

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ELKHORN)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2024-00331
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 November 12, 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 November 12, 2024, Order, Elkhorn Water District (Elkhorn 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 Elkhorn District to the Commission's July 22, 2021, Order in Case No. 2020-00085¹ regarding filings with the Commission.

 AP

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

DATED MAR 18 2025

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
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ELECTRONIC APPLICATION OF ELKHORN)	CASE NO.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2024-00331
PURSUANT TO 807 KAR 5:076)	

COMMISSION STAFF'S REPORT
ON ELKHORN WATER DISTRICT

Elkhorn Water District (Elkhorn 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 592 residential customers and 8 commercial customers in Franklin County, Kentucky.¹

On October 21, 2024,² Elkhorn 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 9,³ Elkhorn District used the calendar year ended December 31, 2023, as the basis for its application. Elkhorn

¹ *Annual Report of Elkhorn Water District to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) at 11 and 49.

² Elkhorn District tendered its application on October 15, 2024. By letter dated October 17, 2024, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on October 21, 2024.

³ 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.

District's last base rate increase pursuant to the alternative rate filing procedure was in Case No. 2022-00124.⁴

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated November 12, 2024. Elkhorn District responded to two rounds of discovery.⁵

UNACCOUNTED-FOR WATER LOSS

The Commission notes that, in its 2023 Annual Report, Elkhorn District reported water loss of 14.6553 percent.⁶ Elkhorn District stated that in preparation of its ARF application, it realized it had reported water sales of 14,139,000 gallons but only purchased 5,277,000 gallons in July 2023.⁷ Elkhorn District stated that it refunded a customer for a misread meter but did not reduce the gallons sold when it submitted its 2023 Annual Report, stating its actual water loss should have been 28.209 percent.⁸ Commission Staff reviewed Elkhorn District's 2023 Annual Report in conjunction with its 2021 and 2022 Annual Reports and concluded that the revised water loss percentage in 2023 is reasonable given the water loss percentage⁹ from the previous two years.¹⁰

⁴ See Case No 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*.

⁵ Elkhorn District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Dec. 6, 2024); Elkhorn District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Jan. 21, 2025).

⁶ 2023 Annual Report at 57.

⁷ Application, Attachment 4, References, Reference C.

⁸ Application, Attachment 4, References, Reference C.

⁹ 21.2967 water loss percentage in 2021 and 27.4527 water loss percentage in 2022.

¹⁰ *Annual Report of Elkhorn Water District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report), *Annual Report of Elkhorn Water District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report), 2023 Annual Report.

Commission Staff utilized Elkhorn District's revised 28.209 percent in its analysis. 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 Elkhorn District is \$59,150, while the annual cost of water loss in excess of 15 percent is \$27,698

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 209,686	\$ 8,940	\$ 218,626
Water Loss Percent	28.2090%	28.2090%	28.2090%
Total Water Loss	\$ 59,150	\$ 2,522	\$ 61,672

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 209,686	\$ 8,940	\$ 218,626
Water Loss Percent in Excess of 15%	13.2090%	13.2090%	13.2090%
Disallowed Water Loss	\$ 27,698	\$ 1,181	\$ 28,879

DISCUSSION

Using its pro forma test-year operations, Elkhorn District determined that a base rate revenue increase of \$22,830, or 5.58 percent, was necessary to achieve the revenue requirement as shown in the table below.¹¹

¹¹ Application, Attachment 4, Revenue Requirements Table.

