

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF EDMONSON	)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE	)	2024-00219
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 August 6, 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 August 6, 2024, Order, Edmonson County Water District (Edmonson 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 Edmonson District to the Commission's July 22, 2021, Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.



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

DATED NOV 18 2024

cc: Parties of Record

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<sup>1</sup> 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).

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COMMISSION STAFF'S REPORT  
ON EDMONSON COUNTY WATER DISTRICT

Edmonson County Water District (Edmonson District) is a water and sewer utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 11,468 residential customers and two wholesale customers that reside in Butler, Edmonson, Grayson, Hart, and Warren counties,<sup>1</sup> as well as retail wastewater service to approximately 57 residential customers that reside in Edmonson County, Kentucky.<sup>2</sup>

On July 23, 2024,<sup>3</sup> Edmonson 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,<sup>4</sup> Edmonson District used the

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<sup>1</sup> *Annual Report of Edmonson District Water Division to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Water Report) at 12 and 58.

<sup>2</sup> *Annual Report of Edmonson District Wastewater Division to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Sewer Report) at 9 and 25.

<sup>3</sup> Edmonson District tendered its application on July 19, 2024. By letter dated July 22, 2024, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on July 23, 2024.

<sup>4</sup> The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

calendar year ended December 31, 2023, as the basis for its application. The application was filed pursuant to the Commission's Order in Case No. 2021-00463 which required Edmonson District to file an application for an adjustment of its base rates for its water division by February 14, 2025.<sup>5</sup> Edmonson District's Water Division's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2021-00013.<sup>6</sup> Since that matter, Edmonson District has not adjusted its water division rates. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated August 6, 2024. Edmonson District responded to two requests for information from Commission Staff.<sup>7</sup>

### UNACCOUNTED-FOR WATER LOSS

The Commission notes that in its 2023 Annual Water Report, Edmonson District reported a water loss of 32.0730 percent.<sup>8</sup> 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 Edmonson District is \$145,558, while the annual cost of water loss in excess of 15 percent is \$77,483.

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<sup>5</sup> Case No. 2021-00463, *Electronic Application of Edmonson County Water District to Issue Securities for the Purpose of Refinancing Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Feb. 3, 2022) final Order at 10, ordering paragraph 5.

<sup>6</sup> Case No. *Electronic Application of Edmonson County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 4, 2021).

<sup>7</sup> Edmonson District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Sep. 9, 2024). Edmonson District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Oct. 7, 2024).

<sup>8</sup> 2023 Annual Water Report at 66.

Description	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ 5,788	\$ 307,539	\$ 140,507	\$ 448,046
Water Loss Percent	32.0730%	32.0730%	32.0730%	32.0730%
Total Water Loss	\$ 1,856	\$ 98,637	\$ 45,065	\$ 145,558

Description	Purchased Water	Purchased Power	Chemicals	Total
Pro Forma Purchases	\$ 5,788	\$ 307,539	\$ 140,507	\$ 448,046
Water Loss in Excess of 15%	17.0730%	17.0730%	17.0730%	17.0730%
Disallowed Water Loss	\$ 988	\$ 52,506	\$ 23,989	\$ 77,483

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold.<sup>9</sup> While Commission Staff would normally propose the implementation of a water loss surcharge to combat the excess water loss; Edmonson District submitted a water loss reduction plan that explains the steps it has already implemented to combat the water loss.<sup>10</sup> Edmonson District is currently working to update the billing system, install zone metering, connect zone meters to SCADA, develop a geographic information system (GIS) mapping system, install main line pressure regulators, and continued committing staff specifically to monitor water loss.<sup>11</sup> Therefore, Commission Staff does not recommend implementing a Water Loss surcharge.

<sup>9</sup> See generally, Commission final Orders for rate applications from 2017-present for language explaining the greater emphasis on encouraging efforts to reduce water loss and including the approximate amount of money the lost water represented to the utility. Case No. 2017-00176, *Electronic Application of Estill County Water District No. 1 for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 20, 2017), Order at 4.

<sup>10</sup> Edmonson District's Response to Staff's First Request, Item 19, 19\_Water\_Loss\_Reduction\_Plan.pdf.

<sup>11</sup> Edmonson District's Response to Staff's First Request, Item 19, 19\_Water\_Loss\_Reduction\_Plan.pdf.

## DISCUSSION

Using its pro forma test-year operations, Edmonson District determined that a base rate revenue increase of \$1,037,350, or 25.93 percent, was necessary to achieve the revenue requirement as shown in the table below.<sup>12</sup> The rates requested by Edmonson District would increase the residential monthly bill of a typical residential customer using 3,000 gallons per month by \$5.70 from \$25.61 to \$31.31 or approximately 22.3 percent.<sup>13</sup> Edmonson District did not propose an across the board increase, but provided a rate model as discussed below in “Monthly Water Service Rates.”<sup>14</sup>

Description	Edmonson District
Pro Forma Operating Expenses	\$ 4,435,556
Average Annual Principal and Interest Payments	828,850
Additional Working Capital at 20%	165,770
Amortization of Debt Discount	(2,100)
Total Revenue Requirement	<u>5,428,076</u>
Less: Other Operating Revenue ( )	(74,932)
Nonutility Income less Expense ( )	(30,973)
Interest Income ( )	(174,587)
Proposed Wholesale Sales Revenue ( )	(110,120)
Revenue Required From Water Sales	<u>5,037,464</u>
Revenue from Sales at Present Rates ( )	(4,000,114)
Required Revenue Increase / (Decrease)	<u>\$ 1,037,350</u>
Percentage Increase / (Decrease)	<u>25.93%</u>

To determine the reasonableness of the rates requested by Edmonson District, Commission Staff performed a limited review of Edmonson District’s test-year operations.

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<sup>12</sup> Application, Attachment 4, Revenue Requirements Table.

<sup>13</sup> Application, Attachment 1, Customer Notice.

<sup>14</sup> Edmonson District’s Response to Staff’s First Request, Item 24 and 31.

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 measurable<sup>15</sup> 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.

Commission Staff's recommendations are summarized in this report. William Foley reviewed the calculation of Edmonson District's Overall Revenue Requirement, and Elizabeth Stefanski reviewed Edmonson District's reported revenues and rate design.

### SUMMARY OF RECOMMENDATIONS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff determined that Edmonson District's required revenue from water sales is \$5,060,152 to meet the Overall Revenue Requirement of \$5,331,314 and that a \$957,831 revenue increase, or 23.35 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Edmonson District proposed to change its current uniform rate structure, from a single customer charge for all meter sizes and a single volumetric rate above 1,500 gallons of water usage, to a tiered rate structure, in

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<sup>15</sup> 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).

which the costs of service are distributed proportionally by meter size. Edmonson District explained that the change to increased minimums for each progressively larger meter size is to recognize and appropriately spread the costs of testing, maintaining, and replacing larger meters and also to discourage customers from using or requesting a meter size that is larger than needed for the customer's typical usage.<sup>16</sup> Edmonson District's Rate Design Model was prepared by Alan Vilines from Kentucky Rural Water Association (KRWA),<sup>17</sup> and was performed in order to allocate the expenses to customer classes in proportion to the cost of providing service to each class.<sup>18</sup> The rates were developed following the commodity demand methodology that is recognized in the Manual M-1 published by the American Water Works Association (AWWA). The Commission has long accepted the AWWA guidelines as a reasonable method to ratemaking and a reasonable method of designing rates for small water utilities.<sup>19</sup> Using this method, Edmonson District allocated the Overall Revenue Requirement to its customer classes in proportion to the cost of providing service to those customer classes. This method recognizes that a utility must meet peak demand requirements as well as the customer's average water use. Edmonson District proposed to increase its current wholesale water service rate and calculated the proportion of expenses between

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<sup>16</sup> Edmonson District's Response to Staff's First Request, Item 31.

