

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH)	CASE NO.
NELSON WATER DISTRICT FOR A RATE)	2024-00234
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of September 5, 2024, the attached report containing the recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's September 5, 2024 Order, North Nelson Water District (North Nelson District) is required to file written comments regarding the recommendations of Commission Staff no later than 14 days from the date of service of this report. The Commission directs North Nelson District to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



Linda C. Bridwell, PE
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED DEC 10 2024

cc: Parties of Record

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH)	CASE NO.
NELSON WATER DISTRICT FOR A RATE)	2024-00234
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

COMMISSION STAFF'S REPORT
ON NORTH NELSON WATER DISTRICT

North Nelson Water District (North Nelson 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 4,949 residential customers, 67 commercial customers, 6 public authorities, and 89 Multiple Family Dwellings that reside in Bullitt, Nelson, and Spencer counties, Kentucky.¹ North Nelson District purchases all of its water from the city of Bardstown and Louisville Water Company.²

On August 7, 2024,³ North Nelson 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 9,⁴ North Nelson District used the calendar year ended December 31, 2023, as the basis for its application. The

¹ *Annual Report of North Nelson District to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 12, 49.

² 2023 Annual Report at 54.

³ North Nelson District tendered its application on August 7, 2024. By letter dated August 12, 2024, the Commission accepted the application with no filing deficiencies.

⁴ 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.

application was filed pursuant to the Commission's Order in Case No. 2022-00146⁵ which required North Nelson District to file an application for an adjustment of its base rates by June 24, 2023. North Nelson requested a one-year extension on June 23, 2023, which was granted until June 24, 2024.⁶ North Nelson District requested an additional 90-day extension on June 7, 2024, which was denied, and North Nelson was ordered to file immediately.⁷ North Nelson District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 1997-00255.⁸ Since that matter, North Nelson District has only adjusted its rates pursuant to purchased water adjustments, financing approval, or in conjunction with an application for a Certificate of Public Convenience and Necessity.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated September 5, 2024. North Nelson District responded to two rounds of discovery.⁹

⁵ Case No. 2022-00146, *Electronic Purchased Water Adjustment Filing of North Nelson Water District* (Ky. PSC June 24, 2022).

⁶ Case No. 2022-00146, July 31, 2023 Order.

⁷ Case No. 2022-00146, June 20, 2024 Order.

⁸ Case No. 1997-00255, *The Application of the North Nelson Water District (1) For A Certificate of Public Convenience and Necessity Authorizing Construction of Major Additions and Improvements To Its Water Distribution System; (2) Seeking Approval of Revised Water Service Rates and Charges; and (3) Seeking Approval of the Issuance of Certain Securities, Pursuant To the Issuance of Certain Securities, Pursuant To the Provisions of KRS 278.020, KRS 278.300, and KAR 5:001* (Ky. PSC June 20, 1997).

⁹ North Nelson District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Oct. 9, 2024); North Nelson District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Nov. 5, 2024).

UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2023 Annual Report, North Nelson District reported a water loss of 8.4565 percent.¹⁰ Commission Staff notes that North Nelson District's water loss over the past five years has averaged 7.0713 percent. 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 North Nelson District is \$71,656, while the annual cost of water loss in excess of 15 percent is \$0.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 830,661	\$ 16,686	\$ 847,347
Water Loss Percent	8.4565%	8.4565%	8.4565%
Total Water Loss	<u>\$ 70,245</u>	<u>\$ 1,411</u>	<u>\$ 71,656</u>

DISCUSSION

Using its pro forma test-year operations, North Nelson District determined that a base rate revenue increase of \$91,357, or 5.21 percent, was necessary to achieve the revenue requirement as shown in the table below.¹¹

¹⁰ 2023 Annual Report at 58.

¹¹ Application, Attachment #4, Revenue Requirement.

Description	North Nelson Water District
Pro Forma Operating Expenses	\$ 1,781,789
Divided by: 88% Percent Operating Ratio	88%
Subtotal	2,024,761
Overall Revenue Requirement	2,024,761
Other Revenue ()	(29,485)
Interest Income ()	(107,105)
Non-Utility Income ()	(41,869)
Revenue Required from Rates	1,846,302
Revenue from Sales at Present Rates ()	(1,754,945)
Required Revenue Increase / (Decrease)	<u>\$ 91,357</u>
Percentage Increase / (Decrease)	<u>5.21%</u>

To determine the reasonableness of the rates requested by North Nelson District, Commission Staff performed a limited financial review of North Nelson District's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable¹² changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

¹² Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); and Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

Commission Staff's recommendations are summarized in this report. William Pearce reviewed the calculation of North Nelson District's Overall Revenue Requirement, and Jason Green reviewed North Nelson District's reported revenues and Rate Design.