Description	Elkhorn Water District
Pro Forma Operating Expenses	367,680
Average Annual Principal and Interest Payments	58,305
Additional Working Capital at 20%	11,661
Total Revenue Requirement	437,646
Other Revenue ()	(4,280)
Interest Income ()	(1,753)
Revenue Required From Water Sales	431,613
Revenue from Sales at Present Rates ()	(408,783)
Required Revenue Increase / (Decrease)	22,830
Percentage Increase / (Decrease)	5.58%

To determine the reasonableness of the rates requested by Elkhorn District, Commission Staff performed a limited financial review of Elkhorn 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 Elkhorn District's Overall Revenue Requirement, and Jason Green reviewed Elkhorn 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 found that Elkhorn District's required revenue from water sales is \$435,737, to meet the Overall Revenue Requirement of \$441,770, and that a \$26,954 revenue increase, or 6.59 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Based on the revenue requirement, Elkhorn District proposed increasing all its monthly retail water service rates evenly across the board by 5.58 percent. Elkhorn District did not perform a cost of service study (COSS) as, at this time, there have been no material changes to its system. Elkhorn District indicated that a COSS would be appropriate if there are material changes to its system.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 Elkhorn District's proposed allocation methodology and allocated Commission

¹³ Elkhorn District's Response to Staff's First Request, Items 15a, 15b, and 15c.

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

Staff's revenue increase of \$55,833 across the board to Elkhorn District's monthly retail water service rates.

The rates calculated and set forth in the Appendix will recover an increase of approximately 6.59 percent, which will produce sufficient revenues from water sales to recover the \$435,737 Revenue Required from Water Sales.

The rates contained in the Appendix to this report will increase a typical residential customer's monthly water bill from the current rates from \$58.00 to \$61.82 an increase of \$3.82, or approximately 6.59 percent.¹⁵

3. Nonrecurring Charges. In its Final Order for Case No. 2022-00124, the Commission eliminated the recovery of Elkhorn District's labor costs from its nonrecurring charges.¹⁶ Elkhorn District stated that there have been no significant changes to the costs that the Commission allowed Elkhorn District to recover from its nonrecurring charges in that case.¹⁷ Therefore, Commission Staff recommends no further changes to Elkhorn District's nonrecurring charges at this time.

PRO FORMA OPERATING STATEMENT

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

¹⁵ The average usage for a residential customer is 6,680 gallons.

¹⁶ Case No. 2022-00124, *Electronic Application of Elkhorn Water District for a Rate Adjustment* (Ky. PSC Oct. 24, 2022).

¹⁷ Elkhorn District's Response to Staff's First Request, Item 19.

Description	Test Year	Elkhorn Water District Proposed Adjustments	Commission Staff Adjustments	Total Adjustments	(Ref)	Pro Forma
Operating Revenues						
Metered Retail Sales	\$ 414,304	\$ (4,280)		\$ (4,280)	A	
		(1,241)		\$ (1,241)	A	\$ 408,783
Other Revenues						
Forfeited Discounts		3,489	0	3,489	B	3,489
Other Water Revenues		791	0	791	B	791
Total Operating Revenues	414,304	(1,241)	0	(1,241)		413,063
Operation and Maintenance						
Salaries and Wages - Employees	8,643		(8,643)	(8,643)	C	0
Salaries and Wages - Officers			7,200	7,200	D	7,200
Purchased Water	201,412		8,274	8,274	E	
		(26,605)	(1,093)	(27,698)	E	181,988
Purchased Power	8,940	(1,181)		(1,181)	F	7,759
Materials and Supplies	2,260			0		2,260
Contractual Services - Acct	8,520			0		8,520
Contractual Services - Other	78,575	(16,570)	(9,565)	(26,135)	G	52,440
Insurance- Gen. Liability	5,885			0		5,885
Advertising	135			0		135
Miscellaneous Expenses	35,880	1,159	7,325	8,484	H	44,364
Total	350,250	(43,197)	3,498	(39,699)		310,551
Depreciation Expense	34,082	25,689	368	26,057	I	60,139
Taxes Other Than Income	856		551	551	J	1,407
Total Operating Expenses	385,188	(17,508)	4,417	(13,091)		372,097
Net Operating Income	29,116	16,267	(4,417)	11,850		40,966
Interest Income	1,753			0		1,753
Income Available to Service Debt	\$ 30,869	\$ 16,267	\$ (4,417)	\$ 11,850		\$ 42,719

(A) Metered Retail Sales. Elkhorn District reported \$414,304 in its test-year metered retail sales. Elkhorn District stated that it recorded its forfeited discounts and Revenues from Nonrecurring Charges in the account Revenue from Metered Water Sales.¹⁸ It proposed an adjustment to correct this misclassification by decreasing the Revenue from Metered Water Sales by \$4,280.¹⁹ Elkhorn District also proposed a \$1,241 decrease to Revenue from Metered Water Sales to reconcile the amount with the current

¹⁸ Application, Attachment #4, References, Reference A.