<sup>17</sup> Confirmation of Consultant Performing Cost of Service Study (filed Oct. 23, 2024).

<sup>18</sup> Application, Attachment #4, Table C through Table K.

<sup>19</sup> Case No. 2023-00088, *Electronic Application of Green River Valley Water District for Adjustment of Rates* (Ky. PSC Oct. 30, 2023), final Order; Case No. 2022-00366, *Electronic Application of Mountain Water District for a General Adjustment of Water Rates* (Ky. PSC Oct. 31, 2023), final Order; and Case No. 2022-00142, *Electronic Application of Daviess County Water District for an Adjustment of Rates* (Ky. PSC Feb. 10, 2023), final Order.

wholesale and retail water sales using the “inch-miles” method to allocate expenses to the wholesale customer.<sup>20</sup> This method has been accepted by the Commission in past proceedings<sup>21</sup> and Commission Staff recommends that the Commission accept the method for allocating expenses to the wholesale customer in this case.

Commission Staff calculated a revenue required from rates of \$5,060,152 and used the same methodology<sup>22</sup> as Edmonson District, allocated the revenue requirement across meter sizes. As noted in the application, there are two classes in the rate study, wholesale and retail, with the cost of service percentage attributable to the wholesale class, approximately 2.03 percent, and the retail class percentage of the cost of service the remaining 97.97 percent.<sup>23</sup> Commission Staff calculated the rates in Appendix B using the methodology reflected in Edmonson District’s rate design,<sup>24</sup> with the revenue requirement being spread across the meter sizes based on the standards from the AWWA M-1 manual.

3. Nonrecurring Charges and Meter Tap Fees. Following the Commission’s recent decisions,<sup>25</sup> Commission Staff has reviewed Edmonson District’s Nonrecurring

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<sup>20</sup> Application, Attachment #4, Table C, System Information.

<sup>21</sup> Case No. 2023-00247, *Electronic Application of Hardin County Water District No. 2 for a General Adjustment of Rates* (Ky. PSC July 29, 2024), final Order.

<sup>22</sup> Edmonson District’s Response to Commission Staff’s First Request, Item 1d\_Water\_Rate\_Model, Tab CalcRet.

<sup>23</sup> Edmonson District’s Response to Commission Staff’s First Request, Item 1d\_Water\_Rate\_Model.

<sup>24</sup> Edmonson District’s Response to Commission Staff’s First Request, Item 1d\_Water\_Rate\_Model.

<sup>25</sup> 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*



Charges. The Commission approved the current Nonrecurring Charges in Edmonson District's tariff on January 1, 2023.<sup>26</sup> Edmonson District provided updated cost justification information for the Nonrecurring Charges<sup>27</sup> and Meter Tap charges.<sup>28</sup> The expenses for the installation of the 5/8-inch x 3/4-inch meter tap calculated to a total of \$1,427,<sup>29</sup> which is higher than the current tariff rate of \$1,150. Commission Staff recommends increasing the Tap-On Fee, because the higher rate results in known and measurable adjustment based on the supporting documentation.<sup>30</sup>

Commission Staff reviewed the cost justification information provided by Edmonson District and compared the amounts to nonrecurring charges currently listed in Edmonson District's tariff. Commission Staff observed that the current tariff amounts do not include labor charges, and recommend no fee adjustment to Reconnect Charge or to the Meter Test Charge. However, due to current transportation costs, the updated Service Call/Investigation fee has increased.<sup>31</sup> The calculation of these adjustments to

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(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).

<sup>26</sup> TFS2022-00523 (Ky. PSC Oct. 25, 2022); Edmonson District submitted the tariff on October 25, 2022, and the tariff was accepted for filing by the Commission by letter dated December 29, 2022, with an effective date of January 1, 2023.

<sup>27</sup> Edmonson District's Response to Commission Staff's First Request, Item 27.

<sup>28</sup> Edmonson District's Response to Commission Staff's First Request, Item 28.

<sup>29</sup> Edmonson District's Response to Commission Staff's First Request, Item 28.

<sup>30</sup> Edmonson District's Response to Commission Staff's First Request, Item 28.

<sup>31</sup> Edmonson District's Response to Commission Staff's First Request, Item 27\_Service\_Call\_Investigation.xlsx.

the Nonrecurring Charges are included in a table provided in Appendix A. Commission Staff's proposed nonrecurring charges and tap fees are listed below.

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Reconnect Charge	\$10.00	\$10.00
Meter Test Charge	\$10.00	\$10.00
Service Call / Investigation	\$5.00	\$10.00
Meter Relocation Charge	Actual Cost	Actual Cost
Water Line Relocation Charge	Actual Cost	Actual Cost
Tap Fee for 5/8-inch x 3/4-inch Meter Service	\$1,150.00	\$1,427.00
Tap Fee for Larger Meter Services	Actual Cost	Actual Cost

PRO FORMA OPERATING STATEMENT

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

Description	2023 Test Year	Edmonson District Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref)	Pro Forma
<b>Operating Revenues</b>						
Metered Retail Sales	\$ 3,934,832	\$ 65,282	\$ -	\$ 65,282	(A)	\$ 4,000,114
Sales for Resale	102,205	2	-	2	(A)	102,207
<b>Other Revenues</b>						
Forfeited Discounts	59,316	-	406	406	(B)	59,722
Other	15,616	-	(9,736)	(9,736)	(C)	5,880
<b>Total Operating Revenues</b>	<b>4,111,969</b>	<b>65,284</b>	<b>(9,330)</b>	<b>55,954</b>		<b>4,167,923</b>
<b>Operation and Maintenance</b>						
Salaries and Wages - Employees	1,409,099	302,694	(54,628)	248,066	(D)	1,657,165
Salaries and Wages - Officers	27,500	2,500	(30,000)	(27,500)	(E)	-
Employee Pensions	88,572	38,088	(5,334)	32,754	(F)	121,326
Employee Benefits	253,598	7,500	(1,890)	5,610	(G)	
		11,435	1,464	12,899	(H)	272,107
Purchased Water	4,978	-	810	810	(I)	
		(850)	(138)	(988)	(J)	4,800
Purchased Power	307,539	(52,506)	-	(52,506)	(J)	255,033
Chemicals	140,507	(23,989)	-	(23,989)	(J)	116,518
Materials and Supplies	204,331	-	-	-		204,331
Contractual Services - Prof Fees	390,939	-	-	-		390,939
Rental of Equipment	9,008	-	-	-		9,008
Transportation Expenses	102,586	-	-	-		102,586
Insurance - Gen. Liab. & Workers Comp.	61,726	15,559	-	15,559	(K)	77,285
Advertising	2,603	-	-	-		2,603
Bad Debt	9,311	-	-	-		9,311
Miscellaneous	63,070	-	-	-		63,070
<b>Total</b>	<b>3,075,367</b>	<b>300,431</b>	<b>(89,716)</b>	<b>210,715</b>		<b>3,286,082</b>
Depreciation Expense	856,606	63,376	(2,672)	60,704	(L)	917,310
Taxes Other Than Income	118,108	21,668	(6,474)	15,194	(M)	133,302
<b>Total Operating Expenses</b>	<b>4,050,081</b>	<b>385,475</b>	<b>(98,862)</b>	<b>286,613</b>		<b>4,336,694</b>
Net Operating Income	61,888	(320,191)	89,532	(230,659)		(168,771)
Interest and Dividend Income	174,587	-	-	-		174,587
Net Nonutility Income	110,572	-	-	-		110,572
Miscellaneous Nonutility Expense	79,599	-	-	-		79,599
<b>Income Available to Service Debt</b>	<b>\$ 426,646</b>	<b>\$ (320,191)</b>	<b>\$ 89,532</b>	<b>\$ (230,659)</b>		<b>\$ 195,987</b>