SUMMARY OF FINDINGS

Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff found that North Nelson District's required revenue from water sales is \$1,846,689 to meet the Overall Revenue Requirement of \$2,028,926 and that a \$91,714 revenue increase, or 5.23 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

Monthly Water Service Rates. Based upon the revenue requirement, North Nelson District proposed to increase all of its monthly retail water service rates evenly across the board by 5.21 percent. North Nelson District did not perform a cost-of-service study (COSS) although it stated it anticipates the need for one in the future as North Nelson District is in the planning stages of expanding its operations to provide wholesale water service.¹³

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.¹⁴ Finding no such evidence in this case, Commission Staff followed the proposed allocation methodology by North Nelson District and allocated

¹³ North Nelson District's Response to Staff's First Request, Item 9a, 9b, and 9c.

¹⁴ Case No. 2021-00218, *Electronic Application of Madison County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Jan. 5, 2022).

Commission Staff's revenue increase of \$91,714 across the board to North Nelson District's monthly retail water service rates.

The rates calculated and set forth in Appendix B will recover an increase of approximately 5.23 percent, which will produce sufficient revenues from water sales to recover the \$1,846,659 Revenue Required from Water Sales.

The rates contained in Appendix B to this report will increase a typical residential customer's monthly water bill from the current rates from \$26.07 to \$27.43 an increase of \$1.36, or approximately 5.22 percent.¹⁵

Nonrecurring Charges. Following the Commission's recent decisions,¹⁶ Commission Staff has reviewed North Nelson District's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges.¹⁷ The labor during regular business hours is already recovered as a part of the revenue requirement. North Nelson

¹⁵ The average usage for a residential customer is 4,000 gallons.

¹⁶ 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).

¹⁷ 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) at 10, citing Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); Case No. 2020-00167, *Electronic Application of North Nelson County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

District provided updated cost justification information for the Nonrecurring Charges¹⁸ and Meter Tap charges.¹⁹ Commission Staff reviewed the cost justification information provided by North Nelson 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.

North Nelson District also proposed to add two new nonrecurring charges to its tariff. The after-hours Service Call/Investigation Charge as well as the after-hours Reconnection Charge are both new charges proposed by North Nelson District. Commission Staff notes the additional charges will require a renote if accepted, as the new charges were not included the initial notice. 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 \$4,427 as shown below.

¹⁸ North Nelson District's Response to Staff's Second Request, Item 15, Nonrecurring Charge Cost Justification.

¹⁹ North Nelson District's Response to Staff's Second Request, Item 15, Average Meter Connection Expense Cost Justification.

Description	Occurrences	Current Charge	Revised Charge	Test Year	Pro Forma	Adjustment
Meter Re-Read Charge	0	\$25.00	\$11.00	\$ -	\$ -	\$ -
Service Call/Investigation	0	\$25.00	\$11.00	0	0	0
Connection/Turn-on Charge	27	\$25.00	\$25.00	675	675	0
Meter Relocation Charge	0	Actual Cost	Actual Cost	0	0	0
Returned Check Charge	99	\$20.00	\$8.50	1,980	841	(1,139)
Re-Connection Charge	108	\$50.00	\$20.00	5,400	2,160	(3,240)
Field Collection Charge	12	\$15.00	\$11.00	180	132	(48)
Meter Test Charge	0	\$45.00	\$70.00	0	0	0
Reconnection Charge (After Hours)	0	N/A	\$136.00	0	0	0
Service Call/Investigation (After Hours)	0	N/A	\$109.00	0	0	0
Pro Forma Test Year NRC Revenue				<u>\$ 8,235</u>	<u>\$ 3,808</u>	<u>\$ (4,427)</u>
Test Year NRC Revenue ()					(8,235)	
Adjustment					<u>\$ (4,427)</u>	

In addition to its nonrecurring charges, North Nelson 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 \$1,475, which is an increase from its current tap-on fee of \$1,000. Commission Staff reviewed the cost justification sheets²⁰ provided by North Nelson District and recommends an increase to its Meter Tap-On Fee as the revised cost justification supports a higher cost.

PRO FORMA OPERATING STATEMENT

North Nelson District's Pro Forma Operating Statement for the test year ended December 31, 2023, as determined by Commission Staff appears in the table below.

²⁰ North Nelson District's Response to Staff's Second Request, Item 15, Average Meter Connection Expense Cost Justification.