¹⁹ Application, Attachment #4, References, Reference A.

Billing Analysis.²⁰ Commission Staff recommends accepting both proposed adjustments, which results in a pro forma amount of \$408,783 as the amounts are known and measurable.

(B) Other Revenues. Elkhorn District did not have a test-year amount but proposed two pro forma adjustments.²¹ As discussed in the Metered Retail Sales section above, Elkhorn District proposed a Forfeited Discounts increase of \$3,489 and an increase of \$791 for other water revenues, resulting in total other revenues of \$4,280.²² Commission Staff recommends accepting the proposed adjustments to classify expenses in the proper account.

(C) Salaries and Wages – Employees. Elkhorn District reported \$8,643 in the test year and proposed no pro forma adjustments.²³ In response to Commission Staff's First Request for Information, Elkhorn District stated it had no employees and that it recorded its commissioner wages in the Employee Salaries and Wages account.²⁴ Commission Staff determined a decrease of \$8,643 is required for Employee Salaries and Wages to reclassify commissioner salaries, \$7,200, and payroll taxes, \$551, to their respective correct accounts. The excess \$892 amount was identified as Payroll Expenses,²⁵ but Commission Staff could not locate them in the general ledger and recommends removing the amount from the revenue requirement. Commission Staff

²⁰ Application, Attachment #4, References, Reference B.

²¹ Application, Attachment #4, Schedule of Adjusted Operations.

²² Application, Attachment #4, References, Reference A.

²³ Application, Attachment #4, Schedule of Adjusted Operations.

²⁴ Elkhorn District's Response to Staff's First Request, Items 5 and 10.

²⁵ Elkhorn District's Response to Staff's First Request, Item 1, 2023 Cross Reference.

recommends the Commission accept the adjustment to record expenses in the proper accounts.

(D) Salaries and Wages – Officers. Elkhorn District did not include a test year amount for this account and did not propose any pro forma adjustments. As discussed in the Salaries and Wages – Employees section above, Commission Staff reclassified Elkhorn District’s commissioner wages to the correct account. Elkhorn District provided the training records²⁶ and fiscal court minutes²⁷ approving its commissioners’ wages. Elkhorn District pays each of its three commissioners \$200 a month, resulting in a pro forma yearly cost of \$7,200.²⁸ Commission Staff recommends that the Commission accept the reclassifications of Commissioners’ Salaries as the amounts are known and measurable and to record the expenses in the proper account.

(E) Purchased Water. Elkhorn District purchases water from Frankfort Plant Board. Elkhorn District reported \$201,412 in Purchased Water Expense in the test year and proposed one pro forma adjustment.²⁹ The adjustment was a decrease of \$26,605 for water loss above the 15 percent allowable in accordance with 807 KAR 5:066, Section 6(3).³⁰ Commission Staff calculated the pro forma cost using the gallons purchased³¹

²⁶ Response to Staff’s First Request, Item 10, 10_Commissioner_Information.pdf.

²⁷ Response to Staff’s Second Request, Item 2
Case_No_2022_00124_EWD_Staff_Report_Response.pdf.

²⁸ \$200 * 3 *12 = \$7,200.

²⁹ Application, Attachment #4, Schedule of Adjusted Operations.

³⁰ Application, Attachment #4, References, Reference C.

³¹ Response to Staff’s First Request, Item 8, 2023 Purchased Water Bills.

and rate from Frankfort Plant Board³² and determined that a \$8,274 increase was necessary, as in the chart below.