(A) Billing Analysis. In its application, Edmonson District proposed an increase of \$65,282 to Metered Retail Sales and \$2 to Sales for Resale for the test year of 2023 to reflect the current billing analysis.<sup>32</sup> Edmonson District reported total metered water sales and total Sales for Resale for the test year of \$3,934,832 and \$102,205,

<sup>32</sup> Application, Schedule of Adjusted Operations, Adjustment A.

respectively.<sup>33</sup> Edmonson District provided a billing analysis to calculate a normalized total Metered Retail Sales of \$4,000,114, based on the usage during the test year, less billing adjustments of \$56,670,<sup>34</sup> and using the rates authorized in its current tariff.<sup>35</sup> Edmonson District's billing analysis also calculated normalized total Sales for Resale of \$102,207.<sup>36</sup> Edmonson District provided a detailed list of billing adjustments from the test year, totaling \$56,670.<sup>37</sup> Commission Staff agrees with the billing adjustments detailed in Edmonson District's response, which were primarily leak adjustments to customer bills and is a reconciling item separate from the pro forma calculation. Commission Staff recommends accepting Edmonson District's pro forma adjustment increases to Retail Sales of \$65,282 and Sales for Resale of \$2.

(B) Forfeited Discounts. Edmonson District proposed no adjustments to the test year Forfeited Discount amount of \$59,316. Edmonson District provided detailed information about the number of occurrences and dollar amount of the test year revenue from forfeited discounts or late fees.<sup>38</sup> Edmonson District's response listed 20,660 occurrences in the test year and revenue of \$59,722.<sup>39</sup> Commission Staff recommends an adjustment to increase Forfeited Discounts by \$406 based on the information provided by Edmonson District. Commission Staff recommends the Commission approve the

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<sup>33</sup> 2023 Annual Water Report at 58.

<sup>34</sup> Application, Attachment 5, Current Billing Analysis.

<sup>35</sup> Application, Attachment 5, Current Billing Analysis.

<sup>36</sup> Application, Attachment 5, Current Billing Analysis.

<sup>37</sup> Edmonson District's Response to Staff's First Request, Item 29\_Billing\_Adjustments.pdf.

<sup>38</sup> Edmonson District's Response to Staff's First Request, Item 25.

<sup>39</sup> Edmonson District's Response to Staff's First Request, Item 25.

adjustment to increase Forfeited Discounts by \$406 as known and measurable revenue collected in the test year.

(C) Miscellaneous Service Revenues. Edmonson District provided detailed information about the revenue from nonrecurring charges, as discussed in the Nonrecurring Charges section above, as well as the other items classified as miscellaneous service revenue. The account # 47100 in the general ledger titled Misc. Service Revenues listed Reconnect fees, Special Request (Service Call), Reimbursement for parts and labor, Hart Co. Fiscal Court, Sales and Use taxes, and Water Theft items as revenue.<sup>40</sup> The nonrecurring charges collected are properly considered Other Water Revenue, however, many of the items reported in the test year as miscellaneous service revenue were not nonrecurring water revenue. Commission Staff recommends disallowing all items that are not nonrecurring charges from the test year total of \$15,616 for an adjustment decrease in the amount of \$9,736 to Miscellaneous Service Revenue, and an adjusted total of \$5,880 as shown in the table below.

Description	Test Year	Adjustment	Proforma
Reconnect Fees	\$5,510	\$0	\$5,510
Service/ Investigation	185	185	370
Reimbursement for Parts & Labor	6,793	(6,793)	0
Hart Co.Fiscal Court	1,674	(1,674)	0
Sales and Use Taxes	546	(546)	0
Water Theft	788	(788)	0
Special Other	120	(120)	0
Total	<u>\$15,616</u>	<u>(\$9,736)</u>	<u>\$5,880</u>

<sup>40</sup> Edmonson District's Response to Staff's First Request, Item 23\_Miscellaneous\_Service\_Revenue.pdf.

(D) Salaries and Wages – Employees. In its application, Edmonson District proposed an adjustment to increase Salaries and Wages – Employees by \$302,694<sup>41</sup> to reflect an increase to test year wages, as well as new employees.<sup>42</sup> Edmonson District provided a list of test-year employees,<sup>43</sup> test-year normal and overtime hours worked,<sup>44</sup> the current employees list,<sup>45</sup> and the current wage rates.<sup>46</sup> In addition, subsequent to the filing of the application several employees left employment and new employees were hired.<sup>47</sup> Commission Staff normalized current staffing to 2,080 hours for new full-time employees. Edmonson District has two employees #0074 and #0079 who recently left employment but are expected to be replaced soon; therefore, the positions were included in the calculation.<sup>48</sup>

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<sup>41</sup> Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment B.

<sup>42</sup> Application, Exhibit 4, Schedule of Adjusted Operations, References, Adjustment B.

<sup>43</sup> Edmonson District's Response to Staff's First Request, Item 7, 7\_Employees\_Wages\_and\_Benefits.xlsx, Column E.

<sup>44</sup> Edmonson District's Response to Staff's First Request, Item 7, 7\_Employees\_Wages\_and\_Benefits.xlsx, Columns H & I.

<sup>45</sup> Edmonson District's Response to Staff's First Request, Item 1d, 1d\_Water\_Rate\_Model\_2024.xlsx, Wages Tab, Column C.

<sup>46</sup> Edmonson District's Response to Staff's First Request, Item 1d, 1d\_Water\_Rate\_Model\_2024.xlsx, Wages Tab, Column D.

<sup>47</sup> Edmonson District's Response to Staff's Second Request, Item 2a thru 2f.

<sup>48</sup> Edmonson District's Response to Staff's First Request, Item 1b, 1d\_Water\_Rate\_Model\_2024.xlsx, Wages Tab, Comments for cells C15 and C17.

Edmonson District has four employees who work for both the Water and Sewer divisions.<sup>49</sup> Commission Staff allocated the time for these employees based upon the customer count for each division,<sup>50</sup> as shown in the following table.

Divisions	Customers	Allocation Percentage
Water	11,470	99.506%
Sewer	57	0.494%
Total	11,527	100.000%

Edmonson District also included \$500 per employee, \$125 per quarter of employment, for the year 2023 as 2023 Retropay;<sup>51</sup> this was an end of year bonus that was decided on November 22, 2023, for all employees who worked during 2023.<sup>52</sup> Commission Staff proposed to remove the expenses, based on prior precedent,<sup>53</sup> because they are not related to the generation, distribution of water service.