Description	Test Year	North Nelson Water District Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref)	Pro Forma
Operating Revenues						
Metered Retail Sales	\$ 1,630,425			\$ -		
Metered Commercial Sales	53,622			0		
Sales to Public Authorities	1,147			0		
Sales to Multiple Family Dwellings	21,180			0		
		48,571		48,571	A	1,754,945
Miscellaneous Service Revenues	29,485		8,235	8,235	A	
			(4,427)	(4,427)	B	33,293
Total Operating Revenues	1,735,859	48,571	3,808	52,379		1,788,238
Operation and Maintenance						
Salaries and Wages - Employees	261,770	(34,920)		(34,920)	C	
		46,819		46,819	C	273,669
Salaries and Wages - Officers	7,200		(7,200)	(7,200)	D	0
Employee Benefits - Medical	120,883	(13,191)	(10,254)	(23,445)	E1	
			15,478	15,478	E2	
			(61,097)	(61,097)	F1	51,819
Employee Retirement Benefits (CERS)			61,097	61,097	F1	
		4,145	(4,145)	0	F2	
			(9,502)	(9,502)	F3	
			9,228	9,228	F4	60,823
Purchased Water	830,468	24,011		24,011	G	854,479
Purchased Power	16,686			0		16,686
Materials and Supplies	111,754	(81,480)		(81,480)	H1	
			(6,251)	(6,251)	H2	24,023
Contractual Services - Accounting	12,342			0		12,342
Contractual Services - Legal	11,322			0		11,322
Contractual Services - Other	113,740			0		113,740
Transportation Expenses	15,749			0		15,749
Insurance - General Liability	8,027		11,678	11,678	I	19,705
Insurance - Workers Comp	12,069		1,218	1,218	J	13,287
Insurance - Other	2,069			0		2,069
Miscellaneous	14,104		(1,536)	(1,536)	K	12,568
Total	1,538,183	(54,616)	(1,286)	(55,902)		1,482,281
Depreciation Expense	344,282	(73,967)	3,212	(70,755)	L	273,527
Taxes Other Than Income	22,141	2,017	1,738	3,755	M	25,896
Amortization Expense		3,750		3,750	N	3,750
Total Operating Expenses	1,904,606	(122,816)	3,664	(119,152)		1,785,454
Net Operating Income	(168,747)	171,387	144	171,531		2,784
Interest Income	107,105			0		107,105
Income Available to Service Debt	\$ (61,642)	\$ 171,387	\$ 144	\$ 171,531		\$ 109,889

(A) Metered Water Sales. North Nelson District reported a test year amount of \$1,630,425 for metered residential sales, \$53,622 for metered commercial sales, \$1,147

for sales to public authorities, and \$21,180 for sales multiple family dwellings.²¹ This results in a combined test year amount of \$1,706,374 for its total metered water sales. North Nelson District proposed an increase of \$48,571²² resulting in total pro forma metered sales of \$1,754,945.²³ Commission Staff reviewed the billing analysis adjustment and determined that the \$48,571 increase was comprised of three items. First, a Purchased Water Adjustment (PWA) adjustment, from Louisville Water Company of \$0.08 per thousand gallons, effective July 1, 2024 in Case No 2024-00156,²⁴ which increased revenues by \$21,858.²⁵ Second, non-recurring charges of \$8,235 recorded in Metered Sales were reclassified. Third, an adjustment of \$34,948 to increase revenue to match the billing analysis was made. Commission Staff recommends the Commission accept North Nelson District's proposed total adjustment of \$48,571 because the Pro Forma amount matches evidence provided in the case record.²⁶

(B) Miscellaneous Service Revenues. North Nelson District reported a test year amount of \$29,485 and proposed no changes to the account.²⁷ In response to Staff's Second Request, North Nelson District confirmed that this account was entirely

²¹ North Nelson District's Application (Application), Attachment 4, Schedule of Adjusted Operations (SAO).

²² Application, Attachment 4, References, Reference A.

²³ Application, Attachment 10_2, Rate Study, Existing Billing Analysis Tab.

²⁴ See Case No. 2024-00156, *Electronic Purchased Water Adjustment Filing of North Nelson Water District*.

²⁵ 273,230 (thousands of gallons sold during the test year) * \$0.08 = \$21,858.

²⁶ Application, Attachment 10_2, Rate Study, Existing Billing Analysis Tab.

²⁷ Application, Attachment 4, SAO.

composed of forfeited discounts.²⁸ It also confirmed that non-recurring charges were recorded in a sub account of Metered Water Revenue.²⁹ North Nelson District provided the number of instances that each nonrecurring charge was performed during the test period³⁰ as well as the cost justification sheets.³¹ Commission Staff reviewed the responses, the cost justification sheets, and the general ledger. As discussed above, Commission Staff followed the Commission’s precedent in removing field labor and office/clerical labor costs.³² Using this information, as well as the current nonrecurring charge amount listed in its current tariff, Commission Staff calculated Pro Forma revenue from Nonrecurring Charges of \$3,808 as shown in the table below.