Description	Frankfort Plant Board	Total
Gallons	73,833,230	73,833,230
Current Purchase Rate	\$ 2.5500	\$ 2.8400
KRAW fee	\$ 0.2900	
Pro Forma Cost	<u>\$ 209,686</u>	\$ 209,686
Test Year Purchase Cost		201,412
Increase in Purchase Cost		<u>\$ 8,274</u>
Water Loss Above 15%		13.2090%
Disallowed Water Loss		<u>\$ 1,093</u>

As discussed in the water loss section above, Commission Staff determined that Elkhorn District’s statement that its reported water loss of 14.6553 percent in its 2023 annual report was incorrect and used Elkhorn District’s proposed water loss of 28.209 percent.³³ Commission Staff recommends an additional reduction of \$1,093 to Elkhorn District’s proposed disallowed water loss adjustment to account for the increased purchased water cost, as shown above, resulting in total disallowed water loss of \$27,698 as shown in the chart below. Commission Staff recommends accepting the adjustments above because the amounts are known and measurable.

³² Frankfort Plant Board KRAW Fee, PSC KY No. 1, 3rd Revised Sheet No. 2 and Frankfort Plant Board Tariff, PSC KY No. 1, 1st Revised Sheet No. 1.

³³ Application, Attachment 4, References, Reference C.

Total Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 209,686	\$ 8,940	\$ 218,626
Water Loss Percent	28.2090%	28.2090%	28.2090%
Total Water Loss	\$ 59,150	\$ 2,522	\$ 61,672

Disallowed Water Loss	Purchased Water	Purchased Power	Total
Pro Forma Purchases	\$ 209,686	\$ 8,940	\$ 218,626
Water Loss in Excess of 15%	13.2090%	13.2090%	13.2090%
Disallowed Water Loss	\$ 27,698	\$ 1,181	\$ 28,879

(F) Purchased Power. Elkhorn District reported \$201,412 in purchased water expense in the test year and proposed one pro forma adjustment.³⁴ Elkhorn District adjustment was a reduction of \$1,181 for water loss above 15 percent. As discussed in the water loss section above, Commission Staff accepted Elkhorn District’s revised water loss of 28.209 percent and recommends accepting its proposed water loss above 15 percent adjustment of \$1,181 resulting in a pro forma amount of \$7,759.

(G) Contractual Services Other. Elkhorn District reported a test-year amount of \$78,575 and proposed one pro forma adjustment.³⁵ Elkhorn District’s adjustment was a reduction of \$16,569 to remove tap-fee expenses paid to a contractor for the meter installations.³⁶ The Uniform System of Accounts for Class A/B Water Systems (USoA) requires that these costs be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.³⁷ Commission Staff capitalized the costs and made a

³⁴ Application, Attachment #4, Schedule of Adjusted Operations.

³⁵ Application, Attachment #4, Schedule of Adjusted Operations.

³⁶ Application, Attachment #4, References, Reference D.

³⁷ USoA, Accounting Instruction 19 and 33.

corresponding adjustment to depreciation expense in that section below. During its review of Elkhorn District's general ledger,³⁸ Commission Staff identified entries to be reimbursed by the Kentucky Infrastructure Authority (KIA). In its response to Staff's Second Request, Elkhorn District stated that the amount had not been reimbursed yet and was unable to determine if it would be reimbursed at the time of its response.³⁹ Commission Staff proposed to remove the expenses from the account, in the amount \$9,565, because the expenses could not be established as a recurring amount. Commission Staff's recommended adjustments result in a pro forma amount of \$52,440.

(H) Miscellaneous Expense. Elkhorn District reported \$35,880 in Miscellaneous Expense in the test year and proposed one pro forma adjustment.⁴⁰ This adjustment was to account for an increased cost in its contract with Peaks Mill Water District.⁴¹ In 2023, Peaks Mill Water District increased Elkhorn District's monthly payment for business and customer services to \$3.90 per customer, effective in 2024, to reflect Peaks Mill Water District's increase in business and customer service costs. Elkhorn District proposed to increase its Miscellaneous Expense by \$1,159 to account for this increase.⁴² Commission Staff reviewed the amended contract,⁴³ which showed an increased rate from \$2.71 per customer per month to \$3.90 per customer per month.