Edmonson District also proposed to include \$11,700 in the calculation for Stand-by Wages.<sup>54</sup> Standby Wages are wages paid to employees that are on call during off hours and are called to service.<sup>55</sup> The on-call hours paid for stand-by employees should

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<sup>49</sup> Edmonson District's Response to Staff's Second Request, Item 5.

<sup>50</sup> 2023 Annual Water Report at 58. 2023 Annual Sewer Report at 25.

<sup>51</sup> Edmonson District's Response to Staff's First Request, Item 1b, 1d\_Water\_Rate\_Model\_2024.xlsx, Wages Tab, Column H.

<sup>52</sup> Edmonson District's Response to Staff's Second Request, Item 2e, 2e\_November\_2023\_Minutes.

<sup>53</sup> Case 2022-00044, *Electronic Application of Big Sandy Water District for an Adjustment of its Water Rates Pursuant to 807 KAR 5:076*, (Ky. PSC, Sep. 13, 2022), Order at 9.

<sup>54</sup> Edmonson District's Response to Staff's First Request, Item 1b, 1d\_Water\_Rate\_Model\_2024.xlsx, Wages Tab, Cell I37.

<sup>55</sup> Edmonson District's Response to Staff's Second Request, Item 2f, 2f\_Standby\_Duty\_Policy.

be recorded as part of the hours worked for the employee who worked them during test year, not as a lump sum amount not assigned to any employee. Therefore, Commission Staff did not include the \$11,700 Stand-by pay in the pro-forma calculation, as it is not known or measurable based upon the evidence submitted in the case.

Commission Staff calculated a Normalized Salaries and Wages – Employees amount of \$1,657,165. Commission Staff’s calculated amount is an increase of \$248,066, which is \$54,628 less than Edmonson District’s proposed \$302,694 increase, as shown in the following table.

Emp #	Job Title	Full/Part Time	Current Pay Rate	2023 Reg Hours	Water Division Allocation	Allocated Regular Wages	Current Overtime Rate	2023 Overtime Hours	Allocated Overtime Wages	Total Normalized Allocated Wages
#0113	General Manager	Full Time	\$ 64.90	2,080	100.00%	\$ 134,992	\$ 97.35	-	-	134,992.00
#0043	Office CSR	Full Time	22.90	2,030	100.00%	46,477	34.35	32.89	1,129.77	47,606.92
#0052	Distribution Operator	Full Time	26.04	2,050	99.51%	53,111	39.06	51.11	1,986.48	55,097.00
#0061	WTP Operator	Full Time	27.32	1,937	100.00%	52,905	40.98	111.72	4,578.29	57,483.47
#0064	WTP Operator	Full Time	27.32	2,080	100.00%	56,826	40.98	79.04	3,239.06	60,064.66
#0065	Equipment Operator	Full Time	27.07	2,077	100.00%	56,220	40.61	200.42	8,138.05	64,357.84
#0067	Distribution Supervisor	Full Time	32.73	2,076	99.51%	67,611	49.10	305.84	14,940.97	82,552.45
#0070	Distribution Operator	Full Time	25.04	2,076	99.51%	51,726	37.56	17.95	670.87	52,396.86
#0074	Office CSR	Full Time	21.51	2,063	100.00%	44,381	32.27	64.45	2,079.48	46,460.20
#0075	Office CSR	Full Time	20.22	2,080	100.00%	42,058	30.33	7.09	215.04	42,272.64
#0079	Office Manger	Full Time	26.59	2,063	100.00%	54,862	39.89	64.45	2,570.59	57,432.67
#0081	Distribution Operator	Full Time	25.04	2,078	100.00%	52,033	37.56	255.94	9,613.11	61,645.73
#0082	Distribution Operator	Full Time	25.04	2,077	100.00%	52,004	37.56	124.66	4,682.23	56,686.05
#0083	WTP Chief Operator	Full Time	34.94	2,078	100.00%	72,605	52.41	174.86	9,164.41	81,769.73
#0086	Distribution Operator	Full Time	25.04	2,076	99.51%	51,726	37.56	117.79	4,402.32	56,128.30
#0089	Distribution Laborer OIT	Full Time	21.12	2,080	100.00%	43,930	31.68	13.33	422.29	44,351.89
#0092	WTP OIT	Full Time	21.37	2,068	100.00%	44,188	32.06	425.56	13,641.33	57,829.14
#0094	Bookkeeper	Full Time	27.19	2,076	100.00%	56,452	40.79	42.16	1,719.50	58,171.92
#0096	Office CSR	Full Time	20.29	2,059	100.00%	41,768	30.44	7.21	219.44	41,987.21
#0097	Interim Office Manger	Full Time	22.71	2,050	100.00%	46,557	34.07	22.71	773.62	47,330.93
#0103	WTP OIT	Part Time	19.75	2,080	100.00%	41,080	29.63	223.15	6,610.82	47,690.82
#0107	Equipment Operator	Full Time	21.65	2,080	100.00%	45,032	32.48	59.62	1,936.16	46,968.16
#0108	Distribution Laborer OIT	Full Time	20.25	2,080	100.00%	42,120	30.38	89.46	2,717.35	44,837.35
#0109	Equipment Operator	Full Time	21.65	2,080	100.00%	45,032	32.48	88.46	2,872.74	47,904.74
#0110	Distribution Laborer OIT	Full Time	21.12	2,080	100.00%	43,930	31.68	37.59	1,190.85	45,120.45
#0115	Equipment Operator	Full Time	24.45	2,080	100.00%	50,856	36.68	-	-	50,856.00
#0119	WTP OIT	Full Time	19.75	2,080	100.00%	41,080	29.63	-	-	41,080.00
#0121	WTP OIT	Full Time	19.75	2,080	100.00%	41,080	29.63	-	-	41,080.00
#0123	WTP OIT	Full Time	19.75	2,080	100.00%	41,080	29.63	-	-	41,080.00
#0128	Distribution Laborer OIT	Full Time	21.12	2,080	100.00%	43,930	31.68	-	-	43,929.60
Total				62,053		\$1,557,650		\$ 2,617	\$ 99,515	\$ 1,657,165
	Less: Test Year Salaries and Wages ( )									(1,409,099)
	Salaries and Wages Adjustment									248,066
	Less: Edmonson District Proposed Salaries and Wages Adjustment									(302,694)
	Commission Staff Proposed Adjustment									<u>\$ (54,628)</u>

Commission Staff recommends the Commission accept Commission Staff’s \$248,066 increase to Salaries and Wages – Employees, because it reflects the test-year hours at current wage rates with current Employees.



(E) Salaries and Wages - Officers. In its application, Edmonson District proposed an adjustment to increase Salaries and Wages – Officers by \$2,500.<sup>56</sup> The adjustment is to reflect the normalization of commissioner salaries.<sup>57</sup> Edmonson District's Board of Commissioners (Board) consists of five members, each paid \$6,000 annually.<sup>58</sup> Edmonson District provided a list of the current commissioners and their salaries.<sup>59</sup> However, Edmonson District was unable to provide the fiscal court minutes that authorized any compensation for Board members.<sup>60</sup> Therefore, there is no evidence on record authorizing commissioners' compensation. Commission Staff decreased Salaries and Wages – Employees' expense by \$30,000, to remove both the test year Salaries and Wages – Officers, as well as Edmonson District's proposed \$2,500 increase. Additionally, Commission Staff recommends Edmonson District address the issue with the fiscal court.