Description	Occurrences	Current Charge	Revised Charge	Test Year	Pro Forma	Adjustment
Meter Re-Read Charge	0	\$25.00	\$11.00	\$ -	\$ -	\$ -
Service Call/Investigation	0	\$25.00	\$11.00	0	0	0
Connection/Turn-on Charge	27	\$25.00	\$25.00	675	675	0
Meter Relocation Charge	0	Actual Cost	Actual Cost	0	0	0
Returned Check Charge	99	\$20.00	\$8.50	1,980	841	(1,139)
Re-Connection Charge	108	\$50.00	\$20.00	5,400	2,160	(3,240)
Field Collection Charge	12	\$15.00	\$11.00	180	132	(48)
Meter Test Charge	0	\$45.00	\$70.00	0	0	0
Reconnection Charge (After Hours)	0	N/A	\$136.00	0	0	0
Service Call/Investigation (After Hours)	0	N/A	\$109.00	0	0	0
Pro Forma Test Year NRC Revenue				<u>\$ 8,235</u>	<u>\$ 3,808</u>	<u>\$ (4,427)</u>
Test Year NRC Revenue ()					(8,235)	
Adjustment					<u>\$ (4,427)</u>	

²⁸ North Nelson District’s Response to Staff’s Second Request, Item 2a.

²⁹ North Nelson District’s Response to Staff’s Second Request, Item 2b.

³⁰ North Nelson District’s Response to Staff’s First Request, Item 13, NRC Charges.

³¹ North Nelson District’s Response to Staff’s First Request, Item 14, NRC Cost Justification.

³² Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020);, Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

Commission Staff notes that, as discussed above, the \$48,571 adjustment to Metered Water Sales included an embedded amount of \$8,235 of Non-Recurring Charge revenue that should have been included in Miscellaneous Service Revenues. Commission Staff proposes to include the test year NRC revenue of \$8,235 in Miscellaneous Service Revenues as well as a reduction of \$4,427 to bring the NRC revenues to the Pro Forma amount of \$3,808. Commission Staff's total Miscellaneous Service Revenues of \$33,293 is shown in the table below. Commission Staff recommends the Commission accept Commission Staff's adjustment to Miscellaneous Service Revenues because the amounts are known and measurable.

Description	Test	Utility Adjustments	Commission Staff Adjustments	Pro Forma
<i>Non-Recurring Charges</i>				
Connection/Turn-on Charge	\$ 675			\$ 675
Returned Check	1,980		(1,139)	841
Re-Connection Charge	5,400		(3,240)	2,160
Field Collection Charge	180		(48)	132
sub-total	8,235	0	(4,427)	3,808
<i>Other</i>				
Forfeited Discounts	0		29,485	29,485
Miscellaneous Water Revenues	29,485		(29,485)	0
sub-total	29,485	0	0	29,485
Total Other Income	\$ 37,720	\$ -	\$ (4,427)	\$ 33,293

(C) Salaries and Wages - Employees. North Nelson District reported a test year amount of \$261,770 and proposed two changes to the account.³³ The first adjustment was a decrease of \$34,290 to remove the labor portion, 30 percent, of the tap-fees installed by North Nelson District during the test year.³⁴ The Uniform System of Accounts

³³ Application, Attachment 4, SAO.

³⁴ Application, Attachment 4, References, Reference B.

(USoA) for Class A/B Water Systems requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.³⁵ Commission Staff capitalized the costs and made a corresponding adjustment to test-year depreciation as shown in adjustment (L). North Nelson District then proposed to increase its salaries and wages expense by \$46,819 to adjust wages to current wage rates.³⁶ Commission Staff notes that part of this increase is also to account for one of North Nelson District's employees, hired during the test year, working a full year as the employee did not have a full year worth of payroll expenses in the test year.³⁷ Commission Staff reviewed North Nelson District's General Ledger³⁸ and submitted pay information³⁹ and agrees with both adjustments. Commission Staff recommends the Commission accept North Nelson District's proposed adjustments because the amounts are known and measurable.

(D) Salaries and Wages - Officers. North Nelson District reported a test year amount of \$7,200 and proposed no changes to the account.⁴⁰ Commission Staff requested documentation from the Fiscal Court that authorized each Commissioner's appointment and compensation, as well as training records for each Commissioner.⁴¹ North Nelson District provided documentation of its Commissioners' appointments⁴² and

³⁵ USoA, Accounting Instruction 19 and 33.

³⁶ Application, Attachment 4, References, Reference C.

³⁷ North Nelson District's Response to Staff's First Request, Item 3b, Employee Hire Dates.

³⁸ Application, Attachment 10_1, General Ledger.

³⁹ Application, Attachment 10_2, North Nelson Rate Study, Wages Tab.

⁴⁰ Application, Attachment 4, SAO.

⁴¹ North Nelson District's Response to Staff's First Request, Item 7.

⁴² North Nelson District's Response to Staff's First Request, Item 7a, Commissioners Appointments.

the respective Commissioner Training Certificates.⁴³ North Nelson District stated its “three Commissioners receive \$2,400 in compensation each annually” and its “records indicate this amount has been in effect since prior to 1995.”⁴⁴ Commission Staff found the submitted documentation was not enough to support the compensation amounts requested by North Nelson District and proposed to remove the entire amount from its revenue requirement. 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.”⁴⁵ Commission Staff recommends the Commission not include commissioner salaries and remove \$7,200 from the revenue requirement because North Nelson District did not provide evidence to support the compensation amounts as required by KRS 74.020(6).