³⁸ Response to Staff's First Request, Item 1, 2023 General Ledger.

³⁹ Response to Staff's Second Request, Item 2.

⁴⁰ Application, Attachment #4, Schedule of Adjusted Operations.

⁴¹ Application, Attachment #4, References, Reference E.

⁴² Application, Attachment #4, References, Reference E.

⁴³ Response to Staff's First Request, Item 3a, PPMWD and EWD Contract Amendment. https://psc.ky.gov/tariffs/Water/Districts,%20Associations,%20%26%20Privately%20Owned/Peaks%20Mill%20Water%20District/xContracts/Elkhorn%20Water%20District/2024-01-10_1st%20Amendment%20to%20Agreement.pdf

Commission Staff reviewed the general ledger account and determined that \$2.71 was the amount charged based on Elkhorn District’s customer count and the general ledger amount.⁴⁴ Commission Staff recalculated the adjustment based on the known contractual amount of \$3.90 on the chart below and recommends an increase of \$7,325 to Elkhorn District’s adjustment, resulting in a total adjustment of \$8,484.

Description	Test Year	Pro Forma
Customers	600	600
Rate	\$ 2.71	\$ 3.90
Monthly Cost	<u>\$ 1,626</u>	<u>\$ 2,340</u>
Yearly Cost	<u>\$ 19,512</u>	<u>\$ 28,080</u>
Difference		<u>\$ 8,484</u>

Commission Staff did not propose any adjustments to the other expenses included in Miscellaneous Expense, resulting in a pro forma of \$45,220, as shown in the table below. Commission Staff recommends that the Commission accept Commission Staff’s proposed adjustment because the amount is supported by the evidence in the case record.

Description	Test Year	Adjustments	Pro Forma
Administrative Fee	\$ 19,596	\$ 8,484	\$ 28,080
Bank Charges	65		65
Membership dues	2,213		2,213
Miscellaneous	329		329
Office Expense	9,291		9,291
Postage	3,697		3,697
Utilities and Telephone	1,545		1,545
Total	<u>\$ 36,736</u>	<u>\$ 8,484</u>	<u>\$ 45,220</u>

⁴⁴ Response to Staff’s First Request, Item 1a, 2023 General Ledger, Account 5020, Administrative Fee.

(l) Depreciation Expense. Elkhorn District reported \$34,082 in test year depreciation expense and proposed one pro forma adjustment.⁴⁵ Elkhorn District proposed an increase of \$25,689 for assets placed in service in 2024 that were approved in Case No. 2020-00133,⁴⁶ which included pipe replacements, a booster pump station, a new master meter, and new customer meters.⁴⁷ Elkhorn District provided a table for the additions in its application.⁴⁸ Elkhorn District also stated that there were adjustments included to bring its assets to the midpoint set forth in the National Association of Regulatory Utility Commissioners (NARUC) publication titled *Depreciation Practices for Small Utilities*. 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 outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff recommends that the Commission accept Commission Staff's proposed adjustment of \$25,689 based on Elkhorn District's adjustment with an additional adjustment of \$368 to capitalize tap fees as discussed in the Contractual Services-Other section above and shown in the chart below. Commission Staff recommends that the Commission accept the adjustments as the amounts are known and reasonable.

⁴⁵ Application, Attachment #4, Schedule of Adjusted Operations.

⁴⁶ See Case No. 2020-00133, *Electronic Application of Elkhorn Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*.

⁴⁷ Application, Attachment #4, References, Reference F.

⁴⁸ Application Attachment #7b, Deprecation Schedule Pro Forma.

<u>Asset</u>	<u>Original Cost</u>	<u>NARUC Life</u>	<u>Depreciation</u>
Tap Fees	\$ 16,569	45.00	\$ 368

(J) Taxes Other than Income. Elkhorn District reported a test year amount of \$856 in Taxes Other than Income and proposed no pro forma adjustment.⁴⁹ As discussed in the Salaries and Wages – Employees section above, Commission Staff reclassified payroll taxes for its Commissioners in the amount of \$551.⁵⁰ Commission Staff recommends that the Commission accept the Commission Staff’s adjustments as the amounts are known and reasonable.