(F) Employee Pensions – Retirement. Edmonson District provides its employees with a Simplified Pension Plan, 401(a) with Nationwide Insurance Company.<sup>61</sup> In its application, Edmonson District proposed an adjustment to increase Employee Pensions by \$38,088,<sup>62</sup> to account for the increase in pro-forma Salaries and Wages –

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<sup>56</sup> Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment C.

<sup>57</sup> Application, Exhibit 4, Schedule of Adjusted Operations, References, Adjustment C.

<sup>58</sup> Application, Exhibit 4, Schedule of Adjusted Operations, References, Adjustment C.

<sup>59</sup> Edmonson District's Response to Staff's First Request, Item 13, 13\_Commissioners\_Wages\_and\_Benefits.xlsx. Edmonson District's Response to Staff's Second Request, Item 7.

<sup>60</sup> Edmonson District's Response to Staff's Second Request, Item 7.

<sup>61</sup> Edmonson District's Response to Staff's First Request, Item 13,

<sup>62</sup> Application, Exhibit 4, Schedule of Adjusted Operations, Adjustment B.

Employees subsequent to the test year.<sup>63</sup> Edmonson District contributes 8 percent of full-time Employee's Salary per week up to 40 regular work hours.<sup>64</sup> Part-time employees are not eligible for any benefits.<sup>65</sup>

Utilizing the \$1,557,650, allocated full time regular wages calculated in the Salaries and Wages adjustment, less \$41,080, for the part-time employee regular wages, and Edmonson District's contribution rate to the 401(a); Commission Staff calculated a Pro Forma Retirement contribution of \$121,326, which is 32,754 greater than the test year amount, and \$5,334 less than proposed by Edmonson District.

Description	Amount
Pro Forma - Full Time Regular Wages	\$ 1,516,570
Multiplied by: Contribution Rate	8.00%
Contributions	121,326
Less: Test year Contribution	(88,572)
Total	32,754
Less: Edmonson District's Proposed Adjustment	(38,088)
Commission Staff's Proposed Adjustment	<u>\$ (5,334)</u>

Commission Staff recommends the Commission accept Commission Staff's proposed \$32,843 increase to Employee Pensions, because it reflects the increase of employee retirement expense due to an increase in Salaries and Wages – Employees.

(G) Employee Benefits – Insurance Premiums. In its application, Edmonson District proposed an adjustment to increase Employee Pensions and Benefits by \$7,500<sup>66</sup>

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<sup>63</sup> Application, Exhibit 4, Schedule of Adjusted Operations, References, Adjustment B.

<sup>64</sup> Edmonson District's Response to Staff's Second Request, Item 4.

<sup>65</sup> Edmonson District's Response to Staff's Second Request, Item 4.

<sup>66</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment D.

to reflect the Commission's utilization of the Bureau of Labor Statistics Report (BLS) for ratemaking purposes while also including new employee positions.<sup>67</sup> Edmonson District reported \$342,170<sup>68</sup> for Employee Pensions and Benefits, of which \$253,598 is for Benefits<sup>69</sup> and \$88,572<sup>70</sup> is for pension. Edmonson District currently provides 100 percent of employees' health, vision, and dental insurance premiums.<sup>71</sup> Each employee has the same level of coverage, and the cost of their coverage is the same, no tiers.<sup>72</sup>

The Commission continues to review employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. The Commission has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.<sup>73</sup> Consistent with precedent and due to the lack of sufficient to the contrary,<sup>74</sup> Commission Staff reduced Edmonson District's contribution amount to single health

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<sup>67</sup> Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment D.

<sup>68</sup> Application, Attachment 4, Schedule of Adjusted Operations,

<sup>69</sup> Edmonson District's Response to Staff's First Request, Item 1b, 1d\_Water\_Rate\_Model\_2024.xlsx, Adj Tab, Cell K33 Employee Pensions and Benefits \$342,170 less Cell K28 401A Retirements \$88,572 = \$342,170.

<sup>70</sup> Edmonson District's Response to Staff's First Request, Item 1b, 1d\_Water\_Rate\_Model\_2024.xlsx, Adj Tab, Cell K28, 401A Retirement \$88,572.

<sup>71</sup> Edmonson District's Response to Staff's First Request, Item 4.

<sup>72</sup> Edmonson District's Response to Staff's First Request, Item 4.

<sup>73</sup> Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

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

insurance premiums by 20 percent.<sup>75</sup> In addition, Commission Staff reduced Edmonson District's contribution to dental insurance by 60 percent.<sup>76</sup> Edmonson District provided the most recent copy of its health, dental, and vision invoices.<sup>77</sup> In its calculations, Edmonson District utilized 30 employees receiving health, dental, and vision;<sup>78</sup> however, Commission Staff determined one of the employees is part time therefor ineligible for insurance benefits, as shown in the Salaries and Wages –Employees adjustment and four employees have costs allocated to the sewer division<sup>79</sup> Accordingly, utilizing the most recent invoice amounts, Commission Staff calculated a final Insurance premium amount of \$202,785 which is \$5,610 more than the test year, as shown in the following table.

Commission Staff recommends the Commission accept Commission Staff's \$5,610 increase to Employee Benefits, to reflect the reduction of Employee insurance employer contributions to the BLS average amount, as well as updates to insurance premium rates and employee levels.

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<sup>75</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2024, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>)

<sup>76</sup> See Case No. 2017-00263 *Electronic Application of Kentucky Frontier Gas, LLC for Alternative Rate Adjustment* (Ky. PSC Dec. 22, 2017), at 9-10, and The Willis Benchmarking Survey, 2015, at 62-63. (<https://www.slideshare.net/annette010/2015-willis-benefits-benchmarking-survey-report>).

<sup>77</sup> Edmonson District's Response to Staff's First Request, Item 5, 5\_Employee\_Health\_Insurance.pdf

<sup>78</sup> Edmonson District's Response to Staff's First Request, Item 1b, 1d\_Water\_Rate\_Model\_2024.xlsx, Adj Tab, Cell R12.

<sup>79</sup> Edmonson District's Response to Staff's Second Request, Item 5.

Type of Premium	Number of Employees	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	29	\$ 20,627	20%	\$ (4,125)	\$ 16,502
Dental Insurance	29	571	60%	(343)	228
Vision Insurance	29	170	0%	-	170
Total Monthly Pro Forma Premium		21,368		(4,468)	16,900
Multiplied by: 12 Months		12		12	12
Total Annual Pro Forma Premium		<u>\$ 256,416</u>		<u>(53,616)</u>	202,800
Allocated to Sewer Division ( )					(15)
Total Allocated Annual Premium					202,785
Test Year Insurance Premium ( )					(197,175)
Employee Benefits Adjustment					5,610
Edmopnson District's Proposed Adjustment ( )					(7,500)
Commission Staff's Proposed Adjustment					<u>\$ (1,890)</u>

(H) Employee Benefits – Uniform and Boot Policy. In its application, Edmonson District proposed an adjustment to increase Employee Pensions and Benefits by \$11,435<sup>80</sup> to reflect the adoption of a new uniform and boot policy for employees.<sup>81</sup> Edmonson District's new uniform policy allows for (1) Distribution system and treatment plant operators shall be entitled to an annual uniform allowance of \$350 for pants and shirts; (2) a one-time payment for new distribution and plant employees; (3) Office Staff will be allowed an annual allowance of \$250 to purchase company apparel.<sup>82</sup> Edmonson District's new safety footwear policy will allow employees to be reimbursed for 50 percent of the cost of required footwear, up to a maximum of \$225 yearly.<sup>83</sup>

<sup>80</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment E.

