff Life	Adjusted Depreciation
<i>Commission Staff Adjustments</i>			
SCADA Upgrades	\$ 15,410	10.00	\$ 1,541
Labor Portion of Tap Fees	19,576	45.00	435
Depreciation Adjustments			<u>\$ 1,976</u>

¹⁰⁶ Application, Item 5, Schedule of Adjusted Operations at 10, Reference J.

¹⁰⁷ See Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Nov. 10, 2016), final Order.

¹⁰⁸ See Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District*, Commission Staff Report (issued Aug. 11, 2016), at 28-32.

¹⁰⁹ Commission Staff’s Report at 26–27.

The Commission finds that the proposed adjustment and increase of Depreciation Expense in the amount of \$45,430 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. The Commission finds Commission Staff's recommended adjustment as reasonable because the amounts are known and measurable.

Taxes Other Than Income. Ohio District reported a test year amount of \$91,646, including \$85,583 in FICA taxes and \$6,063 in Utility Regulation Assessment Fees, and proposed one adjustment to the account.¹¹⁰ Ohio District's proposed increase was in the amount of \$6,582 to account for changes in employee roster and wage rates.¹¹¹ Commission Staff calculated an additional adjustment of \$13,625 due to Ohio District's additional employees as part of its application modification, resulting in FICA taxes of \$105,790¹¹² and \$6,063 in Utility Regulation Assessment Fees for a total pro forma Taxes Other Than Income of \$111,853. Commission Staff recommended the Commission accept the proposed adjustments as the amounts are known and reasonable.¹¹³

Pursuant to the impact of new employees, the Commission finds Commission Staff's recommended adjustments are reasonable because the pro forma amount is known and measurable.

OVERALL REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water

¹¹⁰ Application, Item 5, Schedule of Adjusted Operations at 9.

¹¹¹ Application, Item 5, Schedule of Adjusted Operations at 10, Reference C.

¹¹³ Commission Staff's Report at 27.

associations.¹¹⁴ This method allows for recovery of (1) cash-related pro forma operating expenses; (2) 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.

Description	Commission Staff Report	Commission Approved
Pro Forma Operating Expenses	\$ 4,796,506	\$ 4,771,306
Average Annual Principal and Interest Payments	821,913	821,913
Additional Working Capital	164,383	164,383
Overall Revenue Requirement	5,782,802	5,757,602
Other Operating Revenue	(225,413)	(225,413)
Interest Income ()	(117,951)	(117,951)
Net Nonutility Income	(5,648)	(5,648)
Revenue Required from Rates	5,433,790	5,408,590
Pro Forma Present Rate Service Revenues ()	(4,629,637)	(4,629,637)
Required Revenue Increase	<u>\$ 804,153</u>	<u>\$ 778,953</u>
Percentage Increase	<u>17.37%</u>	<u>16.83%</u>

Average Annual Principal and Interest Payments. Ohio District requested recovery of the average annual principal and interest on its indebtedness based on a three-year average of the annual principal, interest, and fee payments for the years 2025 through

¹¹⁴ See 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); and 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).

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).

2027.¹¹⁶ Commission Staff agreed with the methodology Ohio District proposed but calculated a different amount. The difference is a result of the Bond Anticipation Note (BAN) Series 2023 interest payments. The financing was to assist Ohio District in funding projects approved in Case No. 2023-00192.¹¹⁷ Ohio District initially proposed an annual interest payment of \$165,270. Commission Staff asked for a calculation of the amount, which Ohio District responded to with a different amount, \$267,283.¹¹⁸ When Commission Staff asked for clarification on the difference, Ohio District responded that the initial amount of \$165,270 was an estimate based on long term financing with reductions on the principal for grants Ohio District applied for while the updated amount is interest payments calculated on the full principal amount.¹¹⁹ Ohio District also stated that it had only received approval for one of the grants and, while it is cautiously optimistic about receiving the other, it would be prudent to exclude it from the current rate case.¹²⁰

Commission Staff disagreed with the inclusion of expected payments on a loan that has not yet been approved by the Commission but agreed with the exclusion of the unapproved grant.¹²¹ The inclusion of an expected loan or unapproved grant would result in speculative amounts being included in the overall revenue requirement and therefore were not known and measurable and would not result in fair, just and reasonable rates

¹¹⁶ Application, Item 5, Schedule of Adjusted Operations at 11, Reference K.