(E) Employee Benefits (Medical). Commission Staff identified costs by expense type by reviewing payroll and general ledger information that was provided by North Nelson District.⁴⁶ Commission Staff determined that separation of the medical and related benefits costs from retirement benefits would better facilitate discussion of the respective adjustments and reclassified \$61,907 (F1) to Employee Benefits – Retirement (CERS) in the SAO. North Nelson District proposed a reduction of \$13,191 (E1) to reduce

⁴³ North Nelson District’s Response to Staff’s First Request, Item 7b, Commissioner Training Certs.

⁴⁴ North Nelson District’s Response to Staff’s First Request, Item 7a.

⁴⁵ KRS 74.020(6), Appointment of commissioners – Number – Terms – Removal – Vacancies – Organization – Bond – Compensation – Mandatory Training – Notice of Vacancy.

⁴⁶ Application, Attachment 10_1, General Ledger.

employer contributions toward medical insurance premiums to the average of the Bureau of Labor Statistics report.⁴⁷ Commission Staff determined that an additional adjustment to North Nelson District's proposed amount of \$13,191, in the amount \$10,254 is appropriate, for a total of \$23,445 (E1), to decrease North Nelson District's contributions to health insurance to align employee contribution rates with the national average for private industry worker reported by the Bureau of Labor Statistics, 20 percent for single coverage and 32 percent for family coverage,⁴⁸ and the Willis Benchmarking Survey for national average for an employer's share of dental insurance that is consistent with Commission precedent.⁴⁹ Commission Staff reviewed the benefit invoices⁵⁰ submitted by North Nelson District and determined that an increase of \$15,478 (E2) was necessary to account for increased benefit costs and the additional benefits paid to the employee hired during the test year that were not included in the test year amount. This resulted in a Pro Forma yearly cost of \$75,264 and a total employer contribution adjustment of \$23,445 as shown in the table below. Commission Staff recommends the Commission accept Commission Staff's adjustments as the amounts are known and measurable.

⁴⁷ Application, Attachment 4, References, Reference E.

⁴⁸ U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Single Coverage, March 2023 <https://www.bls.gov/news.release/ebs2.t03.htm>, U.S. Bureau of Labor Statistics, Share of Premiums Paid by Employer and Employee for Family Coverage, March 2023 <https://www.bls.gov/news.release/ebs2.t04.htm>.

⁴⁹ See Case No. 2017-00263, *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), Order at 9-10; and The Willis Benchmarking Survey, 2015, at 62-63. (https://www.willis.com/Documents/publications/Services/Employee_Benefits/20151230_2015WillisBenefitsBenchmarkingSurveyReport.pdf).

⁵⁰ North Nelson District's Response to Staff's Second Request, Item 1, Medical, Dental, Vision, and Life Invoice.

Description	Health (Single)	Health (Family)	Dental	Vision	Life	Total
Proforma Monthly	\$ 737	\$ 5,236	\$ 218	\$ 49	\$ 32	
Proforma Yearly	8,844	62,832	2,616	588	384	75,264
Employer Cont. %	80%	68%	40%	100%	100%	n/a
Employer Cont.	7,075	42,726	1,046	588	384	51,819
BLS / Survey Amounts	\$ 1,769	\$ 20,106	\$ 1,570	\$ -	\$ -	\$ 23,445

(F) Employee Retirement Benefits (CERS). Commission Staff reclassified \$61,907 (F1) from Medical Benefits to Retirement as discussed above. North Nelson District participates in the County Employees Retirement System (CERS), which is managed by the Kentucky Public Pension Authority (KPPA). North Nelson District proposed an increase of \$4,145 to its Pension Expense for the increase in wage rates.⁵¹ Commission Staff determined that two adjustments were appropriate. First, Commission Staff proposes an increase of \$9,228 to account for the increased wages discussed above. Second, Commission Staff proposes a decrease of \$9,502 to account for the reduction in the CERS contribution rate from the test year.⁵² This results in net reduction of \$274 as shown in the chart below. Commission Staff recommends accepting Commission Staff's proposed adjustments because the amounts are known and measurable.

Description	Test Year	Pro Forma
Wages	\$ 261,770	\$ 308,589
Contribution Rate	23.34%	19.71%
Contributions	61,097	60,823
Excess (Cost) / Income Over Contributions	0	0
Total	\$ 61,097	\$ 60,823
Increase / (Decrease)		\$ (274)

⁵¹ Application, Attachment 4, References, Reference D.

⁵² CERS Board of Trustees December 4, 2023 Meeting, Minutes at 2. CERS Contribution Rate in test year was 26.79%, and 19.71% in current year.