<sup>81</sup> Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment E.

<sup>82</sup> Edmonson District's Response to Staff's First Request, Item 16, 16\_Uniform\_Policy.pdf.

<sup>83</sup> Edmonson District's Response to Staff's First Request, Item 16, 16\_Safety\_Footwear\_Reimbursement\_Form.pdf.

Using the current employee count determined in the Salaries and Wages – Employee adjustment, Commission Staff determined, Edmonson District currently has 30 employees; 24 field employees and 6 office employees. Of the 30 employees, Edmonson District hired 12 new employees in 2024 to date,<sup>84</sup> some are no longer employed or were temporary employees.<sup>85</sup> As discussed in the Salaries and Wages – Employee adjustment, four of the employees also perform work for the sewer division; therefore, a portion of the uniform and footwear is allocated to the sewer division. Commission Staff calculated the pro forma cost for the uniform and boots as \$18,439, as shown in the following table.

Uniforms			
Employees	Number	Annual Pay	Total
Office Staff	6	\$ 250	\$ 1,500
Field Staff	24	350	8,400
Total Employees	30		9,900
2024 New Employees	12	150	1,800
Sub-total			11,700
Allocation to Sewer Division ( )			(7)
Total			<u>\$ 11,693</u>
Safety Footwear			
Employees	Number	Annual Pay	Total
Total Employees	30	\$ 225	6,750
Allocation to Sewer Division ( )			(4)
Total			<u>\$ 6,746</u>
Grand Total			<u>\$ 18,439</u>

<sup>84</sup> Edmonson District's Response to Staff's First Request, Item 7, 7\_Employees\_Wages\_and\_Benefits.xlsx, Column C.

<sup>85</sup> Edmonson District's Response to Staff's Second Request, Item 2a thru 2f.

Commission Staff recommends an increase to Employee Benefits of \$12,899, which is \$1,464 more than proposed by Edmonson District.

Description	Amount
Pro Forma Uniforms and Boots	\$ 18,439
Less Test year Uniform and Boots	(5,540)
Employee Benefits Adjustment	12,899
Less: Edmonson District Proposed Adjustment	(11,435)
Commission Staff's Proposed Adjustment	<u>\$ 1,464</u>

Commission Staff recommends the Commission accept Commission Staff's \$12,899 increase to Employee Benefits to reflect the inclusion of the new uniform and boots policy.

(l) Purchased Water Normalization. During the test year, Edmonson District reported a Purchased Water expense of \$4,978.<sup>86</sup> Edmonson District produced almost all its own water.<sup>87</sup> During the test year, Green River Valley Water District increased its wholesale rate to Edmonson District to \$.00301 per gallon.<sup>88</sup> Commission Staff calculated Purchased Water expense using the test year gallons purchased of 1,923,000<sup>89</sup> and the current rates for a total \$5,788. Therefore, Commission Staff proposes an \$810 increase to Purchased Water Expense as shown in the table below.

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<sup>86</sup> Application, Attachment 4, Schedule of Adjusted Operations.

<sup>87</sup> 2023 Annual Water Report at 66.

<sup>88</sup> Green River Valley Water District No. 1 Tariff, P.S.C. Ky. No. 1, Sheet No. 4 (Issued Jan. 12, 2024), effective October 30, 2023.

<sup>89</sup> 2023 Annual Water Report, at 66.

Description	Total
Gallons	1,923,000
Current Purchase Rate	\$ 0.00301
Pro Forma Cost	5,788
Test Year Purchase Cost ( )	(4,978)
Increase in Purchase Cost	\$ 810

Commission Staff recommends the Commission accept Commission Staff's proposed \$810 increase to Purchased Water Expense to reflect the normalization of purchased water at current rates.

(J) Excess Water Loss. In its application, Edmonson District proposed adjustments to decrease Purchased Water Expense by \$850,<sup>90</sup> Purchased Power expense by \$52,506<sup>91</sup> and Chemicals expense by \$23,989.<sup>92</sup> The adjustments are to reflect the expense for water loss in excess of 15 percent.<sup>93</sup> During the test year, Edmonson District reported water loss of 32.0730 percent.<sup>94</sup> As noted earlier in the report, Commission regulations state that for ratemaking purposes, expenses for water loss in excess of 15 percent shall not be included for ratemaking purposes. Edmonson District proposed to reduce Purchased Water Expense by \$850, and Commission Staff disagreed with the calculation, as discussed in the Purchased Water Normalization adjustment, Commission Staff determined a Normalized Purchased Water Expense of \$5,788. Therefore, Commission Staff decreased Purchased Water Expense by \$988,

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<sup>90</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

<sup>91</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

<sup>92</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment F.

<sup>93</sup> Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment F.

<sup>94</sup> 2023 Annual Water Report at 66.



which is \$138 more than proposed by Edmonson District, as shown in the following table. Additionally, Edmonson District proposed to reduce Purchased Power Expense by \$52,506 and Chemical Expense by \$23,989, which Commission Staff agreed with both adjustments, as shown in following table.

Description	Purchased Water	Purchased Power	Chemicals Expense	Total
Pro Forma Expenses	\$ 5,788	\$ 307,539	\$ 140,507	\$ 448,046
Water Loss in Excess of 15%	-17.0730%	-17.0730%	-17.0730%	-17.0730%
Excess Cost	(988)	(52,506)	(23,989)	(77,483)
Edmonson District's Proposed Adjustment ( )	850	52,506	23,989	77,345
Commission Staff's Proposed Adjustment	\$ (138)	\$ -	\$ -	\$ (138)

(K) Insurance – General Liability and Worker’s Compensation. In the application, Edmonson District proposed an adjustment to increase Insurance – General Liability and Workers Compensation by \$15,559,<sup>95</sup> in order to reflect an increase in its liability and property insurance beginning July 2024.<sup>96</sup> Edmonson District provided a summary of the premiums for the policy years July 2023 through June 2024, as well as the renewal premiums.<sup>97</sup> The premium summary provides an increase in the annual insurance for Property, cyber liability and worker’s compensation of \$15,559. Commission Staff agrees with the proposed adjustment increasing Insurance – General Liability and Worker’s Compensation by \$15,559, as shown in the following table.

<sup>95</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment G.

<sup>96</sup> Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment G.

<sup>97</sup> Edmonson District’s Response to Staff’s First Request, Item 6a, 6a\_P\_L\_Insurance\_Renewal.pdf.

Description	Amount
Renewal Premium	\$ 79,401
Current Premium ( )	(63,842)
Increase in Premiums	<u>\$ 15,559</u>

Commission Staff recommends the Commission accept Edmonson District's proposed \$15,559 increase to insurance – General Liability and Worker's Compensation to reflect the increase of insurance premiums subsequent to the test year.