¹¹⁷ Case No. 2023-00192, *Electronic Application of Ohio County Water District for a Certificate of Public Convenience and Necessity Pursuant to KRS 278.020 And 807 KAR 5:001* (Ky. PSC July 31, 2023), Order at 9.

¹¹⁸ Response to Staff's First Request, Item 21a. Amount of interest paid in 2024.

¹¹⁹ Response to Staff's Second Request for Information, Item 2.

¹²⁰ Response to Staff's Second Request for Information, Item 2.

¹²¹ Commission Staff Report at 29.

supported by sufficient evidence in the record. Therefore, Commission Staff used the interest rate of 5.53 percent from Ohio District’s short-term financing for the principal amount with the approved grant removed for two years, which is the length of the short-term financing.¹²² This results in yearly interest payments of \$168,388.50 for 2025 and 2026.¹²³ Commission Staff then calculated the three-year Average Annual Interest and Fees Payment of \$821,913 for the years 2025-2027 as shown in the table below.

Description / Year	2025	2026	2027
KIA #F08-08	\$ 234,215	\$ 233,675	\$ 233,129
KIA #F15-069	93,131	92,954	92,774
Kentucky Rural Water Series 2020 A	382,302	383,202	383,582
Bond Debt Service Series 2023	168,389	168,389	
Total	878,037	878,220	709,485
Three Year Average			<u>\$ 821,913</u>

The Commission finds that including \$821,913 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, Ohio District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments, or

¹²² Commission Staff’s Report at 29.

¹²³ \$5,000,000 - \$1,955,000 = \$3,045,000 * 5.530% = \$168,388.50.

\$174,985.¹²⁴ Following the Commission’s historic practice of including additional working capital, Commission Staff agreed with Ohio District’s proposed methodology but calculated an amount of \$164,383 because of the change in average annual principal and interest payments discussed above.¹²⁵

Description	Amount
Average Annual Principal and Interest	\$ 821,913
Times: DSC Coverage Ratio	120%
Total Net Revenues Required	986,296
Less: Average Annual Principal and Interest Payments	(821,913)
Additional Working Capital	<u>\$ 164,383</u>

The Commission finds that including additional working capital of \$164,383 in the revenue requirement calculation is appropriate.

Interest Income. Ohio District reported interest income of \$84,739 in its revenue requirement calculation.¹²⁶ Commission Staff reviewed Ohio District’s general ledger¹²⁷ and identified account 419.000, Interest and Dividend Income, which reported \$117,876.35 in revenues in 2023. Commission Staff recommended use of the amount identified in the general ledger in its Revenue Requirement as the amount is known and measurable.¹²⁸

The Commission finds Commission Staff’s recommended inclusion of the amount from the general ledger is reasonable because the amounts are known and measurable.

¹²⁴ Application, Item 5, Schedule of Adjusted Operations at 11, Reference L.

¹²⁵ Commission Staff’s Report at 30.

¹²⁶ Application, Item 5, Revenue Requirements at 9.

¹²⁷ Response to Staff’s First Request, Item 1a, 2023 General Ledger.

¹²⁸ Commission Staff’s Report at 31.

RATE DESIGN

Ohio District proposed to increase its monthly retail water service rates evenly across the board by approximately 17.66 percent.¹²⁹ Ohio District has not performed a cost of service study (COSS).¹³⁰ Ohio District stated that it did not complete a COSS because there had not been any material change in the water system to warrant a COSS.¹³¹

The Commission finds that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS.¹³² In the Commission's Staff Report, Commission Staff followed the method proposed by Ohio District and allocated Commission Staff's calculated revenue increase across the board to Ohio District's monthly retail water service rates.¹³³

The rates set forth in Appendix B are based upon the revenue requirement the Commission has found to be fair, just, and reasonable, as calculated by Commission Staff, and will produce revenues from water sales to recover the \$5,408,590 Revenue Required from Rates, an approximate 16.83 percent increase. The monthly bill of a typical residential customer using 4,000 gallons of water will increase from \$47.55 to \$55.55, an increase of \$8.00, or 16.83 percent.