(G) Purchased Water. North Nelson District purchases its water from the city of Bardstown and Louisville Water Company.⁵³ North Nelson District reported an expense of \$830,468 in the test year and proposed one adjustment.⁵⁴ This adjustment was an increase of \$24,011 to account for the increased purchased water expense outlined in North Nelson District’s recent PWA case, 2024-00156.⁵⁵ Commission Staff calculated North Nelson District’s Pro Forma purchased water cost as shown in the chart below and agreed with the proposed amounts. North Nelson District does not require an adjustment for water loss, as its 8.4565 percent water loss is below the 15 percent threshold. Commission Staff recommends accepting the proposed purchase cost adjustment as the amounts are known and measurable.

Description	City of Bardstown	Louisville Water Company	Total
Gallons	90,706,800	221,117,000	311,823,800
Current Purchase Rate	\$ 2.7200	\$ 2.7200	
Service Charge 1 (monthly * 12)		1,895	
Service Charge 2 (monthly * 12)		4,423	
Pro Forma Cost	\$ 246,722	\$ 607,757	\$ 854,479
Test Year Purchase Cost ()			(830,468)
Increase in Purchase Cost			\$ 24,011

(H) Materials and Supplies. North Nelson District reported a test year amount of \$111,754 and proposed one change to the account.⁵⁶ This adjustment was a decrease

⁵³ North Nelson District’s 2023 Annual Report at 54.

⁵⁴ Application, Attachment 4, SAO.

⁵⁵ Application, Attachment 4, References, Reference F.

⁵⁶ Application, Attachment 4, SAO.

of \$81,480 (H1) to remove the materials portion, 70 percent, of the tap-fees installed by North Nelson District during the test year.⁵⁷ The USoA for Class A/B Water Systems requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.⁵⁸ Commission Staff capitalized the costs and made a corresponding adjustment to test-year depreciation as shown in adjustment (L).

Commission Staff identified other capital expenditures in North Nelson District's general ledger. In response to Staff's First Request, North Nelson District confirmed that its purchase of a GPS system from Seiler Instruments should have been capitalized and depreciated over ten years.⁵⁹ Commission Staff proposes to remove the purchase of this meter as an adjustment to materials in the amount of \$6,251 (H2). This results in a total adjustment of \$87,731 to Materials and Supplies. Commission Staff recommends the Commission accept the Commission Staff's adjustments because the amounts are known and measurable.

(I) Insurance – General Liability. North Nelson District reported a test year amount of \$8,027 and proposed no changes to the account.⁶⁰ During Commission Staff's review of North Nelson District's general ledger, prepaid insurance expenses were identified that were not included in the test year amount. Commission Staff proposes an increase of \$11,678 to add the prepaid insurance expense to North Nelson District's revenue requirement. Commission Staff verified the amounts using the invoices provided

⁵⁷ Application, Attachment 4, References, Reference B.

⁵⁸ USoA, Accounting Instruction 19 and 33.

⁵⁹ North Nelson District's Response to Staff's First Request, Item 16.

⁶⁰ Application, Attachment 4, SAO.

by North Nelson District.⁶¹ Commission Staff recommends the Commission accept Commission Staff's adjustment as the amount is known and measurable.

(J) Insurance – Workers Comp. North Nelson District reported a test year amount of \$12,069 and proposed no changes to the account.⁶² During Commission Staff's review of North Nelson District's general ledger, prepaid insurance expenses were identified that were not included in the test year amount. Commission Staff proposes an increase of \$1,218 to add the expense to North Nelson District's revenue requirement. Commission Staff verified the amounts using the invoices provided by North Nelson District.⁶³ Commission Staff recommends the Commission accept the Commission Staff's proposed adjustment as the amount is known and measurable.

(K) Miscellaneous Expenses. North Nelson District reported a test year amount of \$14,104 and proposed no changes to the account.⁶⁴ During Commission Staff's review of North Nelson District's general ledger, it identified items that should be removed from North Nelson District's revenue requirement. The items identified are shown in the chart below. Commission Staff proposes a decrease of \$1,536 to Miscellaneous Expenses as expenses that are unrelated to providing water service are inappropriate. Commission Staff recommends the Commission accept Commission Staff's adjustment to remove expenses unrelated to water service.

⁶¹ North Nelson District's Response to Staff's First Request, Item 5.

⁶² Application, Attachment 4, SAO.

⁶³ North Nelson District's Response to Staff's First Request, Item 5.

⁶⁴ Application, Attachment 4, SAO.

Date	Vendor	Description	Amount
07/24/2023	Jury's Farmview Garden Center	Gift Card - Nicky Rapier sympathy gift	50.00
09/08/2023	Scout and Scholar Brewing Co.	Gift Card for Nicky Rapier - 6 year service as Bd Member	50.00
10/18/2023	OKHCC	Deposit for X-mas party 12/8/2023	225.00
11/10/2023	Pamela K Shouse	Reimbursement for Robert Cecil's sympathy gift	52.99
12/12/2023	OKHCC	2023 Christmas party	1,158.44
		Total	<u>1,536</u>

(L) Depreciation Expense. North Nelson District reported a test year amount of \$344,282 and proposed one change to the account.⁶⁵ This change was a decrease in the amount of \$73,967 to bring asset lives to the midpoint set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled Depreciation Practices for Small Utilities.⁶⁶ To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the NARUC study. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges.