(L) Depreciation Expense. In the application, Edmonson District proposed an adjustment to increase Depreciation Expense by \$63,376,<sup>98</sup> to adjust the service lives of assets using the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Utilities* (NARUC Study).<sup>99</sup> To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the same 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.<sup>100</sup> Upon examination, Commission Staff agrees with Edmonson District's methodology to adjust depreciation expense. However, when Commission Staff calculated Depreciation Expense, it calculated a Depreciation Expense of \$917,310. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges.

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<sup>98</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment H.

<sup>99</sup> Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment H.

<sup>100</sup> See Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), Order; Case 2023-00134, *Electronic Application of North Marshall Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC, Dec. 22, 2023), Order at 30; Case 2023-00154, *Electronic Application of Harrison County Water Association, Inc. for an Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024), Order at 36.

The difference is to account for fully depreciated assets, and full year depreciation. Therefore, Commission Staff increased Edmonson District's Depreciation Expense by \$60,704, which is \$2,672 less than proposed by Edmonson District, as shown in the following table. Commission Staff recommends the Commission accept Commission Staff's \$60,704 increase to Depreciation Expense, to reflect the NARUC service lives for Depreciation Expense.

Asset Class	Service Life Range	Test Year Depreciation	Depreciation Adjustment	Pro Forma Depreciation
Structures and Improvements	35 - 40	\$ 97,336	\$ (415)	\$ 96,921
Lake, River, and Other Intakes	35 -45	16,559	(114)	16,445
Supply Mains	50 - 75	4,109	-	4,109
Power Operated Equipment	10 - 15	12,698	1,227	13,925
Pumping Equipment	20	32,587	-	32,587
Other Pumping Equipment	25	7,390	2,184	9,574
Water Treatment Equipment	20 -35	27,710	1,475	29,185
Reservoirs and Tanks	30 - 60	134,607	-	134,607
Transmission & Distribution Mains	50 - 75	335,803	(104)	335,699
Services	30 - 40	26,706	703	27,409
Meters	35 - 45	440	-	440
AMR Meters	20	45,848	37,763	83,611
Meter Installation	40 - 50	42,892	(5,156)	37,736
Hydrants	40 - 60	4,179	(9)	4,170
Furniture and Equipment	20 - 25	887	(39)	848
Computers, Electronics, and software	10	7,932	9,025	16,957
Transportation	7	46,192	13,130	59,322
Tools, Shop, & Garage Equipment	15 - 20	1,068	703	1,771
Laboratory Equipment	15 - 20	5,911	331	6,242
Communication Equipment	10	5,752	-	5,752
Total		<u>\$ 856,606</u>	<u>\$ 60,704</u>	<u>\$ 917,310</u>
Less: Edmonson District's Proposed Adjustment			(63,376)	
Total Depreciation Adjustment			<u>\$ (2,672)</u>	

(M) Taxes other than Income – Federal Insurance Contributions Act (FICA). In the application, Edmonson District proposed an adjustment to increase Taxes Other than

Income by \$21,668<sup>101</sup> to account for changes in Payroll taxes as a result of changes to Salaries and Wages – Employees.<sup>102</sup> However, as explained in the Salaries and Wages – Employees; and Salaries and Wages – Commissioner’s adjustments above; Commission Staff calculated Employee’s Wages of \$1,657,165, and Commissioner’s Wages of \$0. Therefore, Commission Staff calculated an increase to Taxes other than Income of \$15,194, which is \$6,474 less than proposed by Edmonson District, as shown in the following table.

Description	Amount
Allocated Salaries and Wages - Employees	\$ 1,657,165
Allocated Salaries and Wages - Officers	-
Total Allocated Pro Forma Salaries	<u>1,657,165</u>
Multiply by: 7.65 Percent FICA Rate	7.65%
Total Pro Forma Payroll Taxes	<u>126,773</u>
Plus: Taxes Other Than Inc/PSA	5,330
Plus: Taxes Other Than Inc/KUC	1,200
Total Pro Forma Taxes other than Income	<u>133,302</u>
Less: Test Year Taxes Other Than Income ( )	(118,108)
Total Taxes Other Than Income adjustment	<u>15,194</u>
Less: Edmonson District's Proposed Adjustment ( )	(21,668)
Commission Staff's Proposed Adjustment	<u><u>\$ (6,474)</u></u>

**OVERALL REVENUE REQUIREMENT AND  
REQUIRED REVENUE INCREASE**

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

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<sup>101</sup> Application, Attachment 4, Schedule of Adjusted Operations, Adjustment B.

<sup>102</sup> Application, Attachment 4, Schedule of Adjusted Operations, References, Adjustment B.

associations.<sup>103</sup> This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a noncash item, to provide working capital;<sup>104</sup> (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

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<sup>103</sup> Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Oct. 24, 2022). Case No. 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022).

<sup>104</sup> The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

Description	Edmonson District	Commission Staff	
Pro Forma Operating Expenses	\$ 4,435,556	4,336,694	
Average Annual Principal and Interest Payments	828,850	828,850	(1)
Additional Working Capital at 20%	165,770	165,770	(2)
Amortization of Debt Discount	(2,100)	-	
Total Revenue Requirement	5,428,076	5,331,314	
Less: Other Operating Revenue ( )	(74,932)	(65,602)	
Nonutility Income less Expense ( )	(30,973)	(30,973)	
Interest Income ( )	(174,587)	(174,587)	
Proposed Wholesale Sales Revenue ( )	(110,120)	-	(3)
Revenue Required From Water Sales	5,037,464	5,060,152	
Revenue from Sales at Present Rates ( )	(4,000,114)	(4,102,321)	
Required Revenue Increase / (Decrease)	<u>\$ 1,037,350</u>	<u>\$ 957,831</u>	
Percentage Increase / (Decrease)	<u>25.93%</u>	<u>23.35%</u>	

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Edmonson District had six Bonds with United States Department of Agriculture (USDA) Rural Development (RD),<sup>105</sup> and three outstanding

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<sup>105</sup> Case No. 2001-00037, *The Application of Edmonson County Water District, Edmonson, Warren, Grayson and Hart Counties, Kentucky, (1) for a Certificate of Public Convenience and Necessity Authorizing Construction of Major Additions and Improvements to its Water System; (2) Seeking Approval of Revised Water Service Rates and Charges; and (3) Seeking Approval of the Issuance of Certain Securities* (Ky. PSC Mar. 2, 2001). Case 2010-00149, *Application of Edmonson County Water District for A Certificate of Public Convenience and Necessity Authorizing Construction of Major Additions and Improvements to Its Water System and Approval of the Issuance of Certain Securities* (KY. PSC May 7, 2010). Case 2010-00400, *Application of Edmonson County Water District for A Certificate of Public Convenience and Necessity Authorizing Construction of Major Additions and Improvements to Its Water System and Approval of the Issuance of Certain Securities*. Case 2014-00175, *Application of Edmonson County Water District, Edmonson, Warren, Grayson and Hart Counties, Kentucky for A Certificate of Public Convenience and Necessity Authorizing Construction of Major Additions and Improvements to Its Water System and Seeking Approval of The Issuance of Certain Securities* (Ky. PSC Jun. 27, 2014). Case 2019-00355, *Electronic Application of Edmonson County Water District Pursuant to KRS 278.023 and 807 KAR 5:069 for A Certificate of Public Convenience to Expand Its Water Treatment Plant and Related Waterworks Improvements, And Adjustment of Its Rates for Water Service; and Authorization to Issue Certain Securities* (Ky. PSC Nov. 7, 2019).