¹²⁹ Application, Attachment 1, Customer Notice.

¹³⁰ Response to Staff's First Request, Item 14.

¹³¹ Response to Staff's First Request, Item 14a.

¹³² See Case No. 2017-00309, *Application of Cawood Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 14, 2017), final Order at 5.

¹³³ Commission Staff's Report at 5.

Nonrecurring Charges. Following recent Commission decisions,¹³⁴ Commission Staff reviewed Ohio District's Nonrecurring Charges. Because Ohio District personnel are already compensated for labor performed during normal business hours, estimated labor costs performed during normal business hours and included in the proposed amount of Nonrecurring Charges should be eliminated.¹³⁵ The labor performed during regular business hours is already recovered as a part of the revenue requirement.

Ohio District provided updated cost justification information for the Nonrecurring Charges and Meter Tap charges.¹³⁶ Commission Staff reviewed the cost justification information provided by Ohio District and adjusted these charges by removing the Field Labor Costs and the Office/Clerical Labor Costs from those charges that occur during normal business hours. Commission Staff also removed the Office/Clerical Labor Costs from the After-Hours Reconnection Charge, as office labor is typically performed during normal business hours. The calculation of these adjustments to the Nonrecurring Charges are included in a table provided in Appendix A. The adjustments to the Nonrecurring Charges result in a net decrease in Other Operating Revenue of \$1,426 as discussed in the Other Water Revenues section above.

¹³⁴ 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).

¹³⁵ Ohio District's Response to Staff's First Request, Item 19, Nonrecurring Charge Cost Justification.

¹³⁶ Ohio District's Response to Staff's First Request, Item 20, Average Meter Connection Expense Cost Justification.

The Commission agrees with the Commission Staff's Report, which is consistent with recent Commission decisions that labor expenses paid for work during normal business hours should not be recovered through nonrecurring charges. The Commission requires that charges be directly related to the actual cost incurred to provide the service. It is unreasonable to allocate an expense already incurred as a day-to-day cost of maintaining a system, such as the salary of a distribution operator, to a nonrecurring service such as the connection and reconnection of a meter during normal working hours without sufficient evidence to support such a finding. Only the marginal costs related to the service should be recovered through a special nonrecurring charge for service provided during normal working hours. In this case, Ohio District did not provide sufficient evidence for the Commission to modify the fees. Thus, the Commission finds that the revised nonrecurring charges recommended by Commission Staff are reasonable and should be accepted.

In addition to its nonrecurring charges, Ohio District provided updated cost justification sheets for its Meter Tap-On Fees for its 3/4 x 5/8-Inch meter sizes. The updated cost justification sheets support a tap-on fee of \$1,670, which is an increase from its current tap-on fee of \$1,280. Commission Staff reviewed the cost justification sheets¹³⁷ provided by Ohio District and recommends an increase to its Meter Tap-On Fee to align with the principle of cost causation in that Ohio District would not under recover approximately \$390 per installation.

¹³⁷ Ohio District's Response to Staff's First Request, Item 20, Average Meter Connection Expense Cost Justification.

The Commission finds that the increased tap-fee is reasonable and should be accepted because the proposed amount is supported by increased costs reflected in the record.

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, along with the above stated modifications, are supported by the evidence of record and are reasonable. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, the Commission found that Ohio District's required revenue from water sales is \$5,408,590, to meet the Overall Revenue Requirement of \$5,757,602 and thus a \$778,953, or 16.83 percent, revenue increase 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 modified above, are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by Ohio District are denied.
3. The water service rates set forth in Appendix B to this Order are approved for service rendered by Ohio District on or after the date of service of this Order.
4. The nonrecurring charges set forth in the Appendix B to this Order are approved for services rendered by Ohio District on or after the date of service of this Order.