In addition to the adjustment proposed by North Nelson District for depreciation expense, Commission Staff determined that an additional adjustment of a decrease of \$3,212 to account for tap fee removal discussed in Sections (C) and (H) above as well as the capitalization of the GPS system discussed in Section (H) is appropriate. This results in a total depreciation expense of \$273,527. Commission Staff recommends the Commission accept Commission Staff's adjustment because the amounts are known and reasonable.

⁶⁵ Application, Attachment 4, SAO.

⁶⁶ Application, Attachment 4, SAO, Reference H.

Asset	Original Cost	Staff Life	Depreciation
<i>Commission Staff Adjustments</i>			
GPS System	\$ 6,251	10.00	\$ 625
Labor Portion of Tap Fees	34,920	45.00	776
Materials Portion of Tap Fees	81,480	45.00	1,811
Depreciation Adjustments			<u>\$ 3,212</u>

(M) Taxes Other Than Income. North Nelson District reported a test year amount of \$22,141 and proposed one change to the account.⁶⁷ This adjustment was to account for increased payroll taxes in the amount of \$2,017 due to the increased wages discussed above. Commission Staff recalculated the payroll tax amount at \$23,607⁶⁸ and added the PSC Assessment Fee, of \$2,289,⁶⁹ to reach a total Pro Forma amount of \$25,896. Commission Staff then determined an additional adjustment of \$1,738 to normalize the test year to the Pro Forma amount would be appropriate. Commission Staff recommends the Commission accept the Commission Staff's adjustment because the amounts are known and measurable.

(N) Amortization Expense. North Nelson District reported a test year amount of \$0 and proposed one change to the account.⁷⁰ This adjustment was to amortize North Nelson District's Rate Case Expense of \$11,250 over three years for an annual amount of \$3,750. Commission Staff recommends the Commission accept the proposed adjustment because the amount is known and measurable.

⁶⁷ Application, Attachment 4, SAO.

⁶⁸ \$308,589 * 7.65 % = \$23,607.

⁶⁹ Application, Attachment 10_1, General Ledger, Account Number 40810.

⁷⁰ Application, Attachment 4, SAO.

OVERALL REVENUE REQUIREMENT

The Operating Ratio methodology⁷¹ is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. The Operating Ratio is a method to provide the utility with necessary working capital to operate effectively. North Nelson District proposed to use an Operating Ratio of 88 percent in its application.⁷² Commission Staff is of the opinion that an operating ratio of 88 percent will allow North Nelson District necessary working capital and revenues to cover its reasonable operating expenses to operate and provide for reasonable equity growth. If the Commission used the Debt Service Recovery method, North Nelson District would not require any additional revenues compared to its operating expenses as it does not have any outstanding debt. Commission Staff is of the opinion that the rate increase from the Debt Service Recovery method would not produce enough revenues to keep North Nelson District financially stable and viable, with sufficient working capital to operate effectively. Commission Staff recommends using the Operating Ratio method to calculate the revenue requirement for North Nelson District.

By applying the Operating Ratio method, Commission Staff found North Nelson District's Revenue Requirement from Rates to be \$1,846,659. A revenue increase of

⁷¹ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

⁷² Application, Attachment #4, Revenue Requirements Chart.

\$91,357, or 5.23 percent, is necessary to generate the Overall Revenue Requirement of \$2,028,926.

Description	North Nelson Water District	Commission Staff
Pro Forma Operating Expenses	\$ 1,781,789	\$ 1,785,454
Divided by: 88% Percent Operating Ratio	88%	88%
Subtotal	2,024,761	2,028,926
Overall Revenue Requirement	2,024,761	2,028,926
Other Revenue ()	(29,485)	(33,293)
Interest Income ()	(107,105)	(107,105)
Non-Utility Income ()	(41,869)	(41,869)
Revenue Required from Rates	1,846,302	1,846,659
Revenue from Sales at Present Rates ()	(1,754,945)	(1,754,945)
Required Revenue Increase / (Decrease)	\$ 91,357	\$ 91,714
Percentage Increase / (Decrease)	5.21%	5.23%

Signatures

/s/ William Pearce
Prepared by: William Pearce
Revenue Requirement Branch
Division of Financial Analysis

/s/ Jason Green
Prepared by: Jason Green
Rate Design Branch
Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00234 DATED DEC 10 2024

* Denotes Rounding

Nonrecurring Charges Adjustments

Meter Re-Read Charge			
	Utility Revised Charge		Staff Revised Charge
Field Materials	\$ -	\$	-
Field Labor	\$ 16.55	\$	-
Office Supplies	\$ 1.00	\$	1.00
Office Labor	\$ 5.01	\$	-
Transportation	\$ 10.05	\$	10.05
Misc.	\$ -	\$	-
Total Revised Charge*	\$ 32.61	\$	11.00
Current Rate	\$ 25.00		