Kentucky Rural Water Finance Corporation (KRWFC) bonds.<sup>106</sup> In its application, Edmonson District requested recovery of the average annual principal and interest on its indebtedness based on an average of the annual principal, and interest and fee payments for the three years 2025 through 2027.<sup>107</sup> Commission Staff calculated the average annual principal and interest on a three-year average for the years 2025 through 2027, and agrees with Edmonson District’s proposed Average Annual Principal and Interest Payments of \$828,850, as shown in the following table.

Loan	2025		2026		2027		Total
	Principal	Interest & Fees	Principal	Interest & Fees	Principal	Interest & Fees	
RD Series 2001A	\$ 103,000	\$ 71,013	\$ 106,000	\$ 67,568	\$ 110,000	\$ 63,993	\$ 521,574
RD Series 2010A	12,000	9,765	12,500	9,484	13,000	9,191	65,940
RD Series 2010B	15,000	11,993	15,500	11,644	16,000	11,284	81,421
KRWFC 2012D	144,583	55,051	149,583	49,846	154,583	44,324	597,970
RD Series 2013A	10,500	8,883	10,500	8,659	11,000	8,426	57,968
RD Series 2013B	3,000	4,125	3,000	4,035	3,000	3,945	21,105
KRWFC 2013B	144,583	15,458	149,583	11,049	159,167	6,143	485,983
RD Series 2019	21,000	14,423	21,000	14,108	21,000	13,793	105,324
KRWFC 2020C	104,583	79,031	109,583	73,592	114,583	67,894	549,266
Totals	\$ 558,249	\$ 269,742	\$ 577,249	\$ 249,985	\$ 602,333	\$ 228,993	2,486,551
3 Year Average							\$ 828,850

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district’s lenders that are above its average annual debt payments. In its application, Edmonson District requested recovery of an allowance

<sup>106</sup> Case 2012-00163, *Application of Edmonson County Water District to Issue Securities in The Approximate Principal Amount of \$3,160,000 for the Purpose of Refunding Certain Outstanding Revenue Bonds of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001*, (Ky. PSC May 30, 2012). Case 2013-00042, *Kentucky Rural Water Finance Corporation Joint Application on Behalf of Certain Water Districts for Authority to Borrow Funds to Refinance Certain Outstanding Indebtedness to the Kentucky Rural Water Finance Corporation* (Ky. PSC Apr. 24, 2013). Case 2019-00433, *Electronic Application of Edmonson County Water District to Issue Securities in the Approximate Principal Amount of \$3,464,000 for the Purpose of Refunding Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (KY. PSC Jan. 30, 2020).

<sup>107</sup> Application, Attachment 4, Revenue Requirements Calculation, Table B, Debt Service Schedule.

for working capital that is equal to 120 percent of its average annual principal and debt payments at the time of its application for a total of \$165,770.<sup>108</sup>

Following the Commission’s historic practice,<sup>109</sup> Commission Staff agrees with Edmonson District’s methodology. Therefore, with the adjustment to the average Annual Principal and Interest Payments, \$165,770 should be included in the revenue requirement as shown in the following table.

Description	Commission Staff
Average Annual Principal and Interest	828,850
Times: DSC Coverage Ratio	120%
Total Net Revenues Required	994,620
Less: Average Annual Principal and Interest Payments ( )	(828,850)
Additional Working Capital	\$ 165,770

3. Proposed Wholesale Sales Revenue. In the application, Edmonson District proposed to remove the Proposed Wholesale Sales Revenues from the Revenue Requirement calculation. Commission Staff does not agree with the proposed adjustment, the projected revenue sales are not a known and measurable amount until the revenue required is determined; therefore, all the revenues at present rate need to be used instead of proposed rates. Commission Staff reclassified the \$102,207 of Revenue from Wholesale Sales at present rates and reclassified it as part of the Revenue Required from Water Sales along with the revenues from retail sales at present rate.

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<sup>108</sup> Application, Attachment 4, Revenue Requirements Table.

<sup>109</sup> Case No. 2022-00431, *Electronic Application of Letcher County Water and Sewer District for a Rate Adjustment Pursuant To 807 KAR 5:076* (Ky. PSC Nov. 17, 2023). Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. For An Alternative Rate Adjustment* (Ky. PSC Jan. 11, 2024). Case No. 2023-00182, *Electronic Application of Western Mason County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Jan. 4, 2024).



## Signatures

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Division of Financial Analysis

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Prepared by: Elizabeth Stefanski  
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Division of Financial Analysis

APPENDIX A

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00219 DATED NOV 18 2024

\* Denotes Rounding

**Nonrecurring Charges Adjustments**

	Reconnect Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$34.45 at 0.5 hours)	\$17.23	
Office Supplies		
Office Labor (\$33.76 at 0.5 hours)	\$16.88	
Transportation	\$9.94	\$10.00
Misc.		
Total Revised Charge	<u>\$44.05</u>	<u>No change</u>
Current Tariff Rate	\$10.00	

	Meter Test Charge Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$34.45 at 0.5 hours)	\$17.23	
Office Supplies		
Office Labor (\$33.76 at 0.5 hours)	\$16.88	
Transportation	\$9.94	\$10.00
Misc.		
Total Revised Charge	<u>\$44.05</u>	<u>No change</u>
Current Tariff Rate	\$10.00	

	Service Call / Investigation Utility Revised Charge	Staff Revised Charge
Field Materials		
Field Labor (\$34.45 at 0.5 hours)	\$17.23	
Office Supplies		
Office Labor (\$33.76 at 0.5 hours)	\$16.88	
Transportation	\$9.94	\$10.00
Misc.		
Total Revised Charge	<u>\$44.05</u>	<u>\$10.00</u>
Current Tariff Rate	\$5.00	

APPENDIX B

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00219 DATED NOV 18 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 Edmonson 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	1,500 Gallons	\$16.80	Minimum Bill
Over	1,500 Gallons	0.00655	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$39.55	Minimum Bill
Over	5,000 Gallons	0.00655	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$77.70	Minimum Bill
Over	10,000 Gallons	0.00655	Per Gallon

2-Inch Meter

First	16,000 Gallons	\$108.40	Minimum Bill
Over	16,000 Gallons	0.00655	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$290.65	Minimum Bill
Over	30,000 Gallons	0.00655	Per Gallon

4-Inch Meter

First	50,000 Gallons	\$365.75	Minimum Bill
Over	50,000 Gallons	0.00655	Per Gallon

Wholesale Rate

		0.00334	Per Gallon
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Nonrecurring Charges

Reconnect Charge	\$10.00
Meter Test Charge	\$10.00
Service Call / Investigation	\$10.00
Meter Relocation Charge	Actual Cost
Water Line Relocation Charge	Actual Cost
Tap Fee for 5/8-inch x 3/4-inch Meter Service	\$1,427.00
Tap Fee for Larger Meter Services	Actual Cost

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