5. Within 20 days of the date of service of this Order, Ohio 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.

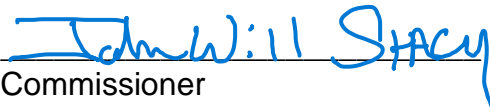
6. This case is closed and removed from the Commission's docket.

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PUBLIC SERVICE COMMISSION



Chairman



Commissioner



Commissioner

ATTEST:



Executive Director

ENTERED
FEB 18 2025 AH
KENTUCKY PUBLIC
SERVICE COMMISSION

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00127 DATED FEB 18 2025

* Denotes Rounding

Nonrecurring Charges Adjustments

Connection Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 66.59	\$ -
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 11.51	\$ -
Transportation	\$ 28.81	\$ 28.81
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 110.00	\$ 32.00
Current Rate	\$ 25.21	

Meter Test Request (5/8 - Inch Meter)		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 44.39	\$ -
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 26.02	\$ -
Transportation	\$ 28.81	\$ 28.81
Misc.	\$ 35.00	\$ 35.00
Total Revised Charge*	\$ 137.00	\$ 67.00
Current Rate	\$45.43	

Reconnection Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 66.59	\$ -
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 11.51	\$ -
Transportation	\$ 28.81	\$ 28.81
Misc.	\$ -	\$ -
Total Revised Charge	\$ 110.00	\$ 32.00
Current Rate	\$ 45.43	

Returned Check Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 46.03	\$ -
Transportation	\$ -	\$ -
Misc. (Bank Charge)	\$ 25.00	\$ 25.00
Total Revised Charge	\$ 74.00	\$ 28.00
Current Rate	\$ 25.00	

Service Call/Investigation		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 66.59	\$ -
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 11.51	\$ -
Transportation	\$ 28.81	\$ 28.81
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 110.00	\$ 32.00
Current Rate	\$ 25.21	

Service Call/Investigation (After Hours)		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 99.88	\$ 99.88
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 11.51	\$ -
Transportation	\$ 28.82	\$ 28.81
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 143.00	\$ 132.00
Current Rate	\$52.99	

Meter Re-Read Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 66.59	\$ -
Office Supplies	\$ 3.00	\$ 3.00
Office Labor	\$ 11.51	\$ -
Transportation	\$ 28.81	\$ 28.81
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 110.00	\$ 32.00
Current Rate	\$ 25.21	

Meter Test Request (1-Inch Meter)		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ -	\$ -
Transportation	\$ -	\$ -
Misc.	\$ -	\$ -
Total Revised Charge*	<u>Actual Cost</u>	<u>Actual Cost</u>

Current Rate Actual Cost

Meter Relocation Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ -	\$ -
Transportation	\$ -	\$ -
Misc.	\$ -	\$ -
Total Revised Charge*	<u>Actual Cost</u>	<u>Actual Cost</u>

Current Rate Actual Cost

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00127 DATED FEB 18 2025

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

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 gallons	\$ 30.34	Minimum bill
Next	3,000 gallons	0.01261	per gallon
Next	5,000 gallons	0.01090	per gallon
Next	5,000 gallons	0.00917	per gallon
All Over	15,000 gallons	0.00748	per gallon
Wholesale Rate		\$0.00384	per gallon

Nonrecurring Charges

Connection/Turn-On Charge	\$32.00
Meter Re-Read Charge	\$32.00
Meter Test Charge (5/8-Inch Meter)	\$67.00
Meter Test Charge (1-Inch Meter)	Actual Cost
Meter Relocation Charge	Actual Cost
Reconnection Charge	\$32.00
Service Call/Investigation	\$32.00
Service Call/Investigation (After Hours)	\$132.00
Returned Check Charge	\$28.00
Tap On Fee – 3/4 x 5/8-Inch Meter	\$1,670.00

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