Service Call/Investigation			
	Utility Revised Charge		Staff Revised Charge
Field Materials	\$ -	\$	-
Field Labor	\$ 16.55	\$	-
Office Supplies	\$ 1.00	\$	1.00
Office Labor	\$ 5.01	\$	-
Transportation	\$ 10.05	\$	10.05
Misc.	\$ -	\$	-
Total Revised Charge*	\$ 32.61	\$	11.00
Current Rate	\$25.00		

Connection/Turn-On Charge			
	Utility Revised Charge		Staff Revised Charge
Field Materials	\$ 14.56	\$	14.56
Field Labor	\$ 16.55	\$	-
Office Supplies	\$ -	\$	-
Office Labor	\$ 5.01	\$	-
Transportation	\$ 10.05	\$	10.05
Misc.	\$ -	\$	-
Total Revised Charge	\$ 46.17	\$	25.00
Current Rate	\$ 25.00		

Meter Relocation Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ -	\$ -
Transportation	\$ -	\$ -
Misc. (Bank Charge)	\$ -	\$ -
Total Revised Charge	\$ -	Actual Cost
Current Rate	Actual Cost	

Returned Check Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ -	\$ -
Office Supplies	\$ 1.00	\$ 1.00
Office Labor	\$ 15.04	\$ -
Transportation	\$ -	\$ -
Misc.	\$ 7.50	\$ 7.50
Total Revised Charge*	\$ 23.54	\$ 8.50
Current Rate	\$ 20.00	

Reconnection Charge		
	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 33.09	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ 5.01	\$ -
Transportation	\$ 20.10	\$ 20.10
Misc.	\$ -	\$ -
Total Revised Charge*	\$ 58.20	\$ 20.00
Current Rate	\$50.00	

Meter Test Charge

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 33.09	\$ -
Office Supplies	\$ -	\$ -
Office Labor	\$ -	\$ -
Transportation	\$ 20.10	\$ 20.10
Misc.	\$ 50.00	\$ 50.00
Total Revised Charge*	<u>\$ 103.19</u>	<u>\$ 70.00</u>
Current Rate	\$ 45.00	

Field Collection Charge

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 16.55	\$ -
Office Supplies	\$ 1.00	\$ 1.00
Office Labor	\$ 5.01	\$ -
Transportation	\$ 10.05	\$ 10.05
Misc.	\$ -	\$ -
Total Revised Charge*	<u>\$ 32.61</u>	<u>\$ 11.00</u>

Current Rate \$15.00

Reconnection Charge (After Hours)

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 115.83	\$ 115.83
Office Supplies	\$ -	\$ -
Office Labor	\$ 5.01	\$ -
Transportation	\$ 20.10	\$ 20.10
Misc.	\$ -	\$ -
Total Revised Charge*	<u>\$ 140.94</u>	<u>\$ 136.00</u>

Current Rate N/A

Service Call/Investigation (After Hours)

	Utility Revised Charge	Staff Revised Charge
Field Materials	\$ -	\$ -
Field Labor	\$ 99.28	\$ 99.28
Office Supplies	\$ -	\$ -
Office Labor	\$ 5.01	\$ -
Transportation	\$ 10.05	\$ 10.05
Misc.	\$ -	\$ -
Total Revised Charge*	<u>\$ 114.34</u>	<u>\$ 109.00</u>

Current Rate N/A

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00234 DATED DEC 10 2024

The following rates and charges are recommended by Commission Staff based on the adjustments in Commission Staff's Report for the customers in the area served by North Nelson Water District. All other rates and charges not specifically mentioned herein are recommended to remain the same.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000	gallons	\$ 17.06	Minimum bill
Next	3,000	gallons	0.00519	per gallon
Next	5,000	gallons	0.00464	per gallon
All Over	10,000	gallons	0.00427	per gallon

Bulk Rate \$ 0.00814 per gallon

Nonrecurring Charges

Meter Re-Read Charge	\$11.00
Service Call/Investigation	\$11.00
Connection/Turn-on Charge	\$25.00
Meter Relocation Charge	Actual Cost
Returned Check Charge	\$8.50
Re-Connection Charge	\$20.00
Field Collection Charge	\$11.00
Meter Test Charge	\$70.00
Reconnection Charge (After Hours)	\$136.00
Service Call/Investigation (After Hours)	\$109.00
Tap On Fee – 3/4 x 5/8-Inch Meter	\$1,475.00

*Colin Cissell
General Manager
North Nelson Water District
5555 Louisville Road
P. O. Box 25
Cox's Creek, KY 40013

*North Nelson Water District
5555 Louisville Road
P. O. Box 25
Cox's Creek, KY 40013

*Susy Duncan
North Nelson Water District
5555 Louisville Road
P. O. Box 25
Cox's Creek, KY 40013

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