OVERALL REVENUE REQUIREMENT

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;⁵¹ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

⁴⁹ Application, Attachment #4, Schedule of Adjusted Operations.

⁵⁰ \$7,200 * 7.65% = \$551.

⁵¹ 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	Elkhorn Water District	Commission Staff
Pro Forma Operating Expenses	\$ 367,680	\$ 372,097
Average Annual Principal and Interest Payments	58,305	58,061
Additional Working Capital at 20%	11,661	11,612
Total Revenue Requirement	437,646	441,770
Other Revenue ()	(4,280)	(4,280)
Interest Income ()	(1,753)	(1,753)
Revenue Required From Water Sales	431,613	435,737
Revenue from Sales at Present Rates ()	(408,783)	(408,783)
Required Revenue Increase / (Decrease)	<u>\$ 22,830</u>	<u>\$ 26,954</u>
Percentage Increase / (Decrease)	<u>5.58%</u>	<u>6.59%</u>

1. Average Annual Principal and Interest Payments. Elkhorn District requested recovery of the average annual principal and interest on its indebtedness based on a three-year average of the annual principal, interest, and fee payments for the years 2024 through 2028.⁵² Commission Staff agrees with the methodology Elkhorn District proposed but used the years 2025 through 2029 as it would be more representative of Elkhorn District's payments after the rate case. This resulted in an average annual principal and interest payment of \$58,601, as shown in the chart below.

Year	Principal	Interest	Fees	Total
2025	34,827	21,381	2,024	58,232
2026	36,233	20,183	1,909	58,325
2027	37,660	18,926	1,791	58,377
2028	39,107	17,611	1,669	58,387
2029	40,774	15,188	1,024	56,986
Total	<u>\$ 188,601</u>	<u>\$ 93,289</u>	<u>\$ 8,417</u>	<u>\$ 290,307</u>
5 Year Average				<u><u>\$ 58,061</u></u>

⁵² Application, Attachment 4, Table B, Debt Service Schedule.

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 exhibits, Elkhorn District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments, or \$11,661.⁵³ Following the Commission's historic practice of including additional working capital, Commission Staff agrees with Elkhorn District's proposed methodology but proposes an amount of \$11,612 because of the change in average annual principal and interest payments discussed above.

Description	Amount
Average Annual Principal and Interest Payments	\$ 58,061
Debt Service Coverage Ratio	<u>120%</u>
Total Net Revenues Required	69,673
Average Annual Principal and Interest Payments ()	(58,061)
Additional Working Capital	<u><u>\$ 11,612</u></u>

⁵³ Application, Attachment 4, Revenue Requirements Chart.

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

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00331 DATED MAR 18 2025

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 Elkhorn Water District. All other rates and charges not specifically mentioned herein shall remain the same.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000	gallons	\$ 22.13	Minimum bill
Next	3,000	gallons	0.00877	per gallon
Next	5,000	gallons	0.00796	per gallon
All Over	10,000	gallons	0.00627	per gallon

1-Inch Meter

First	5,000	gallons	\$ 48.50	Minimum bill
Next	5,000	gallons	0.00796	per gallon
All Over	10,000	gallons	0.00627	per gallon

1 1/2-Inch Meter

First	10,000	gallons	\$ 88.37	Minimum bill
All Over	10,000	gallons	0.00627	per gallon

Elkhorn MHP #1 (formerly Southcreek MHP)

First	15,000	gallons	\$ 165.98	Minimum bill
All Over	15,000	gallons	0.00627	per gallon

Elkhorn Mobile Home Park

First	76,000	gallons	\$ 841.04	Minimum bill
All Over	76,000	gallons	0.00627	per gallon

Capital Mobile Home Park

First	125,000	gallons	\$ 1,383.28	Minimum bill
All Over	125,000	gallons	0.00627	per gallon

Emergency Wholesale Rate

\$0.00627 per gallon

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